Global Economic Monitor:
The US is the Best House on the Worst Block

Troy Ludtka
Senior US Economist
SMBC Nikko Securities

(212)-224-5483
Troy.Ludtka@smbcnikko-si.com
January 2025

House Views and Summary

- **Macroeconomics is a relative game, and when judged on this basis, the US economy is exceptionally strong.**

- **The US has managed to grow at a robust pace while also keeping aggregate *domestic* debt levels flat.**

- **Private sector debt has largely come down at the expense of increased government leverage. Relative to peers, US corporate debt is ultra low, and household debt is average.**

- **Despite anxieties from analysts, US *government* debt levels are still near average.**

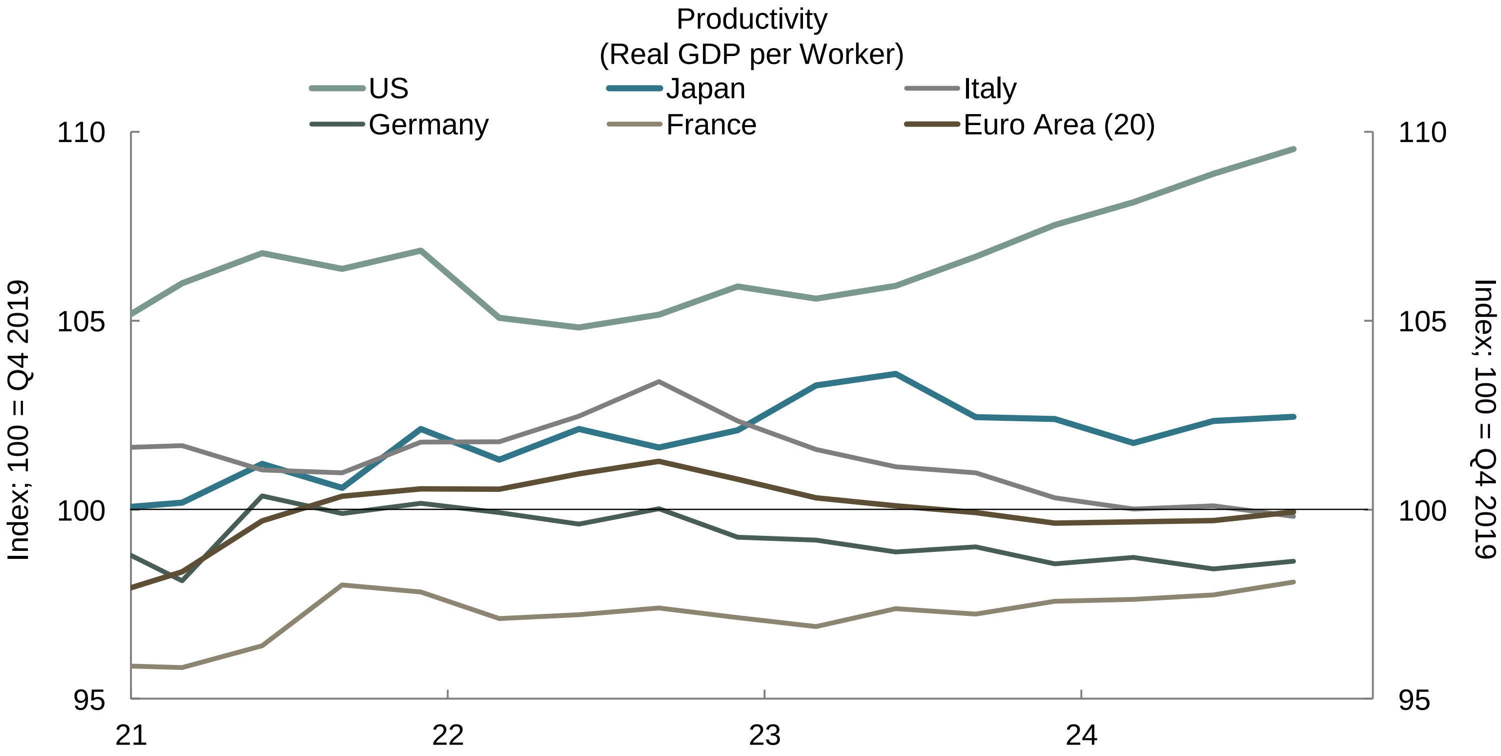
- **Meanwhile, other key economies (such as Canada, UK, and China specifically) are overextended in certain areas. As a result, these economies are particularly vulnerable if inflation and/or interest rates are truly higher for longer or if there is a shock. An economic/financial crisis emerging elsewhere in the world (as opposed to one originating in domestically) is a top macro risk.**

- **This suggests that other central banks may have to be more aggressive in cutting interest rates than the Federal Reserve. This carries profound implications for rates and FX.**

- **Not only is US productivity higher than in similarly developed countries, but US productivity also appears to be *accelerating*. The addition of a favorable regulatory and tax policy agenda in 2025 suggests that the US economy may continue to outperform.**

