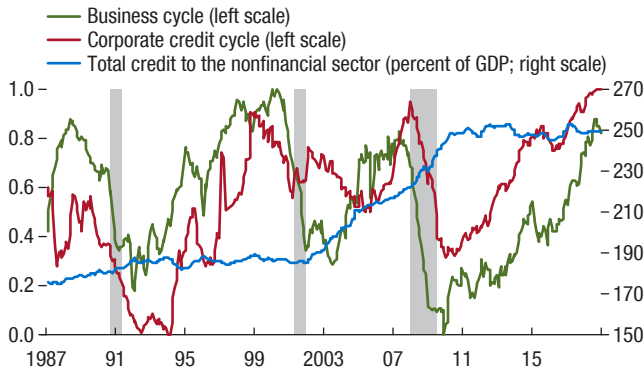


**Figure 1.9. Tracking the Corporate Credit Cycle: United States versus Europe**

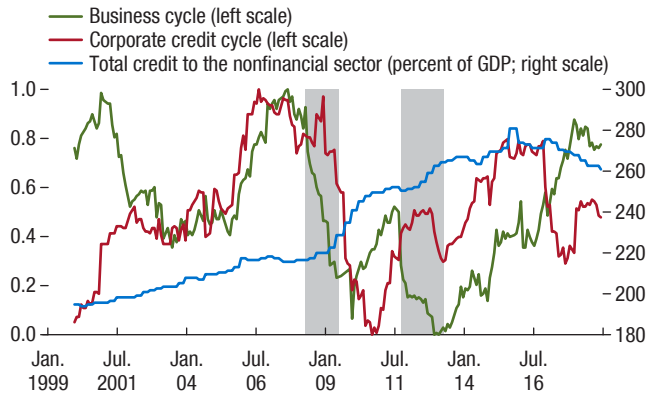
US economic indicators have climbed to postcrisis highs, but the credit cycle has advanced even faster.

European economic indicators have started to decelerate, while the credit cycle has been more muted given ongoing bank balance sheet repair.

**1. US Business and Corporate Credit Cycles (Percentile rank, rescaled; percent of GDP)**



**2. European Business and Corporate Credit Cycles (Percentile rank, rescaled; percent of GDP)**



A plethora of indicators of risk-taking point to a late stage of the credit cycle in the United States.

In Europe, financials and firms are more cautious after the sovereign debt crisis.

**3. Underlying Indicators: US Business and Corporate Credit Cycles (Percentile rank)**

US Credit Cycle Indicators		Latest Level	Signal	Percentile
Business Cycle	Industrial Production (YoY percent)	4.0	●	71%
	Unemployment Rate (percent)	3.9	●	99%
	Consumer Confidence Index (1985 = 100)	126.6	●	88%
	Capacity Utilization (percent of total capacity)	78.5	●	41%
	Output Gap (percent of potential GDP)	0.2	●	70%
Corporate Fundamentals	Debt/GDP - Nonfinancial Firms	74.4	●	98%
	C&I Loan Growth (YoY percent, 6MMA)	4.0	●	33%
	IG Gross Leverage (times)	6.4	●	99%
	HY Gross Leverage (times)	4.4	●	80%
	IG Interest Coverage Ratio (times)	9.8	●	58%
	HY Interest Coverage Ratio (times)	4.6	●	8%
Corporate Credit Cycle	IG Capex/Sales	4.4	●	26%
	IG Cash/Debt	13.6	●	66%
	BBB (percent of total IG)	49.3	●	99%
	CCC or Below (percent of HY new issuance)	8.4	●	45%
	HY/Loan Issuance (percent of outstanding)	9.3	●	27%
	Ex-Fin Net Stock Buyback Volumes S&P 500 (\$ billions)	427.6	●	98%
	M&A Loan Volumes (\$ billions)	157.1	●	97%
	M&A/LBO Issuance (percent of HY/loans supply)	46.4	●	61%
	LBO Loan Volume (\$ billions)	108.6	●	93%
	LBO Transactions > 6 times leverage	47.6	●	90%
Global CLO Volume (\$ billions)	136.5	●	95%	
New Issue Leverage on all First-Lien Loans (times)	4.2	●	95%	

Early Cycle ● ● ● ● Late Cycle

**4. Underlying Indicators: European Business and Corporate Credit Cycles (Percentile rank)**

Europe Credit Cycle Indicators		Latest Level	Signal	Percentile
Business Cycle	Industrial Production (YoY percent)	1.2	●	42%
	Unemployment Rate (percent)	8.1	●	88%
	Consumer Confidence (percent balance/diffusion index)	-6.2	●	75%
	Capacity Utilization (percent of total capacity)	83.6	●	80%
	Output Gap (percent of potential GDP)	-0.2	●	68%
Corporate Fundamentals	MFI Loans to Nonfinancial Firms Corp (YoY percent)	2.9	●	61%
	IG Net Leverage (times)	2.0	●	62%
	HY Net Leverage (times)	2.9	●	21%
	IG Int Coverage (times)	7.0	●	3%
	HY Int Coverage (times)	2.3	●	21%
	IG Capex to Sales	5.9	●	30%
	HY Capex to Sales	5.0	●	63%
	IG Cash to Debt	26.6	●	8%
	HY Cash to Debt	19.9	●	11%
	Corporate Credit Cycle	BBB (percent of total IG outstanding)	48.7	●
CCC (percent of outstanding market)		2.3	●	2%
L12M IG Nonfinancial Supply (percent of IG/HY supply)		82.6	●	64%
L12M IG Share Buybacks (EUR billions)		41.0	●	53%
L12M IG M&A (EUR billions)		153.8	●	28%
L12m Buyout Loan Volume (EUR billions)		22.0	●	47%
Cov-Lite (percent of loan issuance)		87.7	●	99%
HY Bond Use of Proceeds for Acquisitions		34.2	●	69%
Loan Use of Proceeds for Acquisitions	70.6	●	82%	

Early Cycle ● ● ● ● Late Cycle

Sources: Bank for International Settlements; Bloomberg Finance L.P.; Bond Radar; Dealogic; European Central Bank; European Commission; Eurostat; Federal Reserve; Markit; Moody's; Morgan Stanley; S&P Leveraged Commentary & Data; and IMF staff estimates.

Note: In panels 1 and 2, indicators are equally weighted based on rescaled percentile ranks. Data extend from 2000 for Europe and from 1980 for the United States. Europe mostly includes the euro area. Shaded areas indicate recessions. In panels 3 and 4, icons and percentile ranks are reversed for unemployment rate, interest coverage, cash/debt, and share of investment-grade (IG) debt. BBB = BBB-rated bonds; Capex = capital expenditure; CCC = CCC-rated bonds; C&I = commercial and industrial; CLO = collateralized loan obligations; Cov-lite = relaxed covenants; EUR = euro; Fin = financial; HY = high yield; Int = interest; LBO = leveraged buyouts; L12M = last 12 months; M&A = mergers and acquisitions; MFI = monetary financial institutions; 1L = first lien; 6MMA = six-month moving average; YoY = year over year.