

Constrained lift

David Hensley
Managing Director

(1-212) 834-5516
david.hensley@jpmorgan.com
www.jpmorganmarkets.com/economics
JPMorgan Chase Bank NA

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**Updated version*



Forecast summary: (pre Trump)

Growth has been moderate, falling short of our expectations.

Silver lining: growth has resilient with record low volatility

Next up: a modest bump-up in growth as disinflationary shock fades

Also: looking for a narrowing of divergences

- Income rebalances to corporates from households
- Capex speeds up while consumption slows down
- EM does a bit better versus DM

Limits: secular stagnation, credit constrained, policy constrained

Supply growth even more anemic. US nearing a crunch point.

This cycle: growth has been slow but steady

Global real GDP

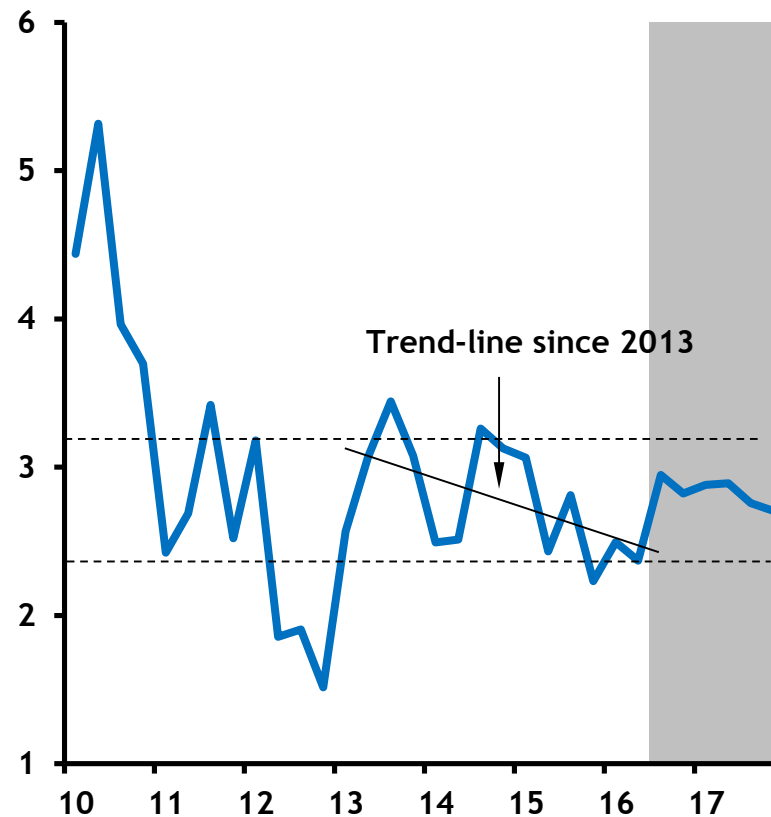
% ch annualized

	2013-15	2016		2017
		1H	2H	
Global	2.8	2.4	2.9	2.8
DM	1.9	1.4	2.0	1.7
US	2.4	1.1	2.5	1.9
Euro area	1.3	1.6	1.4	1.5
EM	4.4	4.1	4.2	4.6
China	7.2	6.8	6.5	6.4
EM Asia ex. CH, IN	3.6	3.2	2.6	3.2
Brazil	-1.3	-2.0	-0.9	1.4
Mexico	2.0	0.7	3.3	1.7
Russia	-0.6	-0.7	0.7	1.6
Turkey	4.1	1.9	0.8	4.1
South Africa	1.5	1.0	0.9	0.9

