



...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 soon follow...

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

Budget Deficits—\$1,400,000,000,000 last year...about the same this year. Around \$1 trillion annually in coming years, which is simply unaffordable. Deficits in 2009-2010?...\$160,000,000 every 60 minutes

Confidence—a very critical component for both businesses and consumers as a fragile U.S. economic expansion continues

Dollar—modest weakness of the past year has helped U.S. exporters, leading the U.S. trade deficit with the world to shrink dramatically

Energy Independence—greater use of abundant natural gas, greater access to oil and gas in Alaska and off our coasts, and greater use of nuclear power must be part of the equation in coming years...in addition to “alternative” sources. Could someone let the Congress know?

Federal Reserve—easily the most credible institution in the nation’s capital. The Fed will keep its key short-term interest rate...now effectively at zero...unchanged well into 2010

Global Economy—good news! The global economy has already emerged from its first post-WWII recession, led by China, India, and renewed growth in the U.S. and Europe

Health Care—more government intrusion is coming...lucky us! Many of the changes take place beginning in 2013, just *after* the next Presidential election...how convenient!

Inflation—under control in 2008-2010, tied to slack in labor markets and weak housing and commercial real estate values. Given massive stimulus, the Fed will have to make difficult decisions to rein in monetary stimulus later in 2010 and throughout 2011

Jobs—the loss of 7.2 million jobs since the U.S. recession began in December 2007 has been extremely painful. The expected return to monthly job gains sooner rather than later will be most welcome

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

Limits (Term)—The U.S. Congress is out of touch, too partisan, too focused on re-election, and moving too far to the left. Can’t we send most of them home (both parties) next November, and seriously consider term limits?

Mortgage Rates—still near 5.00% for conventional 30-year fixed-rate loans. NOW is a great time to refinance for millions of homeowners

Net Worth—the net value of consumers' homes, investments, etc. minus all types of debt rose five percent in the third quarter to \$53.6 trillion. Still, the total lags the \$64.5 trillion total before the recession began

Obama—the President will face rising opposition from more conservative members of his own party during the next 9-18 months to “slow down” a bit...and get spending under control

Politics—childish and boorish behavior on both sides of the aisle in Washington is ridiculous...and all too typical. Is cooperation really that difficult?

Quarterly Economic Growth—forecasting economists see a 3.0% or better real (after inflation) annual growth pace in the current quarter, followed by 2.5%-3.2% real growth in 2010. The recession is over and done with!

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 stock market has staged one of its most impressive rallies on record over the past nine months. Why? The stock market typically “looks” 6-9 months ahead, and saw a return to positive U.S. 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 move slightly above the current 10.0% rate in coming months, even if monthly job gains soon return. Why? Hundreds of thousands of people who previously left the labor force will return as they hear about better employment news. Joblessness will stay too high...for too long

Visitors (Foreign)—will be coming in big numbers during 2010, 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

Exit Strategies—success in reversing massive fiscal and monetary stimulus in 2010-2012 will be critical to keeping inflation and government spending under control

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 and the “Great Recession” will be forever etched into their consciousness

JaZZ (Utah)—we like to think of them as one of the NBA's elite teams. Can they win it all some time? Like the little train...We think we can...we think we can...we think we can



“TEA”ser

Saving is a very fine thing.
Especially when your parents
have done it for you.

—Winston Churchill



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