

TURNING AROUND AN AIRCRAFT CARRIER

by [Steve Brown](#)

There is an old saying in business that it takes a lot of ocean and time to turn around an aircraft carrier (i.e. for change to occur). While the exact amount of time and distance such a task would take is classified, the sheer size of these ocean-going behemoths probably means any such turn would take awhile.

The same can be said for the impact of any FOMC rate cuts, as FRB leaders move the rudder as they try to turn the economy around. The whole problem with the process of moving interest rates is that from the point economic weakness is felt and the first rate cut occurs, it takes about 9 months for the impact to begin to trickle through the economy.

Taking the most conservative position, let's look back in time 9 months to February of this year. Back then, Federal Funds were sitting at 5.25% and nearly everyone believed rates would go higher, rather than lower. Moving along the timeline, we see that the first rate cut of 50bp occurred on September 18th. Calculating the lag time, that means the economy won't feel the benefit of the cut until May or June of 2008.

As one can also see from the grid at the bottom of this page, Federal Funds futures predict rates will go as low as 3.50%, while some economists are even calling for levels as low as 2.00%. To get there, the FRB has some further work to do and if the Futures markets predictions are correct, the impact from the last rate cut would not be coursing through the economy until May of 2009. Clearly, the credit crisis and its spillover effect could take quite some time to clear out and allow the economy to turn.

Despite the Fed's moves late this year to boost the economy by cutting rates, it is obvious we have slipped into a slump and it will take some time to recover. As investors and economists' worry about a lack of liquidity, the potential for stagflation and the accelerating economic malaise, the question everyone wants answered is, "how long we are going to have to suffer until things turn around?"

If the data is correct, it could take awhile. That is because monetary policy is usually considered "easy" only when the Federal Funds rate falls below the inflation rate. With the inflation rate now running at about 2.8%, rates have to fall further before any turn will be completed and we begin to head in the opposite direction.

Given that some economic prognosticators are now saying 4Q GDP will come in below 2% and 1Q 2008 will be below 1%, it appears the risk remains pointed toward the downside.

Since today is "Black Friday," this weekend is a critical gauge of consumer spending strength. As such, rest assured that FRB members will be closely monitoring sales to determine how and when another rate cut may be needed.

At this point in the economic cycle, we therefore continue to suggest community banks model softer growth scenarios in their 2008 budget projections and incorporate a worsening credit environment in the loan portfolio. As Captain Ben Bernanke turns the wheel, we can only hope we won't have to wait much longer for the ship to turn around.

BANK NEWS

Thrift Performance

The OTS reported that net income for all OTS regulated institutions was \$704mm or down 82% from the prior quarter. ROA was 0.2. The drop in earnings was caused by a rise of troubled assets (1.20% of total assets from 0.95%) and an increase in loan loss allowance (0.92% from 0.22%).

Reduction

Chevy Chase Bank announced that it will reduce its workforce by 200 positions (5%) and cut out most evening branch hours in an effort to increase profitability.

CU Comp

A motion was filed by the ABA and PA Bankers to stop the NCUA decision to allow the creation of a "local" credit union that field of membership includes most of south-central Penn (1.1mm households and 6 counties).

Small Biz States

A Small Business and Entrepreneurship Council survey has ranked South Dakota as the best state for small businesses based on tax and regulatory climates. NV, WY, WA, and FL rounded out the top 5 while CA, NJ, and DC ranked at the bottom of the list.

New Data

The FDIC updated its Regional Economic Conditions Database (RECON) with 2Q information. The site can be found at <http://www2.fdic.gov/recon/index.asp>. In related news, the FDIC will also release a report on Nov. 28th regarding the state of the banking industry in light of the recent credit crunch and equity downturn.

Help

The Fed opened its "Consumer Help" site that will handle consumer complaints and questions on the banking industry. The center can be reached by calling 888-851-1920 and is staffed from 9am to 7pm ET.

OREO

In some markets like Charlotte, Sacramento, Stockton and Miami, the banking industry is now the largest owner of single family homes (with up to 9% of the total homes for sale).

Banco Wal-Mart

Wal-Mart's Mexican bank has raised its 2008 target for branches to 100, saying it will offer a full range of banking services to individuals and small businesses.

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.