



US Economic Outlook

**Global Interdependence
centre London conference**

3 June 2016

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Schroders

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US economic outlook

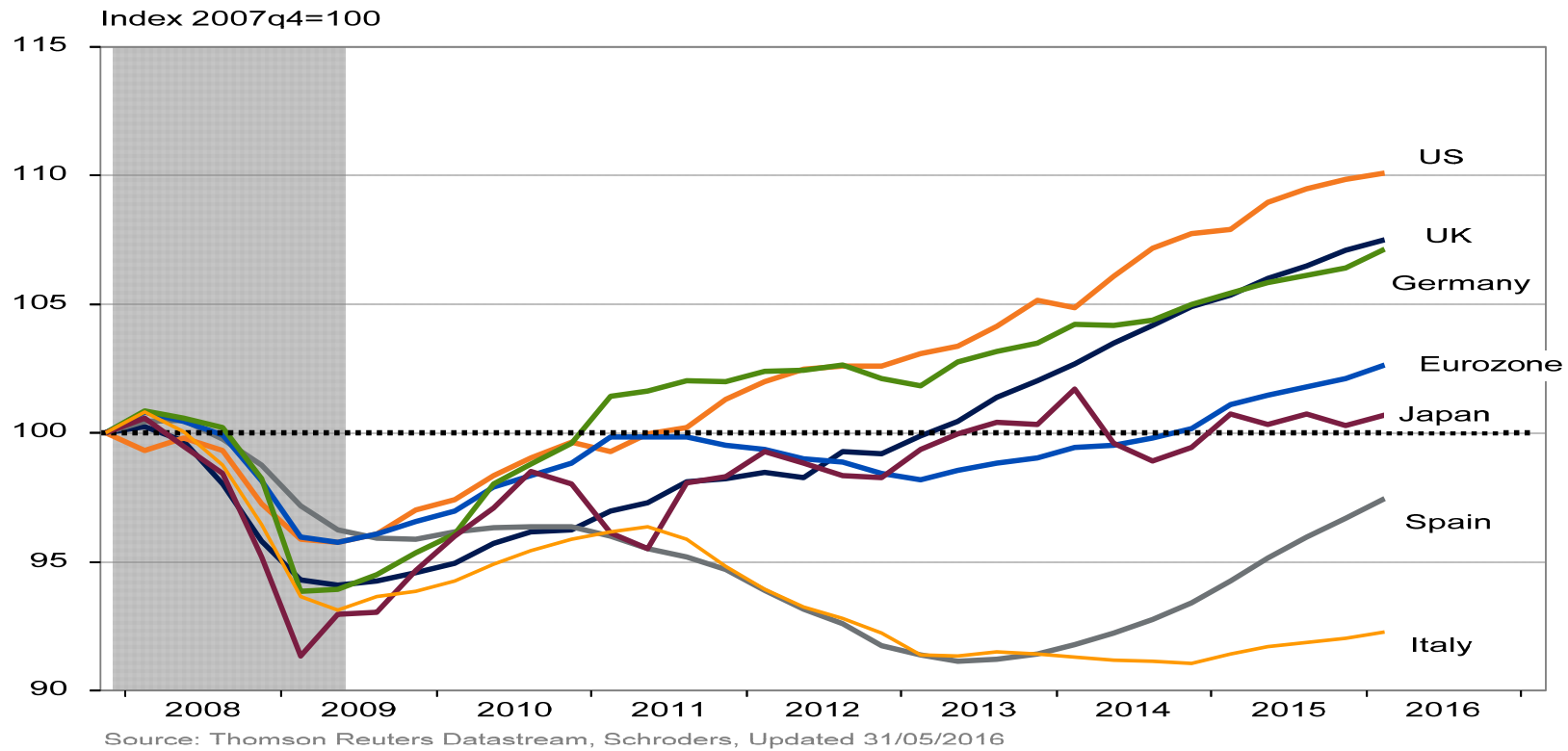
Overview

Key issues

- Near term outlook, the boost from oil, trade and the Fed
- Permanent damage? impact of the GFC on the credit channel
- President Trump?

