

THE FED MAY NEED TO CEASE AND DESIST

DON'S BLOG 2018.02.26

I can't help but write about debt as you well know. It seems to be of little concern to most business analysts. I guess that is the reason I spend a good deal of my time following its trend. As you probably remember, main stream economists don't believe debt is a major factor in determining where we might be in the business cycle. After all, they say, one person's debt is another's asset. They balance out, so who cares? No one, it seems, until they do.

Let's look at some recent charts which depict how we presently stand concerning some critical debt numbers. Chart #1 below reflects the fact that credit card charge-offs are beginning to accelerate. Now note chart #2 which reports the net charge-off rate on credit card loans at all commercial banks. Not really so bad, but note chart #3. This is the same, except for all banks not in the top 100 in assets. This, folks, is a problem. Overall please note chart #4 which expresses the current percent of GDP bank credit amounts to as of last October. Has it topped up for this cycle? After all, the Fed has been raising short-term rates since year-end 2015. As I mentioned last week, borrowing rates around 5% or so now are about the same as maybe 10% ten years ago. Why? Look at the percent of bank credit to GDP in October 1997 (20 years) and 2007 (10 years). The math is not two times, on the other hand, the quality of credit is probably not as good. One last item concerning debt is reflected in chart #5. Note that the assessed internal rate is much higher than stated annual percentage rate. Why? Lower quality borrowers are late in payment, in default, or maybe borrowing cash (which is more expensive).

I think you get the picture. Markets don't seem to care now, but of course, they will in time. Meanwhile, I find it difficult to see where economic growth is accelerating, but what do I know?

