



Saxo Credit Impulse Monthly Update: The United States

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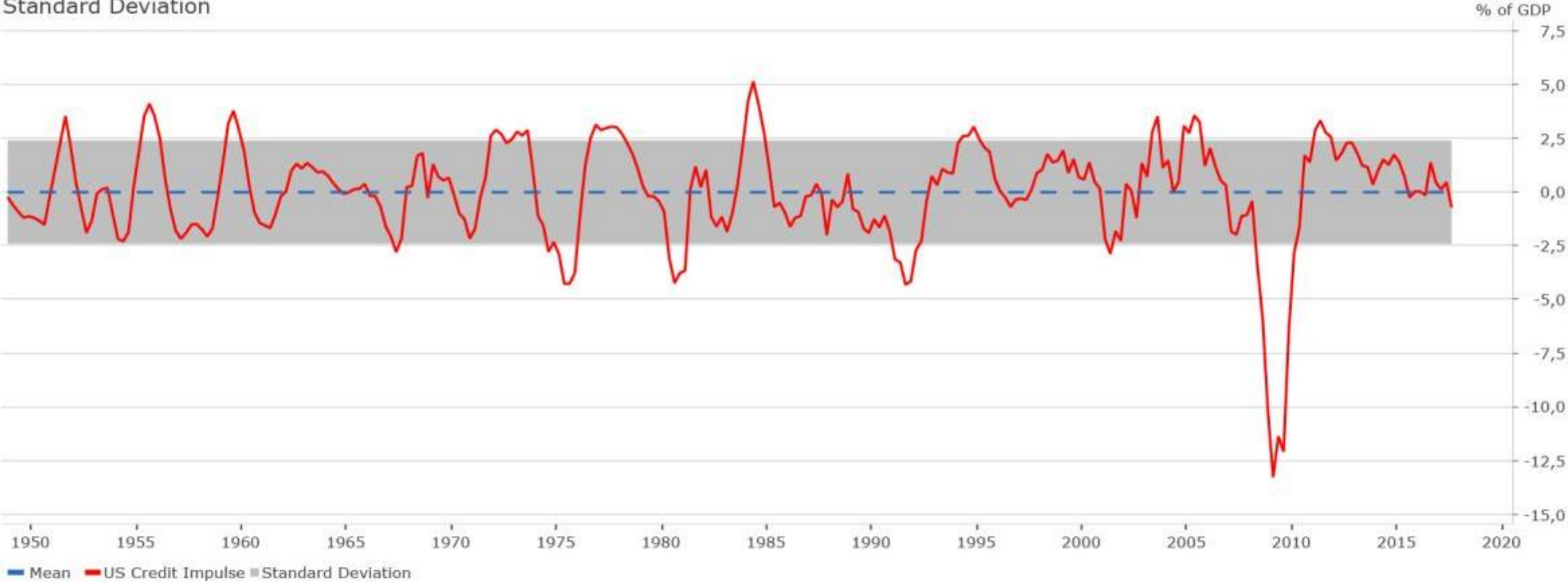


Contraction in Credit Impulse reached -0.7% of GDP in Q3 2017



US Credit Impulse

Standard Deviation



Source: Macrobond, Saxo Bank Research & Strategy

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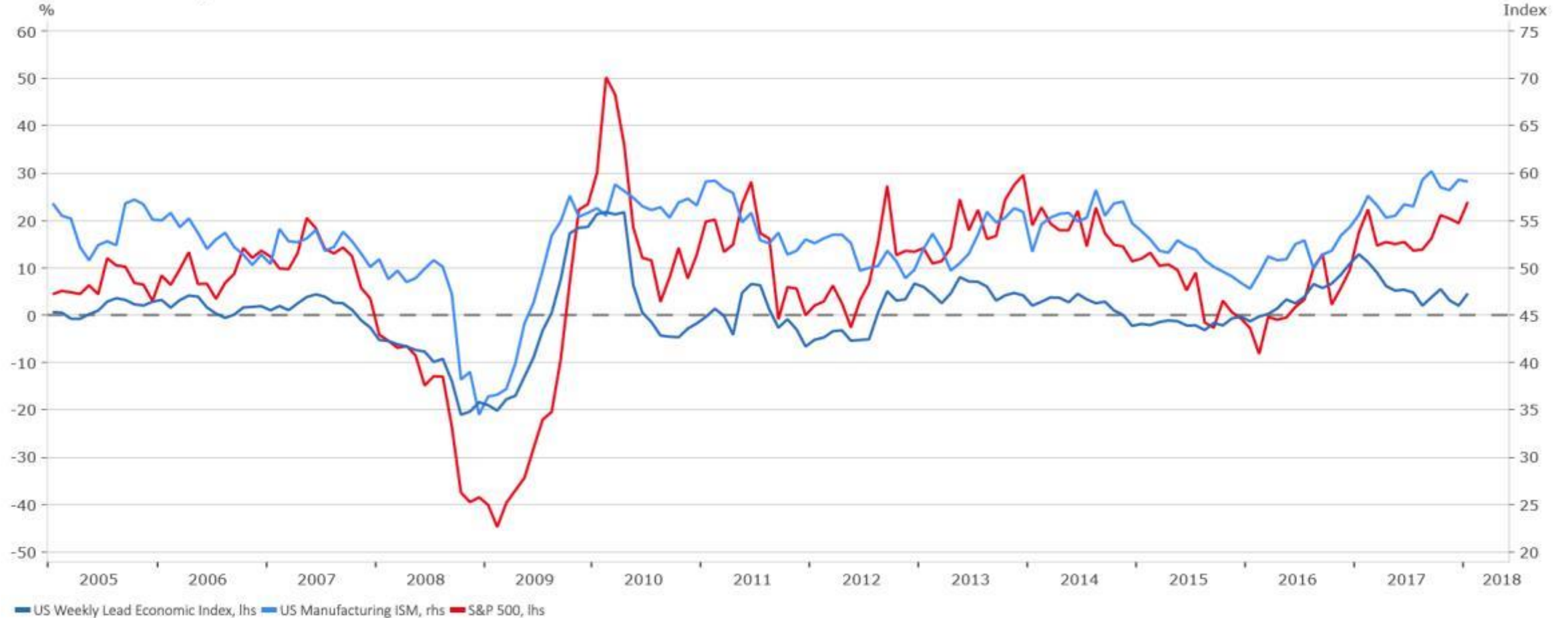
Both credit and profit impulses are negative

