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ECONOMIC OUTLOOK

Forest and Wood Products Industries

March 2021

Executive Summary

Real 4Q2020 GDP growth was nudged up to a SAAR of +4.10% as commercial and private fixed investments decelerated more slowly than originally thought. Total industrial production advanced 0.9% in January; manufacturing: +1.0% despite a semiconductor shortage. Non-farm employers added 379,000 jobs in February, and the unemployment rate inched down to 6.2%. January total housing starts fell by 6.0% to 1.580 million units (MU) SAAR; permits: +10.4% at 1.881 MU. New-home sales rose by 4.3% to 0.923 MU; resales: +0.6% to 6.690 MU. Crude oil jumped $7.04 (+13.5%) to $59.05 per barrel in February. The US dollar depreciated versus the Canadian dollar (CAD: -0.2%, to C$1.271), but appreciated against the euro (EUR: +0.7% to €0.827).

We now see GDP growth holding steady at +3.6% in 1Q2021. GDP will pick up to +5.6% in 2Q, but then decelerate into a brief contraction by 4Q2021 while avoiding slipping into a recession due to expanded federal stimulus. QoQ changes will average +2.3% in 2021; 2022: +2.4% and 1Q2023: +1.3%. Quarterly changes in total IP will range between +0.5% and +6.3% annualized rates (average: +2.8%). Total housing starts will fluctuate between SAARs of 1.311 and 1.629 MU, with 2021 averaging 1.441 MU (+3.3% relative to 2020); 2022: 1.492 MU (+3.5% from 2021), and Jan-Feb 2023: 1.578 MU (+8.1% YTD/YTD). Crude oil will follow an "M"-shaped curve between $59 and $82, for an overall average of $67.92 per barrel. The CAD will appreciate on trend within a range of C$1.230 to C$1.290 while the EUR depreciates between €0.821 and €0.889.

Table 1. Key Economic Indicators Forecast

Date	Real GDP	IP	CPI	PPI	Prime Rate	Housing Starts	Oil Price	EUR/ USD	CAD/ USD
2020:12	18,784	106.2	261.6	119.7	3.25	1,680	47.03	0.822	1.281
2021:01	18,840	107.2	262.2	121.3	3.25	1,580	52.01	0.821	1.273
2021:02	18,895	106.3	263.2	121.9	3.25	1,624	59.05	0.827	1.271
2021:03	18,951	106.4	263.4	121.8	3.25	1,531	59.19	0.834	1.277
2021:04	19,038	106.4	263.9	122.9	3.25	1,429	62.35	0.845	1.269
2021:05	19,125	107.4	264.8	123.1	3.25	1,462	65.16	0.840	1.273
2021:06	19,212	107.7	265.5	122.4	3.25	1,361	63.52	0.821	1.276
2021:07	19,219	107.7	266.9	123.7	3.25	1,311	70.72	0.823	1.283
2021:08	19,226	108.5	266.8	123.1	3.25	1,449	61.76	0.826	1.290
2021:09	19,233	108.4	266.5	123.4	3.25	1,368	68.43	0.838	1.268
2021:10	19,228	108.4	267.1	123.5	3.25	1,399	62.87	0.850	1.249
2021:11	19,222	107.9	266.9	123.3	3.25	1,360	61.35	0.869	1.232
2021:12	19,216	108.7	266.7	123.4	3.25	1,418	60.56	0.861	1.245
2022:01	19,254	108.7	267.1	123.3	3.25	1,513	66.02	0.858	1.257
2022:02	19,291	108.0	266.5	123.6	3.25	1,407	60.17	0.853	1.275
2022:03	19,328	109.3	267.8	123.0	3.25	1,516	63.75	0.840	1.265
2022:04	19,386	109.3	268.0	124.1	3.25	1,565	60.96	0.840	1.241
2022:05	19,443	109.6	268.7	124.3	3.25	1,465	74.85	0.827	1.230
2022:06	19,501	110.6	268.8	124.1	3.50	1,559	78.24	0.833	1.233
2022:07	19,519	110.9	270.4	124.9	3.50	1,573	75.26	0.861	1.242
2022:08	19,537	110.9	268.8	125.9	3.50	1,423	81.18	0.889	1.254
2022:09	19,555	111.0	269.6	125.1	3.50	1,529	73.23	0.881	1.254
2022:10	19,594	111.8	271.6	126.6	3.50	1,427	75.37	0.872	1.256
2022:11	19,633	110.4	272.1	126.4	3.50	1,403	70.10	0.866	1.256
2022:12	19,673	112.0	272.5	126.6	3.50	1,523	75.32	0.865	1.260
2023:01	19,695	110.8	273.3	127.4	3.50	1,528	71.24	0.873	1.264
2023:02	19,717	111.6	274.4	127.8	3.50	1,629	68.53	0.877	1.273

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The US General Economy

Real Gross Domestic Product

In its second estimate of 4Q2020 gross domestic product (GDP), the Bureau of Economic Analysis (BEA) nudged the growth rate of the US economy to a seasonally adjusted and annualized rate (SAAR) of +4.10% (+4.1% expected), up 0.08 percentage point (PP) from the "advance" estimate ("4Qv1") but down 29.34PP from 3Q2020.

