Engines and Engineers
An Economic and Banking Update
Federal Reserve Bank of Atlanta
February, 2015

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Themes

- Global economic growth has been good, but uneven
  - Will the leaders pull everyone forward, or be drawn back to the pack?

- Energy price realignment will be a mixed blessing
  - Consumers will benefit but there is potential for instability among producers

- Banks are gradually adapting to a very new era
  - Some key risks require special attention

- Central bankers have a challenging set of objectives
  - Monetary policy remains in uncharted territory
Carrying the Freight
Northern Trust Global Economic Research

U.S. Economic Performance

- Gathering momentum
- A slow start could mean a longer expansion

Sources: Bloomberg, Haver Analytics

U.S. Real GDP After Recession

Sources: Bloomberg, Haver Analytics
Joblessness has fallen sharply in the last two years. Little improvement in wage growth.

Sources: Bureau of Labor Statistics, Bloomberg, Haver Analytics
Wealth Restoration

Equity markets have enriched those who own stocks. New wealth spurs spending.

Sources: Bloomberg, Federal Reserve

MSCI Equity Indices

US Household Net Worth

Sources: Bloomberg, Federal Reserve
U.S. Deleveraging

Debt and debt service are at multiyear lows
Saving rates have increased

U.S. Debt Trends
- Households: Financial Obligation ratio (left)
- Households: Debt/DPI (right)

U.S. Saving Rate

Sources: Federal Reserve, Bloomberg, Haver Analytics
Housing: A Slow Recovery

Sales and construction have progressed slowly
Lending standards are still cautious

Source: Haver Analytics, Federal Reserve

Standards for Mortgage Loans

Source: Haver Analytics, Federal Reserve
Slowing Progress
The Eurozone’s Malaise

- Eurozone growth is very soft, and uneven

Eurozone GDP Growth

Real Gross Domestic Product
4Q 2014

Source: Haver Analytics
Eurozone Challenges

- Deepening disinflation
- Poor bank health restricts credit

Source: Haver Analytics
Economics and Politics

- Fortunes across countries and within countries have been uneven.
- A rising sense of disenfranchisement.

Sources: Federal Reserve, OECD
Backlash Ahead?

- Income inequality and high unemployment create discontent
  - Does the system work for me?
- Populist politicians are quick to capitalize
  - Anti-market, anti-trade, anti-immigrant
- Redistributive policies can diminish growth
  - Companies can move to a friendlier haven
Fuel for the Fire
Energy Realignment

A stunning decline
Flagging Chinese demand is among the root causes

Source: Haver Analytics

Crude Oil Price (WTI)

China: Industrial Production

Source: Haver Analytics
### Consequences

<table>
<thead>
<tr>
<th>Winners</th>
<th>Losers</th>
</tr>
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<tbody>
<tr>
<td>- Consumers</td>
<td>- Frackers</td>
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<tr>
<td>- U.S. fares especially well</td>
<td>- Higher breakeven costs</td>
</tr>
<tr>
<td>- Importers</td>
<td>- Russia</td>
</tr>
<tr>
<td>- Japan, India, eurozone</td>
<td>- Overreliance on energy</td>
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<tr>
<td>- Some manufacturers</td>
<td>- Peripheral producers</td>
</tr>
<tr>
<td>- Outside of energy production</td>
<td>- Venezuela, Nigeria, Iran, etc.</td>
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</tbody>
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Banking Trends
Banks Back on Track

- Credit is growing, but not at pre-crisis levels
- The industry is very well capitalized

**U.S. Bank Lending Growth**

**U.S. Bank Capital Ratios**

Sources: Federal Reserve, Haver Analytics
Risk Issues to Watch

- Commercial Property Pricing is Very Aggressive
- Deposit Build Ups Challenge ALCO

Sources: Real Capital Analytics, Bloomberg, Haver Analytics
Man versus Models

More math geeks are calling the shots in business. Is your industry next?

BY STEPHEN BAKER (P.54)
Other Things That Keep Me Awake at Night

- Cyber security
- Capital Planning
  - Multiple measurement methods challenging pricing and profitability analysis
- Compliance issues
  - New rules
  - Getting the incentives right
- Market liquidity
  - Fewer, smaller broker/dealers
The Engineers
The Course of Central Banking

Central Bank Policy Rates

Sources: Federal Reserve, ECB, BOC, BOE, Bloomberg, Haver Analytics

Central Bank Assets: Increase Since 2007

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Inflation Issues

Sources: Bloomberg, Haver Analytics
Parting Thoughts

• The global outlook remains positive
  • Forward readings are encouraging

• Performance will continue to be somewhat uneven
  • Some regions and sectors are further along

• Risks to the outlook are varied
  • CROs are busy

• For all of today’s challenges, we’ve come a long way
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