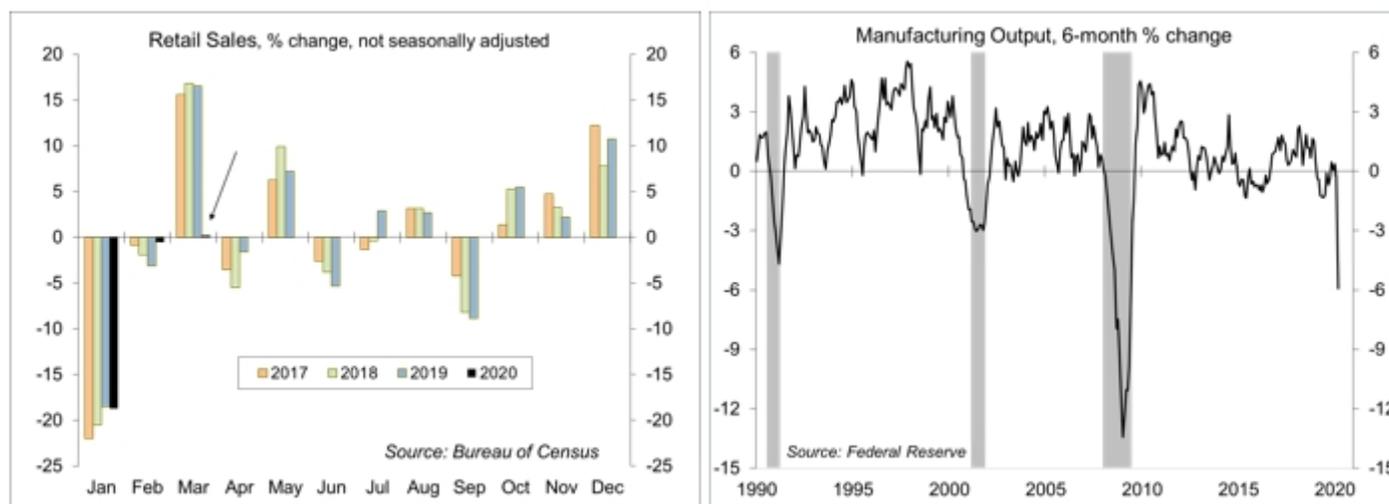


Weekly Economic Commentary -- Distorted Data, a Clear Near-Term Picture, but a Foggy Outlook

Distorted Data, a Clear Near-Term Picture, but a Foggy Outlook – Economic data reports are generally backward-looking. There’s a lot of noise, reflecting statistical uncertainty and seasonal adjustment difficulties. Reports for March 2020 present a greater challenge. Social distancing was sporadic, with some states locking things down sooner than others. One should always take a given piece of economic data with a grain of salt, but this is especially so now. Yet, it’s pretty clear that the economy began to contract in March and that second quarter figures will be much worse. For the markets, the bigger question is how long it will take the economy to recover and when that will start.

“There will be growth in the spring.” – Chance the Gardener (Being There)

Not this year. March is an important month for retailers. A year ago, prior to seasonal adjustment, retail sales rose 16.5%. This year, they edged up 0.2%. That’s a huge shortfall. The Bureau of Census tweaked the seasonal adjustment in the March report, which yielded an 8.7% seasonally adjusted decline. Restaurants, department stores, clothing stores, gas stations, and auto dealers suffered badly, while grocery stores, online shopping, and (implicitly) wholesale clubs thrived. The decrease in retail sales was enough to throw the first quarter into negative territory, a -9.2% annual rate relative to 4Q19. Chance may have been wrong about growth in the spring, but he has one prescient observation for the current environment – “I like to watch.”



COVID-19 also affected the collection of industrial production data. The Fed reported a 5.4% decline in March. Manufacturing output fell 6.3%, led by a 28.0% decline in motor vehicles. Factory output fell at a 7.1% annual rate in 1Q20, a recessionary decline – and April figures will be even worse.

Housing starts fell 22.3% in March. Single-family permits, which are reported more accurately, fell 12.0%, offsetting strong gains in January and February. Residential construction may still add a little to first quarter GDP growth.

The Conference Board’s Index of Leading Economic Indicators posted its largest decline on record in March.

Jobless claims remain the best real-time economic indicator. Claims slowed to “only” 5.245 million in the week ending April 11, with a total of 22.0 million in the last four weeks. That’s inflated a bit by the seasonal adjustment (20.1 million unadjusted, which is more than 12% of the labor force), but many laid-off workers couldn’t file. The broadening of eligibility (part of the CARES Act) should keep claims elevated in the near term. Using micro data from ADP, the Fed estimates that the economy lost 18 million jobs through April 4.

The advance estimate of 1Q20 GDP will be reported on April 29. While much of the component data is suspect, we should see a negative growth figure. The jobless claims data are consistent with a much worse decline in 2Q19.

