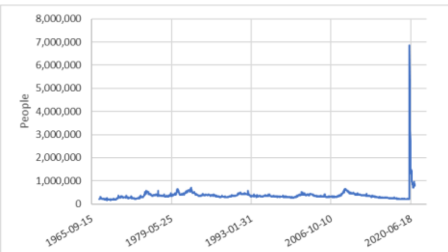
JOHNDUNHAM & ASSOCIATES

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 middle of 2021. 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]

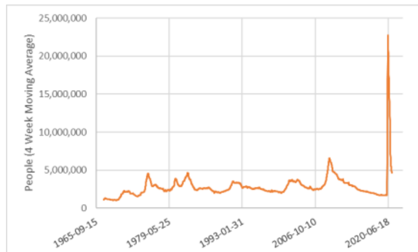
The Weekly Data: February 21, 2021

Weekly Jobless Claims



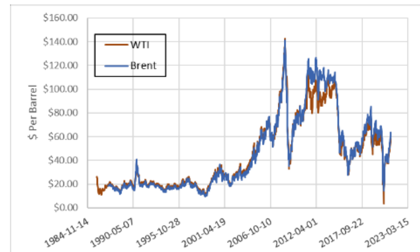
New claims for unemployment insurance rose from 793,000 to 861,000 last week.

Continuing Claims for Unemployment



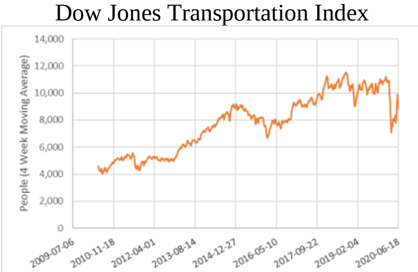
The four-week moving average of unemployment claims declined last week from 4,748,750 to 4,632,000.

WTI Spot Oil Price



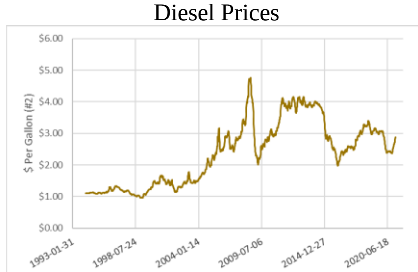
WTI spot crude is up from $55.39 per barrel to $58.54, while Brent increased from $60.17 to $63.58 per barrel.

Dow Jones Transportation Index



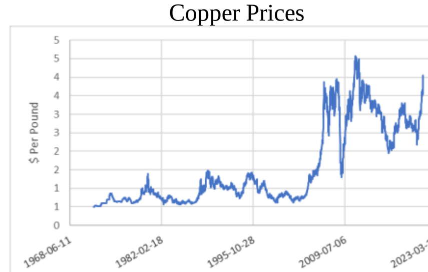
The Dow Jones Transportation Index rose from 12,983.63 to 13,150.90.

Diesel Prices



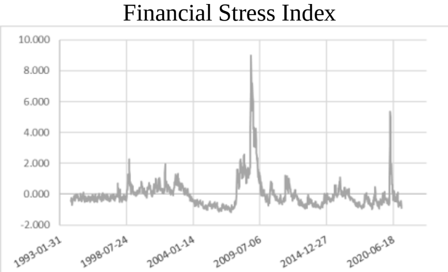
Diesel prices rose last week from $2.80 to $2.88 per gallon.

Copper Prices



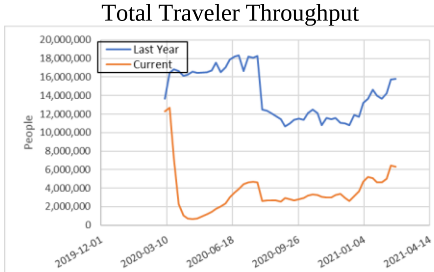
Spot copper prices increased last week from $3.77/b to $4.05/lb.

Financial Stress Index



The weekly St. Louis Fed financial stress index dropped last week from -0.7656 to -0.9186 indicating more stability.

Total Traveler Throughput

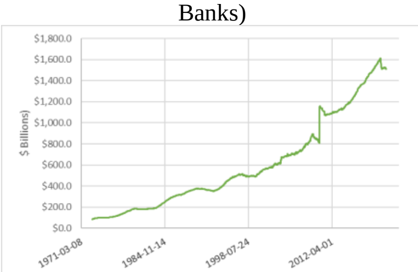


TSA checkpoint traveler throughput decreased last week from 6,459,505 passengers to 6,301,369 or 39.95 percent compared to 15,773,989 passengers a year ago.

