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Your guide to understanding
today's economy and
financial markets

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Made in China

Written by Jeff Thredgold, CSP, President, Thredgold Economic Associates

You've heard the news about U.S. imports from China...

...tainted pet food...seafood containing dangerous chemicals...toys with toxic lead-based paint...faulty tires...toothpaste containing a thickening agent found in antifreeze (which also accounted for roughly 100 deaths in Panama last year when included in medicines)...and on and on

American imports from mainland China will exceed \$300 billion this year. The U.S. trade imbalance (U.S. imports minus U.S. exports) in 2007 with the Chinese will exceed the \$232 billion record established last year, the largest annual deficit ever recorded with any nation.

Prices

American consumers in recent years have largely enjoyed the low prices of merchandise produced in China, a development that has also forced other suppliers of goods to the U.S., as well as U.S. producers of similar goods, to keep prices competitive. The consumers' focus has been on low prices...with quality or safety considerations on the back burner...until now.

Chinese authorities have spoken frequently in recent weeks and months about the high quality of Chinese goods, noting that recent problems were only minor exceptions. The Communist leadership recently took the step of executing the country's former director of its drug regulatory agency for accepting bribes.

Timing

Heightened concern about the quality and safety of Chinese goods comes at an especially critical time for China. The nation will play host to the 2008 Olympic Summer Games. The Chinese people are immensely proud of this opportunity to impress the world, and are deeply concerned about negative press.

Extensive internal regulation regarding the quality of Chinese goods soon to be exported? Not happening. Too many small and nearly invisible Chinese firms create products for export and can be highly mobile to stay one step ahead of the authorities.

Tight regulation of Chinese goods entering the U.S.? While examination of a small share of goods does take place, limitations are many. Manpower (person-power?) is limited, even as the number of imported food items has tripled during the past ten years (*The Wall Street Journal*). Penalties for breaking the rules are modest.

Liability

Recent developments have seen various U.S. importers of tainted or faulty goods as bearing responsibility. Such financial liability will force U.S. companies who import goods from China to place greater pressure on Chinese goods producers to meet quality and safety requirements.

Japan

During the '60s, the '70s, and the '80s, Japan was dealing with an embarrassing reputation for producing large quantities of junk for export to the world. The phrase "Made in Japan" was a warning to global consumers to think twice about product quality, regardless of an attractive price. Japan's political and business leadership eventually rebranded "Made in Japan" into a phrase associated with high quality, especially for electronics and automobiles.

econAmerica

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The Chinese economy is very export-dependent, as opposed to India where most of its economic performance is tied to internal demand. The Chinese leadership fears that a "Made in China" product identification could shift buyer consciousness from a formerly favorable view based upon product price to one where consumers are wary of any purchase at all.



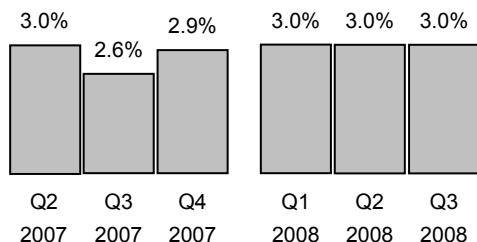
Quarterly economic survey

The USA TODAY economic survey of 55 top economists was conducted July 6-11. Median forecasts through Q3 2008:

USA TODAY • TUESDAY, JULY 17, 2007

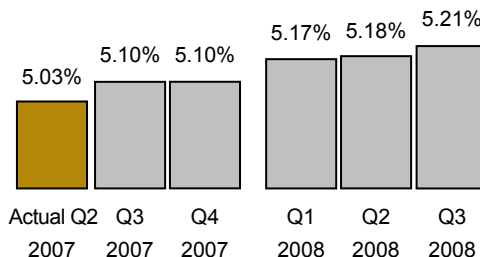
Gross domestic product

(real annual growth rate)



