

# Government 'Out of Bullets'; Consumers in Trouble: Whitney

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MEREDITH WHITNEY, RECESSION, ECONOMISTS, BANKS, CONSUMERS

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The government is running out of ways to help the economy as the US faces major issues regarding credit and employment ahead, banking analyst Meredith Whitney told CNBC.

"I think they're out of bullets," Whitney said in an interview during which she reinforced remarks she made last month indicating she is strongly pessimistic about the prospects for recovery.

Primary among her concerns is the lack of credit access for consumers who she said are "getting kicked out of the financial system." She said that will be the prevailing trend in 2010.

Despite being able to borrow at near-zero percent interest, banks are not taking that money and putting it back into the marketplace. The Federal Reserve said Monday that consumer lending dropped 1.7 percent on an annualized basis in October, the ninth straight monthly decline.

With consumer spending making up about 70 percent of gross domestic product, the inability of even credit-worthy consumers being able to be able to borrow could put a severe crimp in future growth.

"What's so frustrating is you have an administration that is arguing such a populist (ideology) and not appreciating all the unintended consequences that the consumer and small businesses have far less credit," Whitney said.

"You're going to get a situation where you revert from a consumer standpoint," she added, "where those that had bank accounts for the first time, credit cards for the first time, homes for the first time get kicked out of the system and then fall prey to real predatory lenders."

The problems taken together also will pose difficulties for investors.

"I have 100 percent conviction that the consumer is not getting any better and there's not more liquidity," Whitney said. "So if everything touching the consumer is going to be represented in the S&P, then the S&P is going to be under pressure."

The solution, she said, is for the government to take proactive steps that will give consumers more money to spend.

"I don't think you can cut taxes enough to stimulate demand," Whitney said. "For a 2010 prediction, which is so disturbing on so many levels to have so many Americans be kicked out of the financial system and the consequences both political and economic of that, it's a real issue. You can't get around it. This has never happened before in this country."

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