LOMBARD STREET RESEARCH

Monthly Economic Review

No. 119, May 1999

Contents Page No.

Gerrard Group PLC

Gerrard & King Limited
Cannon Bridge,
25 Dowgate Hill,
London, EC4R 2GN
Tel: 0171 337 2800
Fax: 0171 337 2801
e-mail: enquiry@gerrard.com

GNI Limited
Cannon Bridge,
25 Dowgate Hill,
London EC4R 2GN
Tel: 0171 337 3500
Tlx: 884862
Fax: 0171 337 3501
e-mail: enquiry@gni.co.uk
www.gni.co.uk

Lombard Street Research Ltd.
Cannon Bridge,
25 Dowgate Hill,
London, EC4R 2GN
Tel: 0171 337 2975
Fax: 0171 337 2999
e-mail: lsr@lombard-st.co.uk
www.lombard-st.co.uk

Greig Middleton & Co. Limited
30 Lombard Street,
London, EC3V 9EN
Tel: 0171 655 4000
Fax: 0171 655 4321
e-mail: enquiries@greigm.co.uk
www.greigm.co.uk

Greig Middleton Financial Services Limited
30 Lombard Street,
London, EC3V 9EN
Tel: 0171 655 4000
Fax: 0171 655 4343

American stock market bubble remains centre stage

The USA's current account deficit heading towards 5% of GDP

US stock market valuations very stretched,

The world economic outlook for the rest of 1999 - including prospects for the British economy - are heavily dependent on the extraordinary American financial situation. In the last few weeks dollar bond yields have continued to rise, with the 30-year Treasury yield moving closer to the 6% level. Equity investors have been indifferent to the bond market's weakness. The P/E ratio on the S & P 500 index has stayed for some weeks at about 35 and the dividend yield at a meagre 1.2%. The relationship between the equity dividend yield and the bond yield is unprecedented. For most of the period since the start of the bull market in 1982 the 30-year Treasury yield has been roughly 2 1/2 times the dividend yield on the S & P 500; it is currently almost 5.

while the USA's inflation rate appears to be rising

Mr. Greenspan's recent speeches have been characteristically delphic, but some passages have come close to endorsing the "new era" of never-ending high-tech-based low inflation. April's 0.7% rise in the consumer price index must have come as a shock to supporters of the new era. It may also encourage Mr. Greenspan to think hard about whether the laws of macroeconomics really have been suspended. (Some other data reputed to substantiate the new era - such as the low increase in hourly earnings reported with the monthly payroll data - look questionable. In the last three months the increase in hourly earnings has run at 0.2%, implying an impressively low annualized rate of increase of 2.4%. However, more comprehensive figures on compensation per hour in the business sector have now been published for the first quarter and show an annualized rate of increase of 5.2%. This is much more logical, given the tightness in the labour market.)

and its payments deficit is certainly widening

However, the new era enthusiasts are right that American inflation has been lower than expected so far. Crucial in understanding the good numbers has been the state of the world economy and, in particular, the contrast between the USA's boom and sluggish demand elsewhere. As a result, American excess demand has benefited foreign suppliers and domestic producers have not been able to put up prices. But the resulting balance-of-payments deficit raises other concerns, notably about the reliability of the capital inflows which finance the excess of imports over exports. The accompanying research paper updates the analysis in the December issue of this *Review*, where an argument was made that the USA's external payments had become "totally unsustainable". That verdict remains valid. If the recent rise in the oil price holds, the USA's monthly trade deficit will soon to go above $20b., more than double the $8. - $10b. numbers typically recorded before the Asian crisis. If exports, imports and GDP all grow at the same rate from 2000, the USA's net external liabilities would exceed half of GDP about a decade from now.

Professor Tim Congdon

18th May, 1999

Summary of paper on

"Totally unsustainable: is that still the right assessment?"

Purpose of the paper

The Federal Reserve's decision to cut dollar interest rates last autumn remains very popular in financial markets. The December 1998 issue of this *Review* criticized that decision, on the grounds that the USA's external payments were "totally unsustainable". The current issue of the *Review* asks whether that assessment needs to be withdrawn.

Main points

* **Contrary to forecasts prevailing at the end of last year, the American economy has boomed since the rate cuts. In Q4 1998 and Q1 1999 the growth of domestic demand ran at an annualized rate of 6 1/2% per cent.**

* **The boom in demand is one reason for a further deterioration in the trade deficit, with the monthly gap approaching $20b. in February.**

* **The monthly trade deficit will exceed $20b. shortly and continue to rise for the rest of the year, partly because of the rise in oil prices, but mainly because demand in the USA remains far more buoyant than in the rest of the world.**

* **A forecast that volume growth in exports will lag that in imports by 6% in 1999 is entirely plausible, as is the suggestion that the USA's current account deficit will exceed 5% of GDP by early 2000.**

* **The associated projection is that - with assumed similar growth rates of exports and imports from Q1 2000 onwards - the USA's net external liabilities will exceed 50% of GDP by 2008. This must be "totally unsustainable".**

* **Recent data from the Federal Reserve on bond issuance, commercial paper issuance, mortgage credit and other relevant financial flows refute the notion that the USA suffered from a "credit crunch" at any point in late 1998.**

This research paper was written by Professor Tim Congdon, with help from Mr. Alexander Skinner in the preparation of the charts. The final paragraphs are based on Professor Congdon's contribution to the latest issue of *Central Banking*. (Lombard Street Research is grateful to *Central Banking* for permission to reproduce it.)

