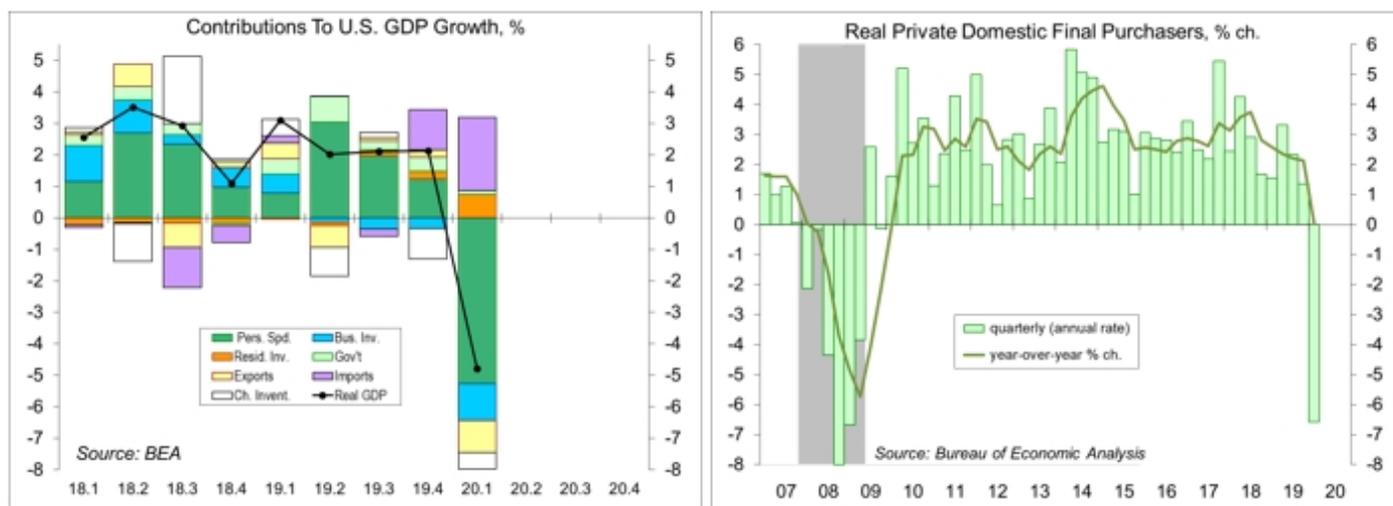


Weekly Economic Monitor -- That Sinking Feeling

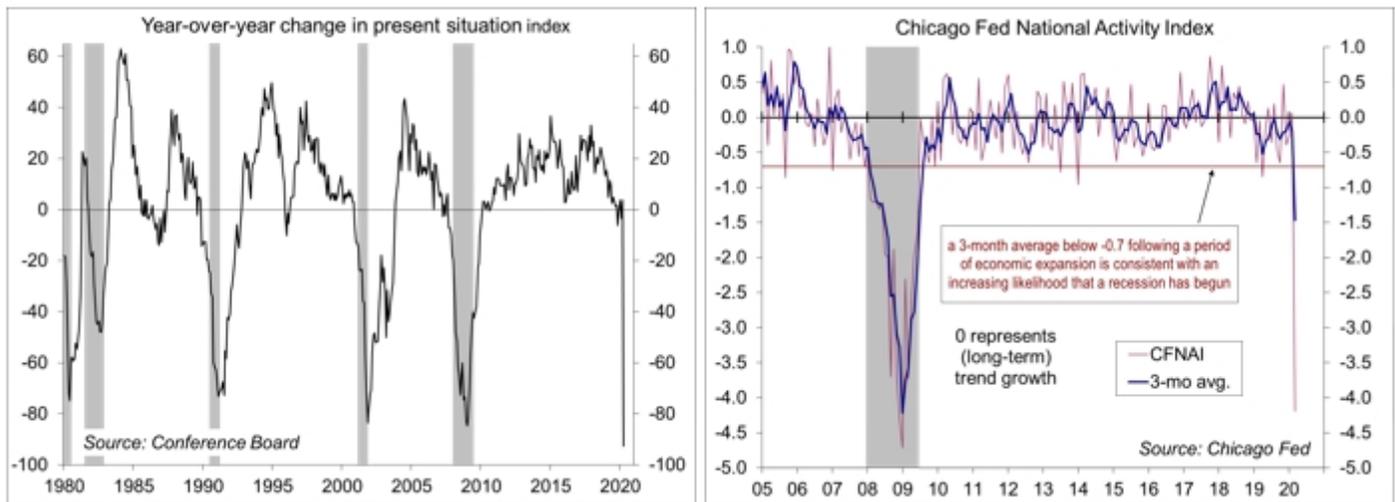
That Sinking Feeling – In recent weeks, the unprecedented surge in claims for unemployment benefits pointed to a horrific economic impact from COVID-19. That sinking feeling has been reinforced by the major economic releases, which have shown a sharp deterioration in economic activity in March – enough to substantially weaken the first quarter as a whole. April, and the second quarter, will be worse. Now, as states begin to open up, the economic outlook isn't much clearer. However, the risks are more apparent. This isn't going to be a V-shaped bottom. The economy is sure to rebound, but it will take a long time to get back to the pre-pandemic level of activity and the new normal will be different from the old.

