



MORNING BRIEFING

June 29, 2020

Natural & Man-Made Disasters

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

(1) Self-inflicted collateral damage in the fog of war. (2) A five-part plan for avoiding lockdowns next time. (3) Learning to live with the virus now in case a vaccine can't be found. (4) Reagan, Emanuel, Obama, and Trump. (5) Why didn't Centers for Disease Control and Prevention with a \$6.5 billion annual budget control and prevent COVID-19? (6) Generous government unemployment benefits may be boosting unemployment and weighing on recovery. (7) Return-to-work benefits? (8) Consumer spending getting a post-lockdown boost from all the saving done during lockdown. (9) Movie review: "Irresistible" (+).

Virology: Self-Inflicted Collateral Damage. Wars bring injuries and deaths. They are stressful for everyone involved from soldiers on the front lines to civilians within range of the enemy. The same can be said about the Great Virus Crisis (GVC). A very stressful world war is waging against a virus that continues to infect lots of people around the world, leading to hospitalizations and deaths in all too many cases. There seems to have been lots of self-inflicted collateral damage, which often happens in the fog of war. Common sense led me to make the following simple suggestions for reducing the collateral damage while fighting the war:

(1) *COVID-19 treatment centers.* Early on, when the war was just starting, I suggested in a [post](#) that we should isolate COVID-19 patients in field hospitals, set up just for them, in vacant convention centers, arenas, college dormitories, and hotels. That still makes sense to me now, and so does providing comprehensive care funded by the government at no cost to anyone diagnosed with the disease. The care should include income support for them and their families.

(2) *Military logistics.* The allocation of scarce healthcare resources—including personnel and materials, such as ventilators and personal protection equipment—should have been coordinated by military logistics experts with lots of experience doing this job. That way, we could be providing appropriate care where needed for those afflicted with the disease without stressing our healthcare system or impeding its normal operation.

(3) *Masks*. I was an early proponent of requiring wearing face coverings in public places. I figured that would be a better way of enforcing social distancing than lockdowns, which have caused a tremendous amount of stress and collateral damage to our economy. In the March 25 [Morning Briefing](#), I wrote: “We need an alternative to social distancing, which has been enforced by government decrees requiring us to stay home.”

In a March 28 [post](#), I suggested that “[e]veryone who is under 65 years old and in good health should go back to work in four weeks to give social distancing a chance to work. Anyone over 65 should remain isolated as much as possible for their own safety until the crisis is over. People should leave their homes only if they wear a mask or any acceptable homemade facsimile.”

In a June 11 [study](#), a team of researchers in Texas and California wrote: “Wearing of face masks in public corresponds to the most effective means to prevent interhuman transmission, and this inexpensive practice, in conjunction with simultaneous social distancing, quarantine, and contact tracing, represents the most likely fighting opportunity to stop the COVID-19 pandemic.” They compared COVID-19 infection rate trends in Italy and New York both before and after face masks were made mandatory. They found that infection rates started to slow only after face masks were mandated, not after lockdowns (Italy) or stay-at-home orders (New York) took effect, [reported](#) CNN.

(4) *Caring for those most at risk*. Isolating older people, who are particularly vulnerable to lethal outcomes from the disease, was one of the few policy responses that made sense to me early on. However, we didn’t do it soon enough, and we failed to properly test support staffs in nursing homes tending to the needs of a vulnerable population segment.

The June 27 *NYT* [reported](#): “While 11 percent of [US] cases have occurred in long-term care facilities, deaths related to Covid-19 in these facilities account for more than 43 percent of the country’s pandemic fatalities. In 24 states, the number of residents and workers who have died accounts for either half or more than half of all deaths from the virus.”

Similarly, the June 27 *WSJ* [reported](#): “Almost 80% of deaths linked to Covid-19 in Europe were in people over 75, a staggering toll on the region’s oldest citizens. ... An official tally of deaths linked to Covid-19 by the European Center for Disease Prevention and Control puts the total number of fatalities in 31 European countries with a combined population over 500 million at

just over 175,000. The number of deaths in the U.S., which has roughly 330 million people, totaled 103,000 through mid-June, with 60% of those among over-75s.”

