

# More Debt: Less GDP

September 12, 2006

We just can't seem to get debt off our mind. Please note the chart following these comments. Just for fun let's do a simple mathematical calculation. By dividing the increase in debt growth by the nominal GDP growth, we obtain how much "good" borrowing the money did in the first place. Obviously there are other factors, but still it gives us some idea of what bang we get from the borrowed buck.

	Debt Growth	Nominal GDP Growth	Ratio
1997	\$1,336.1B	\$487.40	2.74
2000	\$1,605.6B	\$548.60	2.93
2005	\$3,335.9B	\$748.30	4.49

In 1997 it took \$2.74 in debt to obtain \$1 of nominal GDP growth. In 2005 it took \$4.49. The bang for the buck is becoming less and less. This is not a good sign. We are anxiously awaiting the Federal Reserves Z.1 document, which will indicate if the debt accumulation continues to increase at an expanding pace. The first slowdown, if and when it comes, will be a clear indication of the Fed's policy of credit restraint being successful. It also will indicate a major slowing in economic activity. If there is no delay, we should know by September 19<sup>th</sup>.

### **Credit Expansion out of Control**

	<b>Credit growth</b>	<b>GDP growth</b>		<b>Curr. acc. def.</b>	<b>Pers. sav. rate</b>	<b>Disp.** income</b>
		<b>nom.</b>	<b>real</b>			
<b>1997</b>	1,336.1	487.4	374.6	140.4	3.6	3.5
<b>1998</b>	2,045.0	442.7	363.4	213.5	4.3	5.8
<b>1999</b>	2,044.7	521.4	403.4	299.8	2.4	3.0
<b>2000</b>	1,605.6	548.6	346.7	415.1	2.3	4.8
<b>2001</b>	2,034.2	311.0	73.7	388.9	1.8	1.9
<b>2002</b>	2,171.1	341.6	158.1	472.4	2.4	3.1
<b>2003</b>	2,668.2	491.2	252.2	527.5	2.1	2.2
<b>2004</b>	2,800.8	751.7	402.5	665.2	2.0	3.6
<b>2005</b>	3,335.9	743.3	345.1	791.5	-0.4	1.2
<b>2006</b>	4,392.8*			834.8*	-1.0	1.7

\* *annualized*

\*\* *growth in chained dollars*

*Source: Bureau of Economic Analysis*