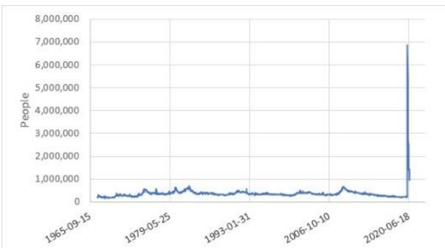
The Weekly Breadline

A weekly analysis of the most recent economic indications

The ongoing government-imposed shutdown of the economy, in response to COVID-19, has led to what will likely be a depression at least through the remainder of 2020. In order to help our clients plan during this extremely confusing and unpredictable period, **John Dunham & Associates** has gathered a brief series of indicators that together paint the most recent picture of US economic activity.[1]

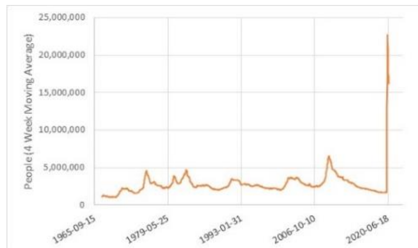
The Weekly Data: August 9, 2020

Weekly Jobless Claims



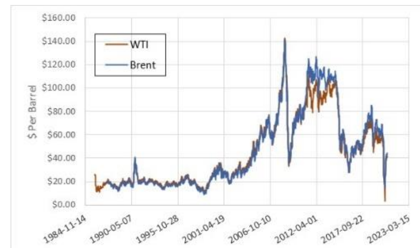
New claims for unemployment insurance fell below 1 million, decreasing from 1,186,000 to a *mere* 983,000.

Continuing Claims for Unemployment



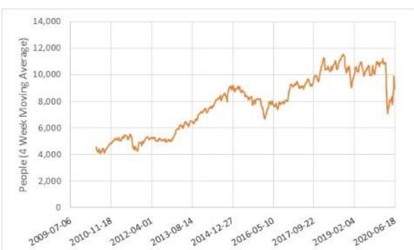
The four-week moving average of unemployment claims declined last week from 16,628,250 to 16,169,500.

WTI Spot Oil Price



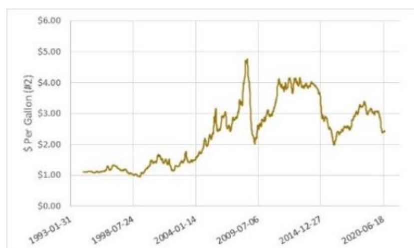
Early in the crisis, US spot prices actually exceeded the world market. WTI spot is now back to $41.94 with Brent at $44.19 per barrel.

Down Jones Transportation Index



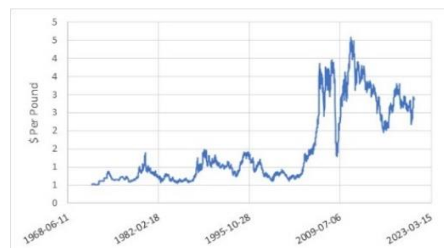
The Dow Jones Transportation Index rose from 10,244.25 to 10,907.32

Diesel Prices



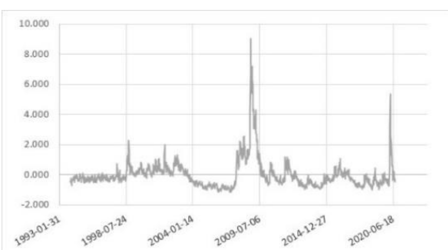
Diesel prices were consistent last week at $2.43 up from $2.42.

Copper Prices



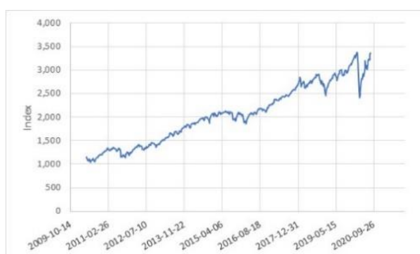
Spot copper prices rose last week from $2.87/lb to $2.89/lb.

Financial Stress Index



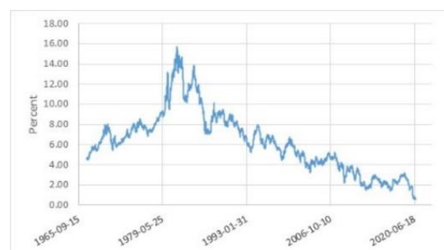
The weekly St. Louis Fed financial stress index fell last week from -0.2931 to -0.4098 indicating more stability.