(5) *Minimizing damage to the economy.* I was not a fan of lockdowns. But what’s done is done. They did work in flattening the curve. However, the collateral damage to the overall economy and all too many workers and business establishments has been immense. Furthermore, in the May 12 [Morning Briefing](#), Melissa and I observed that the generous government support for all the unemployed might provide a disincentive for many workers to return to work. As lockdown restrictions lift, plenty of anecdotal evidence suggests that a major reopening challenge for employers is employees’ reluctance to return to work before their government benefits run out!

While the lockdown restrictions are being lifted, the war certainly isn’t over. Indeed, all too many people aren’t wearing masks or observing other commonsense ways of social distancing. So the virus is spreading again in several parts of the country. Some state governors are already slowing the pace of lifting lockdown restrictions and even threatening to reimpose them, which would worsen the economic disaster that has occurred so far and either weaken the economic recovery or delay it.

(6) *Vaccines, treatments & cures.* The virus that causes COVID-19 could be one that won’t go away. We may have to learn to live with it. Fortunately, treatment options that reduce the lethal outcomes have been developed. A vaccine is possible, though not a sure thing. Meanwhile, the five protocols listed above may still be the best way to fight this war without causing so much collateral damage.

US Government I: Here To Help. President Ronald Reagan was fond of expressing the following sentiment about the role of the government in our lives: “The nine most terrifying words in the English language are: I’m from the government, and I’m here to help.” Just as terrifying, in my opinion, is Rahm Emanuel’s advice to politicians: “You never let a serious crisis go to waste. And what I mean by that it’s an opportunity to do things you think you could not do before.” He famously said so in a November 19, 2008 [WSJ interview](#).

Emanuel was chief-of-staff to President Barack Obama from 2009 to 2010. He updated his advice in a March 25 [Washington Post op-ed](#) titled “Let’s make sure this crisis doesn’t go to waste.” Needless to say, he maintains that the Obama administration didn’t waste the opportunity to fix things when he was in the administration. Yet in this op-ed, he stated that “we

need to use this crisis to fix our public health system, our medical infrastructure and our industrial capacity.” I recall that those were important problems that needed to be fixed when he was Obama’s chief-of-staff.

Nevertheless, he was right in observing: “South Korea wasn’t properly prepared for severe acute respiratory syndrome five years ago, but Seoul used that failing to prepare, and it shows. The U.S. health system, by contrast, may be unusually advanced, but its public health components lag far behind. Despite years of warnings, the Centers for Disease Control and Prevention has an annual budget of a mere \$6.5 billion.” To me, that seems like a lot of money earmarked for controlling and preventing diseases; yet Emanuel blames the Trump administration for not spending enough.

On the other hand, I do agree with this suggestion in his op-ed: “We need a much more robust network of critical care and emergency care facilities, with special emphasis on intensive care units, that can be stood up and put in place overnight. We should have a surge capacity that doubles our available hospital bed capacity. And we need a new rapid deployment force of trained medical ‘reservists’ who can switch from their regular jobs to providing the manpower that makes these surge units operational.”

Emanuel complained that “[O]ur strategic supply chain is inadequate. ... For years, plants and industries have migrated offshore in search of cheaper labor. While diminished trade barriers have played some role in that shift, the search for lower production costs eroded our industrial capacity. We now have technology that allows Americans to compete on price with more distant economies.” However, he didn’t acknowledge that lots of offshoring of US industries occurred under Obama’s watch, but is right that technological innovations now exist to allow industries to effectively reshore their production.

US Government II: Subsidizing Unemployment. It is widely recognized that the federal government has provided very generous income support to workers who’ve lost their jobs because of the lockdowns. Friday’s personal income report for May showed a huge jump in unemployment insurance benefits, which are included in personal income.

They jumped from an annualized average of \$26.4 billion during the first two months of this year to \$69.6 billion during March, \$452.6 billion during April, and \$1.3 trillion during May ([Fig. 1](#)). The number of continuing unemployment claims under regular state programs rose from 3.5 million in March to 17.0 million in April to 22.0 million in May ([Fig. 2](#)). So the average

monthly unemployment insurance benefit for each claimant, at an annual rate, jumped from \$19,900 during March to \$26,575 during April to \$57,990 during May ([Fig. 3](#)). On an inflation-adjusted basis, using the personal consumption expenditures deflator, May's annualized jobless benefit was \$52,670 at an annual rate, 51% higher than the previous record high of \$34,975 during January 2010 ([Fig. 4](#)).

