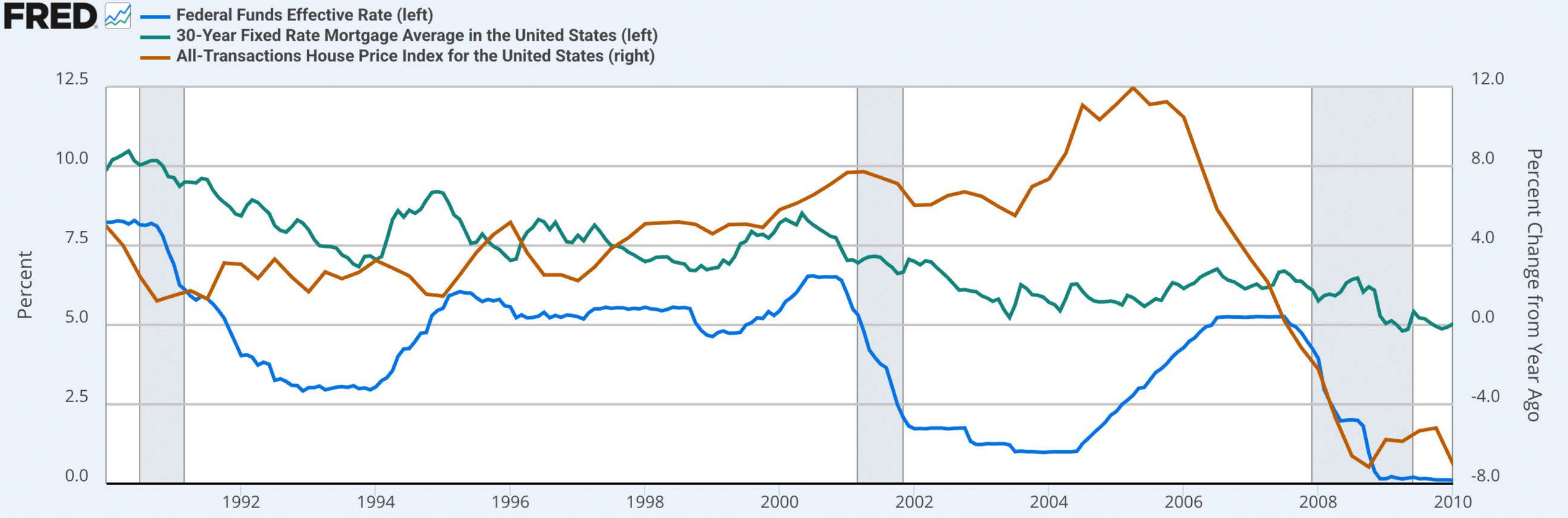

Sources: Board of Governors of the Federal Reserve System (US); Freddie Mac; U.S. Federal Housing Finance Agency via FRED®

Shaded areas indicate U.S. recessions.

