



# Engines and Engineers

## An Economic and Banking Update

Federal Reserve Bank of Atlanta  
February, 2015

Carl R. Tannenbaum  
Chief Economist

PH: 312.557.8820

[ct92@ntrs.com](mailto:ct92@ntrs.com)



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[northerntrust.com](http://northerntrust.com)



- **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

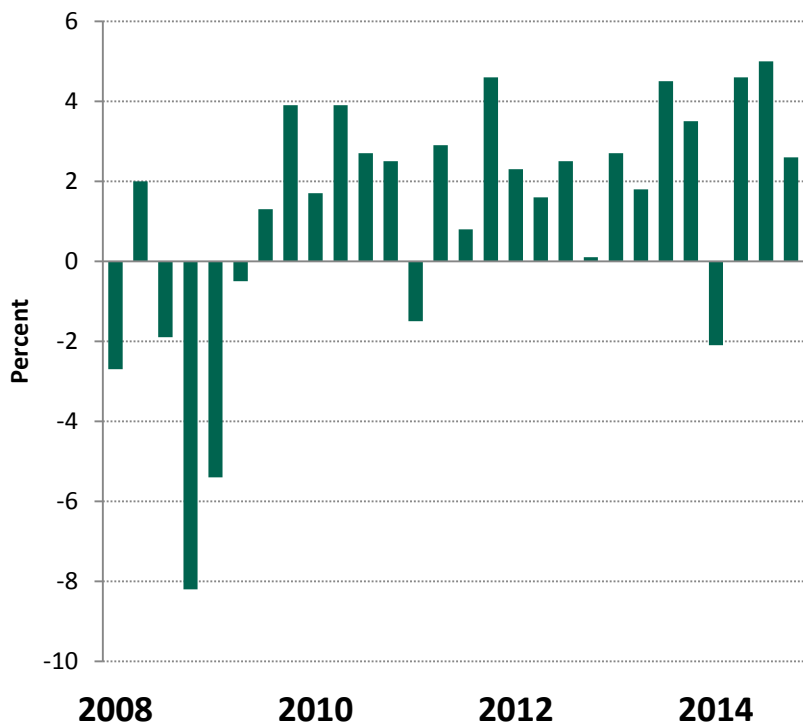


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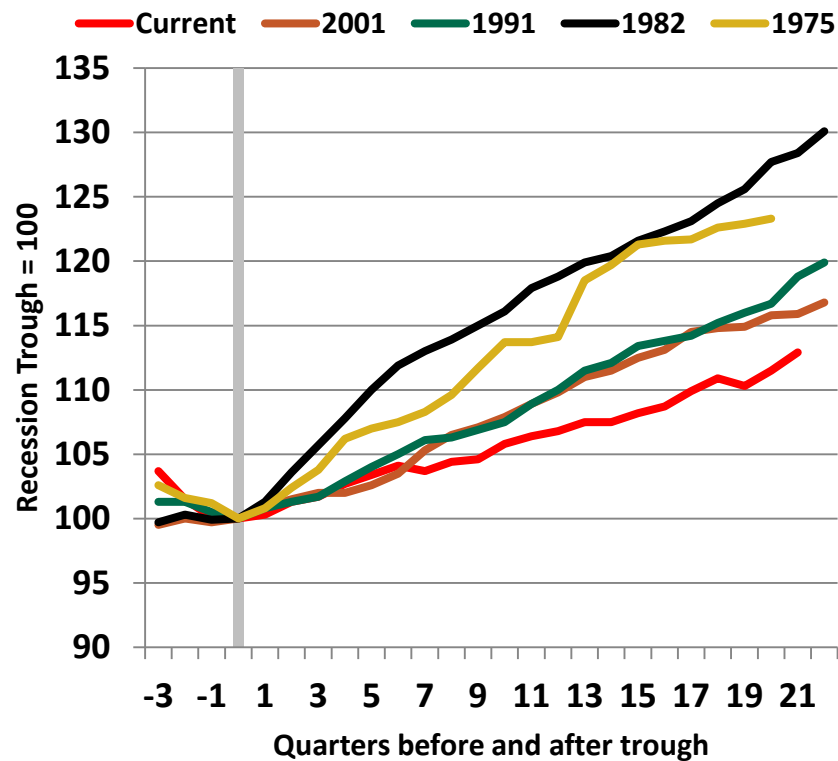


