

THE GLOBAL ECONOMIC AND FINANCIAL OUTLOOK



An independent view

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Topics to address

- Where are we in the global business cycle?
- Where are we headed?
- How should we think about the inflation outlook?
- How should we think about the monetary policy outlook?
- Is the financial system *really* safer?

Where are we in the global business cycle? (1)

Chart 1
G7 Real GDP growth
% change over 2q. saar

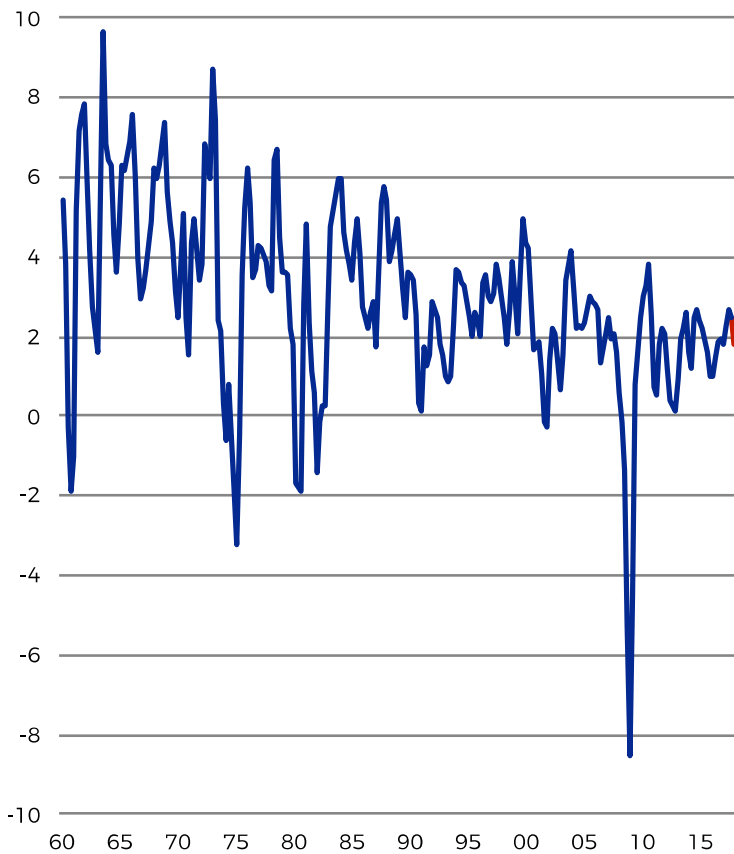
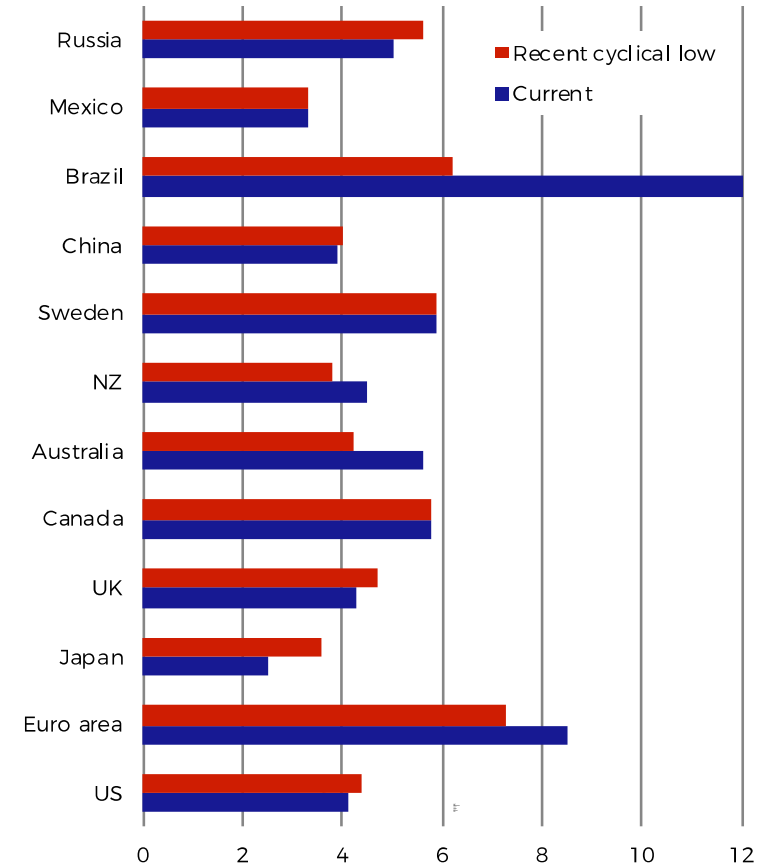


