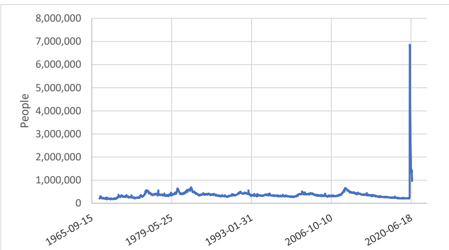
# The Weekly Breadline

## 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]

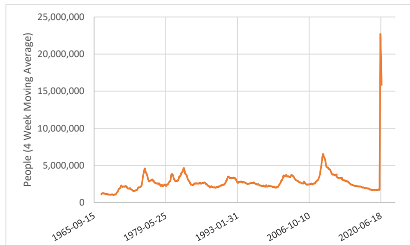
### The Weekly Data: August 24, 2020

#### Weekly Jobless Claims



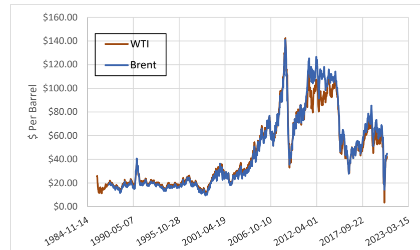

New claims for unemployment insurance rose above 1 million again, from 963,000 to 1,106,000.

#### Continuing Claims for Unemployment



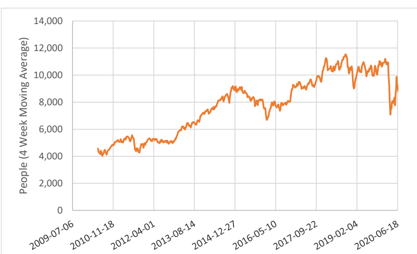

The four-week moving average of unemployment claims declined last week from 16,169,500 to 15,841,250.

#### WTI Spot Oil Price




WTI spot crude is up from $41.94 per barrel to $42.08 with Brent rising from $44.19 to $44.91 per barrel.

#### Down Jones Transportation Index




The Dow Jones Transportation Index remained flat at 10,907.16 from 10,907.32

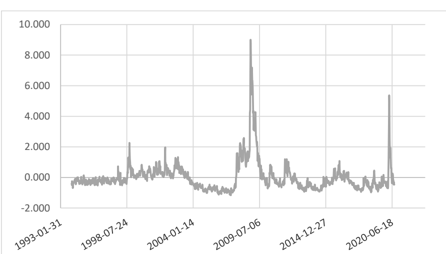
#### Diesel Prices


Diesel prices were consistent last week at $2.43.

#### Copper Prices

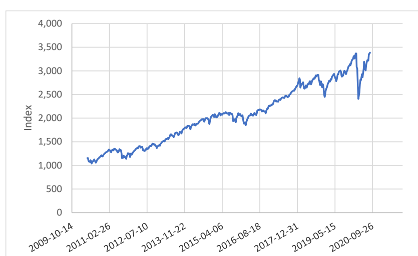

Spot copper prices rose last week from $2.89/lb to $2.95/lb.

#### Financial Stress Index




The weekly St. Louis Fed financial stress index fell last week from -0.4098 to -0.4647 indicating more stability.

#### S&P 500

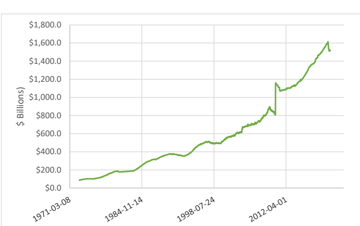



The S&P 500 index continued to climb, rising from 3,364.16 to 3,385.86

#### 10-Year Treasury Yield


Interest rates on 10-year Treasury Bonds drifted upward from 0.66 to 0.70.

#### Consumer Credit Outstanding (Commercial Banks)




Consumers continued to pay down debt as loans outstanding fell from $1,516.98 billion to $1,515.43 billion.

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

Let us know at:

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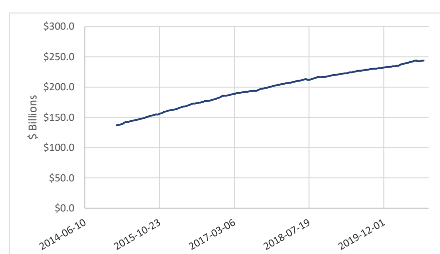
#### Commercial Real Estate Loans




Commercial real estate loans continued to increase in spite of softness in rentals - up from $243.92 billion to $243.93 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.

Key takeaways for the week:

1. Weekly initial unemployment claims surged back over the 1 million mark, rising by 135,000 to 1,106,000. That said, the number of people claiming either state or federal unemployment benefits decreased by 197,600 individuals to 28,059,349. While this is good news, to put it is perspective, the number of people claiming unemployment during the same period last year was just 1,704,400. Significant increases in claims occurred in New Jersey, New York and Texas, with claims in New Jersey nearly doubling.

2. A bottoming out of interest rates has kindled growth in the housing market. July housing starts came in at a seasonally-adjusted annual rate of 1.496 million, up 22.6 percent from the prior month and 23.4 percent from the same period last year. Home construction is now back to levels prior to the government-imposed shutdowns.

3. Oil prices are back to about $42.00 per barrel, as economic activity begins to tick up. Even so, vehicle miles traveled for June (data were just released) were still 16.1 percent below pre-COVID levels.

4. The average interest rate on a 30-year fixed mortgage ticked up for the second week in a row to just under 3.0 percent. This is up by 11 basis points from just two weeks ago.

Based on data from the Bureau of Labor Statistics, an estimated 20.76 million firms (on net) shut down between March and April as governments across the country imposed draconian quarantine orders. Since then, the BLS estimates that 8.78 million firms (on net) opened, meaning that the country still has about 11.98 million less firms operating today than there were prior to the shutdowns. Even worse, the pace of reopening has stalled. A total of about 5.1 million firms (on net) opened in June while just about a tenth as many – 591,000 – opened in July.

Both large and small firms have been decimated by the effects of the shutdowns, and based on our discussions with commercial bankers, the worst may be yet to come. Many smaller firms, particularly service businesses like restaurants, taverns, dry cleaners and salons, have tentatively reopened as lock-down orders have been loosened; however, they have lost their capital cushion, and are seeing revenues that may be too low to be sustainable in the long term. This suggests that there will be a new surge in closures at the beginning of 2021, even if the economy has fully reopened.

This suggests that commercial real estate owners, in particular those with substantial exposure to high streets, and urban commercial strips, will be facing serious liquidity problems come the beginning of 2021. Already, many Real Estate Investment Trusts and Funds have suspended dividends and others have begun to liquidate assets. Even large commercial tenants have stopped paying rent and are cancelling leases as foot traffic is not sufficient to maintain stores and restaurants with expensive leases in tourist dependent areas or in shopping malls.

Just as the government-imposed shutdowns have decimated the travel, transportation and hospitality sectors of the economy, this next wave will spread through real estate and to the financial sector as building owners will be unable to maintain mortgage payments, and many will default on over-leveraged properties. Similar effects are happening already in residential real estate markets, particularly in high priced urban centers like New York and San Francisco, where once high end apartments are being sold at substantial discounts from expected offer prices.

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.