

## Less Bad is the New Good

The enormous differences between expectations and actual data continues while the economic numbers seem to be improving a bit quicker than expected. This morning, the ADP employment change report for May (a preview to Friday's BLS labor report) showed a private sector payroll decline of just 2.7 million. Although a drop of this magnitude would be shocking in pre-virus days, it's actually considered relatively good news as the median forecast had indicated a significantly larger drop of 9 million. In addition, the previously reported 20.2 million payroll decline for April was revised upward to a smaller decline of 19.6 million. Several economists are leery of the ADP process and are questioning the validity of the May calculation, but the relatively small payroll decline does add to a small, but growing pile of data indicating the worst may be behind us.

On Friday morning, the always important May employment report from the Bureau of Labor Statistics will be released. In April, the BLS report had shown a nonfarm payroll plunge of 20.5 million, pretty much in line with the April ADP number. The expectation for Friday morning is a drop in nonfarm payrolls of 8 million. The fact that this morning's ADP report was significantly less bad hints at a better outcome on Friday.

Also this morning, the non-manufacturing ISM survey for May was released. It appears that the service sector is waking up as the overall index climbed from 41.8 to 45.4. An ISM reading below the 50 mark still indicates contraction, but the outlook among nation's purchasing managers is improving as the economy cautiously reopens. Within the service sector composite, the new orders index climbed from 32.9 to 41.9 and the business activity index from 26.0 to 41.0.

Earlier this week, the ISM manufacturing index for May rose from 41.5 to 43.1, still a number consistent with recession, but also moving in the right direction. Within the factory sector composite, the new orders index increased from 27.1 to 31.8, the current production index from 27.5 to 33.2 and the employment index from 27.5 to 32.1. Of the 18 manufacturing industries surveyed in May, 11 still reported contraction, but the number was 16 in the previous survey. Again, still really bad...but improving.

And yesterday, total auto sales were also better than expected. The 12.2 million annualized unit sales pace for May topped the 11.1 million unit forecast and was a substantial improvement over the pitiful 8.6 million unit pace from April. For perspective, auto sales had topped 17 million in each of the previous five years, but the mini-surge that occurred in May while most of the nation was still hunkered down, is a welcomed relief.

This improvement could get a boost later this summer as Congress considers additional federal aid. Democrats in the House had recently announced the \$3 trillion HEROES Act, which included almost \$1 trillion in aid to state and local governments as well as an even larger government payment to individuals. Although Senate Republicans will not support the bill as written, GOP leaders are reportedly working on alternate legislation that would incentivize workers to return to their jobs rather than continuing to collect enhanced unemployment benefits. One idea being floated along these lines is a bonus payment to workers who step away from the generous unemployment benefits early. There is also a push from the administration for a payroll tax cut or credit. Regardless of the form additional stimulus/support/rescue funds take, it would be a dose of positive news for the economy and the markets.

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Stocks are rallying (again) in early trading on the latest indication of improvement. The S&P 500 index has now risen more than 850 points or 38% from its March lows. The idea that the recession was self-induced through a forced national shutdown suggests that a reversal is possible when the nation fully emerges from its hiatus. However, with 25% of U.S. workers sidelined and businesses still shedding payrolls, the upward trajectory in optimism is likely to be uneven. And, COVID-19, although seemingly in retreat, will still ultimately determine the economic outcome.

## Market Indications as of 12:05 P.M. Central Time

DOW	Up 394 to 26,137 (HIGH: 29,551)
NASDAQ	Up 48 to 9,656 (HIGH: 9,817)
S&P 500	Up 34 to 3,115 (HIGH: 3,386)
1-Yr T-bill	current yield 0.17%; opening yield 0.16%
2-Yr T-note	current yield 0.19%; opening yield 0.16%
5-Yr T-note	current yield 0.37%; opening yield 0.32%
10-Yr T-note	current yield 0.76%; opening yield 0.69%
30-Yr T-bond	current yield 1.55%; opening yield 1.49%

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