Chart 1

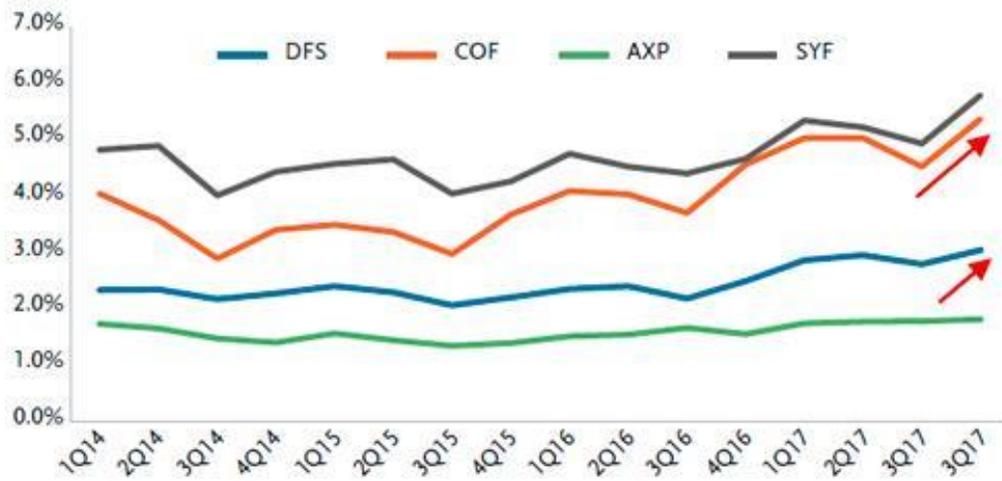


Chart 2

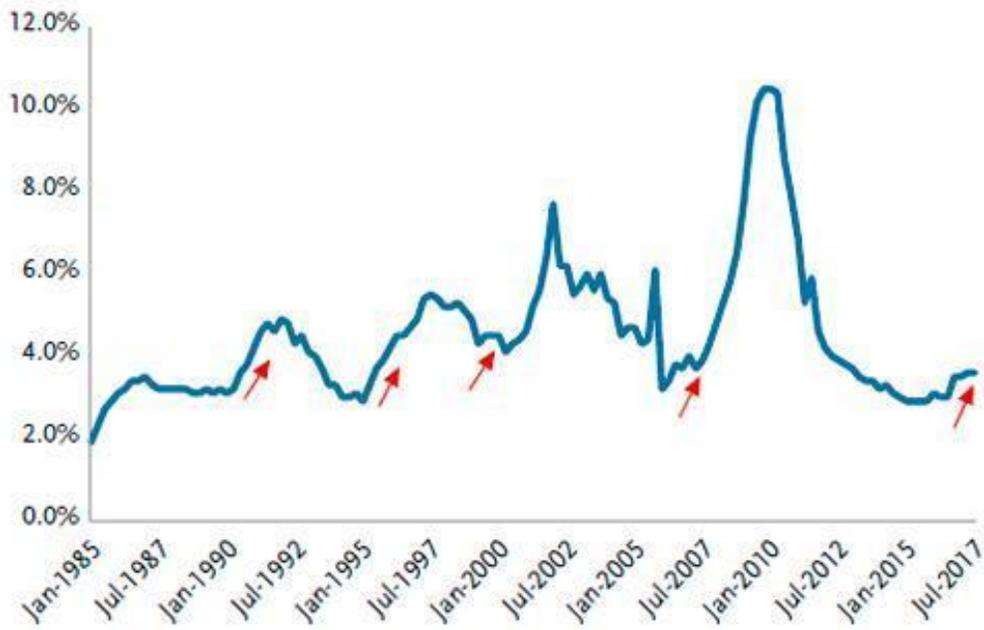


Chart 3

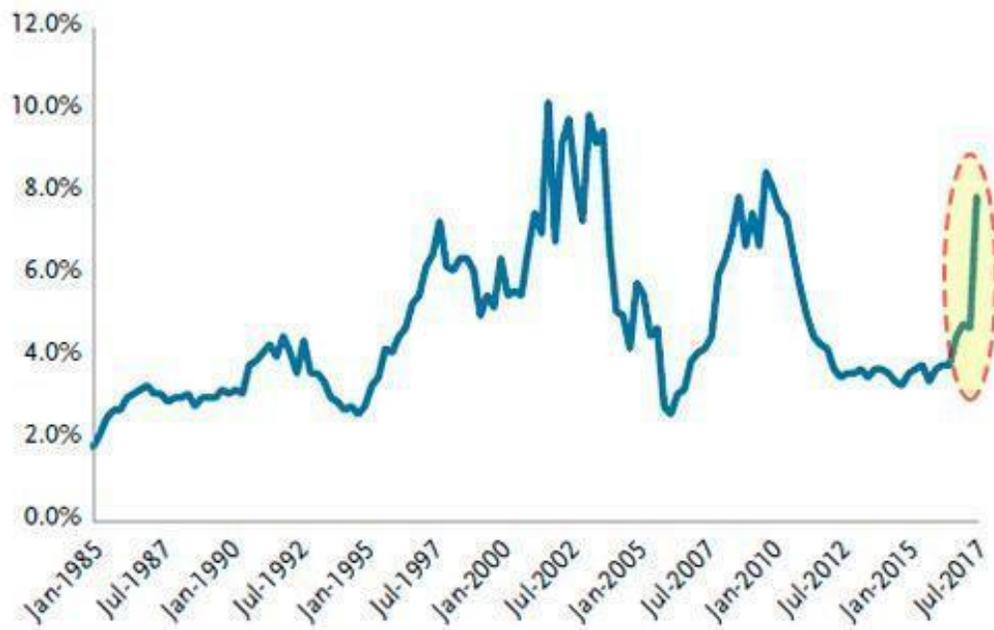


Chart 4

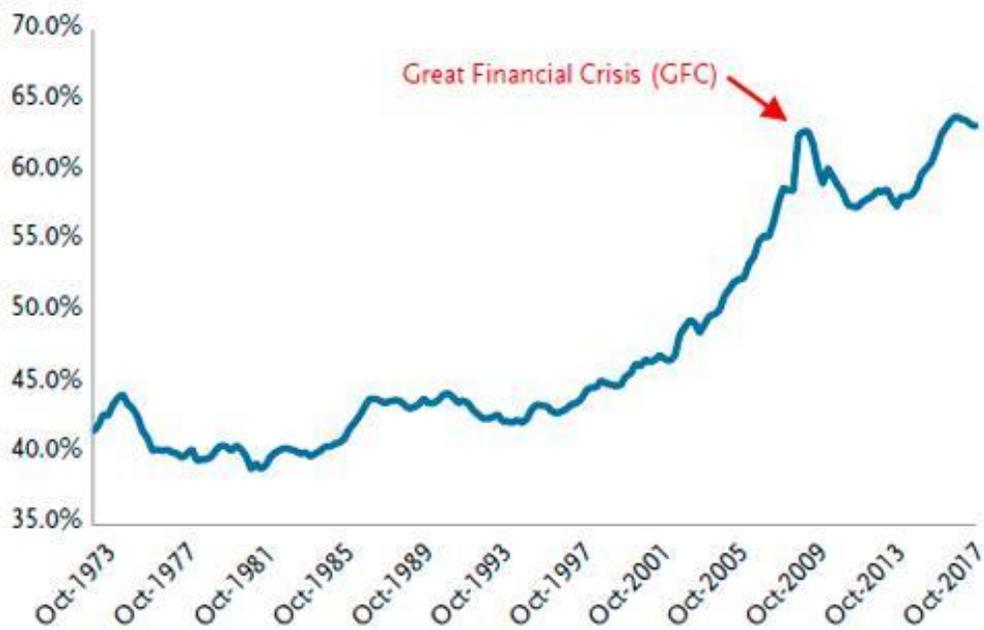
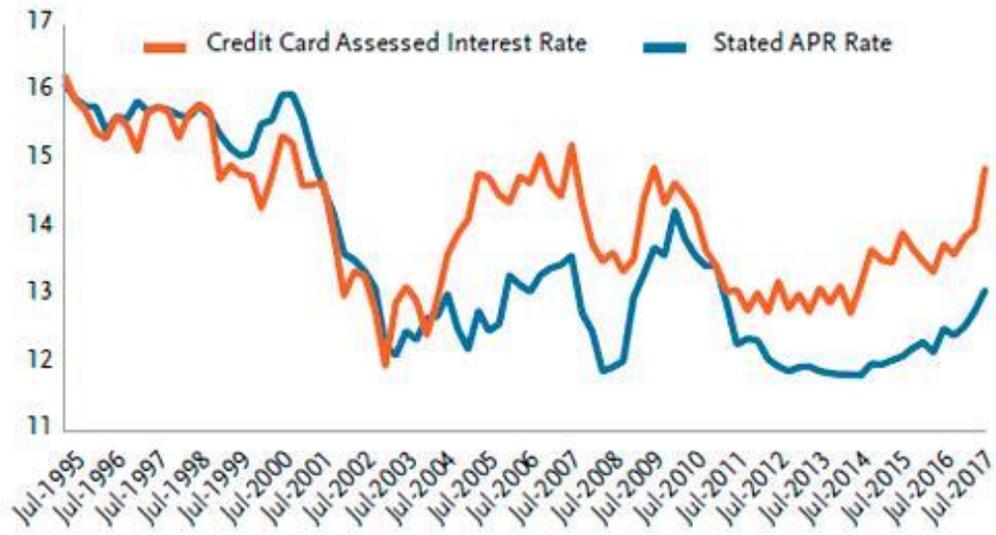


Chart 5



Adapted from [ZeroHedge](#)