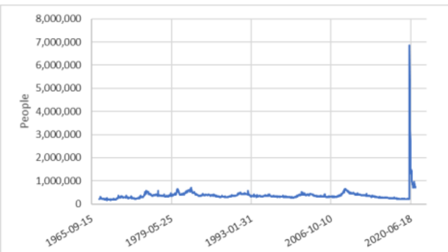
The Weekly Breadline

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]

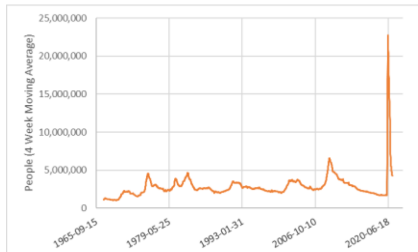
The Weekly Data: March 21, 2021

Weekly Jobless Claims



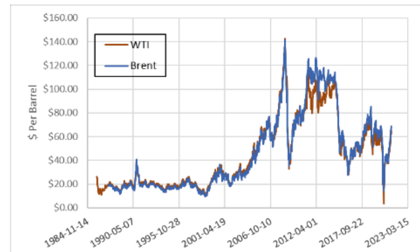
New claims for unemployment insurance rose from 712,000 to 770,000 last week.

Continuing Claims for Unemployment



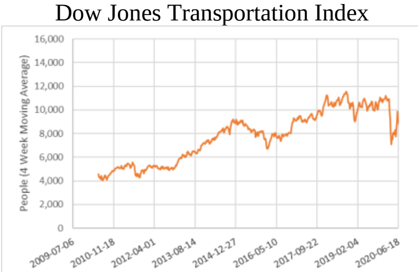
The four-week moving average of unemployment claims declined last week from 4,355,000 to 4,255,500.

WTI Spot Oil Price



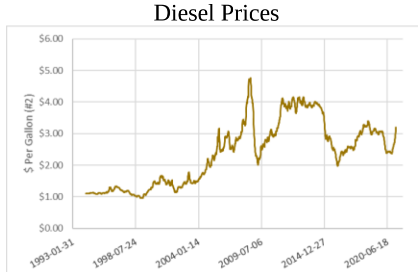
WTI spot crude is up from $62.29 per barrel to $65.02, while Brent increased from $68.00 to $68.78 per barrel.

Dow Jones Transportation Index



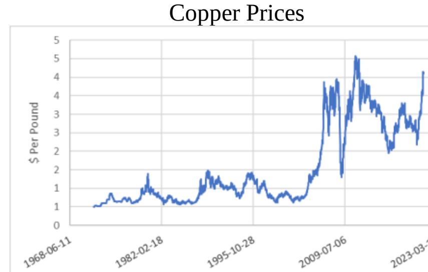
The Dow Jones Transportation Index rose from 13,911.35 to 14,150.28.

Diesel Prices



Diesel prices rose last week from $3.14 to $3.19 per gallon.

Copper Prices

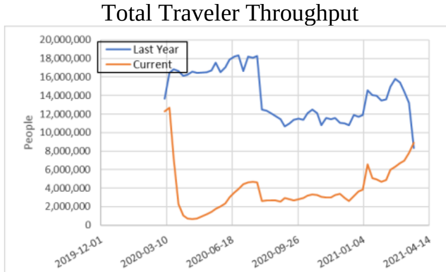


Spot copper prices decreased last week from $4.13/lb to $4.10/lb.

Financial Stress Index

The weekly St. Louis Fed financial stress index fell last week from -05661 to -0.6639 indicating more stability.

Total Traveler Throughput



TSA checkpoint traveler throughput rose last week from 7,806,974 passengers to 8,936,364 or 107.26 percent compared to 8,331,153 passengers a year ago.

10-Year Treasury Yield

Interest rates on 10-year Treasury Bonds increased from 1.49 to 1.57.

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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. Advance estimates of U.S. retail and food services sales for February 2021were $561.7 billion, a decrease of 3.0 percent from the previous month, but 6.3 percent above February 2020. Retail trade sales were 9.5 percent above last year, with non-store retailers up 25.9 percent and food services and drinking places down 17.0 percent.

2. According to the Federal Reserve, total industrial production decreased 2.2 percent in February. Manufacturing output and mining production fell 3.1 percent and 5.4 percent, respectively; the output of utilities increased 7.4 percent. The Bank suggests that severe winter weather in the south-central part of the country accounted for the bulk of the declines in output. Total industrial production was down by 4.2 percent from the same month in 2020.

3. The housing market softened in February. According to the Census Bureau, 1,682,000 building permits for privately-owned houses (annualized) were authorized in February, a 10.8 percent reduction from January. Housing starts were also 10.3 percent below January levels. Meanwhile privately-owned housing units completed were up by 2.8 percent.

4. Even though the Federal Reserve voted to hold the Federal Funds Rate steady at 0.25 percent, market interest rates continued to rise, up another 10 basis points on the week to close at 1.71 percent. Over the course of the year, the ratio of the 10-year yield to the Federal Funds Rate has risen from 3.72 to 6.84.

So far 2021 has seen an increase in interest rates, inflation, government debt and regulations. None of these bode well for the trajectory of the recovery from the COVID-19 depression. While it is likely that reported GDP will grow strongly in both the first and second quarters, this is due solely to the injection of adrenaline from the most recent Federal spending package. Unfortunately, this adrenaline high is likely to be followed by a long period of withdrawal.

These periods have occurred many times in American history, the most recent of which was between 2009 and 2016. The recovery from the so-called Great Recession, which was also fueled by debt, was the slowest in post-war history. Another period of stagnant growth occurred in the late 1970s, when inflation ran wild, and GDP growth slowed to a crawl. GDP was flat between the period of the country's founding and about 1820, and again at the beginning of the 20th century.

Economic growth depends on many factors: Productivity, capital inputs, education levels, and population growth among them. Countries that experience stagnant growth in GDP can fare quite well if the population is falling. This is the case of Japan, where the size of the economy has been flat for at least 20 years, but population has fallen, meaning that GDP per capita continues to rise. In the US; however, population growth has been robust, particularly when illegal aliens are counted, meaning that GDP per capita has grown at a paltry 1.1 percent per year during the entire 21st century so far.

This is why wages have been stagnant for decades, why inequality has risen and why the government has not been able to raise sufficient tax revenue to meet its responsibilities and promises.

If the new Administration adds increasing taxes to the mix, as has been suggested by many in Congress and by the President himself, it is even more likely that GDP per capita will stagnate further leading to another period like the 10 years following the last recession.

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.