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The Outlook for the U.S. Economy

Wisconsin International Credit Executives

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Allianz Trade, North America
September 27th, 2023

Allianz Trade:
Global Leaders in Trade Credit Insurance

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52 countries

5.5k employees

+62k clients

AA credit rating

€ 2.9b consolidated turnover in 2021

€ 428m operating profit in 2021

450 debt collection experts around the world

+80m companies analyzed daily in our proprietary intelligence network

We insure global business transactions representing **€ 931b** in exposure

88% of collections are settled amicably, and 50% take place during the first week

1,000 claims indemnified each week

The world leader in trade credit insurance with a **34%** market share

6th Surety insurer with a 5% market share

Allianz Trade tracks companies in markets representing 92% of global GDP

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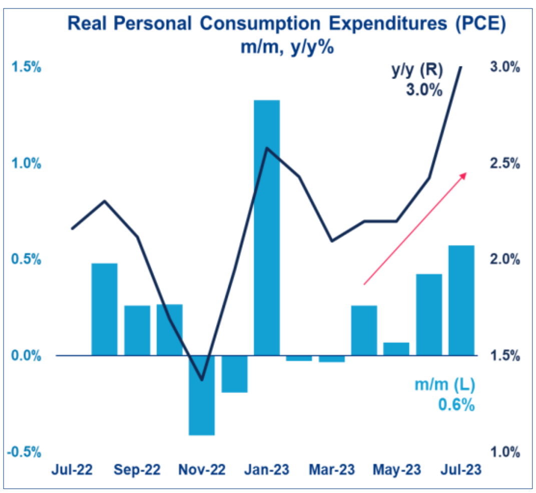
Some Positives

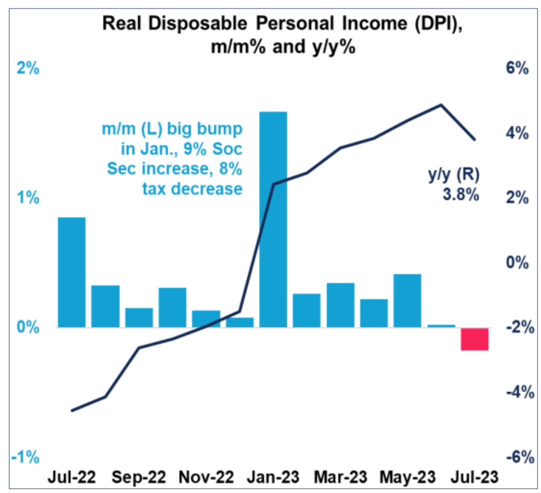
pce

Consumers, 70% of the economy, are still spending

Consumers continue to spend, but…



… the income to power it may be fading



Sources: Refinitiv, Allianz Research

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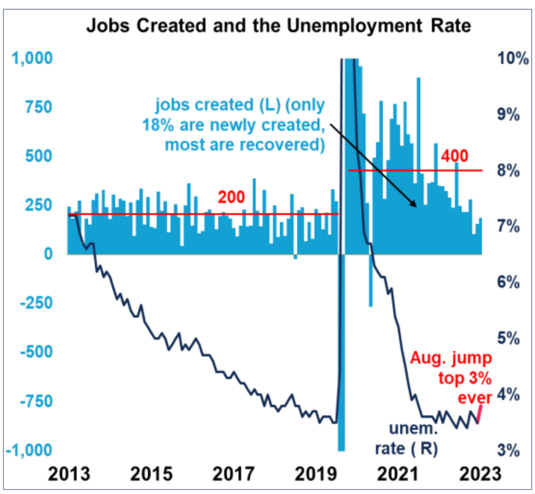
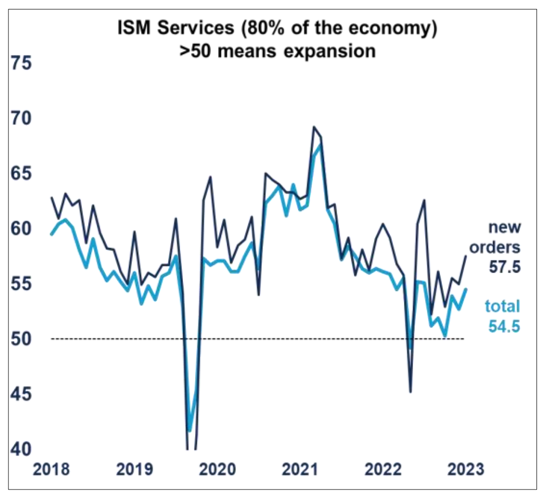
Resilient labor market and services sector (for now)





