



# US fiscal Challenge: Another Minsky Moment?

*Passion to Perform*

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# Outline

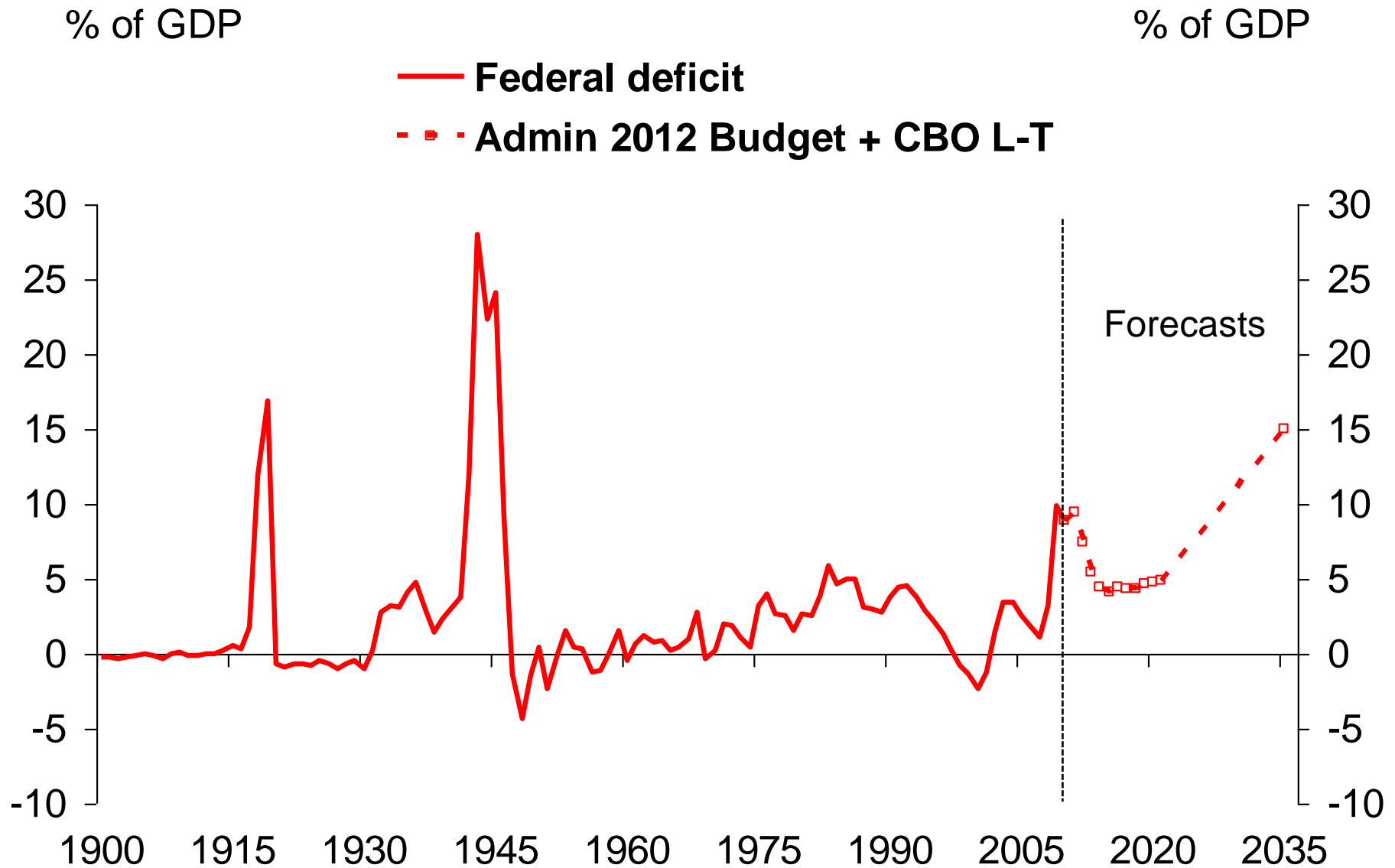
**On first anniversary of Europe's sovereign debt Minsky moment we ask, is the US next?**

- **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*



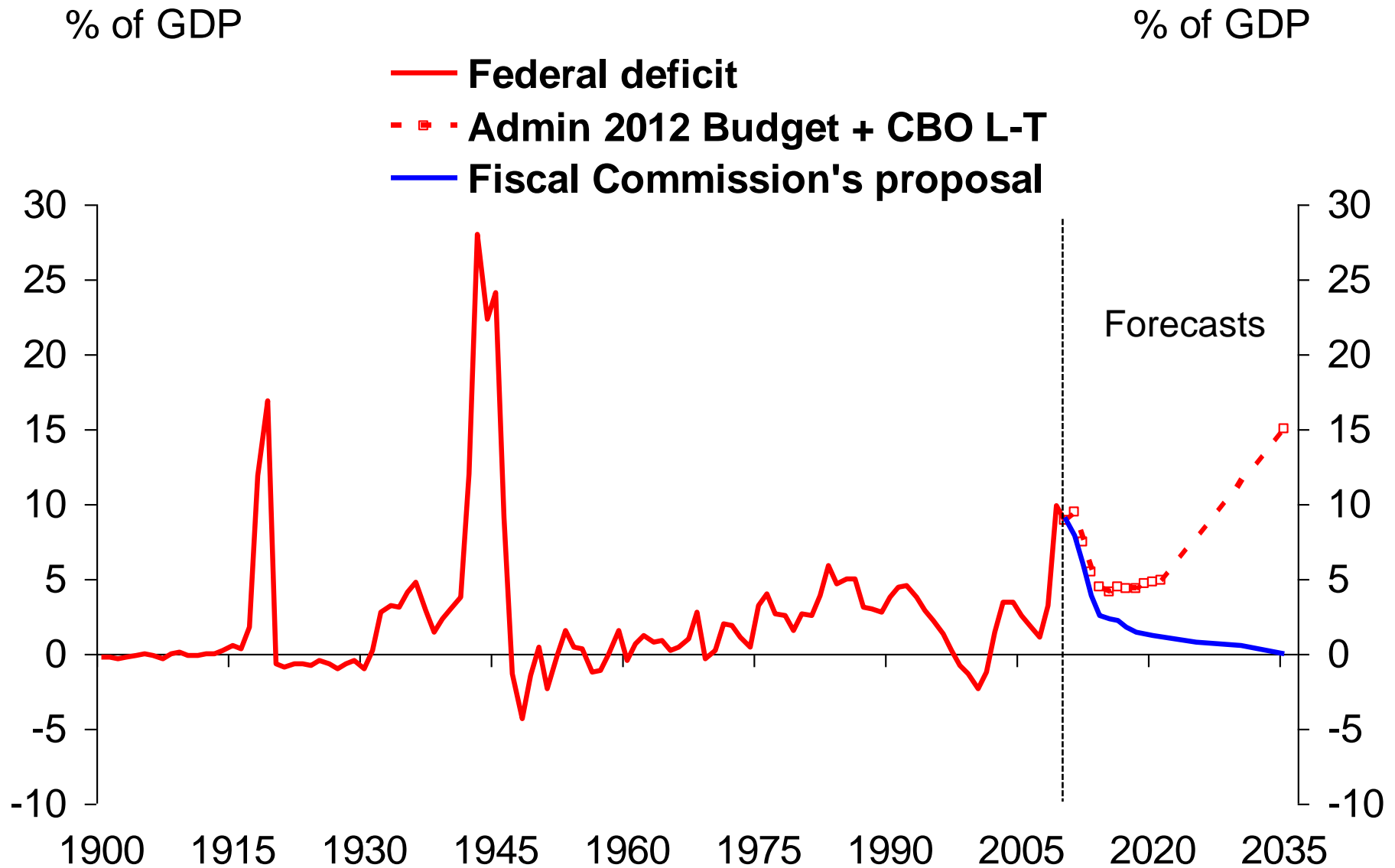
# US Federal deficit at a peacetime high



Source: *usgovernmentspending.com, Fiscal commission, CBO, DB Global Markets Research*