# U.S. Economic Performance

## US Real GDP Growth



## U.S. Real GDP After Recession



Sources: Bloomberg, Haver Analytics

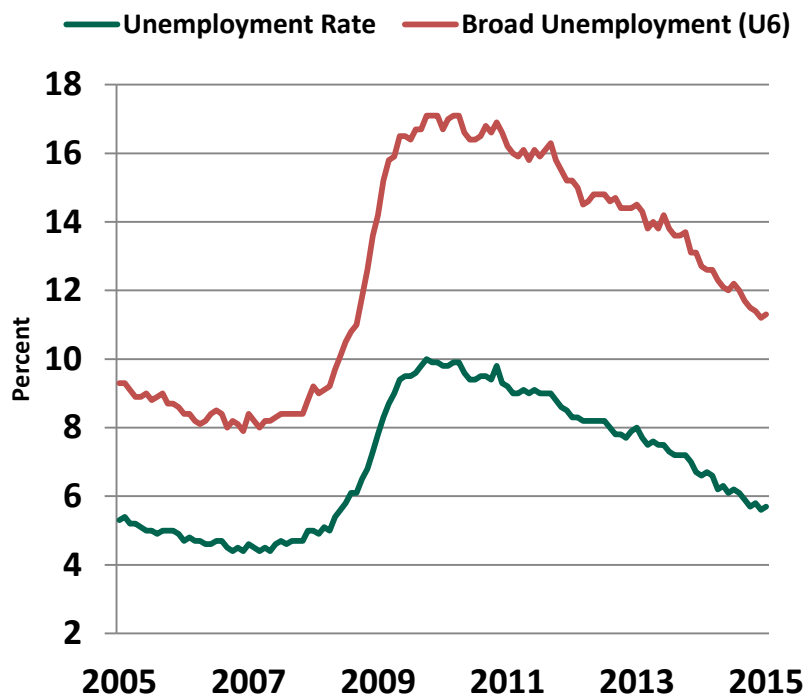


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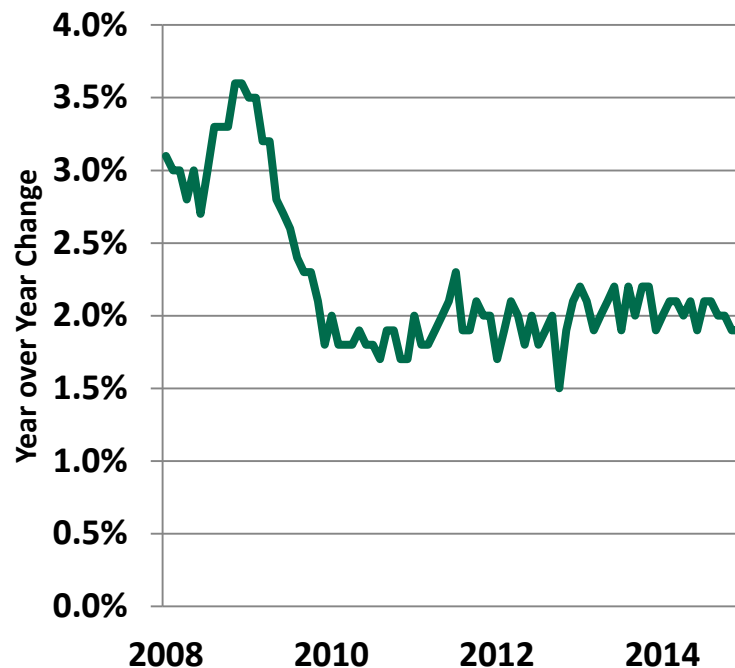


# U.S. Unemployment

## Unemployment Trends



## Hourly Earnings



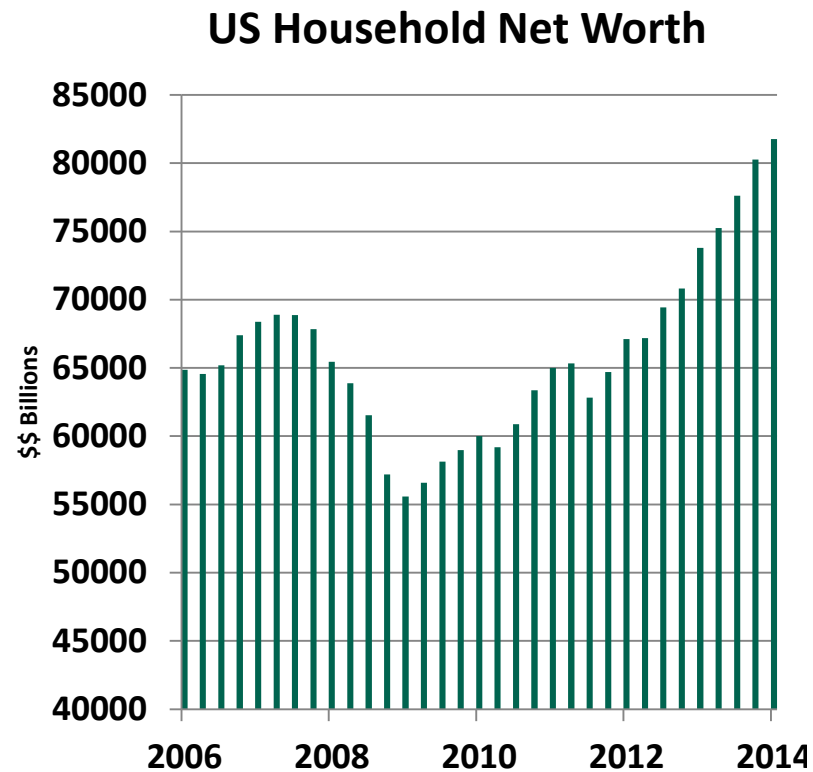
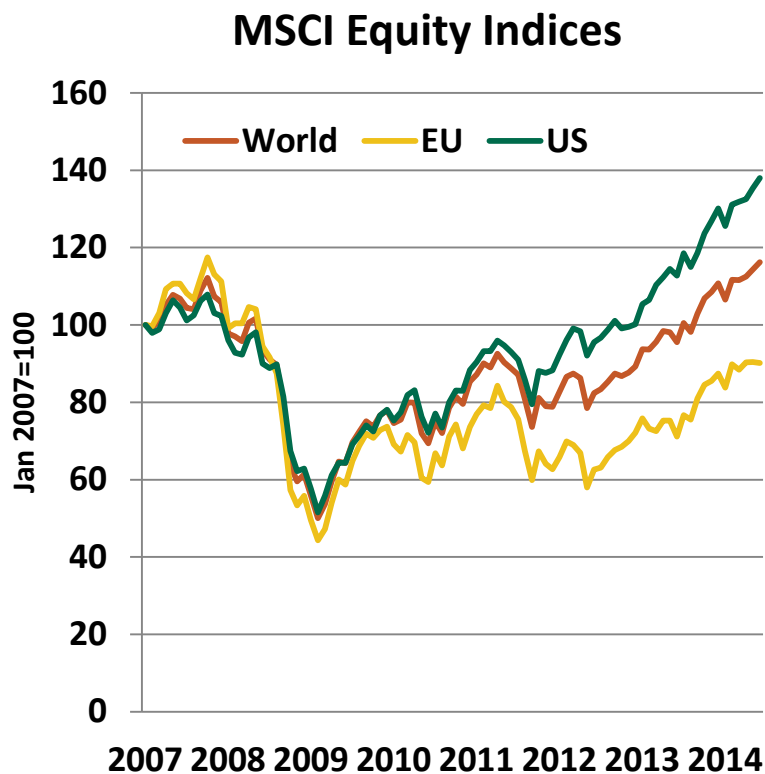
Sources: Bureau of Labor Statistics, Bloomberg, Haver Analytics