Chart 2
Unemployment rate: current versus last cyclical low
% of labor force



Where are we in the global business cycle? (2)

Chart 3
Global real GDP growth
%q/q, saar

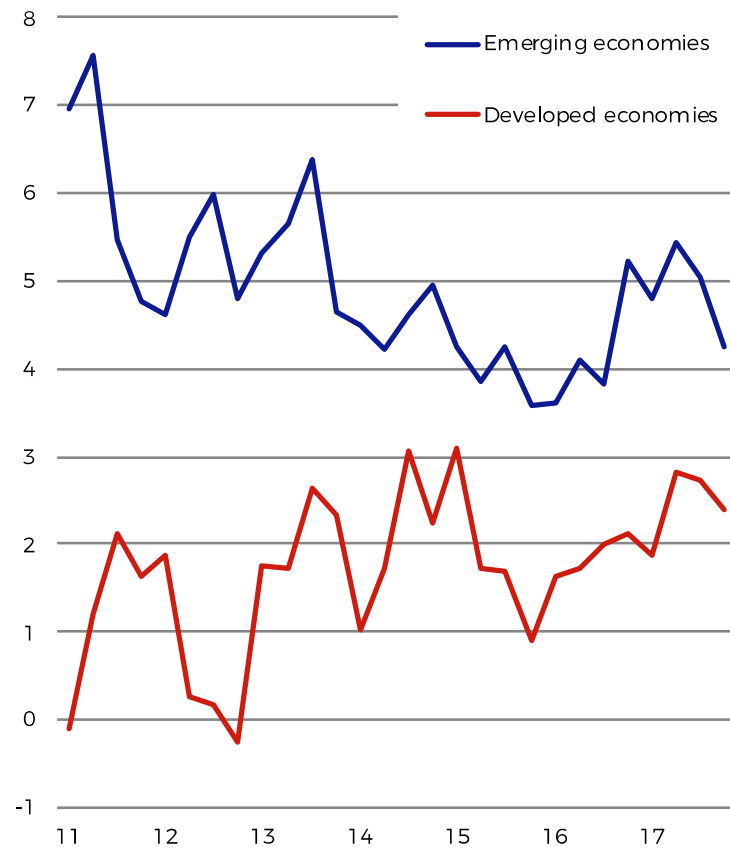
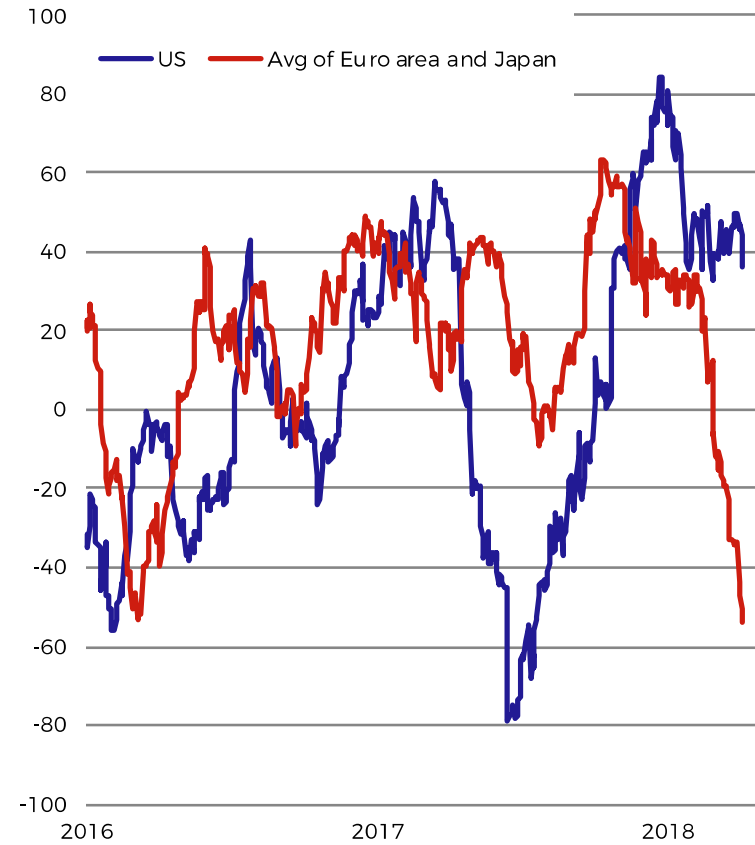


Chart 4
G3 surprise indices
Citibank measure



Where are we in the global business cycle? (3)

