

# Tea Leaf

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Your guide to understanding  
today's economy and  
financial markets

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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)

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## Cap & Trade

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

As the Obama era began, the Administration's objective of utilizing "cap & trade" as the desired policy to address alleged climate change and to reduce our dependence upon foreign sources of oil was front and center...

...I don't think it will happen

...I don't think it really matters

Say What? I don't think it matters because many of the primary objectives of minimizing carbon emissions and of greater energy conservation have already become part and parcel of our everyday lives.

We are arguably more aware of the environment than ever before. Smarter energy usage has become more fashionable. It has become more commonplace. It is something we are. We are greener.

The idea of using energy more conscientiously, of making decisions that will minimize the use of energy in our homes, our cars, our buildings, our factories...all these developments are beneficial to the environment...

...maybe we just don't need the government establishing more rules, more costs, more penalties, more taxes, and more bureaucracy in the name of energy conservation and environmental protection.

### Taking the LEED

Architects, commercial real estate developers, and property owners have embraced the desirability of constructing buildings that qualify for LEED certification. Such buildings use energy more efficiently, use water more efficiently, and are generally healthier for those who work within. Such buildings strive to be "green"...with building developers and designers taking real pride in their accomplishments.

More utilities are embracing the idea of burning extremely abundant and much cleaner natural gas than burning coal or oil to produce electricity. All kinds of experimental facilities are

under construction or already operating to burn trash more efficiently, to utilize waste gases to create energy, to minimize the impact of methane, etc. on the environment. New technological advancements just over the horizon will be highly beneficial to conservation...to environmental protection.

More fuel-efficient automobiles, more energy-efficient home and industrial appliances, more energy-efficient aircraft, buses, etc., the list goes on and on. We are more mindful of using towels in a hotel room more than once, rather than throwing them on the floor. We are more willing to turn off lights when leaving a room, whether at home, in a hotel, or in the office.

We are more willing to set the thermostat a little higher in the summer...a little lower in the winter...more willing to throw on a sweater when chilled rather than hiking up the thermostat.

### Global Shift

Proposed carbon tax legislation around the globe tries to tie the hands of more developed nations, while excluding China, India, and other developing nations from such potentially onerous restrictions. The fact that the French government, arguably the most enthusiastic about a carbon tax, dropped the idea last week so as to not "damage the competitiveness of French companies" was one more nail in the coffin of government mandates.

### Enough Already

It is possible that the Administration and the Congressional leadership will be emboldened to follow-up the costly health care victory with "cap & trade" legislation. Nothing should surprise us.

The U.S. needs to be willing to trim energy usage in coming years, to use it more efficiently. We will move in that direction via voluntary effort and because it feels right and can be profitable.

We don't need to have such moves legislated. We don't need more and more and more government. We have plenty.

# 5.6%

The U.S. Commerce Department's second and final (for the moment) revision to fourth quarter U.S. economic growth portrayed an economy growing at the fastest pace in six years. It would be great if such a solid growth pace would continue...

...it won't

Most forecasts see the U.S. economy growing at around a 3.0% real (after inflation) annual rate this year, with a similar forecast for growth in the first quarter now ending. The Federal Reserve sees real growth this year between 2.8% and 3.5%, with real growth closer to 4.0% on average in 2011 and 2012.

The dreaded "headwinds" of housing anxiety, soft commercial real estate valuations, uncomfortably high unemployment, and high anxiety about unprecedented \$1 trillion annual budget deficits for as far as the eye can see combine to limit growth opportunities. It is an ugly mix.

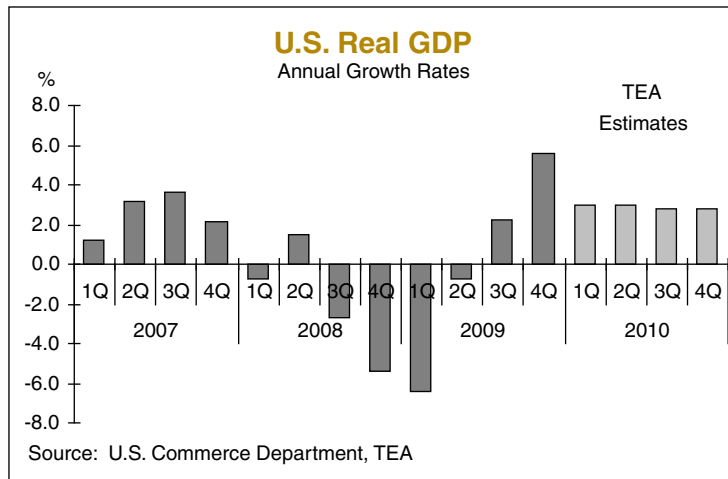
## Worst in 63

Despite the strong 5.6% fourth quarter growth pace, the U.S. economy during 2009 qualified as simply abysmal. For the entire year, GDP (the broadest measure of goods produced and services provided in the U.S. economy) fell by 2.4%, the largest decline since 1946, a period of 63 years.

The quarter now ending will be the third consecutive quarter of U.S. economic growth, following an extended period of U.S. economic decline. We do know that the Great Recession officially started in December 2007. We expect the National Bureau of Economic Research, the official scorekeeper of the U.S. economy, to announce sometime in coming months that the recession officially ended sometime between June and September of last year.

## Jobs

As before, job growth will be a key ingredient in how well...or how poorly...



the economy performs. Forecasting economists do expect the best employment gain in three years to be reported this Friday, with a consensus view near the net addition of 190,000 jobs.

Yes...weather issues the prior month should positively influence the April 2 report. Yes, perhaps one-half of the net new jobs will be temporary Census jobs... but we'll take it.

Corporate profits, which have somehow become a dirty word combination in Washington DC, rose eight percent in the fourth quarter versus the prior quarter. Such profits were up 31% from the prior year's fourth quarter, the largest gain in 25 years...

...Hopefully, such strong profit growth will lead to stronger corporate investment in the economy, with stronger hiring as well.

## Rising Confidence

Better news on Tuesday saw consumer confidence rise more than expected. The Conference Board's confidence index climbed to 52.5 in March, up sharply from 46.4 in February. However, recent levels are a far cry from the 97 level reached during the economic expansion that ended in December 2007 (*Bloomberg.com*).

The index's measure of present conditions rose to 26.0, the highest level since May, from a miserable 21.7 last month. The "expectations" component looking out six months also rose to 70.2 from 62.9...

...both steps in the right direction

## "TEA"ser

Tact is the art of making guests feel at home when that's really where you wish they were.

—George E. Bergman



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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