Source: J.P. Morgan

Global real GDP

%ch at annual rate over 1 quarter

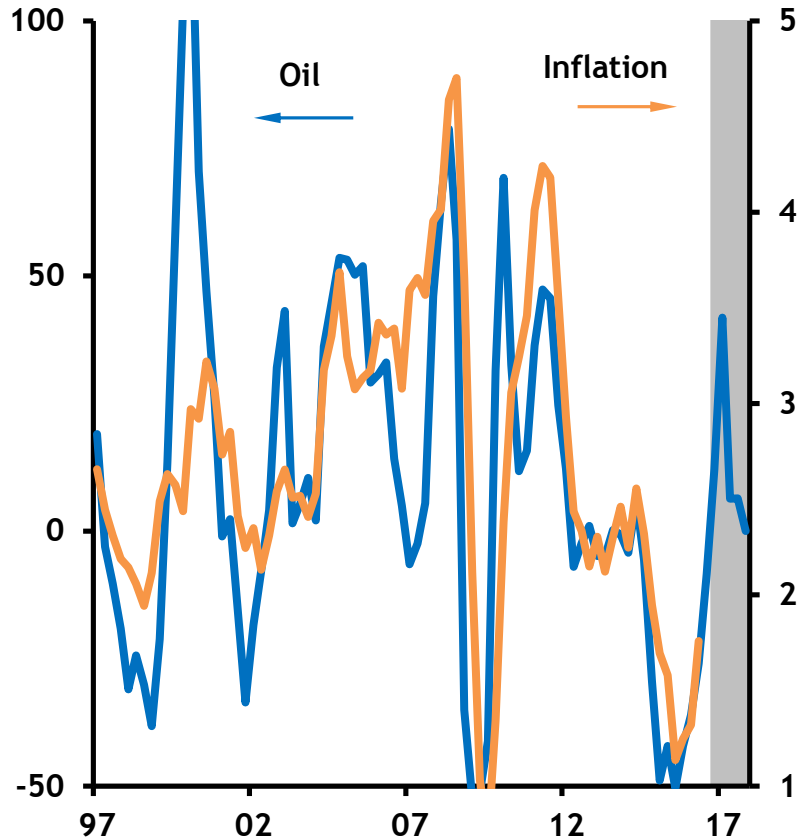


Source: J.P. Morgan

Global: Inflation turn should boost global and capex

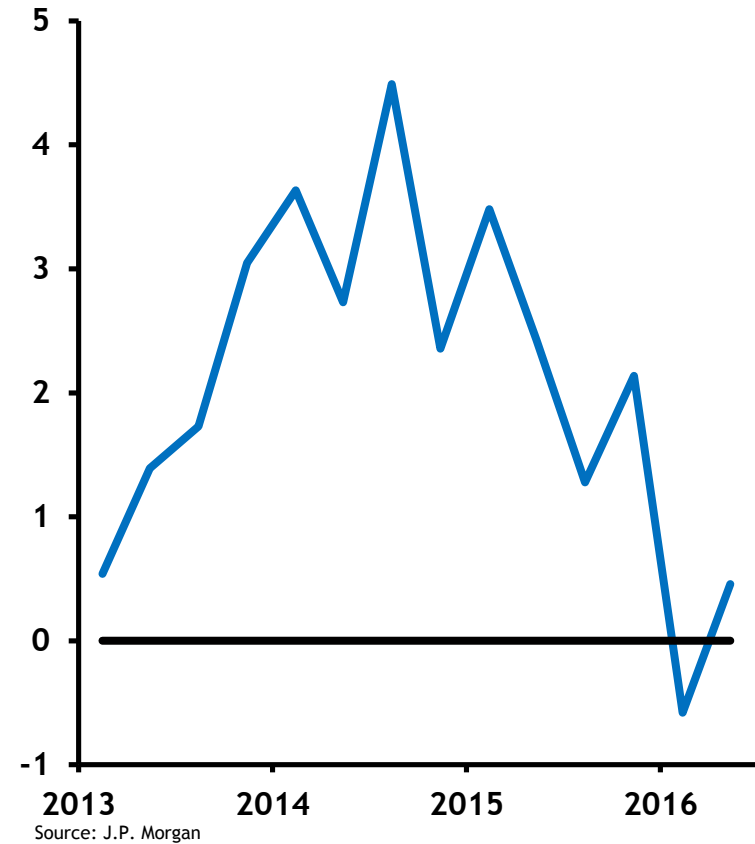
Oil price and global GDP price deflator

%oya; both scales



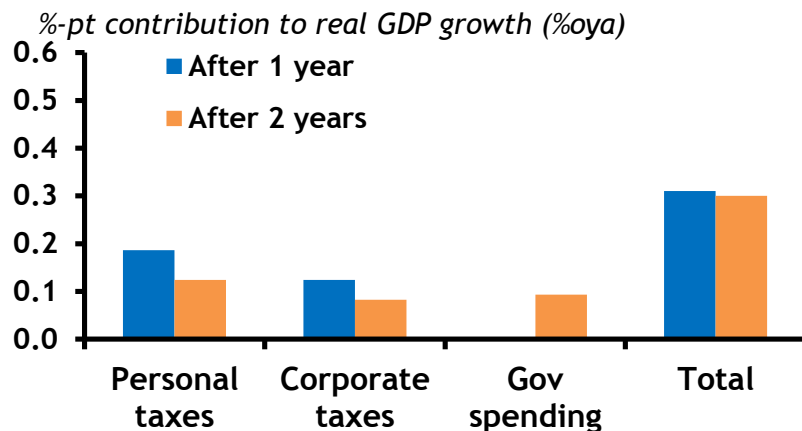
Global ex China equipment capex

%oya



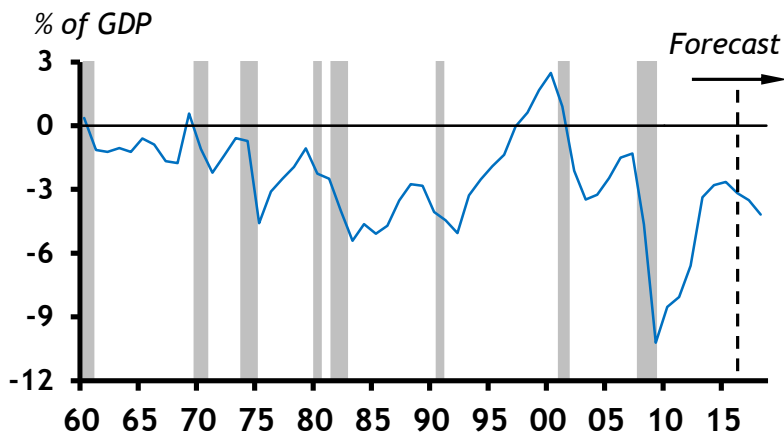
President Trump? Unshackled but no free lunch

