



MORNING BRIEFING

June 8, 2020

MAMU! (Mother of All Meltups)

Check out the accompanying [chart collection](#).

(1) A trillion here, a trillion there; it adds up to real money. (2) Fed's B-52 bombing campaign killed the bear market. (3) Was it really a bear market, or just Panic Attack #66? (4) From meltdown to meltup in a heartbeat. (5) Is the stock market heartless, or just optimistic at heart? (6) May's employment report fits the V-shaped recovery scenario, sort of. (7) PPP might have brought back some paychecks, but not jobs in May. (8) Lots of unemployed expecting to get their jobs back soon. (9) Still a long way to go to repair damage in labor market. (10) BLS bean counters admit that counting beans has been hard during pandemic, resulting in a "misclassification error." (11) Were nonworking PPP workers employed or unemployed? (12) The billion-dollar question: Will jobs be there when PPP isn't?

Podcasts & Free Fed. Tune in to our latest video podcasts: "[MAMU: Mother of All Meltups](#)" and "[A V-Shaped Jobs Report](#)."

Mark your calendars: This week on Wednesday and Thursday, the Kindle version of my book [Fed Watching for Fun & Profit](#) will be available for free. One five-star reviewer noted: "How timely can you be? With the Fed's actions over the past few weeks, Ed Yardeni publishes a book giving everyone, Wall Streeters and casual observers alike, a great historical overview of a major Washington institution."

Strategy: MAMU! As of Friday's close, the S&P 500 is up 42.8% since March 23, when the Federal Reserve announced QE4Ever and started carpet-bombing the financial markets and the economy with B-52s full of cash ([Fig. 1](#)). Since then, the Fed's balance sheet rose by \$2.5 trillion to a record \$7.1 trillion during the June 3 week ([Fig. 2](#)). Its holdings of Treasury securities increased \$1.6 trillion over the same period to a record \$4.1 trillion ([Fig. 3](#)).

The Fed actually started its bombing campaign on March 15, when it announced \$700 billion of QE4 purchases of US Treasuries and mortgage-backed securities and lowered the federal funds rate by 100bps to zero. The European Central Bank (ECB) joined the allied bombing campaign on March 18 with its [Pandemic Emergency Purchase Programme](#) (PEPP), committing to buy €750 billion of private- and public-sector Eurozone securities. On June 4, the ECB upped the ante by €600 billion to a total of €1,350 billion ([Fig. 4](#)). The total assets of the

Fed, ECB, and Bank of Japan have soared by \$3.9 trillion from mid-March through the end of May to \$19.1 trillion ([Fig. 5](#)).

The result has been the Mother of All Meltups (MAMU) ([Fig. 6](#)). Consider the following:

(1) The Fed's B-52 bombers obliterated the 33.9% bear market that lasted just 33 calendar days, from February 19 to March 23, making it the second shortest bear market in history. That 23-trading-days decline was surpassed only by the early November 1929 period when the S&P 500 was down as much as 42.6%, according to Joe.

(2) Joe reports that the 42.8% rally over the past 52 trading days since March 23 is the best since bigger gains were recorded during August-September 1932 (up as much as 109.2%) and May-June 1933 (up as much as 73.2%). The S&P 500 is now down just 1.1% ytd, is up 11.2% y/y, and only needs to rise by 5.7% to match its February 19 record high. It only needs to rise by 8.7% to get to our year-end 2021 target of 3500, which is likely to happen well ahead of schedule.

(3) Actually, Joe and I aren't convinced that the latest selloff deserves to be included in the record books as a bear market. It was too short, in our opinion, and reversed too rapidly. On February 2, Joe and I added the coronavirus outbreak as Panic Attack #66 on our list with a January 24 date, when the outbreak news first hit the tape. (See our [Table of S&P 500 Panic Attacks Since 2009](#).) It's staying there in our record books!

We acknowledge that Panic Attack #66 sure meets the standard criteria of a bear market: It was down over 20% for 18 trading days and was supported by significant drops in earnings expectations and valuations. Nevertheless, history is written by the victors, and the bull market that started on March 6 at the intraday low of 666 is alive and well, in our opinion. It has simply turned into MAMU after a very brief meltdown!

