MACRO PULSE™

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New Year: Steady Progress, Continuing Challenges, Persistent Risks

With 2013 behind us and 2014 showing on the calendar, now is as good a time as any to assess where the U.S. macroeconomy stands. We look at the positive and negative risks below:

• ***Housing*** – Clearly the housing market has experienced a significant amount of healing. As of November, total starts were up nearly 160 percent from their January 2009 bottom, and 33 percent from November 2012. Even at a SAAR of almost 1.1 million, however, November's starts remain roughly 27 percent below the long-term historical average activity level. Time will tell whether current levels can be sustained. Positive risks include a large Echo Boomer cohort champing at the bit to get underway with household formations. Negative risks include mortgage interest rates that have put a dent in recent existing home sales and could do likewise with new home sales.

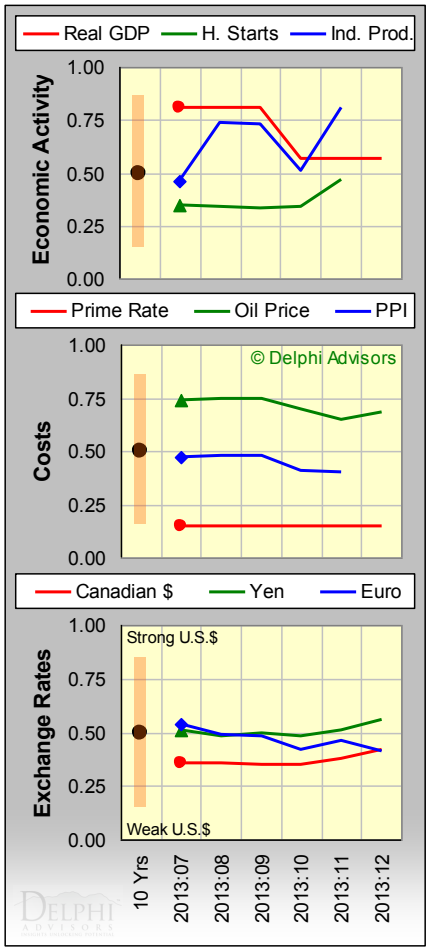
• ***Manufacturing*** – In November, total manufacturing industrial production was within 2.4 percent of recouping the ground lost since the Great Recession. The Wood Products sector has risen 30 percent above its June 2009 trough; by contrast, Paper is only 3 percent above its April 2009 nadir. Positives and negatives for Wood Products closely mirror those of the housing market, whereas Paper's outlook will depend upon continued capacity rationalizations to align supply with demand.

• ***International trade*** – November's goods and services trade deficit of $34.3 billion was the lowest since October 2009. Exports were about 36 percent higher than in January 2010, well below the rate of expansion needed to meet the administration's goal of doubling exports by 2015. YTD softwood lumber exports were up 15 percent relative to the same months in 2012, while imports were higher by a similar percentage. Risks for this aspect of the economy are probably weighted to weaker exports, as the U.S. dollar is likely to appreciate against most major currencies as a result of Japanese fiscal and monetary policies.

• ***Employment*** – Thanks to positive trends in other reports (e.g., ISM, ADP and NFIB), the Bureau of Labor Statistics' December employment report seemed especially dismal. Non-farm employment rose by only 74,000 jobs, well below expectations ranging from 100,000 to 250,000. Despite this lackluster performance, the unemployment rate dropped by 0.3 percentage point, to 6.7 percent.

The unemployment rate dropped because people found work, and even more fell off the rolls. The number of people not in the labor force expanded by 525,000, to a record 91.8 million. At least some of the decrease in the unemployment rate came from the end of extended benefits to workers who have been out of work for more than 26 weeks. Because of the increase in people no longer considered unemployed, the labor force participation rate declined to 62.8 percent, on par with levels in March 1978.

Just as we were unimpressed with the outsized increases in job creation during previous months, we are not unduly concerned with December's abysmal print; it may turn out to be an anomaly. This data series is very noisy, and so we guess the underlying trend in job growth has not materially shifted.



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)

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. ■