US fiscal Challenge: Another Minsky Moment?

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Outline

On first anniversary of Europe’s sovereign debt Minsky moment we ask, is the US next?

- US fiscal performance and prospects
- Gauging the risks of a US fiscal crisis
- Will fiscal drag kill the recovery?

Source: usgovernmentspending.com, CBO, DB Global Markets Research
US Federal deficit at a peacetime high

% of GDP

- Federal deficit
- Admin 2012 Budget + CBO L-T

Source: usgovernmentspending.com, Fiscal commission, CBO, DB Global Markets Research
US Federal deficit at a peacetime high

Source: usgovernmentspending.com, Fiscal commission, CBO, DB Global Markets Research
Public debt at peacetime high too

% of GDP

Federal debt
 Admin 2012 budget + CBO L-T
 Fiscal commission

Forecasts

Source: usgovernmentspending.com, Fiscal Commission, CBO, DB Global Markets Research
Public debt at peacetime high too

% of GDP

- Federal debt
- Admin 2012 budget + CBO L-T
- Fiscal commission/Obama(?)
- Ryan

Forecasts

Source: usgovernmentspending.com, Fiscal Commission, CBO, DB Global Markets Research
Closing the Revenue-Spending gap a major challenge

Source: CBO, DB Global Markets Research
Federal spending

Share in total Fed spending

% of GDP

Interest on the debt
Other discretionary spending
Defense-spending
Entitlements, excluding health care
Health Care

OMB projections

Source: usgovernmentspending.com, CBO, OMB, DB Global Markets Research

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Sovereign risk ranking (1): Fundamentals

Source: OECD, Haver Analytics, DB Global Markets Research

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Public debt

Gross government debt (2010)

% of GDP

Japan  Italy  Greece  Ireland  Belgium  Portugal  US  France  UK  Germany  Austria  Netherlands  Spain  Finland

% of GDP

R&R warning zone

Source: OECD, Haver Analytics, DB Global Markets Research


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Gross debt to GDP, near-term projections

Source: IMF WEO, Haver Analytics, DB Global Markets Research
Public deficits

Government fiscal balance (end 2010)

% of GDP

Source: OECD, Haver Analytics, DB Global Markets Research
Share of public debt held abroad

% of gross public debt

Government external debt (end 2009)

% of gross public debt

- Greece
- Austria
- Finland
- Portugal
- Ireland
- Belgium
- Netherlands
- France
- Germany
- Spain
- Italy
- US
- UK
- Japan

Source: OECD, Haver Analytics, DB Global Markets Research
External deficits

% of GDP

Current account balance (end 2010)

% of GDP

Source: OECD, Haver Analytics, DB Global Markets Research
Sovereign risk ranking (2): Market-based

*Smaller the bar height better the country’s fiscal situation

Source: OECD, Haver Analytics, DB Global Markets Research
Net government interest payments (end 2010)
CDS spreads

Sovereign: 5Y CDS spread

Source: OECD, Haver Analytics, DB Global Markets Research
S&P sovereign bond rating*

* Raking based on scale below

* Source: OECD, Haver Analytics, DB Global Markets Research
US Fiscal drag coming

Federal Budget Projections

% of GDP

- CBO's baseline
- President's budget
- Fiscal commission's proposal

Source: CBO, DB Global Markets Research
Private discretionary spending at historic low

*Discretionary spending here includes personal consumption expenditure on durable goods and gross domestic private investment.

Source: BEA, Haver Analytics, DB Global Markets Research
Prospects for US fiscal policy

Cuts chipping away at 17% of budget in non-security discretionary spending will not go far.

Recent rumblings in Washington encouraging, but agreement on longer-term budget reform before election difficult.

Post election opportunity: Republican Congress and 2nd term Democratic president: Clinton deal redux?

Risks: Republicans unwilling to raise taxes, possible Obama pre-election commitments on spending.

US enjoys market risk rating that belies fiscal numbers risk rating. Failure to make meaningful progress by 2013 raises possibility of US debt crisis.

Near term fiscal drag poses risk to moderate recovery, but ample private spending waiting in the wings.

Source: usgovernmentspending.com, CBO, DB Global Markets Research
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Peter Hooper oversees a team of economists that analyze and forecast developments in the US economy and financial markets. Dr. Hooper joined Deutsche Bank Securities in the fall of 1999 as Chief US Economist, and was appointed Chief Economist in 2006. Dr. Hooper frequently comments on US economic and financial developments in the news media.

Prior to joining the firm, Dr. Hooper enjoyed a distinguished 26-year career at the Federal Reserve Board in Washington, D.C. He held numerous positions at the Fed, including as an economist on the FOMC and as Deputy Director of the Division of International Finance. In doing so, he developed an informed view of the Fed's policy making process.

Dr. Hooper earned a BA in Economics (cum laude) from Princeton University and an MA and Ph.D. in Economics from University of Michigan. He has published numerous books, journal articles, and reviews on economics and policy analysis.
Appendix 1

Important Disclosures

Additional information available upon request

For disclosures pertaining to recommendations or estimates made on a security mentioned in this report, please see the most recently published company report or visit our global disclosure look-up page on our website at


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