Trump's potential economic impact



Source: J.P. Morgan

US federal budget deficit

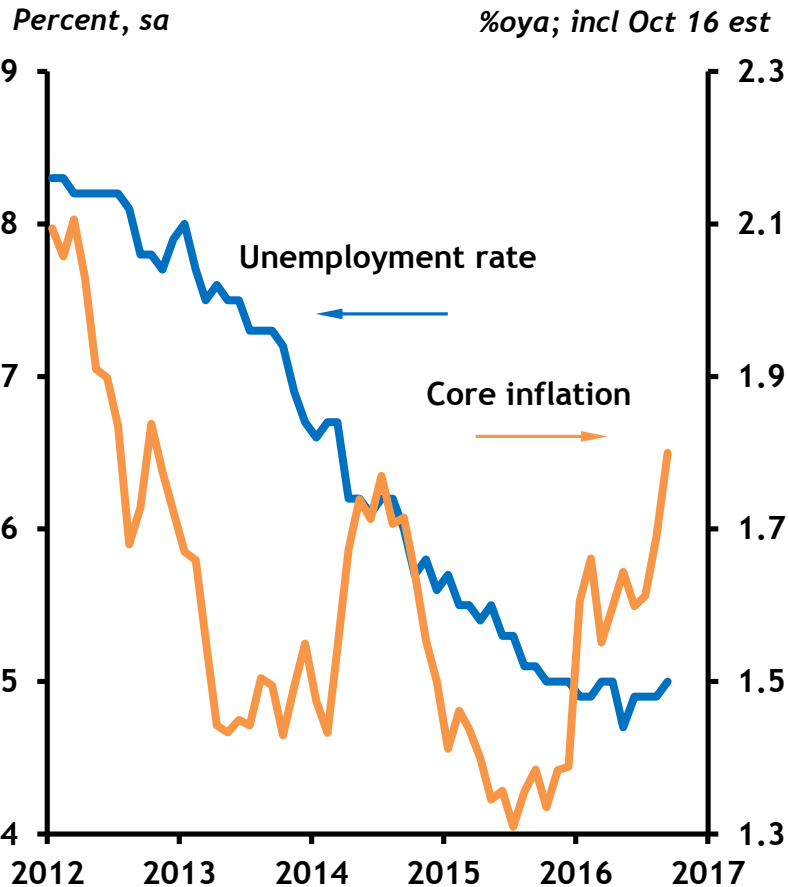


Source: J.P. Morgan

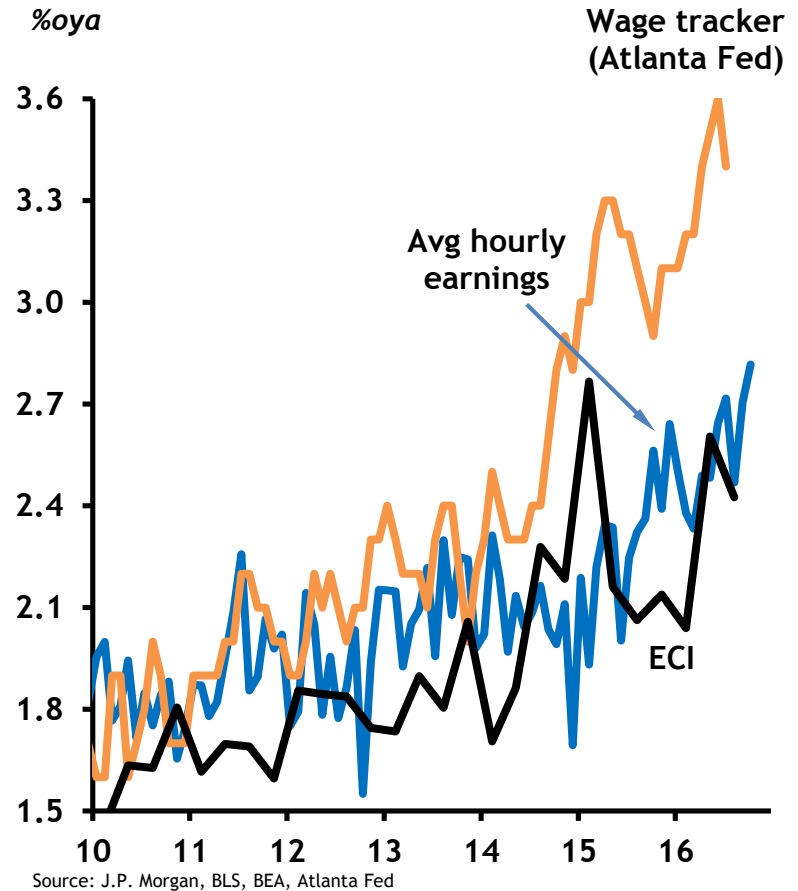
- Removing constraints on US policy while they remain in place elsewhere
- Positive demand (fiscal stimulus) and negative supply (trade barriers, immigration controls) shocks reinforce reflationary bias
- Action most likely where Congress and Trump align - tax reform, infrastructure, deregulation (energy, finance, health care)
- More bark than bite on trade
- Stimulus size to be limited by deficit realities. A 1/2 outcome would add 0.3% to growth and push deficit above 4% of GDP.
- Changes at the Fed. 4 board seats likely to turn over by mid-2018 with new Chair and Vice Chair.

