JOHNDUNHAM & ASSOCIATES

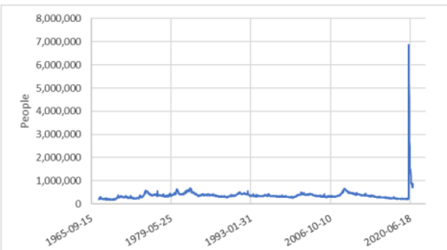
The Weekly Breadline

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 to 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]

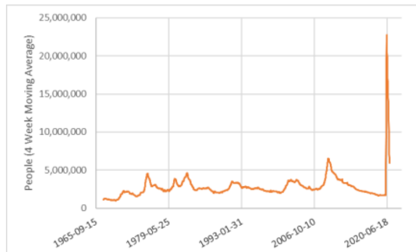
The Weekly Data: December 13, 2020

Weekly Jobless Claims



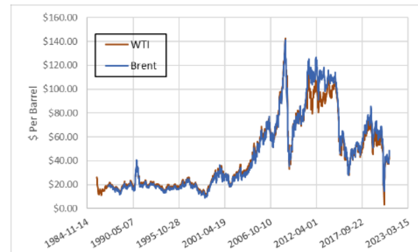
New claims for unemployment insurance rose from 712,000 to 853,000 last week.

Continuing Claims for Unemployment



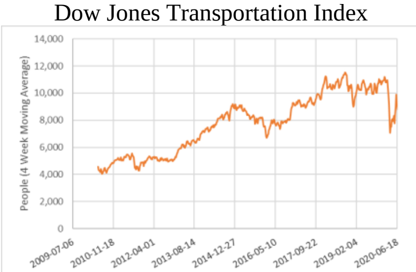
The four-week moving average of unemployment claims declined last week from 6,194,250 to 5,935,750.

WTI Spot Oil Price



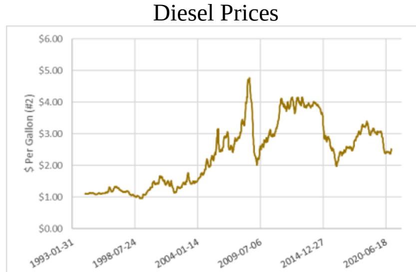
WTI spot crude is up from $44.40 per barrel to $45.37, while Brent also increased from $46.84 to $48.63 per barrel.

Dow Jones Transportation Index



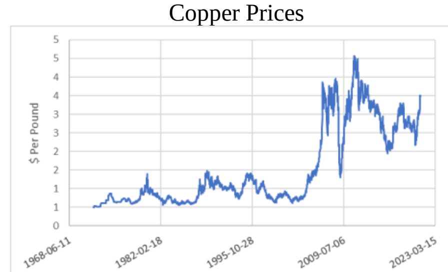
The Dow Jones Transportation Index rose from 12,563.87 to 12,733.37.

Diesel Prices



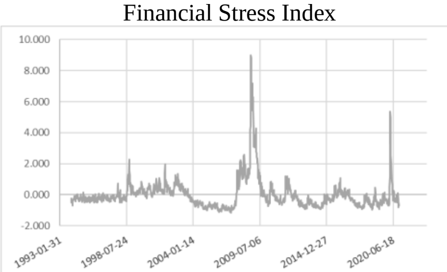
Diesel prices rose from $2.50 per gallon to $2.53 per gallon.

Copper Prices



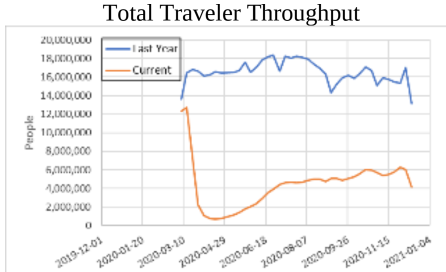
Spot copper prices decreased last week from $3.51/lb to $3.50/lb.

Financial Stress Index



The weekly St. Louis Fed financial stress index fell last week from -0.6546 to -0.6852 indicating more stability.

Total Traveler Throughput



TSA checkpoint traveler throughput fell last week from 6,027,273 passengers to 4,148,364 or 31.46 percent compared to 13,186,247 passengers a year ago.

10-Year Treasury Yield

Interest rates on 10-year Treasury Bonds increased from 0.87 to 0.92.

Consumer Credit Outstanding (Commercial Banks)

Consumers debt rose as loans outstanding fell from $1,524.04 billion to $1,522.51 billion.

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

Let us know at:

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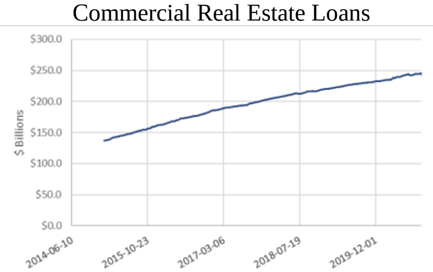
Commercial Real Estate Loans



Commercial real estate loans rose - from $242.86 billion to $242.90 billion.

[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. Initial unemployment claims increased rising by 137,000 to 853,000 during the past week. This means that unemployment claims are back to September levels. In addition, continuing claims have begun to increase for the first time since August, rising from 5,527,000 to 5,757,000. Total claims, including all Federal unemployment programs are still above 19 million.

2. According to the National Restaurant Association, since the COVID-19 pandemic began in March, 17 percent of restaurants (or about 110,000 establishments) have closed either permanently or long-term, and 10,000 restaurants have closed over the last three months alone. In addition, more than half a million other restaurants are in economic freefall according to the NRA. And this was before northeastern states began forcing restaurants to close yet again.

3. The University of Michigan Index of Consumer Sentiment beat expectations, rising from 76.9 to 81.4 in December. This beat economists' expectations that the index would fall slightly in December.

4. Reported inflation remained modest in November with the CPI staying constant at 1.2 percent YoY.

The National Bureau of Economic Research (NBER) is the body that *officially* dates recessions, and has been doing so since 1854. According to the NBER, there have been 13 recessions between World War II and today, with the longest (the so-called Great Recession) lasting for 18 months. The average length has been 11 months.

So far, the COVID-19 panic has lasted for 10 months, and even using the extremely positive GDPNow forecast of fourth quarter growth of 11.2 percent, by the end of the year, real GDP will still be about 1 percent below where it was prior to the recession. Using a more realistic projection of about 3.9 percent for the fourth quarter (the average of bank forecasters), real GDP will still be off by about 2.4 percent by the end of the year.

While this may not sound like much considering the depths of the COVID-19 depression, this is very close to the average peak to trough decline of all the post war recessions. This means that the *recovery* will put the economy at about the depths of the 1982 recession.

Of course, the US economy came out of the 1982 recession on a tear, with growth in the following two years of 8.5 and 11.1 percent in nominal terms, but this also occurred during the Regan years when tax cuts and deregulation was spurring the economy. It is unlikely that political forces will be focusing on pro-growth policies come next year, and we can likely expect to see nominal growth rates closer to the 3.5 to 4.0 percent level that occurred following the 2008 recession.

All of this means that – in real (or inflation-adjusted) dollars, the economy will not recover to 2019 levels until 2022 at best. If inflation takes off, as could easily happen with the current levels of deficit spending, it could take until the end of 2023, meaning that this would be the longest recession/depression/panic since the Great Depression.

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.