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The First Wave of Ugly Monthly Data

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Stocks are down today on a wave of bad news. Most of the standard variety economic releases were expected to be horrible, but it's still mind-numbing to witness the magnitude of the declines over such a short period of time. Unfortunately, today's batch of information also includes tumbling oil prices and plunging corporate profits. The tide will eventually turn, but not this month.

Over the weekend, a group representing the world's largest oil producers negotiated a record production cut, with OPEC and Russia agreeing to reduce by nearly 10 million barrels per day in May and June, while the United States, Canada, and other non-OPEC countries could decrease production enough to effectively double the proposed cut. Unfortunately, the oil industry is dealing with both a supply glut and a plunge in demand. With the global economy grinding to a halt, the need for crude has fallen to its lowest level since 1995. The Wall Street Journal reported today that most experts put current global demand at 65 to 80 million barrels per day, down sharply from normal demand levels of around 100 million.

This morning, the price of West Texas Intermediate (WTI) slipped to a 28-year low after the International Energy Agency (IEA) announced American oil supplies had recently risen by nearly 20 million barrels. The IEA went on to say that storage tanks are likely to be completely full by midyear. Also this morning, tech company Gas Buddy released its first quarter report showing a -20% year-over-year decline in gasoline purchases. Since the U.S. is now a net producer of energy, lower market prices typically do more harm than good. Plus, lower gas prices are mostly irrelevant when few Americans are actually driving.

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Bank stocks continue to trade lower after Citigroup, JPMorgan, Wells Fargo and Bank of America all reported significant profit declines after adding billions to their loan loss reserves to brace for a massive wave of defaults. In the meantime, delinquencies on everything from credit cards to auto and home loans are expected to soar. Bank of America has reportedly received a million requests to defer monthly loan payments.

Larry Kudlow, the president's chief economic adviser, said the $350 billion lending program targeted at small businesses has already approved over $257 billion in loans for an estimated 1.1 million applicants. Kudlow said the program is in danger of running out of funds as soon as this week if Congress doesn't raise the amount available. Obviously, the program is well received, but there are an estimated 28 million small businesses in the United States according to the Small Business Administration, with very few not being impacted by the shutdown.

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The biggest economic release of the day was the monthly retail sales report for March. The -8.7% plunge was the largest in the history of the series and below the -8.0% median forecast. There were double-digit declines in 9 of 13 sales categories, with a -50% drop in clothing purchases, a -27% drop in restaurant and bar sales, and a -26% drop in auto sales. All of these categories should look worse in April. A bright spot in the report was the food and beverage group where purchases climbed by nearly +26% as Americans flocked to the grocery stores to stock up on essentials for the long shelter. Smaller increases were also registered in health and personal care stores, general merchandise and non-store retailers.

Please see disclosure on page 2.

On the housing front, the National Association of Homebuilders / Wells Fargo Housing Market index plunged from 72 in March to a pitiful 30 reading in April. According to Bloomberg, it was the biggest monthly drop in the 30-year history of the series. Home builder sentiment began the year at 76, a very optimistic 22-year high. Mortgage lending rates reached a new low last week as the Mortgage Bankers Association (MBA) 30-year contract rate fell to 3.45%, down 162 bps from a 9-year high in November of 2018. Despite the favorable lending rates, new purchase applications have declined by a combined 35% over a sustained five-week skid. The home sales pipeline is long, but significant declines are coming. Slower sales will put an end to what had been robust new construction and will sideline workers.

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On the manufacturing side, the Wall Street Journal reported this morning that Boeing customers canceled 150 orders for the 737 Max aircraft in March. This is another devastating blow to the already troubled aerospace company. On a related note, industrial production in the U.S. dropped -5.4% in March, the largest single month decline in nearly 75 years. The Empire Manufacturing Index, one of the more timely data releases, nosedived from -21.5 in March to -78.2% in April. This woeful reading more than doubled the previous low point logged in the midst of the 2009 financial crisis.

The thing to hold onto as the ugly data pours in, is that Congress and the Fed have since responded with unprecedented support. It won’t be enough to halt the economic contraction, but it’ll allow more consumers and businesses to tread water until it becomes possible to restart large parts of the economy…whenever that may be. Relief checks began showing up in bank accounts this week.

The nationwide shutdown could be costing the U.S. as much as $25 billion dollars a day according to outspoken St. Louis Fed President James Bullard. This isn’t lost on public officials trying to balance loss of life with the loss of livelihood. President Trump expects to talk with a number of state governors as early as tomorrow on their plans to reopen local economies, subject to CDC and FEMA guidelines.

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Market Indications as of 2:35 P.M. Central Time

DOW	Down 473 to 23,476 (HIGH: 29,551)
NASDAQ	Down 112 to 8,403 (HIGH: 9,817)
S&P 500	Down 53 to 2,793 (HIGH: 3,386)
1-Yr T-bill	current yield 0.17%; opening yield 0.21%
2-Yr T-note	current yield 0.20%; opening yield 0.22%
5-Yr T-note	current yield 0.33%; opening yield 0.42%
10-Yr T-note	current yield 0.62%; opening yield 0.75%
30-Yr T-bond	current yield 1.26%; opening yield 1.40%