Real GDP fell at a 4.8% annual rate in the advance estimate for 1Q20. However, the figure was lifted by a 15.3% decrease in imports. Imports have a negative sign in the GDP calculation and the drop added 2.3 percentage points to the headline growth figure. Private Domestic Final Purchases (GDP less government, the change in inventories, and foreign trade), a better measure of underlying private domestic demand, fell at a 6.6% annual rate. Consumer spending fell 7.6%. Business fixed investment fell 8.6%. Residential fixed investment was a bright spot, rising at a 21.0% annual rate, but that's unlikely to last (the Pending Home Sales Index fell 20.8% in March). Bear in mind that many states were not under strict social distancing guidelines for all of March. Most of the weakness appeared in the second half of the month. However, that weakness was severe enough to push the quarter as a whole sharply lower. While the 1Q20 GDP figures were worse than expected, we know that the second quarter decline will be even more severe.



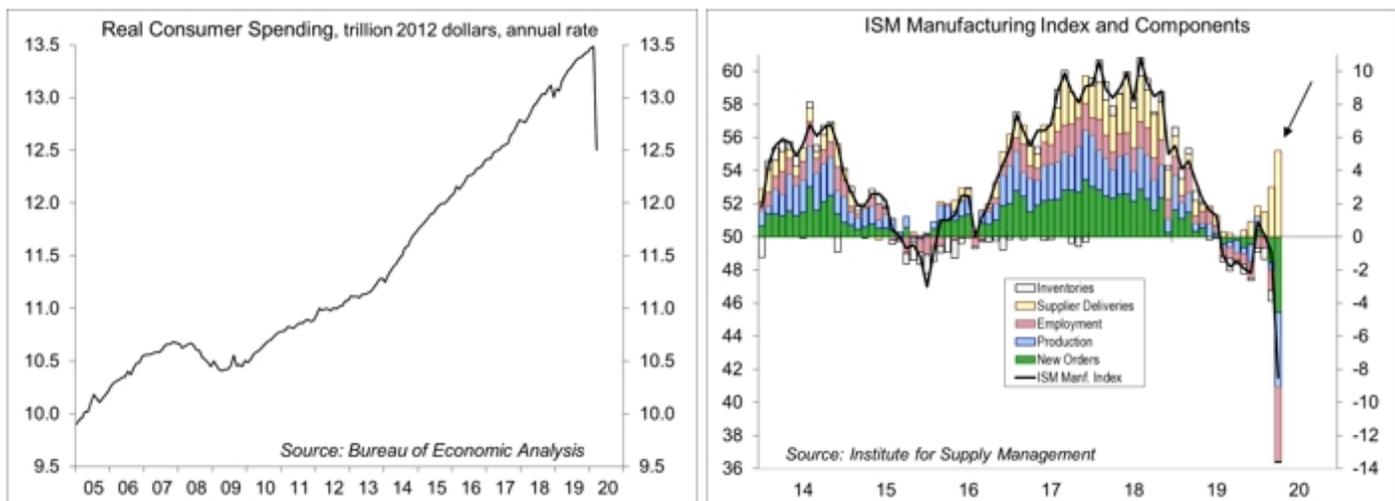
Jobless claims fell to 3.84 million in the week ending April 25, down in recent weeks but still extremely elevated. The total for the last six weeks was 30.3 million, but that is an exaggeration. Seasonal adjustment is multiplicative, so has amplified the headline figures. Prior to seasonal adjustment, 27.9 million people have filed claims in the past six weeks – that's 17% of the labor force or one in six workers. That is gut-wrenching. There may be some duplication in these figures, as individuals get tired of waiting for their check and file again, but that should be very small. More likely, the reported figure understates the degree of weakness, as not every individual can file a claim. Rules vary by state, but in most cases, the self-employed and those working part-time can't file. The CARES Act expands the eligibility. Still, it's likely that many have fallen through the cracks.

