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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 next week.

Anxiety—consumer worries about jobs, declining home values, and high prices for food and energy are reflected in some of the lowest consumer confidence numbers in nearly 30 years. Constant housing bashing by the national media doesn't help

Bernanke—being Fed Chair can be “cool” at times. This is *not* one of those times. He's getting criticism from all sides. Best guess has the Fed sitting on the sidelines over the next few months, following seven interest rate cuts totaling 3.25%

Credit—lenders and investors simply got carried away...again...in recent years, with too much credit extended to too many weak borrowers. Overly tight credit in recent months has hurt the economy

Dollar—has strengthened somewhat in recent months versus key currencies. I expect modest dollar strengthening over the balance of the year, especially versus the euro

Education—one of the few “sure things” in the economy. Average annual earnings of a college graduate versus a high school graduate today? Roughly 90% higher

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—growth is slowing a bit as a result of high oil and commodity prices. Still, a real (after inflation) growth pace between 3.0% and 4.0% in 2008 would continue one of the longest sustained periods of solid growth since the early 1970s

Health Care—A key issue (along with Iraq and immigration) in upcoming national elections. Various health care experiments now underway at the state level may show promise, as well as what to avoid

Inflation—a rise of 4.1% in the CPI during 2007 was the largest increase in 16 years. Further increases in oil prices certainly won't help. Rising inflation pressures are a major issue around the globe

Jobs—the U.S. economy lost an average of 65,000 net jobs monthly in 2008's first four months, versus an average monthly gain of 92,000 jobs during 2007. Additional losses are expected. Still, 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 the President than actually getting much done. Stronger Democratic control of the Senate and the House of Representatives is almost a given in November elections. However, their ability to act like adults and actually “lead” is key to their long-term leadership prospects

Mortgage Activity—government-backed home mortgages remain widely available. Getting a conventional loan or a jumbo loan at a reasonable rate is a bit more dicey. Markets will eventually return to “normal”

National Debt—our gross national debt is rapidly approaching \$10 trillion. Good news? Last fiscal year's \$162 billion budget deficit was the smallest in five years. Bad news? This year's deficit is likely to exceed \$400 billion, in part tied to \$110 billion of rebate checks coming from Uncle Sam

Oil Prices—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 between \$120 and \$150 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 **Pork Barrel Spending** to a new art form

Quarterly Economic Growth—the economy has slowed to a crawl in recent months. The weak 0.6% real annual growth pace in 2008's first quarter—which actually came in stronger than expected—will be revised higher in coming weeks. Most estimates for the current quarter are around flat growth, with expectations that 1.0% to 1.6% real annual growth is likely during 2008's second half. Whether we have an actual recession or not in 2008 is still widely debated

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. Millions of retirement-age Baby Boomers will prefer to keep one foot in the workplace for a long time to come

Stocks—The Dow Jones Industrial Average (DJIA or Dow) return to 13000 is a collective vote of confidence that much of the serious housing and credit issues are behind us. Volatility will remain center stage

Taxes—Democrats will keep talking about the need to repeal the Bush tax cuts. However, it likely won't happen. Why? The flow of tax revenue into Washington has been absolutely astounding...and “if it ain't broke, don't fix it.” Also, the wealthy are paying a larger share of the tax burden. Some modest tinkering at the highest income levels is more likely

Unemployment—has averaged 4.9% so far in 2008, after averaging 4.6% during both 2006 and 2007. The rate could move close to 5.5% during the next six months...and yes...still remain below the average of the '70s, '80s, and '90s

Visitors (Foreign)—will be coming in droves in summer months, especially from Europe, the U.K. and Asia, taking advantage of the weaker U.S. dollar. They spend aggressively! Be nice, be kind, and invite them back

Wall Street—simply stated...I remain bullish on stocks

Exports—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

JaZZ (Utah)—we still think of them as one of the NBA's elite teams, even after the painful stumble against Kobe and the Lakers in the playoff's second round. There's always next year!



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