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# Wealth Restoration



Sources: Bloomberg, Federal Reserve

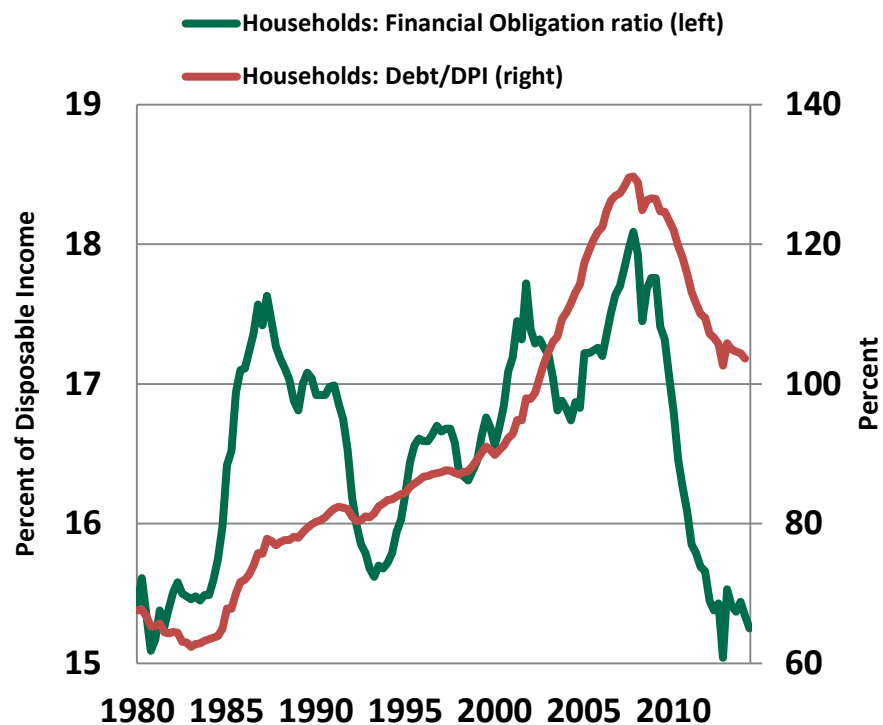


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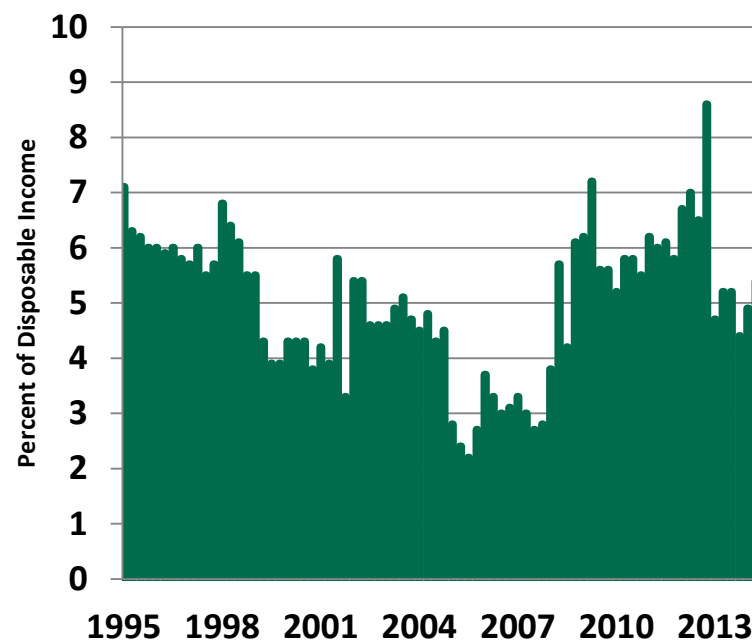


# U.S. Deleveraging

## U.S. Debt Trends



## U.S. Saving Rate



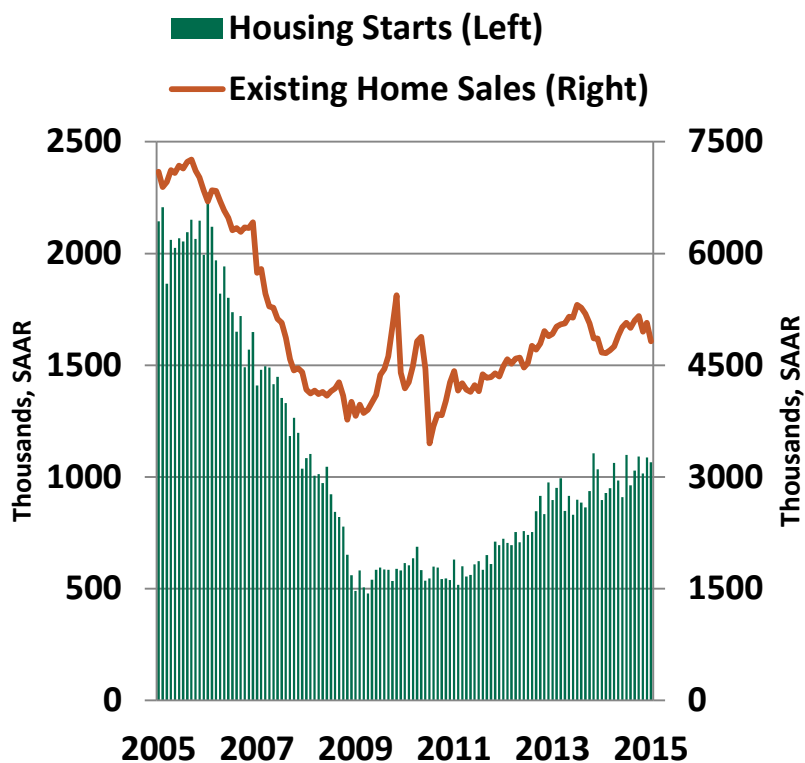
Sources: Federal Reserve, Bloomberg, Haver Analytics



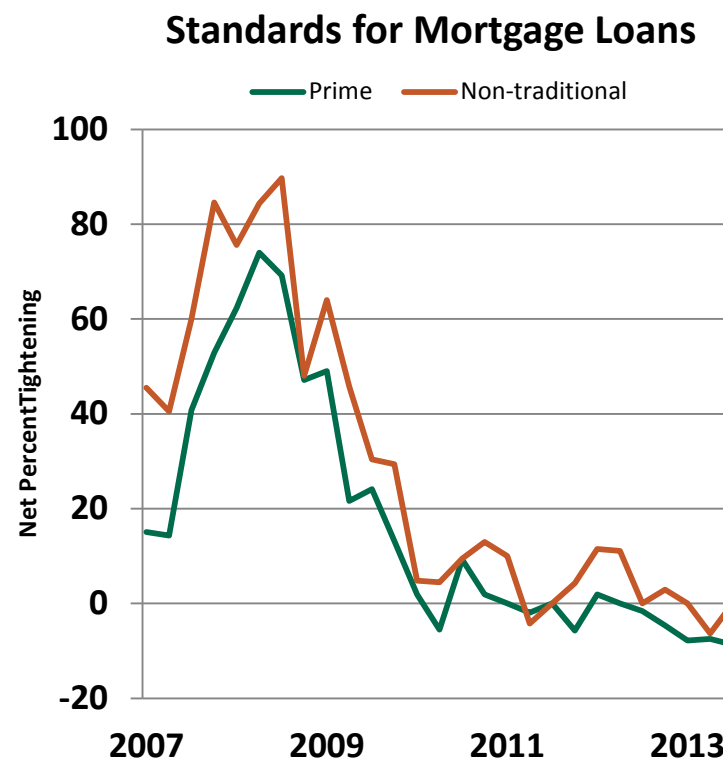
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# Housing: A Slow Recovery