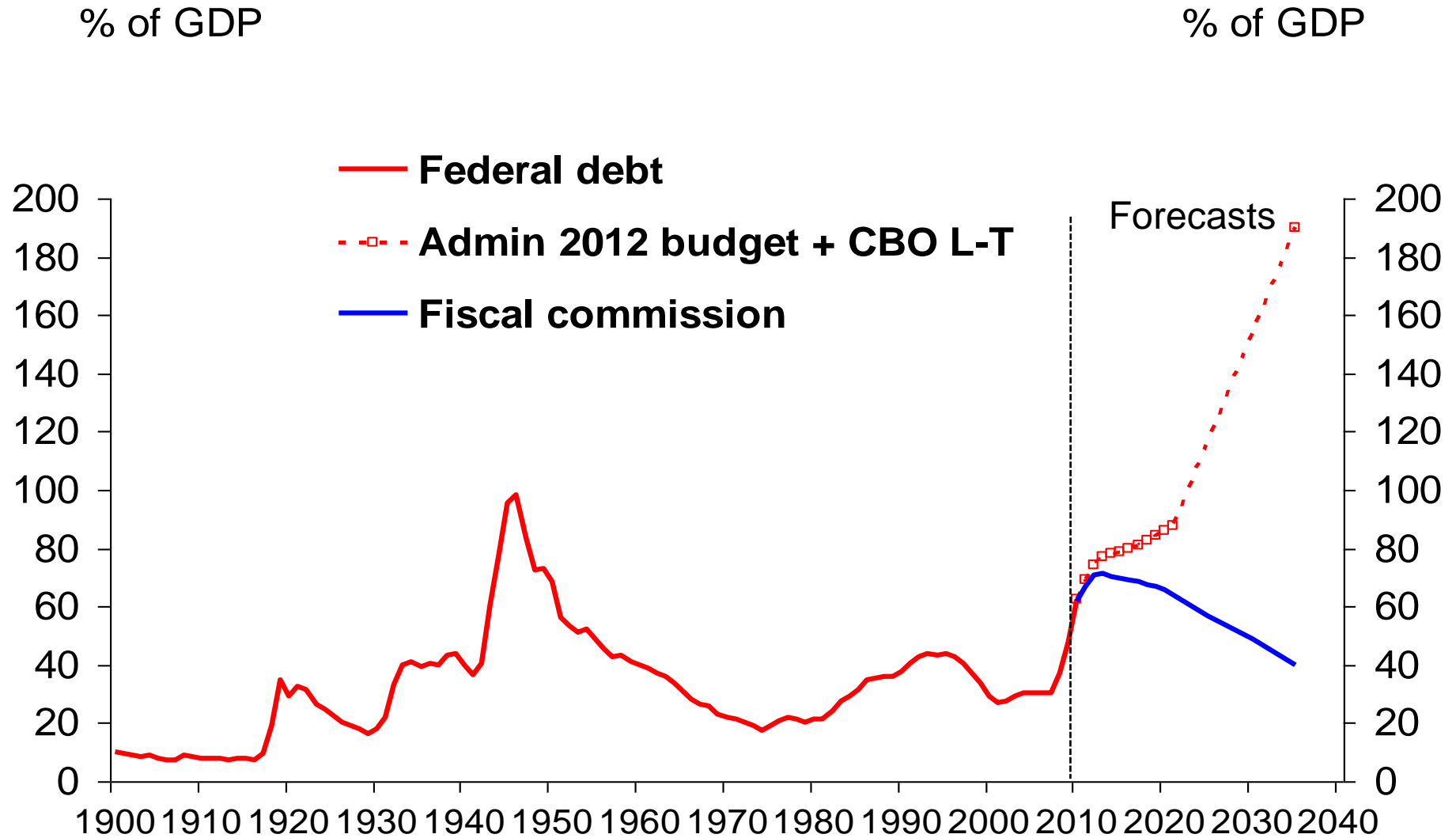
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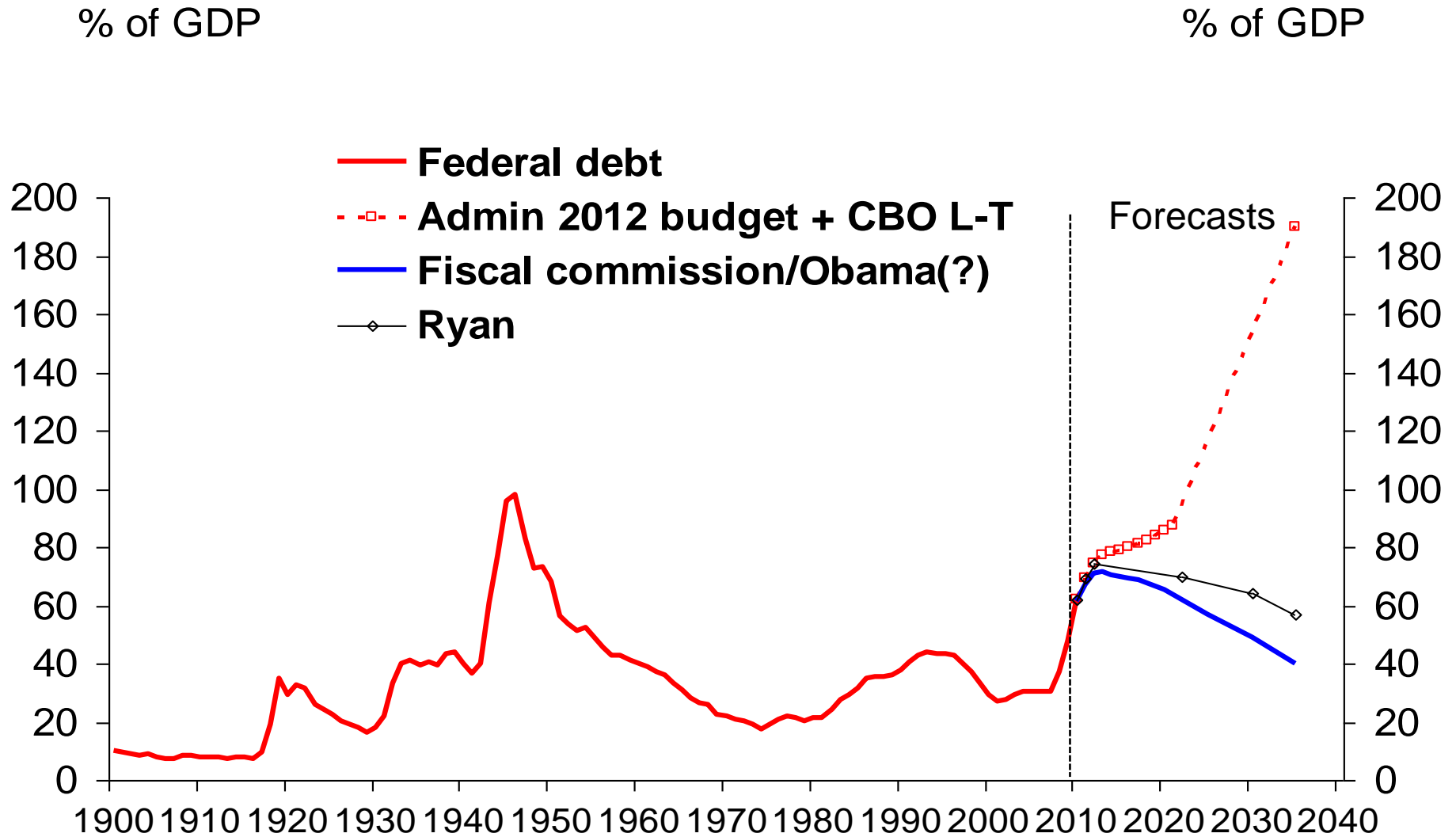
# Public debt at peacetime high too



Source: [usgovernmentspending.com](http://usgovernmentspending.com), Fiscal Commission, CBO, DB Global Markets Research

