



Will Debt Stop Growth?

June 15, 2011

David Malpass
dmalpass@encimaglobal.com

212.876.4400

Please read the important disclosure information in the Addendum section of this presentation.

Economic Outlook

- **We think U.S. macro-economic policy – near-zero rates, \$3.7 trillion in annual spending, invasive tax code -- is deeply harmful to near-term and long-term U.S. growth, but we don't expect a near-term tipping point.**
- **The U.S. has huge assets built up over many decades when macro policies were less harmful. Those assets are being depleted gradually and will last for several more years. As a result, bond market vigilantes will keep confronting other countries (like the European peripherals) before challenging the U.S. national debt, particularly given the favorable global demographics for bonds (the rapidly growing elderly population).**
- **The U.S. weak-dollar policy has meant under-investment in the U.S. and a huge flow of longer-term direct and portfolio investments to emerging markets, especially Asia. In the capital account, this is offset by foreign purchases of U.S. bonds, primarily shorter-term government debt.**
- **We expect worries to be resolved about QE2 ending (won't "reduce liquidity"), the debt limit increase, the euro-zone impasse (they can throw money at the debt problem) and the hardness of China's landing (we expect well over 8% growth.) We think bond yields will rise some, but we don't expect a sudden collapse in the dollar or uncontrolled spike in U.S. interest rates.**

CPI Spike Won't Force Tighter Fed

(last obs. May 2011, projected to Dec 2011 with 0.2% m/m)

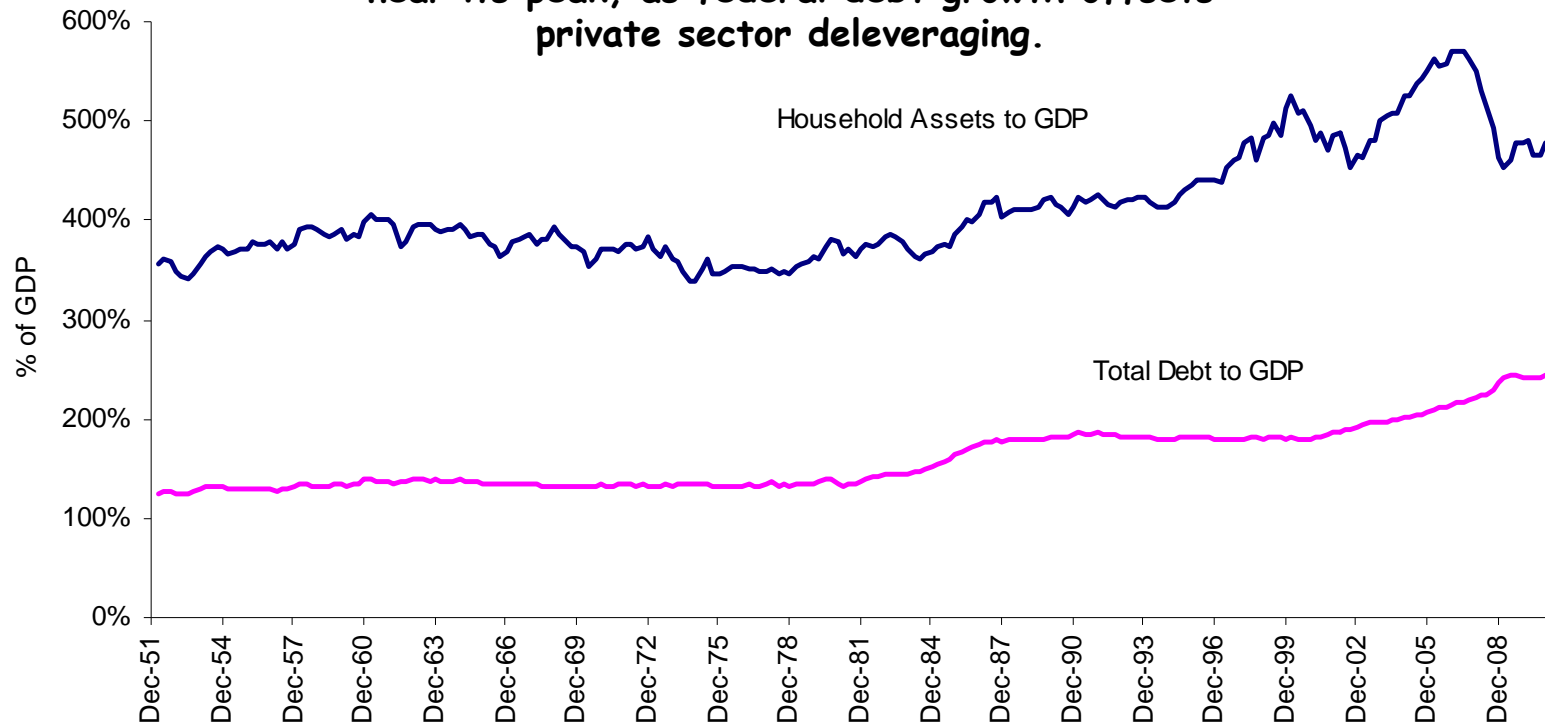


Source: Bureau of Labor Statistics; Encima Global

Household Assets \$72 Trillion; Total Debt \$36T

(last obs. Q1 2011)

U.S. nonfinancial debt stands at 240% of GDP, near its peak, as federal debt growth offsets private sector deleveraging.



Source: Federal Reserve; BEA; Encima Global

Household Assets / Total Debt

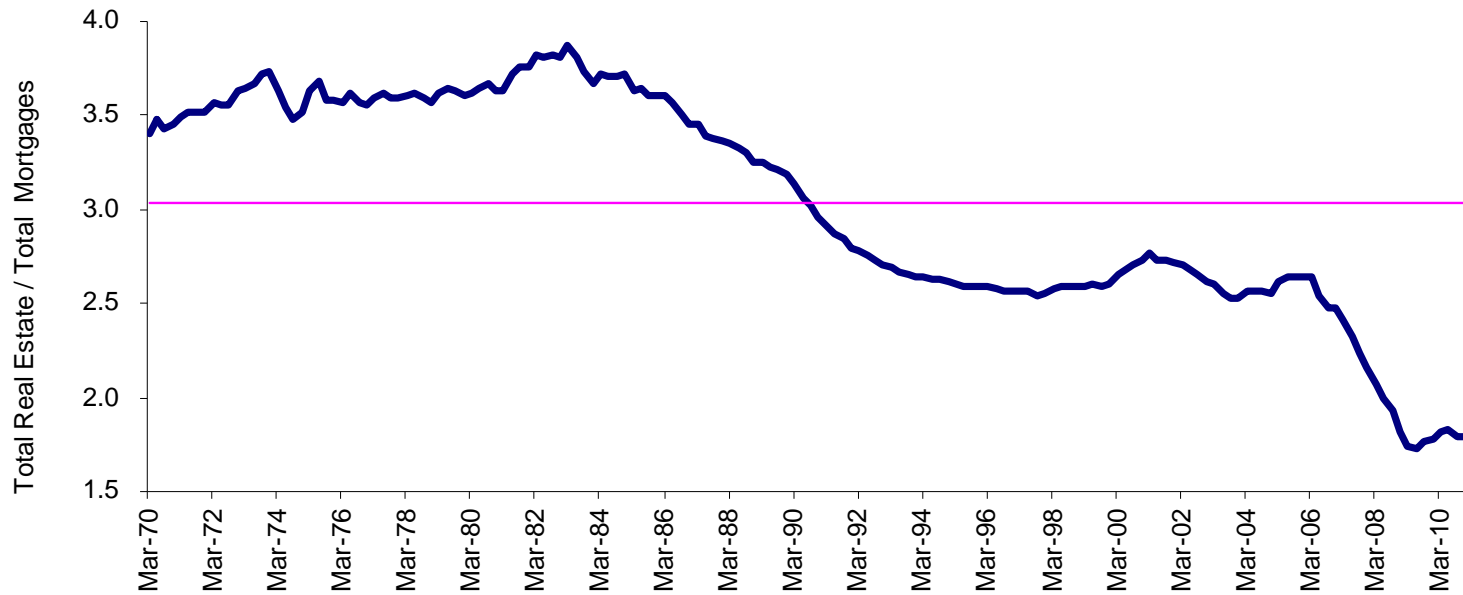
(last obs. Q1 2011)