Totally unsustainable: is that still the right assessment?

Was Mr. Greenspan right to cut interest rates in late 1998?

An update of the December 1998 analysis

The December 1998 issue of this *Review* argued that the USA's external payments, and by implication the stance of its macroeconomic policies, had become "totally unsustainable"; it also asked whether the Federal Reserve had blundered when dollar interest rates were cut last autumn. Because of the importance of these issues to the global economic outlook, the current issue of the *Review* surveys the latest developments. More data has become available about the extent of the so-called "credit crunch" in September and October last year. The sudden withdrawal of credit (or, at any rate, an alleged sudden withdrawal of credit) is widely believed to have been the spur for the Fed's decision to lower rates.

Consensus forecasts of late 1998 have been wrong, with boom in consumption

The first and perhaps the most central point in the debate is that many of last autumn's forecasts have been contradicted by events. During the weeks of the supposed "crunch" commentators expected a slowdown in American growth in late 1998 and early 1999. In fact, GDP grew at an annualized rate of 6% in the fourth quarter (Q4) and 4 1/2% in Q1. Consumer spending has been particularly strong. Retail sales climbed by about 1% a month between October 1998 and March 1999, achieving the fastest growth rate in any six-month period in the 1990s. This buoyancy would be remarkable in itself, but it is particularly so when contrasted with last autumn's concern about "wealth shrinkage" after the big fall in share prices between July and October. The Jeremiahs can perhaps be excused for not forecasting the 50% leap in share prices between the October low and late April 1999. Nevertheless, they should have appreciated that the drop in share prices in the three months to October 1998 erased only part of the increase in previous years. In fact, American share prices had risen by over 150% between end-1994 and mid-1998, and - even at the worst point in October - were more than double their level five years earlier.

and domestic demand, causing a wider trade gap

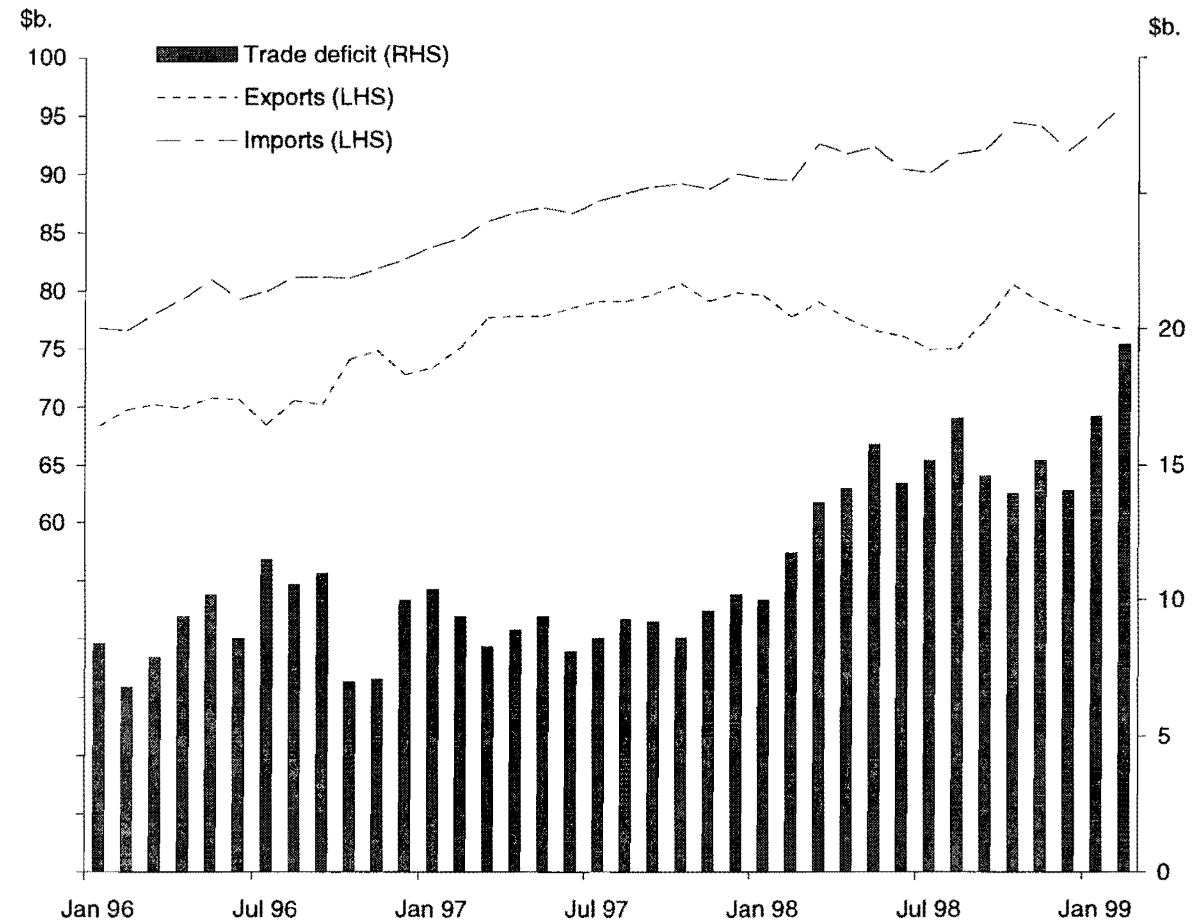
The boom in consumption has been part of a larger boom, with real (i.e., inflation-adjusted) domestic demand growing at an annualized rate of over 6 1/2% in the last two quarters. Many American companies have nevertheless had a tough time meeting foreign competition both in the domestic market and overseas. Other big industrial economies have grown more slowly than the USA, while the delayed effect of the dollar's appreciation in 1996 and 1997 has been another handicap. As expected, the trade gap has widened. In February it was an all-time record of \$19.4b., after \$16.8b. in January. (See p. 4 below.)