Cycle Impulses in the USA



US industrial cycle may have reached a peak

US Industrial Cycle



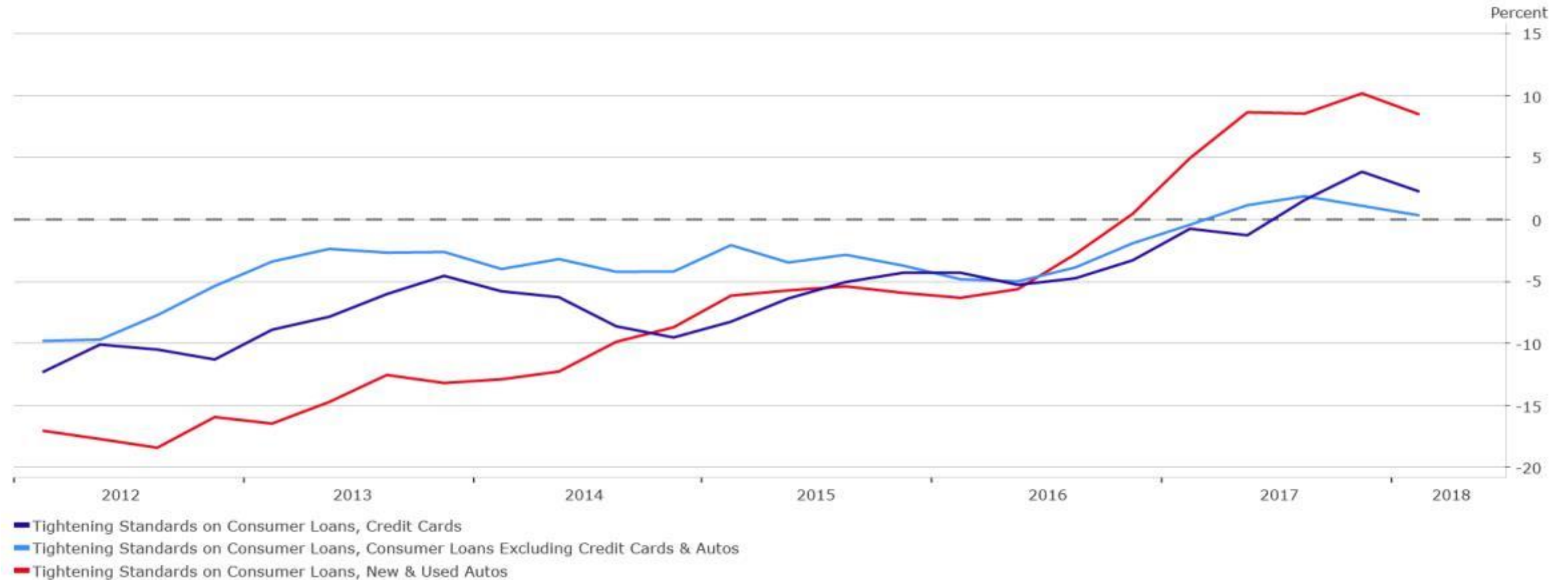
Source: Macrobond, Saxo Bank Research & Strategy