Source: Federal Reserve: Flow of Funds; Encima Global

Household Real Estate / Mortgages

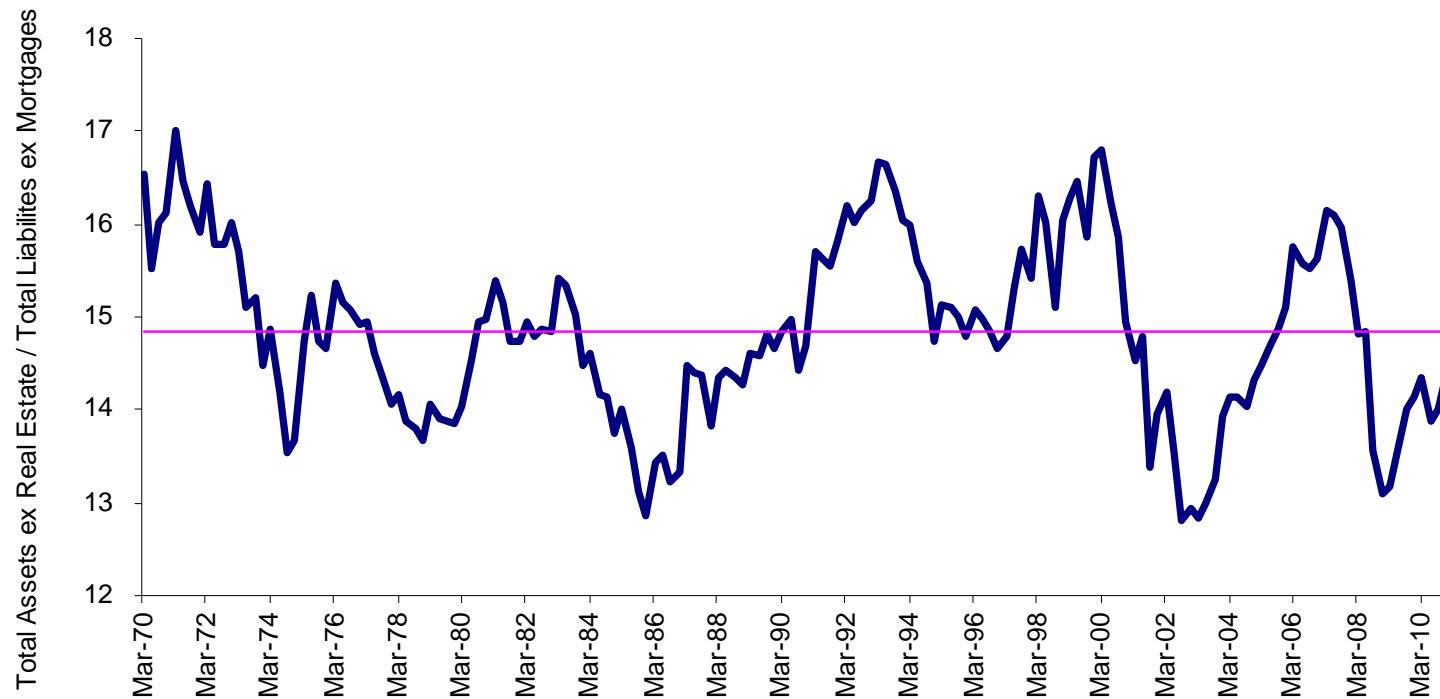
(last obs. Q1 2011)



Source: Federal Reserve: Flow of Funds; Encima Global

HH Assets ex Housing / Liabilities ex Mortgages

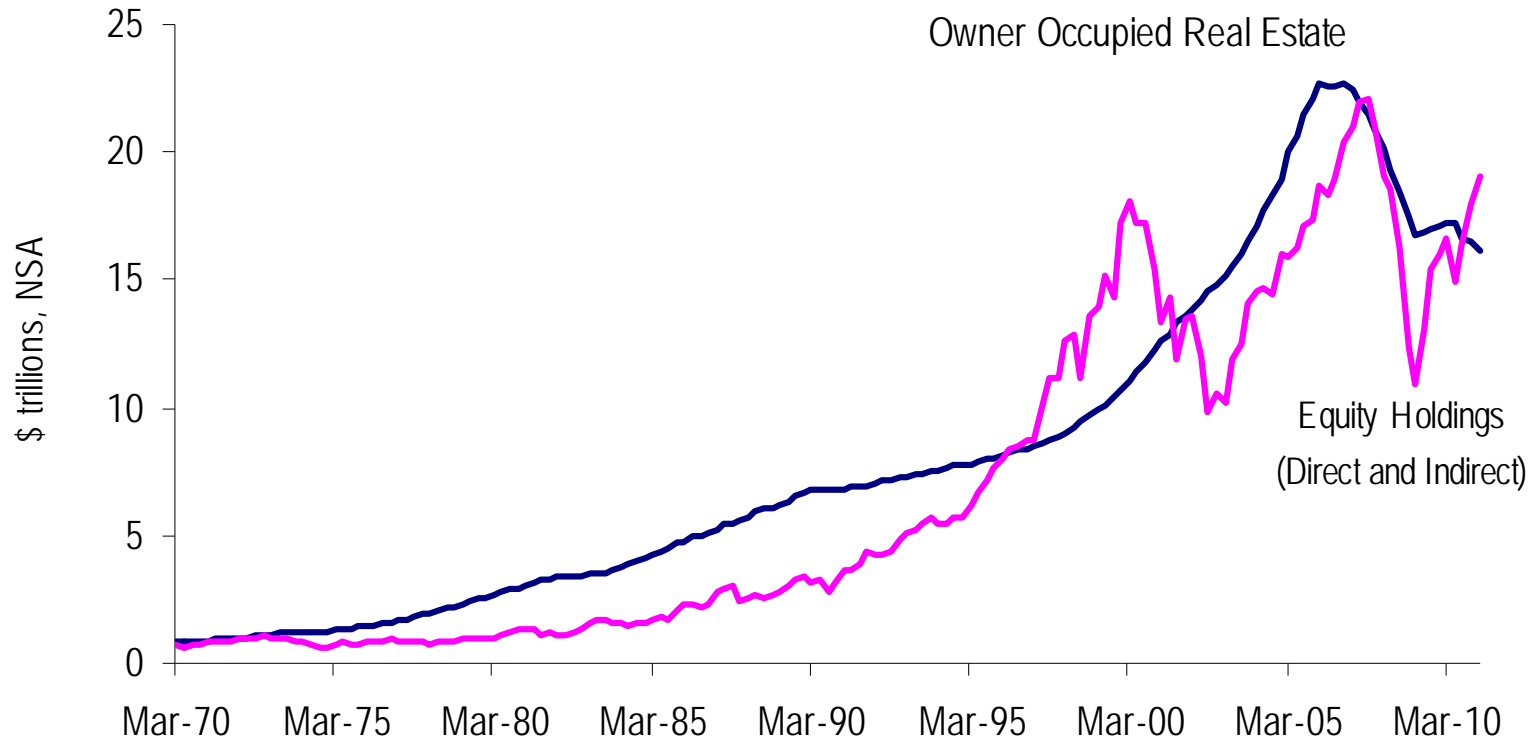
(last obs. Q1 2011)