Be warned: The weekly data [report](#) provided by the Bureau of Labor Statistics is confusing. The same table showing the number of claimants in regular state programs includes lines for "Pandemic Unemployment Assistance" and "Pandemic Emergency UC," which total over 10 million claimants. The 30 million total of claimants receiving both state and federal unemployment payments must be double-counted since total unemployment was 21 million during May. Also, the previous record high in benefits per claim during January 2010 is overstated since the claimant level doesn't include the significant number of those receiving extended benefits back then.

In any case, the government clearly provided remarkably generous short-term unemployment benefits, which offered an incentive for employers to temporarily lay off workers and a reason for many of their furloughed employees to welcome the extra income they received while unemployed. On the other hand, the government's Paychecks Protection Program (PPP), administered by the Small Business Association (SBA), was designed to encourage small businesses to pay their workers for eight weeks until stay-in-place orders were gradually lifted. Let's have a closer look at the recent government support programs:

(1) *Beats working, for some.* The Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, added an incremental \$600 a week from the federal government to state unemployment benefits through July 31.

An April 28 [WSJ article](#) noted that roughly half of American workers were eligible to receive more pay on unemployment compensation than they earned at their jobs prior to the pandemic's shuttering of businesses. Doing the math, the article observed that the average weekly payment for an unemployed worker would rise to about \$978 from nearly \$378 paid on average at the end of last year, according to the Labor Department. The new average payment would equate to about \$24 per hour over the standard workweek and compared to substantially lower minimum wages in most states. The federal benefit alone equates to about \$15 per hour.

Quitting a job to [access](#) unemployment benefits is considered fraud. But it is not hard to find anecdotal stories that laid-off employees are refusing to return to their jobs once reoffered in favor of the higher unemployment pay. To maintain good standing on PPP loans, the SBA has guided employers to document both rehire offers and any employee refusals in writing, [according](#) to the May 4 *Journal of Accountancy*. Employees who reject these offers may become ineligible for unemployment compensation.

(2) *Stimulating checks*. The CARES Act provided \$300 billion in direct support “economic impact payments” to individuals, with advance tax rebate payments distributed mostly in April 2020. A \$1,200 refundable tax credit was provided to individuals (\$2,400 for joint taxpayers). In addition, qualified taxpayers with children receive \$500 for each child. The amount of the rebate phased out at \$75,000 for individual filers, \$112,500 for heads of household, and \$150,000 for joint taxpayers at 5% per dollar of qualified income. The rebate phased out entirely at \$99,000 for single taxpayers with no children and \$198,000 for joint taxpayers with no children.

According to surveys, consumers largely have put the funds toward food, paying bills, gas, and savings. But some of the money undoubtedly has gone toward more frivolous spending such as on video games and day-trading stocks on Robinhood. The 30-year-old son of one of our friends purchased the latest and most expensive model of Apple’s iPad with his stimulus check from the Treasury.

(3) *What’s next?* A June 26 CNBC [article](#) observed: “[W]hen enhanced unemployment benefits end at the end of July, millions of Americans will face an ‘income cliff,’ exacerbating the current financial crisis. To prevent that, the Democratic-controlled House passed the HEROES Act in May, which includes a second round of stimulus checks, worth up to \$6,000 per family, up to five people. More people living in the U.S., including adult dependents and immigrants with taxpayer identification numbers, would also be eligible to receive a check for the first time. Additionally, the HEROES Act would extend expanded unemployment insurance, including the extra \$600 per week in federal benefits, through the start of 2021.”

The act has stalled in the Republican-held Senate, where the majority party favors back-to-work bonuses to people who return to work. White House economic adviser Larry Kudlow told CNN earlier this month that the extra \$600 in unemployment benefits was effectively “paying people not to work” and that instead “there will be some return-to-work benefit.”

US Government III: Big Impact on Personal Income & Saving. Now let's take a deep dive into the personal income data that came out on Friday to see the big impact that government support payments have had on consumers in recent months, as detailed in a [special table](#) provided by the Bureau of Economic Analysis:

(1) *April*. The biggest impact occurred during April, when “economic impact payments” boosted personal income by \$2.59 trillion (at an annual rate). Unemployment benefits boosted income by another \$0.45 trillion. This \$3.04 trillion in government support during April more than offset the \$0.84 trillion drop in employee compensation ([Fig. 5](#)).

