MACRO PULSE™
September 2011 A Delphi Advisors Publication Volume 2, No. 9

From "Too Big to Fail" to "Too Big to Save"?

Although the term "too big to fail" has been in the economics lexicon for a long time, it was not a term typically tossed about at cocktail parties – until the Lehman Brothers 2008 bankruptcy. At least in the United States, since then the phrase has perhaps been applied most often to firms (e.g., General Motors) deemed too crucial to the U.S. economy to be permitted to "go under." The prevailing attitude overseas was that countries were "too big to fail."

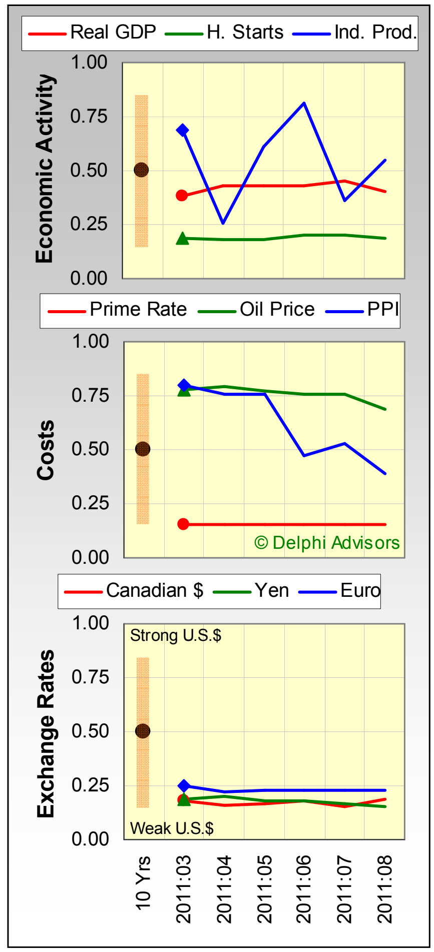
More recently a new variant of "too big to fail" has emerged: "Too big to save." As the size of companies – and now countries – that are teetering on the edge of insolvency continues to increase, policymakers are realizing there are insufficient funds in the system to keep such foundering entities afloat. Particularly with respect to Europe, officials there have been implementing half-measures that, arguably, are likely to accomplish little more than postpone the worsening inevitable. Given the interconnectedness of the world's markets, insolvency of a European country could have profoundly adverse effects on the U.S. economy.

Beyond Europe's troubles, the Bureau of Economic Analysis revised its estimate of 2Q2011 GDP by -0.3 percentage point, to 1.0 percent. More noteworthy, however, was the report of no net gain in U.S. non-farm employment and downward revisions to June and July's job numbers. August marked the fourth straight month with job creation below 100,000; at least 125,000 jobs need to be created each month to keep up with population growth. The lack of hiring will crimp the economy by stifling consumer spending; also tax revenues will be reduced and benefit program outlays boosted.

As a result of these U.S. economic developments most of the U.S. financial sector is pleading for additional government stimulus. In last month's *Economic Outlook* we critiqued the debt ceiling agreement worked out by Congress (now available on the "Blog" page of our website). That agreement authorized an immediate increase of $400 billion. Another $500 billion expansion was scheduled for September, although that could have been blocked if both the House and Senate disapproved. An attempt in the Senate to thwart the second debt-limit increase was defeated on September 8, opening the way for the debt ceiling to rise to roughly 101 percent of GDP. If historical precedent is any indicator, the U.S. economy has the potential to grow only slowly with a debt-to-GDP ratio above 100 percent.

Because the debt ceiling debate dimmed prospects for fiscal stimulus, most are hoping for additional monetary stimulus from the Federal Reserve. Although several Fed governors have expressed concern over price inflation risk from additional intervention, expectation of some Fed action is growing.

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). ■



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)