



Global Economy Report

October 2013



Global Economy Report

The Global Economy Report is prepared in association by the Macroeconomic Research Division of Banca Aletti and the Global Governance Programme of the Robert Schuman Center for Advanced Studies of the European University Institute.

The goal of this Report is to provide an analysis of the current and expected macroeconomic and financial conditions at a global level, with also a focus on key areas such as Europe, the US and ASIA.

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EXECUTIVE SUMMARY

- ❖ The IMF just published its Updated World Economic Outlook. The Fund trimmed its forecasts of global expansion this year and next and now expects the global economy to expand 2.9% this year and 3.6% next year, 0.3% and 0.2% lower than what the IMF projected in July's WEO update.
- ❖ According to the IMF, the drivers of activity are changing and downside risks persist. In particular, the IMF notes, China and a growing number of emerging market economies are coming off cyclical peaks. While the outlook for the euro area economy will form the base of discussions at IMF meetings later this week, we expect a general focus on the US and emerging markets, rather than on Europe.
- ❖ The IMF expects Eurozone GDP to decline by 0.4% this year and to rise by 1.0% in 2014 (we forecast -0.4% and +1.2%, respectively). The inflation outlook is also subdued: the IMF forecasts consumer price inflation in the area to average 1.5% both this year and next (very similar to our own expectations).



EXECUTIVE SUMMARY

- ❖ In Q2 2013 the Eurozone economy grew for the first time after six consecutive quarters of contraction. Despite the small downward revision for the Italian GDP (-0.3% from -0.2% originally reported), the aggregate quarterly growth rate has been confirmed at +0.3% with the final estimate. For the first time since Q3 2011, domestic demand gave a positive contribution to growth, along with foreign trade, thus consolidating the recovery in the area.
- ❖ Despite some downside risks highlighted by hard data at the beginning of Q3, which have generally been below expectations, especially on the production side, the economy should accelerate further in the second half of the year, in line with the strong improvement seen in confidence indicators for the area, which is spreading to the consumption sector. There are also some tentative stabilization in labour market conditions, but this has to be confirmed yet.



EXECUTIVE SUMMARY

- ❖ Our Eurozone GDP growth forecast for 2013 remains negative (-0.4%), due to the strong negative impact from data for the first half of the year and to the marked contraction expected for Italian and Spanish GDP (about -1.7% and -1.6% for 2013 as a whole, respectively). On the other hand, we project positive GDP growth for Germany (+0.6%) and for France (+0.3%). In 2014 the cycle should consolidate further, with the increase in aggregate GDP expected at 1.2%, boosted by Germany, which should grow by 1.9%.
- ❖ In September Eurozone inflation fell at 1.1% yoy, its lowest reading since February 2010, led by a drop in energy prices and, to a smaller extent, in food prices. Both in Spain and in Italy inflation is at its lowest since 2009. Core dynamics have remained more stable. Our inflation forecast is for a slow down from 2.5% (average 2012) to 1.5% in 2013 and to 1.6% in 2014. The risks surrounding our inflation forecasts continue to be on the downside, awaiting for further details on September sector breakdown.



EXECUTIVE SUMMARY

❖ UK Q2 GDP was stronger than expected. The housing market is improving, with prices benefiting from the Help-to-Buy scheme and the FLS scheme, which reduce mortgage costs for Households. Thus, Households disposable income is increasing, pushing up consumption. Business loans remain more depressed, though, as they require a capital buffer four times higher than what is required against residential mortgages. As the Eurozone is exiting its recession, Net Trade should improve further in Q3, benefiting from an acceleration in exports and from a decline in import value thanks to the recent pound strength. Our estimate is for average real GDP growth at 1.2% in 2013 and 1.8% in 2014.

❖ Turning to the Inflation Outlook, the output gap is still huge (Manufacturing and Building sectors are still more than 10% below their 2008 production peaks). Thus, we do not expect a further inflation acceleration in the next few months, but CPI should stay above target for most of the forecasting period, because of past increases in administrated prices. We currently project average headline CPI at 2.7% in 2013 and at 2.4% in 2014.



EXECUTIVE SUMMARY

❖ In the US, incoming data suggest a modest correction in Q3 GDP growth, due to the increase in mortgage rates which have negatively affected Housing and Private Consumption since May, with a huge tightening in financial conditions. In H2 2013 and in 2014 growth should anyway be supported by less fiscal consolidation than in H1 2013. On the other hand, Manufacturing is expanding moderately after the soft patch experienced during the spring. From Q4 onwards we expect a modest acceleration, which should anyway stay below 3% in 2014. The unemployment rate should further decrease, but will stay well above NAIRU. We expected GDP growth to average at 1.6% in 2013 and at 2.6% in 2014, while we project Unemployment rate at 7.3% at the end of 2013 and at 6.8% at the end of 2014.

❖ We expect inflation to remain below 2% for most of the forecasting horizon, reflecting the effects of the output gap accumulated during the Great Recession and these three and a half years of subpar growth. Also risks from commodities prices are limited in an environment of less robust global growth. We do not see risks of deflation though, with a stabilization of inflation measures later this year and a modest acceleration in 2014. We currently project headline CPI to average 1.6% yoy in 2013 and 1.9% in 2014, while core CPI is seen at 1.8% in 2013 and at 1.9% in 2014.



EXECUTIVE SUMMARY

- ❖ Turning to Monetary and Fiscal Policy, after the non-Tapering September surprise, our baseline forecast is for the reduction in asset purchases to start in December, with an initial 10 bln USD trim, still split between MBS and Treasuries. The reduction will gradually go on all over 2014 as the recovery strengthens and growth perspectives improve, to completely halt QE3 around October 2014. The “data dependent” rule is even more valid now: if new data are not up to Fed’s expectations or the two parties cannot reach an agreement to raise the Debt Ceiling before it becomes binding, we could well see Tapering postponed to 2014. We expect the first FF hike around mid 2015, when the unemployment rate will probably be well below 6.5%. For fiscal policy, we expect the two parties to reach an agreement on a new Spending bill and raise the Debt Ceiling before October 17.
- ❖ Risks to our baseline lie to downside and stem from a prolonged government shutdown, fiscal policy missteps, tightening of financial conditions and a slower global growth.
- ❖ In this version of the report we present a special focus on the US economy.



EXECUTIVE SUMMARY

❖ Macroeconomic data point to a marked acceleration for the Chinese economy after the slowdown experienced earlier this year, which turned out to be harsher than expected. Business confidence is back to levels compatible with an expansion of economic activity, while the acceleration in industrial production and the improvement in foreign trade numbers are reducing risks of a hard landing. Inflation remains apparently under control, but persistent upward pressures on housing prices would prevent the PBoC to ease monetary policy.

❖ The Japanese economy remains strong. Its positive momentum, very robust in the first three months of this year, saw a small setback between April and June, but should confirm its persistence in the next few quarters, pushing up average growth rates to around 2%, both for this year and next year. This is the result of extraordinarily expansive economic policies, which also benefit the dynamics of Asian qualitative indicators. Inflation (National Headline CPI) was at 0.9% yoy in August, its fastest growth rate since 2008.



EXECUTIVE SUMMARY

- ❖ The Australian economy is weak by historical standards, as real GDP growth rate was just 0.6% qoq in Q2. However, trend growth accelerated to 2.6% yoy in Q2 from 2.5% in Q1 2013. Recent labour market data are not positive as well, as the increase in the number of available jobs is not enough to keep up to workforce growth, thus increasing unemployment.
- ❖ National accounts data marked an acceleration in Korean GDP growth for Q2, with real GDP growth accelerating at 1.1% qoq from 0.8% in Q1. The trend here seems to have turned to growth, benefiting consumption, which is also sustained by Government stimulus and low interest rates.





EXECUTIVE SUMMARY

GENERAL

	2009	2010	2011	2012	2013E	2014E
GDP (%YOY)						
US	-3,1	2,4	1,8	2,8	1,6	2,6
EUROZONE	-4,4	2,0	1,4	-0,5	-0,4	1,2
GERMANY	-5,1	4,2	3,0	0,7	0,6	1,9
FRANCE	-3,1	1,7	2,0	0,0	0,3	1,2
ITALY	-5,5	1,8	0,4	-2,4	-1,7	0,7
UK	-5,1	1,7	1,1	0,1	1,2	1,8
JAPAN	-5,5	4,7	-0,6	2,0	1,9	1,9
BRASIL	-0,3	7,6	2,8	0,9	2,3	2,5
RUSSIA	-7,8	4,3	4,3	3,4	2,0	2,8
INDIA	6,4	8,9	7,5	5,1	4,9	5,2
CHINA	9,2	10,4	9,3	7,8	7,6	7,4
AUSTRALIA	1,4	2,6	1,4	3,6	2,5	2,7
KOREA	0,3	6,3	3,6	2,0	2,6	3,5
INFLATION (%YOY)						
US	-0,4	1,6	3,2	2,1	1,6	1,9
EUROZONE	0,3	1,6	2,7	2,5	1,5	1,6
GERMANY	0,2	1,2	2,5	2,1	1,6	1,8
FRANCE	0,1	1,7	2,3	2,2	1,1	1,6
ITALY	0,8	1,6	2,9	3,3	1,5	1,5
UK	2,2	3,3	4,5	2,8	2,7	2,4
JAPAN	-1,3	-0,7	-0,3	0,0	0,3	2,5
BRASIL	4,9	5,0	6,6	5,4	6,5	5,4
RUSSIA	11,7	6,9	8,5	5,1	6,5	5,6
INDIA	10,8	12,1	8,9	9,3	9,1	8,6
CHINA	-0,7	3,3	5,4	2,7	2,6	3,1
AUSTRALIA	1,8	2,9	3,3	1,8	2,2	2,6
KOREA	2,8	3,0	4,0	2,2	1,5	2,6