But it was hard to spend either paychecks or government checks during April's lockdowns, so consumer spending fell to \$12.17 trillion from \$13.93 trillion in March and \$14.91 trillion during February ([Fig. 6](#)). The result was a record increase in personal saving to \$6.02 trillion during April, up from \$2.08 trillion during March ([Fig. 7](#)). The personal saving rate soared to a record 32.2% during April ([Fig. 8](#)).

(2) *May*. The government's economic impact payments dropped to \$0.61 trillion during May, while unemployment benefits surged to \$1.28 trillion, even though total compensation of employees actually edged up to \$10.75 trillion. Consumption rose by almost \$1.00 trillion (at an annual rate) last month. Personal saving recorded the second-biggest month on record, at \$4.12 trillion during May. May's personal saving rate dropped to 23.2%, the second-highest reading on record.

(3) *June*. In June, we can expect that consumer spending rose again. Compensation likely rose during the month along with payroll employment as a result of the gradual reopening of the economy. In addition, personal saving likely fell this month as consumers spent the income they had saved when most stores were closed during the lockdowns, in a wave of what we call “cooped-up demand” for goods and services.

(4) *Lots of cash*. From the end of February through the June 15 week, the sum of savings deposits plus retail money market funds jumped by \$1.6 trillion to a record \$12.6 trillion ([Fig. 9](#)).

Over this same period, US monetary aggregates have soared as follows: M1 (\$1.2 trillion), MZM (\$3.8 trillion), and M2 (\$2.8 trillion). Here are the y/y increases in these monetary aggregates: M1 (36.4%), MZM (30.0), and M2 (24.0) ([Fig. 10](#)).

The lockdowns, which hindered the ability of consumers to spend their paychecks and government checks, also led consumers to pay off some of their credit-card debts. Revolving credit fell \$84 billion from a record high of \$1.104 trillion during February to \$1.020 trillion during April ([Fig. 11](#)). As they flee their cabins to relieve their cabin fever, consumers are likely to charge into (and in) stores once again in coming months notwithstanding the ongoing virus crisis.

Movie. “Irresistible” (+) ([link](#)) is a comedy about our dysfunctional political system. It’s remarkably low key given that Jon Stewart wrote and directed it, and given how loud and angry partisan discourse has become in our country. Steve Carell plays the Democrats’ top strategist, Gary Zimmer. After Gary sees a video of Jack Hastings—a farmer who’s also a retired Marine Colonel—standing up for the rights of his town’s undocumented workers, he pushes Jack to run for mayor of his small rural town in Wisconsin. Gary believes he has found the perfect candidate to win back the Heartland for his party. The Republicans send their own top campaign manager. The funniest part of the movie is a campaign ad that shows the ex-Marine firing a heavy machine gun into a lake, scowling into the camera and saying, “My name is Jack Hastings, and I endorse this message.” The movie is a bit slow and dull most of the time, but still worth watching all the way through to the happy ending if you have nothing better to do. At least it will distract you from watching the partisan free-for-all on the news.

CALENDARS

US: Mon: Pending Home Sales 19.9%, Dallas Fed Manufacturing Index, Williams, Daily. **Tues:** Consumer Confidence 90.0, Chicago PMI 44.5, API Crude Oil Inventories, Powell Testimony, Williams, Brainard. (DailyFX estimates)

Global: Mon: Eurozone Economic Confidence 80.0, Germany CPI 0.3%*m/m*/0.6%*y/y*, Japan Industrial Production -5.6%*m/m*/-11.3%*y/y*, Japan Unemployment Rate 2.8%. **Tues:** Eurozone Headline & Core CPI Flash Estimates 0.1%/0.8% *y/y*, UK GDP -2.0%*q/q*/-1.6%*y/y*, Spain GDP -5.2%*q/q*/-4.1%*y/y*, Japan Housing Starts -15.9%, Japan Tankan Survey, Japan M-PMI 37.8, China Caixin M-PMI 50.5, Guindos, Schnabel, Haldane. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index fall 2.8% for its second drop in three weeks. The index ranked 39th of the 49 global stock markets we follow in