The US is in a Class of its Own

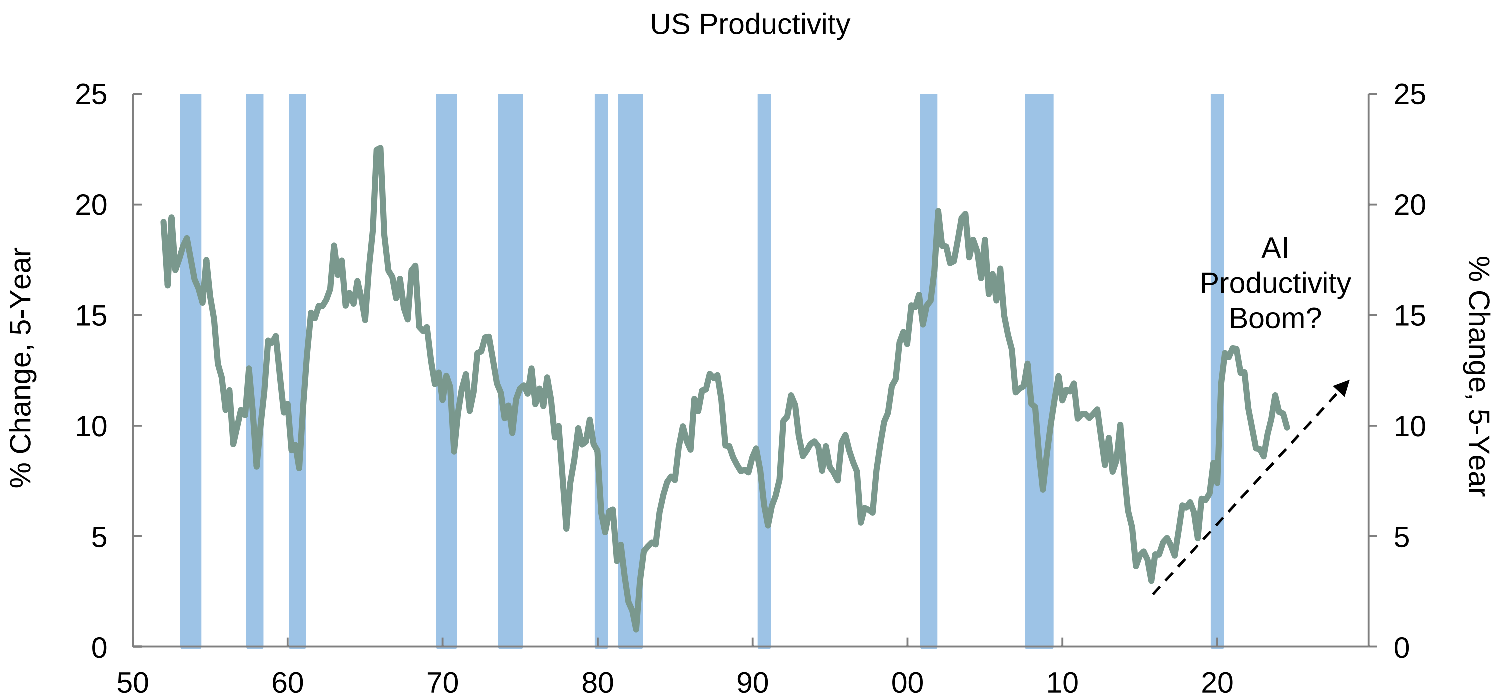
Since pre-Covid, <u>US productivity has grown by nearly +10%</u>. <u>Japan, the next highest among developed markets, has grown +2.5%</u>. <u>Major European countries have either been flat or negative!</u> Productivity is flat in Canada and down -2% in Australia.



