MACRO PULSE™

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The Good, the Bad, and the Perplexing

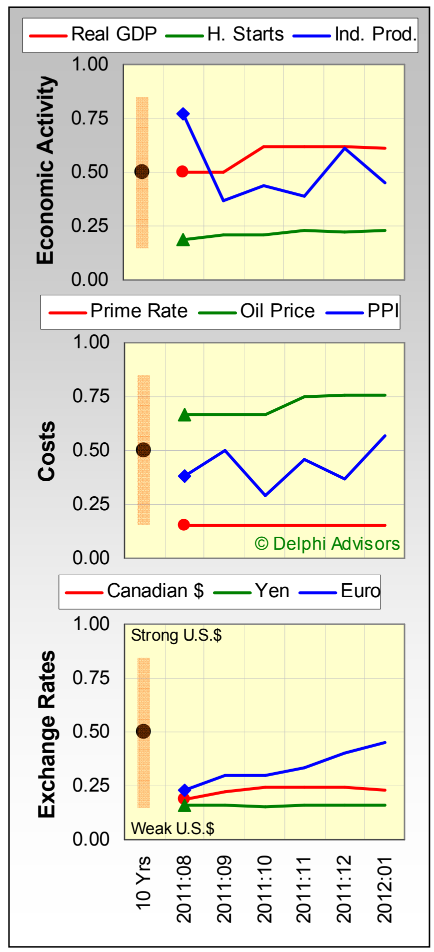
At least as far as the U.S. economy was concerned, data release headlines during the past month were, by and large, reasonably positive. More pessimistic information often emerged upon closer inspection, however. And then there were some real head-scratchers. Examples of each follow.

The good: The Bureau of Economic Analysis estimated 4Q2011 growth in real U.S. gross domestic product (GDP) at a seasonally adjusted and annualized rate of 2.8 percent, up from the final estimate of 1.8 percent in 3Q. Private domestic investment (PDI) – especially inventories – and personal consumption expenditures (PCE) contributed to 3Q growth in that order. It remains to be seen what 1Q2012 GDP growth will be, but the year appeared to start out on an "up" note for the U.S. manufacturing and service sectors. Both sectors registered faster growth in January, according to the Institute for Supply Management (ISM). Although the only reported change for Wood Products in the ISM report reflected a slowdown in production, at least some Wood Products participants are seeing light at the end of the tunnel. Paper Products expanded, with the only reported "negative" being rising input prices.

The bad: Real (i.e., inflation-adjusted) PCE is trending weaker on a year-over-year (YOY) basis. Since consumption accounts for roughly 70 percent of GDP, declining expenditures bode ill for GDP to continue growing at the 4Q pace. The December 2011 YOY change in PCE (1.43 percent) was essentially identical to December 2007, the month when the last recession began. Since 1960, the start of all recessions prior to the most recent one coincided with higher YOY changes in real PCE than December 2011's pace. Further, there have been only two months during that same 51-year timeframe with a lower YOY real PCE change than December's that were not associated with a recession. This relationship suggests the U.S. economy could be on the cusp of contraction.

The perplexing: By the Bureau of Labor Statistics' (BLS) reckoning, non-farm payroll (NFP) employment rose by a reported 243,000 jobs in January and the unemployment rate decreased to 8.3 percent. Initially accepted uncritically by most of the mainstream financial press, January's jobs report ignited a firestorm of controversy in the economic blogosphere because those numbers resulted from sizeable statistical adjustments that rendered comparison with previous years' estimates essentially irrelevant. For example, although the raw data indicated the economy lost 2.689 million jobs in January, the BLS's statistically based seasonal adjustment added 2.932 million jobs for a net gain of 243,000 jobs. Taken together, then, perhaps a more constructive way to think about the employment situation is that the clock has been reset and progress (or lack of same) going forward should be measured against January's numbers.

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). ■



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)