



...weekly since 1976

Your guide to understanding
today's economy and
financial markets

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As Clear as Mud

...the Economy in Clichés

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

Views of “**where we go from here**” in regard to U.S. economic performance run “**from hell to breakfast**” and are “**all over the map.**” Many self-anointed economic and financial market “**gurus**” are “**running for the hills**”...strongly suggesting that the economy is “**getting crushed**” by the weight of formerly “**punch drunk**” mortgage lenders who willingly made aggressive loans to “**everyone and their mother.**”

The “**free-wheeling**” behavior of mortgage lenders and mortgage brokers who formerly “**ran amuck**” trying to “**milk this cash cow**” with one new mortgage product “**after another**”

geared to high-risk borrowers has clearly “**run its course,**” with the majority of such lenders and brokers “**getting spanked**” with enormous losses...

“**In the eyes**” of the wise... “**there’s no such thing as a free lunch**”

Greedy investors “**of all shapes and sizes**” around the globe were “**more than happy**” to “**buy into the idea**” that investing in packages of high-yield loans made to high-risk borrowers was somehow a good idea. A “**lemming mentality**” soon saw other investors around the world “**play along**”...only to soon “**take a bath**” on these investments, now firmly and deeply “**in the red.**”

The resultant “**financial carnage**” is enormous. Various estimates early this year suggested the subprime lending disaster might eventually cost U.S. and global lenders, loan packagers, and investors perhaps \$100,000,000,000.

Estimates have now reached \$300-\$500,000,000,000 “**in some circles**”...with a few vocal financial “**naysayers**” arguing that anything less than \$1,000,000,000,000 in losses is “**wishful thinking**”...

...not exactly “**small potatoes**”

The Naysayers

“**In the eyes of many**” the only outcome will be an economic “**about face.**” They soon expect to see an American economy “**dead in the water.**” Many of these “**Chicken Littles**” (the sky is falling!...the sky is falling!) have been a “**broken record**” in “**singing**” the imminent recession tune for years. “**Even a broken clock is right twice a day**” (at least the non-military type.)

WHAT IS IRONIC IN THIS
“BATTLE OF WILLS” REGARDING
WHETHER THE ECONOMY IS OR
IS NOT IN OR ABOUT TO ENTER
RECESSION IS THE FACT THAT
WE HONESTLY WON'T KNOW
UNTIL IT IS LIKELY OVER

These stock market “**bears**” see stocks moving lower, with any occasional “**upside move**” merely a “**dead cat bounce.**” They suggest that trying to

“**catch a market bottom**”...especially for financial stocks, is like trying to “**catch a falling knife.**”

Various prognosticators are now suggesting that recession “**has already arrived**”...with desired U.S. economic growth in 2007's final quarter and 2008's first quarter merely “**a pipe dream**” of many economic optimists...

...we “**beg to differ**”

The Consensus

The American economy is clearly “**not running on all cylinders.**” Nor does it qualify for “**a clean bill of health.**” However, impressive performance of U.S. exporters to a global economy “**flying high**” are largely offsetting a housing sector “**in the tank.**”

We continue to suggest that the chance of a certifiable U.S. recession during the next year remains about “**one in three**”...with the odds “**rising a bit**” lately. Please note that while this is our unchanged view, it is also the consensus view of dozens of economists surveyed in recent weeks by both *USA TODAY* and *The Wall Street Journal*...

...clearly, if we have “**our heads in the sand**”...we are not alone

Both Barrels

...Too Little

The Federal Reserve finds itself between **“a rock and a hard place.”** One **“camp”** of central bank critics strongly argues that the Fed is **“dragging its feet”** in regard to additional monetary ease, not reading **“the writing on the wall”** of this unprecedented mortgage industry disaster. These Fed critics argue the Fed should **“orchestrate”** an extended period of additional interest rate cuts to help **“keep the economy afloat.”**

These bears see the U.S. economy in a **“death spiral”** of shaken consumer confidence and enormous Wall Street write-offs, culminating in an economy now or soon to be **“flat on its back.”** They **“pound the table”**...wishing to see the Fed **“take the bull by the horns”** and **“orchestrate”** a period of even lower short-term interest rates, thus preventing the economy from being **“down and out.”**

...Too Much

Federal Reserve critics **“of another stripe”** are **“bending over backwards”** to convince the Fed that unwelcome and unnecessary monetary ease is simply **“letting the inflation toothpaste out of the tube.”** These **“madder than hornet”** critics see the Fed’s actions as **“adding fuel to the fire”** of rising inflation pressures already apparent from climbing gold prices, higher commodity prices, and a falling dollar.

These Fed critics don’t **“beat around the bush”** in their **“distaste”** for current Fed easing actions. Many have already **“jumped to the conclusion”** that rising inflation pressures are already **“out of the bag.”**

Given this **“firestorm”** of criticism from **“both sides”**...the Fed wishes it had **“the luxury of time”** to see where **“the wind blows”** in coming months in regard to the economy. The Fed would clearly prefer not **“being in a position”** of **“throwing its weight around”** if such moves toward monetary and economic stimulus will ultimately **“backfire.”** The Fed’s job is **“easier said than done.”**

Battle of Wills

What is ironic in this **“battle of wills”** regarding whether the economy is or is not in or about to enter recession is the

fact that we honestly won’t know until it is likely over. Note that the prior recession in 2001 was not officially declared **“one and the same”** until November of that year. The National Bureau of Economic Research noted that a recession had begun eight months earlier, in March 2001. The 2001 recession was officially declared to have ended in November 2001, a decision announced in July 2002.

The Race to the Top

Meanwhile...**“back at the ranch”** in the nation’s capital, Washington D.C. is **“buzzing”** about who will be successful in **“bucking for a promotion”** during the impending political season. Wishful candidates **“of all persuasions”** **“embrace the idea”** that **“the path to prosperity”** flows through them.

Presidential candidates eye the **“horse race”** **“soon to unfold.”** They loudly **“toot their own horns”**...hoping **“to get a foot in the door”** of political popularity, while **“passing the buck”** about any **“personal baggage”** that might impact voters. These candidates **“rake their opponents over the coals”** while **“at the same time”** hoping they don’t **“open their own can of worms”** by **“putting their foot in their mouths.”**

Rear-View Mirror

We will look back **“a year or more”** from now and know whether or not an American recession occurred. Our more optimistic view may have **“fallen by the wayside”** long before then...or it may have proven correct.

Forecasting the future is **“not for the faint of heart.”** Economists make forecasts of the future not because we know what is going to happen. We make forecasts because we are asked to...

...there’s **“a big difference”**

“TEA”ser

Economic forecasting is like trying to drive a car blindfolded and following directions given by a person who is looking out of the back window.

—from our book,
On the One Hand...The Economist’s Joke Book

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