MORNING BRIEFING
March 23, 2020

The Great Virus Crisis

Check out the accompanying chart collection.

(1) GVC is a world war, but not WWIII. (2) Mobilizing resources to fight the virus. (3) Scrambling for cures and vaccines. (4) US case counts by states: Why is Washington so high, while Florida is so low? (5) The Kirkland outbreak. (6) Good news in China, South Korea, Indonesia, and Mexico. (7) Bad news in Europe and US trigger social distancing responses, which should work. (8) The similarity between virologists and economists. (9) From the Good to the Bad and the Ugly in two weeks. (10) Soaring unemployment, plunging GDP. (11) Start of the Zombie Apocalypse in the credit markets? Or can Fed rescue corporates and munis? (12) This too shall pass...if we all stay home and flatten the infection curve. (13) Fiscal and monetary policies should buy us some time. (14) Movie reviews since 2005.

GVC I: Home Front. Everyone is declaring war on COVID-19. It has rapidly turned into a world war against the virus following the initial outbreak in China at the end of 2019. I prefer to describe it as the “Great Virus Crisis” (GVC), which is a global health, economic, and financial crisis. It is already somewhat reminiscent of the Great Financial Crisis (GFC) and Great Recession of 2008. It isn’t World War III, but it is a global crisis with economic and financial consequences that are reminiscent of WWI and WWII. The enemy is a highly contagious virus. Borders have been closed. Quarantines have been imposed both within and between countries. Fear of the virus has spread around the world. People are staying confined to their homes both by government decree and voluntarily.

My family is staying in place in our home on Long Island. Our two college kids are home. We are all already experiencing a bit of cabin fever, though that certainly beats the alternative. Our 19-year-old daughter is dealing with the situation by spending lots of time on Facetime with her friends when she is not focusing on her online classes. Last week, she drove to a local park to meet with her friends in social-distancing get-togethers. They circled their wagons (well, cars), opened their windows, and talked to one another at a safe distance!

That approach to remaining social, but at a safe distance, might still be allowed following the issuance of an executive order by New York Governor Mario Cuomo declaring that almost everyone in the state must stay home as much as possible. Last Thursday, California Governor Gavin Newsom issued a shelter-in-place order covering the entire state. The order
requires the state’s nearly 40 million residents to remain indoors and limit outdoor movement to what is “absolutely essential.” He stated: “We project that roughly 56% of our population—25.5 million people—will be infected with the virus over an eight-week period.” Other states are also issuing orders to stay at home or shelter in place.

Here are some other relevant recent developments on the home front:

(1) Defense Production Act. On Wednesday, March 18, President Donald Trump announced during a White House press briefing that he is invoking the Defense Production Act—which was established in 1950 in response to production needs during the Korean War—to help make up for potential medical supply shortages and deploying two hospital ships to provide much-needed capacity as the US battles the coronavirus pandemic. Trump said that he views the country as on wartime footing and himself “as, in a sense, a wartime president.”

(2) Medications. Last Thursday, the commissioner of the Federal Drug Administration (FDA) confirmed that the agency is looking for COVID-19 treatments among drugs already approved for other diseases. Several therapies are under consideration, including Gilead’s remdesivir, Regeneron’s kevzara, and generic antimalarial drug chloroquine (and an alternative version, hydroxychloroquine). The antimalarial drugs seem especially promising based on a limited trial, but they are in short supply. However, even though Trump has touted them, the FDA has neither tested nor endorsed using them as a treatment for COVID-19.

(3) Case count. According to the Coronavirus Worldometer, as of Sunday morning March 22, there were 26,909 cases of COVID-19 in the US with 349 deaths. The total number of cases is expected to rise sharply because the US only started widespread testing in recent days. This number will soar if Newsom’s projection of 25.5 million infections in California alone pans out. It’s not clear why that would happen given his shelter-in-place order. In all of China, with a population of 1.4 billion, there have been only 81,054 cases so far.

