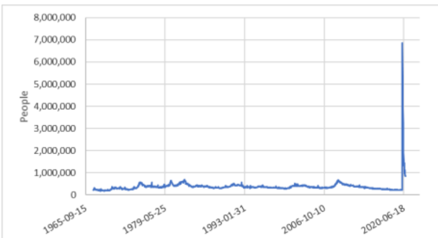
The Weekly Breadline
A weekly analysis of the most recent economic indications

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 to 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]

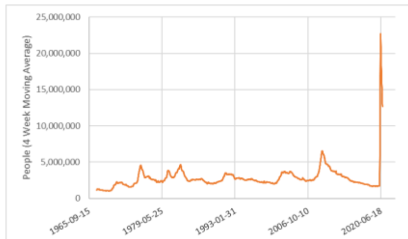
The Weekly Data: October 4, 2020

Weekly Jobless Claims



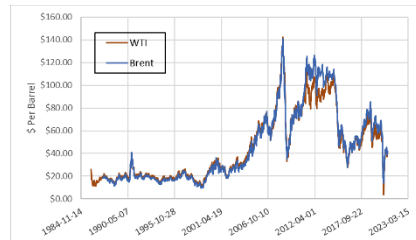
New claims for unemployment insurance dropped from 870,000 to 837,000 last week.

Continuing Claims for Unemployment



The four-week moving average of unemployment claims declined last week from 13,040,750 to 12,701,250.

WTI Spot Oil Price

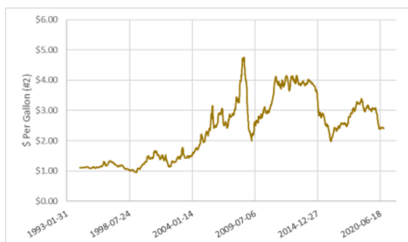


WTI spot crude is up from $39.55 per barrel to $39.78 with Brent also increasing from $40.37 to $41.59 per barrel.

Down Jones Transportation Index

The Dow Jones Transportation Index rose from 11,165.42 to 11,295.98.

Diesel Prices

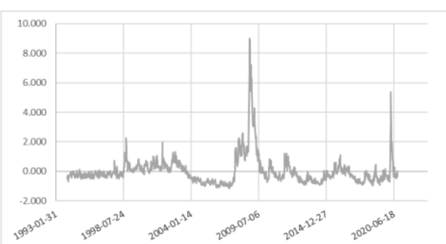


Diesel prices dropped from $2.40 to $2.39.

Copper Prices

Spot copper prices fell last week from $2.99/lb to $2.98/lb.

Financial Stress Index

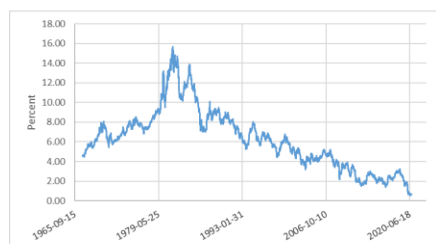


The weekly St. Louis Fed financial stress index rose last week from -0.3850 to -0.0022 indicating less stability.

S&P 500

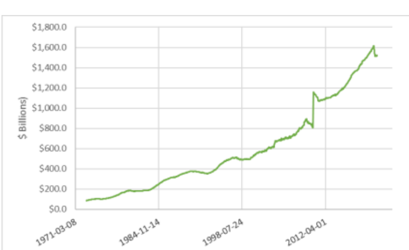
The S&P 500 index rose, from 3,275.72 to 3,355.86.

10-Year Treasury Yield



Interest rates on 10-year Treasury Bonds decreased from 0.69 to 0.67.

Consumer Credit Outstanding (Commercial Banks)



Consumers debt rose as loans outstanding increased from $1,517.36 billion to $1,521.34 billion.

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

Let us know at:

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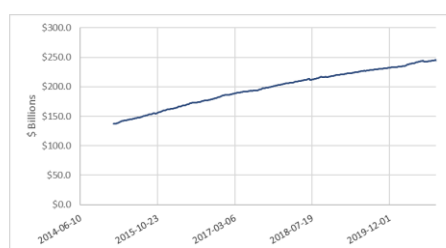
Commercial Real Estate Loans



Commercial real estate loans decreased - from $245.44 billion to $242.37 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. The BEA released 2nd quarter GDP estimates by state. Amazingly, even though some states did not shut down their economies, every state in the country experienced a reduction in GDP of at least 20 percent. The best jurisdiction (of course) was Washington DC, as government is almost always protected from the consequences of economic downturns. On the other side of the coin, states that depend almost exclusively on tourism (Hawaii, Nevada) fared the worst. See: https://www.bea.gov/system/files/inline-images/qgdpstate1020.png\

2. In addition to reporting state level GDP data, the BEA revised 2nd quarter losses from an initial -32.9 to a more robust -31.4 in its third estimate.

3. The Conference Board's Index of Consumer Confidence slayed expectations for September, rising to above neutral (101.8) for the first time since the COVID-19 closures began. Economists had been expecting an increase from 86.3 to 89.2

4. Orders for manufactured goods rose by just 0.7 percent in August, following 3 months of over 6 percent growth. This suggests that any recovery in manufacturing from the downturn has run its course.

Last week, the BLS released its Employment Situation Summary (Jobs Report) for September. While the headline unemployment rate of 7.9 percent walloped most economists' expectations and slightly beat ours, it is unlikely that it is at all accurate. The same report claimed that the economy added just 661,000 jobs over the month, which represents only 0.4 percent of the pre-depression labor force, and is only 25 percent of the average job growth during the past four months.

Even though the BLS suggested that statistical anomalies mean that the headline unemployment rate might be as high as 8.3 percent, this still does not match the Department's own data. According to a report released earlier in the week, there are currently about 26,500,000 people receiving unemployment insurance. Taking this as a percent of the pre-COVID workforce, that would mean that the unemployment rate is at least 17.4 percent, as one would presumably not be receiving relief unless they were actually unemployed. This figure is even higher than the broad U-6 measure of 12.6 percent.

Some of the discrepancy between reality and the reported unemployment rate is the result of millions of people dropping out of the labor force. Prior to COVID, the labor force participation rate was an already weak 63.4 percent. In the last report this is down to 61.4 percent. The labor force was 164,546,000 people pre-COVID, and two precent of this is just under 3.3 million workers. Adding this to the 26,500,000 people receiving unemployment relief, the total unemployed population rises to 30.0 million. On top of this, 2 million more people are employed part-time for economic reasons (meaning they could not find full-time work). Assuming that a part-time job is equal to a half of a full-time job, this would add another 1 million to the unemployment number. Taking the 31 million figure and dividing by the pre-COVBID workforce suggests that the true unemployment rate is at least 18.8 percent.

Putting this into perspective, the level of unemployment at the height of the Great Depression was about 25 percent, and the highest headline unemployment rate in the post-WWII period was 10.8 percent.

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.
