

## Downdraft

With growth of 2Q2010 real gross domestic product (GDP) coming in at only 2.4 percent – the second quarterly slowdown in the rate of growth (down from 4Q2009's 5.0 percent and 1Q2010's 3.7 percent) – it appears the U.S. economy is caught in a downdraft and heading toward a period of mediocre growth or outright recession.

Total nonfarm employment retreated by another 131,000 jobs in July, the second consecutive month of job losses. The magnitude of that setback was particularly noteworthy because it came on the heels of revisions that took the jobs lost in June from -125,000 to -221,000. The consumption-oriented U.S. economy is struggling because of drags from persistently high unemployment (especially among young adults who would ordinarily be entering the workforce and establishing households) and households either paying down or defaulting on debt.

Manufacturing threw off conflicting data. The Census Bureau reported a decline in new orders for June, but the Institute for Supply Management reported growth in new manufacturing orders in July (albeit at a slower pace than in June). Non-manufacturing new orders, on the other hand, grew at a faster pace in July. A drop-off in the availability/desirability of credit has hampered the ability of businesses to expand operations and hire employees.

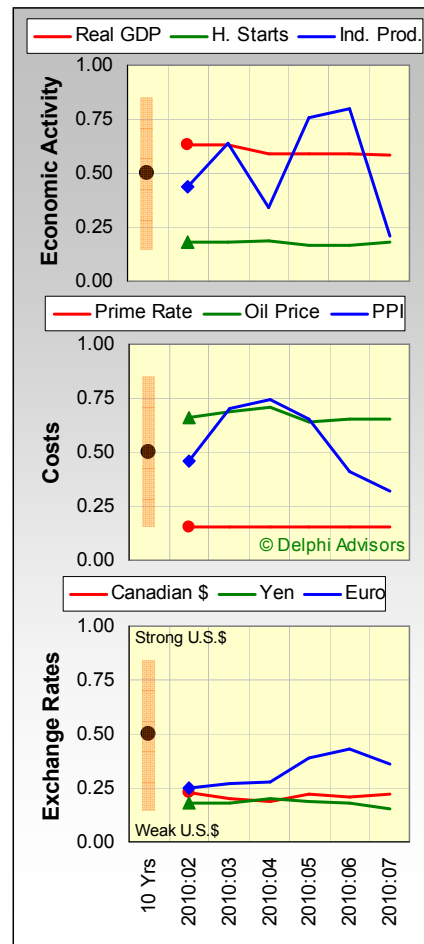
Builders completed a significantly higher number of homes in June, but had few new projects to turn to. Prospects for a substantial improvement in housing are slim, as total permits nudged barely higher in June. Sales of new homes were fairly brisk by recent standards, but home resales declined along with the pending home sales index.

Net exports represent yet another downdraft on GDP. Although exports have been trending higher, the volume of imports has picked up even faster. The widening trade gap, caused in part by renewed dollar weakness, could cut the revised 2Q2010 GDP growth estimate in half.

The combination of money supply and total market credit is shrinking, but the deflationary impacts of that shrinkage are being moderated by expanding government debt. Interest rates are at/near historic lows at the moment; but because of continued deficit spending (leading to mounting sovereign and other public debt) and corporate re-financings, competition for credit will eventually drive interest rates higher. In the meantime, uncertainty surrounding the implications of new and prospective taxes and regulations are throttling private-sector investment and innovation.

Realization that China has surpassed the United States as the world's largest energy consumer pushed crude oil's spot and futures prices higher in July. Cap-and-trade legislation appears dead for now, but the EPA could accomplish the same goals through regulatory fiat.

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>	
2Q2010 GDP: Speed Bump or Initial Phase of Double Dip?	<a href="http://tinyurl.com/2ck5qyo">http://tinyurl.com/2ck5qyo</a>
Personal Consumption Expenditures	
Employment	
July 2010 Employment Report: Lackluster	<a href="http://tinyurl.com/2ayscen">http://tinyurl.com/2ayscen</a>
Consumer Spending	
June 2010 Personal Income and Outlays, Retail Sales and Consumer Debt: Stuck in Neutral	<a href="http://tinyurl.com/26rs66f">http://tinyurl.com/26rs66f</a>
Private Domestic Investment	
Manufacturing	
June 2010 Industrial Production, Capacity Utilization and Capacity: Data Revisions Muddy the Water a Little	<a href="http://tinyurl.com/27udnxf">http://tinyurl.com/27udnxf</a>
June 2010 Manufacturers' Shipments, Inventories and New Orders: More Weakness	<a href="http://tinyurl.com/2db585e">http://tinyurl.com/2db585e</a>
July 2010 ISM Reports: Manufacturing Sector Growth Slows – Again; Service Sector Growth Increases	<a href="http://tinyurl.com/2eyw7oa">http://tinyurl.com/2eyw7oa</a>
Construction	
June 2010 U.S. Construction: Treading Water	<a href="http://tinyurl.com/26u5pou">http://tinyurl.com/26u5pou</a>
Net Exports	
May 2010 International Trade: World Trade Volumes and Prices Trending Higher	<a href="http://tinyurl.com/26jho3j">http://tinyurl.com/26jho3j</a>
Government Consumption Expenditures (Monetary & Fiscal Policy)	
Deficits and Debt	
June 2010 U.S. Treasury Statement and May TIC Flows: Foreign Investors Still Sending Cash	<a href="http://tinyurl.com/2dbdew5">http://tinyurl.com/2dbdew5</a>
Price Stability	
June 2010 Consumer and Producer Price Indices: More Gradual Erosion	<a href="http://tinyurl.com/28h2u2t">http://tinyurl.com/28h2u2t</a>
<b>Currency Exchange Rates</b>	
July 2010 Currency Exchange Rates: U.S. Dollar Mostly Weaker	<a href="http://tinyurl.com/2599o9x">http://tinyurl.com/2599o9x</a>
<b>Energy</b>	
July 2010 Monthly Average Crude Oil Price: Creeping Higher	<a href="http://tinyurl.com/26pidqv">http://tinyurl.com/26pidqv</a>