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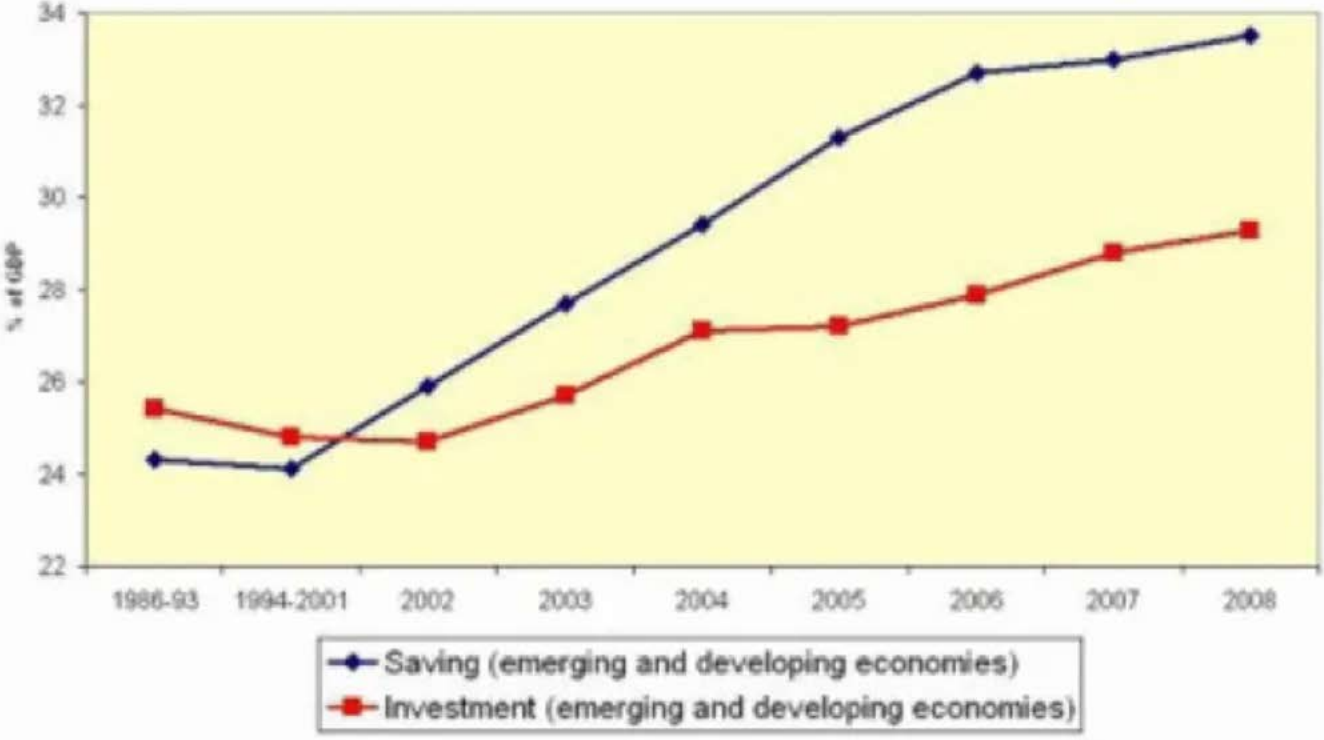
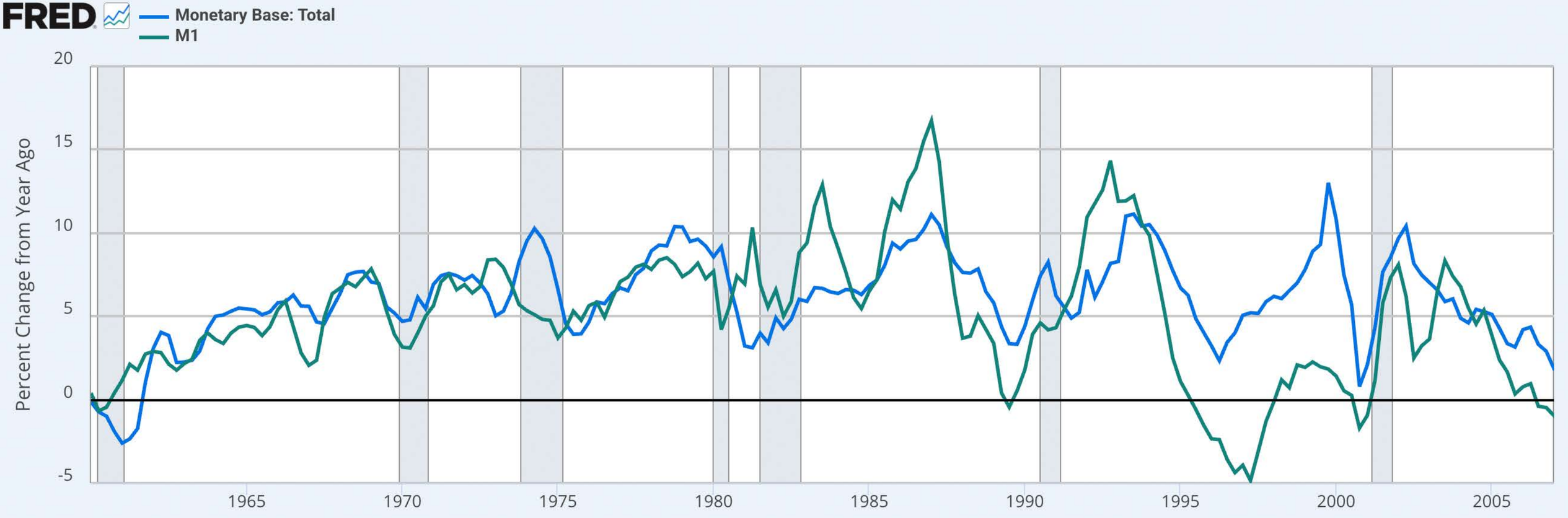
A Savings glut, not an investment drought ...

