



Correction, recession, depression?

13 March 2009



MAKE THINGS HAPPEN

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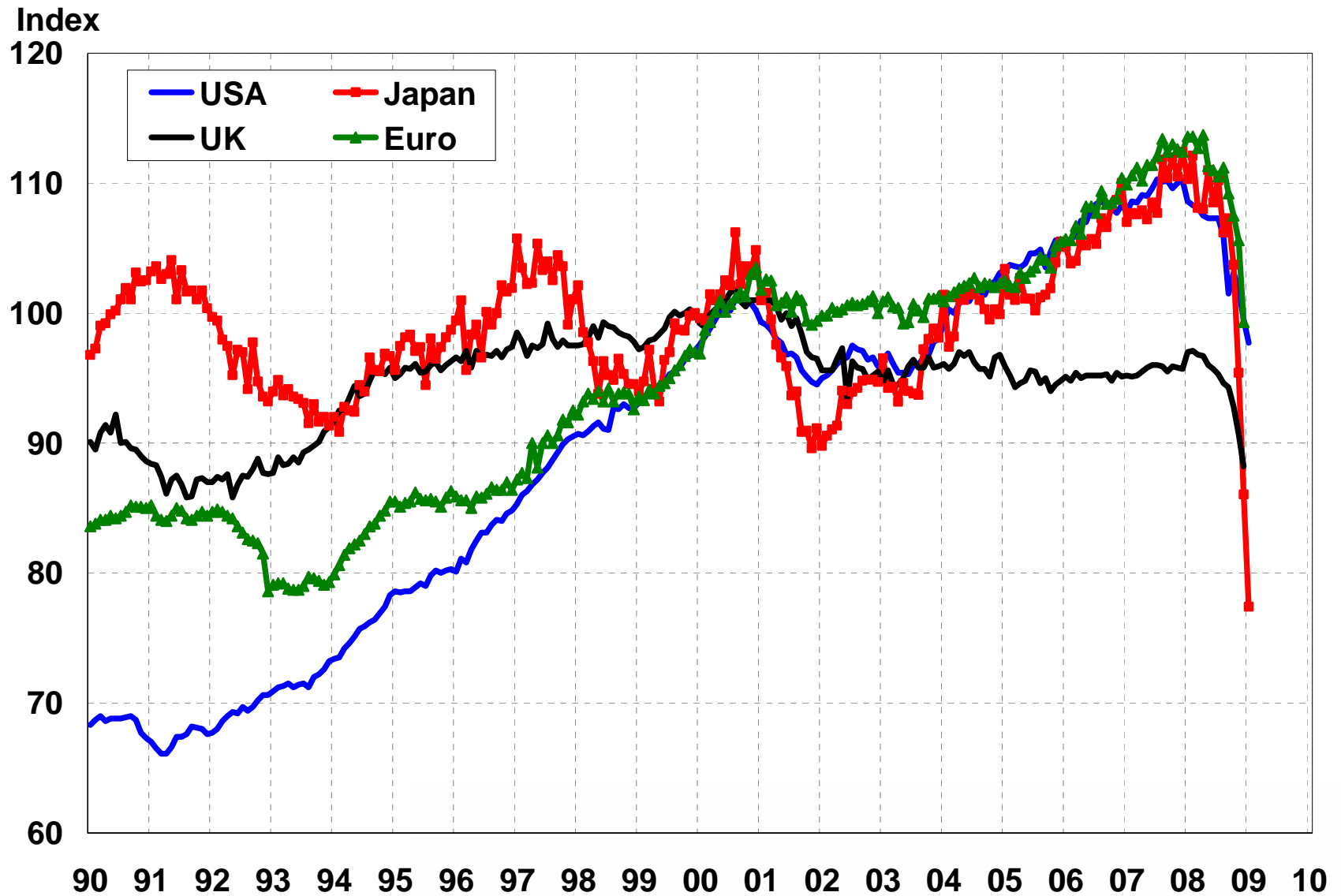
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What we do know

