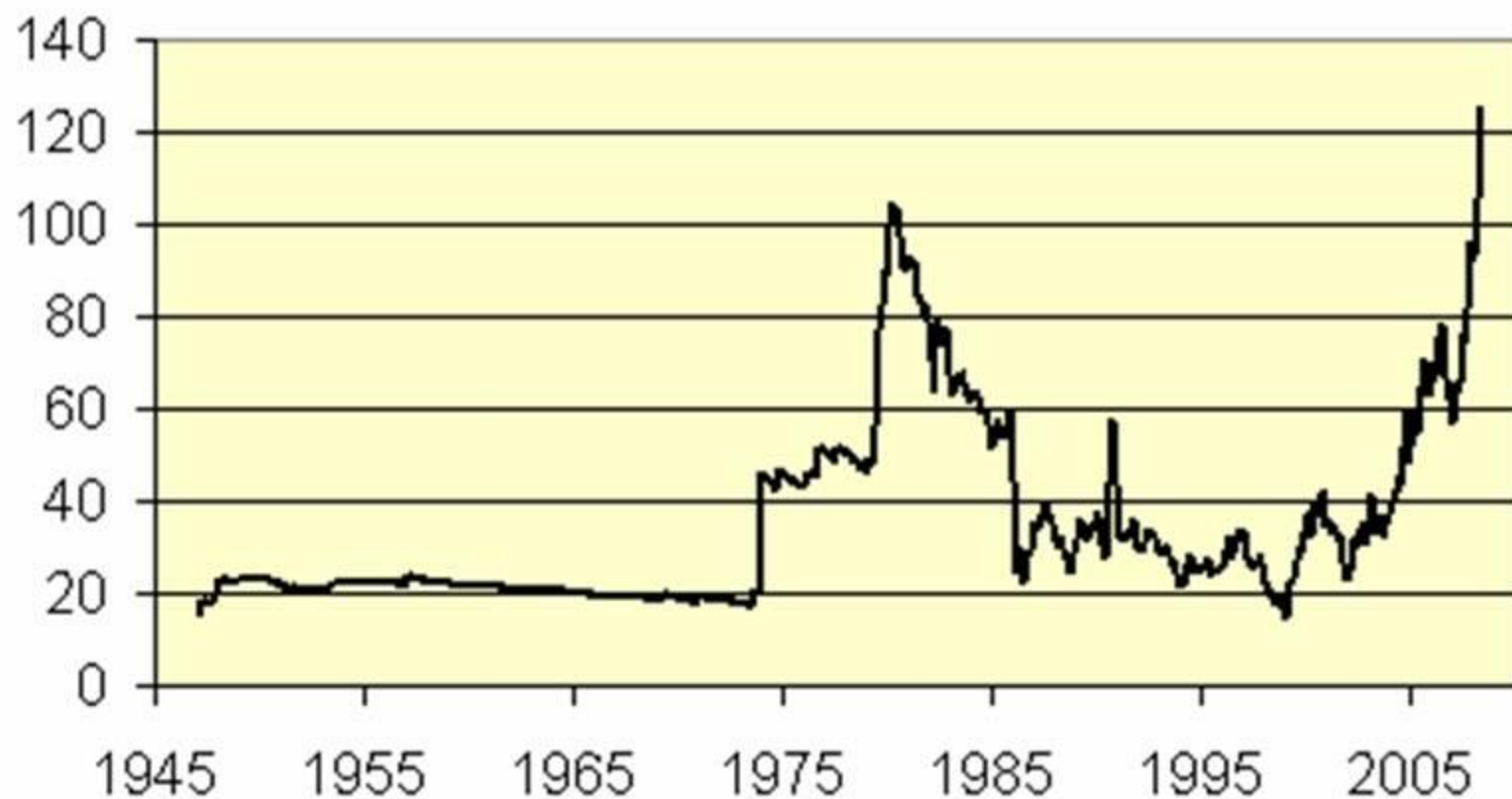


Will the Global Economy Turn Down?