10-Year Treasury Yield

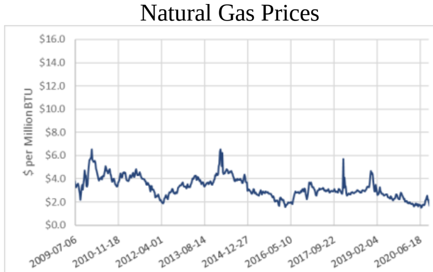
Interest rates on 10-year Treasury Bonds increased from 1.14 to 1.18.

Consumer Credit Outstanding (Commercial Banks)



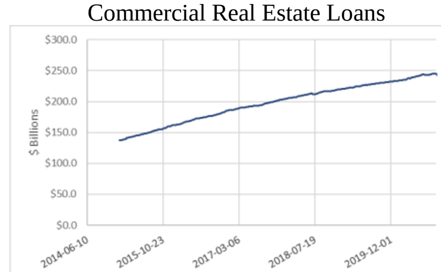
Consumers debt decreased as loans outstanding fell from $1,510.49 billion to $1,510.22 billion.

Natural Gas Prices



Natural gas prices remained flat at $2.71 per million BTUs.

Commercial Real Estate Loans



Commercial real estate loans decreased - from $247.11 billion to $247.05 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. In the week ending February 13, the advance figure for seasonally adjusted initial claims for unemployment was 861,000, an increase of 13,000 from the previous week's revised level. The previous week's level was revised up by 55,000 from 793,000 to 848,000, suggesting that the positive news from last week was a mirage. Total unemployment (data for which are lagged) fell back from about 20 million to 18,340,161, reversing last week's large increase in that statistic.
2. The new Administration's goal of forcing up energy prices seems to be working, with WTI crude prices rising from $52.87 in mid-January to close at $59.01 last Friday, an increase of 11.6 percent over just one month.
3. Meanwhile, despite the Federal Reserve continuing to talk down interest rates, the benchmark 10-year yield reached 1.3 percent last week, the highest it has been since February of last year.
4. The Producer Price Index for final demand increased 1.3 percent in January, seasonally adjusted, the largest single month increase since the index began in December 2009. Meanwhile, import prices rose by 1.4 percent and export prices by 2.5 percent. These increases were all well above expectations and counter the narrative that there is no inflation.

While many economists and pundits, particularly those that support the ill-named *Modern Monetary Theory*, believe that it is almost impossible for there to be inflation as a result of the Federal Government printing nearly 15 percent of GDP over the course of last year, the statistics are beginning to show that this is not the case.

No matter what some people may want to believe, when more money chases less stuff there will be inflation. The amount of money printed by the Federal Government grew by $3.3 trillion (not counting the stuff printed by the Federal Reserve but sitting in the financial sector) last year. Meanwhile, GDP, or the amount of stuff produced, fell by $670 billion controlling for inflation. This is simple math. There is at least a disconnect of about $4 trillion between the amount of stuff produced and the amount of money available to purchase it, so there will be inflation.

This is not showing up in the CPI because that index is designed to discount inflation. It's not because of some sort of conspiracy, but just a quirk in the model. For example, as Mish Shedlock pointed out last week, healthcare services are 17.8 percent of the PPI but only 7.0 percent of the CPI. Healthcare costs are intentionally underweighted in the CPI because individuals don't necessarily purchase the bulk of health care, rather insurance companies do.

In January, over 70 percent of the increase in PPI was attributable to a 1.4 percent increase in prices for services less trade, transportation, and warehousing – with the bulk of this being health care costs. Service prices have been suppressed due to the government-imposed shutdowns in response to COVID-19. If the economy begins to come back on-line, there will surely be fewer firms providing services. There will be less restaurants, less nightclubs, less retailers, less barbers, etc. With more demand chasing fewer available services there will surely be continued increases in prices over the course of the year. Undoubtedly, over time, supply and demand will again come into balance as entrepreneurs start new restaurants, dry cleaners etc., but over the short and medium term, it is likely that prices will continue to increase at a clip faster than that expected by the Federal Reserve and many economists.

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.