MACRO PULSE™

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Executive Summary*

The downward revision in 4Q2009 GDP growth (to 5.6 percent) may be a harbinger of more modest growth in 1Q2010. The economy added jobs in March, but most of those jobs were only temporary hires that will provide only a minor boost to spending. Some elements of private domestic investment – most noticeably manufacturing and service industry output – are contributing to GDP gains, but others (e.g., housing) continue to exert a drag on growth. U.S. exports are slowing, in part because of dollar strength against the euro. Crude oil appears to be on another price upswing. ■

Defying Gravity

U.S. gross domestic product. The final tally is in: 4Q2009 growth in real gross domestic product (GDP) was pegged 5.6 percent (Figure 2), 0.1 percent lower than the "advance" estimate and 0.3 percent lower than the subsequent "preliminary" estimate (Figure 3).[1] Note that, unlike the contribution to GDP growth from private domestic investment (PDI) – which increased in the first revision (preliminary estimate) and declined slightly in the final revision – contributions from the other components shrank with each revision.

The downward 4Q2009 GDP revision could be a harbinger of more modest growth in 1Q2010. Based upon the data presented in subsequent sections of this report, we think 1Q2010 GDP growth will be roughly 3.1 percent. Our forecast squares with that of analysts at Wells Fargo, who expect the economy's growth rate to slow to 3 percent in 1Q2010.[2]

Personal consumption expenditures: Employment gains have not yet "kicked into high gear," and considerable slack remains in the labor market. Tepid labor demand will keep a lid on contributions to GDP growth from personal consumption expenditures.

- Employment – As indicated in our 2 April blog posting,** we found little to cheer about in the March employment report from the Bureau of Labor Statistics (BLS).[3] Yes, employment rose by an estimated 162,000 jobs in March (Figure 4) – the "best gain in three years,"[4] but 81,000 of those were created out of the BLS's business-entity birth/death model[5] while another 88,000 were temporary workers (either temporary help services or census workers).

Granted, hiring more temporary workers is often the first step toward a better and more permanent employment picture. However, there were a number of

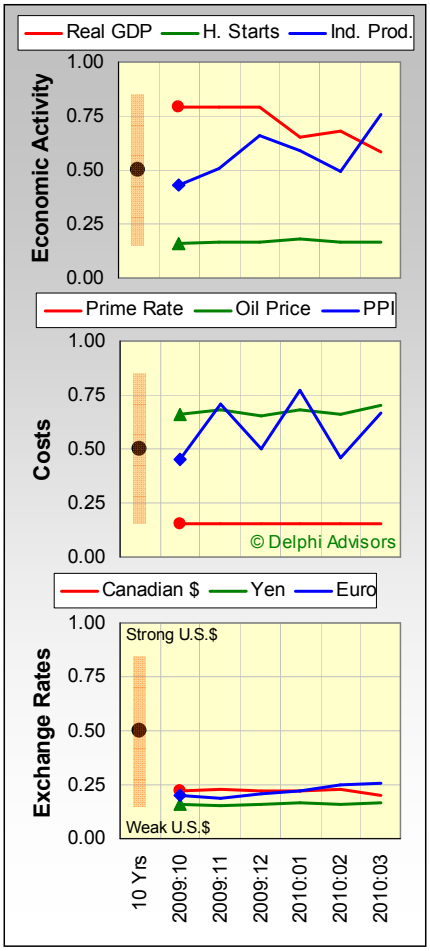

***Figure 1*. Previous six month's behavior of macroeconomic variables indexed relative to their historical 10-year min, max and average (lower and upper ends of the orange bars, and black dots, respectively)**

* Our complete, 24-month forecast is contained in the *Economic Outlook* newsletter, available through Forest2Market (http://www.forest2market.com/f2m/us/products/outlook).

** http://delphiadvisorsmacropulse.blogspot.com/2010/04/march-2010-employment-report-turn-up-or.html

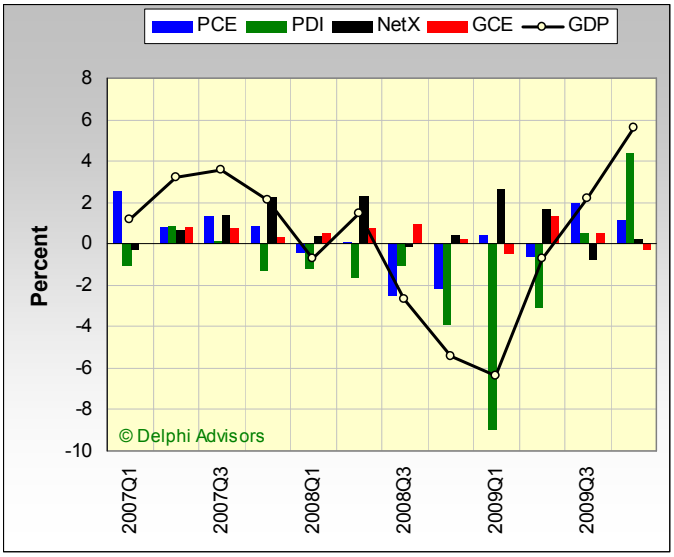

Figure 2. **Contributions – from personal consumption expenditures (PCE), gross private domestic investment (PDI), net exports (NetX), and government consumption expenditures and gross investment (GCE) – to percentage change in historical real GDP; data are seasonally adjusted at annual rates. Source: Bureau of Economic Analysis**

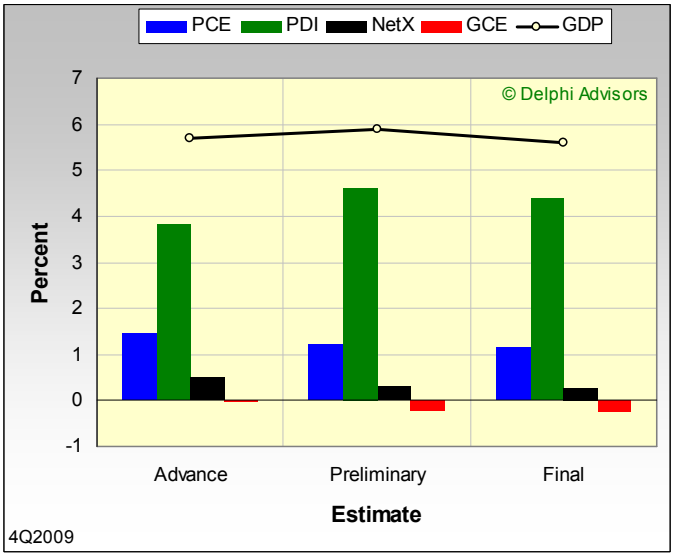

Figure 3. **Percentage change in real GDP, by estimate and component – personal consumption expenditures (PCE), gross private domestic investment (PDI), net exports (NetX), and government consumption expenditures and gross investment (GCE). Source: Bureau of Economic Analysis**

other sobering statistics in that report:

1. The official unemployment rate remained at 9.7 percent.
2. The number of people jobless for 27 weeks and over increased by 414,000, to 6.5 million. In March, 44.1 percent of unemployed persons were jobless for 27 weeks or more.
3. The number of persons working part time for economic reasons (either because their hours had been cut back or because they were unable to find a full-time job) increased to 9.1 million.
4. There were 1.0 million "discouraged" workers in March, up by 309,000 from a year earlier. Discouraged workers are persons not currently looking for work because they believe no jobs are available for them.
5. The "U-6" measure of labor underutilization rose for a second month, to 16.8 percent. The U-6 measure, which is similar to the way the official unemployment rate was calculated until during the Clinton administration, includes the officially unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force
6. The average workweek for all employees on private non-farm payrolls lengthened by six minutes, to 34.0 hours; although this is an improvement, the average workweek is still near record lows.
7. Average hourly earnings of all employees on private non-farm payrolls fell by $0.02 (0.1 percent), to $22.47; this followed a $0.04 gain in February.

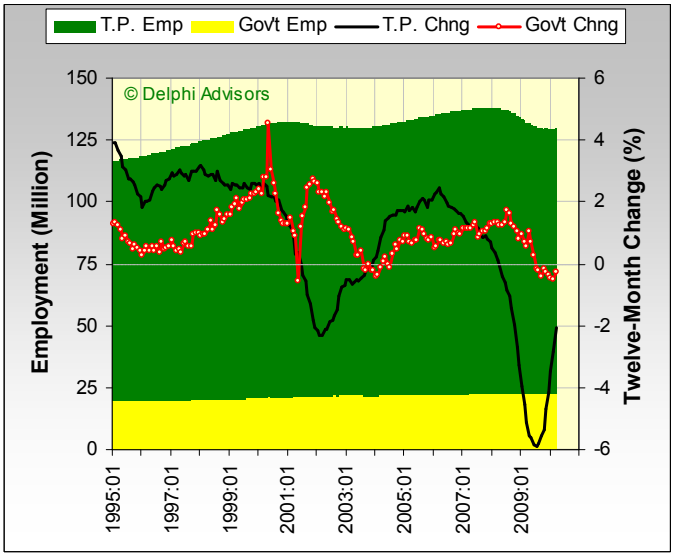

Figure 4. **Components – total private ("T.P.") plus government ("Gov't") – of total non-farm employment versus percentage change from prior 12 months in those components; data are seasonally adjusted. Source: Bureau of Labor Statistics**

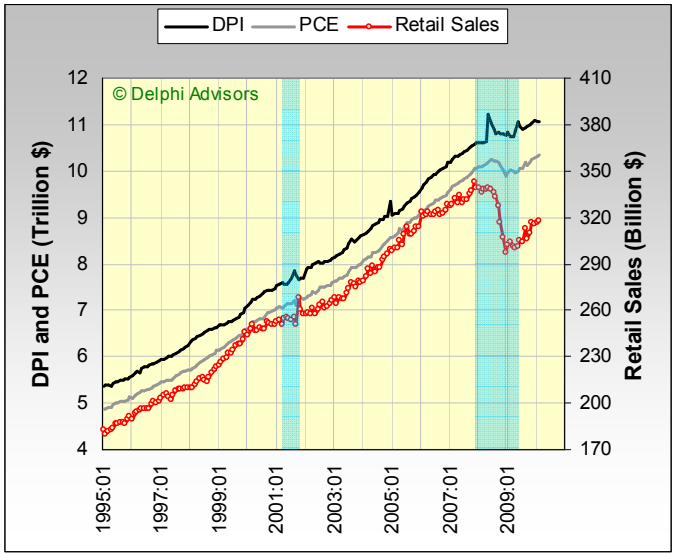

Figure 5. **Disposable personal income and personal consumption expenditures (nominal dollars, SAAR) versus seasonally adjusted total retail (excl. food service) sales; recessions shown in blue. Sources: Bureau of Economic Analysis, Census Bureau and National Bureau of Economic Research**

- Personal income and consumer spending – Disposable personal income (DPI) rose $1.6 billion on a seasonally adjusted and annualized rate (SAAR) in February, while personal consumption expenditures (PCE) increased $34.7 billion (Figure 5).[6] Because PCE increased more quickly than DPI, the personal saving rate fell to 3.1 percent in February (from 3.4 percent in January).

Seasonally adjusted non-food retail sales also rose by $860 million (0.3 percent), surprising some analysts who thought the February blizzards might have crimped buying.[7] For perspective, however, retail sales are still down 5 percent from the pre-recession peak (-8 percent on a per-capita basis). "Sales are actually lower today than they were in January 2006 – four years ago – even though the population has risen 4.3 percent over this time," David Rosenberg, an analyst at Gluskin Sheff, pointed out.[8]

Retail sales apparently expanded without a concurrent rise in consumer indebtedness. The Federal Reserve reported consumer debt outstanding in February declined by nearly $11.5 billion (5.6 percent, annualized) from January's level. The lion's share of the drop was from revolving debt (mainly credit cards), which fell by $9.4 billion (a 13.1 percent drop, annualized).[9]

Having consumer spending expanding faster than disposable income while seeing consumer debt outstanding drop with unemployment rates near double-digit levels seems a strange combination of outcomes. Some anecdotal evidence suggests the way all the pieces fit together is that some financially distressed homeowners are foregoing making mortgage payments and redirecting that cash to spending as well as paying down credit card debt. While such behavior would explain these apparently divergent data points to date there is no hard evidence to substantiate this speculation.[10] However, this will bear monitoring over the next several months. If true, we would expect consumer spending to fall when foreclosures increase as former homeowners will have to pay rent that was used to pay down credit card debt and purchase retail goods.

Private domestic investment: Some elements of private domestic investment – most noticeably manufacturing and service industry output – are contributing to GDP gains, but others (e.g., housing) continue to exert a drag on growth.

- Manufacturing and service industry output – Except for capacity, most metrics of manufacturing activity continued to advance into positive territory during February (Table 1, Figures 6 - 10).

