

## Sinking Ship or Rising Tide?

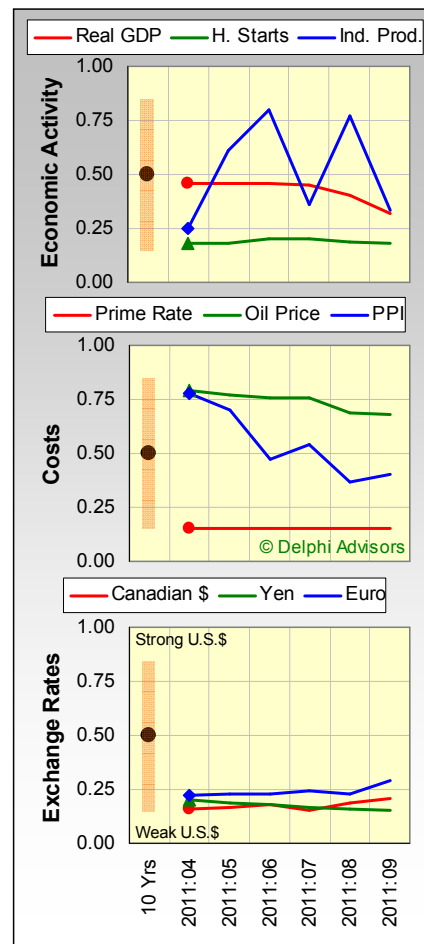
The story is told of a yacht owner who threw a party on his craft while it was moored. Somehow, the boat sprang a leak and began to sink. When the situation was brought to the owner's attention, not wanting to alarm his guests, he announced, "The yacht's not sinking; it's just the tide coming in." Of course, anyone giving the owner's statement more than a moment's thought would realize its stupidity, and that they had all better get ashore.

That parable has many parallels to today's situation. The global economy appears to have "sprung a leak" and is in the process of sinking back into recession. However, policymakers around the world seem unwilling to recognize (or at least accurately describe) the seriousness of the problem, perhaps because they fear the citizens of their respective countries will panic (or riot?). But by glossing over the stark realities, they may be dooming an unprepared public to a very unpleasant future.

Developments during the past month include:

- Moody's Investors Services downgraded two of France's three largest banks in mid-September over funding access and liquidity concerns, while Standard & Poor's followed suit with Italy's sovereign debt. In addition, Markit's latest PMI report is "providing confirmation...the Eurozone recovery has ground to a halt." Europe's challenges could easily "infect" the United States and compound problems in this country.
- The Economic Cycle Research Institute (ECRI) is now convinced "the U.S. economy is indeed tipping into a new recession," adding "there's nothing that policymakers can do to head it off." ECRI creator Lakshman Achutan emphasized his record of correctly calling the last three recessions with no false alarms while saying, "What is going on...is wildfire; it's not reversible."
- The Fed launched "Operation Twist," in which it will buy \$400 billion of Treasuries with remaining maturities of six to 30 years and sell an equal amount of paper with remaining maturities of three years or less. The intent is to "put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative." The "Twist" may indeed reduce debt service payments, thereby slowing the growing size and pace of the federal debt snowball rolling downhill. Besides lowering mortgage interest rates for the comparatively few homeowners who qualify for loans, however, "Twist" will do virtually nothing in the short-term to improve the broader U.S. economy. In fact, we think the Fed is tacitly admitting it is essentially "out of bullets" to fix the economy.

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)