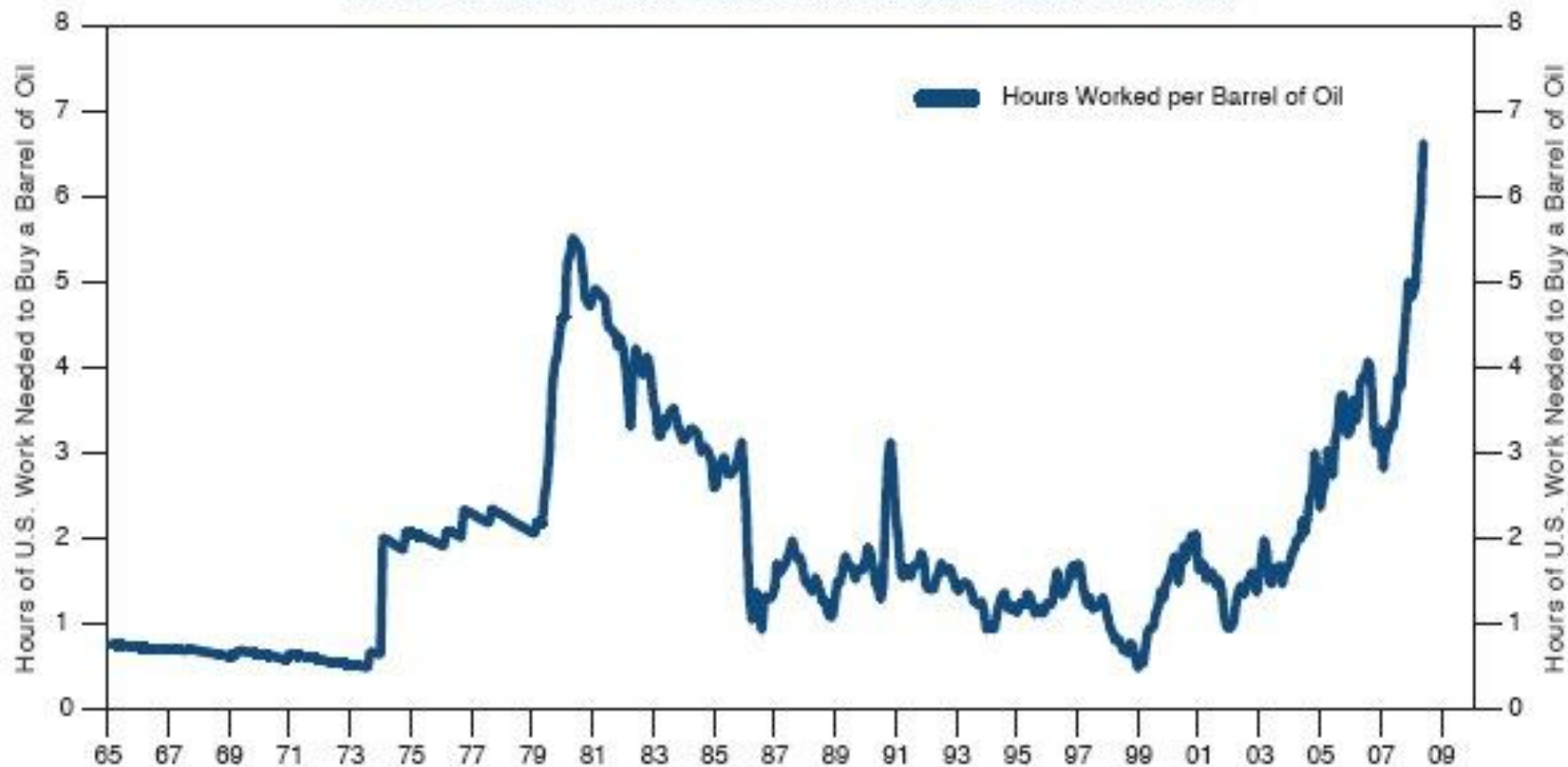
Desmond Lachman
American Enterprise institute

July, 21 2008

Inflation-adjusted price of crude oil (West Texas Intermediate, 2008 dollars)



