



IPE Berlin  
Institute for International  
Political Economy Berlin



Hochschule für  
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Berlin School of Economics and Law

# **Economic and financial developments in the US since the 2007-2008 crisis**

*Trevor Evans*

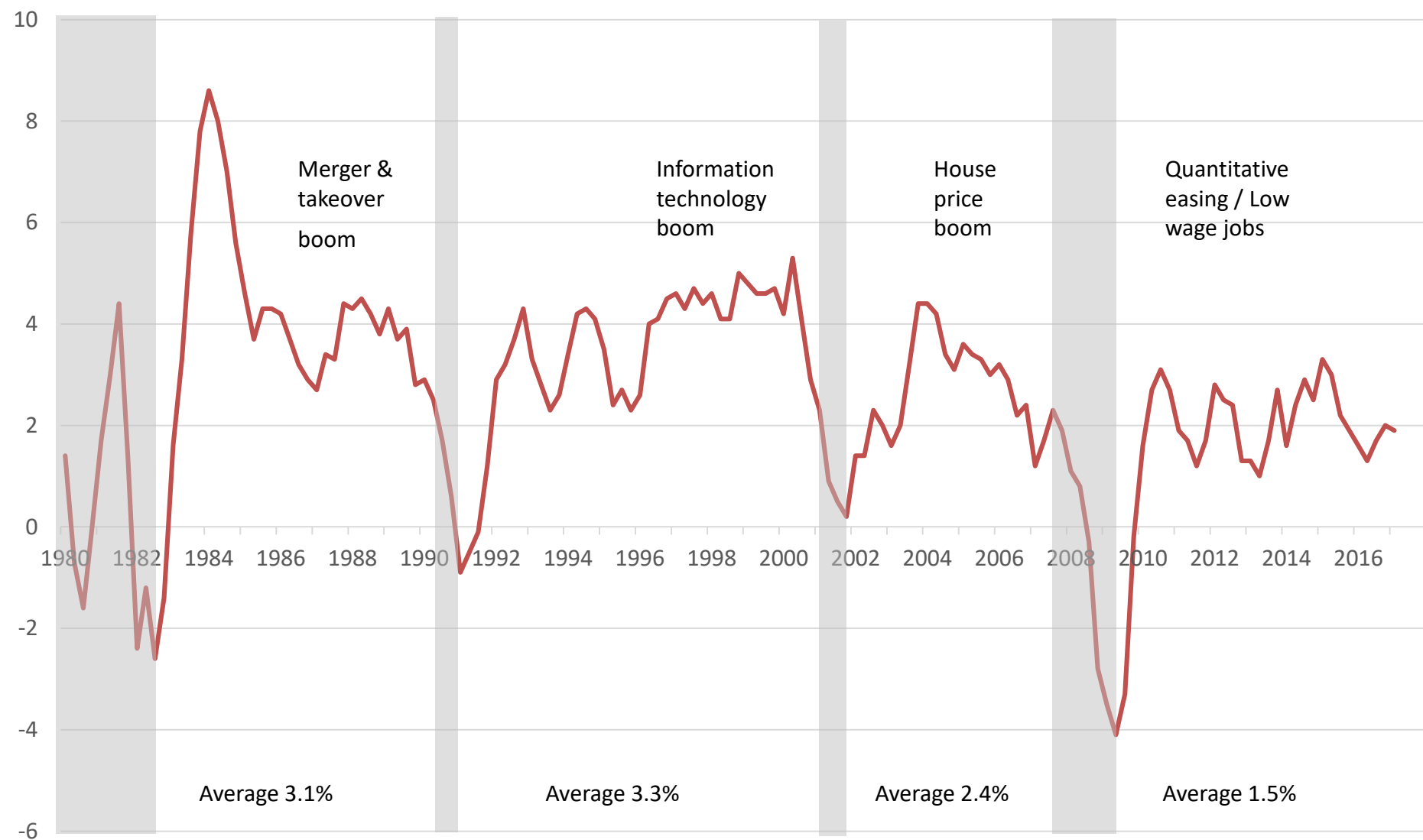
Financialization - New Trends and Directions of Development

9-10 June 2017, Rzeszow

**Weak recovery**

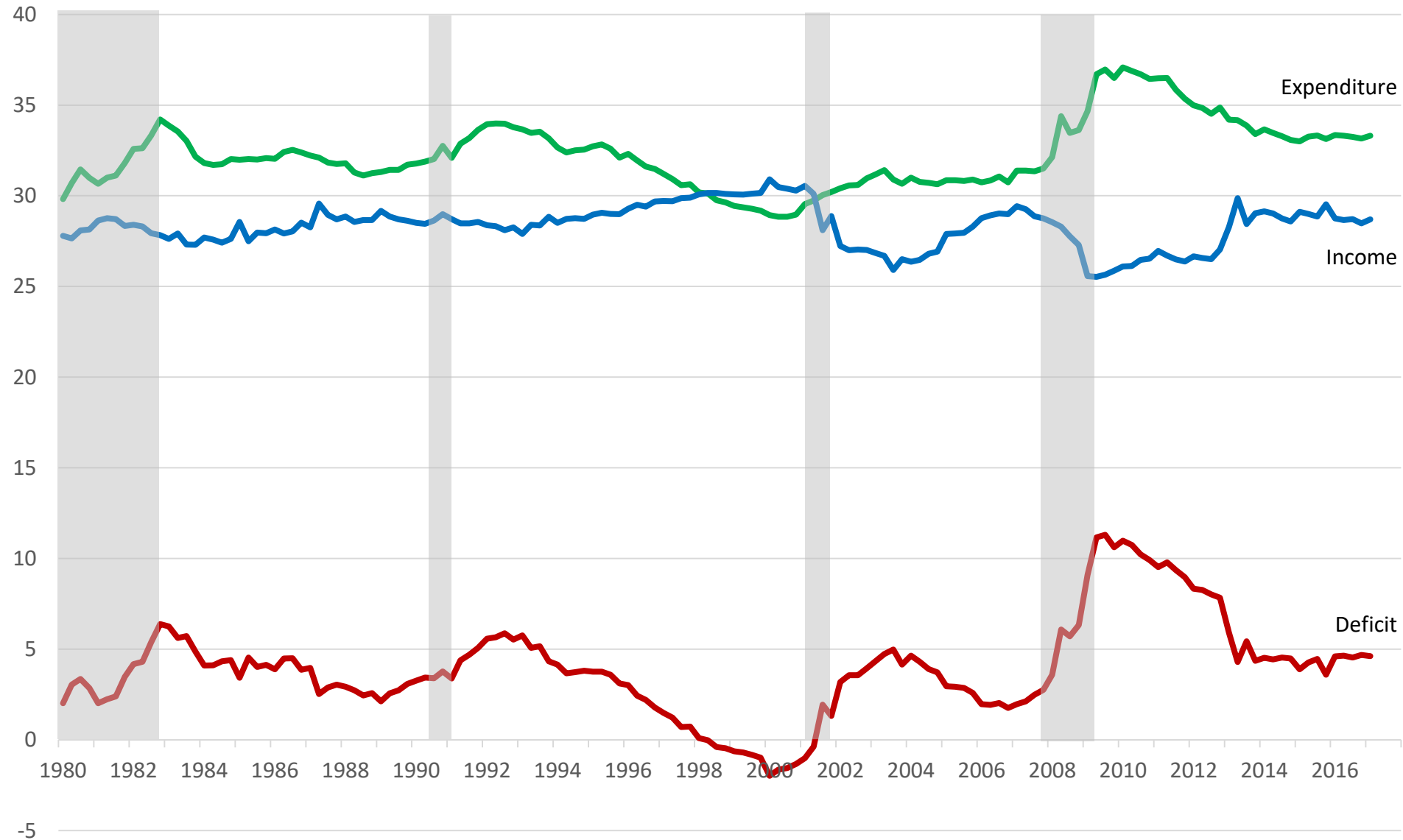
# US economic growth

Change in real GDP over 4 quarters



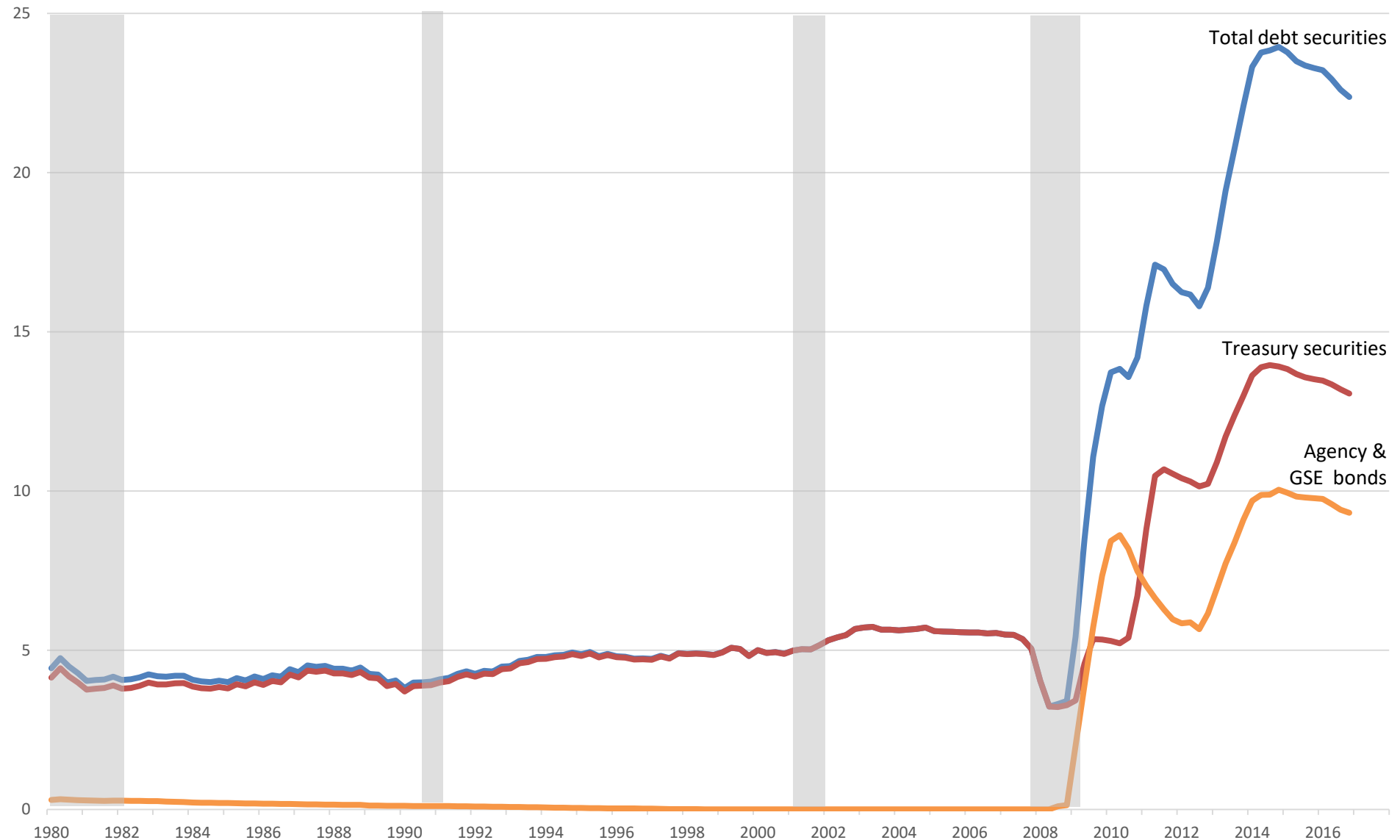
Source: BEA, National Income and Product Accounts, Table 1.1.11, Shaded areas show NBER designated recessions

# US government current income and expenditure, % GDP



Source: BEA, National Income and Product Accounts, Table 3.1, Shaded areas show NBER designated recessions

