Certified Gold Exchange, Inc.

Views and Analysis on the Economy and Precious Metals

ORE-VISION

A QUARTERLY NEWSLETTER

3rd QTR 2008

VOLUME 24, NO.3

Triage In Financial Markets

Darryl Robert Schoon

Global financial markets are in extreme triage following the credit contraction of August 2007. It is believed central bankers are trying to restore markets to help the economy. In truth, they are like life insurance companies fighting to keep a wealthy patient alive so the high premiums will continue to be paid and the large death payout will be postponed.

It has been only nine months since credit markets unexpectedly froze in August 2007. The central bankers who were surprised by the summer 2007 credit contraction now hope the danger has passed. But they are about to be surprised again and soon.

We are witness to the unraveling of historic levels of debt caused by central bank issuance of debt-based money. That such issuance over three hundred years has led to trillions of dollars in constantly increasing compounding debt is not unexpected. What is also not unexpected is that someday the debt could not be repaid.

That realization is what happened in August 2007. Suddenly, buyers of debt, those in need of guaranteed downstream revenues realized $1.5 trillion of AAA rated subprime CDOs would not be repaid as expected. The consequences of that realization are now in motion.

When this happened, credit markets froze. The day of reckoning feared by *kreditmeisters* had arrived. Since then, central bankers have been furiously providing liquidity to banks, the intermediaries of credit, hoping to restore confidence in credit markets—but more liquidity will not restore confidence in debt any more than more money will satisfy the yearnings of the soul.

Once buyers of debt realized they could no longer trust AAA rated debt, the systemic risk to capitalism soared. The foundation of capitalism, a debt-based paper money system created by bankers, is confidence; and when a confidence game is being run, there is absolutely nothing more important than confidence.

When modern banking substituted credit driven debt-based paper money for gold and silver, every aspect of commerce was affected. Paper money with no intrinsic value, and its method of leverage, capitalism, are totally dependent on trust and confidence; and in August 2007, that confidence was shaken. Whether or not the damage is irreparable remains to be seen.

While credit driven paper money produces growth, it does so at the cost of stability. Today's multi-trillion dollar global economy is based on the banker's amalgam, an unsavory collection of credit, debt and speculative greed, a volatile combination that becomes increasingly unstable as it grows—and it has been growing now for over three hundred years.

Continued on page 2

Post-Subprime Economy Means Subpar Growth as New Normal in U.S.

Rich Miller and Matthew Benjamin

May 19 (Bloomberg) -- A normal U.S. economy is likely to look a lot different, and worse, after the credit crisis is over and financial markets settle down.

Companies will continue to struggle to raise cash for expansion and innovation as investors and lenders remain focused on conserving capital. Workers, too, may have less flexibility to go after new opportunities, because many will be stuck where they are -- in homes worth less than the balances on their mortgages.

Continued on page 8

Also Inside This Issue:

New home sales plunge to lowest level in 16 1/2 years

By Martin Crutsinger

New home sales plunge to lowest level in 16 1/2 years, prices drop by largest amount in 38 years

WASHINGTON (AP) -- Sales of new homes plunged in March to the lowest level in 16 1/2 years as housing slumped further at the start of the spring sales season.

The median price of a new home in March, compared with a year ago, fell by the largest amount in nearly four decades.

The Commerce Department reported Thursday that sales of new homes dropped by 8.5 percent last month to a seasonally adjusted annual rate of 526,000 units, the slowest sales pace since October 1991.

The median price of a home sold in March dropped by 13.3 percent compared with March 2007, the biggest year-over-year price decline since a 14.6 percent plunge in July 1970.

The dismal news on new home sales followed earlier reports showing sales of existing homes fell by 2 percent in March. Housing, which boomed for five years, has been in a prolonged slump for the past two years with sales and home prices falling at especially sharp rates in formerly boom areas of the country.

For March, sales were down in all regions of the country, dropping the most in the Northeast, a decline of 19.4 percent. Sales fell by 12.9 percent in the West, 12.5 percent in the Midwest and 4.6 percent in the South.

