



March 11, 2019

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Economic Review

Mr. Clark has been in investment banking since 1983. He is a Chartered Financial Analyst. He has been a fixed income strategist at Stephens Inc. since 1996, developing investment strategies, policies and procedures for institutions consistent with overall asset/liability management. Mr. Clark is the risk manager for Fixed Income Sales and Trading, monitoring inventories, product, transactions and counterparty risk. He is also a member of Stephens Fixed Income Management, providing discretionary management services for institutional customers. He is a member of the American Institute of Certified Public Accountants and the CFA Institute.

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- The Labor Department reported that **initial jobless claims** fell slightly last week. The most recent three weeks of data show the claims numbers are back to the normal steady state following volatility in January and February resulting from the government shutdown. Layoff activity in the private sector remains minimal. Claims fell 3,000 to 223,000 for the week ending March 2nd. The four-week moving average, a less volatile measure than the weekly numbers, decreased 3,000 to 226,250. The total number of people continuing to receive jobless benefits, a report which is lagged one week, decreased 50,000 to 1.755 million for the week ending February 23rd.
- The Commerce Department reported that **construction spending** fell in December and posted the smallest annual increase since 2011 as homebuilding slowed amid higher borrowing costs. Total construction spending fell 0.6% in December after climbing 0.8% the prior month. Spending on residential plunged 1.4% in December and non-residential remained unchanged. Both Government and private spending fell 0.6% in December. For the year, private residential construction increased 3.3%, the smallest advance since 2011.
- The **Institute for Supply Management** reported its **non-manufacturing** index, which covers services and construction, rebounded in February after falling to its lowest level in six months in January. The government shutdown was the most frequently mentioned item in the comments section in January. The report indicates conditions in the services sector are robust. This gauge of service providers accounts for 90% of the economy. The non-manufacturing index rose to 59.7 in February from a 56.7 reading in January. A reading greater than 50 indicates expansion in the services sector.
- The Commerce Department reported sales of new homes unexpectedly rose in December after sizeable downward revisions to October and November. Lower mortgage rates and more affordable properties offered some relief for buyers. **New home sales** increased 3.7% to a 621,000 annualized pace in December after reporting a downwardly revised 599,000 pace the prior month. New home sales, which account for about 10% of the residential market, are accounted for when contracts are signed, which makes this data a more timely indicator than existing home transactions.
- The Treasury Department reported a **budget surplus** of \$8.7 billion for the month of January, with the government collecting \$340.0 billion and spending \$331.3 billion. This compares unfavorably to a \$49.2 billion surplus a year earlier.
- **ADP Employer Services** reported that fewer workers were added to payrolls in February after a burst of hiring in the prior month that was revised significantly higher. The gains signal that the labor market continues to underpin what may become the longest economic expansion on record this year. February ADP payrolls rose 183,000 after increasing an upwardly revised 300,000 in January. Service provider's added 139,000 jobs in February, construction gained 25,000 and factories increased 17,000 jobs.
- The Commerce Department reported the **trade deficit** widened in December to its widest point in the current economic expansion. The trade gap is likely to expand in the months ahead as exports continue to slow amid weakening global growth, while imports are set to edge higher. The deficit increased 18.8% to \$59.8 billion in December. **Exports** fell 1.9% to \$205.1 billion and **imports** increased 2.1% to \$264.9 billion.
- The Fed released the latest rendition of the **Beige Book** which described the economy continuing to expand in late January and February, but was not overly enthusiastic about growth which was described as being slight-to-moderate growth. Roughly half of the Districts reported adverse effects from the government shutdown as well as harsh weather in some regions of the country.
- The U.S. Bureau of Labor Statistics reported **worker's productivity** posted a better than expected gain in the fourth quarter, although output and hours worked both cooled. The gain in productivity



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offers hope that inflation can be contained even with gains in economic growth and a tightening labor market. Overall though, productivity growth remains sluggish, erratic and difficult to understand or interpret. The latest estimate showed **labor productivity** rose to a 1.9% annual rate during the 4th quarter of 2018 after gaining 1.8% in the prior quarter. Productivity is up 1.8% from a year earlier. **Unit labor costs** in nonfarm businesses rose 2.0% in the 4th quarter, after gaining an upwardly revised 1.6% the prior quarter.