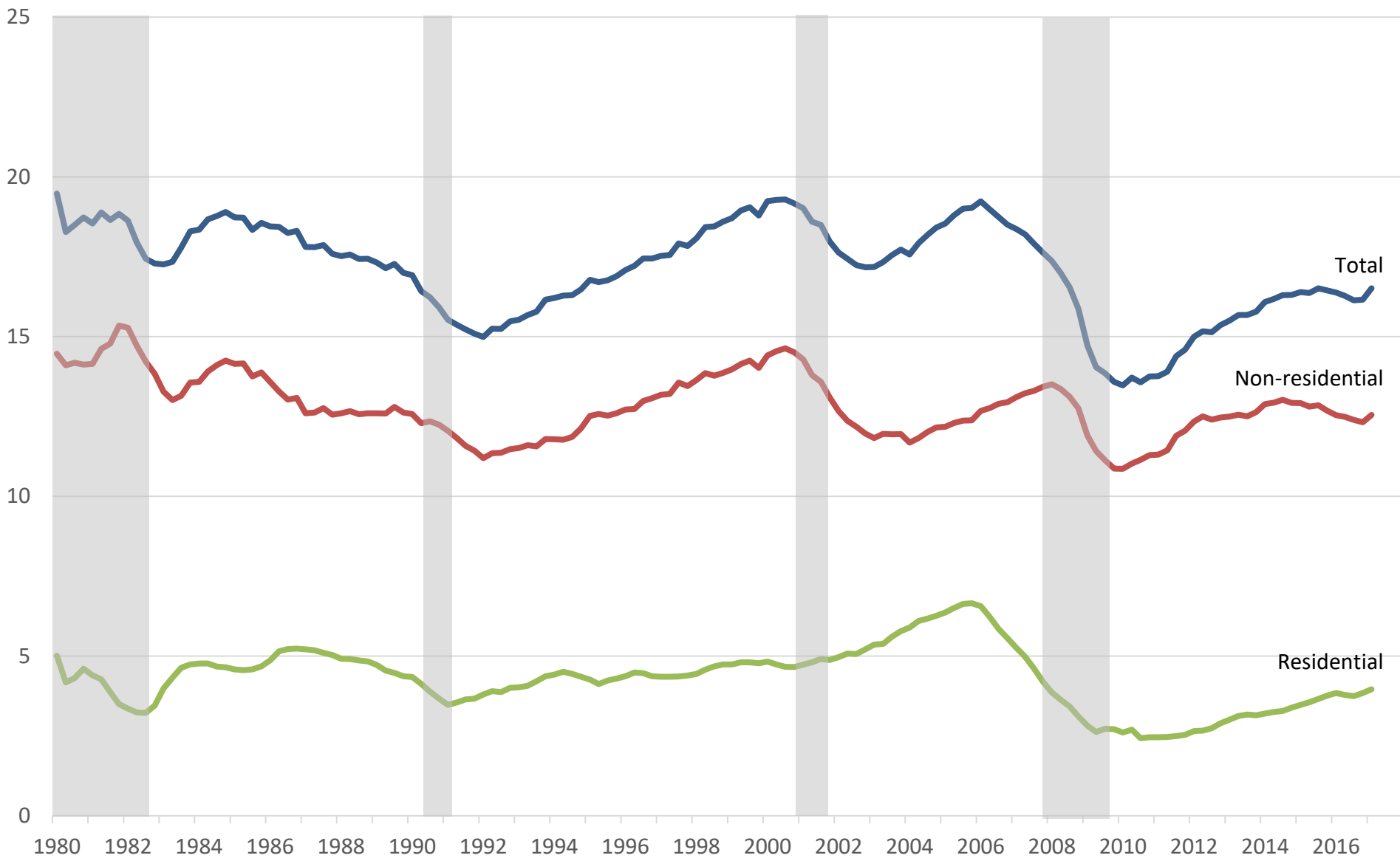
# US monetary authority assets (% GDP)



Source: Federal Reserve, *Financial Accounts*, Table L 109. Shaded areas show NBER designated recessions.

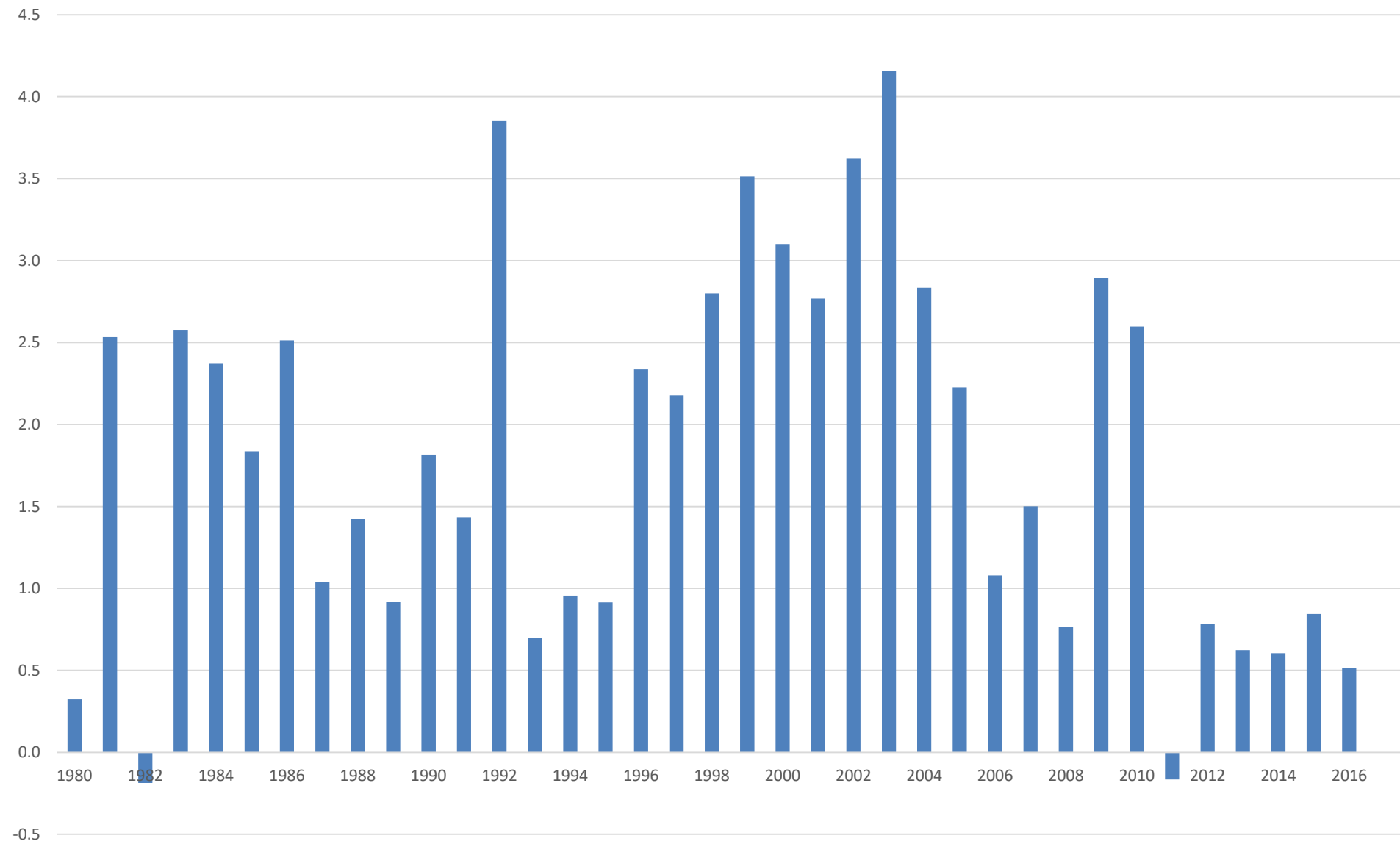
**Nonfinancial business**

# US fixed investment, % GDP



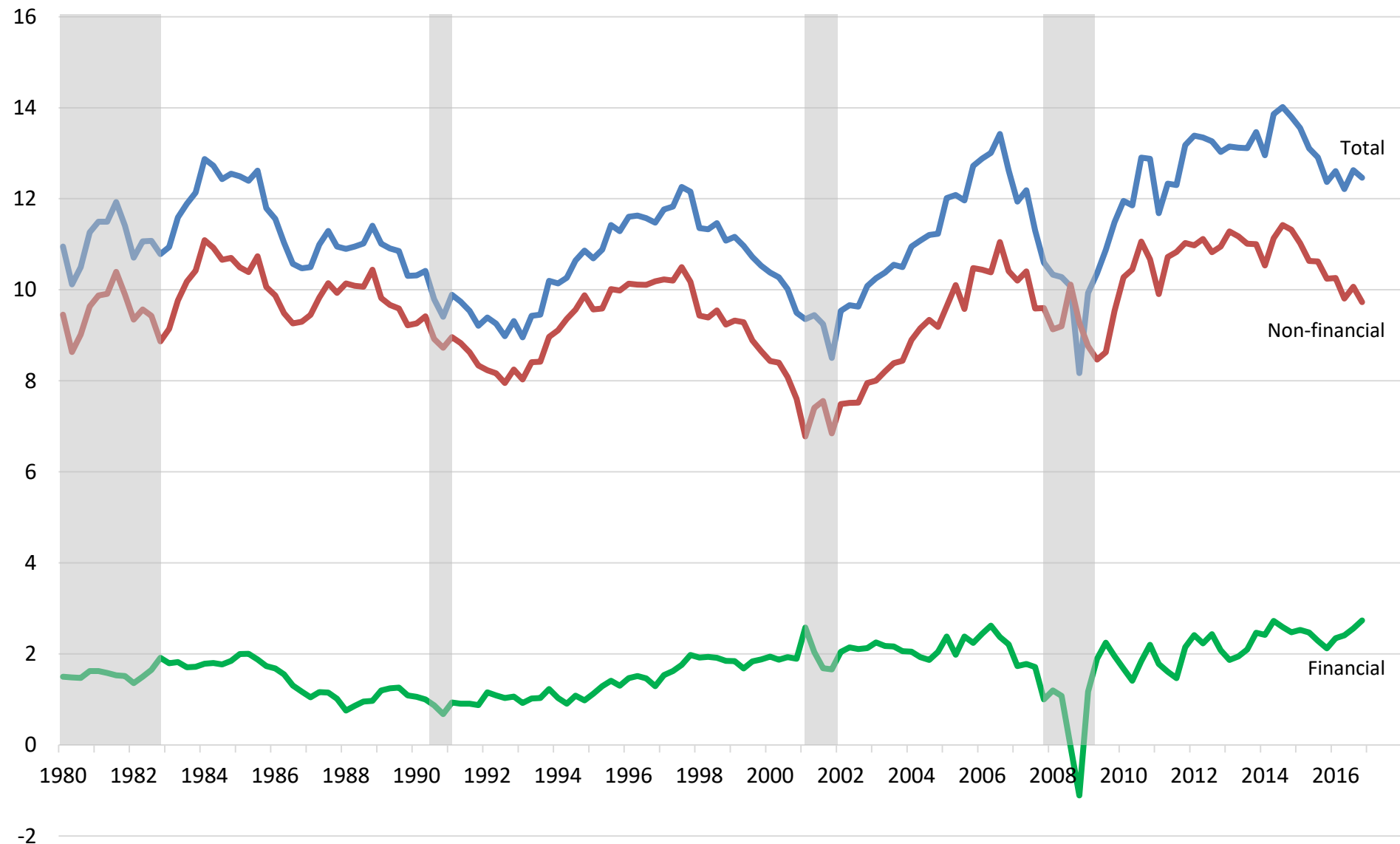
Source: BEA, National Income and Product Accounts, Table 1.1.5. Shaded areas show NBER designated recessions.