The US: still leader of the pack

GDP since the crisis

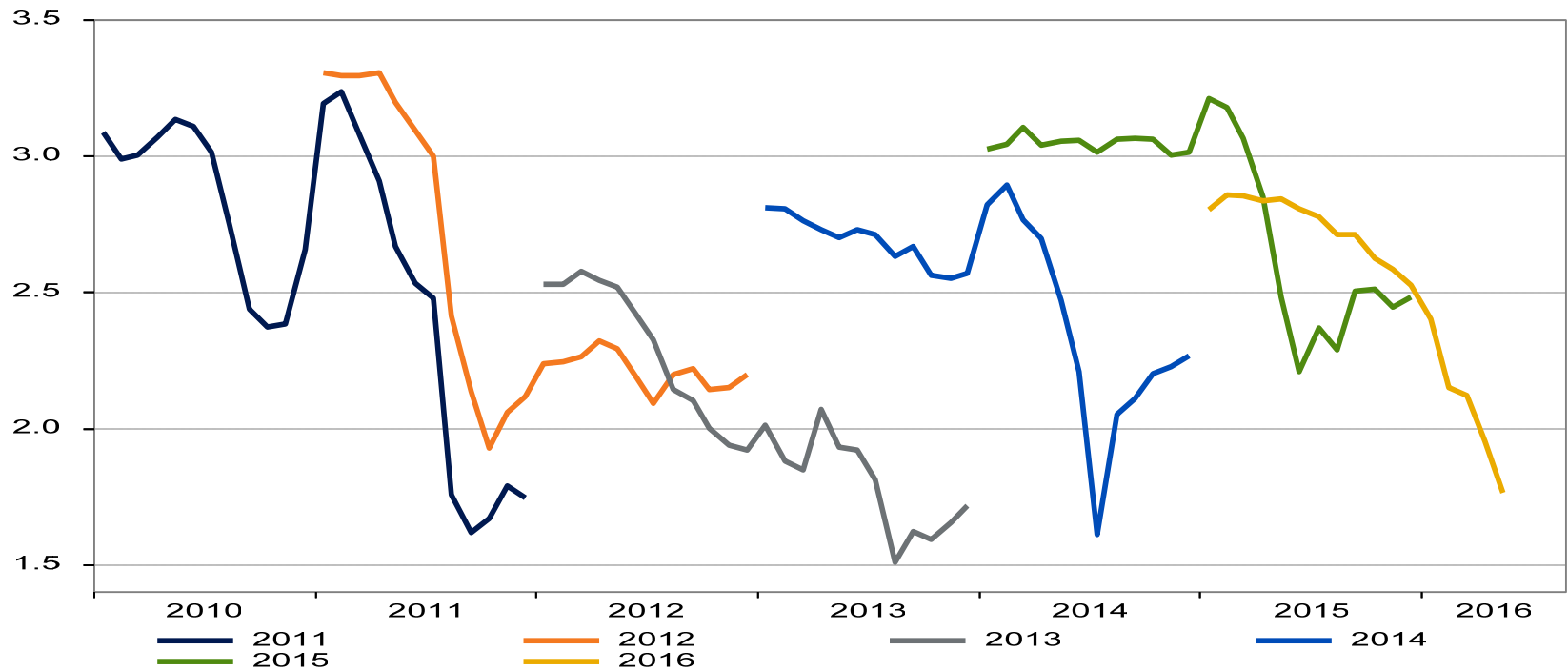


Source: Datastream, Schrodgers 31 May 2016

Another year of downgrades, despite record stimulus

Evolution of consensus forecasts for global growth

US GDP growth consensus forecast (by calendar year, y/y %)



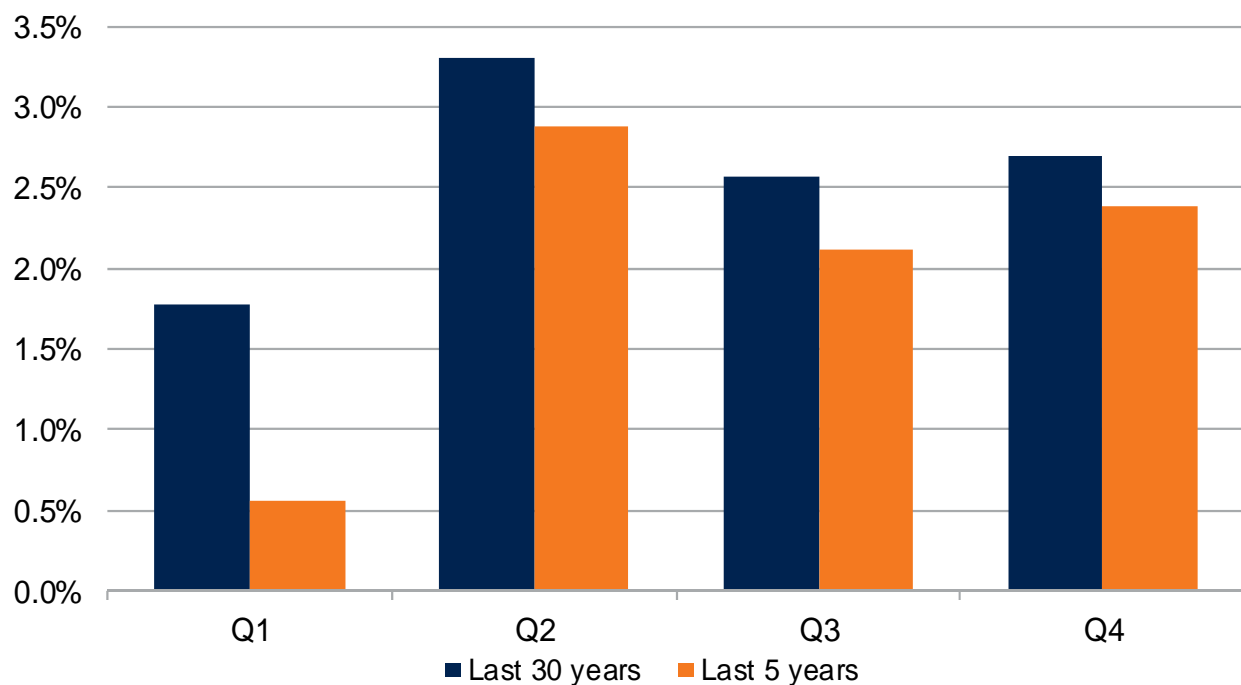
Source: Thomson Reuters Datastream, Schroders, Updated 27/05/2016

Source: Thomson Reuters Datastream, Consensus Economics, Schroders, Updated 27 May 2016

First quarter blues in the US

Seasonality problems plague the data

Average quarter on quarter US real GDP growth rate (saar)