A Negative Terms of Trade Shock: More Hours Worked for the Same Barrel of Oil



Source: Bureau of Labor Statistics, Wall Street Journal, PIMCO Calculation

Figure 1

Oil price in dollars and euros

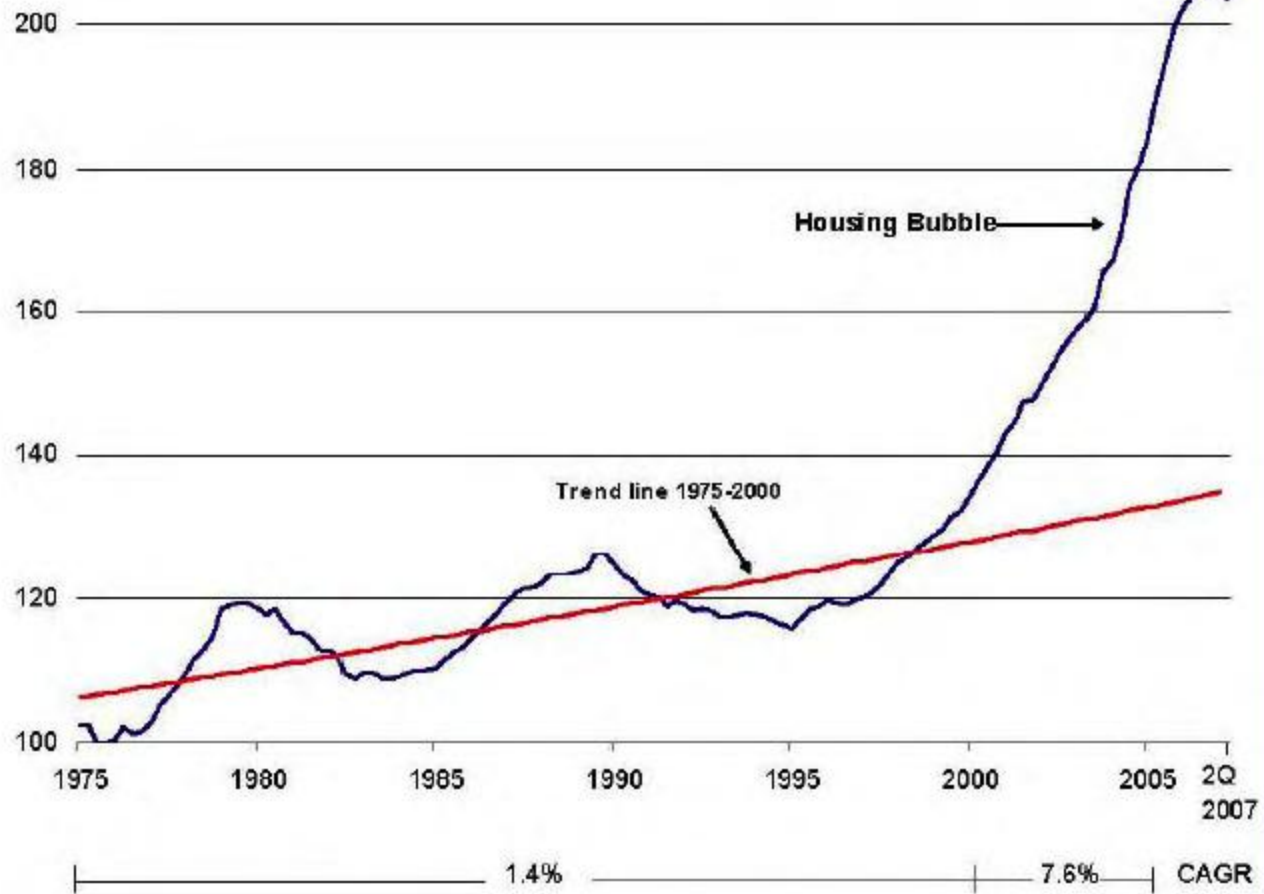
WTI near month price per barrel,
synthetic euros pre - 1999

— In dollars — In euros



Source: Thomson Datastream

Real Home Price Index (1975 = 100)



Sources: OFHEO, Bureau of Economic Analysis.