US inflation nearing 2%; Fed feeling pressure to act

US core inflation and unemployment



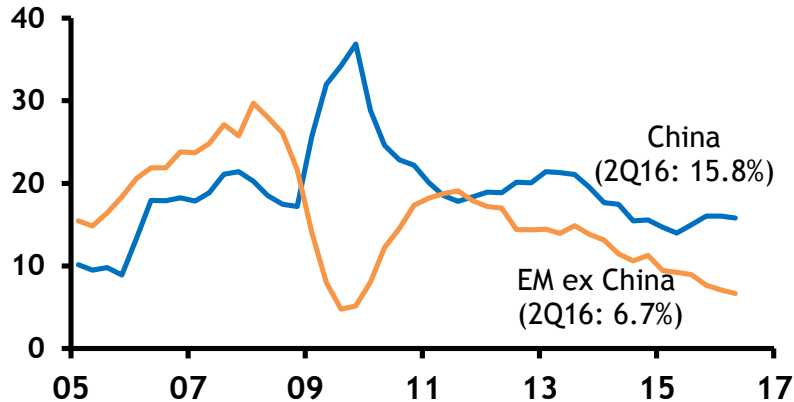
US wage indicators



China steadied by policy support...but at a price

Private nonfinancial credit

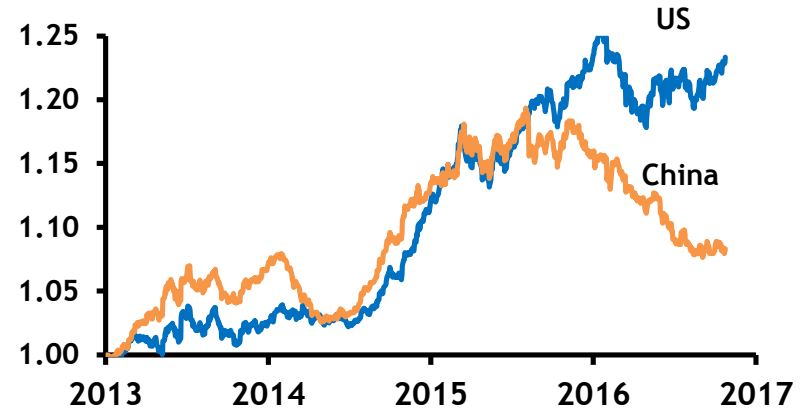
%oya; constant FX rates



Source: J.P. Morgan, BIS, central banks

Trade weighted exchange rates

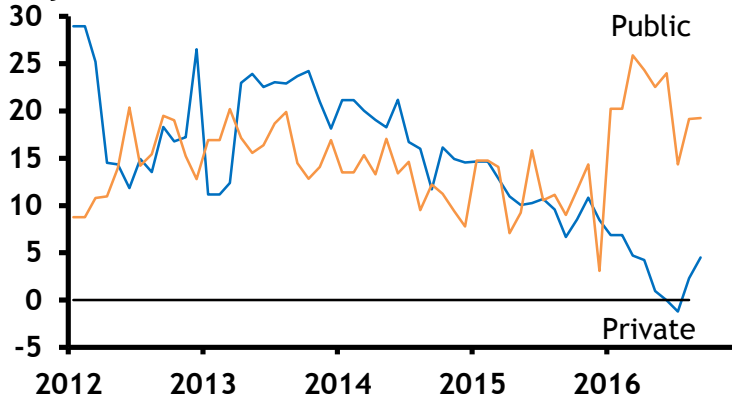
Indexed



Source: J.P. Morgan

China fixed asset investment

%oya

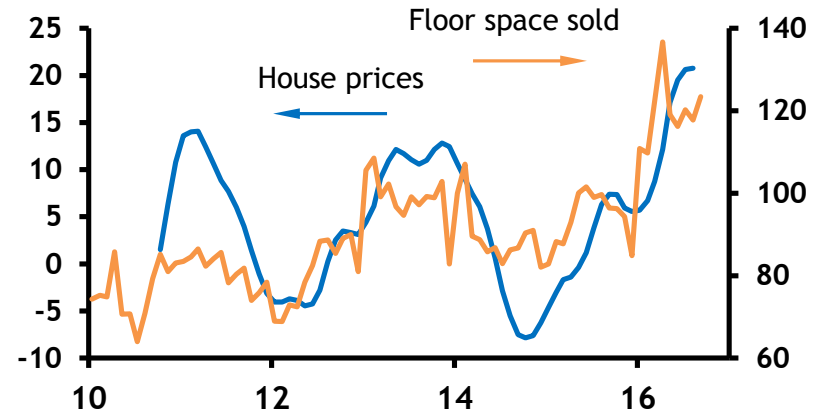


Source: NBS, J.P. Morgan

China housing market indicators

%3m/3m, saar

Mn sq meters, samr

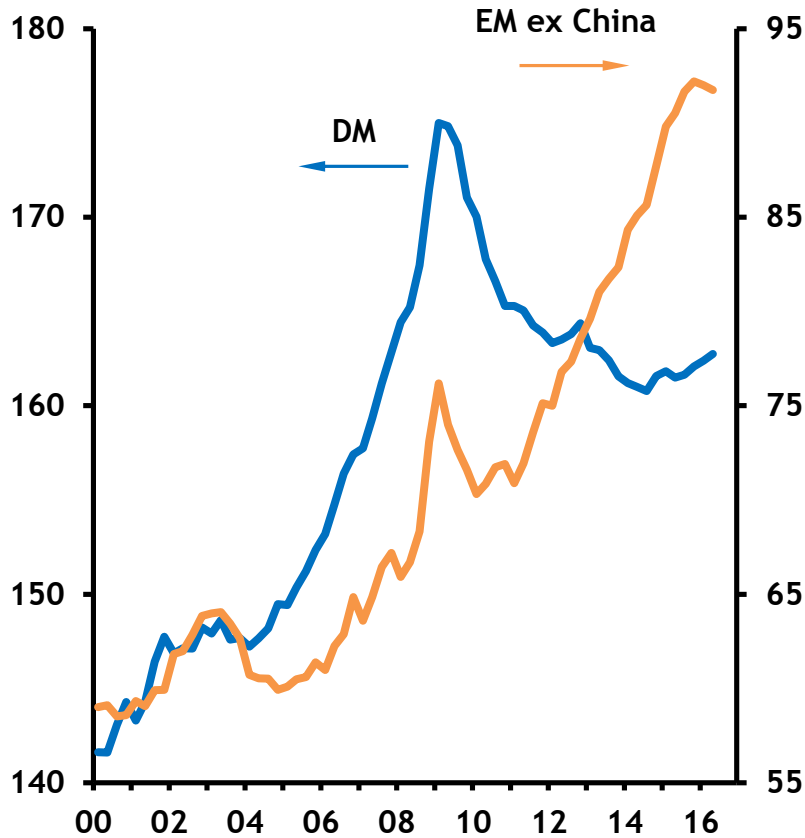


Source: NBS, Soufun, J.P. Morgan

EM faces persistent headwind from debt overhang