Savings and investment as a % of emerging market GDP, WEO data





Source: Board of Governors of the Federal Reserve System (US) via FRED®

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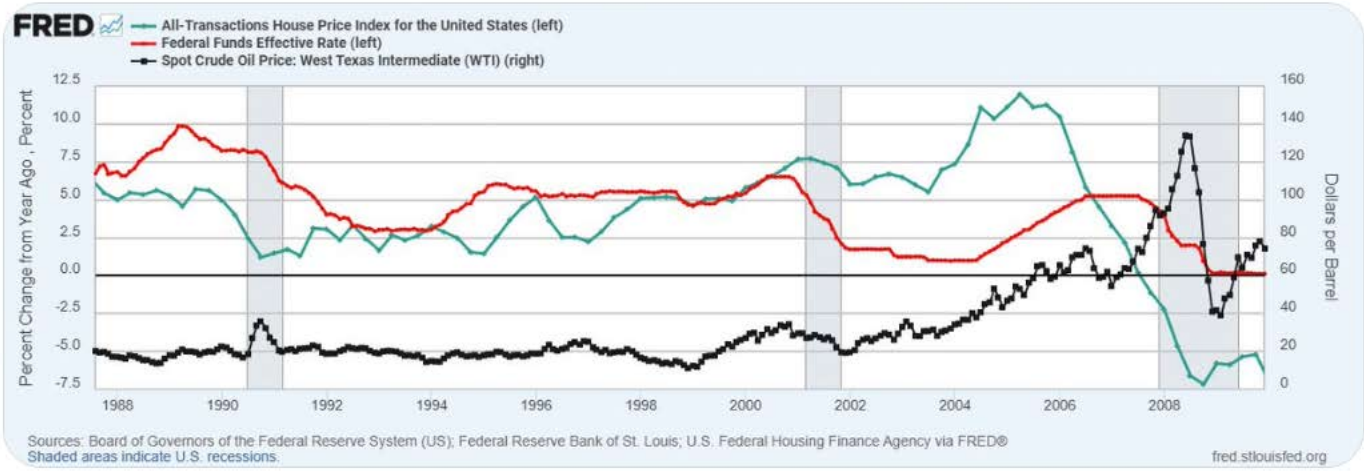
Alan Reynolds
@AlanReynoldsEcn

The *Wall Street Journal* editorial "The Myth of the Maestro" blames the recession that started in December 2007 on a house-price boom that was long over and some investment bank failures that were later.

The missing variable in this story is a huge spike in the price of oil (the black line) which led to the Bernanke Fed's effort to keep the fed funds rate too high for too long -- followed by zero rates, QE and forward guidance.
Greenspan was not to blame.



1:19 PM · Jun 23, 2026 · **6,195** Views

Alan Reynolds @AlanReynoldsEcn · Jun 24

The Fed's knee-jerk inflation-targeting leads them to assume oil price spikes will push inflation higher and higher, but they all soon end in recessions. I explained in a Forbes column, "On June 6, 2008 when crude oil first hit $138 a barrel, I wrote “Get Ready for the Oil Price Drop” in the New York Post. That was not because I was expecting the Fed to tighten. It was because I expected steep oil prices to cause real gross domestic product to fall in places like Germany, France, Ireland, Sweden, Japan, Singapore, Hong Kong and New Zealand."

