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Slow Leak

Most of us have received a foil-lined helium balloon to mark an occasion such as a birthday or anniversary, or as an encouragement when ill. Although the balloon starts out full and buoyant, it gradually sinks as the seal inevitably fails. The leaky balloon seems a fitting analogy for the U.S. economy, which also appears to have developed a slow leak and is gradually losing altitude. We present the following as illustrations:

- **Manufacturing** – Total [industrial production](#) decreased 0.2% in May, the fourth decline in five months. Manufacturing output also fell 0.2%, extending April's -0.5%. Wood Products and Paper output fell, respectively, by 0.1% and 0.6%. Capacity utilization for all industrial sectors decreased 0.3%; Wood Products and Paper both followed the larger trend with respective 0.4% and 0.5% declines.

Meanwhile, [new orders](#) for durable goods retreated by 2.2% in May. More worrisome, orders for non-military capital goods excluding aircraft – a proxy for business investment plans – declined 0.4% on the heels of April's -0.7%.

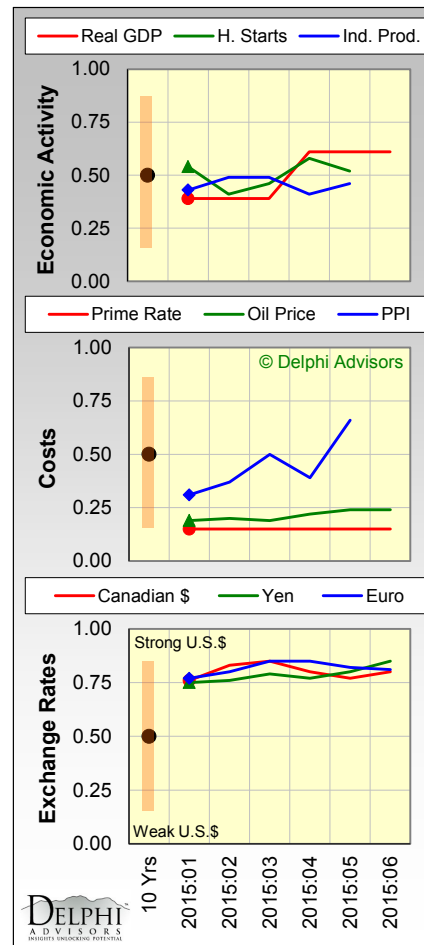
- **Employment** – Depending upon the source referenced, non-farm payrolls changed by between -56,000 and +223,000 jobs in June; also, job gains in April and May were marked down by 60,000. June's unemployment rate dropped to 5.3% as 432,000 persons left the workforce and thus are no longer considered unemployed. Over 1.4 million manufacturing jobs have disappeared since the start of the Great Recession in December 2007 while a similar number of wait staff and bartender jobs have been added.

Full-time jobs decreased in June and remain 822,000 below the pre-recession high, even while the non-institutional civilian population has expanded by an estimated 17.7 million. At the same time, the ranks of small proprietors shrank by 427,000. "That is a very, very bad number considering entrepreneurship is the economic engine that powers growth," wrote analyst [Karl Denninger](#).

- **Housing** – Housing was something of a bright spot in May. Although total [starts](#) gave back about half of the ground gained in April (-11.1%) permits sprang to an eight-year high (+11.8%). [Sales](#) of existing homes jumped by 5.1% as home-price appreciation eased, and new-home sales edged up (+2.2%) to the fastest rate since February 2008. From a long-term perspective, however, the new-home sales rate is comparable to levels previously seen in 1992, and starts remain in a range that would have been considered recessionary prior to 2006. Finally, residential construction makes up less than 4% of GDP, down from its pre-crash peak above 6%.

- **Trade** – The U.S. [trade deficit](#) was \$41.9 billion in May, up 2.9% from April. Many analysts [blame](#) the strong U.S. dollar (+12.5% year-over-year on a [trade-weighted index](#) basis) for the deficit. Meanwhile, [softwood lumber](#) exports increased by 1 MMBF (0.7%) in May; imports fell by 12 MMBF (-1.1%), which reduced the net export deficit by 61 MMBF (6.0%). Exports were 11 MMBF (7.0%) below year-earlier levels, while imports were 72 MMBF (6.2%) lower.

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)