

Muddling Through TEOTWAWKI

Thanks to a flood of pop culture take-offs on the supposed Mayan doomsday prediction, many people have bought into the belief that the end of the world as we know it (TEOTWAWKI) will occur on December 21. So many, in fact, even NASA felt compelled to reassure the public – especially young children – that these claims are just "manufactured fantasy" and have no scientific basis. In a similar vein, although the U.S. economy was "chugging along" near the theoretical long-term potential in 3Q, some of the more easily excited pundits have been warning it is about to nosedive into the ground. A more measured analysis of current statistics suggests the most likely outcome is for continued "muddling through" instead of TEOTWAWKI. For example:

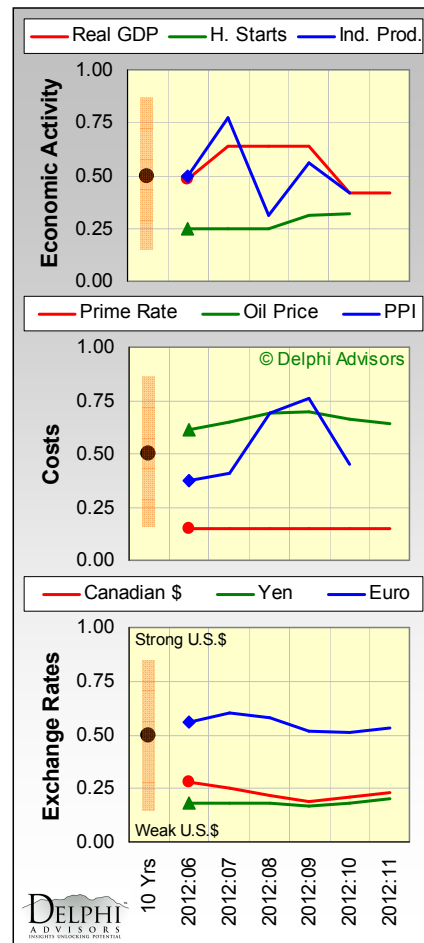
- **Construction** – There is both good and bad news for the solid wood industry. The good news is that total housing starts are continuing the very gradual upward trend begun in early 2011. In fact, starts jumped noticeably in September, and October buttressing that gain. At 894,000 units (seasonally adjusted and annualized rate), total October starts were up 3.6 percent relative to September and 87 percent higher than the April 2009 trough. The bad news is that sales of new single-family homes are lagging behind starts. In October 1.6 homes were started for every one sold; that ratio is at its highest level since the housing bust began (other than the tax credit-induced building frenzy in early 2010). Either sales must increase or starts decrease to pull the ratio down to its more normal range.

- **Employment** – Non-farm payrolls increased by a lackluster 146,000 jobs in November and estimates for the previous two months were revised down by a combined 49,000. Most mainstream news outlets trumpeted the drop in the unemployment rate to 7.7 percent, ignoring the primary reason for the drop was that 350,000 persons left the workforce. Moreover, a preponderance of November's new jobs were concentrated in the service sector – which is dominated by part-time and/or low-paying positions. Home buying and consumer spending will not be augmented given current hiring trends.

- **Oil prices** – Major economies around the globe are moving in different directions (Europe and Japan seem to be sliding into recession, China may be expanding, and the United States is treading water), the net effect of which is tepid oil demand. Geopolitical tensions appear to be the tie-breaker that has kept oil prices above the range justified by current fundamentals. Both West Texas Intermediate and Brent crude prices have been trending lower since early 2011 but further price erosion will be needed before crude oil prices cease being a headwind for global growth.

- **Fiscal policy** – Neither political party appears willing to deal with the reality of the U.S.'s fiscal problems. As the situation stands now, we expect Congress and the President to take the country over the so-called "fiscal cliff" at year's end. Moreover, it seems likely a majority of taxpayers will be hit with a significant tax bill for 2012 because Congress is ignoring the annual "patch" to the Alternative Minimum Tax.

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)