# US: Growth of labour productivity per hour worked (%)



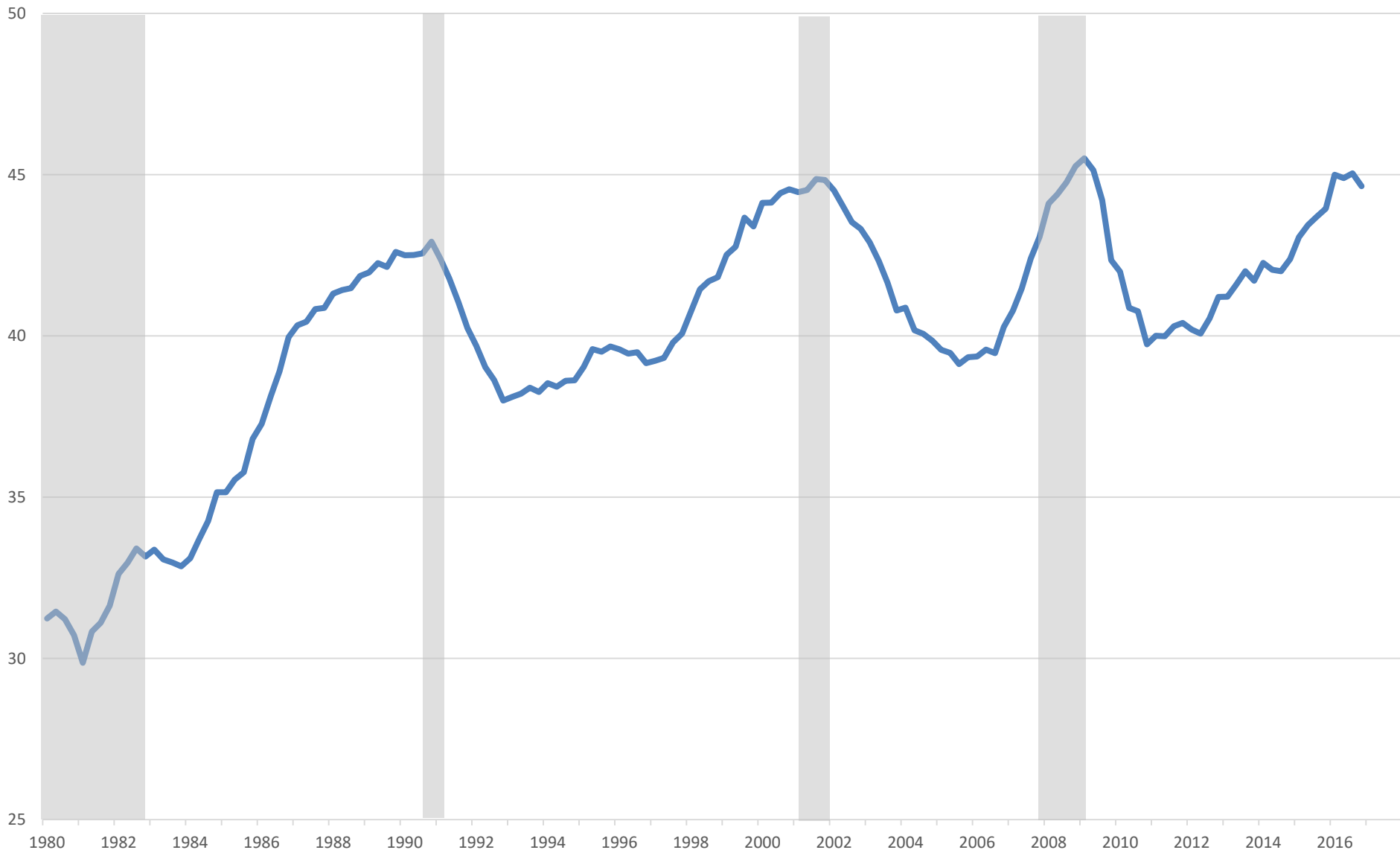
Source : The Conference Board, Total Economy Database, May 2017

# US corporate profits, % national income



Source: BEA, *National Income and Product Accounts*, Table 1.14. Shaded areas show NBER designated recessions

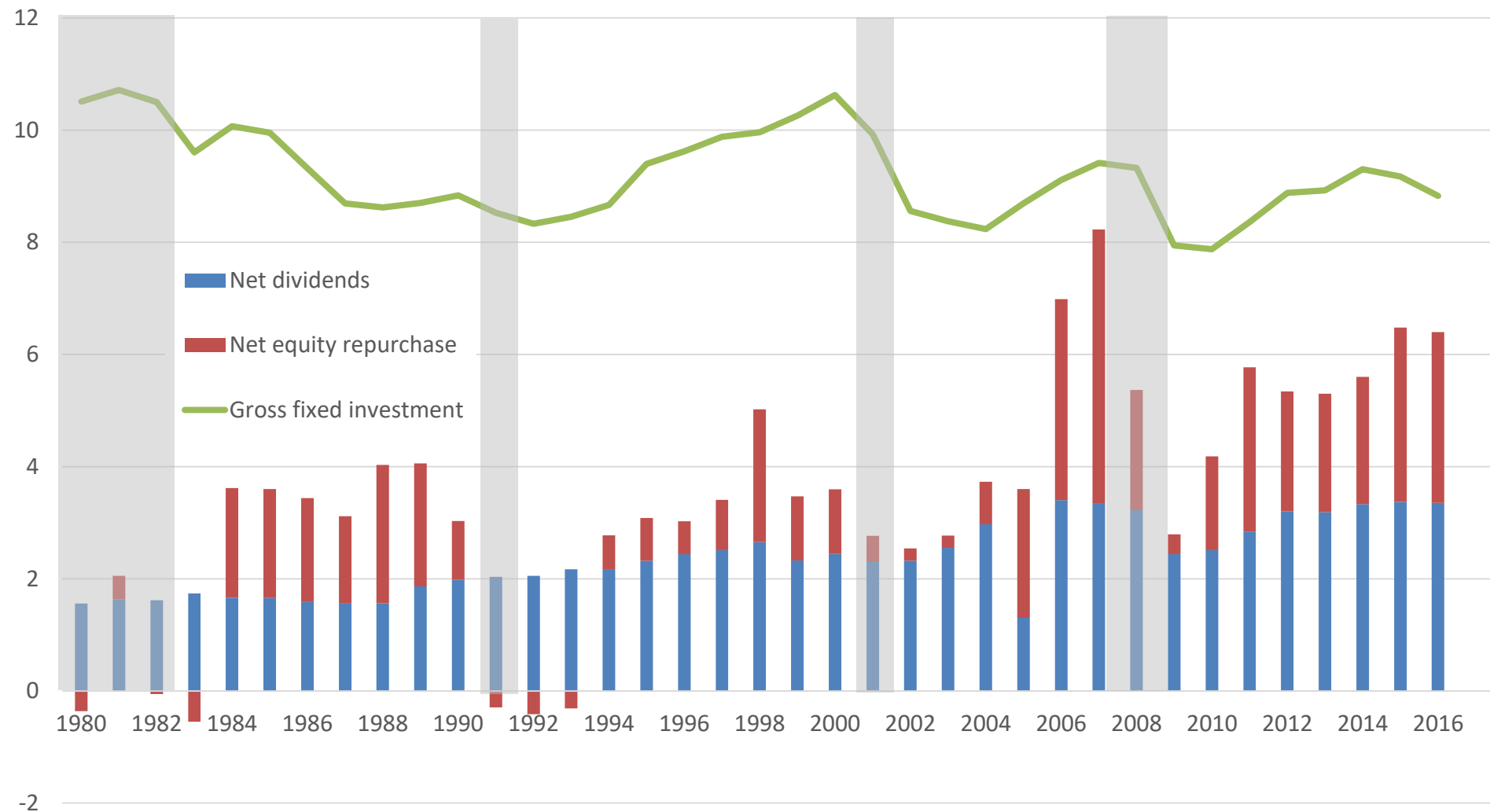
# US nonfinancial corporations outstanding debt, % GDP



Source: Federal Reserve, Financial Accounts, Table D3, Series LA104104005.Q . Shaded areas show NBER designated recessions.

# US nonfinancial corporations

## Dividend payments, equity repurchase & fixed investment (% GDP)



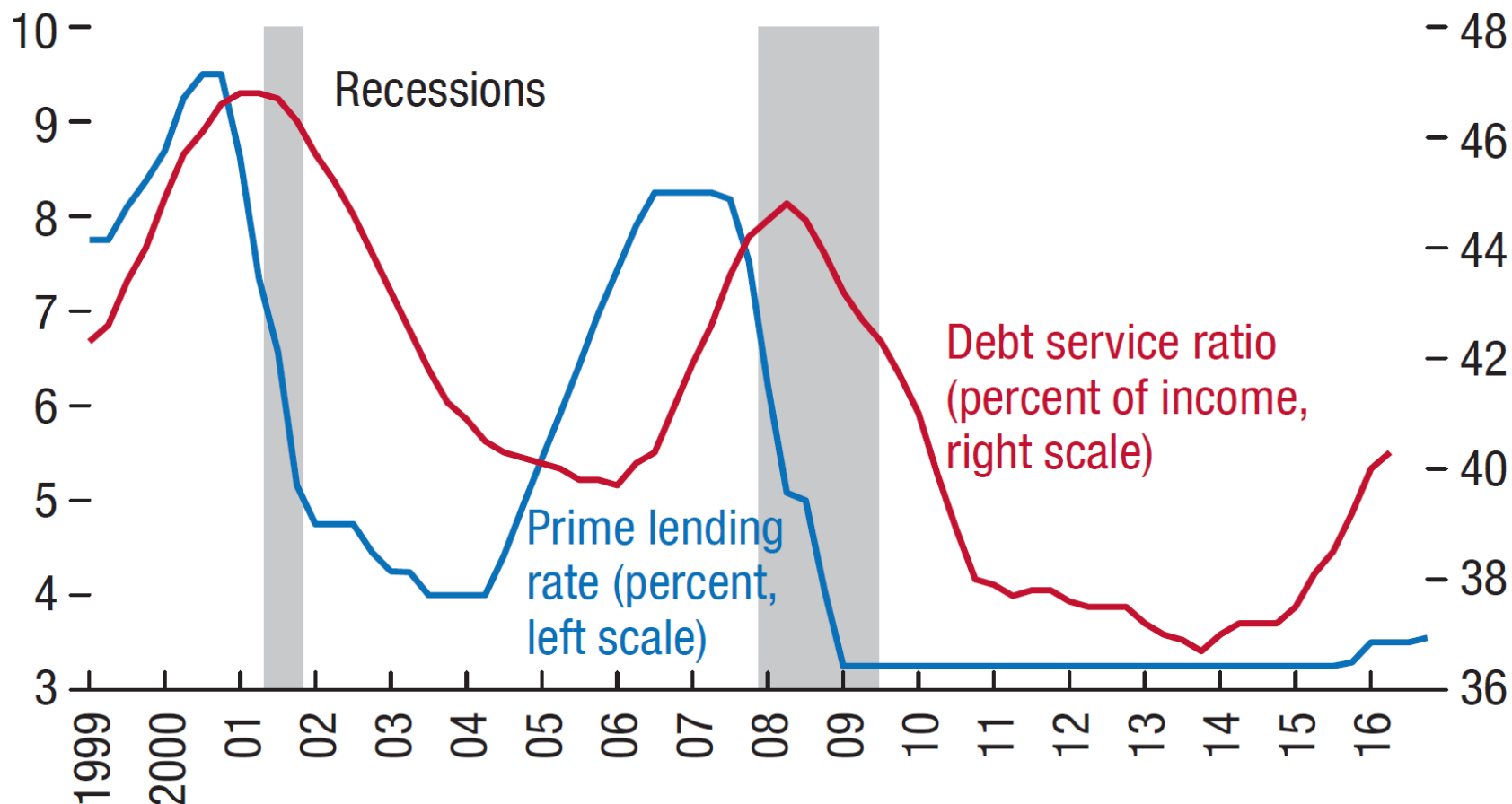
Source: Federal Reserve, *Financial Accounts*, Table F 103. Shaded areas show NBER designated recessions.

