

A Not-so-unexpected Journey

In J.R.R. Tolkien's classic *The Hobbit*, protagonist Bilbo and his companions are captured by trolls who intend to eat them. The hapless band is spared such a gruesome fate, however, when the trolls – whose incessant, violent arguing makes them oblivious to the coming dawn – are turned to stone by a sunbeam. We see parallels between that fragment of Tolkien's tale and events unfolding in our own, somewhat less fantastic world. For example, our national political leaders are arguing over how to "eat" the productive members of the U.S. economy through higher taxes, all the while seemingly in denial about the fiscal "sunbeam" about to break above the horizon. As long-term readers of this column are only too well aware, we do not anticipate as happy an outcome for our country.

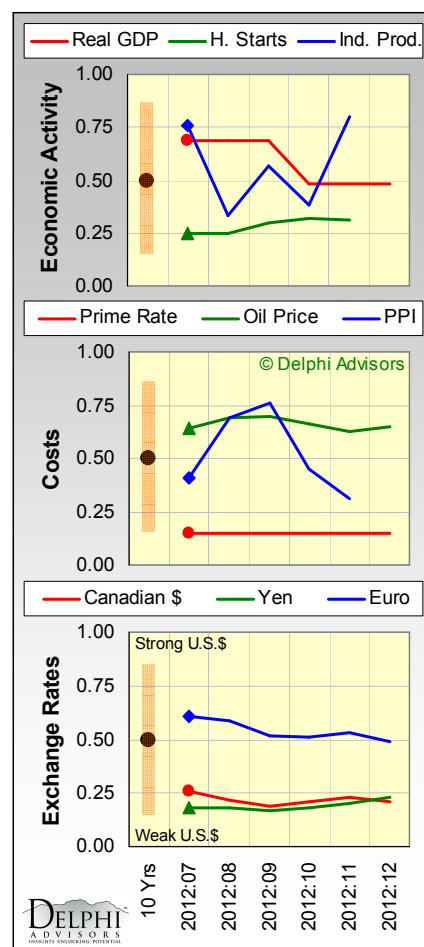
In other economic developments during the past month:

- **Employment** – Continuing a trend that has continued for longer than we care to remember, employment increased during December by an uninspiring 155,000 jobs. Meanwhile, unemployment remained at the upwardly revised November rate of 7.8 percent. The uptick in the unemployment rate is not surprising, given that circumstances are pushing people who had been sitting on the sidelines back into the workforce where they are once again counted as unemployed. However, the number of employment-age people *not* in the labor force is just shy of its all-time high while the proportion of the population that *is* employed has barely budged off its post-recessionary low. Perhaps the best news to come out of the employment report was that full-time positions increased by roughly the same magnitude that part-time positions decreased.

- **Construction** – Housing starts slipped by 27,000 units (SAAR) in November, particularly in the single-family category; the fallback was even more noticeable on a not-seasonally adjusted basis (-144,000 units, annualized). At the same time, new-home sales rose modestly (although seasonal adjustments are behind that increase) along with the median price of homes sold. One's view of the future likely depends upon whether seasonally adjusted or unadjusted data are consulted; seasonally adjusted permits continue to make slow and steady progress, while unadjusted permits have – with the exception of August – exhibited lower highs and lower lows since April.

- **Currency exchange rates** – The U.S. dollar depreciated in December against two of the three currencies we track (Canada's loonie and the euro) but appreciated against the yen. On a trade-weighted index basis, the dollar weakened by 0.6 percent against a basket of 26 currencies. The loonie's appreciation resulted from a variety of positive data releases, while the euro strengthened on an absence of unexpected bad news. Beyond a weak industry sector performance, the yen's fall stemmed from promises by incoming prime minister Shinzo Abe to "beat deflation" with public works spending and "unlimited" monetary stimulus, and another 10 trillion yen in easing by the Bank of Japan.

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)