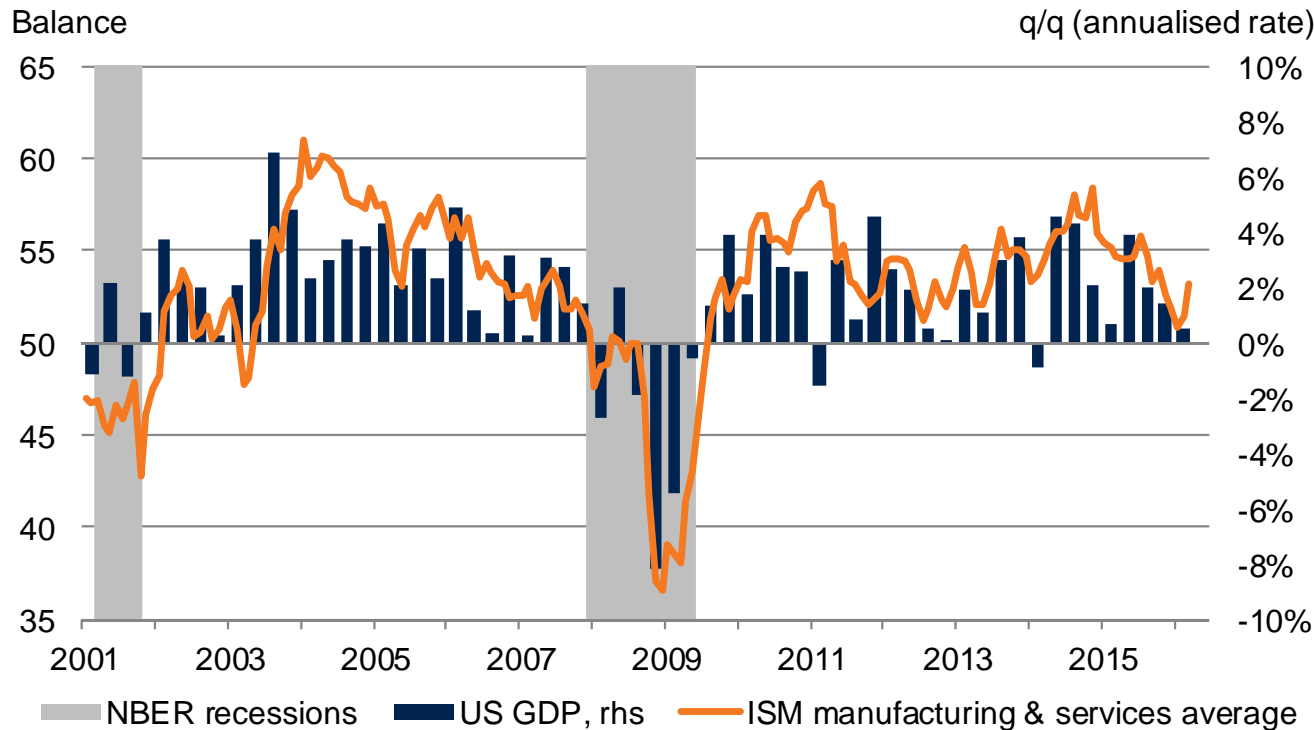


- Official statistics struggle to fully account for seasonal fluctuations in economic activity
- We think the bias is removing around 1.5% from first quarter growth
- However, there is less bias in later quarters, implying a second quarter bounceback

Source: Thomson Reuters Datastream, Schroders Economics Group, 21 April 2016

Near-term data firming

ISM signals turn in the US cycle

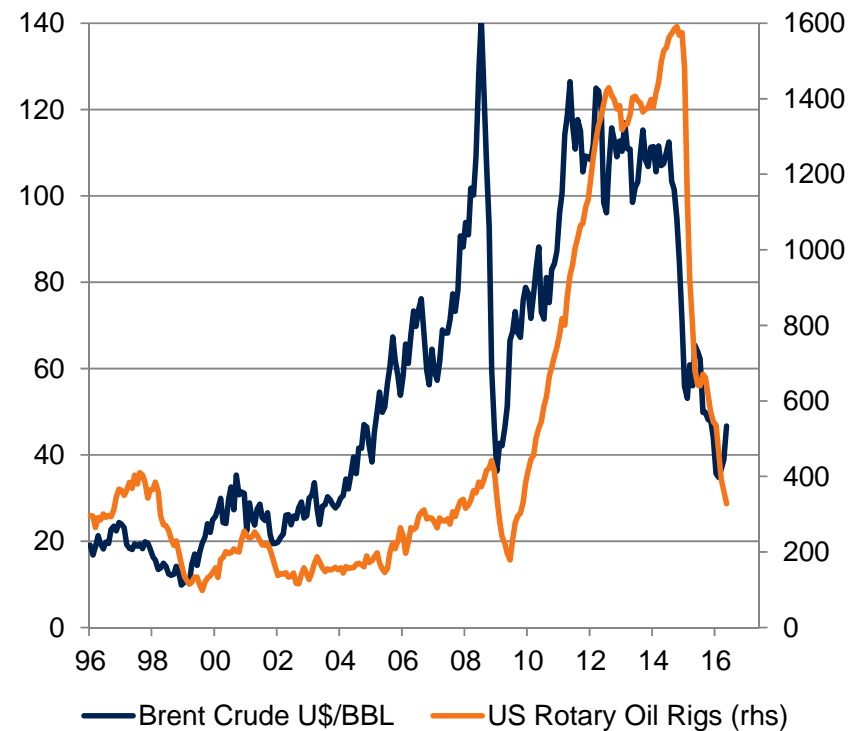
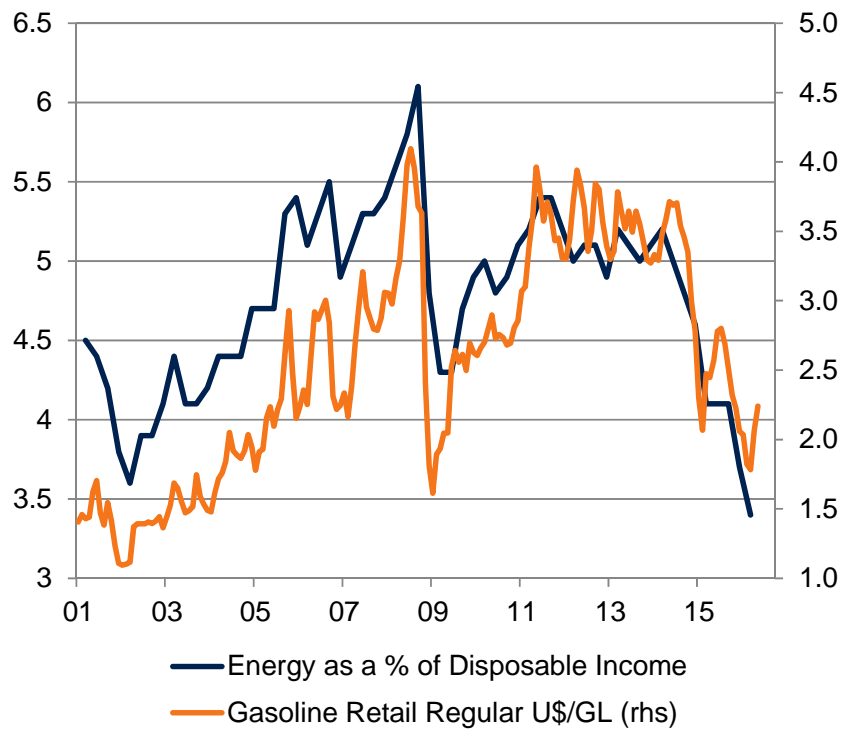


- The IMF have confirmed the global slowdown with a comprehensive, if lagging, assessment
- However, commodity prices, surveys and residual seasonality point to better growth ahead