According to the Coronavirus Worldometer, on Sunday morning, there were 12,324 cases including 76 deaths in New York state; 1,793 cases and 94 deaths in Washington state; and 1,522 cases and 28 deaths in California. New Jersey was fourth on the list, with 1,327 cases and 16 deaths. Seventh on the list was Florida, with 763 cases and 13 deaths. Needless to say, Florida has lots of seniors with health issues who are particularly vulnerable to the virus’ worst outcomes. It’s also warm down there this time of the year, so the relatively low numbers there might suggest that the virus might be seasonal. It was 80 degrees in Miami on Sunday.
Kirkland. Why is Washington state so high up on the list? A report Wednesday from the US Centers for Disease Control and Prevention (CDC) provided the most detailed account to date of what drove the outbreak still raging in the Seattle area, where authorities closed down restaurants, bars, health clubs, movie theaters, and other gathering spots this week. Thirty-five coronavirus deaths have been linked to the Life Care Center in Kirkland near Seattle. Staff members who worked while sick at the rehab center contributed to the spread of COVID-19 among vulnerable elderly patients and also worked at other similar facilities in the area. About 57% of the patients at the nursing home were hospitalized after getting infected, the CDC said. Of those, more than one in four have died. No staff members have died.

GVC II: Health Crisis. While China and South Korea seem to be winning the war against the virus, Europe is taking a pounding, and the situation in the US is deteriorating rapidly.

According to the Coronavirus Worldometer, as of Sunday morning, China has had total cases of 81,054 including 46 new cases and 3,261 deaths. Remember, this is a country with 1.4 billion people! South Korea, with a population of 51 million people, has had 8,897 cases, including 98 new ones, and 104 deaths. Indonesia, with a population of 273 million people, has had 514 cases in total so far with just 48 deaths! On Sunday evening, it was 79 degrees and partly cloudy in Jakarta. By the way, Mexico’s population of 129 million people has had 251 cases, including 48 new ones, and just 2 deaths. The temperature has been in the mid-80s during the day recently in Mexico City.

Asian countries have had more experience with coronavirus outbreaks than most, notably their direct contact with SARS between November 2002 and July 2003. SARS originated in southern China, causing an eventual 8,098 cases and 774 deaths in 17 countries, with most of them in mainland China and Hong Kong. A large outbreak of MERS occurred in South Korea in 2015. So health authorities in China and South Korea responded rapidly to the latest coronavirus outbreak with both widespread testing and mass quarantines. In Europe and the US, however, health authorities have been much slower to respond with testing, imposing social distancing, and mobilizing resources for dealing with the latest coronavirus outbreak.

The current version of the coronavirus is more contagious than was either SARS or MERS. That’s partly because it tends to cause mild symptoms in 80% of those infected. That percentage is probably higher, since some cases are so mild that they aren’t reported. However, even a mildly infected person—especially if that person is asymptomatic, as is
typical during the first few days of onset—can pass it to others, perhaps two to four other people.

If voluntary and enforced social distancing is spreading faster than the virus now, then it should infect fewer and fewer people and become, well, less viral, especially if it turns out to have a seasonal tendency. The question is whether social distancing is enough to make it go away. Asian health authorities also have been doing a great job of testing and tracing recent social interactions of persons found to be infected. I’m not sure why that would be necessary in the US (where we are clearly behind in testing) given our widespread social distancing.

But then, I’m not a virologist. With all due respect, the folks who are trained virologists remind me of economists. Both groups of experts tend to rely a great deal on models and simulations, which often provide radically different predictions depending on their simplifying assumptions.

**GVC III: Economic Crisis.** The COVID-19 pandemic has triggered a global pandemic of fear, resulting in the virtual shutdown of the global economy. More accurately, most of the current shutdowns are occurring in Europe and the US. Asian economies are already showing signs of reviving from the health crisis.

We estimate that China’s real GDP fell by 5%-10% y/y during Q1. China’s industrial production plunged 13.5% y/y during February (Fig. 1). Debbie calculates that it fell over 70% during Q1 q/q (saar). That drop was foreshadowed by the freefall in China’s M-PMI during February (Fig. 2). The country’s NM-PMI also dropped sharply, as many service companies were forced to shut down during the worst of the health crisis in China.

