MACRO PULSE™
September 2017 A Delphi Advisors Publication Volume 8, No. 9

A September to Remember: Hurricanes and Wildfires

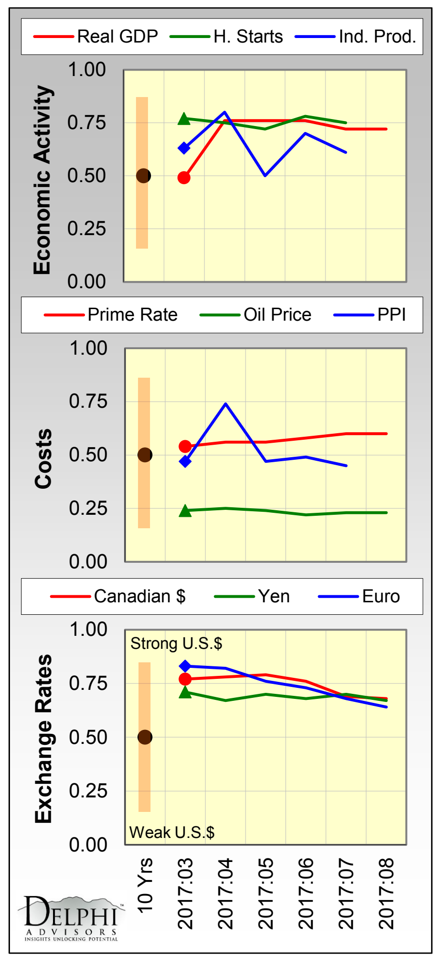
Those of a certain age may recall the 1978 hit "September" by the R&B group Earth, Wind & Fire that provided some of the inspiration for this *Macro Pulse* title. September 2017 may indeed prove memorable, but likely not because of the love, dancing and singing mentioned in the song. For too many, memories will consist of the catastrophic flooding of hurricane Harvey, the devastation of hurricanes Irma and Maria, and the charred remains from seemingly ubiquitous wildfires in the western United States. Thankfully, no major earthquakes hit the United States – at least while this column was being written. Not needing to deal directly with the aftermath of these natural disasters (although perhaps observing them through smoke-irritated eyes) provides the luxury of being distracted by less-critical circumstances and events. For example:

Residential construction – Residential construction reversed course yet again in July, with all subcomponents of activity declining except single-unit permits (0.0%) and private construction spending (+0.8%). Total starts: -4.8% MoM; -5.4% YoY. Total permits: -4.1% MoM; +2.6% YoY. New sales: -9.4% MoM; -9.3% YoY. Resales: -1.3% MoM; 0.0% YoY. Caution on the part of consumers whose memories of the Great Recession's housing crash are still very fresh, and decelerating household formations are just two of many explanations for why the housing market is behaving in such moribund fashion despite apparent evidence of pent-up demand.

Manufacturing – Although total industrial production rose 0.2% MoM (+2.2% YoY) in July, manufacturing output disappointed with a 0.1% decline – dragged down by a "substantial" 3.6% falloff of motor vehicles and parts. Meanwhile, new orders fell by 3.3% in July (the largest drop since August 2014) thanks to a slump in transportation orders. Excluding transportation provided a more upbeat picture (+0.5%). Also, business investment spending jumped by 1.0% (+6.3% YoY), the fifth consecutive month of expansion. Nonetheless, railcar traffic (down 9% since its April peak) is suggesting the economy has cooled.

Employment – Non-farm payrolls expanded by a "thoroughly" disappointing 156,000 jobs in August, and combined June and July employment gains were revised down by 41,000. One of several paradoxes in this report showed the August unemployment rate inching up to 4.4% as the labor force expanded (+77,000) but the number of persons employed contracted (-74,000). Manufacturing gained 36,000 jobs; Wood Products: +100; Paper and Paper Products: +1,100; Construction: +28,000. The construction gain is interesting in that the industry announced job cuts of over 4,000 in August while simultaneously claiming shortages of construction labor.

Gross domestic product – In its second estimate of 2Q2017 GDP, the Bureau of Economic Analysis lifted the growth rate of the U.S. economy to a seasonally adjusted and annualized rate of +3.04%, up 0.48 percentage point (PP) from the "advance" 2Q estimate released at the end of July, and +1.80 PP from 1Q. Given the economy's performance so far this quarter, and in light of the natural disasters mentioned above, it seems reasonable to expect that 3Q GDP growth could be substantially cooler than the current estimate for 2Q. Indeed mid-September forecasts for 3Q ranged from 1.3% to 2.6%. ■



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.