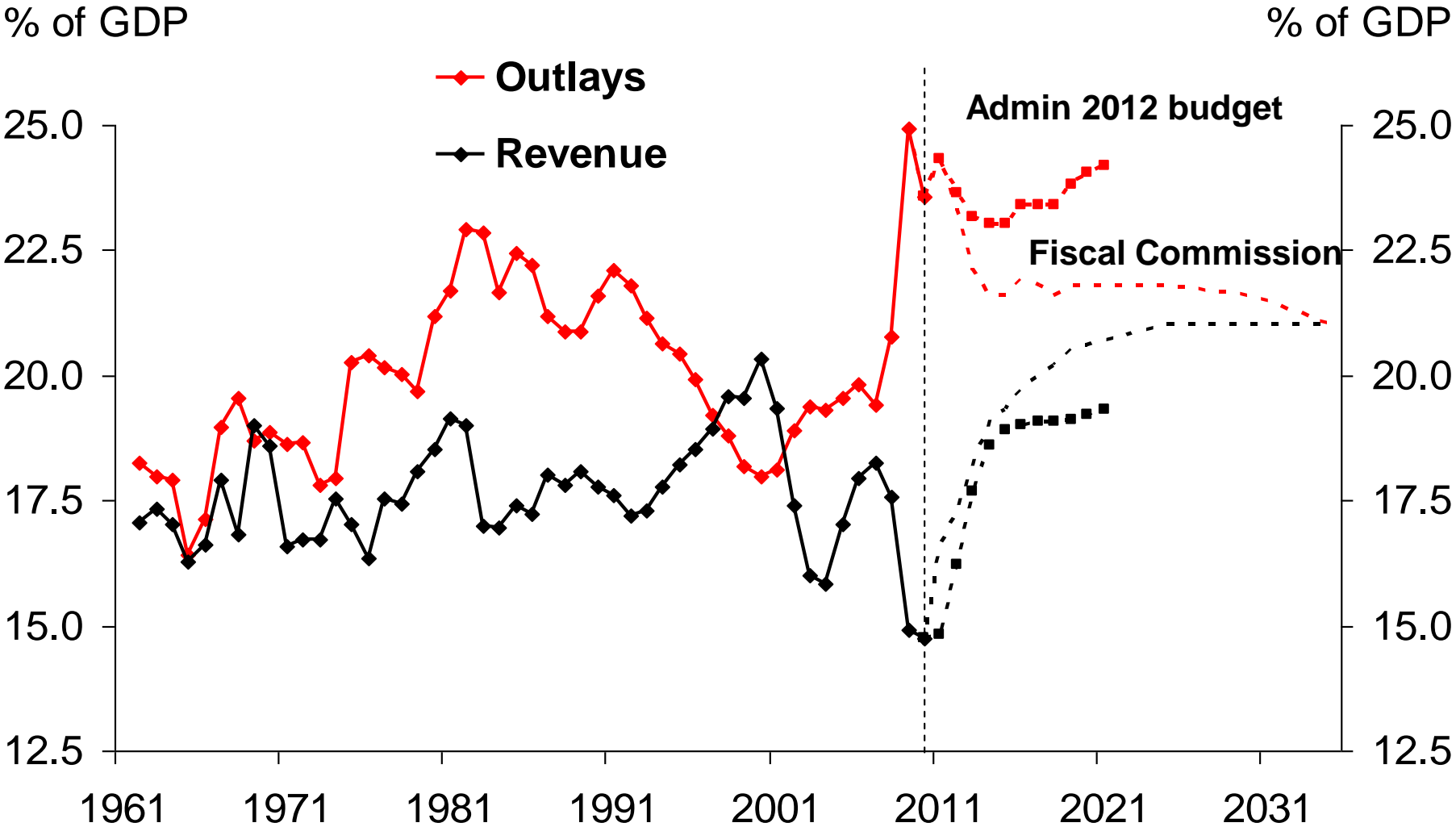


# Public debt at peacetime high too



Source: [usgovernmentspending.com](http://usgovernmentspending.com), Fiscal Commission, CBO, DB Global Markets Research

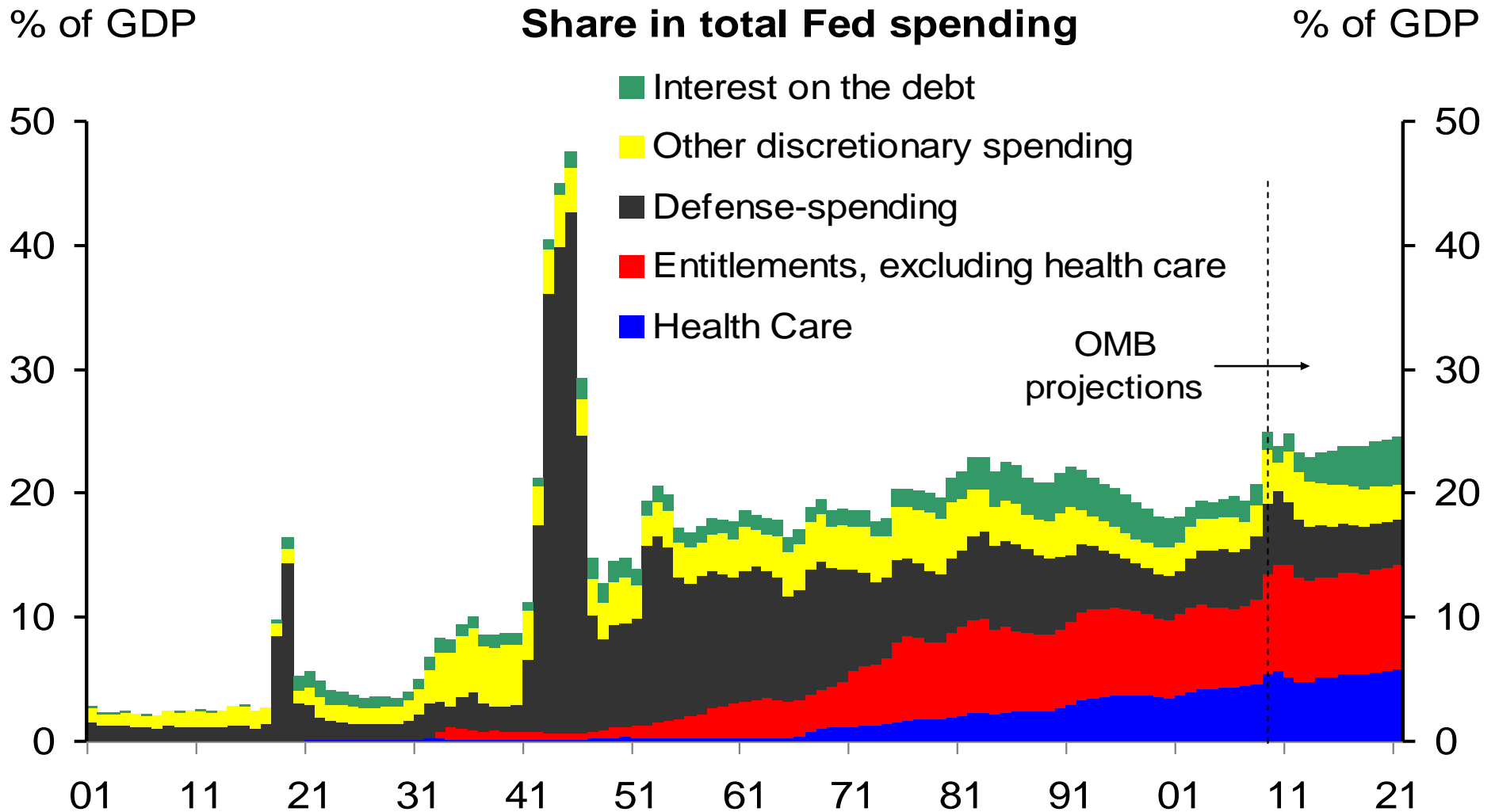
# Closing the Revenue-Spending gap a major challenge



Source: CBO, DB Global Markets Research



# Federal spending

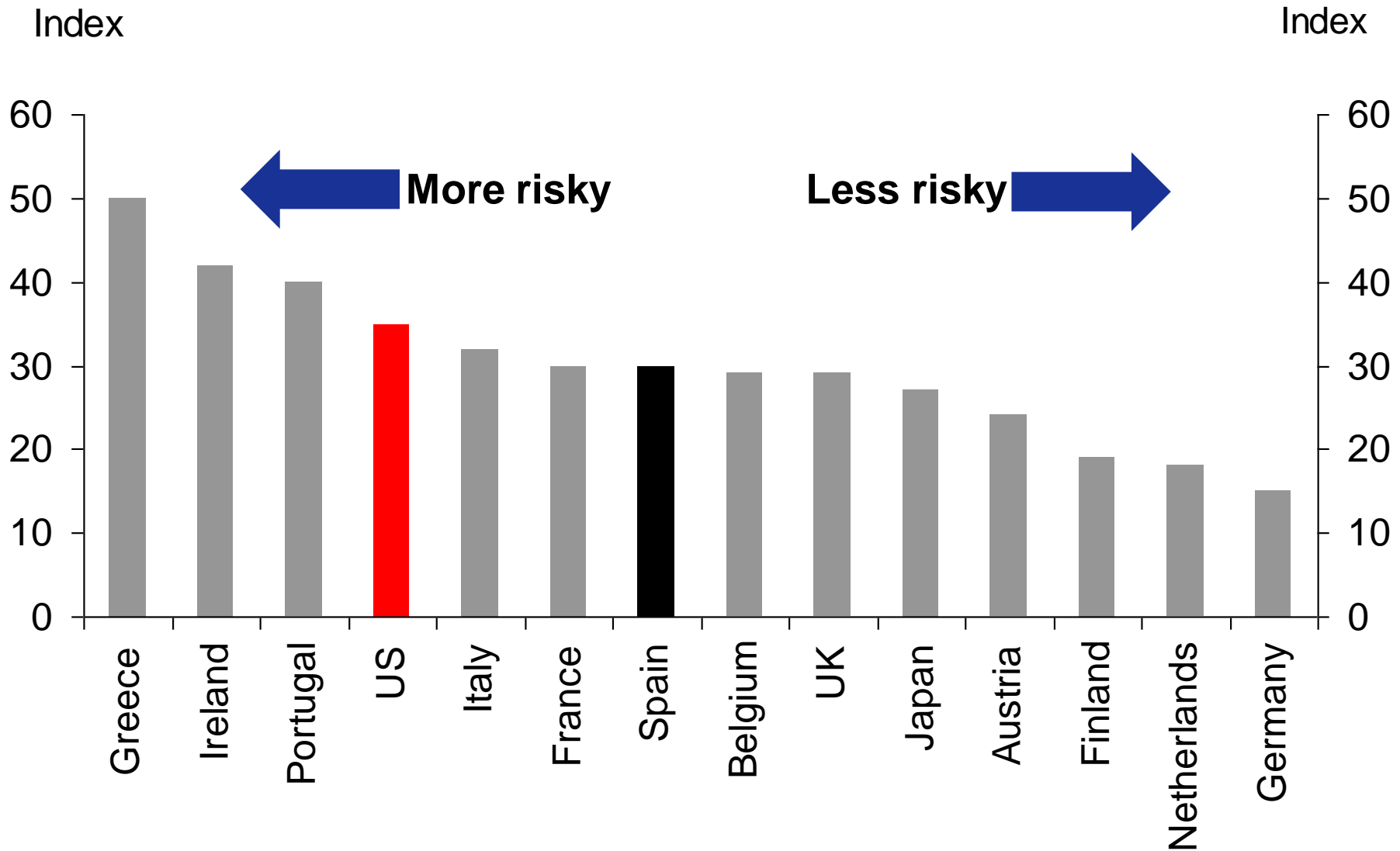


Source: [usgovernmentspending.com](http://usgovernmentspending.com), CBO, OMB, DB Global Markets Research





