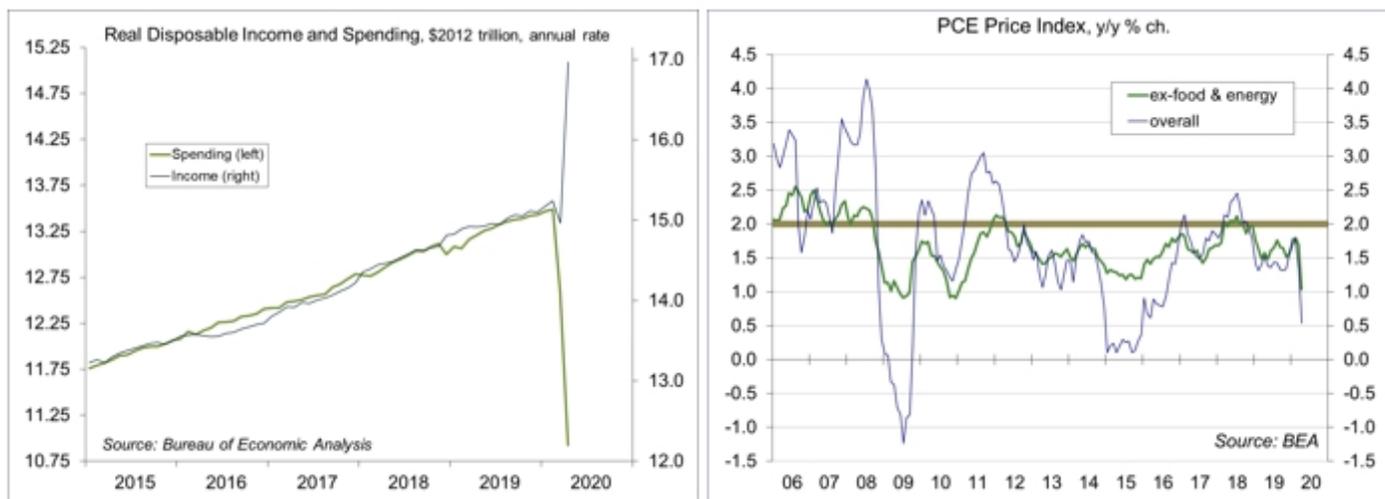


Weekly Economic Monitor -- Data Dumpster Diving

Data Dumpster Diving – With state economies opening up, activity is expected to pick up the final two months of 2Q20. Real-time indicators show improvement. However, the figures for April are consistent with a sharp contraction in 2Q20, which won't come close to being offset by May and June.

Personal income is the main driver of consumer spending. The two trend together over time. However, the April figures were bizarre. Income rose unexpectedly, up 10.5% (+11.5% y/y). Private-sector wages and salaries plunged 8.9%, following a 4.1% decline in March (-9.9% y/y). The drop in labor income was more than offset by an 89.6% rise in transfer payments, which include “recovery rebate” checks and unemployment insurance benefits. Because Tax Day was delayed to July 15, tax payments fell 7.4%, leaving disposable income up 12.9% (up 13.4% adjusting for inflation). The Bureau of Census figures are reported at an annual rate, as if short-term effects continued for a full year, amplifying monthly quirks. Still, with spending curtailed by social distancing, savings have gone up (a 33.0% rate in April, although that is misleading). Credit card bills are generally smaller. Individual bank deposits are generally rising. In theory, savings should provide fuel for an increase in consumer spending in the second half of the year.