Banca Aletti Forecast

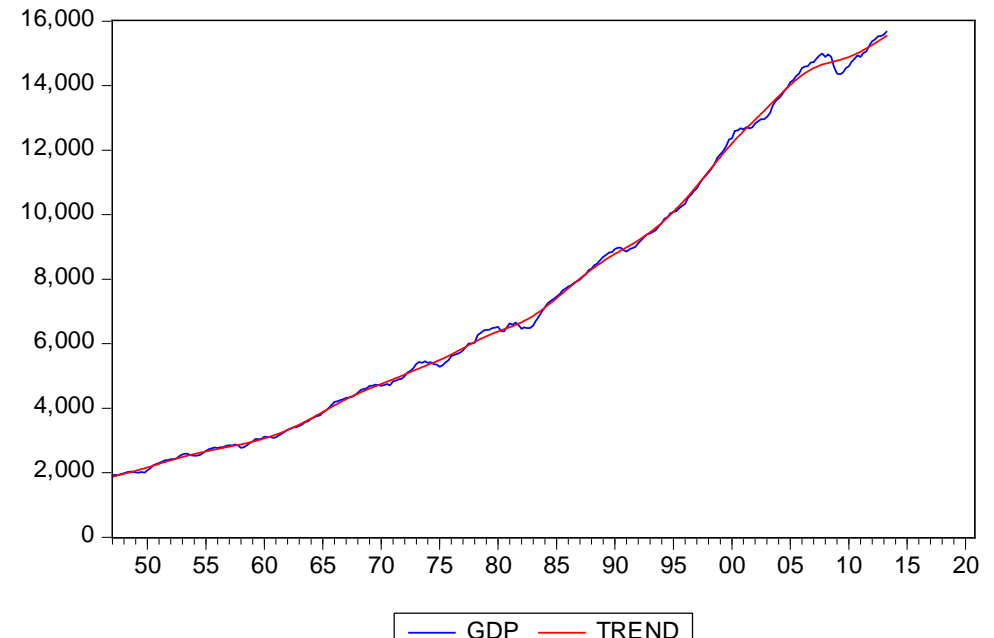
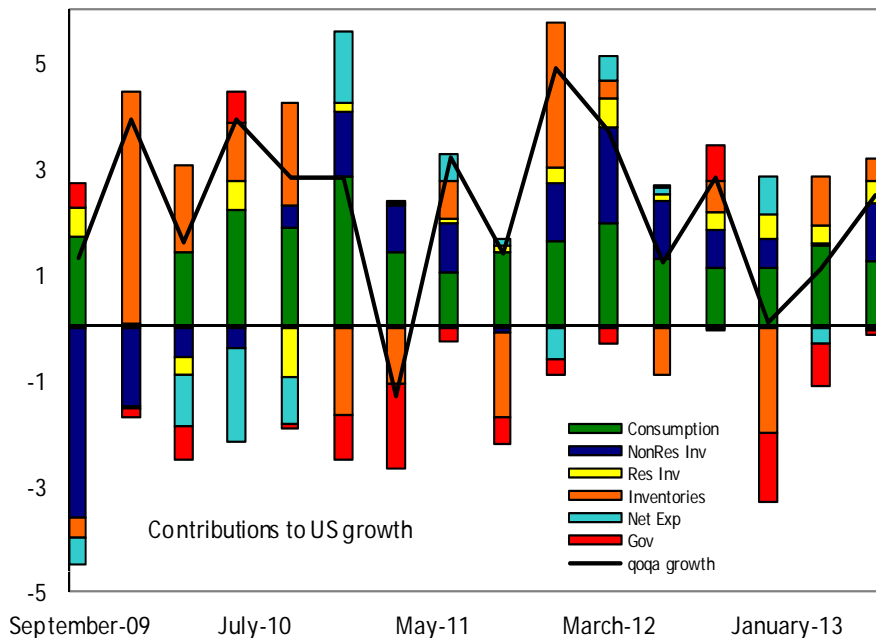
Cons. Bloomberg (End Sept 13)

FOCUS ON THE US

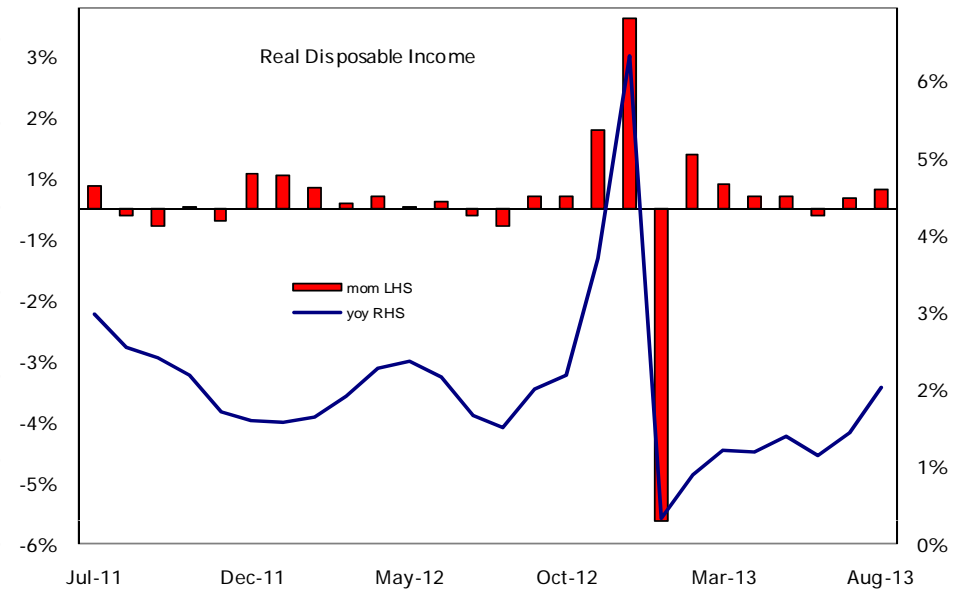
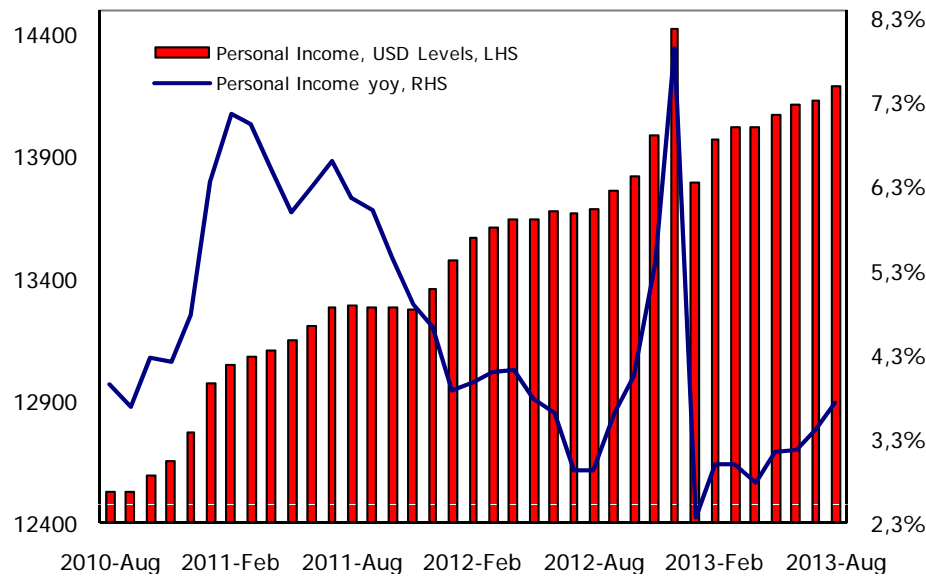


IMPACT OF DATA REVISIONS

The third and final estimate for Q2 GDP didn't change our general growth scenario. GDP growth was confirmed at 2.5% qoqa, with small revisions to Demand components which substantially compensate. This estimate showed weaker than expected inventory investments, which, in turn, suggests the contribution from inventory investments in Q3 GDP should be less negative than previously anticipated. GDP deflator was downwardly revised from 0.7% qoqa to 0.6%, while Headline PCE Deflator was revised to -0.1% from 0% qoqa reported with the preliminary data. Also core PCE deflator was revised to 0.6% from 0.8% qoqa. Overall, these revisions do not contain new information for policymakers, who will instead be looking at more timely forward-looking indicators and growth forecasts for Q3.