Another perspective on the strength of shipments comes

Table 1. **Most recent reported manufacturing metrics – by industry or sector – and percentage change from prior month, prior year, bottom and peak. Sources: Federal Reserve Board and U.S. Census Bureau**

Metric / Industry	2010:01	2009:12	2009:01	Trough*	Date	Peak**	Date
Industrial Production Index		---------- *Percentage Change* ----------					
All Industries	101.1	0.9	0.9	5.5	2009:06	-10.1	2007:12
Wood Products	69.0	3.2	2.0	6.0	2009:05	-26.8	2007:12
Paper	84.9	1.1	6.0	8.5	2009:04	-13.4	2007:12
Capacity Utilization Index							
All Industries	72.6	1.0	2.1	6.3	2009:06	-10.0	2007:12
Wood Products	52.6	3.8	6.2	9.1	2009:05	-22.8	2007:12
Paper	75.4	1.3	8.2	10.2	2009:04	-10.5	2007:12
Capacity (% of 2002 Output)							
All Industries	139.2	-0.1	-1.1	- na -	2010:01	-1.1	2008:11
Wood Products	131.2	-0.5	-4.0	- na -	2010:01	-5.1	2008:03
Paper	112.6	-0.2	-2.0	- na -	2010:01	-3.2	2007:12
Shipments (Billion $)							
Total Manufacturing	383.7	0.3	5.5	8.3	2009:05	-11.9	2008:07
Wood	7.4	0.5	0.2	3.8	2009:03	-10.6	2008:06
Paper	13.0	-0.6	-1.5	2.0	2009:08	-9.0	2008:08
Inventories (Billion $)							
Total Manufacturing	495.2	0.2	-7.5	0.5	2009:09	-6.6	2008:08
Wood	9.3	0.7	-9.8	0.8	2009:11	-16.4	2007:12
Paper	13.3	-1.0	-10.0	- na -	2010:01	-13.1	2008:10
New Orders (Billion $)							
Total Manufacturing	378.4	1.7	9.5	10.9	2009:03	-15.8	2008:07
Durable Goods	174.9	2.6	9.7	10.7	2009:03	-23.0	2007:12
Non-durable Goods	203.5	0.9	9.4	11.0	2009:03	-8.5	2008:07

* Minimum value since December 2007 (the start of the current recession)
** Maximum value since December 2007 (or December 2007 if subsequent months were lower)

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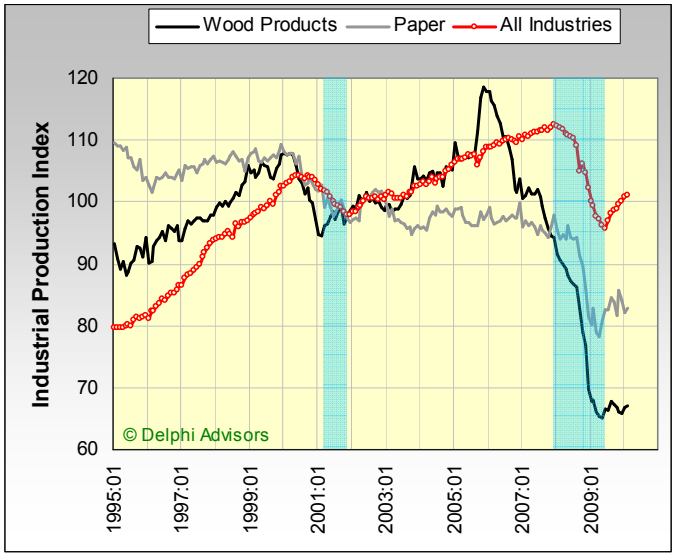

Figure 6. **Seasonally adjusted industrial production (2002 average index = 100) by wood product and paper manufacturers, and all industries; recessions shown in blue. Sources: Federal Reserve Board and National Bureau of Economic Research**

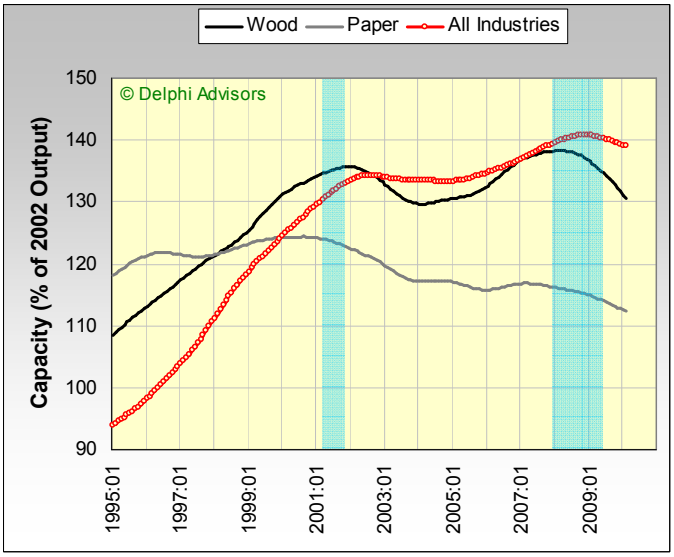

Figure 8. **Capacity of wood product and paper manufacturers, and all industries; recessions shown in blue. Sources: Federal Reserve Board and National Bureau of Economic Research**

from the Association of American Railroads' (AAR) *Rail Time Indicators* report. According to AAR, the overall volume of U.S. rail traffic rose in February, relative to January – and is homing in on 2009's levels (Table 2).[11] "Primary forest products" and especially "Lumber & wood products" showed recent strength.

The survey of U.S. manufacturing firms by the Institute for Supply Management (ISM) showed the pace of expansion quickened in March (to 59.6 percent, from 56.5 percent in February). Readings over 50 percent indicate more firms said business was improving than said it was worsening. One noteworthy item was that manufacturers' input prices rose 8 percent in March.

