

The Outlook: June 19, 2020

On Main Street: "Wait What, a New Record?"

"Pandemic Entering New and Dangerous Phase," Says World Health Organization.

That headline turned a good day into a bad day, for the market. The market's Nightmare, now and for a good while, is not "Pandemic Returns!" but "Shutdown Returns!" . . . so any headline that suggests the world's political leaders might possibly plunge the global economy into "Shutdown Number Two" is as frightening a Nightmare as the speculating crowd could wish for.

Like most market Nightmares, a kernel of truth lies beneath. That is the fact that it's easy to imagine quite a few political leaders thinking hard about taking another Shutdown plunge. Some might do that. In fact, some probably will do that. But here's a forecast which deserves something approaching certainty: Many will not. They won't take a second Shutdown plunge because, unlike last March, everyone knows a great deal more about the virus today, and about the catastrophic economic pain from Shutdown Number One. Hence many—politicians and people alike—will make different judgments now than they did 3 months ago.

Nearly certain or not, that's not much of a happy forecast, is it? But it's got its good points. Like practically all terrible events and experiences in life, it just won't be as terrible or as damaging, the second time around . . . if indeed it happens at all.

While "Pandemic New Danger!" got the headlines and the horrified gaze of the market crowd, Main Street kept its eyes on the task at hand, as usual: rebuilding. A few pictures tell the story.

Wait What, a New Record?

Manheim Used Car Price Index



Source: Bloomberg

Yes indeed, U.S. used car prices actually set a new all-time record just now. As one auto expert said, “That’s a V-shaped recovery if there ever was one.” In all free markets, supply and demand set the price; and supply and demand always get more complicated the harder we look at them, no matter what market we’re scrutinizing. In the used car market, that price spike was made by a temporary shortage of supply meeting a surprisingly strong rebound in demand. There will be more supply coming along, which might calm down the price spike, but the Main Street story here is demand. American consumers are not waiting around for Phase 8, 10 or 12 of their states’ “return to work” guidelines; they are not waiting for their political leaders to wave the “all clear” flag. They are resuming normalcy with considerable determination, as we’ve already seen in all those sprouting “green shoots” of economic growth. That used-car price spike, up there, has been accompanied by *many* indicators of surging strength across the entire auto industry.

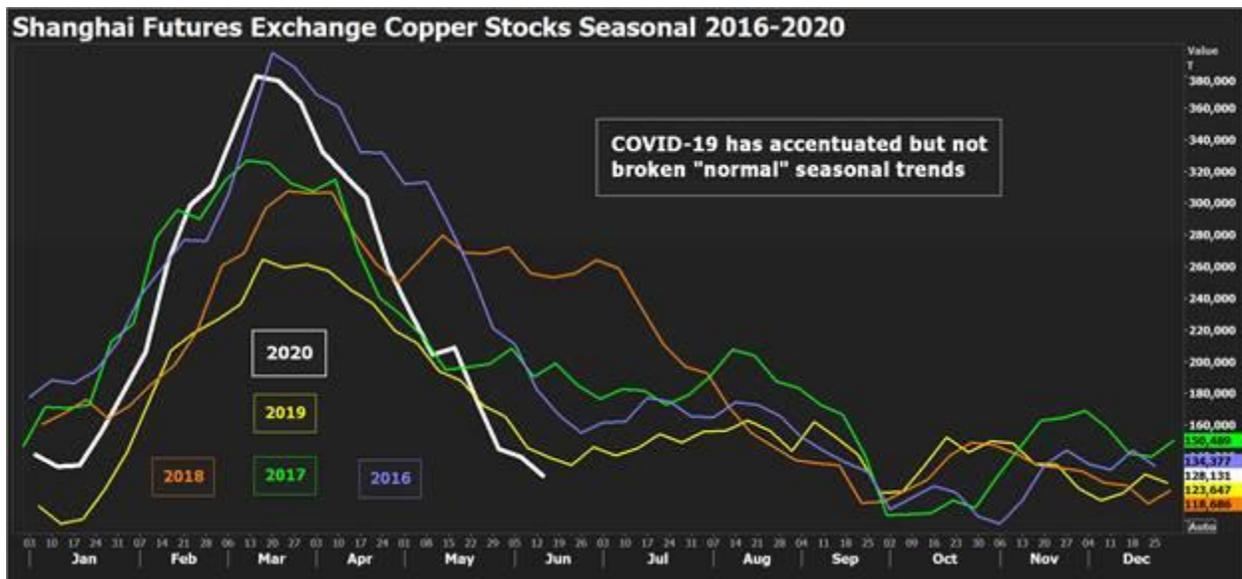
Caterpillar Inc.
Rolling 3 Month Retail Sales Statistics