Source: Haver Analytics, Federal Reserve



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# Slowing Progress



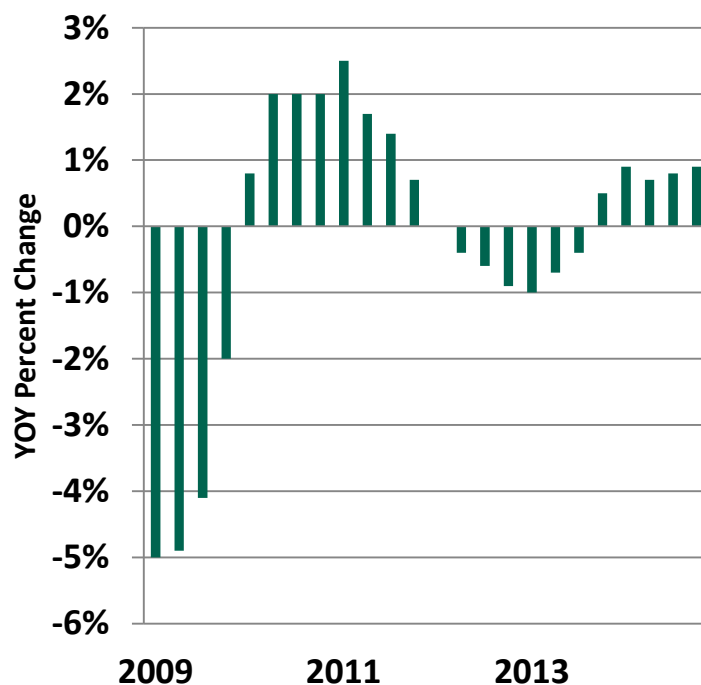
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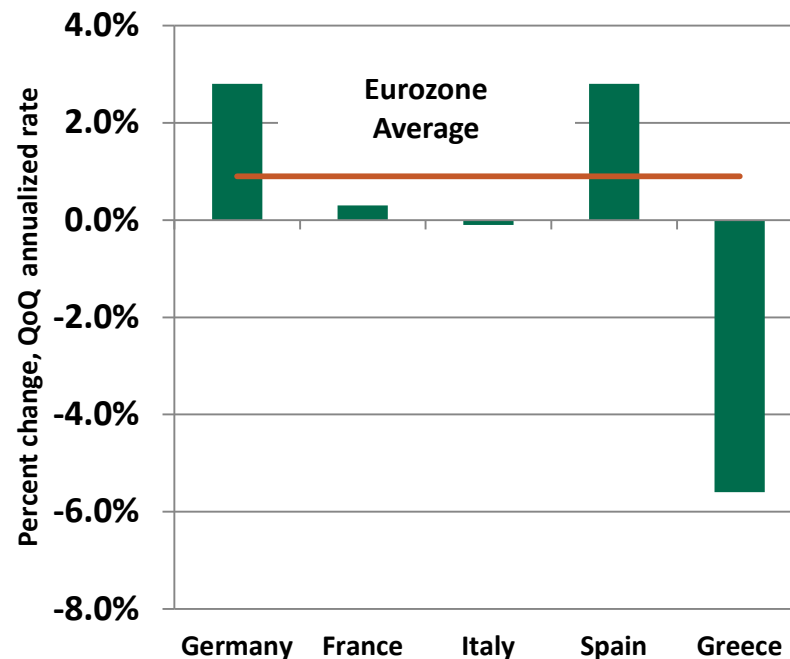
# The Eurozone's Malaise

- Eurozone growth is very soft, and uneven

**Eurozone GDP Growth**



**Real Gross Domestic Product  
4Q 2014**



Source: Haver Analytics



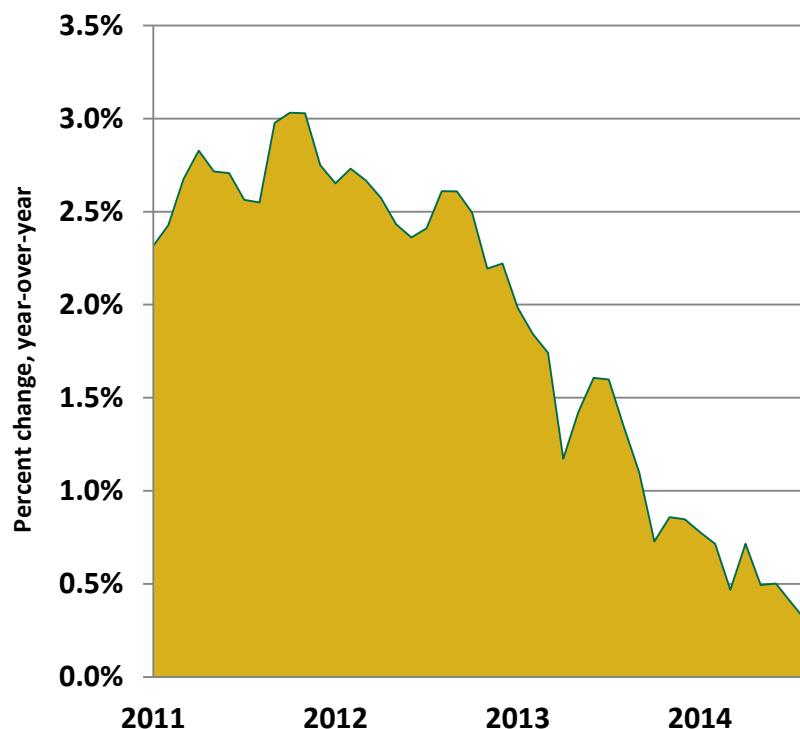
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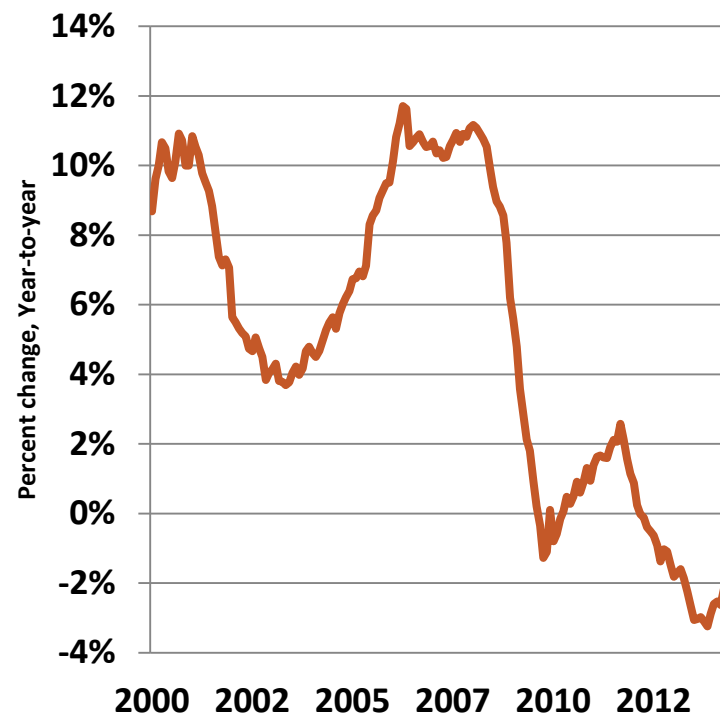
# Eurozone Challenges