These numbers were before the rise in oil prices, which followed OPEC's agreement on production cuts in March. Assuming that the increase in the oil price compared with late 1998 is \$5 a barrel and that this is maintained, the damage to the US trade gap is about \$1 1/2b. a month. (The USA imports over 10m. barrels of oil a day, about a seventh of total world production.) As already noted, domestic demand is still growing much more rapidly in the USA than in

The external deficit

Monthly trade gap soon to exceed $20b.

Chart is of monthly data. It shows exports from, imports to and the trade balance for the USA.



Source: Bureau of Economic Analysis

In 1989 the Washington-based Institute for International Economics (IIE) published a study by Mr. William Cline on *American Trade Adjustment: the Global Impact*, which warned that "far more needs to be done to reduce the US external deficits to subtainable levels"; it quantified a sustainable annual deficit as being in the range of $50b. At that time the typical monthly trade gap was $3b. - $5b. The chart shows that this had increased to $8b. - $10b. before the Asian crisis, but was relatively stable. Since mid-1997 the monthly trade gap has widened to the $15b. - $20b. area, with the February number an all-time record of $19.4b. Because the fall in the oil price has been reversed and the boom in domestic demand continues, figures in the $20b. - $25b. range are to be expected in the rest of 1999. As the USA has deficits on investment income and official transfers, the current account deficit this year could exceed $350b. This would be about 4% of GDP and - after adjusting for inflation - more than five times the level regarded as sustainable by the IIE a decade ago.

Monthly trade gap to exceed $20b.

the rest of the world. A reasonable judgement is that the monthly trade gap will soon exceed $20b. and that it will run at about $20b. - $25b. in the summer months. The likely total in Q1 is $55b. - $58b. and in Q2 $67b. - $70b. Monthly numbers in the $25b. - $30b. range are possible later in the year, although much depends on oil prices, world demand and so on. Deficits on this scale would be more than double their typical level, of about $8b. - $11b. a month, in the four years to 1997.

USA's net external liabilities more than 50% of GDP by 2008,

The December 1998 *Review* included naive projections of both the USA's current account deficit and its net external liabilities until 2010. (See pp. 14 - 15 of the *Review*.) Starting from actual figures until Q2 1998 and making plausible assumptions thereafter, the USA's net external liabilities reached 50% of GDP by 2010. In the event the deficit figures in late 1998 were rather worse than in our projections. An updating of the exercise - using actual data at Q4 1998, a reasonable estimate for Q1 1999 and the same assumptions from Q2 1999 - brought forward to 2008 the date at which net external liabilities amount to 50% of GDP.

which is interpreted by some economists as "a sign of strength"

The latest issue of *The International Economy*, published in Washington by Mr. David Smick, contains a fascinating symposium of views with 14 leading commentators giving answers to the question "Is America's large and growing trade deficit economically sustainable?". Professor Gary Hufbauer, a senior fellow at the Institute for International Economics, claims that the trade deficit is better described as "an investment surplus", since capital is being attracted to the USA whose "economy is the envy of the world". The deficit is therefore interpreted as "a sign of strength". (Professor William Cline, who worked at the Institute for International Economics in the late 1980s, gave a very different view of the much smaller deficits which then prevailed.)

In order to satisfy foreign investors, the USA must eventually run a trade surplus,

Professor Hufbauer's characterization of the trade position would be unexceptionable if the capital inflows into the USA were motivated by high and sustainable investment yields, and if American companies had achieved rapid export growth which made a trade surplus likely within a few years. No one can dispute that a trade surplus will eventually be necessary in order to pay foreign investors a reasonable flow of interest, profits and dividends, and to stabilize the USA's net external liabilities as a ratio of GDP. Unless a trade surplus (and the associated ability to pay the stream of investment income) is in prospect, foreign investors may become unwilling to buy American assets on the same scale as in recent quarters.

