MACRO PULSE™

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From Green Shoots to Thin Ice

In the spring of 2009, the markets pinned their hopes on the idea that "green shoots of recovery" were growing in the U.S. economy. For a while, those hopes seemed justified, as real GDP growth ramped up to 5 percent in 4Q2009; although anemic by the standard of prior recoveries, that rate was infinitely preferable to the 6.8 percent contraction of 4Q2008. Since 4Q2009, however, those hopes have been withering with the cooling economic climate. Now the markets are increasingly skittish about the possibility the U.S. economy may sink back into a second recession. "We're skating on thin ice," said John Silvia, an economist at Wells Fargo Securities, "and we don't have a lot of margin for error."

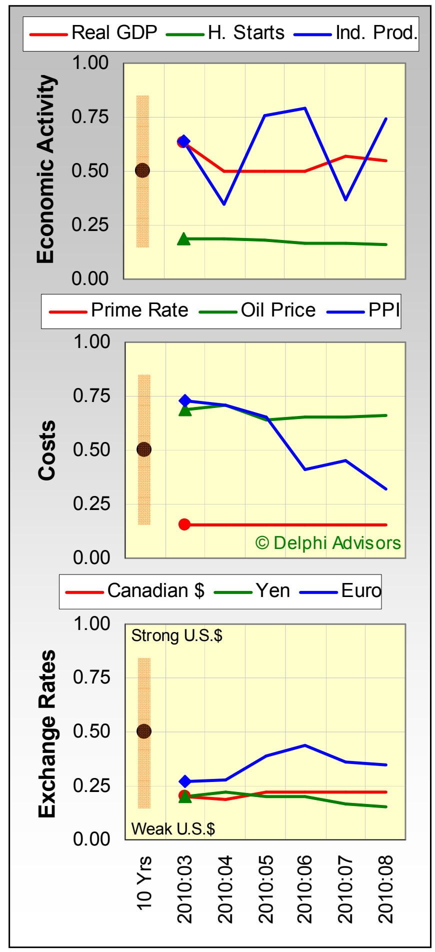
The biggest patch of thin ice continues to be the lack of job creation. The unemployment rate nudged up 0.1 percentage point (to 9.6 percent) in August for the first time in four months as weak hiring by private employers failed to keep pace with the decline in government workers and a large increase in the number of people looking for work. Firms added a net total 67,000 new jobs last month, but with the departure of 114,000 Census workers the economy lost 54,000 jobs – the third consecutive monthly decline.

The economic cold snap appears to be affecting manufacturing as well. Not only has the rate of manufacturing growth been slowing since May, according to the Institute for Supply Management, so too has the pace of growth in new orders. Service industries are suffering as well, especially given recent rises in input costs.

The housing market seems poised to once again topple off the floe that has been its perch since 2006. True, the number of total housing starts nudged higher (1.7 percent) in July, but they remain near the lowest levels since the Census Bureau began collecting data in 1959; also, the drop-off in permits gives little reason to expect a turnaround. "The [now-expired federal homebuyer] tax credit brought forward some demand, and now we're in the middle of the payback," said Nigel Gault, of IHS Global Insight. "We're in a deep hole right now. There's no sign that we're about to climb out of it."

Although policymakers are realizing that fiscal and monetary policies have about reached the limits of their stimulative effects, old habits die hard. Hence we believe more stimulus spending, and borrowing and quantitative easing are in the offing. These activities could destabilize interest rates by overwhelming the Fed's attempts to hold rates down, heightening the probability of another economic downturn.

The monthly average U.S.-dollar price of West Texas Intermediate crude oil inched up (to $76.82 per barrel) in August, coincident with a weaker dollar and a jump in consumption, but despite high (and rising) crude stocks. Growing global demand and the pricing-in of geopolitical risks will keep the price of crude oil elevated despite uncertain demand trends in the United States.



Previous six month's behavior of macroeconomic variables indexed relative to their historical 10-year min, max and average (lower and upper ends of the orange bars, and black dots, respectively)

This report is a compilation of articles posted on our website (http://delphiadvisorsmacropulse.blogspot.com/); those articles relate recent economic developments to the U.S. forest products sector in much greater detail. They also provide context for our complete, 24-month forecast, which is contained in the *Economic Outlook* newsletter available through Forest2Market (http://www.forest2market.com/f2m/us/products/outlook). ■