As with 4Qv1, two groupings of GDP components—personal consumption expenditures (PCE) and private domestic investment (PDI)—were the drivers behind the expansion (Table 2), whereas net exports (NetX) and government consumption expenditures (GCE) were drags on growth.

This report contained no material revisions. All line-item contributions to the headline percentage change were revised by ±0.10PP or less relative to 4Qv1; in fact 16 of the 21 line items changed by ±0.05PP or less. Generally speaking, growth in consumer spending on goods decelerated more quickly than reported in 4Qv1, while growth in commercial and private fixed investments decelerated more slowly than initially thought. Revisions to net exports and government spending offset each other. As for details:

PCE (-0.09PP from 4Qv1). Spending on furnishings and durable household equipment (-$3.4 billion, nominal) led the 3Q-to-4Q decline in durable goods purchases, while food and beverage purchases (-$7.3B) led the decline in nondurable goods. However, those declines were more than offset by QoQ increases in spending on healthcare (+$78.1B) and housing and utilities (+$17.7B).

PDI (+0.17PP from 4Qv1). Equipment (+$64.2B relative to 3Q; especially transportation), residential spending (+$88.1B) and nonfarm inventories (+$44.9B) were the underpinnings to PDI's positive 4Q headline contribution.

NetX (-0.03PP from 4Qv1). Goods exports were $122.8B higher than in 3Q, but that was more than offset by a $176.7B increase in goods imports.

GCE (+0.03PP from 4Qv1). Federal (+$6.5B, mostly defense-related) and state and local spending (+$9.4B) both increased relative to 3Q. GCE's negative contribution to the 4Q headline percentage change despite increases in nominal spending is a function of rates of change in inflation-adjusted and chained-dollar values.

Table 2. GDP Contributors: PCE, PDI, GCE, & NetX

Yr.	2019				2020			
Qr.	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	2.9	1.5	2.6	2.4	-5.0	-31.4	33.4	4.1
PCE	1.3	2.5	1.8	1.1	-4.8	-24.0	25.4	1.6
PDI	0.7	-1.0	0.3	-0.6	-1.6	-8.8	12.0	4.2
GCE	0.4	0.9	0.4	0.4	0.2	0.8	-0.8	-0.2
NetX	0.6	-0.8	0.0	1.5	1.1	0.6	-3.2	-1.6

Most analysts see GDP growth stair-stepping higher in 1Q2021. E.g., all of the Federal Reserve bank "nowcasts" peg 1Q expansion above 8.4% [(ATL: +8.4%; NYC: +8.6; STL: +12.6%); also, the late-February reading of Goldman Sachs' Analyst Index hit an all-time high, as a majority of Goldman's sector analysts reported that "business activity in their industry is at or above normal levels."

That ramp-up in activity is generally attributed to household incomes "exploding" as a result of the $900B in federal pandemic relief funds that began being distributed in January. Household incomes are expected to get another boost starting in 2Q from the $1.9 trillion coronavirus bill signed by President Biden on March 11. In light of those infusions, we expect economic activity to be lifted enough to avoid the short, shallow recession we previously forecasted for late-2021 and early-2022.

As welcoming as that prospective near-term growth rebound would be, for a variety of reasons we remain concerned about long-term prospects. First, federal transfer payments accounted for more than 100% of January's household income gain; i.e., income from non-government sources (e.g., wages) actually shrank. Second, continued federal support risks incentivizing people to not work and, instead, to become more reliant on government handouts—which would extend the time required for the economy to return to whatever will pass for "normal" going forward. Moreover, supply chain disruptions persist (albeit perhaps somewhat less acute than had been the case), energy prices are increasing along with US energy dependence, and the labor market remains soft, and thus is likely to dampen worker wage growth at a time when the cost of living appears to be increasing.

