

IS THE BLOWUP AT HAND?

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The majority of those in the economics profession continues to believe that the economic expansion will continue well into 2008 or even longer. Most do admit that growth will be subdued, approximately 2% as measured by the GDP. We, on the other hand, find it hard to believe that the financial mess Wall Street has engineered over the past five years or so will not result in a rather severe recession.

Please note the following table depicting the growth of credit market debt over the last several decades. All of these numbers are nominal; there is no need to adjust anything for inflation. It's an entirely apples to apples comparison. What it tells us is that it takes more and more leverage to create \$1 of increase in GDP. What's wrong with that, you ask. Not really anything, *except* there is a limit as to how much one (or an economy) can borrow safely without risking the farm. We believe the farm is at risk, but to be perfectly frank, we thought that a year ago. This summer, however, has revealed the weakness in the structured financial instruments dreamed up by the Ivy League MBAs, who have bagged many a professional investment advisor. As each day goes by, a new revelation of toxic waste debt instruments becomes headline news. Rest assured there is more to come.

Decade	Total Credit Market Debt Growth (\$Billions)	GDP Growth (\$Billions)	Dollars of Credit Market Debt Growth for Each Dollar of GDP Growth
1960's	\$754.45	\$491.40	\$1.54
1970's	\$2,791.29	\$1,655.90	\$1.69
1980's	\$8,546.03	\$2,923.80	\$2.92
1990's	\$12,819.27	\$3,729.20	\$3.44
2000's to Date	\$20,923.93	\$4,255.40	\$4.92

Adapted from www.FinancialSense.com