Economic highlights from the week ending on May 8, 2020

U.S. nonfarm payrolls declined by 20,500,000 in April, following an 870,000 decline in March. The unemployment rate increased to 14.7% in April from 4.4% in March, and the labor participation rate declined to 60.2% from 62.7%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, jumped to 22.8% from 8.7%. By comparison, in the wake of the last recession, the unemployment rate peaked at 10.0% in October 2009, and the underemployment rate peaked at 17.2% in December 2009. The pace and severity of job destruction in the last 7 weeks is unprecedented. Average hourly earnings rose 4.7% in April and were up 7.9% on year-over-year basis (vs. up 3.3% year-over-year in March), which reflects the destruction of lower paid jobs. Notably, the establishment survey of payrolls and the household survey of unemployment are collected mid-month, and do not capture the job losses in the second half of April, which points to another sobering employment report next month. According to the weekly initial jobless claims reports, a total of more than 33 million people have filed for unemployment since mid-March, which suggests that the current unemployment rate is actually over 20%. Many of those jobs are expected to return as the economy slowly begins to reopen but we believe unemployment is likely to remain elevated heading into next year.

As of yesterday's market close, the Dow Jones Industrial Average and S&P 500 indices are up 28.4% and 28.8%, respectively, from the recent (March 23, 2020) low. Supported by historic fiscal and monetary response, we believe equity market participants are generally looking through the weak economic data and expect conditions to improve in the second half of the year. Meanwhile, Treasury yields across the curve remain under pressure, with the 2-year Treasury yield dipping to as low as 0.105% this morning; an all-time record low. The 10-year Treasury yield is up about five basis points week-over-week to 0.66%. We believe the ongoing global demand for safe haven dollar-denominated assets continues to put downward pressure on Treasury rates. The Treasury yield curve also suggests that the Fed is likely to keep its main policy rate near the zero bound for an extended period.

Next Week

CPI, PPI, Retail Sales, Industrial Production, Consumer Sentiment