# Shiller price-earnings ratio S&P 500

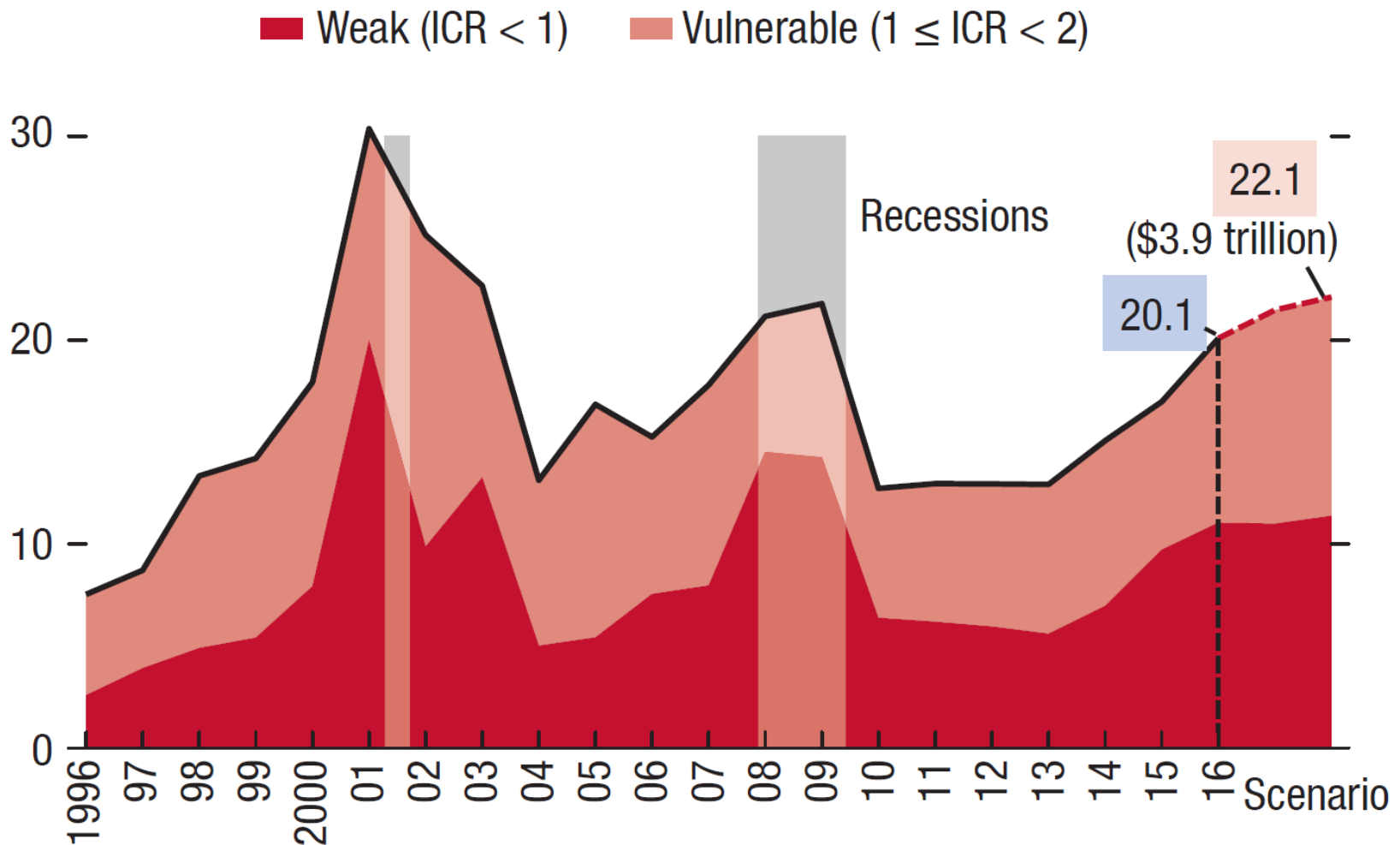


The debt service burden for the corporate sector as a whole has risen strikingly despite low rates.

## 1. Corporate Debt Service and Interest Rates



## 5. Percentage of “Challenged” Firms (Percent of total assets)

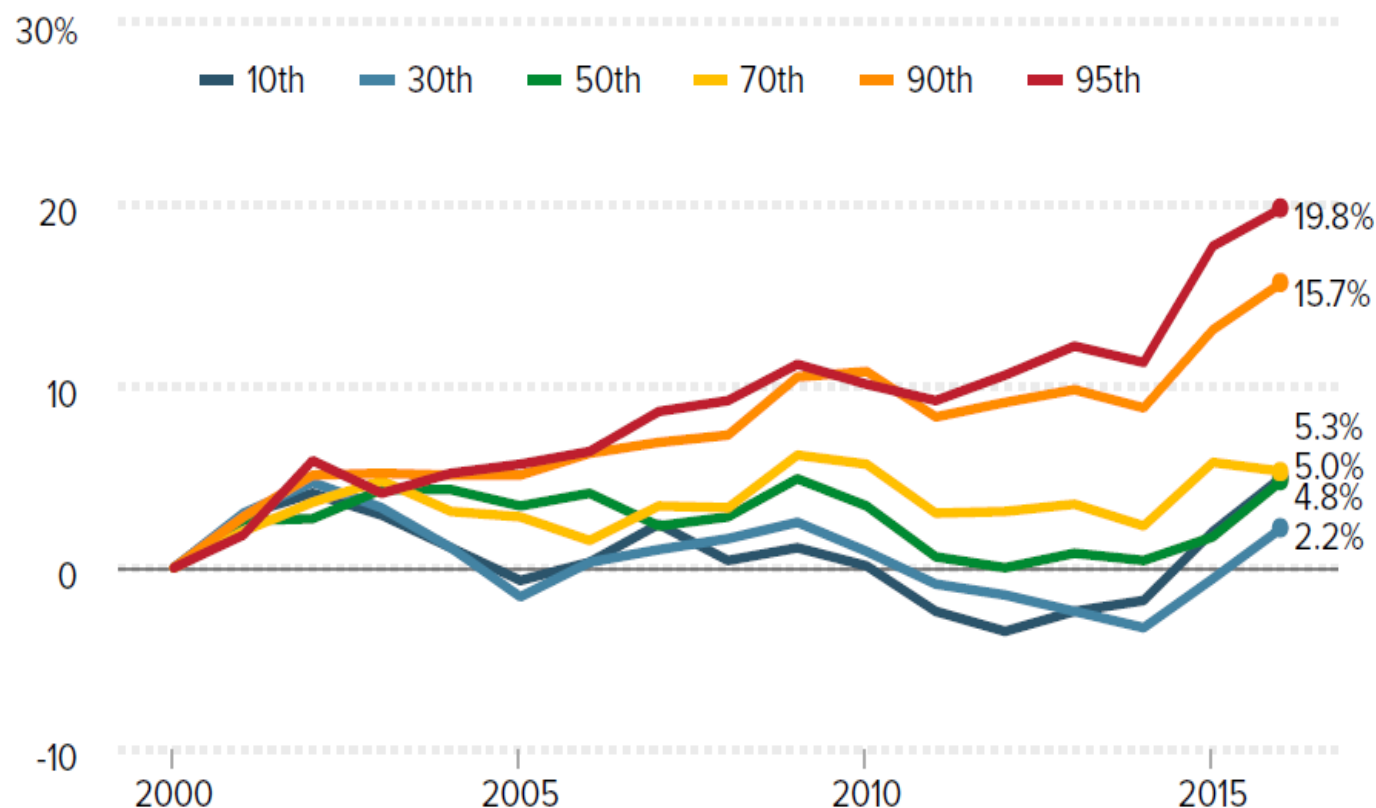


Source: IMF, Global Financial Stability Report, April 2017, p. 12

**Households**

# High-wage earners have continued to pull away from everyone else in the 2000s

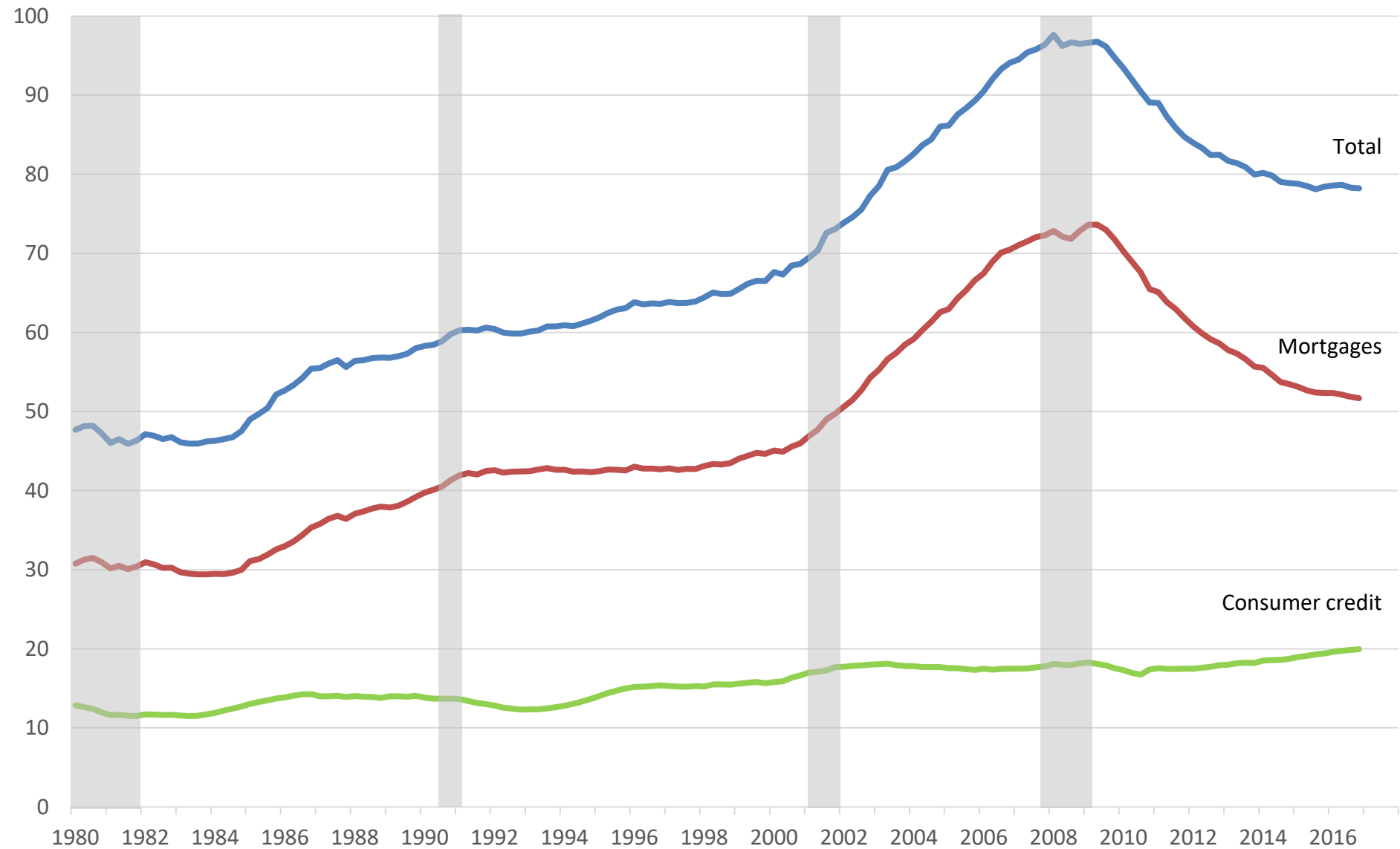
Cumulative percent change in real hourly wages, by wage percentile, 2000–2016



**Note:** Sample based on all workers age 18–64. The xth-percentile wage is the wage at which x% of wage earners earn less and (100 - x)% earn more.

**Source:** EPI analysis of Current Population Survey Outgoing Rotation Group microdata

# US household debt outstanding, % GDP

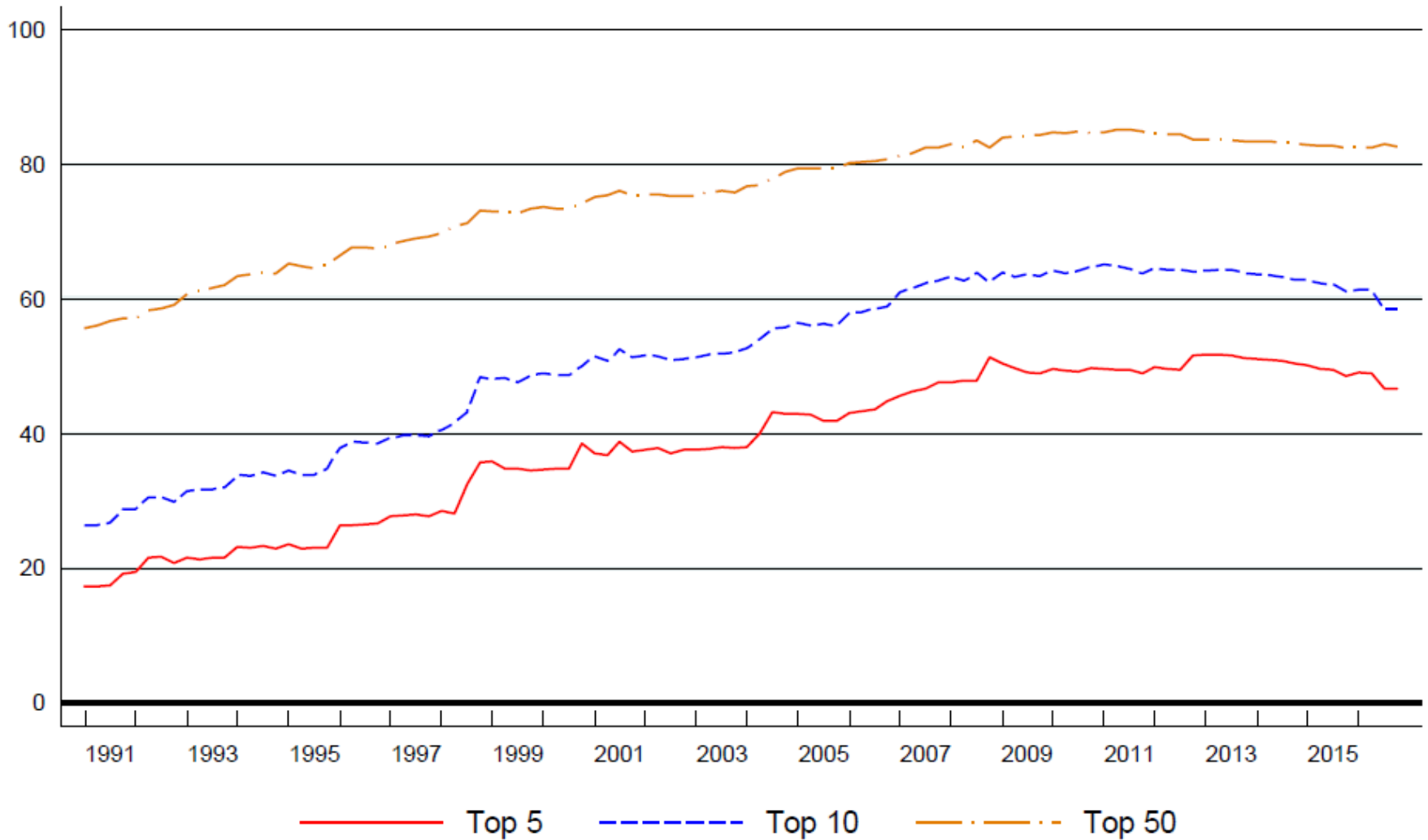


Source: Federal Reserve, *Financial Accounts*, Table L 101. Shaded areas show NBER designated recessions.

