

Update for the Economy 2024

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Health Warning: These are only my personal assumptions and as with all predictions cannot be relied upon but they are based on my experience in politics and an understanding of the global debt crisis.

The 'Great Stagflation' is now a reality for the vast majority of citizens. After watching an appalling Biden-Trump debate in which Jo Biden was barely coherent it is clear that he is not running the show. His advisers and cabinet are desperate to give a fillip to the economy as he is in mental decline. The latest boost to the dollar ponzi is to encourage households to MEW (Mortgage Equity Withdrawal) by allowing Freddie Mac to guarantee second mortgages taken out with smaller regional banks. Fannie Mae which guarantee mortgages for the larger banks will surely follow. For those who are not aware Freddie Mac and Fannie Mae are financial institutions back stopped by the US taxpayer.

As an example someone with a home valued at \$600 000 and a mortgage of say \$300 000 at 3% fixed for a long term will be paying about \$9000 interest per annum at the early stages. If they wanted to remortgage at the current rate of say 6% to take out an extra \$100 000 (i.e total \$400 000) then the interest payment would jump to \$24 000 per annum. However if Freddie Mac or Fannie Mae guarantee the second mortgage they would only pay the higher interest on the \$100 000 for MEW. This would reduce the total interest from \$24 000 to \$15 000.

Clearly this will encourage many home owners to pile on more debt for home improvements, perhaps upgrading the car or even some towards a holiday. This was certainly the experience of the UK when Mervyn King as BoE Governor was almost applauding the £60bn of MEWing. This will boost retail sales and GDP in the run up to the Presidential election but also push inflation higher. The small banks that are struggling with poorly performing CRE (Commercial Real Estate) loans and weak balance sheets will be given a boost through the Freddie Mac guarantee on this mortgage business and no doubt the larger banks will follow when Fanny Mae offers the same guarantee.

I therefore expect this to be the second leg up in inflation and when a Labour Govt tries to boost the UK economy there will also be second leg up to inflation but with the added danger of a crisis of confidence in sterling. France will also be caught between a rock and a hard place with both the left and the right squeezing out Macrons centrist party demanding more stimulus and freebies for the French economy.

Central Banks led by the Fed will not be able to cut rates without exacerbating this inflation caused by stimulus.