Source: Federal Reserve: Flow of Funds; Encima Global

Equity Market Holdings and Owner Occupied Real Estate

(last obs. Q1 2011)



Source: Federal Reserve: Flow of Funds; Encima Global

Domestic Nonfinancial Debt

(last obs. March 31, 2011)

	2011 Q1	2010 Q4	Yr/Yr % chg	Yr/Yr % chg
	(\$ trill)	(\$ trill)	2011 Q1	2010 Q1
Domestic Nonfinancial Sectors	\$ 36.3	\$ 36.1	3.9%	2.9%
Households	\$ 13.3	\$ 13.4	-1.7%	-1.9%
Corporate Business	\$ 7.3	\$ 7.2	4.2%	0.3%
Noncorporate Business	\$ 3.5	\$ 3.5	-3.4%	-8.8%
State & Local Govts	\$ 2.4	\$ 2.5	2.2%	4.9%
Federal Government	\$ 9.6	\$ 9.4	16.5%	21.3%
of which Fed Holds	\$ 1.3	\$ 1.0	72.6%	57.8%
as of June \$1.54 trillion				
memo:				
Federal Govt Trust Funds	\$ 4.6			
of which Soc Sec	\$ 2.6			

Not counting government spending promises or future losses on GSEs

Source: Federal Reserve: Flow of Funds; Encima Global

Mortgage Debt Holdings

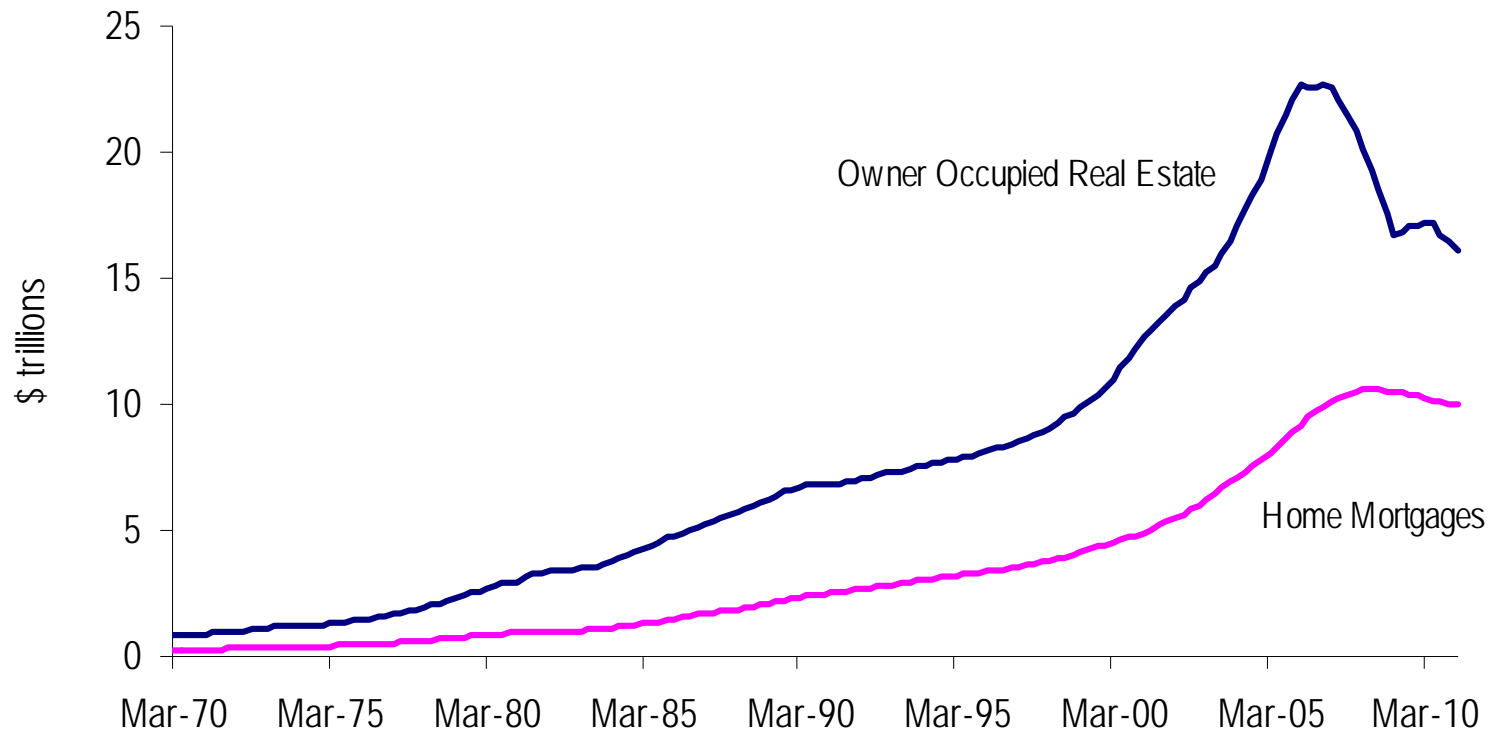
(last obs. March 31, 2011)

	2011 Q1 (\$ trill)	2010 Q4 (\$ trill)	Yr/Yr % chg 2011 Q1
Total Mortgages	\$ 13.7	\$ 13.8	-3.0%
Commercial Banking	\$ 3.6	\$ 3.7	-5.6%
Government Sponsored Enterprises	\$ 5.1	\$ 5.0	-1.0%
consolidated mortgage trusts	\$ 4.3	\$ 4.2	-4.4%
Agency mortgage pools	\$ 1.2	\$ 1.1	21.1%
ABS Issuers	\$ 1.8	\$ 1.9	-12.6%
Other Financial Institutions	\$ 1.6	\$ 1.7	-5.2%
Other	\$ 0.4	\$ 0.4	-2.7%

Source: Federal Reserve: Flow of Funds; Encima Global

Owner Occupied Real Estate and Mortgages

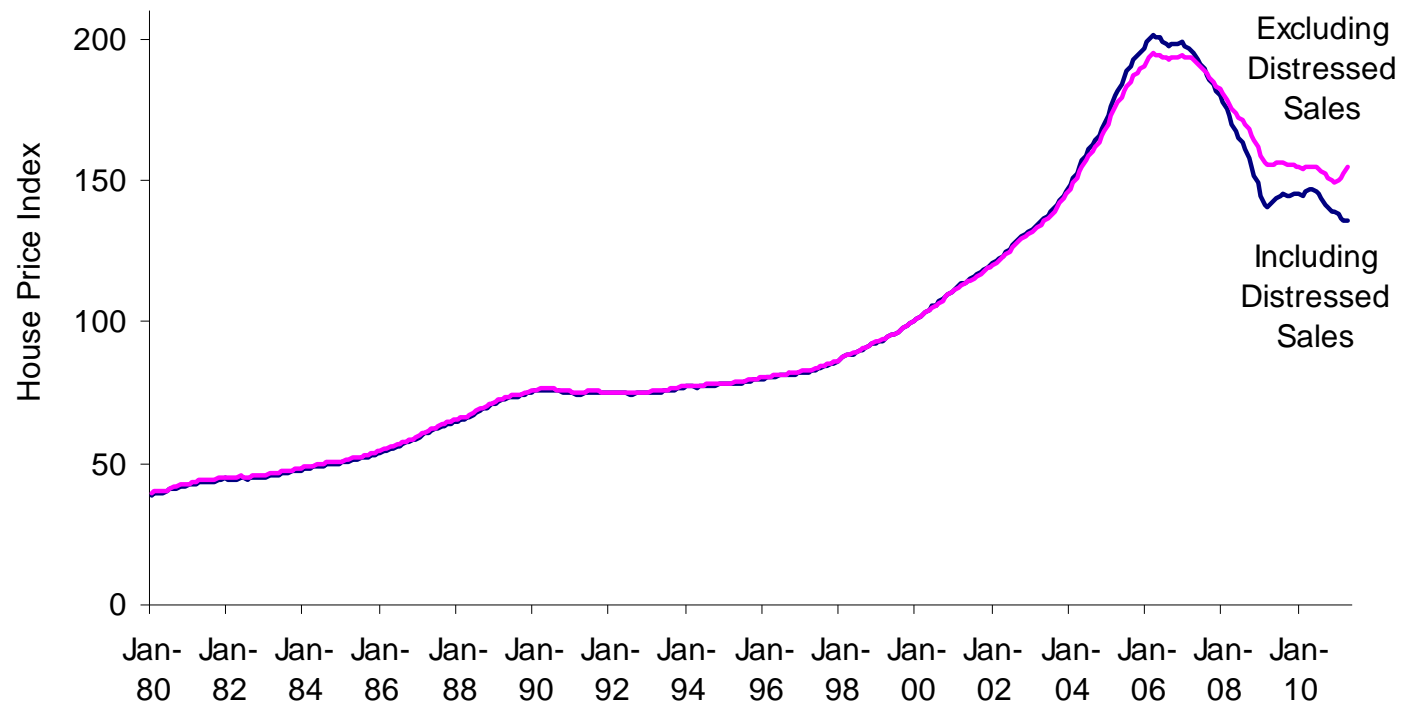
(last obs. Q1 2011)



