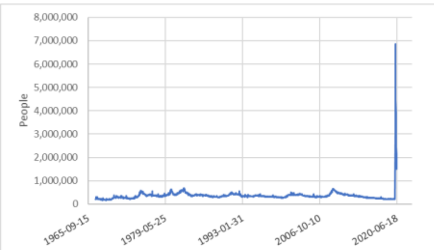
The Weekly Breadline

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]

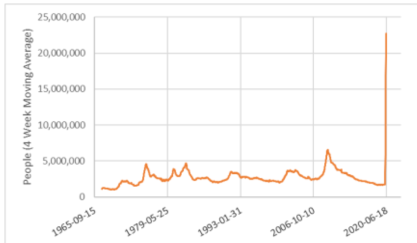
The Weekly Data: June 21, 2020

Weekly Jobless Claims



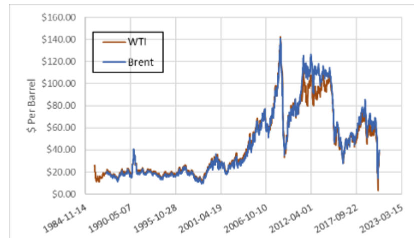
New claims for unemployment insurance continued to decline last week falling from 1,542,000 to 1,508,000.

Continuing Claims for Unemployment



Last week, the four-week moving average of unemployment claims declined again from 21,987,500 to 20,814,750.

WTI Spot Oil Price



Spot oil prices moderated, with WTI up just 55-cents from $37.32 to $37.87 per barrel. Brent prices fell from $39.66 to $39.44.

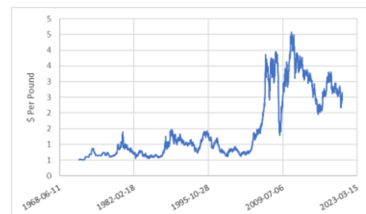
Down Jones Transportation Index

The Dow Jones Transportation Index barely budged last week down from 9,081.90 to 9,077.75.

Diesel Prices

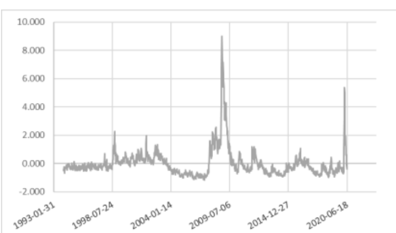
Diesel prices remain unchanged at $2.40 last week.

Copper Prices



Spot copper prices continue to suggest that industrial activity will recover, jumping from to $2.611/lb to $2.649/lb.

Financial Stress Index

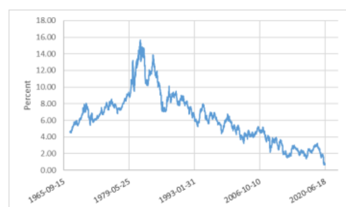


The weekly St. Louis Fed financial stress index climbed back from -0.3833 to -0.0070.

S&P 500

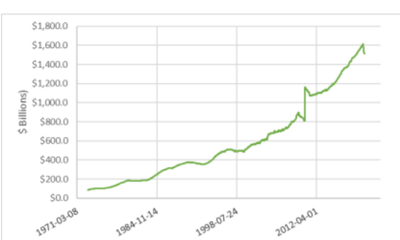
The S&P 500 index rose last week from 3,041.31 to 3,097.74 continuing its choppy progress.

10-Year Treasury Yield



Interest rates on 10-year Treasury Bonds are rising again jumping from 0.66 percent to 0.71 percent last week

Consumer Credit Outstanding (Commercial Banks)



Consumer Debt rose for the first time since February albeit slightly from $1,513.41 billion to $1,513.81 billion.

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

Let us know at:

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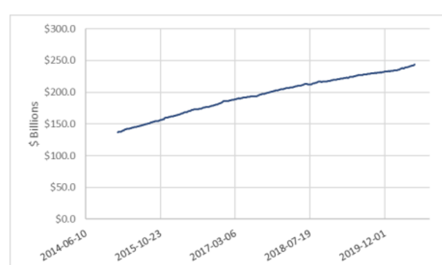
Commercial Real Estate Loans



Commercial real estate loans remained virtually unmoved last week changing from $242.43 billion to $243.45.

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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. After increasing rapidly from their March lows, oil prices both in the US and on world markets began to stabilize. Diesel prices were unmoved on the week.

2. After rising 900 points three weeks ago then dropping 800 points two weeks ago, the Dow Jones Transportation Average Index fell ever so slightly last week by 4 points. The transportation sector was one of the hardest hit by the government-imposed shutdown in response to COVID-19, so investors may be expecting a stronger recovery than do most economists.

3. Interest rates continue to stay at historically low levels, as the Federal Reserve Balance Sheet peaked at $7.19 trillion. To put this in context, the balance sheet reached just $2.26 trillion at the height of the last recession.

4. The S&P 500 index rose to mid November 2019 levels showing that while other parts of the economy like employment are collapsing, the market is back to bullish having risen 29 percent since March.

All industries do not experience recessions equally, and this is true for the COVID-19 depression. The Federal Reserve Bank of Chicago's National Activity Index dropped from 0.5 in February to a stunning -16.74 by April. To put this in context, the NIA was -3.35 at the bottom of the so-called *Great Recession*. However, even this massive reduction in economic activity did not impact all businesses. Those companies that were allowed to stay open saw a surge in demand, and of course the big tech companies have been enjoying huge demand, with over half of the population forced to interact through their services. This may be one reason why the S&P 500 has risen by over 600 points since March.

Other industries won't do as well coming out of this *Great Suppression*. Tourism may have suffered more than any other industry. For example, hotel occupancy in New York City last year in June was close to 90 percent, but in April 2020 it was only about 19.6 percent. It has increased substantially from then but still sitting at just 47.1 percent, and what's worse is that 25,000 hotel rooms are not expected to reopen at all. Staggering losses have also been experienced by the airline, cruise line and motorcoach sectors, and these capital-intensive industries will have trouble staying afloat unless either the federal government or sympathetic investors come to their rescue.

During the month that families typically drive to vacation, miles traveled in the US fell 3.47 percent to a point not seen this century. Given that this pandemic won't likely be over this summer, miles traveled won't return to normal any time within the next year. Oil prices are likely to plateau, and in April, automobile sales hit their lowest in decades. They have begun to recover as dealerships have been allowed to open up, but it is unlikely that vehicle sales will return to normal with over one in ten people jobless.

There is some good news though. With states and other countries beginning to open up their economies, consumers with cabin fever are going to want to go out and spend their money. Those companies that did weather the storm will face less competition, and will be able to take some pricing. High unemployment should also mitigate demands for higher wages on the part of workers, and low energy costs will help as well.

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