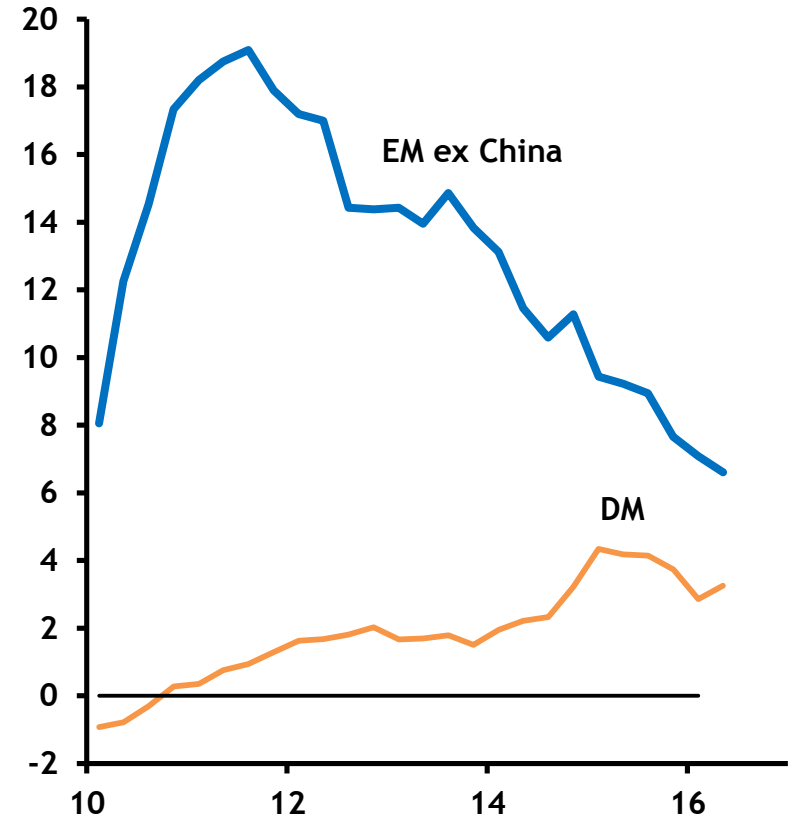
Broad private nonfinancial credit

% of GDP; both scales



Broad nonfinancial private credit

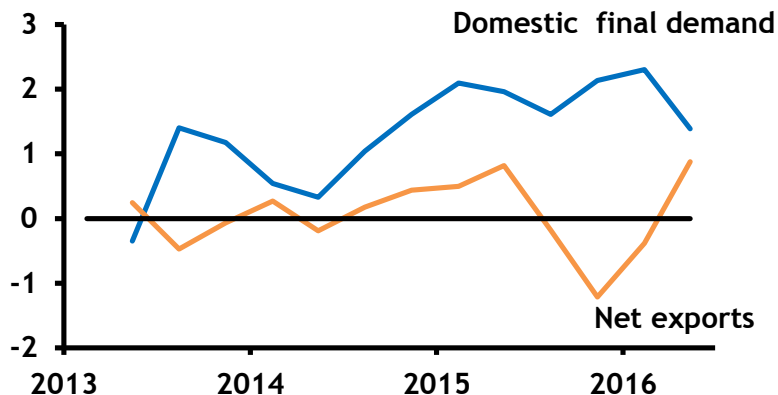
% oya



Euro area now above trend, shrugging off Brexit shock

Euro area GDP growth contributions

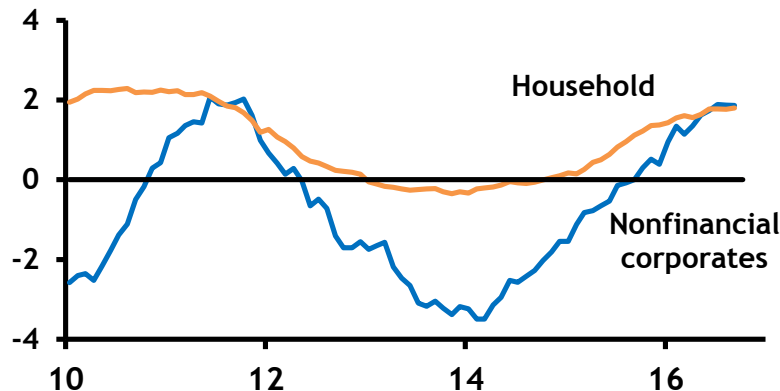
%pts, 2qtr avg of %q/q, saar



Source: Eurostat

Euro area bank loans

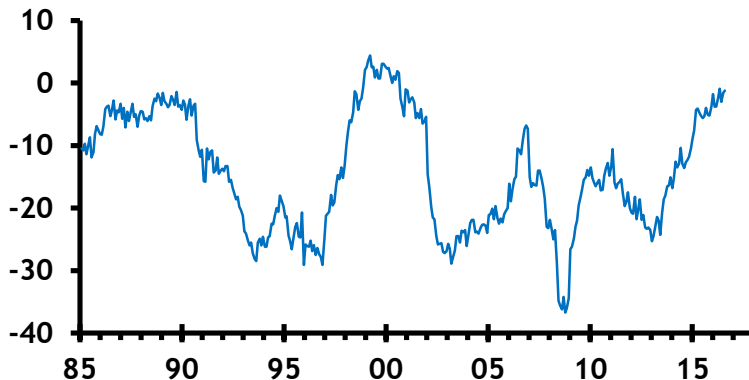
%oya; adj. for loan sales/ securitizations



Source: ECB

Euro area major purchases at present

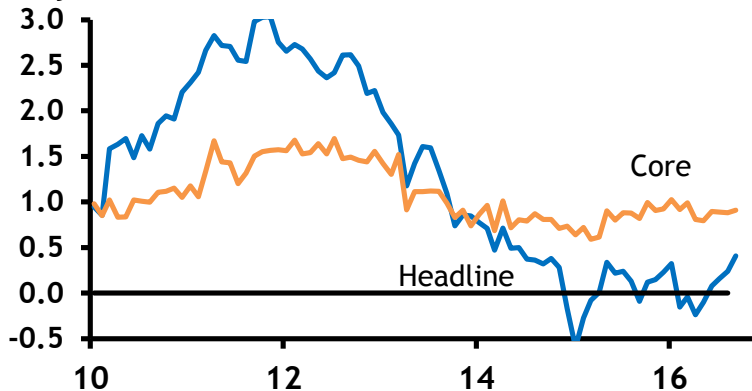
% bal, sa



Source: EC

Euro area inflation

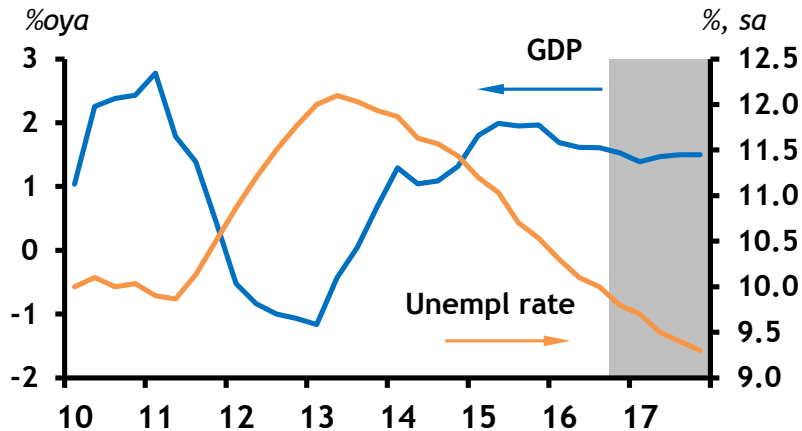
%oya



Source: Eurostat

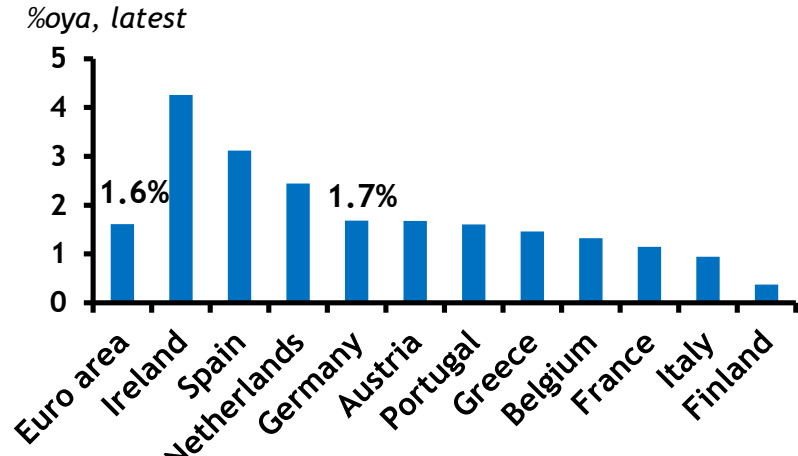
Steady Euro area growth masks big divergences