Source: Thomson Reuters Datastream, Schroders Economics Group, 6 April 2016

Oil price winners and losers

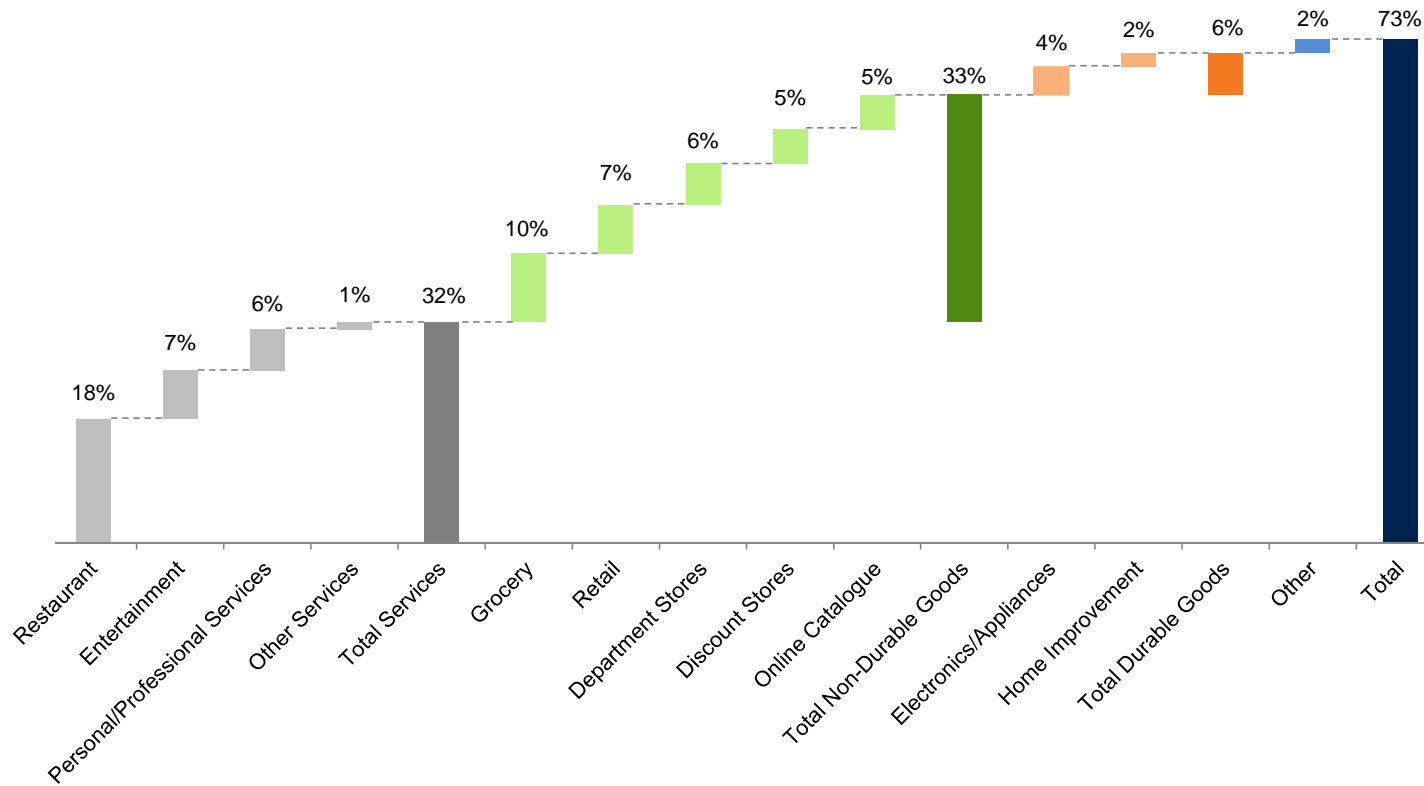
The energy tax cut in the US vs. the hit to oil and gas capex



Source: Thomson Datastream, Schroders Economics Group, 19 May 2016

Oil boost has gone into services (food!), not goods

Percent of savings from lower gas prices spent on non-gas categories



Source: JPMorgan Chase Institute, Schroders Economics Group. 14 October 2015

Global trade growth stalls

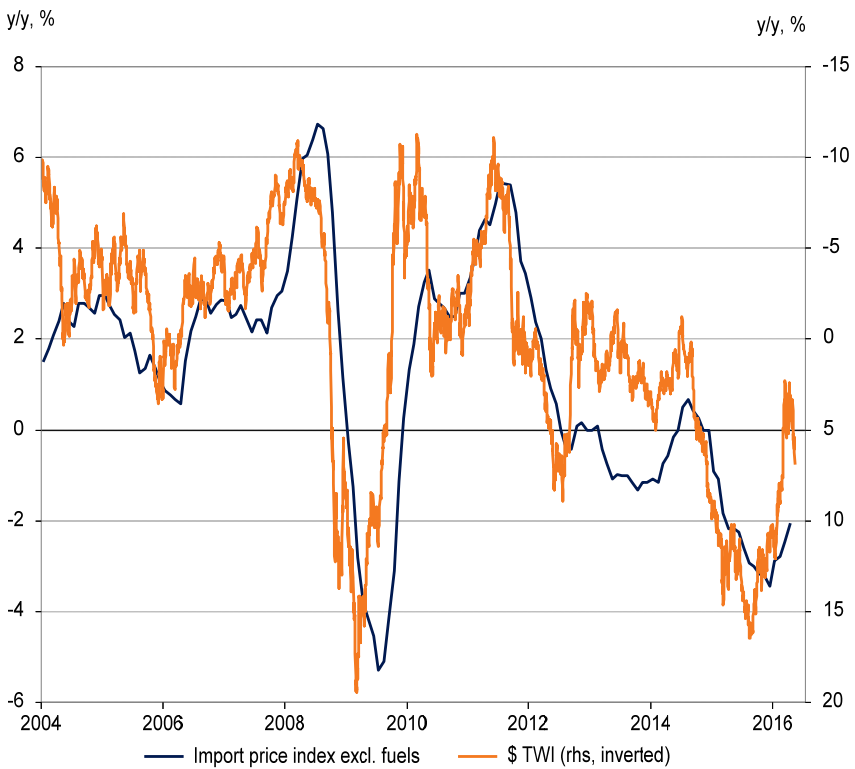
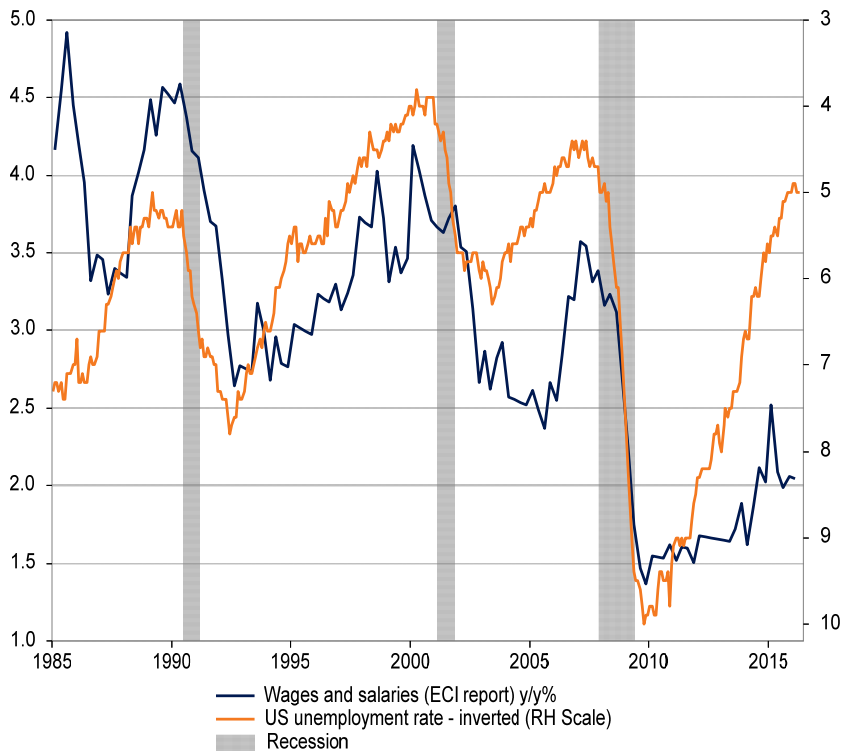
EM exports not responding to DM recovery