The third concern involves the Biden-Harris administration's economic and regulatory philosophies. Although the administration has not clearly articulated its overarching paradigm,

Figure 1. Two-Year GDP and IP Forecasts

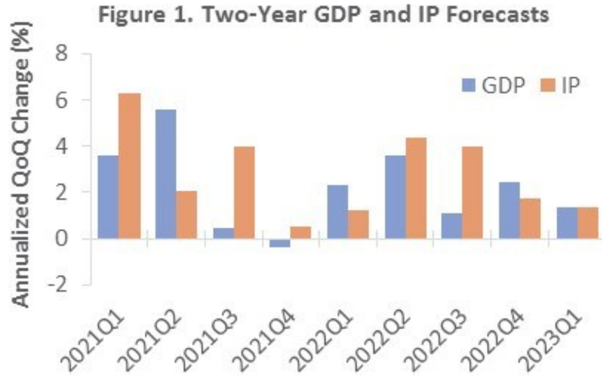


Table 3. Industrial Activity Metrics

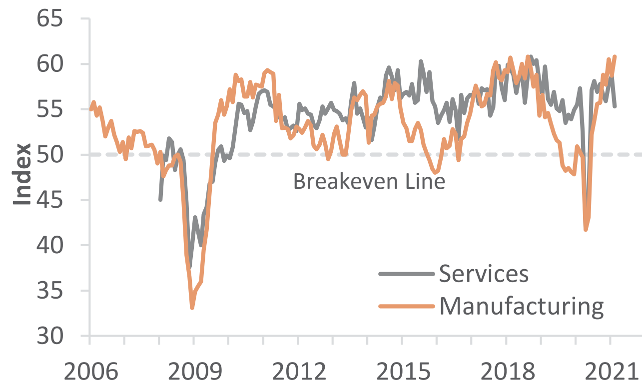
Metric / Industry	2021:01	Previous Month	Year
		% Change	
Industrial Production Index	107.2	0.9	-1.8
Manufacturing	105.3	1.0	-0.8
Wood Products	132.5	0.9	-0.1
Paper	91.9	-0.7	-4.0
Capacity Utilization Index	75.6	0.9	-1.7
Manufacturing	75.2	1.0	-0.7
Wood Products	78.0	0.8	-0.5
Paper	84.4	-0.8	-3.4
Capacity Index	141.9	0.0	-0.1
Manufacturing	140.0	0.0	-0.1
Wood Products	169.9	0.1	0.4
Paper	108.9	0.1	-0.7
New Orders (Billion $)	509.4	2.6	1.3
Ex. Transportation	424.3	1.7	1.5
Investment Spending	72.9	0.4	8.3

Sources: Federal Reserve Board & U.S. Census Bureau

the moves made thus far seem consistent with a return to the "new normal" economy of the Obama-Biden administration. The Biden-Harris campaign pledges to raise taxes have not yet materialized (beyond $60B included in the coronavirus relief bill), but if enacted those tax hikes will have a chilling effect on growth prospects—and counterbalance effects of the just-passed fiscal stimulus.

We now see GDP growth holding about steady at +3.6% in 1Q2021 (Figure 1). GDP will accelerate to +5.6% in 2Q, but then decelerate into a contraction in 4Q2021. QoQ changes will average +2.3% in 2021; 2022: +2.4% and 1Q2023: +1.3%.

Figure 2. ISM Performance Indexes



Industrial Production

Total industrial production (IP) increased 0.9% in January (-1.8% YoY), nearly double the MoM expectation of +0.5%. Manufacturing output rose 1.0%, about the same as its average gain over the previous five months. Durable and nondurable manufacturing recorded advances of 0.9% and 1.2%, respectively. However, motor vehicle production fell because of a global semiconductor shortage; also, paper (-0.7%) was one of the two nondurable sectors reporting a drop.

New orders increased 2.6% (+1.3% YoY); excluding transportation: +1.7% (+1.5% YoY). Business investment spending advanced by 0.4% (+8.3% YoY).

Oxford Economics' Oren Klachkin and Gregory Daco expect industrial momentum to gradually cool heading into the summer as consumers shift more demand to services. We are forecasting QoQ changes in total IP to range between +0.5% and +6.3% annualized rates (Figure 1) while averaging +2.8% over the next 24 months.

