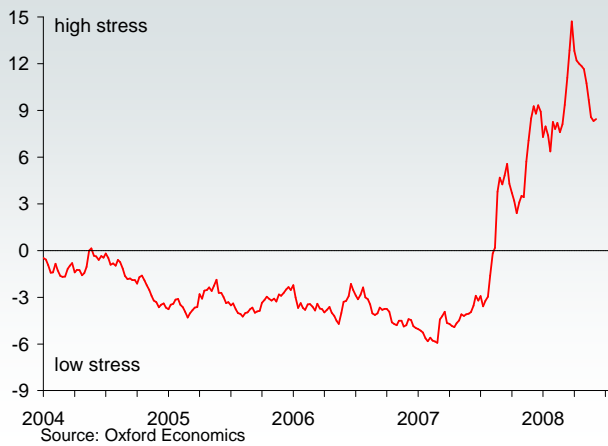


Credit Crunch Watch

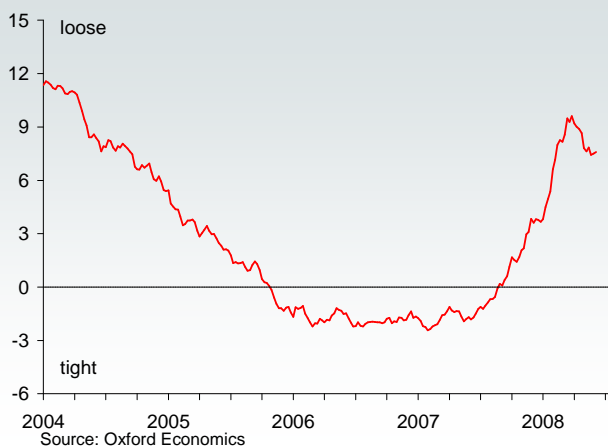
US: Financial stress indicator



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. There have been three separate 'spikes' in this indicator since the credit crunch began last July, the most recent of which began in late February and was connected to the collapse of US investment bank Bear Stearns. The index peaked in mid-March at the highest level in its history – which dates back to 1989 – before reversing course. Currently, the index appears to have bottomed out at a level close to that prevailing just before the Bear Stearns scare – a level which still indicates a very high level of financial stress.

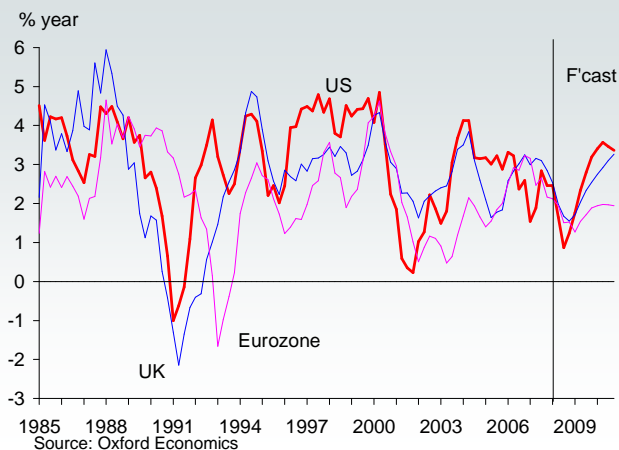
US: Monetary conditions indicator



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 loosened rapidly from the third quarter of 2007 as the Fed began to cut rates, and as the dollar weakened sharply in response to lower rates and a stream of bad economic news. With dollar depreciation accelerating, monetary conditions reached their peak 'looseness' in March, since when they have retreated a little thanks to a firmer dollar and flatter yield curve. A concern for policymakers is that bond yields have risen notably since their March troughs, a development that appears to signal rising inflation concerns.