Service sector activity also added to February's gains; the non-manufacturing index registered 55.4 (up 2.4 percentage points), reflecting growth for a fourth con-

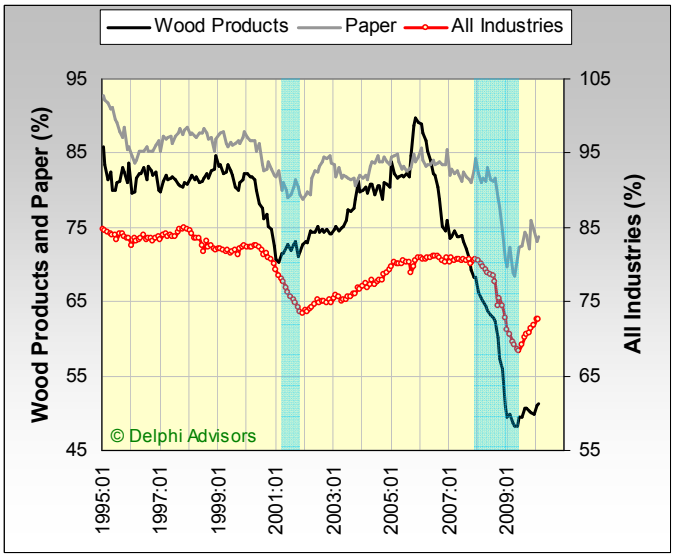

Figure 7. **Seasonally adjusted capacity utilization among wood product and paper manufacturers, and all industries; recessions shown in blue. Note that the "All Industries" series is shifted to reduce clutter. Sources: Federal Reserve Board and National Bureau of Economic Research**

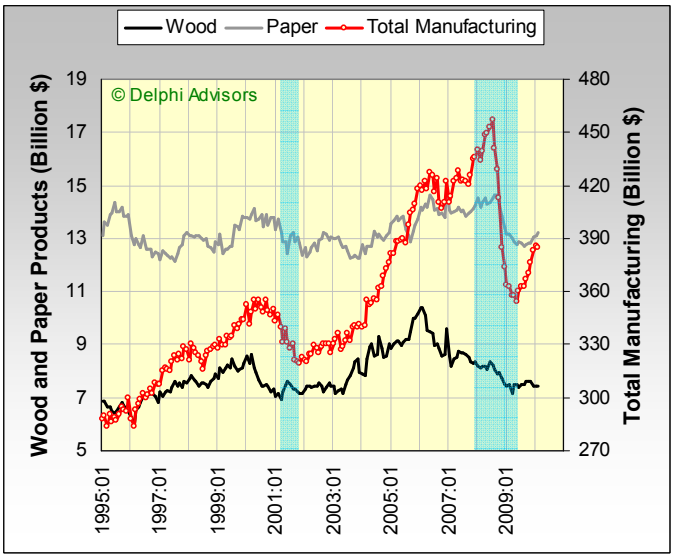

Figure 9. **Seasonally adjusted value of shipments, by sector; recessions shown in blue. Sources: Census Bureau and National Bureau of Economic Research**

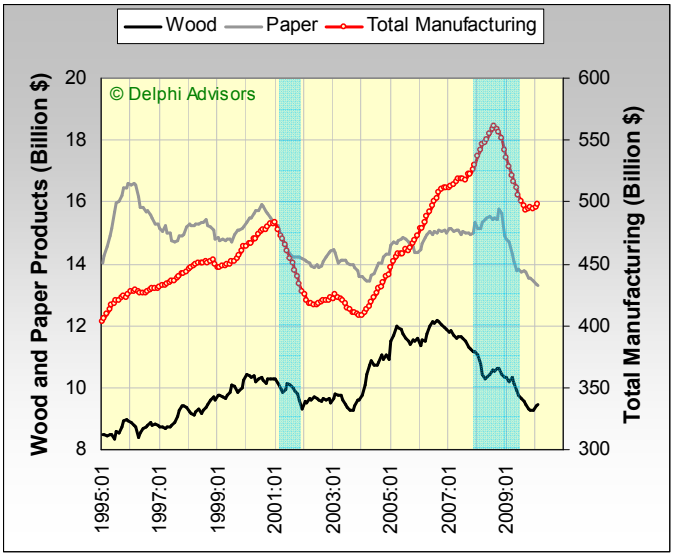

Figure 10. **Seasonally adjusted value of inventories, by sector; recessions shown in blue. Sources: Census Bureau and National Bureau of Economic Research**

secutive month. Corrugated containers, packaging and paper were among the commodities up in price; construction labor was one commodity down in price. See our 5 April blog entry* for more details, including the performance of individual industries.

- Construction – The value of construction put in place fell "across the board" in February, relative to January.** The closest thing to a bright spot was the private non-residential category, which declined by a comparatively modest 0.4 percent. Inclement weather and poor economic conditions have been widely cited as culprits behind the drop.

February's activity reversed the trend that had been in place during the previous four months; i.e., the decline in overall construction spending picked up speed, after having slowed between October 2009 and January 2010.

February's falling housing starts and sales (Table 3 and Figure 11) seemed to get most of the press last month, primarily because of the setbacks those drops represented. Not every category of activity retreated, however; permits and completions advanced rather substantially. Of course, with completions rising and new-home sales falling, inventory expanded on both

Table 2. **U.S. rail traffic, by commodity. Source: Association of American Railroads**

Commodity	2010:02	2010:01	2009:02
	Thous. Carloads	*---- % Change ----*	
Total, all commodities	1,090.0	3.2	-1.5
Forest products	38.0	-1.0	-1.7
Primary forest products*	6.3	-3.6	9.9
Lumber & wood products	10.2	10.3	4.6
Pulp & paper products	21.5	-4.9	-7.3

* Wood raw materials such as pulpwood and wood chips © Delphi Advisors

absolute and "months" terms (Figure 12). One would logically expect greater supply to drive new-home prices lower, but the opposite happened; the median price of homes sold rose 6.1 percent, to $220,500 in February.

Another recent observation is that the trends in single-family starts and sales seem to be diverging.*** Starts and sales moved in reasonably parallel fashion through 1H2009. Since then, however, starts have maintained a slight upward tilt while sales have dropped off. Because of that divergence, the ratio of starts to sales is homing in on 15-year highs; but because both starts and sales

Table 3. **Overview of most-recently available housing market conditions, and comparisons to prior month, prior year, and each category's respective trough and peak. Source: Census Bureau and National Association of Realtors**

	2010:02	2010:01	2009:02	Trough*	Date	Peak**	Date
Activity (SAAR, Thous.)							
New Homes		*---- Percentage Change ----*					
Permits							
1-unit	514	2.0	34.9	50.3	2009:01	-71.4	2005:09
All units	637	2.4	15.8	27.9	2009:04	-71.9	2005:09
Starts							
1-unit	499	-0.6	39.8	39.8	2009:01	-72.6	2006:01
All units	575	-5.9	0.2	20.0	2009:04	-74.7	2006:01
Completions							
1-unit	458	4.3	-14.2	4.3	2010:01	-76.0	2006:03
All units	700	5.4	-15.5	5.4	2010:01	-68.8	2006:03
Sales (1-unit)	308	-2.2	-13.0	0.0	2010:02	-77.8	2005:07
Existing Homes							
Sales (All units)	5,020	-0.6	7.0	10.8	2008:11	-30.8	2005:09
Inventory		*---- Thousands ----*					
New (1-unit)	236	233	328	232	2009:12	572	2006:07
Existing (All units)	3,589	3,277	3,798	3,198	2006:03	4,575	2008:07
		---- Months ----					
New (1-unit)	9.2	8.9	11.1	4.1	2005:03	12.4	2009:01
Existing (All units)	8.6	7.8	9.7	3.6	2005:01	11.2	2008:04
Median Price (Thous. $)		*---- Percentage Change ----*					
New (1-unit)	220.5	6.1	5.2	7.5	2009:03	-16.0	2007:03
Existing (All units)	165.1	0.1	-1.8	0.2	2009:01	-28.3	2006:07