Credit conditions remain loose for consumer loans



Credit Conditions

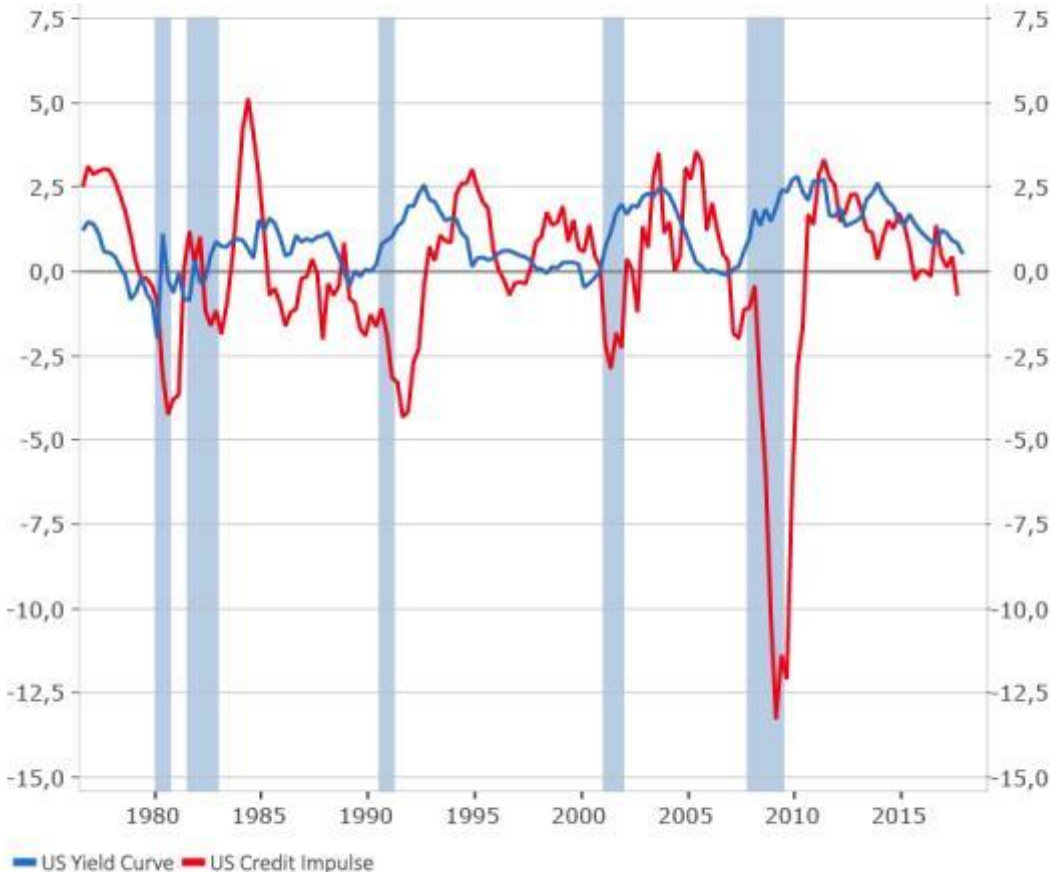
Senior Loan Officer Opinion Survey, FED



Recession signals are popping up

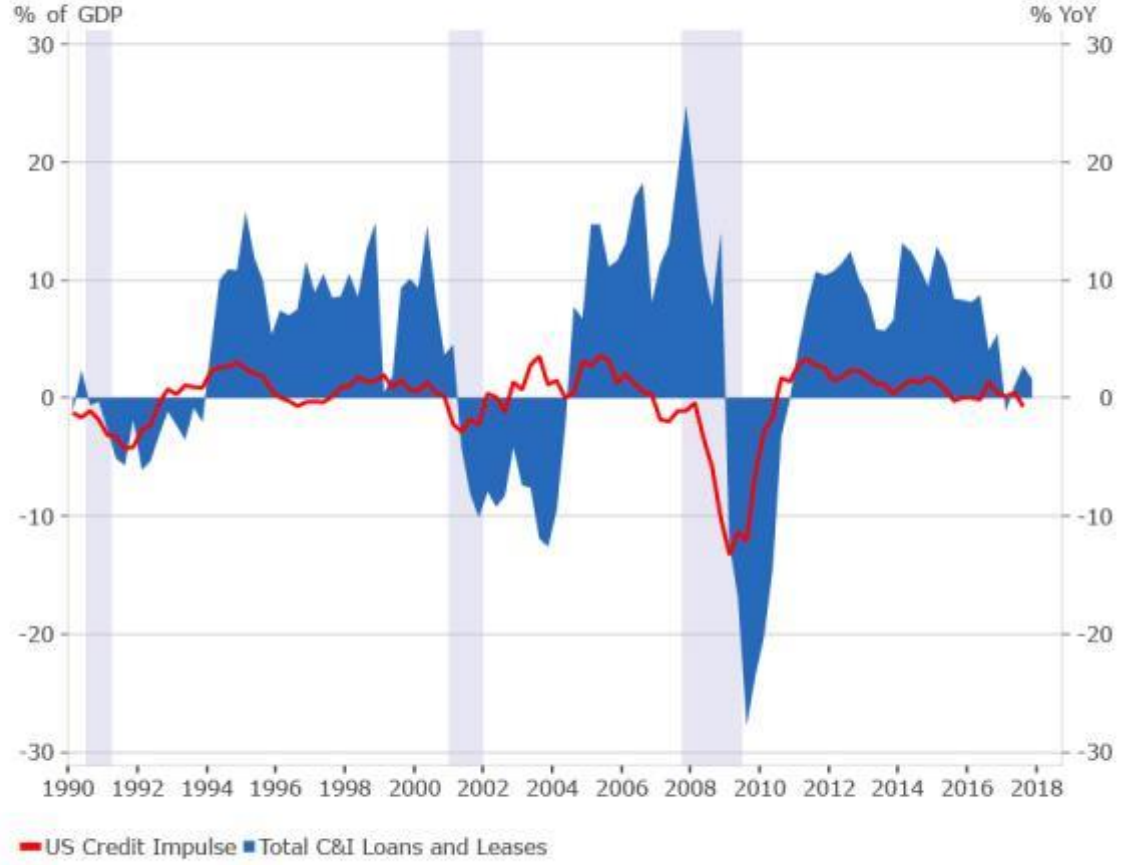