Continued on page 6

Triage In Financial Markets

Continued from page 1

CAPITALISM'S MINSKY MOMENT

The late economist, Hyman Minksy, is a name increasingly heard in these increasingly problematic times. Minsky's hypothesis was rather direct in its clarity, that as capital markets mature they became increasingly unstable, that over time investments become more speculative leading to heightened instability, which culminates in market corrections whose severity is a function of previous excess.

Time is a key ingredient in Minsky's observations on the instability of capital markets. Capital markets came into existence in 1694 when the Bank of England, its central bank, was established. The ensuing three hundred plus years have given capital markets more than enough time to mature—and collapse. Minsky's moment, the bane of maturing markets, is now at hand.

DEBT—CURSED BE THE TIE THAT BINDS

The world is now bound as never before by the bonds of debt that cross national boundaries. Globalization is the name for the spread of England's central banking system that has given bankers increasing control over global productivity while indebting virtually all of humanity.

Capital markets built on credit and debt need to continually expand in order to service previously created compounding levels of debt. When only England was on a credit-based system, as long as England's empire expanded its increasing debts could be absorbed; but when England's expansion slowed, so too did its economy.

The conundrum of the necessity of continual economic expansion is now being played out on a global scale. Now, the entire world is based on England's debt-based central banking system; and, consequently, unless the world economy continues to expand, the commensurate expanding edifice of global debt will collapse.

When global credit markets imploded in August 2007, the contraction of the world economy began. Since then, despite the best efforts of central bankers, global growth has continued to slow; and, after the present contraction has finally run its course, the world will be a far different place than it is today.

It has been only nine months since credit markets froze and uncertainty replaced the smug hubris of the world's then sanguine bankers. Only a year ago, the IMF was predicting yet another year of strong growth, now they see otherwise.

WHEN EVERYONE IS BLIND THE BLIND BELIEVE THEY CAN SEE

Today, bankers don't understand the trouble they are in because what is happening has never happened before—at least to them. The Great Depression was the last time a financial crisis happened on such a scale but the lessons of the Great Depression were those of another generation and lessons lost must be relearned by those who never knew them.

Unfortunately, we will learn the lessons together as we pay for what we collectively forgot and consciously denied. All of us, even the latecomers to capital markets in Asia, are vulnerable to the sinking boat of credit and debt built by western bankers over the past three hundred years.

Continued on page 8

Introduction to Minsky Theory "Stability Is Destabilizing"

Thomas Tan

Hyman Minsky, Ph.D. (1919 – 1996), was an economist and professor at Washington University in St. Louis, but stayed in New York during last 10 years of his life. A few years ago, almost no one had heard of him, until the current credit crisis. I first heard of him last year from an interview given by Jeremy Grantham of GMO, who was also only aware of him two years ago. With the recent subprime mess, suddenly his theory becomes a lot more pertinent and popular these days.

Minsky's research focused on the understanding and explanation of financial crisis. Minsky claimed that in prosperous times, when corporate cash flow rises beyond what is needed to pay off debt, a speculative euphoria develops, and soon thereafter debts exceed what borrowers can pay off from their incoming revenues, which in turn produces a financial crisis. As a result of such speculative borrowing bubbles, banks and lenders tighten credit availability, like right now, even to companies that can afford loans, and the economy subsequently contracts.

Minsky's core model is known as "Financial Instability Hypothesis" (FIH), which simply declares stability is inherently destabilizing.

"A fundamental characteristic of our economy," Minsky wrote in 1974, "is that the financial system swings between robustness and fragility and these swings are an integral part of the process that generates business cycles."

Disagreeing with many mainstream economists, he argued that these swings, and the booms and busts that can accompany them, are inevitable in a free market economy, unless government steps in to control them, through regulation, central bank action and other tools. He opposed the deregulation that characterized the long 18 years of Greenspan era. No wonder we are hearing a lot of talk about regulations recently.

