MACRO PULSE™

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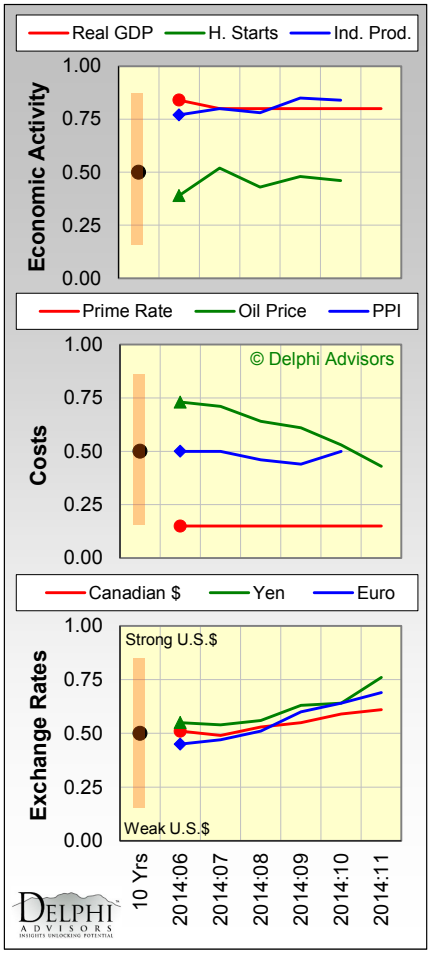
When Oil Runs Red

Among the developments this past month, one that dominated economic news headlines involved the precipitous drop in crude oil prices. As of December 12, the spot price for West Texas Intermediate crude had fallen to around $59 – the lowest since 1H2009 and well below many producers' cost of production. OPEC's decision to maintain output levels seems to be having the desired effect of knocking out weak shale oil competitors: Permits for new U.S. wells dropped by nearly 40% in November, and numerous bankruptcies are inevitable in the highly leveraged shale oil sector. Oil producing countries are not necessarily "sitting pretty," however. Many of them have high fiscal break-even costs (e.g., Saudi Arabia: $98/barrel; Venezuela: $161) because of prodigious welfare spending, and thus falling prices are "playing havoc" with their budgets.

Since an increasing share of the oil consumed in the United States is domestically produced, the impact of cheaper oil on GDP is less certain. In the past, falling oil prices translated to a lower value of imports – which meant that shrinking imports exerted less of a drag on GDP. This time around, by contrast, falling oil prices are disproportionately affecting local production. Consumers will feel some relief, but for most those savings have already been overwhelmed by higher health insurance premiums. Ultimately, then, any net increase in GDP will depend primarily upon businesses in non-oil sectors more than making up for the likely contraction in the energy sector.



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)

In other news:

• ***Employment*** – According to the Bureau of Labor Statistics' (BLS) establishment survey, non-farm payrolls posted their biggest gain since January 2012 with November's increase of 321,000 jobs. Manufacturing added 28,000 jobs, and construction 20,000. Concurrently, however, the BLS's household survey – which is the basis for the unemployment rate – showed seasonally adjusted employment growth of only 4,000. The glaring disparity prompted one analyst to beg, "Will the real job situation please stand up?"

• ***Manufacturing*** – Total industrial production took a breather in October, edging down 0.1% after an 0.8% advance in September. Manufacturing output increased 0.2% for a second month. Wood Products output rose by 0.8%, reversing September's -0.6%. Paper fell 0.2% after being unchanged in September. Combining the trends in both capacity and capacity utilization reveals the Wood Products sector is expanding while (contrary to Institute for Supply Management survey results) the Paper sector is gradually fading.

• ***Construction*** – October's housing market data was mixed. Total housing starts retreated 2.8% to a SAAR of 1.009 million units. All of the decrease occurred in the multi-family component. On a year-to-date (YTD) basis, total starts were 9.6% above the same months in 2013. Total permits were a bright spot, increasing 4.8% to 1.080 million SAAR. Over 80% of the increase occurred in the multi-family component. October total permits were 3.5% higher YTD than in 2013. Sales of new single-family homes edged up 0.7% to a SAAR of 458,000 – or 1.9% higher YTD than in 2013. Existing home sales advanced 1.5% to 5.26 million units SAAR, but were 3.8% ***lower*** YTD than 2013.

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. ■