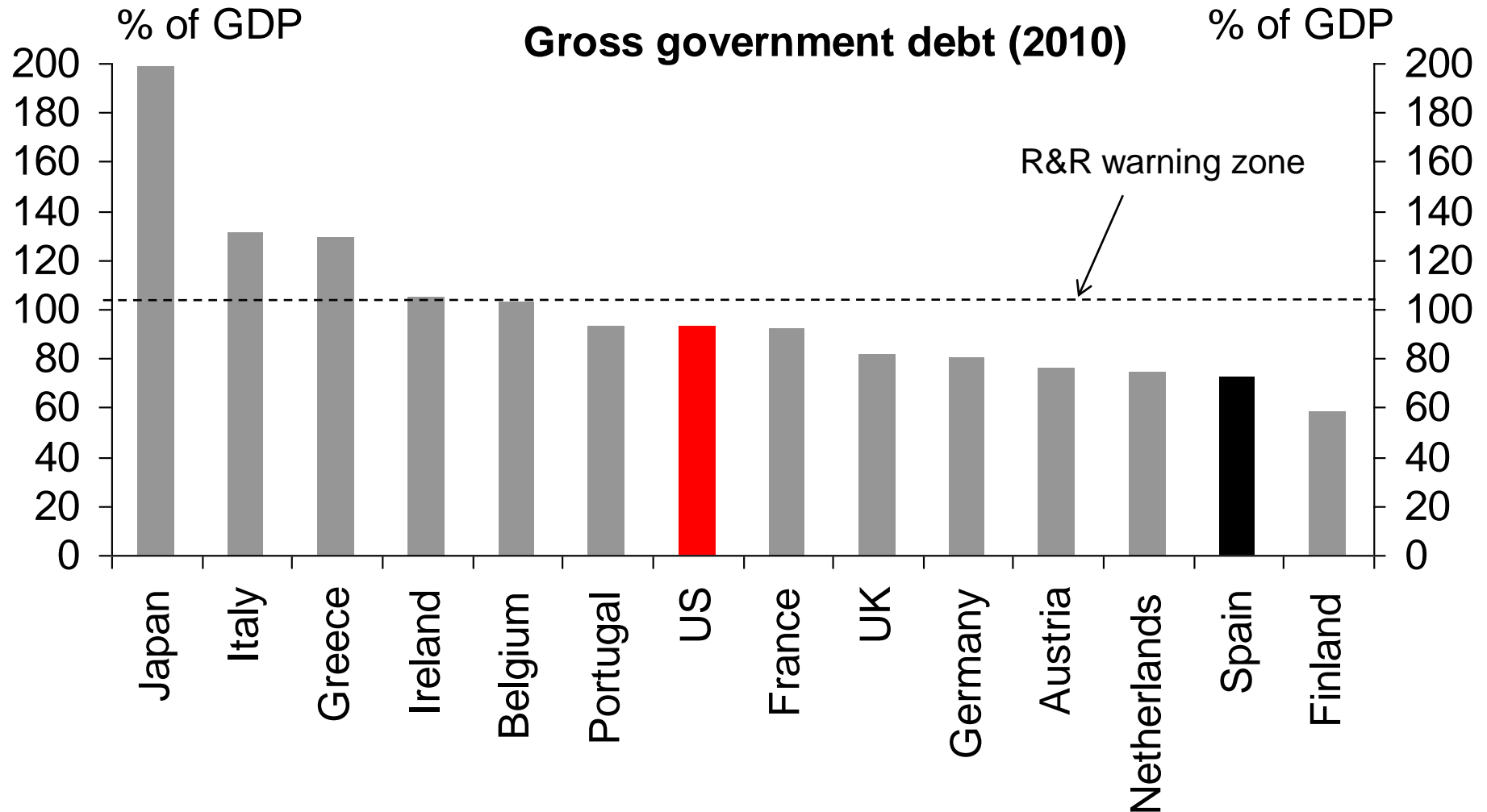
# Sovereign risk ranking (1): Fundamentals



Source: OECD, Haver Analytics, DB Global Markets Research



# Public debt



1. Belgium: Includes the debt of the Belgium National Railways Company (SNCB) from 2005 onwards.

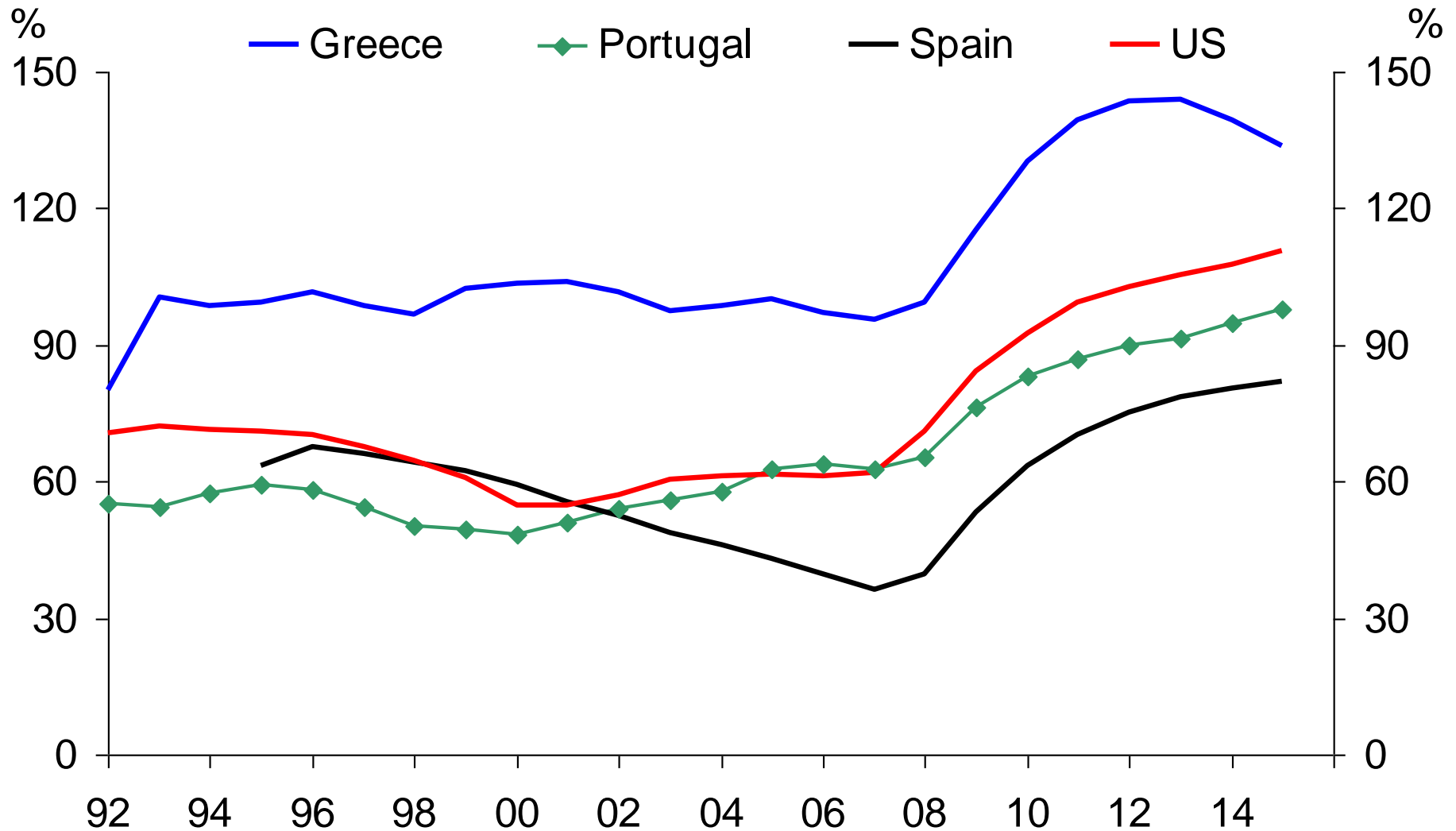
2. Germany: Includes the debt of the Inherited Debt Fund from 1995 onwards.