Table 4. Performance Overview of Selected Industries in February 2021 (Source: ISM)

Categories	Manufacturing Index	Manufacturing Wood	Manufacturing Paper	Services Index	Services Real Estate	Services Construction	Services Ag. & Forestry
Overall Activity	▲ (orange)	△	△	▲ (blue)	▽	△	△
New Orders	▲ (orange)	△	△	▲ (blue)	▽	△	◁▷
Production	▲ (orange)	△	△				
Employment	▲ (orange)	◁▷	▽	▲ (blue)	▽	△	◁▷
Slow Supplier Deliveries	▲ (orange)	△	△	▲ (orange)	△	△	△
Inventories	▼ (blue)	◁▷	▽	▲ (blue)	△	▽	◁▷
Customers' Inventories	▼ (orange)	▽	▽				
Prices	▲ (orange)	△	△	▲ (orange)	△	△	△
Backlog of Orders	▲ (orange)	△	△	▲ (orange)	△	△	◁▷
Exports	▲ (orange)	△	◁▷	▲ (blue)	△	▽	◁▷
Imports	▲ (blue)	◁▷	◁▷	▲ (blue)	△	◁▷	▽

- ▲ (orange) Growing at a faster rate
- ▲ (blue) Growing at a slower rate
- ◀▶ (blue) No change, or at breakeven
- ▼ (blue) Contracting/Slowing at a slower rate
- ▼ (orange) Contracting/Slowing at a faster rate
- △ Increase
- ◁▷ No change
- ▽ Decrease

Manufacturing and Non-manufacturing Surveys

The Institute for Supply Management's (ISM) monthly sentiment survey showed a rebound among US manufacturers reporting expansion in February (Figure 2). The PMI registered 60.8%, up 2.1PP from January's reading (50% is the breakpoint between contraction and expansion). All but three of the sub-indexes posted higher readings, with backlogged orders (+4.3PP) and input prices (+3.9PP, to the highest reading since July 2008) being the most notable (Table 4).

The services sector showed a pullback in respondents reporting expansion (-3.4PP, to 55.3%). The most noteworthy changes in the sub-indexes included exports (+10.6PP), inventories (+9.7PP), input prices (+7.6PP) and—perhaps most ominously when looking ahead—new orders (-9.9PP).

Of the industries we track, only Real Estate contracted. The vast majority of respondents mentioned paying higher prices, including:

Construction. "Sales of residential real estate continue to be strong, even outstripping supply. Cost inflation in building materials seen as shortages develop from sporadic COVID-19 closures at manufacturing facilities. Port congestion on the West Coast [and] winter weather in Canada closing mills and restricting truck shipping are contributing to product shortages nationwide."

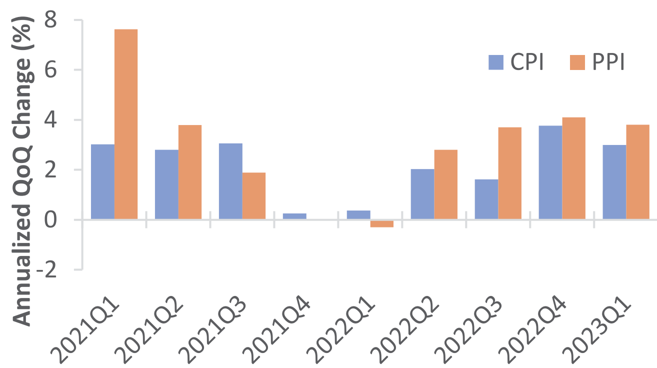
Wood Products. "Prices are rising so rapidly that many are wondering if [the situation] is sustainable. Shortages have the industry concerned for supply going forward, at least deep into the second quarter."

Findings of IHS Markit's February survey results concurred with their ISM counterparts—especially on the issue of higher prices.

"Another month of strong production growth suggests that the US manufacturing sector is close to fully recovering the output lost to the pandemic last year, and a renewed surge in optimism suggests the recovery has much further to run," wrote Markit's Chris Williamson. "Business expectations about the year ahead jumped to a level only exceeded once over the past six years, buoyed by a cocktail of stimulus and post-COVID recovery hopes as life continues to return to normal amid vaccine rollouts.

"A concern is that shortages of raw materials have become a growing problem, with record supply chain delays reported in February, contributing to the steepest rise in material costs seen over the past decade. Prices charged for a wide variety of goods coming out of factories are consequently rising, which will likely feed through to higher consumer inflation," Williamson concluded.

Figure 3. Two-Year CPI and PPI Forecasts



Consumer & Producer Price Indices

The consumer price index (CPI) increased 0.3% in January (+1.4% YoY). The gasoline index rose 7.4% and accounted for most of the all-items increase. Although the indexes for electricity and natural gas declined, the energy index rose 3.5% over the month. The food index rose slightly in January, increasing 0.1% as an advance in the index for food away-from-home more than offset a decline in the index for food at home.

