

January 29, 2024

Financial Services Group

Author:

Economic Review



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- The Labor Department reported that **initial jobless claims** increased last week, although still low by historical standards. Abnormally cold weather likely contributed to the uptick in seasonally adjusted claims. First time claims in regular state programs increased 25,000 to 214,000 from the prior week's upwardly revised 189,000 for the week ending January 20th. The four-week moving average dropped to 202,250 from 203,750 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, climbed 27,000 to 1.833 million for the week ending January 13th.
- The Conference Board reported the **index of leading economic indicators** declined 0.1% in December, the smallest decline in fourteen months. The loss was led by a decline in ISM new orders, the interest rate spread and consumer expectations. The biggest positive contributor to the leading index was stock prices. 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, was 0.2% in December after climbing 0.2% in November.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity declined in December. The **Chicago Fed National index**, which draws on 85 economic indicators, was negative 0.15 in December after reporting a downwardly revised positive 0.01 in November. 48 of the indicators affected the index negatively and 37 made positive contributions. A reading below zero indicates below-trend-growth in the national economy.
- The initial estimate by the Commerce Department of the 4th quarter **gross domestic product** indicated economic activity was much better than expected, fueled by robust consumer spending. The fourth quarter gain caps a surprisingly strong year that defied recession calls. **Gross domestic product** expanded at a 3.3% annualized rate in the 4th quarter following an impressive 4.9% gain in the 3rd quarter. **Personal consumption**, which accounts for about 70% of the economy, increased at a strong 2.8% annualized pace, down from 3.1% in the 3rd quarter. Inventory spending and government investment were also stronger than expected. The core PCE deflator, which is closely watched by the Fed rose 2.0% for the second straight quarter, in line with the Fed's target. The **GDP price index** gained 1.5% in the 4th quarter after 3.3% in the 3rd quarter, suggesting inflation is dropping to acceptable levels.
- The Commerce Department reported the **goods trade deficit** narrowed slightly in December as exports climbed at a faster pace than imports. The deficit decreased 0.1% to \$88.5 billion in December. **Exports** climbed 2.5% to \$169.8 billion and **imports** increased 1.3% to \$258.3 billion.
- The Commerce Department reported **wholesale inventories** increased 0.4% in December after falling 0.4% in November. Year-on-year wholesale inventories are down 2.7%. **Retail inventories** increased 0.8% in December after climbing 0.1% in November and are up 5.3% year-on-year.
- The Commerce Department reported **durable goods orders**, which are bookings for goods and materials meant to last at least three years, remained unchanged in December after jumping 5.5% in November. A large drop in transportation orders in December comes after a surge in transportation orders the prior month. **Excluding transportation**, durable orders climbed 0.6% in December after climbing 0.5% in November. The non-military capital goods orders excluding aircraft, a proxy for business investment, increased 0.3% in December after surging 1.0% in November. The ratio of inventory to shipments climbed to 1.87 in December from 1.85 the prior month.
- The Commerce Department reported sales of new homes exceeded forecasts in December as a drop in mortgage rates entices new homebuyers. New housing inventory increased in December to 453,000 units, the most in more than a year. **New home sales** climbed 8.0% to a 664,000 annualized pace in December after reporting an upwardly revised 615,000 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.

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- The Commerce Department reported **personal income** climbed 0.3% in December after gaining 0.4% the prior month. **Personal spending** surged 0.7% in December, well above expectations after gaining 0.4% the prior month. The jump in spending caused the savings rate to drop to 3.7% in December from 4.1% the prior month, well below the average pre-pandemic saving rate of about 6.3%. Monthly **PCE inflation** climbed 0.2% in December after declining 0.1% in November and year-on-year PCE remained at 2.6%. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.2% in December, bringing the year-on-year gain to 2.9%. **Disposable income**, or the money left over after taxes, increased 0.3% in December.
- The National Association of Realtors reported the **index of pending home re-sales** rebounded in December to a five-month high, suggesting the recent drop in mortgage rates is helping to bring back life in the resale market. The number of contract signings increased 8.3% in December after hitting a record low the month before. Pending home sales are down 14.1% from a year earlier on an unadjusted basis. A 30-year fixed mortgage rate has dropped below 7%, encouraging more homeowners to list homes that are financed at much lower levels. Pending home sales are based on houses under contract as reported by over 100 multiple listing services and 60 large real estate brokers. A sale is listed as pending when a seller accepts a sales contract on a property. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** climbed last week for the third straight week. The index increased 3.7% for the week ending January 19th after climbing 10.4% the prior week. **Refinancing** applications declined 7.0% to 438.4 from 471.2 the prior week. **Home purchase mortgage applications** increased 7.5% to 174.3. Refinancing made up 32.7% of applications with an average loan size of \$278,400, while purchases average loan size was \$425,100. The **average contract rate** on a 30-year fixed-rate mortgage increased to 6.78% from 6.75% last week.

BOND MARKET REVIEW

Rates were mixed last week as the market prepares for this week's FOMC meeting. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.35%, 4.04%, 4.14% and 4.37%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -31, 10, 23, and 2 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Tuesday	January 30	Nov FHFA House Price Index (0.3%)	8:00 Central
		Nov S&P CoreLogic CS 20-City Index (0.45%)	8:00 Central
		Jan Conf Board Consumer Confidence (114.0)	9:00 Central
		Dec JOLTS Job Openings (8,709k)	9:00 Central
Wednesday	January 31	Jan 26 th MBA Mortgage Applications	6:00 Central
		Jan ADP Employment Change (148k)	7:15 Central
		4 th Qtr Employment Cost Index (1.0%)	7:30 Central
		FOMC Rate Decision (5.25% - 5.50%)	13:00 Central
		Interest on Reserve Balances Rate (5.40%)	13:00 Central
Thursday	February 1	Jan 27 th Initial Jobless Claims (210k)	7:30 Central
		4 th Qtr Nonfarm Productivity (2.3%)	7:30 Central
		4 th Qtr Unit Labor Costs (1.5%)	7:30 Central
		Dec Construction Spending (0.5%)	9:00 Central
		Dec ISM Manufacturing (47.0)	9:00 Central
Friday	February 2	Jan Change in Nonfarm Payrolls (180k)	7:30 Central
		Jan Unemployment Rate (3.8%)	7:30 Central
		Jan Avg Hourly Earnings-YOY (4.1%)	7:30 Central
		Jan Labor Force Participation Rate (62.6%)	7:30 Central
		Jan Univ of Michigan Sentiment (79.0)	9:00 Central
		Dec Factory Orders (0.2%)	9:00 Central
		Dec Factory Orders Ex Transportation	9:00 Central

Source: Bloomberg Finance L.P.

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