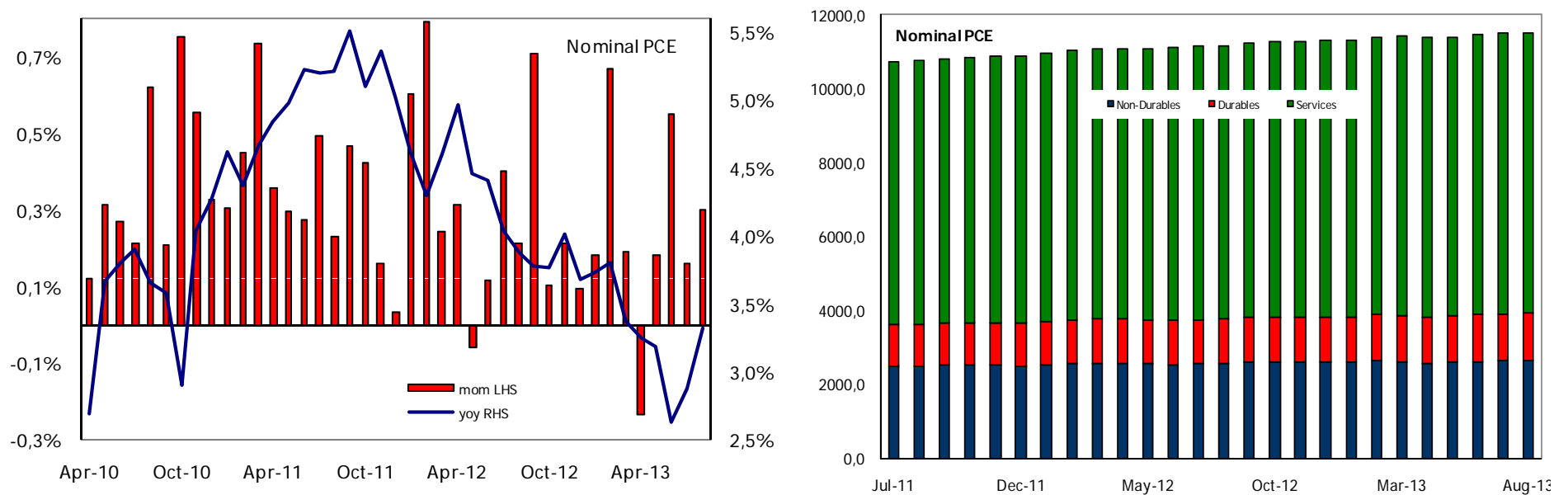


Personal Income grew by 0.4% m/m in August, accelerating from 0.2% mom recorded in July. Both the Salary component and the Other Incomes Component gave positive contributions to grow. They both grew by 0.4% m/m. The trend in growth of personal income is at 3.7%, up from 3.4% in July, reaching it strongest yoy growth since December. Furthermore, disposable income grew by 0.5% m/m, up from 0.3% in July. The saving rate increased from 4.5% to 4.6%, substantially stable in the past few months. This data, together with other lower than expected data for July and August, confirm our forecasts for a Q3 slowdown in the US economy.



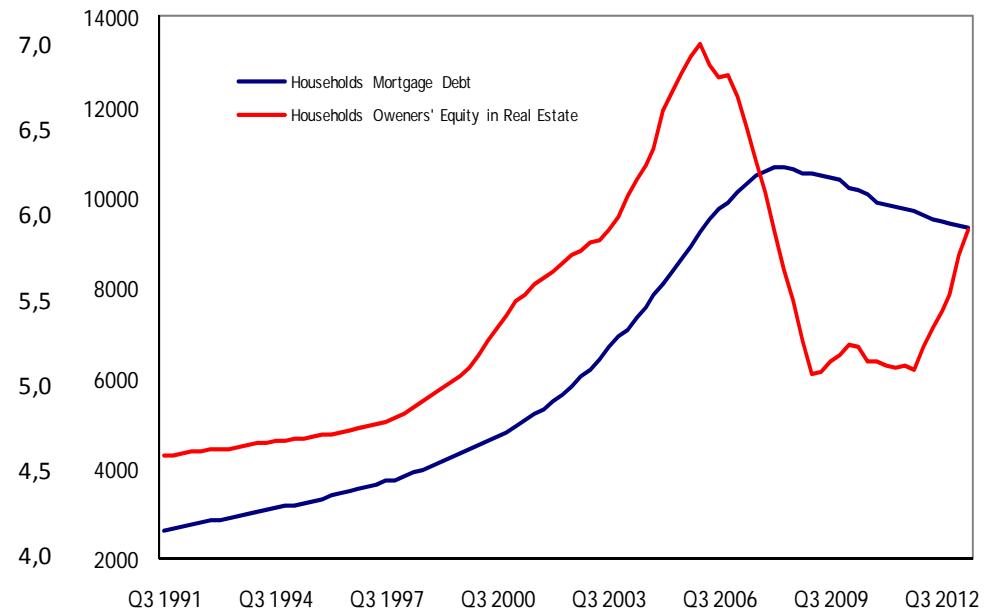
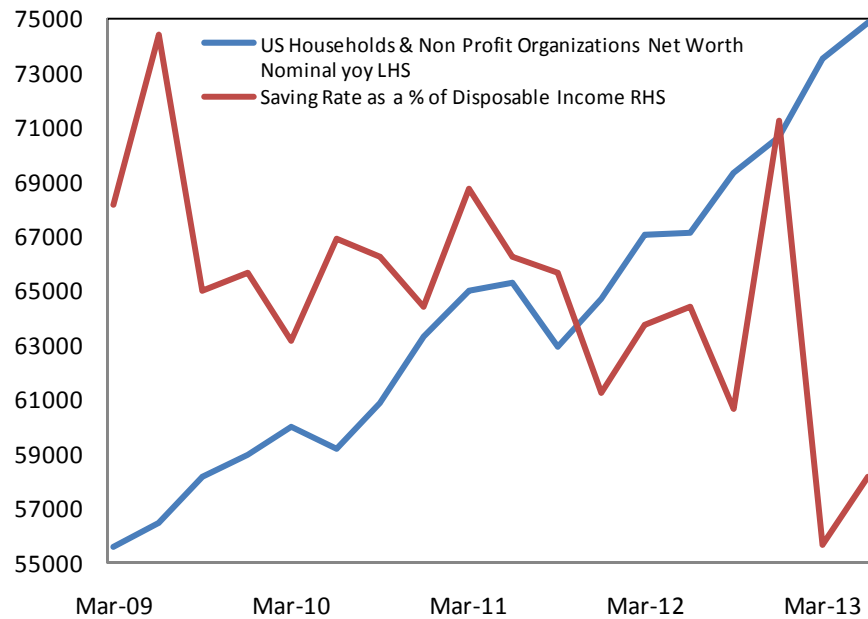
PRIVATE CONSUMPTION WEAKENS IN Q3

Nominal Private Consumption Expenditure grew by 0.3% m/m in August, up from 0.2% in July. Spending on durable goods improved, while non durable goods and services Consumption decreased. Average real PCE for July and August is up by 0.8% annualised compared to Q2 average, suggesting a weakening for Private Consumption in Q3, which should thus slow down further from 1.8% annualised growth marked in Q2. Headline PCE Deflator for August was in line with Headline CPI result for the same month, increasing by 0.1% m/m. Headline PCE Deflator is up by 1.2% yoy, slowing from 1.328% in July.

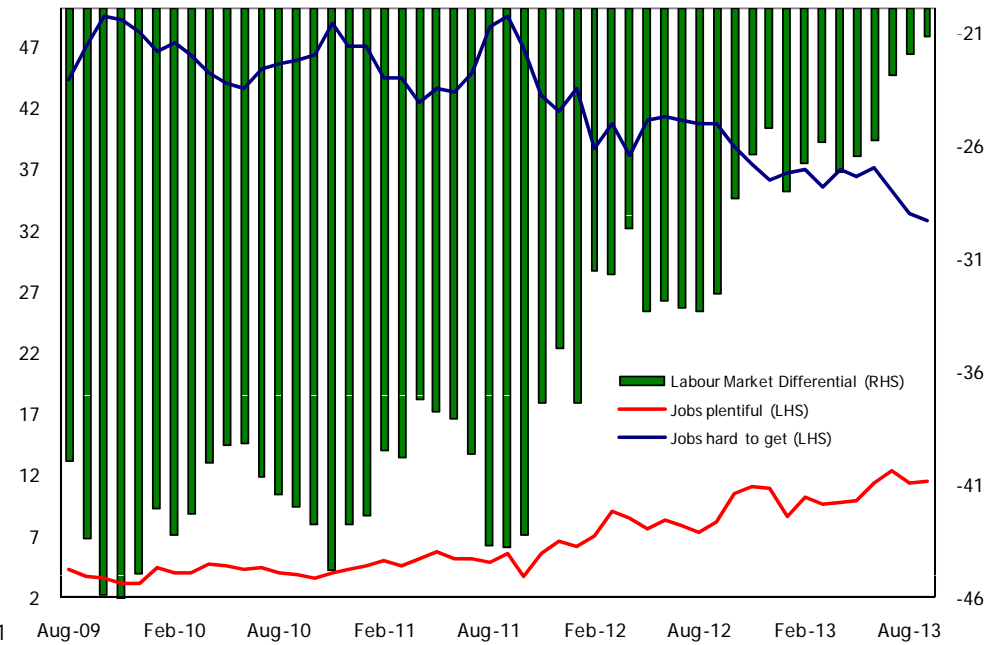
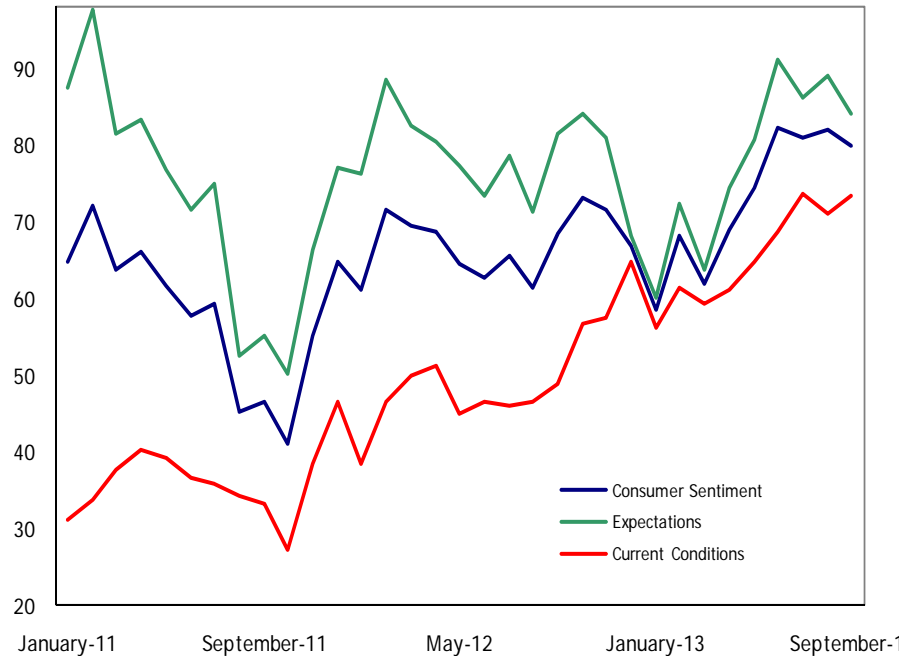


RECOVERY: IS HOUSEHOLDS DELEVERAGE COMPLETED?