Source: Federal Reserve: Flow of Funds; Encima Global

CoreLogic Home Price Indexes

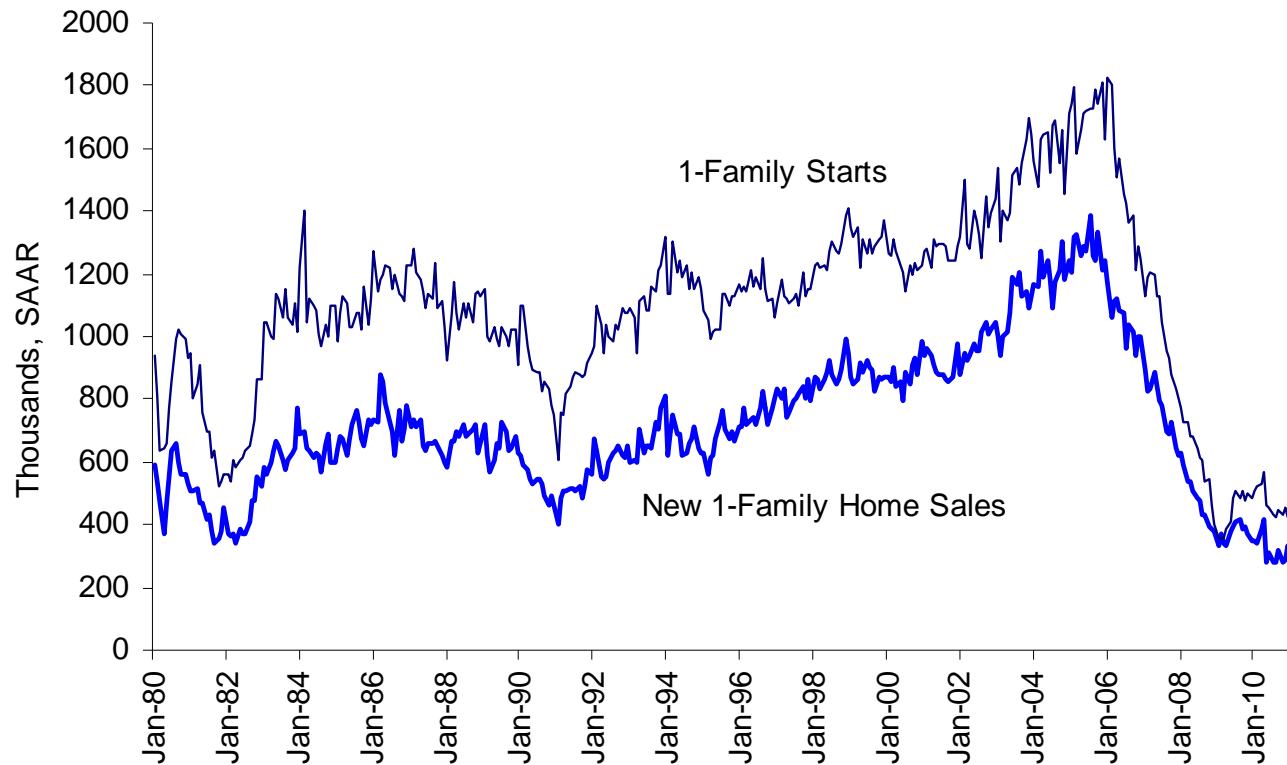
(last obs. April 2011)



Source: CoreLogic; Haver; Encima Global

Single Family Home Starts and Sales

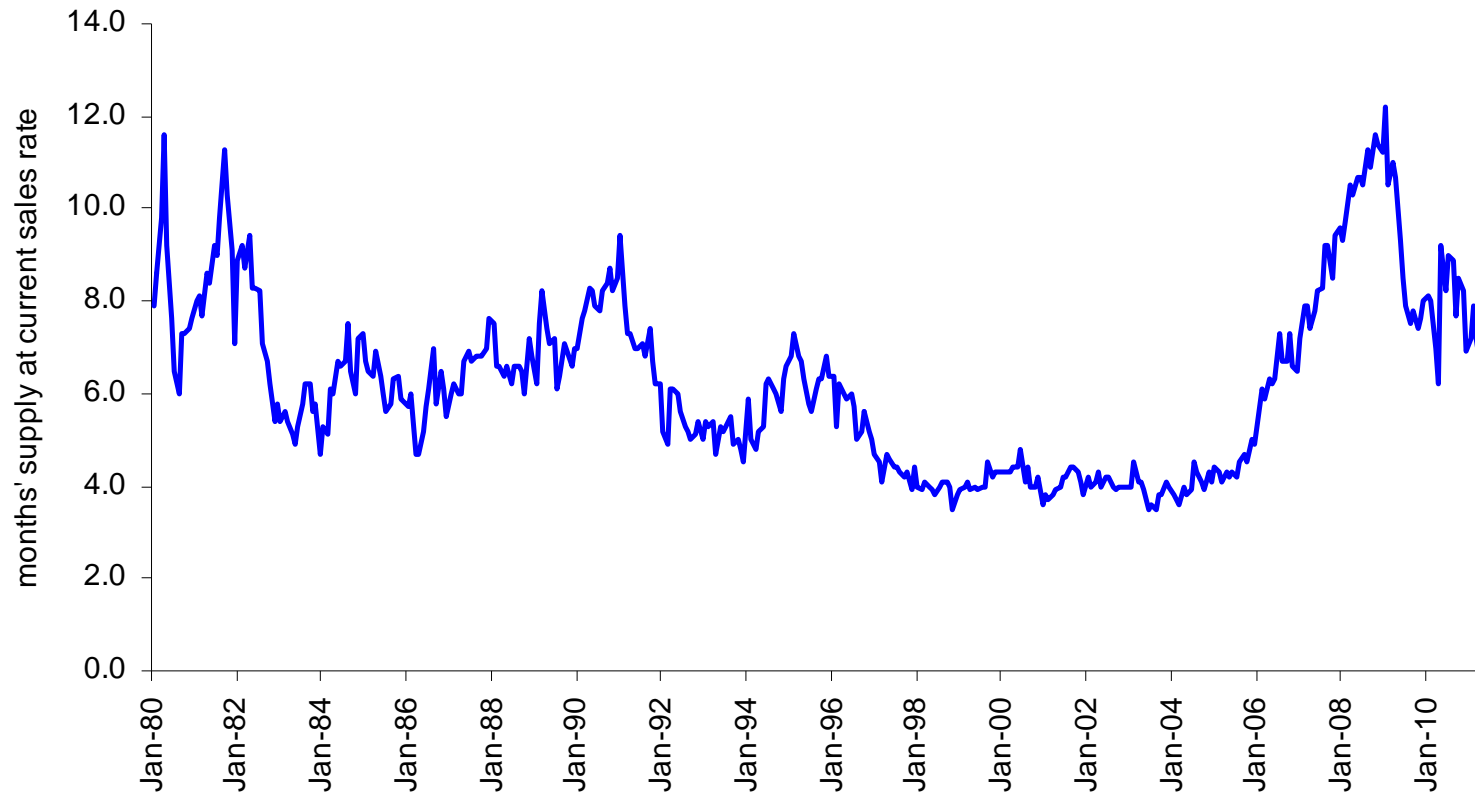
(last obs. April 2011)



