- Of course, there is always the possibility that growth surprises to the upside—although this is less likely because the economy has underperformed policymakers' expectations over the past half-dozen years. In terms of the upside risks to growth, the rapid appreciation of the dollar may already reflect the expected divergence of central bank policies. In turn, the pace of dollar appreciation may slow significantly over the coming quarters, and could even reverse, resulting in less drag on domestic production from the export sector than we currently assume.
- Another potential upside risk is the labor market. As the job market continues to strengthen and the unemployment rate declines meaningfully further, wage and income growth may rise faster than expected, providing households with even more spending power than we envision. In this scenario, the pace of Fed rate hikes would be significantly faster than that implied by the current median FOMC projections.
- The final upside risk pertains to inflation. The aforementioned potential for accelerating wage gains combined with a more dramatic recovery in energy prices relative to our projection—possibly due to either a stronger recovery in overseas growth or substantially less oil production—may push headline inflation more quickly back toward the Fed's 2% target. Relative to all of the aforementioned risks, this is perhaps the one that financial markets are least prepared for.

Figure 10: External balances & financial forecasts

	2014	2015F	2016F	2017F
Fiscal balance, % of GDP	-2.8	-2.4	-2.2	-2.1
Trade balance, USD bn	-508	-545	-664	-742
Trade balance, % of GDP	-2.9	-3.0	-3.6	-3.8
Current account, USD bn	-390	-436	-531	-593
Current account, % of GDP	-2.2	-2.4	-2.8	-3.1
Financial forecasts	Current	Q1-2016	Q2-2016	Q4-2016
Official	0.13	0.625	0.875	1.125
3M rate	0.46	0.83	1.08	1.33
USD per EUR	1.09	1.01	0.97	0.90
JPY per USD	123	127	128	128
USD per GBP	1.51	1.42	1.37	1.27

Source: Deutsche Bank Research as of December 07.

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