

## Credit Crunch Watch

### US: Financial stress indicator



### Financial stress indicator

- The financial stress indicator is a composite index of a number of indicators including risk spreads, mortgage spreads, equity volatility, commercial paper and commercial loans outstanding and the spread of LIBOR rates over T-bill rates. The indicator is currently hovering around its all-time highs, having risen sharply over the last month in the wake of renewed concerns about the health of the financial sector. Over the last week, a key factor keeping the index at a high level was a sharp rise in mortgage spreads, a development seemingly linked to the recent problems at US lenders Fannie Mae and Freddie Mac. This was offset by factors including tighter credit spreads and lower equity volatility, but the risk remains that the overall index will post fresh highs going forward.

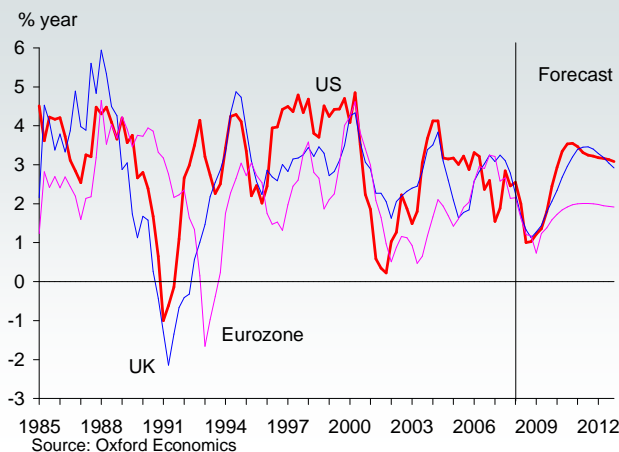
### US: Monetary conditions indicator



### Monetary conditions indicator

- The monetary conditions indicator is a composite index based on the Fed funds rate, the 10-year bond yield, the yield curve slope and the effective or trade-weighted dollar exchange rate. Monetary conditions have been loosening moderately in recent weeks, but they tightened again over the latest week in response to a flattening of the yield curve and higher 10-year yields. Relative to mid-June markets have scaled back their expectations of Fed rate hikes over the next year, so that a renewed loosening of monetary conditions is only likely in case markets go further and begin to price the Fed moving to ease rates once again.

### World: GDP growth

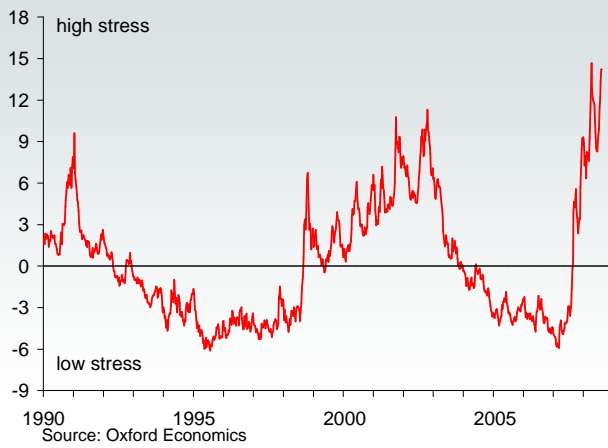


### Growth forecasts – US, UK & Eurozone

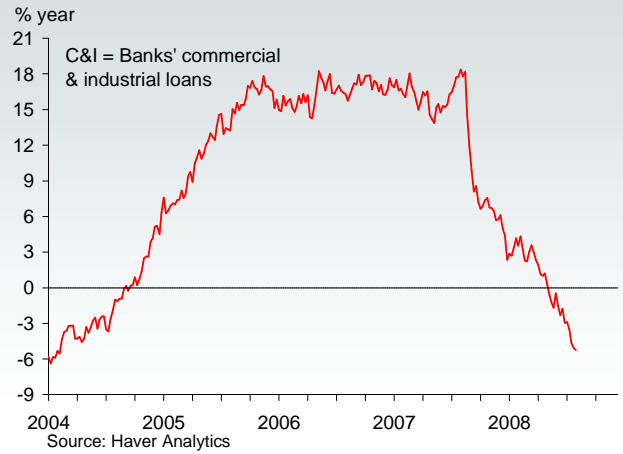
- This week's data releases have once again mostly emphasised the downside risks to economic growth. High jobless claims figures and weak housing market reports from the US emphasised the continuing headwinds facing consumers. In the Eurozone flash PMI data indicated that the contracting activity seen at the end of Q2 continued into Q3, and there was an abrupt drop in the IFO – the key barometer of the German economy. Meanwhile in the UK, Q2 GDP grew by just 0.2%, and the details of the data were even more downbeat, raising the risk of a technical recession during the next few quarters. Set against these numbers, there was some relief from a softening of oil and other commodity prices – but, worryingly, the source of this appears in part to be growing concerns over the outlook for global growth.