Source: Census Bureau; Encima Global

Months' Supply of 1 Family Homes at Current Sales Rate

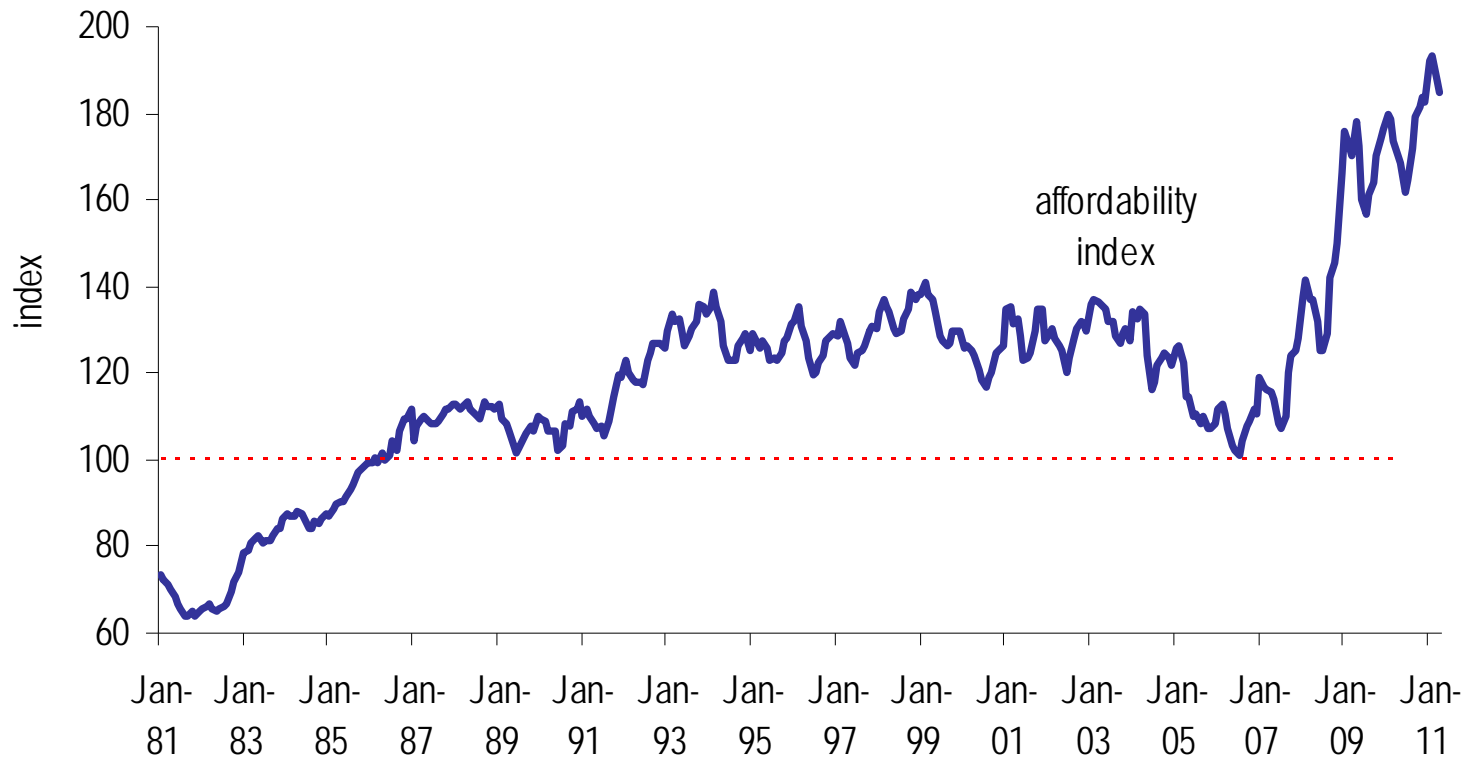
(last obs. April 2011)



Source: Census Bureau; Encima Global

Home Affordability Index

(last obs. April 2011)

