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## Investors are focussing on the USA

Gerhard Winzer



The United States are currently in the spotlight, given the primary elections for the US presidential election in November. But what does the US economy look like at the moment?

### **Solid private housebuilding**

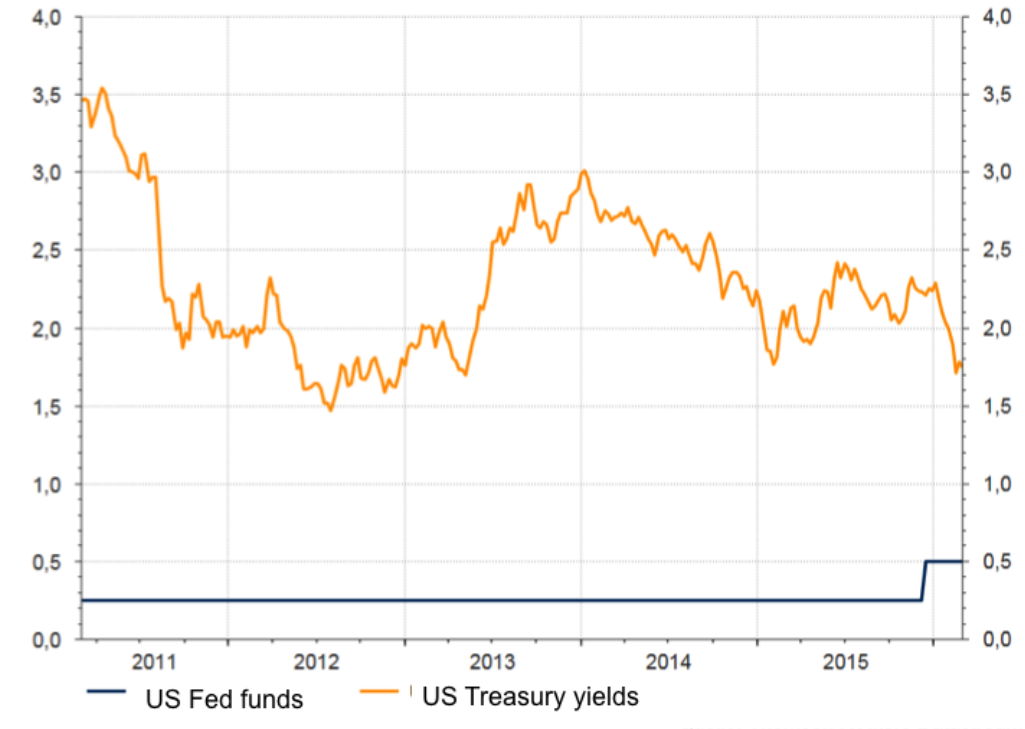
Real GDP increased marginally in Q4. On the upside, private consumption is strong, supported by moderate employment growth and a slight rise in real wages. In addition, private residential building has seen a solid development.

### **Decline in exports and investments**

On the downside, we have a decline in capital expenditure in the corporate sector, in exports, in inventories, in industrial production, and in productivity growth. Also, the economy has to deal with the heightened level of stress in the financial system, the sharp rise in corporate debt, falling company sales and earnings, the strong [US dollar](#), and the tightening of the lending standards for companies by banks. The weakening of the service sector has just joined that negative list.

Overall, the leading indicators suggest a slight acceleration of economic growth in Q1, and a slight decline in growth in the coming quarters. It is important to point out that economic indicators hardly ever predict recessions.

## Interest rates in the USA 2011 – 2016



Source: Thomson Reuters Datastream

### No interest rate increase in the USA

The longer the negative developments last, the more likely the companies are to curb employment growth. This would cause the last areas that are going well, i.e. consumption and housebuilding, to sputter. The markets have started to price in such a tendency. It is important for investors to remember that markets tend to price in recessions more frequently than they actually occur. The US Fed will leave the Fed funds rate unchanged at close to zero percent in the foreseeable future, given the current environment. While this would not lend additional support to the equity market, it would not undermine it either.

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From July 1997 to June 2007, he worked in research at CAIB, Bank Austria Creditanstalt, and UniCredit Markets & Investment Banking. His last position was as Executive Director for Fixed Income / FX Research and Strategy. He was responsible for research on asset allocation at Raiffeisen Zentralbank (RZB) in Vienna from July 2007 to February 2008.