a week when 7/49 countries rose in US dollar terms, and the AC World ex-US index dropped 2.1% as most regions moved lower. The US MSCI index moved back into a correction for the first time in five weeks as it dropped to 10.6% below its 2/19 record high. EM Asia was the best-performing region last week, with a gain of 0.4%, followed by BRIC (-0.2%). EM Latin America was the biggest underperformer, with a decline of 4.3%, followed by EMU (-1.6), EMEA (-1.5), EM Eastern Europe (-1.5) and EAFE (-1.3). Sri Lanka was the best-performing country last week, with a gain of 10.1%, followed by India (1.8%), Taiwan (1.3), and Korea (0.8). Of the 31 countries that underperformed the AC World ex-US MSCI last week, Colombia fared the worst, with a decline of 6.4%, followed by Peru (-5.5), Hungary (-4.8), Brazil (-4.6), and Mexico (-4.4). The US MSCI's ytd ranking dropped three places last week to 10/49 as its ytd performance slipped to -6.0% from -3.2% a week earlier. It's still way ahead of the 12.2% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd, albeit with a decline of 3.9%, followed by BRIC (-8.1). The worst-performing regions ytd: EM Latin America (-36.4), EM Eastern Europe (-23.6), EMEA (-20.4), EMU (-14.4), and EAFE (-12.6). The best country performers ytd: Denmark (8.3), China (2.7), New Zealand (0.3), Israel (-0.7), and Taiwan (-2.1). The worst-performing countries so far in 2020: Colombia (-47.2), Brazil (-39.9), Greece (-39.6), Pakistan (-34.6), and Peru (-33.1).

S&P 1500/500/400/600 Performance ([link](#)): All of these indexes fell together for the second time in the past three weeks. LargeCap fell 2.9% for the week, better than the 3.7% declines for MidCap and SmallCap. LargeCap has been out of a bear market for 11 weeks, but moved back into a correction in the latest week. LargeCap is now 11.1% below its 2/19 record high. MidCap was back in a correction for a third week as it fell to 18.4% below its record high on 1/16. SmallCap remains the worst performer, back in a bear market for a third week and 28.2% below its 8/29/18 record. All 33 sectors fell for the week, down from 23 rising a week earlier and all 33 dropping the week before that. Just four of the 33 sectors are no longer in a bear market or correction: LargeCap Consumer Discretionary, LargeCap Health Care, LargeCap Tech, MidCap Consumer Staples, and MidCap Health Care. LargeCap Tech was the best performer last week, albeit with a decline of 0.4%, ahead of SmallCap Consumer Staples (-1.4), MidCap Health Care (-1.5), and MidCap Industrials (-1.7). SmallCap Energy (-12.9) was the biggest decliner last week, followed by MidCap Energy (-12.1), MidCap Financials (-6.6), and LargeCap Energy (-6.4). All three indexes are still down on a ytd basis, but LargeCap's 6.9% drop is much smaller than those of MidCap (-16.7) and SmallCap (-22.8). Just three of the 33 sectors are now positive so far in 2020, with the best performers led by LargeCap Information Technology (10.8), LargeCap Consumer Discretionary (3.4), and MidCap Health

Care (2.6). The biggest laggards of 2020 to date: SmallCap Energy (-56.8), MidCap Energy (-50.6), LargeCap Energy (-39.2), SmallCap Financials (-34.7), and SmallCap Real Estate (-29.4).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors fell last week as four outperformed the index's 2.9% decline. That compares to a 1.9% rise for the S&P 500 a week earlier, when eight sectors rose and six outperformed the index. Tech's 0.4% decline made it the best performer for the week, ahead of Consumer Discretionary (-1.9%), Materials (-2.5), and Health Care (-2.8). Energy was the biggest underperformer, with a decline of 6.4%, followed by Financials (-5.3), Communication Services (-5.2), Industrials (-4.0), Real Estate (-4.0), Consumer Staples (-3.4), and Utilities (-2.9). The S&P 500 is now down 6.9% so far in 2020, with four sectors leading the index and two in positive territory. The leading sectors ytd: Information Technology (10.8), Consumer Discretionary (3.4), Communication Services (-4.2), and Health Care (-4.3). The laggards of 2020 so far: Energy (-39.2), Financials (-26.5), Industrials (-18.6), Utilities (-14.6), Real Estate (-12.8), Materials (-11.0), and Consumer Staples (-9.5).