Consumer confidence fell sharply in the initial estimate for April (86.9, vs. 118.8 in March and 132.6 in February). Within the report, the Present Situation Index fell 90 points, the largest decline on record. In the past, a year-over-year decline in the Present Situation Index has coincided with the start of a recession. Expectations for the economy and the job market improved in April, but that was from a much lower base. While consumers may be hopeful that the economy will re-open, they were less optimistic about their income prospects. Consumer attitudes should be highly sensitive to how the re-opening goes.



The Chicago Fed's National Activity Index, a composite of 85 economic indicators, fell sharply in April. The index is scaled so that zero represents trend growth. A three-month average of less than -0.7 is indicative of an increased chance that a recession has begun – it was -1.47 in March.

Consumer spending fell 7.5% in March (-7.3% adjusting for inflation), reflecting steep declines in motor vehicles (-26.5%), clothing (-29.8%), transportation services (-25.5%), recreation services (-29.5%) and restaurants (-26.4%), only partly offset by an increase in food-at-home (+19.8%).



The ISM Manufacturing Index fell to 41.5 in April (vs. 49.1 in March), but it was worse than it looks. Longer supplier delivery times are normally a sign of strength, as manufacturers struggle to keep up with demand. In this case, the increase reflects virus-related supply chain disruptions. New orders (27.1), production (27.5), and employment (27.5) were well below the breakeven level (50).

A successful re-opening of the economy should be coordinated, with plenty of testing, and the ability to trace and isolate the contacts of infected individuals. Unfortunately, we are not there yet. The move into social distancing was haphazard across states and the re-opening is likely to be similarly chaotic. Nationally, we're still seeing more than 25,000 new cases per day. Other countries have begun to open, but with new cases trending closer to zero. Testing, while improving, is still woefully inadequate. Opening too rapidly, as some states may do, will lead to a wider spread of the virus and a longer period of social distancing to contain a second, wider outbreak. It will take more than a few weeks to evaluate whether states are moving too fast. A V-shaped economic recovery is not going to happen, but until we get an effective treatment or a vaccine, we could see a repeated W, as states move to open and close their economies over time. Re-opening the economy should be a gradual process, but it may be uneven. (M20-3069232)

This Week – The economic focus is expected to be on the April Employment Report, which is expected to be terrible, but also noisy. Classification issues will be magnified by the sheer volume of job losses. In the household survey (unemployment rate, labor force participation), someone furloughed (not formally laid off, but with zero hours) should be counted as “unemployed on temporary layoff.” However, the BLS indicated that this was a problem in March, understating the unemployment rate by a full percentage point. The BLS may do better in April, but the survey is of only 60,000 households and survey response rates will be down (again) because of the virus. In the establishment survey (payrolls, hours, and wages), a furloughed worker will still be counted as a payroll job if paid for anytime during the pay period that includes the 12th.