Source: Thomson Datastream, Schroders, 19 May 2016

Dovish Fed to move in 2016

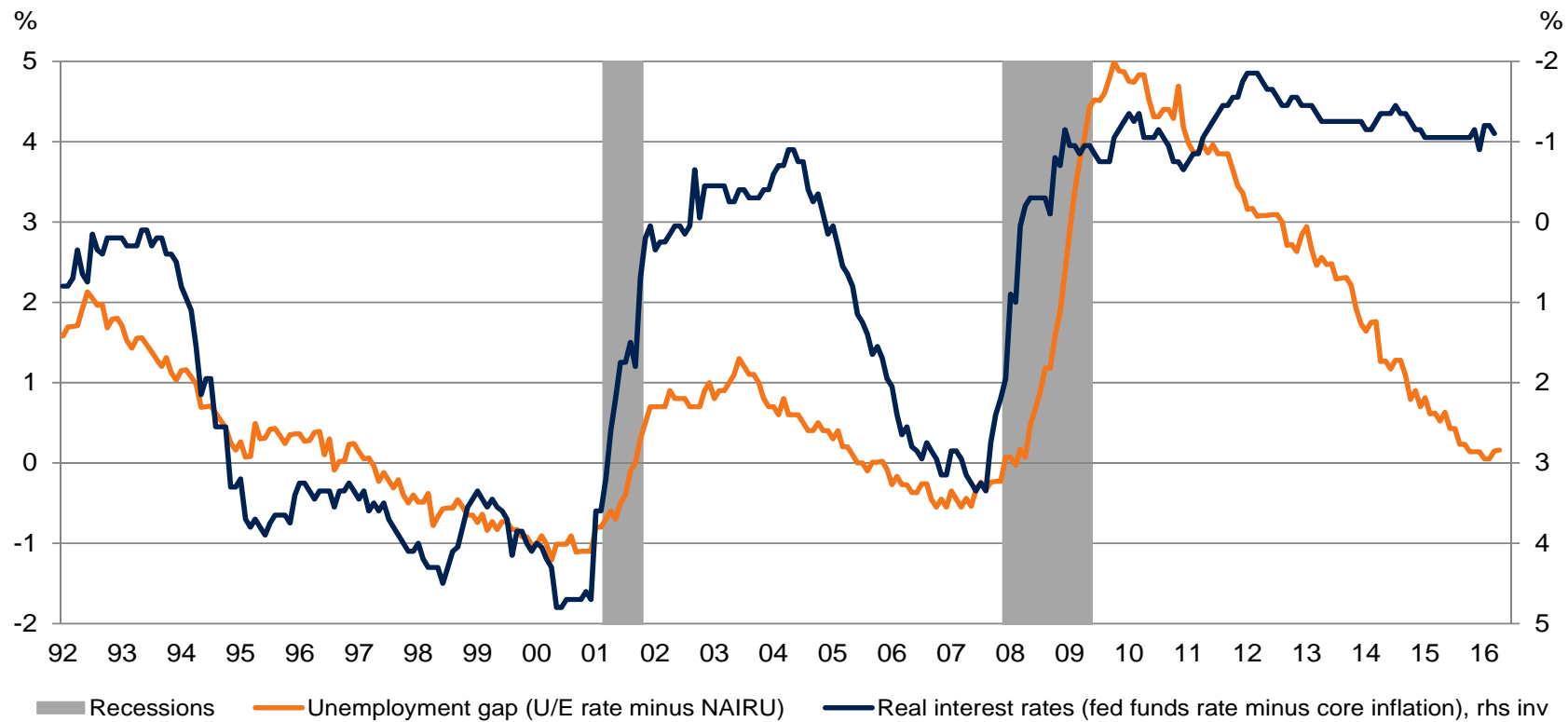
External vs. domestic pressures



Source: Thomson Datastream, Schroders Economics Group. 19 May 2016

Fed tightening delayed, not dodged

US unemployment cycles and real Fed funds rate

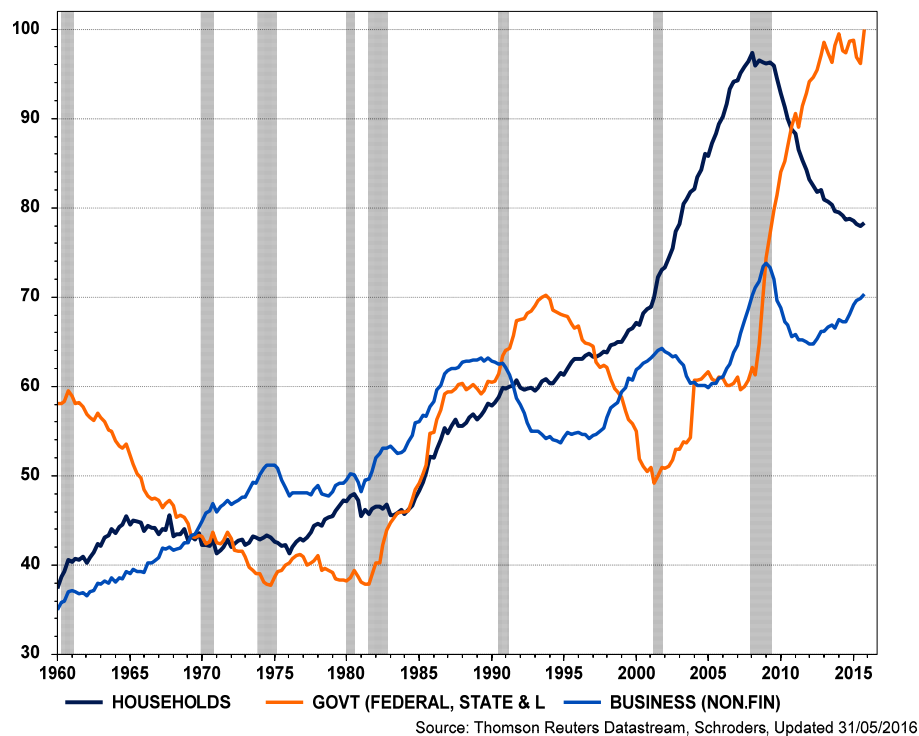


Source: Thomson Datastream, Schroders Economics Group. 19 May 2016

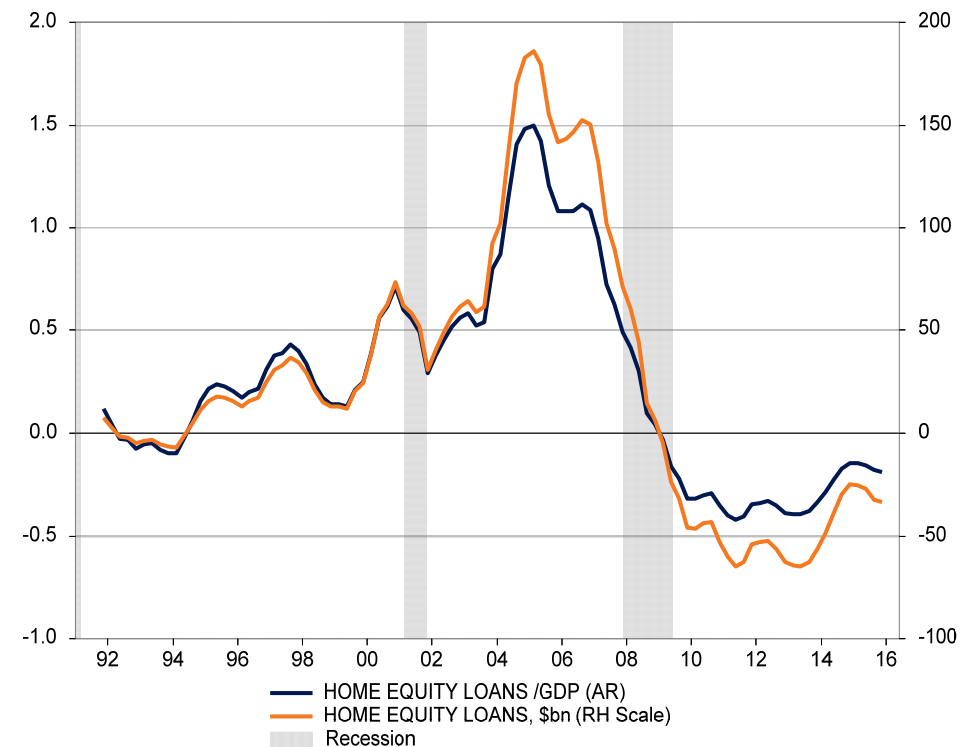
Credit channel: Households unwilling, or unable to re-leverage

Balance sheet repair persists despite de-leveraging

US debt/ GDP by sector



US home equity loans



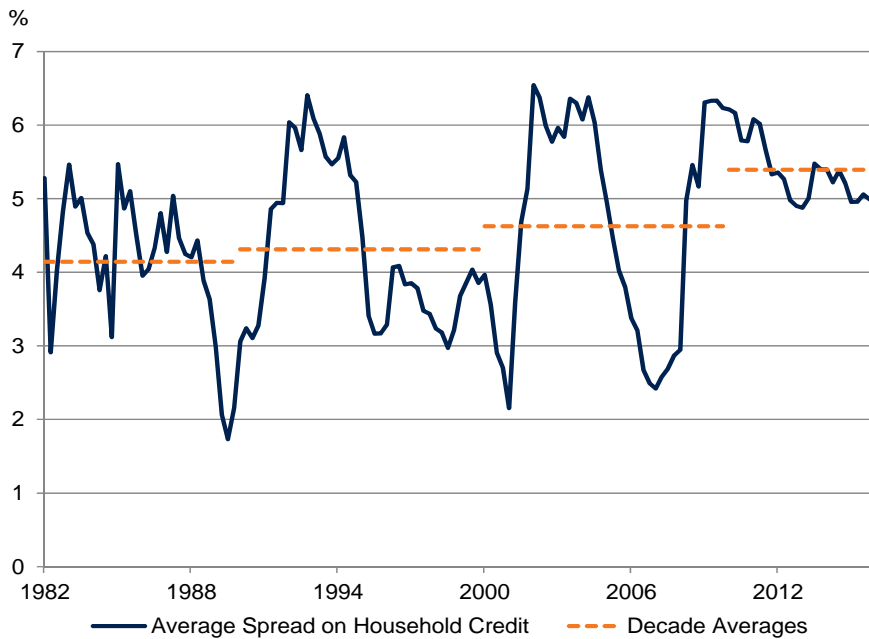
Source: Schrodgers, Thomson Reuters Datastream, 31 May 2016

Source: Thomson Reuters Datastream, Schrodgers, Updated 31/05/2016

Rising risk premia acts as a drag on growth

Despite the risk free rate falling, risk premiums have risen post the financial crisis