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Sources: Refinitiv, Allianz Research

02

Lots of Negatives

Inflation, and the Fed's cure.
How are they damaging the economy?

Some examples we will look at:

- **Housing market**
- **Manufacturing**
- **Labor market**
- **Credit**
- **Bankruptcies**

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Inflation - the Fed has made a mess

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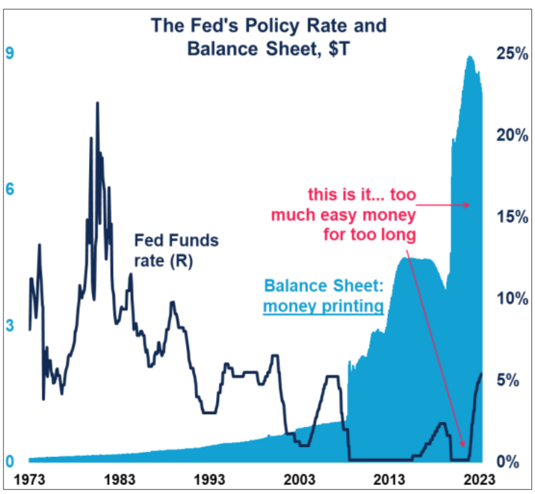

1. The Fed has made its own mess:
   i. too much easy money for too long – five Qs after emergency conditions were over
   ii. holding on to "it's just transitory"
   iii. and then, after admitting it wasn't, still continued to loosen policy for four months
2. The Fed started desperately behind the curve.
3. Changes in monetary policy take 3-5 quarters to have full effect.
4. When a central banks raises rates to slow inflation, it is deliberately trying to slow the economy – and it works. That is the risk.
5. Also note the $5T of fiscal stimulus contributed to inflation as well.

Sources:, Refinitiv, Indeed, Allianz Research

infl

Inflation is improving by most measures, but isn't back to 2%, so the Fed has had to stay aggressive

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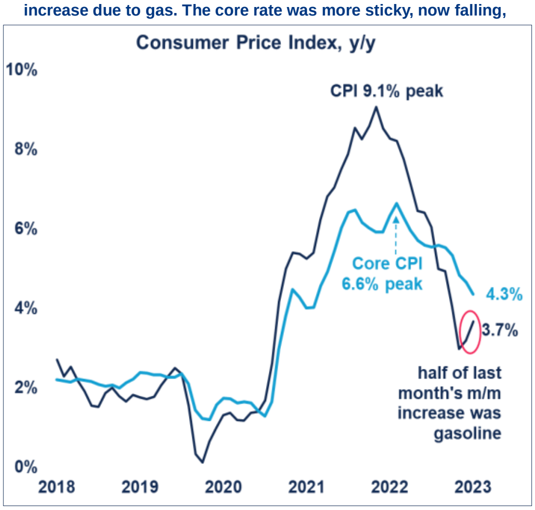
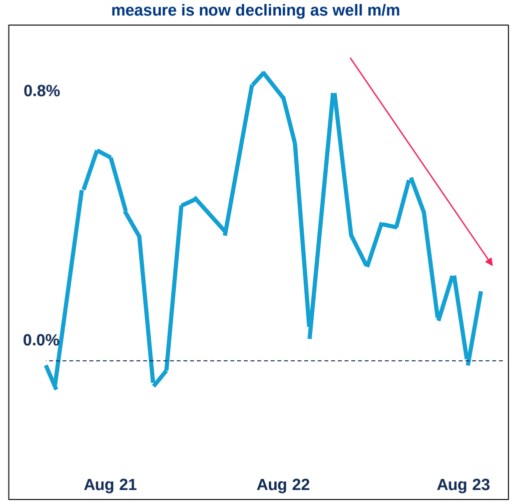
Headline Consumer Price Index (CPI) peaked y/y, now 3.7%; recent increase due to gas. The core rate was more sticky, now falling,



