

Living in the Econosphere
***You better take care of your social
environment so it can take care of you!***

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The Econosphere Is Your Social Environment

- 1. The Economy is a sustainable social ecosystem, comparable to our more obvious physical ecosystem.*
- 2. The Economy sustains us by providing incentives to conserve or produce more of scarce goods and services, as well as encouraging consumption of those things that are more plentiful.*
- 3. The essential raw material in the Econosphere is the human lifespan. It is the only essential raw material of consequence. Without it, everything else is worthless.*
- 4. Left unfettered, the economy provides us with the information we need to get the greatest value from our life.*

Don't Mess With Perfection!!

The Market Is Perfect

Information Is Imperfect

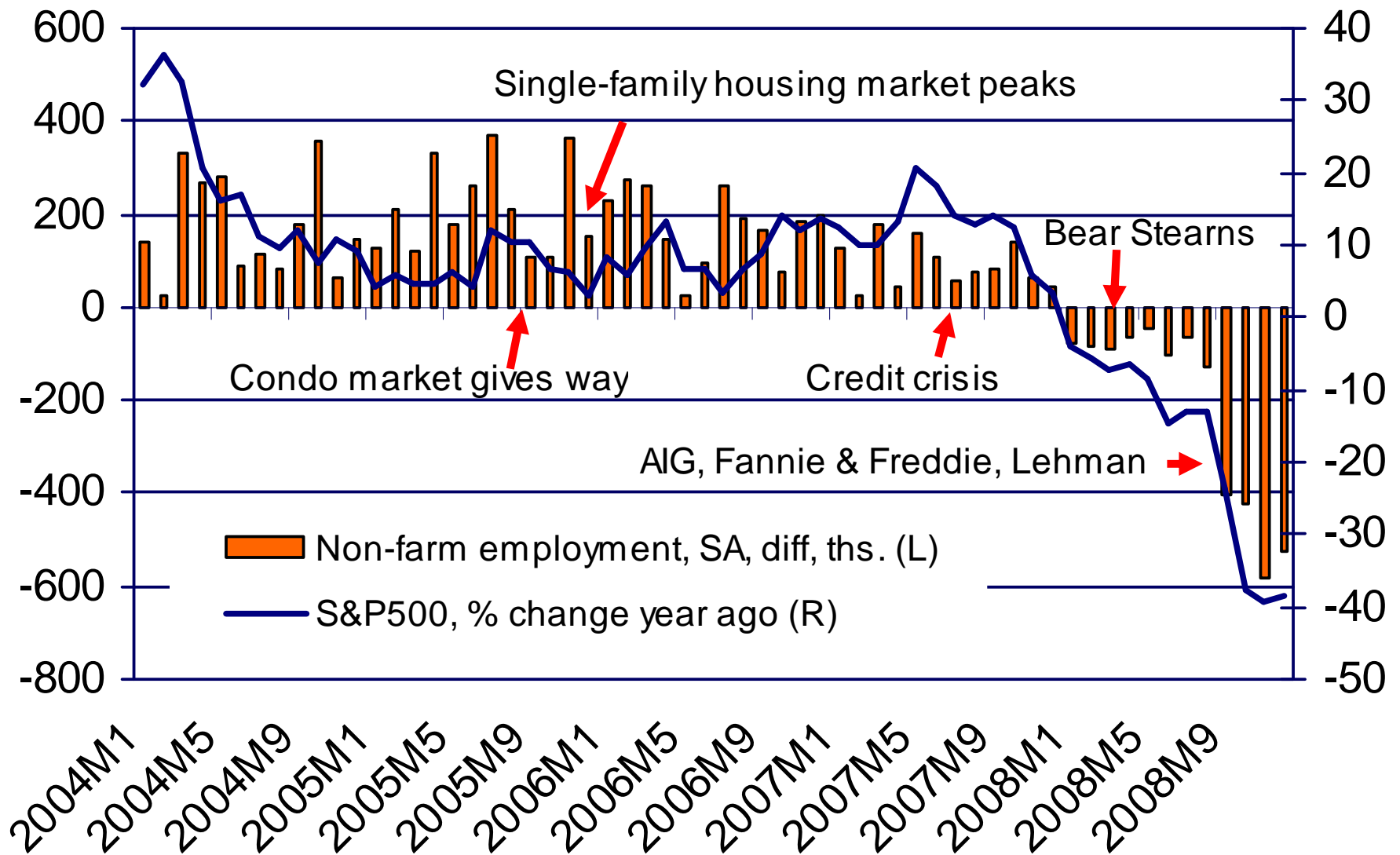
**Don't blame the market, blame our
information!!**

So Where Are We Today?



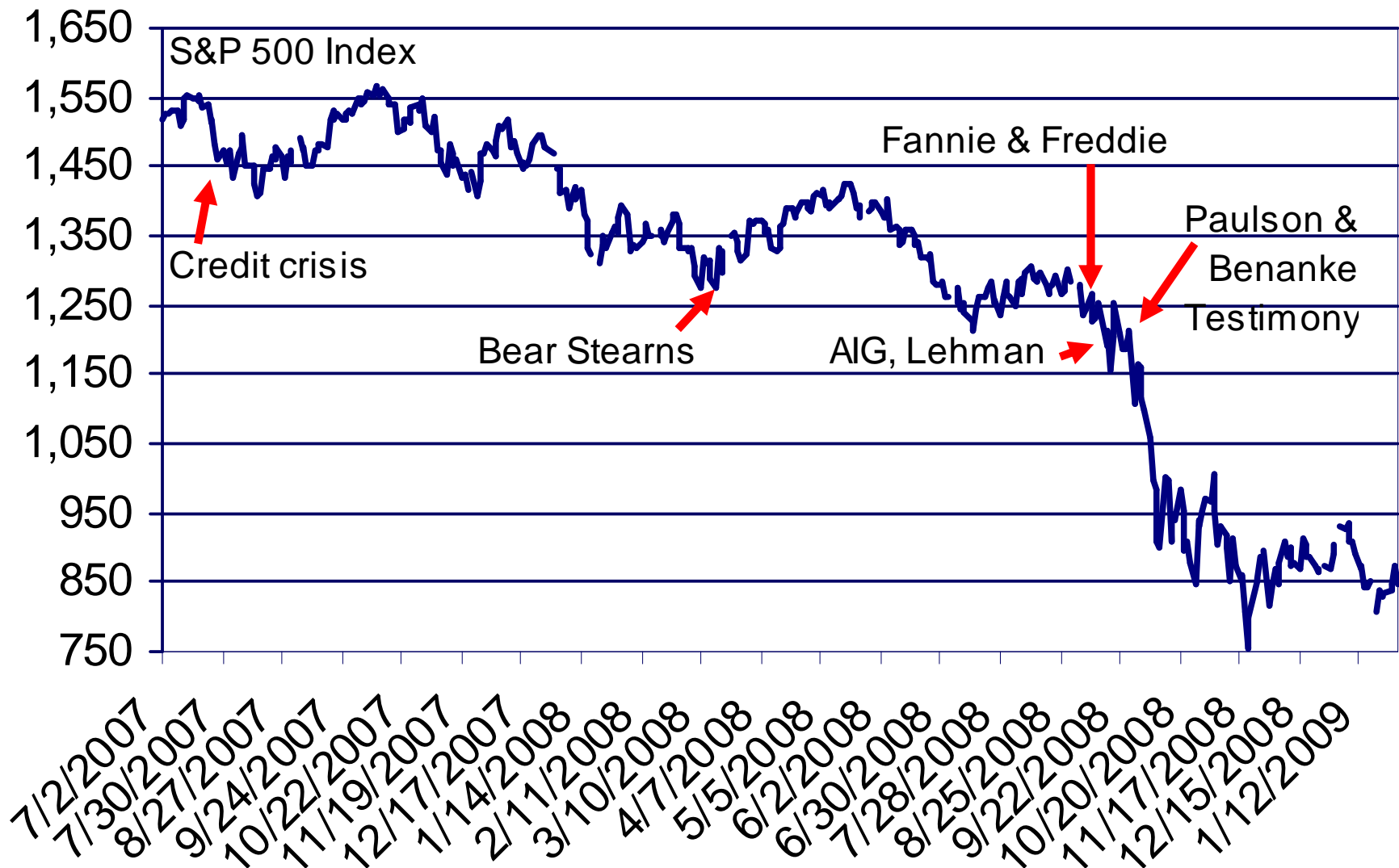
Source: Bureau of Labor Statistics

A Slow Moving Train Wreck With a Surprise Ending



Source: S&P

So Which Was the Straw that Broke the Camel's Back?