(4) On Friday, the forward P/Es of the S&P 500, S&P 400, and S&P 600 jumped to 22.6, 23.1, and 26.1, respectively ([Fig. 7](#)). Here's the latest performance derby of the major MSCI stock price indexes since March 23 through Friday's close in local currencies: US (43.6), All Country World (37.4), EMU (35.2), Emerging Markets (28.5), UK (28.5), and Japan (25.4) ([Fig. 8](#)). Here are their forward P/Es on May 28: US (22.1), EMU (16.3), Japan (15.3), UK (15.1), and Emerging Markets (12.9) ([Fig. 9](#)).

US Labor Market I: Great Report. Mark Twain famously wrote a letter to the *New York Journal* denying reports that he had died. “I can understand perfectly how the report of my illness got about, I have even heard on good authority that I was dead. James Ross Clemens, a cousin of mine, was seriously ill two or three weeks ago in London, but is well now. The report of my illness grew out of his illness. The report of my death was an exaggeration.”

In recent days, much ink has been spilled in the press about the disconnect between the stock market and the economy. The common spin of the stories essentially has been the following rhetorical question: “How can investors be so heartless, ignoring the health, economic, and social misery caused by the virus pandemic?”

In a June 3 *Washington Post* [article](#) titled “Dow surges more than 500 points; U.S. stocks now up 40 percent off pandemic lows,” I explained: “Despite the turbulence and turmoil in our economy from the health crisis, the resulting economic downturn, and civil unrest, the market is anticipating we will get through these problems and the underlying strength of the economy will emerge intact. ... It’s a ray of sunshine. We should all be heartened. It’s better than seeing investors selling stocks, betting that we can’t solve our problems and we are headed into a depression.”

May’s employment report, released by the Bureau of Labor Statistics (BLS) on Friday, suggests that the economy may already be recovering much better than widely expected from its widely and wildly exaggerated near-death experience.

Needless to say, like all of us, I was pleased by all the strength in May’s employment report. It was full of sunshine following April’s bleak report. Instead of another big drop in employment and jump in unemployment—which seemed quite possible, even probable (some forecasts had unemployment as high as 20%)—payrolls jumped 2.5 million, and the unemployment rate dropped to 13.3%.

As Debbie reviews below, the payroll gains were broad based. Leisure and hospitality workers made up almost half the increase last month, with 1.2 million people going back to work after a reported loss of 7.5 million in April. Jobs in bars and restaurants increased by 1.4 million as states began to relax social-distancing measures. Construction was the next biggest gainer with 464,000, making up for about half of April’s losses. Education and health services rose by 424,000, and retail surged by 368,000 after plunging by 2.3 million the month before.

Spoiler alert: The Paycheck Protection Program (PPP) might have exaggerated the improvement in May's employment report. Before we go there in the next section, let's bask in the report's rays of sunshine pouring between the clouds:

(1) *Surprising rebound in jobs, maybe.* The payroll employment measure counts the number of jobs, which jumped 2.5 million during May after dropping 20.7 million during April and 1.4 million during March. It is based on paychecks data. The household employment measure is survey based and counts the number of people with either full-time jobs or one or more part-time ones. It rose 3.8 million during May following declines of 22.4 million during April and 3.0 million during March ([Fig. 10](#)).

Most economists expected more big drops in both measures during May, especially after the ADP private payrolls report released last Wednesday showed a drop of 2.8 million jobs during the month following drops of 19.6 million during April and 302,000 during March. Confirming the weakness in May's labor market were the employment components of the Purchasing Managers Indexes for manufacturing (M-PMI) and nonmanufacturing (NM-PMI) at 32.1 and 31.8—neither up much from the record April lows of 27.5 and 30.0 ([Fig. 11](#)).

(2) *Broad gains, sort of.* Then again, on the sunny side, the percentage of industries reporting higher payrolls jumped from 3.9% during April to 64.0% during May, according to the BLS' latest employment report ([Fig. 12](#)). A similar diffusion index for manufacturing jumped from 3.3% during April to 70.4% during May ([Fig. 13](#)).

The data start to get funkier when we look at average weekly hours in private industry, which jumped from the recent low of 34.1 hours during March to a record high of 34.7 hours during May ([Fig. 14](#)). That makes no sense other than as an aberration attributable to the loss of lots of part-time jobs, giving more weight to the number of hours worked by full-time employees. That also explains the jump in the average hourly earnings series during April (up 4.7%) and May (3.7%) compared to March.

More comprehensible is that aggregate weekly hours climbed 4.3% m/m during May, but remained 13.1% below the record high during February ([Fig. 15](#)). That's consistent with the modest upticks in the two PMI employment indexes.

