



## MORNING BRIEFING

May 18, 2020

### Awakenings

Check out the accompanying [chart collection](#).

(1) Hearing more good things about Gilead's anti-viral drug. (2) Will the US economy awaken from its government mandated catatonia? (3) Revising our real GDP forecast: Much worse in Q2, but recovery starts during Q3. (4) Small business survey full of bad news with one exception. (5) Consumers showing some tentative signs of leaving their cabins. (6) Gasoline demand is picking up. (7) Reopening for business, though not business as usual. (8) Inflation outlook: the 4Ds versus the 3Ts. (9) Fed would welcome and accommodate a temporary awakening of inflation. (10) Setting the stage for another Cold War. (11) Joe Biden?

**Virology 101: Getting Closer to a Cure?** In a few conversations with various health care professionals, I've been hearing good things about remdesivir, the anti-viral drug manufactured by Gilead Sciences. Just as Tamiflu reduces the severity of the seasonal flu if taken as soon as symptoms appear, remdesivir may reduce the severity and lethality of COVID-19. Patients treated early with the drug may be less likely to be put on ventilators, which save the lives of only 20% of the patients who need them. By the way, Gilead also invented Tamiflu.

On May 1, the Food and Drug Administration (FDA) granted emergency-use authorization (EUA) for remdesivir. The FDA had previously issued an EUA for the malaria drug hydroxychloroquine to treat COVID-19, even though at least some studies had suggested the medicine was not effective. While the latter drug is available over the counter as a malaria treatment, remdesivir—which was first used to treat Ebola patients—is less available, very costly, and needs to be administered intravenously for either five or 10 days. The Japanese Ministry of Health, Labour, and Welfare approved remdesivir for the treatment of COVID-19 on May 7.

The May 18 issue of *Bloomberg Businessweek* includes an excellent [article](#) on remdesivir, highlighting Gilead management's foresight in preparing to produce more of it as soon as they heard about an unusual number of pneumonia cases popping up in the Chinese city of Wuhan in early January. The story reports: "Even by the exacting standards of pharmaceuticals, remdesivir is tricky to produce—the months-long process involves 70 raw materials, reagents,

and catalysts.” Nevertheless, Gilead stockpiled the material necessary to produce lots of the drug, which is manufactured in La Verne, California. While the article suggests that remdesivir isn’t a cure, it sure sounds like one to me.

According to Gilead’s May 1 [press release](#), the pharma giant has donated its existing supply of 140,000 treatment courses to treat patients *globally* (our emphasis). The company has set a goal of scaling up production significantly by October and through December and beyond into the millions if necessary.

By the way, Gilead [reportedly](#) has another compound in its pipeline that is easier to make, has been shown to be effective against coronavirus in animal models, and is potentially as effective as remdesivir, if not more so.

(Full disclosure: None of us at Yardeni Research directly own shares of Gilead Sciences.)

**US Economy: The Great Reopening.** “Awakenings” is a 1990 film starring Robin Williams as Dr. Malcolm Sayer, who uses a drug called “L-Dopa” to “awaken” his catatonic patients. The problem is that it only has a temporary effect. The awakening doesn’t last very long.

The US economy turned catatonic when state governors issued stay-in-place orders during the second half of March. One impact was surging unemployment, with a 21.4 million drop in payroll employment during March and April and a 17.3 million increase in the number of unemployed ([Fig. 1](#)). Another impact was plummeting retail sales, down 23.4% from February through April. The three-month average of inflation-adjusted retail sales excluding building materials fell 37.4% (saar) through April ([Fig. 2](#)).

As a result, the Atlanta Fed’s [GDPNow](#) tracking model on Friday showed a staggering 42.8% decline in Q2’s real GDP, down from a decrease of 34.9% estimated the week before. Inflation-adjusted consumer spending and capital spending are projected to be down 43.6% and 69.4%, respectively. These are shockingly bad numbers, but not surprisingly bad given the lockdowns.

