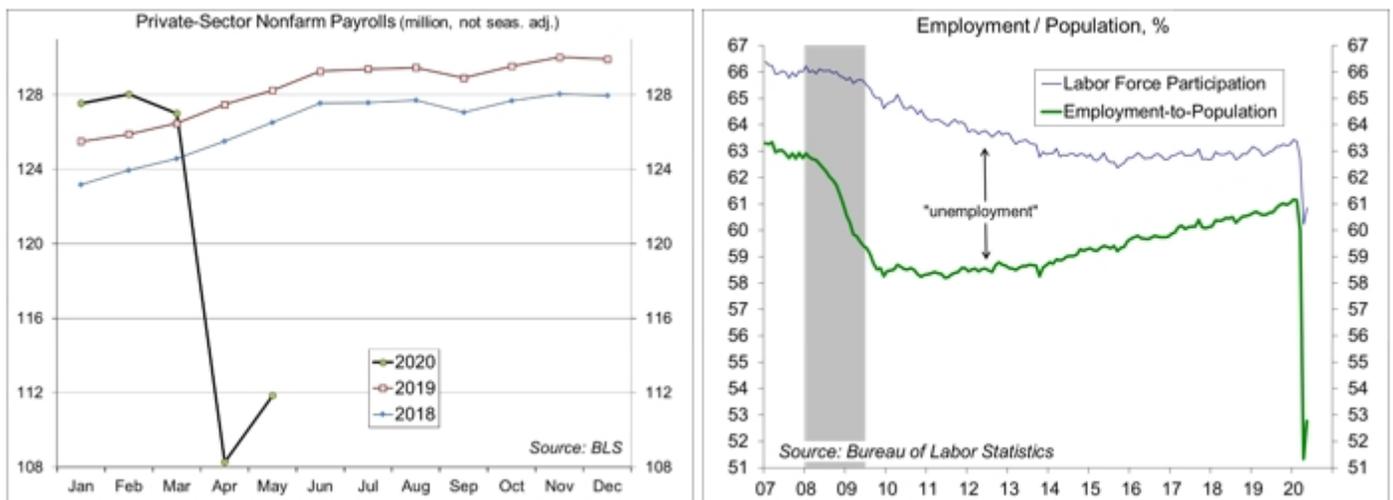


Weekly Economic Monitor -- The Surprising May Employment Report

The Surprising May Employment Report – In contrast to expectations of further deterioration, the May Employment Report suggested significant improvement in labor market conditions. No doubt, the economy has turned the corner as states have re-opened. However, the report was sharply at odds with the number of individuals receiving unemployment benefits. Even with the May job gains, we still have a long way to go for a full recovery. For the financial markets, the direction of change is what matters.

The headline data on jobless claims are for regular state programs. They don't include separate programs for government workers, newly discharged veterans, pandemic assistance, and others. The number of individuals receiving unemployment benefits in all programs totaled about 30 million for the week ending May 16, a little more than 11 million more than in mid-April (corresponding to the timing of the payroll surveys). The Bureau of Labor Statistics reported that nonfarm payrolls rose by 2.5 million (median estimate: -8.0 million) in the initial estimate for May (3.1 million in private-sector payrolls). Payrolls fell 19.5 million from February to May. So how can 30 million be collecting unemployment benefits? What to believe? Jobless claims data are actual counts for the most part. Payrolls are an estimate, subject to statistical error. Still, most economists were expecting very sharp payroll gains for June (reflecting a re-opening in state economies) – maybe some of that showed up a little early. The jobless claims data still bear watching closely. Drilling down into the report, dentist offices accounted for 8% of the gain in nonfarm payrolls. Leisure and hospitality accounted for half.



