

More Economic “Stall” Warnings

The second downward revision of 1Q2010's change in gross domestic product (GDP) to 2.7 percent is one warning indicator that the U.S. economy may be in the process of stalling. Yes, consumer spending rose relative to 4Q2009, but the other major components of GDP exhibited further softness. Moreover, it is becoming increasingly evident that a significant share of consumer spending since late 2008 resulted from government transfer payments and tax breaks.

But even that government-induced growth was not sufficient to materially lower the jobless rate. Of course, the loss of 125,000 non-farm jobs in June did not help matters despite estimates by the Bureau of Labor Statistics that 83,000 private sector jobs were created. The economy needs to grow by roughly 3 percent just to generate enough jobs to keep up with increasing population, but 5 percent for a full year to lower the jobless rate by one percentage point. Growth has averaged 3.5 percent over the past three quarters.

Manufacturing appears to be providing some lift for now, as industrial production and capacity utilization both rose in May. However, two other indicators are possibly sending warning signals: New factory orders declined in May and growth in the Institute for Supply Management's purchasing managers' index slowed during June. Solid wood manufacturers reported a decline in overall activity, while paper manufacturing advanced.

Construction in the United States, including the housing market, is sounding the loudest warning. The value of construction put in place declined across nearly all categories during May – public works projects excepted. Private residential permits, starts and completions all fell hard, as did new home sales. Existing home sales also retreated, but at a slower rate. Builders are having to compete with an ever-expanding supply of foreclosed homes. Hence, the contribution to GDP of private residential fixed investment is at its lowest level since the 1940s.

More time will be required to determine whether the downturn in world trade during April was just a false alarm or something about which to be genuinely concerned. In any event, the widening U.S. trade deficit shows that domestic producers are in danger of again falling behind in the global trade race. Exchange rates could frustrate U.S. exporters' attempts to expand market share, as the dollar strengthened against the euro in June.

The monthly average price of West Texas Intermediate crude oil ticked higher in June despite a stronger dollar, the lagged impacts of a slight setback in consumption in April, and crude stocks that are well above the average five-year range. That higher price at least partly reflects expectations that the BP *Deepwater Horizon* disaster will adversely affect future domestic oil supplies.

The next page contains a list of articles posted on our website during the past four weeks; 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>) . ■

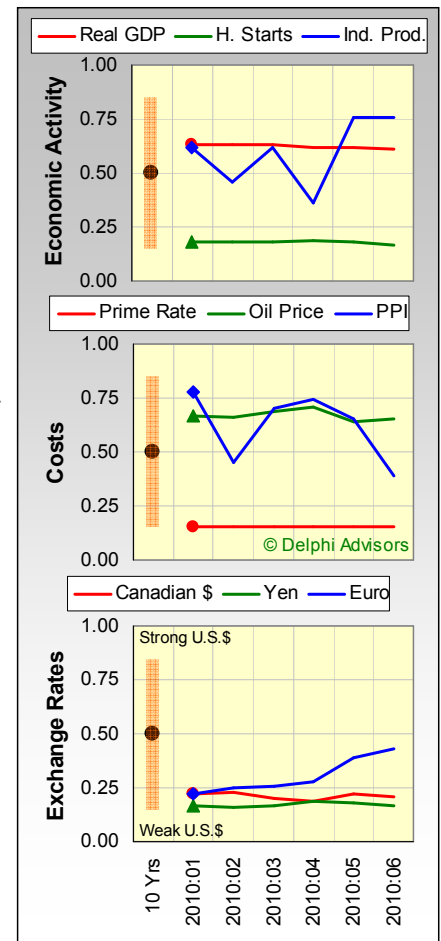


Figure 1. Previous six month's behavior of macroeconomic variables indexed relative to their historical 10-year min, max and average (lower and upper ends of the orange bars, and black dots, respectively)

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

| Category / Title | Link |
|--|---|
| Gross Domestic Product | |
| 1Q2010 GDP: Another Downward Revision | http://tinyurl.com/29x5jm9 |
| Personal Consumption Expenditures | |
| Employment | |
| June 2010 Employment Report: Rising and/or Falling? | http://tinyurl.com/2abbjzr |
| Consumer Spending | |
| May 2010 Personal Income and Outlays, Retail Sales, Consumer Debt and Household Net Worth: Income Gains Outpace Spending | http://tinyurl.com/28pg3ln |
| Private Domestic Investment | |
| Manufacturing | |
| May 2010 Industrial Production, Capacity Utilization and Capacity: Manufacturing the Recovery | http://tinyurl.com/2fcaysu |
| May 2010 Manufacturers' Shipments, Inventories and New Orders: Broad-based Decline | http://tinyurl.com/28b3ypg |
| June 2010 ISM Reports: Manufacturing and Service Sector Growth Slows | http://tinyurl.com/28f89ae |
| Construction | |
| May 2010 U.S. Construction: Serious Setbacks in Residential Starts and New-home Sales | http://tinyurl.com/292pa4e |
| Net Exports | |
| April 2010 International Trade: Topped Out or Just a Temporary Breather? | http://tinyurl.com/2dk4men |
| Government Consumption Expenditures (Monetary & Fiscal Policy) | |
| Deficits and Debt | |
| May 2010 U.S. Treasury Statement: Twenty Months (and Counting) of Deficits | http://tinyurl.com/2elo93p |
| Price Stability | |
| May 2010 Consumer and Producer Price Indices: No Sign of Imminent Collapse | http://tinyurl.com/293hufm |
| Currency Exchange Rates | |
| June 2010 Currency Exchange Rates: Two Steps Back and Two Forward | http://tinyurl.com/24koh9m |
| Energy | |
| June 2010 Monthly Average Crude Oil Price: Higher Despite Current Fundamentals | http://tinyurl.com/28tgpqo |