- The Federal Reserve reported **consumer credit** picked up in January suggesting consumers remained ready to borrow at the start of the year. Consumer credit increased \$17.0 billion in January after gaining \$15.4 billion in December. Credit card debt increased \$2.6 billion with auto and student loan debt increasing \$14.5 billion.
- The Commerce Department reported that **housing starts** rebounded in January with strength in single-family starts and a nine-month high for building permits. The gains indicate the housing market is stabilizing as mortgage rates decline. Housing starts increased 18.6% in January to a 1,230,000 annualized rate following the prior month's downwardly revised 1,037,000 pace. Single family starts surged 25.1% with multi-family starts up 2.4%. **Building permits**, a gauge of future construction, increased 1.4% in January to a 1,345,000 pace from a 1,326,000 pace the prior month.
- The Labor Department reported that payroll growth rose significantly less than expected in February, while the unemployment rate fell and the participation rate held steady. The unexpectedly low number probably reflects payback from outsized gains in prior months and extreme weather conditions in parts of the country. **Nonfarm payrolls** rose by 20,000 in February after an upwardly revised 311,000 gain the prior month. The **unemployment rate** dropped to 3.8% from 4.0% the prior month. Private payrolls were up 25,000 and government payrolls decreased 5,000. The closely watched **average hourly earnings** increased to \$27.66 in February from \$27.55 in January. The average workweek declined to 34.4 hours per week from 34.5 hours per week the prior month.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell 2.5% to 375.3 from 384.8 for the week ended March 1st. **Refinancing applications** decreased 2.0% to 1,111 from 1,134 the prior week. **Home purchase mortgage applications** fell 2.6% to 240.5. The **average contract rate** on a 30-year fixed-rate mortgage increased to 4.67% from 4.65% the prior week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities were 2.46%, 2.43%, 2.63%, and 3.01%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -3, 20, 38, and 55 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	March 11	Jan Retail Sales (0.0%)	7:30 Central
		Jan Retail Sales Ex Auto & Gas (0.6%)	7:30 Central
		Dec Business Inventories (0.%)	9:00 Central
Tuesday	March 12	Feb NFIB Small Business Optimism (102.5)	5:00 Central
		Feb Consumer Price Index (0.2%)	7:30 Central
		Feb Consumer Price Index-YOY (1.6%)	7:30 Central
		Feb CPI Ex Food & Energy (0.2%)	7:30 Central
		Feb CPI Ex Food & Energy-YOY (2.2%)	7:30 Central
Wednesday	March 13	Mar 8 th MBA Mortgage Applications	6:00 Central
		Feb Producer Price Index (0.2%)	7:30 Central
		Feb Producer Price Index-YOY (1.9%)	7:30 Central
		Feb PPI Ex Food & Energy (0.2%)	7:30 Central
		Feb PPI Ex Food & Energy-YOY (2.6%)	7:30 Central
		Jan Durable Goods Orders (-0.5%)	7:30 Central
		Jan Durables Ex Transportation (0.1%)	7:30 Central
		Jan Capital Goods Orders Nondef Ex Air (0.2%)	7:30 Central
		Jan Construction Spending (0.5%)	9:00 Central
Thursday	March 14	Mar 9 th Initial Jobs Claims (225k)	7:30 Central
		Feb Import Price Index (0.3%)	7:30 Central
		Feb Import Price Index-YOY (-1.5%)	7:30 Central
		Feb Import Price Index ex Petroleum (-0.1%)	7:30 Central
		Jan New Home Sales (0.2%)	9:00 Central
Friday	March 15	Mar Empire Manufacturing (10.0)	7:30 Central
		Feb Industrial Production (0.4%)	8:15 Central
		Feb Capacity Utilization (78.5%)	8:15 Central
		Jan JOLTS Job Openings (7,225K)	9:00 Central
		Mar University of Michigan Sentiment (95.6)	9:00 Central

Source: Bloomberg Finance L.P.

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