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Weekly Economic Monitor -- What Sort of Recovery?

What Sort of Recovery? – For the most part, assessments of the economic impact of COVID-19 have been more qualitative than quantitative. Data reports are backward-looking and often distorted. However, in recent weeks, the unprecedented surge in jobless claims has helped us to begin assessing the economic damage from social distancing. In turn, the view of a sharp near-term decline in economic activity has become somewhat clearer. However, the outlook beyond 2Q20 remains uncertain. The pace of recovery will depend on whether we can halt the spread of the virus (good signs so far), develop palliatives, and begin to end social distancing. Expectations vary, but we should begin to see the economy starting to rebound in June. However, there are a wide range of views on the pace of recovery and there are likely to be long-lasting changes in consumer behavior.

Jobless claims totaled 6.6 million in the week ending April 4, a bit lower than the week before, but still extremely elevated. Prior to seasonal adjustment, 15.1 million people have filed claims in the past three weeks – that's 9.2% of the labor force – and the claims figure understates the degree of job losses (as not every laid off or furloughed worker has been able to file). The Bureau of Labor Statistics has indicated that there were collection issues in the payroll and unemployment surveys for March. Many furloughed individuals, those with hours set to zero, should have been counted as "unemployed through temporary layoff," but weren't. This misclassification reduced the unemployment rate by nearly a full percentage point. In other words, the March unemployment rate should have been reported at 5.4% rather than 4.4% (up from 3.5% in February). The BLS does not go back and make ad hoc corrections, so the reported number stands. In any case, the problems with the March unemployment data illustrate an important issue. Much of the incoming economic data reports will be subject to distortions due to collection problems. Barring collection and reporting issues, the unemployment rate is likely to rise to 12% or more in April and we could see further increases in the months ahead.

The University of Michigan's Consumer Sentiment Index posted a record decline in mid-April, dropping to 71.0, from 89.1 in March and 101.0 in February. The report had a cautionary tone, noting that further declines are expected in the weeks ahead. Moreover, anticipation of a quick and sustained economic expansion "is likely to be a failed expectation, resulting in a renewed and deeper slump in confidence," according to the report. Consumers don't spend sentiment. Income, wealth, and the ability to borrow are the key drivers. However, consumer attitude measures generally provide insights into consumer fundamentals, which have been deteriorating rapidly in recent weeks.

Fiscal policy efforts will help, but more is needed, especially aid for state and local governments. Economists have been quick to label the CARES Act as "disaster relief" rather than "fiscal stimulus." Sending cash to unemployed workers and idled businesses won't boost overall economic activity in the way one would see in a normal recession, but these efforts should help to limit the damage and carry us through.

Social distancing appears to be doing what it was supposed to do, slowing the spread of the virus. However, it will still be several more weeks to get to a point where we would want to relax stay-at-home directives. We need to be able to test more widely, not just those that have the more severe symptoms, and be able to trace infected individuals to track and isolate the virus. We need effective treatments for those needing hospitalization. The end of social distancing is expected to come in stages, but it should be a lengthy process – and we can expect that many individuals will be reluctant to return to restaurants, cinemas, and tourist destinations.

There is likely to be longer-term damage to the U.S. economy. This won't be a V-shaped recovery. With a U-shaped recovery, there are different views on when the upswing will begin and how strong it will be – and that will depend on the virus and the efforts to contain it.

Kudos to the Brookings Institution for providing a number of timely online seminars on the economic impact of COVID-19. Fed Chair Powell spoke on Thursday. In his introductory comments, Powell exhibited a calm demeanor. To many observers, this may seem like mere hand-holding, but showing steady leadership is an important role for the Fed right now. In Q&A, Powell provided further color on the economic uncertainties and what the Fed is doing. Brookings has held other online conferences that are worth replaying, including ones with former Fed Chair's Ben Bernake and Janet Yellen.

This Week – Jobless claims will remain the key economic figure to watch (timely and relatively accurate). Retail sales results are likely to be horrible (with the decline magnified by the seasonal adjustment). The Index of Leading Economic Indicators will post a gigantic decline, reflecting declines in most components, but especially the increase in jobless claims.

COVID-19 had effects that are similar to a natural disaster (in this case, like simultaneous hurricanes everywhere, over and over). Following a natural disaster, claims for the affected region typically surge, then begin to tail off. However, the CARES Act expanded eligibility, which ought to add.

