That Was The Year That Was... 2008

With 2008 now firmly behind us, we can reflect on arguably the most dramatic year in living memory in terms of a series of tumultuous events for financial institutions, businesses and consumers. The full impact of the credit squeeze led to sharp falls in house prices and rising unemployment with established businesses falling by the wayside.

Back in January 2008, the FTSE 100 started the year at more than 6,500 and at the end of December it was 4,318. Here is a resume of when the major events of 2008 unfolded...

On 9th January 2008 the World Bank predicts that global economic growth will slow in 2008, as the credit crunch hits the richest nations and towards the end of the month global stock markets, including London's FTSE 100 index, suffered their biggest falls since 11 September 2001. To try and prevent the economy from slumping into recession, the US Fed cuts rates by three quarters of a percentage point to 3.5%, the biggest cut in 25 years.

In Mid February, leaders from the G7 group of industrialised nations say worldwide losses stemming from the collapse of the US sub-prime mortgage market could reach $400bn. This is followed in early March with the Fed making available $200bn of funds to banks and other institutions to try to improve liquidity in the markets. March 17th saw Wall Street's fifth-largest bank, Bear Stearns, being acquired by larger rival JP Morgan Chase for $240m in a deal backed by $30bn of central bank loans. A year earlier, Bear Stearns had been worth £18bn.

In April, the first major signal that the UK banking system was under severe pressure saw the Royal Bank of Scotland announce a plan to raise money from its shareholders with a £12bn rights issue, the biggest in UK corporate history. The firm also announces a write-down of £5.9bn on the value of its investments between April and June, the largest write-off yet for a British bank. The UK property market was slowly grinding to a halt after years of sustained growth with the first annual fall in house prices for 12 years being recorded by Nationwide.

In July, two new names to the UK appeared on the front pages of the tabloids as, Fannie Mae and Freddie Mac, America's two largest lenders required the assistance of the Financial authorities. As owners or guarantors of $5 trillion worth of home loans, they are crucial to the US housing market and authorities agree they could not be allowed to fail. AUGUST - SEPTEMBER 2008: GIANTS SUFFER At the end of a relatively quite August, the Chancellor Alistair Darling warns that the economy is facing its worst crisis for 60 years saying the current downturn would be more "profound and long-lasting" than most had feared....if only he knew what was round the corner. In an effort to kick-start the UK housing market the Treasury announces a one-year rise in stamp duty exemption, from £125,000 to £175,000.

15 September was a pivotal date and one that sent shockwaves around the world as Lehman Brothers filed for Chapter 11 bankruptcy protection, becoming the first major bank to collapse since the start of the credit crisis. The following day the US Federal Reserve announces an $85bn rescue package for AIG, the country's biggest insurance company, to save it from bankruptcy. AIG gets the loan in return for an 80% stake in the firm.

Back over in the UK, Lloyds TSB announces it is to take over Britain's biggest mortgage lender HBOS in a £12bn deal creating a banking giant holding close to one-third of the UK's savings and mortgage market. The deal follows a run on HBOS shares. The British government take control of the bank's £50bn mortgages and loans, while its savings operations and branches are sold to Spain's Santander. On 29th September Wall Street shares plunge, with the Dow Jones index slumping 7% or 770 points, a record one-day point fall.

OCTOBER-NOVEMBER 2008: THE FIGHTBACK
With UK bank deposit holders panicking, the Financial Services Authority (FSA) raises the limit of the amount of deposits that are guaranteed should a bank go bust to £50,000. This was followed on 8th October with the UK government announcing details of a rescue package for the banking system worth at least £50bn. Global governments were now pumping huge sums of taxpayers money into their collapsing banking systems and simultaneously reducing interest rates sharply in vain attempts to stimulate the economies. The scale of the rescue package became evident on 14 October when the US government unveiled a $250bn (£143bn) plan to purchase stakes in a wide variety of banks in an effort to restore confidence in the sector. On 15th October, the Dow Jones index falls 733 points or 7.87%, its biggest percentage fall since 26 October 1987.

The month of November saw global interest rates slashed with the Bank of England reducing interest rates from 4.5% to 3%, the lowest level since 1955 while the European Central Bank lowers eurozone rates to 3.25% from 3.75%. The International Monetary Fund (IMF) approved a $2.1bn (£1.4bn) loan for Iceland, after the country's banking system collapsed in October. It is the first IMF loan for a Western European nation since 1976. In his pre-Budget report, the Chancellor Alistair Darling, announces a temporary cut in the level of VAT to 15% from 17.5% for the calendar year of 2009.

ER 2008: INTO RECESSION
On the 1st of December 2008 the US was officially declared to be in recession by the National Bureau of Economic Research, a leading panel including economists from Stanford, Harvard and MIT. Mid month saw further rate reductions with the European Central Bank, as well as central banks in the UK, Sweden and Denmark, all slashing interest rates again. The US Federal Reserve cuts its key interest rate from 1% to a range of zero to 0.25%, the lowest since records began.

And finally on 31 December 2009, the FTSE 100 ended the year down by 31.3%, which is the biggest annual fall in the 24 years since the index was started. In Sterling terms, the S&P 500 in the US was down 39.5% while the Dax in Frankfurt lost 40.4%.

Lanson House, Winckley Gardens, Mount Street, Preston, PR1 8RY | Tel: 01772 555073 | Fax 01772 203688 | Email mail@taypat.co.uk