

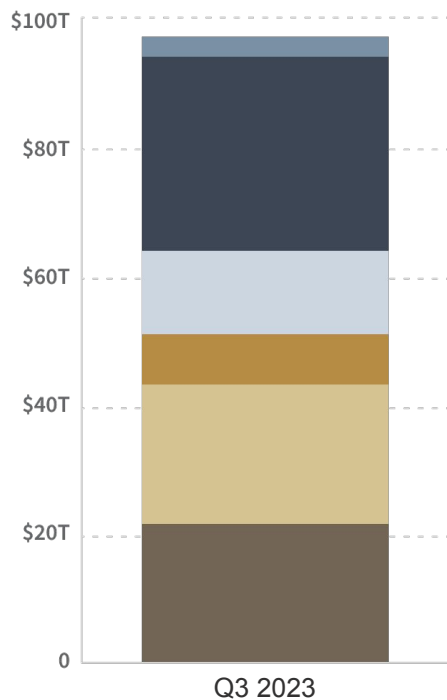
# The Race Against Recession

Growth vs. Debt in America



# How much debt is there in the US?

Both private and public combined.



	Total Debt
State & Local	\$3T
Federal	\$30T
Home mortgages	\$13T
Household other debts	\$8T
Business	\$21T
Banks	\$21T
Total	\$96T

Which period did the US grow debts, faster  
(both public and private)?

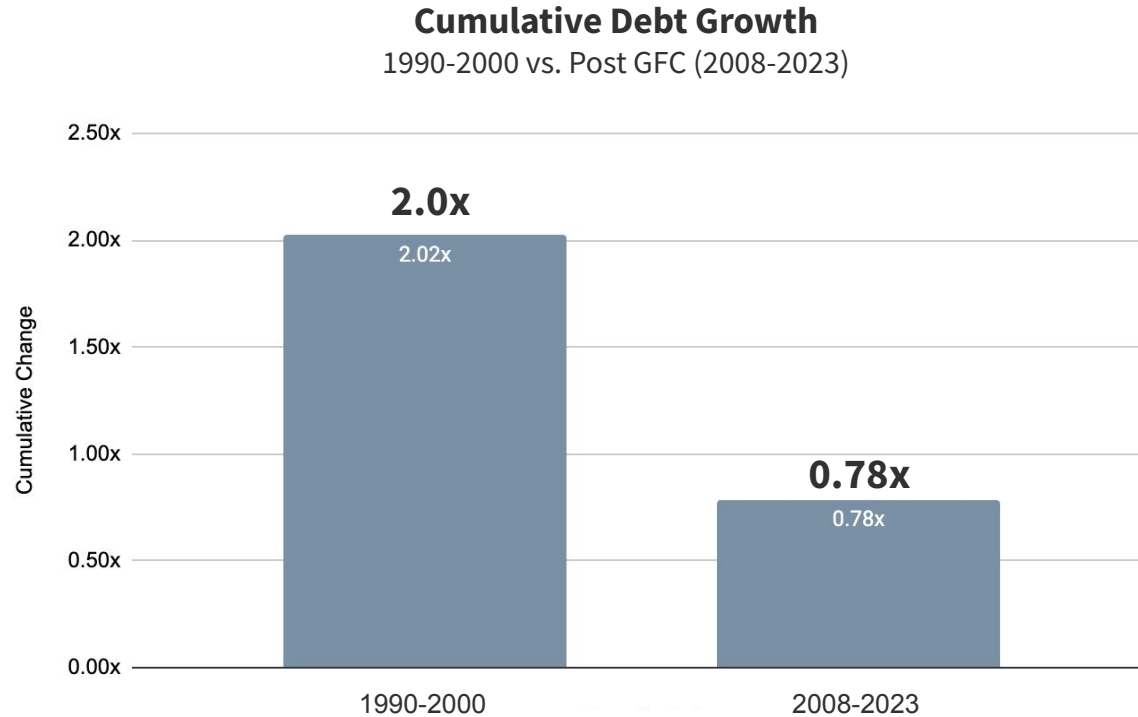
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1990s