	May 2020	April 2020	March 2020
Total Machines	DOWN 1%		
Asia/Pacific	DOWN 1%	DOWN 17%	DOWN 22%
EAME	DOWN 14%	DOWN 15%	DOWN 4%
Latin America	DOWN 31%	DOWN 28%	DOWN 7%
North America	DOWN 36%	DOWN 27%	DOWN 20%
World	DOWN 23%	DOWN 22%	DOWN 17%
Resource Industries	May 2020	April 2020	March 2020
Asia/Pacific	DOWN 8%	DOWN 26%	UP 5%
EAME	UP 12%	UNCHANGED	UP 3%
Latin America	DOWN 36%	DOWN 44%	DOWN 26%
North America	DOWN 39%	DOWN 30%	DOWN 26%
World	DOWN 21%	DOWN 24%	DOWN 12%
Construction Industries	May 2020	April 2020	March 2020
Asia/Pacific	UP 2%	DOWN 14%	DOWN 28%
EAME	DOWN 23%	DOWN 20%	DOWN 7%
Latin America	DOWN 28%	DOWN 18%	UP 5%
North America	DOWN 35%	DOWN 26%	DOWN 18%
World	DOWN 23%	DOWN 21%	DOWN 18%

Reported in constant dollars and based on unit sales as reported primarily by dealers.

Pardon this chart—it’s a blizzard of numbers. The green circles are the surprises. There is Caterpillar, reporting “Down! Down! Down!” around the whole world, the last 3 straight months. And the “Down!” percentages are sickening—just what we’d expect from the Shutdown Calamity. But there inside the circles we find a very old truth: cycles never change, even though what caused them might be new, like the Shutdowns. Unless life stops entirely, the human needs which make any cycle point up (like the need to use Caterpillar equipment to mine vital resources and build vital structures) don’t go away because a Nightmare came along. The needs pause for a while—then show up again. So there is CAT’s Asia/Pacific customer base, the first area hammered by the Shutdowns, heading back toward normalcy. And there is Europe (EAME), whose mining industry never seems to have paused at all, much, coming out of the blocks like Usain Bolt.

Here’s one more picture with the same message: copper. It’s another blizzard of lines, unfortunately. But it’s even more interesting than Caterpillar’s blizzard.



All the lines show copper inventories in China. They follow the same seasonal pattern every year: low early, spiking dramatically in March and April, gradually declining the rest of the year. That happens

because copper usage is lowest early in the year, then dramatically picks up every year along with construction and manufacturing activity.

The interesting thing in this picture is the white line, for 2020. It acted just as it always does, for the first 5 months—Virus or not. But over the last 30 days or so, copper inventories have plunged to their lowest in 5 years. Copper is being used in China: by auto makers, builders, power systems, chip factories, and many others.

Those are 3 pictures of Main Street at work around the world. When editors are pondering the day's headline possibilities, "Pandemic Strikes Again!" will win every time, over "Copper Supplies Falling!" or "Used Car Prices Rising!" or almost anything else happening on Main Street. But as always, the real story is out there on Main Street, for investors who'd like to know about what matters.

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Outlook Capital Management, LLC
125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
847-797-0600

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