US House prices

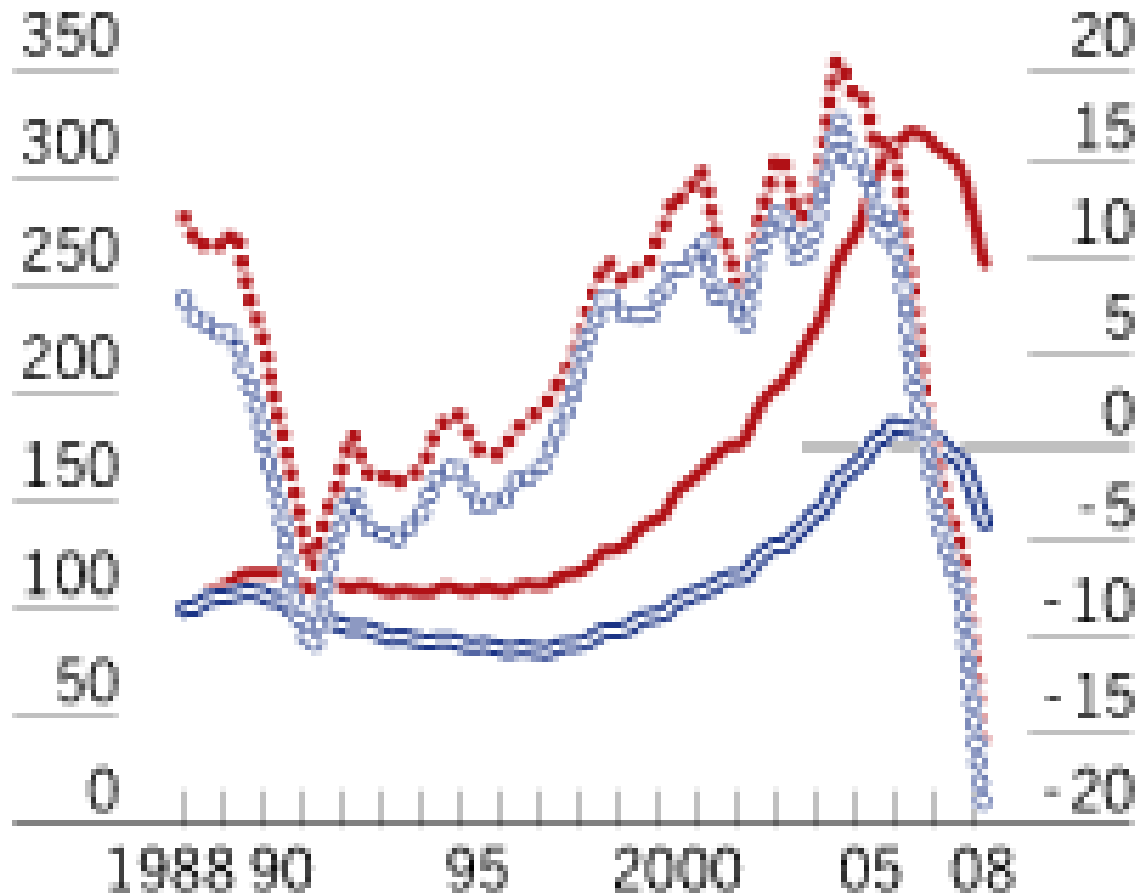
S&P/Case-Shiller 10-city composite

Index

Annual % change

— Nominal — Real

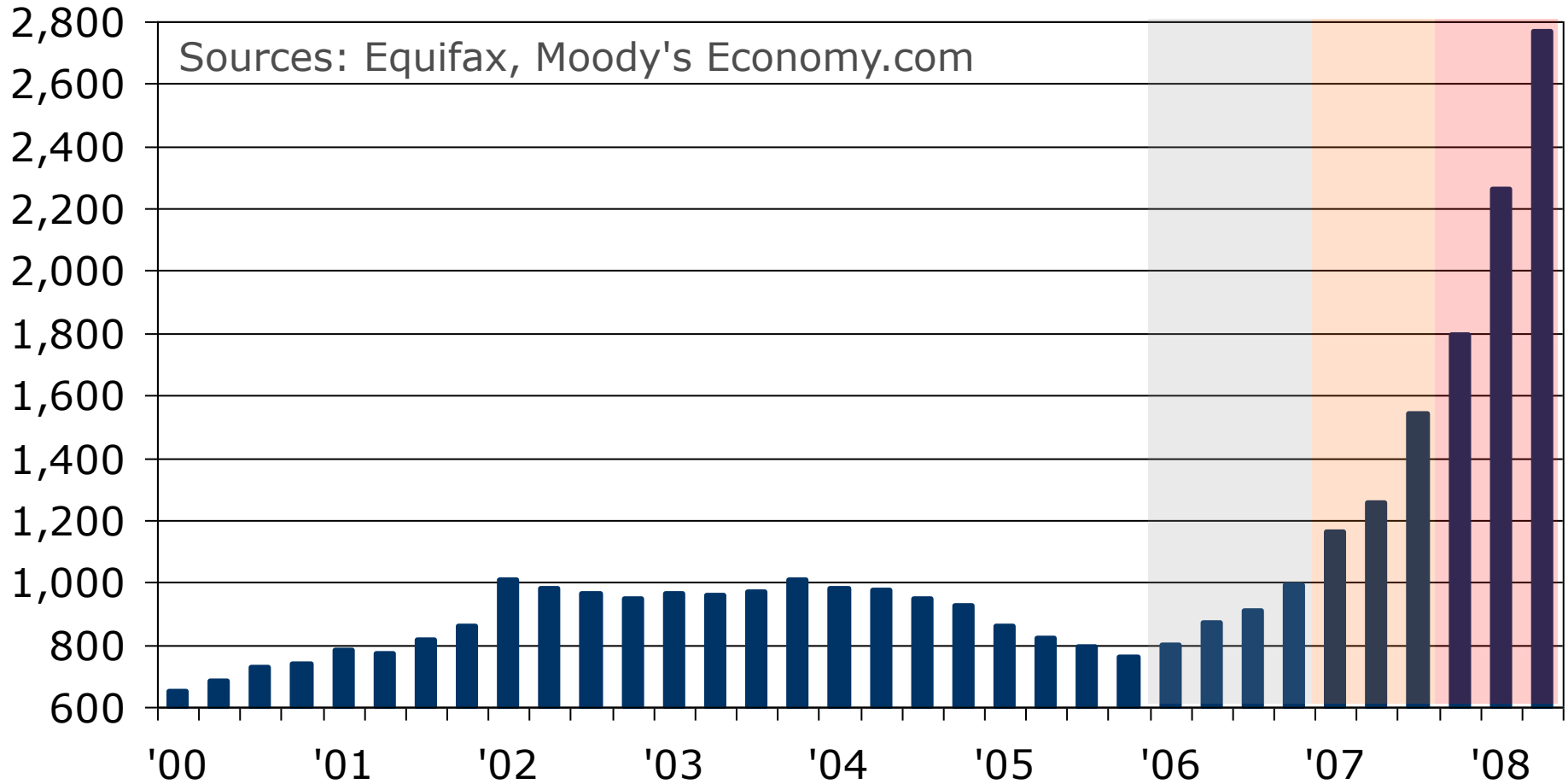
..... Nominal Real



