Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** unexpectedly fell last week, signaling that companies are reluctant to let employees go even as economic activity slows. The labor market remains very tight. The data suggest that small businesses remain eager to absorb workers laid off from larger businesses. Claims in regular state programs declined 19,000 to 204,000 for the week ending December 31st, after reporting 223,000 initial claims the prior week. The four-week moving average dropped to 213,750 from 220,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased by 24,000 to 1.694 million for the week ending December 24th.
- The Commerce Department reported that **construction spending** increased 0.2% in November, with spending higher in the private sector and declining in the public sector. Spending on residential construction fell 0.5% and non-residential construction rose 0.9%. Government spending, which makes up 21.1% of construction spending, decreased 0.1% and private spending rose 0.3%.
- The **Institute for Supply Management** reported its **manufacturing index** contracted for the second straight month to its lowest level since May 2020. The report shows new orders are falling, prices continue to moderate, supply chains are healing, order lead times are falling and manufacturers are working through backlogs. The manufacturing index recorded a 48.4 in December after a 49.0 reading in November. The index reached a high of 63.7 in March of 2021. The new orders part of the index declined to 45.2 from 47.2 in November and production fell to 48.5 in December from 51.5 the prior month. A reading below 50 indicates contraction in the manufacturing sector.
- The Labor Department reported that **job openings** showed no improvement in the labor imbalance with the number of job openings slightly lower in November. The report underscored the Fed's difficulty in bringing wage growth to a level consistent with the central bank's price target. Job openings decreased by 54,000 in November to 10.458 million, from a downwardly revised 10.512 million in October. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, edged higher to 1.74 from 1.73 in October. The job openings rate remained stable at 6.4%, well above the 4.3% level at the end of 2019. The quits rate ticked higher to 2.7% in November from 2.6% the prior month.
- The **FOMC Minutes** for the December 13-14 meeting indicated a growing consensus among policymakers that monetary policy was not sufficiently restrictive due to the very tight labor market and persistent inflation. The policymakers are concerned about easing financial conditions and the labor market not cooling fast enough. No participants anticipated it would be appropriate to begin cutting rates in 2023, and will likely take time to achieve a sustained downward path in inflation. The participants noted that further softening in nominal wage growth will be needed to durably bring down inflation.
- **ADP Employer Services** reported that companies added more jobs than expected in December, highlighting the resilience of labor demand. The labor market is strong but fragmented, with hiring varying significantly by industry and company size. Job gains were concentrated in businesses with less than 500 employees. Companies increased payrolls by 235,000 in December after a gain of 182,000 in November. Services employment increased by 213,000 and manufacturing employment rose 22,000.
- The Commerce Department reported the **trade deficit** narrowed in November with imports falling at a faster pace than exports. The deficit decreased to $61.5 billion in November from a deficit of $77.8 billion in October. **Exports** fell 2.0% to $251.9 billion and **imports** declined 6.4% to $313.4 billion.
- The Labor Department reported the labor force expanded at a robust pace in December, but also reported that wage growth moderated. Also, the report revised the previous month's jump in average hourly earnings, which so alarmed the Fed, down to a more acceptable level. The jobs report is composed of two surveys, one of employers and the other of households. The establishment survey,

which tends to be less volatile, showed strength, while the household survey painted an even stronger picture. The employer survey provides payroll and wage figures and the household survey determines jobless and participation rates. **Nonfarm payrolls** (employer survey) climbed 223,000 in December after gaining 256,000 the prior month. The **unemployment rate** (household survey) moved lower to 3.469% from 3.647% in November. The **labor force participation rate** rose to 61.3% in December from 61.1% the previous month. The average hourly earnings increased to $32.82 from $32.73 the prior month. Weekly hours declined to 34.3 in December from 34.4.

- The Commerce Department reported that **factory orders** declined 1.8% in November after climbing 0.4% in October. **Factory orders ex transportation** fell 0.8% after edging 0.1% higher in October. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft climbed 0.1% in November after gaining 0.3% in October.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, plunged in December into contraction territory. The unexpected deterioration indicates the Fed rate hikes are beginning to show an impact. The service ISM dropped in December to 49.6 from 56.5 the prior month. The business activity fell to 54.7 from 64.7. New orders dropped to the contraction level of 45.2 from 56.0. The employment index fell to 49.8 from 51.5. This gauge of service providers accounts for 90% of the economy. A reading less than 50 indicates contraction in the services sector.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased last week as mortgage rates climbed to the highest level in six weeks. The index decreased 10.3% for the week ending December 30th, after falling 3.2% the previous week. **Refinancing** applications declined 4.4% to 310.9 from 325.3 the prior week. **Home purchase mortgage applications** fell 12.0% to 160.2. Refinancing made up 30.3% of applications with an average loan size of $255,400, while purchases average loan size was $387,600. The **average contract rate** on a 30-year fixed-rate mortgage increased to 6.58% from 6.42% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.25%, 3.70%, 3.56% and 3.69%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -55, -14, 13, and -56 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	January 9	Nov Consumer Credit ($25.0b)	14:00 Central
Tuesday	January 10	Dec NFIB Small Business Optimism (91.5)	5:00 Central
		Nov Wholesale Trade Sales (0.2%)	9:00 Central
		Nov Wholesale Inventories (1.0%)	9:00 Central
Wednesday	January 11	Jan 6th MBA Mortgage Applications	6:00 Central
Thursday	January 12	Jan 7th Initial Jobless Claims (215k)	7:30 Central
		Dec Consumer Price Index (0.0%)	7:30 Central
		Dec Consumer Price Index-YOY (6.5%)	7:30 Central
		Dec CPI Ex Food & Energy (0.3%)	7:30 Central
		Dec CPI Ex Food & Energy-YOY (5.7%)	7:30 Central
		Dec Budget Statement (-$65.0b)	13:00 Central
Friday	January 13	Dec Import Price Index (-0.9%)	7:30 Central
		Dec Import Price Index-YOY (2.1%)	7:30 Central
		Dec Import Price ex Petroleum (-0.3%)	7:30 Central
		Jan University of Michigan Sentiment (60.5)	9:00 Central

Source: Bloomberg Finance L.P.