Source: Bureau of Labor Statistics, S&P

What Message Did Secretary Paulson Send?
Answer: I am scared and confused.



“Its Gotta Be Done This Week!” Secretary Paulson, Sept. 23, 2008

We must now take further, **decisive action** to **fundamentally and comprehensively address** the root cause of our financial system's stresses.

To **restore confidence in our markets** and our financial institutions, so they can fuel continued growth and prosperity, **we must** address the underlying problem.

The federal government must implement a program to remove these illiquid assets that are weighing down our financial institutions and **threatening our economy**. This troubled asset relief program must be properly designed and sufficiently large to have maximum impact ...

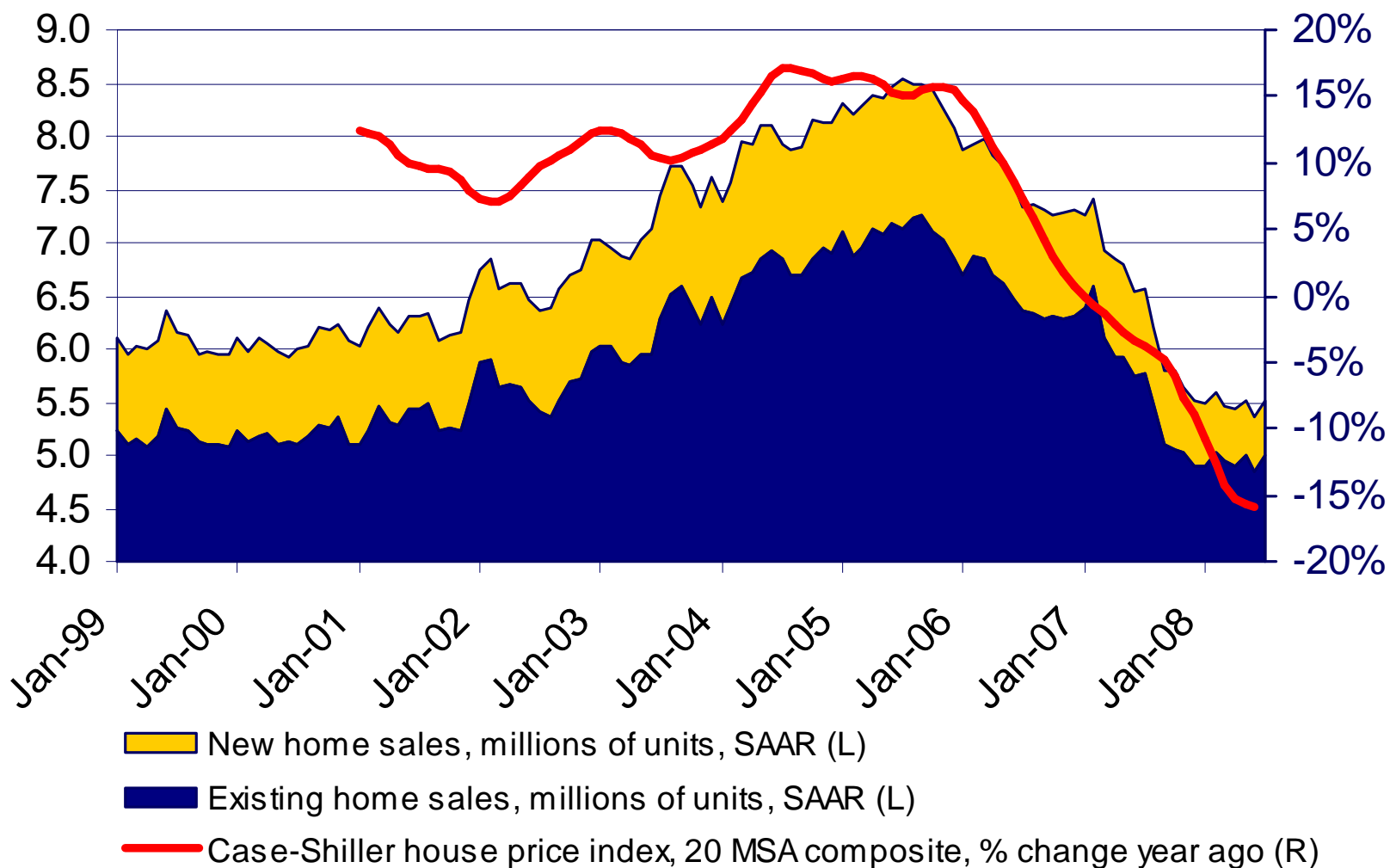
What Really Happened?

The lowered risk premiums—the apparent consequence of a long period of economic stability—coupled with greater productivity growth have propelled asset prices higher...

*...Any onset of increased investor caution elevates risk premiums and, as a consequence, lowers asset values and promotes the liquidation of the debt that supported higher prices. This is the reason that **history has not dealt kindly with the aftermath of protracted periods of low risk premiums.***