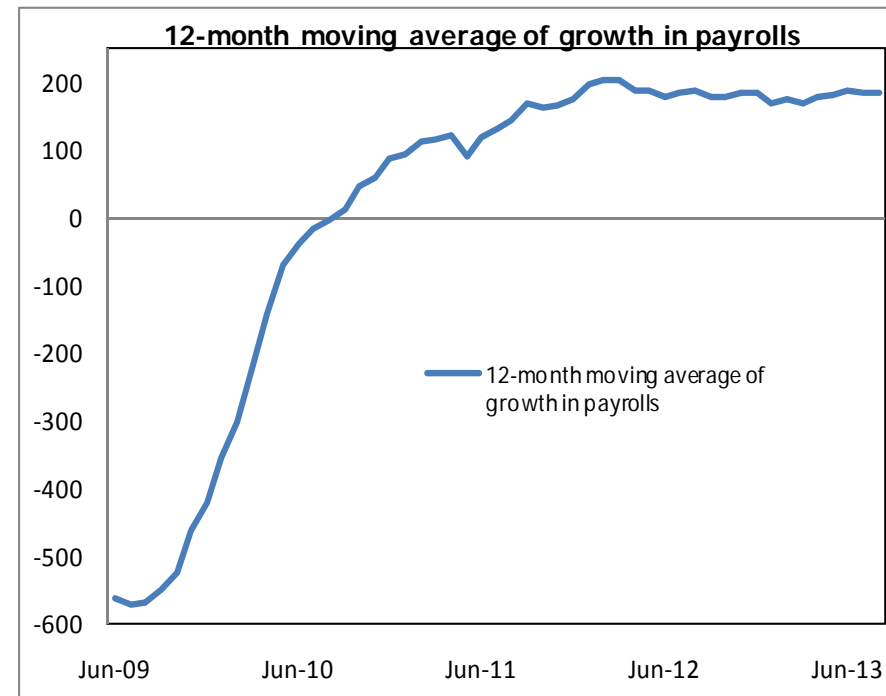
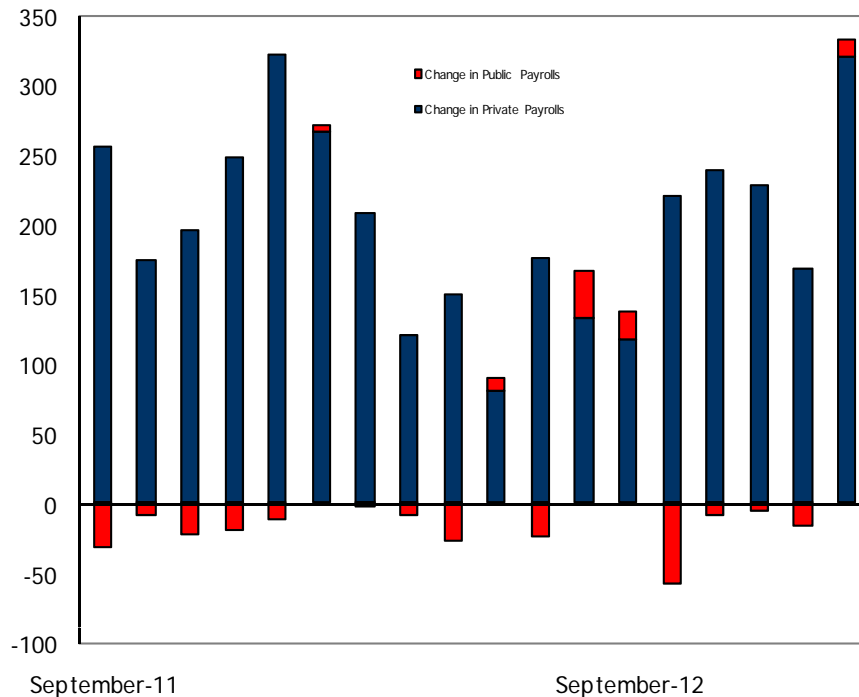
Households Net Worth is increasing, at least in nominal terms, while Mortgage debt is decreasing, as shown by the latest Fed's Flow of Funds data.



Conference Board Consumer Confidence decreased less than expected in September after the August rebound, slowing to 79.7 from 81.8. Economic news have been overall weaker in the month leading up to the survey: mortgage rates increased, financial conditions tightened and fiscal uncertainty inched up. On the other hand, we had positive news from the Labour market (especially from Initial Jobless Claims) and from the decrease in gasoline prices, which partially offset negative contributions from weaker data.



August Employment Report saw only 169K new jobs created during the month, below our expectations. Furthermore, data for June and July were downwardly revised: July was revised to 104K from 162K originally reported, while June was downwardly revised by 16K, for a total Net Revision of -74K for the prior two months. Private sector Payrolls increased by 152K, while Government jobs increased by only in August. September Employment Report, originally scheduled to be released on October 4th, has been postponed due to the Government Shutdown.

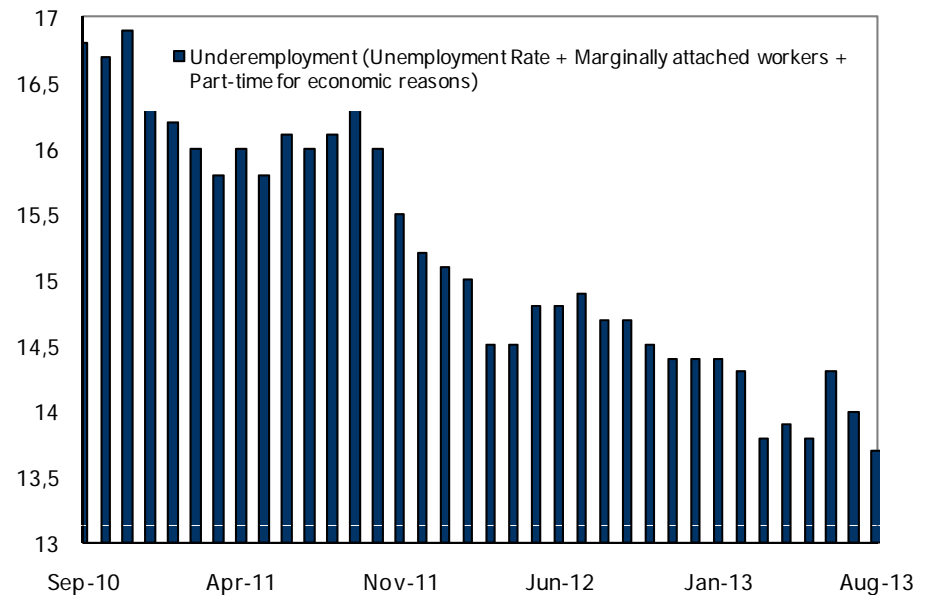
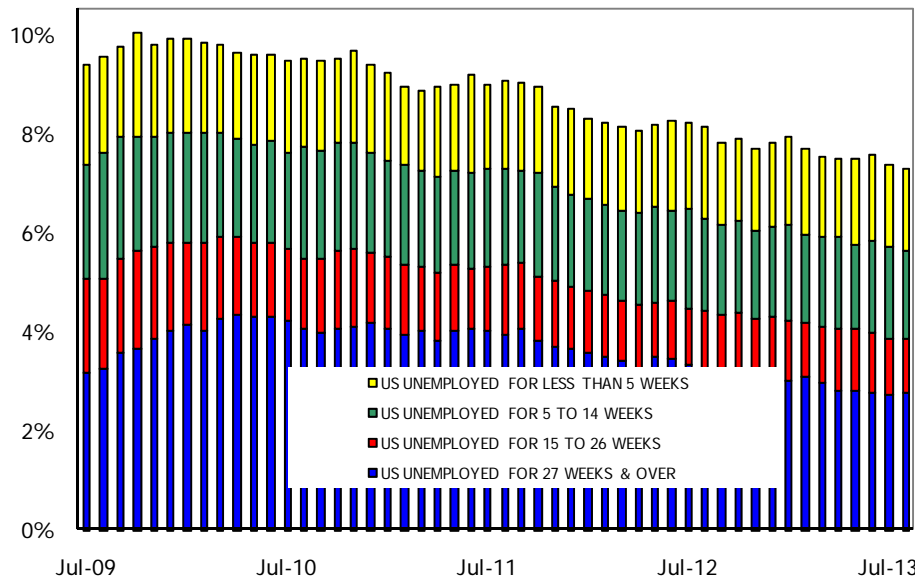