Euro area GDP and unemployment rate



Source: J.P. Morgan

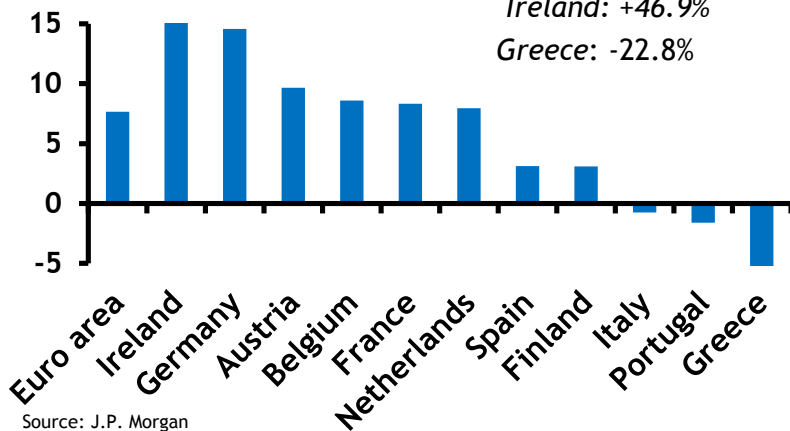
Euro area GDP



Source: J.P. Morgan

Euro area GDP

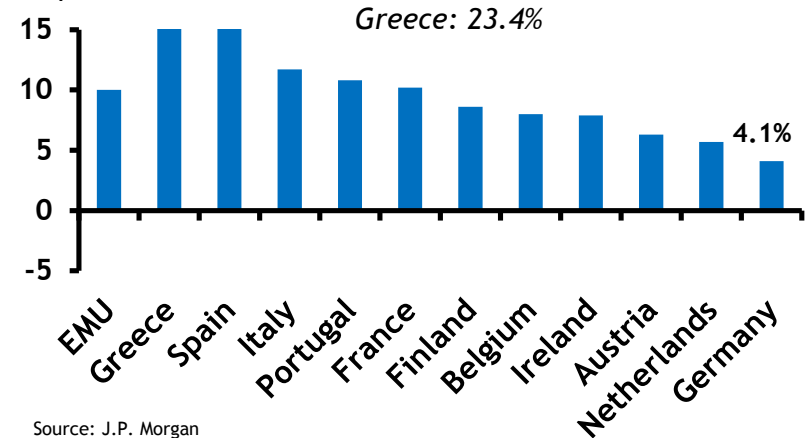
% change since 3Q 2009



Source: J.P. Morgan

Euro area unemployment rate

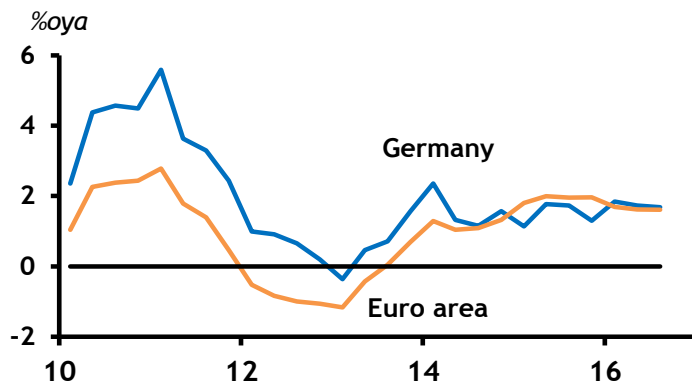
% per annum, latest



Source: J.P. Morgan

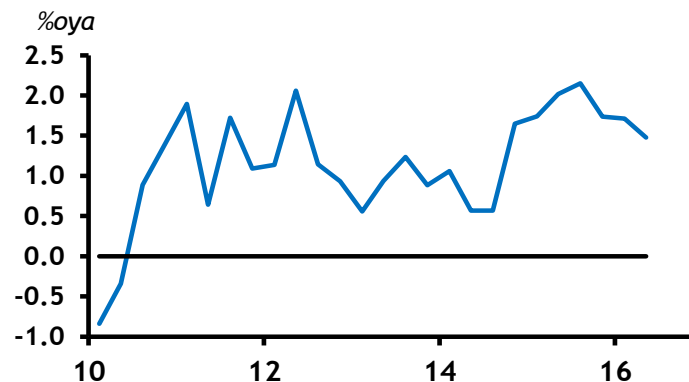
German growth moderate and well-balanced

