MACRO PULSE™
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"Danger Close"

You are in combat, pinned down by an adversary almost within arm's reach. In desperation you call for fire from artillery or close air support. To make sure headquarters understands the enemy is practically in your foxhole, you scream "Danger close!" into the radio when relaying your coordinates. Then you hunker down and wait for the thunder of the incoming rounds, making deals with God in exchange for your life. Although much less dire than the imaginary combat scene, the U.S. economy is in a somewhat similar predicament: Beset on every side by conditions that threaten to knock it back into recession, many market participants are calling on the Federal Reserve and/or Congress to "blow away" those threats while hoping and praying they do not become collateral damage. Some of those threats include:

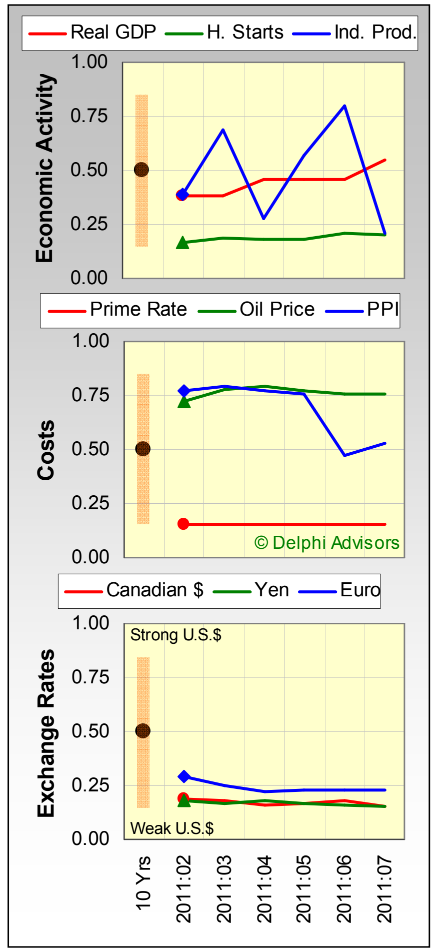
U.S. unemployment. Excessive unemployment affects the U.S. economy in many ways: declining consumer demand, heightened need for social services from a smaller tax base, and pessimistic consumer sentiment.

Rising prices on many everyday goods. The weak U.S. dollar contributes to generally high and increasing costs for food and energy, undermining the vitality of the U.S. and global economy.

Tax and regulatory uncertainty. The threat of increased taxes, a more aggressive federal regulatory tone, and uncertainty regarding the impacts from new legislation such as the Dodd-Frank and Affordable Health Care laws translate into the expectation of a more costly business environment.

High private indebtedness. Deleveraging from the prior decade's debt binge continues. Some progress has been made but more pain remains, particularly as asset deflation continues. Low interest rates have reduced some of the pain but for how much longer?

Sovereign debt. Multiple sovereign debt crises are rocking the Eurozone. Japan is facing new debt-based challenges due to changing demographics. Less well reported are eastern Europe sovereign debt crises. Finally, the growing U.S. and state debts are casting a larger shadow. Any solution will involve short-term pain: reduction in government spending, higher taxes, and/or higher interest rates and payments.



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)

In our combat scenario, imagine your reaction if the response on the radio is, "Sorry, we have nothing to send your way; you're on your own." In the present economic reality, it seems to us the Fed and government are increasingly showing themselves to be "out of ammunition." For example, the Fed in early August limited itself to pledging that interest rates will be kept low for "an extended period," a tacit admission that measures taken so far have been largely ineffective. Also, Congress is in no mood (appropriately, in our opinion) to pass additional fiscal stimulus. So, the market is being left to its own devices in coping with the advancing "horde" of threats.

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). ■