**Banks**

# Industry Concentration

Assets of the 5, 10, and 50 largest firms as % of total industry assets



Source: Federal Reserve Bank of New York, *Quarterly Trends for Consolidated U.S. Banking Organizations*, Q4 2016, p. 35

## Top 10 bank holding companies, 2010

Name	Banks	Nonbanks
Bank of America	117	166
JPMorgan Chase	81	97
Citigroup	5	108
Wells Fargo	305	244
Goldman Sachs	0	89
Morgan Stanley	0	25
MetLife	1	22
U. S. Bancorp	126	96
PNC Financial Services Group	69	117
Bank of New York Mellon	6	98

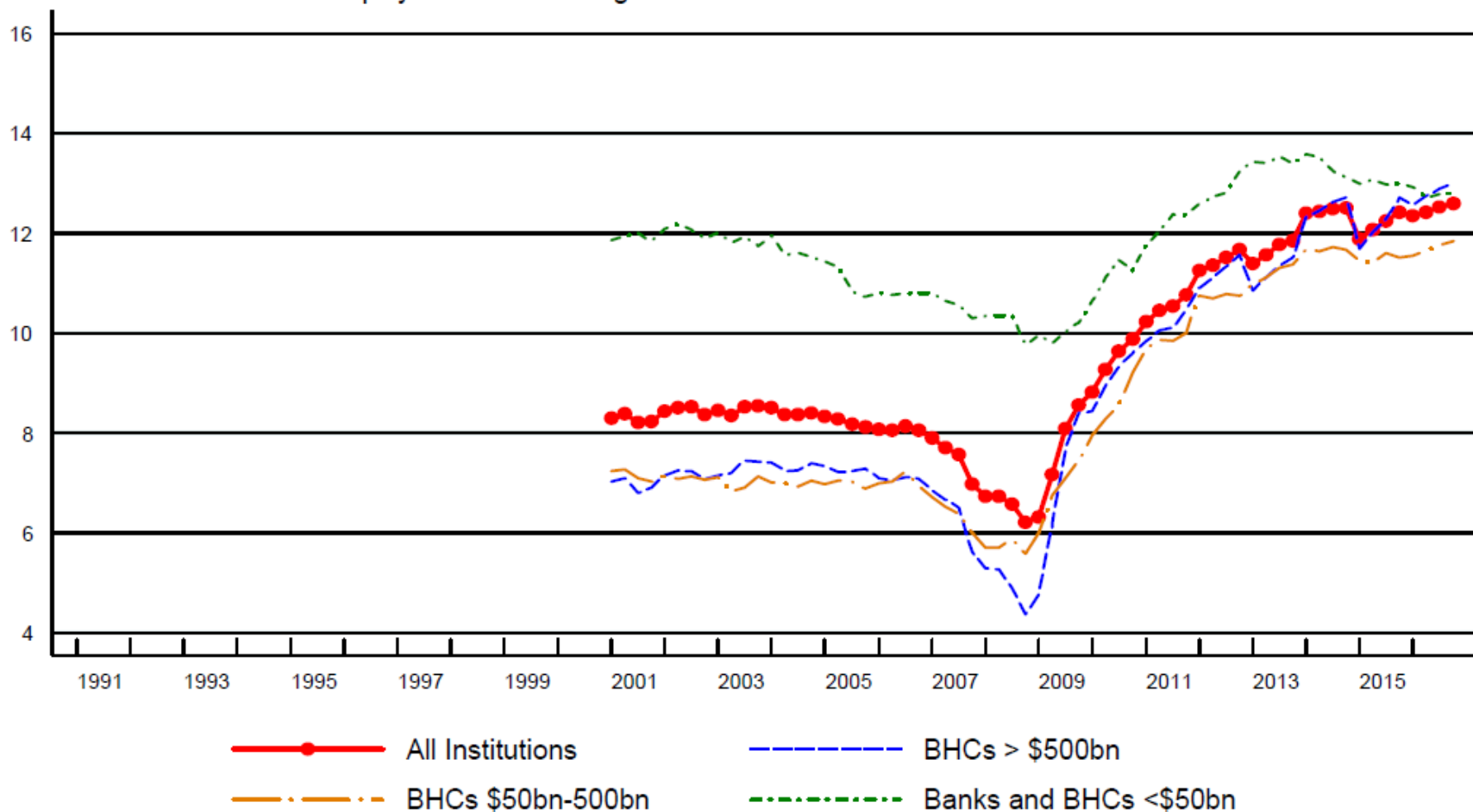
## Largest US bank holding companies, 2016

Rank	Name of Institution	Total Assets (Bil USD)	Quarterly Net Income (Mil USD)	Profitability	
				Annualized Return on Assets	Annualized Return on Equity
1	JPMORGAN CHASE & CO	2,491.0	6,727.0	1.08	10.59
2	BANK OF AMER CORP	2,189.3	4,696.0	0.86	7.04
3	WELLS FARGO & CO	1,930.1	5,274.0	1.09	10.57
4	CITIGROUP	1,792.1	3,573.0	0.80	6.35
5	GOLDMAN SACHS GROUP THE	860.2	2,347.0	1.09	10.80
6	MORGAN STANLEY	814.9	1,666.0	0.82	8.76
7	U S BC	446.0	1,478.0	1.33	12.50
8	PNC FNCL SVC GROUP	366.9	1,026.0	1.12	8.98
9	CAPITAL ONE FC	357.2	791.5	0.89	6.66
10	TD GRP US HOLDS LLC	343.9	414.8	0.48	4.23
TOTALS*	TOP 50	16,340.9	32,298.1	0.79	7.07
	ALL INSTITUTIONS (BHCS AND BANKS)	19,831.0	40,825.6	0.82	7.37

Source: Federal Reserve Bank of New York, *Quarterly Trends for Consolidated U.S. Banking Organizations*, Q4 2016, p. 36

