

Fed remains cautious

The Fed is likely, however, to proceed in slow and small steps. Inflation remains at a very low level so that inflationary risks are limited. Low commodity prices also help to keep inflation at bay. We expect the federal funds rate to increase in several steps to 0.75-1.00% by September 2016 – a level which would still be well below our 2016 inflation-rate expectation of 1.6%.¹ An additional argument against a larger interest-rate rise is provided by the Fed’s fears about the implications of a stronger U.S. dollar, which would hamper U.S. exports.

Continued negative real official rates are a clear indication of a rupture in the growth trend in the United States and other industrial economies in 2008. The U.S. economy is growing by less than its potential – creating a so-called output gap – but at least it has found its way back to positive growth. The Eurozone and Japan, in contrast, have only just recovered to the economic output levels achieved before the crisis. A trend which had already started in the run-up to the crisis has therefore been continued and confirmed: an increasing growth differential between the United States on the one side and the Eurozone and Japan on the other.

Actual and potential gross domestic product (GDP) in the United States



Growth gap

The U.S. economy returned to a solid growth path after the financial crisis. However, the output gap, which had widened during the financial crisis, could not be completely closed.

Lower growth in the Eurozone than in the United States is the result of austerity measures taken in the last few years. Periphery countries have had to cut their public spending and their budget deficits. This has resulted in weak demand, slowing down growth all over the Eurozone. But the negative effect from this is now fading. Positive effects such as falling levels of unemployment since 2012, moderately rising wages and the depreciation of the euro are starting to play a more significant role. Consumer expenditure and export revenues are therefore set to rise moderately.

¹ Deutsche AWM forecast as of 9/21/15

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