3. Japan: includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD, Haver Analytics, DB Global Markets Research



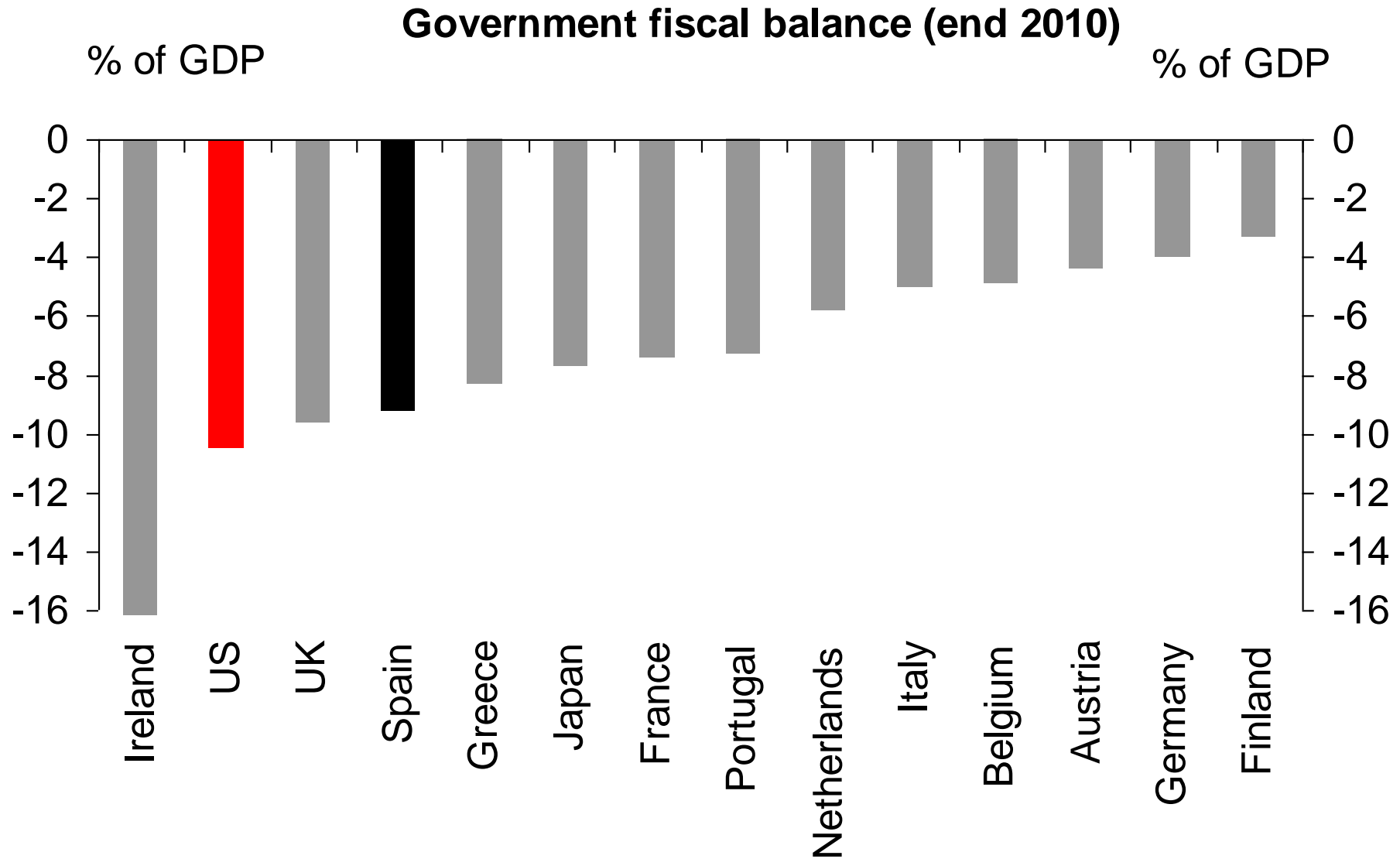
# Gross debt to GDP, near-term projections