Sources: BEA, CAO/MHLW, ISTAT, Bbk, INSEE, Eurostat, Haver, SMBC Nikko

Accelerating Productivity

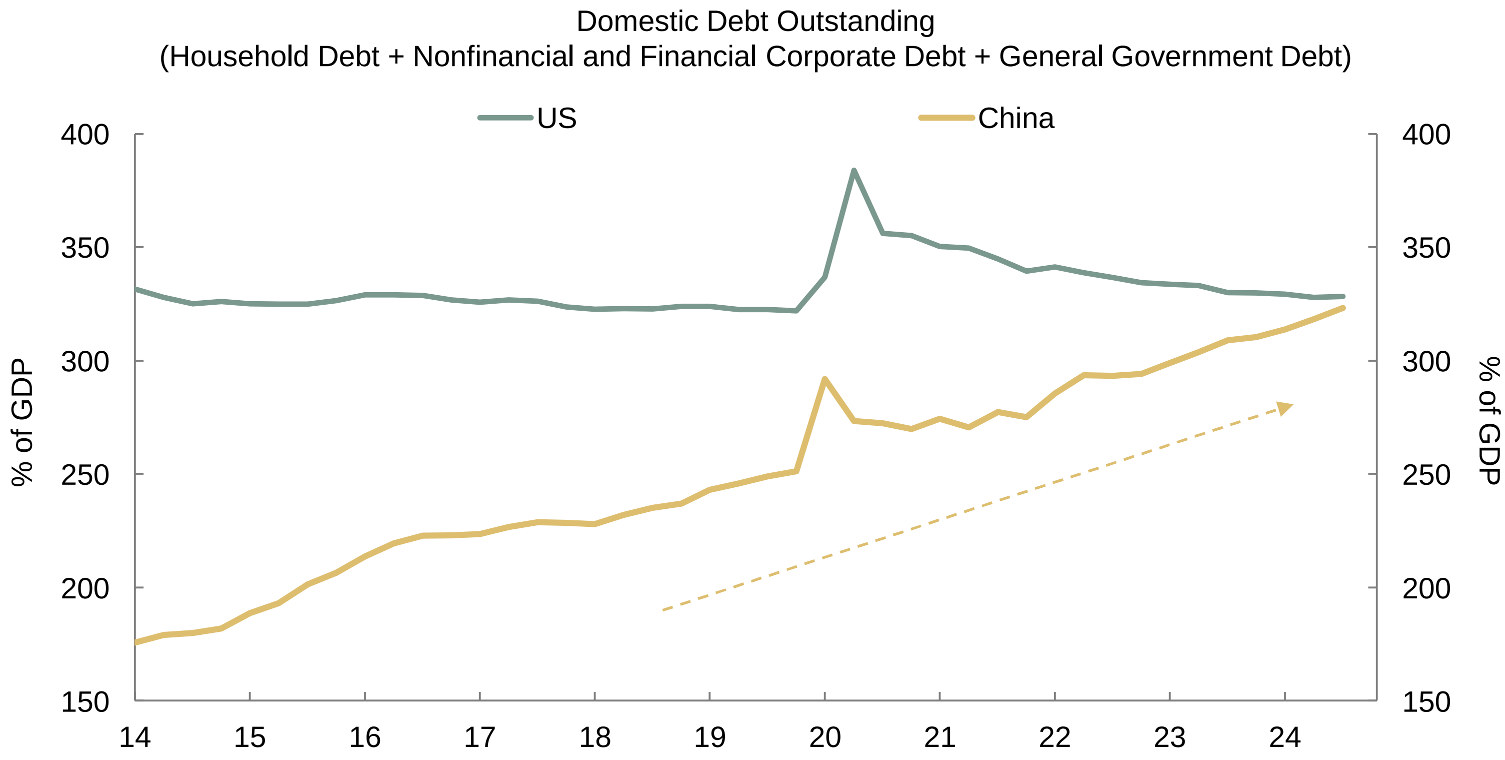
Between the mass adoption of Artificial Intelligence (AI), its associated spillover effects, the nearly $250B in onshored manufacturing, the implementation of a favorable regulatory and tax policy agenda, the US may be amidst a productivity boom, which stocks are pricing.



Sources: BEA, Haver, SMBC Nikko

China's Growth is Debt Fueled

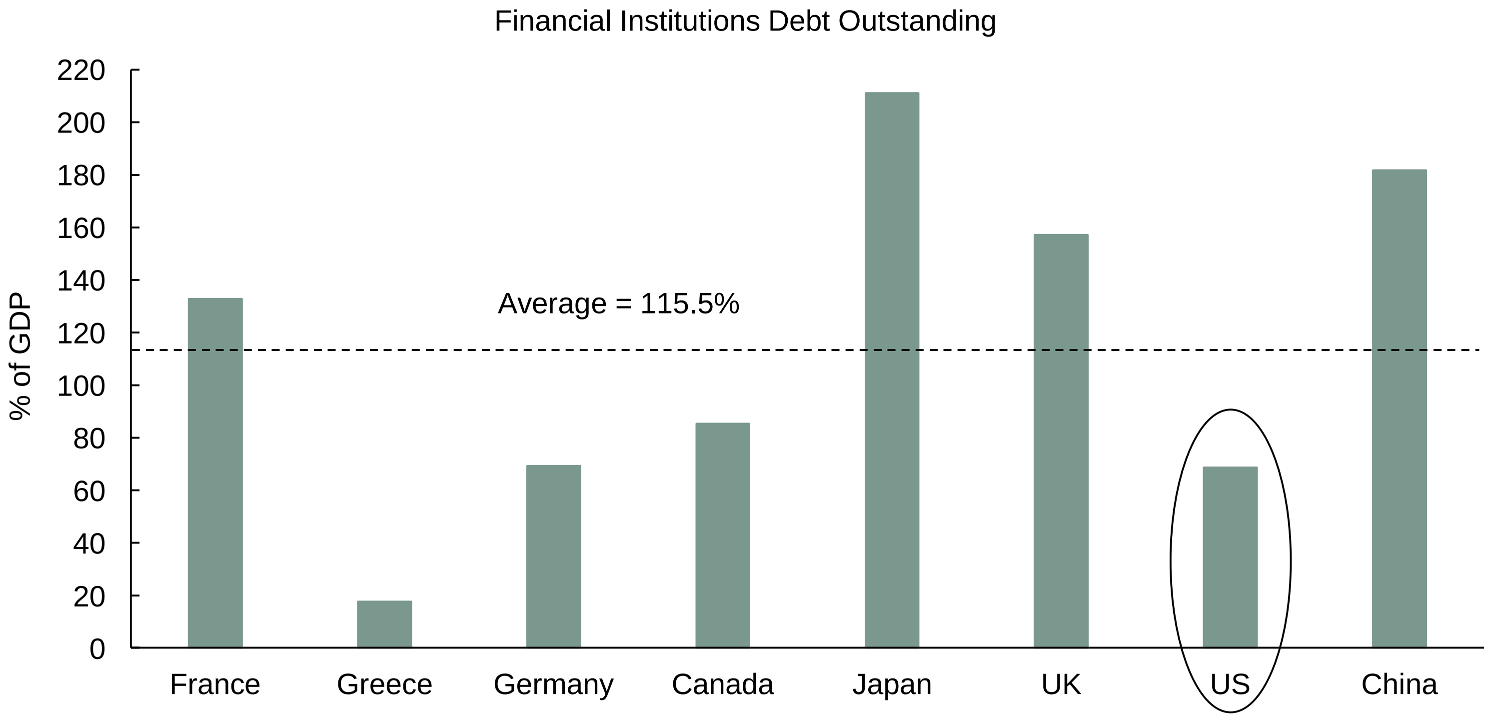
The US has grown at a robust pace while keeping domestic debt constant. China's growth, however, has been fueled by a considerable increase in leverage. China will be more sensitive in a higher-for-longer inflation or interest rate climate.