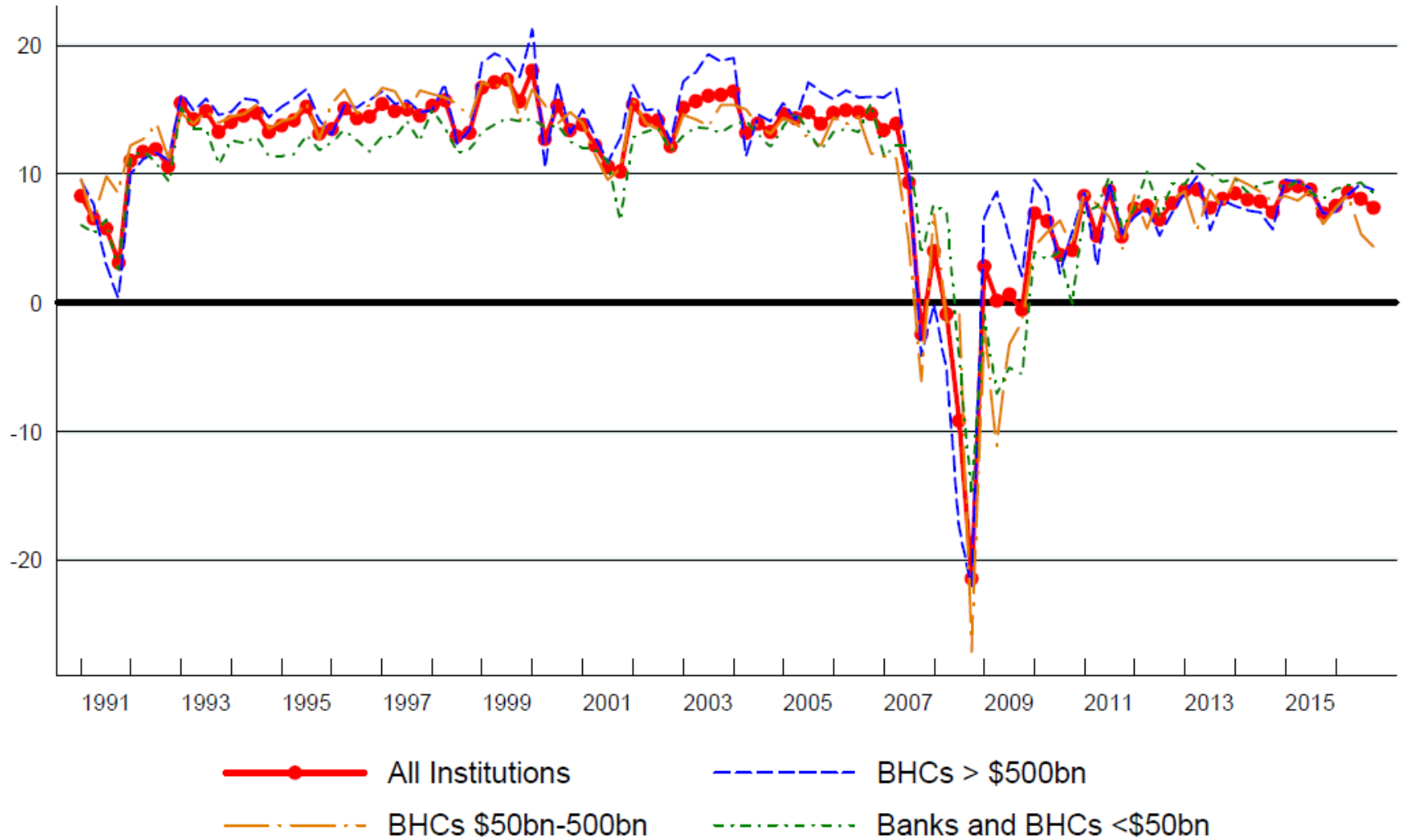
# CET1 and Tier 1 Common Equity Ratio

CET1 and Tier 1 common equity as % of risk-weighted assets



# Return on Equity

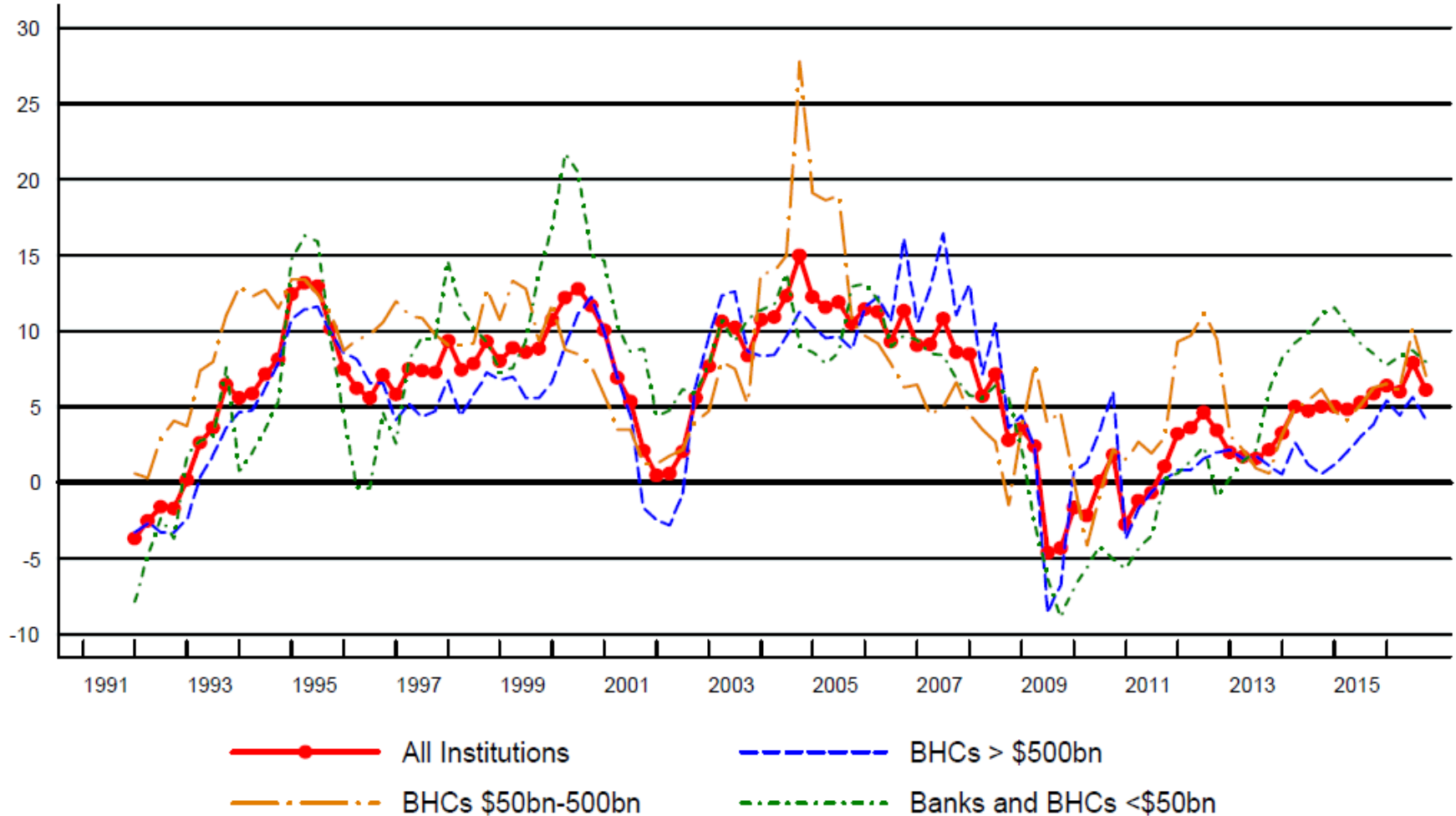
Annualized net income as % of equity



Source: Federal Reserve Bank of New York, *Quarterly Trends for Consolidated U.S. Banking Organizations*, Q4 2016, p. 12

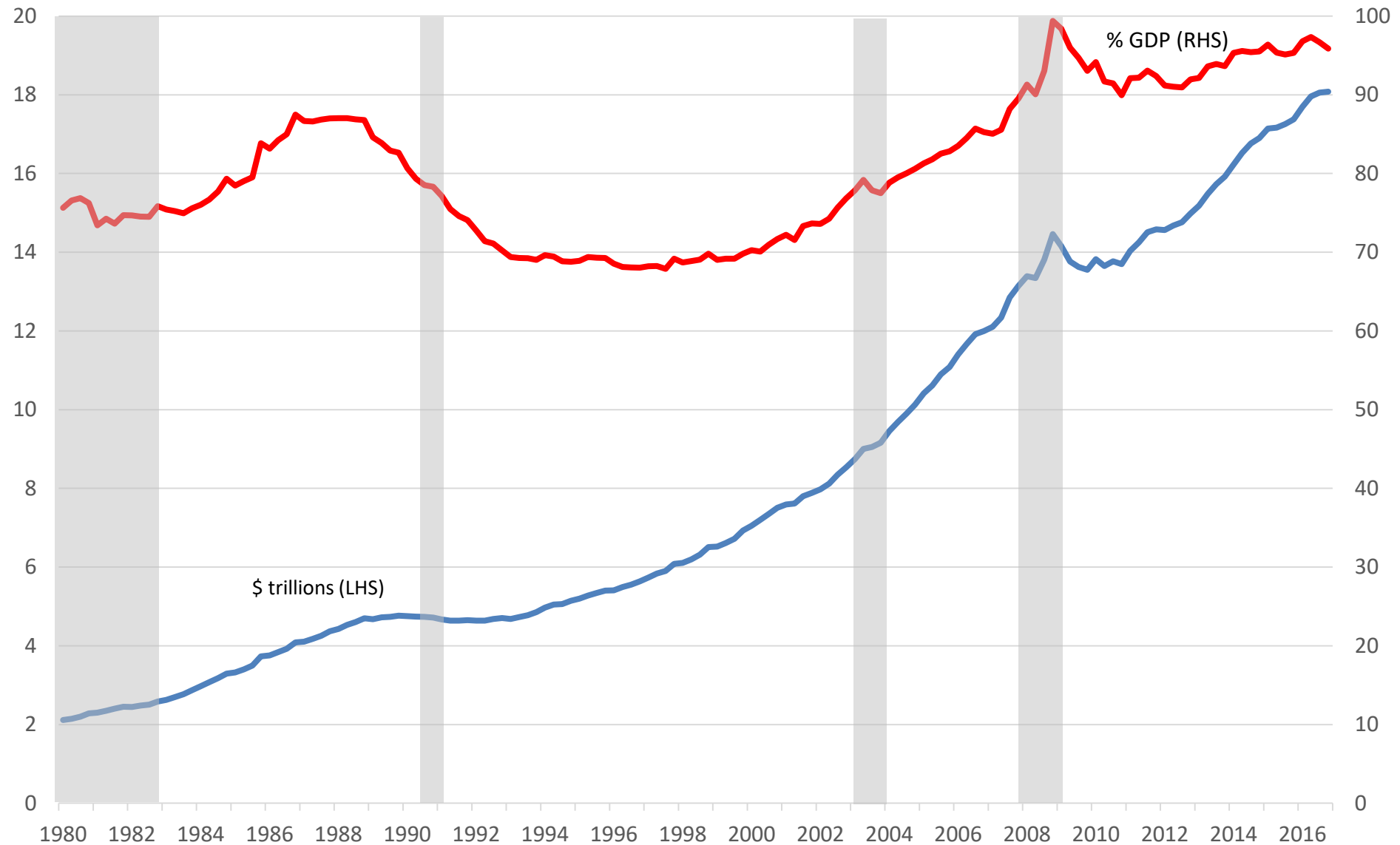
# Loan Growth Rate

Year-over-year % change in total loans



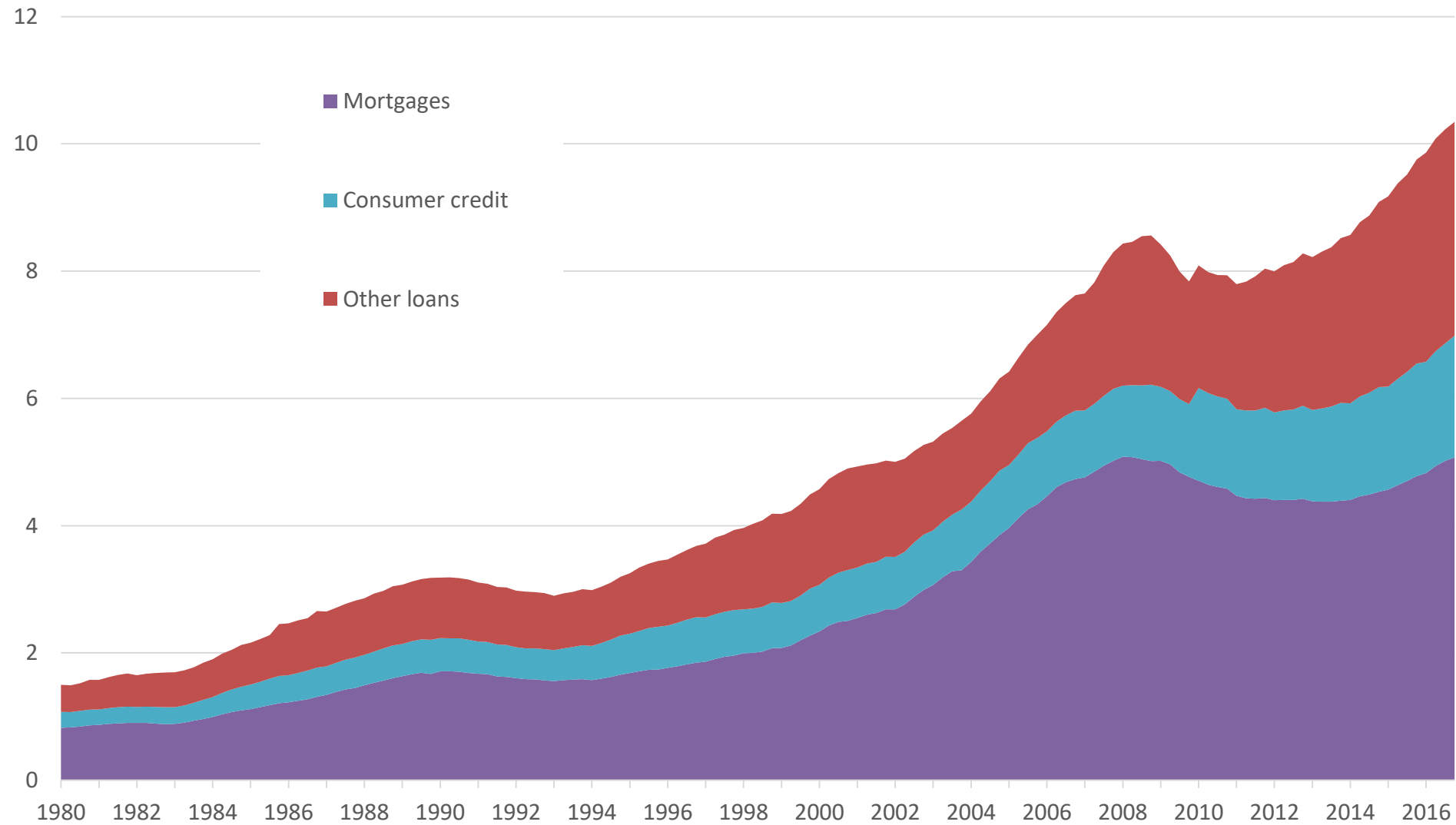
Source: Federal Reserve Bank of New York, *Quarterly Trends for Consolidated U.S. Banking Organizations*, Q4 2016, p. 33

# US bank liabilities



Source: Federal Reserve Board, *Financial Accounts of the United States*, Tables L110

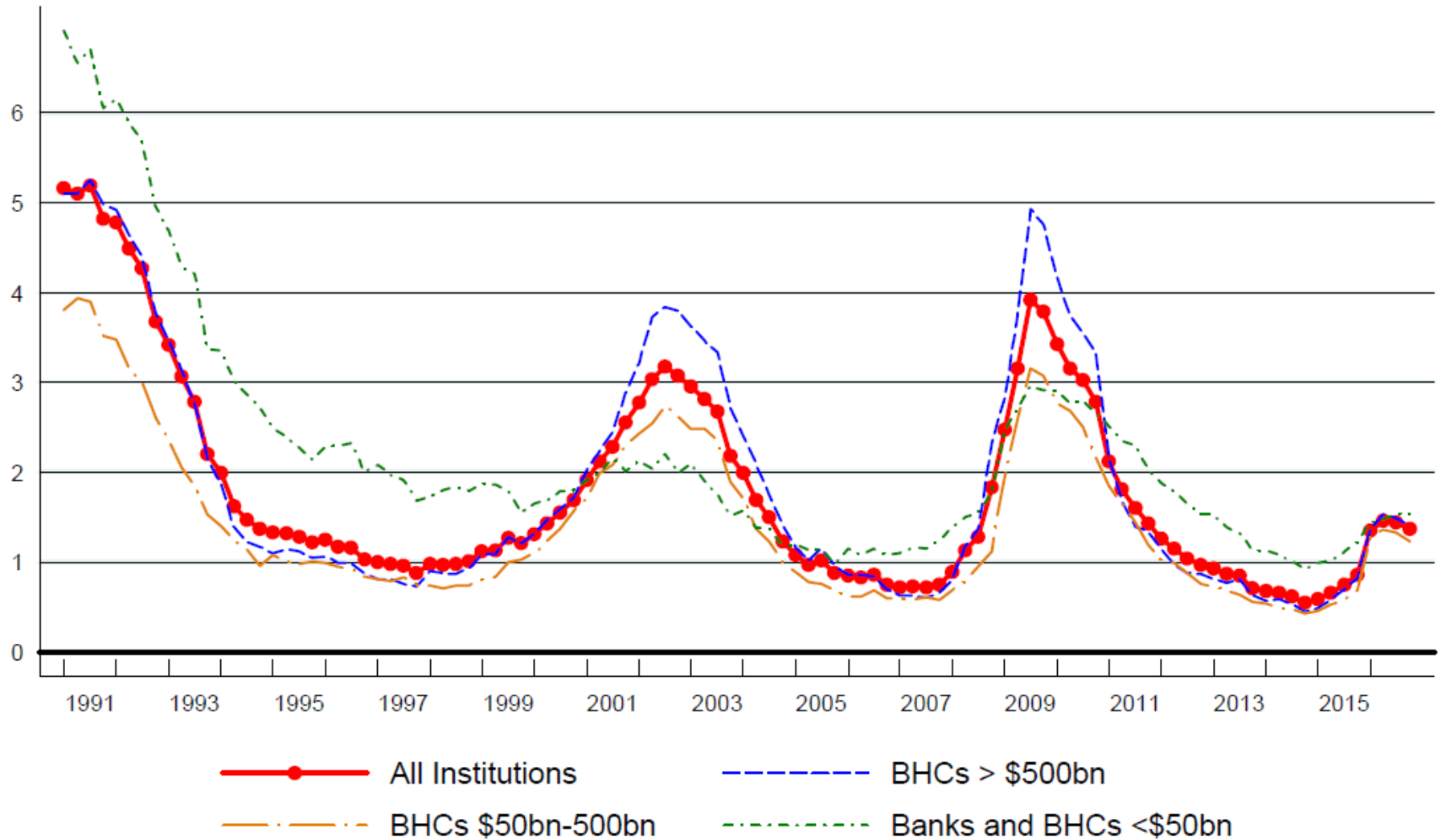
# US depository institutions loans, \$ trillions