In fact, the 2008 oil shock recession happened in many more countries, and it wasn't because of a 2005 highly localized U.S. house price boom in a half dozen metro areas

Alan Reynolds @AlanReynoldsEcn · Jun 24

The combination of a high fed funds rate with soaring oil prices in 2007-2008 produced another recession --as it often had before.
Recessions cause assets to be liquidated at distress sales prices and make even good loans to go bad.
And bad loans cause bank failures ("financial crises").

The bad loans in this case were mortgages, which caused extra losses (worldwide) for those who invested in securities supposedly backed by mortgages. But to blame the recession on house price gyrations and mortgage defaults gets the causality and timing backwards.

As I pointed out in The New York Post, the deepest home price drops and the most mortgages under water happened in just five states, four of them with high unemployment at the end of 2008. Lost jobs do not help with making mortgage payments.

One of the Foreclosure Five (Michigan) didn't see any boom-bust price cycle like California and Florida. It was just busted.

If you compare these five states with New York or the national median, it becomes clear that this famously misunderstood "national housing crisis" was not national at all, but highly localized to certain areas of very few states.

cato.org/commentary/for...

The Foreclosure Five vs. the rest of us

In most of the US, the mortgage crisis seems manageable. But five states weigh us down:

	Foreclosures 1 out of every:	Home Price Decline 1 yr.	Home Price Increase 5 yrs.	Existing Home Sales 1 yr.	Mortgages Under Water	Unemployment Rate Dec. 08
1. Nevada	76	-20.9%	31.8%	133.7%	47.8%	9.1%
2. California	173	-20.8%	50.2%	84.7%	27.4%	9.3%
3. Arizona	182	-13.5%	24.8%	42.6%	29.2%	6.9%
4. Michigan	397	-7.3%	-5.3%	-12.1%	38.6%	10.6%
5. Florida	214	-16%	40.4%	12.5%	29.2%	8.1%
New York	**2,271**	**-2.6%**	**36.4%**	**-15.2%**	**4.4%**	**7.0%**
National median	949	-0.6%	29.9%	-17.4%	14.7%	5.9%

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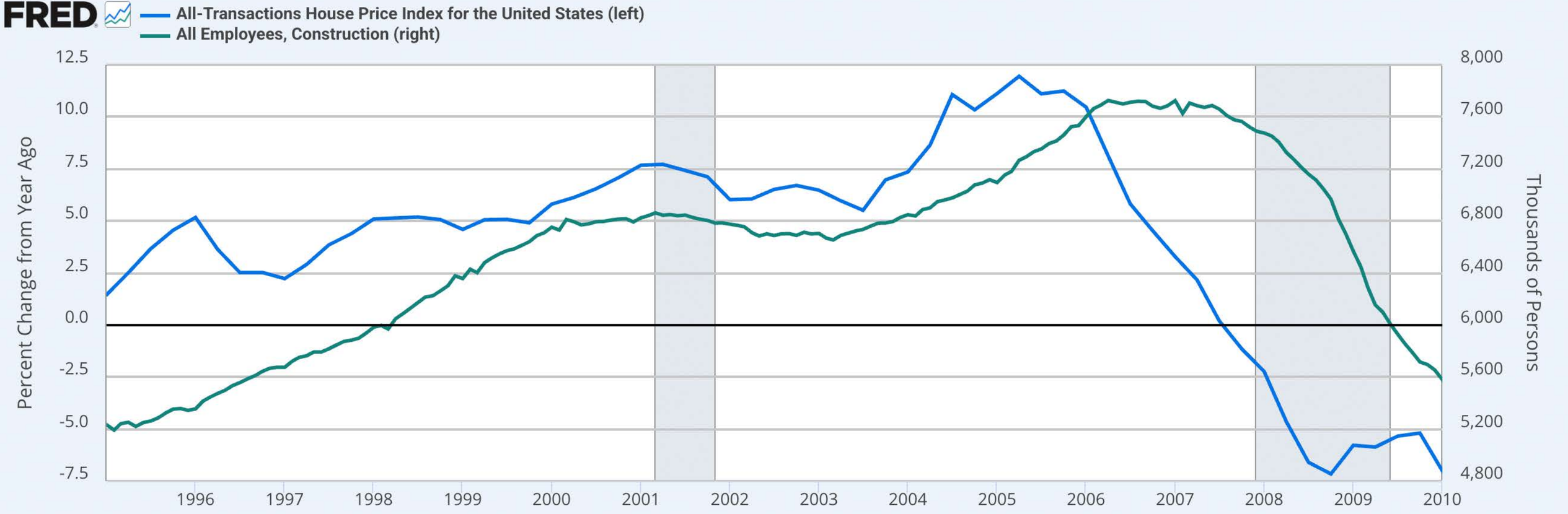

