MACRO PULSE™
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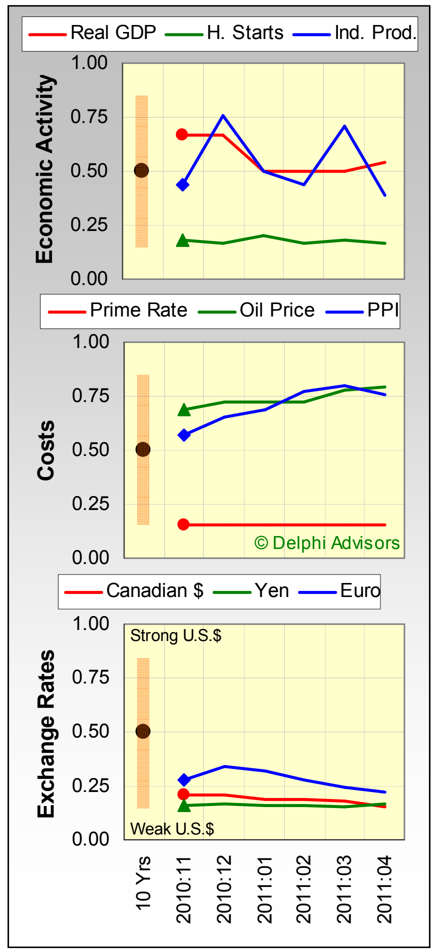
"Transitory" or "Transition"?

"Transitory" seems to be the Federal Reserve's newfound adjective for describing a spate of recent negative economic data. The Federal Open Market Committee's March 15 meeting minutes stated the Committee anticipates that "the effects on inflation of the recent run-up in commodity prices [will] prove transitory." Fed Vice Chair Janet Yellen, in an April 11 speech to the Economic Club of New York, invoked the term six times. Examples included: "recent increases in commodity prices are likely to have only transitory effects on headline inflation… the overall inflationary consequences of these pass-through effects to be modest and transitory… my expectation regarding the transitory effects of commodity price shocks on consumer inflation… fairly modest and transitory effects of an oil price shock...." Finally, in his April 27 press conference, Fed Chair Bernanke said that – other than construction, "most of the slowdown in the first quarter [was] viewed by the Committee as being transitory."



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)

Other important developments from the past month include:

• GDP – Real growth in the U.S. economy during 1Q2011 was estimated at a disappointing 1.8 percent, far slower than 4Q2010's 3.1 percent. That estimate could have been much worse, however, had the GDP deflator (used to remove the effects of price inflation from nominal GDP) been more similar to either the consumer or producer price indices (both of which showed much greater price changes). Will that slowdown in growth prove "transitory" or is the economy "transitioning" toward stagflation?

• Employment – Despite a jump in the unemployment rate to 9.0 percent, the Bureau of Labor Statistics' estimate of 244,000 new nonfarm jobs in April was surprisingly positive in light of other less-upbeat reports. Unfortunately, reading beyond the BLS headlines revealed some less encouraging details. E.g., the number of full-time employees fell while part-timers rose; persons not tallied as part of the labor force rose to a new record above 86.2 million. Transitory?

• Construction – Residential housing permits show few indications of a substantive rally in the short run. Also, the number of foreclosures is about to expand dramatically because of another "mountain" of adjustable rate mortgage resets that began last month and will continue through late 2012. Also, the S&P/Case-Shiller home price index neared double-dip territory. Transitory?

• Federal debt and deficit – The federal debt is poised to exceed the $14.3 trillion ceiling. Because the United States lacks a "credible strategy" to deal with the problem, there is a "small but significant risk" of a new global economic crisis erupting. For U.S. consumers and companies, that crisis could take the form of higher interest rates and a depreciating dollar as foreign investors diversify out of dollar-denominated assets, which would in turn lead to higher prices. Transitory?

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). ■