

DAILY GLOBAL COMMENTARY

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Chairman Bernanke Places Emphasis on Financial Stability February 24, 2009

Chairman Bernanke's testimony essentially connected the dots of the Fed forecast published last week, fleshed-out the risks, and noted some aspects of the much-anticipated stress test. Starting with forecasts, the testimony was a complete articulation of the most likely scenario inclusive of the risks involved going forward. The Fed expects the economy to regain momentum in the second-half of 2009, and 2010 was cited as the year of recovery. The forecast includes low inflation for the next two years and an unemployment rate in the range of 8-1/2 percent to 8-3/4 percent in the fourth quarter of 2009. The unemployment rate is predicted to be lower in 2010 vs. 2009. The important news in today's testimony is that he noted that the "outlook is subject to uncertainty" and the "downside risks probably outweigh those on the upside." Bernanke pointed out that "a full recovery of the economy from the current recession is likely to take more than two or three years." He also mentioned two risks. One risk was with reference to the global economic slowdown which is likely to create a significant setback to U.S. exports and adversely affect financial conditions. The adverse feedback loop in which "weakening economic and financial conditions become mutually reinforcing" is the second risk Bernanke mentioned. He highlighted that continued support from the Fed to complement fiscal stimulus is necessary to "stabilize financial institutions and financial markets" in order to break the adverse feedback loop. Of vital importance was his comment about financial stability which runs as follows:

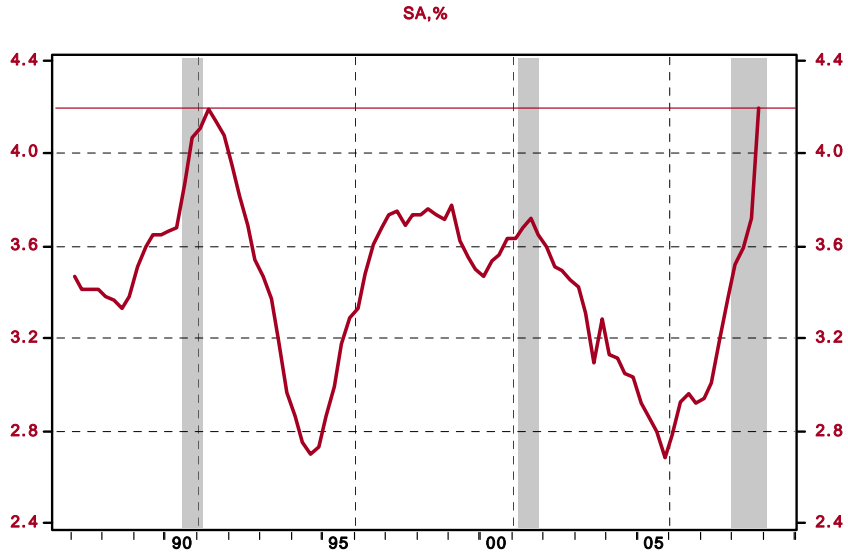
"If actions taken by the Administration, the Congress, and the Federal Reserve are successful in restoring some measure of financial stability--and only if that is the case, in my view--there is a reasonable prospect that the current recession will end in 2009 and that 2010 will be a year of recovery."

Chairman Bernanke indicated that the stress test of the major 19 banks in the U.S. would determine which of these banks would require capital in the event of a deeper-than-predicted recession. The Fed would provide assistance via preferred shares. In his opinion, there is no necessity to destroy the franchise value of banks and the legal uncertainties of nationalization should be avoided. Also he noted that majority ownership of banks is not necessary to work with the banks. These comments were seen in positive light and the S&P 500 Bank Index moved up 13% as of this writing according to Bloomberg News.

Loan Delinquency and Charge-offs Rise in 2008:Q4

The delinquency rate of loans and charge-offs advanced in the fourth quarter. This is not entirely surprising. We need to stress that financially strapped households are in no position to spend more than necessary particularly in an environment of a rising unemployment rate. 4.20% of consumer loans were delinquent in the fourth quarter, the largest on record in the short history of this series. The previous high was 4.19% in the second quarter of 1991.