LABOUR MARKET, HOUSEHOLD SURVEY AND EARNINGS

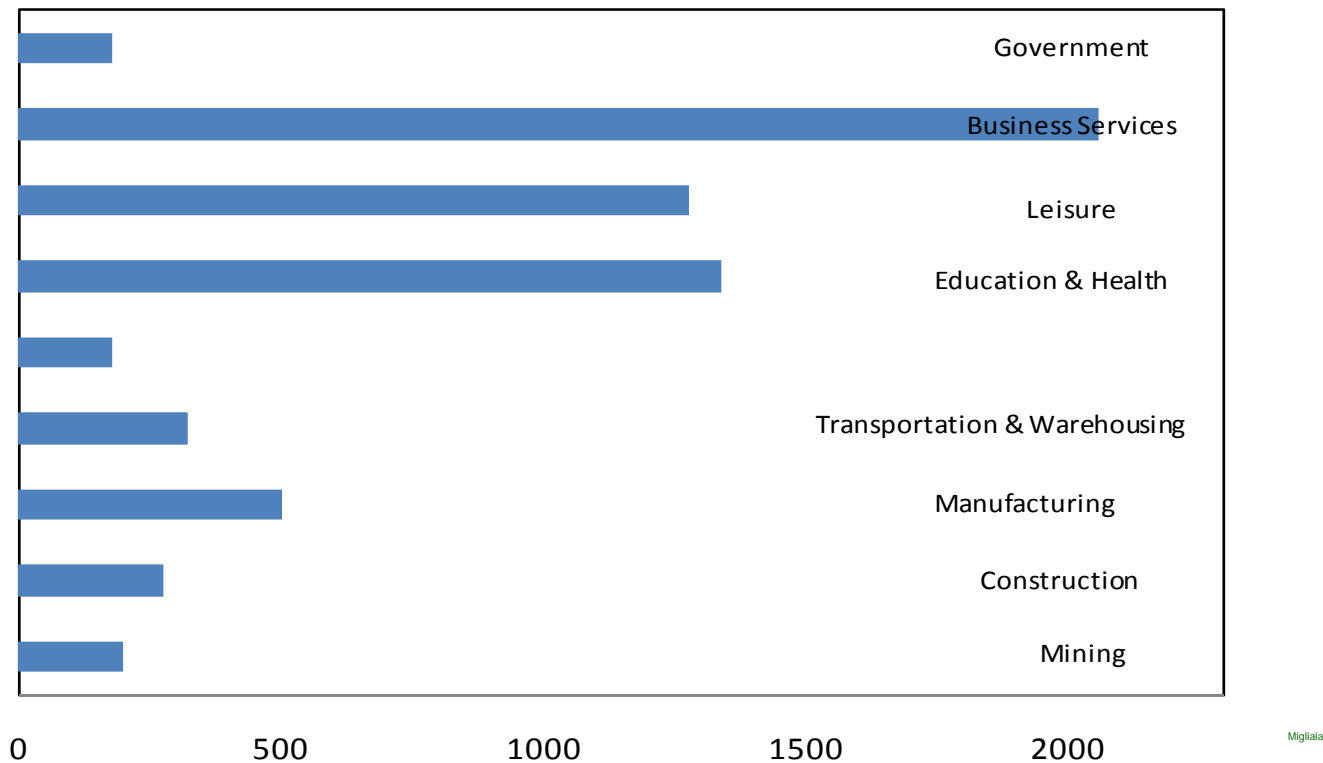
The Household survey saw a decrease in the Unemployment rate to 7.3% from 7.4% in July. However, this drop was mainly caused by a decline in the participation rate from 63.4% to 63.2%, which decreased for the second month in a row. Moreover, Labour force decreased by 312K in the month of August, second consecutive monthly decline as well. The best news from this report comes from Average Hourly Earnings, which grew by 0,2% mom in August, after a flat mom reading in July. Finally, Average weekly hours increased in August after the July decline.

Unemployment Rate



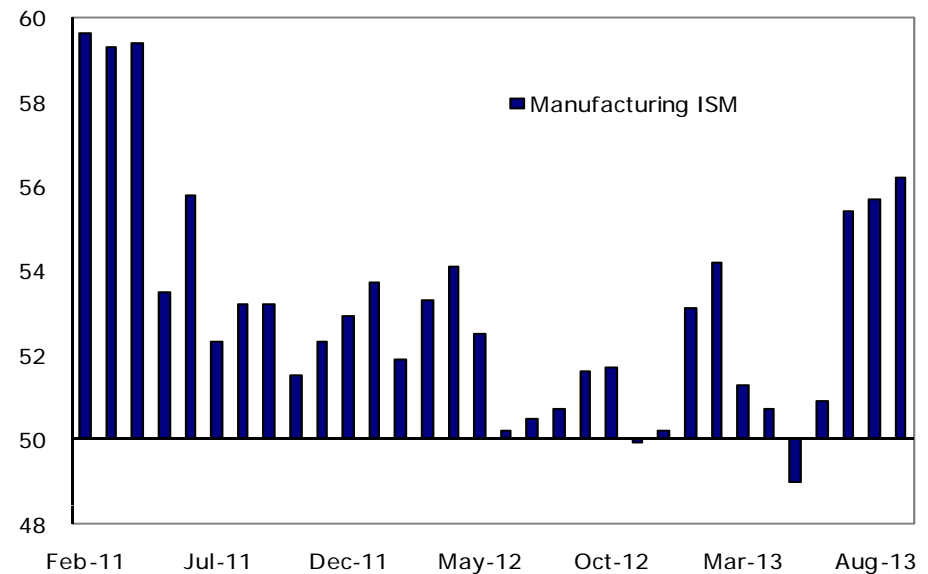
LABOUR MARKET: WHERE ARE THE JOBS?

Nonfarm payrolls Sector breakdown from Labour market through (February 2010). We could see the role of Business services, Leisure and Education and health in the current Labour Market recovery.

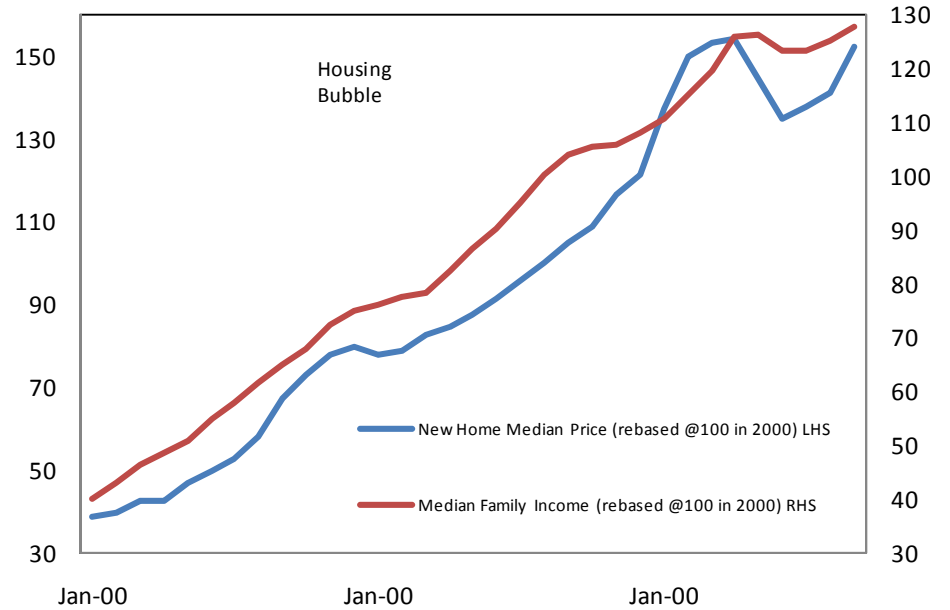
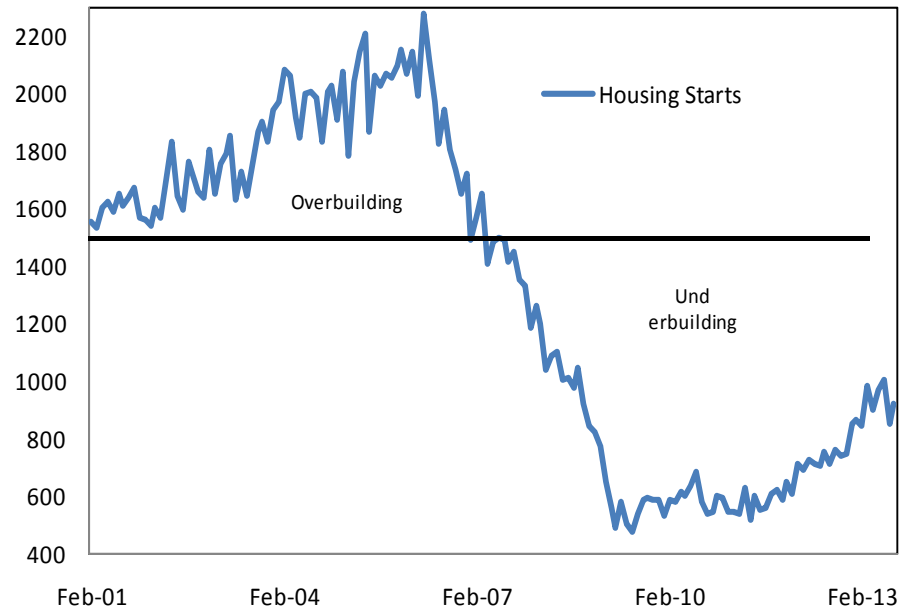
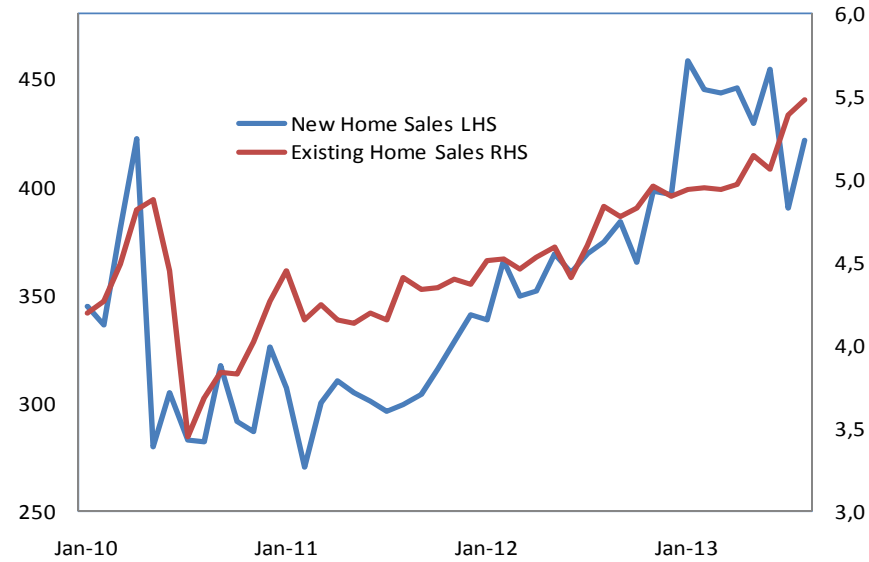


The ISM manufacturing index increased for the fourth consecutive month in September to 56.2 from 55.7 in August. All sub-indexes within this report increased with the exception of the new orders, new export orders and imports sub-indexes. Although the new orders sub-index declined, it still remains over 60. This, along with the elevated level of the production sub-index (62.6), suggests that manufacturing sentiment about current activity remains very positive. Also encouraging was the employment sub-index which increased to its highest level in over a year. Other regional surveys of manufacturing activity have also been more positive in September. However, sentiment data have diverged from “hard” data such as industrial production and durable goods since July. We will not know for sure whether or not the divergence between sentiment data and “hard” data will continue in September as data from government agencies have been delayed due to the partial government shutdown.

