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Economic Review

- The Labor Department reported that **initial jobless claims** unexpectedly declined last week as the expected jump in claims due to the California fires have not materialized. First time claims in regular state programs recorded 207,000 for the week ending January 25th, after the prior week's report of 223,000. The four-week moving average declined to 212,500 from 213,500 the prior week. Continuing claims, a proxy for people who are already receiving benefits and still can't find a job, declined 42,000 to 1,858,000 for the week ending January 18th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity improved to above trend territory in December after six straight months of below trend. The **Chicago Fed National index**, which draws on 85 economic indicators, was positive 0.15 in December after reporting negative 0.01 in November. 44 of the indicators affected the index positively and 41 made negative contributions. A reading above zero indicates above-trend-growth in the national economy.
- The Commerce Department reported the pace of sales of new homes increased in December even as inventories climbed reflecting improved builder sentiment. **New home sales** increased 3.6% to a 698,000 annualized pace in December after gaining 9.6% the prior month. The supply of new homes climbed to 494,000 during the month. The report also showed the median sales price of a new house rose to $427,000, 6.1% higher than November. 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 **durable goods orders**, which are bookings for goods and materials meant to last at least three years, declined in December driven primarily by an unexpected plunge in commercial aircraft bookings. Orders declined 2.2% in December after falling 2.0% in November. **Excluding transportation**, durable orders rose 0.3% in December after falling 0.2% in November. The non-military capital goods orders excluding aircraft, a proxy for business investment, increased 0.5% in December after gaining 0.9% in November. Orders for commercial aircraft plunged 45.7% in December The ratio of inventory to shipments decreased to 1.85 in December from 1.86 the prior month.
- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes climbed 0.3% in December after increasing 0.5% in November. The year-on-year change in the house price index was 4.2% in December. The HPI is estimated using repeated observations of housing values for single-family homes on which at least two mortgages were originated and subsequently sold to Freddie Mac or Fannie Mae. The use of repeat transactions on the same unit helps to control for differences in the quality of the houses.
- The **S&P CoreLogic CaseShiller home price index** rose 0.41% in November after gaining 0.35% in October. The index increased 4.33% from the same month in 2023. This is the twentieth straight increase in prices. This index includes homes of all prices, while the sample for the FHFA index is based only on confirming mortgages, which leaves out much of the upper end of the housing market. The index tracks changes in the value of homes in 20 metropolitan regions.
- The Conference Board's **consumer confidence index** decreased in January to a four month low on less optimism about the labor market and a declining outlook for the broader economy. The index recorded a 104.1 in January from an upwardly revised 109.5 reading in December, previously reported as 104.7. The measure of expectations for the next six months fell to 83.9 in January from 86.5 in December. The present situation index decreased to 134.3 in January from 144.0 the previous month.
- The Commerce Department reported the **goods trade deficit** widened in December as US company's secured shipments in advance of potential tariffs form the Trump administration and exports fell due to weak overseas economies and a strong dollar. The deficit increased 18.0% to

$122.1 billion in December from $103.5 billion the prior month. **Exports** decreased 4.5% in December to $167.5 billion and **imports** increased 3.9% to $289.6 billion.

- The Commerce Department reported **wholesale inventories** fell 0.5% in December to $898.0 billion. Year-on-year wholesale inventories have declined 0.1%. **Retail inventories** fell 0.3% in December to $823.3 billion after remaining unchanged in November, with year-on-year inventories up 5.7%.

- The **FOMC** met on Wednesday and left the Federal Funds target range at 4.25% to 4.50%. The rate paid on bank reserve balances was also unchanged at 4.40%. The pace of balance sheet runoff was unchanged at a cap of $25 billion per month for Treasury securities and $35 billion per month for MBS securities. The language describing the balance of risks and the policy guidance leaves options open for cutting again in the future. Chair Powell's statement after the meeting indicated the FOMC is not in a hurry to adjust its policy stance.