- Deepening disinflation
- Poor bank health restricts credit

## Eurozone Inflation Trends



## Eurozone: Lending to the Private Sector



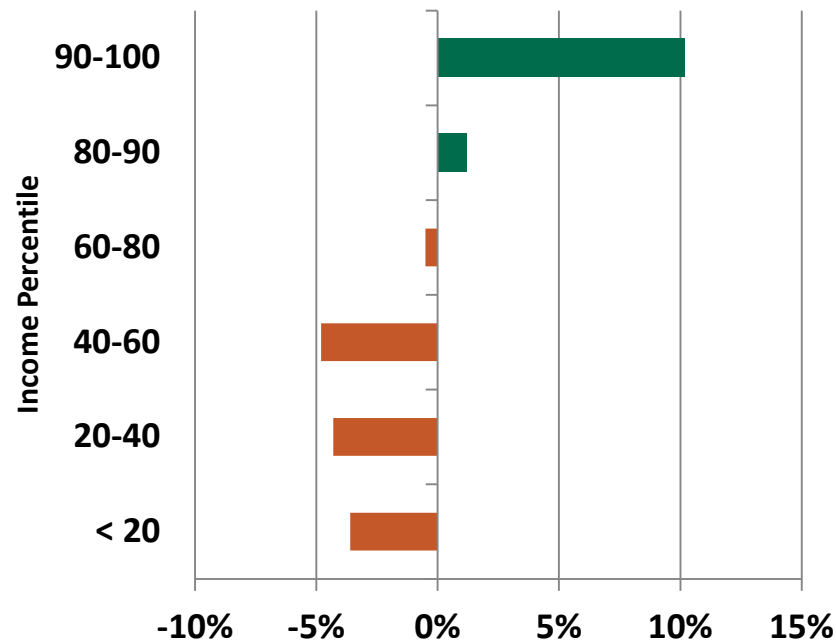
Source: Haver Analytics



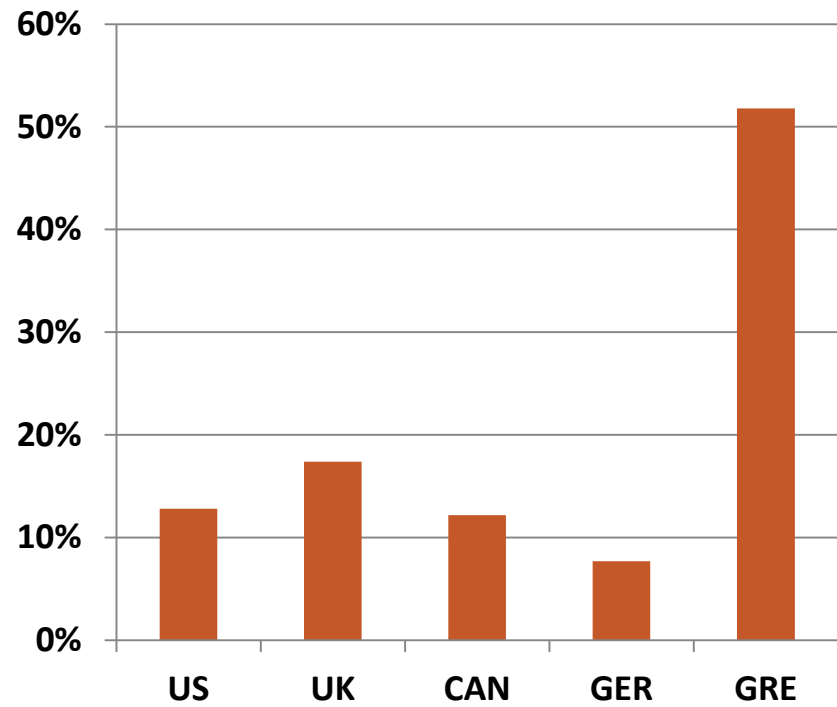
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**U.S. Change in Mean Family Income, 2010-13**



**Youth Unemployment**



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





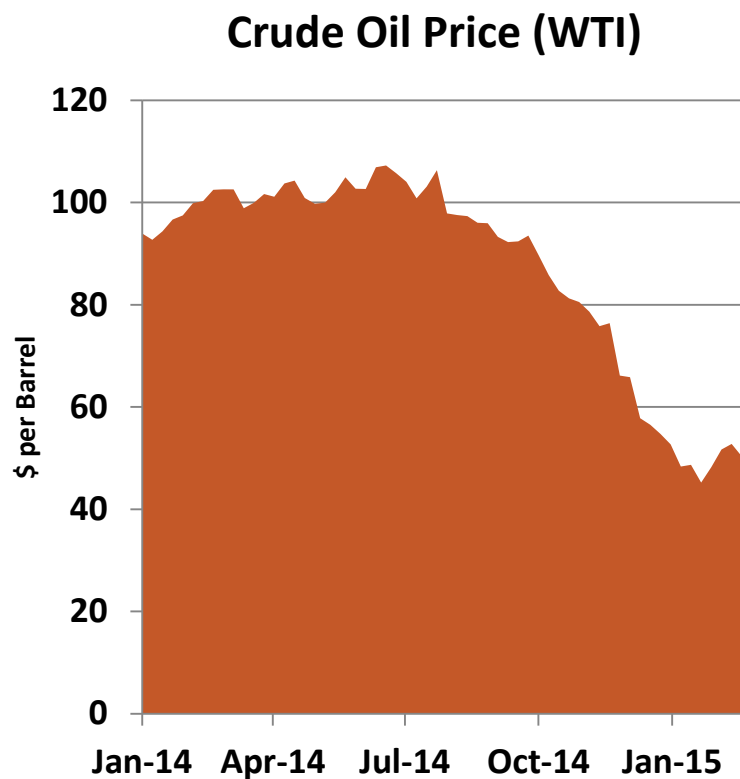
# Fuel for the Fire



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# Energy Realignment



Source: Haver Analytics



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# Consequences

## Winners

- **Consumers**
  - U.S. fares especially well
- **Importers**
  - Japan, India, eurozone
- **Some manufacturers**
  - Outside of energy production