US Credit Impulse vs US Yield Curve



Source: Macrobond, Saxo Bank Research & Strategy

US Credit Impulse vs C&I Loans and Leases



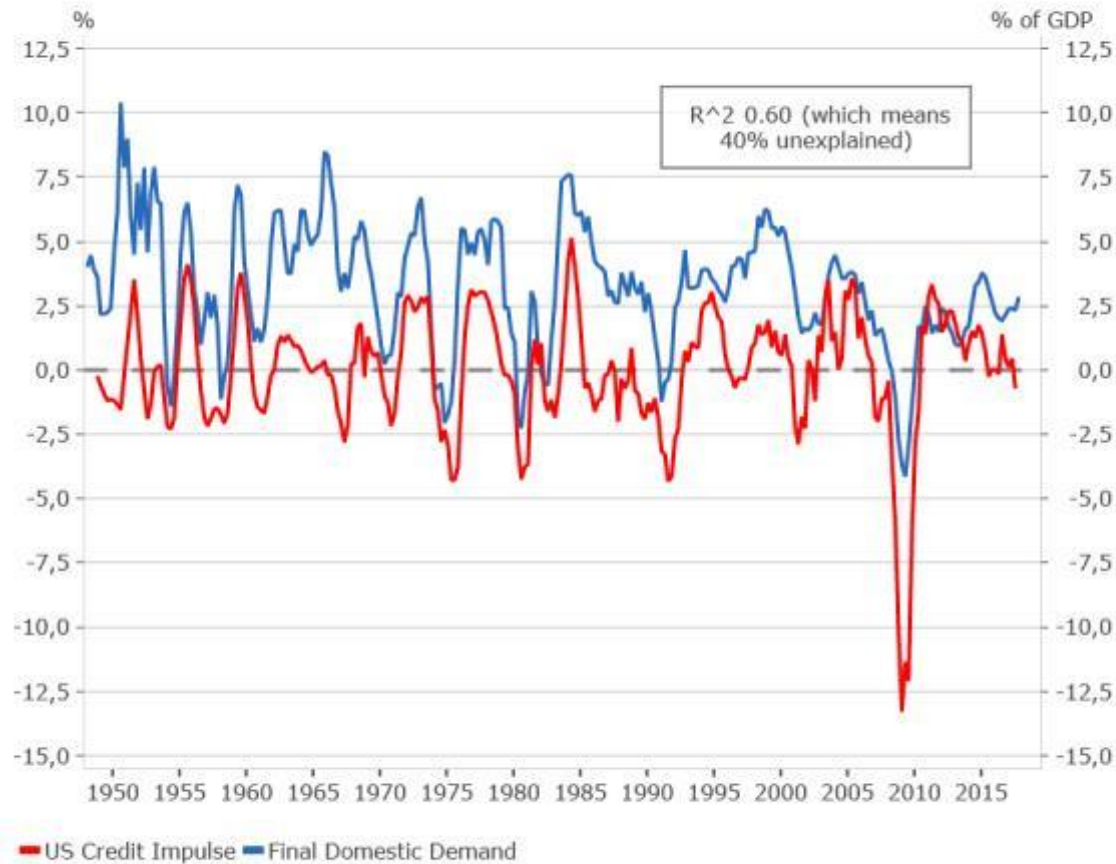
Source: Macrobond, Saxo Bank Research & Strategy

