

Tea Leaf

...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—the U.S. economy returned to growth last summer. “Wall Street” knows it. With 9.9% unemployment, “Main Street” remains quite skeptical

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

Dollar—solid performance against most major currencies, especially the euro, will, for the moment, quiet the Chinese, the Saudis, the Russians, etc. who seek an alternative “primary” currency for global investment holdings

Europe—what a financial mess! Moves toward more and more government spending and government handouts simply prove Margaret Thatcher’s Socialism statement of a generation ago... “sooner or later you run out of other people’s money”

Federal Reserve—the Fed will likely keep its key short-term interest rate...effectively at zero for the past 17 months...unchanged throughout all of 2010

Global Economy—emerged from its first post-WWII recession late last year. Global growth is expected to weaken as Europe stumbles and China intentionally slows

Health Care—more and more government intrusion is coming. Many of the changes take place beginning in 2013, *after* the next Presidential election...how convenient!
(Happy Birthday Mom!)

Inflation—under control in 2008-2010, tied to slack in labor markets and weak housing and commercial real estate values. Financial market players remain split as to whether inflation—or deflation—will be the fly in the ointment in coming years

Jobs—a gain of nearly 600,000 jobs year-to-date, with another 300,000+ likely added in May, helps. However, the loss of more than eight million jobs in 2008 and 2009 still sours the punchbowl

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—to government spending?...to deficits? An important concept now hitting home across Southern Europe...and sooner rather than later in the U.S.

Mortgage Rates—around 4.75% for conventional 30-year fixed-rate loans, near the lowest in 40 years. If your financial ducks line up, NOW is a great time to refinance

Net Worth—the estimated net value of consumers' homes, investments, etc. minus all types of debt finished 2009 at \$54.2 trillion, up \$2.8 trillion during the year. Still, the total lags the \$64.5 trillion total before the recession began

Opportunity—challenge breeds ...

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% real (after inflation) annual growth pace this year, barring worst case European fears. 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 (or need) to keep one foot in the workplace for a long time to come

Social Security—now running a deficit, six years sooner than had been forecast. Some “tinkering around the edges” remains mandatory, and sooner rather than later

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 primarily the people who create jobs and invest. The Administration's focus on “income redistribution” rather than on providing “incentives for U.S. economic growth” remains troubling

Unemployment—likely to remain above 9.0% during the next 12-18 months, even as monthly job gains have returned. Why? Hundreds of thousands of people who previously left the labor force will continue to return as they hear about better employment prospects, with more than 800,000 returnees in April alone

Vacations—remember them?

Wall Street—simply stated...I remain a long-term bull on stocks

eXpectations—diminished for millions of people of all ages regarding careers, standards of living, and retirement. Fiscal sanity in Europe (and in Washington DC) would go a long way to reversing that view

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

Zorba the Greek—given his nation's precarious finances...he's probably turning over in his grave (sorry)

“TEA”sers

Product Labels

On the *bottom* of a Tesco tiramisu dessert: Warning! Do not turn upside down!

On *infant's* cough medicine: Warning! Do not drive car immediately after consuming!



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