

Grass Gets Trampled When Elephants Fight

We typically leave politics out of this publication, but the current wrangling in Washington, D.C. is difficult to ignore. Moreover, how the situation is ultimately resolved will profoundly affect the country's future economic trajectory. The ongoing brinksmanship brings to mind the African proverb that "when two elephants fight, it is the grass that gets trampled." The best we "grass" can hope for is a speedy resolution that does the least damage to the country's fiscal condition and economic freedom.

Several federal agencies we rely on for data closed as funding dried up at the onset of the new fiscal year. With one or two exceptions, however, we were able to obtain the information we normally need to write this report. Some developments from September follow:

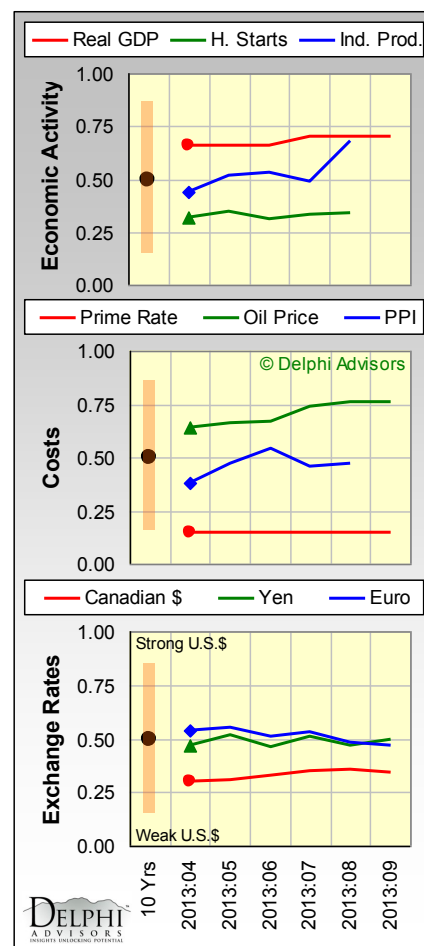
• **Residential construction** -- The Census Bureau's construction spending report fell victim to the funding shortfall, but housing starts and sales were reported as usual before the agency went offline. Total [housing starts](#) edged up by 0.9 percent in August, to 891,000 units (SAAR), but remained 11.3 percent below March's breach of the 1 million unit mark. The August increase was largely the result of downward revisions to July's estimates (from 896,000 to 883,000 units). [Sales](#) of new single-family homes rose by 31,000 units (7.9 percent) to 421,000 (SAAR). Meanwhile, the median price of new homes sold dropped by another \$1,700 (0.7 percent) to \$254,600; prices are \$24,700 (8.8 percent) below their April peak. Existing home sales increased by 90,000 units (1.7 percent) to 5.48 million units.

Two interesting observations that recently came to our attention are: 1) [60 percent](#) of present home purchases are "cash only." The implication here is that home sales may be less sensitive to mortgage rate fluctuations than in the past. 2) [Nearly half](#) of all bank-owned homes are still occupied by their foreclosed-upon former owners (a situation known as "vampire REOs"). About two-thirds of those vampire REOs are concentrated in Miami, Houston and Los Angeles. Home price appreciation in these markets is likely to be capped as banks take advantage of earlier price increases to reduce inventory.

• **Employment** -- The Bureau of Labor Statistics' monthly employment report was also interrupted. [ADP](#), which turns out a passable substitute (the main difference is public-sector workers are excluded), estimated private sector firms added 166,000 non-farm jobs in September (below [expectations](#) of 180,000). Had estimates for July and August not been revised lower (altogether, by 54,000), September would have represented the slowest job growth of the past four months.

[Gallup's](#) U.S. Payroll to Population employment rate (P2P) also fell slightly to 43.5 percent in September, from 43.7 percent in August. The P2P estimates the percentage of the U.S. adult population aged 18 and older who are employed full time by an employer for at least 30 hours per week. P2P has declined more than a percentage point from the 45.1 percent found in September 2012.

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)