

Relationship between Debt bubbles and asset price crashes V1.2

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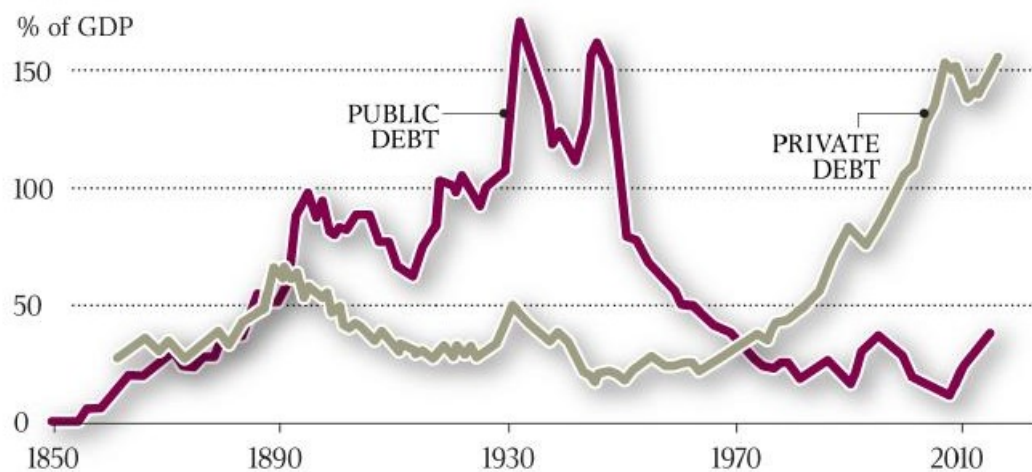
Debt bubbles are rare events, but they can be very damaging to your financial health. Let look at some of the historical correlations.

