



MORNING BRIEFING

June 15, 2020

Crazy Year

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

(1) 2020: Is it over yet? (2) Longest expansion followed by shortest recession. (3) Monetary and fiscal responses for the record books. (4) Huge pile of savings could finance V-shaped recovery in consumption. (5) Record-setting meltup follows record-setting meltdown. (6) Sentiment turns too bullish too fast. (7) Rooting for churning. (8) Biden's nightmares. (9) Biden's savior. (10) Second wave already, or more of the first wave? (11) Viral statistics can be sickening and misleading. (12) Mobility stats showing more mobility. (13) Vaccines to the rescue?

Podcast. Our latest video podcast is titled "[Tracing out the Swoosh Recovery](#)."

Strategy: Only Half Over. As we all should have learned by now, anything is possible in 2020. Lots of crazy stuff has happened so far, and the year is just half over. Let's review the crazy stuff that has happened and consider what more might during the second half of the year:

(1) *Economy on a wild rollercoaster.* The virus pandemic ended the longest economic expansion on record, but the recession that ended it may be the shortest on record. The economy peaked in February and fell into a severe recession during March and April as a result of state governors' lockdown orders to impose social distancing. The slow reopening of the economy as those restrictions have been gradually lifted since mid-May has already resulted in some green shoots. Real GDP fell 5% (saar) during Q1 and could be down 40% during Q2. It could jump to a 20% increase during Q3. If no second wave of infection leads to future lockdowns that reverse the upward trajectory, this recession may be the shortest ever.

Nevertheless, millions of workers remain unemployed, and many may remain so for the rest of the year. Many small businesses may be hard-pressed to survive if they reopen with their revenues remaining well below what they need to stay in business.

(2) *Policy responses on steroids.* Just as crazy have been the responses of the monetary and fiscal authorities to the Great Virus Crisis (GVC). They embraced Modern Monetary Theory

(MMT) during the week of March 23, when the Fed announced QE4Ever, and on March 27, when the CARES Act was signed into law. Since that week, the Fed's balance sheet rose by \$1.9 trillion to a record \$7.1 trillion during the June 10 week ([Fig. 1](#)). Its holdings of Treasury securities increased \$1.3 trillion over the same period to a record \$4.1 trillion ([Fig. 2](#)).

Meanwhile, the CARES Act caused the Congressional Budget Office to project a \$3.7 trillion federal budget deficit during the current fiscal year. The Fed has already financed more than half of it since the start of the current fiscal year! Over the past 12 months through May, the deficit jumped to a record \$2.1 trillion as outlays have soared while revenues have plummeted ([Fig. 3](#) and [Fig. 4](#)). Outlays have been boosted by very generous unemployment benefits, one-time support checks mailed out to millions of taxpayers, and forgivable loans provided to small businesses under the Paychex Protection Program.

(3) *Huge pile of savings.* None of these measures can stop the virus from spreading or cure the disease it causes. However, they did stop a crippling credit crunch from unfolding. None of these measures could stop the economic collapse caused by the lockdowns, but they are boosting the economic recovery as businesses reopen and workers go back to their jobs.

Indeed, the personal saving rate rocketed from 8.2% during February to a record high of 33.0% during April as savings jumped from \$1.4 trillion (saar) to \$6.1 trillion ([Fig. 5](#) and [Fig. 6](#)). That happened because whether consumers received paychecks or government support, their purchases were severely limited by the lockdowns. Now they are sitting on a pile of cash, much of which is likely to go toward a V-shaped rebound in consumption during the second half of this year.

(4) *Meltdown, meltup, meltdown?* Last week, the S&P 500 fell 7.1% since Monday's close through Thursday. It was vulnerable to profit-taking after the huge 44.5% meltup since March 23 through June 8 and the rebound in bullish sentiment ([Fig. 7](#)). It regained 1.3% on Friday. So it is still up 35.9% since March 23, down 5.9% ytd, and up 5.4% y/y. It needs to rise only 11.3% to test the February 19 record high.