Minsky broke down the process from stability to instability into three types of debt phases: hedge, speculative, Ponzi.

The hedge phase describes that buyer's cash flows cover interest and principal payments for borrowers who obtain a debt to buy an asset. This way, the debt is self-liquidating, fully hedged, so it is a stabilizing factor in this economic phase.

The speculative phase is a step further on the risk side. In this phase, cash flows cover only interest payments, but not enough to amortize the principal. Obviously, this is less stabilizing since borrowers (or in this case on its way to be speculators) are betting on interest rates not going up and the value of the collateral not declining. The longer an economy is stable, the more incentive to speculate, and the more speculative borrowers become.

The ponzi phase is the last phase toward the end of the bubble. In this phase, cash flows cover neither interest rate nor principal, and it all depends on rising asset prices to keep the borrowers afloat. In the mortgage market, it becomes option-ARM, a negative amortization loan, or subprime with no ability of paying back, and all the MBS. In other fixed income markets, it becomes CDO, SIV, and leveraged loans, which private equity firms use for their leveraged buyouts, relying on their acquired business to maintain historical high revenue growth and profit margin.

Different than the speculative phase, this whole phase is hinged on the asset price (or the operating profit margin for private equity firms) to go up.

Continued on page 4

Barely surviving on credit cards

No longer able to turn their homes for cash, Americans are increasingly using plastic to meet their basic living expenses. But many can't afford to pay the bills.

Tami Luhby

NEW YORK (CNNMoney.com) -- These days, more and more people are saying "Charge it."

Finding themselves strapped for cash and unable to use their home as an ATM, Americans are increasingly turning to credit cards to cover gas, groceries and other living expenses.

But many find themselves struggling to pay the burgeoning bills at a time when even the basic needs are growing costlier.

"Other sources of money for a lot of Americans are drying up," said Dick Reed, regional counseling manager of Consumer Credit Counseling Service of Greater Atlanta, who sees more clients with mounting credit card debts these days. "Consumers just don't have a place to go to get money. They are digging themselves into a deeper hole not only to pay for normal living expenses, but to make minimum payments on outstanding debt."

Government and agency statistics illustrate this troubling trend. The Federal Reserve reported Wednesday that Americans' credit card debt jumped 6.7% in the first quarter of this year to $957.2 billion, This spike comes despite the fact that nearly one in three banks is tightening guidelines for credit cards.

Continued on page 4

Continued on page 7

Introduction to Minsky Theory "Stability Is Destabilizing"

Continued from page 3

They can't just stay flat or not decline, they have to go up, otherwise their investments will get wiped out. They are also betting that future buyers will buy these overvalued assets from them, assuming more new buyers will buy the same assets at even higher price from future buyers. It is an escalation of buying high and selling even higher.

In this three step process, the tendency of markets becomes more risky as they become seemingly more stable. The longer the markets seem to be stable, or appear more secure, the more risky and unstable they become. The false hope of security leads investors to extrapolate stability into the distant future.

In the Ponzi phase, the rising asset prices become a self-fulfilling prophecy. As more people enter the market and become speculators, they drive up the value of the collateral. In turn, they can borrow more to buy more assets to drive up the value further.

Eventually, financial systems are inherently susceptible to destructive bouts of speculation. Once the asset prices decline, as presently in the housing market, suddenly everyone realizes that the emperor has no clothes.

Additionally, complex financial derivative products contribute and accelerate this destabilizing process. Minsky indicated that banking is a profit-seeking business, "Bankers are merchants of debt who strive to innovate in the assets they acquire and the liabilities they market". Well

Continued on page 6

Barely surviving on credit cards

Continued from page 3

In Atlanta, debtors calling the agency in the first quarter of this year had an average of $29,300 in unsecured debt, primarily on credit cards, up from $25,700 in 2007. They spent $335 on groceries and $242 on gas, on average, in April. A year earlier, those outlays averaged only $291 and $181, respectively.