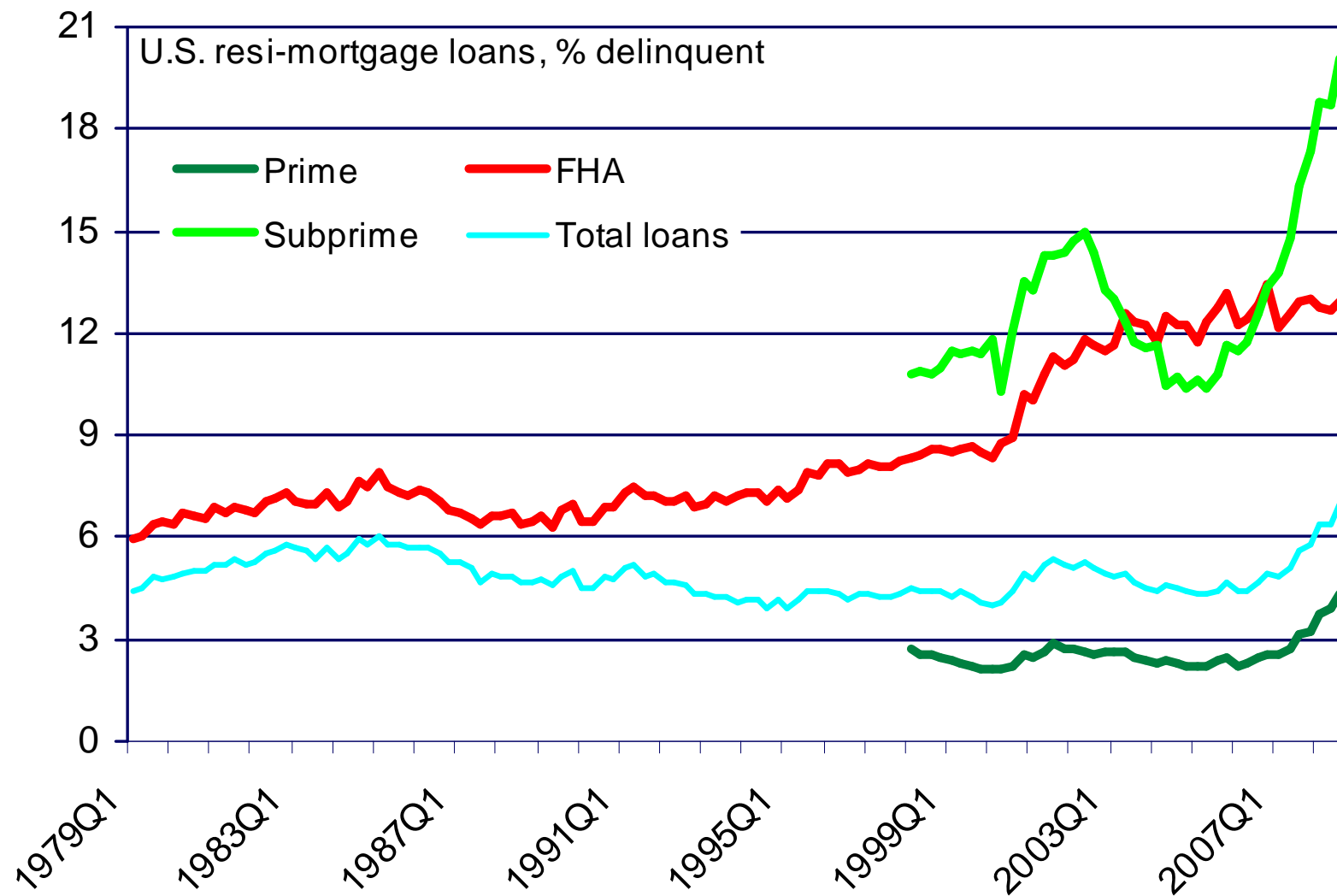
Alan Greenspan, August 2006

Declining Home Sales and Subsequent Falling Prices Still the Largest Drag on Growth and the Primary Variable Behind the Banking Meltdown



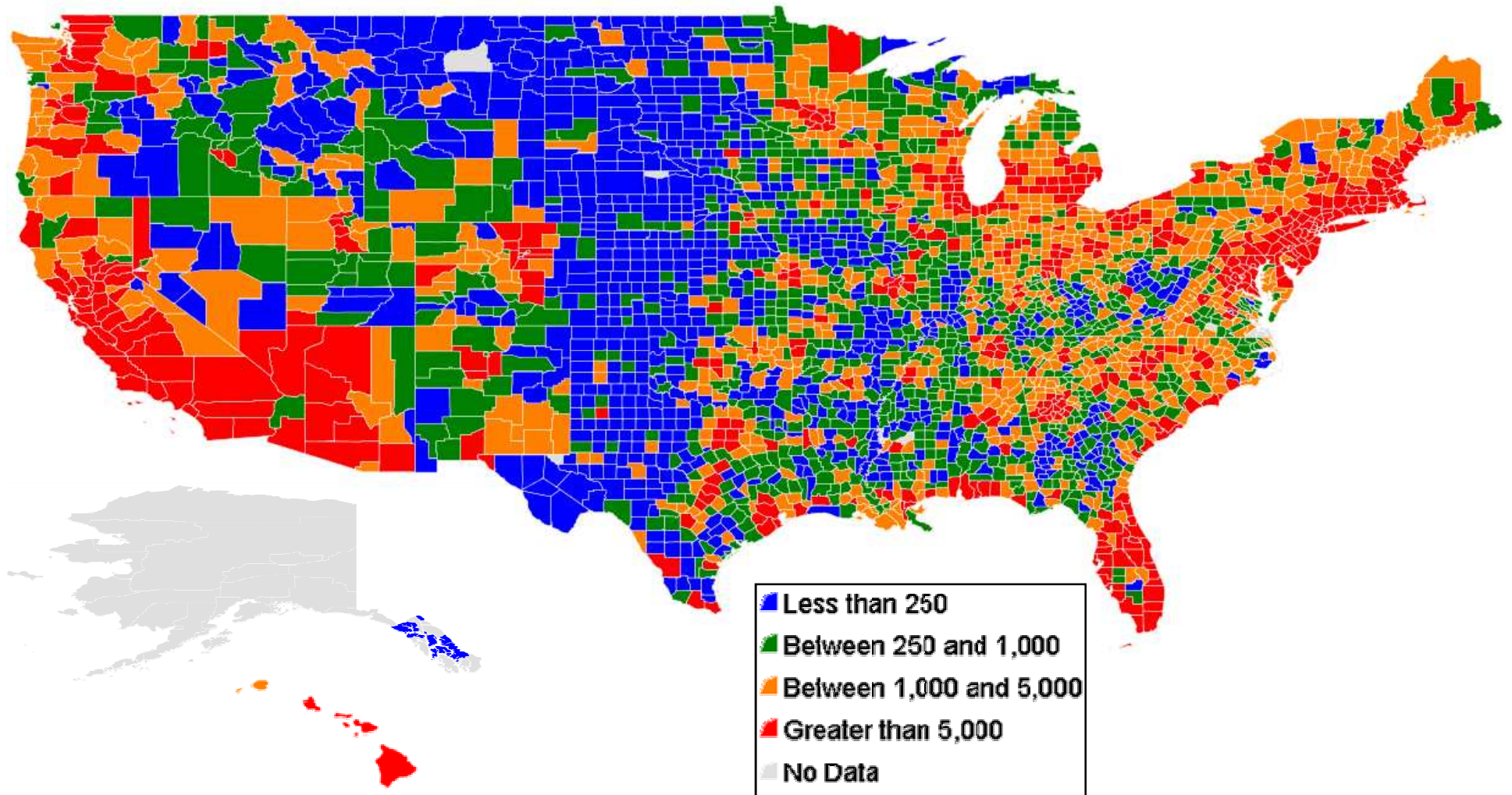
Sources: Case-Shiller, Bureau of Census, National Association of Realtors

Update on Resi-Mortgage Situation: Worst Performance Ever; No Improvement in Sight Yet



