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March Madness

College basketball fans eagerly await "March Madness" and its crescendo of action culminating with the NCAA championship team cutting down the nets. Euphoria seems to have taken hold in the U.S. economy as well; one would hardly suspect the most recent growth estimate showed a stalled economy, the unemployment rate remains elevated, and real disposable income is flat to down for a consumer spending-dominated economy. As of this writing the Dow Jones Industrial Average was enjoying an eight-session "winning" streak, closing at 14,405.06 – a new record. Explanations for the markets' exuberance are legion, but one that is notably absent is a robust economy. At some point one would expect earnings to correspond with economic growth, and stock price to correspond with earnings. From our perspective, however, a review of recent U.S. and global economic data lends little support for the current level of excitement.

The global economy has definitely slowed, possibly stalled, and is perhaps headed towards recession (if not in one already). Even the "economic juggernaut" called China faltered in 2012 and the 2013 outlook remains murky. For the U.S. economy in particular:

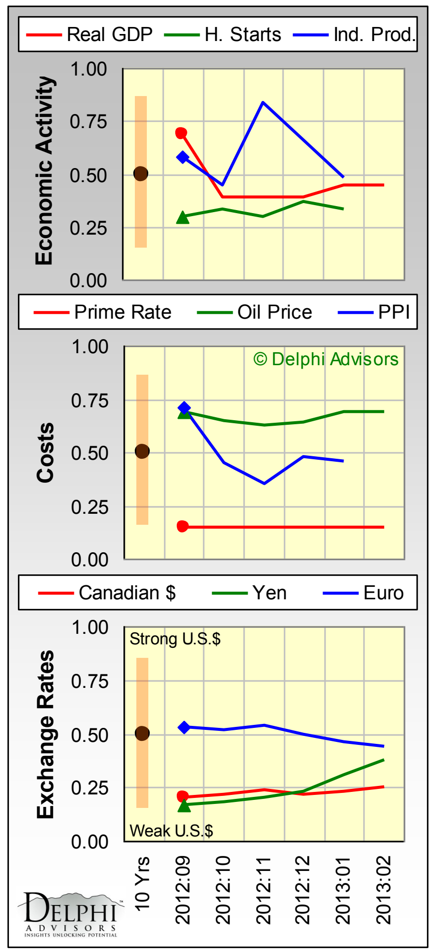
- ***International trade*** – The value of exported U.S. goods and services was essentially flat throughout the entirety of 2012. During the same time frame, imports into the United States actually shrank. Shrinking imports could indicate a strengthening U.S. dollar, but the dollar has been essentially treading water through most of 2012 on trade-weighted exchange basis. Thus, the most likely interpretation is imports shrank due to slowing U.S. economic growth.

- ***GDP growth*** – The Bureau of Economic Analysis (BEA) revised its estimate of 4Q2012 GDP growth to be barely positive (+0.1 percent SAAR), but still nearly 3.0 percentage points below the current 3Q estimate. Although the Chicago Fed National Activity Index suggests 1Q2013 GDP growth may be slightly higher than 4Q2012, it is still very tepid by historical standards

- ***Oil consumption*** – Crude oil consumption in the United States has been trending lower since early 2011, and this past January took another step closer to the recessionary low of mid-2008. Unless the well-recognized relationship between GDP growth and energy consumption no longer applier, the U.S. economy may in fact be shrinking instead of growing – despite BEA claims to the contrary.

- ***Employment*** – The Bureau of Labor Statistics' jobs report for February were welcomed with open arms, as it showed the economy added 236,000 jobs and the unemployment rate edged down to 7.7 percent. The headline numbers were quite attractive, but a closer inspection revealed a considerable number of warts and other blemishes. As we observed in our blog post, perhaps the best way to describe the report is that "a higher proportion of the shrinking pool of remaining workers found at least part-time work."

This report is a compilation of articles posted on our website; 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)