MACRO PULSE™

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## Mixed Signals

Before the era of electronic communication, trumpets were often used to rally troops, and signal warnings or other events. An indication of this is the famous saying, "If the trumpet produces an uncertain sound, who will prepare himself for battle?" The U.S. economy gave off mixed signals during the past month, leaving many scratching their heads about how to plan for the future.

Employment was one of the positive signals. Non-farm payrolls expanded by 192,000 jobs in February, and the seasonally adjusted unemployment rate dropped to 8.9 percent (the lowest rate since April 2009). Also, 304,000 people found full-time work, of which perhaps 67,000 were previously part-timers. February's job gains were a good first step, but will need to be maintained (or better yet, exceeded) for three years just to return to the employment level seen in December 2007. Unfortunately, the recent historical record is not encouraging in that regard: Since 2001 the U.S. economy has been unable to maintain job-growth momentum of that magnitude for a three-year period.

Manufacturing was another source of good news. Census Bureau and Federal Reserve data indicated that manufacturing industrial production, capacity utilization, capacity, shipments, inventories and new orders all rose in January. ISM's monthly survey suggested most of those trends extended into February as well. Individual industries may not have fared as well, of course, but the overall picture was quite positive. In addition, the volume and value of business loans appear to have bottomed and may be on the rebound. At the same time, however, rising input costs threaten to render many businesses unprofitable.

Even construction managed to "crack a half-smile" in January when total housing starts rose to 596,000 units. If permits are any indication, though, setbacks are in the offing. Resistance from vacancies, foreclosures, high unemployment, and falling prices from "distressed" sales will need to be flushed out of the system before greater activity levels can be sustained.

Although the Federal Reserve has managed to keep interest rates at/near historical lows, that control may be gradually slipping from their grasp. Soaring public debt levels and loose monetary policies in the United States and elsewhere are causing investors to demand higher yields to account for the various types of risk they perceive. Higher borrowing costs could wreak havoc on public-sector budgets along with the private sector's still-fragile recovery.

Rising crude oil prices, thanks to uprisings in the Middle East and North Africa, were among of the most visible contrary signals last month. While high crude oil prices alone *could* trigger another economic downturn, we continue to believe a combination of factors occurring simultaneously presents the most likely risk.

This report is a compilation of articles posted on our website (http://delphiadvisorsmacropulse.blogspot.com/); 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). ■

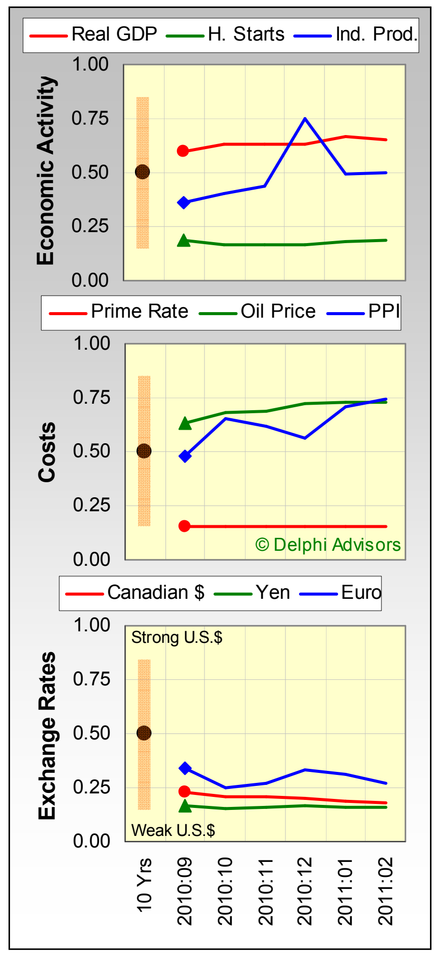


***Figure 1.*** **Previous six month's behavior of macroeconomic variables indexed relative to their historical 10-year min, max and average (lower and upper ends of the orange bars, and black dots, respectively)**