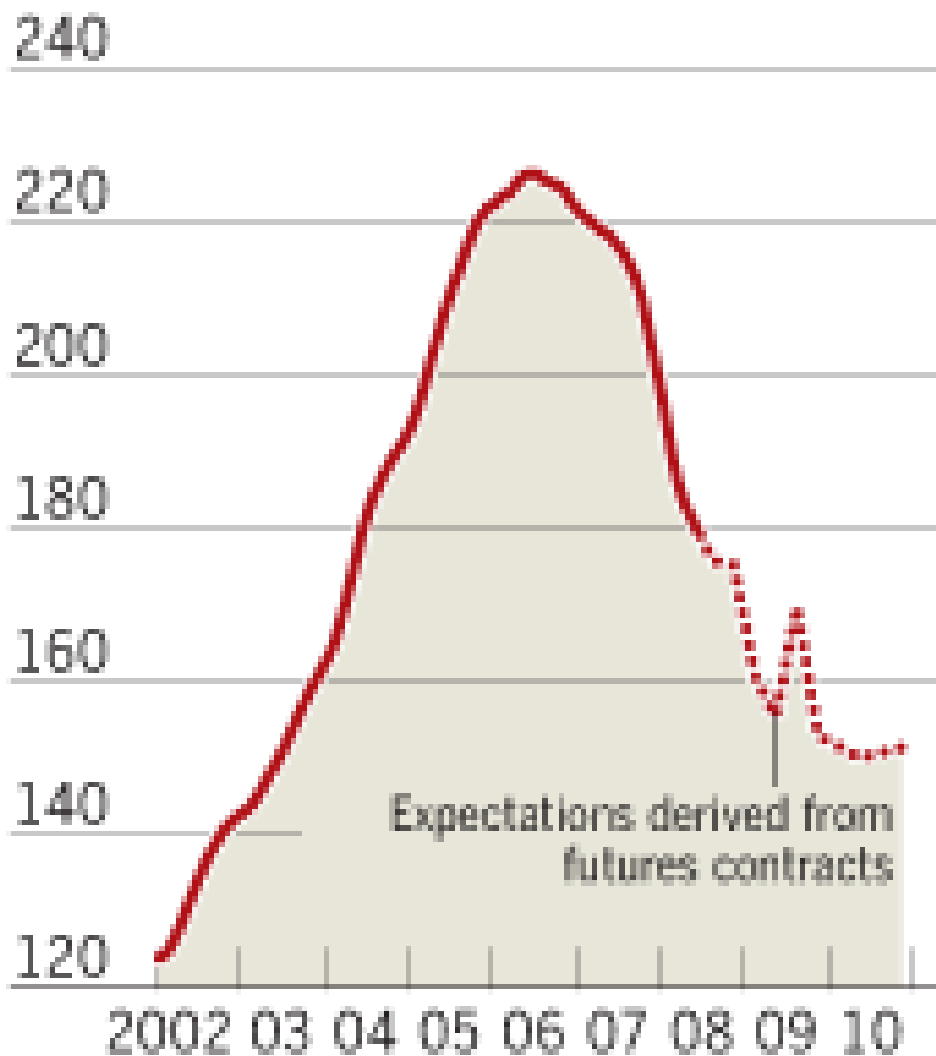
Source: Thomson Datastream

Foreclosures Surge...

First mortgage loan defaults, ths, SAAR



US house prices (Case-Shiller 10-city composite index)