The [Weekly Economic Index](#) (WEI), compiled by the Federal Reserve Bank of New York, showed a y/y drop of 11.1% during the week of May 9 ([Fig. 3](#)). The WEI is composed of 10 high-frequency indicators. The Redbook same-store retail sales index and the Rasmussen Consumer Index are used to measure consumer behavior. Also included are initial and

continuing unemployment insurance claims, the American Staffing Association Index of temporary and contract employment, and federal tax withholding data. The production indicators include US steel production, electricity output, a measure of fuel sales, and total railroad traffic.

The WEI is scaled to the four-quarter GDP growth rate; for example, if the WEI reads 2% and the current level of the WEI persists for an entire quarter, GDP that quarter should be 2% y/y. Debbie calculates that if Q2's q/q drop in real GDP stays down 11.1% y/y, it would be -37.1% saar!

The good news is that the projected growth rate for Q2 is so bad that the depression-like recession might last just two quarters (Q1 and Q2), with real GDP growing again during Q3 and Q4. We are revising our real GDP forecast to a drop of 40% during Q2 followed by gains of 20% during Q3 and 5% during Q4. We no longer expect Q3 to be a down quarter.

Americans are starting to awaken from their lockdowns, which started during the second half of March. State governors are gradually lifting stay-in-place restrictions and opening up their economies. There are mounting signs that the US economy may be bottoming after taking a dive during March and April. Survey data show that Americans believe that the economy and labor market will improve in coming months. In other words, they don't expect a long-lasting downturn, let alone a depression. Consider the following:

(1) *Small business survey*. First the bad news: The Small Business Optimism Index, compiled by the National Federation of Independent Business (NFIB), plunged from 104.5 during February to 90.9 during April ([Fig. 4](#)).

The good news is that the percentage of respondents who believe that the outlook for general business conditions will be better six months from now versus worse rose to 29% during April, up from 5% during March ([Fig. 5](#)). Then again, that was the only good news in April's NFIB survey. The percentage who agreed that it is a good time to expand over the next three months plunged to 3%, the lowest since March 2010 ([Fig. 6](#)). The net percentage of small business owners who plan to hire over the next three months plunged to 1% last month, while net capital-spending plans over the next three to six months dropped to 18%, the lowest since August 2010 ([Fig. 7](#)).

(2) *Payroll expectations.* The total number of unemployed workers soared to 23.1 million during April. Apparently, lots of the 20.6 million people who lost their jobs during the month expect to be working again soon, as 87.6% of them said they were on temporary layoff, according to April's ghastly employment report ([Fig. 8](#)).

(3) *Consumer sentiment.* April's Consumer Confidence Index survey showed that the percentage of respondents expecting more jobs six months from now jumped to a record high of 41.0% during April. Americans clearly anticipate that we will get through the Great Virus Crisis (GVC) within a few months ([Fig. 9](#)). Interestingly, the current conditions component of the Consumer Sentiment Index ticked up from 74.3 during April to 83.0 during the first half of May ([Fig. 10](#)).

(4) *Mortgage applications.* Admittedly, we need a magnifying glass to see a bottom in the four-week average of mortgage applications ([Fig. 11](#)). Nevertheless, there were two consecutive upticks in this series during the weeks of May 1 and May 8 for the first time since early March.

(5) *Reopening.* A [USA Today map](#) dated May 14 shows that all but two states—Connecticut and North Carolina along with the District of Columbia—are easing stay-in-place restrictions. The US Department of Energy reported that gasoline supplied, which is a good proxy for demand, fell 4.0mbd from 9.3mbd to 5.3mbd during the six consecutive weeks from the weeks of March 20 through April 24 ([Fig. 12](#)). It rebounded to 6.3mbd over the past two weeks through the May 8 week.

Americans clearly are starting to drive more. In my neighborhood on Long Island, there is more traffic on the streets. The local garden centers are packed with masked customers loading shopping carts with plants. Sales of outdoor furniture are reportedly booming as suburbanites seek to spend more time in their backyards rather than cooped up in their homes. I've refilled my gasoline tank for the first time since late February.