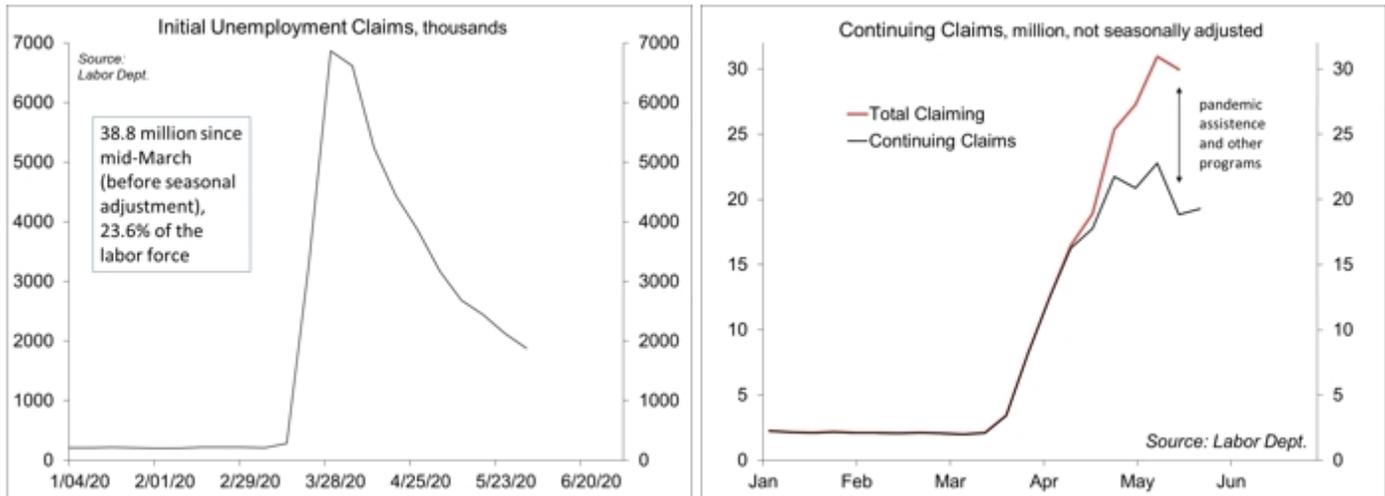
The unemployment rate fell to 13.3% in May (median forecast: 19.8%), vs. 14.7% in April. The May figure was understated by about three percentage points due to a classification problem (April was understated by about five percentage points). The “insured unemployment rate” from the jobless claims report is continuing claims as a percent of nonfarm payrolls (from the end of the previous quarter) – 12.9% for the week ending May 16 (not seasonally adjusted). That reflects claimants for the regular state programs. Adding in the other programs, the insured unemployment rate would have been 20.6% – again a sharp contrast to the BLS’s figure.

The ISM surveys remained in contraction in May, with the headline figures inflated by an increase in supplier delivery times (which reflect pandemic disruptions rather than underlying strength in demand). In manufacturing, new orders, production, and employment continued to contract sharply. In the non-manufacturing survey, business activity, new orders, and employment continued to decline, but not as much as in April. Unit motor vehicle sales rose to a 12.2 million seasonally adjusted annual rate, up from 8.7 million in April (but still down 30% from a year earlier).