(3) *Less unemployment, but lots of it still.* The unemployment rate dropped from 14.7% during April to 13.3% during May. It was widely expected to move higher, even as high as 20%. Then

again, the number of unemployed remained extremely high at 21.0 million, down 2.1 million from April. Another 10.6 million workers were employed part-time for economic reasons, up from 4.3 million during February.

The unemployment rate has been highly correlated with the percentage of respondents who agree that “jobs are hard to get” in the monthly survey conducted by the folks who compile the Consumer Confidence Index (CCI) ([Fig. 16](#)). This time, the jobs assessment response has been relatively subdued compared to the jump in the jobless rate. It remained well below previous cyclical highs, rising to 34.5% during April and falling to 27.8% in May.

Under the circumstances, that’s surprisingly tame. But it is consistent with lots of survey data suggesting that most workers expect to get their jobs back as the economy reopens. For example, the percentage of CCI respondents who expect more jobs in the next six months rose to a record 41.2% during April and remained high at 39.3% during May ([Fig. 17](#)).

According to the employment report, the number of unemployed workers who believe that they are on temporary layoffs jumped from 801,000 during February to a record 18.1 million during April, falling to 15.3 million during May ([Fig. 18](#)).

(4) *Plenty of jobless claims still.* Meanwhile, weekly initial unemployment claims peaked at a record 6.9 million during the week of March 28 and fell to “only” 1.9 million during the last week of May. However, continuing claims rose to a record 24.9 million during the May 9 week, dwarfing all previous cyclical peaks, before dropping to 20.8 million during the May 16 week and holding around that level, at 21.5 million, during the May 23 week ([Fig. 19](#)).

Undoubtedly, most of the claimants need the support provided by state unemployment insurance programs and must be very grateful for the additional \$600 per week provided by the federal government through the end of July. However, that additional benefit has provided a significant incentive for the many workers who usually earn less than what they now can collect to stay unemployed until their benefits terminate.

US Labor Market II: Misclassification Error. Now for a bit of a letdown. The folks at the BLS admit that they are having a tough time keeping track of developments in the labor market. We imagine that’s partly because most of the data collectors recently began working from home, with associated supervisory difficulties created by the sudden switch. In addition, the federal government’s attempts to provide relief to the labor market are complicating their job. While the

unemployment benefits are incentivizing some people to remain unemployed, the PPP may be keeping workers who are actually unemployed on payrolls nonetheless! As noted above, that may explain some of the surprising strength in the May employment report.

The CARES Act initially allocated \$349 billion of loans to small businesses and nonprofits to help them pay employee wages and other costs, according to a March 31 Treasury [press release](#). All loan payments are deferred for six months, and any part of the loan used over the next eight weeks for payroll, rent, utilities, and mortgage interest will be forgiven in full if employees are retained. The amount forgiven will be reduced if employees are laid off or their wages reduced. Companies, not-for-profit organizations, sole proprietorships, tribal concerns, and independent contractors with 500 or fewer employees are eligible for the two-year loans, which can be up to \$10 million each. The loans don't require any collateral or personal guarantees—a much better deal than large companies received.

The PPP was oversubscribed and refilled with \$320 billion on April 24 in the Paycheck Protection Program and Health Care Enhancement Act. Last week, employers were permitted to extend the PPP loans from eight weeks to 24 weeks and to use 60% of the proceeds for payrolls, down from 75% previously. It's likely that the PPP worked by providing government funds to help pay salaries so that more people could stay on payrolls and those fired in March and April could be hired back.

The BLS posted a [15-page hedge clause](#) along with its employment report on Friday. It is titled "Frequently asked questions: The impact of the coronavirus (COVID-19) pandemic on The Employment Situation for May 2020." Let's review the key takeaways:

(1) First and foremost, the FAQ warns this on page 11: "If the workers who were recorded as employed but not at work for the entire survey reference week had been classified as 'unemployed on temporary layoff,' the overall unemployment rate would have been higher than reported." In that case, the number of unemployed would have increased by 4.9 million from 20.5 million to 25.4 million, and the jobless rate would have been 16.1% (nsa) rather than 13.0% (nsa).

"As was the case in March and April, household survey interviewers were instructed to classify employed persons absent from work due to coronavirus-related business closures as unemployed on temporary layoff. However, it is apparent that not all such workers were so classified. BLS and the Census Bureau are investigating why this misclassification error

continues to occur and are taking additional steps to address the issue.” Got that? The household survey data has a misclassification error.

