

Tea Leaf

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Your guide to understanding
today's economy and
financial markets

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Counter Balance

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

Three major developments of the past few weeks have “built in” offsets that will ultimately reduce their individual, and collective, impact upon the U.S., European, and global economies. Such offsets or stabilizers are critical to (hopefully) counteracting economic volatility in coming months and years.

Europe

High anxiety about the massive level of Greek sovereign (national) debt has led to expanded worry about the debt-laden European economy in general. The nearly \$1 trillion euro support package announced by European leaders and the International Monetary Fund that received a hero's welcome on Monday, May 10 soon gave way to fears that it provides merely a band aid for the debt situation, as opposed to the necessity of real change. European economic growth is likely to remain just slightly above zero.

The euro currency? It has dropped sharply, falling from a value of roughly \$1.50 to roughly \$1.22 today, a decline of almost 19%. It is also at a four-year low.

How does this sharp decline “help” the European economy? Manufactured goods from Germany and other European nations will soon be substantially cheaper on global markets (*ceteris paribus*, which means other factors unchanged...with the phrase being the only thing I remember from graduate school), helping to boost European exports, while reducing export opportunities in China, Japan, and the U.S.

For those thinking of visiting Greece, Italy, Ireland, Spain, France, etc? It is now 19% less costly to visit these nations (*ceteris paribus*) than six months ago, providing more incentive for people from around the world to visit these and other euro nations, also helping the European economy, and reducing tourism opportunities in other nations, including the U.S.

Global Oil

More news of European economic challenges, combined with efforts by the Chinese leadership to slow their economy, have supported a view that overall global performance is likely to slow.



The counter balance? Much lower oil and other commodity prices. Global oil prices are down 20% from just two weeks ago! Such lower prices provide more energy value for consuming nations and companies around the globe, while hurting oil producing nations. Lower gasoline prices will follow.

A plunge in oil and gasoline prices has the same impact as a tax cut for American and global consumers...good news for billions of consumers...bad news for OPEC

Lower Mortgage Rates

We have talked in recent weeks about the fact that scared money globally goes in search of the most stable, most risk-free, and most marketable investments. In recent weeks, European anxiety has pushed global investors into gold and U.S. Treasury securities.

The rush for safety has pushed U.S. Treasury bond prices higher, thereby resulting in lower returns (yields). The investment return on a 10-year U.S. Treasury note has fallen from 3.85% on December 31, 2009 to close at 3.37% today, a decline of almost 1/2%.

Much of the decline-to-date has now filtered into mortgage rates, with 30-year fixed-rate mortgages for conventional loans averaging 4.93% last week, according to Freddie Mac. The 4.93% level was the lowest this year.

Lower mortgage rates...good for consumers looking to purchase or refinance a home...good for potential sellers...and good for consumers hoping to stretch their dollars

Meetings Rebound

"You can't get corporate jets, you can't go take a trip to Las Vegas or go down to the Super Bowl on the taxpayer's dime" ...noted President Obama during February 2009 in response to a question about financial institutions that had received TARP money holding lavish events.

That statement, combined with frequent Congressional criticism around the same time of companies who hosted events for their clients or top performers (including a major blunder by AIG), contributed greatly to the loss of roughly 200,000 travel-related jobs during 2009. This was a painful hit to an industry that saw a similar number of jobs lost the prior year, tied primarily to economic anxiety in the U.S. and around the globe.

From "Fun" to "Safe"

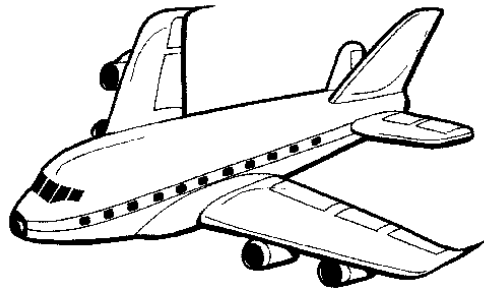
Specific mention of Las Vegas, Orlando, San Francisco, Palm Springs, and Reno as places to avoid holding meetings—especially for various Government agencies—led to tens of thousands of jobs disappearing in these "resort/fun" cities for hotel clerks, taxi drivers, tour guides, restaurant workers, etc. Many companies and associations forfeited deposits and paid event termination penalties in order to move their meetings to "safer" cities such as St. Louis, Dallas, Denver, and Detroit that were less susceptible to Congressional criticism.

The President and Congressional leaders largely backed off of their criticism of the meetings industry. That reversal, combined with stronger U.S. economic growth, is finally turning the meetings industry around.

"for every dollar spent on incentive travel, a business typically reaps \$3 to \$4 in revenue"

—USA TODAY

The Wednesday, May 12, 2010 cover story in the *Money* section of USA TODAY noted the rebound now underway in the meetings industry, especially in regard to incentive travel for top performers in companies. The article notes that travel industry executives expect the uptick



this year to greatly accelerate in 2011 as workers reach the targets that would qualify them for rewards.

The article notes that "for every dollar spent on incentive travel, a business typically reaps \$3 to \$4 in revenue." It continues, "Large gatherings can be particularly valuable because they give attendees the chance to connect with one another as well as top executives."

Across the Board

It is not just top executives who attend these events. The article notes that Texas Roadhouse, a national restaurant chain (note: awesome steaks!) hosted not only restaurant managers and corporate leaders at an event in New York City, but meat cutters, servers, bartenders and other employees who won various competitions to qualify for the trip.

A meat cutter from Texas, who has now qualified for three trips as well as a sizable cash reward, noted "It's one of those things that I like about the company. It motivates me for the whole year."

For many companies now holding meetings, some element of prior glitz has given way to purpose. More companies are including public service while on site. For Texas Roadhouse, the meeting included time for attendees to stuff 10,000 gift bags for soldiers overseas and serve meals at a local church. For others, time is provided to clean up a local park or work on a Habitat for Humanity home.

The meetings industry...an important business in "the business of America"

"TEA"ser

One tequila, two tequila, three tequila, floor.

—from Sharron Horsey



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