

Tea Leaf

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Your guide to understanding
today's economy and
financial markets

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Global ABCs

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This is the companion piece to *Domestic ABCs* of May 26, 2010

- A**nxiety—we've been through a lot during the past 24 months, with corporate and individual anxiety levels remaining high. Many investors still take a "shoot first, ask questions later" approach to their investments (meaning sell on any sign of trouble)
- B**udget Deficits—unprecedented government spending around the world to offset financial chaos during the past two years has led budget deficits in too many countries to astronomical levels. Excessive government spending must be reduced...sooner rather than later
- C**hina—this nation's announcement of recent days to allow their currency to fluctuate further (and likely rise in value) in coming months should be a positive longer-term development
- D**ollar—remember a few supermodels and others who demanded their earnings be paid in euros during the past few years, trying to avoid the sagging U.S. dollar? The euro has fallen nearly 20% versus the dollar over the past six months. There is justice after all
- E**urope—ongoing moves toward more and more government of recent decades have come home to roost in Southern Europe. Stronger euro nations now get to spend a fortune to keep Europe (and the euro) intact. See **"S"** below
- F**iscal Stimulus—unprecedented budget deficits are an end result of massive government spending, here and around the globe. However, what was "necessary" during the past 24 months to stabilize the economy and financial markets is NOT necessary later on
- G**lobal Economy—reasonably solid growth led by Asia, the U.S., Brazil, and Africa seems likely this year, while Europe will be sluggish at best
- H**unger—a child starves to death every six seconds somewhere in the world. Can't we work together better?
- I**ndia—the world's longest-standing democracy continues to record solid growth, tied in part to strong domestic demand
- J**apan—growing again, although recent growth pales versus the '60s, '70s, and '80s. The "lost decade" of the '90s could now be lengthened to include the decade just ended (whatever we call it)
- K**orea (North)—massive failure of this centrally planned economy is without question. Will potential new leadership (daddy's boy) ever right this ship?
- L**ibor—(the London Interbank Offered Rate). A formerly nondescript global interest rate has become more newsworthy in the U.S. as trillions of dollars of adjustable rate loans are tied to it

Mexico—the troubled tourism sector, damaged in a big way during the past two years, could see more of its future tied to successes...and failures...in the government's struggle with drug cartels

Neighbor to the North—Canada? Solid economic growth...low inflation...declining unemployment...the strongest economy of the G7 nations

Oil—the oil spill in the Gulf is an environmental disaster...no question. The President's moratorium on deep-water drilling (and the loss of perhaps an additional 100,000 or more jobs in the Gulf) is also disgusting...here come de judge

Politics—some nations have moved to the political left, others moved to the right. U.S. Congressional elections on November 2 will be crucial as to which way this nation "leans" in coming years

Quagmires—as before, there never seems to be a shortage. Today's list still includes Afghanistan, Chechnya, Iran, Iraq, the Sudan, and the Middle East

Russia—life was great when oil exceeded \$100 per barrel in this oil-rich nation. Lower prices have led to higher unemployment, declining living standards, and questions about who is "minding the store"

Socialism—Margaret Thatcher said it best...and it applies to Europe!..."The trouble with Socialism is that eventually you run out of other people's money"

Taxes—likely to rise in the U.S., the U.K., and across Europe next year as nations try to pay for "B" and "F" above. Note: you cannot tax your way to prosperity. Spending restraint, including entitlement reform, must be part of the deal

Unemployment—job cuts have been extremely painful around the globe during the past two years, with more than 50 million people losing jobs. Better news is ahead

Volatility—pick any descriptor...financial market...economic...commodity price...political

WWW—the World Wide Web continues to be both amazing...and cluttered with junk. Still, estimates suggest we have tapped only about 10% of the potential of the Internet. Global companies using it are expected to save in excess of \$1 trillion in operating costs during the next three years

eXports—God forbid you gather a room full of economists. The only thing we will largely agree on is that steps to build bridges to trade are positive...steps to build barriers to trade are not

Young People (around the world)—facing a rising tax burden in coming decades to finance the retirement years of Baby Boomers (and Boomers' parents) if minor changes are not soon made

Zero Sum Game (which global trade is not)—any trade restrictions (protectionism) we impose on another nation are soon matched or exceeded by that nation. The Congress must be very careful

"TEA"ser

A balanced diet is a cookie in each hand.



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