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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** increased for a second straight week last week, to a two-month high. The layoffs are in line with employers announcing more than 80 thousand job cuts in January, the most in 10 months. First time claims in regular state programs increased 9,000 to 224,000 from the prior week's upwardly revised 215,000 for the week ending January 27th. The four-week moving average climbed to 207,750 from 202,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, climbed 70,000 to 1.898 million for the week ending January 20th. These numbers may be understated as there is a historically low share of unemployed Americans applying for benefits due to a lack of eligibility and the fact that the weekly payouts have not kept up with the pace of inflations, which may cause more people to seek part-time jobs rather than apply for benefits.

- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes increased 0.3% in November after gaining 0.3% in October. The year-on-year change in the house price index was 6.6% in November. 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 0.147% in November after gaining 0.63% in October. This is the ninth straight increase in prices, reflecting strong buyer demand amid a tight supply of listings. The index increased 5.40% in November from the same month in 2022. The index tracks changes in the value of homes in 20 metropolitan regions.

- The Conference Board's **consumer confidence index** jumped higher in January to the highest level since the end of 2021. Consumers grew more upbeat about the economy and the labor market and anticipated lower inflation and interest rates. The third straight increase in confidence suggests at least some of the momentum going into the new year will endure. The index recorded a 114.8 in January from a downwardly revised 108.0 reading in December, previously reported as 110.7. The present situation index increased to 161.3 in January from 147.2 in December. The expectations index climbed to 83.8 in January from 81.9 the prior month.

- The Labor Department reported that **job openings** climbed in December to the highest level in three months while fewer works quit their jobs, indicating employees are growing more cautious. Available positions increased to 9.026 million from an upwardly revised 8.925 million in the prior month. The largest gains were concentrated in professional and business services, which registered the biggest increase in four months. The quits rate, which measures voluntary job leavers as a share of total employment held at 2.2%, the lowest in nearly three years. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, edged higher to 1.44. The job openings rate remained unchanged at 5.4% in December.

- **ADP Employer Services** reported that payrolls at U.S. companies added fewer jobs than expected in January, indicating labor demand and wage growth have moderated from their post-pandemic recovery highs in the past year. Companies increased payrolls by 107,000 in January after a downwardly revised gain of 158,000 in December. Services employment increased by 77,000 and manufacturing employment climbed by 30,000.

- The Labor Department reported the **Employment Cost Index** for the 4th quarter was lower than expected, suggesting wage pressure in the economy is slowing along with goods and services inflation. 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 1.1% in the 3rd quarter. Wages and salaries increased 0.9% and benefits rose 0.7%. Wages in the government workers sector grew 1.1% compared to 0.9% in the private sector.

- The **FOMC** met on Wednesday and held the targeted federal funds rate as expected to a range of 5.25% to 5.50% for the fourth straight meeting. The FOMC statement contained an unusually high number of changes that included the removal of tightening bias. It laid out a singular condition for rate cuts, the committee needs to have "greater confidence that inflation is moving sustainably toward 2.0%.

- Bureau of Labor Statistics reported **worker's productivity** advanced at a higher than expected pace in the fourth quarter, wrapping up a year of improving efficiency gains that helped fuel economic growth as inflation receded. Productivity climbed an annualized pace of 3.2% in the fourth quarter after gaining 4.9% in the third quarter. Productivity is a measure of economic output for each unit of input, primarily the cost of labor. Year-on-year productivity is up 2.7%. The jump in productivity is mainly due to a surge in output growth of 3.7% compared to growth in aggregate hours which increased 0.4%. **Unit labor costs** in nonfarm businesses rose at an 0.5% annual rate in the 4th quarter and climbed 2.3% year-on-year.

- The Commerce Department reported that **construction spending** increased 0.9% in December. Spending on residential construction increased 1.4% while non-residential construction climbed 0.4%. Government spending, which made up 22.7% of construction spending, increased 1.3% and private spending gained 0.7%.

- The **Institute for Supply Management** reported its **manufacturing index** climbed to a 15-month high in January, fueled by the strongest orders growth since May 2022. While still in contractionary territory, it suggests manufacturing is starting to stabilize. The manufacturing index recorded a 49.1 in January after a 47.1 reading in December. The new orders part of the index increased to 52.5 in January from 47.0 in December and production climbed to 50.4 in January from 49.9 the prior month. A reading above 50 indicates expansion in the manufacturing sector.

- The Labor Department reported a blowout surprise to the upside in payroll growth during January. Gains in employment were broad-based across sectors, led by professional and business services, health care, retail trade and social assistance. Wages surged, while works hours fell to the lowest since March 2020. The report clearly shows that demand and wage pressures are far from cooling. The jobs report is made up of two surveys: one of households which provides the unemployment rate, labor force size and labor force participation rate and the other is the establishment survey of businesses, which generates the payrolls and wage figures. **Nonfarm payrolls** (employer survey) climbed a higher than expected 353,000 in January and revisions to November and December also added 126,000 more jobs. The **unemployment rate** (household survey) declined to 3.661% in January from 3.743% in December. The **labor force participation rate** remained unchanged at 62.5% in January. The average hourly earnings increased to $34.55 from $34.36 the prior month. Weekly hours decreased to 34.1 from 34.3.

- The **University of Michigan's preliminary index of consumer sentiment** surged in January as retreating inflation helped bolster views about household finances and the economy. The final sentiment index for the month rose 9.3 points to 79.0. The greatest level of confidence since July 2021 has the potential of sustaining household demand and keeping the economy on its expansion path. The long-term inflation expectations remained unchanged at 2.9% in January. The one-year-ahead inflation expectations fell to 2.9% from 3.1% in December. The **index of current conditions** climbed to 81.9 from 73.3 the prior month while the **index of expectations** increased to 77.1 from 67.4.

- The Commerce Department reported that **factory orders** climbed 0.2% in December after surging 2.6% in November. The gain in orders came even as defense spending dropped by 14.5%. **Factory orders ex transportation** increased 0.4% in December after gaining 0.2% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft increased 0.2% in December after climbing 0.9% in November.

Source: Bloomberg Finance L.P.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined last week after three straight gains. The index decreased 7.2% for the week ending January 26th after climbing 3.7% the prior week. **Refinancing** applications climbed 1.6% to 445.6 from 438.4 the prior week. **Home purchase mortgage applications** plunged 11.4% to 154.5. Refinancing made up 34.2% of applications with an average loan size of $270,700, while purchases average loan size was $444,100. The **average contract rate** on a 30-year fixed-rate mortgage remained unchanged at 6.78%.

BOND MARKET REVIEW

Rates plunged last week after the FOMC meeting indicated the Fed was ready to consider rate custs with positive inflation data and then retreated higher after the blowout employment report. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.36%, 3.98%, 4.02% and 4.22%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -38, 4, 20, and -14 basis points respectively.

Economic/Events Calendar

Monday	February 5	Jan ISM Services Index (52.0)	9:00 Central
Wednesday	February 7	Feb 2nd MBA Mortgage Applications	6:00 Central
		Dec Trade Balance (-$62.0b)	7:30 Central
		Dec Consumer Credit ($16.0b)	14:00 Central
Thursday	February 8	Feb 3rd Initial Jobless Claims (220k)	7:30 Central
		Dec Wholesale Trade Sales (0.2%)	9:00 Central
		Dec Wholesale Inventories (0.4%)	9:00 Central

Source: Bloomberg Finance L.P.