MACRO PULSE™
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Economic Drought Conditions

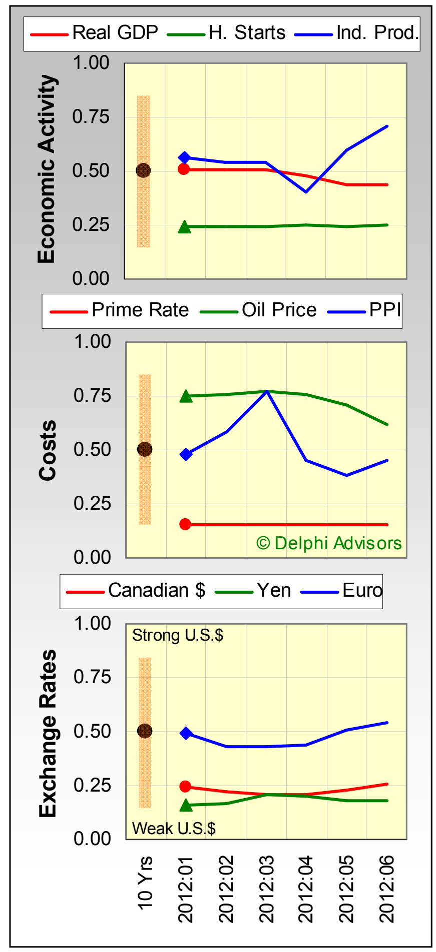
As of July 5, the U.S. Drought Monitor showed that over half of the land area of the Lower 48 states was suffering from moderate or worse drought conditions. National news programs are replete with images of stunted crops and out-of-control wildfires, and accompanied by stories of how communities are being affected. The nation's economy appears to be in a drought as well. For example:

• *Gross domestic product* – The Bureau of Economic Analysis' (BEA) estimates of growth in real gross domestic product (GDP) between 4Q2011 and 1Q2012 seem to be consistent with a slowing economy. GDP growth in 4Q2011 was 3 percent, while 1Q2012's estimate has now been revised from 2.2 to 1.9 percent. According to past history, GDP growth should be closer to 4 percent at this point after the end of the previous recession.

• *Employment* – Non-farm employment edged up by a paltry 80,000 jobs in June, while the unemployment rate remained unchanged at 8.2 percent. June constituted the third straight month in which fewer than 100,000 jobs were created. Several other important employment metrics, including the size of the labor force, the labor force participation rate, and the number of persons working part time for economic reasons also worsened.

• *Real personal income and consumer spending* – Although personal income (PI) is at an all-time high in nominal terms, in real (i.e., inflation adjusted) per-capita terms it has regained less than half the ground lost during the recession; also, real per-capita PI has barely budged since January 2011. That is one of the main reasons why consumers have been reticent to ramp up spending as in past recoveries.

• *Manufacturing* – This formerly gilded star of the recovery appears to be tarnishing. Industrial production slipped by a seasonally adjusted 0.1 percent in May while new orders, especially for durable goods, have been trending lower since December. Moreover, regional business and manufacturing reports (especially the Philly Fed factory gauge and Empire State index) – along with the Institute for Supply Management's PMI – showed either slower growth or outright contraction.



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)

• *Exchange rates* – Because of the Eurozone's ongoing sovereign debt crisis, the U.S. dollar is appreciating on safe-haven buying. Although the stronger dollar makes imports – like oil – less expensive, it hurts domestic manufacturers' competitiveness in shrinking global markets. Softer foreign demand for U.S.-made products, due to slowing global economy and stronger dollar, compounds weakening domestic demand.

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). ■