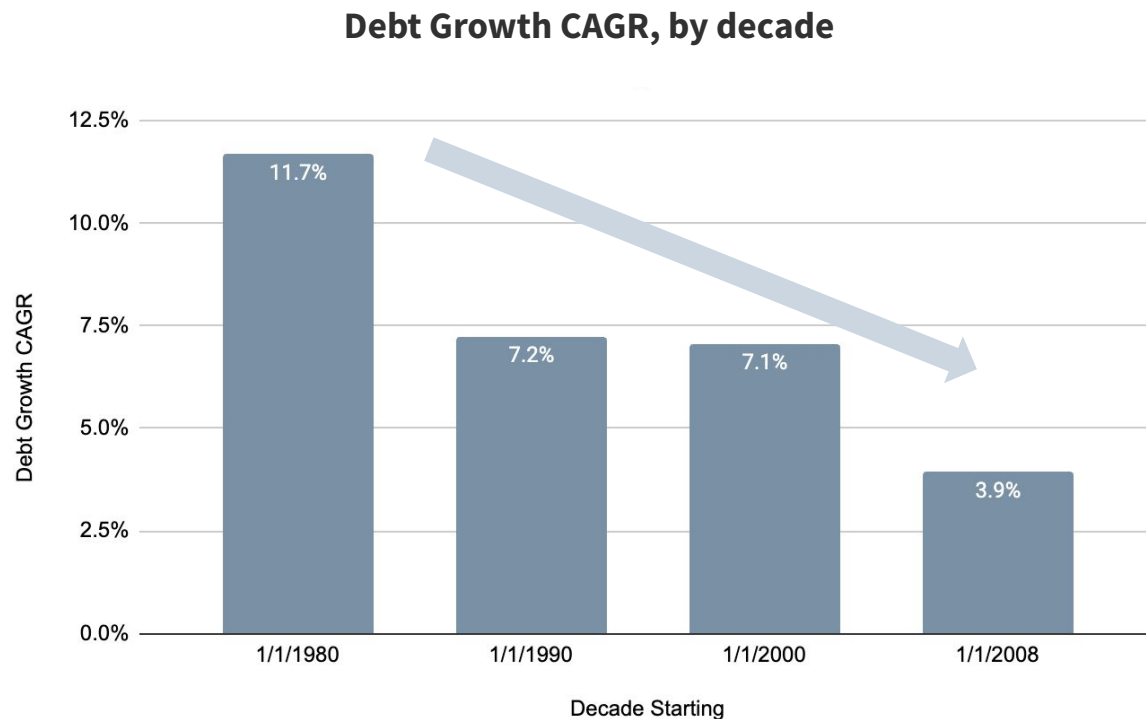
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2008-2023

# False impressions of the past



# Debt growth has in fact slowed!



# False impressions of the past

	All Sectors Debt Public & Private, trillions	Debt to GDP	
1980	\$4.85	0.6x	5.6x debt explosion
1990 Q1	\$13.56	2.2x	
2000 Q1	\$27.29	2.6x	
2008 (before GFC)	\$53.83	3.6x	debt rates improved
2023	\$98.37	3.5x	

# US debt-to-income has been improving

US Debt to GDP has been stable between 14-17%

	<b>Fed Funds Rate</b>	<b>Mortgage Rate</b>	<b>All US debts Public &amp; Private, billions</b>	<b>All US Debt Service, billions</b>	<b>GDP billions</b>	<b>US debt to income</b> (Very approx.)
<b>1990</b>	6.25%	7.50%	\$14,284	\$1,071	\$6,004	<b>17.8%</b>
<b>2000</b>	4.50%	6.00%	\$28,628	\$1,718	\$10,435	<b>16.5%</b>
<b>2010</b>	2.00%	4.00%	\$54,890	\$2,196	\$15,390	<b>14.3%</b>
<b>Q1 2022</b>	2.00%	4.00%	\$90,961	\$3,638	\$25,029	<b>14.5%</b>

# Except in the 2008 Financial Crisis

High rates drove up US debt to income ratio

	Fed Funds Rate	Mortgage Rate	All US debts Public & Private billions	All US Debt Service, billions	GDP billions	US debt to income (Very approx.)
1990	6.25%	7.50%	\$14,284	\$1,071	\$6,004	17.8%
2000	4.50%	6.00%	\$28,628	\$1,718	\$10,435	16.5%
2008	5.50%	7.50%	\$54,786	\$3,286	\$14,608	22.5%
2010	2.00%	4.00%	\$54,890	\$2,196	\$15,390	14.3%
Q1 2022	2.00%	4.00%	\$90,961	\$3,638	\$25,029	14.5%