Source: IMFWEO, Haver Analytics, DB Global Markets Research



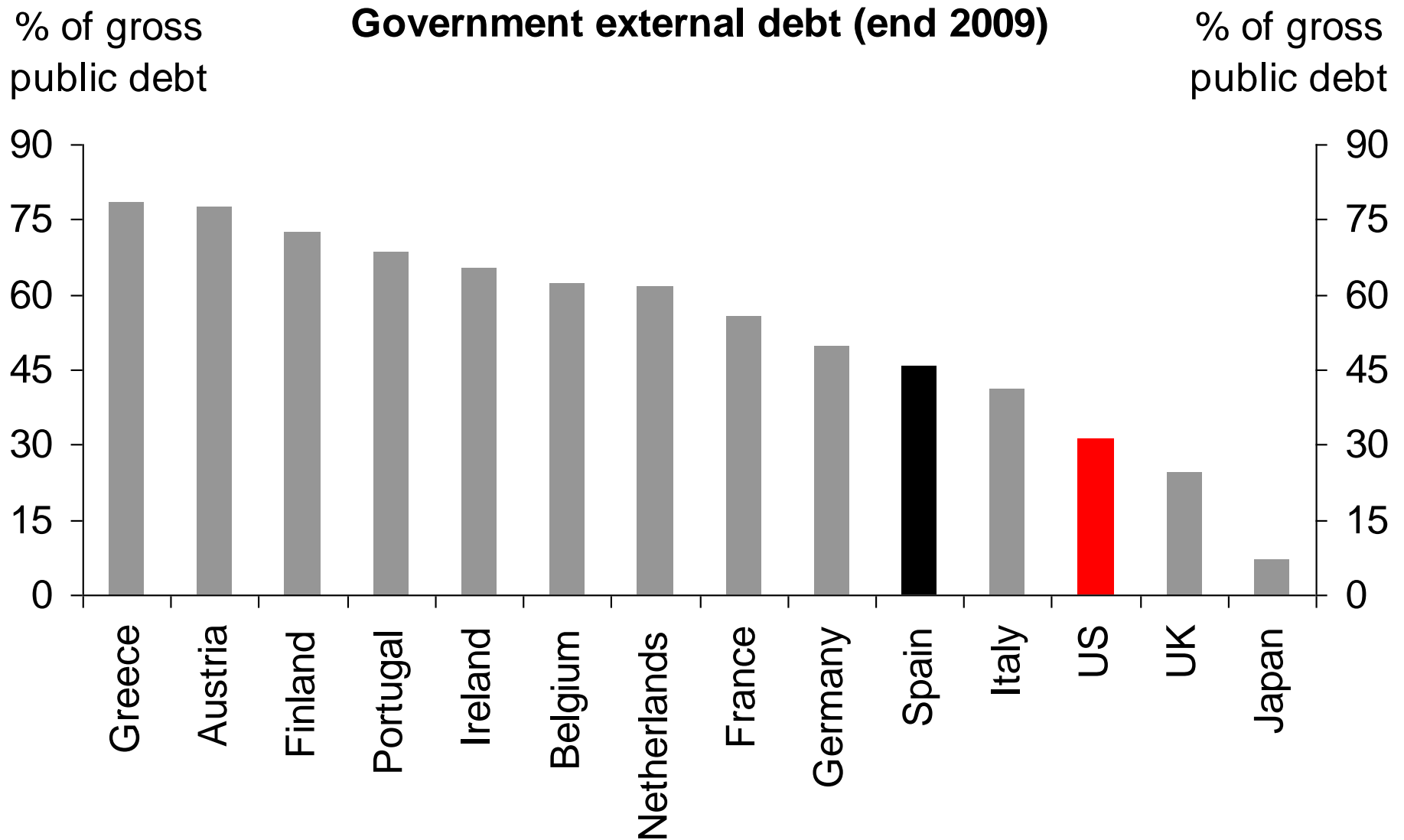
# Public deficits



Source: OECD, Haver Analytics, DB Global Markets Research

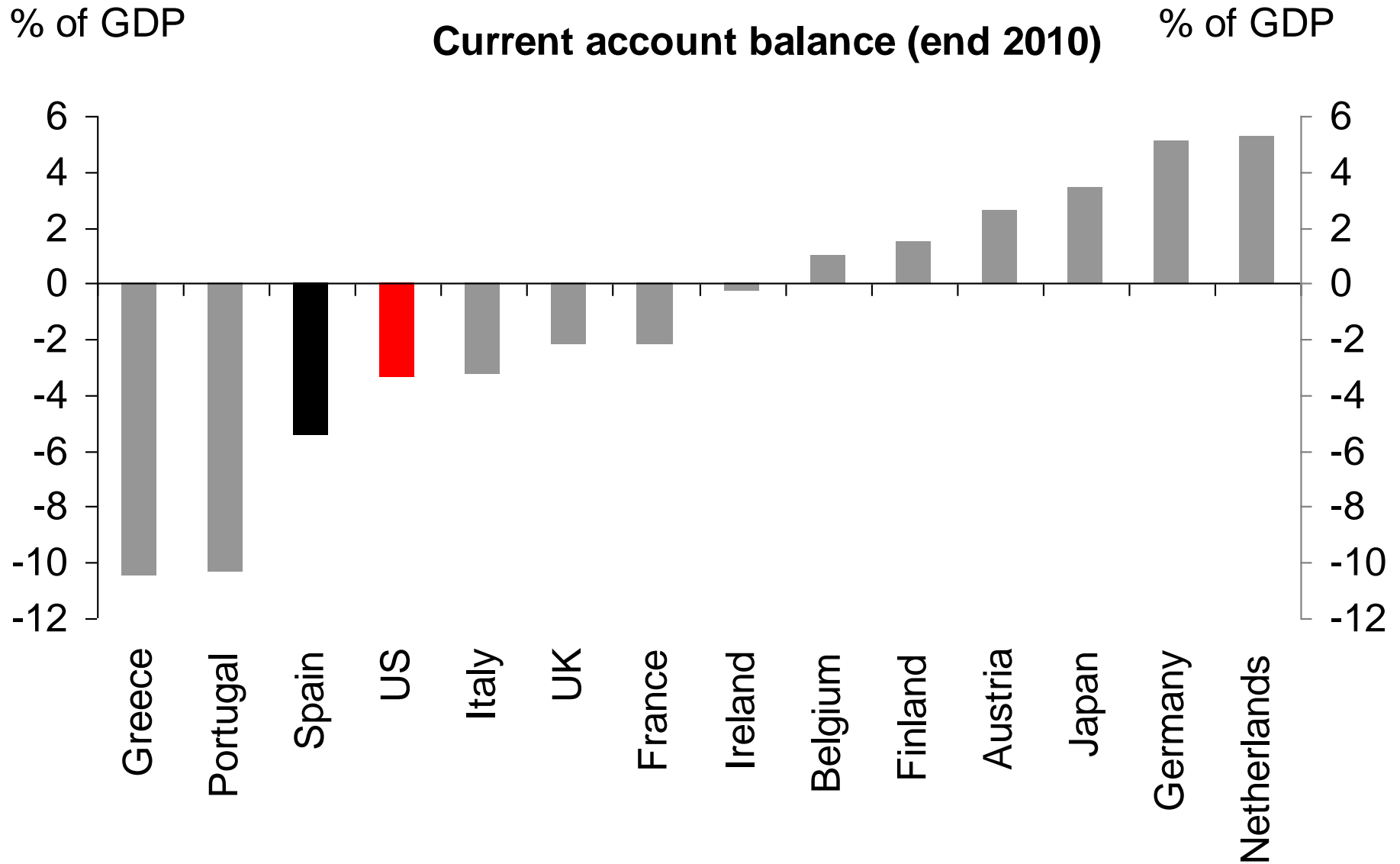


# Share of public debt held abroad



Source: OECD, Haver Analytics, DB Global Markets Research

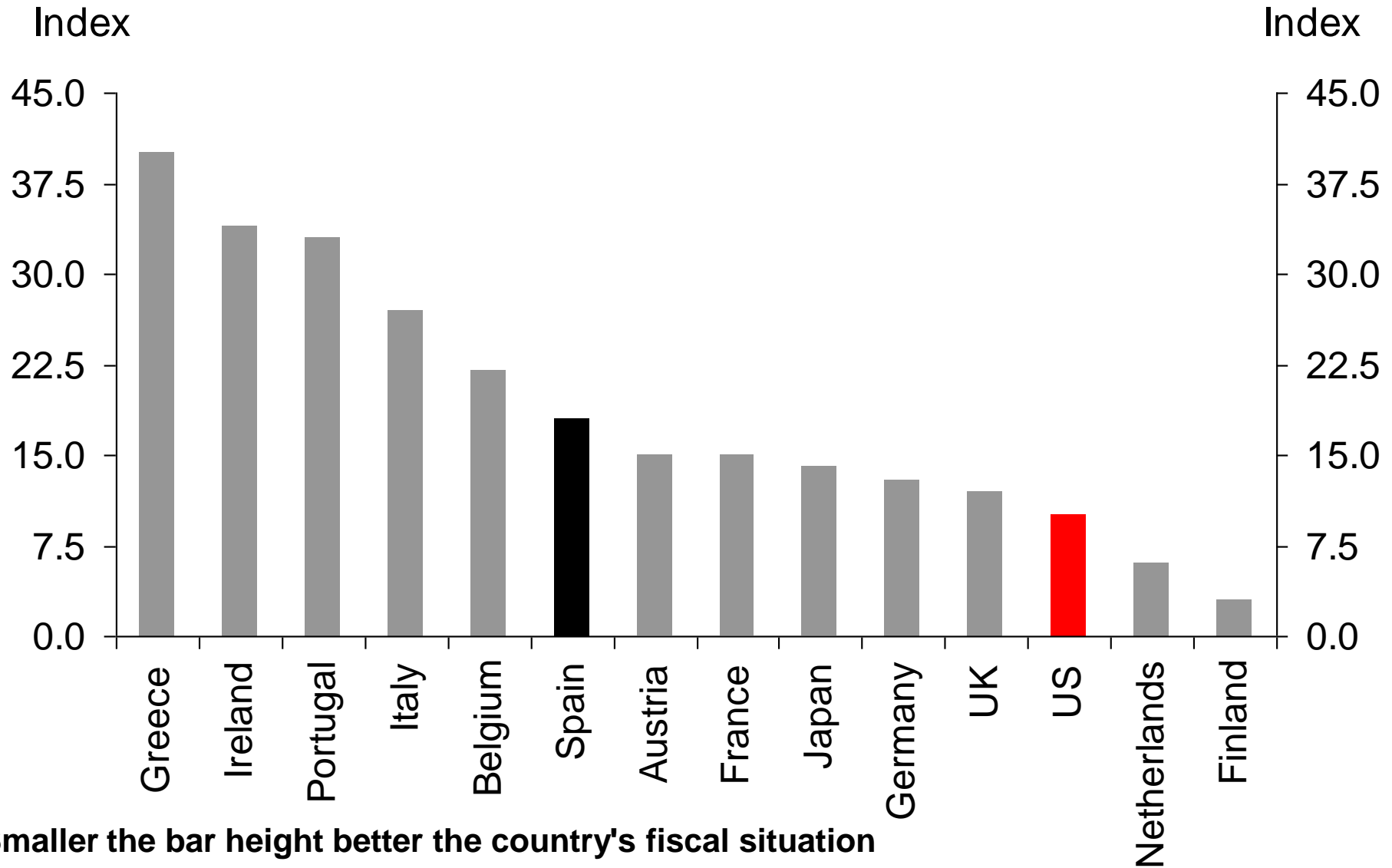
# External deficits



Source: OECD, Haver Analytics, DB Global Markets Research



# Sovereign risk ranking (2): Market-based



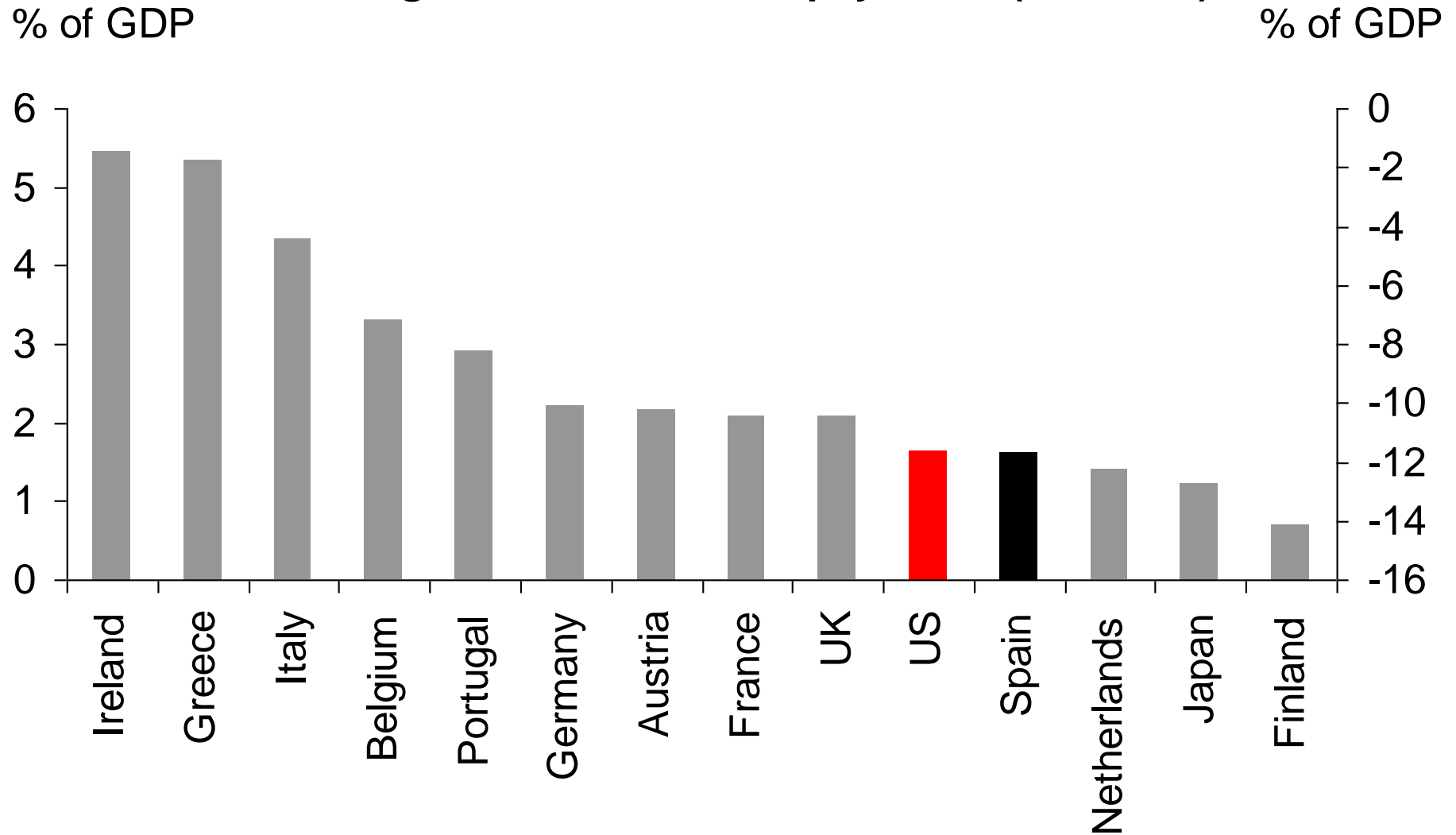
**\*Smaller the bar height better the country's fiscal situation**

