Historic Collapse of Consumer Credit

By **Nathan A. Martin**|Nov 7, 2009, 5:39 PM|Author's Website

Banks, given trillions stolen from the taxpayer, are using their ill-gotten fiat to speculate in markets using quant computers and insider information, neither of which the taxpayer has access. Nor do they have access to national level politicians, their contributions simply are not as large. Thus, the banks hoard their trillions while cutting off lines of credit to the very taxpayers who bailed them out. What lines are not cut are charged 30% or more, rates that the Godfather could only dream of.

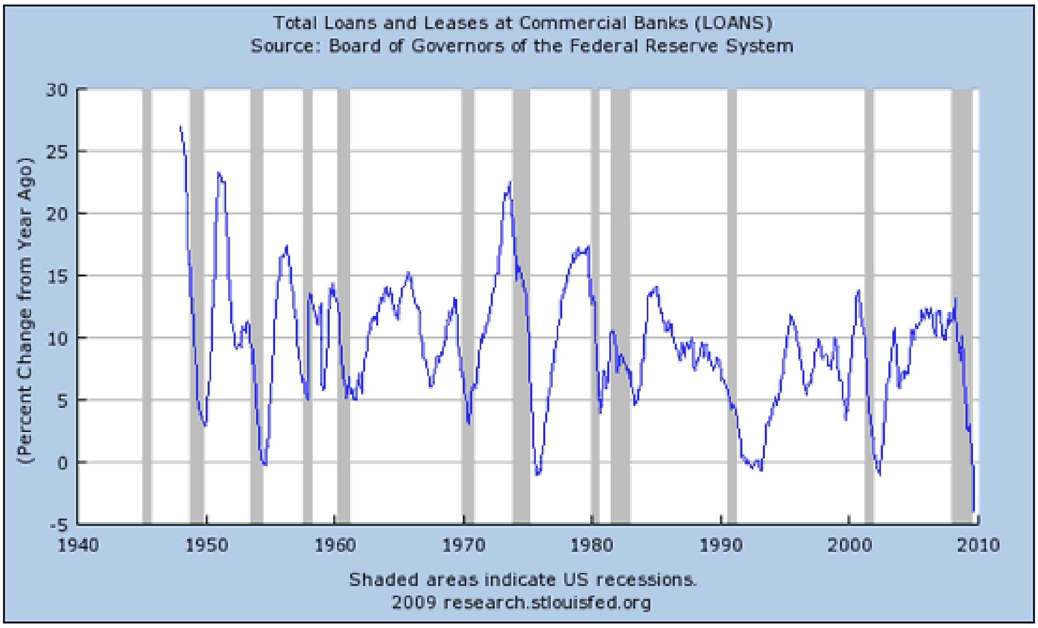
The consumer knows that credit is tighter than it was before. I've been saying all along that total money and credit are contracting, that the world of derivatives and leverage is contracting despite our government's best efforts to flood the system with money. While it's difficult to see the overall shape of the shadow banking world, clues can be found when digging. Again, I point to the OCC reports showing that JPM notional derivatives have shrunk by some $10 TRILLION in the past two years despite acquisitions. The OCC reports overall growth in derivatives, but that is only because investment banks, speculators like Goldman Sachs, applied for and were granted status as a commercial bank (to gain access to taxpayer money).

So, we have the money supply increasing, government debt skyrocketing, but that is more than offset by the shadow banking system and falling overall private credit. Today I'm going to show you the real dollars behind the collapse in consumer credit along with how that is affecting the securitization of that credit, this being but one small piece of the derivatives and credit (debt) world.