Sources: FRB, CNBS, Haver, SMBC Nikko

In Search of Leverage

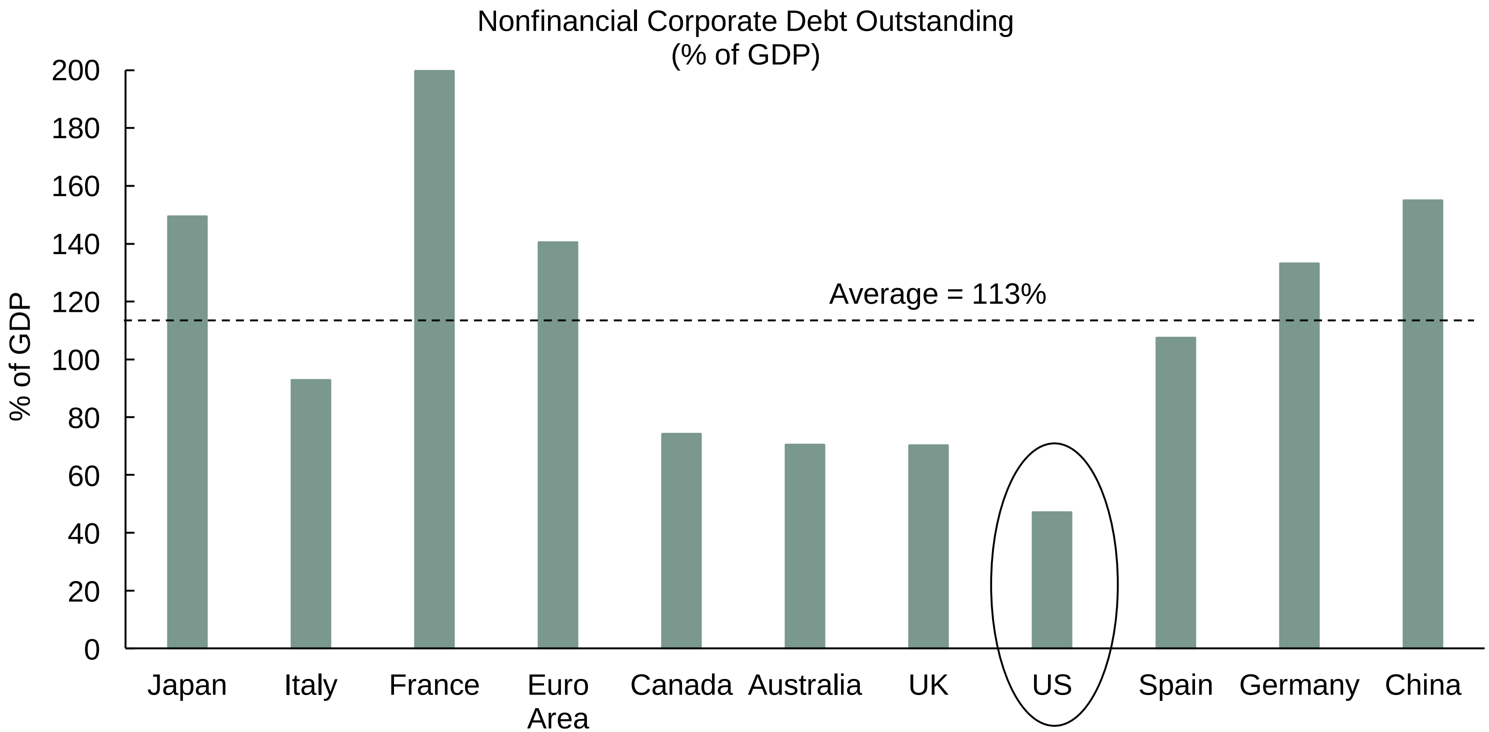
US bank leverage has come down tremendously since the GFC. Meanwhile, bank leverage is elevated in Japan (211%), China (182%) and in the UK (157%).