(2) The payroll survey may also be misleading since workers who are paid by their employer for all or any part of the pay period including the 12th of the month are counted as employed, even if they were not actually at their jobs. The PPP undoubtedly boosted the number of such workers. The concern is that when the programs expire in a few weeks, many of them will lose their jobs unless the reopening of the economy succeeds, allowing them to remain employed.

The bottom line is that the household survey data has a misclassification error. The payroll data may also be distorted. But both will be fine if those who are counted as employed because they are still getting a paycheck (thanks to PPP) but aren't actually working get to go back to their jobs as the economy reopens.

(3) The data-collection rates were adversely affected by pandemic-related issues, but “BLS was still able to obtain estimates that met our standards for accuracy and reliability.” For the safety of both interviewers and respondents, the Census Bureau did not conduct in-person interviews in May, relying on telephone interviews instead. The response rate for the household survey was 67% in May 2020, following rates of 70% in April and 73% in March. For comparison, the average response rate for the 12 months ending in February 2020 was 83%.

(4) Don't expect any major revisions in the data: “However, according to usual practice, the data from the household survey are accepted as recorded. To maintain data integrity, no ad hoc actions are taken to reclassify survey responses.”

(5) So why did stock prices soar on Friday on such funky data? The Fed will continue to carpet-bomb the economy with liquidity until the economy has recovered from the pandemic. For the equity markets, the results are the biggest Fed Put of all times and MAMU!

CALENDARS

US: **Mon:** None. **Tues:** NFIB Small Business Optimism Index 86.0, Job Openings 6.796m, Wholesale Inventories 0.4%, API Crude Oil Stocks. (DailyFX estimates)

Global: **Mon:** Germany Industrial Production -16.8% m/m, Lagarde. **Tues:** Eurozone GDP -3.8%q/q/-3.2%y/y, Japan Machine Orders -8.6%m/m/-14.0%y/y, China CPI & PPI 2.6%/-3.3%

y/y, Cunliffe. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 4.7% for its third straight weekly gain and its seventh weekly gain of the 11-week-old bull market. The index ranked 38th of the 49 global stock markets we follow in a week when 48/49 countries rose in US dollar terms, and the AC World ex-US index gained 7.3% as all regions rose. The US MSCI index was out of a correction for a second week and is now just 5.6% below its 2/19 record high. EM Latin America was the best-performing region last week, with a gain of 15.8%, followed by EMU (11.2). EMEA was the biggest underperformer, albeit with a gain of 5.1%, followed by EM Eastern Europe (6.7), BRIC (7.0), EM Asia (7.0), and EAFE (7.0). Brazil was the best-performing country last week with a gain of 17.8%, followed by Colombia (17.4), Peru (16.5), Austria (16.5), and Chile (16.3). Of the 21 countries that underperformed the AC World ex-US MSCI last week, Jordan fared the worst with a decline of 1.3%, followed by Sri Lanka (0.2), Japan (1.4), Israel (1.6), and Denmark (1.6). The US MSCI's ytd ranking dropped three places last week to 7/49 even as its ytd performance improved to -0.6% from -5.1% a week earlier. It's still way ahead of the 9.6% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd, albeit with a decline of 5.0%, followed by BRIC (-8.8), EMU (-8.8), and EAFE (-9.3). The worst-performing regions ytd: EM Latin America (-29.6), EM Eastern Europe (-19.3), and EMEA (-17.9). The best country performers ytd: Denmark (7.8), China (0.4), Finland (0.3), Israel (0.1), and New Zealand (-0.1). The worst-performing countries so far in 2020: Colombia (-36.9), Greece (-36.1), Sri Lanka (-35.7), Brazil (-33.6), and Pakistan (-30.0).