The meltup may need to take a break, as sentiment has turned too bullish too rapidly. According to Investors Intelligence, the Bull/Bear Ratio jumped from a recent low of 0.72 during the March 24 week to 2.76 during the week of June 9. The percentage of bulls jumped

from 30.1% to 56.9% over the same period. In the April 13 [Morning Briefing](#), we wrote: “By the way, as we’ve noted in recent weeks, when the Bull/Bear Ratio compiled by Investors Intelligence falls below 1.00, that tends to be a very good buy signal for contrarians. It fell below this level during the March 24 week to 0.72. It edged up to 0.87 during the March 31 week and to 0.92 during the April 7 week. So it is still under 1.00 despite the big rebound in stock prices since March 23.”

The rally was partly based on expectations of the reopening of the economy. Now that reopening is happening, there’s fear of suboptimal results: less social distancing triggering a second wave of the virus, followed by another round of lockdowns. A second wave of coronavirus infections may be occurring in several states, according to news reports on Thursday that triggered the day’s 5.8% selloff in the S&P 500. Friday’s rebound was attributable to investors having second thoughts about the accuracy of those reports.

So was what we’ve seen since March 23 just a rally in a bear market? Will the recent meltup (following the 33.9% meltdown from February 9 through March 23) be followed by another meltdown?

Joe and I don’t think so. While more second waves of infection are possible, we don’t expect another wave of lockdowns. We do expect more mask-wearing in public places as people realize that the virus remains a threat to their health. In any event, some of the recent reports of a second wave may be exaggerated by more testing, as discussed in the next section. The economy should continue to recover, in our opinion.

By the way, technically speaking, we are still in the first wave. We’ve clearly succeeded in flattening the curve but not in stopping the virus from spreading. When that happens, then we can talk about a second wave if the virus makes a comeback. Before that happens, there is likely to be a vaccine.

We are rooting for the market to churn for a while, giving S&P 500 forward earnings some time to rebound. As we noted last week, we think that forward earnings bottomed over the past three weeks through the June 4 week.

(5) *Rebalancing vs second wave*. On May 26, we [wrote](#): “News reports over the long Memorial

Day weekend suggest that too many people may be throwing caution to the wind, risking undoing the progress made in flattening the curve and raising the risk of a second wave of infection. We hope we are wrong and that the press is exaggerating the problem. But investors may need to be cautious if the general public isn't cautious enough about the virus, which remains both asymptomatic and highly infectious. It will probably require a vaccine for the stock market to move back into record territory on the way to our year-end 2021 target of 3500 ... We remain optimistic about the future but are turning more cautious about the present."

Where do we sit now? On the fence. We aren't convinced that a serious second wave is underway. Last week's three-day selloff, therefore, isn't likely to be the start of a plunge back to test the March 23 low. Providing support to the stock market should be continued rebalancing by lots of investors out of bonds and into stocks.

(6) *Trump/Pence vs Biden/Clinton*. What keeps me up at night? I've been asked that a lot lately in conference calls with accounts. I tell them, "Thanks for asking, but I sleep quite well. No nightmares."

I do have worries, though. I worry that many people aren't careful enough about social distancing, which could trigger another wave of infections. I also worry that the Fed's crazy response to this crazy year so far is fueling the Mother of All Meltups (MAMU). If it continues, the risk is that something will happen to burst the latest asset bubble inflated by the Fed. In this scenario, the recent meltdown was just the latest and most severe panic attack in the bull market that started March 9, 2009. If it continues, the recent meltup could set the stage for the actual next big bear market.

What could cause the next big bear market? How about the upcoming November election? A sweep by the Democrats would raise investors' concerns about a radical left-leaning regime change, resulting in higher income and corporate taxes, a wealth tax, more business regulations that include restrictions on such corporate finance activities as buybacks, Green New Deal Initiatives, and lots of other measures that might weigh on corporate profits.

Now consider this crazy possibility: What if Joe Biden picks Hillary Clinton to be his running mate? The May 20 Politico [reported](#): "Hillary Clinton collected \$2 million for Joe Biden's new joint fundraising committee with the Democratic National Committee this week—an enormous

one-night haul for the once cash-strapped campaign. Clinton raised the money during a Zoom fundraiser Tuesday. It was more than any Biden surrogate has collected at a single event without the candidate present, according to campaign and party officials.”

