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Last week's *Tea Leaf* was entitled **G**lobal, with an update on what is happening in the growing global economy. This week's issue provides an update of other significant G words featured in the news...

### GDP Growth

The U.S. economy recorded a third consecutive quarter of economic growth during the January to March 2010 quarter, with a 3.2% real (inflation adjusted) annual growth pace. The 3.2% annual growth rate was in line with economists' expectations.

The 3.2% growth pace was sharply below the 5.6% real annual growth rate of the prior quarter—the strongest quarterly growth rate in six years. However, various components of the first quarter report were favorable. In addition, the 5.6% number had some one-time factors which overstated the rate of growth.

Perhaps the most favorable nugget of data was stronger performance by the consumer. Consumer spending—70% of the American economy—rose at a 3.6% real annual rate, the strongest performance in three years. Such spending rose at a modest 1.6% real annual rate during 2009's final quarter.

Consumers in general have felt better in recent months about their own prospects for the future, tied to greater job availability, a rising stock market, and more signs that the worst recession in our lifetimes is behind us. Still, a painful unemployment rate of 9.7% and 15 million people currently unemployed clearly limits the consumer spending upside.

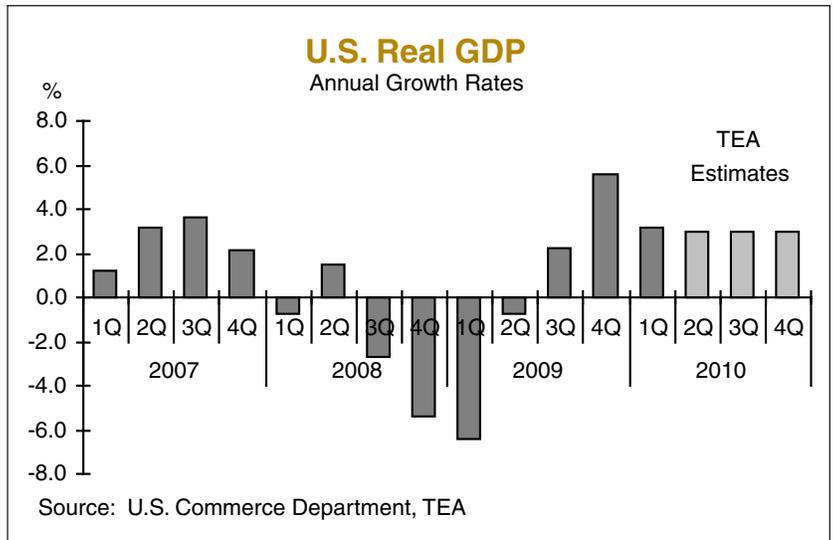
Spending by businesses on equipment and software rose at a solid 13.4% annual

pace, although down from the 19.0% fourth quarter pace. Investment in residential real estate declined at an 11% annual rate, following two quarters of modest gains.

Federal government spending rose at a 1.4% real annual pace, but was more than offset by a 3.8% spending reduction by state and local governments. State and local spending is likely to remain weak in coming quarters as tax revenues remain under pressure.

The 3.2% real annual growth pace of the first quarter is likely to be followed by similar growth in coming quarters (see chart). As usual, economic forecasters on the fringes include those seeing a double-dip recession later this year or early in 2011, as well as those seeing much stronger economic growth in coming quarters...

...contrasting views—that's what makes a horse race



### Gulf Disaster

The unfolding environmental disaster along the Gulf Coast occupies our attention as much as anything these days. The massive oil spill now threatens the Gulf coasts of Louisiana, Mississippi, Alabama,

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and Florida. Rough seas have limited spill containment efforts, while safeguards in place to limit oil leaks a mile below the surface of the Gulf simply did not work. Formerly untried means of limiting the disaster are now being considered and/or implemented.

BP has taken responsibility and has promised to pay “all necessary and appropriate clean-up costs” of the disaster. While the Company will pay billions of dollars toward the clean-up, the courts will ultimately determine in coming years what “appropriate” really means.

The *Exxon Valdez* oil tanker disaster in Prince William Sound in Alaska of 21 years ago (1989) provided a clue as to just how long the legal process will take...a very, very long time.

In the meantime, tens of thousands of people who make a living from or near the water, including those in fishing, “shrimping,” and tourism, will see their livelihoods under attack. Many of these people will also be involved in the massive clean-up effort now unfolding.

## Greece

Our *Tea Leaf* dated February 17, 2010 entitled “A Shot Across the Bow” discussed the unfolding financial disaster in Greece, noting that the nation’s likely inability to handle a massive amount of national debt was also a threat to other debt-laden nations, including Spain, Portugal, Italy and Ireland. The issue also discussed the reality that such debt concerns could ultimately threaten the financial solvency of the U.K. and the U.S.

After weeks of negotiation, other euro-zone nations led by Germany and France, combined with the International Monetary Fund, have agreed to lend Greece \$147 billion. Such loans over three years are in exchange for a promise from the Greek government to slash and then freeze public spending, enact new taxes, and boost the retirement age for various public sector workers. Such government actions will no doubt be met by additional strikes by powerful unions.

As before, such actions need to be a strong wake-up call to other nations, including the U.S., that massive budget

deficits are simply not tolerable. Our current budget deficit of nearly \$160,000,000 every 60 minutes must be reduced.

## Government Bonds ...and Gold

An extension of the Greek financial crisis is the issue of “flight to quality.” Many global investors in recent weeks have sold off euro-based investments and sought the safety of gold and U.S. Treasury bills, notes, and bonds. The euro has fallen to its lowest level versus the U.S. dollar in more than a year.

Chasing higher quality investments is typical in times of rising uncertainty, such as the Greek situation noted above. It is well within U.S. interests to maintain the global view of U.S. Treasury securities as the safest and most marketable in the world. Difficult decisions regarding future U.S. budget deficits will be critical to maintaining the “U.S. means high quality” view of global investors.

## Goldman Sachs

Last week’s at times fascinating testimony and sharp exchanges between senior level executives of Goldman Sachs and a Senate panel offered further glimpses into the machinations of Wall Street. Much of the give and take centered on the view that Goldman Sachs was on both sides—the long and the short—of too many transactions, calling into question whether Goldman was acting in the best interest of its clients...or actually in its own best interest.

Warren Buffet gave a stirring defense of Goldman Sachs and its CEO and Chairman Lloyd Blankfein in recent days. Such comments took place at the Berkshire Hathaway Inc. annual meeting in Omaha, NE this past weekend.

Goldman remains admired by many, and despised by others...and has come to represent the best...and the worst...of Wall Street talent and damaging excesses of

**G**reed during the past decade.

## “TEA”ser

If you ate both pasta and antipasto, would you still be hungry?

—from Sharron Horsey

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