Tea Leaf

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Your guide to understanding today's economy and financial markets

July 30, 2008

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Deficits!

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

"A billion here, a billion there, and pretty soon you're talking real money."

—attributed to former Illinois Senator Everett Dirksen

The annual budget deficit for fiscal year 2008 (which ends on September 30, 2008) is now projected at $389 billion (that's $389,000,000,000 for effect). Even more disgusting, mind-boggling, sinister, and/or embarrassing (choose your descriptor) is a projected record shortfall of $482 billion during fiscal year 2009. Note: making matters worse is the fact that the $482 billion deficit projection *does not* include an estimate of Afghanistan and Iraq war costs next year.

Better news had seen the budget deficit actually decline four years in a row, with a shortfall of $162 billion in fiscal year 2007.

Don't Blame Me!

The Administration points the finger of blame for the deficits to the near stagnant U.S. economy, the cost of more than $100 billion in stimulus payments to American households, and a spend-happy Congress controlled by the opposition party.

The Democrats place blame on the Administration's tax cuts of a few years ago, as well as spending excesses when the Republicans were in control of the Congress during Bush's first six years. The Democrats note that this President inherited a budget surplus from his predecessor, Bill Clinton.

While the projected $482 billion deficit would be a record as measured in dollars, it would be something less when compared against the enormous American economy. A $482 billion deficit would be roughly 3.2% of annual U.S. economic output (GDP) likely to exceed $15 trillion next year. Such a deficit would slightly exceed the average deficit of the past 40 years.

The current record is a deficit of $413 billion in fiscal year 2004, while deficits approached 6.0% of GDP at times during the 1980s and 1990s.

Hands Tied

Take campaign promises from Democrat Barrack Obama and Republican John McCain as largely wishful thinking. Their interests in boosting spending and/or cutting taxes will be severely limited by the budget mess to be inherited.

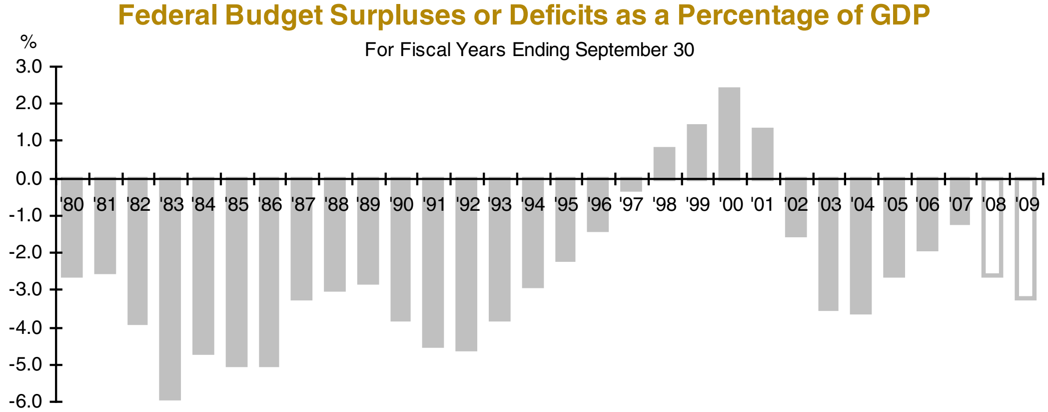
I have suggested frequently in recent years that Republicans did not deserve the right to retain Congressional leadership during the 2006 national elections because they had lost a grip on spending. Democratic leadership of the past 18 months has also performed miserably when it comes to keeping spending under control…

…pork barrel spending exploded in recent years under each party's leadership (the term is used loosely)…

…maybe sometime American voters can perform a widespread and thorough Congressional housecleaning

Federal Budget Surpluses or Deficits as a Percentage of GDP

For Fiscal Years Ending September 30



Source: Bureau of Economic Analysis, Congressional Budget Office

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USA TODAY Money

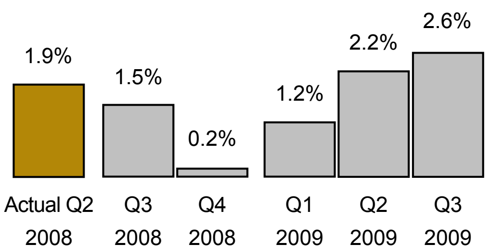
USA TODAY • WEDNESDAY, JULY 30, 2008

Quarterly economic survey

The USA TODAY economic survey of 54 top economists was conducted July 17-23. Median estimates through Q3 2009:

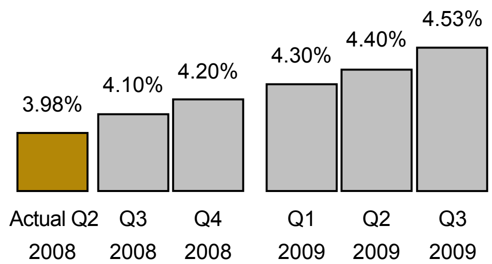
Gross domestic product

(real annual growth rate)



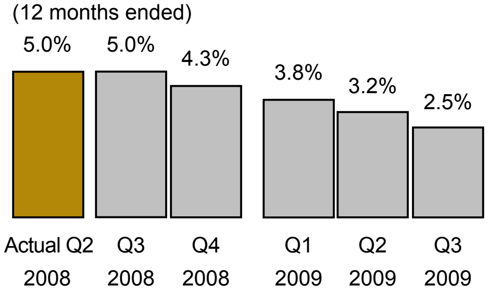
10-year T-note yield

(quarter end)



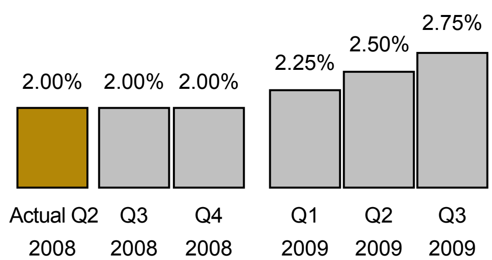
Consumer price index rise

(12 months ended)



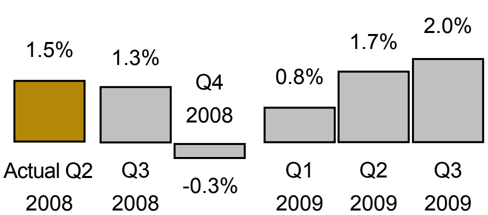
Federal funds rate target

(quarter end)



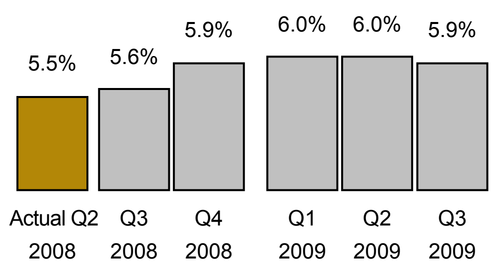
Consumer spending

(real annual growth rate)



Unemployment rate

(quarter end)



Survey participants: Scott Anderson, Wells Fargo; Nariman Behravesh, Global Insight; Richard Berner, Morgan Stanley; David Berson, The PMI Group; Jay Brinkmann, Mortgage Bankers Association; Bill Cheney, John Hancock Financial; J. Dewey Daane, Vanderbilt University; Richard DeKaser, National City; Rajeev Dhawan, Georgia State University; Michael Englund, Action Economics; Ken Goldstein, The Conference Board; Lyle Gramley, Stanford Group; Ethan Harris, Lehman Brothers; Maury Harris, UBS; Tucker Hart Adams, The Adams Group; Stuart Hoffman, PNC Financial Services Group; Dave Huether, National Association of Manufacturers; William Hummer, Wayne Hummer Investments; Saul Hymans, University of Michigan; Dana Johnson, Comerica Bank; Hugh Johnson, Johnson Illington Advisors; Paul Kasriel, Northern Trust; Timothy Martin, Bank of America; Daniel Meckstroth, Manufacturers Alliance/MAPI; James Meil, Eaton; Robert Mellman, J.P. Morgan; Gregory Miller, SunTrust Banks; Richard Moody, Mission Residential; Joel Naroff, Naroff Economic Advisors; Frank Nothaft, Freddie Mac; Donald Ratajczak, Morgan Keegan; Martin Regalia, U.S. Chamber of Commerce; David Resler, Nomura Securities International; David Rosenberg, Merrill Lynch; Chris Rupkey, Bank of Tokyo-Mitsubishi UFJ; David Seiders, National Association of Home Builders; Joshua Shapiro, MFR; Robert Shrouds, DuPont; Allen Sinai, Decision Economics; James Smith, Parsec Financial; Sean Snaith, University of Central Florida; Sung Won Sohn, California State University; Neal Soss, Credit Suisse; Donald Straszheim, Roth Capital Partners; Diane Swonk, Mesirow Financial; ***Jeff Thredgold, Thredgold Economic Associates***; Chris Varvares, Macroeconomic Advisers; Mark Vitner, Wachovia; Jerry Webman, OppenheimerFunds; 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

Health is merely the slowest possible rate at which one can die.

—Anonymous

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ECONOMIC FUTURIST

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