WEEKLY

Economic Commentary

April 3, 2020

Millennium
CORPORATE CREDIT UNION

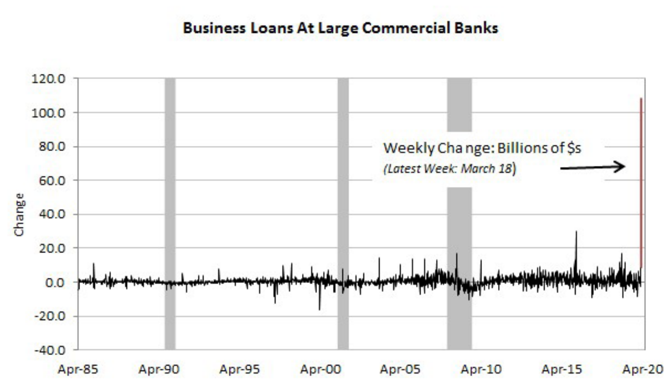
With about 90 percent of Americans in some form of lockdown, the stranglehold that COVID-19 has on the economy continues to tighten. It will take months before the data reveals the true severity and breadth of its tightening grip, but a smattering of incoming reports hints at how enormous the economic carnage is likely to be. Over the past decade, for example, the economy has generated 23 million net new jobs, a singular bright spot of the longest, albeit lackluster, expansion on record. In the last two weeks, however, almost half of those payrolls have been vaporized, as 10 million workers submitted initial claims for unemployment benefits. By the end of next month, the remaining 13 million should fall by the wayside, and then some, as the jobless rate climbs to well over the 10 percent peak seen during the Great Recession and financial crisis.

The hope is that this pernicious shock to the economy turns out to be a one or two quarter episode; then, the massive fiscal and monetary stimulus coursing through the system would start to work its magic, jump-starting growth and the job-creating engine by the fall. Whether or not the next chapter of the cycle sees a V-shape rebound or an elongated U depends on a number of factors, including the likelihood that the virus is causing life-altering behavioral changes that will impact the economy for years to come. It is hard to believe, for example, that household consumption habits would return to normal after the pandemic runs its course and the job market reopens. Following the Great Recession and financial crisis, the personal savings rate rose above average for several years, as consumers retained memories of the wealth and job destruction that robbed them of retirement savings and undercut their sense of job security.

The carnage this time is shaping up to be considerably worse, but if it is compressed into a two-quarter period the aftershocks may not linger as long as was the case following the last recession, which lasted for six quarters. Nonetheless, the severity and breadth of this recession is still an open question. The more pervasive and deeper it is, the greater is the likelihood that the economy's longer-term growth prospects will be permanently affected.

What's more, just as economists lack the tools to forecast the life span of a pandemic, they are also inept at forecasting weather patterns. In this regard, it appears that Mother Nature will also be having a heavy influence on the economy over the summer. According to respected meteorologists at Colorado State University, the upcoming storm season is expected to be considerably worse than normal, with 16 major storms and 8 hurricanes expected from June to November along the Atlantic Coast. The team at CSU predicts that, "2020 hurricane activity will be about 140 percent of the average season."

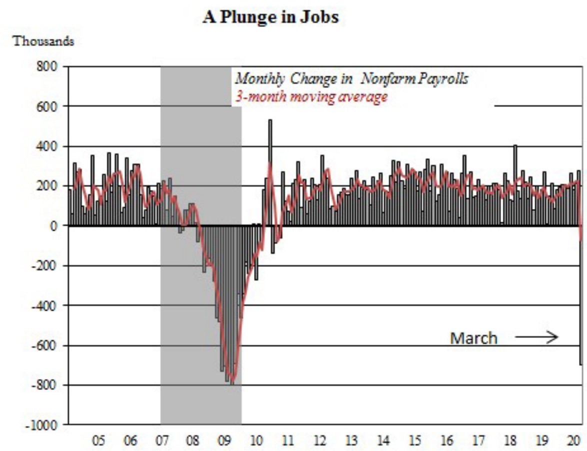
That said, unlike the early stages of the 2007-2009 recession, households and businesses are taking extraordinary preemptive measures to survive the downturn as best as possible. Households are hoarding cash, as currency in circulation has surged by more than it did during the Y2K scare two decades ago. Businesses are drawing down lines of credit like never before to pay bills and remain solvent. Like most economic data now coming out, business borrowing at banks is off the charts. In the week ending March 18, commercial and industrial loans at large banks surged by an astonishing $108 billion. And this is before the just enacted government program to extend forgivable loans to small businesses takes effect.



