Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** unexpectedly declined again last week to its lowest level since April, signaling the labor market remains tight even as the Fed raises rates in order to reduce the demand for labor. The low number of claims suggest we are still a ways off from seeing an acceleration in labor market deterioration. Claims in regular state programs declined 6,000 to 186,000 for the week ending January 21st, after reporting 192,000 initial claims the prior week. The four-week moving average dropped to 197,500 from 206,750 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased by 20,000 to 1.675 million for the week ending January 14th.
- The Conference Board reported the **index of leading economic indicators** declined 1.0% in December, the tenth straight drop. The loss was led by a decline in the average workweek, ISM new orders, consumer expectations and jobless claims. 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 0.1% in December after remaining unchanged in November.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity slowed in December. The Fed is aggressively raising interest rates to slow economic growth in order to ease pressures on future inflation. The **Chicago Fed National index**, which draws on 85 economic indicators, was negative 0.49 in December after reporting a negative 0.51 in November. A reading below zero indicates below-trend-growth in the national economy.
- The initial estimate by the Commerce Department of the 4rd quarter **gross domestic product** showed encouraging economic growth, but the details under the hood are not as strong as they seem. Inventory growth contributed 1.5 points to fourth quarter growth, with overall demand actually cooling under the surface. Gross domestic product expanded at a 2.9% annualized rate in the 4th quarter, after increasing 3.2% in the previous quarter. **Personal consumption,** which accounts for about 70% of the economy, gained a disappointing 2.1% in the quarter with housing activity extremely weak and equipment spending down. The **GDP price index** gained 3.5% in the 4th quarter, with lower prices in energy products. Now that energy prices appear to have stabilized, it is unlikely that the deflator will slow further from here without an economic slowdown.
- The Commerce Department reported the **goods trade deficit** widened in December as imports increased and exports fell. The deficit increased 8.8% to $90.3 billion in December. **Exports** fell 1.6% to $166.8 billion and **imports** climbed 1.9% to $257.1 billion.
- The Commerce Department reported **wholesale inventories** rose 0.1% in December after gaining 0.9% the previous month. Year-on-year wholesale inventories have climbed 17.8%. **Retail inventories** increased 0.5% in December after remaining unchanged in November and are up 13.9% year-on-year.
- The Commerce Department reported **durable goods orders** climbed in December, led by a steep increase in orders at Boeing. Durable goods, which are bookings for goods and materials meant to last at least three years, rose 5.6% in December after falling 1.7% in November. The non-military capital goods orders excluding aircraft, a proxy for business investment, fell 0.2% in December after remaining unchanged in November. **Excluding transportation**, durable orders decreased 0.1% in December after climbing 0.1% in November. The ratio of inventory to shipments climbed to 1.78 in December from 1.77 in November.
- The Commerce Department reported sales of new homes edged higher for the third straight month, ending an otherwise disappointing year where lofty mortgage rates, high construction costs, a tight labor market and home affordability issues made home-buying conditions terrible. **New home sales** rose 2.3% to a 616,000 annualized pace in December after reporting a downwardly revised 602,000 pace the prior month. A total of 644,000 new homes were sold for all of 2022, the smallest annual construction in four years. 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 Commerce Department reported **personal income** climbed 0.2% in December and **personal spending** fell by 0.2%. The decline in spending was led by goods categories, while services spending stagnated. The report is consistent with other economic data that suggests economic activity was losing momentum toward the end of last year. The savings rate climbed to 3.4% in December from 2.9% in November, the highest in seven months. The savings rate typically climbs during economic downturns as consumers lose access to credit and turn more cautious on discretionary spending. The core PCE Deflator, the preferred inflation gauge by the Federal Reserve, climbed 0.3% in December, bringing the year-on-year gain to 4.4%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.3% in December after climbing 0.3% in November.

- The National Association of Realtors reported the **index of pending home re-sales** edged higher in December, the first gain in seven months. The gain signals that the housing market may finally be stabilizing after a dreadful year. For all of last year, contract signings decreased more than 20% as demand weakened due to a Fed induced jump in mortgage rates as well as poor home buying conditions. The number of contracts to purchase previously owned homes rose 2.5% in December after declining 2.6% in November. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.

- The **University of Michigan's final index of consumer sentiment** improved in January, with both short-term and long-term inflation expectations improving. Wage gains and easing inflation have improved the index's gauge of current personal finances to the highest level since May. The gauge of consumer confidence increased to 64.9 in January from an earlier estimate of 64.6. This is an increase from the 59.7 reading in December. The **index of current conditions** rose to 68.4 from 59.4 the prior month while the **index of expectations** climbed to 62.7 from 59.9 the prior month. The final reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, remained unchanged at 2.9% in January. One year inflation expectations slowed to 3.9% from 4.4%, driven by lower gasoline prices.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** rose last week for the third straight week as mortgage rates continue to pull back from recent highs. The index climbed 7.0% for the week ending January 20th, after surging 27.9% the previous week. **Refinancing** applications increased 14.6% to 502.3 from 438.3 the prior week. **Home purchase mortgage applications** climbed 3.4% to 205.4. Refinancing made up 31.9% of applications with an average loan size of $269,300, while purchases average loan size was $415,000. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 6.20% from 6.23% last week. The average contract rate was as high as 7.16% in October of last year.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.20%, 3.61%, 3.50% and 3.62%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -59, -11, 12, and -58 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Tuesday	January 31	4th Qtr Employment Cost Index (1.1%)	7:30 Central
		Nov FHFA House Price Index (-0.5%)	8:00 Central
		Nov S&P CoreLogic CS 20-City Index (-0.65)	8:00 Central
		Jan Conf Board Consumer Confidence (109.0)	9:00 Central
Wednesday	February 1	Jan 27th MBA Mortgage Applications	6:00 Central
		Jan ADP Employment Change (170k)	7:15 Central
		Dec Construction Spending (0.0%)	9:00 Central
		Jan ISM Manufacturing (48.0)	9:00 Central
		Dec JOLTS Job Openings (10,293k)	9:00 Central
		FOMC Rate Decision (4.50%-4.75%)	13:00 Central
		Interest on Reserve Balances Rate (4.65%)	13:00 Central
Thursday	February 2	Jan 28th Initial Jobless Claims (200k)	7:30 Central
		4th Qtr Nonfarm Productivity (2.4%)	7:30 Central
		4th Qtr Unit Labor Costs (1.5%)	7:30 Central
		Dec Factory Orders (2.3%)	9:00 Central
		Dec Factory Orders ex Transportation	9:00 Central
Friday	February 3	Jan Change in Nonfarm Payrolls (185k)	7:30 Central
		Jan Unemployment Rate (3.6%)	7:30 Central
		Jan Average Hourly Earnings-YOY (4.3%)	7:30 Central
		Jan Labor Force Participation Rate (62.3%)	7:30 Central
		Jan ISM Services Index (50.5)	9:00 Central

Source: Bloomberg Finance L.P.