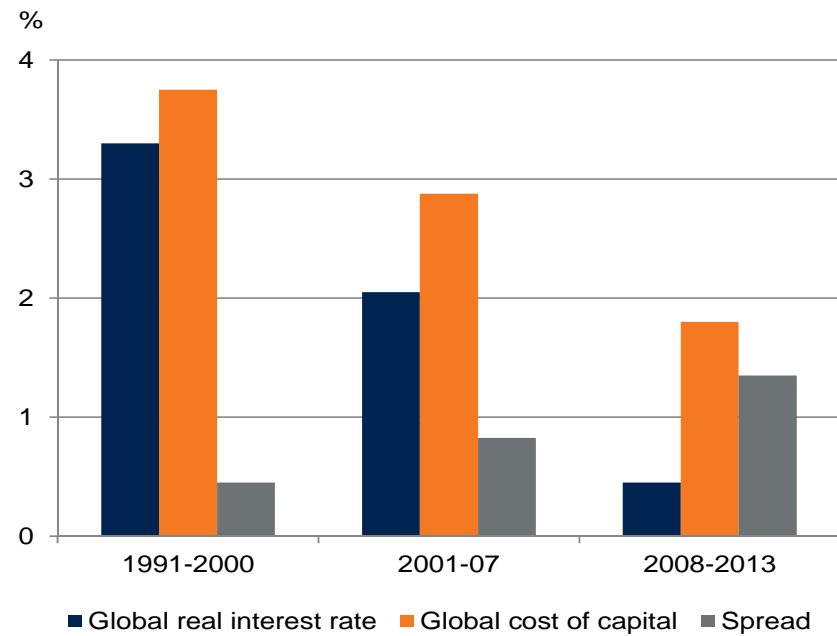
Average spread on US household credit



Note: Weighted interest rate spread over the Federal Reserves base rate whereby total household borrowing consists of mortgages, credit cards, auto's and other consumer credit. Respective interest rates include 30 year fixed mortgages, credit cards (all accounts), 48 month new car loans and 24 month personal loans.

Source: US Flow of Funds, IMF, Thomson Datastream, Schroders, 13 May 2016.