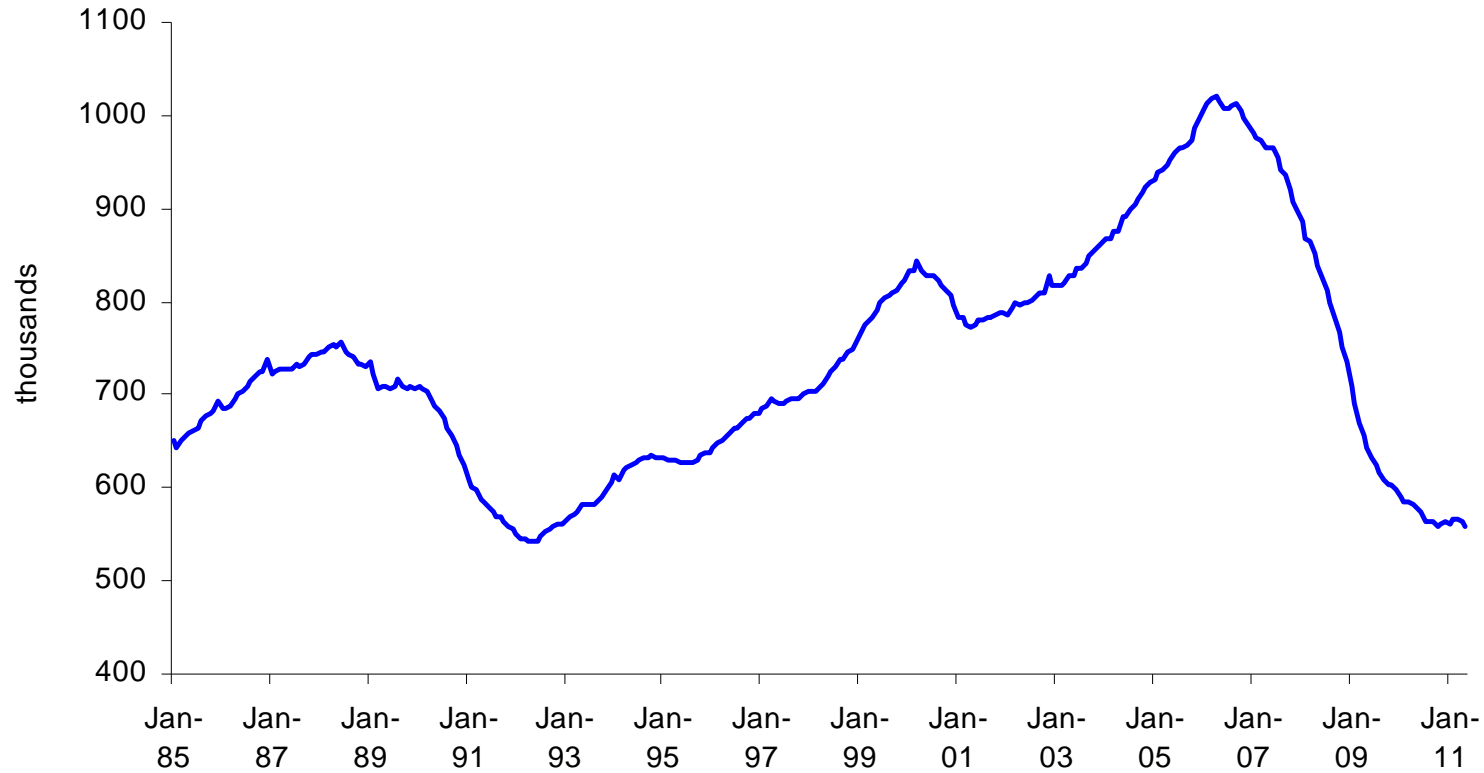


Source: National Association of Realtors; Encima Global



Employees in Residential Construction

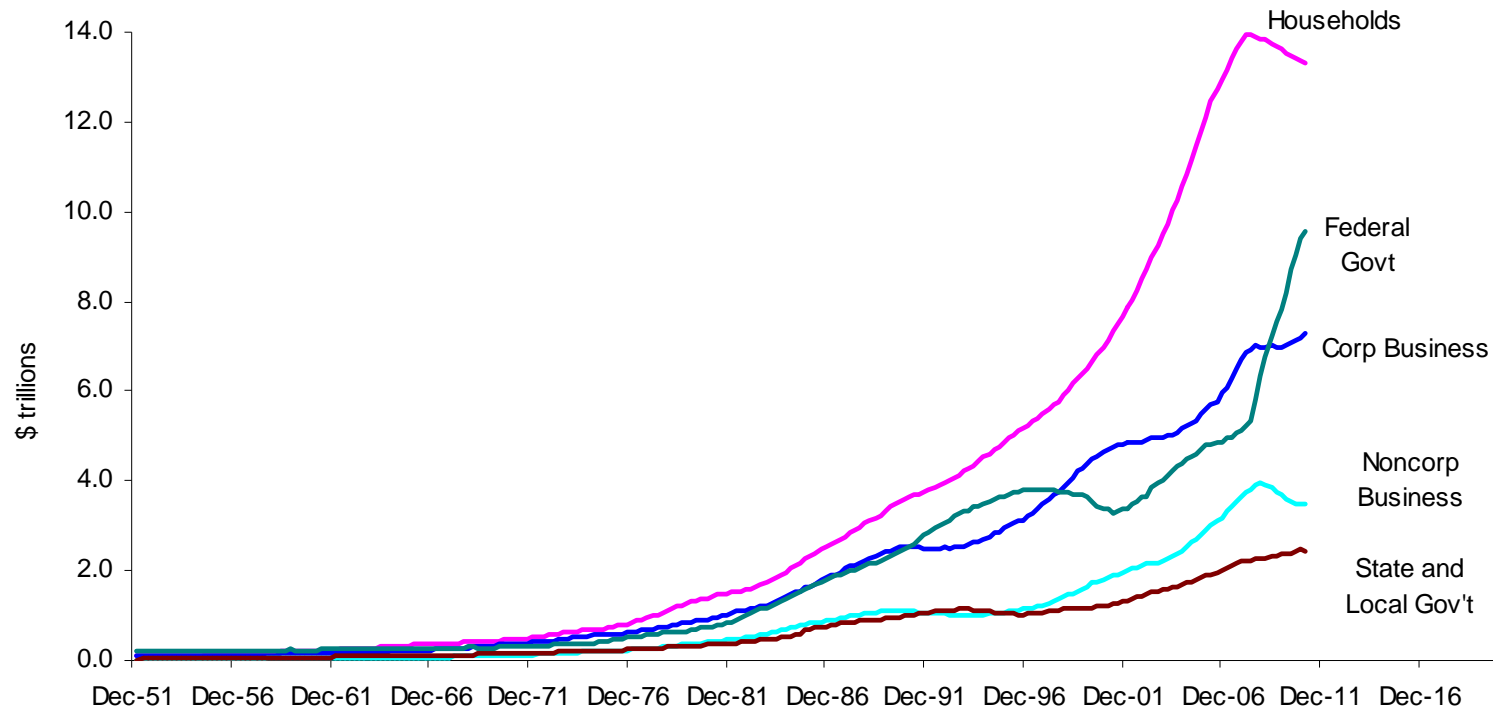
(last obs. May 2011)



Source: Bureau of Labor Statistics; Encima Global

Sector Debt

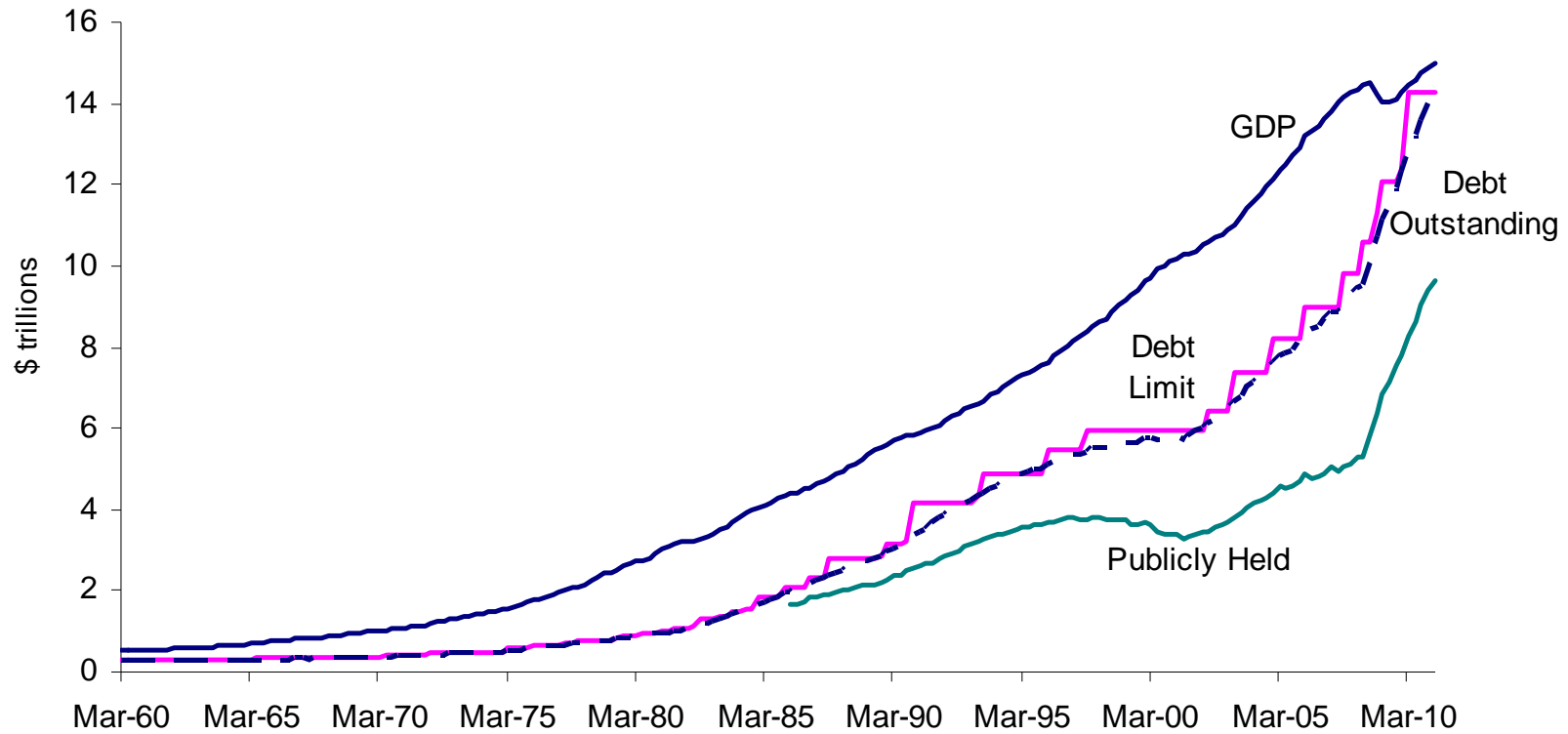
(last obs. Q1 2011)