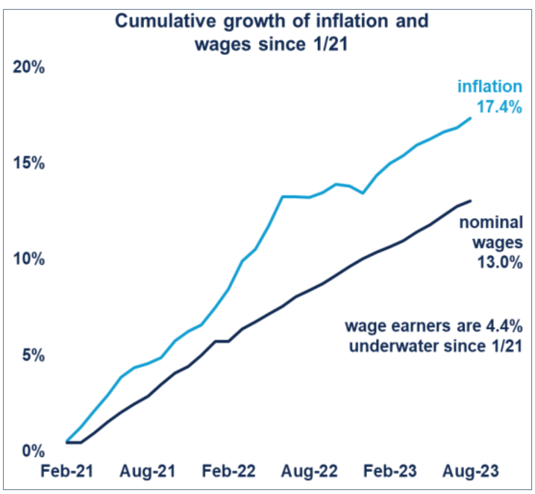
"Supercore" inflation, the Fed's new favorite measure is now declining as well m/m

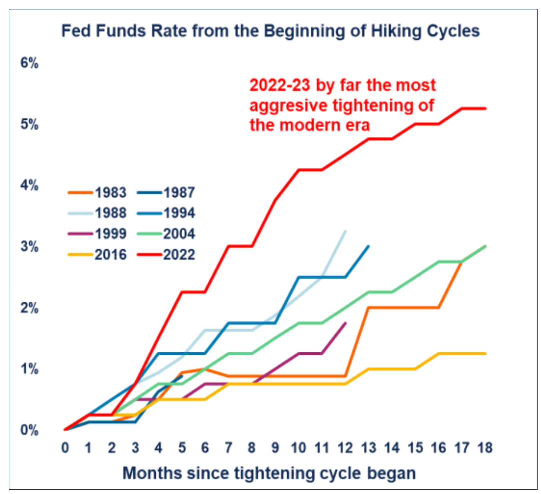


Sources: Refinitiv, Allianz ResearchSJ,

wgs

Inflation decimated wage earners, also forcing the Fed to raise rates aggressively





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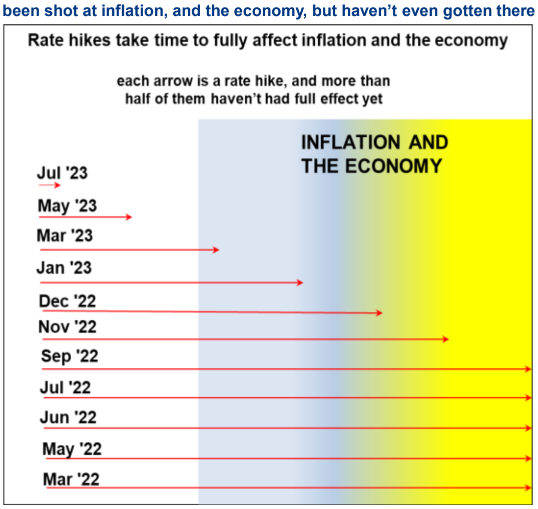
Sources: Refinitiv, Allianz Research

to agrs?

But has the Fed been too aggressive? Maybe. Here's why.

It takes 3-5 quarters for a rate hike to have full effect. A lot of arrows have already been shot at inflation, and the economy, but haven't even gotten there yet…



… and those that have gotten there have done a lot of damage

In fact Fed actions have already done a lot of damage:

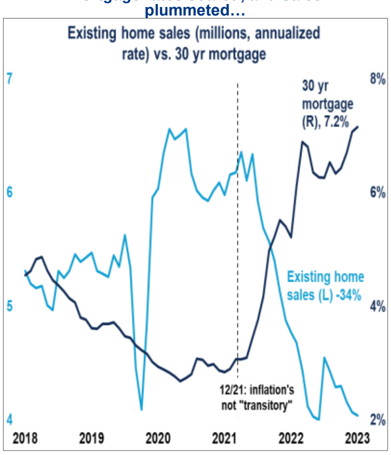
- Retail sales y/y have slowed from 10.2% a year ago to 2.7% now, well below 6% average, and are now negative after inflation
- Housing market shattered
- Manufacturing in recession
- Labor market weakening
- Tightening credit
- Increasing bankruptcies
- Leading indicators point to possibility of recession
- Let's take a look

