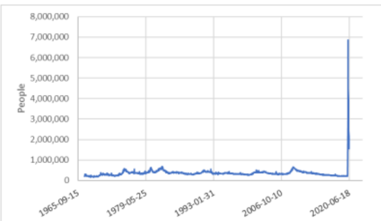
The Weekly Breadline

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]

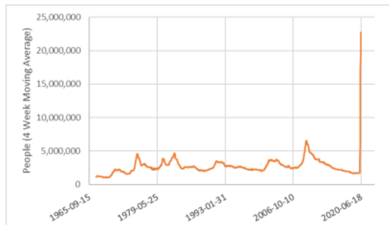
The Weekly Data: June 14, 2020

Weekly Jobless Claims



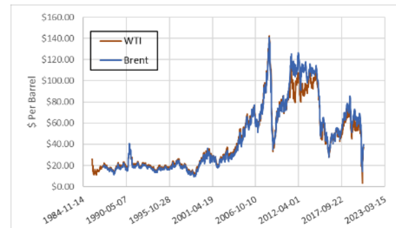
New unemployment claims fell again last week from 1,877,000 to a still horriffic1,542,000 this week

Continuing Claims for Unemployment



The four-week moving average of unemployment claims continued its decline last week falling from 22,446,250 to 21,987,500

WTI Spot Oil Price



WTI spot oil prices increased again last week up from $34.19 to $37.32 per barrel and Brent increased from $36.74 to $39.66 per barrel

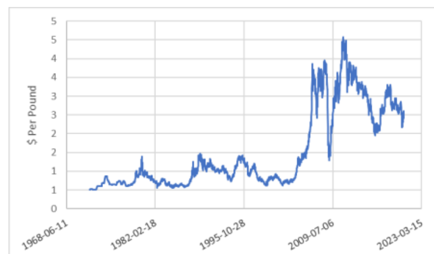
Down Jones Transportation Index

The Dow Jones Transportation Index is proving quite volatile, decreasing last week from 9,872.96 to 9,081.90

Diesel Prices

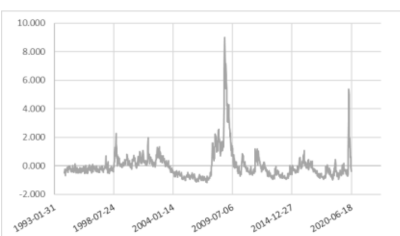
For the first time in weeks, Diesel prices rose above $2.39 per gallon last week to just under $2.40

Copper Prices



Spot copper prices saw the highest price in months increasing 2.4 percent from 2.549/lb. to 2.611/lb.

Financial Stress Index

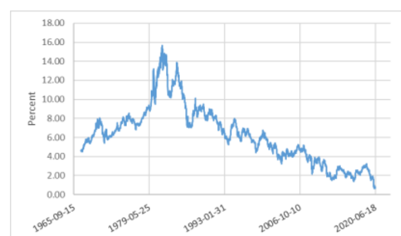


The weekly St. Louis Fed financial stress index continued its fall last week, decreasing from -0.1172 to -0.3833

S&P 500

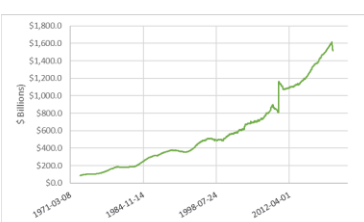
The S&P 500 index fell last week from 3,193.93 to 3,041.31 erasing the gains made in June so far

10-Year Treasury Yield



Interest rates on 10-year Treasury Bonds experienced a big drop last week falling from 0.82 percent to 0.66 percent

Consumer Credit Outstanding (Commercial Banks)



Consumer Debt decreased slightly last week, from $1,514.29 billion to $1,513.41 billion

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

Let us know at:

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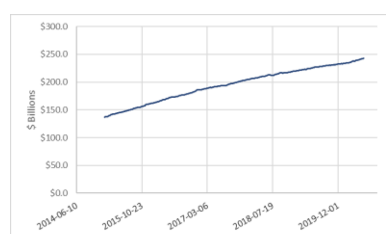
Commercial Real Estate Loans



Commercial real estate loans continue to grow in spite of reduced demand, increasing from $242.10 billion to $242.43 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.

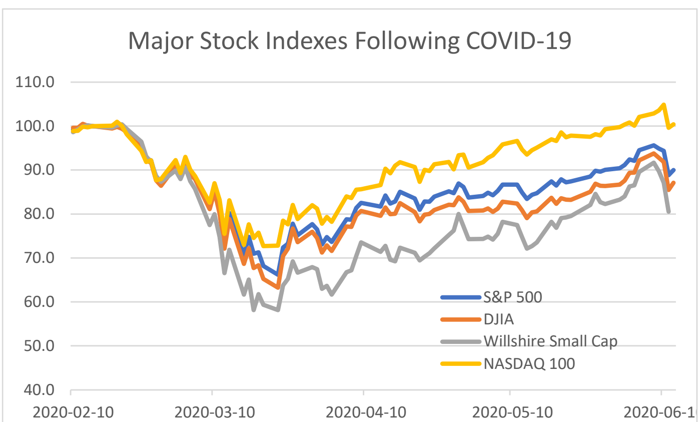
Key takeaways for the week:

1. After increasing for 4 weeks, interest rates came crashing back down, with the Ten-Year Treasury Rate falling by 16 basis points (20 percent) last week.
2. National prices for diesel fuel have been holding at around $2.39 per gallon for 6 straight weeks, in spite of an increase of 37.6 percent in the price of oil. This suggests that there is little demand for fuel for trucks, trains and ships.
3. It looks as if the government subsidies reaching consumers have not been spent, but rather used to pay down debt. Consumer debt levels are down by 6.2 percent since the start of the shutdowns.

As strange as it sounds, recessions are actually good for the economy. As the great economist Joseph Schumpeter pointed out in 1942, recessions are how economies reallocate resources from less productive to more productive activities. This *creative destruction* allows new entrepreneurs to push aside old ways of producing, helping to create more with less, the very nature of productivity and capitalism.

The US economy was already on the verge of a recession; however, the Federal Reserve and the Federal Government had been stepping in for many years to try and stop the process of creative destruction from occurring. This had led to significant levels of debt, much of which was never likely to be repaid. In fact, as John Maulden pointed out, central banks around the world have been interfering with the process by actively subsidizing businesses and entire industries via bond purchases and other such programs. The government-imposed shutdown in response to COVID-19 has exasperated the situation, with some businesses receiving significant assistance, while others have been left to the sharks. Examples include airlines (subsidized) and motorcoach firms (left to the sharks), and restaurants (left to the sharks) while manufacturers were subsidized.

Inherently, large well-connected firms always reap more benefits from government than mom and pop operations. This can be seen in the performance of various equities markets since the government-imposed shutdowns began. While the NASDAQ 100, which is dominated by very connected firms like Apple, Alphabet, Facebook, Tesla and Amazon has actually gained value since the early March market collapse, the Wilshire Small Cap index is down over 20 percent. The S&P 500 large cap index is in between, with the mis-named Dow Jones Industrial Average (of which only half of the component equities are industrial) down a bit more mainly because Boeing, Caterpillar and two oil companies are components.



The bottom line of this is that even rising stock markets do not portend a good outcome in the current economy, where small businesses, and firms in major sectors like retailing, travel and hospitality, are only surviving because of government subsidies. This is a depression that is going to hit Main Street a lot harder than Wall Street.

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