House Price Declines Implied by Case-Shiller Future Contracts

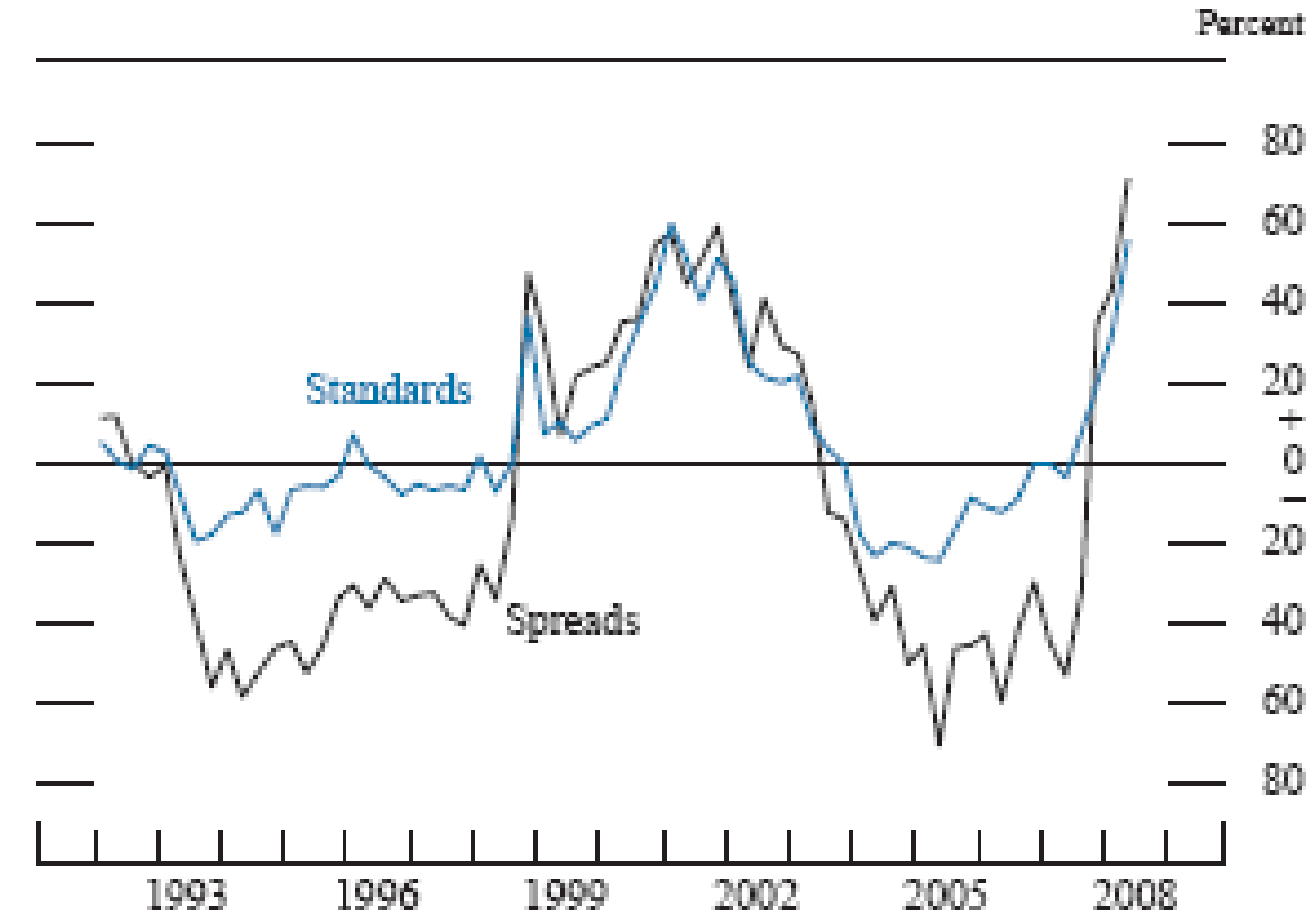
CUMULATIVE % CHANGE IN HOME PRICES, FROM MAY 2008

CITY	Nov-09	Nov-10	Nov-11
Boston	-5.20%	-6.73%	-4.82%
Chicago	-14.57%	-13.91%	-10.60%
Denver	-8.73%	-10.32%	-5.56%
Las Vegas	-23.92%	-24.97%	-7.85%
Los Angeles	-24.37%	-26.30%	-25.34%
Miami	-23.03%	-26.22%	-24.34%
New York	-15.31%	-16.84%	-14.30%
San Diego	-21.90%	-23.52%	-10.46%
San Francisco	-21.84%	-22.56%	-11.63%
Washington, DC	-16.08%	-18.45%	-3.63%