Here’s more from the article:

“In one question from a donor about Biden’s future running mate, Clinton explained the candidate would have to be ready to be president on Day One and needs to have a friendship with Biden. But there’s another factor, Clinton said, after considering those questions. ‘Then you have to say: Can this person help me win? And what it really comes down to is: Can this person help me win in the Electoral College?’ said Clinton, who won the popular vote in 2016 only to lose the Electoral College to Trump.”

Who could Biden possibly choose as Veep who would “be ready to be president on Day One” and needs to be friends with him? How do you think the stock market will respond if he picks Hillary? Something to think about during the second half of this crazy year until Biden makes up his mind.

By the way, CNN posted a June 11 [article](#) titled “The Top 10 women Joe Biden might pick as vice president.” The list does not include Hillary.

(7) *Biden’s nightmares*. What keeps Joe Biden up at night? His worst nightmare doesn’t seem to be President Trump but getting COVID-19, as he has been doing most of his campaigning from the safety of his finished basement. Or maybe it’s campaigning in person, given his recent [terrible stumblebum performances](#) on campaign outings. We think Biden has nothing to fear but Biden himself.

Jason Furman believes that Biden’s biggest nightmare might actually be the economy. The former Obama administration economist and current Harvard professor said recently in a Zoom presentation to top officials from both parties, “We are about to see the best economic data we’ve seen in the history of this country.” Reporting on the event on May 26, Politico [noted](#): “Instead of forecasting a prolonged Depression-level economic catastrophe, Furman laid out a detailed case for why the months preceding the November election could offer Trump the chance to brag—truthfully—about the most explosive monthly employment numbers

and gross domestic product growth ever.”

Virology 101: Second-Wave Wipeout? As noted above, on Friday, the S&P 500 recovered some of what it lost on Thursday on news reports that the dreaded second wave of infection was already underway. That seemed to coincide with the gradual easing of lockdown restrictions in most states as well as much less social distancing since Memorial Day. While I’ve expressed my own concerns about this possibility, also as noted above, my hunch is that the surge of infections we’ve been seeing is more of a statistical development attributable to more testing than a second wave. Consider the following:

(1) *More testing, more cases.* A [WSJ editorial](#) posted on Thursday evening, June 11, supported this less dire spin: “Democrats cite a spike in cases in Florida, Arizona and Texas as evidence of a virus resurgence. But more testing, especially in vulnerable communities, is naturally turning up more cases. Cases in Texas have increased by about a third in the last two weeks, but so have tests. About a quarter of the new cases are in counties with large prisons and meatpacking plants that were never forced to shut down. ... Tests have increased by about 37% in Florida in two weeks, but confirmed cases have risen 28%. Cases were rising at a faster clip during the last two weeks of April (47%) when much of the state remained locked down. ... In Arizona, cases have increased by 73% in the last two weeks though tests have increased by just 53%. But a quarter of all cases in the state are on Indian reservations, which have especially high-risk populations.”

The article notes that the paces of both hospitalizations and deaths also belie a second-wave wipeout for the economy. I am still rooting for the economy to Hang Ten.

(2) *Less social distancing, more deaths.* Thursday’s selloff was also attributable to a [June 11 press release](#) from The Institute for Health Metrics and Evaluation (IHME), an independent global health research organization at the University of Washington School of Medicine. It states: “[IHME] has extended its US COVID-19 forecasts through October 1. The forecast shows 169,890 deaths in the US by October 1, with a possible range between 133,201 and 290,222. Deaths nationwide are predicted to remain fairly level through August and begin to rise again in the fourth week of August with a more pronounced increase during September, although some states will see the increase earlier due to increased mobility and relaxation of social distancing mandates.”

The IHME model includes mobility data, testing, pneumonia seasonality (expected to be similar to COVID-19 seasonality), mask use (resulting in up to 50% reduction in COVID-19 transmission!), population density, air pollution, low altitude, annual pneumonia death rate, smoking, and self-reported contacts as covariates.

(3) *Rising mobility as economy reopens*. The IHME [website](#) includes a daily chart of mobility. It shows that the change in mobility first turned negative by -1.0% on March 10 and plummeted to -53% on April 10. So far, as of June 4, it has recovered to -30%.