Chart 5
G4 retail sales volumes
%3m/3m, saar

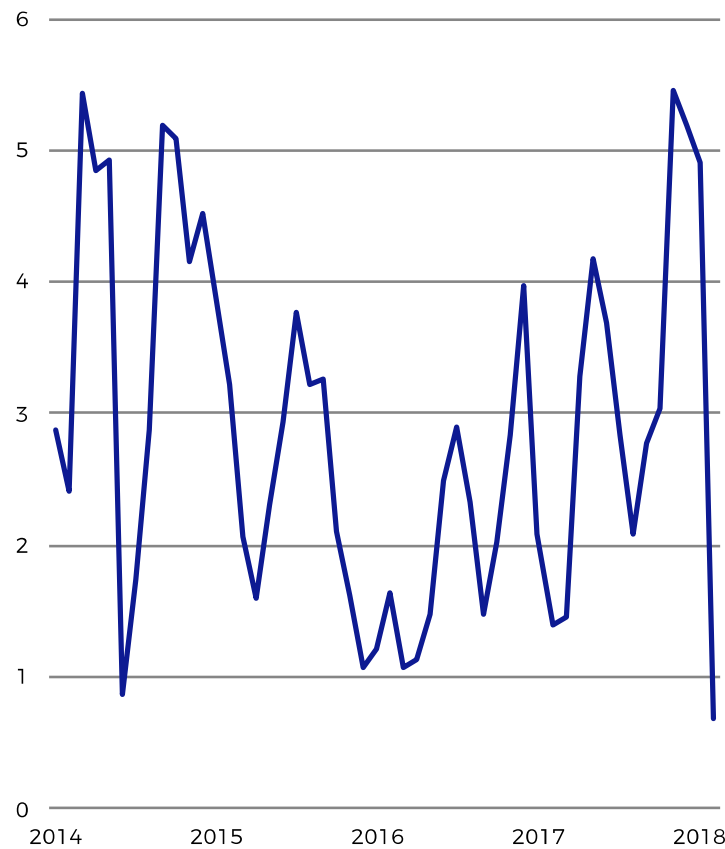
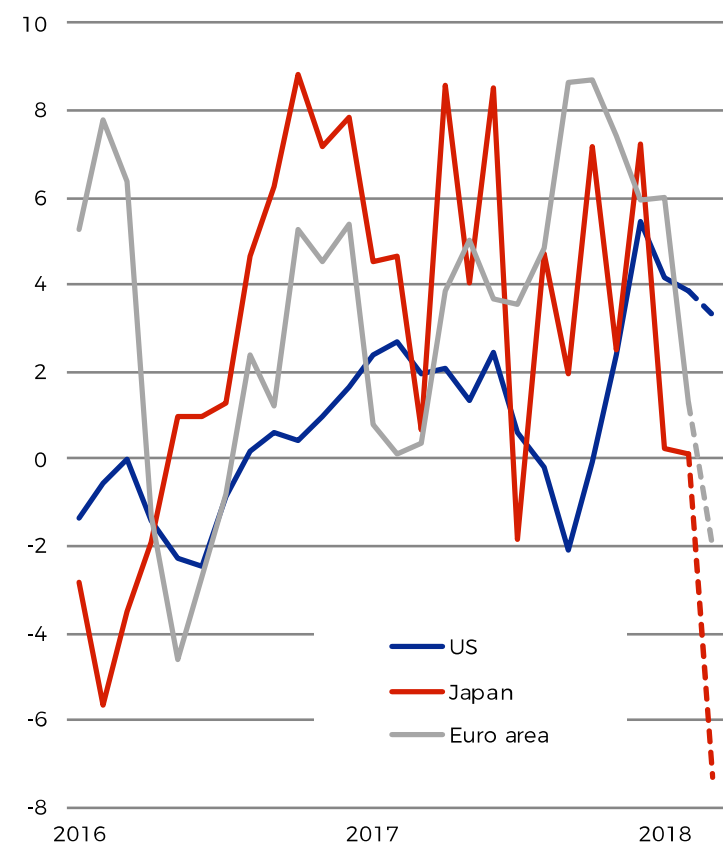