Commodities Performance ([link](#)): Last week, the S&P GSCI index dropped 2.9% for its second decline in three weeks. It's now down 28.5% from its recent high on 1/6, and still in a severe bear market at 36.7% below its cyclical high on 10/3/18. Copper was the best performer last week, with a gain of 1.9%, followed by Gold (1.6%) and Cocoa (1.1). Natural Gas was the biggest decliner for the week, with a drop of 11.7%, followed by Unleaded Gasoline (-9.0), Lean Hogs (-8.9), and GasOil (-6.7). Just two of the 24 commodities that we follow are higher so far in 2020: Gold (16.9) and Silver (1.4). The next-best performers ytd: Copper (-3.4), Lead (-7.4), and Feeder Cattle (-8.1). The worst performers ytd: GasOil (-44.1), Heating Oil (-43.1), Brent Crude (-38.0), and Crude Oil (-37.0).

S&P 500 Technical Indicators ([link](#)): The S&P 500 fell 2.9% last week and weakened 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 11th week after seven weeks below, but was below its 200-dma for the first time in five weeks. It had been below its 200-dma for 13 weeks through late May, matching its prior streak that ended during February 2019. The index's 50-dma relative to its 200-dma improved for a sixth week after 12 declines, but the index remained in a Death Cross (with 200-dmas higher than 50-dmas) for a 14th 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 1.5% below its 200-dma from 2.3% 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 sixth week after declining for 12 straight weeks. The price index dropped to 0.9% above its rising 50-dma from 4.8% above its rising 50-dma a week earlier. The early June reading of 11.7% above its 50-dma 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 sixth week, but barely so and after falling for five weeks. It had been rising for 39 weeks through early March. The index was below its 200-dma for the first time in five weeks. It had been above for 38 weeks through mid-February. It ended the week 0.6% below its slightly rising 200-dma, compared to 2.4% above a week earlier and 7.1% above in early June. 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](#)): Four of the 11 S&P 500 sectors traded above their 50-dmas last week, down from 10 a week earlier and down from all 11 above in the three weeks around the start of the month. Just three traded above their 200-dmas, down from five a week earlier. That compares to just one sector (Health Care) above both its 50-dma and 200-dma nine weeks ago. Consumer Discretionary and Tech are the only sectors that trade above both their 50-dmas and 200-dmas. Four sectors remain in the Golden Cross club (50-dmas higher than 200-dmas): Communication Services, Consumer Discretionary, Health Care, and Tech. 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 86 straight weeks. The 50-dma turned down last week for Consumer Staples and Health Care, joining Real Estate and Utilities. In early June, it had been rising for all 11 sectors for three straight weeks. That's still a big improvement from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Five sectors have rising 200-dmas, unchanged from a week earlier. These sectors have rising 200-dmas: Communication Services, Consumer Discretionary, Health Care, Materials, and Tech. Financials' 200-dma was down for a 17th week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Personal Income & Consumption ([link](#)): Personal income took a step back in May, while consumption expanded at a record rate. Personal income sank 4.2% last month after soaring a record 10.8% in April. May's decline "primarily reflected a decrease in government social benefits to persons as payments made to individuals from federal economic recovery programs in response to the COVID-19 pandemic continued, but at a lower level than in April," according to the report. Meanwhile, wages & salaries jumped 2.7% last month, its largest monthly gain in more than two decades—after plunging a record 11.1% during the two months ending April—as businesses began reopening and hiring back workers. Personal consumption expenditures soared a record 8.2% in May, following an 18.4% freefall during the two months through April, with spending on goods and services expanding 14.1% and 5.4%, respectively. Within goods consumption, durable goods spending surged a record 28.6% last month, nearly quadruple the 7.7% gain in nondurable goods consumption—which was also a record. The big jump in spending in May lowered personal saving by \$1.9 trillion, to \$4.1 trillion, after soaring \$3.9 trillion in April to a record high \$6.0 trillion. May's level is \$2.8 trillion above pre-COVID-19 levels, and should continue to fuel the recovery in spending. The personal saving rate fell to 23.2% in May after skyrocketing to a record 32.2% in April from 12.6% in March and 7.9% at the start of the year. Adjusted for inflation, consumer spending jumped a record 8.1% following a 17.8% plunge during the two months through April, with spending on both real goods (to 14.1% from -12.7%) and services (5.2 from -12.0) posting record gains in May after record declines in April. As for inflation, May data show core inflation—the Fed's preferred measure—increased 1.0% y/y for the second month, holding below its target rate of 2.0% for the 20th consecutive month.