What can we expect for the US? Consider the following:

(1) *From Good to Bad and Ugly in a couple of weeks.* In the March 9 *Morning Briefing*, I outlined three possible scenarios: the Good, the Bad, and the Ugly. The Good (a growth recession with a stock market correction) was wishful thinking. That leaves only the Bad and the Ugly for now. The former is underway, with the global economy falling into a severe recession, the stock market in a bear market (with the S&P 500 down 31.9% so far), and the Fed having lowered the federal funds rate to zero and restarted credit easing programs.
The only question now is how bad will Bad be? Could it turn into the Ugly scenario—which I’ve previously described as the “Zombie Apocalypse”—with credit markets freezing up and the bear market in stocks pushing the S&P 500 down 50% or even more?

(2) Soaring unemployment. I’m still not giving up on the Good scenario’s assumption about the health crisis—namely, that COVID-19 abates within the next six to eight weeks. The extreme measures adopted by many US states to enforce social distancing are having a draconian impact on the economy, but also increasing the likelihood that the health crisis will be over sooner rather than later. Seasonal warming should help as well.

However, in the next few weeks, the case count is likely to soar as more testing occurs and more people need hospitalization. At the same time, there is no doubt at all that initial unemployment claims and the unemployment rate will also soar. During January, a record 31.8 million people were employed in retail trade, hotels & motels, air transportation, restaurants & other eating places, arts, entertainment & recreation (which includes amusements and gambling industries), and office of real estate agents & brokers (Fig. 3). Many of these establishments have seen their business tank in recent weeks and have reduced their payrolls significantly.

It’s not hard to imagine that one-third to even one-half of jobs have been lost in these industries over just the past couple of weeks. We saw a hint of the massive job destruction ahead reflected in initial unemployment claims, which jumped to 281,000 during the March 14 week, the highest since the week of September 2, 2017, following Hurricane Harvey (Fig. 4). This series will be going straight up in coming weeks.

The unemployment rate could easily spike to 15%. That would imply an increase in the number of unemployed by 19.2 million from 5.8 million in early February to 25.0 million in early April. What lies immediately ahead for the US and Europe can be seen in Israel, where the government has also imposed strict restrictions. The unemployment rate in Israel has increased fourfold to 16.5% from 4.0% before the outbreak.

(3) Plunging real GDP. Debbie and I have had to re-estimate how bad the drop in real GDP will be during Q2 almost every other day over the past two weeks. Our estimate last week of a drop in the 5% to 10% range was too optimistic; now the Q2 decline looks more likely to be 15% to 20%. Another drop is likely during Q3, though that one should be in the low single
digits. For Q4, we estimate a big double-digit rebound as we all simultaneously cure our cabin fever by going shopping, dining out, and traveling again.

So far, we have March data for the business surveys of the regions covered by the Federal Reserve Banks of NY and Philly. The average of their general business indicators plunged to -17.1 during March from 24.8 during February (Fig. 5). Undoubtedly, the other regional surveys will confirm the drop in economic activity around the country.

Remarkably, the Atlanta Fed’s GDPNow estimated that real GDP is up 3.1% during Q1 as of March 18. However, a severe, but hopefully short recession started in March with real GDP likely to fall significantly during Q2 and Q3. If the virus pandemic ends this summer, then a V-shaped recovery is possible during Q4.

**GVC IV: Financial Crisis.** Even with the federal government expanding the unemployment insurance program and sending checks out to many American households, incalculable numbers of people and small businesses won't be able to meet their expenses and bills; many corporations won’t have enough cash flow to service their debts and pay dividends. The Ugly scenario (a.k.a. the Zombie Apocalypse) will become increasingly likely the longer that the health care crisis lasts.

The signs of a credit crunch have been widespread and alarming. They have exacerbated the selloff in the stock market. Indeed, in numerous conference calls with our accounts, many have told me that they would like to take the opportunity of the bear market in stocks to rebalance away from bonds and into stocks. The problem is that the bond market is so illiquid that they can’t sell what they want to sell into it at a reasonable price to raise the cash they would like to put into the stock market.