Source: Federal Reserve Board, *Financial Accounts of the United States*, Tables L110, 2016 Q4

# Non-performing Commercial and Industrial (C&I) Loans

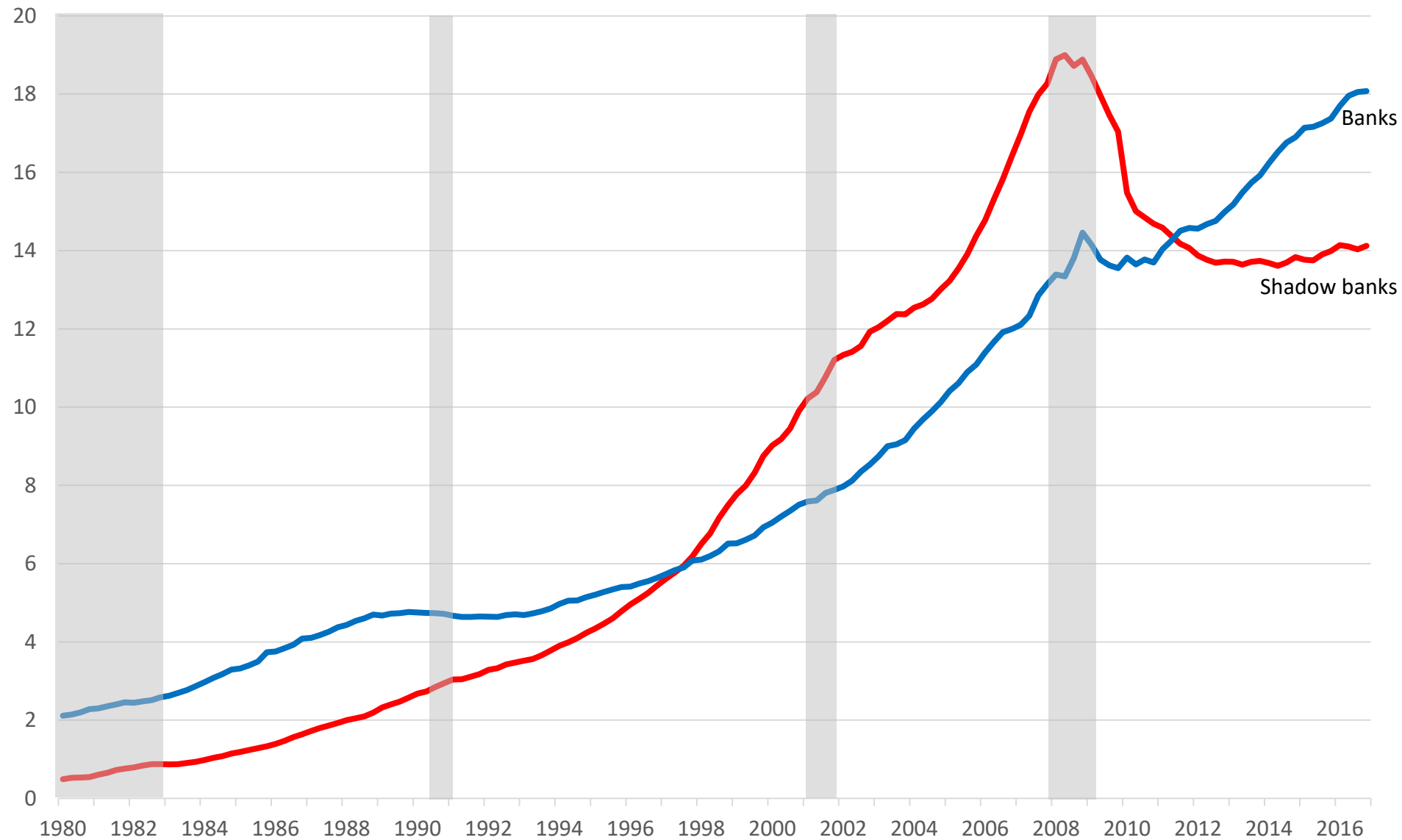
Non-performing C&I loans as % of C&I loans



Source: Federal Reserve Bank of New York, *Quarterly Trends for Consolidated U.S. Banking Organizations*, Q4 2016, p. 17

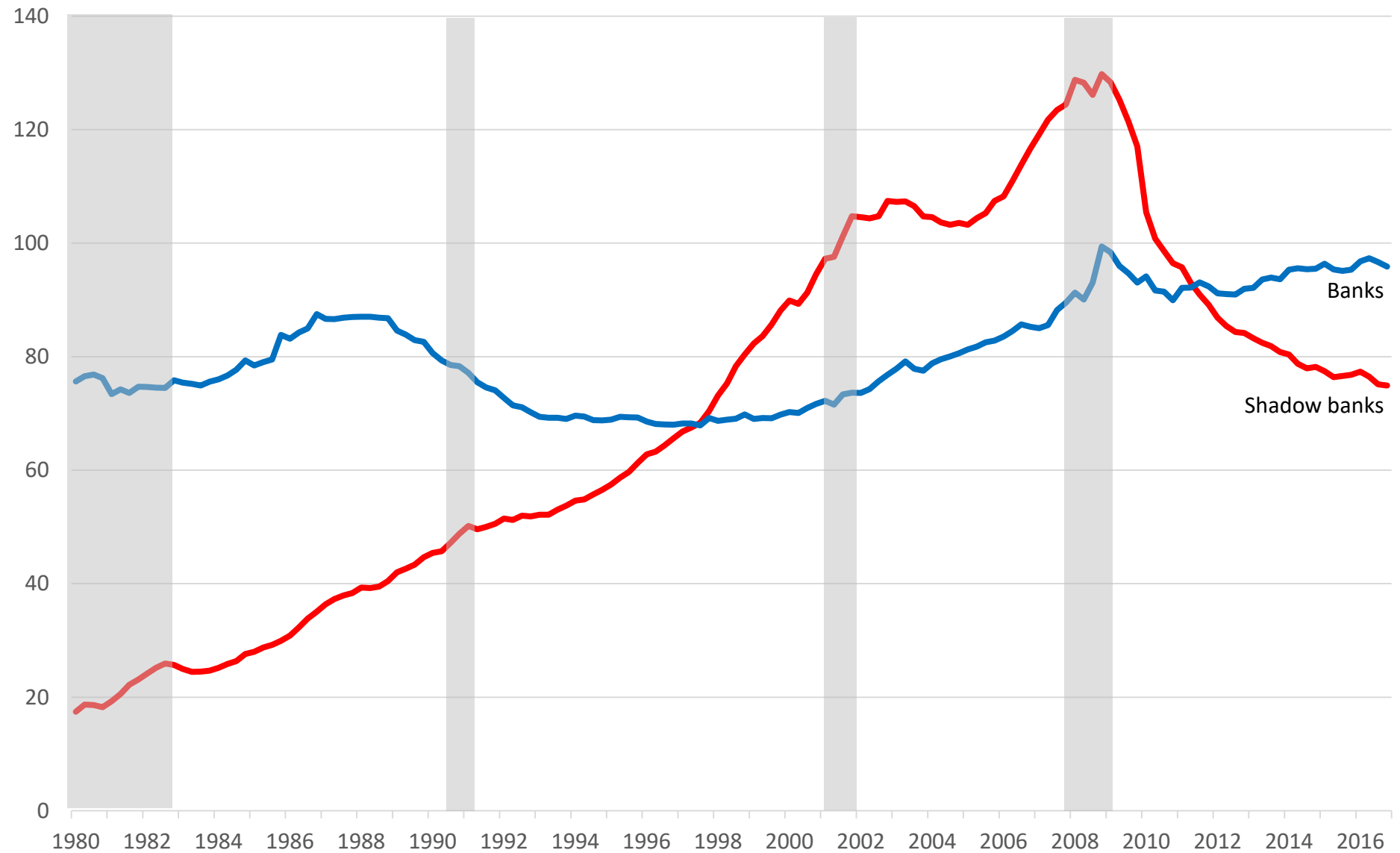
# **Shadow banks**

# US shadow bank liabilities, \$ trillion



Source: Federal Reserve Board, *Financial Accounts of the United States*, Tables L110 & L121 – L130, 2016 Q4, following Poszar et al, 2010

# US shadow bank liabilities, % GDP



Source: Federal Reserve Board, *Financial Accounts of the United States*, Tables L110 & L121 – L130, 2016 Q4, following Poszar et al, 2010