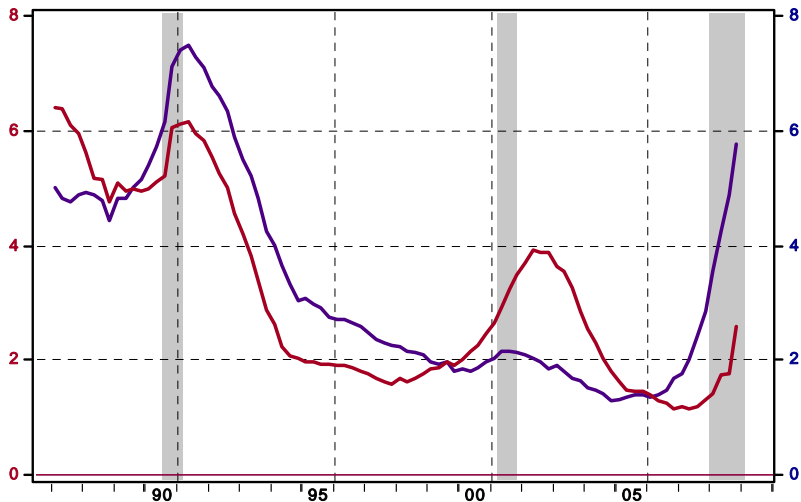
Chart 1
Loan Delinquency Rate: Consumer Loans: All Insured Comml Banks



Source: Federal Reserve Board /Haver Analytics

The percentages of commercial and industrial loans (2.58% vs. 1.78% in Q3) and real estate loans (5.78% vs. 4.89%) delinquent in the fourth quarter were higher than in the third quarter.

Chart 2
Loan Delinquency Rate: C & I Loans: All Insured Comml Banks
Loan Delinquency Rate: Real Estate Loans: All Insured Comml Banks

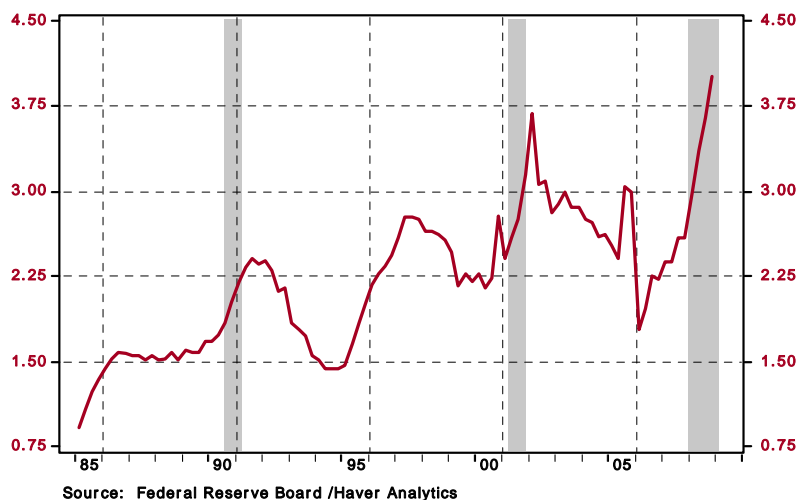


Source: Federal Reserve Board /Haver Analytics

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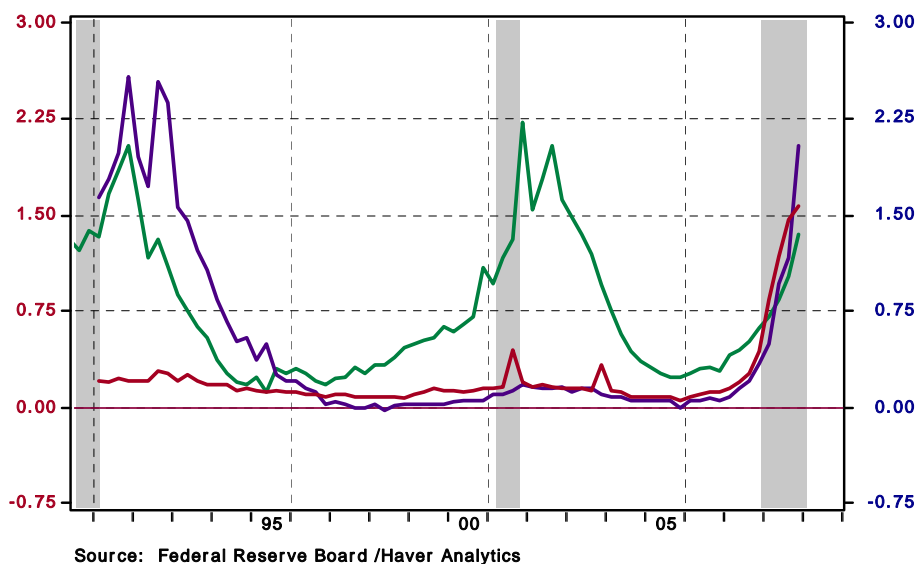
The charge-off rates of consumer loans reached a new high of 4.02% in the fourth quarter (see chart 3).