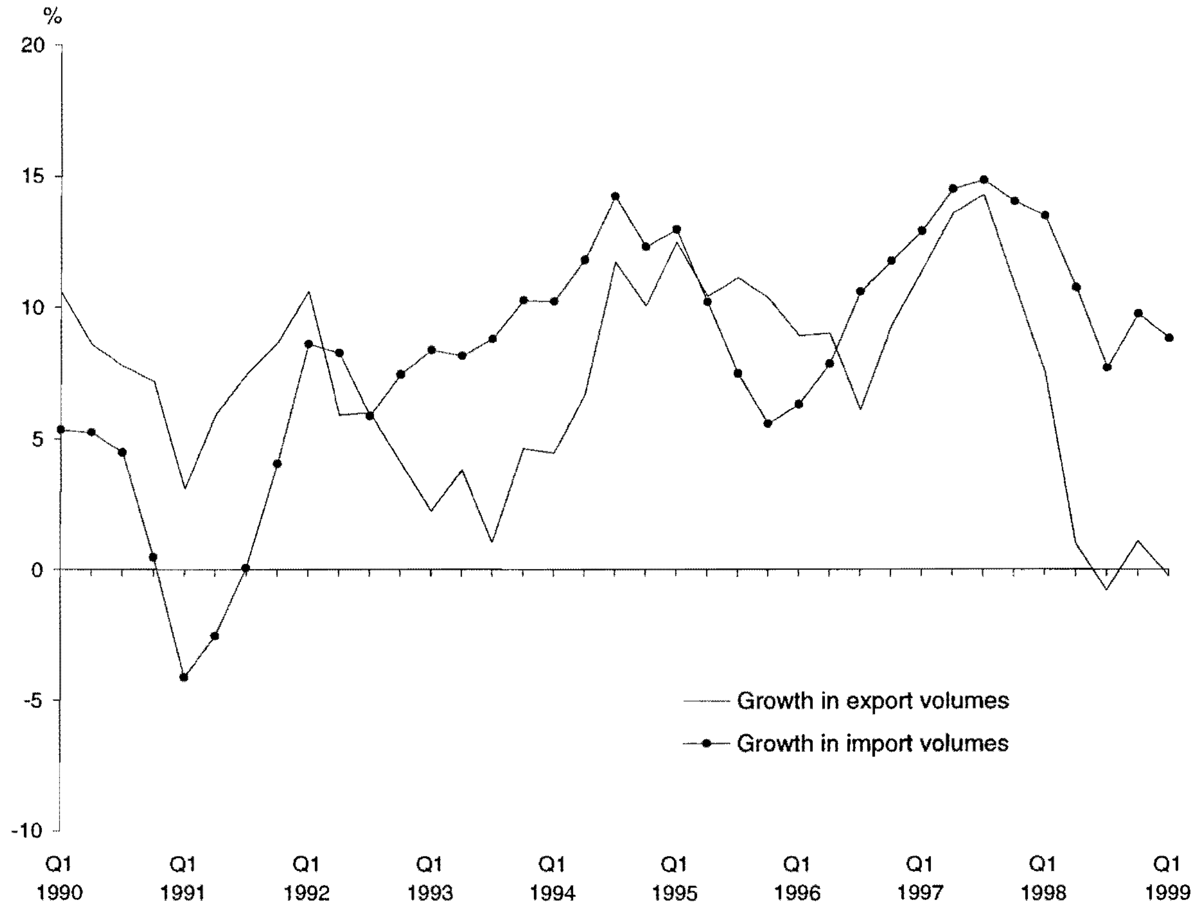
but USA has a trade deficit and imports have been growing faster than exports

The recent behaviour of the USA's trade flows is therefore of great importance. The flows can be examined in various ways, but one recognised procedure is to look at the export and import contributions to the GDP accounts. These cover services as well as more familiar and quantifiable exports and imports of goods. The latest national accounts show that exports in constant 1992 dollars (i.e., in real terms) were fractionally lower in Q1 1999 than a year earlier, while imports had jumped 8.8%. Admittedly, the last year has been affected by the strong dollar and the imbalance between the booming American and a relatively weak

Is it a New Era?

The competitiveness of the USA's exports

Chart is based on quarterly national accounts data. Its shows the annual percentage change in export and import volumes.



