

Tea Leaf

...weekly since 1976

Your guide to understanding
today's economy and
financial markets

January 7, 2009

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Keeping Score

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

Given the highly emotional and extremely volatile nature of the domestic economy during the past year, I thought I might take a look back at the accurate forecasts, as well as the blunders, which took place on our end...

As noted before, forecasting the future is not easy. No one knows what is going to happen, what forces will be at play, and how politicians, the media, corporate executives, investors...and consumers will respond. Economists are wrong more often than we are right, for which we receive considerable and well-deserved abuse. As a former banking colleague of mine noted, economics should get the respect it deserves alongside all the other occult sciences.

Economists provide forecasts of the future not because we know what is going to happen. We provide forecasts because we are asked to do so...

...a big difference!

The nature of my economic forecasting and professional speaking is really geared toward helping people understand the crazy behavior of the economy and financial markets. It involves as much correcting bad information that people hear from anywhere and everywhere as anything else.

Our latest book, *econAmerica, Why the American Economy is Alive and Well... and What That Means to Your Wallet*, released in July 2007 by major publisher Wiley & Sons, is a 20-30 year look into the future of the American economy. The book supports my self description of being "realistic and optimistic" as a seasoned (meaning old and increasingly gray) economist. *econAmerica* combines with our weekly newsletter, the *Tea Leaf* (now beginning its 34th year), to hopefully provide value to our readers.

I don't make crazy, wild, or bizarre economic forecasts, each intended to draw the attention of the national media. Many highly arrogant economic and financial market forecasters make a nice living

doing this, and in my view give forecasting a bad name.

Career Emphasis

Earlier in my career, while chief economist of one of the nation's dozen largest banks, I spent many years traveling to New York City every month to appear on CNBC-TV and/or CNN, interview with national newspapers, etc. I have been to mid-town Manhattan more times than I care to remember. While I am a member of three select national economic forecasting panels, I couldn't care less about any more national TV.

My focus is on being the best speaker and writer I can be regarding economic and financial developments...and on being one of the best in the business. I spoke to roughly 100 different audiences across all industries during 2008, ranging in size from 8 people to 8,000. Particularly gratifying was the fact that roughly half of these events were repeat business.

Looking back, we made perhaps six major forecasts regarding major economic and financial sectors. Four of these forecasts turned out to be anywhere from accurate to highly accurate. Two were blunders, for which I apologize.

Oil Prices

Our *Tea Leaf* issue dated July 2, 2008 was entitled "Bubbles & Monster Money." It discussed my view that an enormous amount of money around the world aggressively goes in search of the next best deal. This money pushed the Nasdaq over 5000 very early in this decade, then pushed home and commercial real estate prices to absurd levels between 2003 and 2006, and then pushed oil and other commodity prices to unsustainable levels from 2006 through mid-2008.

We noted in the July 2 *Tea Leaf*, when oil was at its peak near \$145 per barrel, that "In my mind, oil and other commodity prices could decline sharply during the next year." More than a few forecasts at that time by market experts saw oil quickly going to \$200 per barrel, or more. As it turned out, oil plunged

slightly more than \$100 per barrel during the next 3-4 months.

The Dollar

During speaking presentations throughout 2008's first half, I was suggesting to audiences—when “the dollar” question arose—that I thought it would strengthen later in the year. Our *Tea Leaf* issue dated July 16, 2008, entitled “Dollar” stated, “My outlook for the U.S. dollar suggests some strengthening, especially versus the euro, will occur during the next year,” with four primary reasons identified. As you will recall, the euro reached \$1.61 in value in July, only to fall to roughly \$1.28 a few months later. It is currently worth \$1.37.

The Almighty Congress

In our view, there was little uncertainty during the past year about 2009 Congressional control. We noted in our *Tea Leaf* dated April 16, 2008, entitled “Handwriting on the Wall,” that while the Presidential race was wide open, two other factors were not. We noted “...the Democrats are almost certain to strengthen their control in the U.S. House of Representatives” and “...the Democrats are highly likely to add to their majority in the U.S. Senate.” As you are aware, Democrats did strengthen their numbers considerably in both the House and the Senate.

Long-Term Interest Rates

Every speaking engagement during 2008 had a forecast of interest rates. Every audience was given my view—contrasting with the consensus view of economists—that long-term interest rates would be declining in 2008's final few months. As you are no doubt aware, long-term interest rates, including mortgage rates and the yields on U.S. Treasury Notes and Bonds, fell during the past 4-8 weeks to the lowest levels in 50 years.

U.S. Recession

Maybe I should have ended this piece already. A number of high profile economists were suggesting in late 2007 that a serious recession was imminent or already underway. Nouriel Roubini of RGE Monitor comes to mind.

Other highly vocal economists, including Larry Kudlow of CNBC-TV and Brian Wesbury of First Trust Advisors near

Chicago, were adamant as recently as early fall 2008 that a U.S. recession would be avoided...whoops

I was not one of the early recession forecasters (for which I again apologize), suggesting in our *Tea Leaf* of December 5, 2007 entitled “Outlook 2008” that recession in 2008 was a 30%-40% probability. The CEO of a major banking client of ours bet me lunch in September 2007 that we would be in recession before the 2008 elections took place. I thought we might technically avoid one. Harris, I owe you lunch.

We suggested in our March 19 *Tea Leaf* issue that “a mild recession seems underway.” I suggested in our “Bumps in the Road” *Tea Leaf* of April 23, 2008 that the emerging consensus view of a modest and short-lived recession in 2008, to be followed by growth later in 2008 was, in my view, “too optimistic.”

Somewhat better was our call as early as the May 7, 2008 *Tea Leaf* that the National Bureau of Economic Research, the official scorekeeper of the U.S. economy, could ultimately report that “...a U.S. recession formally began in December 2007 or January 2008, with the end date still undefined.” The group declared on December 1, 2008 that the recession officially began in December 2007.

Global Recession

Not so good here either...I thought as recently as the summer of 2008 that the global economy would retain modest growth. We acknowledged later that the global economy was in the tank as well, with the U.S., Europe, and Japan in simultaneous recession for the first time since WWII.

Forecasting

My thanks to our many thousands of readers. I again ask your indulgence for the forecasting mistakes I will make in 2009. Maybe we will get a few right as well. Studying the economy is fascinating and frustrating at the same time.

I will stick with it. I love it. I'm probably too old to get a real job.



“TEA”ser

Life is what we make it. Always has been, always will be.

—Grandma Moses
(thanks to Scott Friedman)



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