MACRO PULSE™
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On Your Mark, Get Set, Wait!!

The recent string of upbeat economic releases had market watchers and businesses expecting the Federal Reserve would signal a change in its stance on interest rates. Some of those positive data releases included:

• The Bureau of Economic Analysis tweaked its "preliminary" (i.e., second) estimate of 2Q2014 growth in real U.S. gross domestic product (GDP) up to a seasonally adjusted and annualized rate (SAAR) of 4.2 percent. The revised 2Q rate of expansion is 0.2 percentage point faster than the initial ("advance") estimate, and 6.3 percentage points above 1Q's -2.1 percent contraction. This is the largest positive quarter-to-quarter improvement in GDP growth in roughly 14 years.

• Total housing starts advanced noticeably in July, with an initial estimate of 1.093 million units. That estimate was subsequently revised higher, to 1.117 million – the fastest rate since November 2007. Commentators didn't appear concerned that most of the July increase occurred in the multi-family (i.e., rental) component rather than the single-family component.

• Manufacturing continued to be a bright spot in the U.S. economy. Total industrial production increased 0.4 percent in July, its sixth consecutive monthly gain. Manufacturing output advanced 1.0 percent, its largest increase since February.

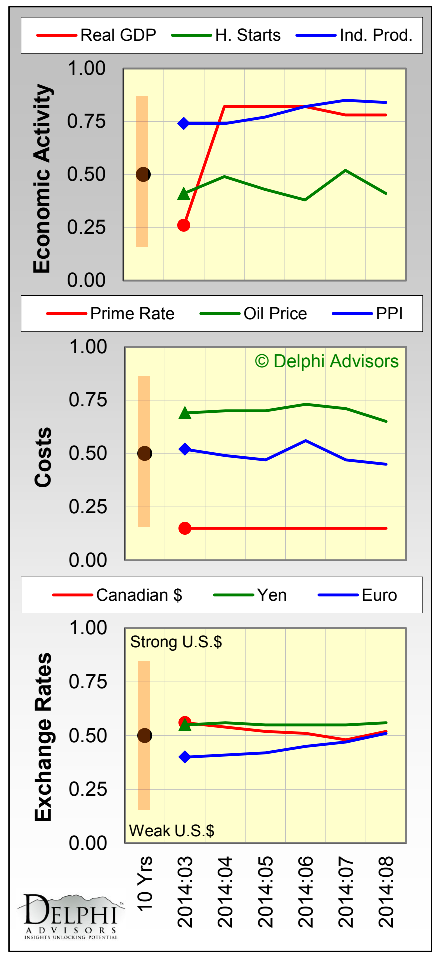
As a result of that positive news, the Bank of America Merrill Lynch Fund (BAML) Manager Survey for September found investors were increasingly expecting the Federal Reserve to raise interest rates in the spring of 2015. Nearly half (48 percent, up from 38 percent in August) of the fund managers polled believed the Fed will introduce what would be its first rate tightening in nine years during 2Q2015. "As the first Fed rate hike since 2006 draws closer, we'll see a new U.S. dollar bull market and movement out of bonds," said Michael Hartnett, chief investment strategist at BAML Global Research in the release.

In the middle of all that good news, however, the August jobs numbers upset the apple cart. The Bureau of Labor Statistics shocked the markets when reporting that businesses created only 142,000 non-farm jobs in August (versus expectations of at least 190,000). Making matters worse, almost half of the jobs created appeared in sectors that typically pay the lowest salaries: education and health; leisure and hospitality; and temporary help. Manufacturing job growth, by contrast, netted out to zero. Also, because another 269,000 people are no longer considered part of the labor force (setting a new record just under 92.3 million), the labor force participation rate fell to 62.8 percent – matching the lowest level since 1978.

That piece of negative employment data apparently sufficed to make the Federal Open Market Committee (FOMC) members rethink the timing of when the federal funds interest rate might be raised. In her post-FOMC meeting press conference on 9/17, Fed Chair Janet Yellen reiterated "that it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the [quantitative easing] program ends."

So, maybe the economy is not running quite as smoothly as some think? The Chicago Fed's August National Activity Index suggests that might be the case.

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)