Sources:, Refinitiv, Indeed, Allianz Research

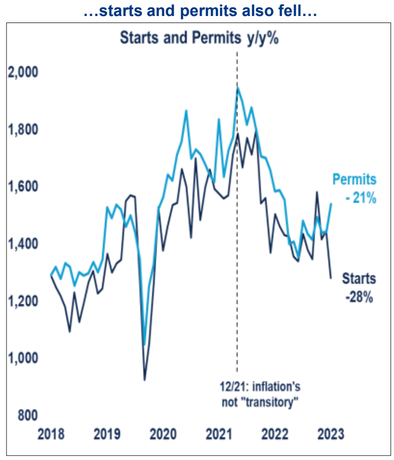
hsn

Housing collapsed when the Fed admitted inflation was not transitory

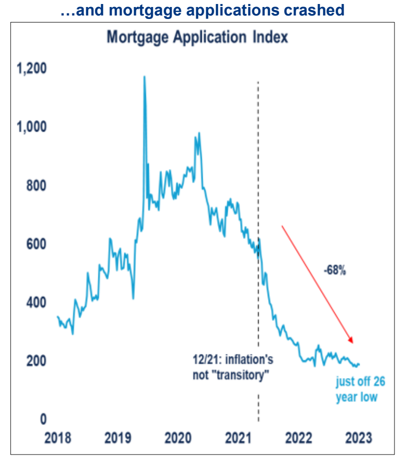
Mortgage rates soared, and sales plummeted…



…starts and permits also fell…



…and mortgage applications crashed



Sources: RefinitiAllianz Research

prcs

Housing collapsed when the Fed admitted inflation was not transitory

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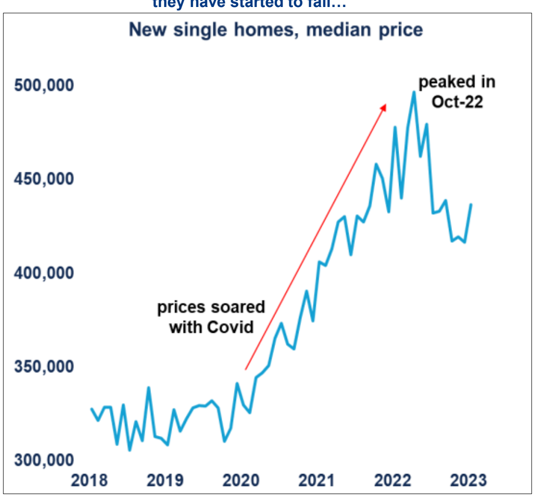
Prices for new homes soared, and even though they have started to fall…



…they are still high, and combined with high mortgages = lowest affordability in 37 years…

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Sources: RefinitiAllianz Research

mfr

Manufacturing has fallen into recession since the Fed admitted inflation was not transitory

