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*Your guide to understanding
today's economy and
financial markets*

January 30, 2008

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Horse Trading

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

"We're from the federal government
and we're here to help you..."

The Administration, the House of Representatives, and the Senate are busily trying to work out the details of a fiscal stimulus package. While the White House and the House tentatively agreed on a rough package on January 24, the Senate has not yet had its say.

The Plan

The proposed plan calls for roughly \$150 billion (that's \$150,000,000,000) in economic stimulus, driven by the idea that the government needs to do what it can to minimize the chance of, or lessen the severity of, a possible recession. The proposed stimulus program provides \$100 billion of tax credits and rebate checks for an estimated 117 million American families, and \$50 billion in tax incentives to encourage American businesses to buy new equipment. Proposed increases in mortgage loan amounts that qualify for government guarantees could be as valuable as anything else in the package.

The proposal, subject to various modifications, would provide \$300-\$1,200 tax rebate checks to most American individuals/couples who generated at least \$3,000 of income last year. Those with children would get slightly larger checks. Those individuals who earned more than \$87,000 annually and couples (joint filers) with more than \$175,000 of adjusted gross income would get no funds.

It's comforting to know that this \$150 billion of stimulus is coming out of a rainy day fund set up some time ago...

...whoops...guess again

It's no secret that this money will actually be additional borrowed money, with the budget deficit likely to be sharply higher as a result. Such is life in the big city.

Senate Wishes

Democrats and Republicans in the Senate will weigh in with their views in coming days. The Senate will not simply agree to the White House/House agreement.

Of interest to Senate Democrats will likely be providing rebate funds to retirees with no income besides Social Security. The Senate may also want to extend jobless benefits for tens of thousands of Americans. Increasing food stamp payments and providing greater heating subsidies for the poor will also be considered. The final program could reach or exceed \$200 billion in scope.

Enormous egos from the Administration, the House of Representatives, and the Senate will collide in coming days. The hope is that a modified program can be constructed that will provide some spending stimulus sooner rather than later.

Pulled in Both Directions

The Democratic leaders in the House and the Senate face contrasting pulls in coming weeks. Most Democrats would likely agree with the idea that their political objectives would be served in November by having an American economy flat on its back. Such a precarious position would largely support the idea of "change" and increase the odds of a Democrat gaining the White House.

However, Democratic leaders are also sensitive to the notion that voters have found distaste with the political gridlock of the past year...and that voters would like to see Democrats and Republicans in leadership positions acting like adults at critical times. The President's goal is to avoid a recession in his last year in office.

Fiscal stimulus can be somewhat effective in times of economic slowing or contraction. Others would argue that the mere discussion of a stimulus program scares consumers...as if the national media hasn't done enough to scare people.

Fiscal stimulus is coming. Such a program needs to be limited in scope and delivered quickly.

...stay tuned



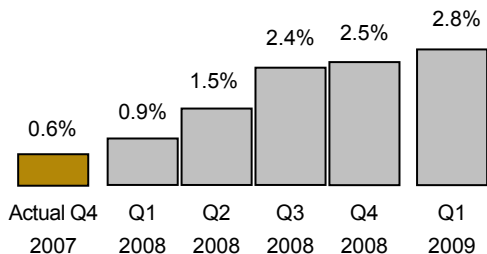
USA TODAY • TUESDAY, JANUARY 29, 2008

Quarterly economic survey

The USA TODAY economic survey of 51 top economists was conducted January 23-25. Median estimates through Q1 2009:

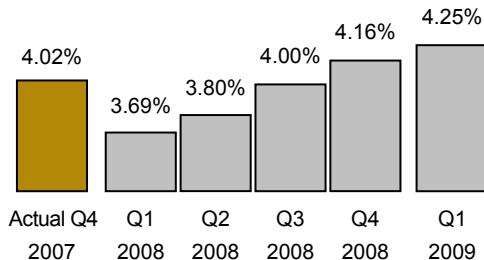
Gross domestic product

(real annual growth rate)