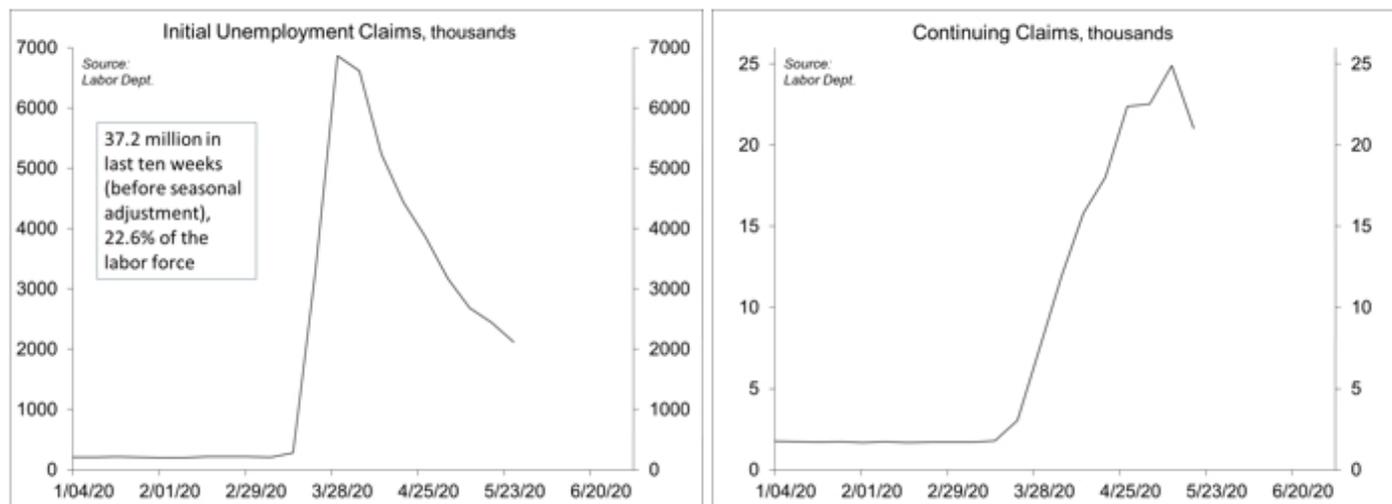
Personal spending plunged 13.6% in April, following a 6.9% decline in March (-17.2% y/y). The monthly-to-quarterly arithmetic can generate some strange results. If inflation-adjusted spending for May and June were to simply hold at April levels, real consumer spending (about 70% of Gross Domestic Product) would fall at a 53% annual rate in 2Q20. We are likely to see a partial rebound in the final two months of the quarter, which would limit the 2Q20 decline to about a -40% annual rate, still incredibly steep. However, improvement in May and June would also lift the 3Q20 growth figure to somewhere between +15% to +25% (annual rate). Such a rise in spending would be unprecedented, but it would still leave GDP far below where it was at the end of last year.

The report on personal income and spending also includes inflation data. The PCE Price Index is the Fed's key inflation measure. The Fed has a target rate of 2%, which it has struggled to reach over the last decade. No surprise, the PCE Price Index fell 0.5% in April, up just 0.4% year-over-year. Ex-food and energy, the index fell 0.4% (+0.9% y/y). Lower energy prices were a factor in April, but we also saw declines in hotel rental fees, airfares, and clothing. With the unemployment rate expected to remain elevated, labor cost increases ought to be moderate. Excess productive capacity should put downward pressure on prices. Inflation is likely to remain below the Fed's 2% target through 2021.

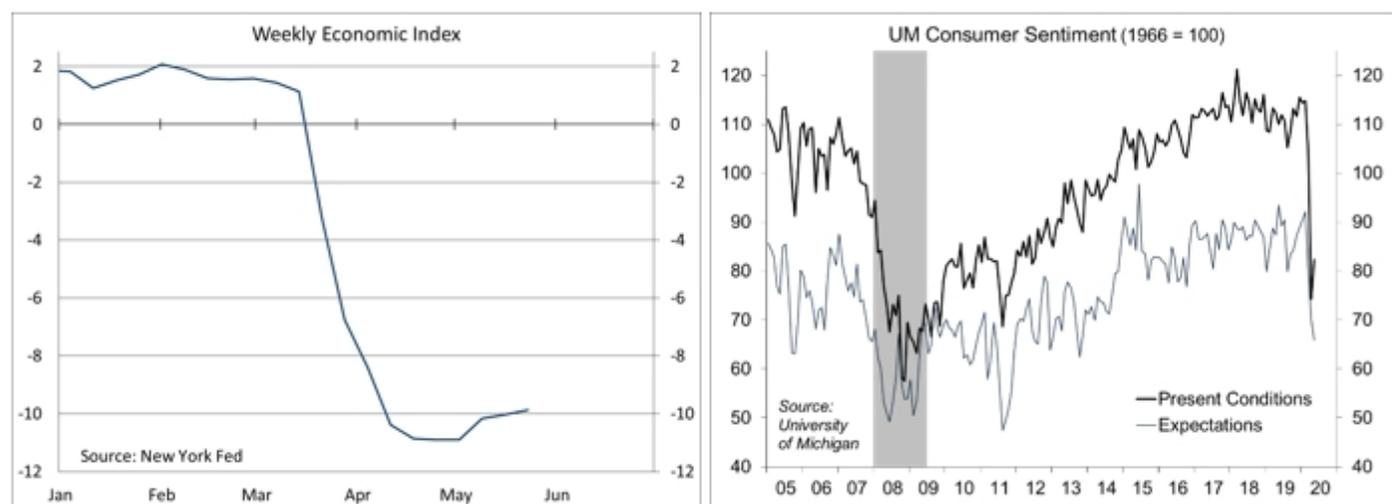
Durable goods orders fell more than expected in the initial estimate for April (-17.2%, following a 16.6% decline in March). However, most of the March and April declines were cancellations of aircraft orders. Ex-transportation, orders fell 7.4% (following -1.7% in April), less than expected. Orders for nondefense capital goods ex-aircraft, a rough proxy for business fixed investment, fell 5.8% (vs. -1.2% in March). That suggests a moderate decline in 2Q20, much less than anticipated and a milder decline than what we see in consumer spending. That could reflect business optimism about an eventual recovery – or it could be a sharper decline later on.