On the other hand, [Apple's Mobility Trends Reports](#) shows that mobility in the US is up 21% since January 13 (through June 10). Go figure!

(4) *First wave of vaccines*. Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, said he's confident that one of the vaccine candidates will be proven safe and effective by Q1-2021. A study of Moderna Inc.'s COVID-19 vaccine in mice lends some assurance that it will not increase the risk of more severe disease in humans, and that one dose may provide protection against the novel coronavirus, [according](#) to preliminary data released on Friday. The day before, the company claimed its vaccine in development will be tested on 30,000 Americans next month. Also on Thursday, Johnson & Johnson announced that it expects to start human trials of its vaccine in July, after initially planning a September start date.

Doctors know that the benefits of vaccination extend beyond the particular germs targeted. Other live attenuated viral vaccines, such as those against measles and smallpox, also have been associated with pronounced nonspecific protective effects against infectious diseases, according to a June 11 [article](#) in *Science Magazine*. The authors suggest that "oral poliovirus vaccine (OPV) in particular, could provide temporary protection against" COVID-19.

The June 11 *Washington Post* [reported](#) that a century-old inoculation against tuberculosis might also offer limited protection against the coronavirus.

Movie. "The King of Staten Island" (+ +) ([link](#)) is a semi-biographical film starring Pete Davidson as a 24-year-old man-child who was traumatized by the death of his firefighter dad

when he was younger. He certainly has lots of psychological issues. His mother throws him out of her house when he has a tantrum over her starting to date a firefighter. He certainly is a royal pain for her, his sister, and his mother's boyfriend. Nevertheless, family and love triumph over his dysfunctions. So it's sort of a heart-warming tale.

CALENDARS

US: **Mon:** New York Fed Manufacturing Index -27.5, Treasury International Capital, Daly. **Tues:** Retail Sales Total & Ex Autos 8.0%/5.1%, Headline & Manufacturing Industrial Production 3.0%/3.9%, Capacity Utilization 66.9%, Business Inventories -0.8%, NAHB Housing Market Index 45, API Crude Oil Inventories, Powell, Clarida. (DailyFX estimates)

Global: **Mon:** Eurozone Trade Balance €15.9b, UK-EU Brexit Talks. **Tues:** Eurozone ZEW Economic Sentiment Index, Germany ZEW Economic Sentiment Index 60, Germany CPI -0.1%_{m/m}/06%_{y/y}, UK Employment Chance & Unemployment Rate -65k/4.5%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index fall 4.6% for its first decline in four weeks and its fifth drop of the 12-week-old bull market. The index ranked 32nd of the 49 global stock markets we follow in a week when just 4/49 countries rose in US dollar terms, and the AC World ex-US index fell 3.6% as all regions declined. The US MSCI index ended the week out of a correction for a third week, but barely so as it's now 9.9% below its 2/19 record high. EM Asia was the best-performing region last week, albeit with a decline of 1.1%, followed by BRIC (-1.4%), and EMEA (-2.0). EMU was the biggest underperformer with a decline of 6.9%, followed by EM Latin America (-4.7), EAFE (-4.2), and EM Eastern Europe (-3.9). Sri Lanka was the best-performing country last week with a gain of 6.1%, followed by Egypt (2.7), Argentina (2.4), and Taiwan (0.5). Of the 25 countries that underperformed the AC World ex-US MSCI last week, Colombia fared the worst with a decline of 12.2%, followed by Sweden (-8.9), Belgium (-8.0), Austria (-8.0), and Spain (-7.9). The US MSCI's ytd ranking rose one place last week to 6/49 even as its ytd performance fell to -5.2% from -0.6% a week earlier. It's still way ahead of the 12.8% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd, albeit with a decline of 6.1%, followed by BRIC (-10.0). The worst-performing regions ytd: EM Latin America (-32.8), EM Eastern Europe (-22.4), EMEA (-19.5), EMU (-15.1), and EAFE (-13.2). The best country performers ytd: Denmark (6.8), China (-0.5),

Israel (-2.1), New Zealand (-3.5), and Taiwan (-4.3). The worst-performing countries so far in 2020: Colombia (-44.6), Greece (-38.1), Brazil (-36.1), Sri Lanka (-31.8), and Pakistan (-31.0).