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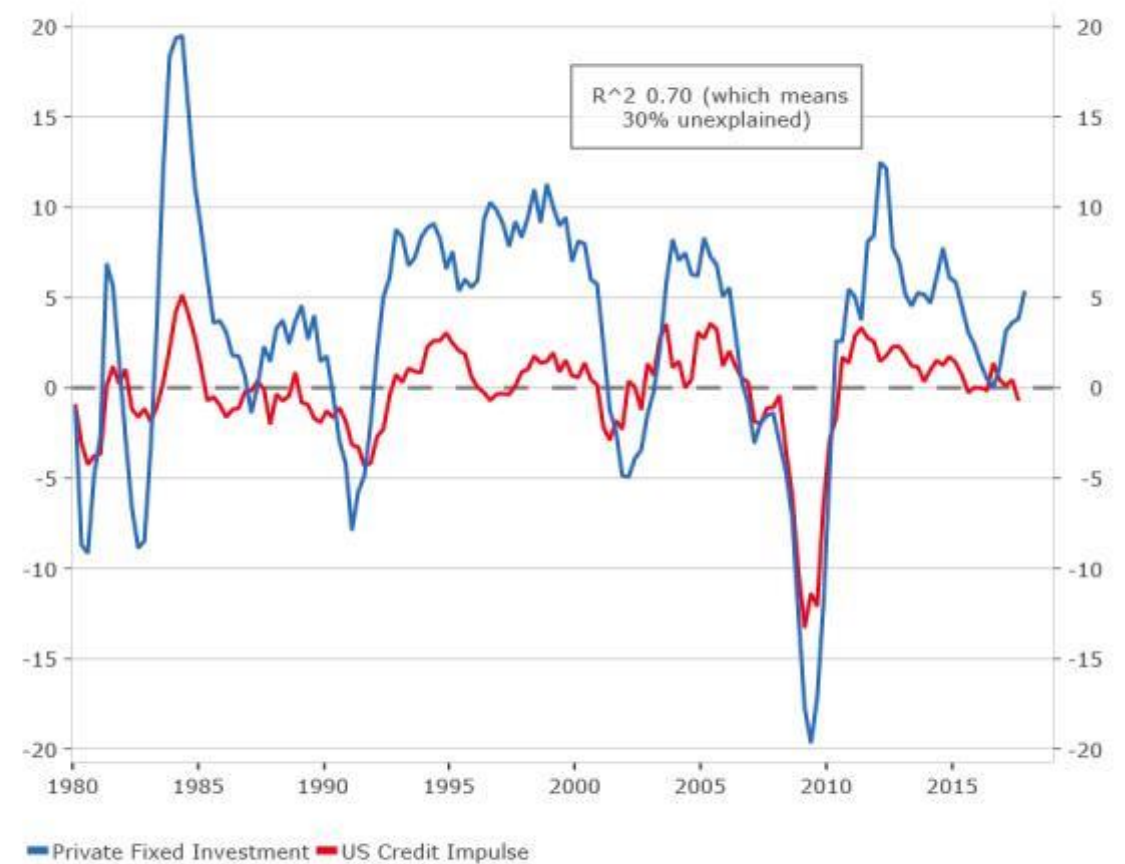
Excellent correlation between Credit Impulse & Domestic Demand & Private Fixed Investment