Sources: FRB, BoJ, ONS, BDE, ISTAT, Bbk, BdF, ES, CNBS, Haver, SMBC Nikko

US Corporate Health is Unmatched

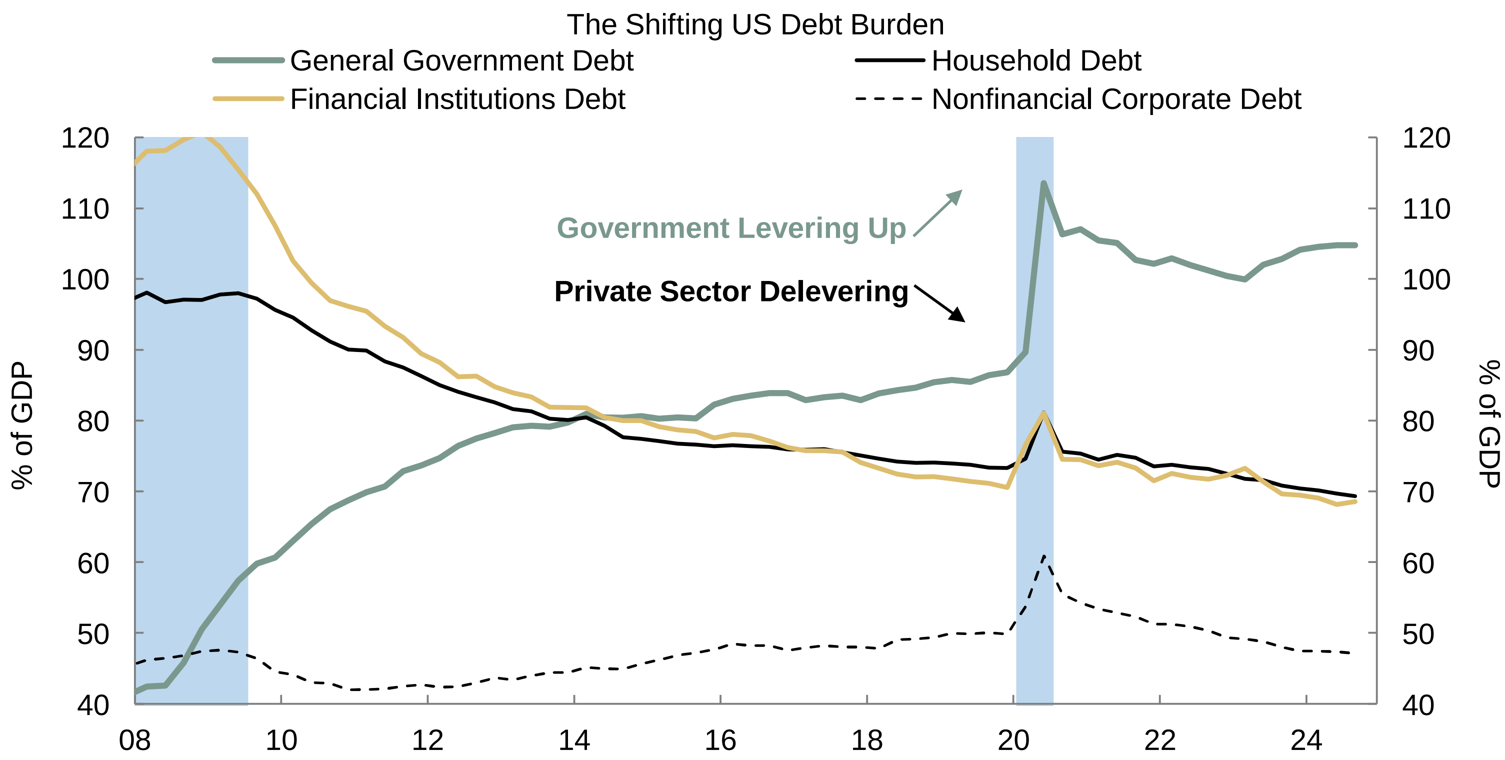
With relatively little debt, US corporate health is unmatched. This is one reason why US credit spreads (IG and HY) are so tight, and equities are performing so well.



Sources: FRB, BoJ, ONS, BDE, ISTAT, Bbk, BdF, ES, CNBS, Haver, SMBC Nikko

A Shifting US Debt Burden

Since 2008, the debt burden in the US has shifted away from the *private* sector onto the *public* sector. The private sector is healthy partly because the public sector has levered up, thus tight credit spreads, high equities and growth.