Chart 3
Loan Charge-Off Rate: Consumer Loans: All Insured Comm Bank
 SAAR, %



Charge-off rate of residential loans, commercial real estate, and commercial and industrial loans advanced in the fourth quarter (see chart 4).

Chart 4
Loan Charge-Off Rate: Residential Real Estate Loans: All Comm Bank (SAAR, %)
Loan Charge-Off Rate: Commercial Real Estate Loans: All Comm Bank (SAAR, %)
Loan Charge-Off Rate: C & I Loans: All Insured Comm Bank (SAAR, %)

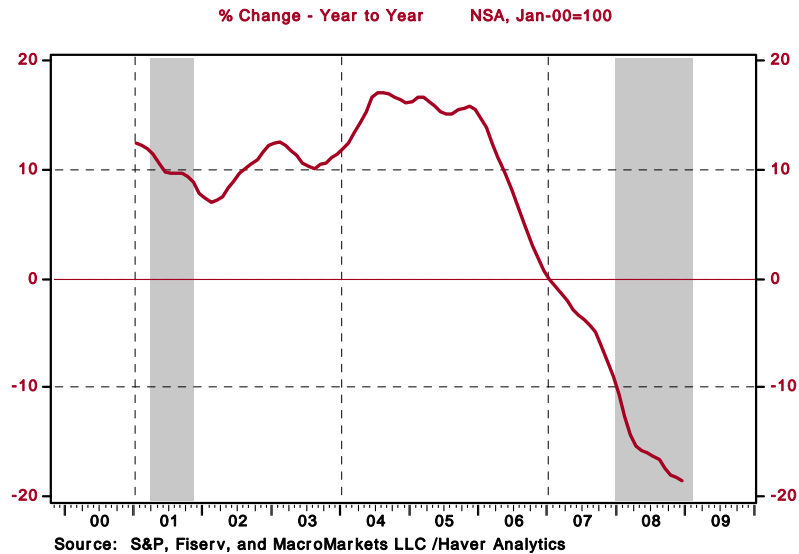


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Home Prices Continue to Decline as Inventories of Unsold Homes Remain at an Elevated Level

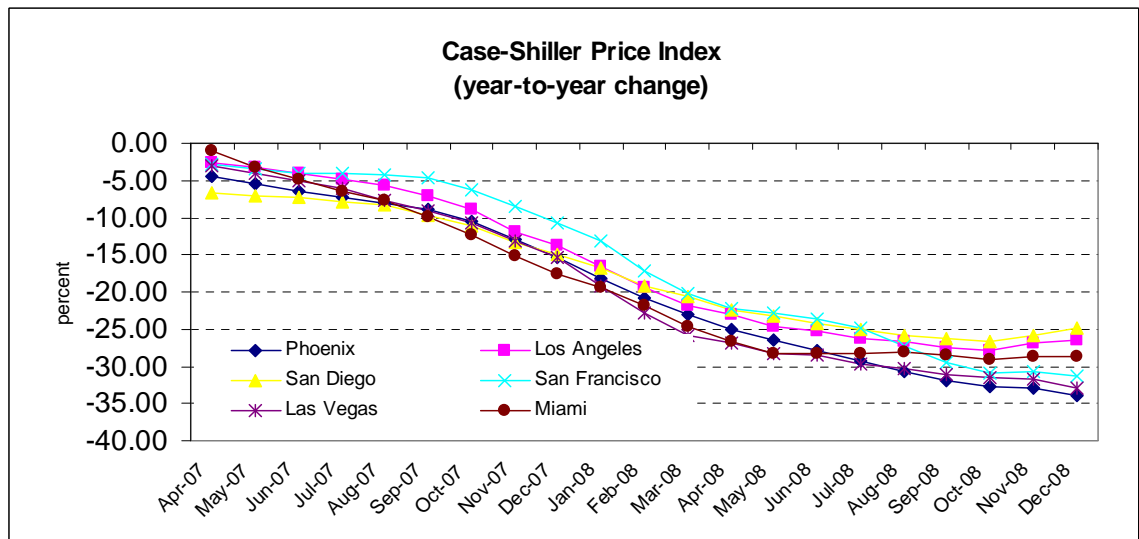
The Case-Shiller Home Price Index fell 2.0% in December after a similar decline in the prior month. On a year-to-year basis, the index is down 18.6%, the largest drop on record (see chart 5). Additional price declines are strongly likely given the elevated level of inventories.

