

Hall of Mirrors

Across the country, state and county fairs are popular attractions at this time of year. A fair worthy of the name will usually include a fun house, complete with a hall of mirrors, among the carny barkers and stands hawking deep-fried candy bars. These mirrors are all distorted in some way, able to morph even the comeliest fairgoer into a misshapen caricature. In some respects, it seems many recent data reports were released through a hall of mirrors – and the data did not look that great to begin with. For example:

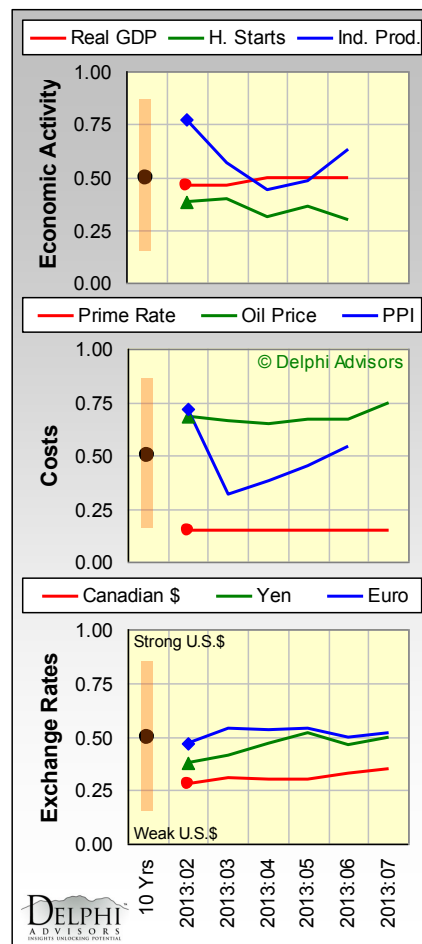
- **GDP** – The U.S. economy expanded by [1.7 percent](#) in 2Q2013, but that growth rate may have resulted as much from the sharp downward revision of 1Q's estimate and a variety of methodological changes as from actual activity. Elsewhere around the globe, reports trumpeted that the Eurozone has "[turned a corner](#)" with 2Q growth expected to be a "barn-burning" 0.2 percent. Although Europe may be eking out margin-of-error growth, China is again stoking fears of a [hard landing](#) despite better-than-expected [exports](#) in July. Japan is struggling, too; [core machinery orders](#), a leading indicator of capital spending, fell 2.7 percent in June.

- **U.S. manufacturing** – It is difficult to know which "mirror" is providing the least-distorted image of manufacturing in this country. The Institute for Supply Management (ISM) reported its [PMI](#) at 55.4 percent in July, a jump of 4.5 percentage points relative to June and a remarkable improvement from May's drop into contraction (49.0 percent). According to ISM, the solid wood and paper sectors both expanded in July. The Federal Reserve Board's more recent release, by contrast, showed [manufacturing production](#) *shrank* 0.1 percent in July, including both forest products sectors (wood: -0.6 percent; paper: -0.2). Given the differences in scope, methodology and the population sampled, both reports may be correct, but the contradiction makes one wonder.

- **Net exports** – One heartening item is the monthly U.S. trade deficit [shrank](#) by 22.5 percent in June (to the lowest level since October 2009) as exports achieved a new, all-time nominal record of \$191.2 billion. The solid wood sector contributed to the shrinking deficit, but only because [softwood lumber](#) exports declined by a smaller volume (13 MMBF) than did imports (82 MMBF). Exports of [pulp, paper and paperboard](#), on the other hand, declined by 142,000 metric tons – more than double the volume by which imports (66,000 metric tons) also fell.

- **Construction** – Total [construction spending](#) seems hard pressed to push above the threshold of \$880 million per month (annualized) in place since last November. Although private residential spending was 18 percent higher in June than a year earlier, non-residential and public spending was lower. [Total housing starts](#) rose by 50,000 units (SAAR) in July, thanks entirely to the multi-family component; single-family starts were off by 7,000 units. Even with the multi-family boost, total starts remain nearly 11 percent below the March peak of 1 million units. Permits hold out some hope for modest improvement; however, total permits were about 6 percent below their recent peak.

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)