Source: Federal Reserve: Flow of Funds; Encima Global

Publicly Held Debt Reaching 70% of GDP

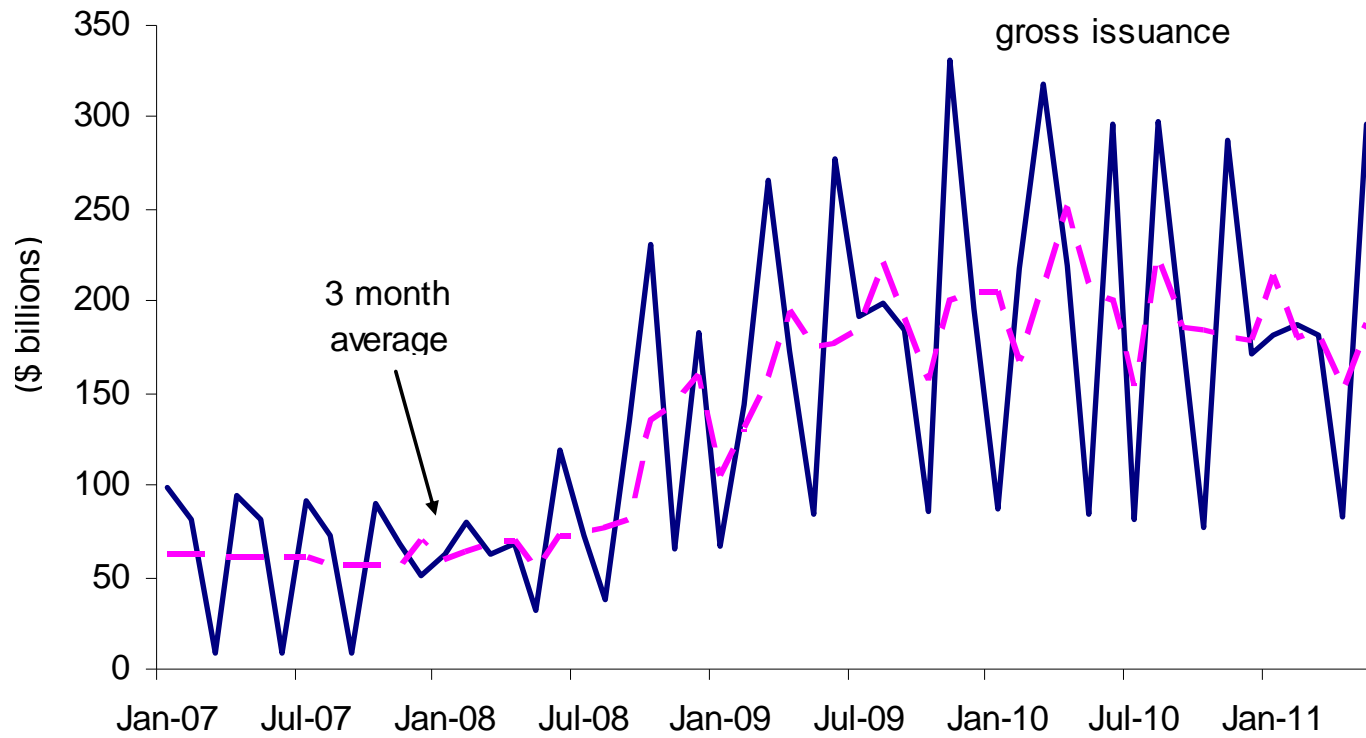
(last obs. Q1 2011)



Source: Bureau of Economic Analysis; U.S. Treasury; Encima Global

Notes and Bond Issuance

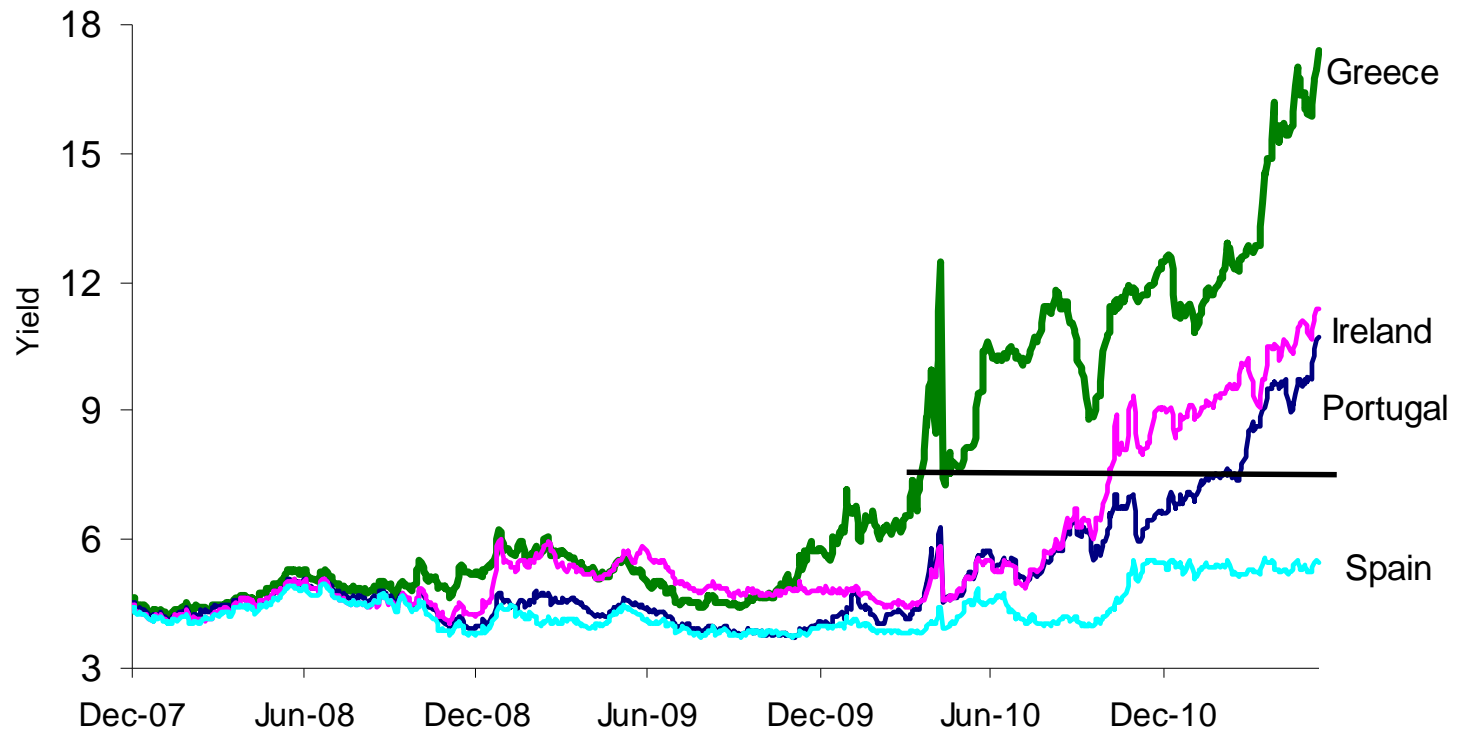
(last obs. May 2011)