THE BIG QUESTION

# Transition from low to high interest rates



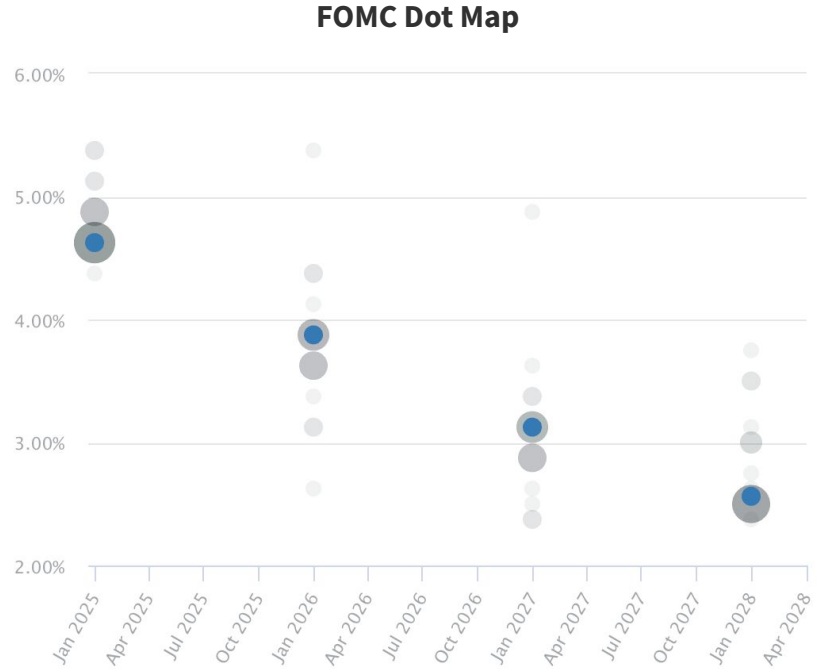
# How long does the reset take?

## US debt, all sectors (private and public)

	Total Debt	Average Duration, years
State & Local	\$3T	6.5
Federal	\$30T	6.5
Home mortgages	\$13T	10
Household other debts	\$8T	3.0
Business	\$21T	7.0
Banks	\$21T	3.0
<b>Total</b>	<b>\$96T</b>	<b>6</b>

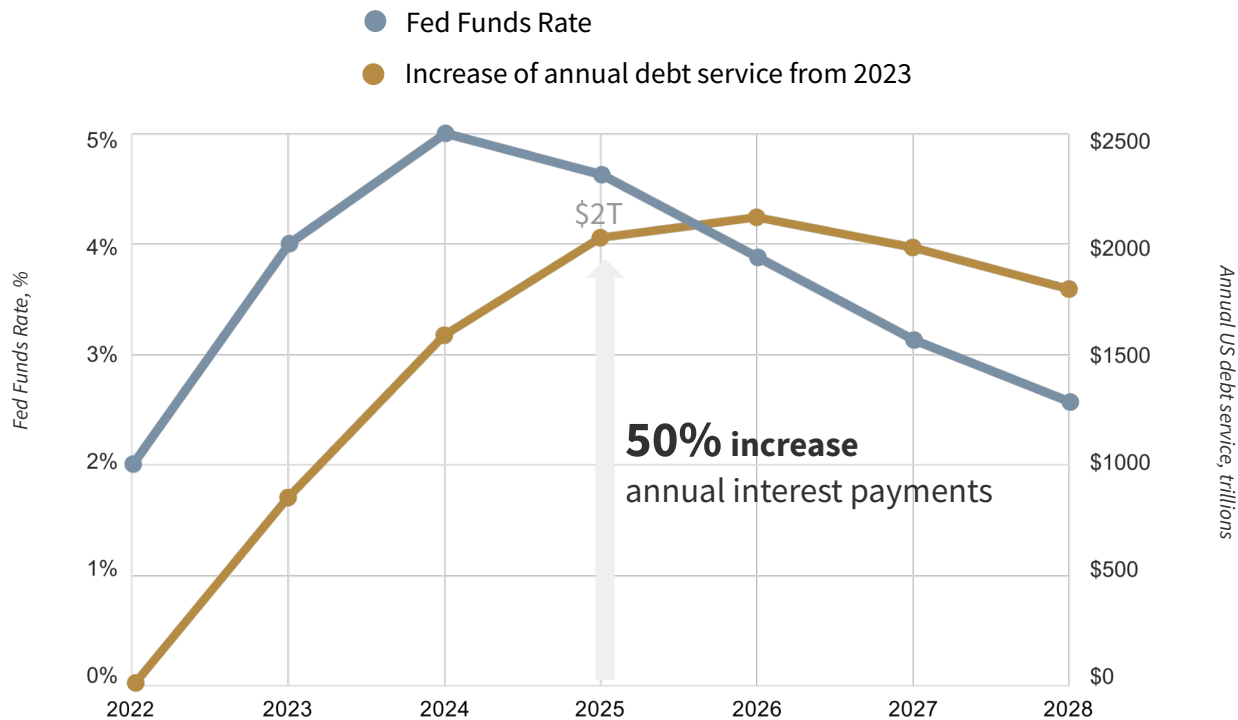
# Fed Forecast: Soft Landing

	Fed Funds Rate
2024	5.00%
2025	4.625%
2026	3.875%
2027	3.125%
2028	2.563%



# As interest rates rise, US debt service increases

Can the US economy afford 50% higher debt service?