US Credit Impulse vs Final Domestic Demand



Source: Macrobond, Saxo Bank Research & Strategy

US Credit Impulse vs Private Fixed Investment

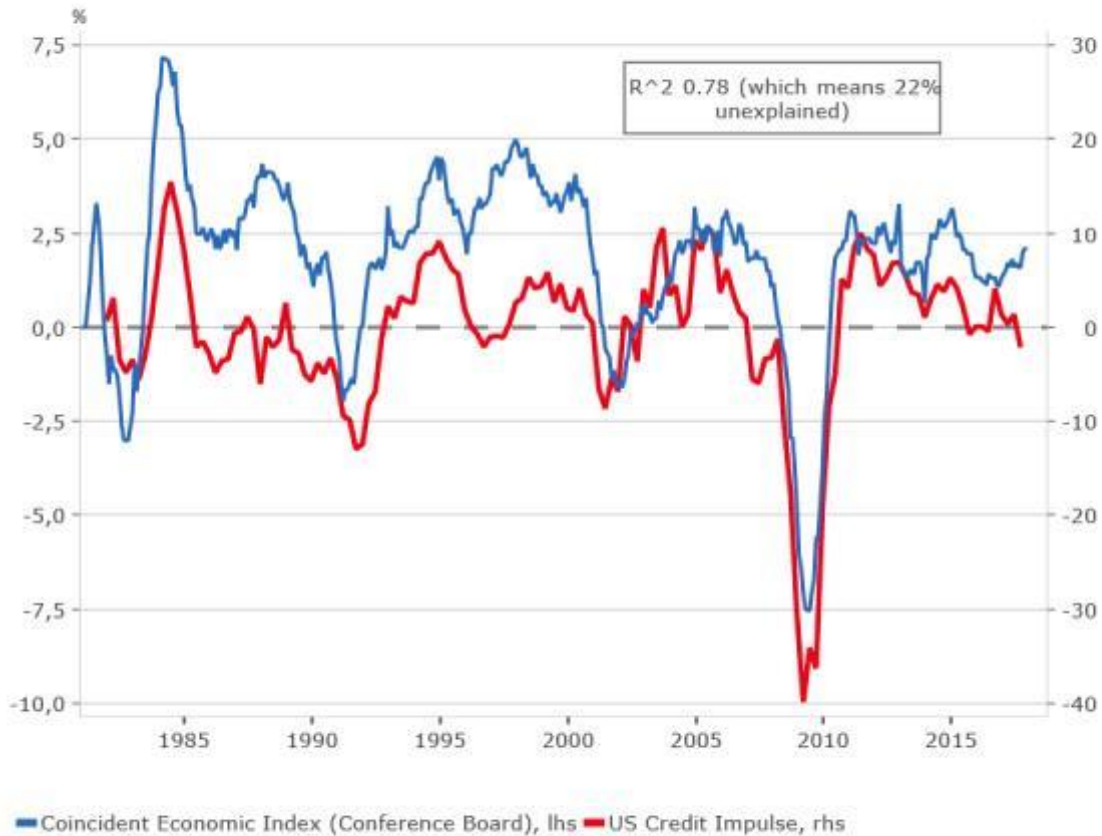


Source: Macrobond, Saxo Bank Research & Strategy

R² above 0.70 between Credit Impulse and US Coincident Indexes

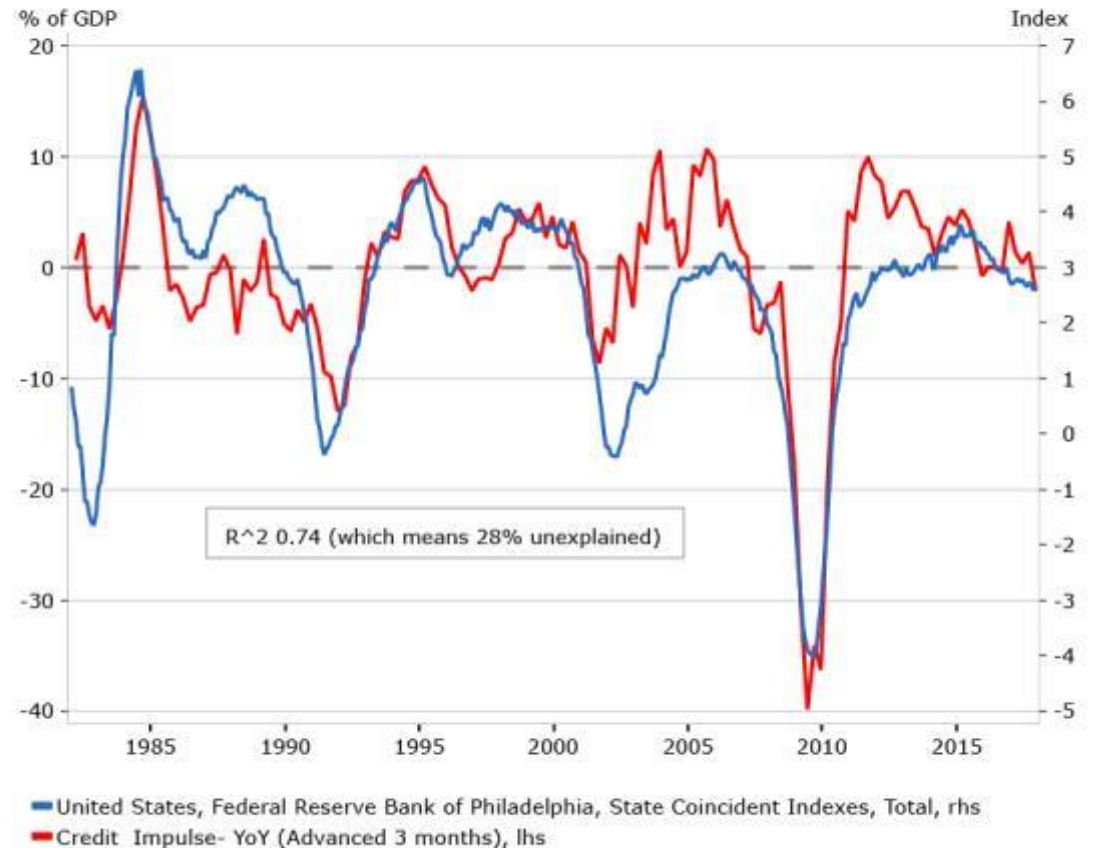


US Credit Impulse vs Coincident Economic Index
(Conference Board)