A second half recovery for the economy depends on the unwinding of social distancing, which should be coordinated and gradual, but could be haphazard and self-defeating. There’s always hope. (M20-3048022)

This Week – A lot of the economic reports are subject to distortions, but jobless claims and the UM consumer sentiment figures are the best real-time figures publically available. Jobless claims will remain the key indicator to watch. New home sales should have weakened in March. Durable goods orders are expected to have fallen sharply (April will be worse).

The headline jobless claims figures have totaled 22.0 million in the previous four weeks, partly inflated by the seasonal adjustment (20.1 million before adjustment, which is more than 12% of the labor force).

The UM consumer sentiment survey for April ends on the 20th. The preliminary survey (where the index fell 18.1 points) was for March 25 to April 7).

This Week:					<i>forecast</i>	last	last –1	comments
Monday	4/20	8:30	Chi Fed Nat Act Index three-month average	Mar	<i>NF</i> <i>NF</i>	+0.16 -0.21	-0.33 -0.11	should be sharply lower <0.7 means a likelihood of recession
Tuesday	4/21	10:00	Existing Home Sales, mln % change	Mar	<i>5.35</i> <i>-7.3</i>	5.77 +6.5	5.42 -2.0	these are closings (more reflective of Feb) April will be a lot worse
Wednesday	4/22		Admin Professionals Day					"I'll take you to lunch when this is over"
Thursday	4/23	8:30	Jobless Claims, th.	4/18	<i>4000</i>	5245	6615	still highly elevated
		10:00	New Home Sales, th. % change	Mar	<i>650</i> <i>-15.0</i>	765 -4.4	800 +10.5	worse over the month but these data are erratic
Friday	4/24	8:30	Durable Goods Orders ex-transportation nondef cap gds ex-aircraft	Mar	<i>-5.8%</i> <i>-3.8%</i> <i>-3.9%</i>	+1.2% -0.6%	+0.1% +0.7%	we should see a large decline April will be worse
		10:00	UM Consumer Sentiment	Apr	<i>67.0</i>	89.1	101.0	just the start of a very steep drop 71.0 at mid-month
Next Week:								
Monday	4/27		Revised Retail Sales					annual benchmark revisions
Tuesday	4/28	8:30	Advance Econ Indicators wholesale inventories retail inventories merch. trade balance, \$bln	Mar	<i>NF</i> <i>NF</i> <i>NF</i>	-0.7% -0.3% -59.9	-0.6% -0.1% -66.0	refining 1Q20 GDP forecasts slower in 1Q20 slower in 1Q20 seen lower still
		10:00	CB Consumer Confidence	Apr	<i>98.0</i>	120.0	132.6	expecting a large drop
Wednesday	4/29	8:30	Real GDP (advance est.) Priv Dom Final Purchases	1Q20	<i>-4.0%</i> <i>-4.8%</i>	+2.1% +1.3%	+2.1% +2.3%	March enough for a quarterly decline 2Q20 will be a lot worse
		10:00	Pending Home Sales Index	Mar	<i>-15.0%</i>	+2.4%	+5.3%	down sharply
		2:00	FOMC Policy Decision					what's left to change?
		2:30	Powell Press Conference					what's left to say?
Thursday	4/30	8:30	Jobless Claims, th.	4/25	<i>3000</i>	<i>4000</i>	6648	still highly elevated
		8:30	Employment Cost Index year-over-year	1Q20	<i>+0.6%</i> <i>+2.6%</i>	+0.7% +2.7%	+0.7% +2.8%	subject to some distortions moderate
		8:30	Personal Income Personal Spending PCE Price Index ex-f&e year-over-year	Mar	<i>-3.8%</i> <i>-8.5%</i> <i>-0.0%</i> <i>+1.5%</i>	+0.6% +0.2% +0.2% +1.8%	+0.6% +0.2% +0.2% +1.7%	down sharply down sharply the core CPI fell 0.103% further below the 2% goal
		9:45	Chicago Business Barometer	Apr	<i>42.1</i>	47.8	49.0	weak
Friday	5/01	10:00	Construction Spending	Mar	<i>-4.8%</i>	-1.6%	+2.8%	down sharply
		10:00	ISM Manf. Index	Apr	<i>44.0</i>	49.1	50.1	weak

Coming Events and Data Releases

May 4	Motor Vehicle Sales (April)	May 15	Retail Sales (April)
May 5	ISM Non-Manufacturing (April)		Industrial Production (April)
May 7	Jobless Claims (week ending May 2)		UM Consumer Sentiment (mid-May)
May 8	Employment Report (April)	May 25	Memorial Day Holiday (markets closed)
May 14	Jobless Claims (week ending May 9)	June 10	FOMC Policy Decision

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Index Definitions

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.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

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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