* Minimum value since January 2005 (near the peak of the housing market)
** Maximum value since January 2005 © Delphi Advisors

* http://delphiadvisorsmacropulse.blogspot.com/2010/04/manufacturing-and-service-sectors-gain.html

** http://delphiadvisorsmacropulse.blogspot.com/2010/04/construction-snowed-in-in-february.html

*** http://delphiadvisorsmacropulse.blogspot.com/2010/03/housing-starts-and-sales-parting-ways.html

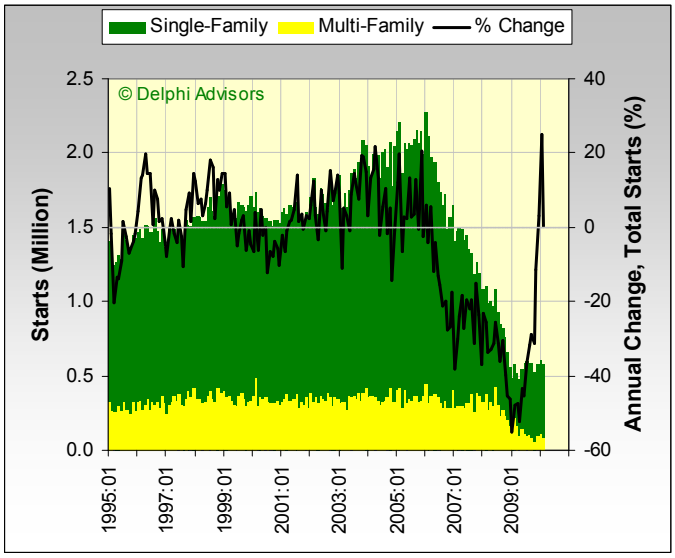

Figure 11. **Components of total housing starts versus annual percentage change in total starts; data are seasonally adjusted and annualized. Source: Census Bureau**

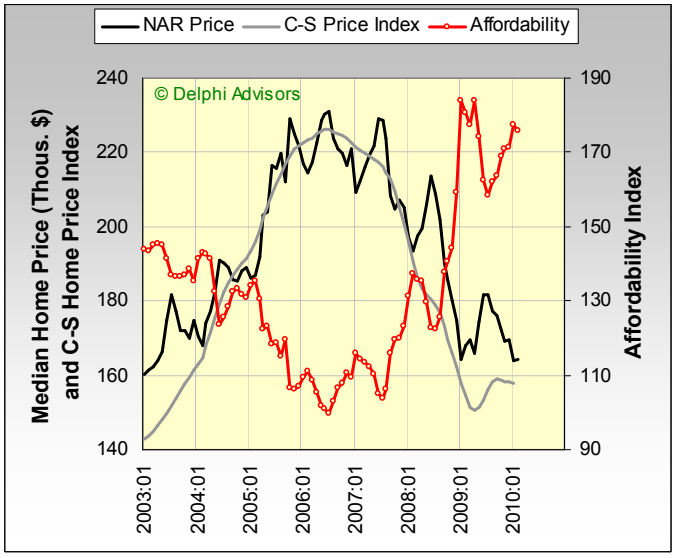

Figure 13. **NAR median existing home price and Case-Shiller 10-city home price index versus NAR housing affordability index. Sources: National Association of Realtors and Standard & Poor's**

are either near or at their historical lows, a small bump up in sales would be sufficient to get that ratio moving lower once again. Probably more troubling is months of unsold new home inventories are rising once again after having fallen for most of a year. Obviously, part of this rise in inventories stems from depressed sales, but nevertheless the trend of the past several months is not encouraging. If unsold inventory continues to build that means starts will have to be cut back to bring the market back into balance.

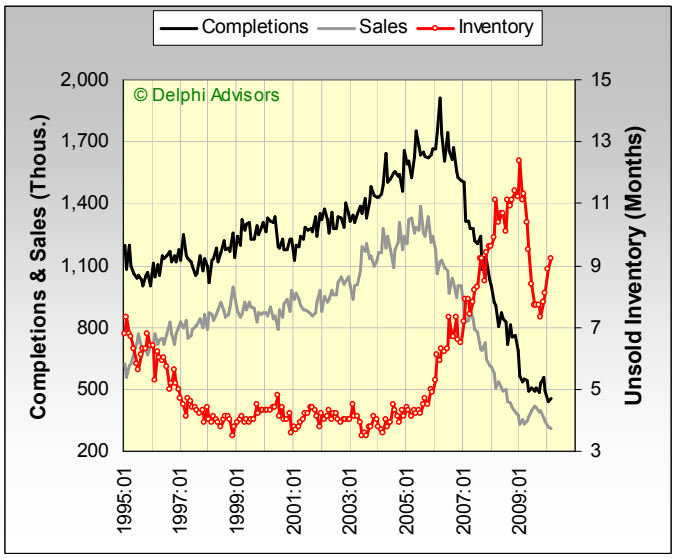

Figure 12. **New, single-unit housing completions and sales versus unsold inventory expressed as the number of months required to clear the market; data are seasonally adjusted and annualized. Source: Census Bureau**

Sales of existing homes in February fell to the slowest rate in eight months, but the median price of homes sold rose to $165,100 (0.1 percent). Understandably, affordability was also little affected (Figure 13). The S&P/Case-Shiller 10-city home price index was nearly unchanged in January (the latest data available).

Net exports: Total January exports of $142.7 billion and imports of $180.0 billion resulted in a goods and services deficit of $37.3 billion, down from $39.9 billion in December (Figure 14). January exports were $0.5 billion less than December exports of $143.2 billion (primarily because of a drop in shipments of aircraft and autos), while January imports were $3.1 billion less than December imports of $183.1 billion.[12] In January, the United States imported the fewest barrels of oil in a decade.