Chart 5
S&P/Case-Shiller Home Price Index: Composite 20



Of the 20 metro areas, five (Los Angeles, San Diego, Denver, Washington DC, and Boston) recorded a smaller decline in homes prices in December compared with November

Chart 6



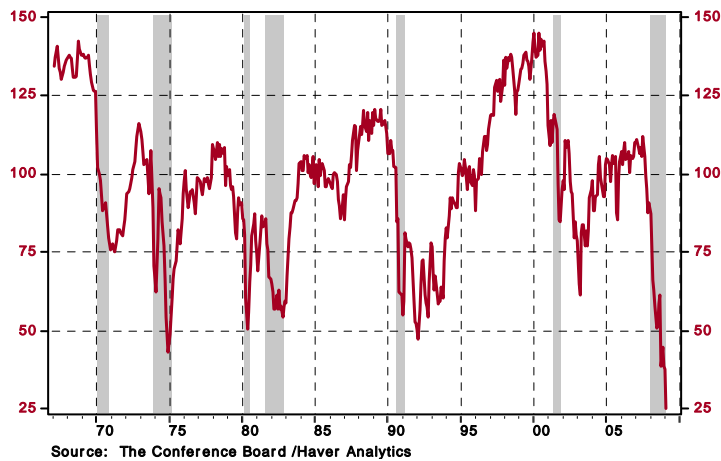
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Consumer Confidence Index Records New Low

The Conference Board's Consumer Confidence Index plunged to 25.0 in February vs. 37.4 in January. This is a new record low for the series which dates back to February 1967. The two subcomponents -- Present Situation Index (21.2 vs. 39.7 in January) and the Expectations Index (27.5 vs. 42.5 in January) -- declined in January. The dire economic news in the media nearly every day is bound to be reflected in the consumers' evaluation of the economy.

Chart 7
Consumer Confidence

SA, 1985=100 (I)

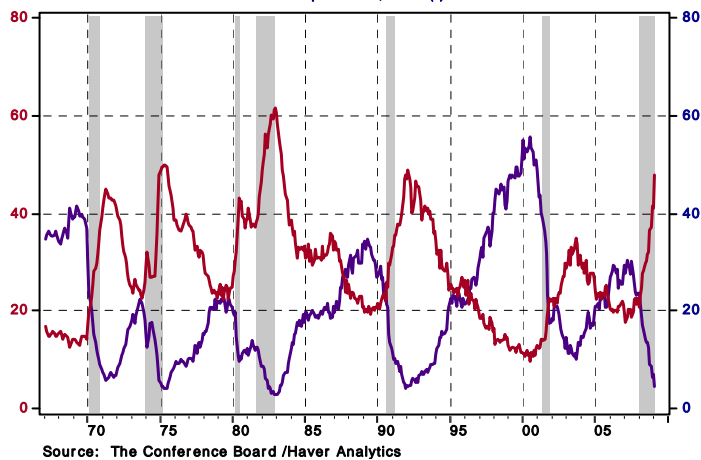


The index measuring if jobs are hard to find advanced (47.8 vs. 41.1 in January) and the index tracking whether jobs are plentiful fell (4.4 vs. 7.1 in January). The gap between the two indexes was wider in February vs. January (see chart 8), which is indicative of another grim employment report.

Chart 8

Appraisal Pres Sit: Employment, Jobs Hard to Get
% Respondents; SA (I)

Appraisal Present Sit: Employment, Jobs Plentiful
% Respondents; SA (I)



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