## US financial stress measures

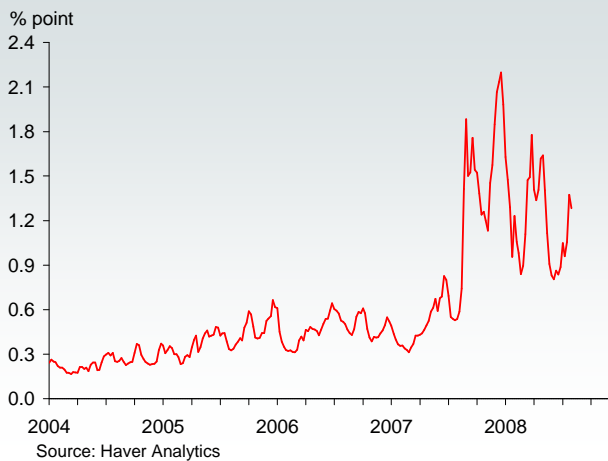
**US: Financial stress indicator**



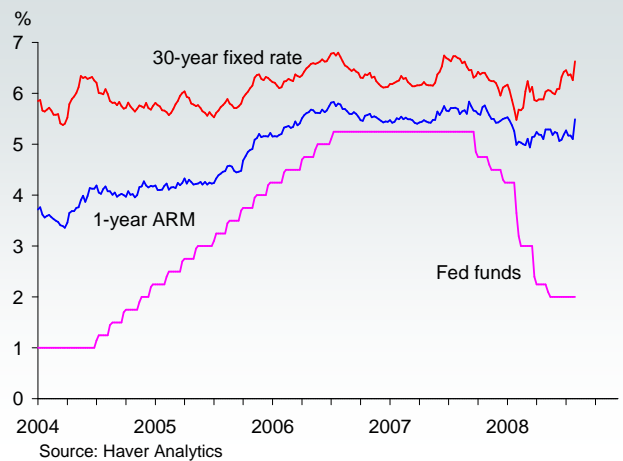
**US: C&I loans & CP outstanding**



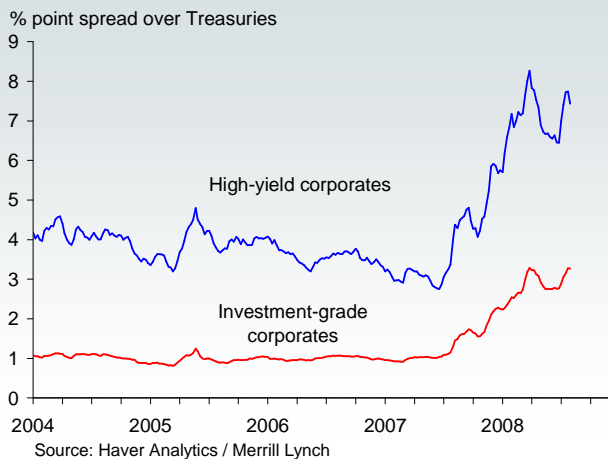
**US: 3 month libor spread over 3 month T-bill**