What's more, household have more resources to draw on than was the case heading into the last recession. In addition to healthier balance sheets in general, homeowners have built up a cushion of equity, thanks to years of rapid home-price appreciation and mortgage repayments. Whether or not they draw on their housing equity to sustain living standards, it puts them in a better position to withstand foreclosures when the paychecks stop coming in. Indeed, the $1200 checks households will be receiving as part of the $2.2 trillion stimulus legislation together with the expanded unemployment benefits will help homeowners service their mortgages and other debts. Importantly, unlike the housing collapse in 2008, the stimulus bill contains a provision that enables struggling homeowners to suspend mortgage payments for up to six months.

None of this is to deny the steadily darkening clouds overhanging the economic and financial landscape. Just about the only indicator pointing up during the past week was the price of oil, thanks to the apparent deal between Russian and Saudi Arabia to cut production by millions of barrels a day. Crude oil quotes actually jumped by almost 25 percent on Thursday, a record one-day increase, and tacked on another 12 percent on Friday. While President Trump lauded the agreement for bolstering the once prospering, but now suffering, energy sector in the U.S., it will require a good deal of other good news to salvage the broader economy. Instead the avalanche of bad news is just starting to flood in, and the floodgates will open wider in coming months.

The most disheartening reports over the past few weeks, of course, are those casting a harsh spotlight on the rapidly deteriorating job market. As noted earlier, an eye-opening 10 million job losers filed for unemployment benefits over the past two weeks, which became an ominous harbinger of upcoming monthly employment reports. Since the surveys used for the March jobs report were taken before most of the jobless claims were filed, it was thought that only a handful would be captured in the report. The consensus expectation was that payrolls in March would decline, but by not more than about 100 thousand. But that turned out to be a vast underestimate, as the Labor Department on Friday reported a huge 701 thousand plunge in nonfarm payrolls last month.

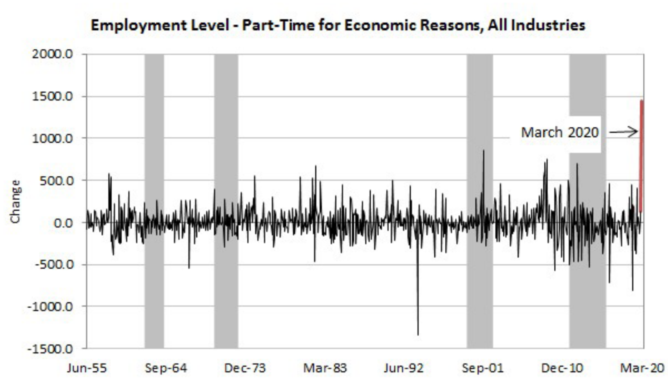


The decline was as abrupt as it was staggering. For one, it ended a string of 113 consecutive months of job increases, the longest ever. Just one month earlier, the economy generated 275 thousand net new jobs, so the sudden turnabout is akin to falling off a cliff. For another, the 701 thousand decline in payrolls was enormous in and of itself. You would have to go back to March 2009 - at the depth of the Great recession - to find a month with a larger contraction. But that 803 thousand setback was certainly not a surprise, as payrolls had declined in each of the 13 previous months. And while it was the worst month of job losses during the Great Recession, the decline this March will be greatly surpassed in coming months. In April, we expect payrolls to plunge by 20 million.