Global real interest rate vs cost of capital

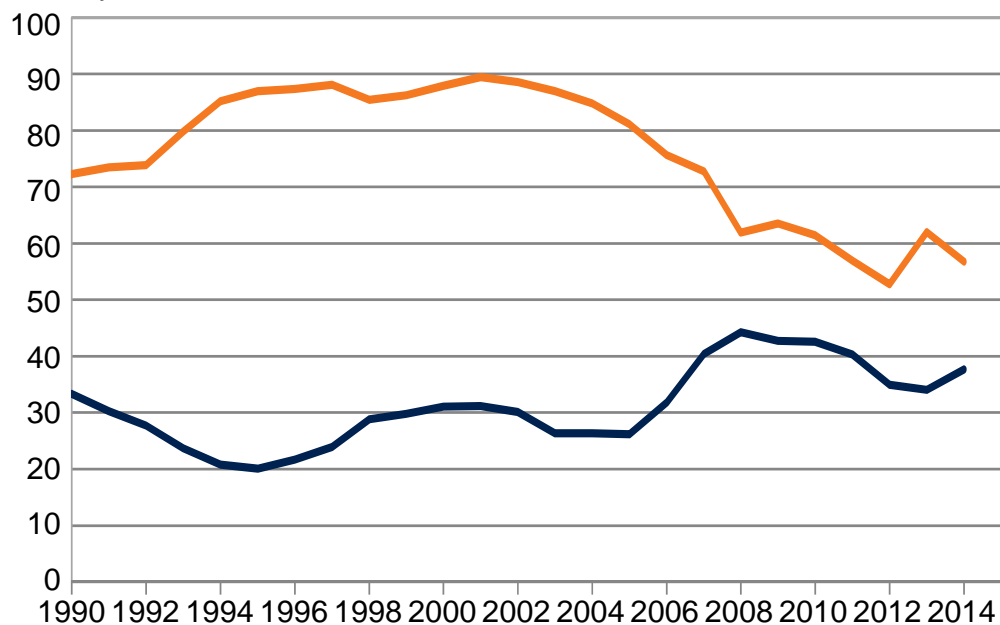


Corporate sector has re-leveraged

...but not to increase capex

Capex vs. distributions

% 5 yr ma

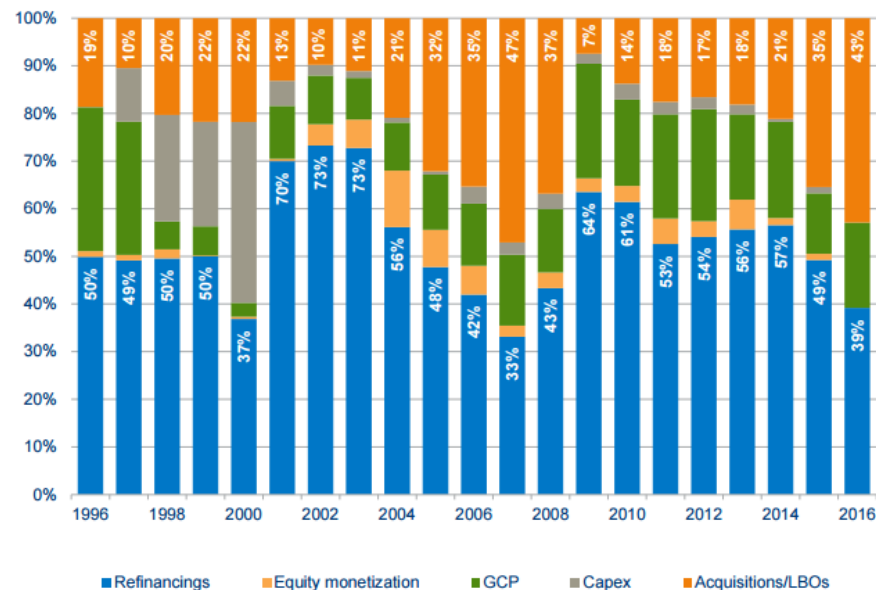


— Dividends and buybacks net, % internal funds

— Capex, % internal funds

HY debt issuance

Use of proceeds: High yield bond issuance globally



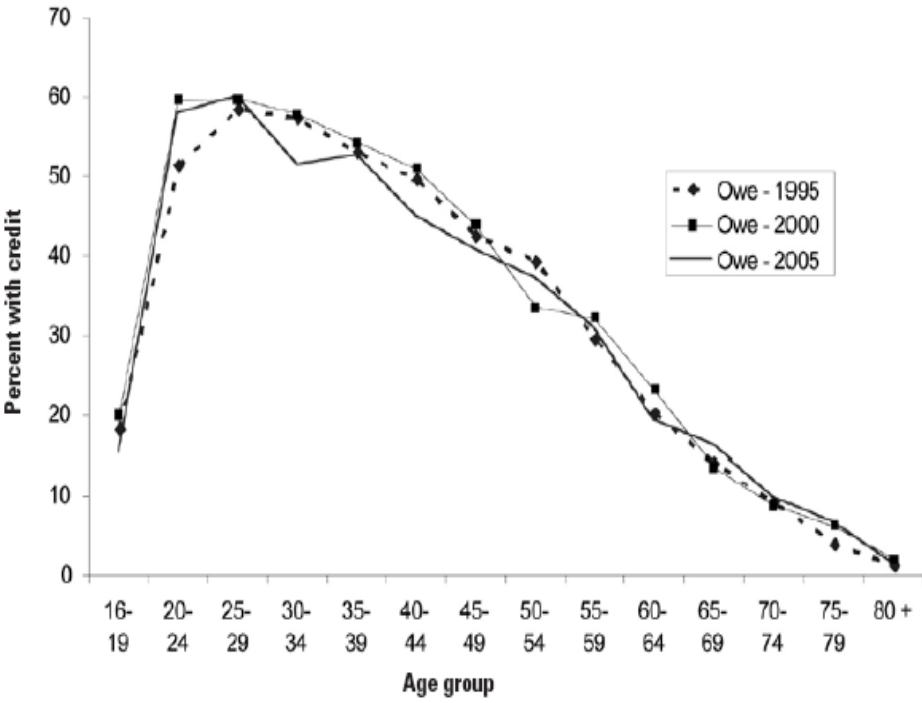
Note: "GCP" reflects issuance for General Corporate Purposes
Source: BofA Merrill Lynch Global Research; data through 31 March 2016