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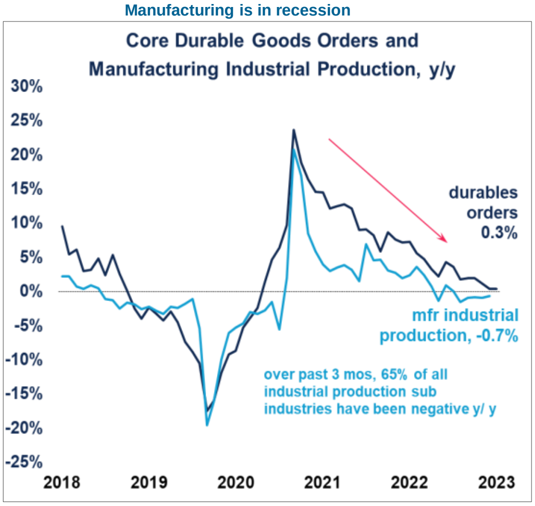
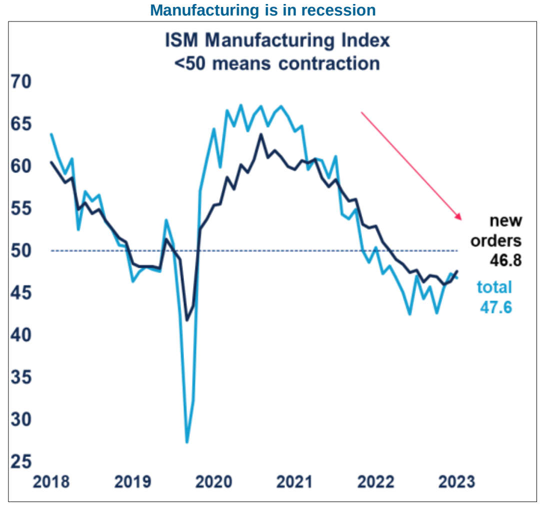
Manufacturing is in recession



Manufacturing is in recession



Sources:, Refinitiv, Indeed, Allianz Research

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In addition to housing and manufacturing collapsing, the labor market is also fading...

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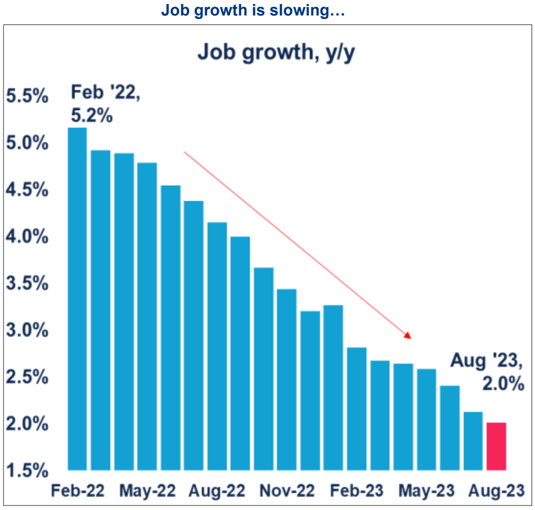
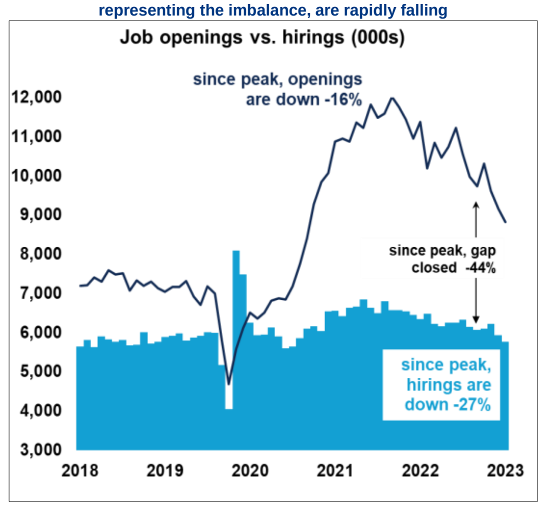
Job growth is slowing…



…and job openings, hirings, and the gap between the two, representing the imbalance, are rapidly falling



Sources:, Refinitiv, Indeed, Allianz Research

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In addition to housing and manufacturing collapsing, the labor market is also fading...

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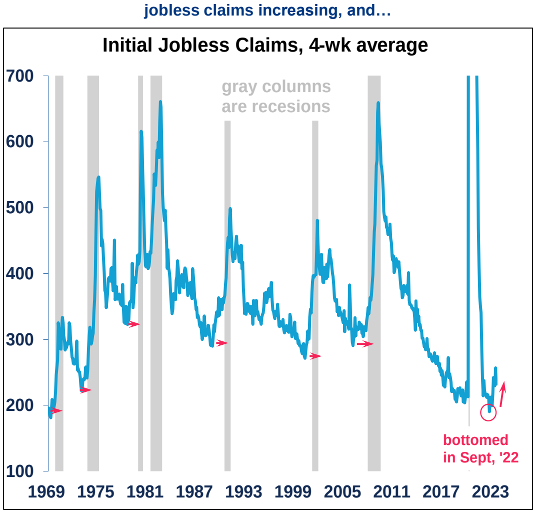
jobless claims increasing, and…



…jobs getting less plentiful

Sources:, Refinitiv, Indeed, Allianz Research

temp

In addition to housing and manufacturing collapsing, the labor market is also fading...

