

Groping Blindly in Murky Economic Water

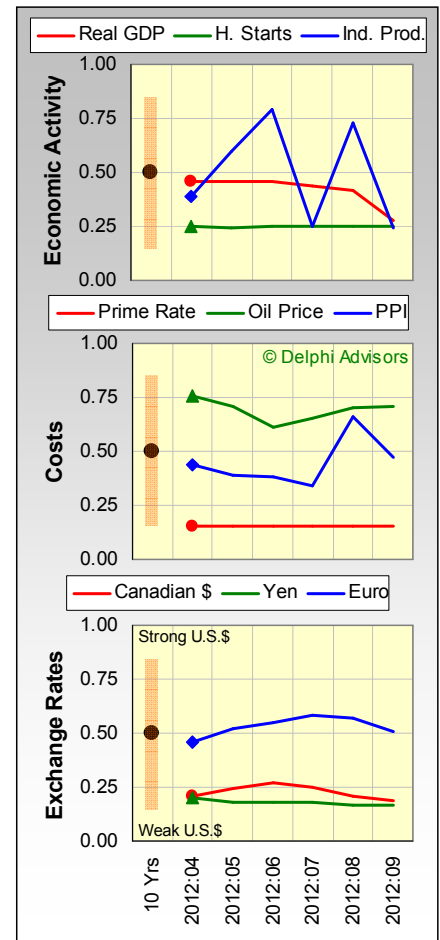
During his later teens, one of the Delphi Advisors team spent a couple of years living on a remote Indian reservation along the banks of the Paraguay River in South America. One memorable event occurred when a crate of the family's effects was accidentally dumped into the river while being unloaded from a riverboat. Like the Mississippi, the Paraguay River is pitch dark within just a few feet of the surface. Mike spent much of his spare time during several subsequent months attempting to retrieve the crate's strewn contents, diving slightly upstream and groping blindly for anything worthwhile as the current carried him over the muddy debris bed.

Recent data releases seem almost as murky as the Paraguay River, providing little help in determining the true state of the U.S. economy. For example:

- *Employment* – Non-farm payroll employment rose by 114,000 in September, and the unemployment rate unexpectedly dropped 0.3 percentage point, to 7.8 percent. The unemployment rate's unusually large drop spawned heated debate about its legitimacy and an enormous amount of speculation as to its cause. Everything from political book-cooking to benchmark revisions, to seasonal adjustments and even a genuine pickup in hiring was floated as a possible explanation.
- *Manufacturing* – Although seasonally adjusted U.S. industrial production fell in August and nearly all regional manufacturing reports for September showed declining output, surveys from Markit and the Institute for Supply Management bucked the trend with indications of tepid (Markit) to faster (ISM) growth. More months of data will be needed to determine manufacturing's true direction.
- *Consumer spending* – Seasonally adjusted nominal retail sales jumped during August. Excluding auto and gasoline sales, however – and after adjusting for price changes – real retail spending among most other categories either declined or saw little gain. Many purchases were paid with "plastic" as growth in consumer spending outpaced income growth.
- *Construction* – Overall construction spending decreased during August, with all categories except private residential spending retreating. Total (especially single-family) housing starts increased, however, at the same time permits (especially multi-family) declined. This state of flux in construction indicates the sector still has a long way to go before being considered on its way to true health once more.

To conclude the lead-in story, the salvage operation was successful. Virtually all of the "sunken treasure" was retrieved, and Mike managed to avoid any run-ins with the piranhas, stingrays and other aquatic carnivores. While it would be great if the U.S. economy ultimately has the same experience, digging deeper into the numbers leads us to be less optimistic about near-term prospects.

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)