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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** continued its drift lower last week, reflecting a strong labor market where openings are at record highs and employers are reluctant to release workers. Claims in regular state programs decreased 15,000 to 214,000 for the week ending March 12th, after reporting 229,000 initial claims the prior week. The four-week moving average fell to 223,000 from 231,750 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, declined 71,000 to 1.419 million for the week ending March 5th.
- The Labor Department reported the **producer price index** increased by 0.8% in February, which was a less intense upward pressure than expected, but the relative calm will be short lived as fresh disruptions have emerged since then. Inflationary pressures are reasserting themselves with turmoil in Ukraine and the associated surge in oil, food and commodity prices. Goods prices, which make up 33% of the weighting rose 2.4% in February after gaining 1.5% in January. Services, which make up 67% of the index remained unchanged after increasing 1.0% the prior month. Year-on-year wholesale prices were up 10.0% in February compared to 10.0% in January. The **core PPI**, which excludes volatile food and energy prices, rose 0.2% in February after gaining 1.0% the previous month, with a year-on-year gain of 8.4%. **PPI ex food, energy and trade** gained 0.2%.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, fell in March as supply-chain performance deteriorated and prices received posted the highest reading since 2001. The measure of prices paid and received suggest costs will continue to rise and put upside pressure on inflation. The index recorded a negative 11.8 in March after a positive 3.1 reading in February. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** was stronger than expected in February after considering upward revisions to January's already impressive gains. The trend will likely be pressured downward with higher gasoline and commodity prices in March. The gains were led by gas and food sales. The previous month's already impressive data was revised upward suggesting consumers recovered quickly from the Omicron wave. Retail sales increased 0.3% in February after an upwardly revised gain of 4.9% in January. February retail sales are up 17.6% year-on-year. **Retail sales ex autos and gas** decreased 0.4% in February after surging 5.2% in January.
- The Labor Department reported the **import price index** rose 1.4% in February after surging 1.9% in January. The cost of petroleum and industrial supplies continue to push prices higher. Import prices are up 10.9% year-on-year. **Import prices ex petroleum** climbed 0.7% in February after increasing 1.3% the prior month.
- The Commerce Department reported **business inventories** increased 1.1% in January after gaining 2.4% in December. **Business sales** surged 3.7% in January after falling 0.5% the prior month. The ratio of business inventories to sales declined to 1.25 in January from 1.29 the prior month.
- The **National Association of Home Builders/Wells Fargo** reported housing sentiment pulled back to 79 in March from 82 in February, a six month low. Housing affordability is an increasing concern as the combination of labor and supply constraints with rising mortgage rates hurt builder optimism even as housing demand remains solid.
- The **FOMC** met on Wednesday and the committee raised the fed funds rates by 25 basis points as expected. More importantly, the Fed signaled seven hikes this year and eleven rate hikes over the next two years, making it clear the Fed intends to prioritize price stability over whatever growth concerns stem from Ukraine or other global risks. The statement acknowledged that inflation is elevated and there are now "broader price pressures". The statement did not provide additional details on balance sheet runoff signaling the committee has not come to a consensus on the start date or the pace.



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- The Commerce Department reported that **housing starts** improved in February to the strongest pace since 2006 even as builders had to deal with labor and material constraints. The data also shows building permits remain at an elevated level, although easing a bit in February. Housing starts surged 6.8% in February to a 1,769,000 annualized rate following January's 1,657,000 pace. Single-family starts rose 5.7% in February with multi-family starts jumping 9.3%. **Building permits**, a gauge of future construction, eased 1.9% in February to a 1,859,000 pace.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, improved in February as higher output across manufacturing and mining activities helped offset a drag from utilities. Supply bottlenecks continue to depress auto production and are expected to re-intensify as global disruptions increase. Industrial production rose 0.5% in February after increasing 1.4% in January. Production at factories, which make up 76.0% of output, increased 1.2% in February after gaining 0.1% the previous month. Utilities declined 2.7% after surging 10.4% in January and mining gained 0.1%. **Capacity utilization**, which measures the amount of a plant that is in use, increased to 77.6% in February from 77.3% the prior month.
- The National Association of Realtors reported that **existing home sales** fell in February to a six month low as a limited supply of properties and high prices lowered buyers incentive to purchase. Contract closing, which usually occur a month or two after a contract is signed decreased 7.2% in February to a 6.02 million pace after increasing 6.6% in January. The median selling price increased to \$357,300 from \$350,000 in January.
- The Conference Board reported the **index of leading economic indicators** rose 0.3% in February after declining in January by 0.5%. The gain was led by the strong labor data and improvements in ISM New Orders. The index of U.S. leading indicators is a gauge of the economic outlook for the next three to six months. The **coincident index**, a gauge of current economic activity, climbed 0.4% in February after gaining 0.3% in January.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased 1.2% for the week ending March 11th after gaining 8.5% the previous week. **Refinancing applications** decreased 2.8% to 1,778 from 1,830 the prior week. **Home purchase mortgage applications** increased 0.7% to 269.5. The **average contract rate** on a 30-year fixed-rate mortgage increased to 4.27% from 4.09% the prior week for a 30-year fixed rate loan.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 1.94%, 2.14%, 2.15%, and 2.42%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 20, 1, 27, and 48 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	March 21	Feb Chicago Fed Nat Activity Index (0.54)	7:30 Central
Wednesday	March 23	Mar 18 th MBA Mortgage Applications	6:00 Central
		Feb New Home Sales (810k)	9:00 Central
Thursday	March 24	Mar 19 th Initial Jobless Claims (210k)	7:30 Central
		4 th Qtr Current Account Balance (-\$218.0b)	7:30 Central
		Feb Durable Goods Orders (-0.6%)	7:30 Central
		Feb Durables Ex Transportation (0.6%)	7:30 Central
		Feb Cap Goods Orders Nondef Ex Air (0.5%)	7:30 Central
		Mar S&P Global US Composite PMI (54.4)	8:45 Central
		Mar S&P Global US Manufacturing PMI (56.6)	8:45 Central
		Mar S&P Global US Services PMI (56.0)	8:45 Central
Friday	March 25	Feb Pending Home Sales (1.0%)	9:00 Central
		Mar University of Michigan Sentiment (59.7)	9:00 Central

Source: Bloomberg Finance L.P.

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