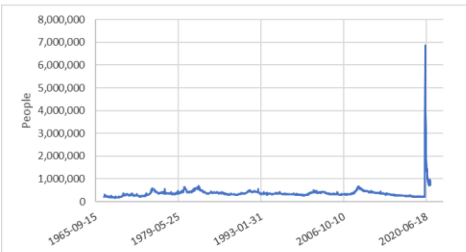
JOHN DUNHAM & ASSOCIATES

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]

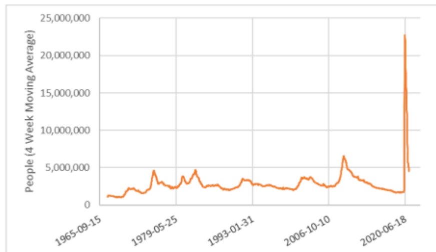
The Weekly Data: February 28, 2021

Weekly Jobless Claims



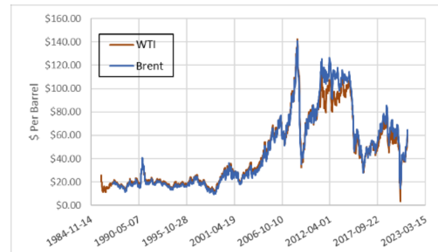
New claims for unemployment insurance fell from 861,000 to 730,000 last week.

Continuing Claims for Unemployment



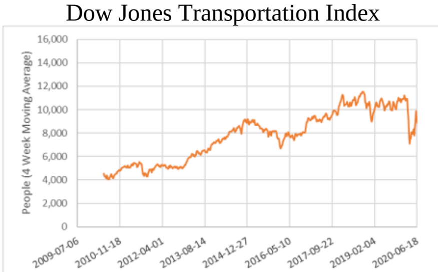
The four-week moving average of unemployment claims declined last week from 4,632,000 to 4,547,000.

WTI Spot Oil Price



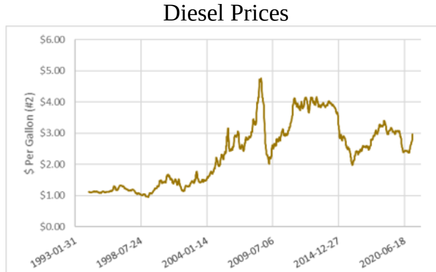
WTI spot crude is up from $58.54 per barrel to $60.17, while Brent increased from $63.58 to $64.73 per barrel.

Dow Jones Transportation Index



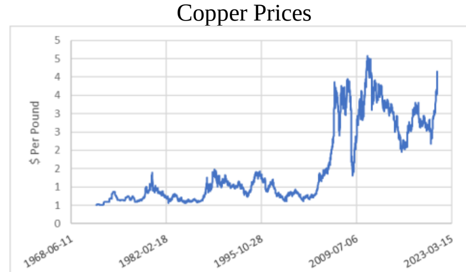
The Dow Jones Transportation Index rose from 13,150.90 to 13,423.72.

Diesel Prices



Diesel prices rose last week from $2.88 to $2.97 per gallon.

Copper Prices

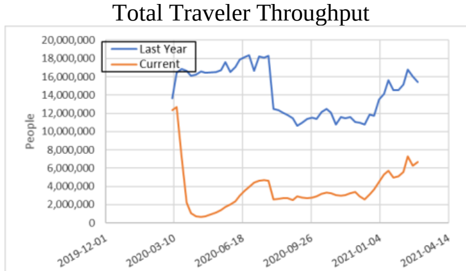


Spot copper prices increased last week from $4.05/lb to $4.15/lb.

Financial Stress Index

The weekly St. Louis Fed financial stress index rose last week from -0.9186 to -0.8002 indicating less stability.

Total Traveler Throughput

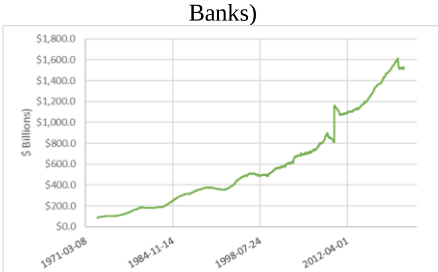


TSA checkpoint traveler throughput rose last week from 6,234,219 passengers to 6,685,449 or 43.41 percent compared to 15,401,003 passengers a year ago.