Data as of July 15, 2008

Federal Reserve's Survey of Banks' Lending Intentions

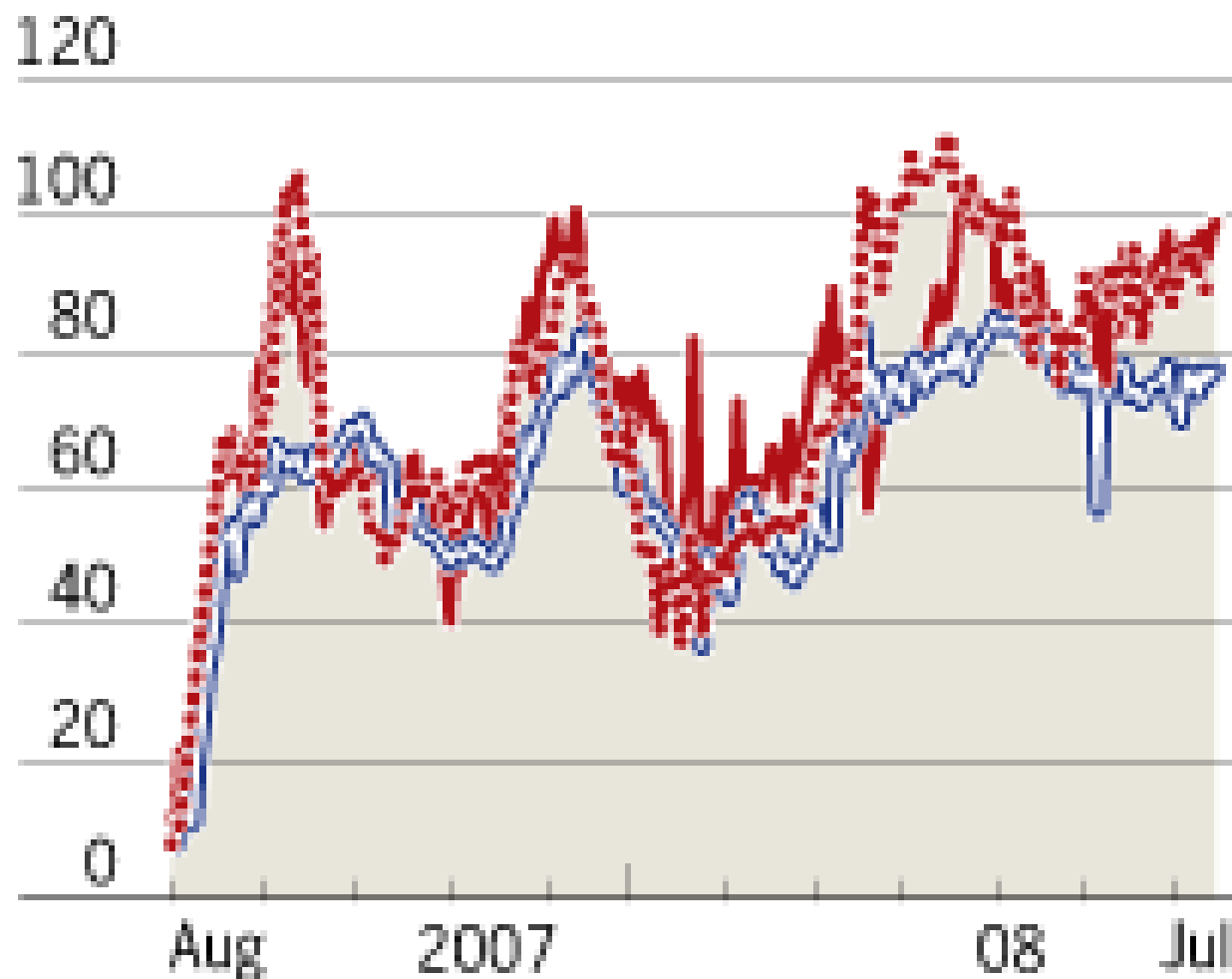
(net percentage of banks tightening)



Libor/OIS swap spread

6-month spread (basis points)