There undoubtedly will be setbacks, including new hot spots and second waves of the virus. But hospitals should be better prepared now to handle them, especially if Gilead's drug reduces ventilator use, hospital stays, and mortality. In short, I don't expect that our collective awakening will be temporary, as in the movie cited above. Social distancing and mask wearing should effectively replace staying in place.

**Inflation: Will It Remain Comatose?** In our numerous ongoing Zoom calls with our accounts, the outlook for inflation is a recurring discussion point. Prior to the GVC, Debbie and I argued that inflation was dead as a result of four powerful forces of deflation. The “4Ds” are Détente, (Technological) Disruption, Demographics, and Debt. (See the [excerpt](#) on this subject from my recent book, *Fed Watching*.)

CNBC’s ace Fed watcher Jeff Cox wrote a May 12 [article](#) titled “After trying for a decade, central banks might succeed at generating inflation.” He quoted Chetan Ahya, Morgan Stanley’s chief economist: “The forces that will bring about inflation are aligning. We see the threat of inflation emerging from 2022 and think that inflation will be higher and overshoot the central banks’ targets in this cycle. This poses a new risk to the business cycle, and future expansions could also be shorter.” Cox observed: “The forecast is based on what Ahya calls the ‘3 Ts,’ or trade, technology and titans. A backlash against all three because of the impact each has on wealth inequality will push policy that ultimately will be inflationary, Ahya said.”

As Jackie and I discuss in the next story, détente (a.k.a. globalization) may very well be another casualty of the GVC if it exacerbates the unfolding Cold War between the US and China, as we expect. However, the other three Ds remain in force, in our opinion. Now consider the following:

(1) *Supply shock.* Multinational companies started looking to move their supply chains away from China before the GVC as the US-China trade dispute escalated during 2018 and 2019. Now as a result of the widespread and severe disruptions to global supply chains resulting from the pandemic, they are likely to move even faster. Initially, shifting supply chains to countries other than China will be less efficient and more costly for companies. That could force companies to boost their prices or take a hit to their profit margins. But these most likely are short-term problems as companies readjust to a new post-pandemic normal. Technologies that can help to keep supply chains cost efficient while making them more reliable by bringing them home (or closer to home) are sure to be post-pandemic winners.

(2) *Demand shock.* When consumers are given the all-clear signal to go out, will everyone rush back to the airlines, hotels, malls, restaurants, and theaters? Any post-pandemic pent-up demand boom may be short-lived. It’s likely that many workers in services industries will permanently lose their jobs, and any savings they had will be seriously depleted. Consumers will be inclined to spend less and save more, resulting in weaker aggregate demand growth, keeping a lid on consumer prices.

(3) *Bottom line.* Cox also reports that “Ahya’s forecast does not foresee runaway inflation.” We agree that there could be a transitory post-GVC pickup in inflation above the Fed’s 2% inflation target. Even if it moves up to 3% or 4%, Fed officials are likely to welcome it and pledge that they are in no rush to raise interest rates. For now, the GVC has been mostly deflationary. If inflation does awaken once the worst of the GVC is behind us, we doubt it will do so for very long.

**Geopolitics: Waking Up to a Cold War.** Perhaps the biggest threat to globalization is that China and the US are already in the early stages of a Cold War, with escalating cybersecurity and disinformation campaigns. Many US companies are likely, either voluntarily or as a result of government decrees, to move their supply chains out of China. Here are the latest developments in the unfolding Cold War between the US and China:

(1) *National security.* The Trump administration has been emphasizing the importance of domestically manufacturing items deemed critical to the national security of America’s health system, economy, and defense. “We’re onshoring a lot of these industries, working to make sure we’re never reliant on foreign supplies again,” Trump adviser and son-in-law Jared Kushner told Fox News in an April 26 [interview](#). In late April, President Trump directed government agencies to buy only American-made components for the national power grid.