S&P 1500/500/400/600 Performance ([link](#)): With the bull market now 12 weeks old, all of these indexes fell for the first time in four weeks. SmallCap tumbled 9.7% for the week, worse than the declines for MidCap (-7.9%) and LargeCap (-4.8). LargeCap has been out of a bear market for nine weeks but last week slipped back into a correction after exiting a week earlier. LargeCap is now 10.2% below its 2/19 record high. MidCap also fell back into a correction in the latest week, falling to 16.4% below its record high on 1/16. SmallCap remains the worst performer, falling back into a bear market in the latest week to 26.0% below its 8/29/18 record. All 33 sectors fell for the week, down from 32 rising during each of the prior three weeks. Just four of the 33 sectors are no longer in a bear market or correction, down from 11 a week earlier; those four are: LargeCap Consumer Discretionary, LargeCap Health Care, LargeCap Tech, and MidCap Consumer Staples. LargeCap Tech was the best performer last week, albeit with a decline of 2.0%, ahead of LargeCap Communication Services (-2.8), and LargeCap Consumer Discretionary (-3.2). SmallCap Industrials (-11.9) was the biggest decliner last week, followed by LargeCap Energy (-11.1), SmallCap Energy (-10.5), SmallCap Consumer Discretionary (-10.1), SmallCap Financials (-10.0), and MidCap Energy (-10.0). All three indexes are still down on a ytd basis, but LargeCap's 5.9% drop is much smaller than those of MidCap (-14.7) and SmallCap (-20.4). Just four of the 33 sectors are now positive so far in 2020, with the best performers led by LargeCap Information Technology (8.3), LargeCap Consumer Discretionary (3.1), SmallCap Communication Services (2.4), and MidCap Health Care (0.3). The biggest laggards of 2020 to date: SmallCap Energy (-46.7), MidCap Energy (-43.2), LargeCap Energy (-34.4), SmallCap Financials (-31.3), and SmallCap Real Estate (-24.2).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors fell last week as six outperformed the index's 4.8% decline. That compares to a 4.9% gain for the S&P 500 a week earlier, when all 11 sectors rose and five outperformed the index. Tech's 2.0% decline made it the best performer for the week, ahead of Communication Services (-2.8%), Consumer Discretionary (-3.2), Consumer Staples (-4.1), Real Estate (-4.2), and Utilities (-4.3). Energy was the biggest underperformer, with a decline of 11.1%, followed by Financials (-9.3), Industrials (-8.0), Materials (-8.0), and Health Care (-5.5). The S&P 500 is now down 5.9% so far in 2020, with four sectors leading the index and two in positive territory. The leading sectors ytd: Information Technology (8.3), Consumer Discretionary (3.1), Communication Services (-0.9), and Health Care (-4.5). The laggards of 2020 so far: Energy (-34.4), Financials (-22.9),

Industrials (-15.7), Materials (-10.6), Utilities (-9.9), Real Estate (-8.5), and Consumer Staples (-8.5).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 3.5% for its first decline in seven weeks. It's now down 29.3% from its recent high on 1/6, and still in a severe bear market at 37.5% below its cyclical high on 10/3/18. Gold was the best performer last week, with a gain of 3.2%, followed by Copper (1.7%) and Soybeans (1.1). Crude Oil was the biggest decliner for the week, with a drop of 8.3%, followed by Brent Crude (-7.9), Unleaded Gasoline (-6.5), and Cotton (-4.2). Just one of the 24 commodities that we follow is higher so far in 2020: Gold (14.1). The next-best performers ytd: Silver (-1.6), Kansas Wheat (-6.0), Copper (-6.3), and Soybeans (-7.9). The worst performers ytd: GasOil (-45.5), Heating Oil (-44.4), Brent Crude (-40.9), Crude Oil (-40.2), and Unleaded Gasoline (-32.8).