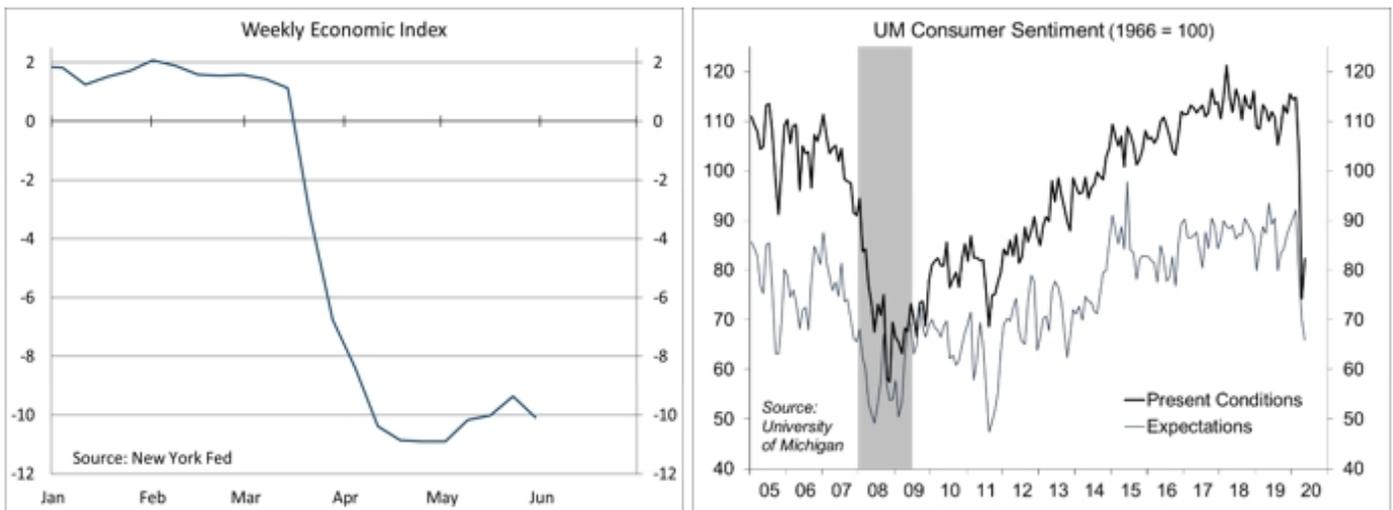
While the May employment figures appear suspect, the economy has turned the corner. Looking ahead, economic reports are likely to indicate strong growth in May, June and July, but that’s coming from sharp lows in April, and activity is expected to remain below trend for some time. For financial market participants, the direction is more important than the level of activity. (M20-3115991)

Gauging the Recovery

Jobless Claims fell to 1.877 million in the week ending May 30, trending down, but still very high. Continuing Claims rose by 437,000 in the week ending May 23, to 19.295 million (not seasonally adjusted), but the figures are for regular state unemployment insurance programs and do not include pandemic assistance and other programs. Total continuing claims, including all programs, were 29.965 million for the week ending May 16 (down from 30.957 million in the week ending May 9).



The New York Fed's Weekly Economic Index fell to -10.08 for the week of May 30, down from -9.36 in the previous week and a low of -10.90 at the beginning of May. The WEI is scaled to four-quarter GDP growth.



