Tea Leaf

...weekly since 1976

Your guide to understanding today's economy and financial markets

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Domestic ABCs

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This week's *Tea Leaf* is our semi-annual alphabetic view of the U.S. economy. Global ABCs will follow, presumably on November 28, 2007.

Anxiety—constant "economy bashing" by much of the national media has heightened consumer and corporate angst. Would balanced reporting be soooooo bad?

Bernanke—let's hope his skills as Federal Reserve Chair are up to the task in coming months. He must weigh concerns about oil, recession, inflation, the credit mess around the globe…and a weaker dollar

Credit—lenders and investors simply got carried away…again…in recent years, with too much credit extended to too many weak borrowers. For now, many lenders have moved too far in the other direction

Dollar—has weakened in recent months versus a basket of currencies. While a significant decline in the dollar is not a desired development, it does help boost U.S. exports to a strong global marketplace

econAmerica—our new book released in July by major publisher *Wiley & Sons* is doing well around the country. Look for aggressive Holiday pricing in coming weeks

Foreclosures—yes, they have risen sharply during the past year, with much of the rise tied to former real estate "high-flyers" Arizona, California, Florida, and Nevada

Global Economy—strong growth remains the norm, despite high energy prices. Another year of real (inflation adjusted) growth above 4.0% in '07 will be the strongest five-year period since the early 1970s

Health Care—one of the most important challenges in coming years as America deals with ever rising costs and a rapidly aging population. Tort reform is mandatory. Various health care experiments at the state level may show promise

Interest Rates—the Fed has already delivered two cuts in its key short-term interest rate. If financial market anxiety/stress/volatility continues, you can expect another 0.25% cut on 12/11/07, with the chance of a fourth cut on 1/30/08

Jobs—the U.S. economy added an average of 125,000 net new jobs monthly in 2007's first 10 months, down one-third from the 189,000 average pace during 2006. A return to extremely tight labor availability in coming years is a given

Knowledge—and the Ability to Think—the key to individual success in an increasingly sophisticated economy. Ongoing education and training are now lifelong realities for many to be successful

Leadership—Democratic leaders in the Congress seem more interested in attacking and embarrassing the President than actually getting anything done. While Democratic control of the Senate is almost a given in 2008 elections, the ability to act like adults and actually "lead" is key to their long-term leadership prospects

Mortgage Activity—traditional government guaranteed home mortgages remain widely available. Getting a subprime or jumbo loan at a reasonable rate is a bit more dicey. Markets will eventually return to "normal"

National Debt—our gross national debt of roughly $9.5 trillion is 67% the size of annual U.S. economic output (GDP). The Japanese national debt is 150% the size of theirs. Ouch!

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Oil Prices—don't look now, but prices have dived $5 a barrel in recent days. The *consumer* in me wants to see gasoline prices well below $3.00 per gallon. The *economist* in me would like to see oil prices around $120 per barrel for 3-4 years. Such a price would provide a powerful incentive to get serious about conservation, renewable energy, better use of coal, nuclear, oil shale, etc.

Politics—childish and boorish behavior on both sides of the aisle in Washington is ridiculous…and all too typical. Is cooperation really that difficult? Unfortunately, both sides have also taken **P**ork Barrel Spending to a new art form

Quarterly Economic Growth—the economy IS slowing down…no argument here. However, the strong 3.9% real (after inflation) annual growth pace during 2007's third quarter will be revised sharply higher in coming weeks. Economic growth will be weak between now and the spring, although we remain in the no-recession camp of forecasters

Retirement—the term will take on new meaning in coming decades as more and more people "bridge the gap" (work two or three days a week) between working full-time and moving into full retirement. Most retirement-age Baby Boomers will prefer to keep one foot in the workplace for a long time to come

Subprime—who woulda' thunk that such a silly word would cause such great stress with investors around the globe? What had been viewed as perhaps a $100 billion of losses last spring now sees that number approaching $500 billion. Ouch again!

Taxes—Democrats will talk during the next two years about the need to repeal the Bush tax cuts. However, it likely won't happen. Why? The flow of tax revenue into Washington is absolutely astounding…and "if it ain't broke, don't fix it." Also, the wealthy are paying a larger share of the tax burden

Unemployment—has averaged 4.6% during 2006 and 2007. The rate could move closer to 4.8%-4.9% over the next six months…and yes…still remain below the average of the '70s, '80s, and '90s

Visitors (Foreign)—coming in droves in recent months, especially from Canada, Europe and Asia….and they spend aggressively! Be nice, be kind, and invite them back

Wall Street—simply stated…I remain bullish on stocks

Xports—American exports of goods and services to the world are at record levels, with strength in this sector offsetting weakness in housing. Imports (including oil) remain too high

Youth—my parents "came of age" with Pearl Harbor…my peers with Kennedy's assassination and Vietnam. For millions of Generations X and Y, September 11 will be forever etched into their consciousness

Ja**ZZ** (Utah)—we like to think of them as one of the NBA's elite teams. Can they win it all this year? Like the little train…We think we can…We think we can…We think we can

Jeff

"TEA"ser

What's the definition of a will? (It's a dead giveaway.)

—Scott Friedman, CSP

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