

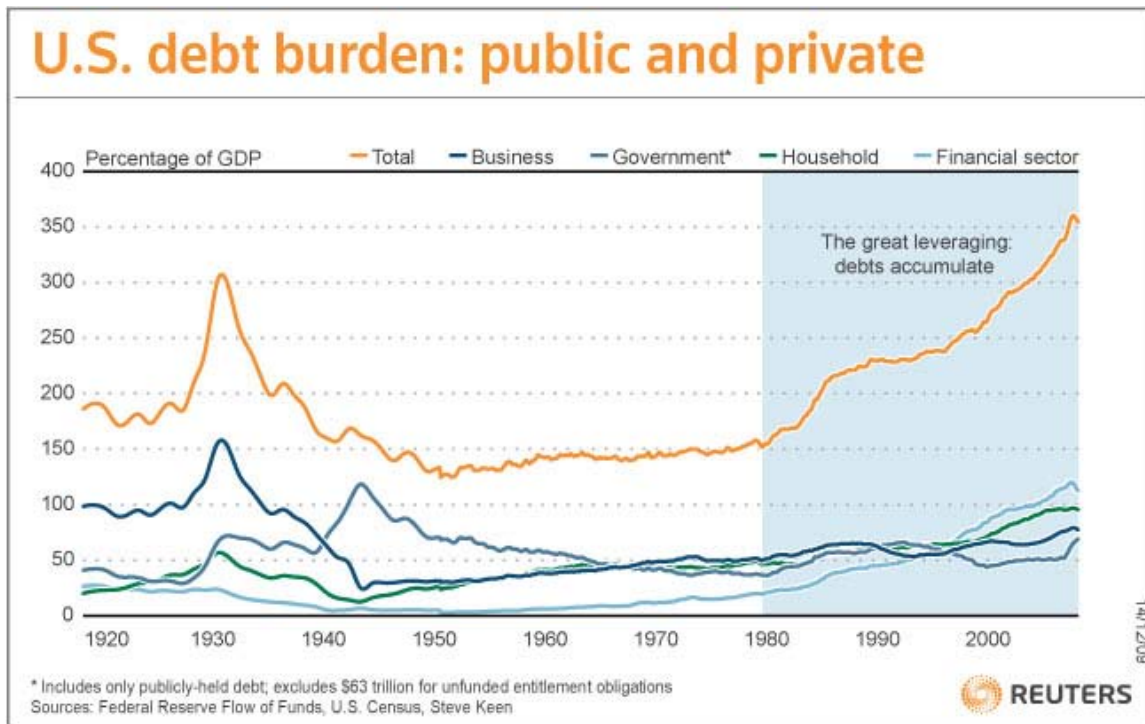
HALF STEAM AHEAD WEB BUZZ 2009.12.21

On an annualized basis, the increase in domestic nonfinancial sector debt growth in the third quarter of 2009 was \$965.6 billion. This was the smallest amount since 2000. The highest such growth was in the third quarter of 2007 (two years ago). That amounted to \$2.78 trillion. In other words, debt is now growing at one-third the rate of the blow-off top. The following is a breakdown by economic sector:

Domestic Nonfinancial Debt	
Third Quarter 2009 Annualized	
<u>Sector</u>	<u>Amount</u>
Household	-\$351.3 billion
Business	-\$283.9 billion
State & Local	+\$115.9 billion
<u>Federal</u>	<u>+\$1,484.9 billion</u>
Total	+\$965.6 billion

While the private sector was reducing debt in the amount of \$635.2 billion, the public sector was increasing its debt by \$1,600.8 billion. This, my friends, is an upside down arrangement. The private sector feeds the public sector with taxes on their income, while the public sector creates no income. Yes, we know that this is supposed to be a short term affair that is meant to prop up the private sector until it can get on its feet again; however, there will be a payback time that is sure to sap the strength of our engine of growth because of higher taxes and more regulation. And if history is any guide, the public sector is apt to just keep on spending.

For a graphical representation of the U.S. debt burden, note the following chart:



Adapted from Reuters

In our numbers presented previously, we did not include the financial business sector, which is included in this chart. Again on an annualized basis, this sector has reduced its debt load by approximately \$1 trillion so far this year.

If the economy is to grow at a normal sustainable rate, we must see some additional borrowing by the private sector. It appears that it will be some time coming. Therefore growth is destined to be below trend for quite a while. Then, of course, when incomes and profits do start to advance, Uncle Sam will want his money back in the way of higher taxes.