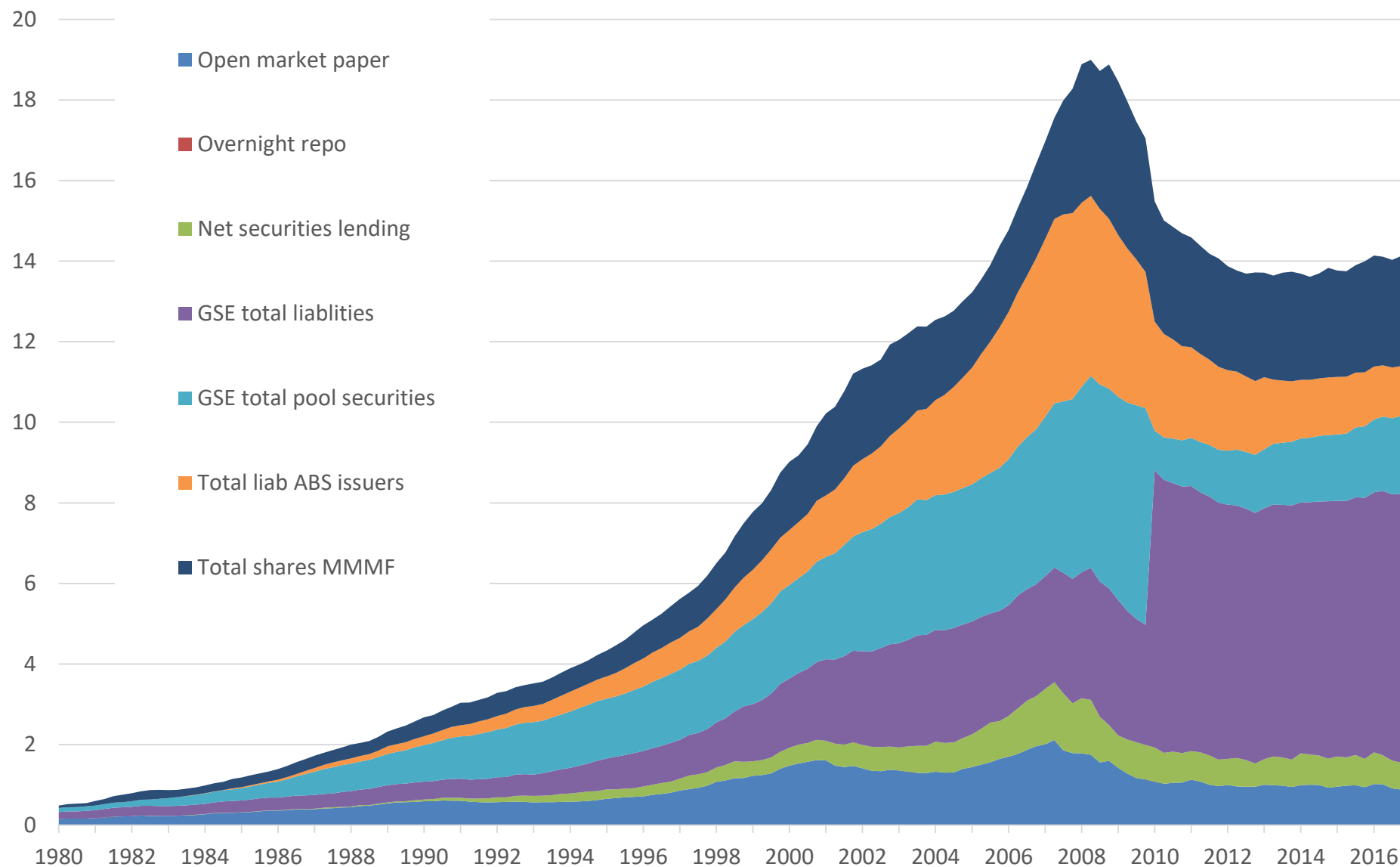
# Shadow credit intermediation

	Function	Shadow Banks	Shadow Banks' Funding*
Step (1)	Loan Origination	Finance companies	CP, MTNs, bonds
Step (2)	Loan Warehousing	Single and multi-seller conduits	ABCP
Step (3)	ABS Issuance	SPVs, structured by broker-dealers	ABS
Step (4)	ABS Warehousing	Hybrid, TRS/repo conduits, broker-dealers' trading books	ABCP, repo
Step (5)	ABS CDO Issuance	SPVs, structured by broker-dealers	ABS CDOs, CDO-squareds
Step (6)	ABS Intermediation	LPFCs, SIVs, securities arbitrage conduits, credit hedge funds	ABCP, MTN, repo
Step (7)	Wholesale Funding	2(a)-7 MMMFs, enhanced cash funds, securities lenders, etc.	\$1 NAV shares (shadow bank "deposits")

\*Funding types highlighted in red denote securitized funding techniques. Securitized funding techniques are *not* synonymous with secured funding.

Source: Poszar et al, Shadow Banking, FRBNY Staff Report No. 458, February 2012, p.11

# Shadow bank liabilities, \$ trillion



Source: Federal Reserve Board, *Financial Accounts of the United States*, Tables L121 – L130, 2016 Q4, following Poszar et al, 2012

# Federal Reserve's Emergency Lending Facilities

Facility	Aim	Dates
Commercial Paper Funding Facility	Backstop of CP and ABCP issuance (steps 1 & 2 of shadow credit process)	Oct 07 – Aug 10
Term Asset Backed Loan Facility	Backstop of ABS issuance (step 3)	Mar 09 – Jun 10
Maiden Lane LLC	Backstop Bear Sterns' ABS	Apr 08 – Jun 10
Term Securities Lending Facility	Improve quality of broker-dealers securities warehouses (step 4)	Mar 08 – Feb 10
Maiden Lane III LCC	Backstop AIG financial products (step 5)	Oct 10 – Aug 12
Term Auction Facility	'Onboarding' of off-balance ABS with SIVs & conduits (step 6)	Jul 08 – Mar 10
Primary Dealer Credit Facility	Backstop tri-party repo system involving MMMF (step 7)	Mar 08 – Feb 10

*Source:* Poszar et al, Shadow Banking, FRBNY Staff Report No. 458, February 2012 & Federal Reserve Board, various, for dates

‘Risks are elevated in the non-bank sector, where “run” and “redemption” risks are increasing as a result of leverage and maturity transformation and deeply interconnected wholesale funding chains ... the protracted low-interest rate environment is again driving the search for yield’

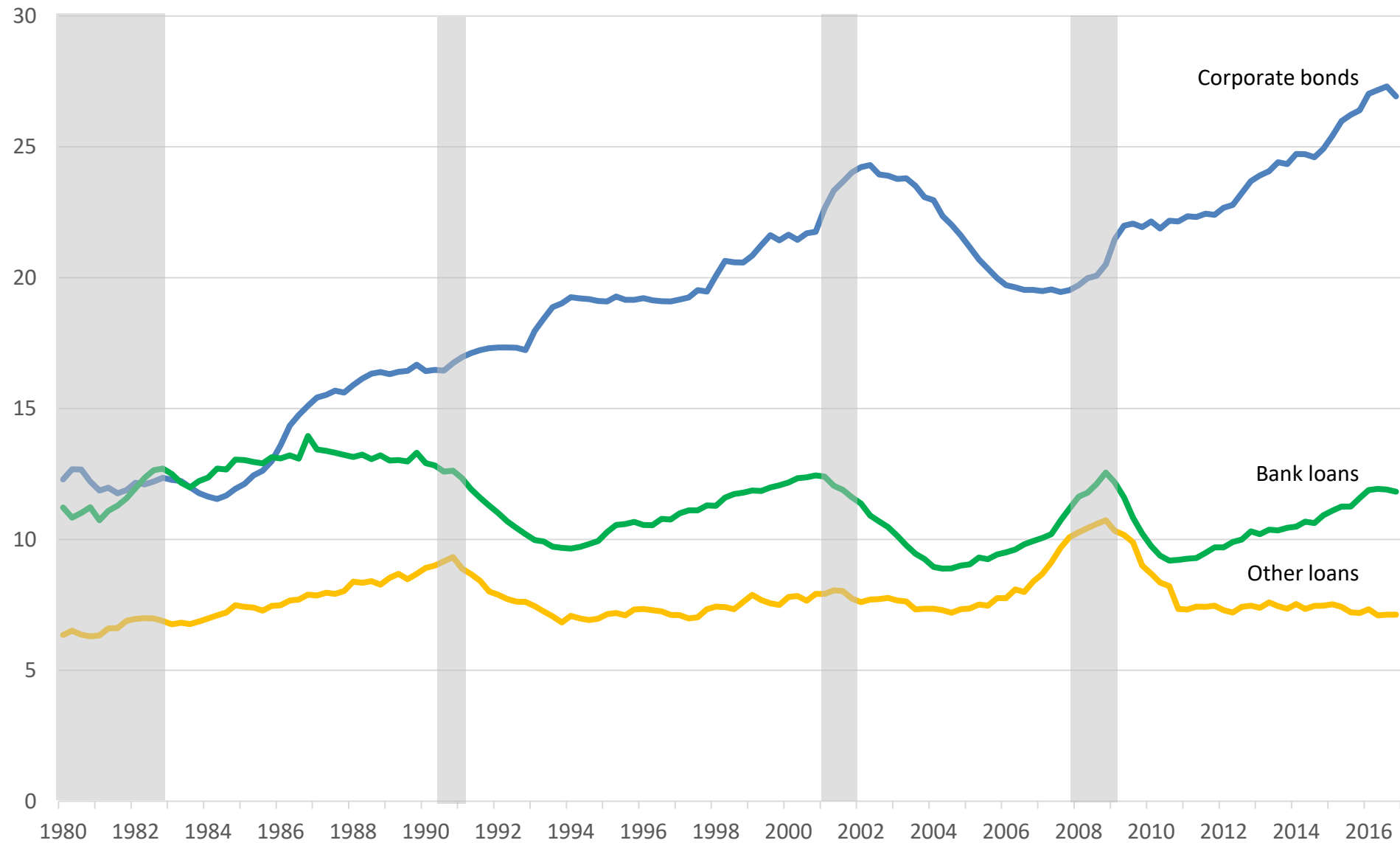
*IMF, US financial system stability assessment, July 2015*

“I worry a little bit about the fact that we in the United States do not have very good mechanisms for dealing with the nonbank sector, the shadow banking system,”

*Stanley Fisher, Federal Reserve Vice Chair, IFF Oct 2016*

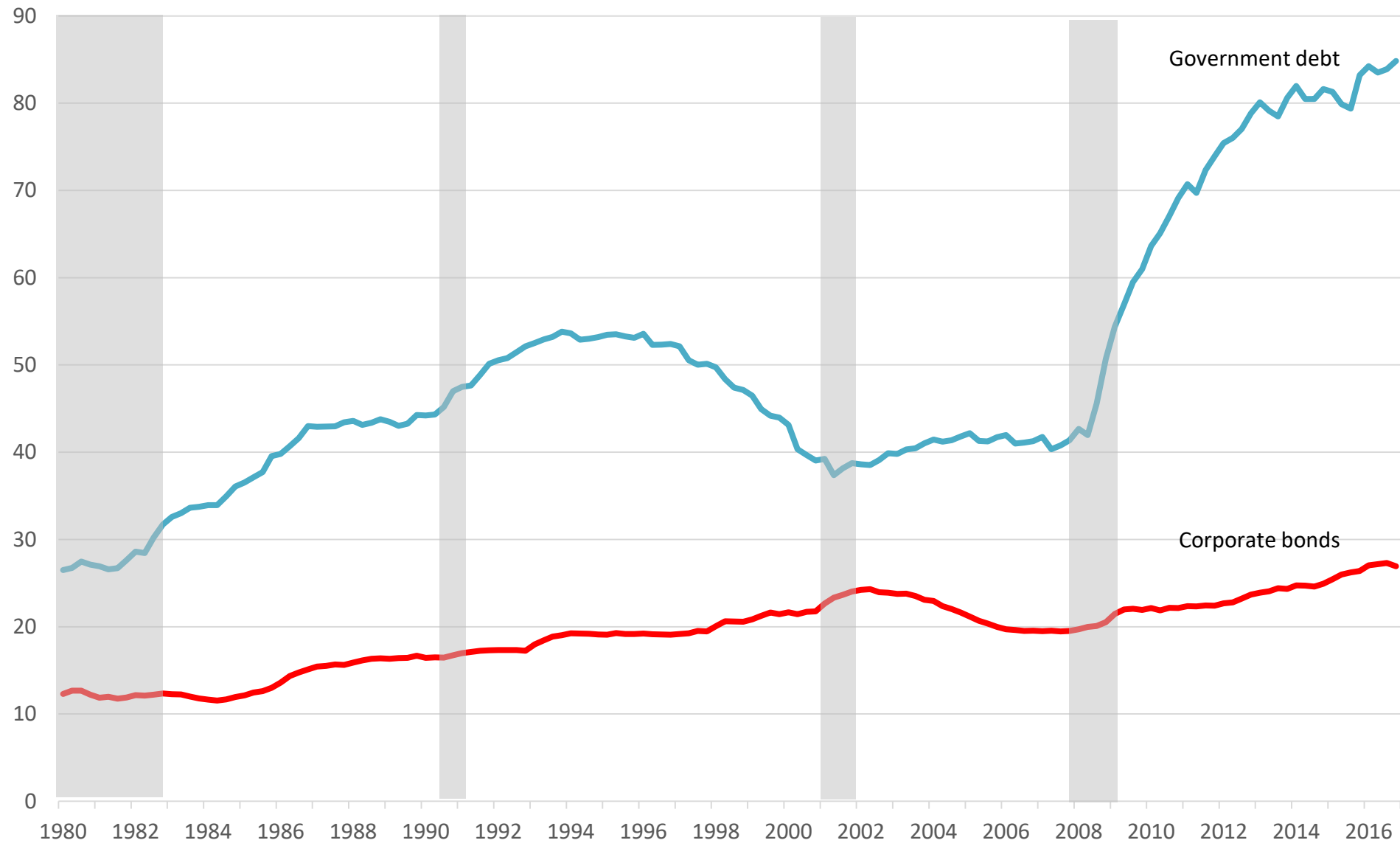
# **Financial markets**

# US nonfinancial business corporate borrowing, % GDP



Source: Federal Reserve Board, *Financial Accounts of the United States*, Tables L101, 2016 Q4

# US nonfinancial business & government debt, % GDP



Source: Federal Reserve Board, *Financial Accounts of the United States*, Tables L.101 & L.106 , 2016 Q4

# Summary

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- Leading indicators (profit share, investment) suggest expansion could be coming to end
- Corporate sector highly indebted due to large pay-outs to shareholders
- Household indebtedness declined, but exposure to consumer credit rising
- Banking sector has raised capital reserves, but still low and rules very complex
- Shadow banking taking increasing risks; beginning to expand again but vulnerable