Gauging the Recovery

Jobless Claims fell to 2.123 million in the week ending May 23, still very high. Continuing Claims fell by 3.86 million in the week ending May 16, to 21.052 million, but the figures do not include pandemic assistance (total continuing claims were 30.957 million for the week ending May 9). (M20-3106819)



The New York Fed’s Weekly Economic Index rose to -9.87 for the week of May 23, up from -10.03 in the previous week and a low of -10.90 set a few weeks ago. The rebound was driven by an increase in retail sales, the drop in continuing jobless claims, and modest rises in steel production, rail traffic, and tax withholdings. The WEI is scaled to four-quarter GDP growth.



The University of Michigan’s Consumer Sentiment Index rose to 72.3 in the full-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	-10.2	4.7	2.1	1.5	1.2	1.1	1.0
GDP q/q, annual rate	-5.0	-35.0	20.0	8.5	6.0	5.0	4.5	4.0
GDP y/y	0.3	-10.4	-6.7	-5.3	-2.7	9.7	6.0	4.9
Unemployment Rate	3.8	20.0	18.4	14.8	12.2	10.5	8.6	7.2
10-yr Treasury note	1.37	0.65	0.65	0.70	0.74	0.79	0.85	0.92

This Week – Investors have factored in a strong rebound in the economy, but we’re unlikely to see much evidence of that in the May data. ISM surveys are likely to reflect less weakness (which some may view as “improvement”). Friday’s employment report is expected to reflect further job losses and an increase in the unemployment rate, but the data will be subject to a number of distortions (data collections, seasonal adjustment).

This Week:					<i>forecast</i>	last	last –1	comments
Monday	6/01	10:00	Construction Spending	Apr	-4.2%	+0.9%	-2.5%	down (watch for revisions)
		10:00	ISM Manf. Index	May	44.0	41.5	49.1	still weak, but a bit mixed
Tuesday	6/02	9:00	Motor Vehicle Sales, mln domestically built	May	NF	8.6	11.4	likely to have picked up somewhat but still relatively weak
					NF	6.8	9.0	
Wednesday	6/03	8:15	ADP Payroll Estimate, th.	May	-10000	-20236	-149	another large decline
		10:00	Factory Orders	Apr	-12.5%	-11.0%	+0.2%	durable goods orders fell 17.2%
		10:00	ISM Non-Manf. Index	May	44.0	41.8	52.5	still weak
Thursday	6/04	7:30	Challenger Job-Cuts, th.	May	NF	671.1	222.3	elevated
		8:30	Jobless Claims, th.	5/30	1900	2123	2446	trending down, but still very high
		8:30	Trade Balance, \$bln goods only	Apr	-50.2	-44.4	39.8	imports fell sharply but exports plunged
Friday	6/05	8:30	Nonfarm Payrolls, th.	May	-10100	-20500	-870	another large decline
			private-sector		-10000	19520	-842	some secondary effects of the pandemic
			Avg, Weekly Hours		34.3	34.2	34.1	more part-time job losses
			Avg. Hourly Earnings		+2.2%	+4.7%	+0.5%	more low-wage job losses
			year-over-year		+10.1%	+7.9%	+3.3%	quirky
			Unemployment Rate		20.0%	14.7%	4.4%	understates the problem
	employment/population		48.0%	51.3%	60.0%	that’s not good		
Next Week:								
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	+2.1%	+5.6%	+0.9%	still quirky
			year-over-year		+9.7%	+7.5%	+1.6%	reflects low-wage job losses
Thursday	6/11	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
		8:30	Jobless Claims, th.	6/06	1700	1900	2123	trending down, but still very high
		8:30	Producer Price Index	May	-0.2%	-1.3%	-0.2%	mixed food & energy
Friday	6/12		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
		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	74.0	72.3	71.8	improving, but still low	

Coming Events and Data Releases

June 16	Retail Sales (May)	July 2	Employment Report (June)
	Industrial Production (May)	July 3	Independence Day Holiday (markets closed)
June 17	Building Permits, Housing Starts (May)	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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