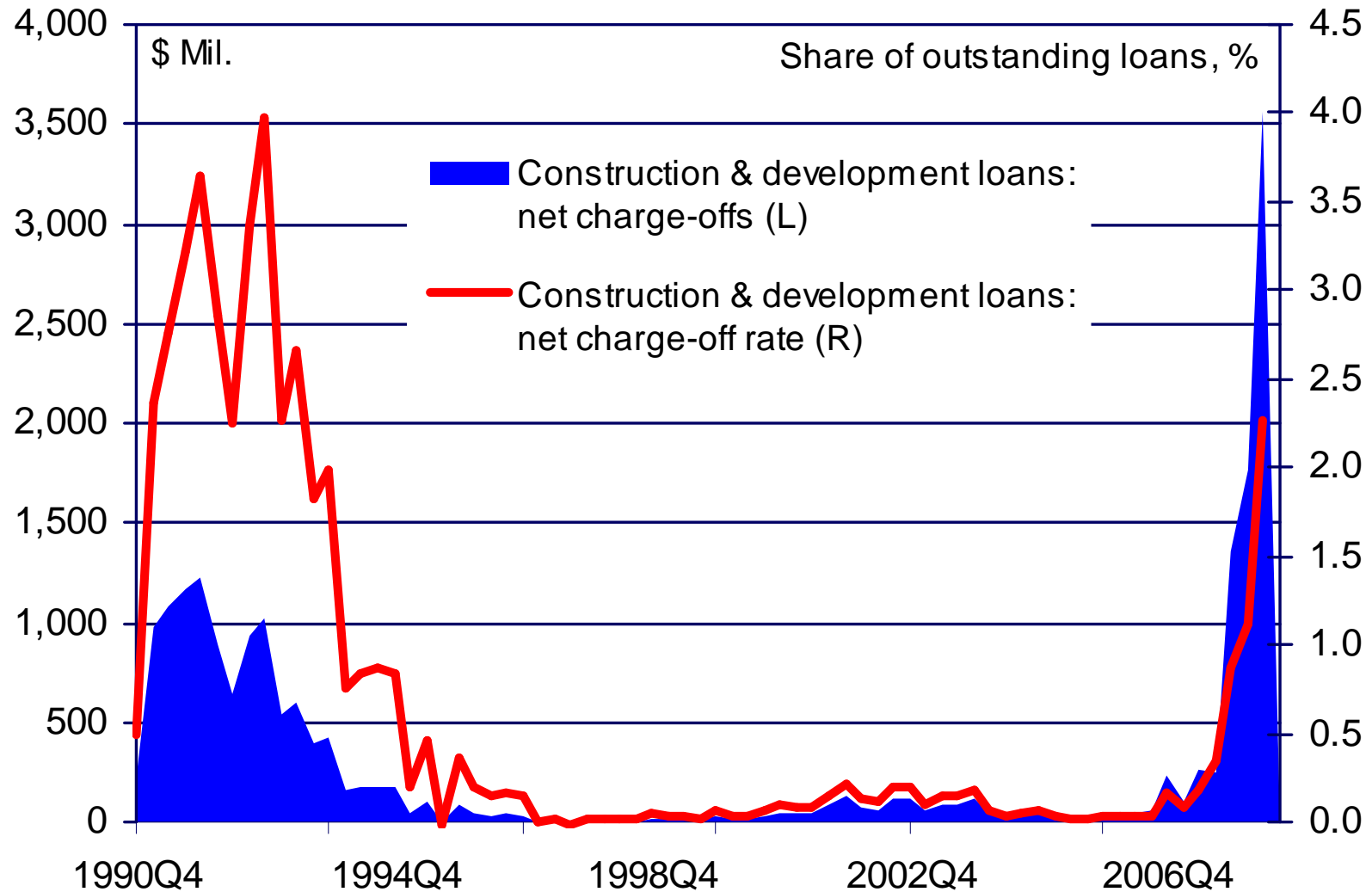
Source: MBA

Projections for U.S. Mortgage Foreclosures (2009-2010)



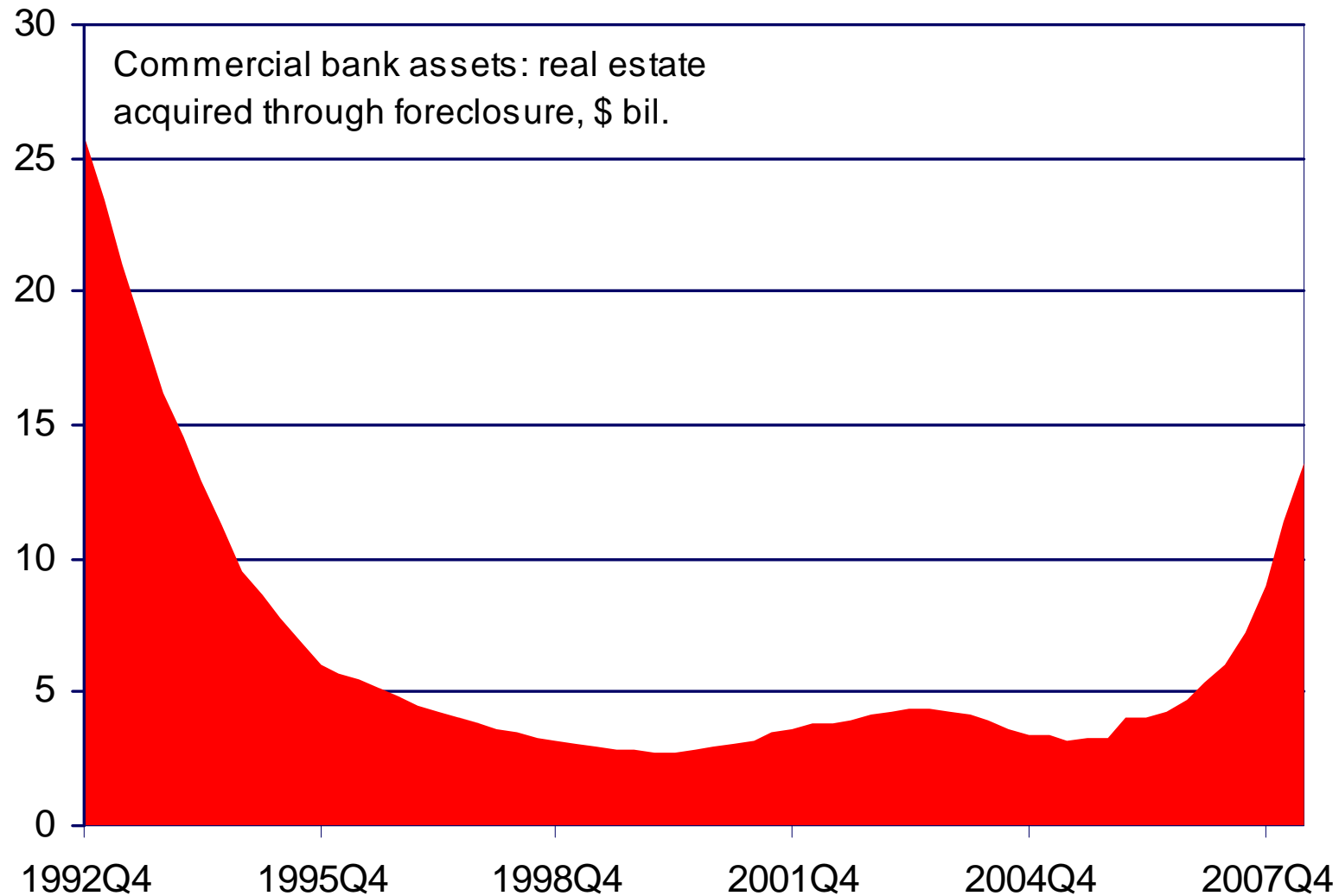
Source: Craig Thomas

Charge-offs Take Off!



