MACRO PULSE™

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The Feral Hogs are Winning

Markets, particularly debt markets, were roiled in the aftermath of Federal Reserve Chairman Ben Bernanke's late May announcement the U.S. central bank may begin "tapering" (reducing) its Quantitative Easing (QE) program, this fall.

We found it telling that Dallas Federal Reserve Bank President Richard Fisher "warned the 'feral hogs' of financial markets against trying to force the Federal Reserve to shelve plans to slow its bond buying" of $85 billion per month. "Markets tend to test things," Fisher told the *Financial Times* in an interview published on June 24. "I don't think anyone can break the Fed…. But I do believe that big money does organize itself somewhat like feral hogs. If they detect a weakness or a bad scent, they'll go after it."

For a bit of context, feral hogs wreak an estimated $1.5 billion in damage to U.S. agriculture and the environment each year. Most states have resident (and rapidly expanding) populations of these ravenous omnivores, but the South has been particularly hard hit. Texas, in particular, is so desperate to thin its burgeoning herd, no license is required to hunt or harvest the animals.

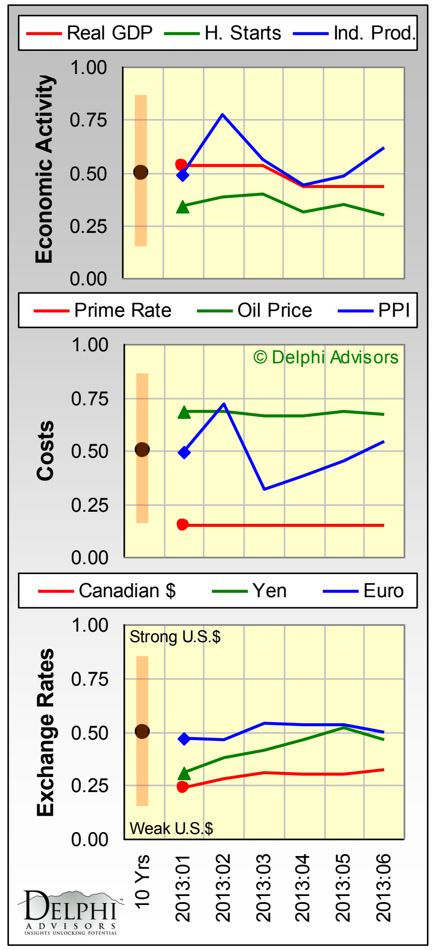
As if to probe the Fed's resolve, 10-year Treasury rates spiked in the wake of Fisher's interview, peaking at 2.73 percent on July 5 (the highest yields since August 1, 2011) – a 64 percent increase over the May 2 low of 1.66 percent. Despite Fisher's rhetoric, we believe the Fed "blinked" in response to the higher yields. While testifying before Congress on July 17, Fed Chair Ben Bernanke said there is no "preset course" for the central bank's bond purchases, suggesting "the Fed would not rush to taper" the extraordinary monetary measures that helped push yields to record lows last year. In our opinion, then, the "feral hogs" are winning at present.

As for other developments during the past month:

- Gross Domestic Product (GDP) – The final estimate for 1Q2013 U.S. real GDP growth fell 0.6 percentage point from the prior estimate, to 1.8 percent (seasonally adjusted and annualized rate). The Chicago Fed National Activity index posted negative readings in all three months of 2Q, and thus many economists are calling for 2Q GDP growth to fall below 1 percent.

- Industrial Production – While total industrial production moved higher, Wood Products and Paper output extended their ongoing downward trends in June, retreating by 0.6 and 0.9 percent respectively. Capacity utilization also declined by similar percentages, while capacity either was unchanged (Wood Products) or declined marginally (Paper).

- Housing – The Census Bureau reported total starts of 836,000 units (SAAR) in June; this was the lowest rate since August 2012, the second-largest sequential drop (from 928,000 in May) since 2011, and the biggest miss to expectations of 957,000 since January 2007. Permits fared just as badly, falling by 74,000 units to 911,000 on expectations of 1 million – the largest miss in history.



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)

This monthly report is a compilation of articles posted on our website; those articles relate recent economic developments to the U.S. forest products sector in much greater detail. ■