Here are some of the latest indicators showing that healthy companies are at risk of turning into zombies and that the zombies may be starting to get buried as credit conditions freeze up:

(1) **Corporates.** The yield on the US high-yield corporate bond composite jumped to 10.75% on Friday, up 542bps from 5.33% at the beginning of this year (Fig. 6). Over this same period, its spread over the 10-year US Treasury yield jumped from 341bps to 983bps, the highest since June 29, 2009 (Fig. 7). Investment-grade yields and spreads have also blown up and blown away as key industries have been shut down, including airlines, hotels, entertainment, and the others listed above.
On Wednesday, March 18, in a *Financial Times* article, former Fed chairs Ben Bernanke and Janet Yellen advocated that the Fed should look for more authority that would give it the power to purchase corporate bonds. “The Fed’s intervention could help restart that part of the corporate debt market, which is under significant stress,” Bernanke and Yellen wrote. “Such a program would have to be carefully calibrated to minimize the credit risk taken by the Fed while still providing needed liquidity to an essential market.”

(2) *Munis.* Empty streets, restaurants, and hotels are all bad news for state and local tax receipts. So are soaring unemployment claims. The AAA-rated municipal bond yield jumped from a record low of 0.95% on March 6 to 2.78% on Friday of last week (*Fig. 8*). Over the same period, its spread widened from 21bps to 186bps, the widest since December 18, 2008 (*Fig. 9*).

On Friday, the Fed announced a measure to bolster municipal debt maturing in less than one year. Congress is considering authorizing the Federal Reserve to purchase municipal bonds as one of the ways to support state and local efforts to address the coronavirus pandemic. A memo circulated Wednesday by House Financial Service Committee Chairwoman Maxine Waters (D-CA) suggests that the next wave of federal legislation will authorize the Fed to support state, territory, and local debt.

(3) *Mortgages.* Even mortgage rates and spreads have jumped as the credit crunch spread throughout the capital markets. The 30-year mortgage rate rose from 3.80% at the start of the year to 4.01% on Thursday (*Fig. 10*). The spread blew out from 192bps to 289bps over this same period (*Fig. 11*).

(4) *Credit ratings.* Obviously, the credit-rating agencies couldn’t have foreseen the GVC and the resulting shutdown of numerous industries and companies. The credit markets over the past two weeks have re-rated every bond out there for the possibility of a Zombie Apocalypse. Let’s see how the credit-rating agencies handle this mess. Will they issue contingent ratings, maintaining their current ones if the GVC-induced recession is severe but short-lived? Will they downgrade everything to junk if the recession turns into a depression?

(5) *Taking stock.* Based on what I know I know and what I know I do not know, I believe that the GVC will pass sooner rather than later. The second derivatives of the case counts and the death counts should peak and start to fall in the US and Europe within the next six to eight
weeks, if not sooner, as a result of social distancing. Of course, stock prices could fall further and credit spreads could widen further, but there are extraordinary values now in both the stock and bond markets.

Social distancing should buy us time to flatten the curve. Fiscal and monetary support programs should buy us time to survive the unfolding severe recession. Stay home. Stay healthy. Stay calm.

**Movie Reviews** ([link](#)). In the “Godfather,” Michael Corleone, played by Al Pacino, told his brother Sonny, played by James Caan: “It’s not personal, Sonny. It’s strictly business.” Unfortunately for all of us, the Great Virus Crisis isn’t strictly about our businesses. It’s also about our personal lives. I figure that if my current avocation doesn’t pan out, I can always be a movie reviewer. Indeed, some of you folks have asked me for my top picks of the movies I have reviewed over the years, now that we are all working from home and watching Netflix for entertainment. Fortunately, you can find all my reviews since 2005 on our website. Hopefully, we won’t have a chance to be watching too many of them.

**CALENDARS**

**US:** **Mon:** None. **Tues:** M-PMI & NM-PMI Flash Estimates 44.0/42.0, Richmond Fed Manufacturing Index -10, New Home Sales 750k. (DailyFX estimates)

**Global:** **Mon:** Eurozone Consumer Confidence -13, Japan C-PMI, M-PMI & NM-PMI Flash Estimates. **Tues:** Eurozone, Germany, and France C-PMI Flash Estimates 38.8/41.5/38.1, Eurozone, Germany, and France M-PMI Flash Estimates 39.5/40.0/41.0, Eurozone, Germany, and France NM-PMI Flash Estimates 39.8/43.0/41.0, UK C-PMI, M-PMI, and NM-PMI Flash Estimates 45.1/45.0/45.0. (DailyFX estimates)

