



...weekly since 1976

Your guide to understanding  
today's economy and  
financial markets

March 16, 2010

[view previous issues](#)



THREDGOLD  
ECONOMIC  
ASSOCIATES

The TEA Company  
A Professional Speaking and  
Economic Consulting Company  
1366 S Legend Hills Drive, Suite 150  
Clearfield, Utah 84015  
801-614-0403

[www.thredgold.com](http://www.thredgold.com)

Copyright © 2010 Thredgold  
Economic Associates, LLC.

Please call 1-888-847-3346  
for reprint permission.

# Springtime Update

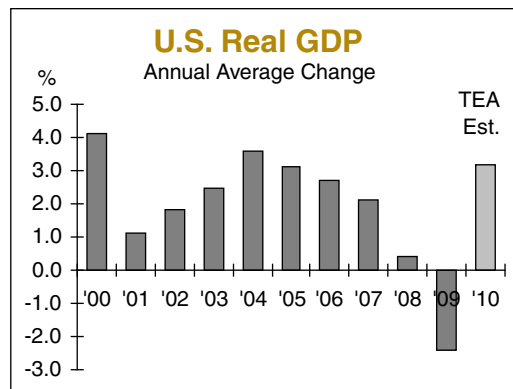
Written by Jeff Thredgold, CSP, President, Thredgold Economic Associates

## The American Economy

### ...still fighting headwinds

Modest U.S. economic growth returned during 2009's third quarter, followed by more robust performance during the October to December period, the strongest quarterly growth in six years. Positive but less impressive growth seems on tap during 2010, with the economy still fighting the "headwinds" of housing and commercial real estate anxiety, high unemployment, and consumer angst about the expansion of government and mind-boggling budget deficits.

The fourth quarter's solid 5.9% real (inflation adjusted) annual growth pace seems likely to be followed by a roughly 3.0% pace during 2010. As usual, both stronger and weaker forecasts can be found. When final determinations are made in coming months, the Great Recession will have lasted perhaps 20-22 months, the longest, deepest, most painful, most costly and most pervasive recession since the Great Depression.



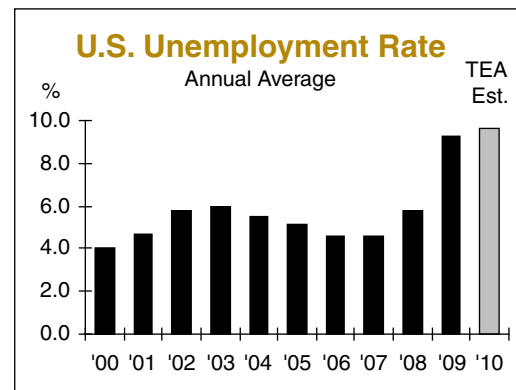
## Deficit Spending

### ...simply too much

The Obama Administration inherited a very sick economy with a structural deficit reaching \$1.4 trillion (\$1,400,000,000,000) in fiscal year 2009, which ended last September 30, three times the prior record. The proposed deficit this year is \$1.6 trillion...or a \$182,000,000 deficit every 60 minutes.

Budget deficits averaging \$1 trillion annually in coming years are Obama's and the Democratic Congress's alone...and are simply not affordable. The Administration and the Congressional leadership face major opposition to Obama's aggressive spending

agenda by members of his own party, many who greatly fear having to defend such spending to voters in elections later this year.



## Unemployment

### ...more job gains

The U.S. economy seems on the verge of solid job gains during upcoming months, with occasional disappointments. Total employment has plunged by more than eight million since the recession began in December 2007, with millions more shifted involuntarily to part-time employment.

The current 9.7% U.S. jobless rate could return to 10.0% in coming months, even as the economy adds jobs. Why? As more stories of job availability become widespread, hundreds of thousands of people who formerly left the labor force could return...and unless and until they find a job, they will be counted as unemployed.

## Inflation

### ...the debate continues

The Consumer Price Index (CPI) rose 2.7% during 2009, following a 0.1% rise during 2008, the smallest increase since 1954. Most forecasts expect the CPI to rise roughly 2.0%-2.5% this year.