Chart 6
G3: manufacturing production
%3m/3m, saar



Where are we headed? Policy drivers

Chart 7
Global policy rates
percent, GDP-weighted

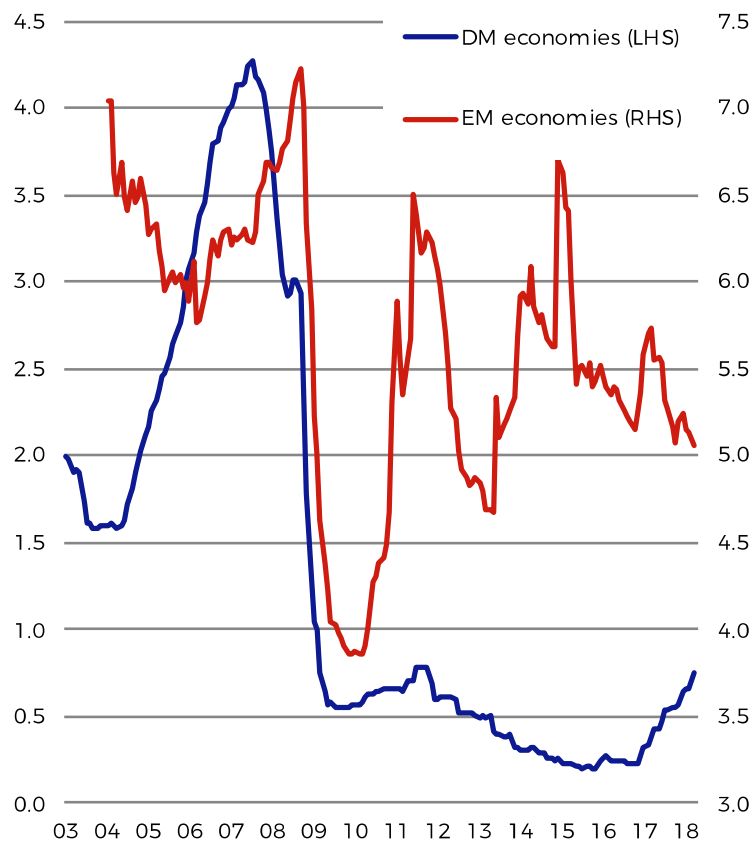


Chart 8
US fiscal thrust

change in cyclically-adjusted budget deficit as % of GDP

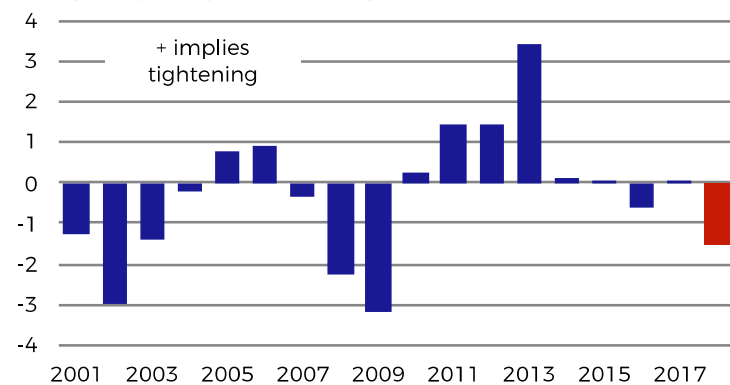
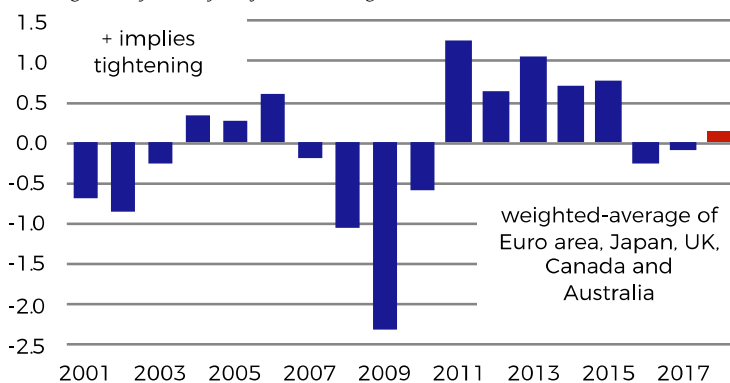