Sources: U.S. Bureau of Labor Statistics; U.S. Federal Housing Finance Agency via FRED®

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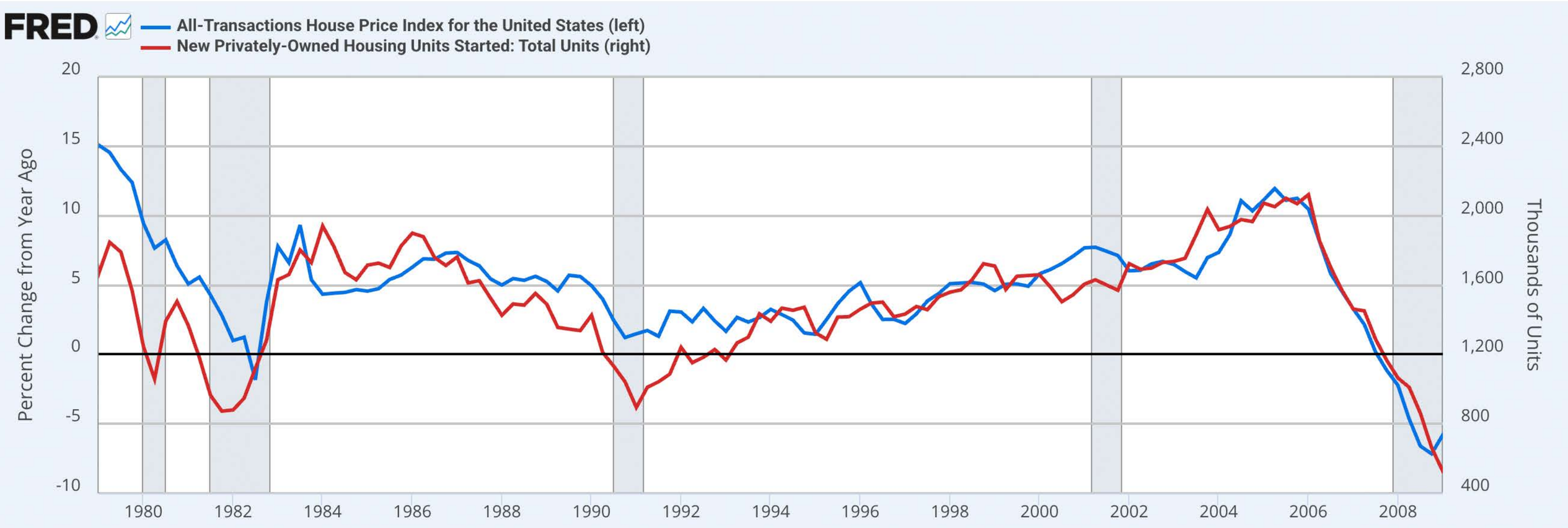

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; U.S. Federal Housing Finance Agency via FRED®

