

## Taper Off (For Now)

The Federal Reserve finally laid to rest speculation about whether it would begin scaling back (a.k.a., “tapering”) its \$85 billion in monthly purchases of Treasury bonds and mortgage-backed securities during September. On September 16, Fed Chair Bernanke [said](#) that, although the U.S. economy is growing moderately and some indicators of labor market conditions have improved, rising mortgage rates and government spending cuts are restraining growth.

If the Fed maintains its key short-term interest rate near zero until unemployment falls to 6.5 percent, the ongoing “extraordinary” monetary policy could be kept in place until late 2014. During the press conference announcing its monetary policy plans, Bernanke also revealed the Fed had once again nudged its economic forecast lower for 2013 and 2014. One can infer that the U.S. economy is weaker than what some recent economic reports might suggest. Some of those reports are discussed below.

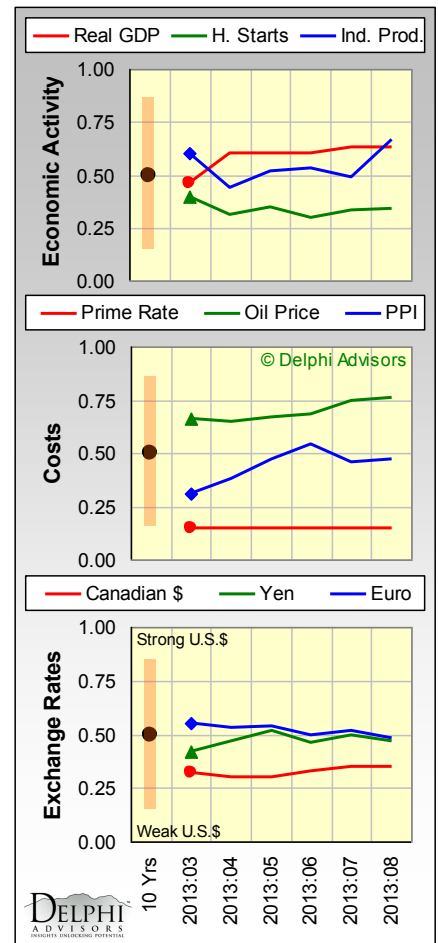
- **GDP** – The Bureau of Economic Analysis boosted its estimate of U.S. 2Q2013 [GDP growth](#) by nearly 1½ times when revising the initial 1.7 percent to 2.5 percent. An improvement in net exports (NetX) constituted the revision’s most material change. NetX had been a significant drag on growth in the first estimate but netted out to a “wash” in the revision. On a more ominous note, however, year-over-year growth in [real final sales](#) of domestic product slowed to a pace consistent with the onset of past recessions.

- **Net exports** – Speaking of international trade, the monthly U.S. [goods-and-services deficit](#) expanded by \$4.6 billion (to \$39.1 billion) in July. China and the Eurozone ran trade surpluses with the United States of, respectively, \$30.1 and \$13.9 billion. Net exports of [softwood lumber](#) deteriorated in July; although softwood lumber exports rose by 8 MMBF (5.7 percent), imports increased by 116 MMBF (12.6 percent). Year to date through July, softwood lumber net exports are nearly 950 MMBF lower than the comparable period in 2012.

- **U.S. manufacturing** – Manufacturing has been something of a bright spot lately. Total [industrial production](#) (IP) advanced 0.4 percent in August, while manufacturing output rose 0.7 percent on the heels of a 0.4 percent July decrease. Activity in Wood Products expanded by 1.7 percent while Paper rose by 1.1 percent. These results were consistent with [ISM](#)’s August survey showing manufacturing expanded to its fastest pace in two years. Manufacturers [shipped](#) more product in July, although inventories also accumulated. Excluding transportation, new orders for durable goods rose in July.

- **Construction** – Total [construction spending](#) bested \$900 billion (SAAR) for the first time in four years in July thanks to increases in the private component. Public spending, on the other hand, was lower relative to both June and a year earlier. Total [housing starts](#) rose by 8,000 units (to 891,000 units, SAAR) in August. That estimate was well below expectations of roughly 920,000, and the increase occurred primarily because July’s estimate was revised down by 13,000 units (to 883,000 instead of the original 896,000).

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)