Australia

Debt bubbles 1890,1929 and now

Higher Australian household debt mounts to 'unsustainable' levels

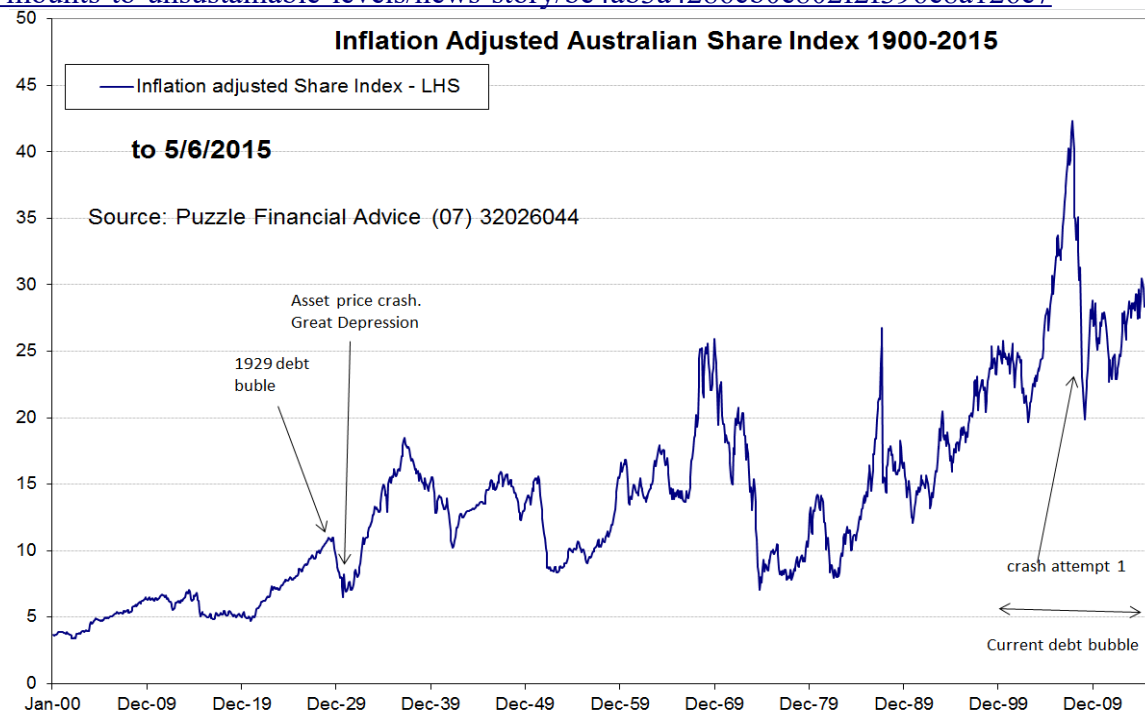
Up, up and away

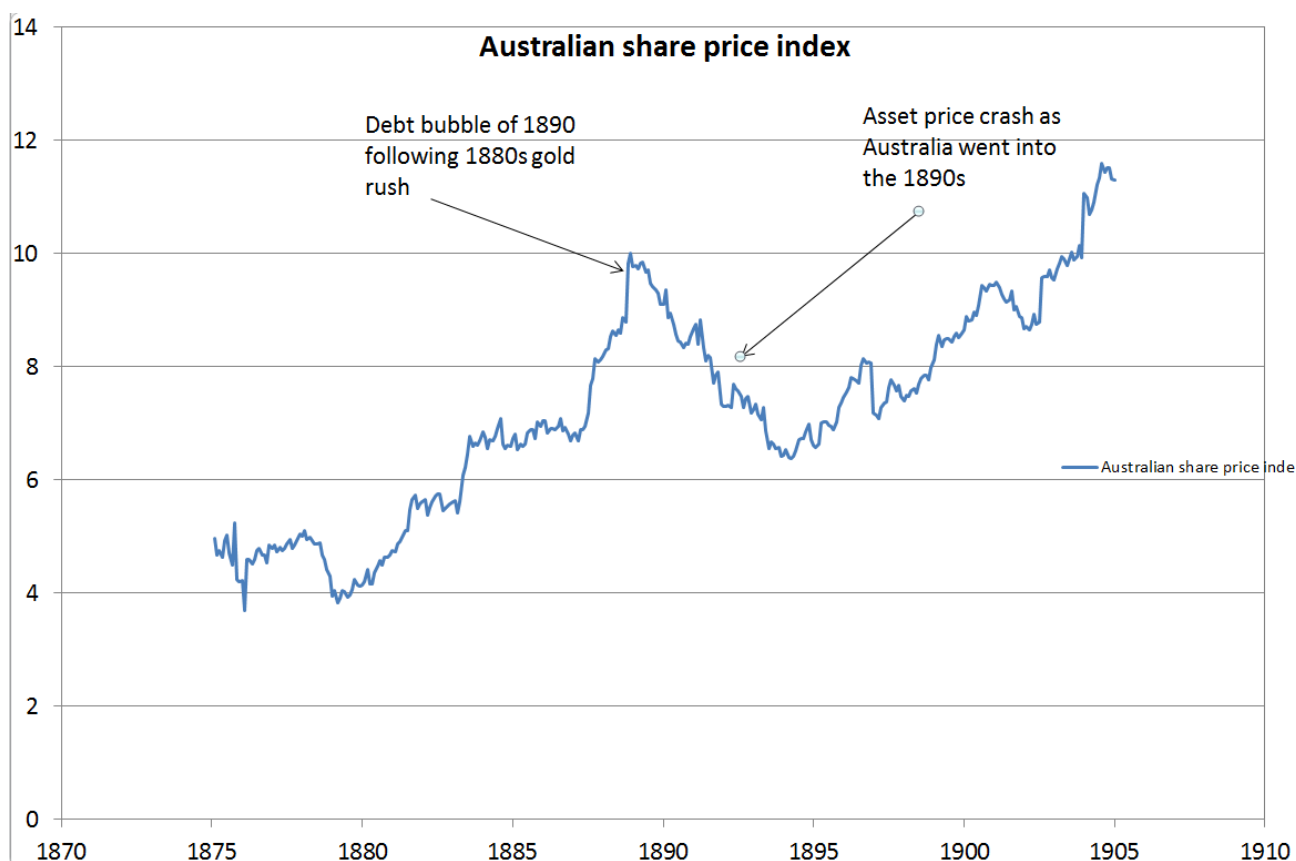


Source: UBS, LF Economics

Mounting debt levels.