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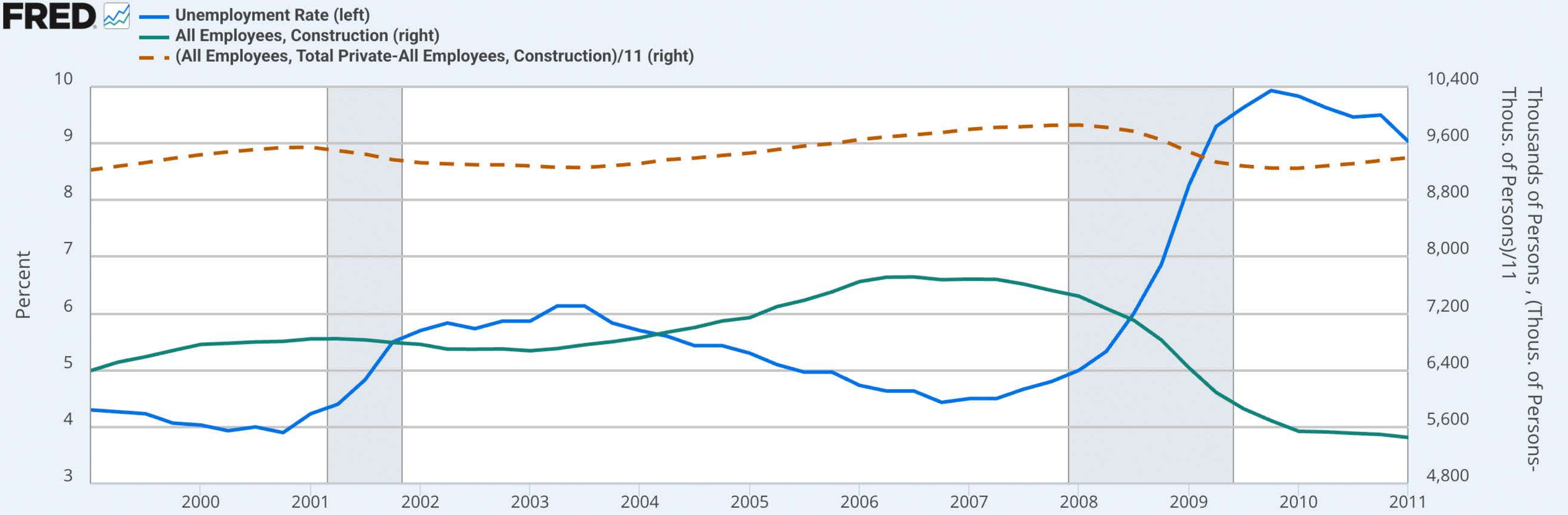

Source: U.S. Bureau of Labor Statistics via FRED®

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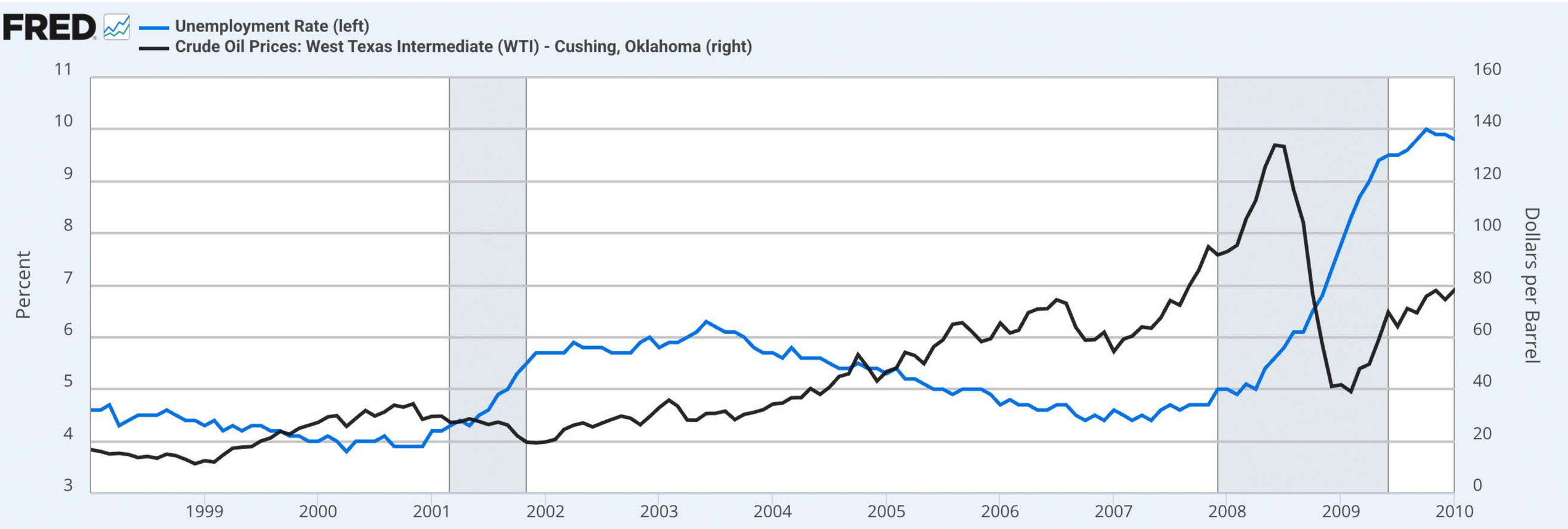