The May 11 *WSJ* [reported](#): “The Trump administration and semiconductor companies are looking to jump-start development of new chip factories in the U.S. as concern grows about reliance on Asia as a source of critical technology.” On May 14, the *WSJ* [reported](#): “Taiwan Semiconductor Manufacturing Co., the world’s largest contract manufacturer of silicon chips, said Friday it would spend \$12 billion to build a chip factory in Arizona, as U.S. concerns grow about dependence on Asia for the critical technology.” That same day, Trump vowed to bring pharmaceutical manufacturing back to the US.

The May 15 *WSJ* [reported](#): “The Trump administration said it would impose export restrictions designed to cut off Chinese telecom-equipment maker Huawei Technologies Co. from overseas suppliers, threatening to ignite a new round of U.S.-China economic tensions.

“The restrictions stop foreign semiconductor manufacturers whose operations use U.S. software and technology from shipping products to Huawei without first getting a license from

U.S. officials, essentially giving the U.S. Commerce Department a veto over the kinds of technology that Huawei can use.”

(2) *Bye-bye, China*. One immediate consequence of the virus disruption: Many multinationals have been reassessing their supply-chain resiliency and deciding to [diversify](#) away from China, a trend that began before the pandemic. “Coronavirus Could Be The End Of China As A Global Manufacturing Hub” was the title of a March 1 *Forbes* [article](#). Two-thirds of 160 US-based executives recently [surveyed](#) by Foley & Lardner LLP said that global trade tensions were causing them to move manufacturing operations from another country to Mexico. The July 14, 2019 *WSJ* [observed](#) that Asian countries where production costs are low—e.g., Vietnam, India, Taiwan, and Malaysia—have experienced significant increases in exports to the US. Some global companies are building up their supply-chain strength by leveraging [technologies](#) like new 3D printing capabilities.

(3) *Bottom line*. Thanks to the GVC, more and more Americans are waking up to the adverse consequences of doing business with the country run by the totalitarian Chinese Communist Party.

On April 21, the Pew Research Center [reported](#) that “negative views of China have continued to grow ... Roughly two-thirds now say they have an unfavorable view of China, the most negative rating for the country since the Center began asking the question in 2005, and up nearly 20 percentage points since the start of the Trump administration. Positive views of China’s leader, President Xi Jinping, are also at historically low levels.”

**US Politics: Another Regime Change?** What if Joe Biden beats Donald Trump in November’s presidential election and the Democrats win majorities in both the House and the Senate? Biden has tended to awaken temporarily multiple times during televised interviews. In other words, he isn’t the ideal candidate for the Democrats—all the more reason that his choice for vice president will be extremely important. For now, Debbie and I reckon that the election remains Trump’s to lose, and he may do just that if the economy is plagued with a significant second wave of the virus this coming fall.

A Democratic sweep most likely would be very bearish for the stock market. If the Democrats control the government, they would implement higher income and corporate taxes as well as a wealth tax. They would severely restrict stock buybacks. They would nationalize healthcare. They might possibly push for a universal basic income. Regulations on business would

increase significantly, and corporations would be required to meet diversity and other ESG (environmental, social, and governance) standards. There would be lots of Green New Deal initiatives.

If Biden wins the Oval Office but the Republicans maintain their majority in the Senate, the stock market could awaken after a brief selloff.

## CALENDARS

**US: Mon:** NAHB Housing Market Index 33. **Tues:** Housing Starts & Building Permits 0.95mu/1.00mu, API Crude Oil Stock, Powell. (DailyFX estimates)