Source: Macrobond, Saxo Bank Research & Strategy

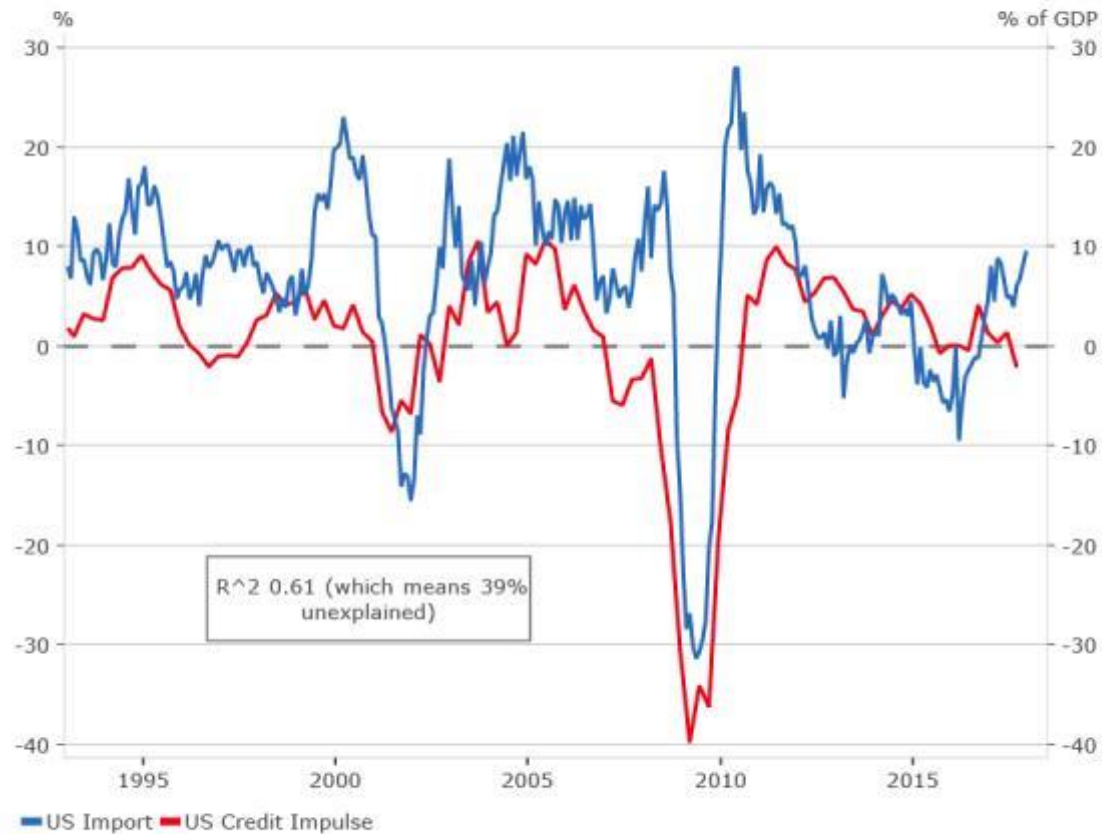
US Credit Impulse vs State Coincident Indexes



Source: Macrobond, Saxo Bank Research & Strategy

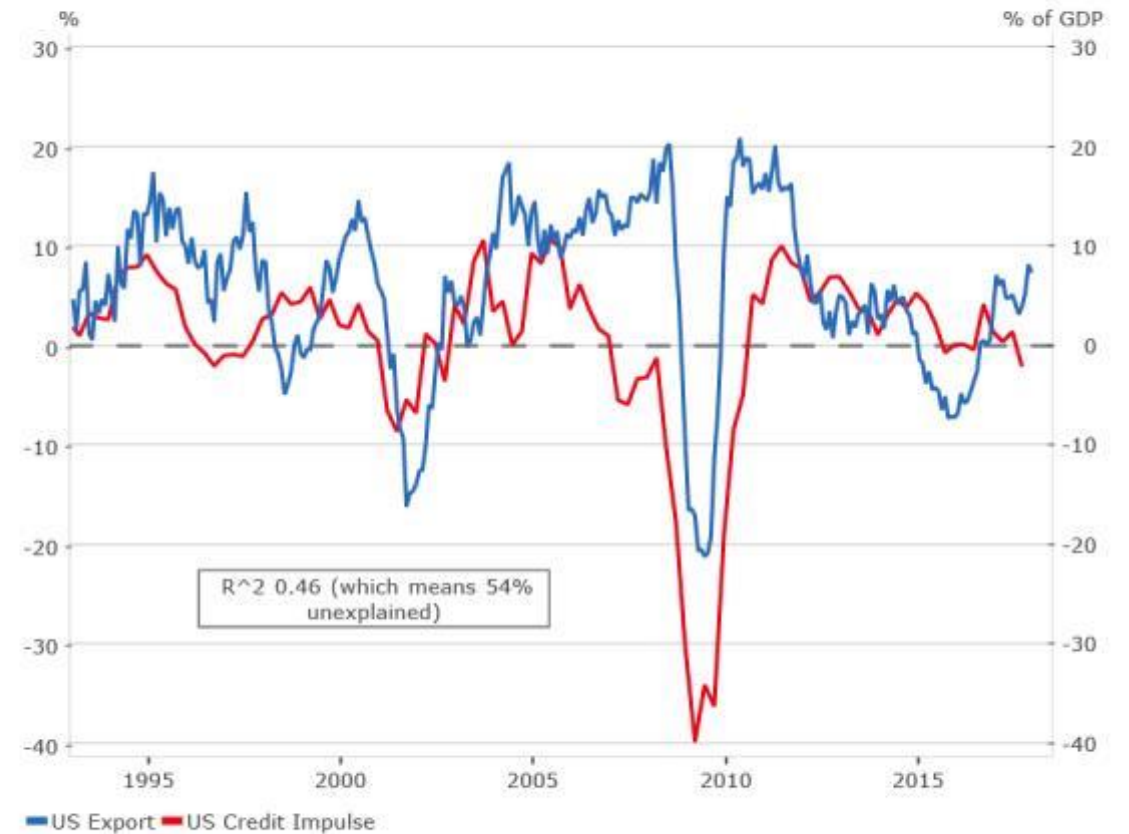
Lower (but still significant) correlation between Credit Impulse and Import / Export

