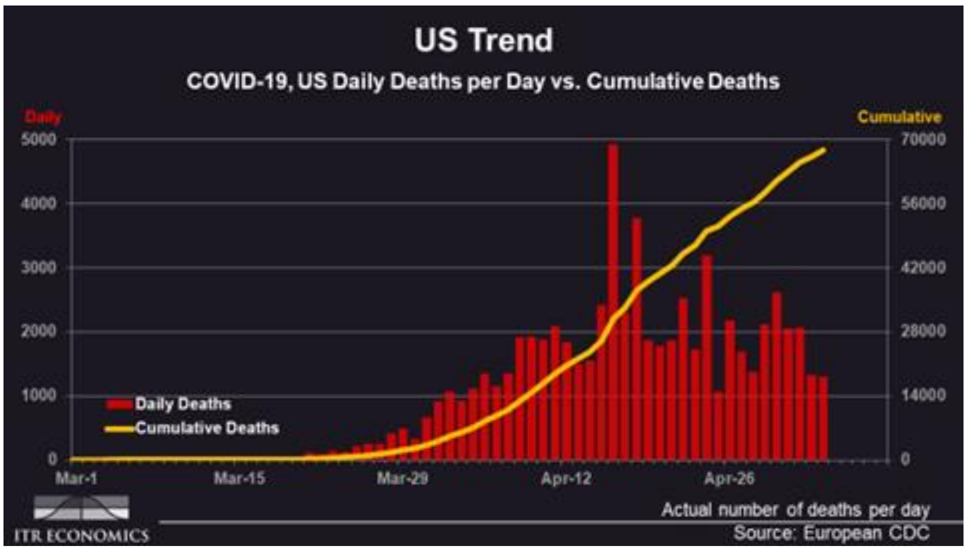
May 6, 2020 Subscriber Bulletin: COVID-19 and Oil Black Swans Economic Update

The US economy is poised to open back up for business. The first chart below shows that the daily number of deaths is generally declining, and the cumulative total is unlikely to come close to what some segments of the medical community were projecting. The second chart shows a state-by-state status update on which states are moving forward with attempting to get the economy going again in a more normal manner. We expect that the opening will be layered (tiered), which supports our timeline for the worst quarters of this downturn (from a macroeconomic perspective) to be 2Q20 for GDP and Total Industrial Production and 3Q20 for Nondefense Capital Goods New Orders (excluding aircraft).



Most of the time we find ourselves in the position of defending why we think the economy will come back as strong as we are forecasting. However, we know very smart people that think we are being pessimistic about the rate of recovery and that it will be stronger than we are projecting. Make sure you read this month's

Executive Summary in the ITR Trends Report™ for a look at those prospects. We think the evidence continues to support our slope of recovery.

The revised forecast for Single-Family Housing Starts will be provided in the upcoming edition of the Trends Report. The prior forecast was predicated on the drop in mortgage applications for purchasing a home, a lack of intel regarding how home sales were progressing during this period, and an assumption that 2020-2021 would be like prior recessions (albeit worse).

Upon further analysis:

1. The fundamentals for housing starts are strong (even better in the case of mortgage rates). The other fundamentals include ongoing low inventories and permits pulled (showing intent even though that may be forestalled for a short time). This suggests we are not looking at a normal recession scenario.

2. Examining home sales data and talking to a source in the home construction industry revealed that activity was continuing.

3. A better understanding of who was/is getting laid off and estimating that they were not the prime home buyers for the mid-to-higher range of homes.

4. States opening back up as we progress through the summer.

The above led us to conclude that the current situation is more of an interruption to the prior prevailing rising trend and not the onset of a cause-and-effect typical recession in housing.

The revised outlook is for Single-Family Housing Starts in 2020 to come in 0.3% above 2019 and for 2021 to come in 18.8% higher than 2020. The 3/12 values for the next four quarters, beginning with 2Q20, are: -4.8%, -2.8%, -1.1%, and +5.5%. You will see the new forecast chart in the upcoming Trends Report.

Oil: the Other Black Swan

The volatility in the market is impressive. As strange as it may sound, it is encouraging that the futures price is back up to approximately $19/bbl. However, even with this relatively good news, our outlook has oil prices below $40/bbl through 2021.

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