

# The "Real" Economy Is Dying: Q4 "Going to Be a Bloodbath," Whalen Says

---

*Posted Oct 05, 2009 01:49pm EDT by Aaron Task in Investing, Recession, Banking*

Stocks rallied to start the week thanks to a better-than-expected ISM services sector report and a [Goldman Sachs](#) upgrade of big banks, including Wells Fargo, Comerica and Capital One.

But all is not right in either the economy or the banking sector, according to Christopher Whalen, managing director at [Institutional Risk Analytics](#). In fact, Whalen says most observers are drawing the wrong economic conclusions from the stock market's robust rally.

"Why is liquidity going into the financial sector? It's because the real economy is dying [and] everyone is fleeing into the stocks and bonds because they're liquid at the moment," Whalen says. "That's not a good sign."

The banking sector's assets shrunk by about \$300 billion per quarter in the first half of 2009, a sign of banks hoarding cash in anticipation of additional future losses, according to Whalen. "The real economy is shrinking because of a lack of credit."

The shrinkage will continue into 2010, Whalen predicts, suggesting the banking sector hasn't yet seen the peak in loan losses. Institutional Risk Analytics forecasts the FDIC will ultimately need \$300 billion to \$400 billion to recoup losses to its bank insurance fund. (In other words, [the \\$45 billion the FDIC sought to raise](#) last week by asking banks to prepay fees is just a drop in the bucket.)

"Investors should think about this because the fourth quarter in the banking industry is going to be a bloodbath," says Whalen, who believes smaller and regional banks like Hudson City Bancorp may come into favor vs. larger peers, which have dramatically outperformed since the March lows.

"When you see the markets rallying when the real economy is shrinking that tells you this [recovery] is not going to be very enduring," Whalen says.

In this regard, Whalen finds himself in philosophical agreement with [Nouriel Roubini](#), [George Soros](#) and [Meredith Whitney](#), among other "prophets of the apocalypse" who've once again been raising red flags in recent days.

[http://finance.yahoo.com/tech-ticker/article/348944/The-%22Real%22-Economy-Is-Dying-Q4-%22Going-to-Be-a-Bloodbath%22-Whalen-Says;\\_ylt=Aub.38GfDamgffGloPD67RS7YWsA;\\_ylu=X3oDMTE2NGNsNjlrBHBvcwMxMQRzZWMDdG9wU3RvcmlcwRzbGsDdGhlcmVhbGVjI tickers=XLF,SKF,FAS,FAZ,MS,GS,HCBK&sec=topStories&pos=9&asset=&ccode=](http://finance.yahoo.com/tech-ticker/article/348944/The-%22Real%22-Economy-Is-Dying-Q4-%22Going-to-Be-a-Bloodbath%22-Whalen-Says;_ylt=Aub.38GfDamgffGloPD67RS7YWsA;_ylu=X3oDMTE2NGNsNjlrBHBvcwMxMQRzZWMDdG9wU3RvcmlcwRzbGsDdGhlcmVhbGVjI tickers=XLF,SKF,FAS,FAZ,MS,GS,HCBK&sec=topStories&pos=9&asset=&ccode=)