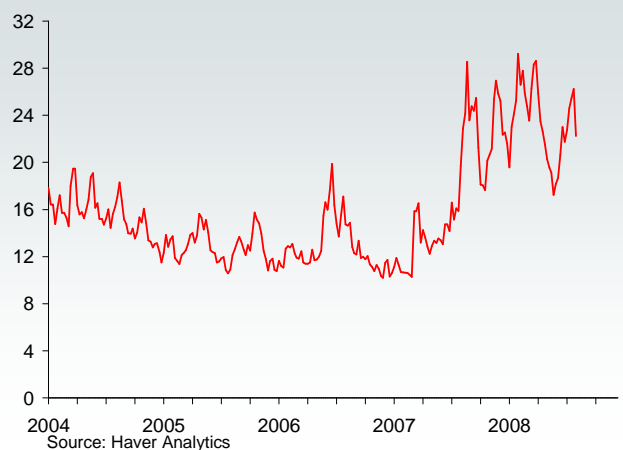
**US: Mortgage rates (Freddie Mac)**



**US: Risk spreads**

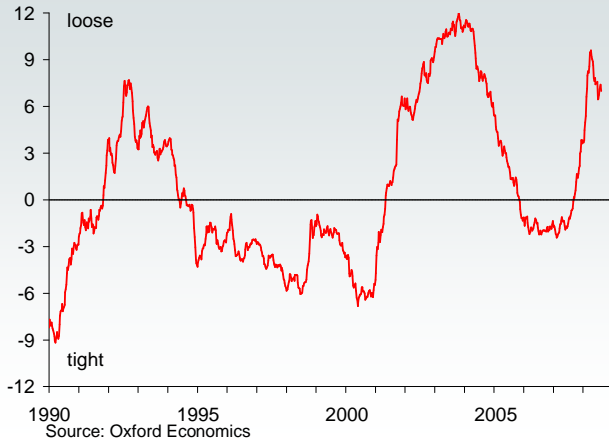


**US: CBOE market volatility index (VIX)**



## US monetary conditions & other indicators

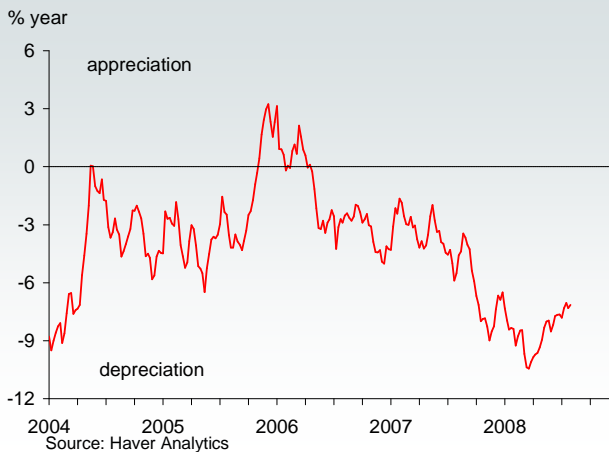
**US: Monetary conditions indicator**



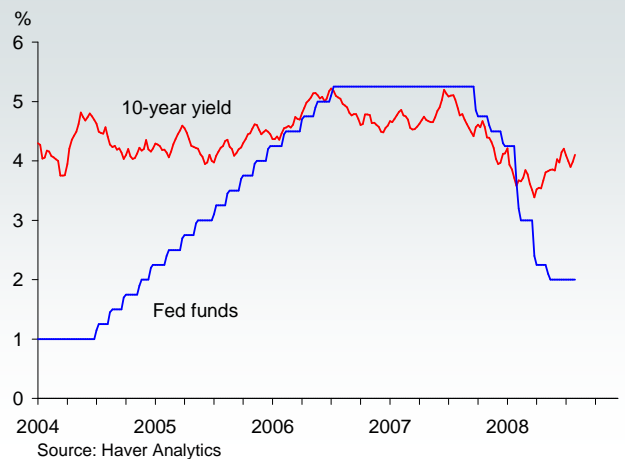
**US: Yield curve slope**



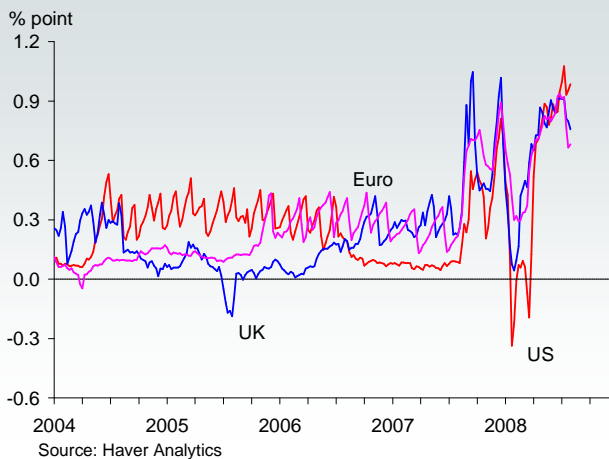
**US: Exchange rate (trade weighted index)**



**US: Fed funds rate & 10-year Treasury yield**



**US, UK & Euro: 3 month rates - policy rates**



**US private payrolls and consumption**

