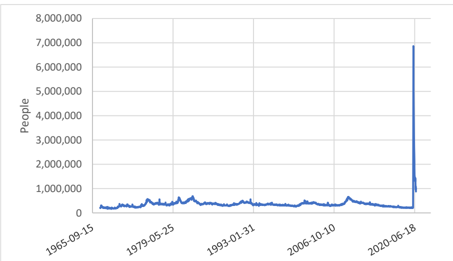
The Weekly Breadline
A weekly analysis of the most recent economic indications

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]

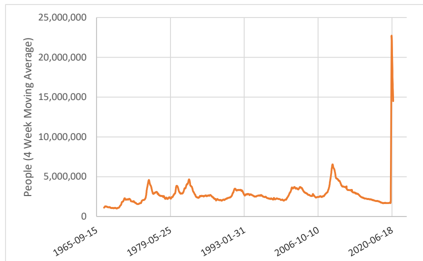
The Weekly Data: September 7, 2020

Weekly Jobless Claims



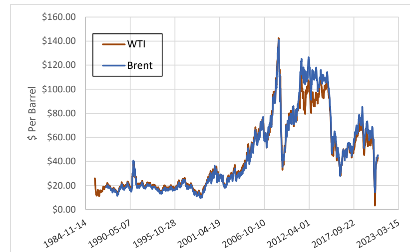
New claims for unemployment insurance dropped 12 percent, from 1,006,000 to 881,000.

Continuing Claims for Unemployment



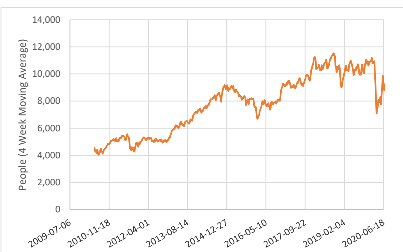
The four-week moving average of unemployment claims declined last week from 15,215,750 to 14,496,250.

WTI Spot Oil Price



WTI spot crude is up from $42.73 per barrel to $42.93 with Brent increasing from $44.43 to $45.22 per barrel.

Down Jones Transportation Index



The Dow Jones Transportation Index rose from 11,185.96 to 11,269.53.

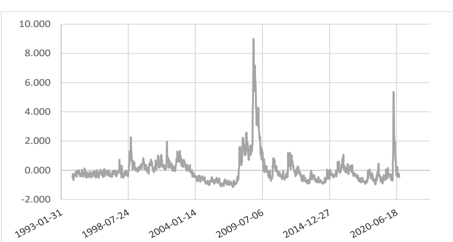
Diesel Prices

Diesel prices increased last week from $2.43 to $2.44.

Copper Prices

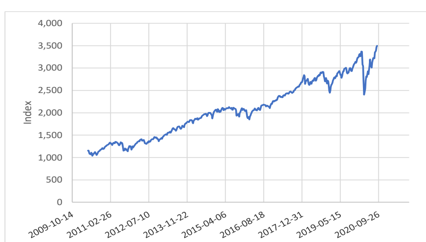
Spot copper prices rose last week from $3.03/lb to $3.07/lb.

Financial Stress Index



The weekly St. Louis Fed financial stress index fell last week from -0.2468 to -0.4738 indicating more stability.

S&P 500

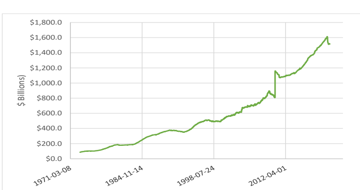


The S&P 500 index continued to climb, rising from 3,469.24 3,497.96.

10-Year Treasury Yield

Interest rates on 10-year Treasury Bonds increased slightly from 0.67 to .70.

Consumer Credit Outstanding (Commercial Banks)



Consumers took in more debt as loans outstanding rose from $1,514.39 billion to $1,516.74 billion.

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

Let us know at:

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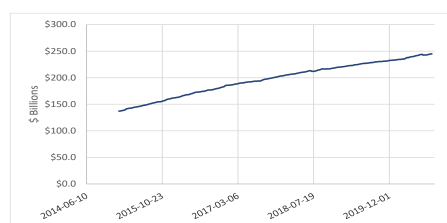
Commercial Real Estate Loans



Commercial real estate loans continued to increase in spite of softness in rentals - up from $244.68 billion to $244.81 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. Crude oil inventories fell by 9.4 million barrels from the prior week, almost 5 times economists' forecasts. Even so, oil stocks are above the average for this time of the year, suggesting that prices will stay in the low $40s range.

2. Headline employment rose by 1.4 million in August, and the unemployment rate fell to 8.4 percent; however, growth in part-time work employment accounted for 70.8 percent of the increase. Even accepting that the economy has added about 10.6 million jobs since the April lows, this represents less than half of the jobs lost since February, and growth has slowed markedly.

3. The Federal Reserve continues to monetize debt, with its balance sheet hovering at about $7 trillion. The Fed owns roughly a third of mortgage backed debt, adding tremendous risk to the financial system.

4. According to the Bureau of Labor Statistics, productivity increased by 10.1 percent in the second quarter, the fastest quarterly increase since 1971. While this sounds great, it is the result of a 37.1 percent decrease in output and a 42.9 decrease in hours worked. Manufacturing productivity plummeted by an annualized 14.6 percent.

Federal Reserve policymakers have been on the speaking circuit over the past week defending a major accommodative shift in monetary policy. Rather than holding price inflation to 2 percent, the Fed has signaled that it is willing to keep interest rates at zero even if inflation were to rise substantially. In fact, the Fed stated *following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time*. The reasons behind this are as vague as the 2 percent target itself.

The Fed set the target in 2012, stating, *The Committee judges that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate*. But why 2 percent? Nobody really knows. In 2017, David Wheelock, from the St. Louis Fed said that the target should be set above zero to leave the Bank room to cut interest rates if necessary, and to avoid deflation, which he claimed would be harmful to the economy, but he did not justify the particular number..

In addition, the rate of inflation changes all the time. It has averaged 3.4 percent per year (CAGR) during the post-war period, but just 1.6 percent since the last recession. It has averaged 3.9 percent since I have been alive. What is the appropriate period to target? St. Louis Fed President James Bullard stated in 2018 that the inflation target is meant to be reached over a longer period of time, what he described as the *medium term*, so it does not have to always be 2 percent.

And how should inflation be measured? The Federal Reserve uses an odd measure of price inflation, the price index for Core Personal Consumption Expenditures, not the Consumer Price Index. Core PCE understates some important cost factors that the average citizen faces, including health care and housing, and completely discounts food and energy costs, probably the largest part of the budgets of the average American citizen.

All of this means is that inflation will likely continue to rise over the coming months, even in the face of curtailed demand resulting from the government-imposed shutdowns following the COVID-19 outbreak.

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.