Chart 9
Non-US fiscal thrust

change in cyclically-adjusted budget deficit as % of GDP



Where are we headed? Private sector drivers

Chart 10
Corporate profits
as % of GDP, last 4 quarters

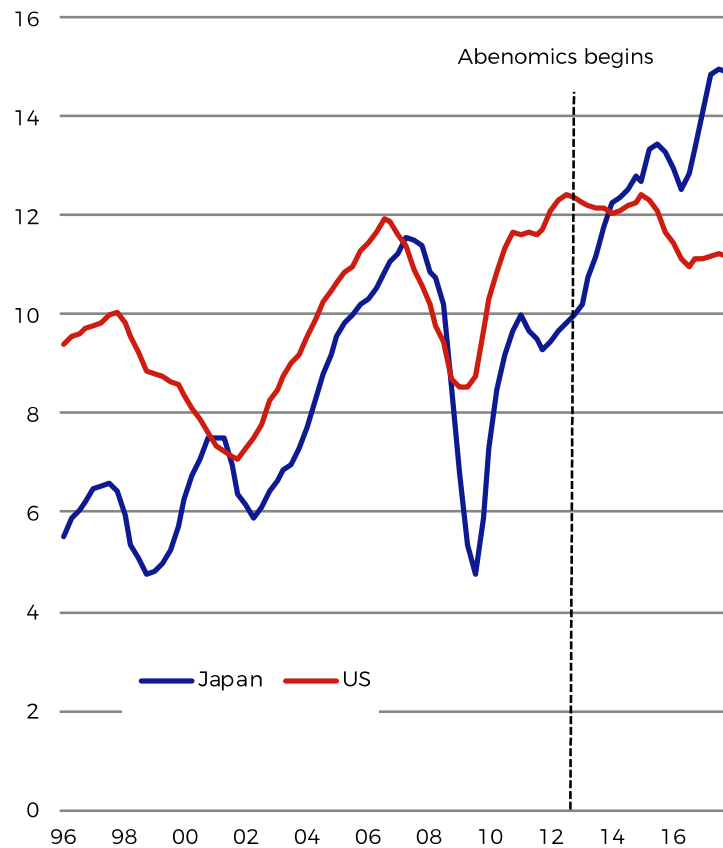
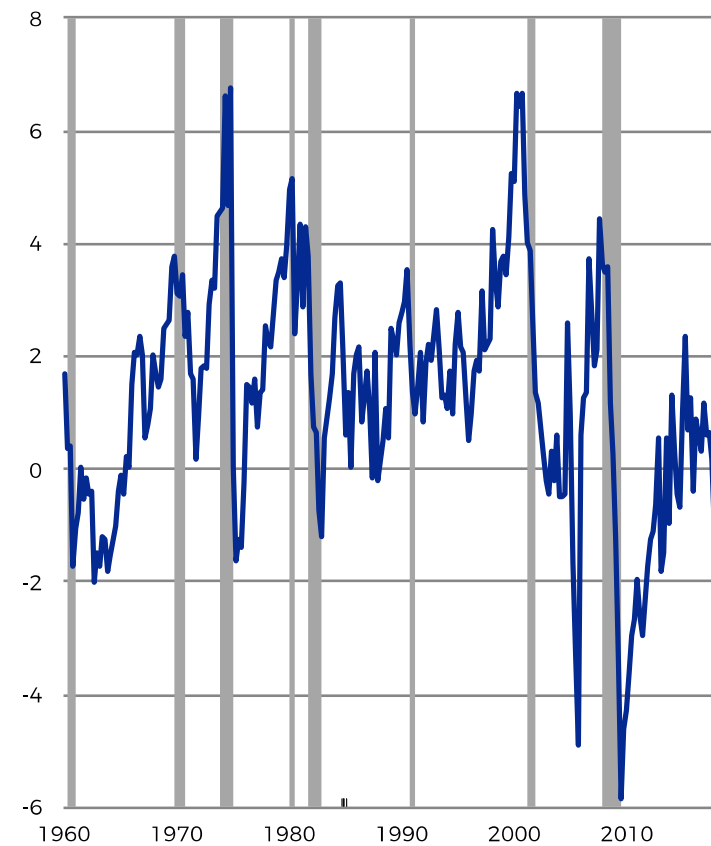


Chart 11
US corporate sector financing gap
non-financial, as % of sector gross value added



How should we think about the inflation outlook?

