

Real estate bubble brings banks down



The crash in U.S. property prices – similar to that seen in Japan in the early 1990s – suggests the finance industry's exposure to mortgage-related debt is increasingly likely to claim more casualties, with the UK and parts of Europe looking particularly over-inflated

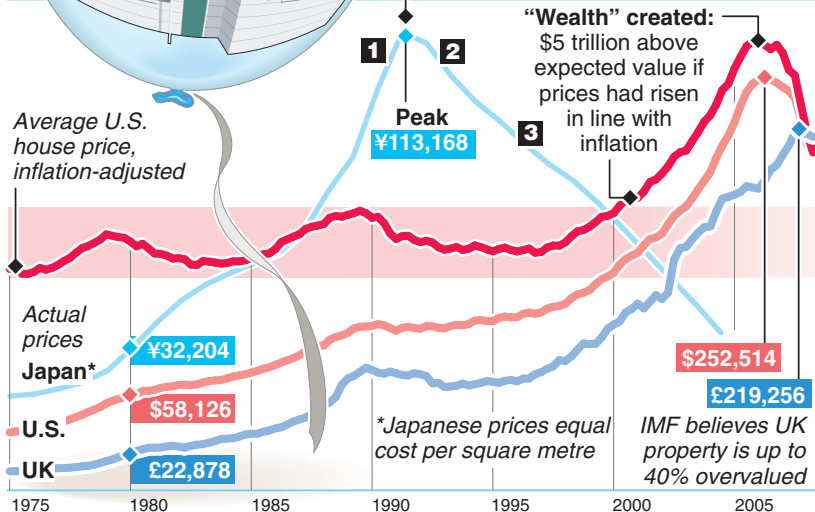
Seen it all before?

Japan property crash followed by bank crisis of 1997

"Wealth" created:

\$5 trillion above expected value if prices had risen in line with inflation

Average U.S. house price, inflation-adjusted



LIFE IN A BUBBLE

- 1** Prices normally drop when supply outstrips demand
- 2** Collapse of housing market – mortgage defaults leave banks with bad debt
- 3** Credit supply dries up, spending falls trigger economic slowdown