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"Cassandras of the Double Dip"

For those whose memory of Greek mythology is at best a bit foggy, Cassandra was a prophetess who was cursed so that her predictions – though correct – were never believed. Our prediction since 2H2008 of another recession to follow fairly closely on the heels of the one that officially ended in June 2009 has not always been well received. In October, Ed Leamer, director of the UCLA Anderson Forecast, even coined the pejorative "Cassandras of the double dip" to describe those like us who expect a second downturn. Obviously the jury is still out on whether our view or some other more-optimistic alternative will be vindicated and thus should have been believed, but our reading of the last month's economic "tea leaves" gives us little reason to change our forecast.

For example, the advance 3Q2010 GDP estimate came in 0.3 percentage point higher than the final 2Q2010 estimate, at least temporarily halting the slowdown in growth that had been taken place since 4Q2009. Especially during the past two quarters, however, almost all of the growth that occurred come from either inventory building or government spending – neither of which is a sustainable source of growth.

The addition of 151,000 – mostly private-sector – jobs in October is likely to be shown as having been an illusion; there is evidence suggesting the increase was primarily a function of "concurrent seasonal factor adjustments" employed by the Bureau of Labor Statistics; i.e., the increase cannot be found in the underlying data. Even if the BLS figures are correct, the loss of another 124,000 full-time jobs in October (-1.1 million during the past five months) points to a disturbing trend toward chronic underemployment.

Residential construction essentially flat-lined in September, posting an initial estimate of a 0.3 percent increase in total housing starts. The homeownership rate remained at a decade-low 66.9 percent in 3Q2010, with roughly 3 million housing units more than usual standing vacant. The ongoing mortgage "scandal" has the potential to boost new-home sales (and thus demand for solid wood), but that potential is blunted by the need of most new-home buyers to first sell their existing homes into a difficult market.

Monetary and fiscal policies being debated in the United States are creating a climate of uncertainty, thereby delaying hiring decisions the private sector might otherwise make. Those policies, in addition to economic difficulties around the globe, are also resulting in the dollar's value being whip-sawn on a daily basis. Because of expected global growth and the dollar's recent depreciation, the price of crude oil jumped noticeably during October. Taken together, all of these factors are symptomatic of a weak economy; hence, it would not take much of a "black swan" event to topple the U.S. economy back into recession.

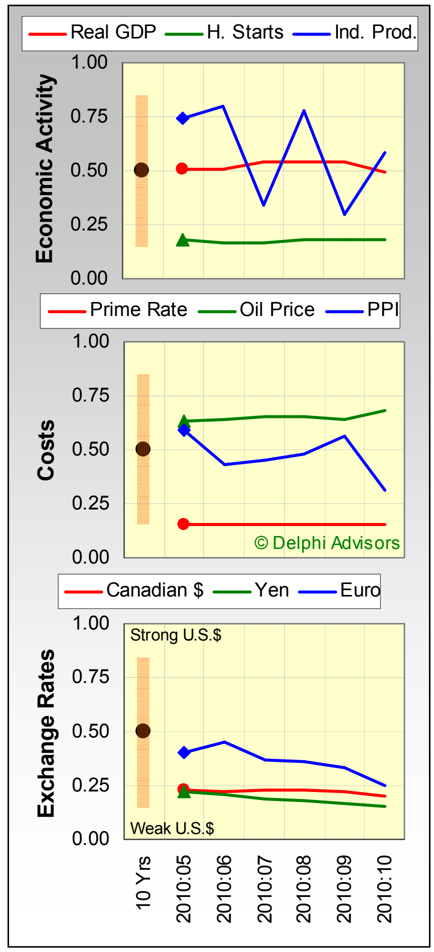

***Figure 1*. Previous six month's behavior of macroeconomic variables indexed relative to their historical 10-year min, max and average (lower and upper ends of the orange bars, and black dots, respectively)**

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). ■