S&P 1500/500/400/600 Performance ([link](#)): With the bull market now 11 weeks old, all of these indexes rose together for the fourth time in five weeks. SmallCap was an astounding 12.0% higher for the week, ahead of the strong gains for MidCap (8.3%) and LargeCap (4.9). LargeCap has been out of a bear market for eight weeks after exiting a correction in the latest week and improving to 5.7% below its 2/19 record high. MidCap also emerged from a correction in the latest week, rising to 9.3% below its record high on 1/16. SmallCap remains the worst performer but exited its bear market in the latest week to improve to 18.1% below its 8/29/18 record. Thirty-two of the 33 sectors rose for the week, the same as a week earlier. Eleven of the 33 sectors are no longer in a bear market or correction. Among them, LargeCap Consumer Discretionary (4.8) ended the week at a record high. SmallCap Energy was the best performer last week, with a gain of 30.0%, ahead of MidCap Energy (25.6), SmallCap Real Estate (19.2), SmallCap Consumer Discretionary (15.4), and LargeCap Energy (15.4). MidCap

Health Care (-1.3) was the sole decliner last week, albeit from a record high during the week earlier. It was followed by these underperforming sectors: LargeCap Health Care (0.2), SmallCap Utilities (0.8), MidCap Consumer Staples (1.3), and LargeCap Consumer Staples (1.9). All three indexes are still down on a ytd basis, but LargeCap's 1.1% drop is much smaller than those of MidCap (-7.4) and SmallCap (-11.9). Just eight of the 33 sectors are now positive so far in 2020, with the best performers led by SmallCap Communication Services (11.5), LargeCap Information Technology (10.6), MidCap Health Care (7.3), LargeCap Consumer Discretionary (6.5), and LargeCap Communication Services (2.0). The biggest laggards of 2020 to date: SmallCap Energy (-40.4), MidCap Energy (-36.9), LargeCap Energy (-26.3), SmallCap Financials (-23.6), and MidCap Real Estate (-18.1).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors rose last week as five outperformed the index's 4.9% gain. That compares to a 3.0% gain for the S&P 500 a week earlier, when all 11 sectors rose and seven outperformed the index. Energy's 15.4% gain made it the best performer for the week, ahead of Financials (12.2%), Industrials (10.5), Materials (7.6), and Real Estate (7.1). Health Care was the biggest underperformer, albeit with a gain of 0.2%, followed by Consumer Staples (1.9), Utilities (2.4), Communication Services (2.4), Information Technology (3.6), and Consumer Discretionary (4.8). The S&P 500 is now down 1.1% so far in 2020, with four sectors leading the index and in positive territory. The leading sectors ytd: Information Technology (10.6), Consumer Discretionary (6.5), Communication Services (2.0), and Health Care (1.1). The laggards of 2020 so far: Energy (-26.3), Financials (-15.0), Industrials (-8.4), Utilities (-5.8), Consumer Staples (-4.6), Real Estate (-4.5), and Materials (-2.8).

Commodities Performance ([link](#)): Last week, the S&P GSCI index soared 6.0% for its sixth straight weekly gain. It's now down 26.8% from its recent high on 1/6, and still in a severe bear market at 35.2% below its cyclical high on 10/3/18. GasOil was the best performer last week, with a gain of 16.2%, followed by Unleaded Gasoline (12.8%), Brent Crude (11.8), Heating Oil (11.6), and Crude Oil (11.0). Silver was the biggest decliner for the week, with a drop of 5.3%, followed by Lean Hogs (-4.2), Gold (-3.9), Live Cattle (-3.4), and Natural Gas (-2.5). Just one of the 24 commodities that we follow is higher so far in 2020: Gold (10.5). The next-best performers ytd: Silver (-2.3), Kansas Wheat (-4.8), Cocoa (-5.7), and Feeder Cattle (-7.0). The worst performers ytd: GasOil (-44.2), Heating Oil (-42.8), Brent Crude (-35.9), Crude Oil (-34.8), and Unleaded Gasoline (-28.1).

S&P 500 Technical Indicators ([link](#)): The S&P 500 rose 4.9% last week and improved

