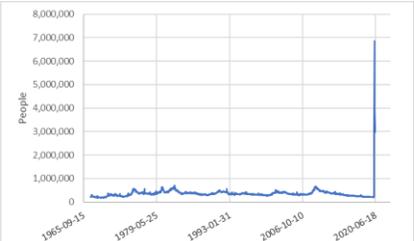
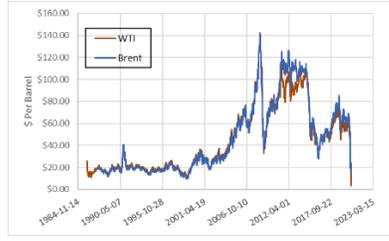
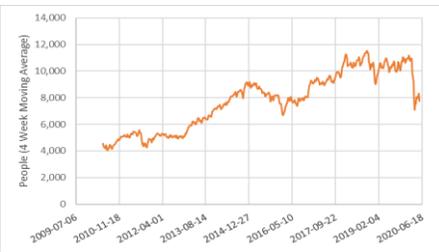
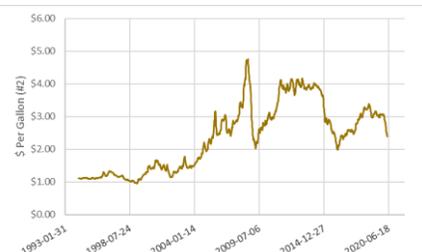
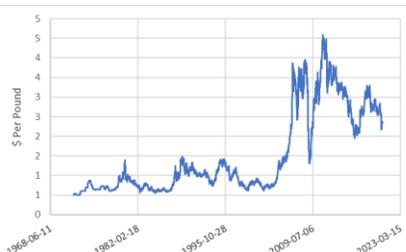
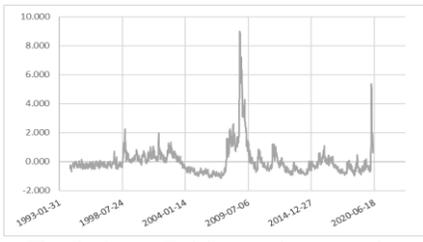
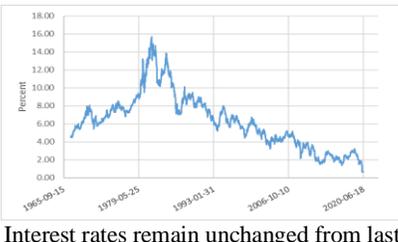
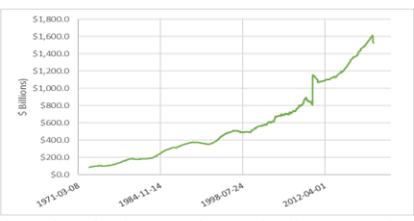


The Weekly Breadline

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: May 17, 2020

<p style="text-align: center;">Weekly Jobless Claims</p>  <p>While still at record levels, new unemployment claims fell to 2,981,000 this week from 3,169,000 last week</p>	<p style="text-align: center;">Continuing Claims for Unemployment</p>  <p>The four-week moving average of individuals receiving unemployment continued its steady climb as it rose from 17,097,750 to 19,760,000</p>	<p style="text-align: center;">WTI Spot Oil Price</p>  <p>Weekly spot oil prices at Cushing continued their comeback last week rising from \$15.71 to \$23.46 per barrel and Brent from \$17.05 to \$23.57 per barrel</p>
<p style="text-align: center;">Down Jones Transportation Index</p>  <p>For the first time in weeks, the Transportation Index decreased falling from 8,332.50 to 7,761.00</p>	<p style="text-align: center;">Diesel Prices</p>  <p>Diesel prices continued its gradual decline, decreasing from \$2.40 to \$2.39 per gallon.</p>	<p style="text-align: center;">Copper Prices</p>  <p>After Spot copper prices rose to \$2.375, last week they fell back to \$2.335/lb</p>
<p style="text-align: center;">Financial Stress Index</p>  <p>The St. Louis Fed financial stress index decreased again falling from 0.8650 to 0.6123</p>	<p style="text-align: center;">S&P 500</p>  <p>Reflecting the uncertainty in the market, the S&P fell from 2929.80 to 2863.70</p>	<p style="text-align: center;">10-Year Treasury Yield</p>  <p>Interest rates remain unchanged from last week, holding steady at 0.63%</p>
<p style="text-align: center;">Consumer Credit Outstanding (Commercial Banks)</p>  <p>Although still close to the peak, Consumer loans decreased last week from \$1,533 billion to \$1,526 billion</p>	<p style="text-align: center;">Is there anything else that you would like us to track?</p> <p style="text-align: center;">Let us know at:</p> <p style="text-align: center;">jrd@guerrillaeconomics.com</p>	

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. Thanks to the Federal Reserve's aggressive strategy of buying debt, the St. Louis Financial Stress Index fell again, signaling Wall Street's cautious return to normal.
2. After falling consistently for the past two years, the 10-year treasury yield has almost no water under the keel. Even so, at just 63 bps the yield is about twice the reported inflation rate over the past 12 months.
3. Speaking of inflation, the CPI for April reported the second month in a row of declining prices. The inflation rate for the 12-month period ending in April was just 0.3%. That said, prices for many important necessities are rising fast. Grocery prices were up 2.6% in April reflecting 4.5% inflation on the year, as supply disruptions have led to empty shelves. The price of medical care is up 5.8% on the year, housing up 2.6% and services up by 2.2%. The reason that the overall inflation rate is down is a dramatic 17.7% decrease in the price of energy, with prices down an astonishing 10.1% in April alone.
4. The Dow Jones Transportation Average fell 6.9% last week as people continue to abstain from traveling and commuting to work. It is down 30% since mid-February, compared to just 15% for the S&P 500.

The recent government response to COVID-19 has led to shortages of food, cleaning supplies and other grocery type items, as these retailers are about the only establishments that most states have allowed to stay open. These shortages are generating significant inflation in this sector with prices for proteins up 3.6% in April, and eggs up an astonishing 16.0%. The price of paper products was up 4.0% on the month, and the cost of video, audio and streaming services was also up.

On the other hand, prices plummeted in industry sectors that have been virtually locked down by the government-imposed reaction. With transportation prices down by 4.7% and airline fares off by 15.2% on the month. If nothing else, these shutdowns have demonstrated that the laws of supply and demand still work.

It is likely that inflation will continue to rise at above average levels, particularly as the Federal Reserve prints trillions of dollars in currency. With more dollars chasing less stuff, prices in dollar terms will rise even faster over time. This will likely put most real interest rates into negative territory, and will be a huge concern for savers, and particularly for pensioners and those on fixed incomes.

In what may seem paradoxical given the continued joblessness, April was one of the best months for equities since 1987, though much of the gain was concentrated in large "technology" companies (Alphabet, Apple, Amazon, Microsoft and Facebook) grew to encompass 20% of the S&P in April. On the flip side, the largest 20 transportation companies saw their market cap fall by almost 30% since February.

We should not expect to see a V shaped recovery from this depression. We are now beginning to think that as the economy improves, the track will be more like a Nike swoosh, with a bottoming out in the 3rd or 4th quarter, and then a long but accelerating growth pattern going forward.

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
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The Weekly Breadline is provided as a service to our clients by **John Dunham & Associates**. It is not intended as investment advice. If you would like more information, or if you would like us to track additional indicators, please feel free to contact us at JRD@GuerrillaEconomics.com, or by phone at 212-239-2105.