According to the Netherlands Bureau for Economic Policy Analysis, world trade volume contracted by 0.7 percent in January 2010 from the previous month, on the heels of an increase of 3.9 percent in December (Figure 15). Volume growth of both exports and imports of emerging economies fell back to around zero, while import and export volumes of the United States and the Euro Area declined. In January, trade was 10 percent below the peak level reached in April 2008, but 13 percent above the trough reached in May 2009. Prices in January 2010 were little changed (+0.2 percent) from December, nearly midway between their July 2008 peak and February 2009 trough.[13]

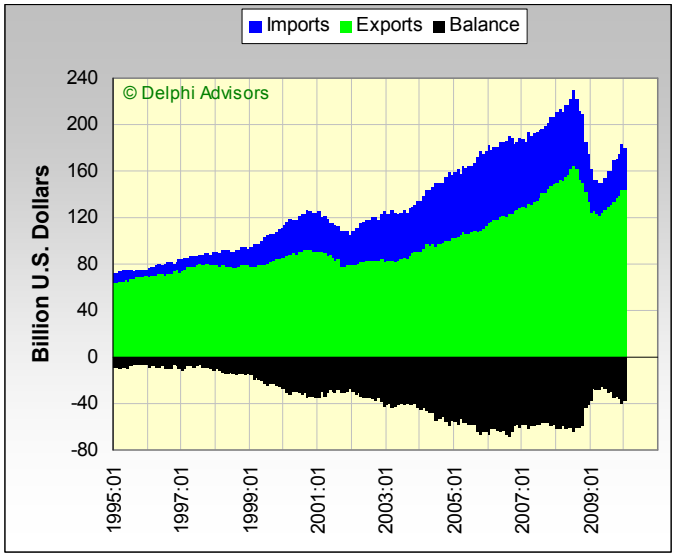

Figure 14. **Total nominal value of goods and services imported into, and exported from, the United States. Data are seasonally adjusted and reported on a balance-of-payments basis. Source: U.S. Census Bureau, Foreign Trade Division**

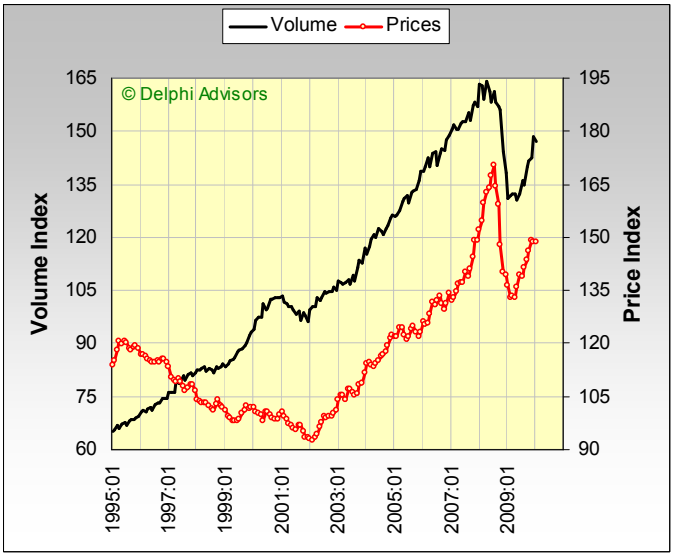

Figure 15. **Indices (2000 average = 100) of world trade volume and unit prices. Data are seasonally adjusted. Source: Netherlands Bureau for Economic Policy Analysis**

- Forest products – U.S. exports of wood pulp, paper and paperboard in January 2010 fell from December's level (which represented a 12-month high), but remained more than 16 percent above year-earlier results (Table 4). Imports increased slightly relative to December 2009. In total, net exports declined from December activity by 9.2 percent; comparing prior six month results, however, net exports were nearly 22 percent higher than prior year levels.

Lumber exports rose slightly (2.4 percent) in January, but appear to be on a downward trend that began after October – not surprising given the dollar's recent strength against the euro (see the currency exchange rates section, p. 8). Lumber imports dropped 4.4 percent at the same time. On a year-over-year basis, both imports and exports exhibited modest increases.

Government consumption expenditures: Federal revenues fell short of outlays in February, for a third time

Table 4. **Most recent six-month trends in U.S. wood pulp, paper and paperboard trade. Source: USDA Foreign Agricultural Service and U.S. International Trade Commission**

	---------- *Thousand Metric Tons* ----------								
Current Year	**2009:07**	**2009:08**	**2009:09**	**2009:10**	**2009:11**	**2009:12**	**2010:01**	**Prior Six-Month Totals**	**Prior Six-Month Change (%)**
Exports	2,705	2,922	2,750	2,879	2,881	3,029	2,788	17,248	
Imports	369	356	344	354	346	331	339	2,070	
Net Exports	2,335	2,566	2,406	2,525	2,535	2,698	2,449	15,179	
Month-to-month change (%)		9.9	-6.2	4.9	0.4	6.4	-9.2		
Prior Year	**2008:07**	**2008:08**	**2008:09**	**2008:10**	**2008:11**	**2008:12**	**2009:01**		
Exports	2,903	2,896	2,646	2,790	2,177	2,275	2,395	15,180	
Imports	540	490	519	476	437	408	376	2,706	
Net Exports	2,364	2,406	2,127	2,314	1,740	1,867	2,019	12,474	
Year-over-Year Change, by Month									
Exports	-199	25	104	89	703	755	392	2,068	13.6
Imports	-171	-134	-175	-122	-91	-76	-37	-636	-23.5
Net Exports	-28	160	279	211	794	831	429	2,704	21.7
Change (%)	-1.2	6.6	13.1	9.1	45.6	44.5	21.3	21.7	
Change between Current Year-to-Date vs. Prior Year-to-Date, by Month									
Exports	-2,059	-2,033	-1,929	-1,840	-1,137	-383	392		
Imports	-1,289	-1,423	-1,598	-1,720	-1,811	-1,888	-37		
Net Exports	-770	-610	-331	-120	674	1,505	429		
Change (%)	-4.7	-3.3	-1.6	-0.5	2.7	5.6	21.3		© Delphi Advisors

Table 5. **Most recent six-month trends in U.S. softwood lumber trade. Source: USDA Foreign Agricultural Service and U.S. International Trade Commission**