## Losers

- **Frackers**
  - Higher breakeven costs
- **Russia**
  - Overreliance on energy
- **Peripheral producers**
  - Venezuela, Nigeria, Iran, etc.







# Banking Trends

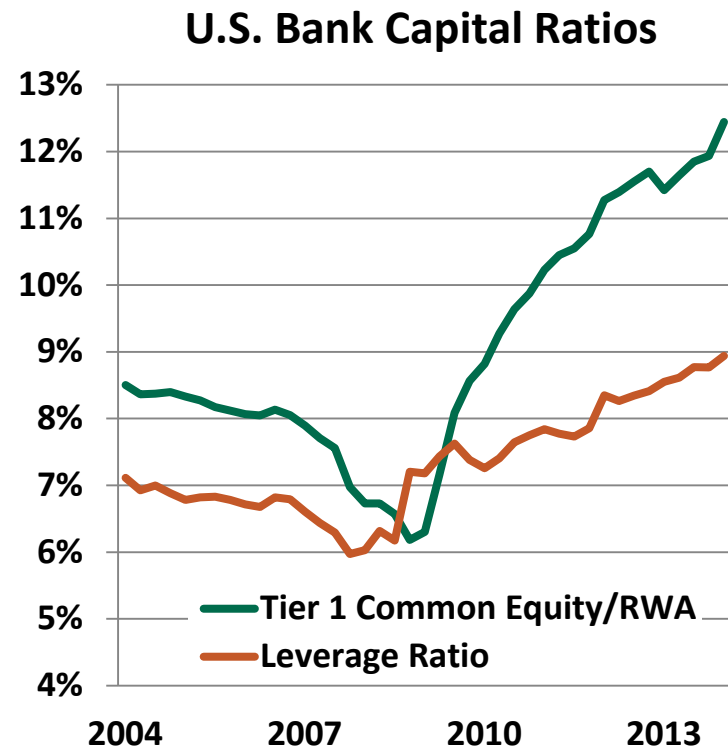
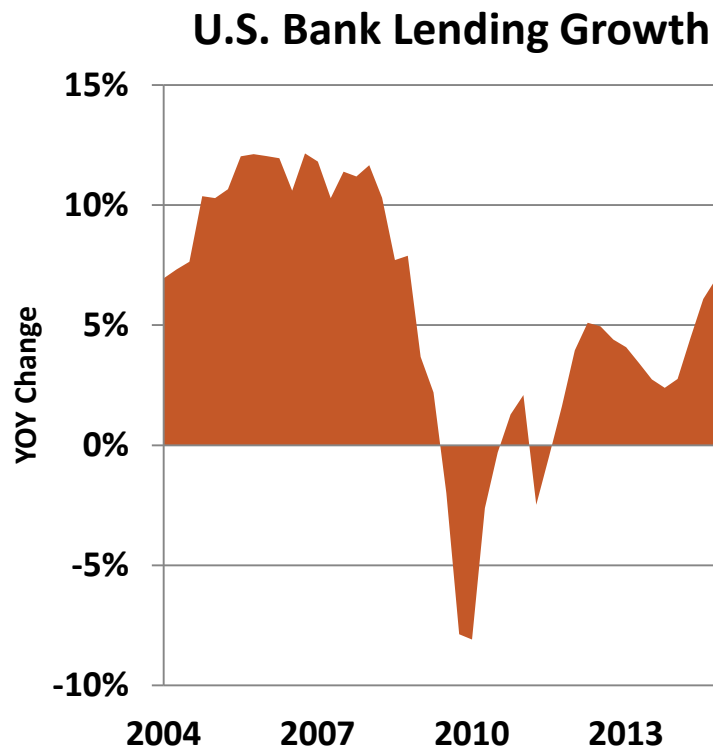


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# Banks Back on Track

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



Sources: Federal Reserve, Haver Analytics



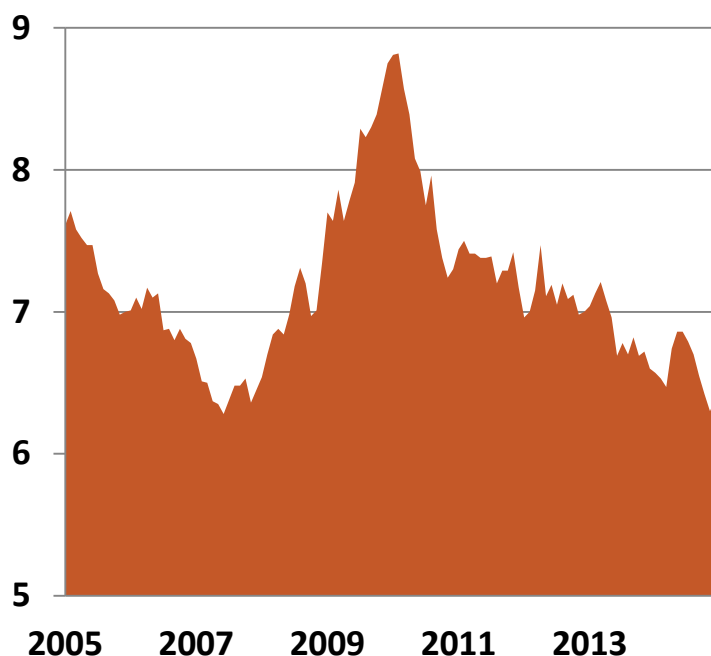
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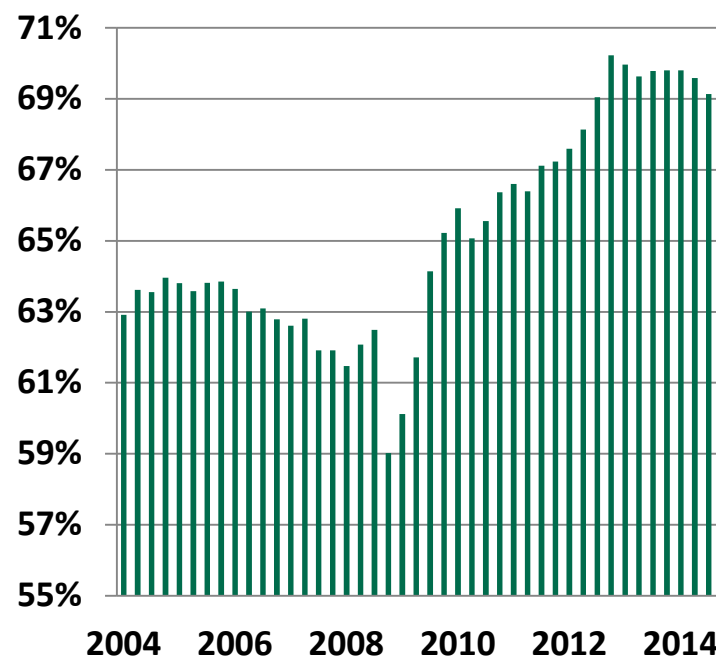
# Risk Issues to Watch

