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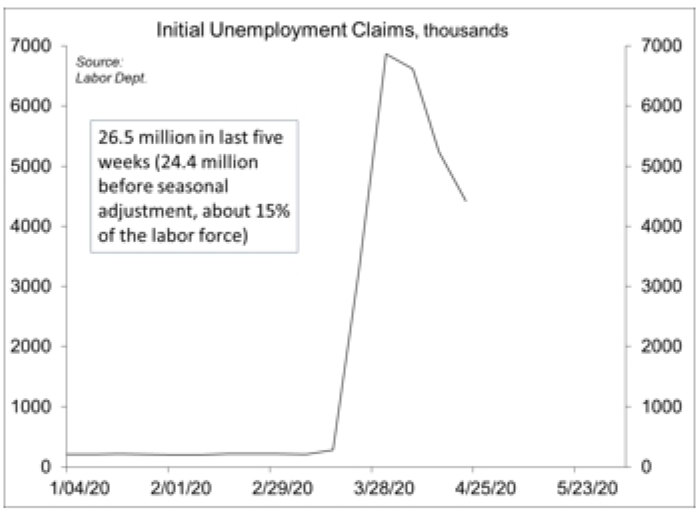
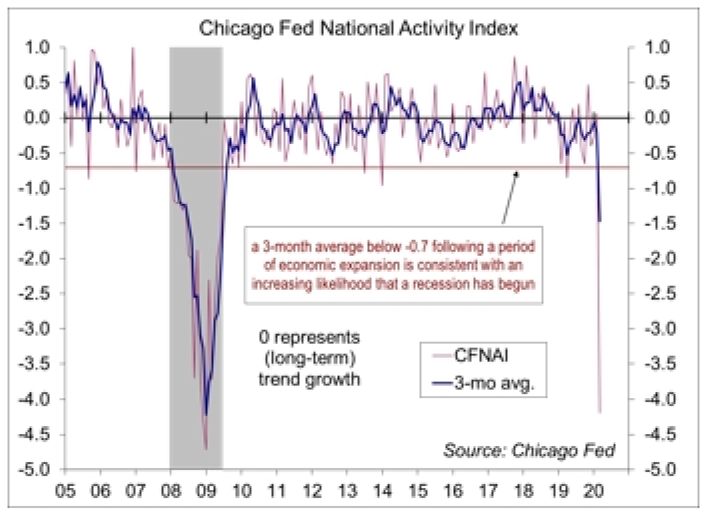
Weekly Economic Monitor -- Unprecedented

Unprecedented – The broad range of economic data signal that a recession began in March. Real Gross Domestic Product (GDP, the total of final goods and services produced in our economy) is expected to have fallen in the advance estimate for 1Q20. The 2Q20 figures will show an unprecedented decline in activity. Weekly claims for unemployment benefits suggest that the pace of job losses has slowed in the last few weeks, but the pace has remained exceptionally high. One in seven U.S. workers has filed a claim in the last five weeks. Meanwhile, lawmakers in Washington approved another $484 billion in fiscal aid, bringing the total so far to about $3 trillion.

Some 26.5 million workers filed a claim for unemployment benefits in the last five weeks. That figure is inflated a bit by the seasonal adjustment (unadjusted claims normally trend low in the spring). However, we know that not every laid-off worker can file a claim. Still, the magnitude here is gut-wrenching. Prior to seasonal adjustment, 24.4 million people filed in the last 12 weeks. That's nearly 15% of the labor force or one in every seven workers. The government will provide extended unemployment benefits and expand eligibility, but the loss of income will, in turn, reduce spending – and that spending is someone else's income. Second- and third-round effects will add to economic weakness in the near term and hinder the recovery process. However, fiscal stimulus will help to counter those effects.





Weakness in retail sales and industrial production in March was severe enough to generate declines in quarterly figures. The Chicago Fed's National Activity Index, a composite of 85 economic indicators fell sharply, and the three-month average, at -1.47, was well below -0.70, the level associated with an increased chance that a recession has begun. The National Bureau of Economic Research's Business Cycle Dating Committee (BCDC) defines a recession as "a significant decline in economic activity spreads across the economy, lasting from a few months to more than a year." There is no set definition of "economic activity," but the BCDC takes that to mean various measures of broad activity, such as GDP, nonfarm payrolls, and inflation-adjusted personal income. To pinpoint starting and ending dates for a recession, the committee also looks at two indicators that don't cover the broad economy, inflation-adjusted business sales and industrial production. Payrolls and industrial production have declined. Other indicators are likely to echo that when they are released. Still, while confirmation of a recession should be no surprise, the main concern is how rapidly this downturn has taken place. Moreover, there is no sign of a bottom.

The fourth phase of fiscal stimulus includes more healthcare funding, reloads the payroll protection program (funding for small business loans, which turn into grants if the business holds onto its workers), and provides additional funding for state and local government (more will be needed). To date, that's a total of about $3 trillion in fiscal support, and comes on top of a $1 trillion annual budget deficit before COVID-19, bring the deficit to about $4 trillion, or 18% of GDP. That's a lot, but so is the hit to the economy from the virus. Paying for this isn't much of an issue. The real danger will likely come from belt-tightening as the recovery gets underway.