Chart 12
US core inflation
ex food and energy, %3m/3m, saar

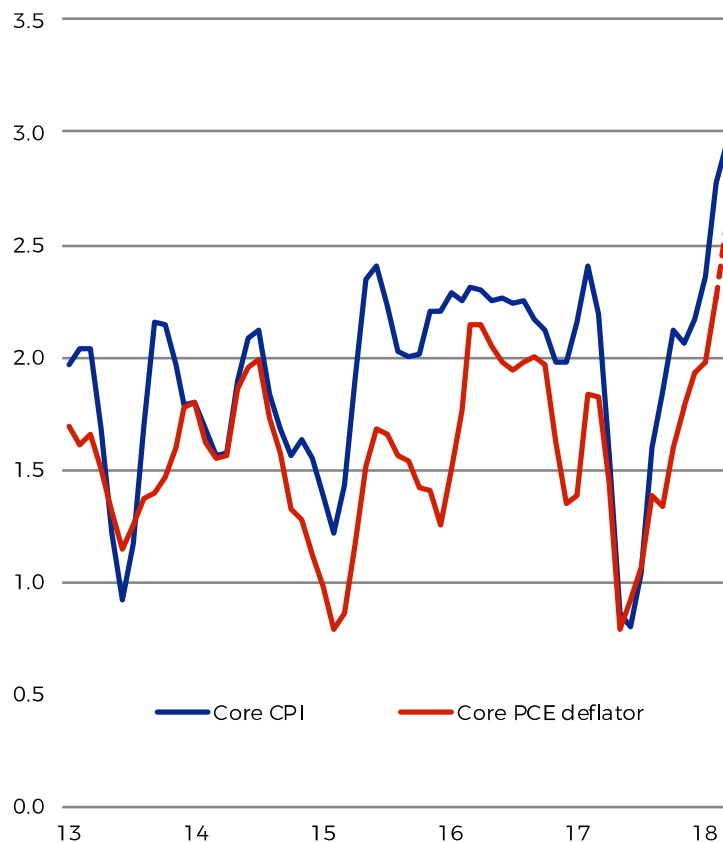


Chart 13
US core goods pricing
%3m/3m, saar, both scales

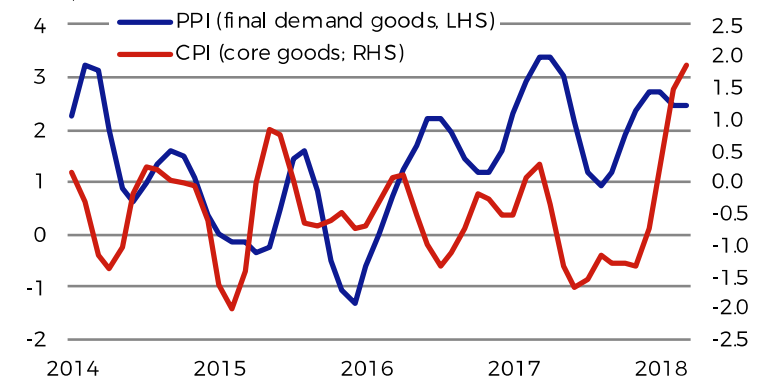
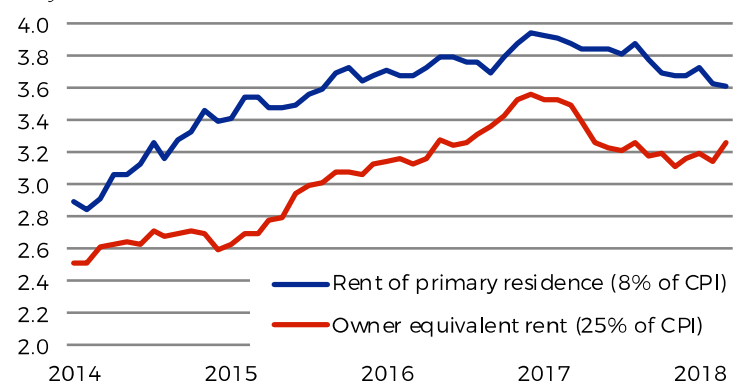


Chart 14
Measures of rent in the US CPI
%0ya



How should we think about the monetary policy outlook?

Chart 15
Fed funds rate versus Taylor Rule (1993)
quarterly data, percent; dashes denote projections/market pricing

