

Siding or Main Line?

While real U.S. GDP growth slowed in 1Q2012 – to 2.2 percent real, from 3.0 percent in 4Q2011 – different components appear to be diverging onto what Federal Reserve Bank of San Francisco President John Williams described as “two tracks” – one track exhibiting strength and the other weakness. Time will tell whether (in railroad parlance) the economy is being shunted off onto a siding or continues on the main line. What follows are examples of both the “slow” and “fast” tracks; note that the term “fast” is relative, since virtually no segment of the U.S. economy is in danger of overheating.

Slow Track

Employment – Non-farm payroll employment rose by an estimated 115,000 jobs (seasonally adjusted) in April, and the unemployment rate was “little changed” at 8.1 percent. Upward revisions to February and March’s data were the most upbeat aspects of the jobs report, as several other indicators suggested a weakening employment picture. E.g., the number of people dropping out of the labor force rose in April; also, the number of full-time employees dropped sharply at the same time part-timers increased.

Construction – Single-family starts ticked lower (1,000 seasonally adjusted and annualized units or 0.2 percent) while multi-family starts fell by a more substantial 39,000 units (-16.9 percent). Concurrently, sales of both new and existing homes fell (respectively, -7.1 and -2.6 percent). At the same time, however, permits provided modest encouragement for the solid wood industry: Although single-family permits retreated by 12,000 units (-2.5 percent) in March, multi-family permits jumped 61,000 units (24.3 percent)..

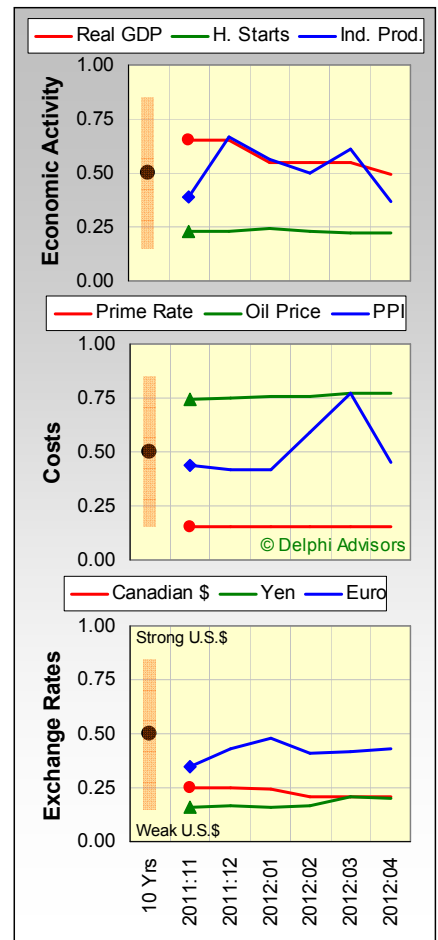
Fast Track

Manufacturing – Despite several regional surveys showing slower growth, the Institute for Supply Management’s manufacturing PMI strengthened (to 54.8 percent, from 53.4 in April – where 50 percent is the breakpoint between contraction and expansion). That sector’s new orders (including exports), production, and employment all grew at a faster pace in April, Paper Products was among the 16 industries reporting growth while Wood Products was one of the two that contracted.

Signal Light

Oil’s price behavior will strongly influence which track the economy follows. The monthly average U.S.-dollar price of West Texas Intermediate (WTI) crude oil moved lower in April, retreating by \$2.86 (2.7 percent) to \$103.33 per barrel. Futures prices have also plummeted during the past month, suggesting further spot-price weakening that lessens the risk high energy prices might “derail” the economy as happened in 2008. While this light may be signaling clear track ahead, other risks remain elevated, particularly in light of the economy’s fragility.

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)