Consumer Sentiment Index ([link](#)): Consumer sentiment deteriorated a bit during the last half of June, as COVID-19 cases increased in several states, though confidence still recorded its second straight monthly gain. The Consumer Sentiment Index (CSI) climbed to 78.1 (vs 78.9 in mid-June) this month from 72.3 in May and a seven-year low of 71.8 during April. Most of the move up occurred in the present situation (to 87.1 from 74.3 in April) component of the CSI, which jumped 12.8 points over two-month period. The expectations component rebounded 6.4 points this month, to 72.3, following a three-month plunge of 26.2 points—from 92.1 in February to 65.9 in May. (The mid-June readings for the present situation and expectations components were 87.8 and 73.1, respectively.) The report noted that sentiment among residents in the South and the West rose by only 0.5 point and 3.3 points, respectively, as some states in these regions saw a resurgence of the virus, while sentiment in the Northeast rose by an all-time record high of 19.1 points. According to Richard Curtain, director of the

survey, “The resurgence of the virus will be accompanied by weaker consumer demand among residents of the Southern and Western regions and may even temper the reactions of consumers in the Northeast. As a result, the need for additional fiscal policies to relieve financial hardships has risen. Unfortunately, confidence in government economic policies has fallen in the June survey to its lowest level since Trump entered office. The need for new relief programs is urgent and would best be accomplished before the national elections dominate the debate.”

Durable Goods Orders & Shipments ([link](#)): Durable goods orders in May posted the biggest gain since July 2014, after unprecedented losses in both April and March, while core capital goods orders and shipments also recovered—though not as dramatically. Orders for durable goods soared a much larger-than-expected 15.8% in May, following declines of 18.1% and 16.7% the previous two months, as transportation orders skyrocketed 80.8% after a two-month slide of 70.8%. Excluding transportation, orders rebounded 4.0%—the most since November 2010, after falling 8.2% and 1.8% during April and March, respectively. In the meantime, both core capital goods orders and shipments recovered a bit in May following steep declines. Nondefense capital goods orders ex aircraft (a proxy for future business investment) climbed 2.3% in May after sliding 6.5% in April and 8.2% during the three months through April. Meanwhile, core capital goods shipments (used in calculating GDP) advanced 1.8% in May, following declines of 6.2% and 8.0%, respectively, over the comparable April periods.

Regional M-PMIs ([link](#)): Four Fed districts now have reported on manufacturing activity for June (New York, Philadelphia, Richmond, and Kansas City) and show the manufacturing sector is expanding for the first time in four months, led by a surge in the Philadelphia region. The composite index improved for the second month since plunging to a record low of -54.5 in April, climbing to -34.4 in May and 7.1 this month. Activity in the Philly (to 27.5 from -56.6 in April) region started growing again, while Kansas City’s (1.0 from -30.0), Richmond’s (0.0 from -53.0) and New York’s (-0.2 from -78.2) stopped declining. Meanwhile, June’s new orders measure followed a similar script, climbing from a record-low -65.6 in April to 7.0 this month, as Philadelphia (to 16.7 from -70.9 in April), Kansas City (7.0 to -64.0), and Richmond (5.0 from -61.0) billings moved from contraction to expansion and New York’s (-0.6 from -66.3) were basically flat. Meanwhile, factories cut payrolls at a much slower pace again this month, with the employment measure climbing to -4.7 from -12.6 in May and a record-low -39.3 in April. Manufacturers in all four regions—New York (to -3.5 from -55.3 in April), Philadelphia (-4.3 from -46.7), Richmond (-5.0 from -21.0), and Kansas City (-6.0 from -34.0)—cut payrolls at a drastically slower pace, taming the recent freefall.

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

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