Source: Bureau of Economic Analysis

In a symposium of views about the US trade deficit in the May/June issue of *The International Economy*, Professor Gary Hufbauer of the Institute for International Economics describes the American economy as "the envy of the world"; he characterizes the trade deficit as "really an investment surplus" and so a reflection of "strength, not weakness". But other contributors note that, eventually, the USA will have to achieve a trade surplus so that investors in the rest of the world can receive a regular income on their American assets. The chart shows this requirement will prove challenging. Apart from a few quarters in 1995, US imports have been rising faster than US exports for seven years. Not surprisingly, the deterioration has been most pronounced since the onset of the Asian crisis in mid-1997. However, the recent contrast between stagnation in export volume and import volume growth at 7% - 10% a year is not a ringing endorsement of the competitiveness of American exporters. Falls in manufacturing employment over the last 18 months will need to be reversed, if exports are to recover.

world economy. But - if, say, the three previous years are analysed instead - exports have again been outpaced by imports.

Weak dollar in 1995 was some help to exports, but not enough

In the three years to Q1 1998 exports (in constant 1992 dollars) went up on average by 9.1% a year whereas imports increased by 10.8% a year. It should be emphasized than in late 1995 and 1996 the USA's exports received a special boost from the dollar's devaluation in late 1994 and early 1995, and yet still they were left behind by imports. In other words, it just is not true that the American economy has overpowering competitive advantages compared with the rest of the world. In fact, the sharp contraction in manufacturing employment over the last 18 months suggests that a difficult task of economic re-balancing will be needed if the USA's slide into the red on its international trade is to be reversed. People and capital will have to move back to manufacturing (which produces most of the exports) from services and construction (which mostly meet domestic demand).

What about the "credit crunch"?

In short, the central conclusion of the December 1998 *Review* is robust: the USA's external payments are totally unsustainable. But the Fed's defenders may claim that it was still correct to cut interest rates last autumn. They may admit that the consensus forecasts of an economic slowdown have been discredited, but wasn't there also the "credit crunch"? Weren't the unusual conditions in financial markets sufficient by themselves to justify a substantial easing in monetary policy? In a letter to the *Financial Times* last November the author pointed out that the growth rates of the USA's bank credit and broad money had increased during the period of the supposed "crunch". Indeed, the rates of growth of bank balance sheets were so extraordinarily fast that the episode would be better described as a "credit craze" than as a "credit crunch".

(or was it a credit craze?")

***Central Banker* reiterates that there was a "crunch" last autumn,**

The February 1999 issue of *Central Banking* acknowledged this point, but insisted - in the title of a short piece on the subject - that "There was a liquidity crunch in the USA". It claimed that, as a wholesale retreat into cash was under way, "[C]orporate bond issues dried up, there were no new equity issues, [and] mortgage rates increased by 0.5%", while "the spread between AAA-rated bonds and government securities widened to ... a level not seen in 40 years". It also criticized the letter in the *Financial Times* for overlooking that "banks severely tightened ... terms on which credit was extended to levels not seen since 1991". It further argued that banks were able to charge "a large premium" on new loans, because they were "in a monopoly situation" and companies could not tap competing sources of funds such as the bond market.

but what above the evidence

As it is now over six months since the events in question, the statistical record is largely complete and a review of the essential facts has become possible. Particularly useful is the most recent issue of the Federal Reserve's publication *Flow of Funds Accounts of the United States*. It relates to the fourth quarter of last year, but of course includes the relevant statistical series for several quarters. As it was published on 12th March, the latest data could not have been known to *Central Banking* in February. Was *Central Banking* correct in its various statements? Were there credit and liquidity "crunches"?

Corporate bond issuance an all-time record in 1998 and was still high in the autumn

First, did corporate bond issues dry up in the autumn of 1998? Table F.101 of the *Flow of Funds* sets out the key numbers. A sense of perspective comes from looking at 1998 as a year and comparing it with the rest of the 1990s. The net issue of corporate bonds was $132.2b., which was in fact the highest-ever figure. It was well up on 1997's $90.7b., not far from double 1996's $72.5b. and over five times the 1994 figure of $23.3b. So - plainly - there was no shortage of bond finance in 1998 as a whole. What about particular quarters? *Central Banking* is right that a sharp decline occurred in the third quarter; the annual rate of net bond issue fell to $87.1b. from $157.2b. and $160.8b. in the first and second quarters respectively. But the rate of bond issuance, even in the allegedly traumatic conditions of September and October, was still much higher than in any year in the 1990s before 1997. In the fourth quarter the rate of bond issuance revived to $123.8b. Evidently, corporate bond issuance did not dry up in the autumn of 1998.

largely with the purpose of buying back equity

Secondly, *Central Banking* says that there were "no new equity issues". This is a strange comment, given that the central fact about American corporate finance in the last few years has been companies' massive buying of existing equity with the help of borrowed money. Overall US companies' purchases of existing equity - partly by acquisition and partly by share buybacks - exceeded their issue of new equity by $262.8b. in 1998. The net withdrawal of equity last year was by far an all-time record, comparing with $114.4b. in 1997 and $64.2b. in 1996. *Central Banking* is correct that the level of new equity issuance fell in the so-called "crisis months", but - when compared with the scale of corporate activity which was destroying existing equity - that is not really the point.

