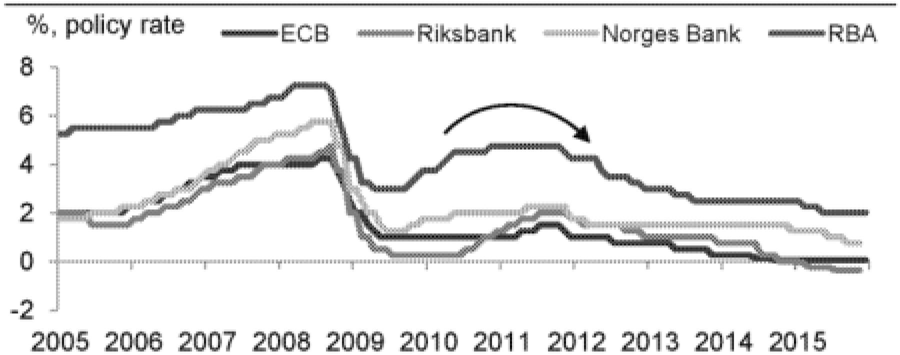
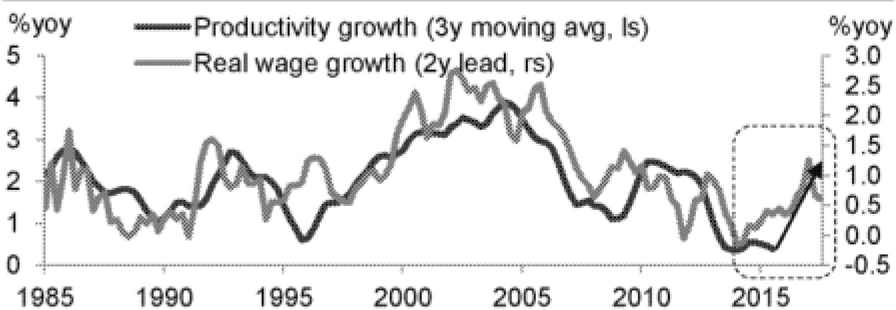
We disagree with the view that hiking is a policy mistake: the economy is strong enough to withstand higher rates

Fed does not want to hike too early and risk having to reverse course as other major central banks have done



Source: ECB, SRB, NB, RBA, Haver Analytics, Deutsche Bank Research

Rising real wages incentivise firms to invest, leading to higher productivity growth; we should see this in the coming years



Notes: productivity growth is real output per hour in the non-farm business sector; real wage growth is employment cost index compensation minus core PCE inflation
Source: BLS, BEA, Haver Analytics, Deutsche Bank Research

We disagree with many arguments against hiking rates – and gradual hikes in any case reduce the chance of a policy error

Argument strength	Argument for policy mistake	Our view
●	Fed lacks the tools to ease policy	▪ Valid point for raising rates gradually
◑	Financial conditions have already tightened	▪ Last months' tightening equal 1-2 hikes ▪ Tightening is precisely Fed's intention
◑	No inflation pressures	▪ Temporary factors keeping inflation low ▪ Should rise toward target as they abate
◔	Global growth is too weak	▪ Global growth is slow – but expect moderate pick up in next two years ▪ Exports only 1/8th of GDP
○	Economy is too weak for hikes	▪ Private domestic demand* growing at same pace as pre-crisis ▪ Robust employment growth continues
○	Productivity growth is low	▪ Low productivity growth means a faster tightening of the labour market ▪ Should rise modestly as wages pick up

○Weak ⟶ ●Strong

Note: (*) The sum of personal consumption, residential investment and non-residential fixed investment.