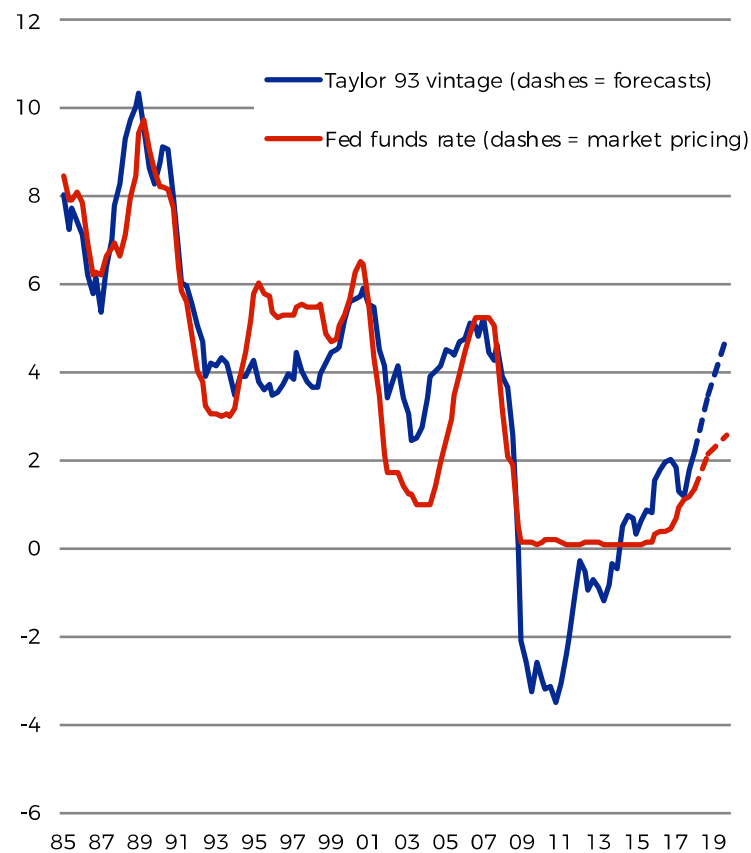
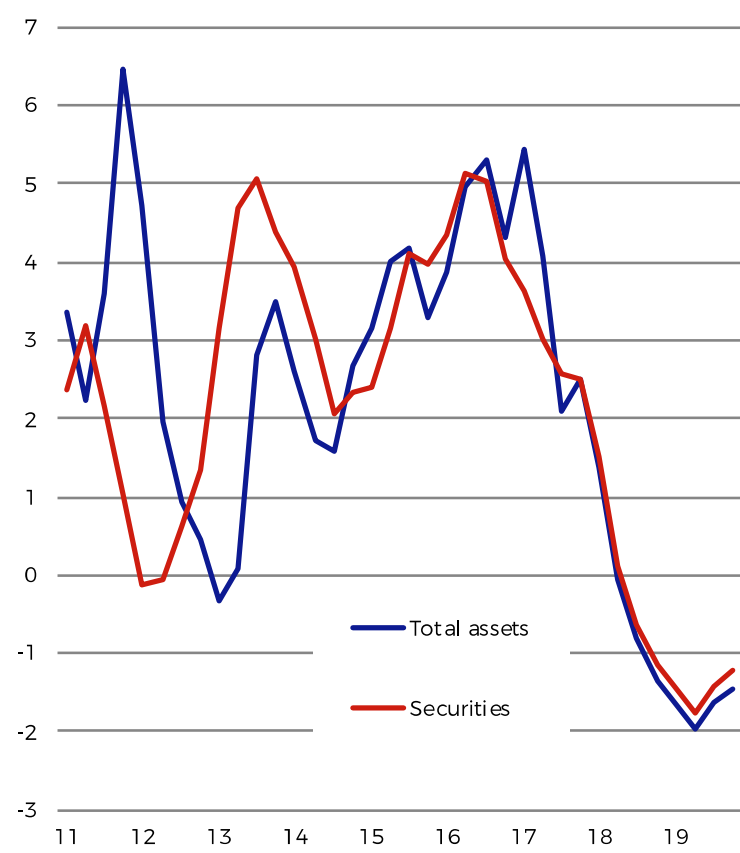


Chart 16
Credit impulse from G3 central banks
2q change in CB asset holdings, ar, as % of GDP



Have we really made the financial system safer?

Chart 17
Sweden: average household debt-to-income ratio
percent, for households with mortgages