markedly relative to both its short-term, 50-day moving average (50-dma) and its long-term, 200-day moving average (200-dma). It was above its 50-dma for an eighth week after seven weeks below and was above its 200-dma for a second week. It had been below its 200-dma for 13 weeks, matching its prior streak that ended during February 2019. The index's 50-dma relative to its 200-dma rose for a third week after 12 declines, but the index remained in a Death Cross (with 200-dmas higher than 50-dmas) for an 11th week. It had been in a Death Cross for 13 straight weeks ending in March 2019. The index's 50-dma improved last week to 5.3% below its 200-dma, up from 7.2% below in the prior week. It had been 9.9% below in mid-May, which was the worst reading since May 2009. During late February, the 50-dma had been 7.6% above its 200-dma, which was the highest since May 2012. The S&P 500's 50-dma rose for a third week after declining for 12 straight weeks. The price index improved to 11.7% above its rising 50-dma from 9.0% above its rising 50-dma a week earlier. That's up from 9.0% above its 50-dma a week earlier and is now the highest since May 2009 when it peaked at a record high of 14.0%. That compares to 27.7% below on 3/23—its lowest reading since it was 29.7% below on Black Monday, 10/19/87. The 200-dma also rose for a third week, and at a faster rate after falling for five weeks. It had been rising for 39 weeks through early March. The index was above its 200-dma for a second week after 13 weeks below. It had been above for 38 weeks through mid-February. It ended the week 5.9% above its rising 200-dma, compared to 1.1% above its rising 200-dma a week earlier. That's up from 26.6% below on 3/23—its lowest reading since March 2009 and down from a 24-month high of 11.2% in mid-February. That compares to a seven-year high of 13.5% above its rising 200-dma during January 2018 and 14.5% below on 12/24/18, which was then the lowest since April 2009. At its worst during the Great Financial Crisis, the S&P 500 price index was 25.5% below its 50-dma on 10/10/08 and 39.6% below its 200-dma on 11/20/08.

S&P 500 Sectors Technical Indicators ([link](#)): All 11 S&P 500 sectors traded above their 50-dmas last week for a third week—the first time that all did so for that long since January 20—but only six traded above their 200-dmas as well last week. That compares to just one sector (Health Care) above both its 50-dma and 200-dma seven weeks ago. These are the six sectors that trade above both their 50-dmas and 200-dmas: Communication Services, Consumer Discretionary, Health Care, Information Technology, and now Industrials and Materials. Tech and Health Care are the only members of the Golden Cross club (50-dmas higher than 200-dmas), which is unchanged from a week ago. At the prior low, just two sectors (Real Estate and Utilities) were in the club during February 2019. Energy has not been in a Golden Cross for 83 straight weeks. All 11 sectors have a rising 50-dma now for the first time

since late January, unchanged from a week earlier. That's a big improvement from the beginning of May when all 11 had falling 50-dmas for ten straight weeks. Just five sectors have rising 200-dmas, also unchanged from a week earlier. These sectors also have rising 200-dmas: Communication Services, Consumer Discretionary, Health Care, Materials, and Tech. Financials' 200-dma was down for a 14th week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Employment ([link](#)): Wow, employment rebounded by a record 2.5 million in May instead of plummeting more than 8.0 million as expected! May's jump follows a revised record 20.7 million plunge (revised from -20.5 million) in April, which had nearly reversed—in one month—the entire job gains posted since the Great Recession. The key to today's surprise was that nearly 3 million temporarily laid-off workers returned to work in May as the economy began to reopen. Private industry jobs surged 3.1 million, with service-providing and goods-producing industries adding 2.4 million and 669,000, respectively. Leisure & hospitality (1.2 million) jobs accounted for half the increase in service-providing payrolls during May and 40% of the gain in private payrolls—with the rebound in food services & drinking places (1.4 million) the main catalyst; these jobs had plummeted 5.4 million in April. The second biggest gain in service-providing jobs occurred in education & health services (424,000), led by health care (312,400) and social assistance (78,300); education added 33,400. Retail trade (+368,000) was also a big provider of jobs in May, led by clothing stores (+95,000), auto dealers (85,000), and general merchandise stores (84,000). Meanwhile, the 669,000 increase in goods-producing jobs was led by construction (464,000), though manufacturing (225,000) also had a sizeable gain; the two categories had cut 995,000 and 1.3 million jobs, respectively, in April. Meanwhile, government jobs were cut substantially for the second month, by a total of 1.5 million—primarily at the local (-1.3 million) level.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, jumped 3.3% in May after sinking 12.3% during the two months through April to its lowest reading since mid-2017. The average hourly earnings component of the EIP fell 1.0% last month after a 4.7% jump in April, though was more than offset by a 4.3% rebound in aggregate weekly hours—the EIP's other component. Compared to a year ago, the EIP contracted 6.0% y/y, slowing from April's 8.8% drop, as the decline in aggregate weekly hours slowed to 12.7y/y, while average hourly earnings posted a 6.7% annual increase.

