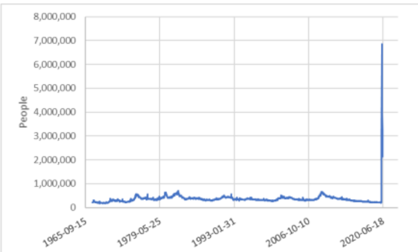
The Weekly Breadline
A weekly analysis of the most recent economic indications

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]

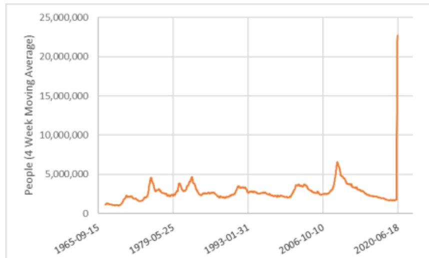
The Weekly Data: May 31, 2020

Weekly Jobless Claims



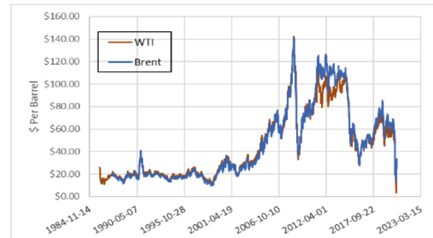
While still abysmally high, new unemployment claims have dropped from 2,438,000 to 2,123,000 last week

Continuing Claims for Unemployment



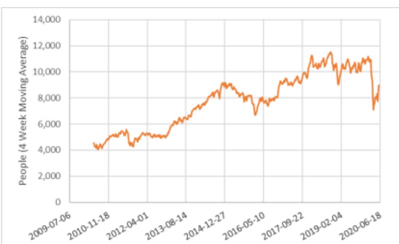
In another week of record highs, the four-week moving average of unemployment claims increased from 22,002,250 to 22,722,250

WTI Spot Oil Price



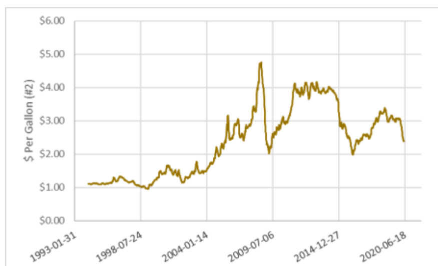
In a confusing week for oil, WTI spot oil prices rose last week up from $26.40 to $33.10 per barrel while Brent fell slightly from $33.30 to $32.73 per barrel

Down Jones Transportation Index



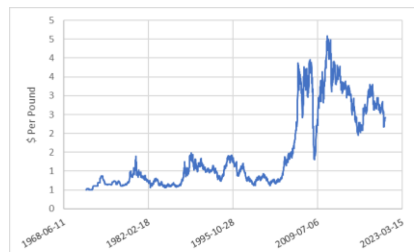
Climbing two weeks in a row, the Dow Jones Transportation Index rose last week from 8,470.09 to 8,969.79

Diesel Prices



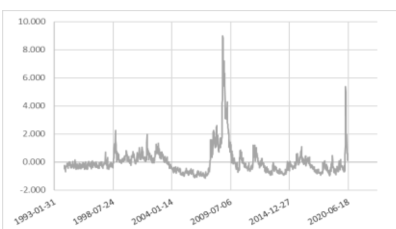
For three weeks in a row now, Diesel prices remained at $2.39 per gallon.

Copper Prices



Spot copper prices rose from $2.385 to $2.420/lb. last week

Financial Stress Index

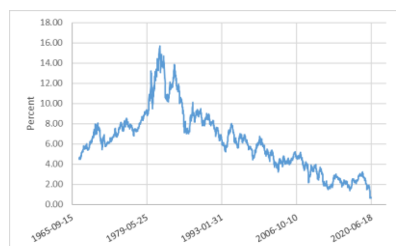


The St. Louis Fed financial stress index sank to its lowest point in months decreasing last week from 0.6166 to 0.1198

S&P 500

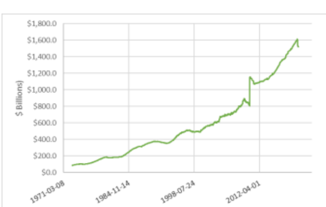
The S&P 500 index increased from 2,955.45 to 3,044.31 in its slow and steady rise

10-Year Treasury Yield



Interest rates increased again last week from 0.68 percent to 0.70 percent

Consumer Credit Outstanding (Commercial Banks)



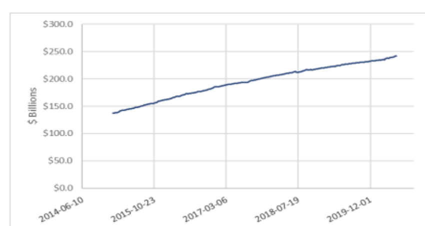
Consumer Debt continues to fall, decreasing from $1,522.36 billion to $1,518.77 billion

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 rose again last week, increasing slightly from $241.34 billion to $241.53 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 St. Louis Fed Financial Stress Index should give investors some more hope as Wall Street at least is beginning to return to normal. At 0.1198, the stress index is the lowest it has been since February. Over the past few years, the index has largely been negative meaning very little financial stress but 0.1198 indicates one heck of a lot less volatility and disequilibrium than its recent peak of 5.4.

2. WTI Spot prices seem to be rising this month just as fast as they fell in April. This week's spot price is almost 900 percent what it was 5 weeks ago, meaning oil prices may be the most V shaped recovery the US will see.

3. In a promising sign for investors, the S&P 500 rose above 3,000 for the first time since early March. Take this with a grain of salt; it took roughly nine weeks to recover the loss seen in the first two weeks of the COVID crisis.

4. New unemployment claims fell again this week to 2.1 million. Consider that this much improved figure is, excepting the COVID Depression, still worse than any single week since the Great Depression.

We keep looking for a silver lining in the COVID-19 cloud, and honestly, it's very hard to find one. Fortunately for many people throughout the world, the government-imposed shutdowns are softening. But even that does not mean that businesses are being allowed to go back to normal. Throughout most of the country restaurants still can't fully open, travel and tourism are virtually non-existent, and outside of television and zoom concerts, there is no entertainment. This is a huge problem for an economy based predominantly on services, and there is really no end in sight.

One indicator that has us particularly concerned is new business births. Every day, even in the most normal of times, new businesses open while others close. Generally, there are a large number of business deaths (on net) in January, and then over the rest of the year, there are net positive startups. Even during the Great Recession, business births were positive each year. 2020 has been very different. In what are usually the strongest months for business formation (April and May) 527,000 businesses, on net, closed. This is in spite of over $2.7 trillion in spending by the federal government (50 percent of GDP). These are firms (and jobs) that will not come back when the masks come off.

And speaking of $2.7 trillion in government spending, the COVID relief dropped from the sky will not lead to more economic growth over time. This is because debt in the US (and frankly in the world) has reached unsustainable levels. Interest payments on the debt are the fastest growing category of the federal budget, and projections are for net interest payments to double within the decade. While Mitch McConnell says more fiscal stimulus may not be necessary, others including Federal Reserve Chairman Powell have urged Congress to borrow more money to spend on *fiscal stimulus.*

Whichever side is right, one thing is certain. The next generation will be saddled with either huge debts, or a debased dollar, in a large part due to the government response to this virus.

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