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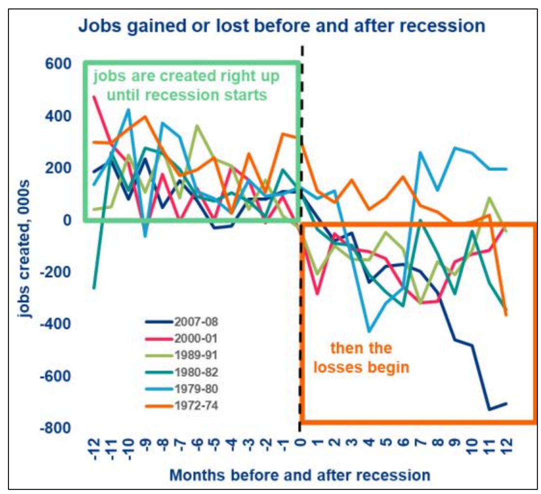
Temps are the first to get let go, and often lead the rest

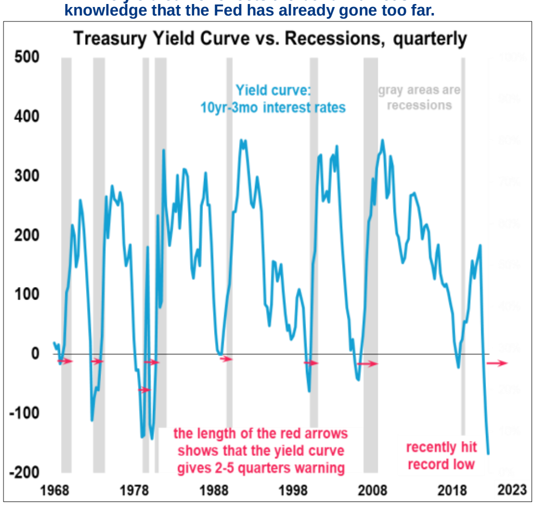


Sources:, Refinitiv, Indeed, Allianz Research

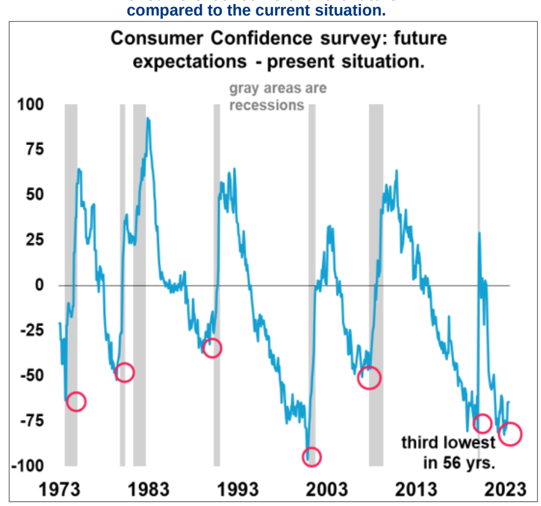
yc

In addition to leading indicators from the labor market, there are others as well

The yield curve reflects the bond market's knowledge that the Fed has already gone too far.



Consumers' concerns over the future compared to the current situation.