World: GDP growth

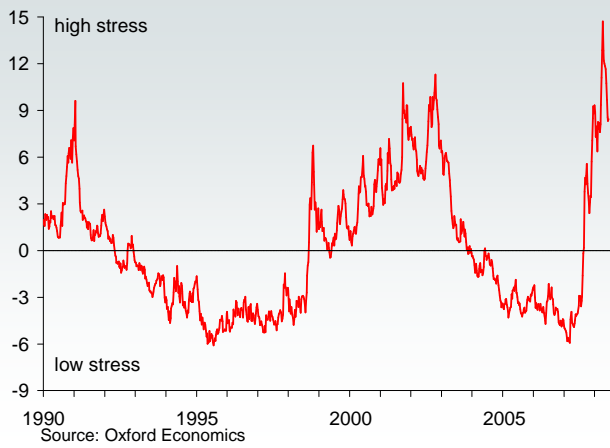


Growth forecasts – US, UK & Eurozone

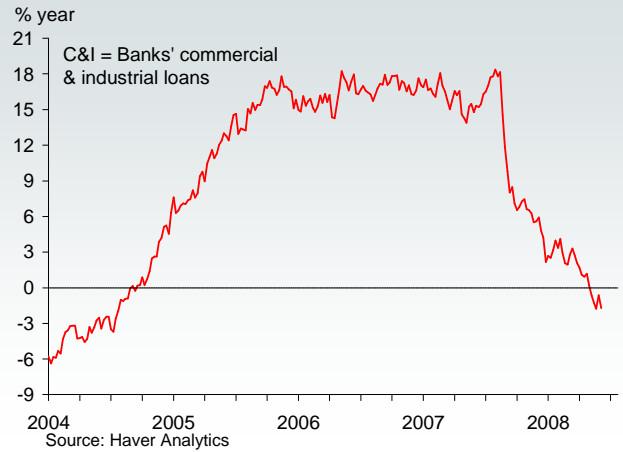
- Further details of Q1 GDP for the major economies released this week, plus evidence from higher frequency data series, have pointed to downside growth risks still being prevalent. German Q1 GDP was boosted by high stockbuilding and unusually high construction investment, and there is a risk of significant payback in Q2. French figures on business confidence and housing starts also suggest the pace of growth in Q1 will not be sustained. In the US, another weak house price release showing prices down 14% on the year, stagnant real consumption in April, and the weakest consumer confidence print since 1992 point to growth remaining very subdued in the near term. And in the UK, notably soft house price data for May suggest mounting risks for consumer spending.

US financial stress measures

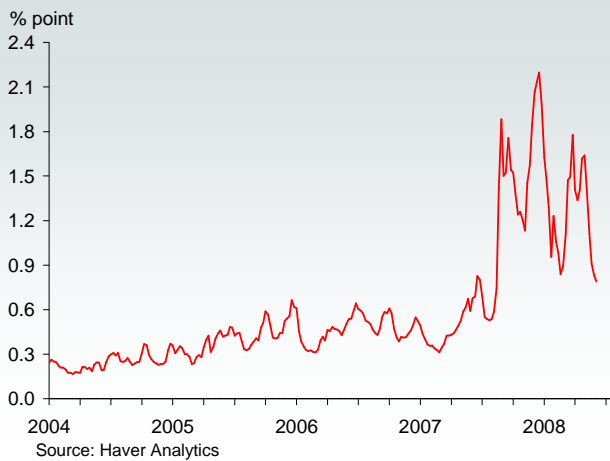
US: Financial stress indicator



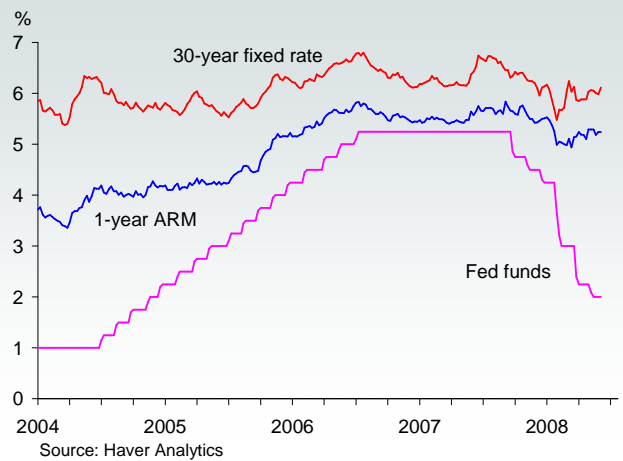
US: C&I loans & CP outstanding



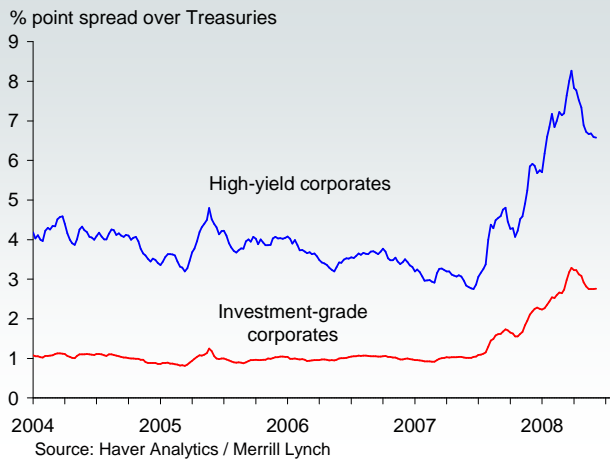
US: 3 month libor spread over 3 month T-bill