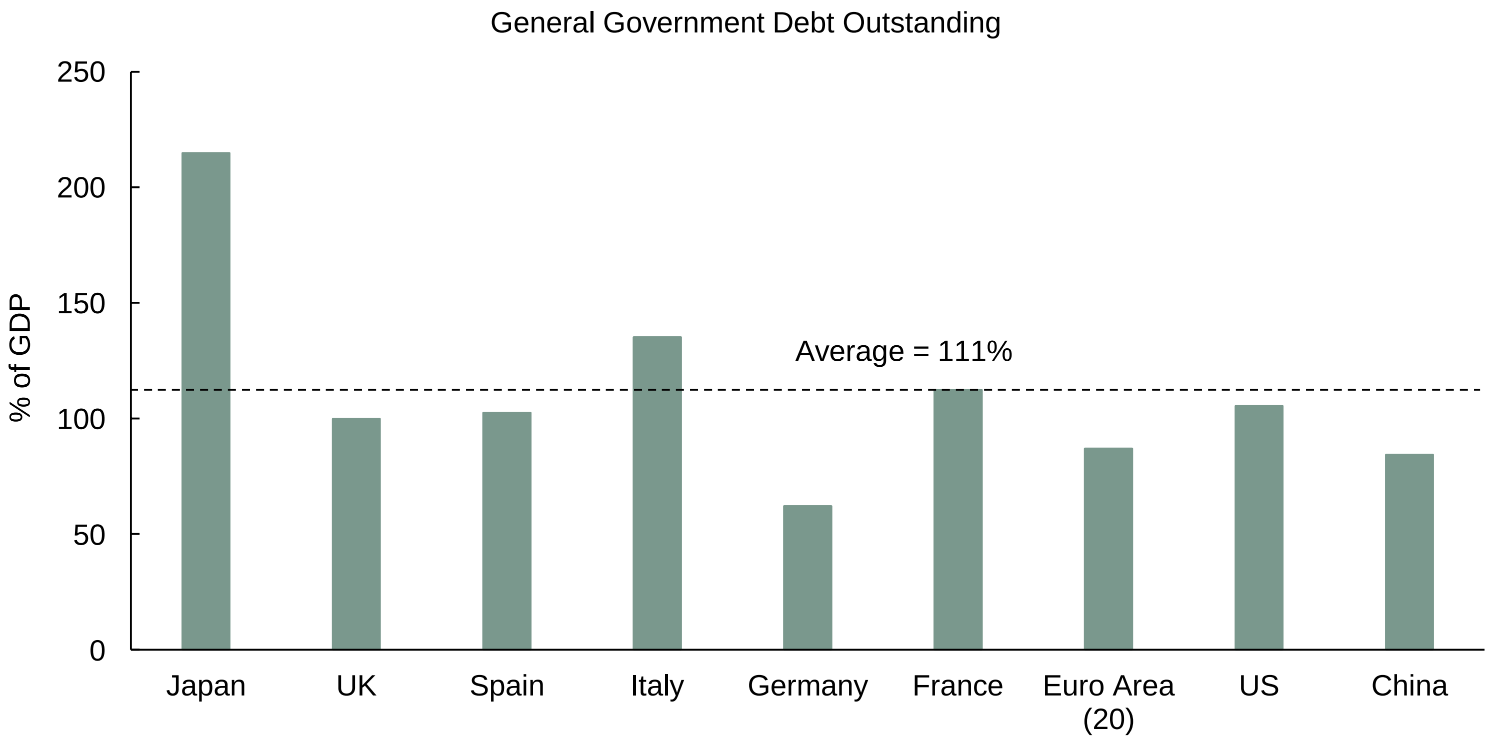


Sources: FRB, BEA, Haver, SMBC Nikko

SMBC

Average Government Debt Levels

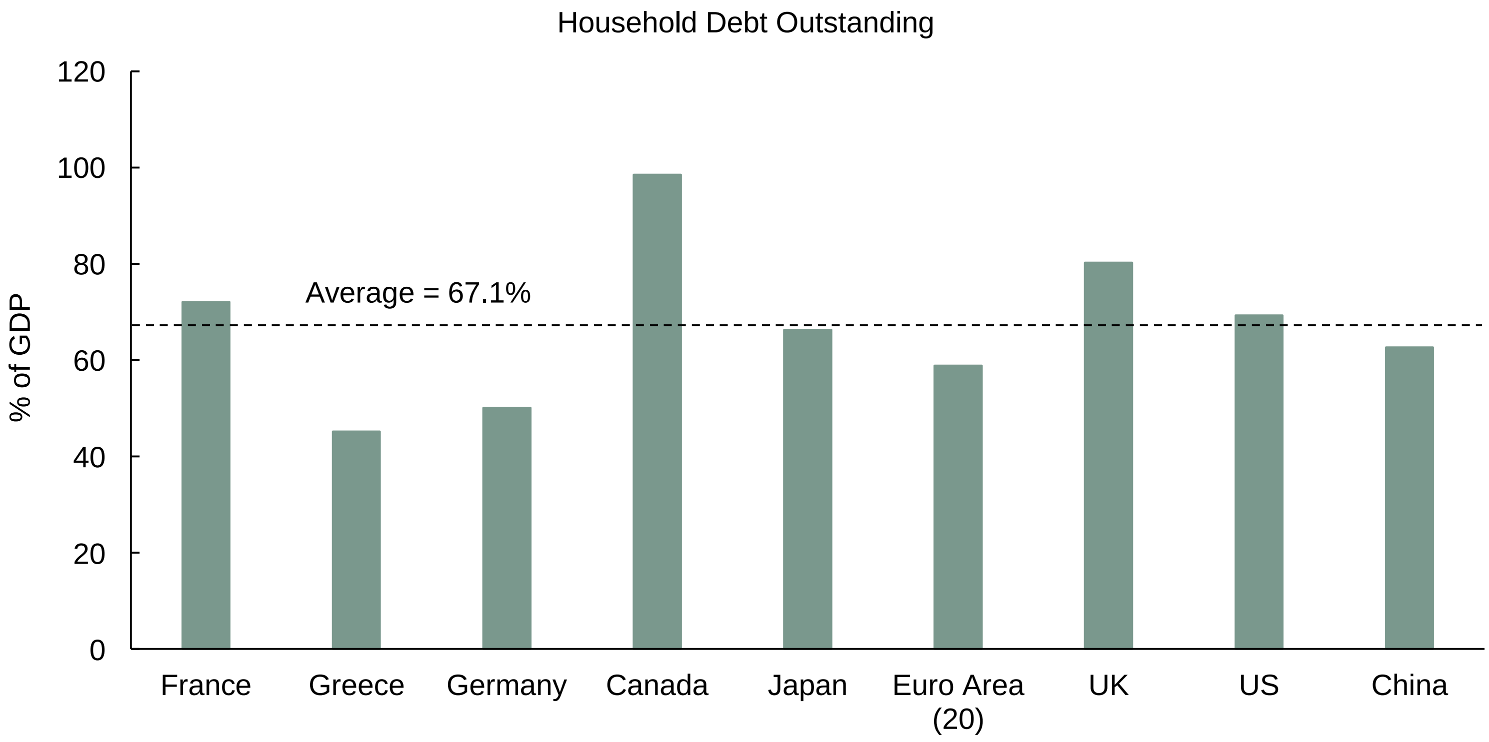
Even despite this notable levering up in the public sector, US government debt levels are still at global averages when compared to peers.



Sources: FRB, BoJ, ONS, BDE, ISTAT, Bbk, BdF, ES, CNBS, Haver, SMBC Nikko