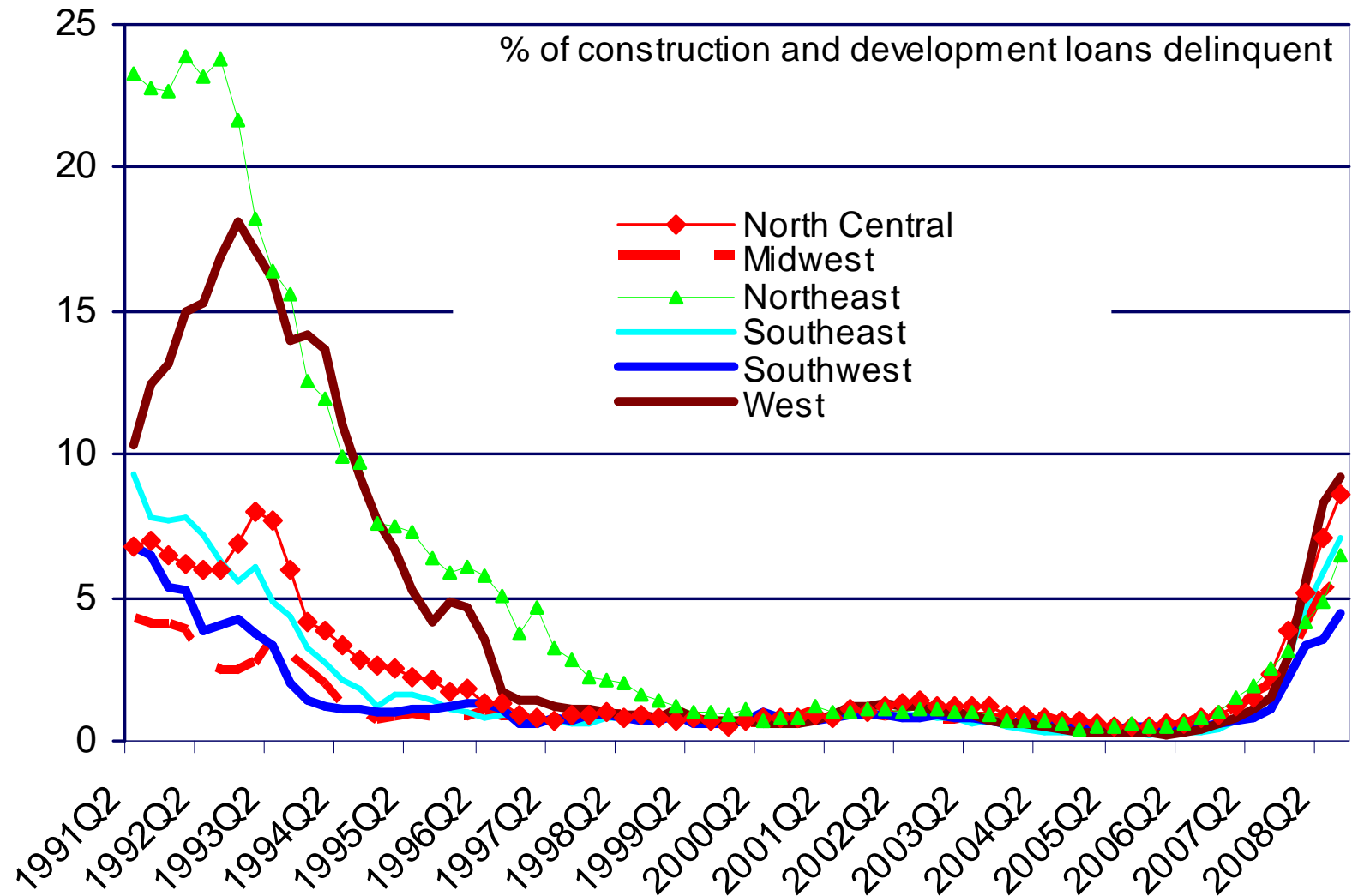
Source: FDIC

Banks Getting Stuck with Real Estate; Not Yet Like Early 1990s, But We Are Getting There



