GDP Growth
Inflation Adjusted

% change
-4 -3 -2 -1 0 1 2 3 4 5
2004 2005 2006 2007 2008 2009

A recession until spring

Banks Tightening Credit
for Commercial & Industrial Loans

net percent
-40 -20 0 20 40 60 80 100

1st reason for credit crunch

TED Spread
3-month LIBOR minus T-bills

percent
0 1 2 3 4 5
1-Jul-08 1-Aug-08 1-Sep-08 1-Oct-08

2nd reason cost of money for banks has shot up

Commercial Banks

percent of assets as of June 30

Core capital 7.9
needed to be "well capitalized" 6.0

Real estate loans 36.0
Mortgage backed securities 9.9

3rd reason since end of quarter 2, bank capital has fallen
How Will We Recover?

1. Monetary policy very stimulative now.
   (But remember the time lag: 6 to 12 months)

2. Bailout plan provides liquidity, capital to banks
   (but banker attitudes will take some time to change)

3. After consumers cut back spending for a few months
   money will burn holes in pockets

4. Exports, especially to Asia, will continue strong

In a year or two, the Fed will have to absorb the
liquidity they've been spreading around.