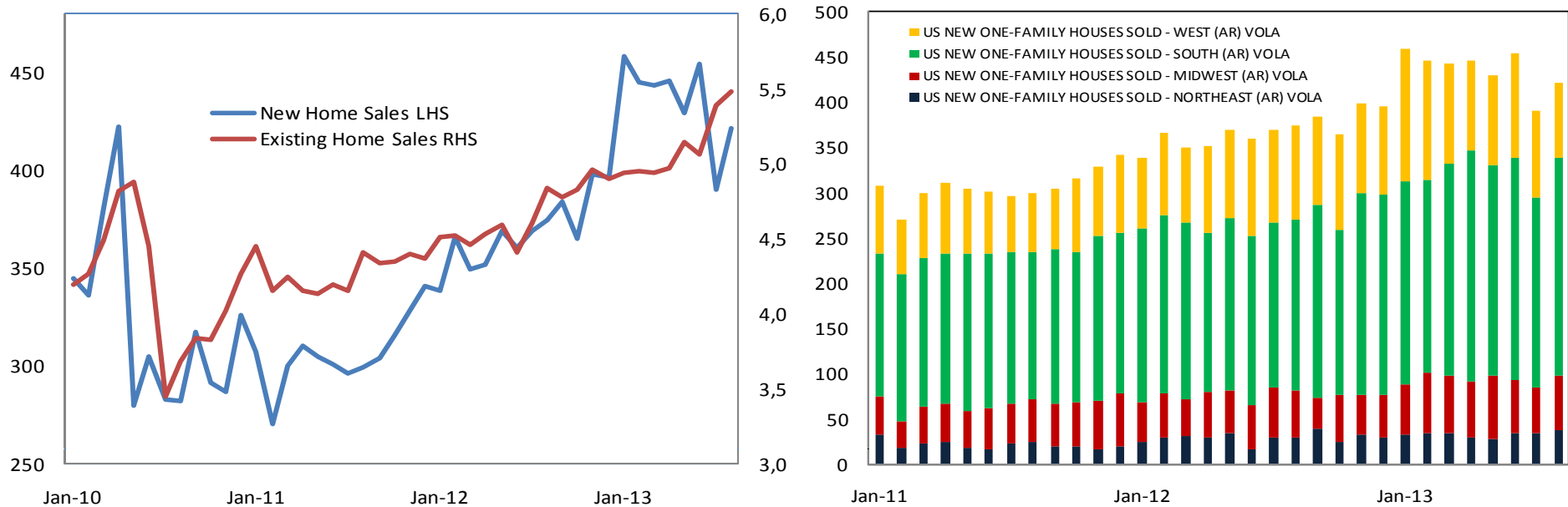
Month	ISM Man Index	New Orders	Production	Employment	Delivery Time	Inventories	Prices
Weights	100%	20%	20%	20%	20%	20%	
Oct-12	51,7	52,8	53,3	52,3	49,9	50,0	55,0
Nov-12	49,9	51,1	53,1	50,1	50,1	45,0	52,5
Dec-12	50,2	49,7	52,6	51,9	53,7	43,0	55,5
Jan-13	53,1	53,3	53,6	54,0	53,6	51,0	56,5
Feb-13	54,2	57,8	57,6	52,6	51,4	51,5	61,5
Mar-13	51,3	51,4	52,2	54,2	49,4	49,5	54,5
Apr-13	50,7	52,3	53,5	50,2	50,9	46,5	50,0
May-13	49,0	48,8	48,6	50,1	48,7	49,0	49,5
Jun-13	50,9	51,9	53,4	48,7	50,0	50,5	52,5
Jul-13	55,4	58,3	65,0	54,4	52,1	47,0	49,0
Aug-13	55,7	63,2	62,4	53,3	52,3	47,5	54,0
Sep-13	56,2	60,5	62,6	55,4	52,6	50,0	56,5



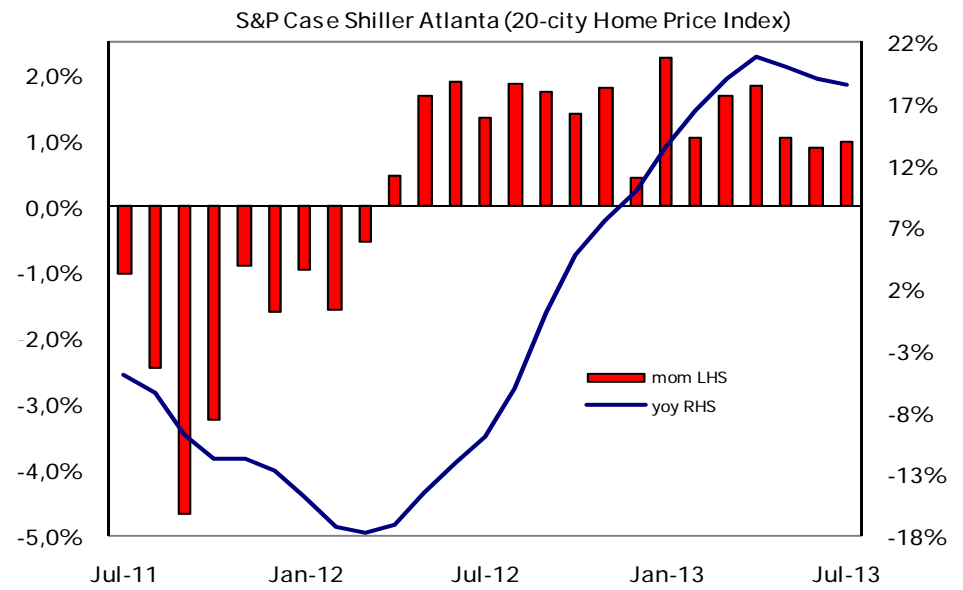
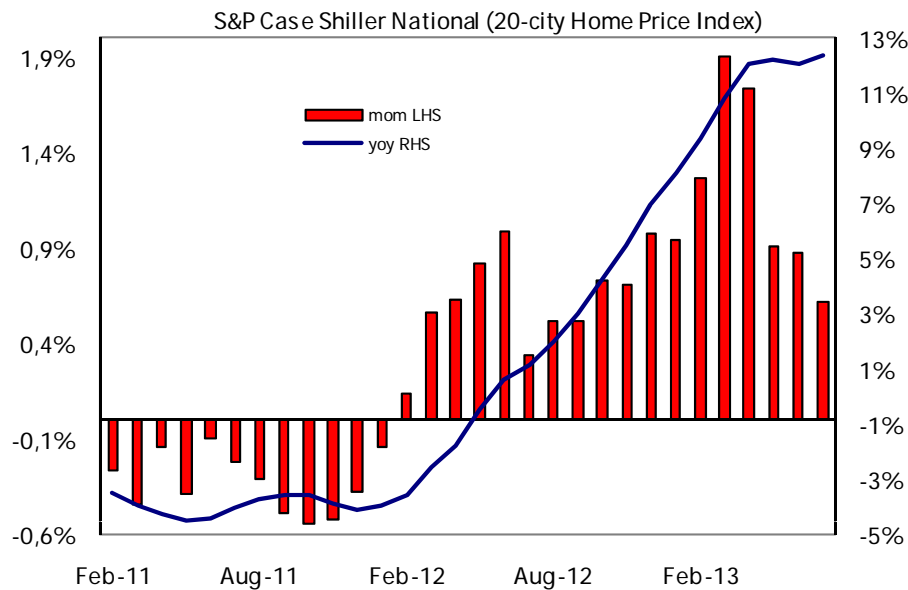
HOUSING: REBOUND AND REBALANCING (1)



