MACRO PULSE™
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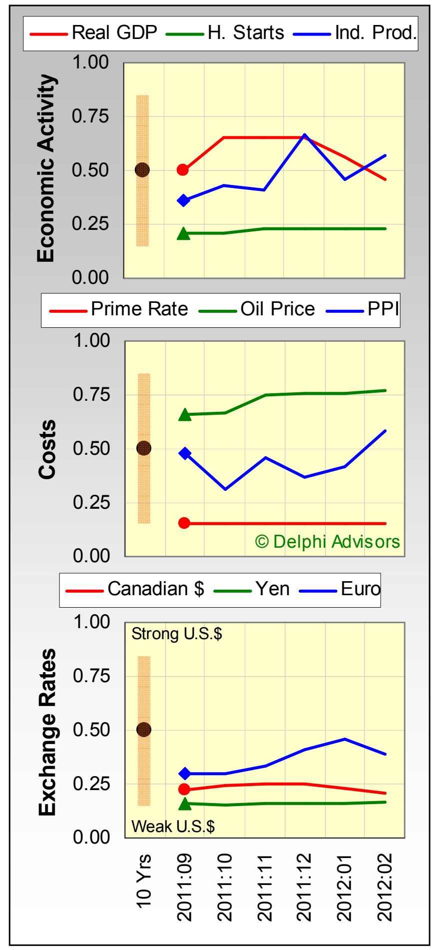
Navigating with Foggy Data

Before the advent of modern technology, ships navigating in shallow water during foggy conditions had to rely on depth sounding with poles or weights attached to knotted lines to avoid sand bars and other obstacles. Progress was painfully slow as a result. Applying this analogy to today's economic realm, determining the true state of the economy and whether it is in danger of running aground can be difficult in the best of times. The challenge is greatly compounded when the data are inconsistent, as is the case at present.

For example, the "rear-view mirror" perspective provided by 4Q2011 GDP is a bit rosier thanks to the upward revision to 3.0 percent. Moreover, the Federal Reserve's latest *Beige Book* suggests "overall economic activity continued to increase at a modest to moderate pace in January and early February." More recent data, however, have been less positive. Some of the other conflicting data include:



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)

Manufacturing. The Institute for Supply Management's (ISM) February PMI came in below expectations when falling to 52.4 percent, from 54.1 in January. That followed on the heels of a disappointing report on durable goods orders, which declined by 3.7 percent in January.

Employment and consumer spending. Taken at face value, February's employment report was reasonably positive; the U.S. economy added 227,000 jobs and he unemployment rate remained at 8.3 percent. ADP's private-sector survey also reported a faster pace of hiring, but other concurrent reports were not as upbeat: Gallup, National Federation of Independent Businesses, and ISM all showed weakening employment growth. Of greater concern, slumping year-over-year changes in real household net worth, real disposable personal income, and real personal consumption expenditures suggest the U.S. economy could be on the cusp of another contraction.

Construction. Private residential construction spending and total housing starts both rose in January. Although the annual percentage change for total starts sounds fairly impressive (+9.9 percent), the absolute level of activity remains less than half the historical average. Delayed household formations and renewed foreclosure activity continue to throw up roadblocks to housing's recovery.

Oil prices and energy consumption. Geopolitical concerns and refinery closures threaten to send pump prices even higher this summer. Opinions differ over whether those increases – should they transpire as some expect – will derail the U.S. economy. The facts are indisputable, however, that U.S. oil consumption is trending lower, along with electricity. As we have discussed in the past, declining energy consumption is generally associated with economic downturns.

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). ■