S&P 500



The S&P 500 index continued to defy gravity last week, rising from 3,217.12 to 3,351.28 to 3,364.16.

10-Year Treasury Yield



Interest rates on 10-year Treasury Bonds drifted upward from a record low 0.55 to 0.66.

Consumer Credit Outstanding (Commercial Banks)

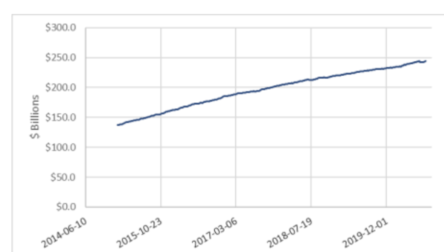
Consumers continued to pay down debt as loans outstanding fell from $1,519.76 billion to $1,516.98 billion.

Is there anything else that you would like us to track?

Let us know at:

jrd@guerrillaeconomics.com

Commercial Real Estate Loans



Commercial real estate loans continued to increase in spite of softness in rentals - up from $243.33 billion to $243.92 billion.

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[1] Note that the current situation is extremely unpredictable, and important business decisions should not be made based on any individual indicators.

The Weekly Commentary

Key takeaways for the week:

1. Weekly initial unemployment claims finally came in below the one-million-mark last week at 963,000. This is still 45 percent higher than the worst week during the last recession. More importantly; however, is that the total number of people receiving either state or federal unemployment benefits fell by nearly 3.1 million from 31,323,611 to 28,257,995. This, of course, means that the number of people unemployed in the US is about equal to the entire population of Texas.

2. Oil prices continued to strengthen, particularly in the US market. Spot prices at Cushing Oklahoma are now just 8 percent below where they were prior to the government-imposed shutdowns, while Brent spot prices are about 13 percent lower than before the crisis.

3. Interest rates may have finally bottomed out, with the 10-year treasury yield up by 11 basis points on the week. This is because investor inflation expectations rose to six-month highs, bolstered in part by data showing higher producer and consumer prices in July (see below). The yield spread between five-year Treasury Inflation Protected Securities (TIPS) and regular five-year Treasuries hit 1.565% on Thursday, the highest since February.

Continued quantitative easing by the Federal Reserve and deficit spending at the Federal level may finally be edging their way into inflation numbers, in spite of limited demand on the part of American consumers and businesses. The Consumer Price Index (CPI) rose 0.6 percent in July, following a similar increase last month. These are the highest monthly changes since August of 2012, and were they to continue for 12 months, annual inflation would be about 7.5 percent.

We would not expect to see inflation reach these levels, particularly since the high rates over the last two months were driven by the recovery in energy prices; however, inflation in the 3 percent range is not unlikely. Demand has been juiced by all of the Federal spending, and the depression has been caused by a lack of supply rather than of demand. As service businesses throughout the country continue to permanently close, there will be continued supply shortages, which could push up prices for the remaining restaurants, hotels, airlines, and personal service firms.

The most recent Labor Department report has evidence to this effect, with physician services, transportation services, lodging, restaurant meals, household moving, telephone services and haircare services all posting price increases well above the median. Service inflation was limited by lower costs for education (who wants to go to zoom college) and rentals (likely driven by the migration away from expensive urban centers). Since rent makes up a huge portion of consumer spending (and therefore the CPI) stabilization in the real estate market could send service inflation soaring.

In addition, strong demand for recreational equipment like RVs, automobiles, sporting goods, and pet supplies has pushed prices for these goods up sharply this month, and prices for clothing and most other consumer goods have risen as retailers have been allowed to start reopening.

In what represents good news for most families, food prices have mitigated somewhat this month, falling by about 1.1 percent on the month, after having soared during the major lockdowns. Taking food at home and at restaurants together, food prices were down by 0.4 percent on the month.

Notes:

Weekly and daily economic data series are rare. Certain financial data can be used as a proxy for underlying economic indicators.

- Copper prices, like those of other industrial metals, can serve as a proxy for industrial production.
- Fuel prices account for about 10 percent of the CPI and can serve as a proxy for short-term inflation expectations.
- The level of commercial real estate loans is a proxy for the construction industry.
- Changes in the level of consumer credit can be used as a proxy for retail sales.
- The yield on the 10-year treasury is an indicator of inflation.