<http://www.theaustralian.com.au/business/opinion/adam-creighton/higher-australian-household-debt-mounts-to-unsustainable-levels/news-story/be4ab3a4286cb0e802f2f396e8a126e7>





IMF singles out Australia as global debt levels hit \$US152 trillion 6/10/16

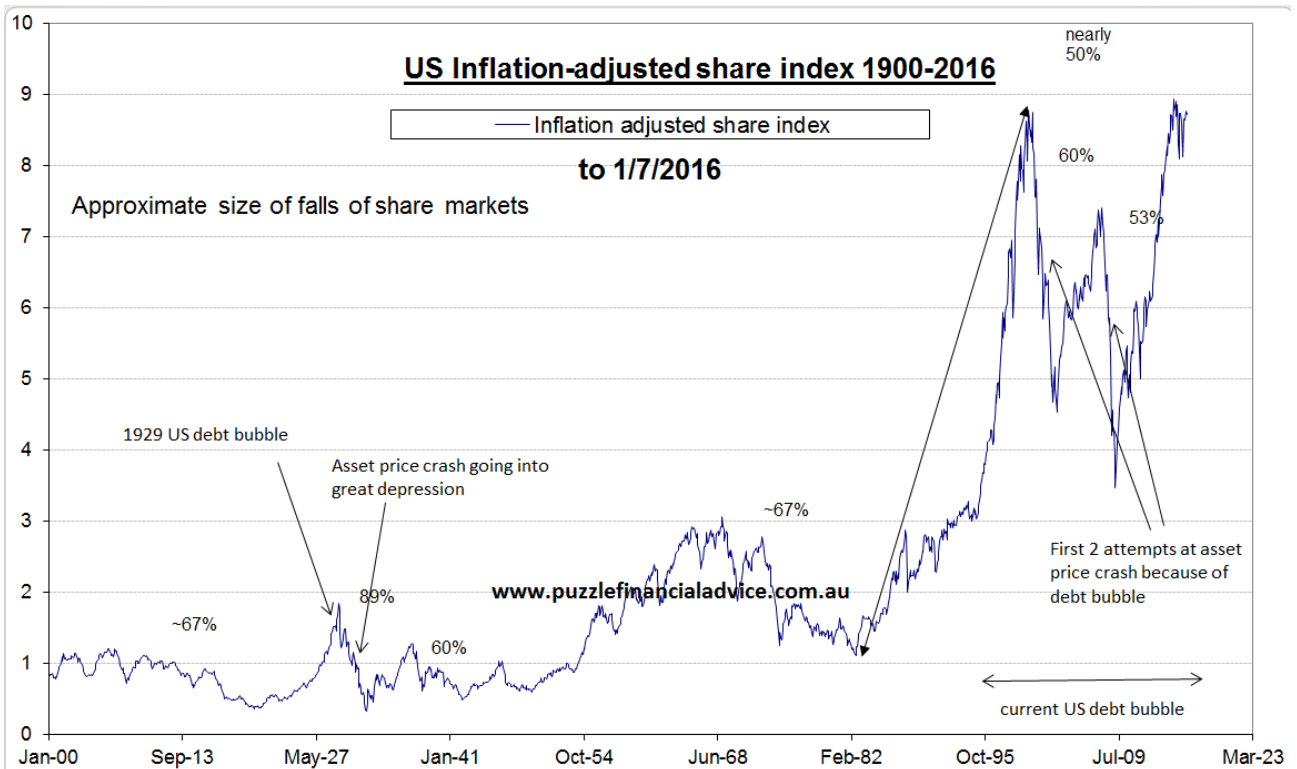
<http://www.smh.com.au/business/the-economy/imf-singles-out-australia-as-global-debt-levels-hit-us152-trillion-20161005-grvwd3.html>

