MACRO PULSE™
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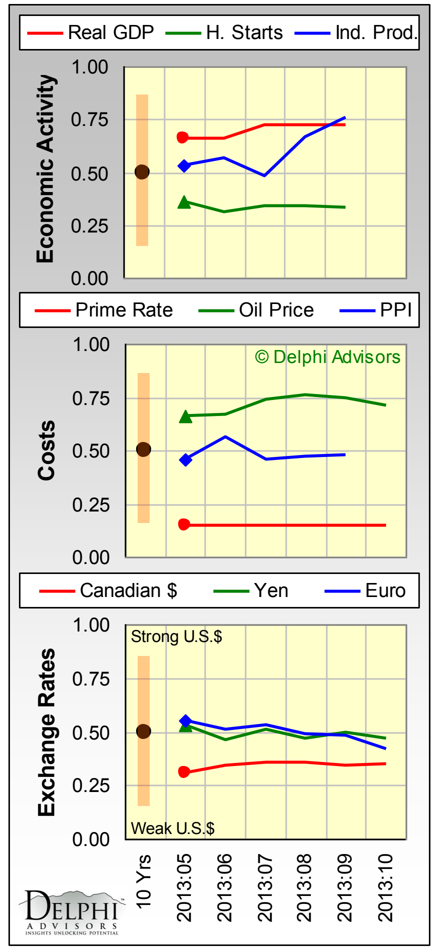
## Cognitive Dissonance

Cognitive dissonance is "the discomfort experienced when simultaneously holding two or more conflicting ideas, beliefs, values or emotional reactions." That is an apt description of how we felt when reading many of the reports, published during the past month, describing the health of the U.S. economy. In several cases, the headline numbers were quite positive, but the underlying details were much less so. That left us scratching our heads wondering wherein lies the truth. What follows are a couple of examples:

• ***Employment*** – The Bureau of Labor Statistics (BLS) published a contradictory employment report for October. As we have explained in the past, this report consists of two parts. The "establishment" survey, which collects data from employers, estimated the U.S. economy added 204,000 non-farm jobs. Of the theories for why the estimate was more than double expectations, the most logical is that the partial federal government shutdown allowed more businesses than usual to submit their responses. If the BLS applied its usual seasonal adjustments when compiling the data, the likely result was an inflated number. Moreover, nearly half of the new jobs were in either retail trade or leisure and hospitality -- i.e., jobs that tend toward the low end of the wage scale.

The "household" survey, which collects data from individuals and is used to estimate the unemployment rate, also told a more somber story. That survey showed the number of employed declined by 735,000 people (at least some of whom were furloughed federal workers), which is largely why the unemployment rate ticked up to 7.3 percent. More disturbing was the observation that the number of civilians ***not*** in the labor force ballooned by another 932,000 in October, to a new record of 91.5 million. That, in turn, caused the labor force participation rate to tumble to 62.8 percent -- the lowest rate since March 1978.

• ***Gross domestic product*** – The Bureau of Economic Analysis (BEA) estimated 3Q2013 growth in real U.S. GDP at +2.8 percent (SAAR). The headline rate was considerably above expectations of 2.3 percent, but that net improvement masked weakening contributions from consumer spending, fixed investment and exports. Those softening sectors were more than offset by growing contributions from inventories, state and local government spending, and sharply weakening imports. "Imports were the largest single contributor to the reported improving growth," Consumer Metrics Institute (CMI) observed, "by virtue of now subtracting only 0.30 percentage point from the headline number (compared to -1.10 percentage points during 2Q)."




**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)**

Equally disconcerting, the BEA's annualized growth rate for real final sales of domestic product decreased slightly to +2.01 percent (from 2Q's 2.07 percent). This alternate measurement of economic activity was substantially weaker than the headline GDP number because of the ongoing inventory buildup.

"Given the anemic growth rates in real per capita disposable income [just +0.4 percent annualized] and the budgetary uncertainties resulting from the new healthcare mandates," CMI concluded, "it seems unlikely that those consumers [whose spending still represents over 68 percent of the U.S. economy] will go on any kind of spending spree anytime soon."

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. ■