For many people, racking up credit card debt is not a choice they want to make, experts say. Not too long ago, they could have tapped into the equity in their homes through loans or lines of credit or refinancing. But this debt, which usually carries lower interest rates, is no longer as widely available with the collapse of the housing market.

So, faced with soaring costs for food and fuel, people find they must charge more to make ends meet.

"They are not able to increase their income, but their expenses are going up, so the credit card becomes a way to cope," said Sara Gilbert, executive director of the Consumer Credit Counseling Service in Fort Collins, Colo.

Reluctance

Take Lois Eldridge. The Arizona retiree has watched in dismay as her credit card balance doubled to $2,000 over the last few months. Higher gas and grocery prices forced her to charge these essentials for the first time late last year.

She has since drastically reduced her spending on clothing, entertainment and dining out. It's helped, but she says she's still adding about a $100 a month to her balance.

The retired criminology professor also has tried to get a job at a local college in order to supplement her Social Security and savings. But she found would-be employers either paid too little or told her she was overqualified. Her only other options were minimum-wage jobs at local retailers.

"My income has stayed the same, but my expenses are much more than they were last year, even with my attempts to cut back," said Eldridge, 71, who plans to put her federal tax rebate toward her debt. "I'm somewhat overwhelmed that I've had to use credit cards, which I've never had to do before. All I've done in the last four to six months is worry, worry, worry."

Eldridge isn't the only one worrying. Industry analysts say that both credit card balances and delinquencies are on the rise, a sign that a growing number of Americans can't afford their spending habits.

Not surprisingly, those facing the greatest stress tend to be in weak housing markets who are already struggling with their mortgage payments, experts said. Also, as unemployment ticks up and companies cut back on overtime, some people find they don't have enough income to pay the bills.

Falling behind

To be sure, many use their credit cards for convenience and pay their bills on time, sometimes to take advantage of reward programs. But cracks are appearing.

Credit card delinquency rates hit a 4-year high of 4.53% in February, according to Moody's, a debt rating agency.

Continued on page 7

The Ticking Credit Card Time Bomb

Peter Schiff

For those holding out hope that the American economy can miraculously avoid a long and deep recession consumer credit is often viewed as the wonder drug that can cure all manner of economic ills. As such, this week's report showing $15 billion growth in consumer credit was widely heralded as proof of America's economic strength and resilience. However, we are now suffering the after effects of too much debt, and our salvation cannot be found in more of the same.

Credit card debt, which now stands at whopping $957 billion nationally (approximately $3,000 for every citizen) has, in recent years taken on a different role in American life.

While in the past cards were used primarily to purchase big ticket items, spreading out costs over many months, they are now increasingly used to bridge the gap between cost of living and the diminishing purchasing power of Americans who have been taxed mercilessly by inflation. By buying with available credit instead of unavailable cash, consumers are not simply postponing the pain of higher prices, but compounding it by adding interest to the cost of everyday purchases. In addition, as home equity credit is now unavailable to fund large purchases, many consumers are turning to non-deductible, higher cost credit card debt as the last remaining lifeline.

As such, credit card debt compounds steadily, and for many borrowers, becomes increasingly impossible to pay down.

The statistics tell the tale. According to Equifax, a credit card analysis firm, people have been buying more with their credit cards but paying down less. As a result average balances jumped nearly 9% in 2007 and delinquency rates recently hit a 4-year high of 4.5%.

Also, the reliance on credit cards is preventing some of the markets salutary forces from working. With credit always an option, domestic demand remains strong despite rising prices. Absent the option of putting more costly gasoline on their credit cards, Americans might have actually been forced to cut back on their consumption, taking some of the upward pressure off gas prices.

It should be painfully obvious that expanded consumer credit is not evidence of improvement, but simply, deterioration. Unfortunately, when it comes to understanding the economy, there is little common sense on display. By going even deeper into debt just to make ends meet, American consumers are digging themselves, and our entire economy, into an even greater economic hole and laying the foundation for the next major credit debacle. It's fitting that just as both Treasury Secretary Paulson and JP Morgan CEO Jamie Dimon declared that the worst of the crisis has past, we are on the verge of kicking the whole thing into a much higher gear!