S&P 500 Technical Indicators ([link](#)): The S&P 500 fell 4.8% last week and weakened considerably relative to both its short-term, 50-day moving average (50-dma) and its long-term, 200-day moving average (200-dma). However, it was above its 50-dma for a ninth week after seven weeks below and was above its 200-dma for a third 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 improved for a fourth week after 12 declines, but the index remained in a Death Cross (with 200-dmas higher than 50-dmas) for a 12th 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 3.4% below its 200-dma, up from 5.3% 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 fourth week after declining for 12 straight weeks. The price index weakened to 4.2% above its rising 50-dma from 11.7% above its rising 50-dma a week earlier. The week-earlier reading of 11.7% had been 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 rose for a fourth week, but at a slower rate and after falling for five weeks. It had been rising for 39 weeks through early March. The index was above its 200-dma for a third week after 13 weeks below. It had been above for 38 weeks through mid-February. It ended the week just 0.7% above its rising 200-dma, compared to 5.9% 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](#)): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, down from all 11 above in the prior three weeks. Just four traded above their 200-dmas, down from six a week earlier. That compares to just one sector (Health Care) above both its 50-dma and 200-dma eight weeks ago. These are the three sectors that trade above both their 50-dmas and 200-dmas: Communication Services, Consumer Discretionary, and Information Technology. Consumer Discretionary entered the Golden Cross club (50-dmas higher than 200-dmas) for the first time since mid-March, joining Health Care and Tech as the only members of the club. 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 84 straight weeks. The 50-dma has been rising for all 11 sectors for three straight weeks. That's a big improvement from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Just four sectors have rising 200-dmas, down from five a week earlier, as Materials' since has turned down. These sectors have rising 200-dmas: Communication Services, Consumer Discretionary, Health Care, and Tech. Financials' 200-dma was down for a 15th week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Consumer Sentiment Index ([link](#)): Consumer sentiment climbed for the second month in mid-June, after sliding to more than eight-year low in April, with the turnaround "largely due to renewed gains in employment, with more consumers expecting declines in the jobless rate than at any other time in the long history of the Michigan surveys," according to Richard Curtin, director of the survey. The Consumer Sentiment Index (CSI) jumped 6.6 points this month, to 78.9, from 72.3 in May and 71.8 in April. Most of the move up occurred in the present situation (to 87.8 from 74.3 in April) component of the CSI, which jumped 13.5 points over two-month period. The expectations component rebounded 7.2 points this month, to 73.1, following a three-month plunge of 26.2 points—from 92.1 in February to 65.9 in May. While the latest swing up is encouraging, the report cautions that "few consumers anticipate the reestablishment of favorable economic conditions anytime soon." Two-thirds of consumers anticipates bad times financially for the economy as a whole during the year ahead, and nearly a half expects a renewed downturn over the longer term. According to the survey, "The most often cited cause of a renewed downturn is a resurgence in the spread of the coronavirus, and

the most often cited cause of a slow economic recovery is the financial damage from persistently high unemployment. Each of these factors [has] increased the uncertainty consumers now attach to their expectations.”

Producer Price Index ([link](#)): The Producer Price Index for final demand rose for the first time in four months in May, advancing 0.4%, after posting a record 1.3% drop in April—which followed declines of 0.2% and 0.4% the prior two months. The recent declines pushed the yearly rate into negative territory in April (-1.2% y/y) for the first time in four years, narrowing to -0.8% in May; it started the year at an eight-month high of 2.0%. Prices for final demand goods rebounded a record 1.6% last month, following a three-month slide of 5.2%, with two-thirds of May's increase attributed to a 40.4% jump in meat prices. Meanwhile, final demand services edged lower for the third time in four months by 0.2% in May and 0.4% over the period. The yearly inflation rate is fast approaching zero, falling from a record high of 3.0% at the end of 2018 to 0.3% in May—the lowest since December 2015's record low of 0.2%. In the meantime, there's still deflation in the pipeline: Intermediate goods prices fell 6.8% y/y in May, easing slightly from April's 7.3%, which was the lowest since November 2015 (its 13th consecutive negative reading). Crude prices fell 19.4% y/y (its 17th consecutive negative reading)—narrowing from April's -28.2%, which was the steepest decline since September 2009.

