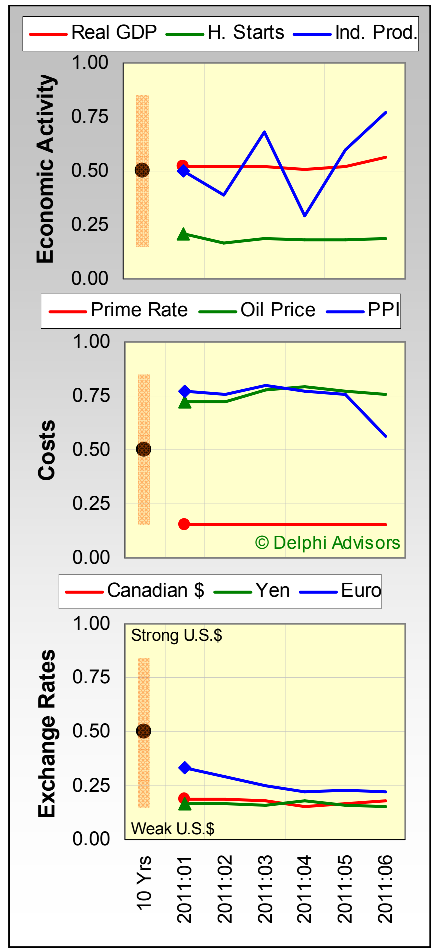
MACRO PULSE™

July 2011 A Delphi Advisors Publication Volume 2, No. 7

Signs and Blunders

Earlier this spring, religious broadcaster Harold Camping very publicly predicted that Jesus Christ would return for the faithful on May 21. Five months of fire, brimstone and plagues would follow that event, with millions of people dying each day, before the world ended on October 21. "I can tell you very candidly," said Camping on May 23, "that when May 21 came and went, it was a very difficult time for me, a very difficult time."

Forecasting, like prophecy, is a notoriously difficult endeavor, and Camping is hardly alone in making an embarrassing call. Quite a number of economic forecasts have been put forward in recent days, some ending up almost as wide of the mark as Camping's. One of the most obvious involved expectations surrounding the July 8 non-farm jobs report. For the "faithful" who clung to the hope of a second half rebound in the U.S. economy, a strong jobs report was to be the confirmation of that expectation.



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)

Citing various positive indicators, and claiming that other "special factors [that] likely held back job growth in May...reversed," Goldman Sachs predicted June job growth of 125,000 with "risk tilted to the upside." When the official report showed that only 18,000 jobs were created in June (and the previous two months were revised 44,000 lower) James Picerno of CapitalSpectator.com spoke for many when he commented, "The number we've all been waiting for is a disappointment." Jan Hatzius, Goldman's chief U.S. economist, echoed those sentiments. There were "basically no positive offsets to the poor headline results," Hatzius said. "[T]he weak trend in payroll employment indicates some downside risk to our second half growth views.

As for other economic developments, the Census Bureau reckons the *value* of shipments increased in May but other data suggest the *volume* of material shipped may not have. For example, the Ceridian-UCLA Pulse of Commerce Index (PCI) fell in May, prompting PCI's Chief Economist Ed Leamer to observe that "since [2Q2010] the PCI and the economy have been idling, not powering forward."

Overall construction spending decreased by 0.6 percent during May, to $753.5 billion (SAAR); private residential construction spending fell 2.1 percent. On a more positive note, total housing starts rose by 3.5 percent – to 560,000 units (SAAR). Unsold single family new homes inventories fell month-over-month on both absolute and months-of-sales bases while the median new home price crept higher relative to the prior month.

Looking forward, the waning impacts of U.S. federal stimulus, and the likelihood that government transfer payments to households could end if debt ceiling negotiations fail are heightening the chances the U.S. economy could be derailed. If coupled with one or more sovereign debt-related "black swan" events in Europe or China, the entire globe could experience another contraction. Maybe Camping wasn't so far off after all.

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). ■