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

**Commercial Real Estate  
Property Capitalization Rates**



**U.S. Commercial Banks  
Total Deposits/Total Assets**



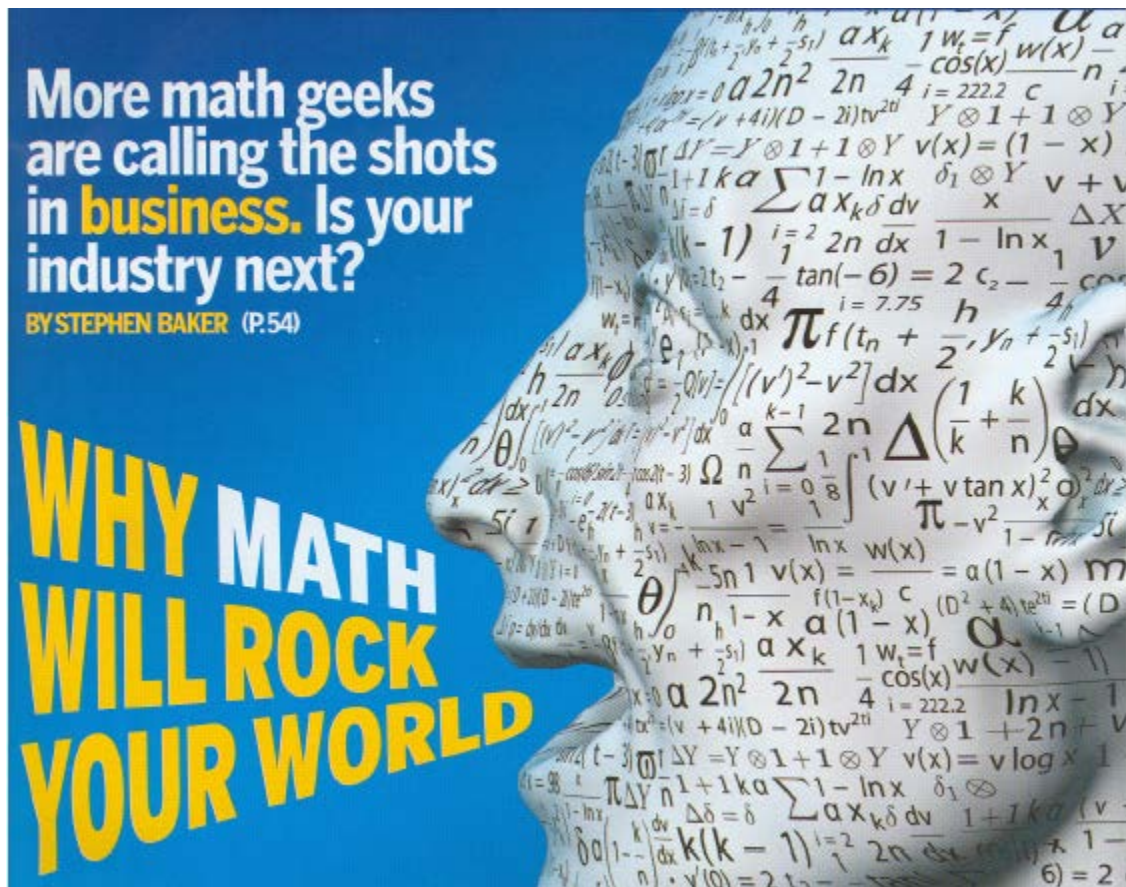
*Sources: Real Capital Analytics, Bloomberg, Haver Analytics*



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# Man versus Models



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# 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



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**Janet Yellen**  
Federal Reserve