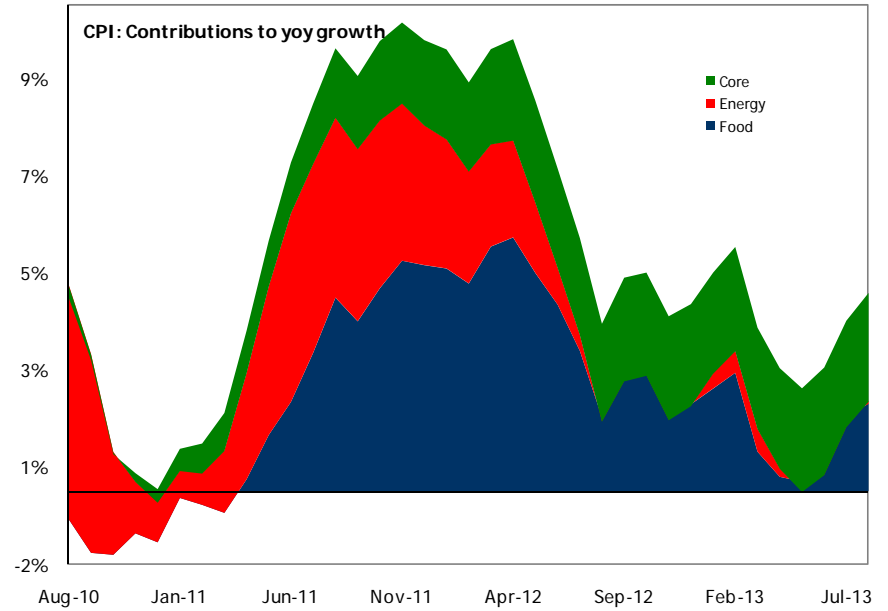
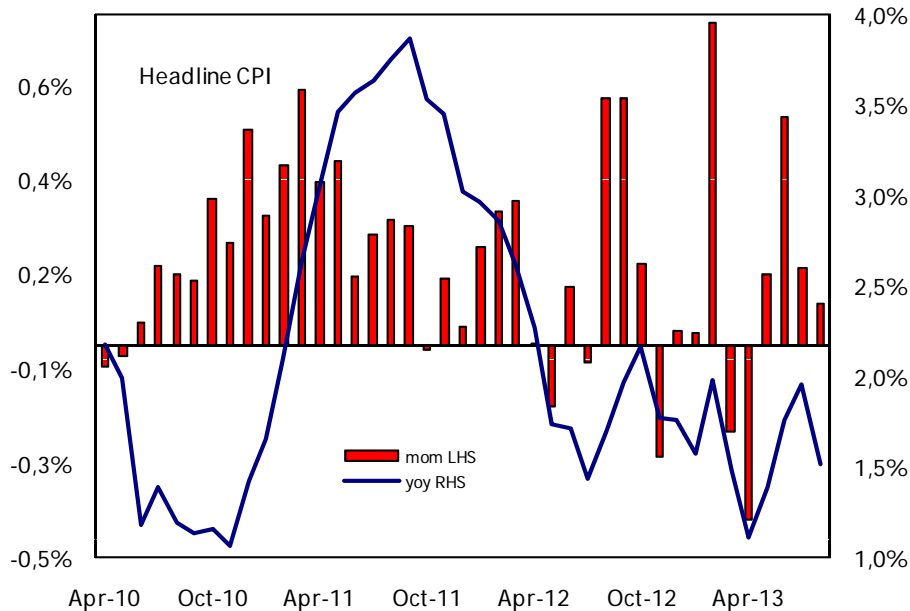
The spike in mortgage rates represents a risk for the Housing recovery. However, if the decrease in rates experienced since September FOMC will persist, this risk would be smaller. We remain optimistic on Real Estate outlook, considering new households formation rate and the demolition trend for old houses.



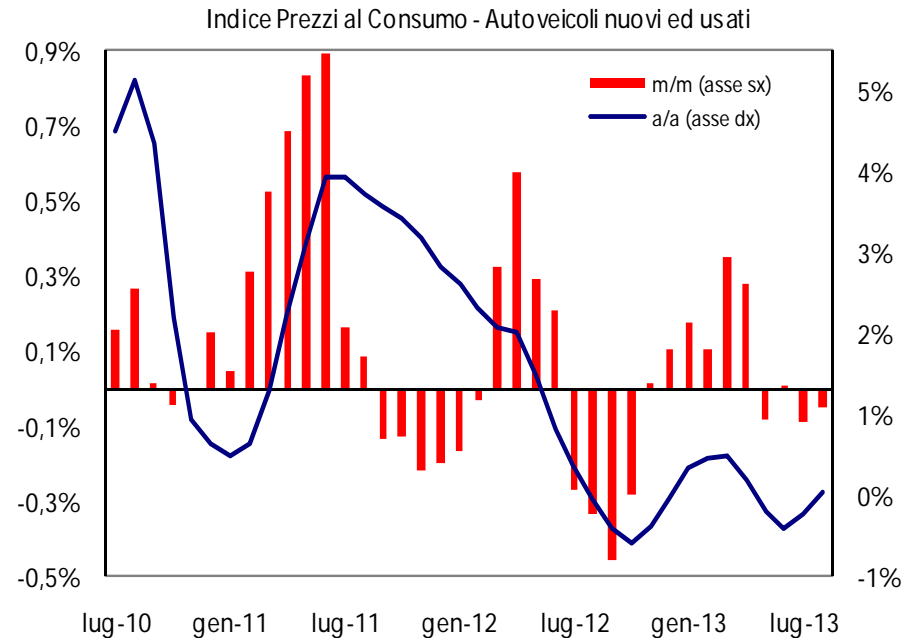
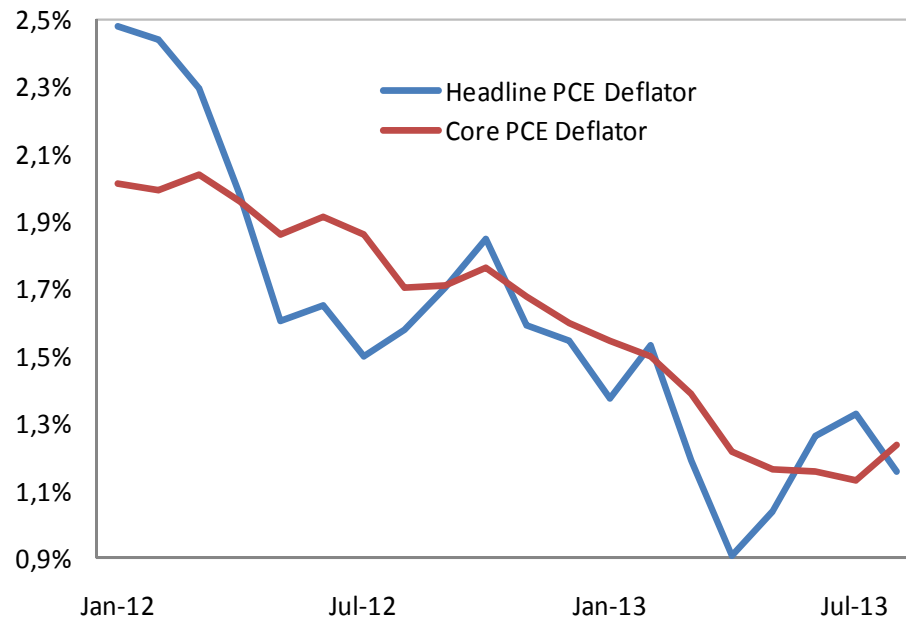
The Case-Shiller housing price index grew by 12.38% yoy in July, accelerating from 12.07% recorded in June. All Twenty cities included in the index saw an increase in their yoy growth, with 11 cities that registered a two-figure growth. However, 15 cities saw a decrease in prices in July vs June, starting to feel the impact of mortgage rates' growth. Although growing housing prices are a positive signal for the sector's recovery, most of the cities continues to register prices well below peaks.



Consumer price index increased 0.1% mom in August with core CPI increasing by the same amount. Both came in slightly below consensus. On a yoy basis, the headline figure gained 1.5%, while core CPI increased by 1.8%. Looking at the details, the downside surprise came from weak energy prices, which declined 0.3% after three consecutive months of gains. Energy services also declined 0.7%, primarily due to a decline in utility gas services (-2.3%). Another notable decline came from airline fares (a component of core CPI), which dropped 3.1% due to fluctuations in jet fuel prices. In the details of core CPI, inflation of rent-related items accelerated as rent of primary residence rose by 0.374% m-o-m (up from 0.237% in July) and owners' equivalent rent increased by 0.248% m-o-m in August (up from 0.148% in July). Given the lion's share of rent-related components in CPI, the acceleration in rent inflation boosted the headline and core CPI readings.



Unit Labour Costs growth remains weak and inflation persistently below Fed's target. The recent slowdown was exacerbated by transitory factors such as the past decrease in commodities prices and the 2% cut in Medicare reimbursements implemented with the Sequester. So, we do not see further disinflation risks and expect a stabilisation in inflation later this year and a gradual acceleration in 2014.



MONETARY POLICY: NO-TAPER SURPRISE

- The Fed surprised markets in September by announcing the prosecution of its large scale asset purchases at an 85 bln USD pace per month. According to the Statement, the Committee acknowledges the underlying recovery in the economy. However, the FOMC decided to wait for further evidence of sustainable growth before adjusting its pace of purchases. As a consequence, it has decided to keep buying 40 bln USD MBS per month and 45 bln USD long term Treasuries per month. Forward Guidance was confirmed, i.e. Fed Funds will remain at the current low levels at least as long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than 0.5% above the Committee's 2% longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2%;
- We think the Fed did not anticipate such a strong increase in long term interest rates during the summer and is worried by the impact they could have on the housing sector and on investments. Also fiscal policy could have played a role in holding back the Fed, as Bernanke in its Q&A focused on the risks of a Government Shutdown and a US Default in October. He also emphasized the tightening in Financial Conditions as a reason behind their no-taper decision.

MONETARY POLICY: NO-TAPER SURPRISE

- We think Tapering is still likely to start when once the Current Fiscal Turmoil will be passed. Based on our forecast for the US economy (a modest acceleration into next year) we expect the FOMC to begin reducing the pace of its asset purchases in December. We expect the FOMC to also strengthen its Forward Guidance once Tapering has begun (for example: lowering Unemployment rate threshold or adding an Inflation Floor). Our baseline forecast for now is a beginning of Tapering in December, to be completely concluded by October 2014. However, if new data will be below Fed's forecasts or if the two Parties cannot reach an Agreement about the Debt Ceiling Increase, we could well see Tapering postponed to 2014.
- We project the first Fed Funds hike in mid 2015, when Unemployment rate will be probably well below 6.5%.