Thirdly, *Central Banking* refers to a 50-basis-point rise in the mortgage rate, as if this were of great importance to the wealth, health and happiness of the American nation. Of course, 50-basis-point fluctuations in interest rates are recurrent in financial markets and not by themselves a sign that something has gone wrong. But - in the context of late 1998 - the reference to rising mortgage rates is peculiar. The essential feature about dollar bond yields last autumn was that they fell sharply, as participants in financial markets reacted to media stories about global deflation. Although the spread over Treasury bill yields was widening, commercial paper rates and even corporate bond yields had started to decline by late August and early September. This decline preceded the Fed's rate cuts.

Mortgage rates fell last summer,

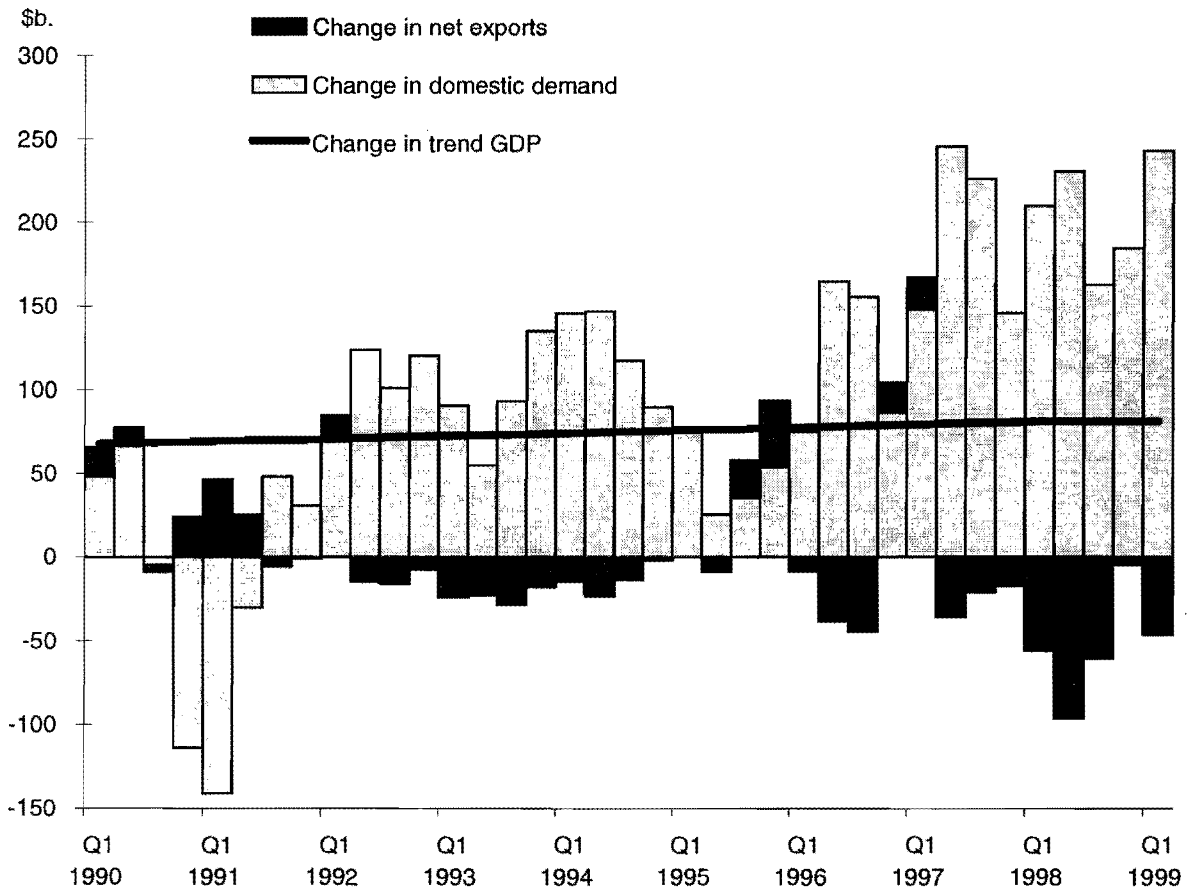
leading to big upturn in mortgage applications during the weeks of so-called "crunch"

Not surprisingly, most mortgage rates - such as those for fixed-rate 20-year or 30-year money - went down as well. By late September and early October a surge in mortgage applications (both refinancing and to purchase homes) had begun. Data on mortgage applications are compiled by the Mortgage Bankers Association every week. In October and November the MBA's data showed that applications to buy homes were typically 25% to 50% higher than in the same week a year earlier. These statistics emphasized the ease of borrowing for American households, and accurately foreshadowed a remarkable leap in housing turnover and starts in the first quarter of 1999; they appeared at the

The Greenspan boom

Above-trend growth in domestic demand for 11 quarters to Q1 1999

Chart is of quarterly data. It shows the influence of the change in the last two quarters of domestic demand and net exports on GDP growth, constant 1992 \$. The continuous line shows the estimated trend increase in GDP, which is assumed to run at 2¼% a year.