Unemployment ([link](#)): The unemployment rate fell to 13.3% in May after jumping from a 50-year low of 3.5% in February to 4.4% in March and an unprecedented 14.7% in April. The number of unemployed fell by 2.1 million last month after soaring 17.3 million over the two-month period through April, to a record-high 23.1 million—which well exceeded the previous record high of 15.4 million recorded in October 2009. Unemployment rates for both Whites (to 12.4% from 14.2%) and Hispanics (17.6 from 18.9) fell in May from April's record highs, while the rate for African Americans (16.8 from 16.7) climbed to a new cyclical high and for Asians (15.0 from 14.5) to a new record high in May. These rates were at 3.1%, 4.4%, 5.8%, and 2.5%, respectively, in February. Here's a snapshot of unemployment rates by education level, all of which dropped from April record highs: less than a high school degree (to 19.9% from 21.2%), high school degree (15.3 from 17.3), some college (13.3 from 15.0), and a Bachelor's degree & higher (7.4 from 8.4). These rates had been at 5.7%, 3.6%, 3.0%, and 1.9%, respectively, in February. Meanwhile, the participation rate climbed to 60.8% last month after dropping from 63.4% in February to 60.2% in April (which was the lowest rate since the early 1970s), as the civilian labor force increased in May for the first time in three months, by 1.7 million. Household employment rebounded 3.8 million last month after plunging 25.4 million during the two months through April.

Wages ([link](#)): Average hourly earnings fell 1.0% in May, reflecting the return to work of lower-paid workers on temporary leave. Their absence from the job market had pushed hourly wages up 4.7% during April alone. The yearly rate eased to 6.7% y/y in May after accelerating to a record-high 8.0% in April. The yearly wage rate for service-providing industries (to 7.4% from 8.8% y/y) decelerated from April's record high, while goods-producing's (4.2% from 5.0) slowed from its cyclical high. Within the service-providing industries, yearly wage rates for financial activities (5.6% y/y) and education & health services (3.7) continued to accelerate to record highs last month. Meanwhile, several of the wage rates that shot up in April moved lower in May: Leisure & hospitality (to 5.3% from 9.1% y/y), retail trade (6.8% from 8.0), and professional & business services (5.8 from 7.0), while rates for wholesale trade (4.2 from 4.6) and transportation & warehousing (3.6 from 4.4) held near their recent highs. There were no major moves up in wage rates for either the utilities (2.7% y/y) or information services (3.5) industries in recent months. In the meantime, within goods-producing companies, the wage rate in manufacturing eased to 5.0% y/y last month after soaring to a new record high of 6.6% in April, which was double the rate earlier this year. The rate for construction (2.5% y/y) workers, however, bounced around recent lows, while the rate for natural resources (4.9) companies has been stalled at recent highs so far this year.

Productivity & Unit Labor Costs ([link](#)): Productivity during Q1 contracted a revised 0.9% (saar)—considerably smaller than 2.5% initial loss. The decline in output (-6.5% from -6.2%, saar) varied little from the initial guesstimate, but there was a considerably larger decline in hours worked (to -5.6% from -3.8%, saar). Meanwhile, unit labor costs (5.1% from 4.8%, saar) rose at a slightly faster pace than first estimated as the gain in hourly compensation (4.2 from 2.2) was virtually double the initial estimate, more than offsetting the upward revision to overall productivity. Productivity rose only 0.7% y/y, down from a recent peak of 2.2% in mid-2019, and the lowest since Q3-2016. Output was flat with a year ago, while hours worked fell 0.7% y/y. The rise in hourly comp slowed to a five-quarter low of 2.6% y/y, while unit labor costs continued to hover around 2.0% y/y.

GLOBAL ECONOMIC INDICATORS

Eurozone Retail Sales ([link](#)): In Eurozone countries, COVID-19 continued to cause retail sales declines of epic proportions in April: Retail sales tumbled a record 11.7%, building on March's prior record decline of 11.1% and far surpassing the previous record drop of 2.0% during May 2011. Spending on auto fuel and non-food products (excluding fuel) collapsed 46.8% and 34.8%, respectively, during the two months ending April, while expenditures on food, drinks, and tobacco slumped 5.5% in April after a three-month surge of 8.6%. Every Eurozone country saw a drop in sales in April. Of the major economies for which data are available, sales fell sharply in Germany (-5.3% in April & -4.0% in March), but paled in comparison to the record contractions recorded in both France (-20.0 & -15.8) and Spain (-19.4 & -14.6). The biggest April decline in sales was posted in Ireland, down 21.9%, after a 0.1% uptick in March.

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