

# Tea Leaf

...weekly since 1976

Your guide to understanding  
today's economy and  
financial markets

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## For Better...

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

It's nice for a change to be able to talk about an American economy that is, for the moment, getting stronger. After growing at a truly pathetic real (inflation adjusted) annual rate of less than 0.9% during 2011's first six months, the economy grew at a revised 2.0% real annual rate during the third quarter.

Ironically, a downward revision for the third quarter from the initially reported 2.5% growth pace merely "shifted" some of that growth into the fourth quarter, where most forecasters see growth near a 3.0% real annual rate. That may be the peak in growth for awhile. Most forecasters see growth slowing to a 1.5%-2.5% real annual rate during 2012, with stronger growth in the year's second half than in the first.

Stronger data has been reported in recent weeks in overall manufacturing and auto sales. Even the beleaguered housing sector has seen stronger performance, although from extremely depressed levels.

Yes, the sharp decline in the nation's unemployment rate from 9.0% in October to 8.6% in November added to the modest level of exhilaration now felt. And yes, the unemployment rate decline had more to do with 315,000 people leaving the labor force than job gains. Still, as noted in the *Tea Leaf* issue two weeks ago, job gains reported in the household survey have been reasonably impressive.

### Reasons?

- Perhaps some of the stronger economic performance is tied to the fact that even as Europe flounders, its impact on the U.S.-to-date has been limited
- Perhaps it is the "perverse satisfaction" we Americans feel that the more immediate global financial challenges are now being faced on the other side of the pond, versus here. We already carry enough anxiety for being the primary culprit of the 2008 global financial meltdown
- Perhaps it is the fact that what many would describe as the most-liberal, big-government-loving Administration in our history could well be dismantled beginning with the November 2012 elections. It is a toss-up at this point
- Perhaps it is the fact that the numbers clearly favor the Republicans to hold onto the House of Representative AND retake control of the Senate. Democrats, who currently have a 53 to 47 edge in the Senate (including two independents who caucus with the Democrats), have 23 seats to defend (including the independents), while Republicans have only 10 seats at risk. Given the anti-incumbent rhetoric widely held in the country, change in control could easily occur
- Perhaps it is the fact that while budget deficits of the past three years are truly scary at roughly \$1,300,000,000,000 each year, the political and public mood provides little to no room for even larger deficits. Political discussion has now shifted primarily to how to rein in monstrous and damaging deficits in coming years, versus what new government programs should be enacted. That is the first step
- Perhaps it is the pent-up demand of the past few years where people drove cars longer, put off vacations, and a myriad of other things fearing the worst relative to the economy and their jobs
- Perhaps it is the fact that even as Rome (and much of Europe) burns, the American stock market has held up reasonably well, with relative optimism being the prevalent view for 2012
- Perhaps it's the fact that \$3.50-\$4.00 a gallon gasoline has not had the psychological impact it had the first time we reached those levels
- Perhaps it's even the fact that professional sports got its act together. An exciting World Series in baseball captured the interest of millions. Following a lengthy strike/lockout/"whatever" in the NFL, the owners and players made a deal to have a full and exciting season. Even the NBA finally saw the wisdom in actually playing the game starting later this month with a 66-game season, versus the regular 82-game grind

# ...or Worse

Then there is Europe, or more precisely the 17 nations that use the euro currency. Financial bailouts of Greece, Ireland, and Portugal could eventually see Italy and Spain added to the list.

While politicians in the U.S. have (unfortunately) been masterful at “kicking the can down the road”... i.e. putting off tough decisions while adopting temporary band-aid solutions to major deficit problems, the true artists of the past two years have been European leaders. It seems each week that promises are made, agreements are reached, hands are shaken, only to have the details deciphered in subsequent days with a determination that “the emperor has no clothes”... that the details are less than impressive.

Many question why Germany...the 800-pound gorilla in the room...doesn't simply agree to tie all the nations' separate fiscal policies together, or simply agree to back the issuance of euro-community bonds, wherein the Germans and the French, in particular, lend their financial strength to the other nations.

## Let's try an analogy...

Let's say that Chancellor Angela Merkel of Germany is the oldest sister in a very large family. The next in line is her “brother” French President Nicolas Sarkozy. Many other siblings include leaders of various nations who have, over the years, spent too much on the good life, borrowed too much, but have been able to borrow from others to pay the bill.

Three of the youngest siblings have already received money to cover their errant ways, along with their promises to do better. Only the Irish leader seems to have taken that commitment to heart. Other brothers and sisters are now complaining about their challenges of borrowing money to offset their excessive spending. They have called upon big sister

and big brother for “loans”...which all know will never be paid back.

Big sister and big brother want to help, but also want their younger siblings to REALLY GET SERIOUS about their spending and borrowing. Big sister and big brother fear that handing massive

amounts of money to the younger siblings will not modify their excessive ways, with every expectation that they will be back in a few years for more and more “loans.”

Big sister and big brother have made it clear that any “loans” will be met with the requirement that they have a great deal to say about future spending of the siblings. As one might expect, the younger group is not exactly excited for this to happen.



## “TEA”ser

“Santa Claus has the right idea—visit people only once a year”

—Unknown



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