**Global: Mon:** Japan Industrial Production -3.7%*m/m*/-5.2%*y/y*, Bundesbank Monthly Report, RBA Meeting Minutes. **Tues:** Germany ZEW Economic Sentiment 33.5, UK Employment Change & Unemployment Rate 65k/4.4%, Japan Machine Orders -7.1%*m/m*/-9.5%*y/y*, Lane. (DailyFX estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** ([link](#)): Last week saw the US MSCI index fall 2.3% for its second decline in three week and its biggest drop in six weeks. The index ranked 18th of the 49 global stock markets we follow in a week when just 7/49 countries rose in US dollar terms, and the AC World ex-US index fell 2.7% as all regions fell. The US MSCI index is out of a bear market and is now in a 15.3% correction from its 2/19 record high. EMEA was the best-performing region, albeit with a drop of 0.6%, followed by EM Asia (-0.7) and BRIC (-0.9). EM Latin America was the biggest underperformer with a decline of 5.1%, followed by EMU (-5.0), EAFE (-3.3), and EM Eastern Europe (-2.8). Turkey was the best-performing country last week with a gain of 4.0%, followed by Pakistan (1.9), Egypt (1.5), Malaysia (1.1), and Thailand (0.9). Of the 29 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka fared the worst with a decline of 24.1%, followed by Colombia (-7.1), Jordan (-6.8), Peru (-6.6), and Portugal (-6.5). The US MSCI's ytd ranking dropped one spot last week to 7/49 as its ytd performance weakened to -10.9%. It's still way ahead of the 21.0% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd, albeit with a decline of 12.6%, followed by BRIC (-16.8). The worst-performing regions ytd: EM Latin America (-47.2), EM Eastern Europe (-32.2), EMEA (-27.9), EMU (-27.0), and EAFE (-21.7). The best country performers ytd: Denmark (-1.1), China (-4.9), Israel (-9.3), New Zealand (-9.5), and Taiwan (-10.1). The worst-performing countries so far in 2020: Brazil (-53.2), Colombia (-52.6), Sri

Lanka (-50.9), Greece (-44.9), and Hungary (-39.2).

**S&P 1500/500/400/600 Performance** ([link](#)): All of these indexes fell together for the first time in three weeks as LargeCap and SmallCap posted their biggest declines of the new bull market. LargeCap was 2.3% lower for the week, better than the declines for MidCap (-5.8%) and SmallCap (-7.6). LargeCap was out of a bear market for a fifth week and 15.4% below its 2/19 record high; MidCap finished 25.1% below its record high on 1/16; and SmallCap remained the worst performer, at 35.1% below its 8/29/18 record. Thirty-one of the 33 sectors rose for the week, down from all 33 rising a week earlier. Seven of the 33 sectors are out of a bear market now, and three of those are out of a correction: LargeCap Health Care, LargeCap Information Technology, and MidCap Health Care. LargeCap Health Care was the best performer last week, with a gain of 0.9%, ahead of MidCap Health Care (0.7), LargeCap Consumer Discretionary (-1.0), LargeCap Communication Services (-1.2), LargeCap Information Technology (-1.5), and LargeCap Consumer Staples (-1.5). SmallCap Real Estate was the biggest underperformer last week with a decline of 12.1%, followed by MidCap Real Estate (-11.3), SmallCap Financials (-11.3), SmallCap Energy (-11.1), and MidCap Financials (-9.2). All three indexes are still down on a ytd basis, but LargeCap's 11.4% drop is much smaller than those of MidCap (-23.5) and SmallCap (-30.2). Two of the 33 sectors are now positive so far in 2020, with the best performers led by MidCap Health Care (4.2), LargeCap Information Technology (1.8), LargeCap Health Care (-1.7), LargeCap Consumer Discretionary (-4.5), and LargeCap Communication Services (-5.2). The biggest laggards of 2020 to date: SmallCap Energy (-61.5), MidCap Energy (-53.9), SmallCap Financials (-41.4), LargeCap Energy (-40.3), and SmallCap Real Estate (-39.6).