Sources: U.S. Bureau of Labor Statistics; U.S. Energy Information Administration via FRED®

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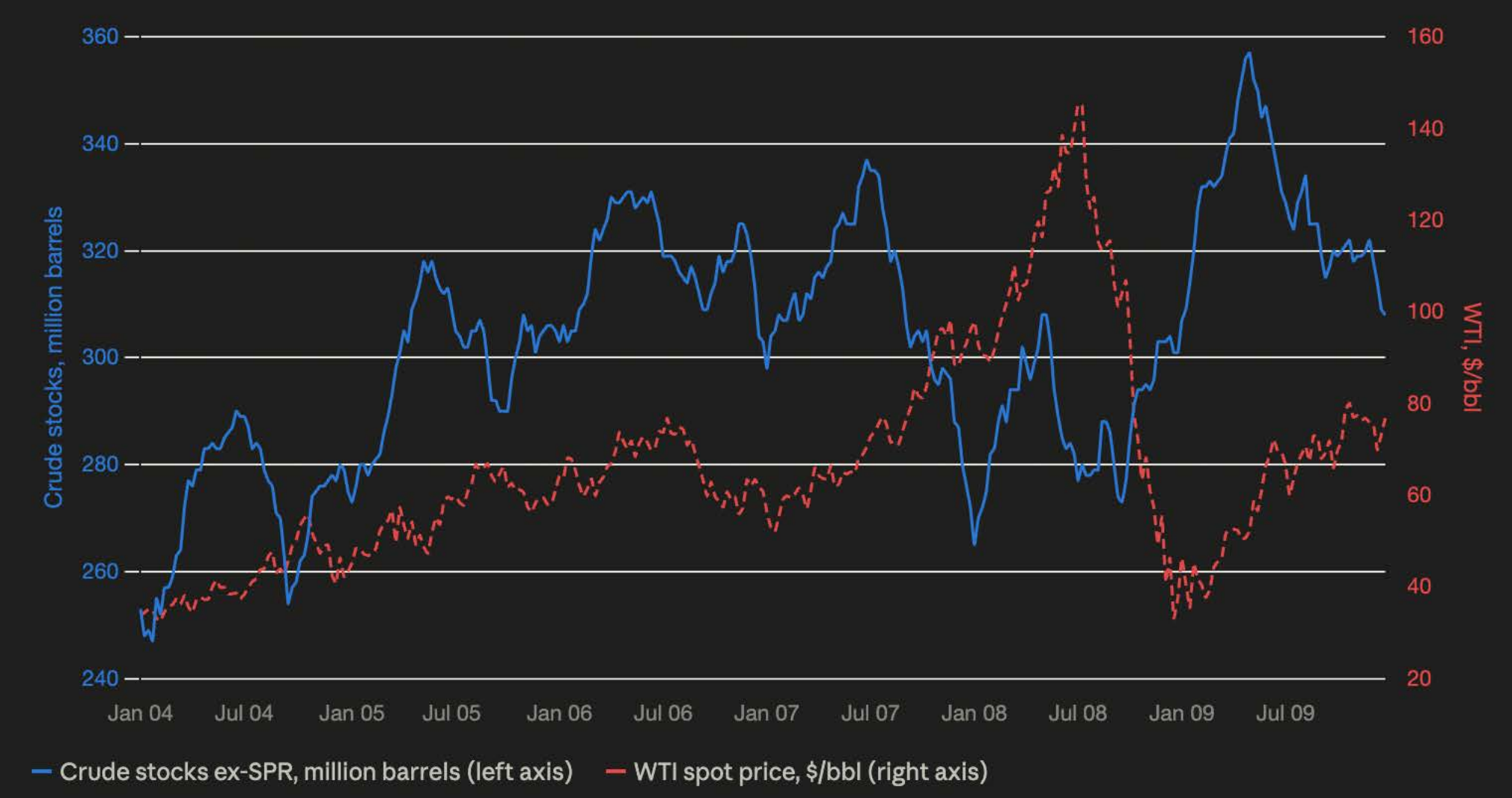
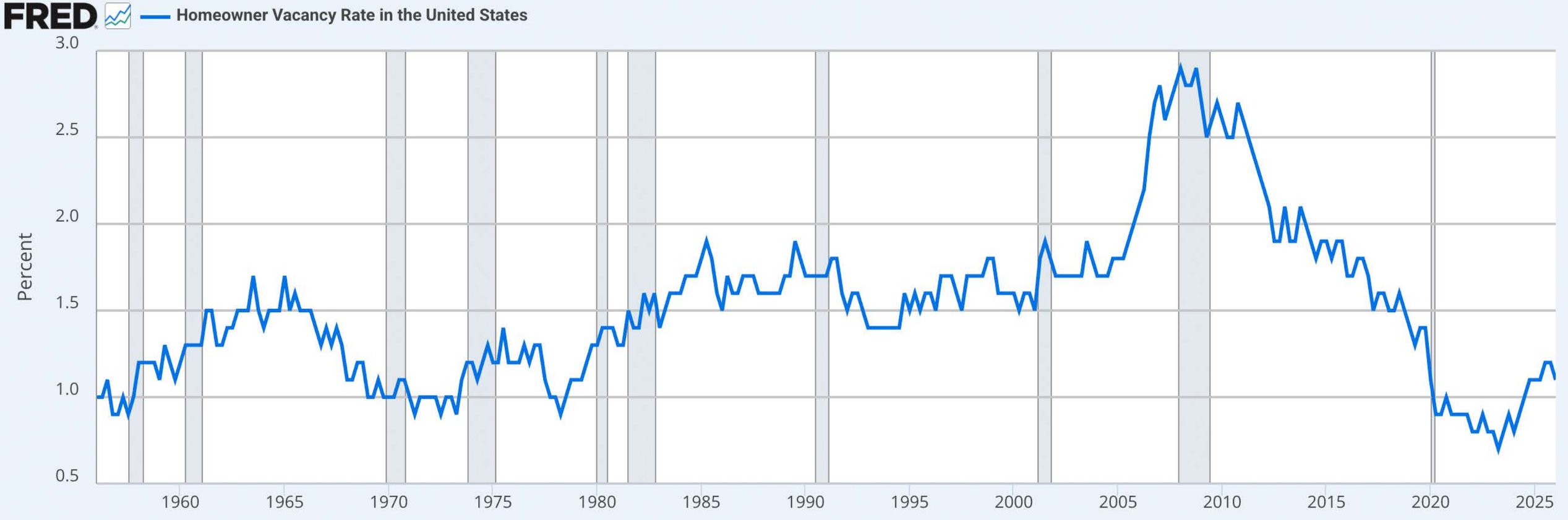

360
340
320
300
280
260
240
Crude stocks, million barrels
160
140
120
100
80
60
40
20
WTI, $/bbl
Jan 04
Jul 04
Jan 05
Jul 05
Jan 06
Jul 06
Jan 07
Jul 07
Jan 08
Jul 08
Jan 09
Jul 09
Crude stocks ex-SPR, million barrels (left axis)
WTI spot price, $/bbl (right axis)



Source: U.S. Census Bureau via FRED®

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