**STRATEGY INDICATORS**

**Global Stock Markets Performance** ([link](#)): Last week saw the US MSCI index tumble 15.0% for its worst decline since October 2008 and its second worst drop on record as it fell to 32.3% below its 2/19 record high. The US MCSI ranked 35th of the 49 global stock markets we follow in a week when only one country rose in US dollar terms. That compares to a 7.7% decline for the AC World ex-US index as all regions fell for a second straight week. EMEA was the best performer, albeit with a drop of 4.0%, followed by EMU (-5.2), EAFE (-5.8), and EM Eastern Europe (-6.5). EM Latin America (-20.8) was the biggest underperformer, followed by BRIC (-
8.9) and EM Asia (-8.8). Poland was the best-performing country last week, with a gain of 1.2%, followed by Belgium (-0.1), Switzerland (-0.4), Thailand (-1.5), and Finland (-3.3). Of the 30 countries that underperformed the AC World ex-US MSCI last week, Colombia fared the worst for a second week, with a decline of 28.3%, followed by Argentina (-26.1), Indonesia (-25.1), Brazil (-21.7), and Chile (-18.9). The US MSCI’s ytd ranking dropped seven places last week to 15/49 as its ytd performance tumbled to -28.8% from -16.2% a week earlier. It’s still ahead of the 30.9% decline for the AC World ex-US. EM Asia and BRIC are the best performers ytd, albeit with declines of 22.7% and 24.7%, respectively. The worst-performing regions: EM Latin America (-48.8), EM Eastern Europe (-41.4), EMU (-34.5), EMEA (-34.4), and EAFE (-31.6). The best country performers ytd: Jordan (-9.9), China (-15.2), Denmark (-19.7), Switzerland (-19.7), and Hong Kong (-20.8), and Taiwan (-22.3). The worst-performing countries so far in 2020: Colombia (-61.0), Brazil (-52.7), Greece (-47.8), Argentina (-46.9), and Austria (-45.4).

**S&P 1500/500/400/600 Performance** ([link](#)): LargeCap suffered a bruising 15.0% drop for the week, but that performance shone in comparison to the 18.6% and 16.7% declines for the MidCap and SmallCap indexes. LargeCap ended the week back in a 31.9% bear market from a 19.9% correction a week earlier. MidCap finished the week 40.2% below its record high on 1/16, and SmallCap sank deeper into a bear market at 45.0% below its 8/29/18 record. All 33 sectors fell for a second straight week, and all but SmallCap Utilities is in a bear market. SmallCap Utilities was the best performer, albeit with a decline of 0.9%, followed by SmallCap Consumer Staples (-1.4%), MidCap Consumer Staples (-7.2%), SmallCap Communication Services (-11.3), and LargeCap Consumer Staples (-11.3). MidCap Real Estate (-26.5) was the biggest underperformer last week, followed by MidCap Consumer Discretionary (-25.1), SmallCap Real Estate (-24.7), SmallCap Consumer Discretionary (-23.2), and LargeCap Real Estate (-23.0). All three indexes are still down on a ytd basis, but LargeCap’s 28.7% drop is much smaller than the declines recorded for MidCap (-39.0) and SmallCap (-40.8). All 33 sectors are down so far in 2020, with the best performers led by SmallCap Utilities (-13.3), SmallCap Communication Services (-18.1), LargeCap Consumer Staples (-20.2), LargeCap Information Technology (-22.3), MidCap Consumer Staples (-22.8), and LargeCap Health Care (-22.9). The biggest laggards of 2020 to date: MidCap Energy (-70.3), SmallCap Energy (-69.2), LargeCap Energy (-57.5), SmallCap Consumer Discretionary (-49.5), and MidCap Consumer Discretionary (-47.1).