MONETARY POLICY: NEW FOMC PROJECTIONS

The FOMC also updated its forecasts, with the introduction of 2016 for the first time. Growth forecasts for 2013 and 2014 were downwardly revised, while medium term forecasts still see a growth acceleration. Most of the FOMC members expect Unemployment rate between 6.4% and 6.8% by the end of 2014, between 5.9% and 6.2% at the end of 2015 and between 5.4% and 5.9% by the end of 2016. This means that the unemployment rate should reach the 6.5% threshold in early 2015 and decline in line with NAIRU estimates in 2016, while inflation should average around 2%. Most of the FOMC members (12 out of 17 members) forecast the first FFs hike in 2015.

FOMC Members and District Fed Presidents Projections												
Actual and forecasts (%)				June 2013 Projections				September 2013 Projections				
	2010	2011	2012	2013	2014	2015	Longer Run	2013	2014	2015	2016	Longer Run
Real GDP (Q4/Q4)												
Lower Bound	3,00	1,60	1,70	2,30	3,00	2,90	2,30	2,00	2,90	3,00	2,50	2,20
Upper Bound	3,50	1,70	1,80	2,60	3,50	3,60	2,50	2,30	3,10	3,50	3,30	2,50
Actual	3,10	1,60	1,70									
Inflation (CPI nsa till 1999, PCE Deflator sa till 2003, Core PCE Deflator since 2004, Q4/Q4)												
Lower Bound	0,80	1,80	1,60	1,20	1,50	1,70		1,20	1,50	1,70	1,90	
Upper Bound	1,00	1,90	1,70	1,30	1,80	2,00		1,30	1,70	2,00	2,00	
Actual	1,00	1,70	1,50									
Inflazione (Headline PCE Deflator, Q4/Q4)												
Lower Bound	1,00	2,70	1,60	0,80	1,40	1,60		1,10	1,30	1,60	1,70	
Upper Bound	1,10	2,90	1,70	1,20	2,00	2,00	2,00	1,20	1,80	2,00	2,00	2,00
Actual	1,30	2,60	1,60									
Unemployment Rate (Q4 Average)												
Lower Bound	9,20	9,00	7,80	7,20	6,50	5,80	5,20	7,10	6,40	5,90	5,40	5,20
Upper Bound	9,50	9,10	7,90	7,30	6,80	6,20	6,00	7,30	6,80	6,20	5,90	5,80
Actual	9,60	8,70	7,80									





GOVERNMENT SHUTDOWN AND DEFAULT?

- **30 September:** end of fiscal year 2013 with no agreement between the parties for a Continuing Resolution, so on October 1 the Government Shutdown begun: about 800K federal employees are Furloughed. National parks, monuments, museums and most of federal offices are closed. Also, tens of thousands of flight controllers, prison guards and border agents work without pay (for now). Actually, last Saturday the House passed a bill to give back pay to all furloughed federal workers at the end of the shutdown, so the impact on Consumption should be minimal. In the end, it seems unlikely the shutdown alone will be enough to cause a recession.
- **17 October:** The Treasury will end Emergency Measures to create room under the Debt Ceiling, which it has been using since May. Much harsher implications may come from a possible US default after this date. Republican House Speaker Boehner said he doesn't want the US to default on its debt, but he is not going to raise the limit without a conversation with President Obama about long term spending and budget challenges. Even if Congress fails to increase the Debt Ceiling before October 17th, the US should not default on this date, since the Department of the Treasury estimates to have 30 bln USD left in its coffers by then, so they could be able to honor all payments until October 31st/November 1st, when about 60 bln USD in Treasuries and related coupons mature, together with other Social Security Payments and Military wages. What seems fairly certain at the current juncture is that a US Default will cause another US recession, similarly to 2008 when Lehman's collapse precipitated even further an economy which (unlike today though) was already in recession. Even if we could finally avoid a default, fiscal uncertainty is weighting on Private Investments, Employment, Business and Consumer Confidence, increasing financing costs and reducing Households Disposable Income. Especially, risks for a new US Downgrade are increasing. We expect an agreement between the parties to increase the Debt Ceiling before October 17.



SHUTDOWN 1995/1996 (26 COMBINED DAYS)

As a reference, the latest shutdown (which took place between 1995 and 1996 and lasted a combined total of 26 days) is estimated by CBO to have dragged about 0.5% from Q4 1995 annualized GDP growth, while BEA's estimate is a bit softer (only 0.27% drag).

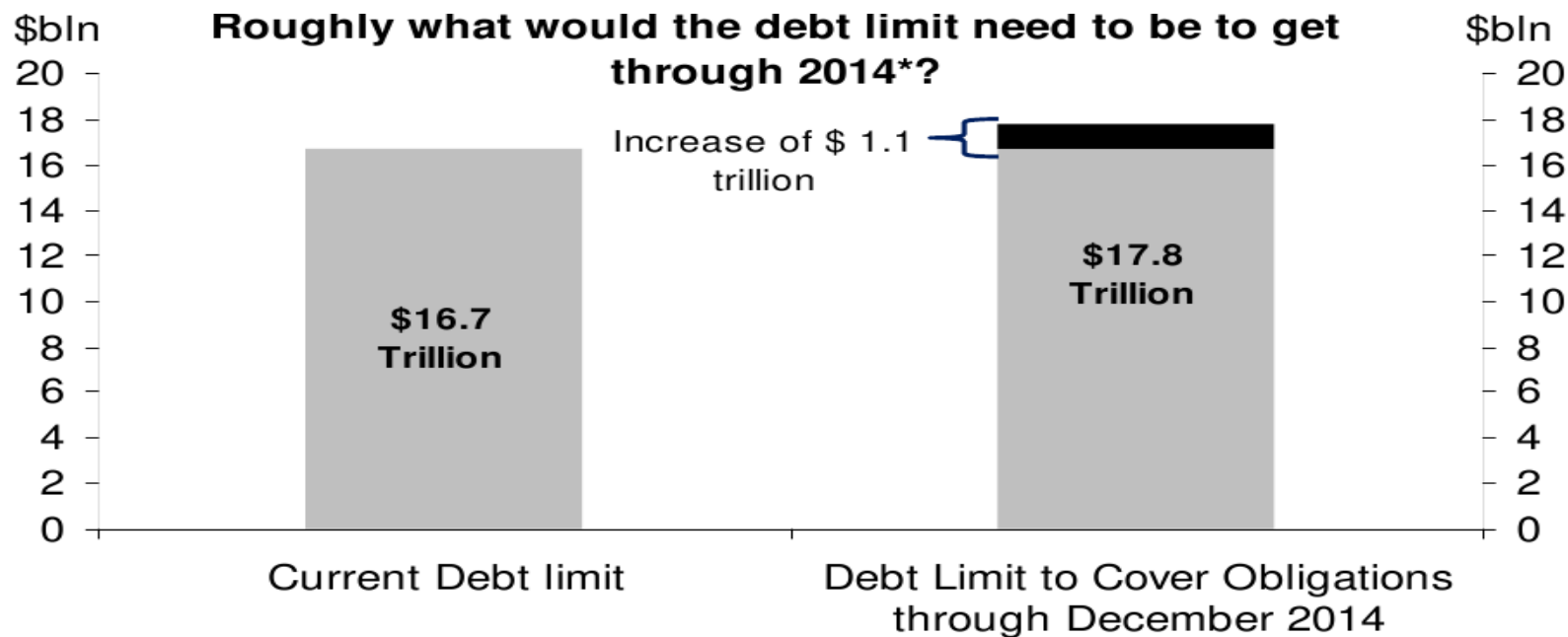
Fiscal year	Start date	End date	Duration (days)
1977	30 Sep 1976	11 Oct 1976	10
1978	30 Sep 1977	13 Oct 1977	12
	31 Oct 1977	9 Nov 1977	8
	30 Nov 1977	9 Dec 1977	8
1979	30 Sep 1978	18 Oct 1978	17
1980	30 Sep 1979	12 Oct 1979	11
1982	20 Nov 1981	23 Nov 1981	2
1983	30 Sep 1982	2 Oct 1982	1
	17 Dec 1982	21 Dec 1982	3
1984	10 Nov 1983	14 Nov 1983	3
1985	30 Sep 1984	3 Oct 1984	2
	3 Oct 1984	5 Oct 1984	1
1987	16 Oct 1986	18 Oct 1986	1
1988	18 Dec 1987	20 Dec 1987	1
1991	5 Oct 1990	9 Oct 1990	3
1996	13 Nov 1995	19 Nov 1995	5
	15 Dec 1995	6 Jan 1996	21

Source: Congressional Research Service and Nomura



DEBT CEILING

The Debt Ceiling should be increased by 1.1 trl USD to cover all 2014 financing needs. The consequences of a failure to increase it are more severe than the Shutdown Consequences, including Default risks which should cause the US economy to fall back into recession. It is still unsure whether the Treasury will prioritize payments (i.e.: Debt Servicing) or if payments will take place as they mature, covered by available funds (Prioritisation right could be included in the Debt Ceiling increase deal).



*The estimates in the chart above assume that sequestration continues to take effect, war spending declines as scheduled, Medicare physician payments are frozen at 2013 levels (the "Doc Fix"), and the "tax extenders" in the American Taxpayer Relief Act of 2012 are extended permanently. Given that the time frame is far in the future, this estimate is subject to significant uncertainty.

Source: DB



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