Where we go from there remains the subject of intense debate. One view sees major inflation pressures about to unfold, resulting from highly aggressive monetary policy and massive budget deficits. The other major view sees a Japanese-style deflation unfolding in coming years, tied to weak residential and commercial real estate values, strong productivity gains, major slack in labor markets, and nervous consumers.

## The Federal Reserve

### ...how to exit

The federal funds rate, the most important of all short-term interest rates, has been at an all-time low of 0.00%-0.25% since December 2008. Most forecasts see the Fed beginning to push this rate modestly higher before yearend.

During the past nearly three years, the Fed enacted one program after another, collectively known as “quantitative easing,” to address the near-paralysis that, at times, plagued financial markets. The Fed’s success, as well as that of other major central banks around the globe, in “exiting” these steps during the next 18 months will be critical to inflation containment.

## Long-Term Interest Rates

### ...time to refinance

NOW remains a very attractive time to refinance a mortgage or buy a new home or foreclosed property, while recognizing that one in four U.S. homeowners is “underwater” on their mortgages...owing more than the home is worth. Mortgage rates for conventional loans have been near 40-year lows in recent weeks.

Such rates could move higher later this year as the Fed soon concludes its massive purchase of mortgage-backed securities. Mortgage finance for higher-priced homes remains spotty in too many communities.

## The Global Economy

### ...growth has resumed

Overall global economic growth returned during 2009’s final few months, led by an Asian rebound. Renewed growth follows the first global recession in more than 60 years.

Impressive Japanese economic gains during the ‘60s, ‘70s, and ‘80s gave way to the “lost decades” of the past 20 years. Japan’s most painful recession since just after World War II very recently gave way to a return of modest economic performance. Growth prospects, however, are limited by an enormous national debt, an aging and declining population, and weakened consumer confidence.

China’s economic growth returned to an 8.0%-10.0% annual rate in recent quarters, following sluggish performance a year ago. Such growth was fueled by massive government spending, aggressive bank

lending, and a resumption of strong export growth. China is making efforts to boost domestic demand within its economy. More recently, the government has taken steps to slow growth so as to keep rising inflation under wraps.

The Indian economy also picked up speed in recent quarters, with solid growth likely over the balance of the year. India is attempting to boost exports as a means of lessening dependence on internal demand, with rising inflation also of concern.

Europe’s mid-year 2009 rebound from recession gave way to much weaker performance in recent months. Investor doubts about the ability of Greece to handle a massive national debt have boosted similar anxiety in Spain, Portugal, and other euro zone members. The U.K. could see minimal growth during 2010.

Russia continues to struggle with an overdependence upon energy and commodity prices. Africa? Solid performance in recent quarters places Africa second only to Asia on the economic growth scale.

Expect to hear more about Brazil in coming years as its global clout in agriculture and energy rises. Most other South American nations have seen economic conditions improve, tied to global rebound.

Mexico’s serious recession, tied to severe weakness in its vital tourism sector, could give way to modest growth later this year. Declining oil production and drug trafficking violence remain serious challenges. Canada appears to have emerged from recession in recent months. Leading the way in the gold medal count at the recently concluded Vancouver Winter Olympics will be a source of pride for years to come.

## The Bottom Line?

The Great Recession has given way to a reasonable U.S. economic growth pace, although serious challenges remain. We also expect...unprecedented budget deficits in coming years...better employment news...modest inflation this year...extremely low short-term and attractive long-term interest rates...and a growing, but still wobbly, global economy.



## “TEA”ser

Where do forest rangers go to “get away from it all?”

—from Sharron Horsey



THREDGOLD  
**ECONOMIC**  
ASSOCIATES

To receive the *Tea Leaf* free via email,  
sign up at  
[www.thredgold.com](http://www.thredgold.com)

Thredgold Economic Associates  
1366 S Legend Hills Drive, Suite 150  
Clearfield, Utah 84015  
[www.thredgold.com](http://www.thredgold.com)

Graphics and layout by Kendall Oliphant  
Research assistance by Shawn Thredgold