



...weekly since 1976

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 in two weeks...

America—now pursuing one of the most aggressive moves toward the left (bigger and bigger government) on record. Unfortunately, the phrase “we’re from the government and we’re here to help you” still scares people to death

Bailouts—the term is applied to all too many economic and financial market stabilization programs. The “investment” into many of America’s banks will ultimately be a profitable one for U.S. taxpayers

Consumer **C**onfidence—a very critical component as the nation looks to emerge from recession...before the end of the year

Dollar—has strengthened against many currencies during the past 12 months including the euro, the pound, and the Canadian \$, while weakening slightly versus the yen. I expect modest additional dollar strength

Energy—talk is cheap. You can’t lessen the nation’s dependence on foreign oil without greater access to oil and gas on Alaska’s North Slope and off our coasts...and greater use of nuclear power

Federal Reserve—easily the most credible institution in the nation’s capital. The Fed will have its work cut out to restrain inflation after 2010

Global Economy—recession is the norm most everywhere, excluding China and India, which have slowed. Growth of those two Asian giants, combined with renewed U.S. growth, could lead the global economy out of recession by mid-2010

Health Care—front and center on Obama’s agenda, with major changes in the works. Some combination of government, insurance providers, and individual responsibility is critical. See also “**A**” above

Interest Rates—record low short-term interest rates are found throughout the global community. Pushing such rates higher in 2010 and 2011 to remove excess monetary stimulus will be most necessary...and challenging

Jobs—painful and pervasive job declines have hurt both the U.S. and global economies during the past 18 months. A return to modest job creation late this year, or early in 2010, is on many wish lists

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. Average annual earnings of a college graduate versus a high school graduate today? Roughly 80%-90% higher

Lending—various indicators suggest the U.S. and global economies are approaching more “normal” lending activity at more “normal” interest rates. Still, too many high-quality borrowers can’t get the credit they need

Mortgage Activity—good news? Thirty-year conventional fixed-rate mortgages averaged 4.82% during the past four weeks (source: Freddie Mac), near the lowest rates on record. Bad news? Jumbo mortgage rates are still too high

National Debt—our gross national debt now exceeds \$10.7 trillion, with at least \$3 trillion of additional debt to be added in 2010 and 2011 alone. Budget deficits averaging nearly \$1 trillion annually after 2011 are simply too much

Obama—the President will likely face rising opposition from more conservative members of his own party during the next 18 months to “slow down” a bit. Everything on his aggressive agenda doesn’t have to be done NOW

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—forecasting economists still see a 2.0% real (after inflation) annual rate of GDP decline in the current quarter, versus the 6.2% average real annual rate of decline during the two prior quarters. Most forecasts still see slightly positive GDP growth in the third quarter!

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—don’t look now, but the stock market just staged its most impressive eight-week rally in 75 years. Why? The stock market is typically “looking” 6-9 months ahead, and sees a return to modest economic growth

Taxes—boosting capital gains, dividend, and income tax rates on the top 5% of income earners could backfire in coming years. Like it or not, these are the people who create jobs and invest. The Administration’s focus on “income redistribution” rather than on providing “incentives for U.S. economic growth” is troubling

Unemployment—likely to approach 10.0% before the end of the year, after averaging 5.8% in 2008 and 4.6% during both 2006 and 2007. Joblessness will stay too high...for too long

Visitors (Foreign)—will be coming in big numbers in summer months, especially from Asia and Europe. They spend aggressively! Be nice, be kind, and invite them back

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

Exports—have declined during the past year, tied to global recession. U.S. imports have fallen even further, helping to reduce our monthly trade imbalance with the world

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

Zeal—Charisma...Passion...Inspiration. Whether you like Obama or not, his greatest strength is to inspire people, especially the young. A leader in the mold of Kennedy and Reagan would come in real handy these days



“TEA”ser

Some cause happiness
wherever they go; others,
whenever they go.

—Oscar Wilde



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