Special report

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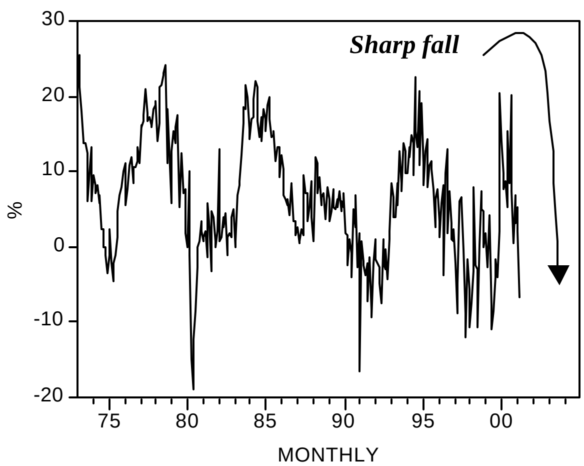
Sharp fall in US consumer loans

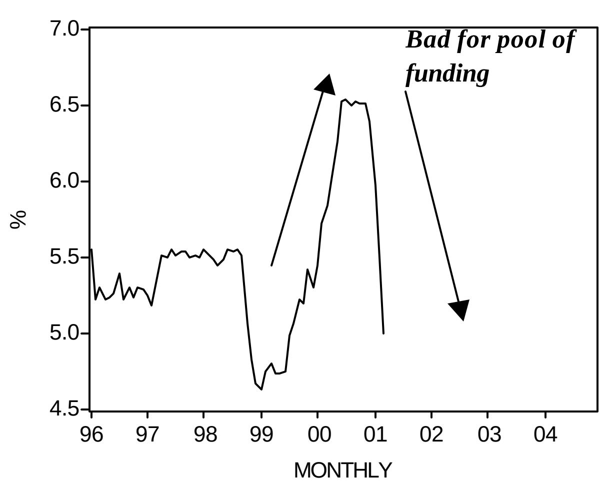
In the week ending March 14 commercial bank consumer loans fell by an annualised **6.7**% after rising by an annualised **2**% in February and **5**% in January (see chart). Business loans fell by an annualised **0.9**% after rising by **9**% in February and **16**% in January. The future direction of bank lending will be crucial in determining the state of the real pool of funding. ***A prolonged fall in lending will raise the likelihood that the real pool of funding is in trouble.***

%CHNG CONSUMER LOANS ANN.RATE



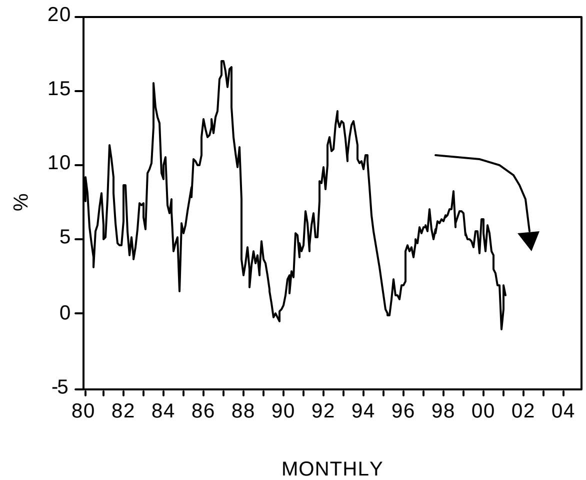
Meanwhile, the FED lowered the federal funds rate target by **0.5**% to **5**%. The FED has now lowered the federal funds rate target by **150** basis points since the start of the year (see chart). Most economists believe that it is necessary for the US central bank to lower rates in order to prevent the economy falling into a recession. This way of thinking is however, misguided. ***All that the artificial lowering of rates will achieve is to further dilute the real pool of funding, thereby weakening the potential for meaningful economic growth.***

FEDERAL FUNDS RATE



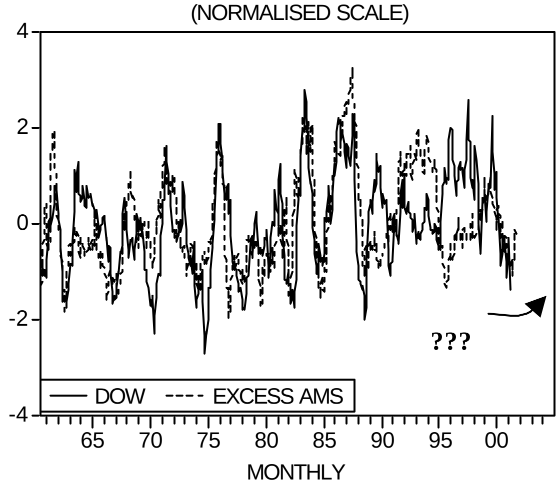
In the meantime in the week ending March 12 the yearly rate of growth of money AMS eased to **1.3**% from **2**% in February (see chart).

%CHNG MONEY AMS (Y/Y)



Excess AMS money growth fell to -**3.2**% from -**2.7**% in February. Notwithstanding this weakening, the overall momentum of growth of excess AMS displays a visible rebound since September last year. This in turn is likely to help the stock market, provided the real pool of funding is still holding (see chart). For the week the Dow Jones Industrial average lost **3.2**%. The Nasdaq Composite however, gained for the week **2**%. Year-on-year the Dow fell by **13**% after rising by **3.6**% in February.

Y/Y%CHNG:DOW VS EXCESS AMS LAGGED 6
(NORMALISED SCALE)



Thought for the week

A mistake is at least evidence that someone tried to do something.

Anonymous