Reinhart PARTNERS

Week in Review

May 1, 2020

Q1 GDP

First quarter GDP fell at an annualized rate of 4.8%. Year-over-year, GDP grew 0.3%.

Our Take: All of the damage to GDP occurred in March, and April was much worse. Second quarter GDP will decline precipitously. While the economy should start to recover as the country reopens, the pace of recovery could be slower than desired as the COVID-19 pandemic is far from resolved.

Jobless Claims

Initial claims for unemployment insurance totaled over 3.8 million for the week ending April 25. This brings the total number of claims to more than 30 million over the last six weeks.

Our Take: The pace of jobs losses in the last month and a half is staggering. The unemployment rate, to be reported next week, will almost assuredly be in double digits and could get worse before it gets better.

Personal Income and Spending

Personal income fell 2% in March, while spending dropped 7.5%.

Our Take: The lockdown is having the expected effect on income and spending. Job losses reduce total income and spending power. Shelter in place orders also slow spending. In addition, government relief has not reached all intended recipients, further exacerbating the spending decline.

The Fed

As expected, the Federal Reserve Open Market Committee (FOMC) left its federal funds rate unchanged at the current range of 0.0%-0.25%. There were no adjustments to QE and no announcement of additional liquidity programs. Their post-meeting statement paints a dour picture of current conditions and notes the coronavirus crisis will weigh heavily on economic activity. In the end, the Fed reaffirmed its commitment to take aggressive action in support of an eventual recovery and will maintain an accommodative policy stance until the economy again reaches full employment and 2% inflation.

Our Take: Over the past eight weeks, the Fed has acted aggressively, injecting massive amounts of dollars to provide liquidity and support the economy during this unprecedented disruption. Unfortunately, we remain in uncharted waters and only time will tell if these measures worked as intended.

Municipals

Wisconsin Governor Tony Evers' administration has ordered state agencies to cut spending by 5%. Department of Administration Secretary Joel Brennan sent a letter this week to state employees notifying them of the spending cuts and a continuation of a hiring freeze for positions not related to the pandemic.

Our Take: Wisconsin remains under a Safer at Home order through May 26. Governor Evers and his administration are taking appropriate first steps by cutting spending as revenue projections will most certainly be lower than previously expected. Look for other state and local governments to make changes to spending as the negative financial effects of the pandemic continue.

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