MACRO PULSE™
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2018 – The Year in Review

It seems like only yesterday the world was ringing in the new year, and now the bow is nearly tied around 2018. If the old saying is true that "past is prologue," perhaps it is fitting to take a broader retrospective of the U.S. economy than is typical – or even possible – in our other publications. Taking stock of recent events within the context of the business cycle provides more clarity about the economy's direction moving forward.

Gross domestic product: Dynamics consistent with the latter end of a business cycle were apparent during the final quarters of the Obama administration; left unchanged, those circumstances might have deteriorated into a more-pronounced economic slowdown during 2017 and into 2018. Donald Trump's election and the accompanying lurch from a business-wary to business-friendly administration averted that outcome, however, and this psychological "jolt" was augmented by the administration's regulatory and fiscal changes throughout 2017 – especially the December 2017 tax cut. As a result, GDP in 2Q2018 nearly doubled to a quarter-over-quarter growth rate of 4.2%.

With additional positive jolts (e.g., health care reform or "tax cuts 2.0") apparently not forthcoming and political gridlock becoming increasingly acrimonious, the "Trump Bump" is again yielding to late-cycle fundamentals. Thus, we agree with JPMorgan Funds' David Kelly that "this is a geriatric expansion."

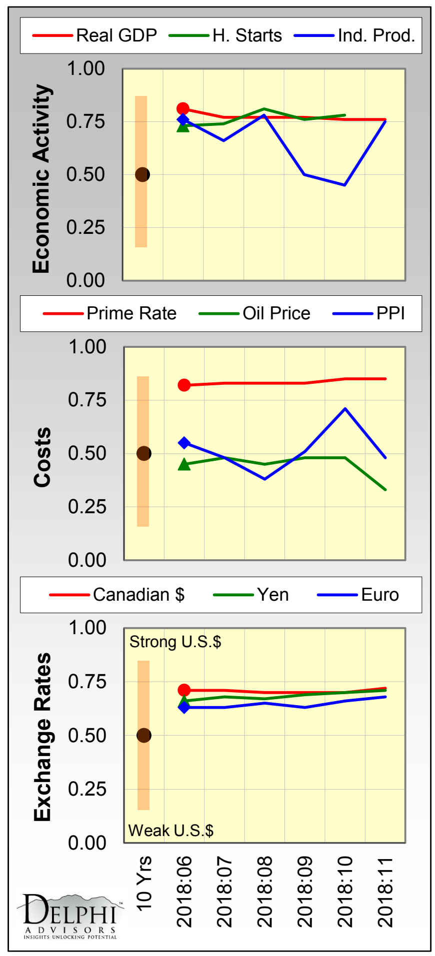
Residential construction: This year has been a tale of two halves – 1H held considerable promise as year-over-year (YoY) comparisons of total starts were strongly positive. It appears, however, that potential home buyers may have reached a tipping point in mid-2018 because of rising interest/mortgage rates, the lagged impacts of significant price appreciation of both new homes and resales, and reluctance or inability on the part of builders to construct more-affordable homes. As a result, YoY rates of change in total starts have been retreating during 2H; year-to-date comparisons relative to 2017 have also degraded, and in November stood at less than half January's rate of increase. Housing is typically a leading business-cycle factor; thus its 2H slowdown could portend slowing 2019 growth.

Our extended housing outlook, by contrast, is fairly positive because, as presented earlier this year, housing starts have not kept up with population growth. Short-term trends will be influenced by macroeconomic factors, of course, but population growth and demographics will maintain their roles as overarching long-term drivers and help to put a floor beneath residential construction.

Manufacturing: Industrial production, and especially the oil-extraction component of the mining sector, has flourised throughout 2018. In fact, the United States reclaimed the title of world's largest crude oil producer in September. On the manufacturing side, output during 2018 accelerated on trend at a faster rate than any of the past five years. Unfortunately, the forest products sector has not participated in that manufacturing ramp-up; solid wood has been gradually receding from its February peak while pulp and paper output has bobbed sideways.

Looking forward, the resilience in manufacturing will largely depend upon the outcome of the tiff with China over tariffs, congressional approval of the US-MCA trade pact, global fiscal and monetary policy discipline, and the speed with which attempts to "de-dollarize" the world's economy prove successful. ■

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.



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)