MACRO PULSE™

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Snow-blind?

Crude oil prices are at decadal lows, the unemployment rate is at/below 5%, median home prices are near all-time highs, annual consumer inflation is below 1%. Sounds like “good times rolling,” right? Yet, U.S. corporations are on track to release a third consecutive quarter of year-over-year (YoY) declines in earnings and profits; U.S. gross domestic product (GDP) has grown at an average annualized rate of only 1.9% over the last five quarters, and major U.S. stock market indices have “tanked” (e.g., Nasdaq: -14.5%) since the beginning of 2016. Who saw that coming?

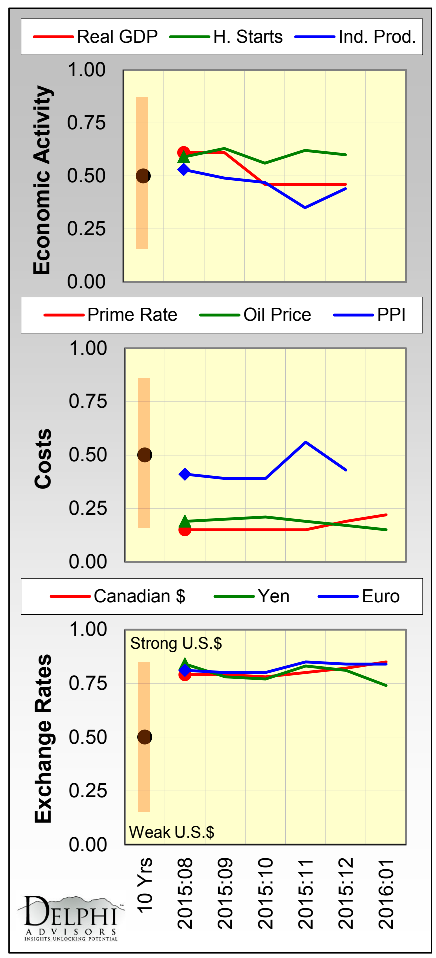
Snow blindness is a condition in which a person temporarily cannot see due to exposure to intense UV light. Such exposure can occur when sunlight reflects off snow (hence its name), or if proper eye protection is not worn when welding. By analogy it can also occur when individuals are inundated with incomplete information spun to sound positive (“snow”), temporarily blinding them to the realities on the ground. We interpret the year-over-year corporate earnings declines, sluggish U.S. GDP growth, and the recent stock market declines as emerging realities. In addition:

• ***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. Wood Products output rose by 0.7% while Paper fell by 0.8%.

New orders fell by \$13.5 billion (-2.9%) in December. Excluding transportation, new orders decreased 0.8% (-5.4% YoY, the 14th consecutive month of YoY contractions). Non-defense capital goods orders excluding aircraft, a proxy for business investment spending, tumbled by 4.3% (-7.4% YoY). Business investment contracted on a YoY basis during every month of 2015. Those results reflect “what’s been happening in terms of the pain on the manufacturing side because of the commodity price declines, U.S. currency appreciation, and what’s going on globally,” said Jacob Oubina, an economist at RBC Capital Markets.

• ***Construction*** – December’s housing data had something for everyone – both those who see the glass as half empty and those who see it half full. Sales activity bounded higher but permits and starts declined. For all of 2015, levels of total starts (1.111 million units) and new-home sales (499,000) were both the highest since 2007; for existing-home sales (5.256 million), the highest since 2006. For greater perspective, however, December’s new home sales were only 40% of the previous peak; existing homes: 80%. Total starts were 49% of the prior peak and less than 75% of the long-term historical average.

The jump in December sales activity (for existing homes, the largest monthly increase ever) lent some credence to the argument that recent regulatory changes had delayed some purchases during November. Warm weather across much of the country was also credited with the sales boost although, if so, new-home permits and starts should have followed suit. We suspect Chinese nationals looking for offshore properties were a bigger factor than the weather, however; they have been very active in the U.S. real estate market because of China tightening capital controls amidst its plunging stock market. ■



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.