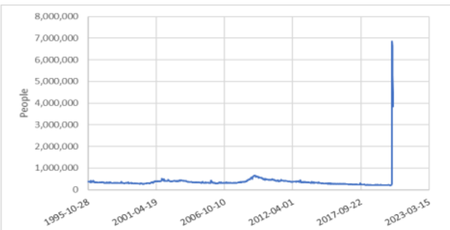
The Weekly Breadline
A weekly analysis of the most recent economic indications

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]

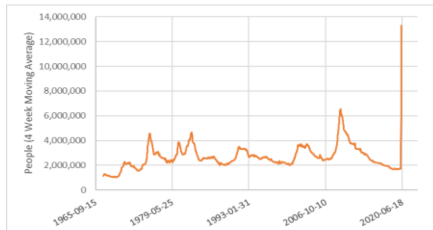
The Weekly Data: May 4, 2020

Weekly Jobless Claims



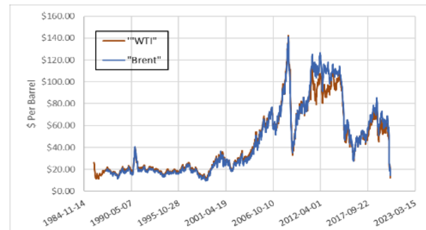
After the past two weeks 3,839,000 new unemployment claims seems mild after last week's 4,442,000 claims

Continuing Claims for Unemployment



The four-week moving average of individuals receiving unemployment rose dramatically from 9,598,250 to 13,292,500

WTI Spot Oil Price

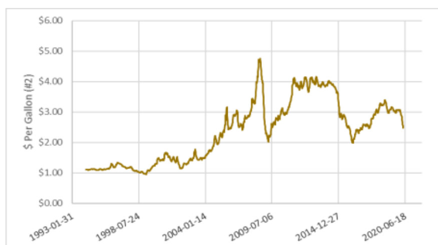


Weekly spot oil prices at Cushing continued to fall from $20.12 to $12.17 per barrel and Brent from $20.00 to $15.17 per barrel

Petroleum Stocks

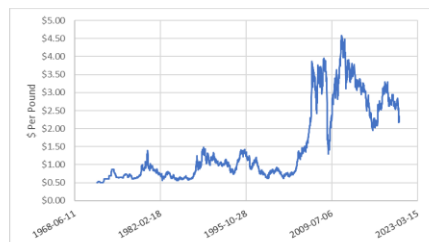
In spite of low prices, oil stocks continue to increase dramatically up from 1.15 to over 1.16 billion barrels

Diesel Prices



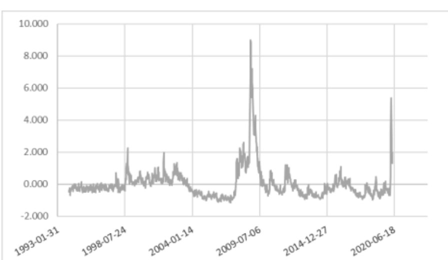
Lower oil prices are only slowly making their way to fuel costs, with diesel falling by just 4-cents, from $ $2.48 to $2.44per gallon

Copper Prices



Spot copper prices continue to reflect slow industrial activity, down from $2.337 to $2.306/lb over the week

Financial Stress Index

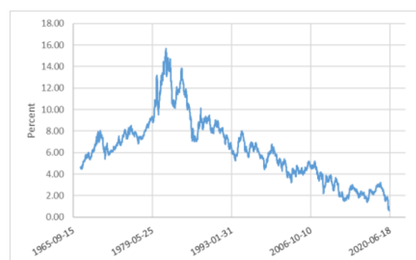


The St. Louis Fed financial stress index shot up last week from 1.3012 to 1.9550 reflecting continued problems on Wall St.

S&P 500

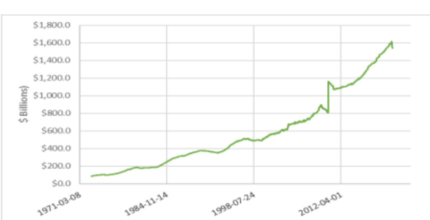
The US equities picked up slightly last week with the S&P 500 up from 2,798.71 to 2,830,71

10-Year Treasury Yield



Interest rates continue to stay at negative real levels, with the 10-year yield rising slightly from 0.61% to 0.64%

Consumer Credit Outstanding (Commercial Banks)



While still high, the amount of debt held by consumers is falling by about 1% per week from $1,554 to $1,537 billion last week

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

Let us know at:

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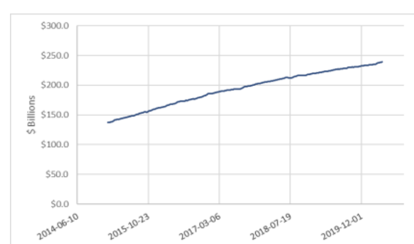
Commercial Real Estate Loans



Commercial real estate loans actually rose by 0.3% on the week from $238.2 billion, to $239.0 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. Growth in the number of unemployed exceeded expectations, as state systems begin to catch up with demand. While the restocking of the PPP loan program will soften the blow for those working for some firms, many will still not be able to rehire workers. Even though weekly claims have peaked, the numbers over the next few weeks will continue to be shockingly high.
2. The initial estimates for 2nd quarter GDP came out last week, and as expected they were awful, with overall economic activity down by 4.8 percent. And this only measures about 3 weeks of the government-imposed shutdown. The service sector fell by 10.2 percent, and most importantly, investment in new equipment was down 15.2 percent, suggesting that few businesses expect a fast recovery.
3. The calm in financial markets reversed last week, with the financial stress index up by over 50 percent. Many large retail firms have already declared bankruptcy, and earnings expectations are down. Even at the current depressed levels, PE ratios for equities are at or above recent highs.
4. Governments across the country have been going to Washington with their hands out, as tax and fee revenues have collapsed, and investment losses have put public pension funds well into the red. It is unlikely that a bi-partisan bail out of state governments will be passed in this legislative session, meaning that state and local governments will be forced to dramatically cut services.

The first full week of May will be an important one as 9 states lift significant restrictions, while another 19 are beginning to restore their economies. This does not mean that there will be a quick turn-around, as most of the states on the east and west coasts have gone into unconsciousness. With these large economies in a state of stasis, there is little chance of a V-shaped recovery. Rather, the economy will continue to contract over the course of the year, and likely much longer.

The weekly indicators continue point to an economy in the throws of a depression. Based on weekly jobless claims, the unemployment rate is fast approaching 30 percent, the highest level ever. Government loans and emergency grants are insufficient to ensure that many small businesses will survive. Even as the government-imposed closures lift, there will not be a surge in either production or employment. In states like Michigan, New York, New Jersey and California, where there is no sign that decrees will ever be lifted, the chance of meaningful economic recovery is bleak.

In effect, the economy of most of the country has been socialized, with the executive branches of state government determining what can be produced, when products can be sold, and in some cases, the prices at which they can be sold. This has led to what always happens in socialist systems, widespread shortages and rationing. First it was toilet paper, then bleach, now meat have seen supply disruptions and rationing.

Along with shortages, the lack of production and increases in consumer demand due to the stimulus being pumped into the system, is beginning to lead to inflation. High inflation and shortages are commonplace in command economies and future large jumps in prices should not be unexpected.

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