My guess is that many Americas continue to run up massive credit card debt because they have little intention of every paying it off. Since many who are underwater on the home loans, and behind on the auto and student loans see bankruptcy as a foregone conclusion, they see no downside to pilling on as much debt as possible while the taps remain open.

Those choking on credit card debt may also be taking cheer from the gathering government campaign to bail out over-leveraged homeowners. The sheer numbers of who are afflicted with spiraling monthly payments will make credit card relief a potent political issue for crusading Congressman and Presidential candidates. After all, there are few fundamental differences between those who borrowed too much to buy houses and those who made the same mistake with consumer goods.

If the government bails out the former why not the latter? In fact, one reason some homeowners have such large mortgages is that they consolidated their credit card debts into their mortgages each time they refinanced. Why should renters be forced to pay off their credit card debts while homeowners have theirs forgiven?

Soon, as credit card delinquencies rise and losses on pools of securitized credit card debt mount, those supplying the credit will finally get wise to the fact they will never get their money back. As a result the market for such debt will dry up even more quickly than did the market for subprime mortgages. Cards will therefore be much harder to come by and will have much lower limits then they do today. Limited to only the cash in their wallets, Americans will finally be forced to dramatically curtail their spending, and the recession will finally gather serious momentum.

Article by:
Peter Schiff
May 2008

Introduction to Minsky Theory "Stability Is Destabilizing"

Continued from page 4

said. Investment banking is basically to "innovatively" package and securitize assets acquired, and then to market and sell them to unsuspicious investors at profits.

However, I am sure in the 1970s, Minsky would have never imagined the level of "innovation" from investment banks by creating complex financial instruments such as mortgage backed securities (MBS), collateralized debt obligations (CDO), and CDO tranches, let alone CDO-squared (tranches from CDO tranches), CDO-cubed (tranches on top of CDO-squared) or the most abusive credit default swaps (CDS).

The more layers of derivatives on top of each other, the more sensitive they are to any tiny change of the underlying variables and assumptions. No wonder many AAA rated CDOs have only a 50% rate of recovery, and everything else including AA and single A is pretty much all wiped out.

There is no doubt that we are in the reverse Minsky process, with asset prices falling and collateral being wiped out, risk premiums moving to the astrosphere, deleveraging everywhere, lack of lending, no refinancing, and the economy contracting in jobs, income and spending. We just hope that hyperinflation like the 1970s doesn't join this ongoing party at the worst possible time, and also that the present reverse Minsky process is not going to be as long as his forward process.

Article by:
Thomas Tan, CFA, MBA
Mav 7. 2008

New home sales plunge to lowest level in 16 1/2 years

Continued from page 2

In other economic news, orders to factories for big-ticket manufactured goods fell for a third straight month in March, the longest string of declines since the 2001 recession, while applications for unemployment benefits fell by 33,000 to 342,000.

The Commerce Department said demand for durable goods dropped by 0.3 percent last month, a worse-than-expected performance that underscored the problems manufacturers are facing from a severe economic slowdown. The last time orders fell for three consecutive months was from February to April of 2001, when the country was sliding into the last recession.

The weakness in manufacturing orders was led by a 4.6 percent drop in orders for autos, a sector hard hit by soaring gasoline prices, and the weakening economy, which have cut sharply into car sales. Orders in the category that includes home appliances fell by 6.6 percent. This industry has been hurt by the two-year slump in home sales.

President Bush said Tuesday that the economy was not in a recession but a period of slower growth. However, economists who believe the country has fallen into a recession pointed to the string of declines in manufacturing orders to support their view.

