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COVID-19 Clouds the Economic Picture

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As Americans readjust to the coronavirus world, it's become increasingly difficult to get a true sense, not only of where we're headed, but also where we are. Every economic indicator seems to have an asterisk attached. Whether a specific industry is poised to thrive or suffer depends on an evolving narrative. Auto sales, generally expected to languish this year, may be getting a boost from cash-flush consumers in need of vehicles as they move away from public transportation suddenly deemed less safe and less reliable. Although Cox Automotive reported sales of new vehicles were down -28% year-over-year in the final week of May, used vehicle sales were actually up +6% on an annual basis. The surprising increase in demand pushed used vehicle prices up +5.7% last month. In response to rising sales, CarMax, the nation's largest volume seller of used cars, has already brought back roughly two-thirds of the 15,000 workers it furloughed in April. The new car market is still expected to struggle this year as it competes against a secondary market flooded with millions of lightly used vehicles unloaded by rental car companies, but the outlook for used cars has unexpectedly brightened.

The housing picture is also a divided story. A recently conducted Harris poll showed nearly a third of Americans were considering a move to less populated areas as the pandemic makes densely-packed urban life feel less appealing. If housing demand shifts from urban to rural, prices will likely adjust in both areas. Facebook, Google, and Twitter have all extended their work-from-home orders into 2021 and could potentially make the option permanent for many employees as more and more people get used to a remote work environment. Unfortunately, the ability to work from home, like the ability to easily relocate, is predominantly a benefit afforded to the middle and upper class. And despite anecdotal evidence that Americans are *looking* at homes in the suburbs, employment (or lack of) will still be a driving factor in the decision to buy. There are still an estimated 30 million unemployed workers who probably won't be buying homes until they're re-employed, but for those fortunate enough to have held onto their jobs, affordability has improved. This week, mortgage rates reached a fresh record low with Freddie Mac reporting an average 30-year fixed loan rate of 3.13%. In response, purchase applications are up +21% year-over-year this week while refi applications have more than doubled over the same period last year.

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On Thursday, the weekly jobless claims data showed another 1.5 million Americans filed for unemployment benefits last week, well above the 1.29 million median forecast. Although this was the 11th straight month of declining claims volume, 1.5 million is still more than seven-times the number of filings from the first week in February and brings the cumulative three-month total to more than 45 million. Continuing claims, which represent the actual number receiving state benefits two week ago, declined a bit to 20.5 million. The enormous gap between benefit filings and the number of people receiving checks is a topic of debate. There are widespread reports of overburdened filing systems breaking down as well as duplicate filings, both in error and intentionally. The bottom line is when 1.5 million Americans are still losing their jobs as recently as last week, we aren't there yet. Reports of increased home and auto sales could turn out to be a short lived phenomenon if the tens of millions of jobs that disappeared in April don't reappear soon.

On a related and under-reported note, the number of Americans filing for unemployment under a new federal program extending benefits to self-employed and gig workers who historically had not been eligible for state benefits, rose by 761k last week. Within this separately reported program, the total number receiving checks fell by 445k to 9.3 million

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in the last week of May. This particular federal lifeline will continue through year end, although at the end of July, the $600 per week federal supplement to state unemployment checks will fall by the wayside. Fed Chairman Powell is pushing for additional aid from Congress, but an extension is far from a sure thing.

It's important to recognize that the nationwide upturn in spending is fueled not only by direct government payments, but also supplemental unemployment benefits and the temporary abandonment of monthly loan obligations.

This morning, the Wall Street Journal reported more than 100 million loan payments had been deferred under government forbearance programs at the end of May, nearly triple the April total. According to credit-reporting company TransUnion, student loan deferrals made up the bulk at 79 million, while deferred credit card payments totaled 11.5 million and deferred auto loans 7.3 million. A separate program allows homeowners affected by COVID-19 to request their mortgage servicer (if the loan is backed by the government) to pause payments for up to 12 months. According to a Mortgage Bankers Association survey, the number of home loans in forbearance totaled 4.3 million at the end of May. The number of Americans unable to make rent or other payments, not captured under government forbearance programs, is unknown, but presumably significant. It's important to recognize that the nationwide upturn in spending is fueled not only by direct government payments, but also supplemental unemployment benefits and the temporary abandonment of monthly loan obligations.

Massive government support has clearly kept individuals and many businesses afloat and contributed to a surprisingly brisk early revival of the economy, but unless the support continues, it's hard to imagine the recovery will move forward in an unbroken line.

Market Indications as of 2:55 P.M. Central Time

DOW	Down 181 to 25,899 (HIGH: 29,551)
NASDAQ	Down 1 to 9,942 (HIGH: 10,020)
S&P 500	Down 4 to 3,111 (HIGH: 3,386)
1-Yr T-bill	current yield 0.17%; opening yield 0.18%
2-Yr T-note	current yield 0.19%; opening yield 0.19%
5-Yr T-note	current yield 0.33%; opening yield 0.33%
10-Yr T-note	current yield 0.69%; opening yield 0.71%
30-Yr T-bond	current yield 1.46%; opening yield 1.48%