

Tea Leaf

...weekly since 1976

Your guide to understanding today's economy and financial markets

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THREDGOLD
ECONOMIC
ASSOCIATES

The TEA Company
A Professional Speaking and
Economic Consulting Company
1366 S Legend Hills Drive, Suite 150
Clearfield, Utah 84015
801-614-0403

www.thredgold.com

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Better...But

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

U.S. economic growth improved during 2011's July-September quarter, especially when compared to the absolutely anemic economic performance during the year's first half. Similar to slightly softer economic growth seems on tap in coming quarters, with plenty of obstacles to be dodged along the way.

U.S. GDP, the most inclusive of all measures of economic activity taking place on U.S. soil, grew at a 2.5% real (after inflation) annual rate during the third quarter, matching the consensus view of forecasting economists. The 2.5% growth pace greatly exceeded the 1.3% real annual growth pace of the second quarter and the truly pathetic 0.4% growth pace during the January-March 2011 quarter,

Even as economic growth improved, it still lags the 3.0%-4.0% real annual growth pace needed to bring the nation's unemployment rate down from the 9.0% average of the past three years. Given the obstacles (or headwinds) faced within the economy, including the painful reductions of recent years in home prices, anxiety about the European debt crisis, distaste for higher taxes for those who invest and create jobs, and our domestic frustration about government spending out of control, such stronger growth seems only a dream at the moment.

ago that "another recession was 99% certain" may wish such a forecast was never made.

Consumers

The American consumer spent money more aggressively during the third quarter, with personal consumption rising at a 2.4% rate. Such growth rose at a miniscule 0.7% pace in the prior quarter.

It would be nice if such spending acceleration was tied to rising consumer incomes. Instead, it was tied to a less aggressive savings pace, with "the savings rate" growing at only a 4.1% annual rate, the lowest in nearly four years.

Businesses

American businesses also stepped up their spending pace during the third quarter, with investment in equipment and software rising at a 17.4% annual rate, the strongest pace in a year. However, a move to qualify for attractive tax incentives with calendar year 2011 purchases likely accounted for much of the rise.

Peak Reach

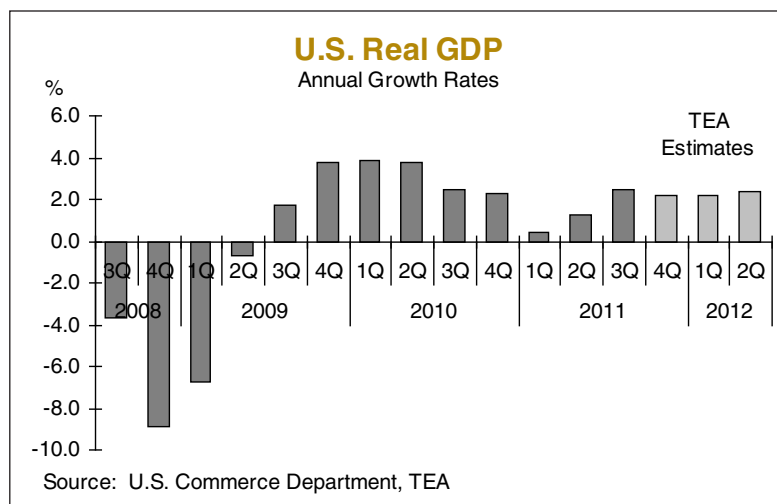
One other piece of economic trivia, although an important one, was found in the data. The American economy finally exceeded the real pre-recession peak of total economic output during 2007's final quarter.

It took 15 quarters to offset the 5.1% decline in output during the Great Recession. This was three times the average number of quarters needed to reach the prior peak in other post-WWII recessions.

Down the Road

The Great Recession was a massive hit to the American economy, as well as

to economies around the globe. Here's hoping we can skate through the European debt crisis and our own deficit spending crisis without another major economic hit...stay tuned





USA TODAY • MONDAY, OCTOBER 31, 2011

Quarterly economic survey

The USA TODAY economic survey of 43 top economists was conducted October 25-27. Median estimates through Q4 2012...

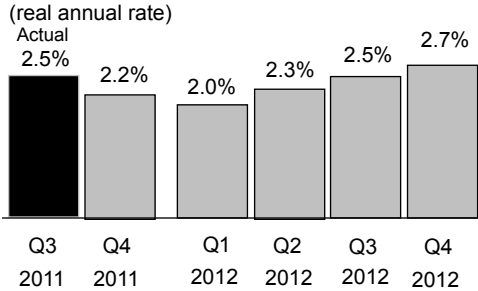
“TEA”ser

"Education is when you read the fine print.