**S&P 500 Sectors and Industries Performance** ([link](#)): All 11 of the S&P 500 sectors fell last week as five outperformed the 15.0% decline for the index. That compares to an 8.8% decline
for the S&P 500 a week earlier, when all 11 sectors fell and five outperformed the index. Consumer Staples’ 11.3% drop made it the best performer for the week, ahead of Communication Services (-12.3%), Consumer Discretionary (-12.5), Materials (-12.6), and Health Care (-13.0). Real Estate was the biggest underperformer, with a decline of 23.0%, followed by Energy (-19.6), Industrials (-18.4), Financials (-18.0), Utilities (-17.2), and Tech (-15.3). The S&P 500 is now down 28.7% so far in 2020. All 11 sectors are down more than 20% ytd, with six beating the index. The leading sectors ytd: Consumer Staples (-20.2), Tech (-22.3), Health Care (-22.9), Communication Services (-23.9), Utilities (-26.7), and Consumer Discretionary (-27.9). The laggards of 2020 so far: Energy (-57.5), Financials (-38.9), Industrials (-37.3), Materials (-34.1), and Real Estate (-30.1).

Commodities Performance (link): Last week, the S&P GSCI index tumbled 12.3% for its fourth straight weekly decline. It’s now down 41.2% from its recent high on 1/6, and it ended the week deeper in a bear market at 47.9% below its cyclical high on 10/3/18. Coffee was the best performer last week, with a gain of 12.1%, followed by Kansas Wheat (8.7%), Wheat (6.6), Feeder Cattle (3.3), and Soybeans (1.6). With the oil price war continuing between Russia and Saudi Arabia, the Energy Commodities index hit an 18-year low during the week. Unleaded Gasoline was the biggest decliner, with a drop of 31.2%, followed by Crude Oil (-29.5), Brent Crude (-18.2), Silver (-14.6), Natural Gas (-11.9), and Copper (-11.9). All 24 commodities that we follow are down so far in 2020. The smallest decliners: Gold (-2.3), Wheat (-3.5), Kansas Wheat (-3.5), Lean Hogs (-4.9), and Coffee (-7.7). The worst performers ytd: Crude Oil (-62.9), Unleaded Gasoline (-62.8), Brent Crude (-56.1), GasOil (-50.5), and Heating Oil (-49.9).

S&P 500 Technical Indicators (link): The S&P 500 price index fell 15.0% last week, weakening considerably relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). It was below its 50-dma for a fourth week and for the first time since October, and also remained solidly below its 200-dma for a fourth week and for the first time since January 2019. Its 50-dma relative to its 200-dma fell for a fourth straight week, dropping to an 11-month low of 2.2% above its 200-dma from 4.6% a week earlier. During late February, it had been at 7.6%, which was the highest since May 2012. The S&P 500 has formed a Golden Cross for 52 weeks after 17 weeks in a Death Cross formation. The S&P 500’s 50-dma dropped for a fourth week after rising for 20 weeks. The price index tumbled w/w from 15.3% below its falling 50-dma to 26.1% below on Friday—its lowest reading since October 1987. That compares to a 10-month high of 4.6% above its rising 50-dma in mid-January and 6.6% above during February 2019—its highest level since October 2011. The
200-dma fell for a second week after rising for 39 weeks. It had been rising for 16 weeks through May 2019 after falling from October 2018 to February 2019 in the first downtrend since May 2016 (when it had been slowly declining for nine months). The index traded below its 200-dma for a fourth week after being above for 38 weeks. It also plummeted w/w from 11.5% below its rising 200-dma to 24.4% below its falling 200-dma on Friday. That’s the lowest reading since March 2009 and down from a 24-month high of 11.2% in mid-February. That compares to a seven-year high of 13.5% above its rising 200-dma during January 2018 and 14.5% below on 12/24/18, which was then the lowest since April 2009. At its worst during the Great Financial Crisis, the S&P 500 price index was 25.5% below its 50-dma on 10/10/08 and 39.6% below its 200-dma on 11/20/08.

**S&P 500 Sectors Technical Indicators** ([link](#)): All 11 S&P 500 sectors traded below their 50-dmas and 200-dmas again last week as the bear market ended its second week at a new low. Just six sectors are still in the Golden Cross club (with 50-dmas higher than 200-dmas), down from nine a week earlier, as Consumer Discretionary, Financials, and Industrials dropped out of the club. That compares to just two sectors in the club during February 2019 and all 11 in the club during January 2018. Energy has not been in a Golden Cross for 70 straight weeks. The 50-dma has been falling for four weeks now for all 11 sectors, a swift reversal from the week before that, when 10 sectors had rising 50-dmas. All 11 sectors now have falling 200-dmas—the first time that’s happened since January 2016—down from nine falling a week earlier and down from nine sectors with rising 200-dmas the week before that. Financials’ 200-dma was down for a fourth week for the first time since late August. Energy’s 200-dma has been mostly falling since October 2018.