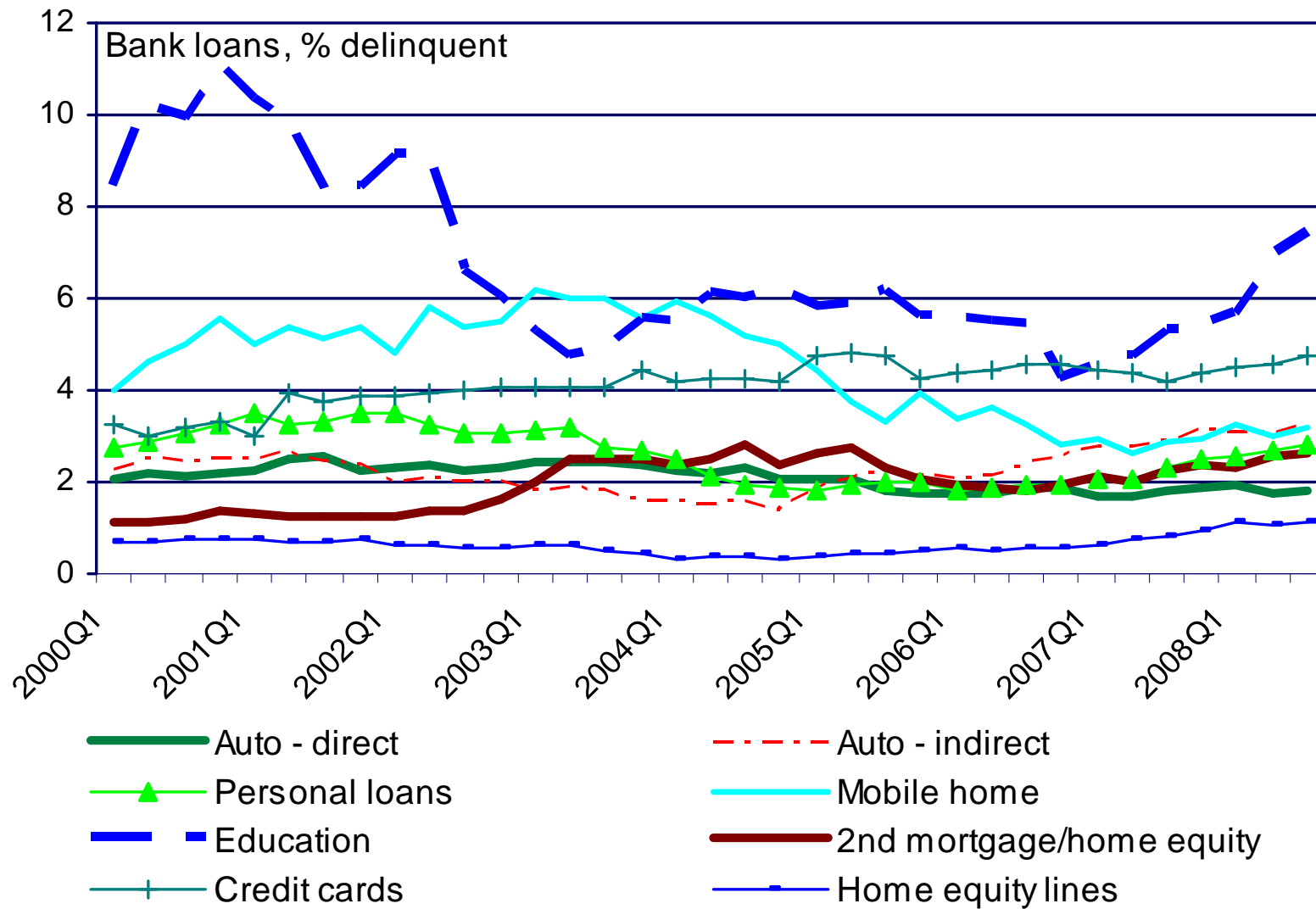
Source: FDIC

Construction Loan Performance Is Starting to Fall Apart



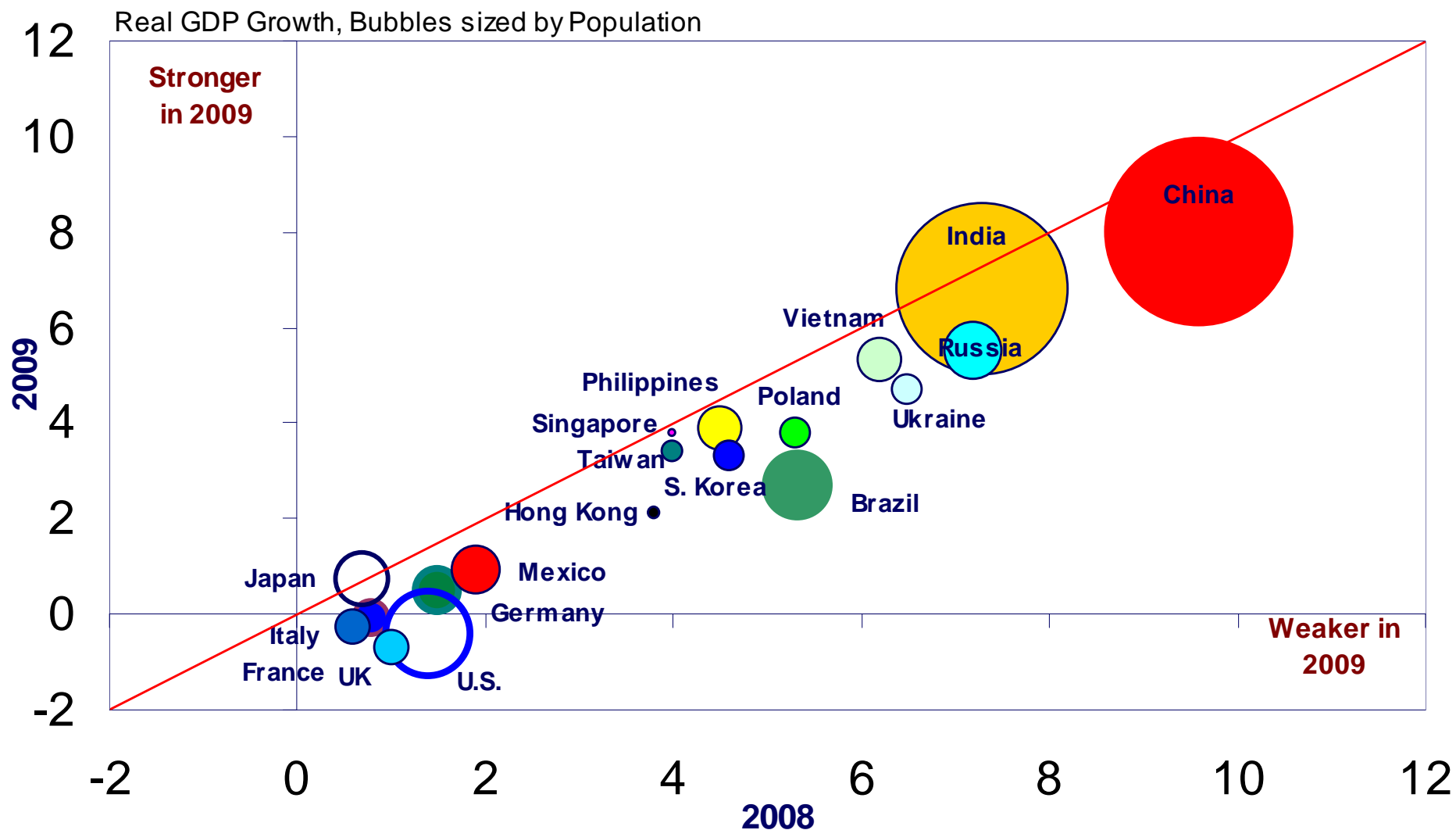
Source: FDIC

Other Types of Loans: Performance a Bit Worse, But Not Awful Just Yet



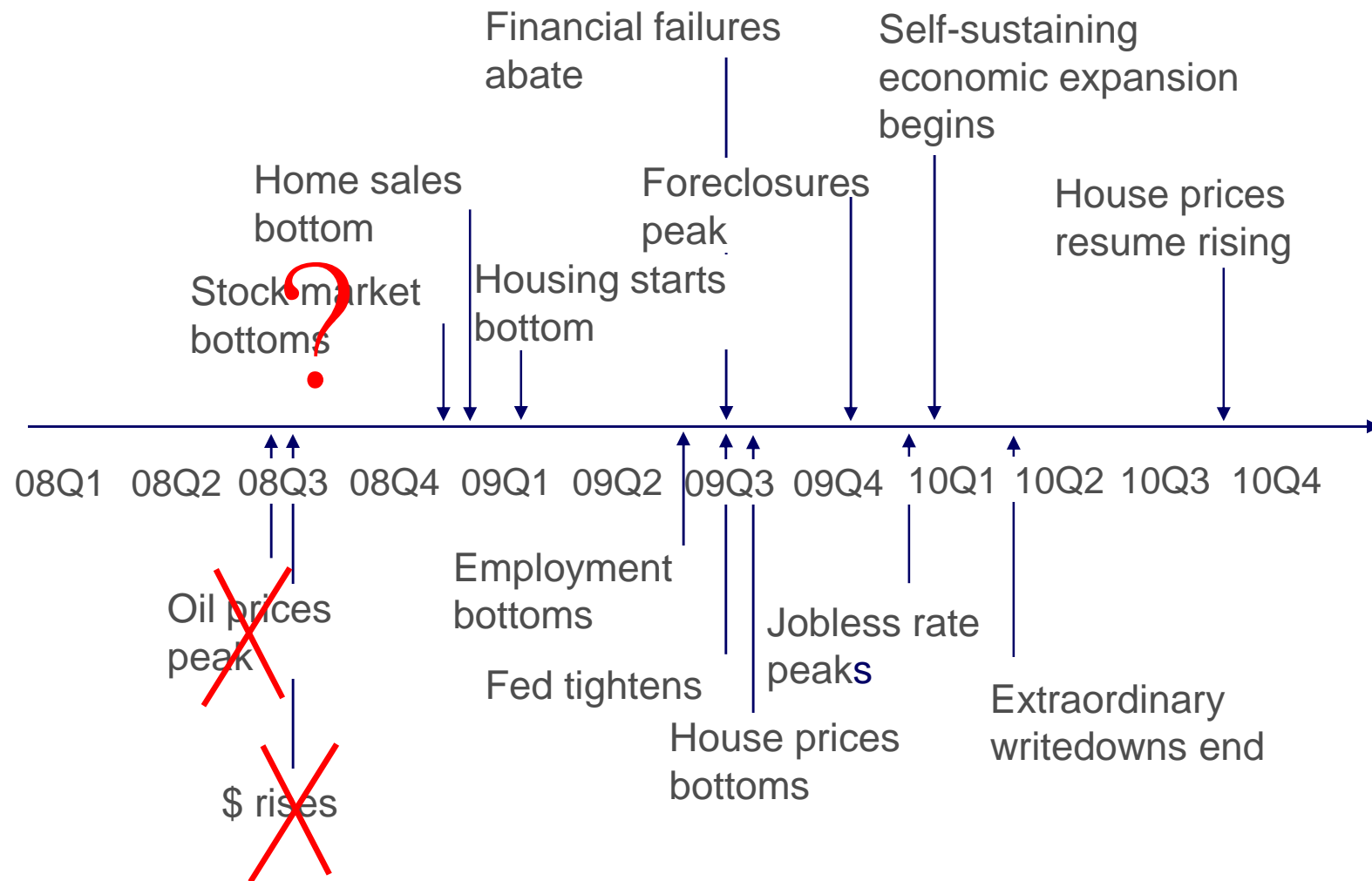
Source: ABA

Emerging Asia Out Ahead, But Everything Is Still Slowing, Nonetheless. Much of the West Is in Full-Blown Recession