- The initial estimate by the Commerce Department of the 4th quarter **gross domestic product** indicated the US economy expanded at a solid pace at the end of 2024. A steep decline in inventories brought the headline below expectations, but there was a surge in consumer spending and business sentiment to start the new year. **Gross domestic product** expanded at a 2.3% annualized rate in the 4th quarter, following a solid 3rd quarter gain of 3.1%. **Personal consumption,** which accounts for about 70% of the economy, rose to a 4.2% annualized pace compared to 3.7% in the third quarter. The core PCE deflator, which is closely watched by the Fed, was 2.5% after a 2.2% reading in the 3rd quarter. The **GDP price index** gained 2.2% in the 4th quarter after a 1.9% gain in the 3rd quarter.

- The National Association of Realtors reported the **index of pending home re-sales** declined in December for the first time since July, as high mortgage rates and high housing prices make is difficult for many to afford a house. The number of contract signings decreased 5.5% in December after climbing 1.6% in November. Mortgage rates that reached a two-year low of 6.13% in September have since rebounded to more than 7.00%. 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 Commerce Department reported **personal income** climbed 0.4% in December after gaining 0.3% the prior month. **Personal spending** surged 0.7% in December after gaining 0.6% in November. Growth in employee compensation accounts for 61% of the monthly increase in headline personal income growth. Income growth also was supported by an increase in transfer payments, primarily Social Security, Medicare and Medicaid. Monthly **PCE inflation** climbed 0.3% in December after rising 0.1% in November and year-on-year PCE climbed to 2.6% from 2.4% in November. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.2% in December, bringing the year-on-year gain to 2.8%. **Disposable income**, or the money left over after taxes, increased 0.4% in December.

- The Labor Department reported the **Employment Cost Index** increased in the 4th quarter at a rate that supports a trend of gradually easing inflationary pressures. The Employment Cost Index is the Fed's preferred measure of wages. The index climbed 0.9% in the 4th quarter after a gain of 0.8% in the 3rd quarter. The year-on-year gain is 3.8%, the slowest pace in more than three years. The report supports the view that wage growth will continue to creep lower as labor demand cools. Wages and salaries increased 0.9% and benefits rose 0.8%. Wages in the government workers sector grew 0.9% compared to 0.8% in the private sector.

Source: Bloomberg Finance L.P.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined 2.0% last week after climbing 0.1% the prior week. **Refinancing** applications decreased 6.8% to 520.9 from 558.8 the prior week. H**ome purchase mortgage applications** declined 0.4% to 162.4. Refinancing made up 37.1% of applications with an average loan size of $290,500, while purchases average loan size is $436,500. The **average contract rate** on a 30-year fixed-rate mortgage remained unchanged at 7.02%.

BOND MARKET REVIEW

Rates declined last week after Fed Chair Powell statements that rate cuts were still on the table this year. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.20%, 4.33%, 4.54% and 4.79%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 13, 21, 25, and 59 basis points respectively.

Economic/Events Calendar

Monday	February 3	Dec Construction Spending (0.2%)	9:00 Central
		Jan ISM Manufacturing (49.9)	9:00 Central
Tuesday	February 4	Dec JOLTS Job Openings (8,000k)	9:00 Central
		Dec Factory Orders (-0.7%)	9:00 Central
		Dec Factory Orders Ex Transportation	9:00 Central
Wednesday	February 5	Jan 31st MBA Mortgage Applications	6:00 Central
		Jan ADP Employment Change (150k)	7:15 Central
		Dec Trade Balance (-$96.8b)	7:30 Central
		Jan ISM Services Index (54.1)	9:00 Central
Thursday	February 6	Feb 1st Initial Jobless Claims (213K)	7:30 Central
		4th Qtr Nonfarm Productivity (1.4%)	7:30 Central
		4th Qtr Unit Labor Costs (3.4%)	7:30 Central
Friday	February 7	Jan Change in Nonfarm Payrolls (170k)	7:30 Central
		Jan Unemployment Rate (4.1%)	7:30 Central
		Jan Labor Force Participation Rate (62.5%)	7:30 Central
		Jan Avg Hourly Earnings-YOY (3.8%)	7:30 Central
		Dec Wholesale Inventories (-0.5%)	9:00 Central
		Feb University of Michigan Sentiment (72.0)	9:00 Central
		Feb Univ of Michigan 1-Yr Inflation (3.2%)	9:00 Central
		Feb Univ of Michigan 5-10 Yr Inflation (3.1%)	9:00 Central
		Dec Consumer Credit ($14.5b)	14:00 Central

Source: Bloomberg Finance L.P.