**US ECONOMIC INDICATORS**

**Regional M-PMIs** ([link](#)): Two Fed districts have now reported on manufacturing activity for March—Philadelphia and New York—and show a sharp contraction in activity, giving one of the few glimpses to date of the coronavirus outbreak’s impact on the economy. The composite index (to -17.1 from 24.8) plunged 41.9 points to its lowest reading since April 2009—after expanding at its fastest pace since October 2017 last month. Both the New York (to -21.5 from 12.9) and Philadelphia (-12.7 from 36.7) measures swung from expansion to contraction—with the New York region contracting at its steepest rate since March 2009 and Philly’s since July 2012. New orders (-12.4 from 27.9) declined at the fastest pace since May 2009 after expanding at its fastest pace since May 2018 in February, as measures for the New York (-9.3 from 22.1) and Philadelphia (-15.5 from 33.6) regions tumbled 31.4 points and 49.1 points,
respectively. March’s employment measures sank to 1.3 from 8.2 in February and 14.2 in January, with factories adding to payrolls at the slowest pace since the end of 2016. New York manufacturers (-1.5 from 6.6) began cutting payrolls this month, while Philly’s (4.1 from 9.8) hired at their slowest pace in just over four years.

**Leading Indicators** (link): “The U.S. LEI rose slightly in February, but it doesn’t reflect the impact of the COVID-19 pandemic which began to hit the U.S. economy in full by early March,” according to February’s report. The Leading Economic Index (LEI) in February edged up 0.1% to a new record high, following January’s 0.7% jump—which was the largest monthly gain since February 2018. Four of the 10 components of the LEI contributed positively last month, four negatively, while stock prices and real core nondefense capital goods orders were unchanged. March’s report will look dramatically different as the plunge in the stock market and the surge in jobless claims alone will pull the LEI considerably lower. Available data for March show jobless claims soared from 211,000 to 281,000 during the week ending March 14, while the S&P 500 Index has plunged 22% so far this month. In addition to this drag, the recovery in manufacturing, which had looked promising before the coronavirus outbreak, will now be short-lived due to the disruption in “global supply chains and falling demand,” according to the report.

**Coincident Indicators** (link): The Coincident Economic Index (CEI) reached another new record high in February, posting only one decline the past 10 months, climbing 1.4% over the period. February’s CEI edged up 0.3%, with all four components contributing positively to the index: 1) March’s 273,000 employment gains blew past forecasts, and upward revisions to February and January payrolls showed a net gain of 85,000. 2) Real personal income—excluding transfer payments—continued to trend higher, climbing 0.5% during the two months through February to a new record high. 3) Real manufacturing & trade sales also reached a new record high in February, climbing 0.2% m/m and 1.2% y/y. 4) Industrial production in February posted its first increase since November, remaining in a flat trend just below December 2018’s record high. (The economic impact of the coronavirus outbreak was not yet visible in the numbers.) Cold weather boosted production 0.6% last month, boosted by a 7.1% surge in utilities output.
Existing Home Sales (link): Existing home sales (tabulated when a purchase closes) jumped 6.5% in February to 5.77mu (saar)—the highest since February 2007—as single-family sales soared 7.3% to a near 14-year high of 5.17mu!! According to Lawrence Yun, NAR’s chief economist: “These figures show that housing was on a positive trajectory, but the coronavirus has undoubtedly slowed buyer traffic and it is difficult to predict what short-term effects the pandemic will have on future sales.” Regionally, sales were the strongest in the West (18.9%m/m & 11.5% y/y) and the South (7.2 & 8.2), on both a monthly and yearly basis, followed by the Midwest (0.8 & 4.0); the Northeast (-4.1 & 2.9) region was the weakest. “For the past couple of months, we have seen the number of buyers grow as more people enter the market,” Yun said. “Once the social-distancing and quarantine measures are relaxed, we should see this temporary pause evaporate, and will have potential buyers return with the same enthusiasm.”