Average Household Debt

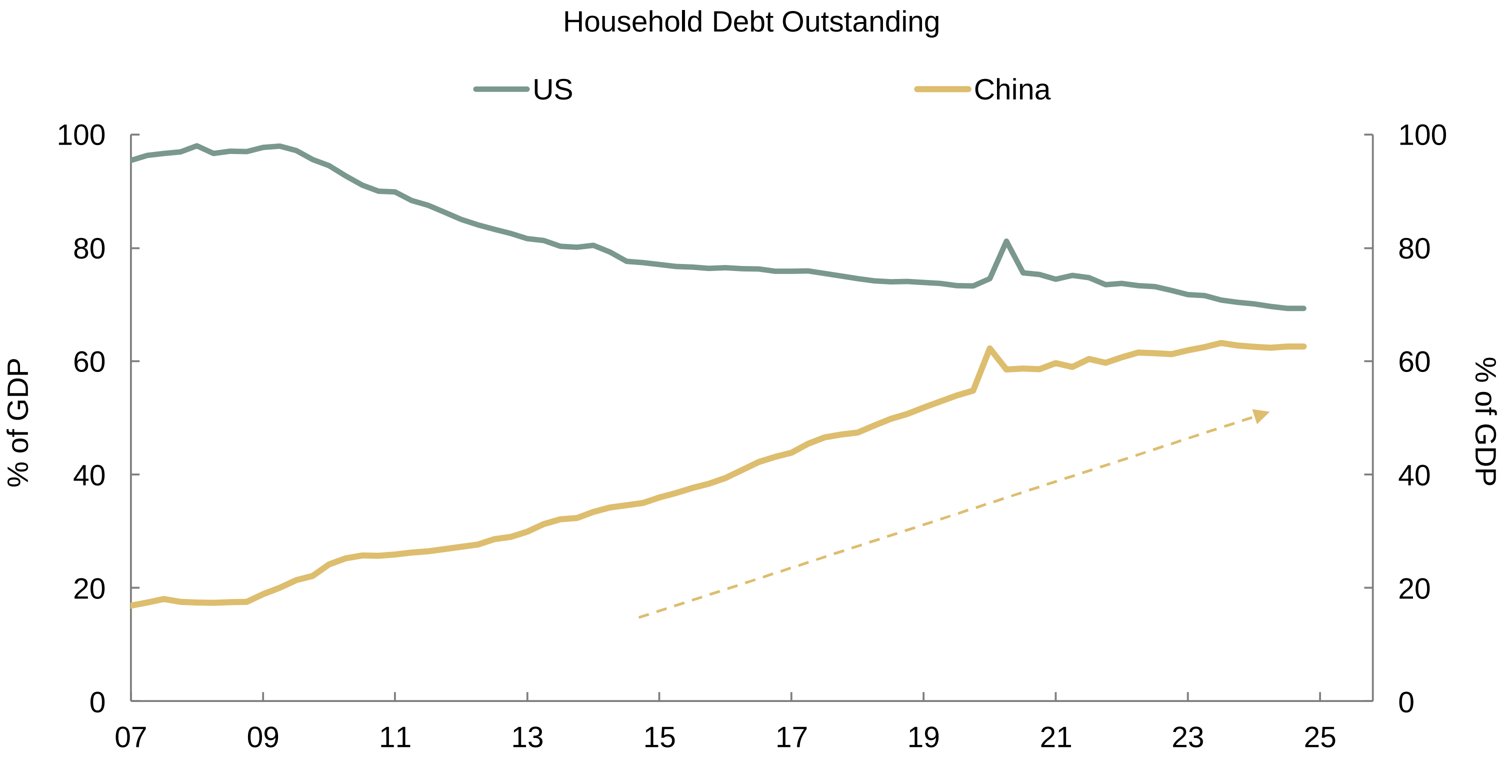
US household debt (69.3%) is approximately average too. Canadian household debt is particularly noteworthy registering at 98.6% of GDP. This is even higher than the *US' peak* of 96.7% (Q1 2008) which was achieved in the run up to the Global Financial Crisis (GFC)!



