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Running Out of Gas on an Incline

Those who have experienced the inconvenience of running out of fuel know the sinking feeling it engenders: the only thing one could do is hope and pray a gas station comes into view before the engine sputters to a complete stop. In a similar vein, the U.S. economy seems to be running out of "gas" even as 4Q2011 growth was the fastest since 2Q2010. In the case of an economy, however, one cannot set a parking brake to avoid rolling backwards if momentum is lost while on an incline. Some of the indications supporting the idea of a slowing economy include:

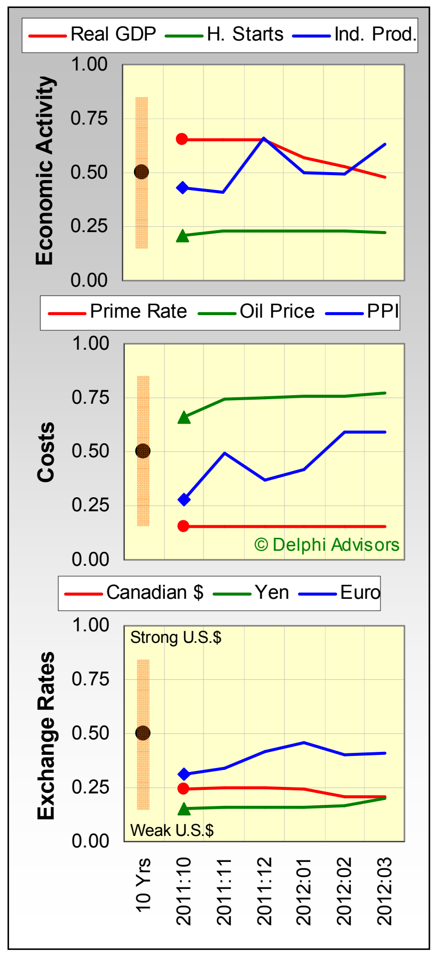
* Much of the recent data has come in below expectations. E.g., pending home sales came in -0.5 percent when +1 percent was expected; also, the Dallas Federal Reserve Bank survey of manufacturing activity came in at 10.8 versus 16 expected. Citigroup maintains what it calls its Economic Surprise Index (ESI). The ESI compares actual releases against Bloomberg's survey medians. Positive ESI readings suggest economic releases are, on balance, beating consensus; negative readings suggest the opposite. The ESI has been trending lower lately, weighed down by the negative data misses. Barclays publishes similar indices for both the United States and Europe; they have also been consistently missing expectations during the past month.

* The Bureau of Labor Statistics' establishment survey showed non-farm payroll employment rose by 120,000 in March, well below expectations of at least 200,000. The household survey, by contrast, showed the number of people who are actually employed shrank by 31,000. Even so, the unemployment rate dropped by 0.1 percent because 164,000 people stopped looking for work and thus were no longer considered unemployed. Some of the slowdown in employment gains may be "payback" from the warmer-than-normal weather in January and February, but this is an indicator that bears watching.

* Growth in consumer spending dramatically outpaced income growth in February, despite shrinking real household wealth. At the same time, many college-aged (and even middle-aged) people are racking up student loan debt that will inhibit their ability to afford household formations, home purchases or other important life events. The disparity between income out spending cannot be indefinitely sustained.

* Overall construction spending decreased during February; only the private residential category avoided a decline (it was essentially flat relative to January). At the same time, total housing starts dropped by 1.1 percent, to 698,000 units (seasonally adjusted annual rate); although multi-family starts rose by 42,000 units, single-family starts fell by 50,000 units. New and existing home sales both weakened in February, as did pending home sales (mentioned above). Permits were somewhat more upbeat, however, with a rise of 4.8 percent.

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)