Tea Leaf

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Your guide to understanding today's economy and financial markets

October 29, 2008

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1.00%

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

As expected, the Federal Reserve's Open Market Committee (FOMC) lowered its federal funds target rate today from the 1.50% rate in place since October 8 to a new level of 1.00%. The 1.00% rate matches the level between June 2003 and June 2004… and is also the lowest in 50 years.

The federal funds rate, the overnight rate on excess funds between financial institutions on an unsecured basis, remains arguably the most important interest rate of all…and is the rate upon which all other domestic short-term interest rates are based.

The Fed noted in its accompanying statement that it stands ready to provide additional liquidity as needed. As we have noted frequently, steps taken and programs established by the Federal Reserve and the U.S. Treasury Department in recent weeks and months to stabilize domestic and global credit markets are nowhere to be found in their respective operating manuals.

Regarding tight credit availability, the FOMC noted, *"…the intensification of market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit."*

Regarding inflation, the FOMC noted, *"In light of the declines in the prices of energy and other commodities and the weaker prospects for economic activity, the Committee expects inflation to moderate in coming quarters to levels consistent with price stability."*

Low & High

Two developments yesterday testify to the emotional gyrations encompassing financial markets, businesses, and consumers. The first of these was the worst consumer confidence reading on record (41 years). The national media's constant barrage of scary economic and financial news, combined with limited availability of credit, led the Conference Board's consumer confidence index to plunge to 38.0, versus 61.4 in September.

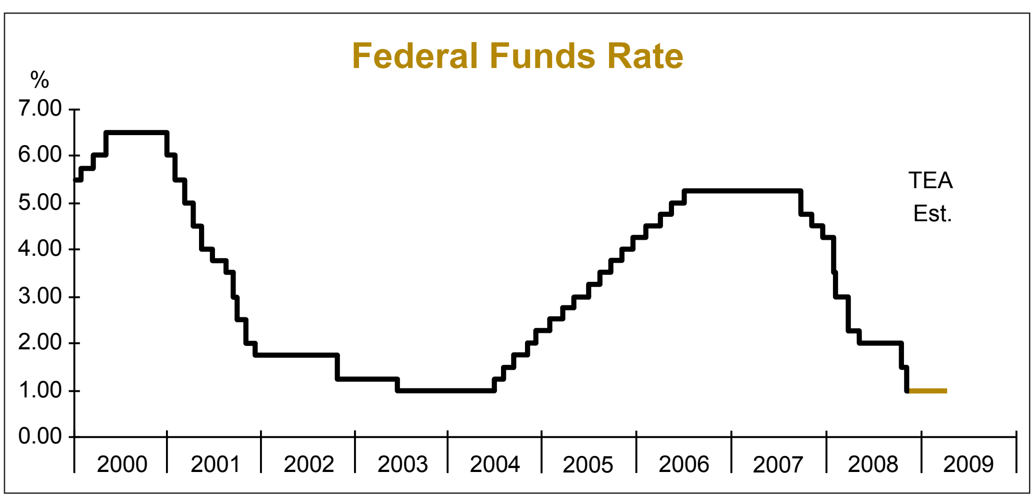
Better news saw the Dow average rise 889 points (a one-day rise of 10.9%), the second largest one-day gain on record. Stock market volatility? The Dow's average daily move of the past 10 days (both up and down) has been 400 points. Never before has this level of market volatility been experienced.

Credit Flows

Ironically, the Fed rate cut will do little, other than provide some warm and fuzzy feelings. The problem has not been the *price* of money (the interest rate). The problem has involved the *availability* of money.

Steps announced in recent weeks by the Fed, the Treasury, and their global counterparts to boost the flow of credit are now being implemented, with favorable results in many cases. Credit is slowly becoming more plentiful, with lower associated interest rates.

Look now for various ideas to be discussed and implemented to stabilize U.S. home prices and minimize home foreclosures. That now seems to be the next target of opportunity…the next flavor of the week.