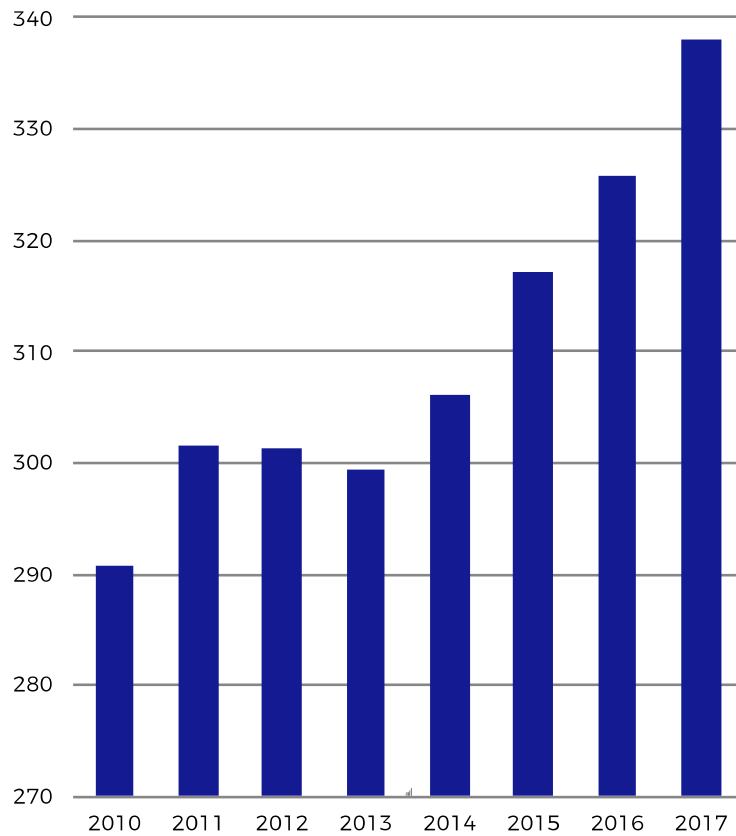
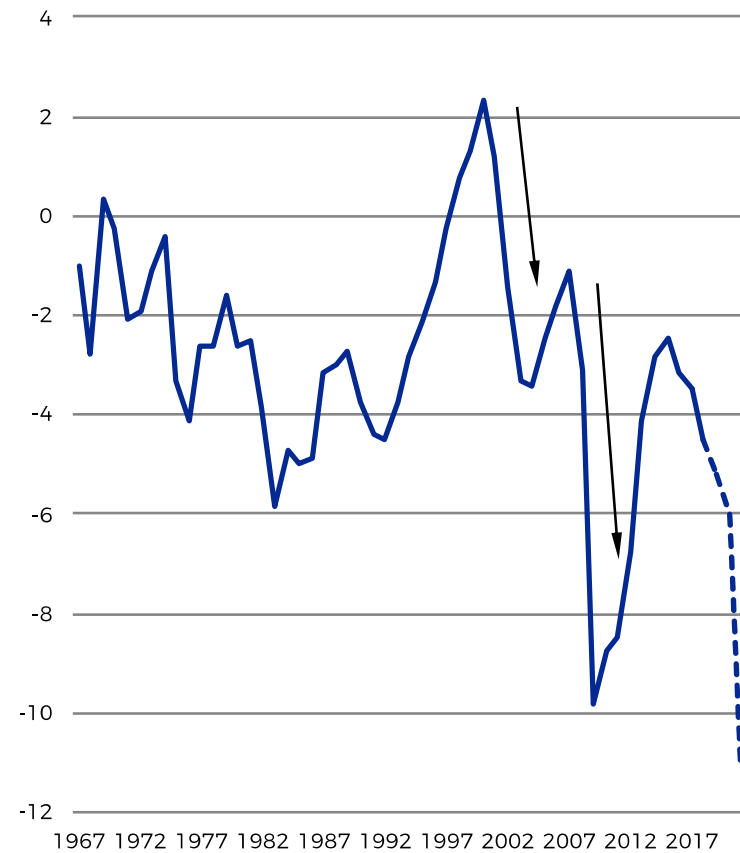


Chart 18
US Federal budget balance
% of GDP



Concluding thoughts: things look great, except...

- The global economy is strong, and far more advanced (in cyclical terms) than policy makers have been willing to accept.
- The global expansion has entered a new phase: headwinds have become tailwinds; the main changes are in fiscal policy and financial regulation.
- This is a problem for markets, which have been conditioned on the maintenance of the same monetary policy introduced in the depth of depressions.
- Inflation is rising, but may not be as much of a problem as inflated asset prices. Inflation expectations are low and stable, but this is a product of inertia as much as of wise policy making; we are in some danger of repeating the mistakes of the late 1960s.
- A bigger problem today is our poor demographics, however.
- The US is fast-abusing its exorbitant privilege to borrow.
- The European monetary union remains dangerously incomplete.
- Populism is on the rise and is spreading to smaller, poorer countries.

SUTTLE ECONOMICS is a macroeconomic research firm founded in July 2017 by Phil Suttle. It provides high-frequency analysis of global developments for a wide array of financial institution (asset managers, hedge funds, insurance companies, sovereign wealth funds, rating agencies and central banks) across multiple jurisdictions. Phil is supported by Ruth, his business manager and long-suffering wife of 36 years.

Phil Suttle has more than three decades of experience in applied international economics in both the private and public sectors. Educated at Oxford University's Merton and Nuffield Colleges, Phil began his career at the Bank of England, where he worked between 1983 and 1988 in the International Division. From 1985-87, he went to the Institute of International Finance (IIF) in Washington DC, to help with the creation of its economic effort.

In October 1988, he joined J.P.Morgan in London, where he began a long career (1988-2001 and 2003-05). In that time, he helped establish Morgan's global economic research as the leading, objective effort among Wall Street peers, especially with the creation of the *Global Data Watch*. He was transferred to Morgan's New York office in 1992 and promoted to Managing Director in 1996.

In 2001-03, Phil worked at both the Federal Reserve Bank of New York and the World Bank. He was then Global Head of Emerging Markets Research at Barclays Capital from 2005-07.

In August 2007, he returned to the IIF, becoming Chief Economist and Deputy Managing Director. He developed a substantial following among IIF members with his *Morning Comment*. From June 2013-June 2017, he was Director of Global Economic Analysis at Tudor Investment Corporation, where he developed and wrote *Tudor Market Notes* until his departure to establish Suttle Economics.

For more detail on Phil's career and experience, ask to receive a copy of 34 Years an Economist: Suttle Economics Notes #1, August 9th 2017.