— Dollar — Euro ··· Sterling

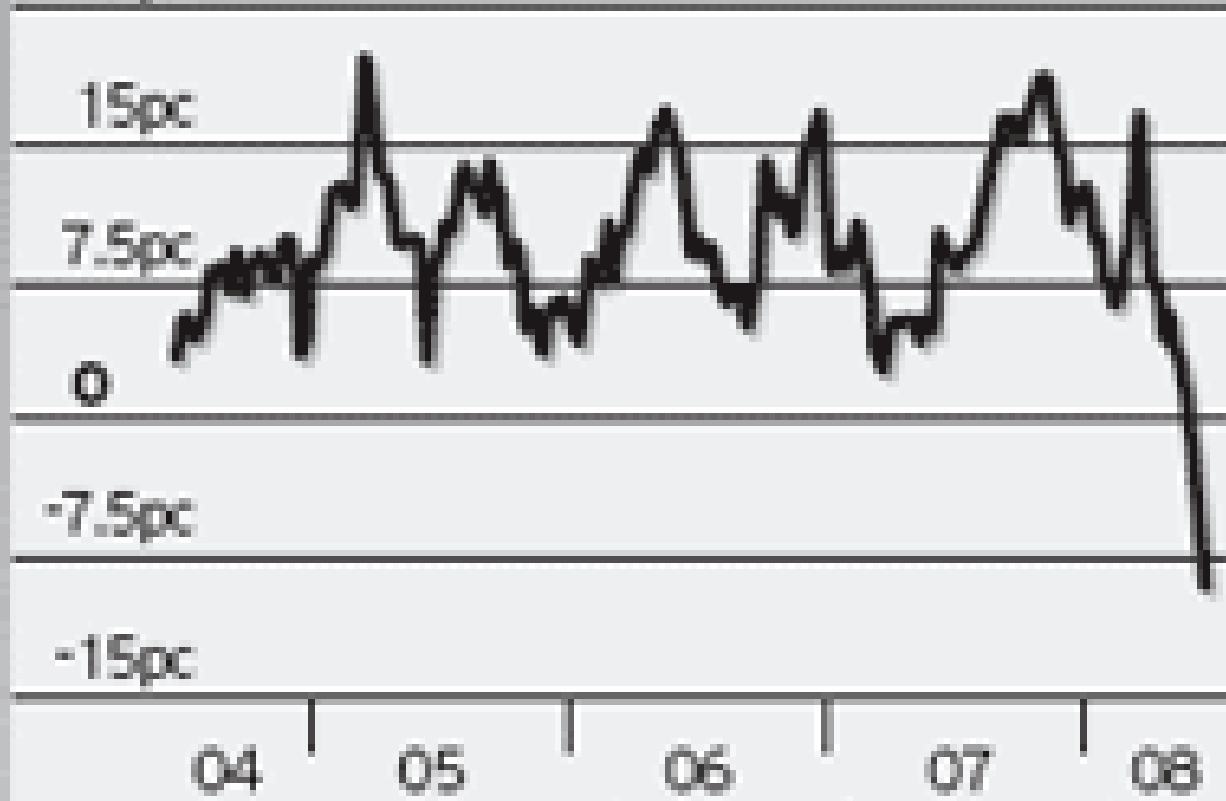


Source: Thomson Reuters

US bank credit turns negative - sharpest fall in over 40 years

13 week percentage change

22.5pc



Source: Federal Reserve/Haver Analytics

US M2 narrow money growth buckles

13 week percentage change

16pc

12pc

8pc

4pc

0

-4pc

04

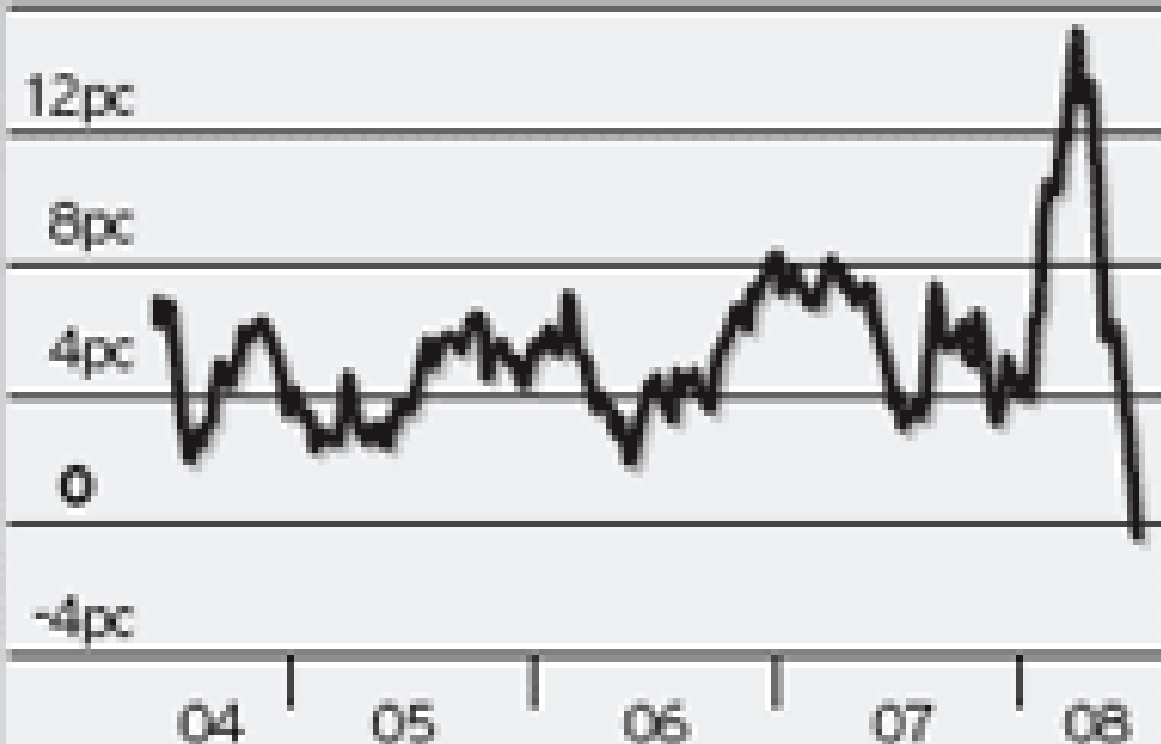
05

06

07

08

Source: Federal Reserve/Haver Analytics



Eurozone M1 narrow money growth plunges

12pc

10pc

8pc

4pc

0

99 00 01 02 03 04 05 06 07 08

Source: ECB

