MACRO PULSE™

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Slower than Molasses in….

The new year may have started with a lot of celebratory fireworks, but recent data releases suggest the U.S. economy is behaving more like a "dud." Granted, most recent data releases are wrapping up 2015 (see examples below) rather than reporting on 2016 activity, and so 2016's opening salvo could still prove more energetic. With the weather east of the Continental Divide finally turning colder, however, the old saying "slower than molasses in January" may ultimately prove an apt description.

• ***Manufacturing*** – Total industrial production (IP) declined 0.4% in December (-1.8% YoY, the second consecutive YoY decline), primarily as a result of cutbacks in utilities (power plants had more slack in December than any time on record) and mining. Also, the decrease for total IP in November was larger than previously reported (-0.9% instead of the original -0.6%). For 4Q as a whole, IP fell at an annual rate of 3.4%. Manufacturing output slipped 0.1% (+0.8% YoY) in December, but increased at an annual rate of 0.5% in 4Q. Wood Products output rose by 0.7% while Paper fell by 0.8%.

New orders decreased 0.2% in November. Excluding transportation, new orders decreased 0.3% (and -5.7% YoY – the 13th consecutive month of YoY contractions). New orders for non-defense capital goods excluding aircraft, a proxy for business investment spending, receded by 0.3% in November (-0.9% YoY). As a result of slow sales and a large inventory overhang, November's ratio of inventories to sales remained at its highest level since the Great Recession.

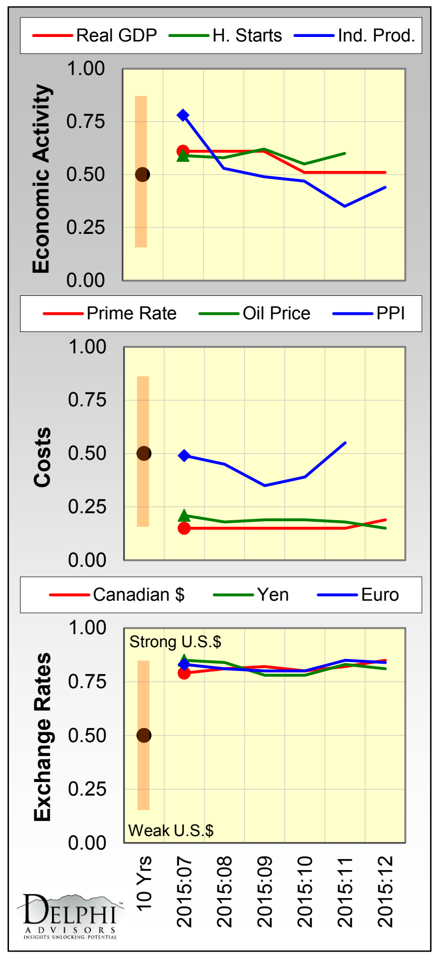
• ***Construction*** – November's housing market data exhibited a split personality, with the new-home component advancing but the existing component retreating. Single-family starts rose to levels last seen in January 2008 even as multi-family starts continued on the downward trend seen since June 2015. Multi-family permits saw large MoM percentage and absolute gains, however.

Although new-home sales rose in November, the overall downward trend (in place since February 2015) was not reversed. Inventory of new homes for sale has been trending upward in months-of-sales terms throughout 2015. Existing home sales "rained on the parade" in November. Sales tumbled 10.5% (the largest MoM percentage decline since July 2010, and the worst Oct-Nov retreat on record), to the lowest level of activity since April 2014.

Revisions to private residential improvement spending provided some hope for stronger GDP growth in both 2014 and 2015, but our own analysis suggests that expectation is unlikely for 2015.

• ***Employment*** – Non-farm payrolls jumped by 292,000 jobs in December. Meanwhile, the unemployment rate remained unchanged at 5.0% as the increase in the civilian labor force essentially offset the change in the number of people employed. Average hourly earnings of all private employees dipped by $0.01 (to $25.24) despite the respectable jobs gain, however. We suspect the explanation is a combination of the mix (especially minimum-wage and temp-help) of jobs filled and the number of workers taking multiple jobs to make ends meet.

In light of the above and other evidence, we are not surprised the Atlanta Fed has pegged 4Q2015 GDP growth as low as 0.6%. ■



Previous six months' 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)

This report is typically a compilation of articles posted on our website; those articles relate in greater detail recent economic developments to the U.S. forest products sector.