Source: Thomson Datastream, Schroders, 13 May 2016.

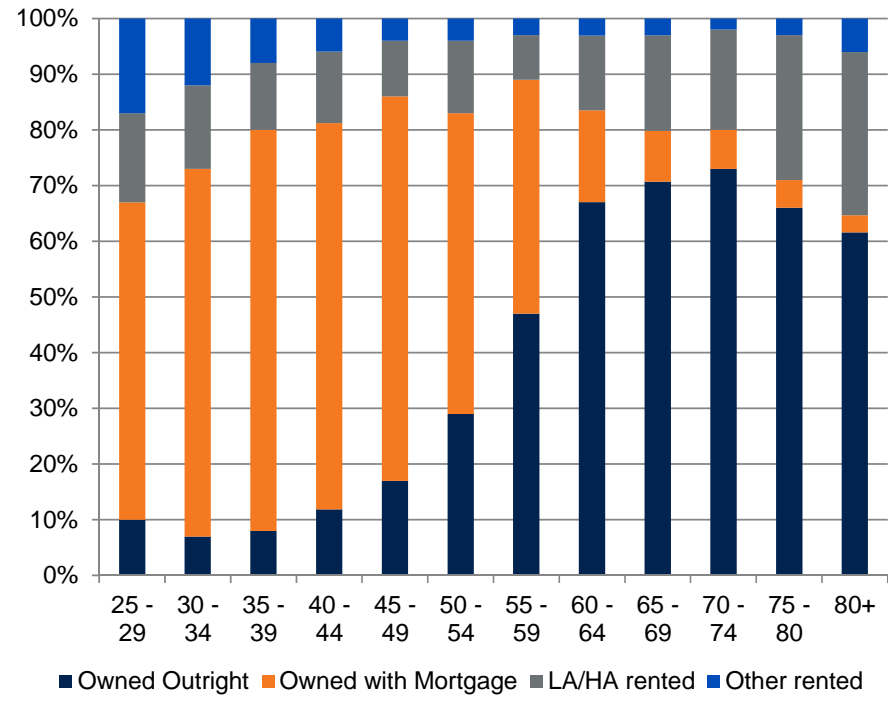
Demographics and Debt

Older people have lower willingness to borrow – UK data

Unsecured credit use, by age



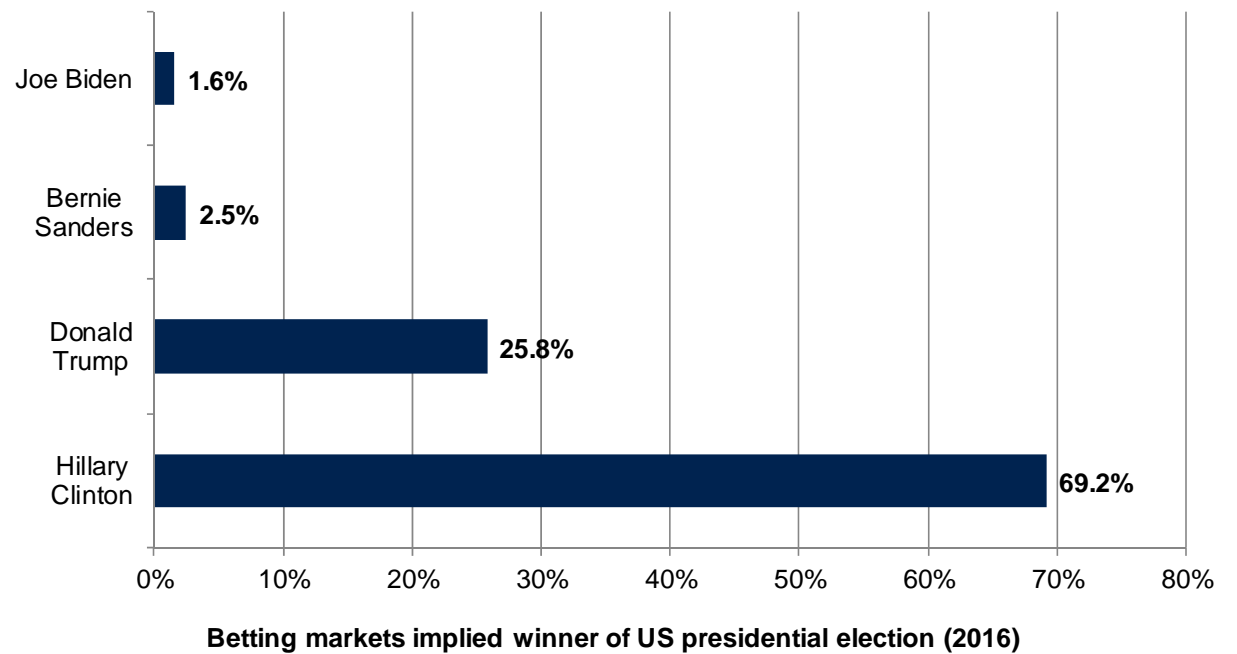
Housing tenure and age



Source: British Household Panel Survey, 1995, 2000, 2005

US Political risk

A Trump Presidency?



Source: Oddschecker.com, Wikipedia, Schroders Economics Group. 19 May 2016

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