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## Anomaly Economy

The revision of 1Q2014 U.S. real GDP growth to a seasonally adjusted and annualized rate (SAAR) of -1.0 percent (the first contraction in three years) erupted in round of blame fixing. At present, the most popular scapegoat is harsh winter weather. Those subscribing to that hypothesis expect a strong 2Q rebound with spring's arrival. "The good news is that 1Q is over," said Ryan Sweet, senior economist at Moody's Analytics. "I wouldn't worry too much about the decline; it's mostly driven by less construction spending and less inventory accumulation. [The second] quarter should be a good one." Bloomberg's May 29 median forecast called for a 3.5 percent gain, with Morgan Stanley's 4.2 percent toward the upper end of the spectrum. Although the International Monetary Fund cut its 2014 U.S. growth estimate to 2 percent, from 2.8 percent in April, even that reduced expectation would require growth rates of 3+ percent during subsequent quarters.

But what if 2Q GDP growth fails to bounce back? Certainly weather depressed 1Q economic activity; yet, it seems the weather narrative masks fundamental issues in the U.S. economy. We note there is a growing list of potential "anomalies" should 2Q GDP not meet expectations: ongoing strife in Ukraine or the *de facto* civil war in Iraq, with their attendant (and potentially significant) impacts on oil prices, a possible tipping point in relations between the United States and China. or unintended consequences of the decision to begin ***charging*** interest on funds deposited overnight with the European Central Bank, to name a few.

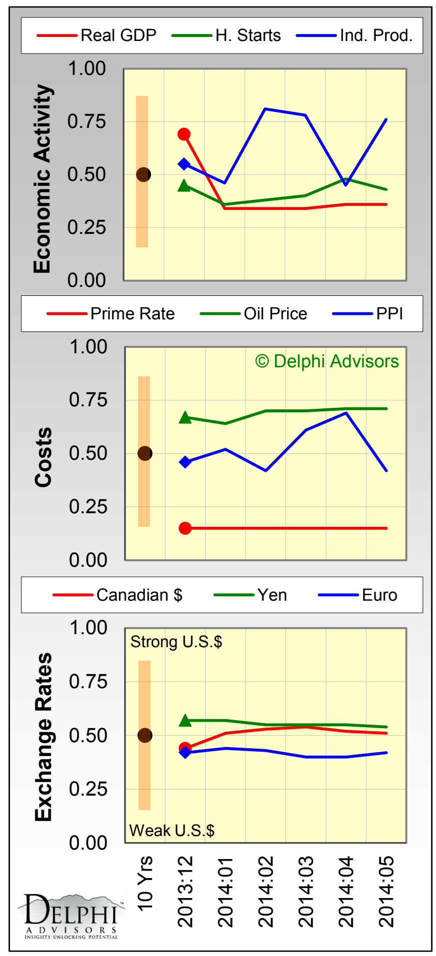
In the meantime, while we wait for 2Q results to trickle in, here are some items we covered during the past month:

• ***International trade*** – After roughly two years of a gradually shrinking (on trend) trade deficit, the tide has turned. Between last November and April, the U.S. trade deficit has yawned from $36 billion to over $47 billion per month. The imbalance is reflected to a certain extent in the softwood lumber trade as well. Although U.S. exports increased by 4 MMBF (2.4 percent) in April, imports rose by 52 MMBF (5.1 percent). April exports were 18 MMBF (12.3 percent) above year-earlier levels; imports were 19 MMBF (1.8 percent) lower. Year-to-date through April, exports were up 89 MMBF (16.3 percent) relative to the same period in 2013, while imports were up 116 MMBF (3.1 percent).

• ***Construction*** – Construction spending increased by 0.2 percent during April, to a SAAR of $953.5 billion – the highest level since March 2009. The increase derived primarily from a $2.2 billion (0.8 percent) rise in public spending. Private residential spending ticked up by $0.2 billion (0.1 percent) while the private non-residential construction component fell by $0.5 billion (0.1 percent).

Despite the improvement in construction spending, "housing indicators remain mixed," noted David Blitzer, chair of the Index Committee at S&P Dow Jones Indices. "April housing starts recovered the drop in March but virtually all the gain was in apartment construction, not single family homes. New home sales also rebounded from recent weakness but remain soft. Mortgage rates are near a seven month low but recent comments from the Fed point to bank lending standards as a problem. Other comments include arguments that student loan debt is preventing many potential first time buyers from entering the housing market."

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)**