**S&P 500 Sectors and Industries Performance** ([link](#)): Just one of the 11 S&P 500 sectors rose last week as five outperformed the index's 2.3% decline. That compares to a 3.5% gain for the S&P 500 a week earlier, when all 11 sectors rose and four outperformed the index. Health Care's 0.9% gain made it the best performer for the week, ahead of Consumer Discretionary (-1.0%), Communication Services (-1.2), Information Technology (-1.5), and Consumer Staples (-1.5). Energy was the biggest underperformer with a decline of 7.6%, followed by Real Estate (-7.3), Industrials (-5.9), Financials (-5.7), Materials (-3.1), and Utilities (-2.7). The S&P 500 is now down 11.4% so far in 2020, with five sectors leading the index and just one in positive territory. The leading sectors ytd: Information Technology (1.8), Health Care (-1.7), Consumer Discretionary (-4.5), Communication Services (-5.2), and Consumer Staples (-9.3). The laggards of 2020 so far: Energy (-40.3), Financials (-31.8), Industrials (-27.0), Real Estate (-20.2), Materials (-17.0), and Utilities (-15.5).

**Commodities Performance** ([link](#)): Last week, the S&P GSCI index rose 2.5% for its third straight weekly gain and its longest winning streak since it rose for five weeks around the start of the year. It's now down 35.9% from its recent high on 1/6, and still in a severe bear market at 43.3% below its cyclical high on 10/3/18. Crude Oil was the best performer last week, with a gain of 11.9%, followed by Silver (8.2%), GasOil (6.1), Brent Crude (4.4), and Heating Oil (4.3). Lean Hogs was the biggest decliner for the week, with a drop of 6.4%, followed by Kansas Wheat (-5.8), Natural Gas (-4.8), Coffee (-4.3), and Feeder Cattle (-4.3). Just one of the 24 commodities that we follow is higher so far in 2020, Gold (16.1). The next-best performers ytd: Silver (-4.7), Cocoa (-5.6), Kansas Wheat (-6.9), and Feeder Cattle (-9.1). The worst performers ytd: GasOil (-54.0), Heating Oil (-52.8), Crude Oil (-50.7), Brent Crude (-50.3), and Unleaded Gasoline (-41.8).

**S&P 500 Technical Indicators** ([link](#)): The S&P 500 fell 2.3% last week and weakened relative to both its short-term, 50-day moving average (50-dma) and its long-term, 200-day moving average (200-dma). It was above its 50-dma for a fifth week after seven weeks below but remained below its 200-dma for a 12th week, the first time it's been below for so long since January 2019. The index's 50-dma relative to its 200-dma dropped for a 12th straight week, putting the index in a Death Cross (with 200-dmas higher than 50-dmas) for an eighth week; that's the first time since March 2019 that the index has been in a Death Cross for so long. The index's 50-dma dropped last week to 9.9% below its 200-dma, the worst reading since May 2009. During late February, the 50-dma had been 7.6% above its 200-dma, which was the highest since May 2012. The S&P 500's 50-dma dropped for a 12th week after rising for 20 weeks. The price index weakened to 5.7% above its falling 50-dma from 7.4% above its falling 50-dma a week earlier. The prior week's reading had been its highest since October 2011 and up from 27.7% below on 3/23—its lowest reading since it was 29.7% below on Black Monday, 10/19/87. After October 2011, its highest peaks had been 4.6% above its rising 50-dma in mid-January and 6.6% above during February 2019. The 200-dma fell for a fifth straight week, but barely so. It had been rising for 39 weeks through early March. The index traded below its 200-dma for a 12th week after being above for 38 weeks. It ended the week 4.8% below its falling 200-dma, down from 2.6% below a week earlier. That's up from 26.6% below on 3/23—its 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](#)): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, and four traded above their 200-dmas. That compares to just one sector above its 50-dma and 200-dma four weeks ago. Utilities is only sector trading below its 50-dma. These four are above their 200-dmas: Communication Services, Consumer Discretionary, Health Care, Information Technology. All 11 sectors were out of the Golden Cross club (50-dmas higher than 200-dmas) for a third week, and for the first time since March 2019. At the prior low, just two sectors (Real Estate and Utilities) were in the club during February 2019. Energy has not been in a Golden Cross for 80 straight weeks. Five sectors have a rising 50-dma now, up from all 11 falling for ten weeks before that. They include Communication Services, Consumer Discretionary, Consumer Staples, Health Care, and Information Technology. Just four sectors have rising 200-dmas, up from two a week earlier. Communication Services and Consumer Discretionary turned higher in the latest week and joined Health Care and Tech. Financials' 200-dma was down for an 11th week for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