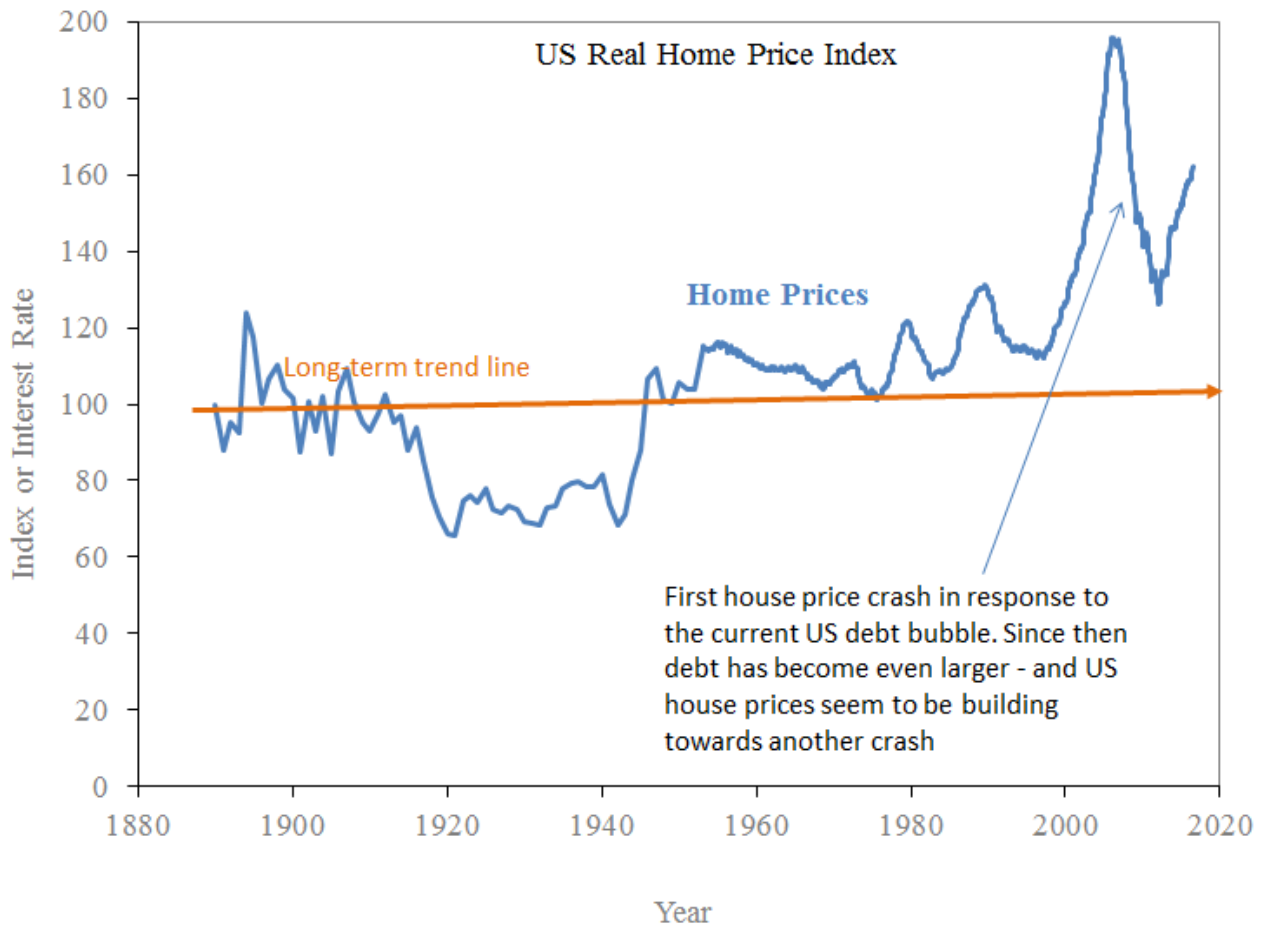
- At a staggering 225 per cent of world GDP, non-financial sector global debt is at an all-time high. The figure includes debt held by governments, non-financial firms and households. **Two-thirds, amounting to about \$US100 trillion, consists of liabilities of the private sector which can carry great risks when they reach excessive levels**, it warns.
- "Excessive private debt is a major headwind against the global recovery and a risk to financial stability," IMF fiscal chief Vitor Gaspar said in prepared remarks. "History has taught us that it is very easy to underestimate the risks associated with private debt during the upswing."
- Much of the borrowing dates back to the boom in private debt that preceded the 2008 financial crisis, according to the IMF. While households and companies in advanced economies started to retrench following the crisis, the deleveraging has been uneven and in some instances (like Australia and Canada) debts kept rising, Gaspar said.

The US Debt bubbles since 1900



Asset price crashes that relate to debt bubbles.