Source: OECD, Haver Analytics, DB Global Markets Research



# Interest payments

## Net government interest payments (end 2010)

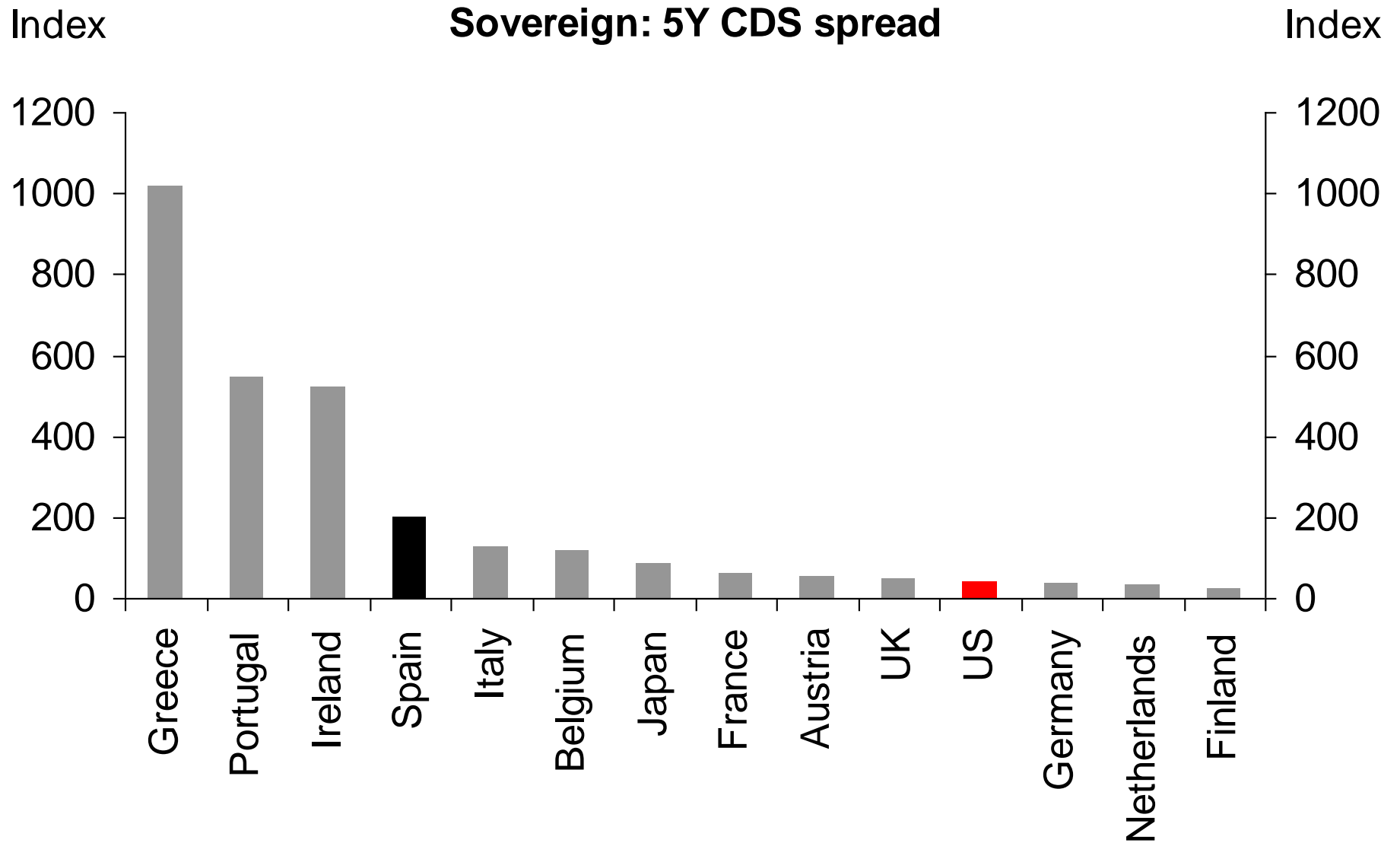


Source: OECD, Haver Analytics, DB Global Markets Research





# CDS spreads



Source: OECD, Haver Analytics, DB Global Markets Research

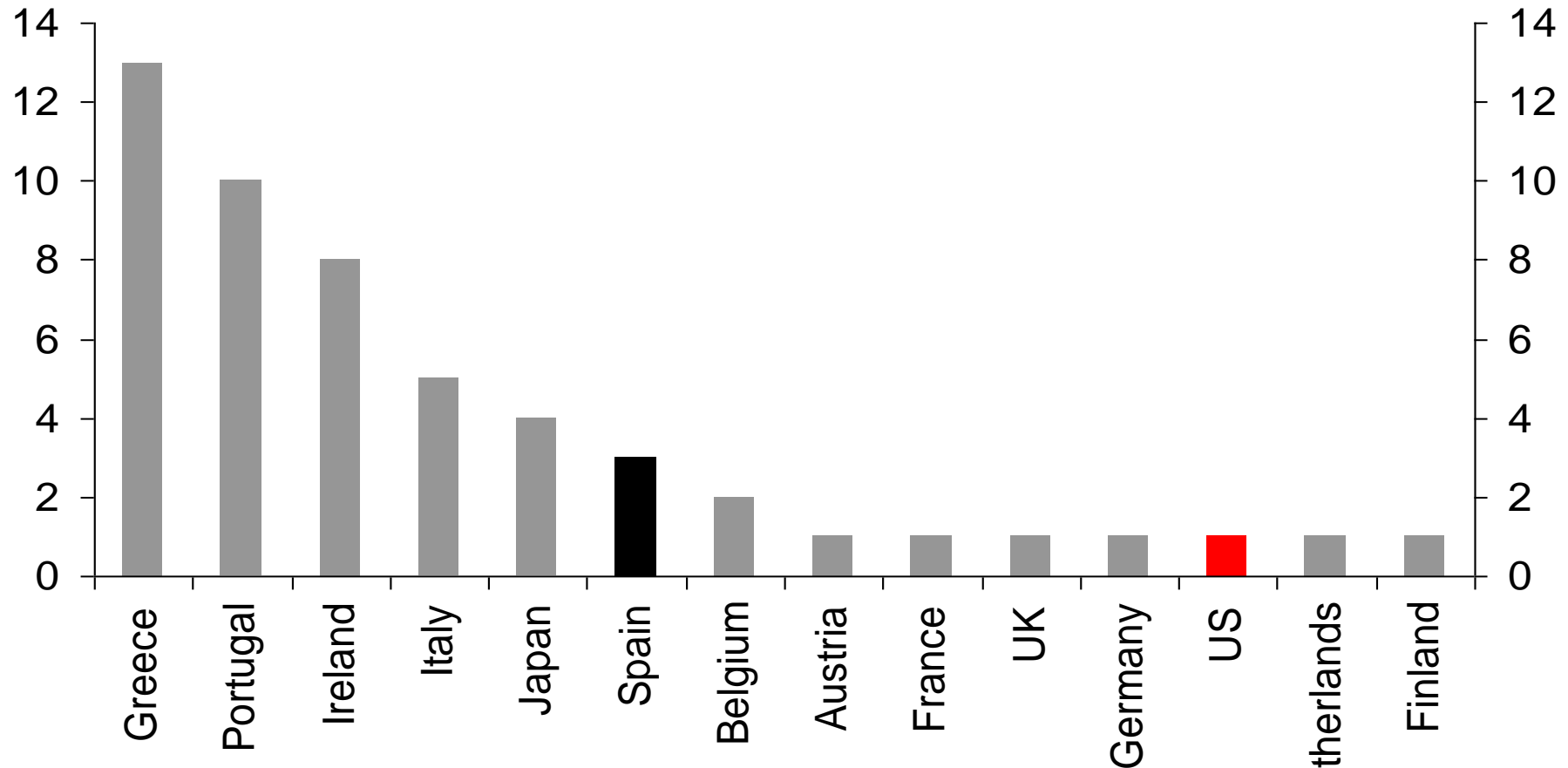


# S&P ratings

Rating ranks

S&P sovereign bond rating\*

Rating ranks



\* Raking based on scale below

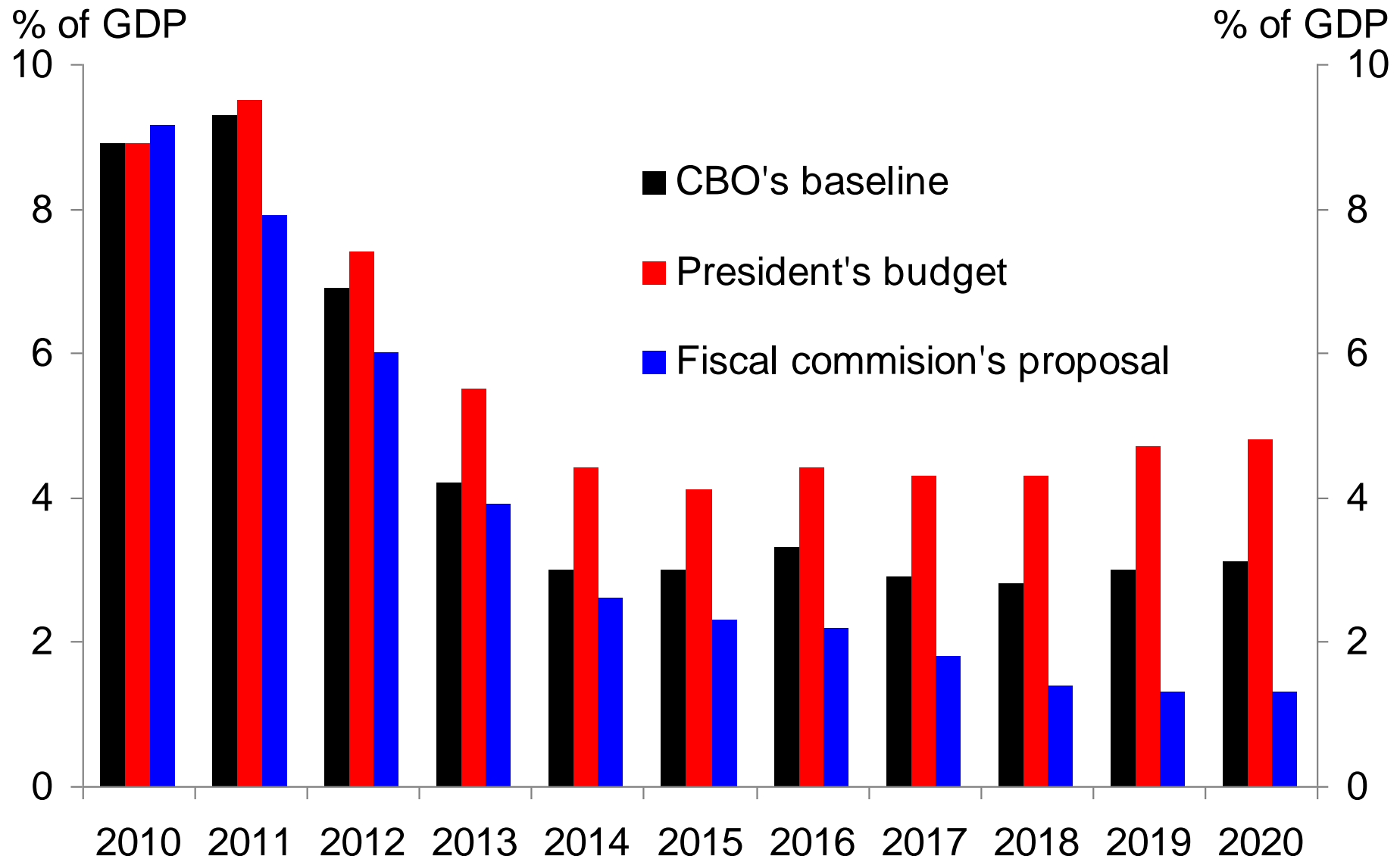
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	D