Source: Bureau of Public Debt; Encima Global

Select European 10 Year Yields

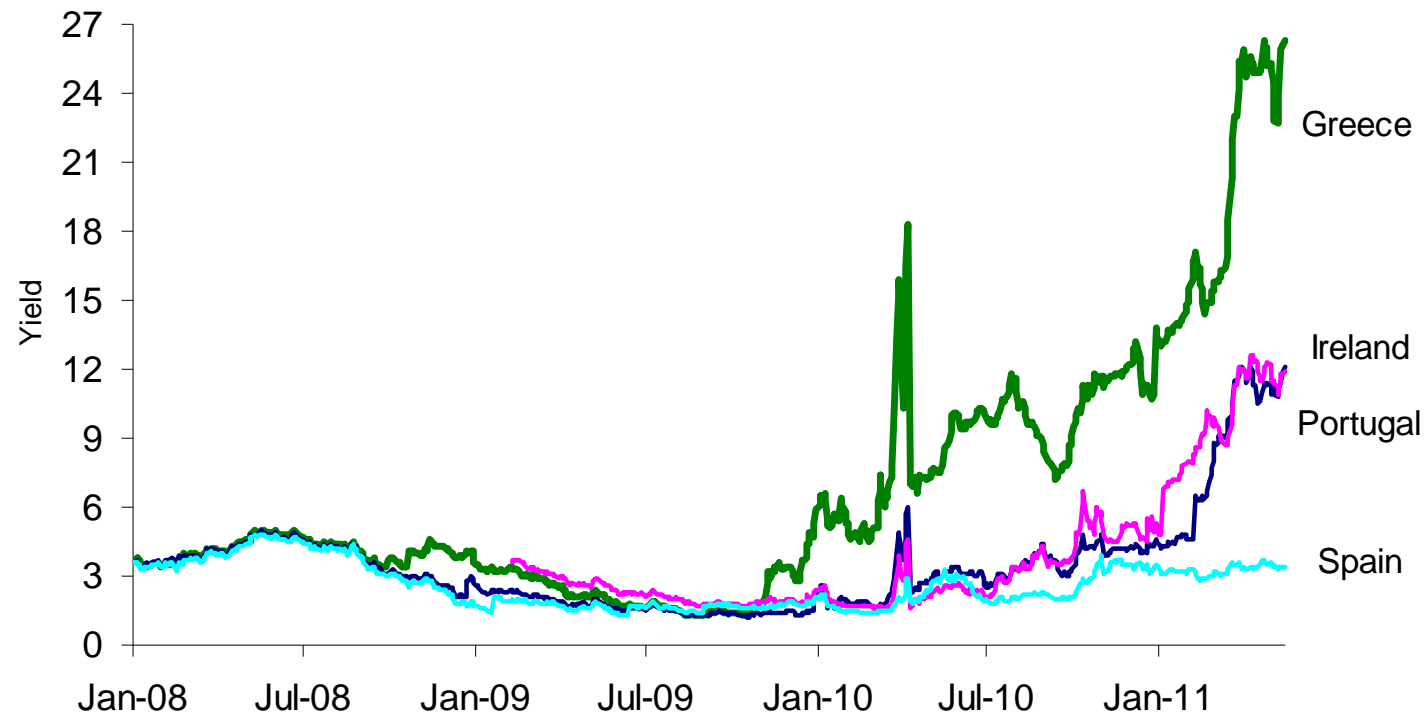
(last obs. June 14, 2011)



Source: Bloomberg; Encima Global

Select European 2 Year Yields

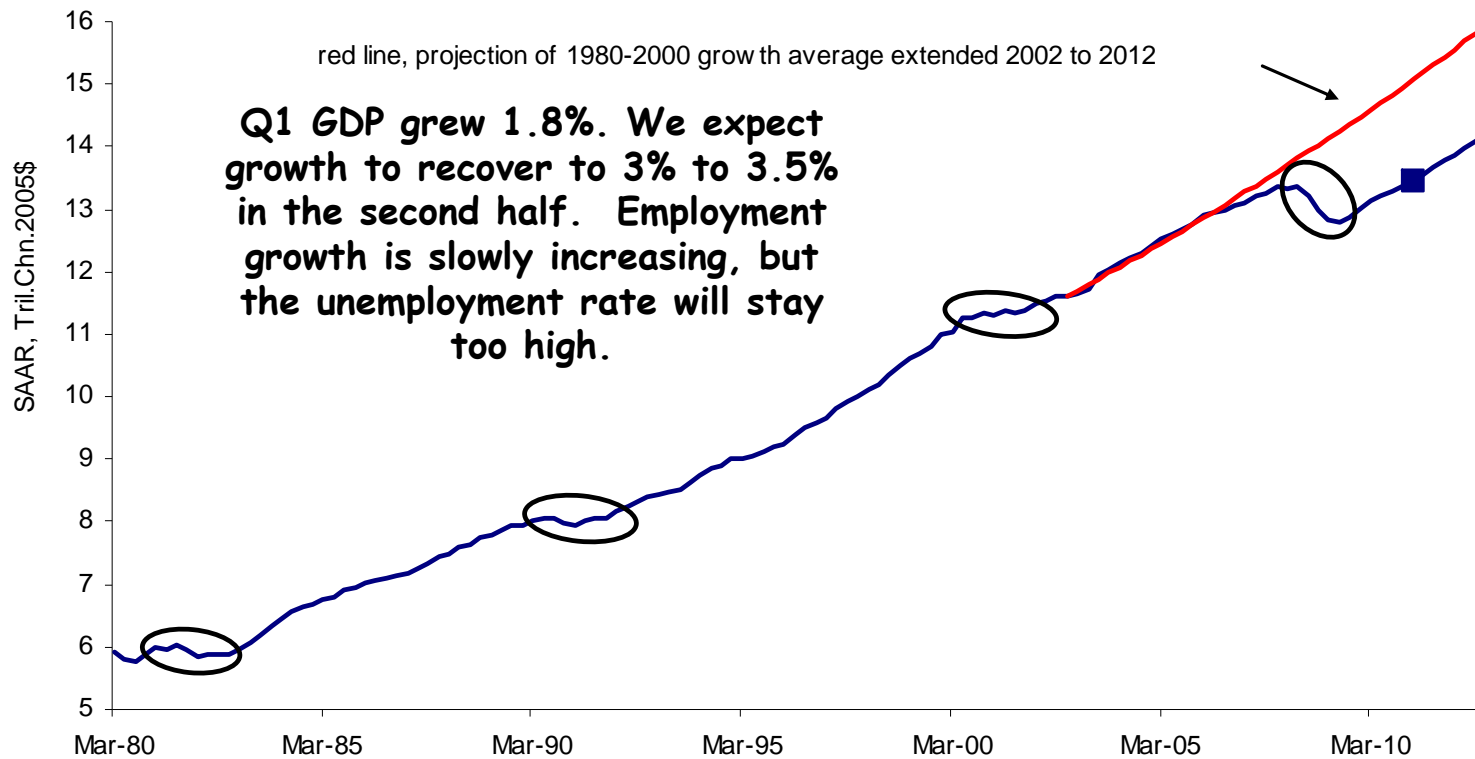
(last obs. June 14, 2011)



Source: Bloomberg; Encima Global

Real GDP Growing From a Low Base

(last obs. blue square Q1 2011, projected to Q4 2012)



Source: Bureau of Economic Analysis; Encima Global



Note: This document is confidential and intended solely for the use of the individuals to whom it is presented. Encima Global LLC does not accept liability for the content or for the consequences of any actions taken on the basis of the information provided. The information is not necessarily complete, and we make no warranty as to its accuracy.