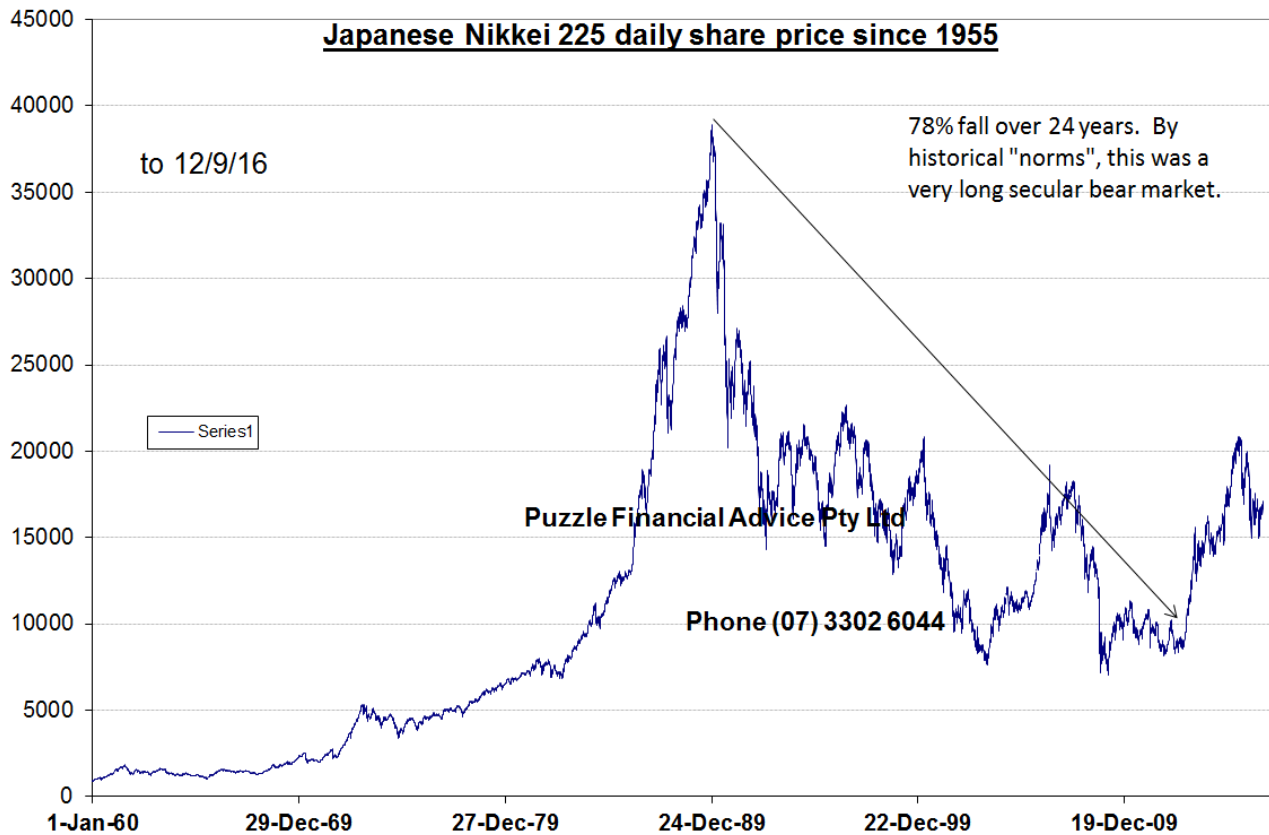
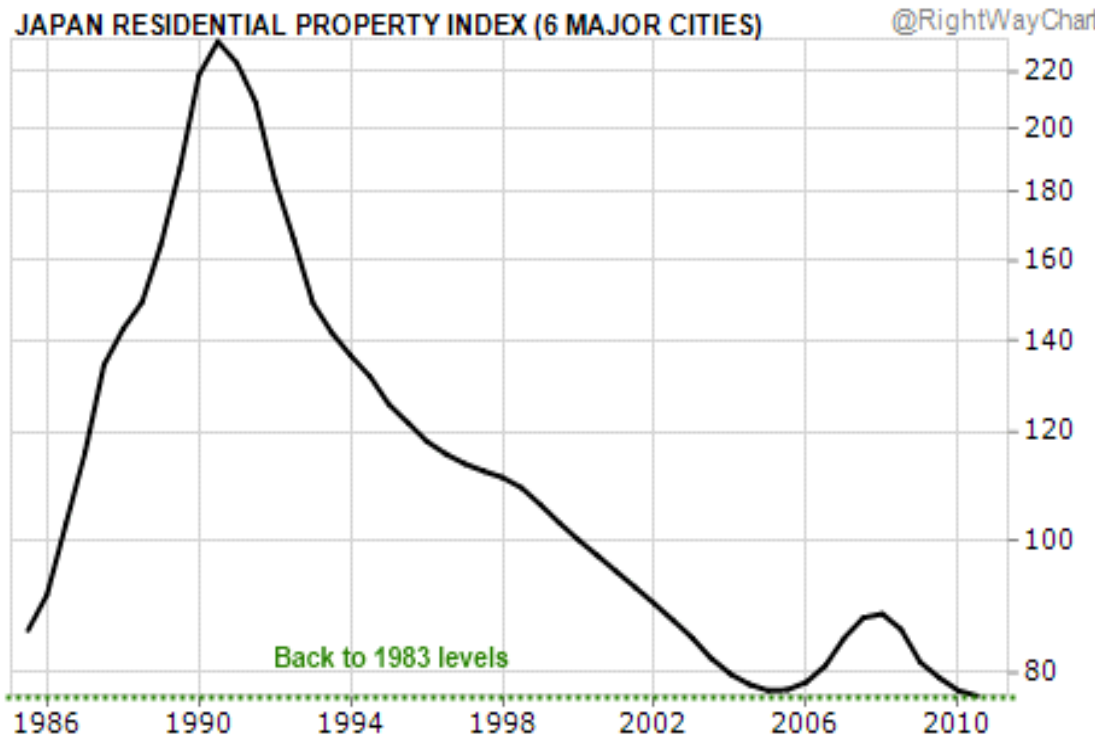