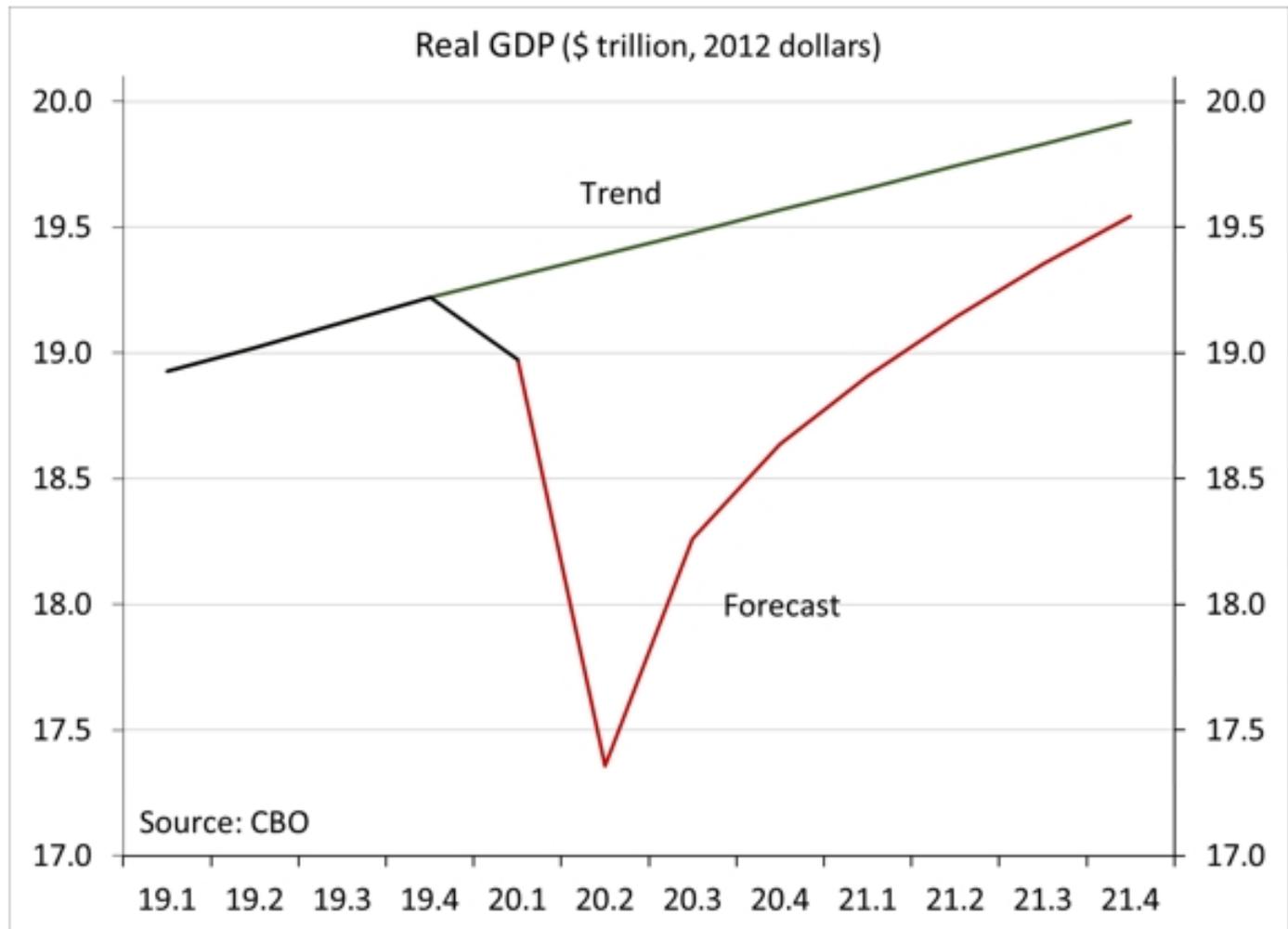
Reported last week, the University of Michigan's Consumer Sentiment Index rose to 72.3 in the full-month reading for May. Expectations remained weak. The report noted that "the CARES relief checks and higher unemployment payments have helped to stem economic hardship, but those programs have not acted to stimulate discretionary spending due to uncertainty about the future course of the pandemic."

General Outlook:

| | 20.1 | 20.2 | 20.3 | 20.4 | 21.1 | 21.2 | 21.3 | 21.4 |
|----------------------|------|-------|------|------|------|------|------|------------|
| GDP q/q % | -1.3 | -8.5 | 5.2 | 2.1 | 1.5 | 1.2 | 1.1 | 1.0 |
| GDP q/q, annual rate | -5.0 | -30.0 | 22.5 | 8.5 | 6.0 | 5.0 | 4.5 | 4.0 |
| GDP y/y | 0.3 | -8.8 | -4.5 | -3.1 | -0.3 | 10.3 | 6.0 | 4.9 |
| Unemployment Rate | 3.8 | 14.0 | 9.5 | 7.4 | 6.3 | 5.8 | 5.6 | 5.4 |
| 10-yr Treasury note | 1.37 | 0.85 | 0.90 | 1.00 | 1.10 | 1.15 | 1.20 | 1.25 |

Source: Raymond James

At face value, the May Employment Report suggests that the 2Q20 decline in GDP will be somewhat less than expected earlier. The rebound in 3Q20 is expected to be strong. However, the recovery is widely expected to fall short of where we were at the start of the year. Much depends on how rapidly we unwind social distancing, but without a widely available vaccine or effective treatment for COVID-19, a full recovery in economic activity will take a lot longer.