## US ECONOMIC INDICATORS

**Retail Sales** ([link](#)): Retail sales plunged at a record pace again in April as the coronavirus struck with force for the second month. Nominal retail sales tumbled 16.5% last month—double March's previous record decline of 8.3%. Meanwhile, core retail sales—which excludes autos, gasoline, building materials, and food services—tumbled a record 15.3% in April after rebounding 3.1% in March to a new record high. Adjusted for inflation, we estimate headline sales plunged 15.1% in April and 21.3% during the two months through April, while real core retail sales fell 13.9% last month following a 4.2% jump during March. In April, 12 of the 13 nominal sales categories collapsed, while sales for nonstore retailers soared 8.4% to a new record high. April sales declines were eye-popping: clothing stores (-78.8%), electronic & appliance stores (-60.6), furniture stores (-58.7), sporting goods, hobby, musical instruments & book stores (-38.0), food services & drinking places (-29.5), gasoline stations (-28.8), miscellaneous store retailers (-24.7), general merchandise stores (-20.8), health & personal care stores (-15.2), food & beverage stores (-13.1), motor vehicle dealers (-12.4), and building materials & garden equipment stores (-3.5).

**Consumer Sentiment Index** ([link](#)): “Confidence inched upward in early May as the CARES relief checks improved consumers’ finances and widespread price discounting boosted their buying attitudes,” according to Richard Curtin, director of the survey. “Despite these gains,” he cautioned, “personal financial prospects for the year ahead continued to weaken, falling to the

lowest level in almost six years.” The Consumer Sentiment Index (CSI) climbed to 73.7 in mid-May after plunging a record 29.2 points from a near-15-year high of 101.0 in February to 71.8 in April—which was the lowest since December 2011. The present situation component of the CSI rebounded 8.7 points this month, to 83.0, after tumbling 40.5 points (to 74.3 from 114.8) from February through April. Meanwhile, the expectations component slumped for the third month, by 24.4 points (to 67.7 from 92.1 in February). Consumers were asked to identify their top concerns about the pandemic, with health concerns dominating—cited by 57% in May (down from 61% in April), followed by social isolation (to 21% from 14%), and impact on family finances (17 from 22). The original hypothesis was that as their primary concerns shifted from health to finances, consumers would become less accepting of constraints on reopening the economy, which was not the case in mid-May.

**Business Sales & Inventories** ([link](#)): The impact from COVID-19 was evident in nominal business sales in March, though real sales, reported with a lag, reached a new record high in February. Nominal sales plunged 5.2% in March (the steepest since November 2008), following a 0.4% downtick in February; sales had climbed to a new record high in January. Real sales increased for the third time in four months in March, up 0.3% in February and 1.3% over the period to a new high. Real sales of wholesalers climbed to a new record high in February, while real sales of retailers was just below January’s record reading. In the meantime, manufacturers’ real sales remained in a flat trend just below its cyclical high in February. March’s nominal inventories-to-sales ratio jumped from 1.38 in January/February to 1.45 in March—the highest since the Great Recession, while the real inventories-to-sales ratio was at 1.44 in February, down from 1.46 at the end of last year.

**Industrial Production** ([link](#)): Industrial output in April posted its steepest monthly decline on record, led by manufacturing. Production plummeted 11.2% last month, building on March’s 4.5% drop—with manufacturing output down 13.7% and 5.5%, over the comparable periods. By market group, equipment of business equipment tumbled a record 17.3%, while consumer goods production tanked 11.7% in April. The decline in business equipment output was its fifth in as many months, plummeting 26.7% over the period, driven by a 75.5% drop in production of transit equipment—which sank 60.2% in April alone. The remaining components show output of information processing equipment contracted 6.3% during the two months through April after a four-month leap of 4.8% to a new record high, while industrial equipment output dropped 10.5% in April and 15.3% ytd. Consumer goods production crashed 16.8% over the two months through April, driven by a 47.2% plunge in consumer durable goods, as motor vehicle production tumbled 72.8%. Consumer nondurable goods production suffered a much

smaller 7.5% drop over the two-month period. ISM's manufacturing survey for May suggests production continued to slide this month, with the production component of the M-PMI diving from 54.3 at the start of this year to a record-low 27.5 this month.