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Sources:, Refinitiv, Indeed, Allianz Research

bank

Rising rates have also led to banking troubles

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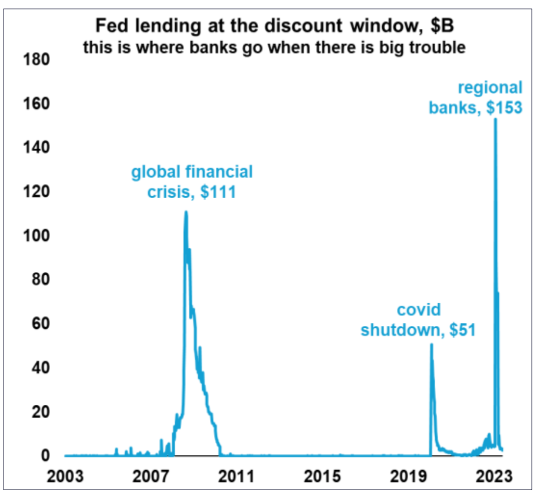
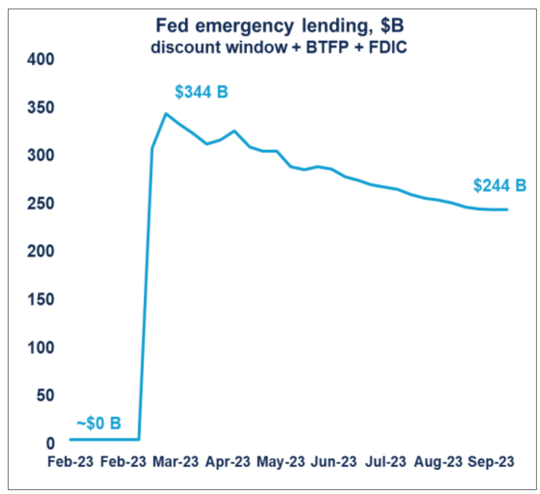
Banks are borrowing from all three Fed emergency programs - is there something they know that we don't? Remember, six months ago, the sum of these programs was effectively $0, not $244 B.





Sources:, Refinitiv, Federal Reserve, Allianz Research

Crd stnd

Rising rates have also led to banking troubles

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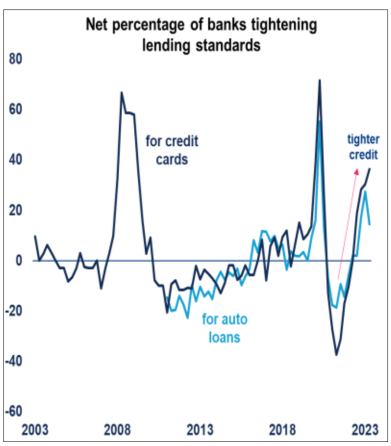
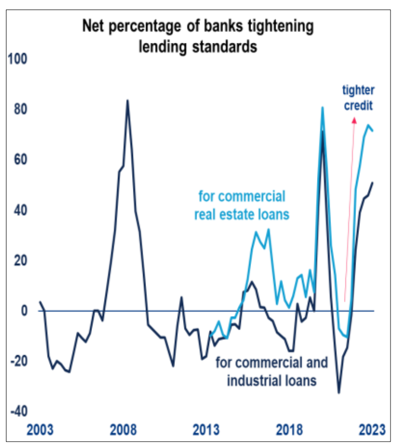
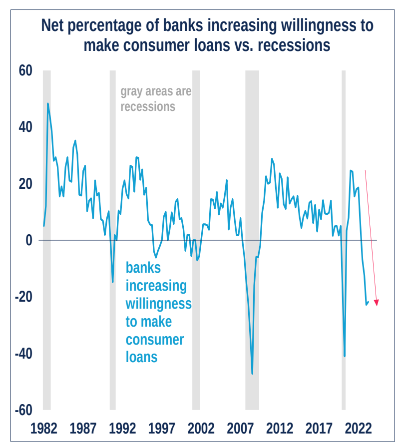
Lending standards in Q1 were already tightening before the banking troubles. Credit is bound to tighten further, which will lead to a credit crunch, weighing on the economy