Meanwhile, the producer price index (PPI) jumped by 1.3% (+1.7% YoY)—the largest MoM increase since the November 2009 starting date of the final-demand index—and well in excess of the +0.4% expected. Two-thirds of that increase can be traced to a 1.3% rise in the index for final-demand services (in particular, portfolio management). Prices for final-demand goods increased 1.4%, led by gasoline (+13.6%).

In the forest products sector, the price index for Pulp, Paper & Allied Products rose 1.0% (+4.0% YoY); Lumber & Wood Products: +5.9% (+22.8% YoY); and Wood Fiber: +4.3% (+8.2% YoY). The price increases for softwood lumber were particularly noteworthy: +14.0% MoM and +73.0% YoY; that index is expected to rise further, as prices hit a record high of $1,004.90/MBF on February 18.

With the Federal Open Market Committee (FOMC) not meeting during February, the federal funds rate (FFR) was left in its present 0-0.25% range. The absence of a meeting did not translate into a lack of developments, however. Perhaps of greatest import was the announcement by the US Treasury of plans to reduce the stockpile of cash it amassed at the Fed over the last year in response to the deep recession caused by reactions to the pandemic. By March 4, the Treasury will have injected roughly $155 billion of liquidity into the financial system. These moves will arguably have the same impact as the Fed's quantitative easing, and will also complicate Fed Chair Powell's effort to keep a tight grip over money market rates.

Figure 4. Unemployment & Participation Rates

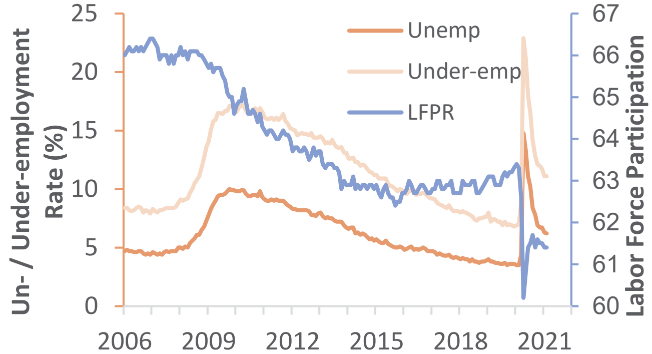
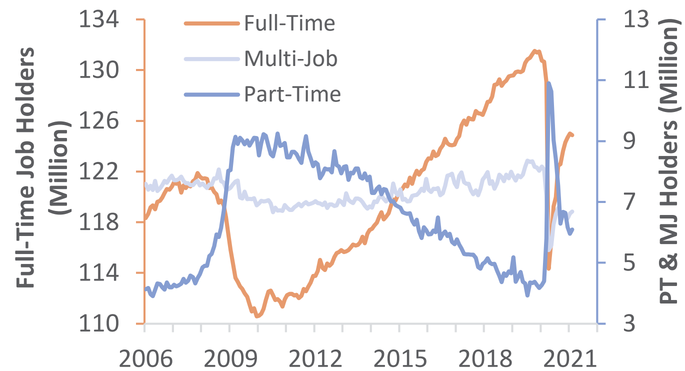


Figure 5. Other Employment Metrics



The implications of what could be an unprecedented surge of liquidity are still up for debate. Some analysts forecast downward pressure on the US dollar. Others anticipate buoyant stock and bond prices. Still, others see it mostly as a non-event except for the money markets. "It will drive short term rates lower, as far as they can go," predicted the International Monetary Fund's Manmohan Singh, even as longer term rates rise (e.g., 10-year Treasuries shown in Figure 7).

As RIA Advisors' Michael Lebowitz described it, the Fed is in an awkward position of needing to "tap on the brakes [to try controlling rates] and at the same time keep its foot on the monetary stimulus pedal." On balance, we are forecasting the FFR (and hence prime rate) to begin rising only at the tail end of the forecast period.

As for the CPI and PPI, continued demand recovery and supply chain disruptions almost guarantee further increases in those indexes. Commodity prices are "soaring," and food producers are warning of intentions to pass their rising costs on to consumers. We see QoQ changes in the CPI fluctuating between +0.2% and +3.8% annualized rates, for an overall average of +2.2% (Figure 3). The PPI will range between -0.3% and +7.6%, averaging +3.0% overall.

The Labor Market

The Bureau of Labor Statistics' (BLS) establishment survey showed non-farm employers added 379,000 jobs in February (handily beating consensus expectations of +140,000). December and January employment changes were revised up by a combined 38,000.

