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Watching Paint Dry

That is what the markets seem to be doing while waiting for the outcome of the Federal Reserve meeting on March 18. Everything is on hold until its conclusion. Meanwhile, the economy appears to be going nowhere fast. Growth in gross domestic product (GDP) – heralded as proof the economy had finally achieved "escape velocity" when hitting a seasonally adjusted and annualized rate of 5.0% in 3Q2014 – has slumped back to a more typical post-Great Recession rate of 2.2% in 4Q2014. Moreover, the Atlanta Fed's "nowcast" of 1Q2015 GDP was a mere +0.3% as of March 17. Factors contributing to that tepid growth rate include the following:

• ***Construction*** – Activity seems to be "losing steam." Growth in overall construction spending decelerated throughout 2014, from +11.0% year over year (YoY) in January 2014 to just +1.2% in January 2015. The YoY percentage change in public spending trended upward during 2014 but that was more than offset by a slowdown in private spending growth; in fact, private residential spending began contracting YoY in 4Q2014.

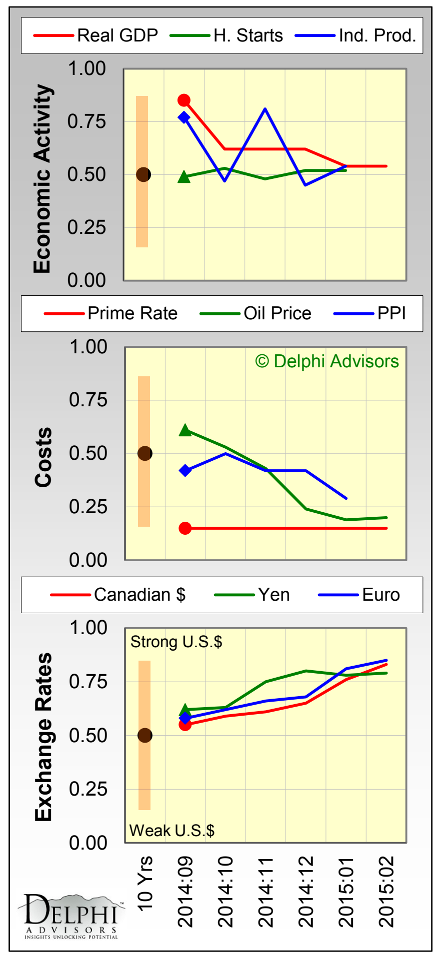
Total housing starts have been exhibiting a similar pattern, which led David Blitzer, chair of the Index Committee at S&P Dow Jones Indices, to comment that "the housing recovery is faltering." Although starts trended higher (roughly +13,000 units per month) during 2014, the 1.1 million (SAAR) mark appears to be a hurdle that the market has so far been unable to surmount. In fact, starts tumbled to just 897,000 in February.

• ***Industrial production*** – Industrial production (IP) increased 0.1% (+0.3% expected) in February after decreasing 0.3% in January (revised from +0.2%). Manufacturing output moved down 0.2%, its third consecutive monthly decline. Wood Products output dipped by 0.5% while Paper was unchanged. Total-industry capacity utilization (CU) decreased to 78.9% in February, a rate that is 1.2 percentage points below its 1972-2014 average. Wood Products CU slumped by 0.9% (to 69.8%) while Paper rose by 0.2% (to 83.7%).

• ***Exchange rates and international trade*** – In February the monthly average value of the U.S. dollar appreciated against all three major currencies we track: 1.1% against Canada's loonie and 2.3% relative to the euro, and 0.4% against the yen. On a trade-weighted index basis, the dollar strengthened by 1.4% against a basket of 26 currencies. The strong greenback is creating difficulties for U.S. softwood lumber exports. Although the softwood lumber trade deficit shrank 7.6% in January (from December) on a volume basis, the deficit was 17.7% higher than in January 2014. During the six months ending January 2015, the YoY growth in the deficit has averaged +20.7%.

• ***Employment*** – Although non-farm payrolls increased by 295,000 jobs in February (besting expectations of 230,000), individuals dropping out of the workforce (354,000) was once again the main reason for the unemployment rate decreasing to 5.5%. The oil-sector downturn is beginning to be reflected in the employment report; the Mining & Logging category (which includes oil extraction) was the only super-sector to exhibit seasonally adjusted contraction. Also, nearly 60% (171,000) of private-sector job growth occurred in the three super-sectors typically associated with the lowest-paid jobs.

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)