

Déjà vu All over Again?

Baseball legend Yogi Berra coined the phrase "It's *déjà vu* all over again" when witnessing Yankees players Mickey Mantle and Roger Maris repeatedly hit back-to-back home runs during seasons in the early 1960s. After the elections this month, it also feels like *déjà vu* all over again on the political front. Little changed, as President Obama was re-elected, Republicans retained their majority in the House of Representatives while Democrats did the same in the Senate. Perhaps because the markets were "holding their breath" waiting for the election outcomes, much of the economic data released during October and early November also merely extended existing trends. For example:

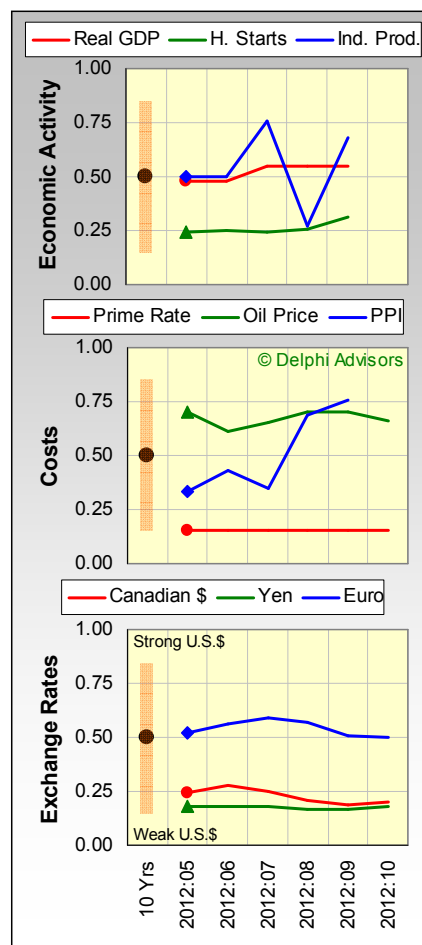
- *Employment and consumers' balance sheets*: Job growth improved during October, but remained quite tepid by historical standards. Although the U.S. economy added 171,000 jobs, the unemployment rate edged up to 7.9 percent as a result of more people reentering the workforce. Moreover, real average hourly earnings continued their downward trend, and are now on par with those that existed at the end of 1979. Given that trend in wages, it should not come as a shock that consumers once again spent more than they earned in September. It follows, then, that consumers racked up additional debt in September – mostly in the federal student loan category and, to a lesser extent, vehicle purchases.

- *Manufacturing and construction*: The manufacturing sector appears to be inching higher. Industrial production expanded in September beyond just the contribution from facilities ramping back up in the aftermath of Hurricane Isaac. The Institute for Supply Management's (ISM) national manufacturing report showed a slightly faster rate of growth in October; paper manufacturing advanced while the solid wood sector retreated. Moreover, some regional manufacturing reports showed expansion and others contraction.

Consistent with ISM's manufacturing report for September (published in October) that showed heightened activity in the solid wood sector, total construction spending rose in September. All of the increase in construction spending occurred in the private residential category. Concurrently, total housing starts leapt by 15.0 percent, to a seasonally adjusted and annualized 872,000 units. Those gains were spread among both single- (11.0 percent) and multi-family categories (25.1 percent). Builders are gradually gaining more confidence in the residential market and hence applying for more permits. Total permits rose to 894,000 units (11.6 percent).

Despite the largely positive news discussed above, we continue to believe there is considerable uncertainty – with greater downside than upside risk – in the view forward. As Karl Denninger stated in an interview after a recent Casey Research conference, one has to "be on guard for a potential dislocation event. We are in an especially dangerous time right now, because [of] gridlock in Washington, DC." Moreover, he added, "the possibility of something coming out of Europe...over the next 60 days cannot be discounted. And if it does occur, it's going to be especially ugly, because we're just not equipped to deal with it right now."

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. ■



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)