

January 16, 2024

Financial Services Group

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Economic Review



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- The Labor Department reported that **initial jobless claims** edged lower last week, indicating the turnover of temporary workers that follows the end of year holidays is normal. Data during this time of year is extremely noisy that is typical of the holiday season. First time claims in regular state programs decreased 1,000 to 202,000 from the prior week's upwardly revised 203,000 for the week ending January 6th. The four-week moving average dropped to 207,750 from 208,000 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, fell 34,000 to 1.834 million for the week ending December 30th.
- The Federal Reserve reported **consumer credit** surged \$23.8 billion in November after climbing \$5.8 billion in October. This is the biggest increase in a year as holiday shoppers used credit cards to help finance their shopping. Credit card debt increased \$19.1 billion to \$1.315 trillion after climbing \$2.9 billion the previous month. Auto and student loan debt increased \$4.6 billion in November after climbing \$2.8 billion in October. Total non-revolving credit climbed to \$3.695 trillion. These figures are not adjusted for inflation.
- The **National Federation of Independent Business** reported sentiment among small businesses increased in December, matching the highest level this year. The gain largely reflects less pessimism around sales, earnings trends and economic expectations. The index climbed to 91.9 in December from a 90.6 reading in November. Owners were less downbeat about the outlook for business conditions and only a net 4% expect lower sales in the next three months, the smallest share in nearly two years.
- The Commerce Department reported the **trade deficit** edged lower in November as the value of both imported goods and exports declined. The deficit decreased to \$63.2 billion in November from a deficit of \$64.5 billion in October. **Exports** declined 1.9% to \$253.7 billion and **imports** decreased 1.9% to \$317.0 billion.
- The Commerce Department reported **wholesale inventories** declined 0.2% in November to \$896.2 billion. Year-on-year wholesale inventories have declined 3.0%. **Wholesale trade sales** remained unchanged in November after dropping 1.5% in October, with year-on-year sales up 0.5%. The ratio of inventory to sales decreased to 1.34 in November from 1.35 in October. The ratio was 1.41 in June.
- The Labor Department reported the **consumer price index** rose above expectations in December, mainly from an increase in gasoline prices. Shelter, used car and apparel prices also came in moderately higher than expected. A still strong labor market continues to power consumer spending and the broader economy. The report underscores the choppy nature of getting inflation back in line, particularly in the service sector, which the Fed has zoned in on as the last mile in its inflation fight. Consumer prices increased 0.3% in December with the year-on-year change climbing to 3.4% from last month's 3.1%. Service prices, which make up 62% of the index, gained 0.5% in December after gaining 0.5% in November. Prices of commodity based manufactured goods climbed 0.1% in December after falling 0.7% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.3% in December after increasing 0.3% the prior month. The year-on-year change in core CPI is 3.9%, still about twice as high as the Fed's target rate of 2.0%.
- The Treasury Department reported a **budget deficit** of \$129.3 billion for the month of December with the government collecting \$429.3 billion and spending \$558.7 billion. This compares to a deficit of \$85.0 billion a year earlier. The year-to-date deficit is \$509.9 billion, which compares to a year-to-date deficit of \$421.4 billion last year. December is the third month in the government's fiscal year.
- The Labor Department reported the **producer price index** unexpectedly declined in December for the third straight month. Wholesale prices fell 0.1% in December and November was revised to a decline of 0.1%. Year-on-year wholesale prices climbed 1.0% in December. The report signals that inflationary pressures at the wholesale level are largely subdued. Goods prices, which make up 31% of the weighting, declined 0.4% in December after falling 0.3% in November. Services, which make up 67% of the index, remain unchanged in December for the third straight month. The **core PPI**,

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which excludes volatile food and energy prices, were also unchanged in December after edging 0.1% higher in November, with a year-on-year gain of 1.8%. **PPI ex food, energy and trade** climbed 0.2% in December.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** jumped last week, recouping much of the prior week's decline. The index increased 9.9% for the week ending January 5th after dropping 10.7% the prior week. **Refinancing** applications rose 18.8% to 425.4 from 358.2 the prior week. **Home purchase mortgage applications** increased 5.6% to 148.6. Refinancing made up 38.3% of applications with an average loan size of \$274,100, while purchases average loan size was \$402,900. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 6.81% from 6.76% last week.

BOND MARKET REVIEW

Rates fell last week after the producer price index data signaled inflationary pressures may be declining enough to allow the Fed to start lowering rates in March. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.14%, 3.83%, 3.94% and 4.18%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -31, 11, 24, and 4 basis points respectively.

Economic/Events Calendar

Tuesday	January 16	Jan Empire Manufacturing (-5.0)	7:30 Central
Wednesday	January 17	Jan 12 th MBA Mortgage Applications	6:00 Central
		Dec Retail Sales (0.4%)	7:30 Central
		Dec Retail Sales Ex Auto & Gas (0.3%)	7:30 Central
		Dec Import Price Index (-0.5%)	7:30 Central
		Dec Import Price Index-YOY (-2.0%)	7:30 Central
		Dec Import Price Index ex Petroleum (0.1%)	7:30 Central
		Dec Industrial Production (-0.1%)	8:15 Central
		Dec Capacity Utilization (78.7%)	8:15 Central
		Nov Business Inventories (-0.1%)	9:00 Central
		Jan NAHB Housing Market Index (39)	9:00 Central
		Federal Reserve Releases Beige Book	13:00 Central
Thursday	January 18	Jan 13 th Initial Jobless Claims (205k)	7:30 Central
		Dec Housing Starts (1,425k)	7:30 Central
		Dec Building Permits (1,477k)	7:30 Central
Friday	January 19	Jan University of Michigan Sentiment (70.0)	9:00 Central
		Dec Existing Home Sales (3.83m)	9:00 Central

Source: Bloomberg Finance L.P.

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