**Mario Draghi**  
European Central Bank



**Mark Carney**  
Bank of England



**Haruhiko Kuroda**  
Bank of Japan



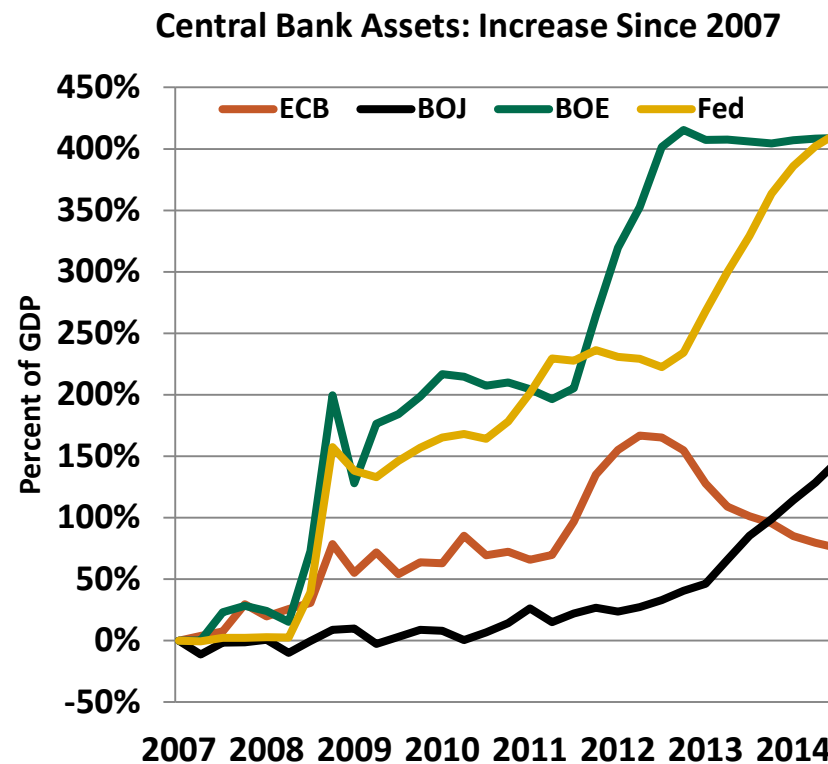
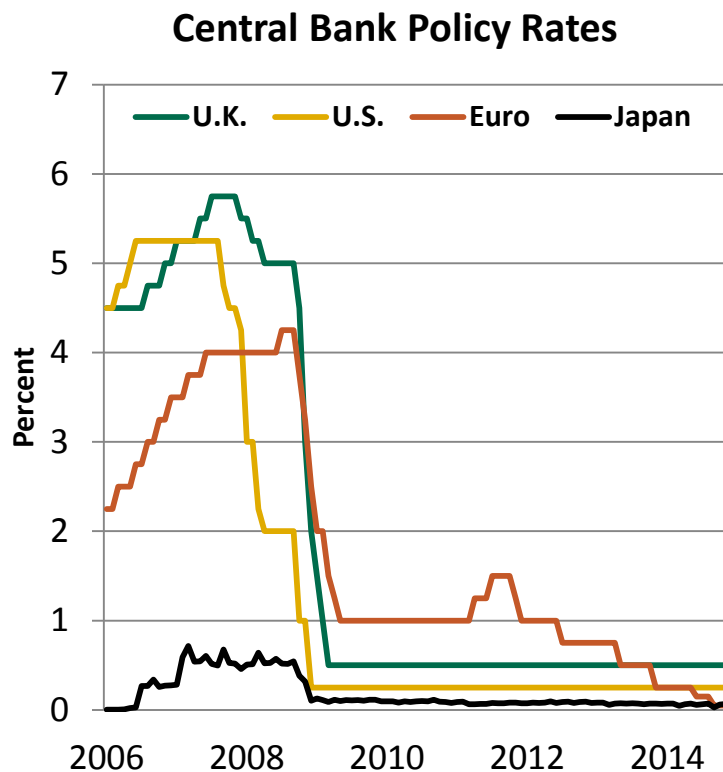
**Zhou Xiaochuan**  
Peoples Bank of China



**Raghuram Rajan**  
Reserve Bank of India



# The Course of Central Banking



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



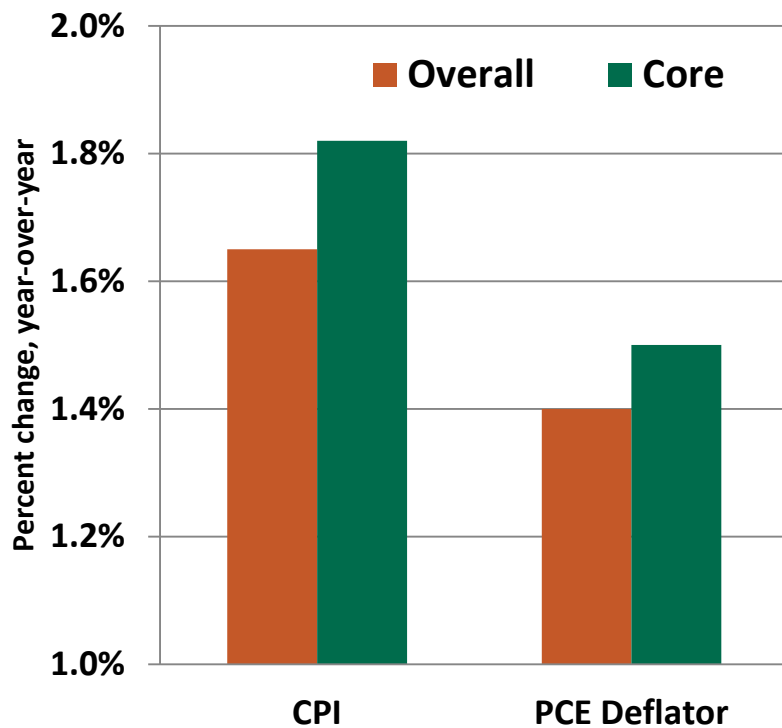
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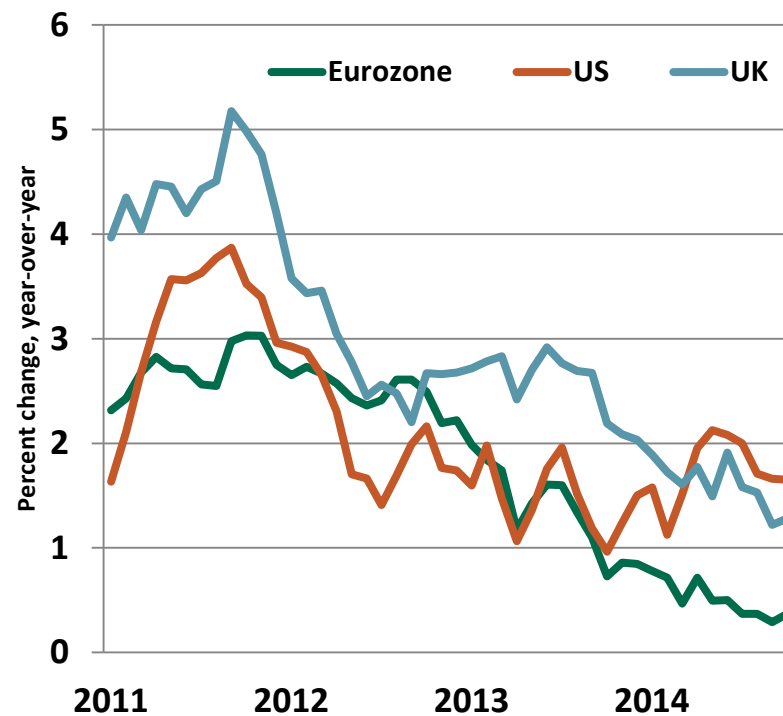


# Inflation Issues

## U.S. Inflation



## Global Inflation Trends



Sources: Bloomberg, Haver Analytics



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# 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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