Meanwhile, the unemployment rate (based upon the BLS's household survey) edged down by 0.1PP (to 6.2%, as shown in Figure 4) as the ranks of the employed swelled much faster (+208,000) than the civilian labor force (+50,000). The labor force participation rate was unchanged at 61.4% because of that rather meager expansion of the civilian labor force. The number of employment-age persons ***not*** in the labor force edged up (18,000) to 100.7 million.

Supporting the notion that there was "much less than meets the eye" in the jobs report, goods-producing industries gave up 48,000 jobs while service-providing employment added 427,000 positions. The vast majority of job gains occurred in leisure and hospitality (+355,000 or 94% of net jobs added), of which 285,900 were in food services and drinking places. Smaller gains were reported in temporary help services (+52,700), health care and social assistance (+45,600), and retail trade (+41,000). Employment declined in state and local government education (-68,600), and support activities for mining (-6,200).

Manufacturing expanded by 21,000 jobs. That result is consistent with ISM's manufacturing employment sub-index, which rose faster in February. Wood Products employment ticked down by 1,100 (ISM was unchanged); Paper and Paper Products: -1,000 (ISM declined); Construction: -61,000 (ISM increased).

Full-time jobs fell (-122,000) to 124.9 million. Workers employed part time for economic reasons (shown in Figure 5) rose by 134,000, whereas those working part time for non-economic reasons retreated by 150,000; multiple-job holders advanced by 55,000. Reflecting the shift between full- and part-time jobs, although average hourly earnings rose by $0.07 to $30.01 (+5.3% YoY), the average workweek contracted by 0.3 hour, resulting in average weekly earnings declining by $6.56 to $1,038.35 (+4.2% YoY). February's storms mostly occurred after the survey period for this jobs report, and likely had only a small impact on the average workweek. That the labor market is in no danger of overheating was reflected in economist David Rosenberg's comment that he had never "heard so much bullish narrative over a jobs report that saw a 0.9% contraction in the workweek, a 3.1% slide in factory overtime, a 0.6% slide in labor income and 122k plunge in full-time employment."

Looking forward, one hopes the surge in leisure and hospitality hiring at least serves as a proverbial canary in the coal mine—signaling that it is safe for other service-oriented sectors to also bring back significant numbers of workers. "The engine of eco-

Table 5. Housing Metrics (Sources: U.S. Census Bureau & NAR)

Activity	2021:01	2020:12	2020:01	YTD2021	YTD2020
	Thous.	*Percentage Change*		*Thous.*	
New Homes	*(SAAR)*	*(SA)*	*(NSA)*	*(AR)*	*% Chng*
Permits	1,881	10.4	13.7	1,540	13.7
1-unit	1,269	3.8	19.2	1,007	19.2
Multi-units	612	27.2	4.7	533	4.7
Starts	1,580	-6.0	-3.2	1,314	-3.2
1-unit	1,162	-12.2	15.6	935	15.6
Multi-units	418	17.1	-30.9	379	-30.9
Sales (1-unit)	923	4.3	18.6	840	18.6
Existing Homes					
Sales (All units)	6,690	0.6	15.8	4,404	15.8

nomic recovery is restarting as the pandemic's winter wave recedes," said Glassdoor's Daniel Zhao, "although there is still a long way to go: The economy would need to add almost 1 million jobs a month for the rest of 2021 to return to pre-crisis levels by the end of the year."

The Housing Market

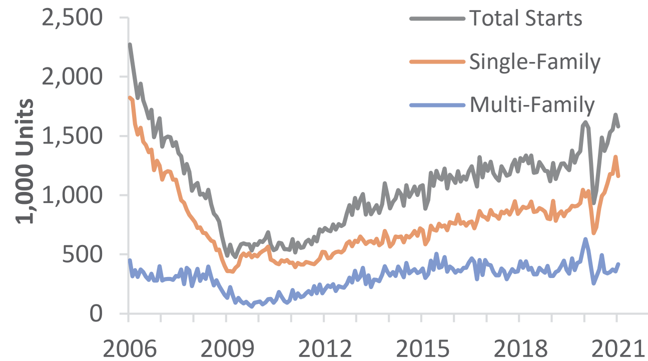
January proved to be a "good news-bad news" month for housing. The bad news involved a 6.0% drop in total starts (Table 5 and Figure 6) thanks to a combination of freezing weather and the aforementioned record-high lumber prices; permits, by contrast, jumped by 10.4%—far exceeding expectations of a 1.4% retreat. Sales of new and existing homes posted gains, although the rate of growth in resales slowed to just +0.6%.

