

# Weekly Economic Commentary

June 23, 2014



 <b>U.S.A</b>	 <b>GER</b>
<b>\$17.1 Trillion</b>	<b>\$3.8 Trillion</b>

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### Highlights

The U.S. economy is poised to outperform Germany in the years ahead thanks to better demographics, better productivity, and a more focused central bank.

Today the U.S. economy is in far better shape than the German economy. **Advantage U.S.A.**

\* Federation Internationale de Football Association

The United States' men's soccer team will face Germany on Thursday, June 26, 2014, in the final game of Group G of the 2014 FIFA\* World Cup™. On paper, the German team, ranked #2 in the FIFA world soccer rankings, looks to be the superior side to the Americans, who are ranked 13th by FIFA. Germany has won three World Cups (1954, 1974, and 1990) and has been the runner up four times (1966, 1982, 1986, and 2002), while the United States has never won and has only reached the semi-finals once, at the first World Cup held in 1930. All 23 of the players on Germany's team play for club teams in the world's top five professional soccer leagues (English Premier League, German Bundesliga, Spanish La Liga, Italian Serie A, and French Ligue 1), while just nine of the 23 players on the U.S. team play in those leagues. **Advantage Germany.** One factor to consider is that both teams are coached by Germans. The U.S. coach, Jurgen Klinsmann, played for Germany's 1990 World Cup winning team and coached Germany's World Cup team in 2006. Germany's coach, Joachim Low, never won the World Cup as a player and was Jurgen Klinsmann's assistant coach in 2006. The **United States** may have the **advantage** here.

One area where the United States beats Germany, at least on paper, is in exports—of players that is. Thirteen of the 23 players on the U.S. World Cup squad play professional soccer outside the United States in the five top professional leagues (England, Germany, France, Italy, and Spain). In contrast, just seven of the 23 Germany players make a living outside of the Germany Bundesliga, making it easier, perhaps, for the best German players to train together in the build-up to the World Cup. So from a soccer perspective, Germany "should" beat the United States on Thursday, but we'll be rooting for U.S.A. to pull off an upset. Indeed, if the two teams tie, both teams will advance to the round of 16 of the World Cup.

### No Contest Off the Field

While **Germany** may have an **advantage** on the field, off the field, it's really no contest. As **Figure 1** shows, the United States has Germany beat in nearly every key economic and demographic category. The United States has a population that is four times larger than Germany's, and that population is younger, growing faster, and more productive than Germany's. Look out World Cup 2026! **Advantage U.S.A.**



## 1 U.S. vs. Germany: **No Contest**

	U.S.A.	Germany
Soccer Exports (Members of 2014 WC Team Playing in Top Five Leagues Outside of Home Country) <sup>^</sup>	13 of 23	7 of 23
Members of 2014 World Cup Team in Top Five Leagues <sup>^</sup>	9 of 23	23 of 23
World Cup Titles	0	3
Population (Millions)	316.1	82.3
Population Growth (2009–2014, % Per Year)	0.72%	0.09%
% of Population Over 65	14%	21%
% of Population 14 and Under	20%	13%
Productivity (Output Per Man Hour; 2009=100)	106.1	105.1
Productivity Growth Rate (2009–2014, % Per Year)	1.4%	0.72%
Currency	Dollar	Euro
Central Bank	Federal Reserve	European Central Bank
Inflation Rate (Last 12 Months)	2.0%	0.6%
GDP (\$ Billions)	17,101	3,846
GDP Growth (2009–2014, % Per Year)	2.0%	1.3%
Financial Sector Lending to Private (% Change From 1 Year Ago)	+4.4%	-4.0%
Exports (Last 12 Months, Trillions of \$)	1.6	1.5
Unemployment Rate	6.3%	5.2%
Unemployment Rate (Change from peak)	-3.7 percentage pts	-2.8 percentage pts

Source: LPL Financial Research, FIFA, Factset, Haver, The World Bank 06/23/14

<sup>^</sup> English Premier League, Bundesliga, La Liga, Ligue 1, Italian Serie A

The U.S. economy—the world’s largest—is more than four times as large as Germany’s (Europe’s largest economy), has grown 50% faster over the past five years, and is poised to grow even faster in the years ahead. The European financial transmission mechanism (i.e., how effectively supportive central bank policy translates to the real economy) remains broken—German banks’ lending to the private sector has dropped more than 4% over the past year. Meanwhile, the U.S. economy is benefitting from a 4.5% increase in bank lending to the private sector over the past year. Our inflation rate is faster (2.0% vs. 0.6%), but the United States has its own currency (the dollar) and central bank (the Federal Reserve) to combat inflation. Germany shares its currency and its central bank with 17 other soccer-mad European neighbors.

**Advantage U.S.A.**



Germany's unemployment rate (5.2%)—the second lowest in Europe behind Austria—is lower than ours (6.3%), but an agreement between the German government and German corporations keeps the unemployment rate artificially low. The U.S. unemployment rate has dropped by almost four percentage points since the peak in 2010, while Germany's has dropped by just under three percentage points in recent years. **Advantage U.S.A.** Just as the United States exports more of its best soccer players than Germany, the U.S. economy exports more than the German economy—by nearly \$100 billion per year. Once again, **advantage U.S.A.**

On balance, while Germany may have the better soccer team, on paper at least, the U.S. economy is in far better shape than the German economy and is poised to outperform Germany in the years ahead thanks to better demographics, better productivity, and a more focused and flexible central bank. Go U.S.A! ■

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The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

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The Bureau of Labor Statistics is a government agency that produces economic data that reflects the state of the U.S. economy. This data includes the Consumer Price Index, the unemployment rate and the Producer Price Index.

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