Sources: FRB, BoJ, ONS, BDE, ISTAT, Bbk, BdF, ES, CNBS, Haver, SMBC Nikko

Real Estate Leverage

US households have reduced their leverage, while households in China have levered up, with real estate being the primarily object.



Sources: FRB, CNBS, Haver, SMBC Nikko

SMBC

Disclaimers

This document is provided by SMBC Group (including, collectively or individually, Sumitomo Mitsui Banking Corporation, SMBC Nikko Securities America, Inc., and their affiliates, as applicable) for informational purposes only, solely for use by the client(s) or potential client(s) to whom such document is directly addressed and delivered. This document was prepared by SMBC Group's economist(s). The views, statements, assumptions, and forecasts expressed herein are those of the author(s) and do not reflect the judgment of any other person or of SMBC Group. It does not constitute an offer, or solicitation of the sale or purchase, of securities or other investments. The information contained herein is obtained or derived from sources believed to be reliable, but SMBC Group and the author(s) make no representations as to its accuracy or completeness. In some cases, such information may be incomplete or summarized. This document has been prepared based on assumptions and parameters determined by the economist(s) in good faith. The assumptions and parameters used are not the only ones that could have been selected, and therefore no guarantee is given as to the accuracy, completeness, or reasonableness of any such quotations, disclosures, or analyses. Past performance is not a reliable indicator of any future results.

This document has been prepared for and is directed at institutional investors and other market professionals, and is not intended for use by retail customers. It does not take into account any specific investment objective, financial situation, or particular need of any recipient. The information contained herein should, for whatever purpose, be used solely at the discretion and responsibility of the recipient. SMBC Group does not accept any liability or responsibility for any results in connection with the use of such information. Recipients are responsible for making final investment decisions and should do so at their own discretion following their own independent analysis and assessment of the merits of any transaction prior to execution, after conducting a careful examination of all documentation delivered, explanatory documents pertaining to listed securities, prospectuses, and other relevant documents. The financial instruments discussed may be speculative and may involve risks to principal and interest.

Conflicts of Interest Disclosures

The views, statements, assumptions and forecasts expressed herein may differ from those expressed in globally branded research produced by SMBC Group. The trading desks of SMBC Group trade or may trade as principal in the financial instruments that are the subject of this material, and the author(s) of this document may have consulted with the trading desks while preparing this document. The proprietary interests of SMBC Group may conflict with those of the recipient. SMBC Group may seek to do business with the companies mentioned in this material and the trading desks may accumulate, be in the process of accumulating or have accumulated, long or short positions in the financial instruments mentioned and may have acquired them at prices no longer available. The trading desks may also have or take positions inconsistent with the views expressed in this document or may have already traded on those views.

This material is not a research report, and neither this material nor its author(s) is subject to policies and procedures that apply to the globally branded research reports and research analysts of SMBC Group or to legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research. This means that on the date of this document, SMBC Group, and its directors, representatives, or employees, may have a long or short position in any of the instruments mentioned in this document and may make a market or trade in instruments economically related to the securities, derivatives or other underlying assets mentioned herein, in each case either as principal or as agent.

No part of the author(s) compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein. The personal views of authors may differ from one another.

This document is the property of SMBC Group, subject to copyright. Any reproduction of this document, in whole or in part, is prohibited, and you may not release this document to any person (except your advisors and professionals to assist you in evaluating the document, provided that they are obligated, by law or agreement, to keep the document confidential). Distribution, possession, or delivery of this document in, to, or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions.

About this email

This message was sent to you to provide information about services, products, or analysis. To unsubscribe from future emails, click here to create and send us an email with the word "UNSUBSCRIBE" in the subject line. Please send the email and allow 10 days for your request to be honored.

©2025 SMBC Americas Division, All Rights Reserved. Sumitomo Mitsui Banking Corporation, SMBC and the Rising Mark Design and other marks included in this email are service marks of SMBC, used and registered worldwide.