Private residential construction spending jumped by 2.5% (+22.0% YoY); home improvement spending followed suit (+2.3% MoM; +17.5% YoY). In both cases, however, seasonal adjustments turned MoM decreases positive.

In light of the permits cited above, and the uptick in February's NAHB/Wells Fargo Housing Market Index, builders appear cautiously optimistic about their ability to maintain present rates of construction. "Demand conditions remain solid due to demographics, low mortgage rates and the suburban shift to lower cost markets, but we expect to see some cooling in growth rates for residential construction in 2021 due to cost factors, supply chain issues and regulatory risks," said NAHB Robert Dietz. Moreover, "some builders are at capacity and may not be able to expand production due to these headwinds."

Last year's run-up in lumber prices was not entirely demand-driven. In addition to the better-known impacts on sawmills, Covid-19 also shut down wood treating plants, and the ripple effects helped push prices higher. "The supply chain was screwed up," said the owner of Wilson Construction. "Dimension sizes were in limited supplies; even something as simple as a 2"x4"x12' southern yellow pine treated was in extremely short supply."

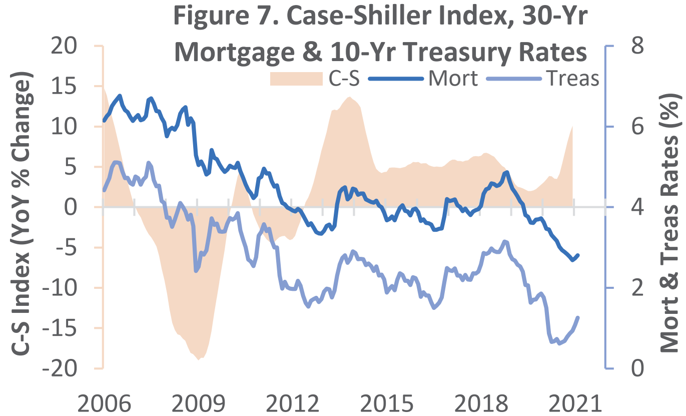
Figure 6. Single- and Multi-Family Starts



An article by Zillow confirmed our suspicions that a higher velocity of sales (i.e., fewer days on market) helped the existing-home market transition to both higher sales volumes and lower inventory levels during 2020. E.g., in June 2020, homes were on the market a median of 16 days, five days fewer than in June 2019; by December 2020, time on market was 17 days, or 25 days fewer than December 2019. "Like a warehouse transitioning to just-in-time inventory management, the US housing market became more streamlined in 2020, with typical home sales occurring much more quickly after initially being listed," wrote Zillow's analysts. "And because homes were on the market for so much less time before selling, there was a much smaller stockpile of listed homes observed at any given point in time—what we refer to as inventory." This transition has the potential to redefine what constitutes a "normal" level of inventory "as long as time on market remains low."

How long demand may stay so elevated is an open question. High Frequency Economics' Rubeela Farooqi recently mused about whether there is "froth coming off the housing sector." She pointed to the trend in mortgage applications data: The number of people applying for homes is high but no longer climbing. Also, rising mortgage rates, which have "rebounded sharply" during recent weeks, could push many buyers out of the market due to affordability challenges.

Figure 7. Case-Shiller Index, 30-Yr Mortgage & 10-Yr Treasury Rates



CNBC's Diana Olick buttressed Farooqi's contention that housing may be cooling amidst falling consumer confidence. For now, we do not foresee any dramatic reversals, thanks to countervailing effects of factors including the reinstatement of the Obama administration's Affirmatively Furthering Fair Housing regulation (rescinded under Trump), relocation of more remote workers as a result of the pandemic, and demographic fundamentals.

It is possible the outcome of a lawsuit challenging the constitutionality of the nationwide eviction moratorium could upset our sanguine view of housing. If inevitable appeals uphold the initial ruling that the moratorium is unconstitutional, we would not be at all surprised to see similar lawsuits launched on behalf of mortgage bondholders against the forbearance program and foreclosure moratoria. Needless to say, overturning protections for renters and homeowners could severely roil the housing market. On the other hand, continuing to extend those provisions also means "greater challenges lie ahead for the struggling homeowners to find an affordable post-forbearance resolution," wrote CoreLogic's Yanling Mayer.

Because of our forecast that the economy will follow a "W"-shaped trajectory, and since starts typically lead the economy, we expect total starts to fluctuate between SAARs of 1.311 and 1.629 million units (MU), with 2021 averaging 1.441 MU (+3.3% relative to 2020); 2022: 1.492 MU (+3.5% from 2021), and Jan-Feb 2023: 1.578 MU (+8.1% YTD/YTD).