Real GDP



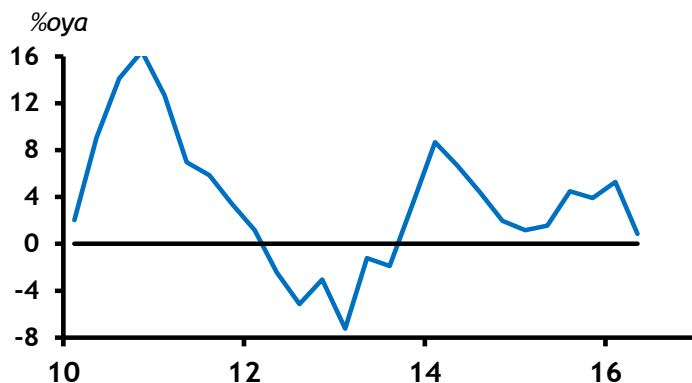
Source: J.P. Morgan

German real consumer spending



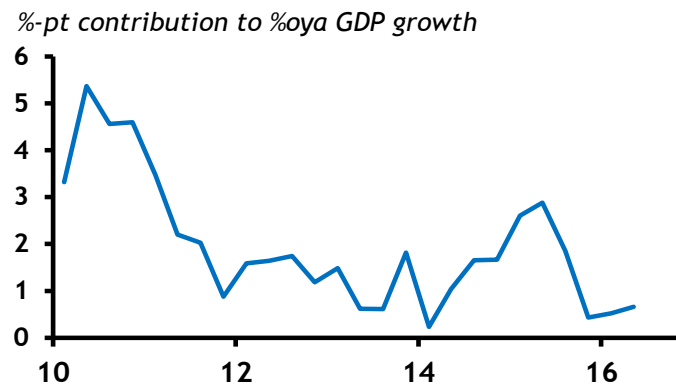
Source: J.P. Morgan

German equipment capex



Source: J.P. Morgan

German net exports

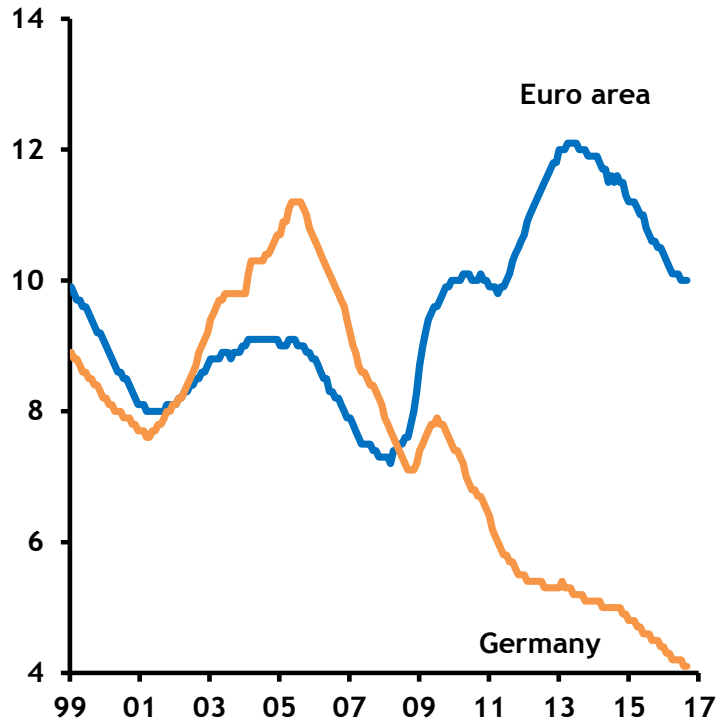


Source: J.P. Morgan

Germany: limited slack but inflation is steady

Unemployment rate

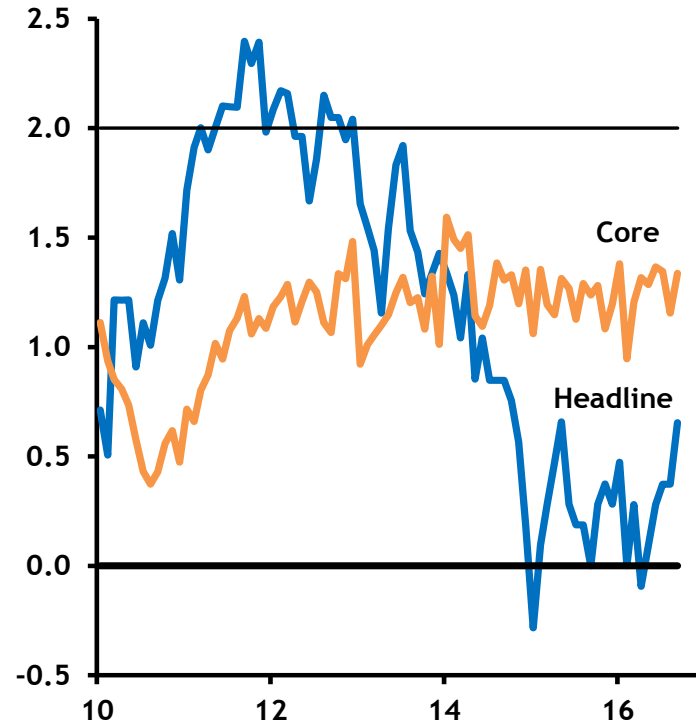
Percent, sa



Source: J.P. Morgan

German inflation

%oya

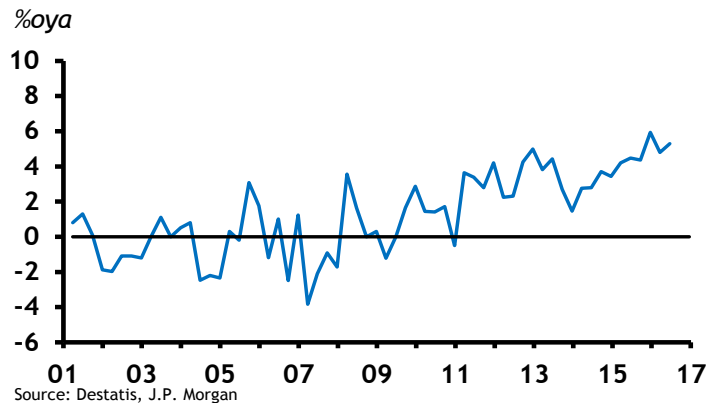


Source: J.P. Morgan

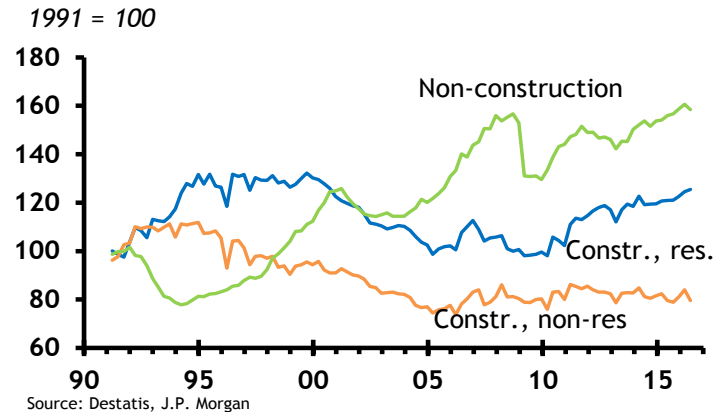
German real estate is not overheating

- Media stories in Germany often warn about construction boom and rising house prices, especially in context of easy ECB monetary policy.
- But, after the post-reunification adjustment, construction is only now recovering.
- Pickup is uneven so far, with residential construction rising and non-residential construction still weak.
- Macroprudential tools are first line of defense.

