

## Waiting with Finger in the Wind

Time will tell whether the downward revision of 1Q2010 growth in U.S. GDP from 3.2 to 3.0 percent is just a temporary setback or a harbinger of a more protracted slowdown. There is plenty of evidence to support predictions for either continued recovery or renewed recession. The 65 percent decline since early January of the Industrial Price Commodity Smoothed Price Index, for example, is one metric signaling a potential slowdown in the world economy. Then there is Europe's debt crisis, which is only now starting to weigh on global growth. We still forecast some growth through the rest of 2010, but additional data may cause a change in expectations.

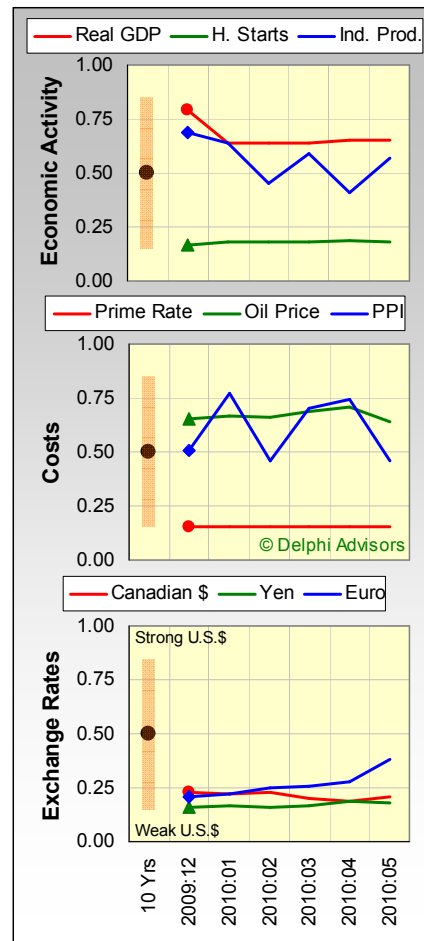
Private-sector employment continues to drag on the economy. Non-farm payrolls expanded in May, but 95 percent of those jobs were temporary positions related to the 2010 Census; further, three-fourths of new private-sector jobs were created by temporary-help agencies. The unemployment rate edged down to 9.7 percent – not because of a dramatic increase in hiring, but rather because of persons dropping out of the labor force. The bottom line is that the U.S. economy may have actually lost 11,000 permanent jobs in May. Employment uncertainty caused consumers to “sober up” in April after the spending “bender” they went on in March.

Manufacturing continues to be a bright spot in private domestic investment, but construction spending – especially the residential component, now that the federal homebuyer tax credit has expired – is unlikely to add substantially to GDP growth for quite some time. Single-family starts and sales, and total completions all jumped by double-digit percentages in April, and the inventory of new homes fell to a four-decade low in absolute terms. However, permits of both single- and multi-family units *retreated* by double-digit percentages relative to March.

The Netherlands Bureau for Economic Policy Analysis estimates the volume of world trade expanded – at least through March. Closer to home, U.S. exports and imports both rose in March; but the trade deficit widened mainly because of petroleum imports. The dollar's dramatic appreciation against the loonie and euro in May is likely to dampen U.S. exports in the near-term.

The monthly average price of West Texas Intermediate crude oil fell in May, to \$73.83 per barrel – a drop of \$10.65 (-12.6 percent). That price decrease coincided with the stronger dollar, and occurred despite the lagged impacts of a jump in consumption of roughly 0.2 million barrels per day (BPD) in March – the latest data available – and despite rising crude stocks. That the drop in oil price was not a result of just dollar strength – but rather a combination of concerns over sovereign debt, prospects for flat or falling consumption in the developed world, and rising OPEC production – is evidenced by the fact that the euro price also dropped despite that currency's depreciation against the greenback.

The next page contains a list of articles posted on our website; 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>). ■



**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)**

## Delphi Advisors articles relating economic developments to the U.S. forest products sector

Category / Title	Link
<b>Gross Domestic Product</b>	
1Q2010 GDP: Revisions Going the Wrong Way	<a href="http://tinyurl.com/29yufha">http://tinyurl.com/29yufha</a>
Personal Consumption Expenditures	
Employment	
May 2010 Employment Report: Private Sector Hiring Stalls	<a href="http://tinyurl.com/2bvc3st">http://tinyurl.com/2bvc3st</a>
Consumer Spending	
April 2010 Personal Income and Outlays, and Retail Sales: Consumers "On the Wagon?"	<a href="http://tinyurl.com/2ad59jq">http://tinyurl.com/2ad59jq</a>
Private Domestic Investment	
Manufacturing	
April 2010 Industrial Production Climbs More Than Forecast	<a href="http://tinyurl.com/29df535">http://tinyurl.com/29df535</a>
April 2010 Manufacturers' Shipments, Inventories and New Orders	<a href="http://tinyurl.com/2cokbc3">http://tinyurl.com/2cokbc3</a>
May 2010 ISM Reports: Manufacturing Gain Slows; Service Sector Steady	<a href="http://tinyurl.com/28v8e2j">http://tinyurl.com/28v8e2j</a>
Construction	
April 2010 U.S. Construction: Cautiously Positive	<a href="http://tinyurl.com/25qtwwm">http://tinyurl.com/25qtwwm</a>
Net Exports	
March 2010 International Trade: Higher Volumes but Flat Prices	<a href="http://tinyurl.com/2cj87co">http://tinyurl.com/2cj87co</a>
Government Consumption Expenditures (Monetary & Fiscal Policy)	
Price Stability	
April 2010 U.S. Treasury Statement: More Red Ink	<a href="http://tinyurl.com/2746bvn">http://tinyurl.com/2746bvn</a>
April 2010 Consumer and Producer Price Indices: At a Tipping Point?	<a href="http://tinyurl.com/2dq325y">http://tinyurl.com/2dq325y</a>
<b>Currency Exchange Rates</b>	
May 2010 Currency Exchange Rates: The Dollar Rallies	<a href="http://tinyurl.com/26jgbak">http://tinyurl.com/26jgbak</a>
<b>Energy</b>	
May 2010 Monthly Average Crude Oil Price: Retrenchment	<a href="http://tinyurl.com/2fd2866">http://tinyurl.com/2fd2866</a>