# Even a soft landing substantially increases the cost of US debts

The cost of interest rises steadily as debts reprice to higher rates

	Fed Funds Rate	Mortgage rate	All US Debts billions	% of Debts Reset	Debt Service billions	GDP	Debt to income	Increase billions
2022	2.00%	4.000%	\$94,230	0%	\$3,769	\$27,944	13.5%	
2023	4.00%	6.000%	98,373	30%	4,525	27,944	16.2%	\$756
2024	5.00%	7.000%	100,000	44%	5,320	29,000	18.3%	\$1,551
2025	<b>4.625%</b>	<b>6.625%</b>	<b>105,000</b>	<b>58%</b>	<b>5,799</b>	<b>30,450</b>	<b>19.0%</b>	<b>\$2,029</b>
2026	3.875%	5.875%	110,250	72%	5,898	31,973	18.5%	\$2,129
2027	3.125%	5.125%	115,763	86%	5,751	33,571	17.1%	\$1,981
2028	2.563%	4.563%	121,551	100%	5,546	35,250	15.7%	\$1,777



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# Nearly half of all investors expect a ‘no landing’ scenario for the economy where inflation remains but there’s no recession, Deutsche Bank survey shows

BY WILL DANIEL

March 25, 2024 at 2:50 PM EDT



Jerome Powell, chairman of the U.S. Federal Reserve, during a Fed Listens event in Washington, D.C., on March 22, 2024. A trio of central bank decisions this week sent a clear message to markets that officials are preparing to loosen monetary policy, reigniting investor appetite for risk.

AL DRAGO / BLOOMBERG—GETTY IMAGES



FUNDRISE

# Scenarios: Interest Rate Forecasts

If rates remain higher for longer, debt service skyrockets

	Fed Funds Rate	Mortgage Rate	All US debts Public & Private billions	All US Debt Service, billions	GDP billions	US debt to income (Very approx.)	Increase
Low rates	3.00%	5.00%	100,000	5,000	30,000	16.7%	+\$1T
Soft Landing	4.00%	6.00%	100,000	6,000	30,000	20.0%	+\$2T
No Landing	5.00%	7.00%	100,000	7,000	30,000	23.3%	+\$3T

# How much is \$1-3T in increased debt service?

**Debt service increase of  
5-10% GDP is equivalent to:**

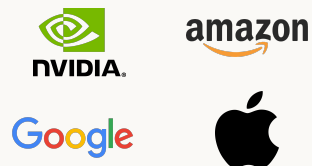
**US Retail trade**  
**\$1.5 trillion a year**  
(5.8% of GDP)



**US Manufacturing**  
**\$2.9T**  
(10.5% of GDP)



**Liquidate**  
*one every year*





# How could the US outrace rates?

## The Race against recession:

The US must grow GDP *faster* than debts

## How is that possible?

1. High **real** growth
2. High **nominal** growth
3. **Slow** debt growth

# It happened before: Real growth!

## Real Productivity Growth

	1948 - 1973	1973 - 1995	1995 - 2005	2005 - 2022
Total factor productivity	2.2	0.6	1.5	0.5
Capital intensity and labor force composition	1.2	1	1.4	1
<b>Total productivity growth</b>	<b>3.4%</b>	<b>1.6%</b>	<b>2.9%</b>	<b>1.5%</b>



?



# It happened before: Nominal growth!

	GDP Growth Rate
<b>Pre-GFC</b> 1980-2010	5.70%
<b>Post-GFC</b> 2010-2020	4.00%
<b>Post-COVID</b> 2022-23	5.65%



# Historically, US used to grow debts much faster

**Pre-GFC Era:**  
High debt growth

+

**Post-GFC Era:**  
Low debt growth

## Growth Rate of All US Debts

	Annual Growth Rate <b>CAGR</b>
<b>Pre-GFC</b> 1980-2010	8.35%
<b>Post-GFC</b> 2010-2020	3.47%

# Budgeting: How much debt spending are we allowed?

## Debt allowance:

~\$5T annual increases (~5% rate)

## How does the US spend its annual allowance?

	Total Debt (2024)	Annual Growth (2010s)	Annual Debt Allowance (2024 - )
Federal & Municipal	\$33T	7%	\$2.0T
Household	\$20T	2.5%	\$0.5
Business	\$21T	5%	\$1.0
Banks	\$21T	5%	\$1.0
Other	\$5T	5%	\$0.25
<b>Total</b>	<b>\$100T</b>	<b>4.75%</b>	<b>\$4.75</b>

# The Race against recession: Fast growth + slow debts

## Goldilocks Era: The best of pre & post GFC

Fast growth rates of the 1990s: 5% to 6%

+ Slow debt growth of the 2010s: 4% to 5%

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= Moderate interest rates: 2.5% to 3%

**Fast Growth**  
1990s

+

**Slow Debts**  
2010s

=

**Moderate interest rates**  
2020s