Sources:, Refinitiv, NY Fed, Allianz Research

regnl

Rising rates have also led to banking troubles

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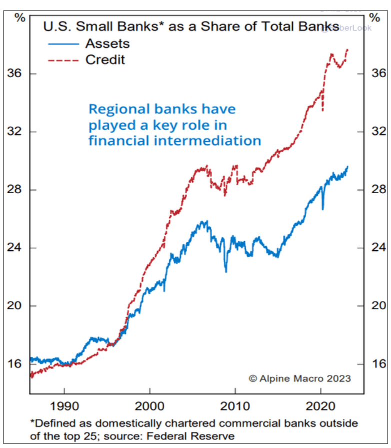
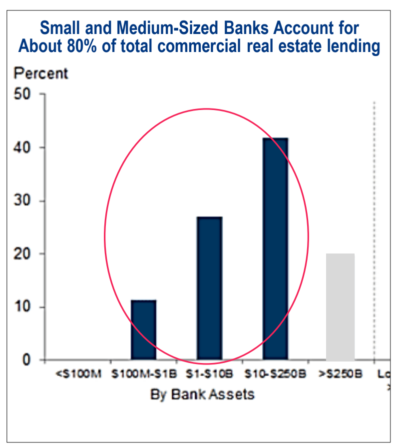
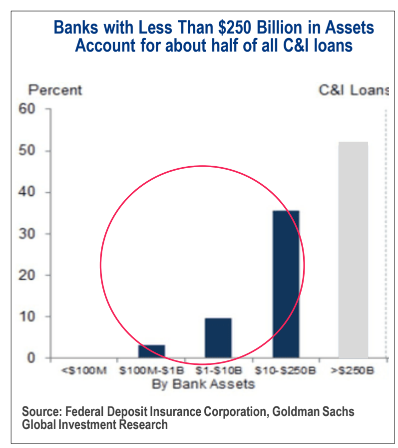
Regional banks are systemically important







Sources:, Refinitiv, Allianz Research

break

The Fed always raises until something breaks

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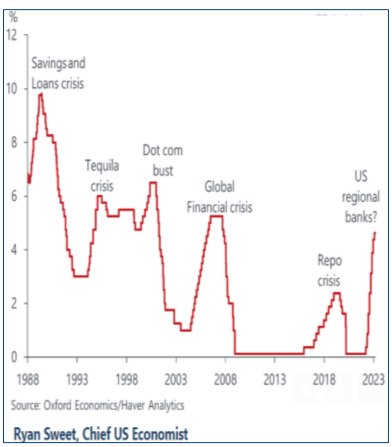
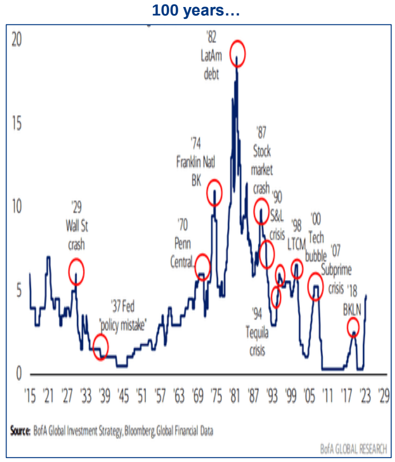
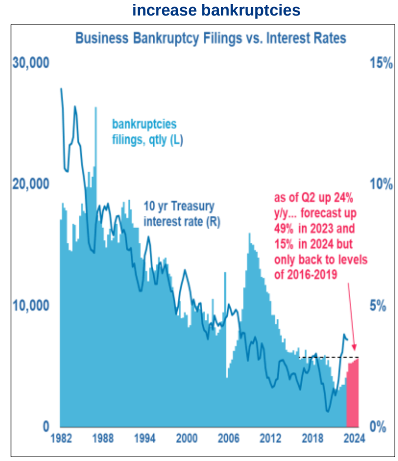
5 times in the last 30 years…



…many more over the last 100 years…



…and those higher rates will increase bankruptcies



Sources:, Oxford Economics BoA, Bloomberg, Allianz Research

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Conclusions

- The economy has signs of strength right now, but ominous indicators for the future.
- Inflation still killing purchasing power.
- Housing market significantly damaged.
- Manufacturing sector in recession.
- Weakening labor market.
- Banking troubles and tightening credit.

- The Fed started way behind, and is on a path of aggressive rate hikes to fight inflation, and in the process it will likely strangle the economy as well.
- Signs suggest significant weakness in Q4-23, Q1-24, and an increase in bankruptcies.

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