US Credit Impulse vs US Import



Source: Macrobond, Saxo Bank Research & Strategy

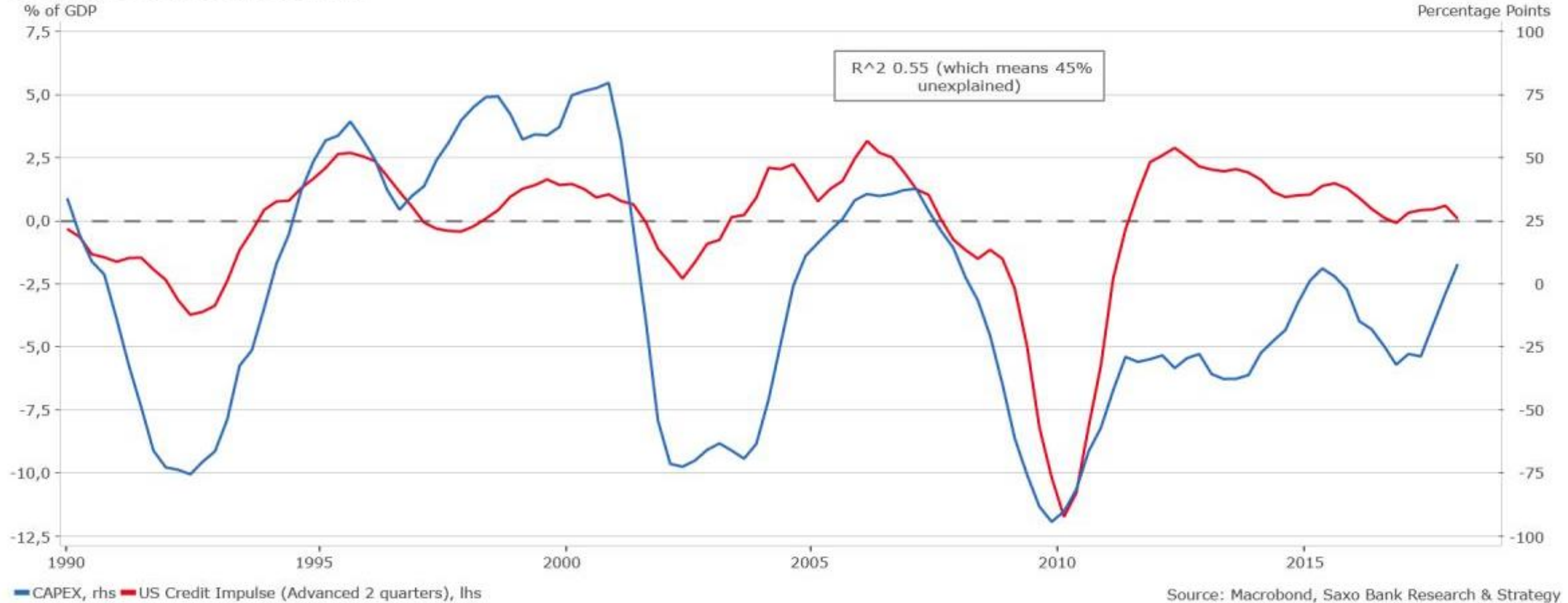
US Credit Impulse vs US Export



Source: Macrobond, Saxo Bank Research & Strategy

US Credit Impulse leads CAPEX by two quarters

US Credit Impulse vs CAPEX



Source: Macrobond, Saxo Bank Research & Strategy

Credit Impulse Description



The notion of Credit Impulse has been introduced for the first time by Michael Biggs in November 2008. It represents the flow of new credit issued by the private sector as percentage of GDP. It is considered as the second derivative of credit growth and arguably the biggest driver behind economic growth.

The idea behind Credit Impulse is based on basic Keynesian economics. Since spending is a flow, it should be compared with net new lending – also a flow – rather than credit outstanding – a stock.

The main advantage of Credit Impulse is that it helps to solve a number of conundrums that cannot be explained by an analysis focusing on the credit stock. In addition, it has been demonstrated that, for many time periods and countries, a strong correlation exists between credit impulse and other economic data, especially private sector demand, and financial assets.

Before the GFC, the USA, Japan and Europe were the main drivers of the global credit cycle but, since 2009, a major shift has happened resulting in China becoming the dominant actor. As a result, China Credit Impulse is key to monitor in order to assess the evolution of the global economy.

Calculation:

To calculate Credit Impulse, we use the variation of the stock of loans held by the non-financial private sector (Nonfinancial Corporations and Households & NPISH) on a quarterly basis and we calculate a second derivative which is finally expressed as percentage of GDP.

Saxo Bank Credit Impulse:

Saxo Bank Global Credit Impulse is based on 18 countries that represent 69.4% of global GDP share (adjusted for purchasing-power-parity). It is updated on a quarterly frequency in order to avoid too many adjustments.

The index is GDP weighted and it is built using GDP in current prices from IMF WEO in order to have access to forecasts and since all data are expressed in USD.

Publications:

Saxo Bank publishes the **Credit Impulse Monthly Focus** which covers the evolution of credit and correlations in a specific economic area and the **Credit Impulse Quarterly Update** which includes the updated version of Saxo Global Credit Impulse and last trends in core countries.

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