10-Year Treasury Yield

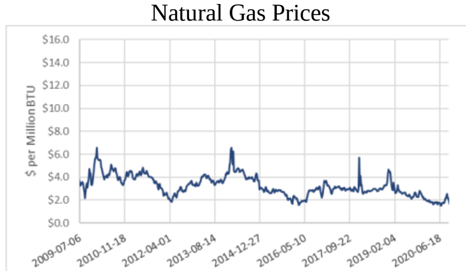
Interest rates on 10-year Treasury Bonds increased from 1.18 to 1.31.

Consumer Credit Outstanding (Commercial Banks)



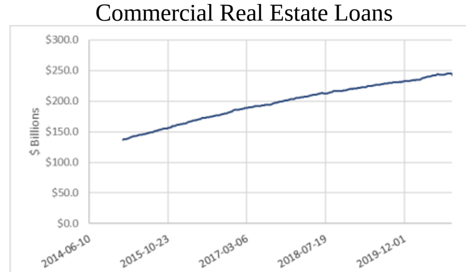
Consumers debt increased as loans outstanding rose from $1,510.22 billion to $1,530.46 billion.

Natural Gas Prices



Natural gas prices rose from $4.63 per million to $12.18 per million BTUs.

Commercial Real Estate Loans



Commercial real estate loans decreased - from $247.05 billion to $246.44 billion.

---

[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. Personal income increased $1,954.7 billion (10.0 percent) in January, according the Bureau of Economic Analysis. This is the fastest increase since a 10.4 percent increase in May of last year. Both of these massive increases resulted from an injection of government benefits from federal COVID-19 pandemic response programs. Disposable personal income increased $1,963.2 billion (11.4 percent) and personal consumption expenditures increased $340.9 billion (2.4 percent).
2. According to the IMF, world commodity prices rose by 9.0 percent in December, with the index value now higher than it was when the government-imposed shutdowns of the world economy began in January of last year.
3. Not only are commodity prices surging, so are mortgage rates. According to the Mortgage Bankers Association, the rate on a 30-year fixed mortgage rose to 3.08 percent, the first time it has breached 3 percent since July.
4. The House of Representatives passed President Joe Biden's $1.9 trillion stimulus package early Saturday, along a party-line vote, sending the bill to the Senate.
5. In the week ending February 20, the advance figure for seasonally adjusted initial claims was 730,000, a decrease of 111,000 from the previous week, and the first time this statistic fell below 750,000 since last Thanksgiving, another short business week. In a nod to how statistics can just not make sense sometimes, the seasonally adjusted insured unemployment rate was calculated to be just 3.1 percent for the week ending February 13.

The big economic story for the week continues to be talk of inflation. Last week, the Core Personal Consumption Expenditures Price Index (Core PCE) for January was reported to be up 1.4 percent on a year over year basis. This is the index reportedly used by the Federal Reserve to measure inflation and tends to be much less volatile than either the Consumer Price Index (CPI) or Producer Price Index (PPI). In addition, Core CPE tends to underreport during periods of economic growth and overreport during periods of decline in relation to the other inflation indices.

Even though Core PCE is lagging the other inflation indexes, it did suggest that annual inflation was running at about 3 percent, which is above the magic number historically considered to be reasonable by the Fed. And this figure does not include the sizable increases in energy prices that are likely to continue under the current Administration's policies.

In spite of what the Federal Reserve may say, inflation matters. Even at a rate of just 3 percent, a dollar would only be worth 50-cents in real terms after just 24 years. If inflation were to spike to 4 percent, the time required to lose half of the value of money would fall to just 17 years, and at 5 percent, it would fall to only about 13 years. Unless wages keep up with inflation, which is unlikely to happen in an economy with low productivity growth, the average person becomes relatively poorer and poorer under inflationary circumstances.

While there is no doubt that the economy has been placed in a difficult position by the government-imposed shutdowns in response to COVID-19, both the Federal Reserve and the Administration need to be watchful that their policies do not continue to stoke inflation ever higher. A $1.9 trillion borrowing package on the part of the government, will inject as much as 8.8 percent of GDP into the economy, with little in the way of analysis of whether this is either wise or necessary. This follows an injection of roughly 3.7 percent of GDP just a few months ago.

There is no sure bet when it comes to the economy, but a bet on inflation is probably close to even money right now.

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.