This Week – The Federal Open Market Committee has already lowered short-term interest rates as much as possible, offered unlimited asset purchases to promote liquidity, restarted old emergency lending facilities and created a few new ones. Don't expect much more this week. Chair Powell is expected to exhibit a calm, confident demeanor is his post-FOMC press conference. COVID-19 has affected data collection for most GDP components, adding to the usual noise and uncertainty in the advance estimate. March weakness appears to be enough to pull 1Q20 growth into negative territory. Jobless claims will remain the key figure to watch and we should see the pace slowing (but still extremely high). March personal income and spending numbers should be weak. The ISM Manufacturing Index should fall further in April. (M20-3058987)

This Week:					*forecast*	last	last –1	comments
Monday	4/27		Revised Retail Sales					annual benchmark revisions
Tuesday	4/28	8:30	Advance Econ Indicators	Mar				refining 1Q20 GDP forecasts
			wholesale inventories		***NF***	-0.7%	-0.6%	slower in 1Q20
			retail inventories		***NF***	-0.3%	-0.1%	slower in 1Q20
			merch. trade balance, $bln		***NF***	-59.9	-66.0	seen lower still
		10:00	**CB Consumer Confidence**	Apr	***98.0***	120.0	132.6	expecting a large drop
Wednesday	4/29	8:30	**Real GDP (advance est.)**	1Q20	***-3.8%***	+2.1%	+2.1%	March enough for a quarterly decline
			Priv Dom Final Purchases		***-4.5%***	+1.3%	+2.3%	2Q20 will be a lot worse
		10:00	Pending Home Sales Index	Mar	***-15.0%***	+2.4%	+5.3%	down sharply
		2:00	**FOMC Policy Decision**					what's left to do?
		2:30	**Powell Press Conference**					what's left to say?
Thursday	4/30	7:45	ECB Policy Decision					markets hoping for more
		8:30	**Jobless Claims, th.**	4/25	***3400***	4427	5237	still highly elevated
		8:30	**Employment Cost Index**	1Q20	***+0.6%***	+0.7%	+0.7%	subject to some distortions
			year-over-year		***+2.6%***	+2.7%	+2.8%	moderate
		8:30	Personal Income	Mar	***-4.4%***	+0.6%	+0.6%	down sharply
			Personal Spending		***-8.6%***	+0.2%	+0.2%	down sharply
			PCE Price Index ex-f&e		***-0.0%***	+0.2%	+0.2%	the core CPI fell 0.103%
			year-over-year		***+1.5%***	+1.8%	+1.7%	further below the 2% goal
		9:45	Chicago Business Barometer	Apr	***44.8***	47.8	49.0	weaker than it looks
Friday	5/01	10:00	Construction Spending	Mar	***-6.8%***	-1.6%	+2.8%	down sharply
		10:00	**ISM Manf. Index**	Apr	***45.0***	49.1	50.1	weak
Next Week:								
Monday	5/04	8:00	**Motor Vehicle Sales, mln**	Apr	***NF***	11.4	16.7	seen lower after a sharp drop in March
			domestically built		***NF***	9.1	13.0	down
		10:00	Factory Orders	Mar	***-9.2%***	-0.1%	-0.5	durable goods orders reported at -14.4%
		3:00	Treasury Borrowing Need					will include cost of fiscal support
Tuesday	5/05	8:30	Trade Balance, $bln	Mar	***NF***	-39.9	-45.5	seen narrowing sharply
			goods only		***NF***	-61.2	-67.1	import and exports falling
		10:00	**ISM Non-Manf. Index**	Mar		52.5	57.3	weaker
Wednesday	5/06	8:30	**ADP Payroll Estimate, th.**	Apr	***-24000***	-27	+179	seen sharply lower
		8:30	Treasury Refunding Annc.					
Thursday	5/07	7:30	Challenger Job-Cuts, th.	Apr	***NF***	222.3	56.7	higher, but not all cuts are announced
		8:30	**Jobless Claims, th.**	5/02	***2800***	***3400***	4427	still highly elevated
		8:30	NF Productivity	1Q20	***NF***	+1.2%	-0.3%	expecting a sharp drop
			Unit labor Costs		***NF***	+0.9%	+0.2%	higher
Friday	5/08	8:30	**Nonfarm Payrolls, th.**	Apr	***-24000***	-701	+275	a gigantic loss of jobs
			private-sector		***-23970***	-713	+242	some data collection issues
			Unemployment Rate		***12.0%***	4.4%	3.5%	reporting issues (should be about 18%)
			employment/population		***52.0%***	60.0%	61.1%	down
			Avg. Weekly Hours		***33.8***	34.2	34.4	lower
			Avg. Hourly Earnings		***+0.2%***	+0.4%	+0.3%	moderate
			year-over-year		***+3.1%***	+3.1%	+3.0%	moderate

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.

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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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