Import Prices ([link](#)): Import prices in May rebounded, along with petroleum prices—which had triggered the biggest yearly decline in headline import prices since the end of 2015. Import prices jumped 1.0% in May after sliding 5.6% during the three months through April, with the drop in the yearly rate narrowing to -6.0% y/y from -6.8% in April—which was the steepest decline since the end of 2015. Petroleum prices soared 21.7% last month, after tumbling 55.3% during the three months through April, narrowing the yearly decline to -51.5% y/y from April's record -58.7%. Meanwhile, nonpetroleum prices ticked up 0.1% after declines of 0.5% and 0.2% the prior two months, with the yearly rate (-0.6% y/y) continuing to hover just below zero. The rate for capital goods imports (-0.6% y/y) was in negative territory for the 20th consecutive month, while the rate for industrial supplies & materials (-23.9) narrowed slightly from April's 26.5%—which was the lowest reading since November 2015. In the meantime, rates for consumer goods ex autos (-0.3) and auto prices (0.8) remained near zero; the yearly rate for food prices (-1.4) was less negative than April's -4.4%. The US is importing deflation from its Asian trading partners, with import prices for goods from China (-1.0% y/y) and the NICs (-3.7) falling; declines in China are slowing, however, while Japan's rate is holding around zero. Meanwhile, there's no sign of inflation in EU (-0.7) import prices, which have dropped back below zero, while import prices for goods from Latin America (-7.2) were

negative for the 18th month in a row.

GLOBAL ECONOMIC INDICATORS

Eurozone Industrial Production ([link](#)): Shutdowns due to the coronavirus generated the biggest monthly declines in industrial production in the history of the series going back to 1991 in March and April. Output plunged 17.1% in April, surpassing March's record 11.9% drop—tumbling to its lowest level since 1993. The weakness was across the board, with capital (-26.6% in April & -16.5% in March), intermediate (-15.6 & -11.7), and consumer durable (-28.9 & -27.6) goods output all posting back-to-back record declines. Consumer nondurable goods production plummeted a record 11.9% in April, following a 1.6% downtick in March, while energy output slumped 4.8% and 3.7% during April and March, respectively. The four top Eurozone economies all recorded record shortfalls during the two months through April: Germany (-29.5%), France (-33.4), Spain (-32.6), and Italy (-42.2)—with the latter posting the second sharpest decline in production in all of the Eurozone during April.

UK GDP ([link](#)): The UK economy in April shrunk back to its size in 2002, according to the Office for National Statistics. Real GDP contracted a record 20.4% in April, more than triple March's previous record decline of 5.8%, as the lockdown paralyzed the economy. April's plunge was 10 times the pre-COVID record decline of 2.2% in mid-2002. The service sector—which accounts for 80% of real GDP—sank a record 19.0% in April, led by the closing of non-essential shops on High Street along with sharp cutbacks in air travel and accommodation & food services. Both the manufacturing (-24.3%) and construction (40.1%) sectors also posted record declines during the month. The story is pretty dismal based on the three-month average as well, with real GDP contracting a record 10.4% in April and declines in services (-9.9), manufacturing (-10.5), and construction (-18.2) all in the record books.

UK Industrial Production ([link](#)): COVID-19 precipitated the biggest monthly decline in industrial production on record in April. Output tumbled a record 20.3% in April, following a 4.2% drop in March, with factory production plummeting 24.3% and 4.6% over the comparable periods. Industrial groupings show capital goods (-39.0%) posted the steepest two-month drop in production, with intermediate and consumer durable goods output not far behind, both dropping 30.3% over the period. Energy output fell 11.2% during the two months through April, while consumer nondurable goods production slumped a record 9.4% in April after a three-month gain of 4.9%. The latest IHS Markit Manufacturing report showed the sharp downturn in the UK manufacturing sector continued in May, with production, orders, and employment all

contracting but at slower rates than in April. May's M-PMI improved from a record low of 32.6 in April to 40.7 in May, its seventh-lowest level ever—at depths unseen outside of the current pandemic and the global financial crisis of 2008-09.

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

Copyright (c) Yardeni Research, Inc. Please read complete [copyright and hedge clause](#).