

## DELEVERAGING IS UNDERWAY

WEB BUZZ 2009.03.16

### Domestic Non-financial Sectors Flow of Funds Federal Reserve

<u>Period</u>	<u>Total</u>	<u>Home Mortgage</u>	<u>Consumer Credit</u>	<u>Business</u>	<u>State &amp; Local</u>	<u>Federal</u>
4Q07 .....	\$2472.7.....	\$600.8.....	\$104.3.....	\$1273.3.....	\$165.4.....	\$268.2
4Q08 .....	\$2088.5.....	-\$163.0.....	-\$83.0.....	\$185.3.....	\$26.7.....	\$2155.2
TOTAL.....	-\$384.2.....	-\$763.8.....	-\$187.3.....	-\$1088.0.....	-\$138.7.....	\$1887.0

The above are seasonally adjusted annual rates comparing 4Q07 with 4Q08. Please note that the individual sectors do not add to the total, as we left some minor sections out. This, my friends, is what deleveraging is all about. The only major sector left out was domestic financial, which increased their borrowing by some 20%. Of course, most of that was guaranteed by the federal government. Can the Feds borrow money or what?

Some analysts have indicated that approximately 50% of GDP growth over the last ten years has come from excessive growth of debt on the part of economic participants. If that is the case, then one can easily project that something on the order of 1% per year can be deducted from future GDP growth once the recession (depression) has concluded. The inflation bias, which everyone seems to be burdened with, will have difficulty reappearing under these conditions. Demand is destined to be lacking

**for a long period of time, and those who expect inflation to bail out their business model mistakes are in for a rude awakening.  
Frugality has appeared on the American scene.**