Source: Bureau of Economic Analysis

According to Professor Milton Friedman, the normal lag between an increase in money growth and an upturn in demand growth is quite short, at six months to a year, whereas the lag between an increase in money growth and inflation is "long and variable". Friedman's generalization was based on empirical work extending to many countries over long periods. In view of this the recovery of the early 1990s was surprising, as it was not preceded by higher money growth. But the current boom fits the normal pattern. The boom in domestic demand began in early 1996, only a few quarters after the annual increase in money growth moved up from low single digits to the 5% - 8% range. In the last two years the growth in domestic demand has run at roughly twice the long-term sustainable rate. Excess demand has been met only partly by American suppliers, with the change in net exports acting as a drag on output growth in every six-month period since Q2 1997. If this outlet had not been available, US output would now be 2% - 2 1/2% higher and over-heating would be intense.

same time that the newspapers were most shrill about the alleged "credit crunch" (i.e., the disappearance of lenders of all kinds).

Commercial paper issuance and borrowing in offshore markets also at peak in 1998

Fourthly, *Central Banking* suggests that banks had remarkable bargaining power, amounting to "a monopoly", in the crisis period because alternative sources of finance were not available. Aside from the important detail that the USA has a few thousand banks all competing with each other, is this claim valid? As already demonstrated, new bond issuance on a large scale continued in the third and fourth quarters of 1998. So there is no truth in this part of the assertion that non-bank finance was restricted in the relevant period. But American companies normally have a rich menu of external financing options, including the domestic commercial paper market and the offshore markets (in their various forms). Were these markets closed? Had they become impossible to access?

Table F.101 of the *Flow of Funds* publication reports that US companies' net incurral of commercial paper liabilities in the third quarter of 1998 was $85.6b., offset by $1.1. of net acquisitions (presumably maturities and some buying-in). The implied net issue figure (of $84.5b.) was vastly higher than in any previous quarter. Admittedly, the remarkable volume of net issuance in the third quarter was balanced by a record level of redemptions in the fourth quarter, but - both in 1998 as a year and in the second half of 1998 taken in isolation - the commercial paper market provided an exceptionally high level of external finance to American companies. Much the same comment is true of the offshore markets.

Evidence is clear: the "credit crunch" was imaginary

The author's letter to the *Financial Times* focussed on the growth rates of bank credit and broad money, because the Federal Reserve publishes these numbers on a weekly basis with a very short lag. A case can be made that, as early as late October, the money and credit data refuted the notion of a "credit crunch". More extensive statistics are now available about the volumes of bond issuance, commercial paper issuance, mortgage lending, equity finance, corporate gearing and so on. They demonstrate - very clearly - that the "credit crunch" was a work of the imagination, the collective imagination of investment bankers, securities houses and a very gullible financial press.

The Federal Reserve surprised by developments since last autumn

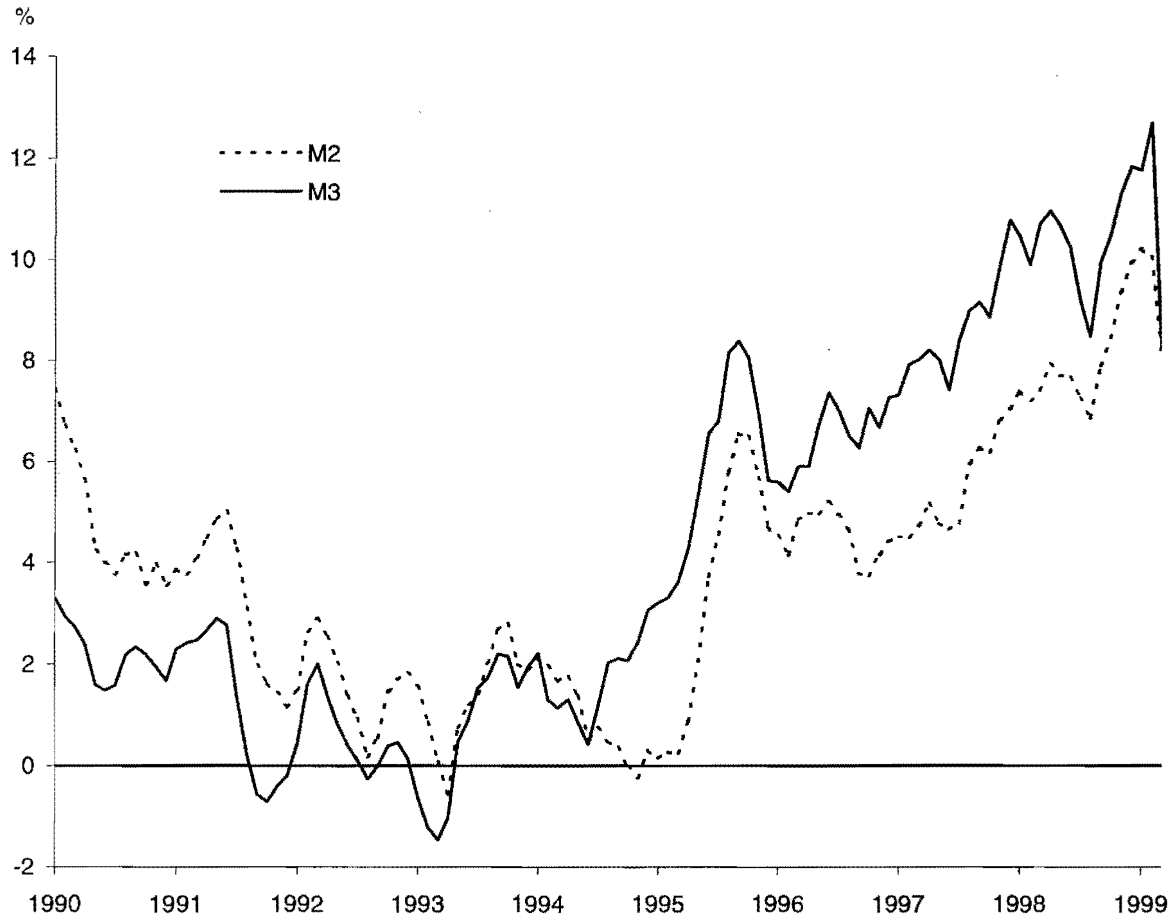
Since October last year domestic demand has grown at rates far ahead of any sensible assessment the trend increase in the USA's productive capacity. See p.9.) If the Federal Reserve had known last autumn that domestic demand growth would surge to an annualized rate of over 6% in the following two quarters, the interest rate cuts would not have occurred. Moreover, there is little evidence that domestic demand is about to slow to a trend or beneath-trend growth rate, while it is entirely plausible that the USA's current account deficit will move out to over 5% of GDP in early 2000.