March is normally a strong month for retail sales. Prior to seasonal adjustment, sales might rise 14-16%. Not all of the U.S. was on lockdown last month, so results are likely to vary. Unit auto sales fell 32%. Gasoline sales have been reported as down 50% to 80% in some areas. As with many of the government's data reports, collection was likely an issue. Annual benchmark revisions are due April 27. So, don't put much emphasis on the headline figure.

The LEI is a published formula and most of the component are known. The increase in jobless claims will subtract 5.52 points. (M20-3036455)

This Week:					*forecast*	last	last –1	comments
Monday	4/13		no significant data					
Tuesday	4/14	6:00	Small Business Optimism	Mar	***NF***	104.5	104.3	should decline
		8:30	Import Prices	Mar	***NF***	-0.5%	+0.1%	lower oil prices
			ex-food & fuels		***NF***	+0.2%	+0.1%	likely lower
Wednesday	4/15	8:30	**Retail Sales**	Mar	***-24.0%***	-0.5%	+0.6%	unit auto sales fell 32%
			ex-autos		***-22.6%***	-0.4%	+0.6%	gasoline sales down sharply
			ex-autos, bld mat, gasoline		***-21.8%***	-0.1%	+0.4%	decline amplified by seasonal adjustment
		9:15	**Industrial Production**	Mar	***-3.0%***	+0.6%	-0.5%	down sharply
			Manufacturing Output		***-4.2%***	+0.1%	-0.2%	aggregate hours fell 0.9%
			Capacity Utilization		***75.8%***	77.0%	76.6%	lower
		10:00	Business Inventories	Feb	***-0.4%***	-0.3%	+0.1%	down sharply in 1Q20
		10:00	Homebuilder Sentiment	Apr	***60***	72	74	should drop
		10:00	BOC Policy Decision					
		2:00	**Fed Beige Book**					anecdotal info to worsen
Thursday	4/16	8:30	**Jobless Claims, th.**	4/11	***5000***	6606	6867	still highly elevated
		8:30	Building Permits, th.	Mar	***1300***	1452	1550	some retreat is likely
			% change		***-10.4***	-6.3	+9.2	but we'll see
			Housing Starts		***1320***	1599	1624	the starts data are erratic
			% change		***-17.4***	-1.5	+1.4	seen a lot lower
Friday	4/17	10:00	Leading Econ Indicators	Mar	***-7.0%***	+0.1%	+0.7%	a HUGE decline (led by jobless claims)
Next Week:								
Monday	4/20	8:30	Chi Fed Nat Act Index	Mar	***NF***	+0.16	-0.33	should be sharply lower
			three-month average		***NF***	-0.21	-0.11	<0.7 means a likelihood of recession
Tuesday	4/21	10:00	Existing Home Sales, mln	Mar	***5.48***	5.77	5.42	these are closings (more reflective of Feb)
			% change		***-5.0***	+6.5	-2.0	April will be a lot worse
Wednesday	4/22		Admin Professionals Day					
Thursday	4/23	8:30	**Jobless Claims, th.**	4/17	***4600***	***5000***	6648	still highly elevated
		10:00	New Home Sales, th.	Mar	***700***	765	800	worse over the month
			% change		***-8.5***	-4.4	+10.5	but these data are erratic
Friday	4/24	8:30	**Durable Goods Orders**	Mar	***-2.8%***	+1.2%	+0.1%	we should see a large decline
			ex-transportation		***-1.5%***	-0.6%	+0.7%	April will be worse
			nondef cap gds ex-aircraft		***-1.6%***	-0.9%	+1.0%	just the start of a very steep drop
		10:00	**UM Consumer Sentiment**	Apr	***65.0***	89.1	101.0	71.0 at mid-month

Coming Events and Data Releases

April 28	Consumer Confidence (April)	May 4	ISM Non-Manufacturing (April)
April 29	Real GDP (1Q20, advance estimate) FOMC Policy Decision	May 8	Employment Report (April)
May 1	ISM Manufacturing (April)	May 25	Memorial Day Holiday (markets closed)
		June 10	FOMC Policy Decision

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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.

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Futures is based off the Dow 30 stock index.

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