**Capacity Utilization** ([link](#)): The headline capacity utilization rate sank from 76.7% in February to a record low of 64.9% in April; it was at a cyclical high of 79.6% during November 2018. April's rate was 14.9ppts below its long-run (1972-2019) average. Manufacturing's capacity utilization rate plunged to a record low of 61.1% last month—2.6ppts below its previous record low recorded in June 2009. The utilities' capacity utilization rate dropped back down to its record low of 71.1% recorded in January, while the capacity utilization for mining dipped to 81.7%—the lowest since January 2017.

**Regional M-PMI** ([link](#)): The New York Fed—the first district to report on manufacturing activity for May—showed that it continued to contract, though at a slower rate. May's composite index improved almost 30 points, to -48.5, after plunging from 12.9 in February to a record low of -78.2 in April. Both the new orders (to -42.4 from -66.3) and shipments (-39.0 from -68.1) measures continued to contract sharply, though the declines were not as steep as April's record-low readings. The employment gauge improved dramatically this month, soaring to -6.1 after plummeting from 6.6 in February to a record low of -55.3 in April; hours worked (-21.6 from -61.6) also improved, though not as dramatically. Delivery times (-4.1 from 11.0) were slightly shorter, and inventories (-3.4 from -9.7) were slightly lower. While current conditions remained extremely weak, firms grew more optimistic that conditions would be better six months from now. The index for future business conditions rose 22.1 points (to 29.1 from 7.0) as the indexes for both future new orders (35.0 from 11.7) and future shipments (33.3 from 13.1) posted significant increases.

**Import Prices** ([link](#)): Import prices in April declined for the third month, by 2.6% m/m and 5.6% over the period, with the yearly rate sinking to -6.8% y/y—the steepest decline since the end of 2015—as petroleum prices tanked a record 33.1% m/m and -58.6% y/y. Meanwhile, nonpetroleum prices dipped 0.5% last month after a 0.3% downtick in March, pushing the yearly rate down to -1.1%—remaining just below zero for the 16th straight month. The rate for capital goods imports (-0.7) was in negative territory for the 19th consecutive month, while the rate for industrial supplies & materials (-26.4) tumbled to its lowest reading since November 2015. In the meantime, rates for consumer goods ex autos (-0.6) and auto prices (0.9) remained near zero. The yearly rate for food prices (-4.1) plunged back into negative territory after accelerating from -3.7% in October to 0.6% in February. The US is importing deflation

from its Asian trading partners, with import prices for goods from China (-1.1% y/y) and the NICs (-4.0) falling; declines in the former, however, are slowing and those in the latter accelerating; Japan's rate is holding around zero. Meanwhile, there's no sign of inflation in EU (-0.6% y/y) import prices, with its yearly rate dropping back below zero. The rate for import prices of goods from Latin America (-7.8) was negative for the 17th month in a row.

---

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683  
Debbie Johnson, Chief Economist, 480-664-1333  
Joe Abbott, Chief Quantitative Strategist, 732-497-5306  
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967  
Mali Quintana, Senior Economist, 480-664-1333  
Jackie Doherty, Contributing Editor, 917-328-6848  
Valerie de la Rue, Director of Institutional Sales, 516-277-2432  
Mary Fanslau, Manager of Client Services, 480-664-1333  
Sandy Cohan, Senior Editor, 570-775-6823

Copyright (c) Yardeni Research, Inc. Please read complete [copyright and hedge clause](#).