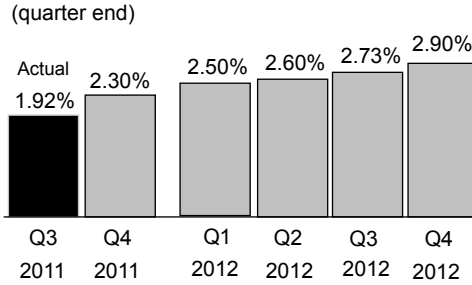
Experience is what you get when you don't."

—Pete Seeger

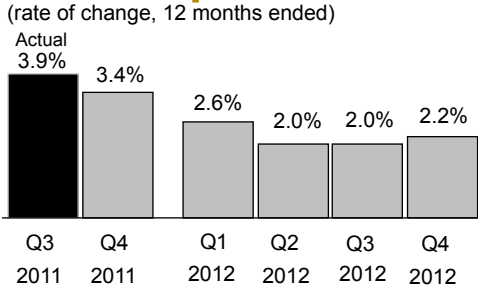
Gross domestic product



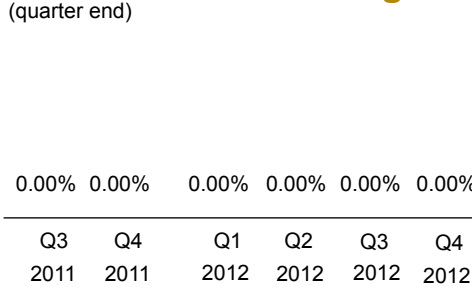
10-year T-note yield



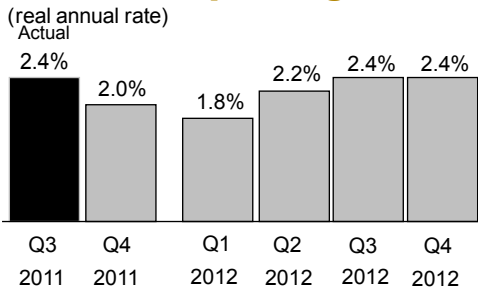
Consumer price index



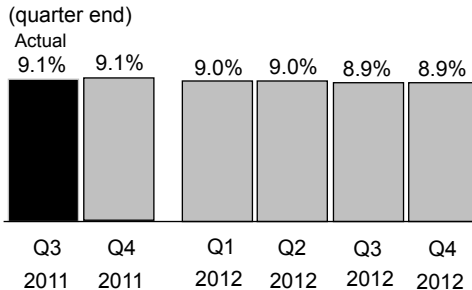
Federal funds rate target



Consumer spending



Unemployment rate



Survey participants: Dean Baker, Center for Economic and Policy Research; Nariman Behraves, IHS Global Insight; David Berson, The PMI Group; Tom Binnings, Summit Economics; Jay Brinkmann, Mortgage Bankers Association; David Crowe, National Association of Home Builders; J. Dewey Daane, Vanderbilt University; Rajeev Dhawan, Georgia State University; William Dunkelberg, NFIB; Megan Ellis, Manulife Asset Management; Michael Englund, Action Economics; Ethan Harris, Bank of America-Merrill Lynch; Maury Harris, UBS AG; Hugh Johnson, Hugh Johnson Advisors; Paul Kasriel, Northern Trust; Dean Maki, Barclays Capital; Ken Mayland, ClearView Economics; James Meil, Eaton; Robert Mellman, J.P. Morgan; Joel Naroff, Naroff Economic Advisors; Frank Nothaft, Freddie Mac; Donald Ratajczak, Morgan Keegan; Martin Regalia, US Chamber of Commerce; David Resler, Nomura Securities International; Chris Rupkey, Bank of Tokyo-Mitsubishi UFJ; John Ryding, RDQ Economics; Joshua Shapiro, MFR; Robert Shrouds, DuPont; John Silvia, Wells Fargo; Allen Sinai, Decision Economics; James Smith, Parsec Financial Management; Sean Snaith, University of Central Florida; Sung Won Sohn, California State University; Neal Soss, Credit Suisse; **Jeff Thredgold, Zions Bank/Thredgold Economic Associates**; Bart van Ark, The Conference Board; Brian Wesbury, First Trust Advisors; Lawrence Yun, National Association of Realtors; Mark Zandi, Moody's Analytics



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Thredgold Economic Associates
1366 S Legend Hills Drive, Suite 150
Clearfield, Utah 84015
www.thredgold.com

Graphics and layout by Taylor Thredgold