This Week:					<i>forecast</i>	last	last –1	comments
Monday	5/04	8:00	Motor Vehicle Sales, mln domestically built	Apr	<i>NF</i>	11.4	16.7	seen lower after a sharp drop in March
		10:00	Factory Orders	Mar	<i>-9.2%</i>	-0.1%	13.0	down
		3:00	Treasury Borrowing Need				-0.5	durable goods orders reported at -14.4% will include cost of fiscal support
Tuesday	5/05	8:30	Trade Balance, \$bln goods only	Mar	<i>-44.4</i>	-39.9	-45.5	assumed wider in the adv. GDP est.
		10:00	ISM Non-Manf. Index	Mar	<i>-65.5</i>	-61.2	-67.1	imports and exports falling
		11:00	HH Debt and Credit Report	1Q20	<i>43.5</i>	52.5	57.3	weaker as of March 31
Wednesday	5/06	8:30	ADP Payroll Estimate, th.	Apr	<i>-24000</i>	-27	+179	seen sharply lower
Thursday	5/07	2:00	BOE Policy Decision					expecting more
		7:30	Challenger Job-Cuts, th.	Apr	<i>NF</i>	222.3	56.7	higher, but not all cuts are announced
		8:30	Jobless Claims, th.	5/02	<i>2800</i>	3839	4442	still highly elevated
		8:30	NF Productivity Unit labor Costs	1Q20	<i>-6.0%</i>	+1.2%	-0.3%	expecting a sharp drop higher
					<i>+9.0%</i>	+0.9%	+0.2%	
Friday	5/08	8:30	Nonfarm Payrolls, th. private-sector	Apr	<i>-24000</i>	-701	+275	a gigantic loss of jobs
			Unemployment Rate		<i>-23970</i>	-713	+242	some data collection issues
			employment/population		<i>14.5%</i>	4.4%	3.5%	reporting issues (should be about 18%)
			Avg. Weekly Hours		<i>52.0%</i>	60.0%	61.1%	down
			Avg. Hourly Earnings		<i>33.8</i>	34.2	34.4	lower
			year-over-year		<i>+0.2%</i>	+0.4%	+0.3%	moderate
					<i>+3.1%</i>	+3.1%	+3.0%	moderate
Next Week:								
Monday	5/11		no significant data					
Tuesday	5/12	6:00	Small Business Optimism	Apr	<i>NF</i>	96.4	104.5	should fall further
		8:30	Consumer Price Index	Apr	<i>-0.5%</i>	-0.4%	+0.1%	lower gasoline prices
			year-over-year		<i>+0.8%</i>	+1.5%	+2.3%	lower
			ex-food & energy		<i>-0.2%</i>	-0.1%	+0.2%	mild general deflation
			year-over-year		<i>+1.7%</i>	+2.1%	+2.4%	lower
		8:30	Real Hourly Earnings	Apr	<i>+0.7%</i>	+0.8%	+0.3%	another large increase
			year-over-year		<i>+2.4%</i>	+1.6%	+0.6%	good for those who still have a job
Wednesday	5/13	8:30	Producer Price Index	Apr	<i>-0.3%</i>	-0.6%	+0.5%	mixed food & energy
			ex-food & energy		<i>-0.2%</i>	-0.3%	+0.5%	seen lower
			ex-f, e, & trade services		<i>-0.3%</i>	-0.1%	+0.4%	mild deflation
Thursday	5/14	8:30	Jobless Claims, th.	5/09	<i>2400</i>	2800	3839	still highly elevated
		8:30	Import Prices		<i>NF</i>	-2.3%	-0.7%	lower petroleum prices
			ex-food & fuels		<i>NF</i>	+0.1%	+0.1%	a low trend
Friday	5/15	8:30	Retail Sales	Apr	<i>-7.8%</i>	-8.4%	-0.4%	another large drop in motor vehicles
			ex-autos		<i>-5.4%</i>	-4.2%	-0.4%	lower gasoline sales
			ex-autos, bld mat, gasoline		<i>-4.4%</i>	-3.2%	-0.1%	mixed, but mostly lower
		9:15	Industrial Production	Apr	<i>-6.6%</i>	-5.4%	+0.5%	another large decline
			Manufacturing Output		<i>-8.8%</i>	-6.3%	0.0%	down more sharply
			Capacity Utilization		<i>67.4%</i>	72.7%	77.0%	falling
		10:00	Business Inventories	Mar	<i>+0.2%</i>	-0.4%	-0.3%	mixed
		10:00	UM Consumer Sentiment	m-Apr	<i>68.0</i>	71.8	89.1	seen somewhat lower

Coming Events and Data Releases

May 14	Jobless Claims (week ending May 9)	May 19	Building Permits Housing Starts (April)
May 15	Retail Sales (April)	May 25	Memorial Day Holiday (markets closed)
	Industrial Production (April)	June 10	FOMC Policy Decision
	UM Consumer Sentiment (mid-May)		

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The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange's Globex electronic trading platform. Dow

Futures is based off the Dow 30 stock index.

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Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

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