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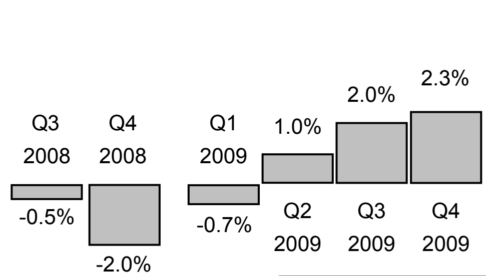
USA TODAY Money

Quarterly economic survey

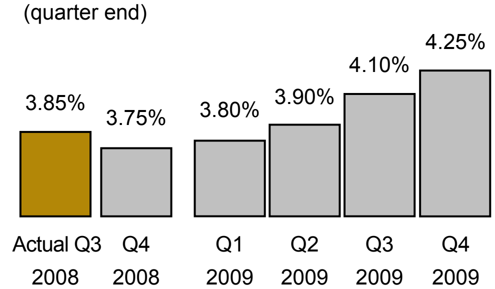
The USA TODAY economic survey of 45 top economists was conducted October 20-23. Median estimates through Q4 2009:

USA TODAY • MONDAY, OCTOBER 27, 2008

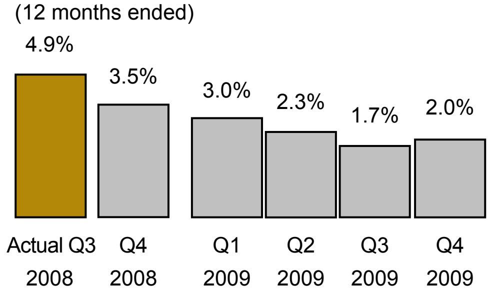
Gross domestic product
(real annual growth rate)



10-year T-note yield
(quarter end)

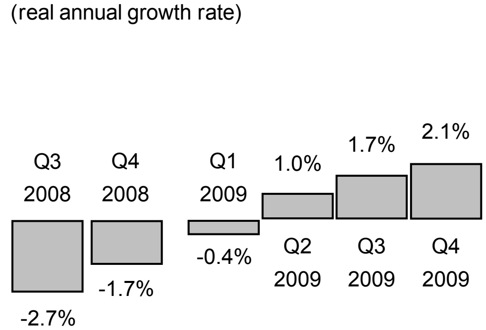


Consumer price index rise
(12 months ended)

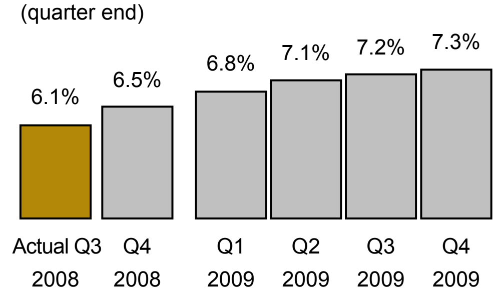


Federal funds rate target
(quarter end)

Consumer spending
(real annual growth rate)



Unemployment rate
(quarter end)



Survey participants: Tucker Adams, The Adams Group; Scott Anderson, Wells Fargo; Nariman Behravesh, IHS 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; Conrad DeQuadros, RDQ Economics; Rajeev Dhawan, Georgia State University; Michael Englund, Action Economics; Lyle Gramley, Stanford Group; Maury Harris, UBS; Stuart Hoffman, PNC Financial Services Group; William Hummer, Wayne Hummer Investments; Saul Hymans, University of Michigan; Dana Johnson, Comerica Bank; Hugh Johnson, Johnson Illington Advisors; Timothy Martin, Bank of America; Ken Mayland, ClearView Economics; Dan Meckstroth, Manufacturers Alliance/MAPI; Robert Mellman, JPMorgan; Richard Moody, Mission Residential; Joel Naroff, Naroff Economic Advisors; Frank Nothaft, Freddie Mac; Donald Ratajczak, Morgan Keegan; Martin Regalia, US Chamber of Commerce; David Rosenberg, Merrill Lynch; David Seiders, National Association of Home Builders; Robert Shrouds, DuPont; Allen Sinai, Decision Economics; James Smith, Parsec Financial Management; Sean Snaith, University of Central Florida; Sung Won Sohn, California State University; Diane Swonk, Mesirow Financial; **Jeff Thredgold, Thredgold Economic Associates**; Bart van Ark, The Conference Board; Chris Varvares, Macroeconomic Advisers; Mark Vitner, Wachovia; 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

Some people are like Slinkies…not really good for anything, but you still can't help but smile when you see one tumble down the stairs.

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