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22

Source: OECD, Haver Analytics, DB Global Markets Research



# US Fiscal drag coming

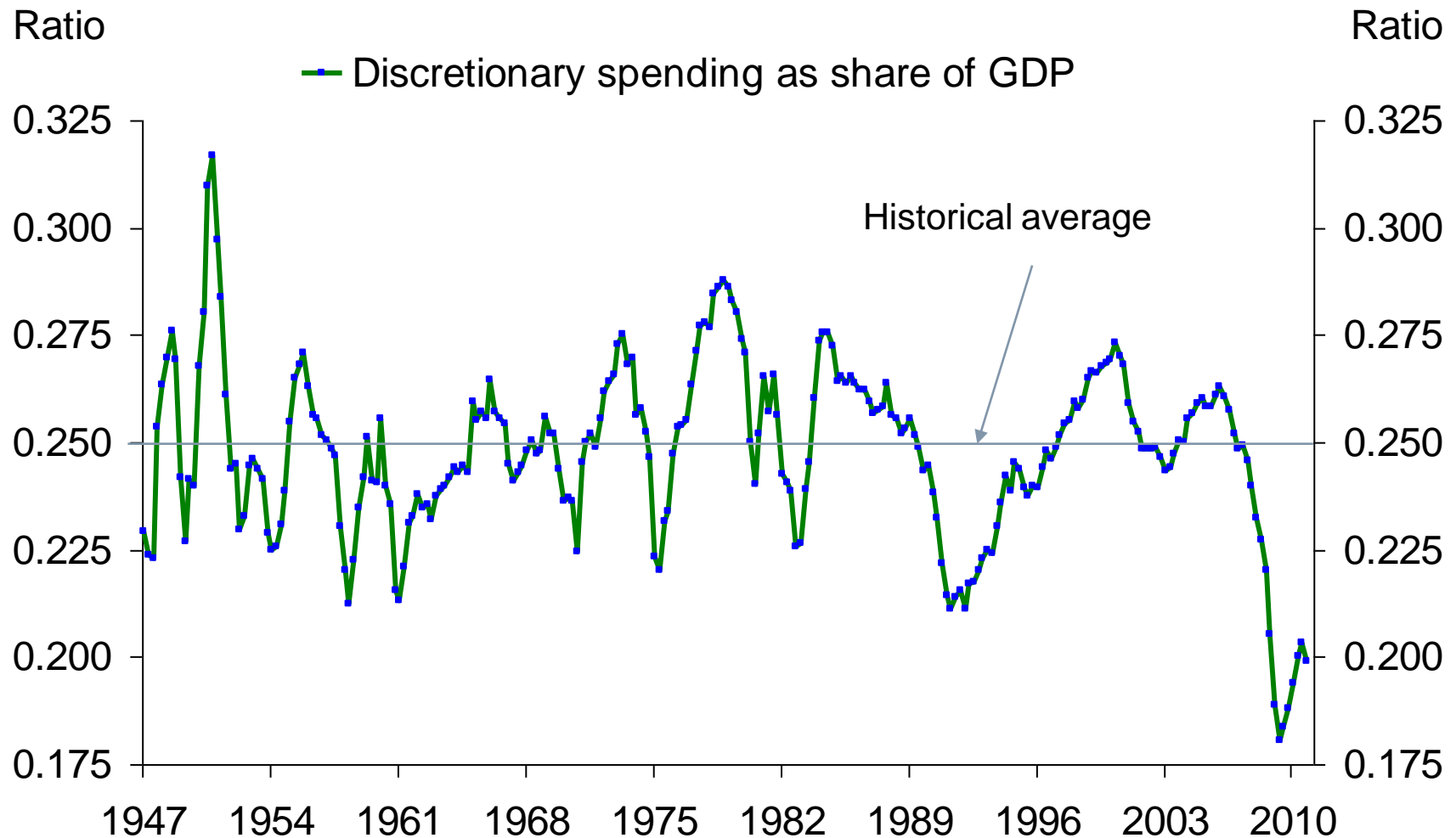
## *Federal Budget Projections*



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 2<sup>nd</sup> 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*



## Peter Hooper

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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**

<http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>.

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