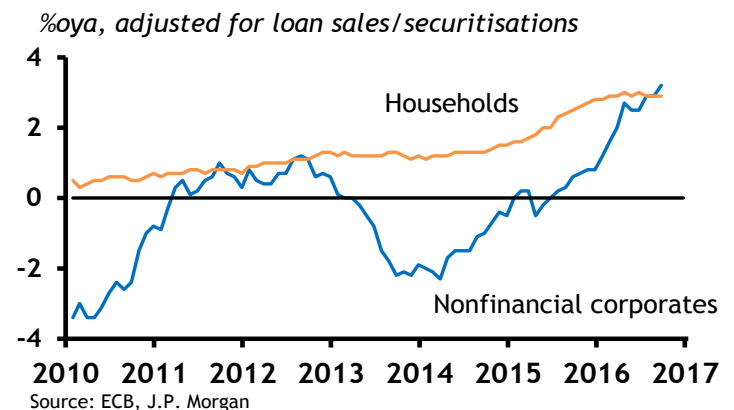
German residential property prices



German capex



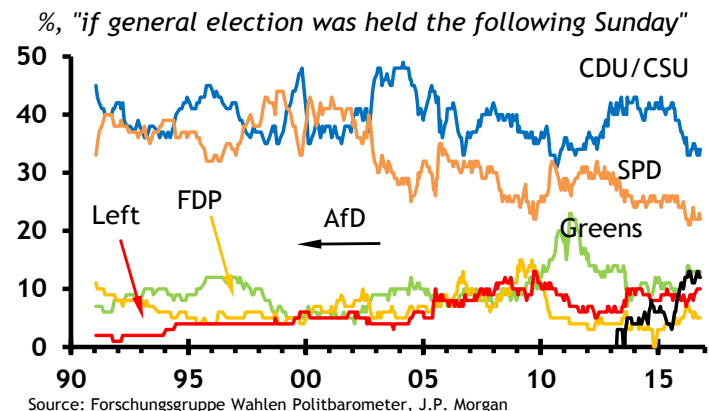
German bank lending growth



German politics: stable support for mainstream parties

- General election likely in late September 2016.
- Merkel likely to announce her candidacy soon.
- Main threat is from Alternative für Deutschland (AfD), which started off in 2013 as a narrowly focused party opposing the single currency but has since then become a right-wing populist party, opposing immigration and multiculturalism.
- AfD support in national polls rose to 10-15% last year due to the asylum crisis, but has failed to increase further this year.
- Biggest threat to Merkel, if she runs again, is a center-left coalition between the Social Democrats (SPD), the Greens and the Left party. But, SPD and Greens would need to overcome reluctance to engage with Left party at national level. And, even with the Left, they are not polling strongly enough to have a majority.
- At this stage, another grand coalition, led by Merkel seems most likely.

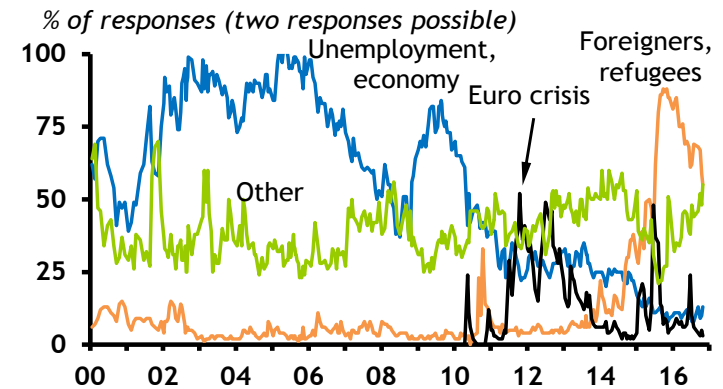
Germany opinion polls



German politics: asylum crisis is (slowly) easing

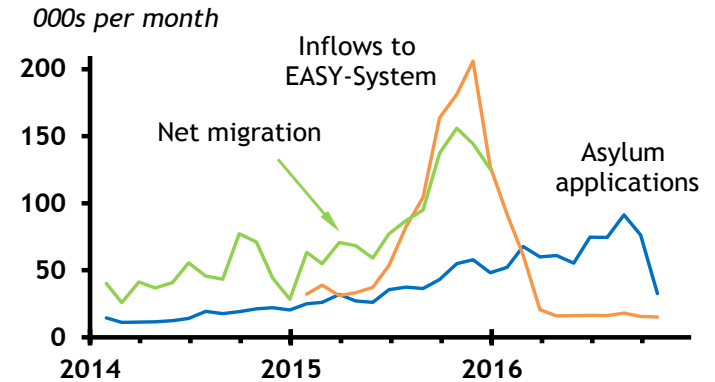
- Key issue boosting AfD support last year was the asylum crisis.
- In opinion polls, almost 90% considered it one of the two biggest “problems” facing Germany, but this has now declined to 55%.
- This decline coincides with the sharp slowdown in new asylum seekers entering Germany after the closure of the Balkans route and the EU-Turkey deal.
- Germany has also toughened rules on extraditions (over 40% of all asylum applications are unsuccessful). And, greater efforts are made to integrate successful asylum applicants.
- Unless asylum flows rise again next summer, this source of AfD support may have peaked.
- German media are also very cautious, partly for historical reasons, and are almost all warning against populist threats.

"Important problems" in opinion polls



Source: Forschungsgruppe Wahlen Politbarometer, J.P. Morgan

German net migration and asylum flows



Source: Destatis, BMI, BAMF, J.P. Morgan

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