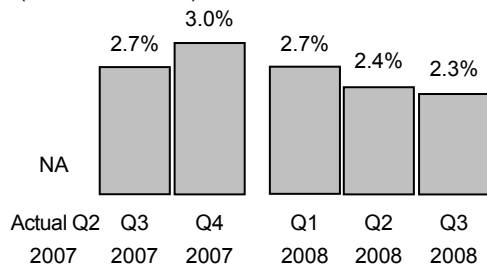
10-year T-note yield

(quarter end)



Consumer price index

(12 months ended)



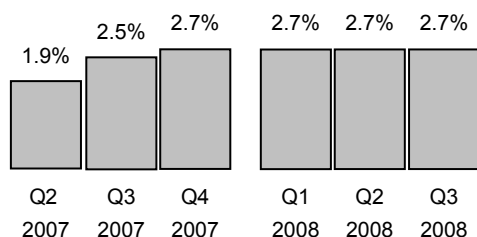
Federal funds rate target

(quarter end)



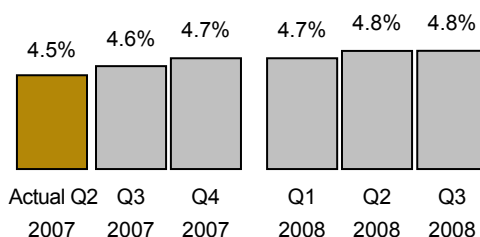
Consumer spending

(real annual growth rate)



Unemployment rate

(quarter end)



Survey participants: Tucker Adams, The Adams Group; Scott Anderson, Wells Fargo; Nariman Behraves, Global Insight; Richard Berner, Morgan Stanley; David Berson, Fannie Mae; J. Dewey Daane, Vanderbilt University; Richard DeKaser, National City; Rajeev Dhawan, Georgia State University; Doug Duncan, Mortgage Bankers Association of America; William Dunkelberg, National Federation of Independent Business; Michael Englund, Action Economics; Gail Fosler, The Conference Board; Lyle Gramley, Stanford Washington Research Group; Ethan Harris, Lehman Brothers; Maury Harris, UBS; Stuart Hoffman, PNC Financial Services Group; David Huether, National Association of Manufacturers; William Hummer, Wayne Hummer Investments; Saul Hymans, University of Michigan; Bruce Kasman, JPMorgan/Chase; Paul Kasriel, Northern Trust; David Kelly, Putnam Investments; Timothy Martin, Bank of America; Ed McKelvey, Goldman, Sachs; Dan Meckstroth, Manufacturers Alliance/MAP; Jim Meil, Eaton; Gregory Miller, SunTrust; Richard Moody, Mission Residential; Joel Naroff, Naroff Economic Advisors; Frank Nothaft, Freddie Mac; Maria Fiorini Ramirez, Maria Fiorini Ramirez; Donald Ratajczak, Consulting economist for Morgan Keegan; Martin Regalia, U.S. Chamber of Commerce; David Resler, Nomura Securities International; Tim Rogers, Briefing.com; David Rosenberg, Merrill Lynch; Chris Rupkey, Bank of Tokyo-Mitsubishi UFJ; John Ryding, Bear Stearns; Markus Schomer, AIG Investments; David Seiders, National Association of Home Builders; Robert Shrouds, DuPont; Allen Sinai, Decision Economics; James Smith, Parsec Financial Management; Sean Snaith, University of Central Florida; Sung Won Sohn, Hanmi Bank; Diane Swonk, Mesirow Financial; Gary Thayer, A.G. Edwards; **Jeff Thredgold, Thredgold Economic Associates**; Mark Vitner, Wachovia; Jerry Webman, Oppenheimer Funds; Brian Wesbury, First Trust Advisors; David Wyss, Standard & Poor's; Richard Yamarone, Argus Research; Lawrence Yun, National Association of REALTORS; Mark Zandi, Moody's Economy.com

"TEA"ser

Artificial intelligence is no match for natural stupidity

—from Sharron Horsey

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