Piscataqua Research, Inc.

Economic Projections Summary
January 4, 2010

In our January 2009 summary, we said our general predictions were easy to reach: 2009 would be more of the same. "Without large tax rebates, real consumption should decline. Residential investment should decline. Oil prices should finish 2009 higher. The debt flow battle will be very interesting." We were correct across the board!

We also wrote: "The Obama administration is set to drive local and state governments onto the same slippery slope of debt-enhanced spending…(the) administration's program should cause the economic problem to spread and deepen." Right again!

For the third year in a row, our 2010 guesses are easy to reach. With the cash flow statement our guiding principle, what looks to Ivy League economists like a recovering economy looks to us like a pre-bankruptcy debt ramp. Our guesses for 2010 are:

- Real consumption should decline without further direct government support(higher transfers/lower taxes);
- Real residential investment should bounce along the bottom;
- An unusual inflation/deflation should push commodity prices higher and consumer product margins lower;
- Government budget and pension problems and federal debts should continue to mount; and
- Mortgage rates should set more new lows.

Our oil and gold price guesses were also successful in 2008 and 2009. For 2010, our price guesses are also easy to make. We would not be surprised by: average oil prices soaring to or above average 2008 prices; gold having another good year; and national home prices stable or higher.

Making us LOL in 2010: economists arguing economics is the science of irrational behavior and inefficient markets and a Fed Chairman trying to prove low interest rates do not cause over-investment!

2010 will be a pivotal year. America has reached the point where there are only two paths. The first path is Bernanke's and Obama's: more debt and higher deficits. This policy focuses on converting debt to GDP. What is the exit from this alchemy? Maybe Enron, GM, Argentina or the USSR knows.

The second path requires a hobbling of the Federal Reserve. The Congress should mandate minimum short interest rates of 4% or higher and prohibit the Fed from owning anything other than short Treasuries. It would only be a first step in preventing further harm to the economy.

The roots of the crisis lead to the 1980s. Wall Street and K Street "encouraged" Republicans and Democrats to champion the snake oil of debt-fueled growth. With strong support from the Federal Reserve and the Treasury, Gramm-Leach-Bliley again set the Wall Street debt machine free.

We have written many times that the Fed has recreated the Great Depression. In 1931, low Fed rates drove deposits from banks and worsened the Depression. In 2009, low Fed rates did it again.

Did the Fed intentionally force deposits out of banks? Look at early 2009 M-2 time deposit information. When did the markets turn? Read Vice Chairman Kohn's October 13 speech closely. Note the word "induce." Was that astute "risk taking" by banks in the first quarter or something else? Are those bank bonuses just agent fees for fronting the Fed and Treasury?

In October, we wrote: "the cash flow model suggests "the road not taken" is still open." The cash flow model says that **1932 arrives in 2010**. It also implies the Fed leaves the Depression path in 2010 to blaze a worse path. By the end of 2010, "the road not taken" will probably close.

Though we are optimistic that our economic math will prove analytically superior in 2010, we are saddened. The socialist debt flow model used by Republicans and Democrats to manipulate the economy since the 1990s appears to be disintegrating. Our advice: pay down your debts as fast as you can!