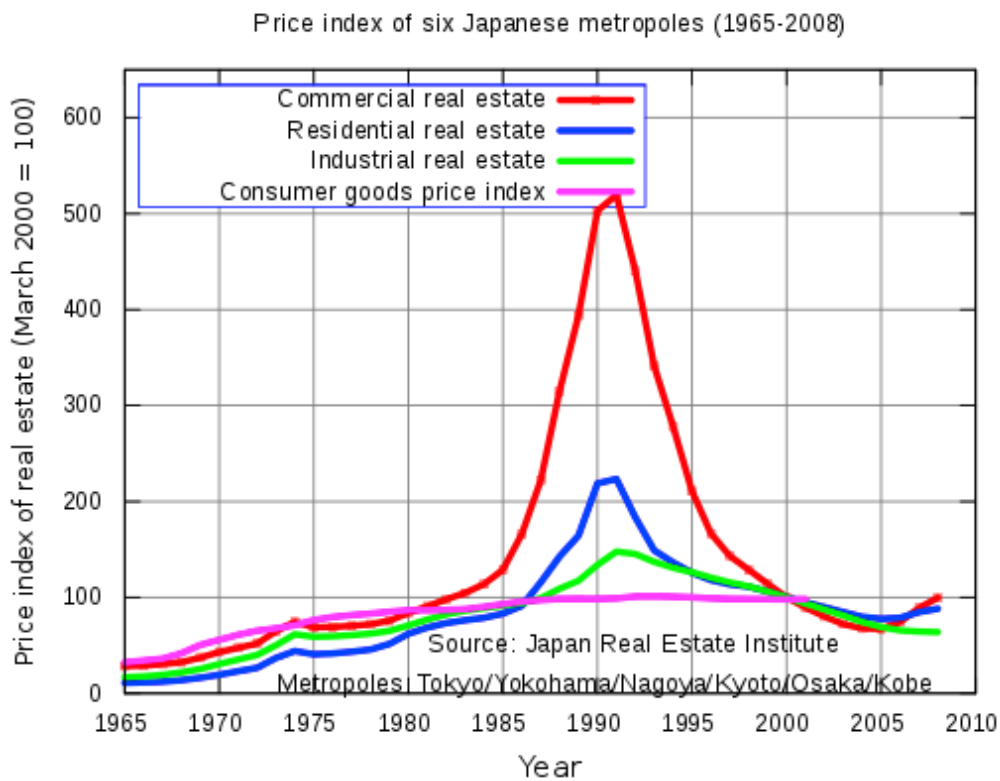
- All debt bubbles that I am aware of bar one, were followed by economic depression.
 - *“There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.”* Ludwig von Mises (*Austrian School of Economics*). <https://mises.org/library/inflation-policy-cannot-last>
- All debt bubbles that I am aware of, were followed by a major asset price crash.

Here is another example of an asset price crash after a debt bubble.