"The broad swath of data in the March (orders) report is indicative of a mixed set of conditions in a factory sector that is, overall, in a mild recession," said Cliff Waldman, economist for the Manufacturers Alliance/MAPI. The Labor Department reported that claims for unemployment benefits fell by 33,000 last week to 342,000. Economists had been expecting claims to rise by 3,000. The four-week moving average for claims fell by 7,250 to 369,500. Even with the improvements, analysts said the weak economy is still putting greater pressures on the labor market. The unemployment rate climbed to 5.1 percent in March as businesses laid off the largest number of workers in five years.

Economic growth slowed to a near-standstill at the end of last year as the economy was battered by the prolonged slump in housing and a severe credit crunch that has resulted in billions of dollars of losses at many of the nation's largest financial institutions and has made it harder for consumers and businesses to get loans.

Consumer sentiment, meanwhile, has plunged to recessionary lows as Americans have also watched gasoline soar to an average price above $3.50 per gallon nationally. The 0.3 percent drop in orders for durable goods, items expected to last at least three years, followed even bigger declines of 0.9 percent in February and 4.4 percent in January.

Orders for all transportation products fell by 4.6 percent, reflecting the big drop in demand for autos. Orders for commercial aircraft actually rose by 5.5 percent while demand for defense aircraft surged by 29.4 percent. Many defense industries have seen big increases reflecting the wars in Iraq and Afghanistan.

A key category viewed as a proxy for business investment plans showed no increase in March after a big 2 percent drop in February. Businesses have cut back on plans to expand and modernize as the economy has softened.

Article by:
Martin Crutsinger, AP Economics Writer
April 24, 2008

Citigroup Sees Second Giant Loss

Citigroup has suffered a second massive loss and is cutting 9,000 jobs as the credit crisis continues to take its toll on the biggest US bank.

It made a loss of $5.11bn (£2.7bn) in the first quarter, although this was smaller than the $9.8bn loss reported in the final three months of 2007. The results included about $12bn of write-downs for sub-prime mortgages and other risky assets. Citigroup employs about 369,000 people worldwide, including 11,000 in London. The job cuts are on top of 4,200 layoffs announced in January.

Lenders worldwide have written off more than $200bn hit by the credit crisis. "Our financial results reflect the continuation of the unprecedented market and credit environment," said Citigroup chief executive Vikram Pandit.

Only Switzerland's UBS has reported bigger write-downs and credit losses than Citigroup from the collapse of the sub-prime mortgage market.

'Cathartic quarter'

The loss was slightly deeper than many analysts had expected but European and US stock markets rose in relief there were no nasty surprises. "It's a cathartic quarter," said Arthur Hogan, chief market analyst at Jefferies & Co in New York. Citigroup shares climbed 4.5% in New York to finish at $25.11 - still about half what they were trading at last year.

"The market is shrugging it off. We knew there were going to be write-offs and [Citigroup] hasn't yet said anything far too negative," said Andrea Williams, head of European equities at Royal London Asset Management.

Earlier this week, Citigroup rival Merrill Lynch said it lost $1.96bn in the first quarter of 2008 and unveiled plans to cut about 4,000 jobs worldwide. Merrill's results included about $4.5bn of sub-prime related write-downs.

Revenue halves

Citigroup's revenues plunged 48% to $13.2bn as the firm wrote-down the value of assets linked to sub-prime mortgages - those given to people with poor or patchy credit histories. Of the write-downs, $6bn was directly related to the sub-prime market, with the remainder due to other assets and exposure affected by the credit crisis.

It also saw a $3.1bn increase in consumer credit costs due as people failed to keep up with payments on mortgages, unsecured personal loans, credit cards and auto loans.

Last year, investments and assets based on sub-prime loans quickly soured as higher interest rates pushed up mortgage payments and triggered a wave of defaults.

Banks became more reluctant to lend to each other as the scale of bad debts remained unknown, leading to a shortage of credit worldwide.

The credit crunch resulted in the collapse of US banking giant Bear Stearns and is being felt in the wider economy as consumers pare back debt-fuelled spending and grapple with higher mortgage payments.

Article by:
BBC News
April 18, 2008

Barely surviving on credit cards

Continued from page 4

"Once they've fallen behind, it's increasingly difficult for them to become current on their credit card payments again," said William Black, senior vice president at Moody's.