- This is unambiguously the worst 'event' since the 1930s

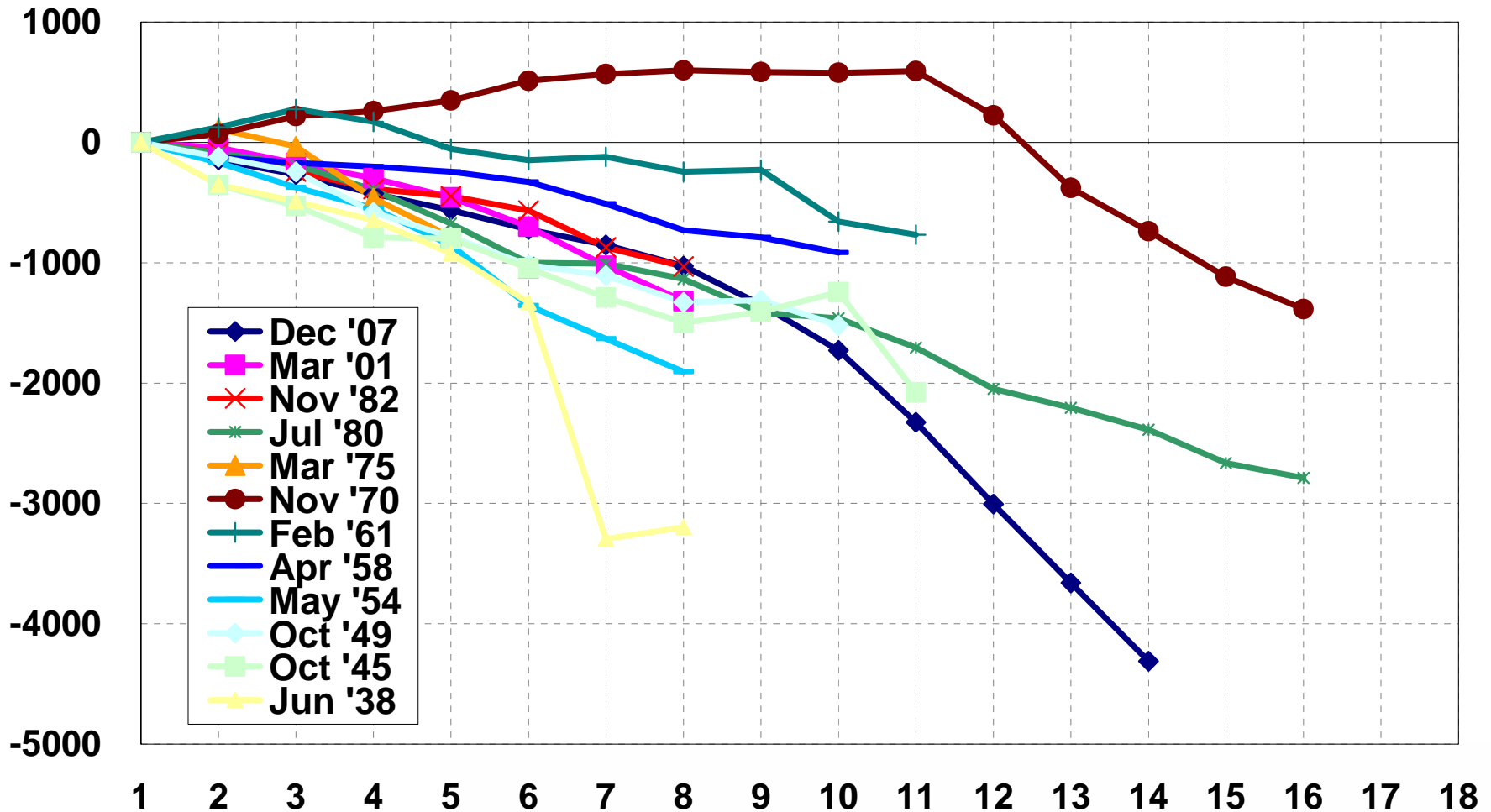


Industrial production has just stopped



US job losses are the worst since the 1930s

'000s of jobs lost in months since start of recession



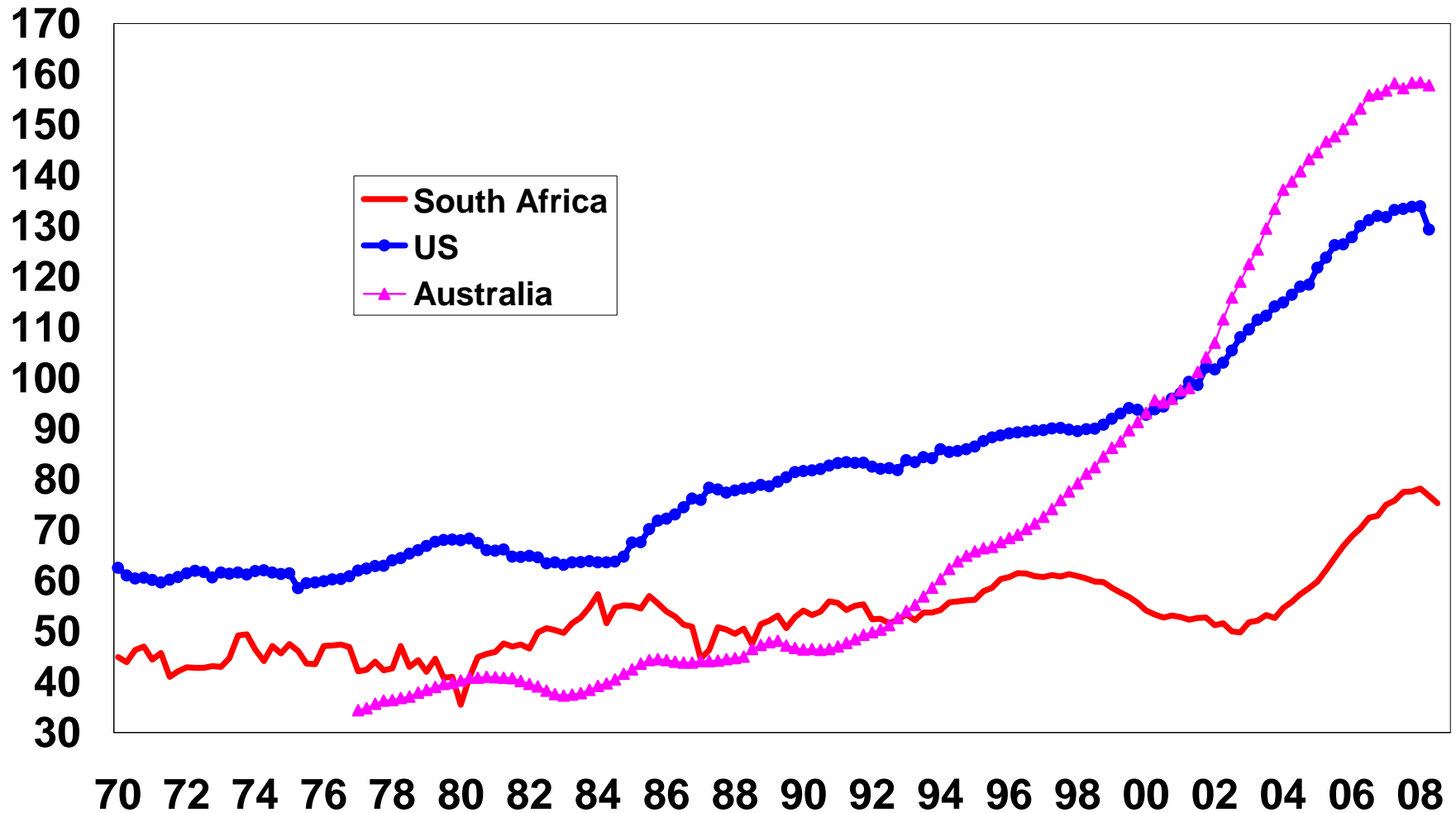
What we do know

- **This is unambiguously the worst 'event' since the 1930s**
- **Events such as these do not emerge overnight**
 - **Huge buildup in debt over more than a decade**
 - **Helped by financial innovation**
 - **Helped push up asset prices**
 - **But also justified by the rising wealth (asset prices)**
 - **Therefore self-reinforcing**
 - **Just needed a trigger – the rise of subprime ARMs and the Greenspan normalization**