Oil Prices

The monthly average US-dollar (USD) price of West Texas Intermediate (WTI) crude oil rose by $7.04 (+13.5%) to $59.05 per barrel in February. The increase was attributed to expectations of shrinking supplies combined with a further rebound in consumption as economies worldwide begin to reopen. Shale oil-output losses of almost 6 million barrels during February's deep freeze likely compounded the price rise, although numerous refineries were also forced to shut down—reducing demand—and some plants are facing lengthy repairs.

Shale's limited ability to respond to any uptick in demand, because so much equipment was scrapped last year, means OPEC and its allies no longer need to be worried about competition for market share from US shale producers. "I'm still a strong believer that demand is going to come back strong, both on airlines and also driving around the world once we get herd immunity," Pioneer Natural Resources' Scott Sheffield said. "I'm confident that we can assume the Iranians [will] barrel into the marketplace over time and then US shale is no longer going to be a threat to...OPEC+."

Inconceivable as it may have seemed a few short months ago (remember "negative" oil prices last year?), rumblings are starting to emerge that crude could once again top $100 a barrel by the end of next year. Bank of America sees potential spikes above $100 over the next few years on improving fundamentals and global stimulus. Speculators are also getting in on the action, increasing bets in the options market that oil will reach that "vaunted" level by December 2022.

There are plenty of reasons to be skeptical of such a resurgence. E.g., the OPEC+ cuts that have limited supply are artificial, and the cartel has enough spare capacity to meet any shortfall should demand rocket following a worldwide recovery from the pandemic. As a result, we see WTI following an "M"-shaped curve between $59 and $82, for an overall average of $67.92 per barrel.

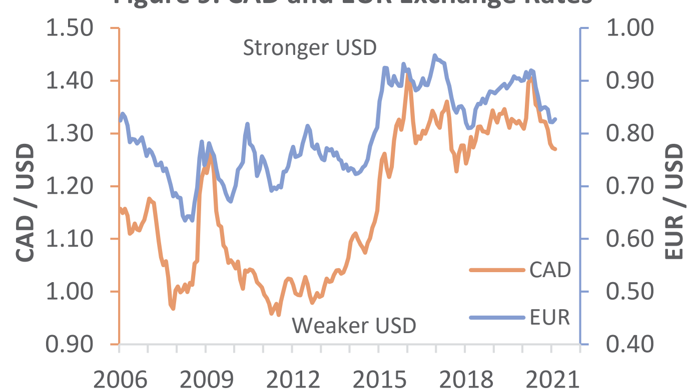
Exchange Rates

In February the monthly average value of the USD depreciated versus the Canadian dollar (CAD: -0.2%), but appreciated against the euro (EUR: +0.7%). The average CAD/USD rate was C$1.271; EUR/USD: €0.827 (Figure 9).

On the broad trade-weighted index basis (goods and services), the USD broke a nine-month streak of declines when strengthening by 0.5% against a basket of 26 currencies.

Figure 8. Historical Oil & Diesel Prices

Figure 9. CAD and EUR Exchange Rates



Oil's price rise was seen as explaining the CAD's February strength; we expect oil's overall rise during the next two years—along with a "sharp improvement" in Canada's terms of trade—to continue underpinning the CAD's appreciation. The Bank of Canada's rather dovish March rate statement is unlikely to materially impact the CAD/USD.

Higher US bond yields were credited for the USD's February appreciation against the EUR. A variety of factors are expected to further weaken the EUR during 2021, including a desire to make Eurozone exports more attractive, a risk of earlier Fed monetary policy normalization to counter the impacts of the $1.9 trillion federal "stimulus" package, expectations the US economic growth will "handily outpace" that of the Eurozone, and a stock market correction that could push more investors into heavier cash positions.

On balance, we expect the CAD to appreciate on trend within a range of C$1.230 to C$1.290 while the EUR depreciates between €0.821 and €0.889. ■

About the Data

- Unless otherwise indicated, data are collected from the Federal Reserve Bank of St. Louis FRED database.
- Real gross domestic product (GDP) is reported in billions of chained 2009 dollars that are seasonally adjusted and annualized.
- The industrial production (IP) index is based on an average of 100 in 2012.
- The consumer price index (CPI) for all urban consumers is based on an average of 100 between 1982 and 1984.
- The producer price index (PPI) for final demand is based on November 2009 = 100.
- Housing starts are reported in 1,000 units, where the monthly numbers are seasonally adjusted and annualized.
- Oil price is reported in US dollars per barrel.