"It's a more challenging economic environment. There's less money to go around."

Meanwhile, card balances have been creeping up steadily since the start of 2006, and jumped nearly 9% during 2007, according to Equifax, a credit data and analysis firm.

That's due to a combination of people spending more and paying off less each month, said Myra Hart, senior vice president of analytical services at the firm.

The number of credit cards issued has also risen. At the end of 2007, there were 420 million cards on the market, up 7.6% from a year earlier.

Americans are carrying high levels of debt, compared to historical levels, while their savings rate is quite low, Hart said.

"In the long term, that's not a good thing," she said. "We're really at a tipping point for consumer credit. It depends on what happens to the economy and employment."

Growing balances and delinquencies aren't good for the economy, which is dependent on consumer spending, said Bill Hampel, chief economist at the Credit Union National Association.

"A lot of people will quit going out to dinner if they see their balances rise," Hampel said. "This will hurt the economy."

Article by:
Tami Luhby, CNNMoney.com senior writer
May 9, 2008

Triage In Financial Markets

Continued from page 2

HOW LONG IT FLOATED
HOW QUICKLY IT SANK

In May 2008 we are at the cusp of the crisis.

Those still in denial hope we are closer to its end than its beginning; but, if we are, that means the descent will be quick and brutal instead of protracted and painfully slow. Either way, the end will be the same.

The daisy chain of debt constructed by bankers has now connected all of us, the solvent and insolvent alike.

Personal solvency will provide but little protection when countries, relatives, neighbors, banks, and employers and employees become insolvent.

Gold and silver will be among the few lifeboats and faith will be invaluable.

Article by:
Darryl Robert Schoon
drschoon.com
May 12, 2008

The Outstanding Public Debt
National Debt:
9,358,070,413,911.09
The estimated population of the United States is **304,018,491**
US citizen's share of this debt is
$30,781.25
The National Debt has continued to increase an average of
$1.50 billion per day
Business, Government and Financial Debt exceeds
$59 Trillion

Post-Subprime Economy Means Subpar Growth as New Normal in U.S.

Continued from page 1

``Once you've made terrible, overly optimistic errors, that paralyzes you for some time,'' says economist Paul Samuelson, a Nobel laureate.

The bottom line: The U.S. may have to get used to a new definition of normal, characterized by weaker productivity gains, slower economic growth, higher unemployment and a diminished financial-services industry.

Long-term growth in the U.S. may drop to 2 percent to 2.5 percent a year from the 3 percent rate of the last 15 years, according to Peter Hooper, chief U.S. economist at Deutsche Bank Securities in New York and a former Federal Reserve official.

Even after markets recover, ``the cost of risk capital is likely to be significantly higher than during the credit bubble,'' he says.

A record three-quarters of U.S. banks the Fed surveyed in April said they were charging corporate borrowers a higher premium over what the lenders pay for funds. More than half reported tightening lending standards.

Credit Losses
Behind the stricter terms: loans and investments made during the credit boom that went sour. Banks and financial institutions worldwide have racked up more than $340 billion in credit losses and asset writedowns since the start of 2007. David Rubenstein, chairman of the Washington-based private-equity firm Carlyle Group, says there's more to come, telling reporters May 12 that ``enormous losses'' have yet to be recognized.

``Credit conditions are more likely to tighten further in the near term than to ease,'' says Andrew Tilton, an economist at Goldman Sachs Group Inc. in New York.

Citigroup Inc. Chief Executive Officer Vikram Pandit told shareholders May 9 he plans to get rid of about $400 billion of assets during the next three years after the biggest U.S. bank lost $5.1 billion in the first quarter.

Article by:
Rich Miller and Matthew Benjamin
Bloomblerg.com

ORE-VISION
Views and Analysis on the economy and Precious Metals
Published by Certified Gold Exchange, Inc.
PRECIOUS METALS ASSET MANAGEMENT