

Synchronized Slowdown: Not an Olympic Event

Beginning in late July, a significant share of the world's population watched the Olympics take place in London. Some 36 different sports, including synchronized swimming, were showcased during the two-week event. While not an Olympic sport, another synchronized event has also been unfolding in a wider venue. In the words of Pacific Investment Management Co.'s Mohammed El-Erian, the global economy has been experiencing "a serious, synchronized slowdown" in which the manufacturing sectors of most economically important countries are shrinking. Supporting El-Erian's position are:

- **China** – Official data showed industrial production in July grew at the slowest rate since early 2009. Price pressures moderated correspondingly, with consumer price inflation easing to the weakest pace in 2½ years. Retail sales, meanwhile, rose at the weakest rate since early 2006 and fixed asset investment ran at half the pace seen a year earlier.

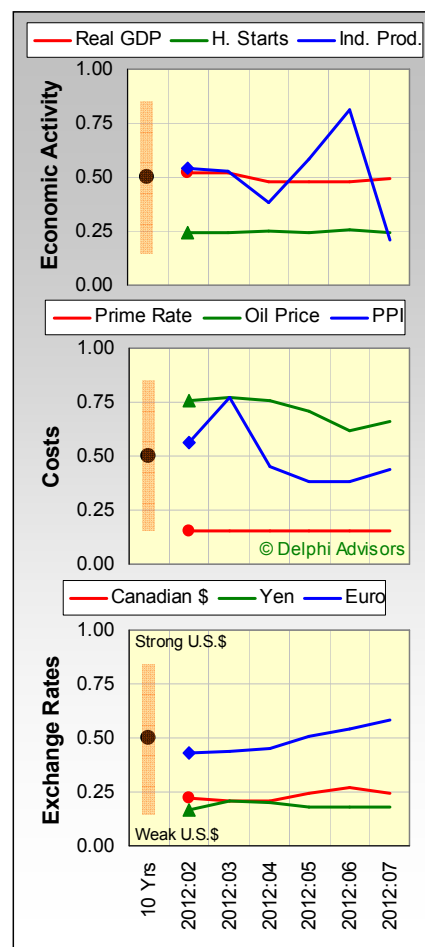
- **Europe** – The Eurozone economy sank deeper into recession, joined most recently – it appears – by Germany. Markit's Flash PMI for July showed German private sector output and new business fell at their fastest rates since June 2009. Spain's 2Q2012 unemployment rate ticked up by 0.2 percentage point, to 24.6 percent, a new all-time high for the country.

- **Japan** – July data from Markit/JMMA showed manufacturing output falling at the sharpest rate in 15 months, as both new orders and new export business fell off more quickly. Domestic demand seems to be eroding as well; seasonally adjusted retail sales rose 0.2 percent from a year earlier, slowing sharply from a 3.6 percent year-on-year gain in May and a 5.7 percent rise in April.

- **United States** – Despite some improvement in industrial production, new orders for manufactured goods decreased in June; excluding transportation new orders intensified the decline. Reports from regional Federal Reserve banks showing either slower output growth or outright contraction outnumbered those with modest expansion in July. Residential construction activity was mixed: Total housing starts rose, with both single- and multi-family units contributing; total residential permits dipped, however, primarily because of a drop in multi-family permits.

Crude oil prices are moving higher even though U.S. average daily consumption remains less than 5 percent above September 2008's low point. Ongoing monetary easing by Central Banks (which is causing currencies to devalue against hard assets if not other currencies) and geopolitical risk centered around Iran, are helping keep oil prices elevated for the time being. Whether future prices rise or fall will be determined by the extent to which producers rationalize production with demand, global monetary policy, and whether armed conflict arises.

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 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)