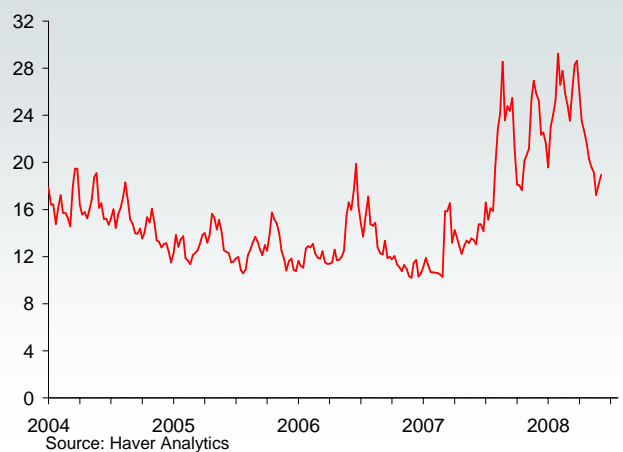
US: Mortgage rates (Freddie Mac)



US: Risk spreads

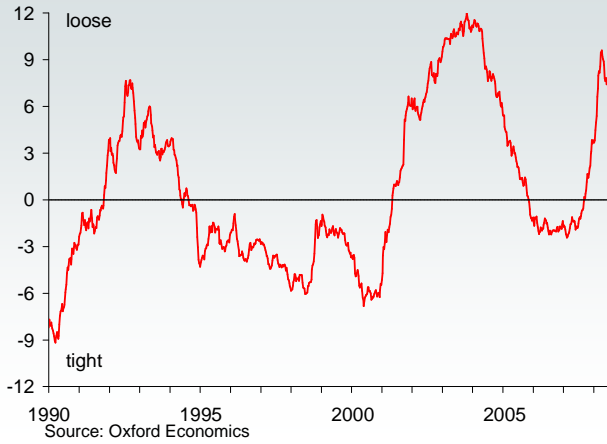


US: CBOE market volatility index (VIX)



US monetary conditions & other indicators

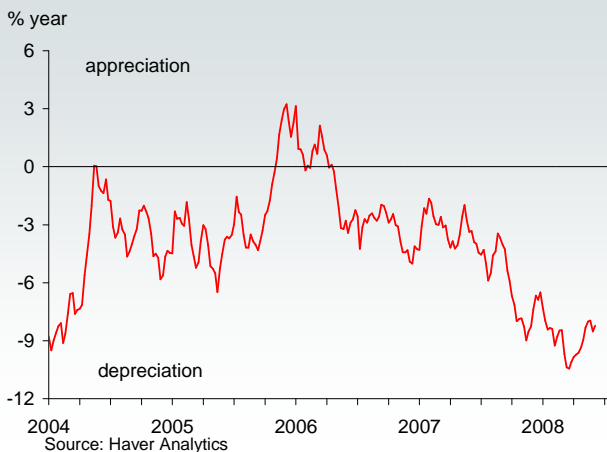
US: Monetary conditions indicator



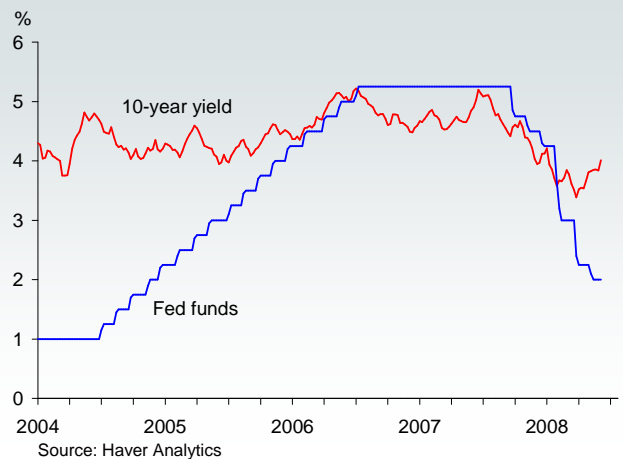
US: Yield curve slope



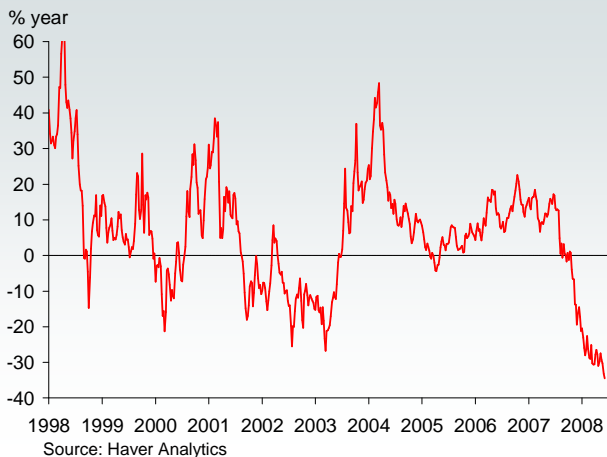
US: Exchange rate (trade weighted index)



US: Fed funds rate & 10-year Treasury yield



US: Stockmarket - Financials index



US private payrolls and consumption