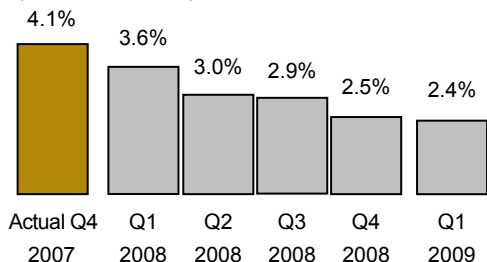
10-year T-note yield

(quarter end)



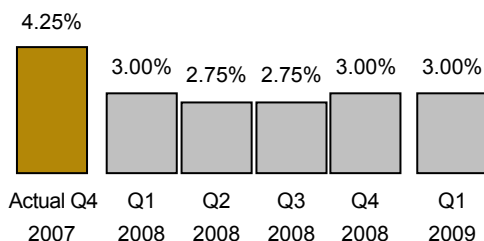
Consumer price index

(12 months ended)



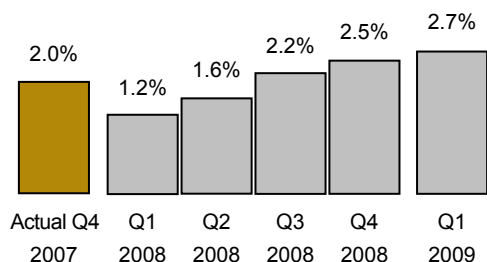
Federal funds rate target

(quarter end)



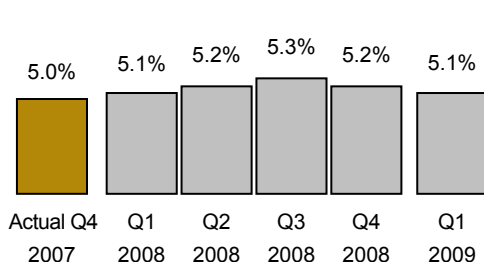
Consumer spending

(real annual growth rate)



Unemployment rate

(quarter end)



Survey participants: Scott Anderson, Wells Fargo; Nariman Behravesh, Global Insight; Bill Cheney, John Hancock Financial Services; J. Dewey Daane, Vanderbilt University; Richard DeKaser, National City; Rajeev Dhawan, Georgia State University; William Dunkelberg, National Federation of Independent Business; Michael Englund, Action Economics; Gail Fosler, The Conference Board; Ethan Harris, Lehman Brothers; Maury Harris, UBS; Tucker Hart Adams, The Adams Group; Stuart Hoffman, The PNC Financial Services Group; David Huether, National Association of Manufacturers; William Hummer, Wayne Hummer Investments; Dana Johnson, Comerica Bank; Hugh Johnson, Johnson Illington Advisors; Paul Kasriel, Northern Trust; Timothy Martin, Bank of America; Ken Mayland, ClearView Economics; Dan Meckstroth, Manufacturers Alliance/MAPI; Jim Meil, Eaton; Robert Mellman, JPMorgan Chase; Gregory Miller, SunTrust; Richard Moody, Mission Residential; Joel Naroff, Naroff Economic Advisors; Frank Nothaft, Freddie Mac; Donald Ratajczak, Morgan Keegan consulting economist; Martin Regalia, US Chamber of Commerce; David Resler, Nomura Securities International; Timothy 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; Joshua Shapiro, Maria Fiorini Ramirez; 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; Carl Tannenbaum; **Jeff Thredgold, Thredgold Economic Associates**; Chris Varvares, Macroeconomic Advisers; Mark Vitner, Wachovia; Brian Wesbury, First Trust Advisors; David Wyss, Standard & Poor's; Richard Yamarone, Argus Research; Mark Zandi, Moody's Economy.com

“TEA”ser

Why don't you ever see the headline “Psychic Wins Lottery”?

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