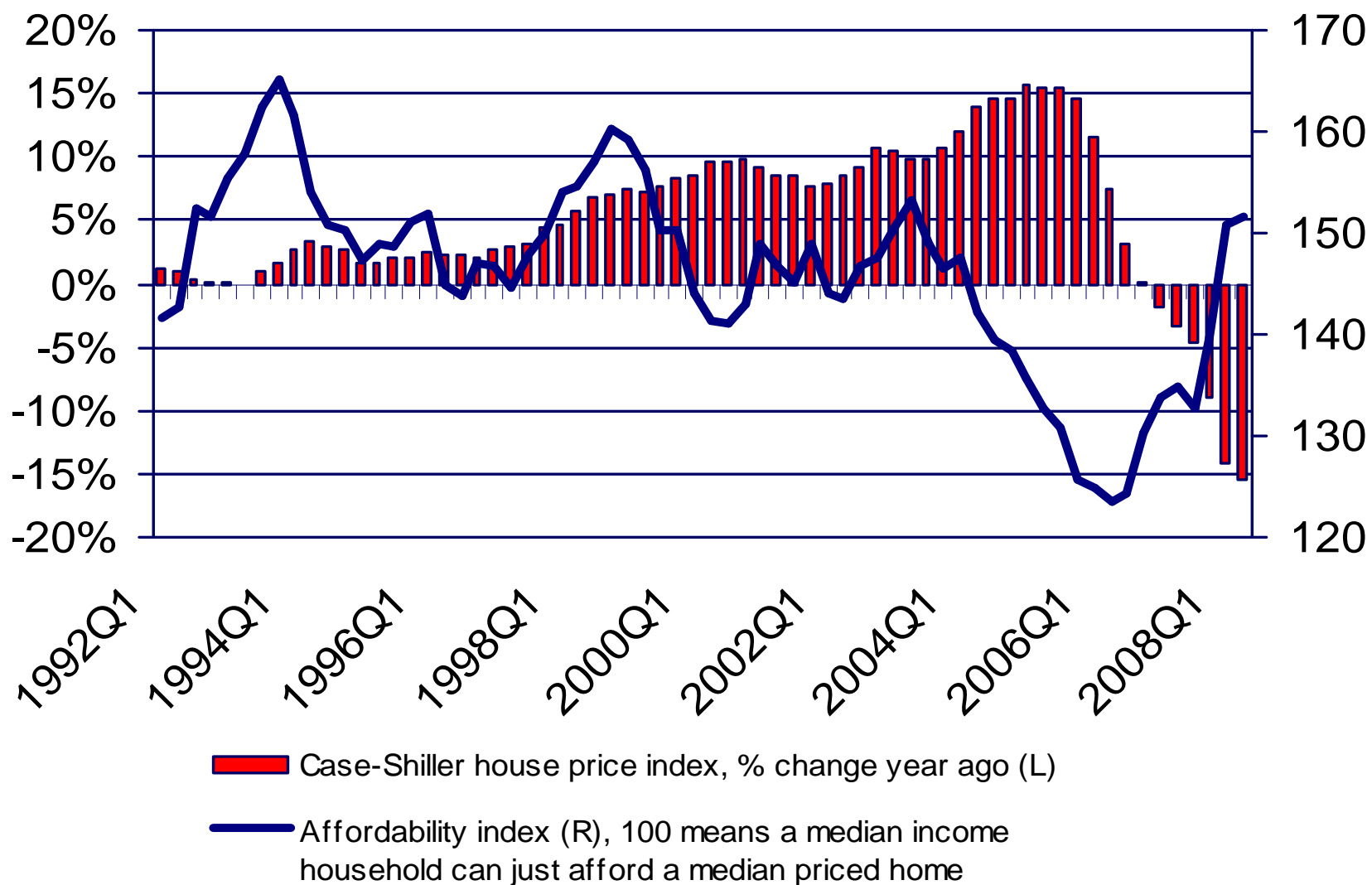
Source: Economist Intelligence Unit

A Timeline to U.S. Recovery



Source: Moody's Economy.com

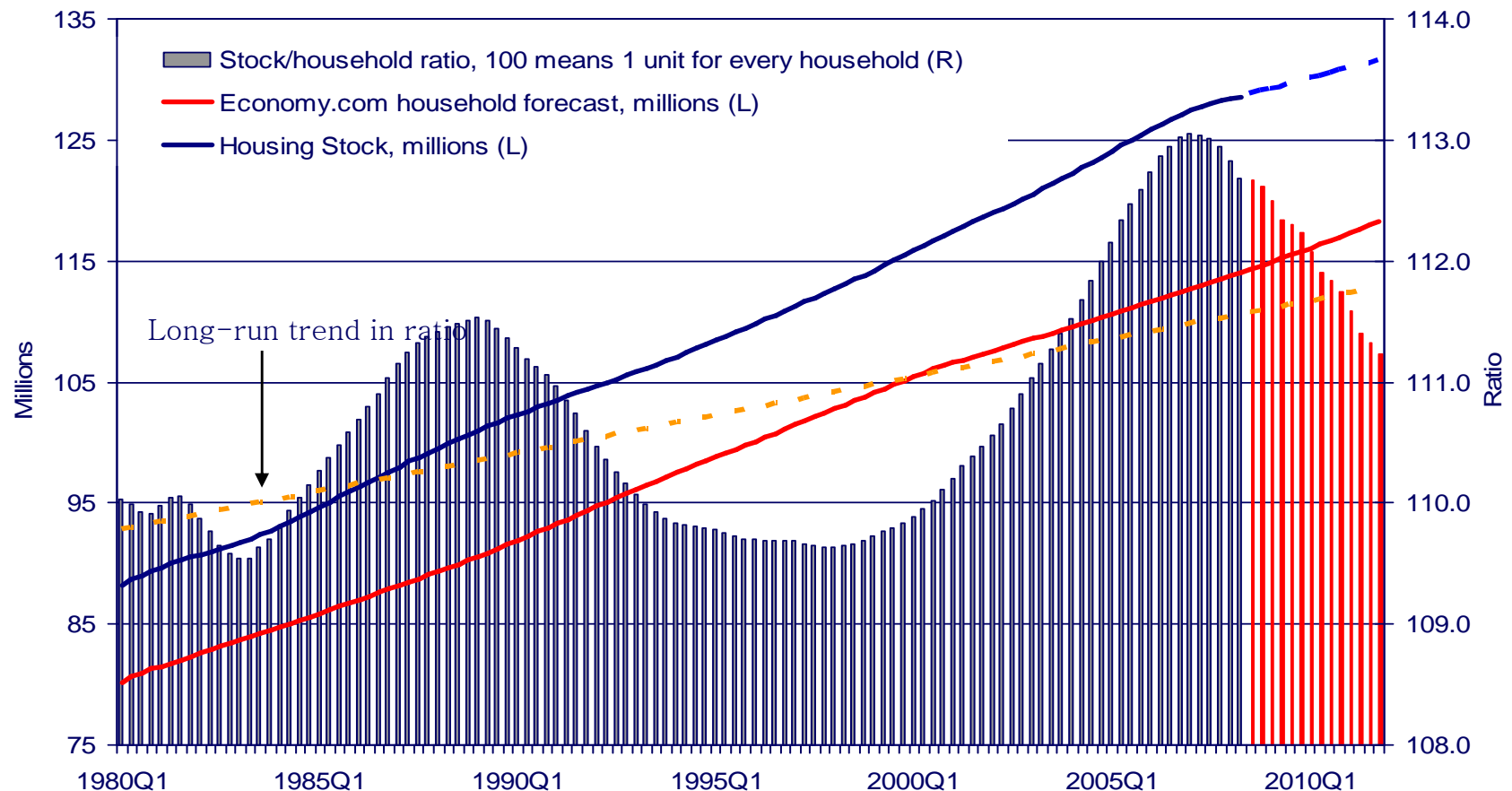
The Good News Is that Housing Affordability Is Returning