	---------- Million Board Feet ----------								
Current Year	**2009:07**	**2009:08**	**2009:09**	**2009:10**	**2009:11**	**2009:12**	**2010:01**	**Prior Six-Month Totals**	**Prior Six-Month Change (%)**
Exports	81	90	81	102	97	85	87	542	
Imports	737	802	746	771	712	685	655	4,370	
Net Exports	-657	-712	-665	-669	-614	-600	-568	-3,828	
Month-to-month change (%)		8.4	-6.5	0.6	-8.2	-2.4	-5.3		
Prior Year	**2008:07**	**2008:08**	**2008:09**	**2008:10**	**2008:11**	**2008:12**	**2009:01**		
Exports	102	88	87	86	78	66	70	474	
Imports	1,078	1,009	1,056	981	943	743	646	5,379	
Net Exports	-976	-921	-970	-895	-866	-676	-577	-4,904	
Year-over-Year Change, by Month									
Exports	-21	2	-5	16	20	19	17	68	14.3
Imports	-341	-207	-310	-210	-232	-58	9	-1,008	-18.7
Net Exports	320	209	305	225	251	77	8	1,076	-21.9
Change (%)	-32.7	-22.7	-31.4	-25.2	-29.0	-11.4	-1.5	-21.9	
Change between Current Year-to-Date vs. Prior Year-to-Date, by Month									
Exports	-93	-91	-96	-81	-61	-43	17		
Imports	-2,809	-3,016	-3,326	-3,536	-3,768	-3,826	9		
Net Exports	2,716	2,925	3,230	3,455	3,706	3,783	8		
Change (%)	-37.1	-35.5	-35.0	-34.2	-33.8	-32.5	-1.5		© Delphi Advisors

since the fiscal year began in October (Figure 16). The Office of Management and Budget estimates the FY2010 deficit will total roughly $1.6 trillion,[14] so the red ink will dip lower during most of the remaining months in the year. The April *Economic Outlook* has much more to say on our expectations surrounding credit and money supply, interest rates, inflation and price stability.

Currency exchange rates. The U.S. dollar appreciated in March against two of the three currencies we track (Figure 17): by 0.8 percent against the euro and 0.6 percent against the yen. But the greenback slipped by 3.4 percent against Canada's "loonie." On a trade-weighted index basis, the dollar depreciated 0.8 percent against a basket of 26 currencies and is 20.6 percent below its February 2002 peak. The following three subsections discuss some of the reasons why currency exchange rates behaved as they did during the past month.

Canada: The loonie has strengthened on rising demand for Canada's commodity exports, including copper,

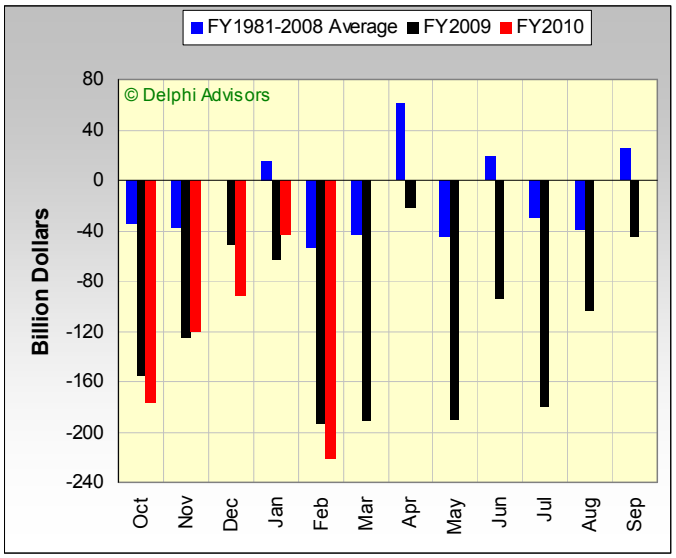

Figure 16. **Comparison of fiscal year 1981-to-2008 average, and 2009 and 2010 federal budget surpluses/deficits, by month. Source: U.S. Treasury Department**

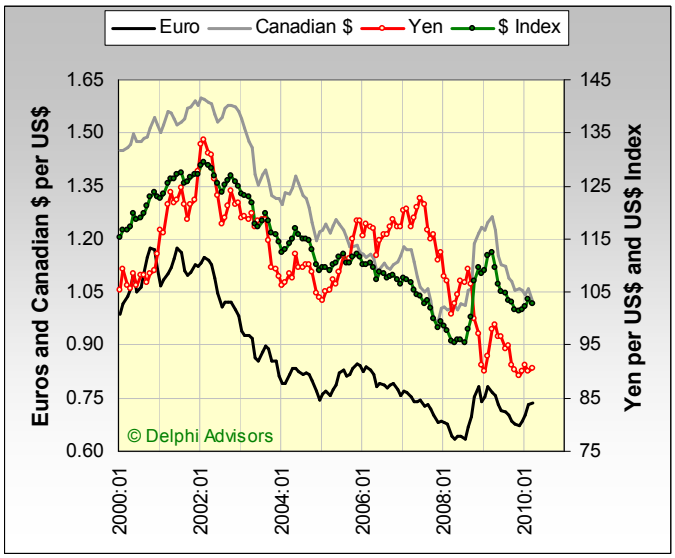

Figure 17. **Exchange rates between the U.S. dollar and selected foreign currencies, and the trade-weighted, U.S.-dollar exchange rate index; smaller values mean a weaker dollar. Source: Federal Reserve Board**

gold, wheat, and oil. The country is also the world's largest producer of uranium. Although the United States is still Canada's largest trading partner, exports to China and India have enabled the Canadian economy to rebound from the global slump more quickly than the Bank of Canada expected.[15]

Real GDP advanced 0.6 percent (7.4 percent SAAR) in January, a fifth consecutive monthly increase and the fastest pace since December 2006. Goods-producing industries increased 1.3 percent, largely on the strength of manufacturing (+1.9 percent) and construction (+1.7 percent). Mining and oil and gas extraction also increased (+0.9 percent) in January. The service sector advanced 0.4 percent, led by wholesale trade (+2.9 percent). Retail trade (+0.8 percent), the finance and insurance sector (+0.6 percent), transportation and the public sector also rose. Conversely, the output of real estate agents and brokers fell by 6.7 percent, primarily because of significant downturn in sales of existing homes; some tourism-related industries as well as agriculture and forestry retreated.[16]

Monthly lumber production by sawmills increased 18.8 percent to 4.1 million cubic meters in January. Compared with January 2009, lumber production increased 2.0 percent. Sawmills shipped 4.1 million cubic meters of lumber in January, up 12.5 percent from December.[17]

Europe: The euro held up remarkably well over the past month, particularly in light of the uncertainties surrounding Greek's sovereign debt crisis. In the past few weeks, however, investors have become more skeptical about the European Union's (EU) backstop bailout mechanism for Greece that would also involve the International Monetary Fund.[18] "With or without support from the EU the bottom line remains that after years of fiscal mismanagement the market has little confidence that Greece can swallow the necessity austerity measures and slash its budget deficit," said Jane Foley, research director at Forex.com.