The "credit crunch" gave the Federal Reserve and Mr. Greenspan a pretext for monetary easing, while the interest rate cuts were undoubtedly very popular with financial markets and have been applauded by the international press. But

Recent monetary trends

Fastest money growth in recent quarters

Chart shows six-month annualised growth rates of M2 and M3. M2 is predominantly a measure of retail money balances; M3 also includes wholesal deposits and liquid instruments.



Sources: Federal Reserve database, Lombard Street Research estimates

US money growth was modest in the early 1990s, but since 1994 it has accelerated in two steps. The first - to an annual rate of increase of 5% to 8% - was in 1995 and coincided with the start of a boom for corporate finance activity (mergers and acquisitions, leveraged buy-outs); the second was in mid-1997, as banks became exceptionally profitable and, hence, particularly eager to expand their balance sheets. In the last two years the annual rate of increase in M3 has been about 10%. With inflation under 2%, excess liquidity has been a key influence on remarkable asset price gains. However, recent money growth has been volatile. A sharp dip in July 1998 may have been due to a warning from the Federal Reserve about credit quality, which led to a shedding of marginal assets. By contrast, in October and November banks expanded loans rapidly, as they compensated for the temporary closure of the corporate bond market in the so-called "credit crunch". In March money growth came to a sudden halt, but this was probably an erratic and short-lived blip due to another Fed assault on low-quality assets (i.e., hedge fund loans).

Monetary easing was needed in the rest of the world, *not* the USA

- in late 1998 - the risks of recession in the world economy were palpably not due to a lack of demand in the USA. Although the monetary easing in the USA helped the world economy in early 1999, it was still a mistake. If Mr. Greenspan had refused to cut interest rates, he would have obliged governments and central banks in the rest of the world to take effective action to stimulate their economies. In the long run that would meant a better-balanced and healthier world economy.

and the world economy is now dangerously unbalanced

Mr. Greenspan's defenders might say that the last paragraph is an indulgence in "game theory". The key claim being made here is that - if the Fed had not cut rates to stimulate American demand and support the world economy - other central banks would have been forced to ease monetary policy by more than they did. In other words, Fed inactivity would have made other central banks bolder and more aggressive in their monetary easing, European and Asian demand would have been stronger, and the world recovery better balanced. But Mr. Greenspan's defenders could reasonably say that this is pure conjecture. They could emphasize that - in the circumstances of late 1998 - the European Central Bank was an unknown quantity, while for several years the Bank of Japan had been impotent in promoting Japanese recovery and it appeared to remain so.

The rationale for the rate cuts has been undermined by subsequent events

The debate may never be settled, but three points are clear. First, the Federal Reserve and Mr. Greenspan - like economists in the USA and across the world - have been wrong-footed by the extraordinary strength in American domestic demand since the interest rate cuts. Secondly, the USA is heading for the largest current account deficit, as a share of its GDP, for over a century (and perhaps in its history). Moreover, its economy is not particularly well-prepared to launch the export drive that will eventually be needed to service the vast claims that foreigners are building up on its productive capacity. Thirdly, a careful examination of the relevant data (bank credit, money growth, bond issuance, commercial paper issuance, mortgage applications and so on) refutes the notion that the American financial system suffered from a "credit crunch" in the autumn of 1998.