Sources: Case-Shiller, Economy.com

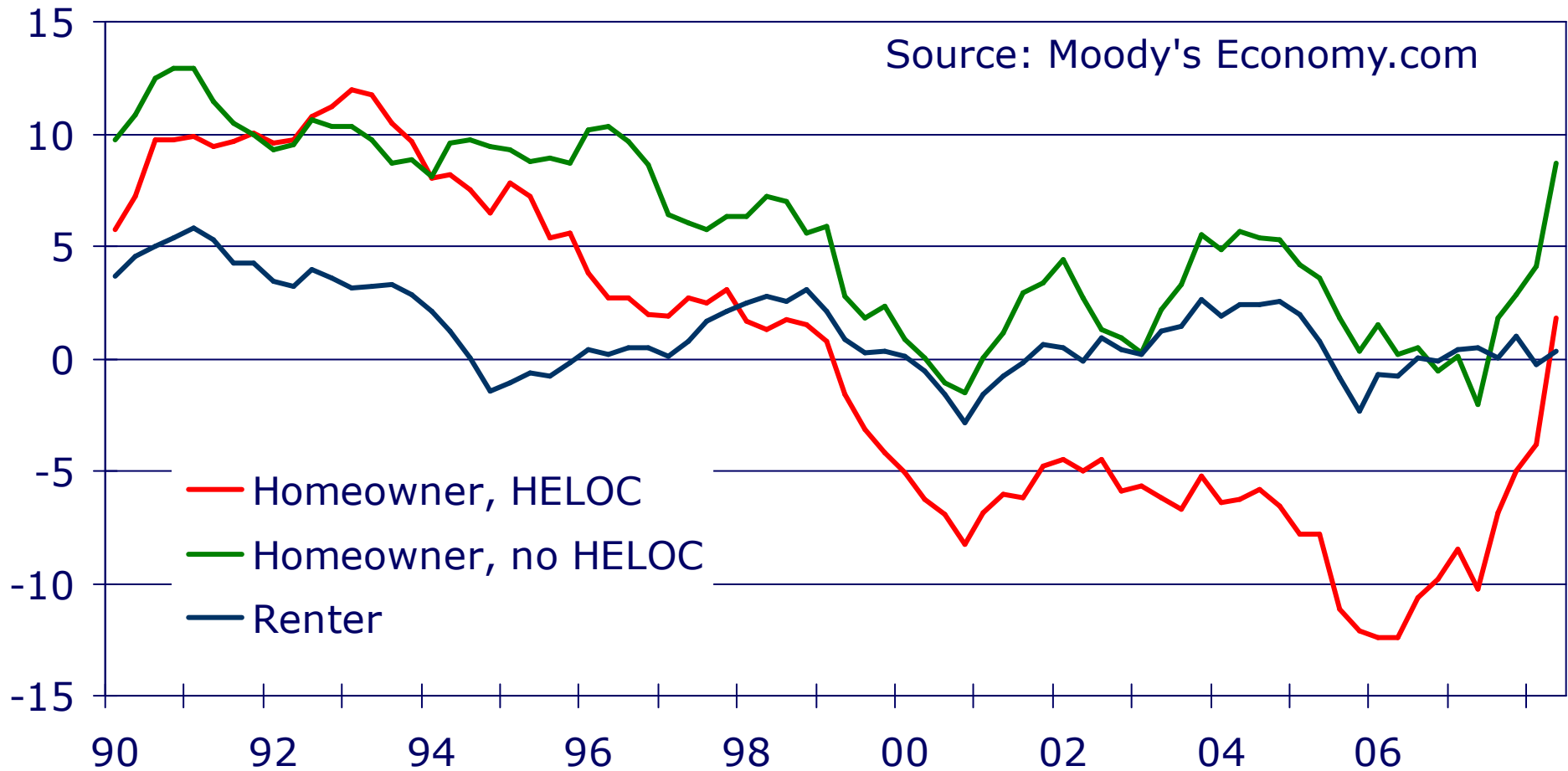
At the Rate We're Going, Housing Oversupply should Disappear by 2010Q4

If construction continues at its current pace, the stock-to-household ratio will reach its long-run, upward-sloping trend line by 2010Q4.

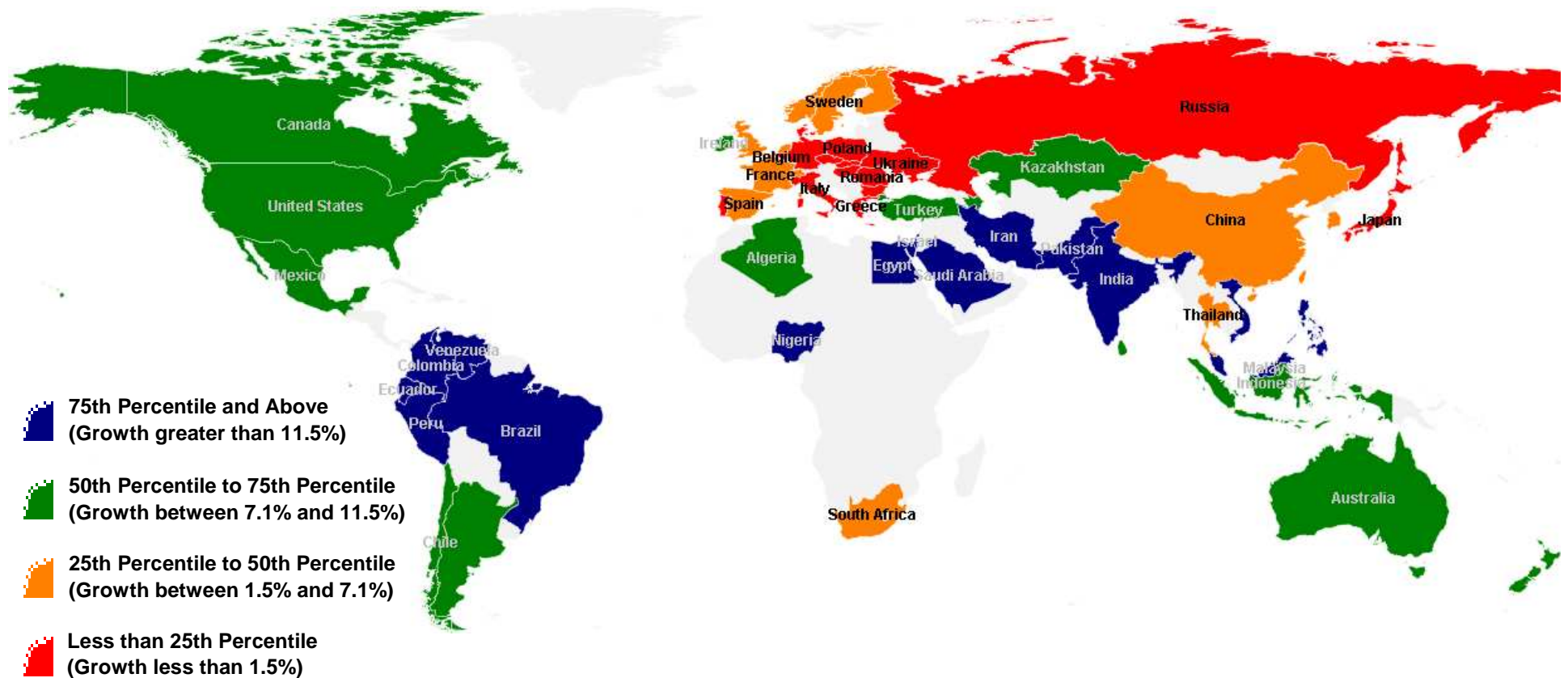


Homeowners Are Reloading With New Savings!

Personal saving rate



Demographics: Population growth over the next 10 years. Demographics Is About the Only thing We can be Sure of In the Outlook



Source: EIU

But In the Meantime...We Have Some New Legislation Coming

Remember!

The Market Is Perfect

Information Is Imperfect

**Don't blame the market blame our
information!!**

How Do We Judge the Upcoming Legislation?

- 1. Does it improve information? Hopefully it doesn't make it worse!*
- 2. Does it help our chief raw material, the human lifespan, to be as efficient and productive as possible?*
- 3. Does it preserve and sustain our social environment? It should not diminish the econosphere's ability to oversee the allocation of scarce resources.*