Like most areas of the globe, statistical reports covering recent activity in the 16-nation Euro Area (EA16) provide a mixed perspective. The main positive statistic was a 1.7 percent increase in industrial production during January (the fastest rate of growth in 20 years). But that was more than offset by stalled 4Q2009 GDP growth, a February uptick in the unemployment rate (to 10 percent), and a January decline in new industrial orders.[19]

Asia: Slightly weaker corporate capital expenditures and private inventories caused a downward revision (to an annualized 3.8 percent, from the preliminary reading of 4.6 percent) to Japan's 4Q2009 GDP growth,[20] and also tweaked a gauge measuring prices to show record-deep deflation.[21] Casting about for anything to weaken the yen and create some inflation, the Bank of Japan kept its key policy interest rate unchanged at 0.1 percent and announced plans to double the scale of a ¥10 trillion ($111 billion) lending program introduced in December.[22]

The yen's recent strength against the dollar has not prevented Japan's exports from rising 45 percent from a year earlier in February, and its trade surplus from ballooning a year-over-year 819 percent.[23] "Though the year-on-year rise in exports is exaggerated by a base effect in comparison with the collapse a year earlier, it highlights the continued solid recovery trajectory from [1Q2009] lows, on the turnaround in global export demand," said analysts at Action Economics. "Amid ongoing sluggish domestic demand, exports remain key for sustaining recovery from the severe Japanese recession."[24]

Although Japan enjoyed a comparatively modest unemployment rate of 4.9 percent in February, heightened layoffs and a drop in industrial production (-0.9 percent) translated into weaker domestic consumer spending (-0.5 percent).[25, 26]

Energy. The monthly average price of West Texas Intermediate crude oil gained $4.82 (6.3 percent) in March, rising to $81.24 per barrel (Figure 18). That

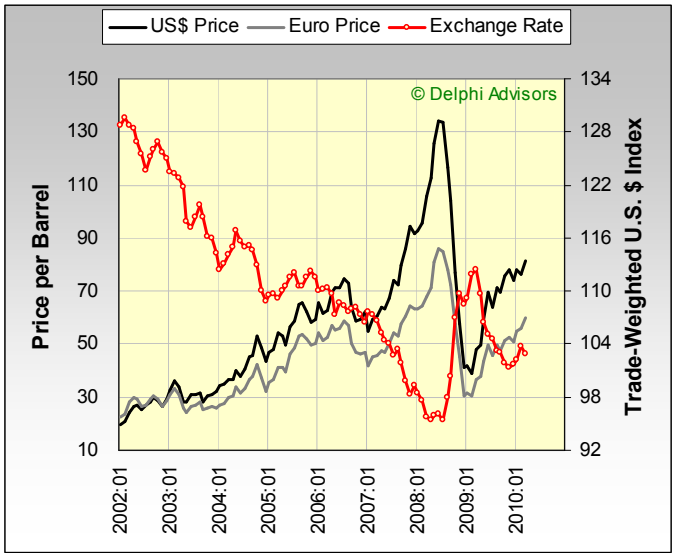

Figure 18. **Monthly average West Texas Intermediate crude oil price expressed in U.S. dollars and euros, verses monthly traded-weighted U.S.-dollar exchange rate index. Sources: Dow Jones & Co. and Federal Reserve Board**

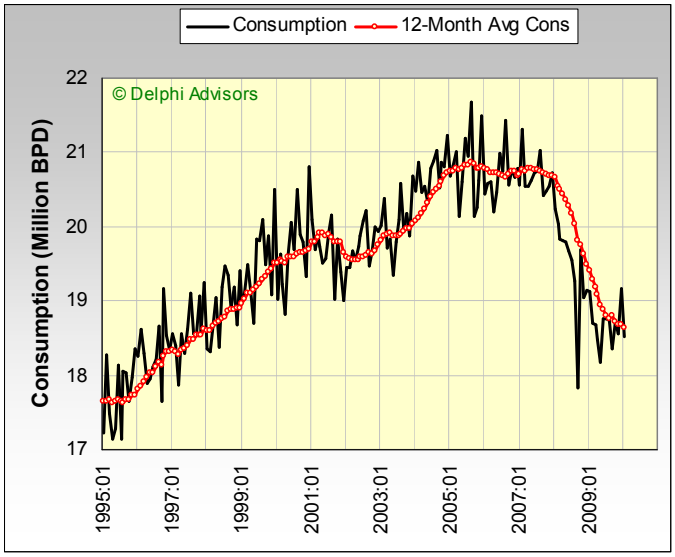

***Figure 19*. U.S. consumption (monthly and 12-month moving average) of total crude oil and petroleum products, in million barrels per day (BPD). Source: U.S. Energy Information Administration**

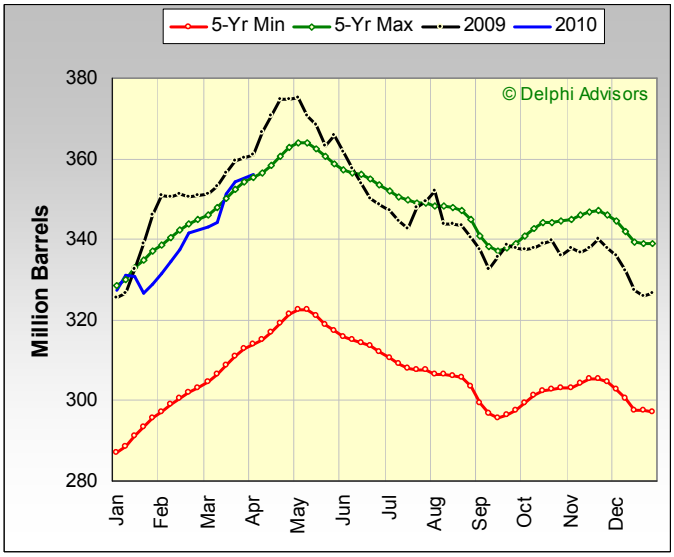

***Figure 20*. Current- and prior-year weekly U.S. crude oil stocks versus average minima and maxima of previous five years (Strategic Petroleum Reserve excluded). Source: U.S. Energy Information Administration**

price increase occurred despite the lagged impacts of a falloff in consumption of about 0.5 million barrels per day (BPD) in January (Figure 19) – the latest data available – and rising crude stocks (Figure 20). ■

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