Needless to say, the massive layoffs are overwhelming state employment offices even as they wreak havoc with the unemployment statistics. Ironically, reports that a huge number of laid-off workers are unable to apply for jobless benefits because of crashing state employment web sites and understaffed offices are diluting the harshness of the jobs data. As it is, the unemployment rate in March shot up from 3.5 percent to 4.4 percent, the steepest monthly increase since 1975. The uphill climb will only get steeper from here. We expect the unemployment rate to surge well into double-digits before all is said and done.

Sadly, the biggest toll will be taken on the most vulnerable sector of the labor force. The waitress in a restaurant will see her job vanish. But the accountant or lawyer working in the building that houses the restaurant and can work remotely will still draw a paycheck. This divergence of fortunes is starkly seen in the March data. Payrolls at leisure and hospitality firms fell by a stunning 459 thousand during the month, mostly at restaurant and bars. This was the hardest-hit group by far, accounting for 65 percent of the job losses. For a sector that represents less than 11 percent of total payrolls, that's clearly an outsized - and unwelcome - contribution to the weakness in the job market last month. Conversely, employees at management and consulting services companies actually increased, albeit by a modest 2 thousand.

Importantly, the biggest job losers are among the lowest paid workers, and their removal from the ranks of the employed lends an upward bias to average wages for all private employees. Hence, average hourly earnings increased by a solid 0.4 percent in March, lifting the year-on-year gain to 3.1 percent from 3.0 percent. But that misleading increase masks the cutback in hours worked, as more workers were forced into part-time positions than any time on record. Hence, average weekly earnings for non-management workers fell by 0.5 percent last month, the steepest decline since August 2011.



Just as worrisome, the dismal performance of the labor market - and equal grim near-term job prospects - prompted an army of workers to drop out of the labor force. The labor force participation rate fell by 0.7 percentage points, the sharpest decline in more than 50 years. Over the past several years, economists and policy makers were marveling over how low the unemployment rate was falling without stoking an upsurge in wage inflation. One reason was that the robust job market was pulling in workers from the sidelines, workers that had been marginalized and too discouraged to look for a job due to scarce opportunities. No doubt, these are the very same workers that are dropping out now. The question is, will the recovery, whenever it begins, be strong enough to pull these workers back in?

KEY FINANCIAL & ECONOMIC INDICATORS

FINANCIAL INDICATORS

INTEREST RATES	April 3	Week Ago	Month Ago	Year Ago
3-month Treasury bill	0.01%	0.00%	0.47%	2.42%
6-month Treasury bill	0.16	0.01	0.41	2.46
3-month LIBOR	1.37	1.37	1.00	2.59
2-year Treasury note	0.22	0.25	0.53	2.33
5-year Treasury note	0.39	0.40	0.61	2.30
10-year Treasury note	0.60	0.68	0.77	2.49
30-year Treasury bond	1.22	1.27	1.29	2.90
30-year fixed mortgage rate	3.33	3.50	3.29	4.08
15-year fixed mortgage rate	2.82	2.92	2.79	3.56
5/1-year adjustable rate	3.40	3.34	3.18	3.66
STOCK MARKET				
Dow Jones Industrial Average	21052.53	21636.78	25864.78	26424.99
S&P 500	2488.65	2541.47	2972.37	2892.74
NASDAQ	7373.08	7502.38	8575.62	7938.69
Commodities				
Gold ($ per troy ounce)	1640.70	1630.60	1674.20	1295.60
Oil ($ per barrel) - Crude Futures (WTI)	28.83	21.84	41.57	63.28

ECONOMIC INDICATORS

	Latest Month/Quarter	Previous Month/Quarter	Two-Months/ Quarters Ago	Average-Past 6 Months or Quarters
ISM Manufacturing Index (March)	48.3	49.1	50.9	48.8
ISM Non-manufacturing Index (March)	52.5	57.3	55.5	54.8
Nonfarm Payrolls (March) - 000s	701	275	214	70
Unemployment Rate (March) - Percent	4.4	3.5	3.6	3.4
Average Hourly Earnings (March) - % change	3.1	3.0	3.1	3.1

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