This Week – The Federal Open Market Committee is expected to leave short-term interest rates unchanged. Asset purchases are unlimited, but have slowed. After punting in March, Fed officials are expected to release revised projections of growth, unemployment, and inflation. Chair Powell will discuss the situation in his post-meeting press conference. The inflation reports for May are expected to be mixed, with some pickup in gasoline, but downward pressure from weak demand.

| This Week: | | | | <i>forecast</i> | last | last –1 | comments | |
|-------------------|------|---------------------|------------------------------------|-----------------|--------------|-------------|----------|------------------------------------|
| Monday | 6/08 | no significant data | | | | | | |
| Tuesday | 6/09 | 6:00 | Small Business Optimism | May | NF | 90.9 | 96.4 | still weak |
| | | 10:00 | JOLTS data | Apr | | | | job openings set to fall further |
| Wednesday | 6/10 | 8:30 | Consumer Price Index | May | +0.1% | -0.8% | -0.4% | food prices mixed |
| | | | year-over-year | | +0.3% | +0.3% | +1.5% | low |
| | | | ex-food & energy | | -0.1% | -0.5% | -0.1% | still some deflation |
| | | | year-over-year | | +1.3% | +1.4% | +2.1% | low |
| | | 8:30 | Real Hourly Earnings | May | -1.1% | +5.6% | +0.9% | average hourly earnings fell 1.0% |
| | | | year-over-year | | +6.3% | +7.5% | +1.6% | reflects low-wage job losses |
| | | 2:00 | FOMC Policy Statement | | | | | no change |
| | | 2:00 | Summary of Econ Proj. | | | | | the Fed skipped the SEP in March |
| | | 2:30 | Powell Press Conference | | | | | policy to remain accommodative |
| Thursday | 6/11 | 8:30 | Jobless Claims, th. | 6/06 | 1600 | 1877 | 2126 | trending down, but still very high |
| | | 8:30 | Producer Price Index | May | -0.2% | -1.3% | -0.2% | mixed food & energy |
| | | | ex-food & energy | | -0.5% | -0.3% | 0.2% | low old core |
| | | | ex-f, e, trade services | | -0.3% | -0.9% | -0.2% | low new core |
| Friday | 6/12 | 8:30 | Import Prices | May | NF | -2.6% | -2.4% | oil prices moved higher |
| | | | ex-food & fuels | | NF | -0.4% | 0.0% | seen a bit lower |
| | | 10:00 | UM Consumer Sentiment | m-Jun | 76.0 | 72.3 | 71.8 | improving, but still low |
| Next Week: | | | | | | | | |
| Monday | 6/15 | no significant data | | | | | | |
| Tuesday | 6/16 | 8:30 | Retail Sales | May | +7.8% | -16.4% | -8.3% | unit auto sales up sharply |
| | | | ex-autos | | +6.8% | -17.2% | -4.0% | gasoline prices higher |
| | | | ex-autos, bld mat, gasoline | | +6.6% | -17.4% | -2.8% | turning the corner |
| | | 9:15 | Industrial Production | May | +5.2% | -11.2% | -15.0% | picking up |
| | | | Manufacturing Output | | +5.8% | -13.8% | -5.5% | aggregate hours rose 4.3% |
| | | | Capacity Utilization | | 69.1% | 64.9% | 73.2% | rebounding |
| Monday | 6/15 | 10:00 | Business Inventories | Apr | -1.2% | -0.3% | -0.2% | sharply lower |
| Wednesday | 6/17 | 10:00 | Homebuilder Sentiment | Jun | 45 | 37 | 30 | improving |
| | | 8:30 | Building Permits, mln. | May | 1.300 | 1.066 | 1.356 | rebounding |
| | | | % change | | +22.0 | -21.4 | -5.7 | single-family improving |
| | | | Housing Starts | | 1.250 | 0.891 | 1.276 | these data are erratic |
| | | | % change | | +40.3 | -30.2 | -18.6 | watch for revisions |
| Thursday | 6/18 | 8:30 | Jobless Claims, th. | 6/06 | 1350 | 1600 | 1877 | trending down, but still very high |
| | | 10:00 | Leading Econ Indicators | May | +2.7% | -4.4% | -7.4% | jobless claims fell |
| Friday | 6/19 | 8:30 | Current Account, \$bln | 1Q20 | -99.1 | -109.8 | -125.4 | narrower |

Coming Events and Data Releases

| | | | |
|---------|------------------------------------|---------|---|
| June 25 | Durable Goods Orders (May) | July 2 | Employment Report (June) |
| June 26 | Personal Income and Spending (May) | July 3 | Independence Day Holiday (markets closed) |
| July 1 | ISM Manufacturing Index (June) | July 29 | 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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