Unemployment Filings Soar as COVID Asserts Itself

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This morning's key economic news was (yet again) deterioration in the labor market. Initial jobless claims jumped from 787k to 965k for the week ending January 8th to the highest level since August as another wave of Americans found themselves filing for unemployment benefits. The recent increase in layoffs is likely tied to the elevated number of COVID cases and a rapidly rising virus-related death toll. It does appear, based on the "COVID tracking project" daily data, that hospitalizations and those currently in the ICU, have leveled off. But the virus spread will be a major factor driving GDP growth in the near-term.

It's still early, but fourth quarter growth is expected to be decidedly positive. The Atlanta Fed's *GDPNow* measure is indicating quarterly annualized GDP above +8.7%, while the New York Fed's GDP *NowCast* is showing +2.2% as of six days ago. These two measures aren't usually this far apart. One of the major growth engines of the quarter is likely to be the rebuilding of business inventories. If brisk sales don't follow, inventories would be subject to retrenchment in subsequent quarters. Over in Europe, the growth outlook is much weaker. German, France, Italy and the U.K. were among major European nations that imposed severe lockdowns in December to combat the COVID spread. At this point, it's possible that EU GDP could be negative in the final quarter of the year. A global retrenchment would hinder any U.S. recovery.

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Inflation is expected to make headlines later this year, but that story is still several months away. Yesterday, the overall consumer price index (CPI) for December climbed by +0.4%, the biggest gain in four months. Although the increase was on the high side, almost 70% of the gain can be attributed to a +8.4% rise in gasoline prices. If prices for food (which were also marginally higher) and energy are excluded, core CPI rose by just +0.1%. The core was weighed down by retreating used car prices, moderating rental costs and lower prices for medical insurance. On a year-over-year basis, headline CPI was rising at a mild +1.4% pace while core CPI was increasing at a +1.6% rate. Both of these are obviously below the Fed's 2% target, but since May, CPI is increasing at more than a +4% annualized rate. That +4% pace over the second half of the year appears quite inflationary, but it's more reflective of the summer economic reopening and our ability to more effectively deal with the pandemic. The reality is inflation continues to be benign relative to a year ago, but this is likely to change as soon as April when we see the March CPI report. In all likelihood, the annual price increase at that time will be historically large relative to the previous March when much of the economy was dormant.

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Tomorrow morning, the December retail sales report will be released. The median forecast is calling for an unchanged (0.0%) number, following two straight months of sales decline. The recent increase in unemployment filings should pressure government leaders to pass additional aid, presumably focused on individuals, as soon as this month. Cash strapped consumers have curtailed spending for months due to financial insecurity. If Congress passes a significant support package, future consumption would likely increase.

At the end of the day, the near-term story remains COVID-19.

Please see disclosure starting on page 2.

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

DOW	Up 118 to 31,178 (NEW HIGH)
NASDAQ	Up 51 to 13,180 (HIGH: 13,202)
S&P 500	Up 7 to 3,816 (HIGH: 3,825)
1-Yr T-bill	current yield 0.09%; opening yield 0.09%
2-Yr T-note	current yield 0.14%; opening yield 0.14%
5-Yr T-note	current yield 0.46%; opening yield 0.47%
10-Yr T-note	current yield 1.10%; opening yield 1.08%
30-Yr T-bond	current yield 1.84%; opening yield 1.82%