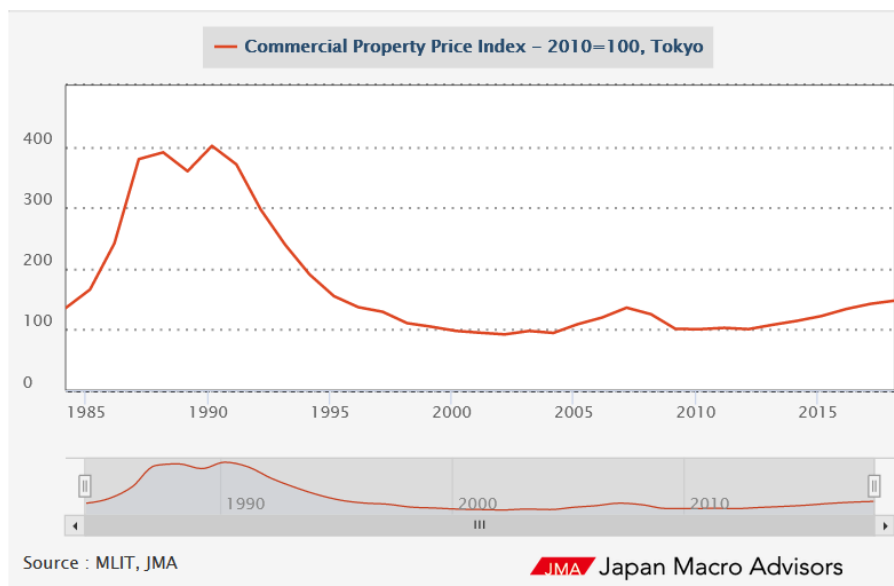
Japan post 1990



What about Japanese commercial property post 1989 Japan?



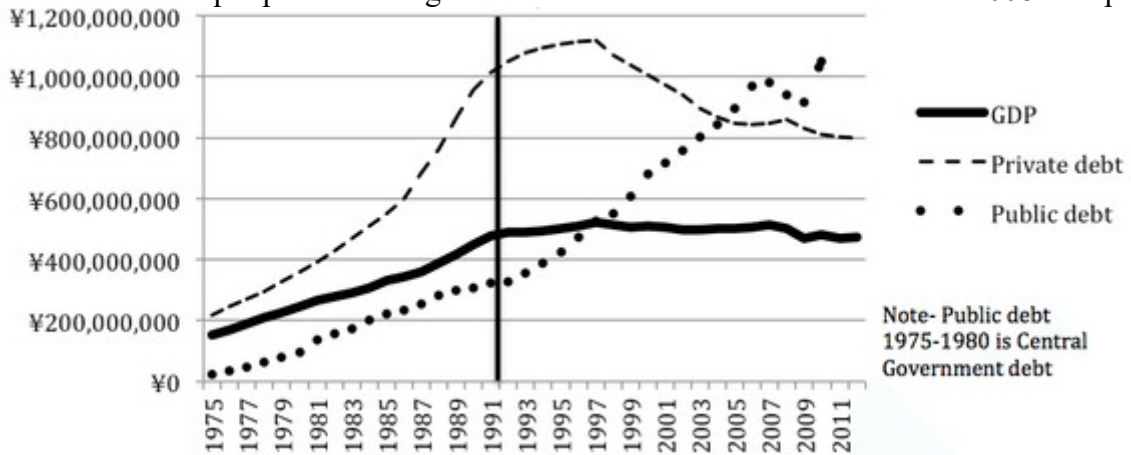
<https://www.investing.com/analysis/this-is-what-a-bubble-looks-like:-japan-1989-edition-200197309>



<https://www.japanmacroadvisors.com/page/category/economic-indicators/inflation-and-prices/commercial-property-price/>

Other reference:

- "Government Debt Isn't the Problem—Private Debt Is"
 - <http://www.theatlantic.com/business/archive/2014/09/government-debt-isnt-the-problem-private-debt-is/379865/>
 - http://puzzlefinancialadvice.com.au/Risks/140909_Government_Debt_Isnt_the_Problem-Private_Debt_Is_-_The_Atlantic.pdf
 - “The Roaring Twenties, the Japanese boom of the '80s, and the U.S.'s in the early 2000s have one thing in common: They were debt-fueled binges that brought these economies to the brink of ruin.”
 - “What’s alarming is that, of the two ingredients for an economic crisis—high private debt and rapid private-debt growth—one is still with us even after the 2008 collapse.”



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