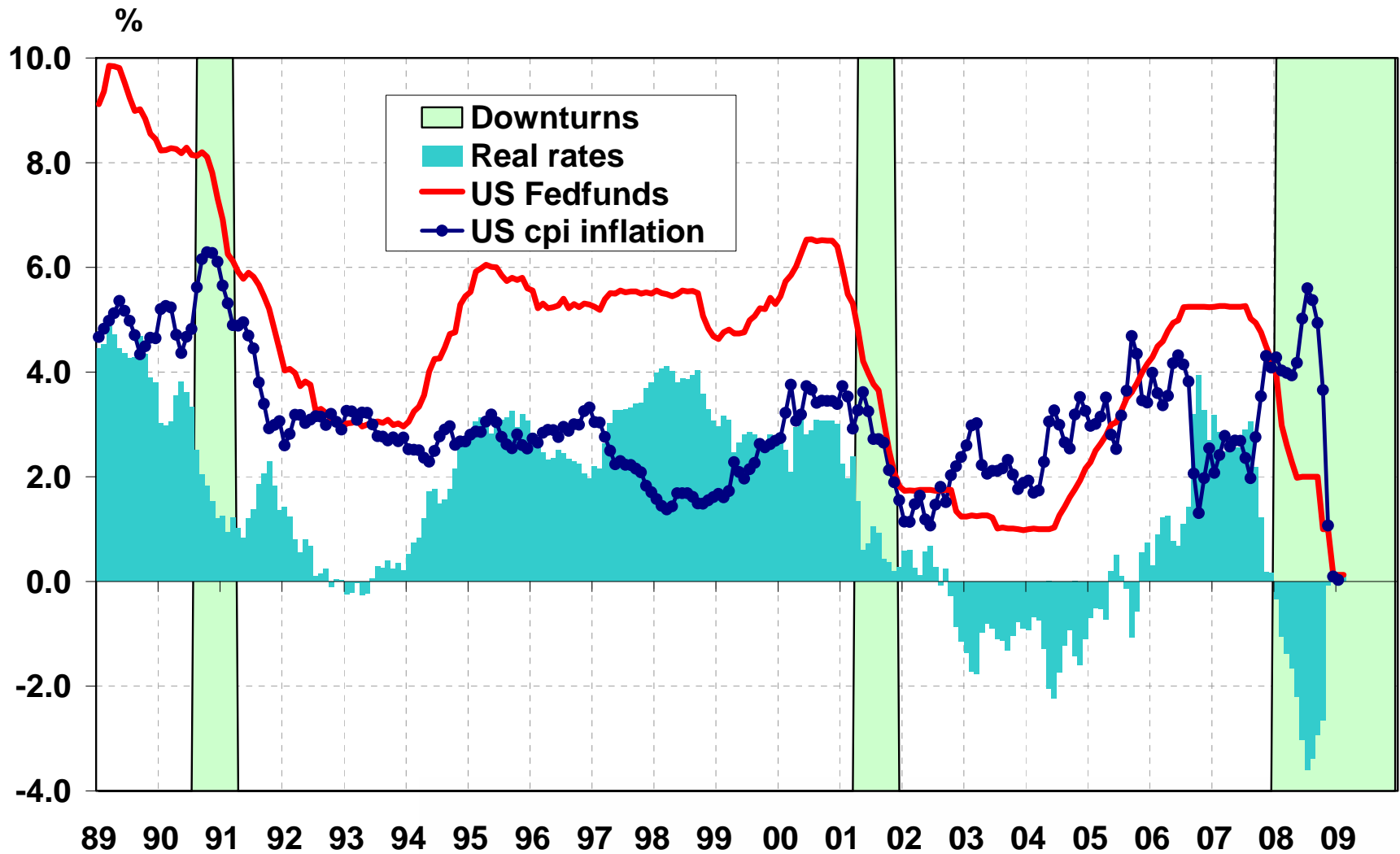


Higher debt made consumers more vulnerable

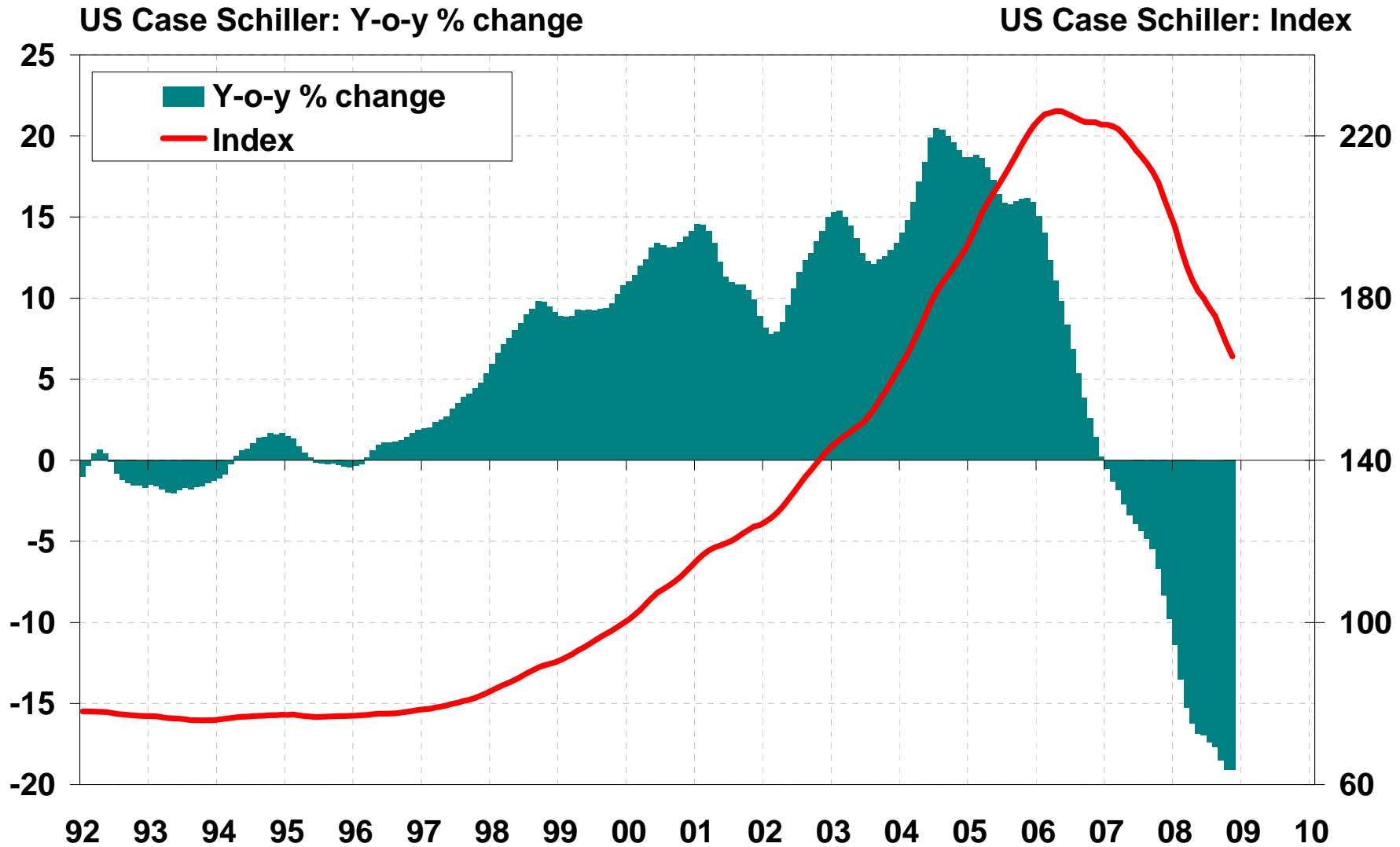
Household debt to disposable income (%)



The Greenspan 'denormalisation' and normalisation



Coinciding not coincidentally with house prices collapsing



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- **Events such as these do not emerge overnight**
- **Events such as these do not disappear overnight**
 - **Policy response has been unprecedented – bank bailouts, interest rate cuts, recapitalisation of banks, liquidity provision, quantitative easing, fiscal packages**



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 - Policy response has been unprecedented

BUT:

- Regional scope – unlike Japan, Sweden etc in previous episodes
- Complexity – more interconnected, interdependent
- Extent – not only withdrawal of credit but also the disappearance of securitized markets
- Loss of wealth has been massive – so has buildup of public debt
- Academic studies suggest crises of these nature affect the real economy negatively for, at least, two years

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- **Some comments on South Africa**
 - **Better positioned – direct impact of subprime**
 - **Not foreign funded (3% reliance)**
 - **Companies not foreign funded either**
 - **Gives Reserve Bank leeway to cut interest rates without worrying about exchange rate**
 - **Fiscal policy also well positioned**

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 - Better positioned – direct impact of subprime
 - Not foreign funded (3% reliance)
 - Companies not foreign funded either
 - Gives Reserve Bank leeway to cut interest rates without worrying about exchange rate
 - Fiscal policy also well positioned
- BUT:**
- Indirect impact will still be significant