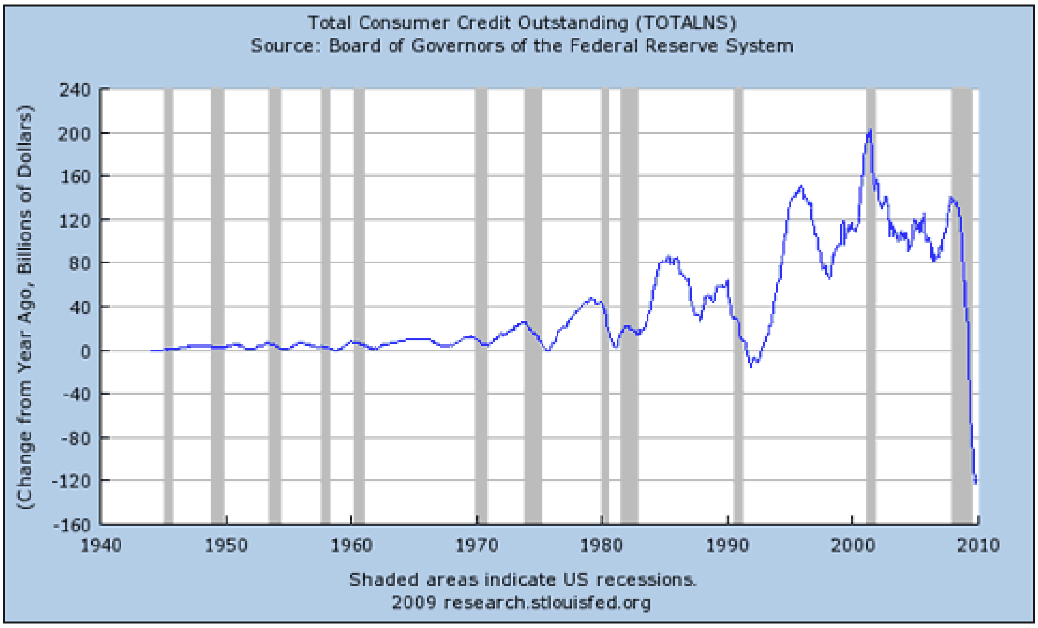
Yesterday, a $14.8 billion contraction in consumer credit was reported for the month of September. That translates into a contraction at an annual rate of 7.3% for the month, 6.1% in the third quarter, which follows a 6.6% contraction in the second quarter. Revolving credit decreased at an annual rate of 10 percent, and nonrevolving credit decreased at an annual rate of 3.8 percent.

It would seem that never ending growth has ended. Keep in mind that the consumer and their spending represents 70% or more of this nation's economy.

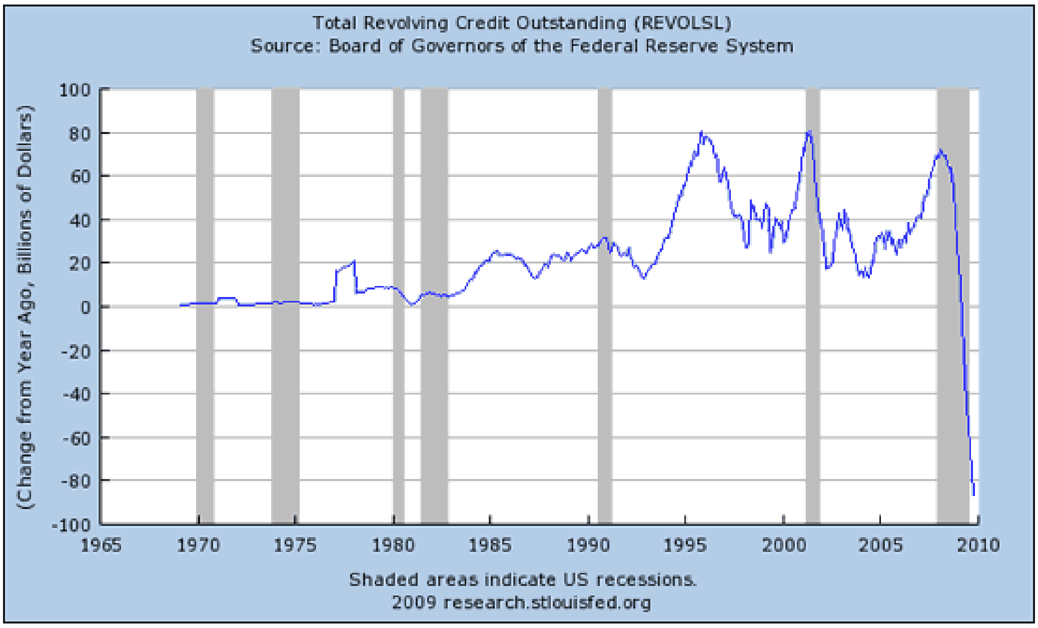
Let's start our tour of the charts by showing that the contraction is not just in consumer credit. Below is the latest chart from the St. Louis Fed showing Total Loans and Leases at Commercial Banks percent change from a year ago:



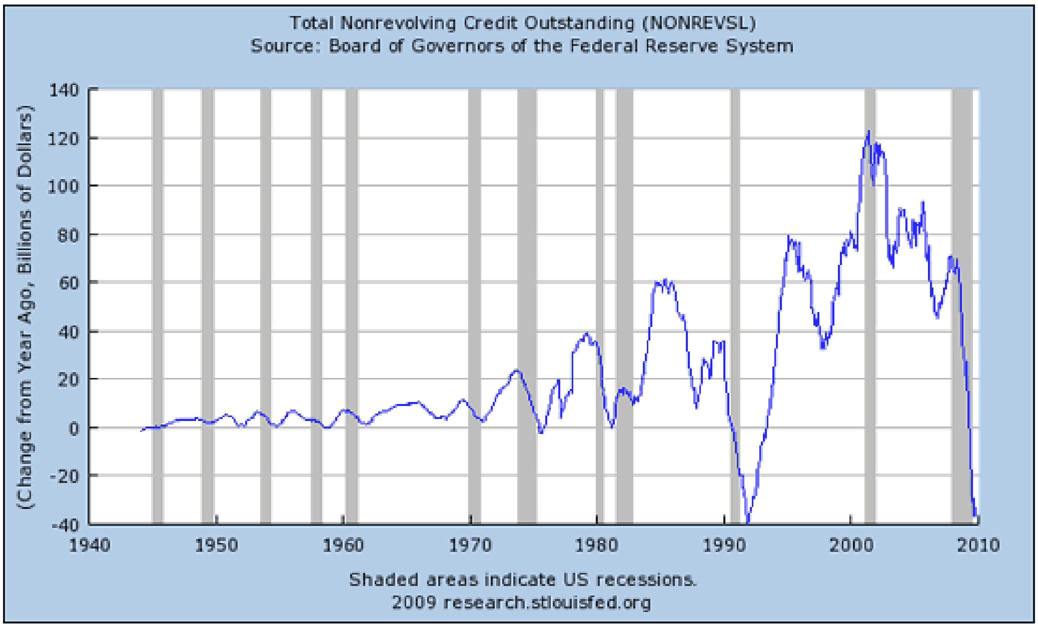
Now, let's look at consumer credit and its components. Below is a chart showing Total Consumer credit expressed in billions of dollars change from one year ago:



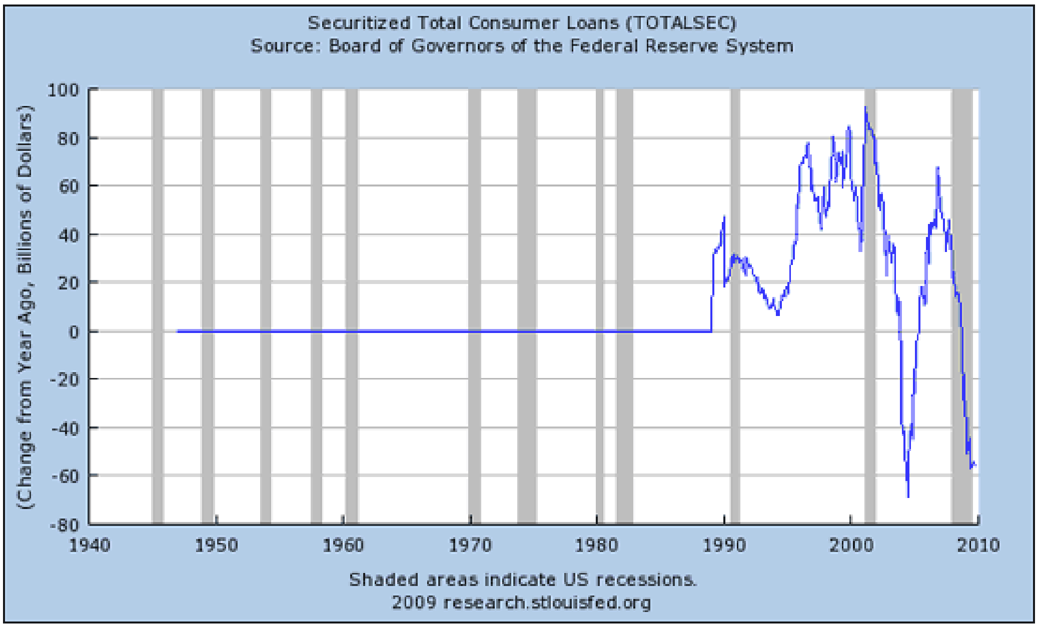
There are two types of consumer credit, revolving (credit cards, lines of credit, etc.), and nonrevolving. Below is the chart of Total Revolving Credit Outstanding, again expressed in billions of dollars change from last year:



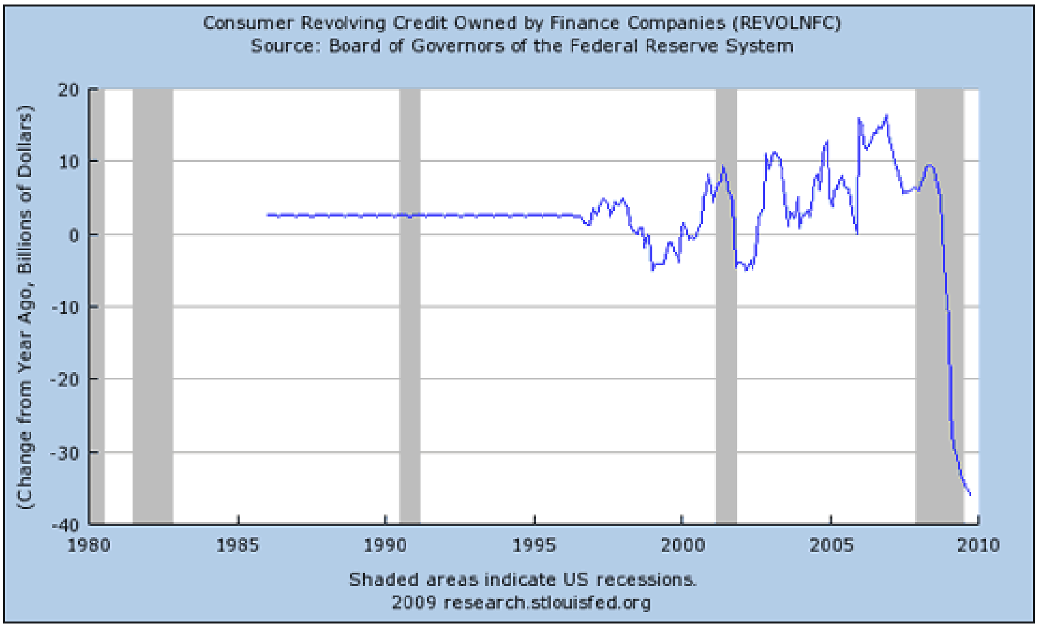
Next is the Total Nonrevolving Credit Outstanding expressed in billions change from a year ago:



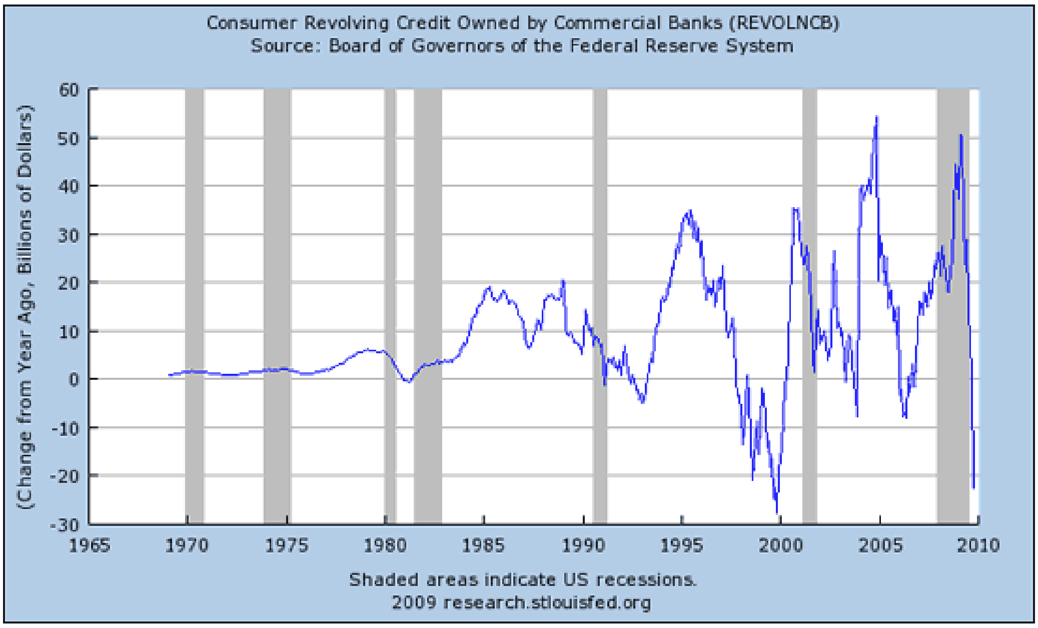
The Fed actually reports Securitized Total Consumer Loans, but I would contend that their data does NOT capture nearly all of it, nor does it capture all the derivatives based around it, credit default swaps and the like. Still, you can see that the securitization process is no longer creating never ending growth in this category. Of course the “securitization” of debt process did not exist prior to about 1990:



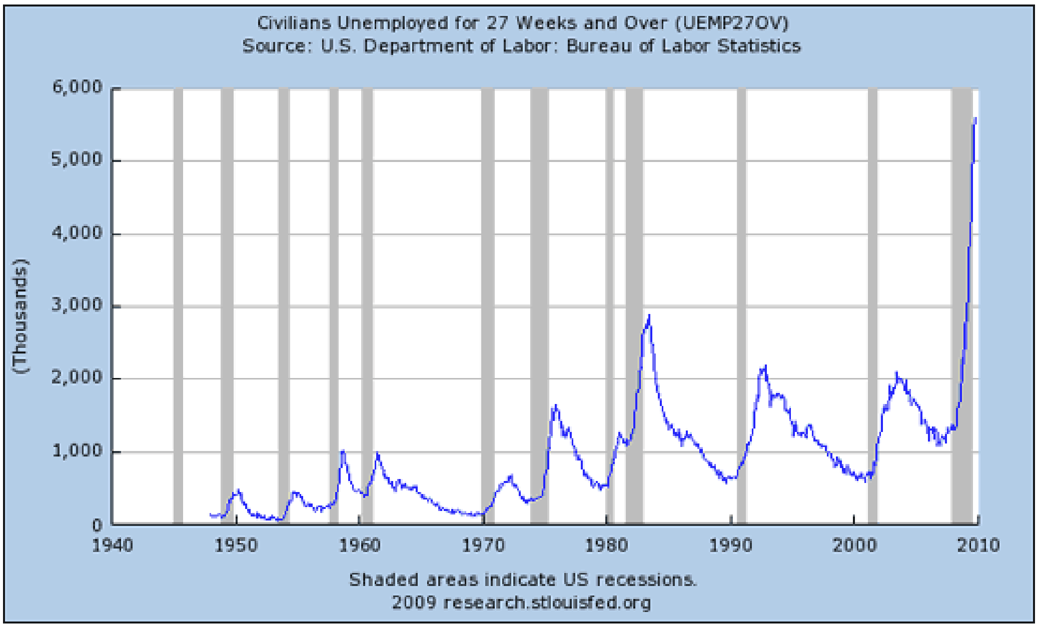
The Fed further breaks down who holds consumer debt. Below is a chart of Consumer Revolving Credit Owned by Finance Companies:



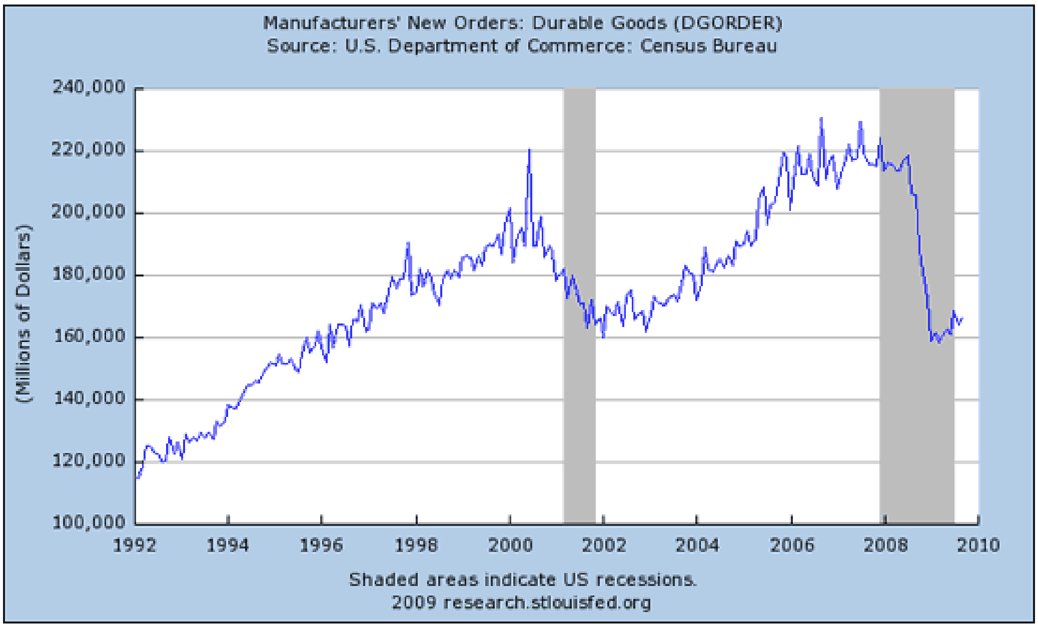
Consumer Revolving Credit Owned by Commercial Banks:



Of course, as credit contracts, businesses do poorly, and they lay people off. Below is the updated chart of those who have been unemployed for 27 weeks or longer:



Unemployed people and people without credit do not order things, as this chart showing Durable goods orders attests:



Good luck with the “recession is over” call, welcome to the second Great Depression, what I now label the Great Deception. Keep in mind when you see trumped up GDP growth figures that even during the Great Depression of the ‘30s that GDP was positive off and on for years while the people suffered. Today we may not have soup lines extending for blocks, instead they collect unemployment, food stamps, buy their cars with the help of government money, and buy their houses on the backs of taxpayers too. The person next to you in the checkout line may look solvent, but they may be shopping with your money.

Those thinking that real recovery is here or is imminent had best keep their eye on consumer credit. They are confusing speculation and false accounting with growth. That will become more and more evident given time. The myth that more debt can cure a debt problem, that incomes can support never ending credit growth is simply a dream true only in the minds of central bankers and their minions…

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