

## 3Q2011 GDP: Game Changer or Just Extra Innings?

Game 6 of the 2011 World Series: The St. Louis Cardinals were behind three games to two. Down by two runs in the ninth inning, with two outs but two on base, the Cards' David Freese was at the plate with two strikes – one strike away from losing the game and the series. But the third strike never came. Freese hit a triple instead, scoring two runs and tying the game to send it into extra innings. On his next at-bat Freese won the game with a solo home run in the eleventh inning. St. Louis took Game 7 and the Series the next night.

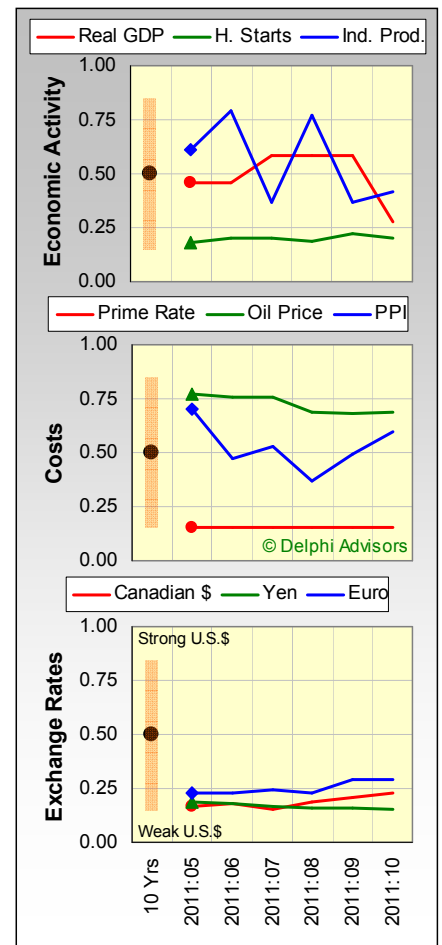
In some respects, the advance 3Q2011 GDP report resembled Freese's triple in Game 6. Financial news had not been particularly upbeat during late summer or early fall. For example, surveys pointed to souring consumer sentiment. Also, the Federal Reserve's *Beige Book* reports indicated "moderated [growth] in many Districts" during July and "mixed or weakening activity" in September. The Ceridian-UCLA Pulse of Commerce Index went even further in predicting no growth for the quarter. Most compelling, though, was the Economic Cycle Research Institute's strident recession call.

It looked bleak – down to the last strike. Then came the triple: 2.5 percent GDP growth in the 3Q's advance estimate. Does this signal the game has been won and recession avoided? Or does it only take us to extra innings? To mix metaphors since we are also in football season, "the play is under review," based on data released since the advance estimate expectations are for 3Q growth to be revised lower. Time will tell if this was a game changer.

As for other developments, October's jobs report was a mixed bag: The results of the establishment survey yielded an increase of only 80,000 jobs while the household survey was sufficiently positive (+277,000 jobs) to drop the unemployment rate back to 9.0 percent. In addition, estimates for August and September were also boosted by a total of 102,000 jobs. That puts average monthly job growth since January 2010 at 100,000 – well short of the 125,000 needed to keep up with population growth.

Events unfolding in Europe could be fodder worthy of an entertaining tragicomedy were the potential impacts to the world economy not so dire. Europe's finances are teetering on the edge, with one-year Greek bond yields breaching 235 percent and Italy's interest rates rising from 2.5 percent in April to 6.5 percent in early November. Most observers expect Greece will not be part of the Eurozone by year's end, and that Italy and Spain could follow suit next year. At the moment, Europe presents perhaps the greatest risk to future global growth. Germany's leading economic institutes slashed their forecast for that country's GDP growth by more than half, from 2.9 percent in 2011 to just 0.8 percent in 2012. Germany's slowdown could bleed over into the United States; so, too, could Europe's banking woes.

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)**