Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** declined again last week to its lowest level since April. The labor market continues to show strength, which is concerning as it is a key hurdle in the Federal Reserve's fight against inflation. Demand for workers still far exceeds supply. Claims in regular state programs declined 3,000 to 183,000 for the week ending January 28th, after reporting 186,000 initial claims the prior week. The four-week moving average dropped to 191,750 from 197,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased by 11,000 to 1.655 million for the week ending January 21st.
- The Labor Department reported the **Employment Cost Index** for the 4th quarter rose at a slower pace than expected. This report is a key index to the Fed as it attempts to monitor inflationary pressures. The employment cost index is a broad gauge of wages and benefits. The index climbed 1.0% in the 4th quarter after a gain of 1.2% in the prior quarter. Wages and salaries increased 1.0% and benefits rose 0.8%.
- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes declined 0.1% in November after remaining unchanged in October. The year-on-year change in the house price index was 8.2% 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** decreased 0.54% in November after falling 0.51% in October, the fifth straight decline in home prices. The report indicates demand for housing continues to slow in November, even as mortgage rates and affordability pull back from their highs. The index climbed 6.77% 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** pulled back in January as consumers became less optimistic about the outlook for the economy. Perceptions of current economic conditions rose to its highest level since April, but consumers became less upbeat on the jobs market, business conditions and the economy over the next six months. The index recorded a 107.1 in January from an upwardly revised 109.0 reading in December, previously reported as 108.3. The present situation index increased to 150.9 in January from a 147.4 reading in December. The expectations index slipped to 77.8 in January from 83.4 the prior month.
- **ADP Employer Services** reported that payrolls at U.S. companies grew at the slowest pace in two years in January. Payrolls were held back by declines in businesses with fewer than 50 employees, construction and goods-producing industries like mining. Regionally, the biggest drops were in the Midwest, which were impacted by severe winter storms. Companies increased payrolls by 106,000 in January after a gain of 253,000 in December. Services employment increased by 109,000 and manufacturing employment declined by 3,000.
- The Commerce Department reported that **construction spending** declined 0.4% in December, with spending down in both the private and public sector. Spending on residential construction fell 0.3% and non-residential construction dropped 0.5%. Government spending, which makes up 21.1% of construction spending, decreased 0.4% and private spending also fell 0.4%.
- The **Institute for Supply Management** reported its **manufacturing index** contracted for the third straight month to its lowest level since May 2020. Manufacturers are seeing a drop off in business and the outlook is weakening, but they are doing everything they can to maintain headcount given the lack of labor supply. The manufacturing index recorded a 47.4 in January after a 48.4 reading in December. The index reached a high of 63.7 in March of 2021. The new orders part of the index

declined to 42.5 from 45.1 in December and production fell to 48.0 in January from 48.6 the prior month. A reading below 50 indicates contraction in the manufacturing sector.

- The Labor Department reported that **job openings** unexpectedly jumped higher in December, indicating the Fed's tightening campaign has done very little damage to labor demand so far. Job openings increased by 572,000 in December to 11.012 million, from a downwardly revised 10.440 million in November. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, jumped to 1.92 in December from 1.74 in November. The job openings rate rose to 6.7% from 6.4% the previous month, well above the 4.3% level at the end of 2019. The quits rate remained unchanged at 2.7% in December.

- The **FOMC** met on Wednesday and the committee raised the fed funds rates by 25 basis points, as expected by the market. The targeted Federal Funds Rate is now between 450 basis points and 475 basis points. The committee voted unanimously to raise the fed funds rate. The policy statement acknowledged inflation has eased somewhat, though it remains elevated. The policy statement continued to emphasize the committee anticipates ongoing increases in the target range, suggesting the majority of members foresee raising rates to a terminal rate of at least 5.25%. Powell stressed the Fed needs to see better balance in the labor market to curb inflation in services excluding housing and energy.

- Bureau of Labor Statistics reported **worker's productivity** increased in the fourth quarter by the most in a year and labor costs slowed. This follows steep declines in the first half of the year. Productivity gained 3.0% in the fourth quarter after gaining 1.4% in the third quarter and plunging 4.1% in the second and 5.9% in the first. Productivity is a measure of economic output for each unit of input, primarily the cost of labor. Productivity for all of 2022 is down 1.3%, the biggest decline since 1974. The decline in productivity reflects a weakening economy while labor costs climb. **Unit labor costs** in nonfarm businesses rose at a 1.1% annual rate in the 4th quarter, the weakest gain in nearly two years. The slowdown reflects a sharp pullback in hours worked and a pickup in productivity that offset a jump in hourly compensation growth.

- The Commerce Department reported that **factory orders** increased 1.8% in December, offsetting a decline of 1.9% in November. **Factory orders ex transportation** fell 1.2% for the second straight month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft fell 0.1% in December after declining 0.2% in November.

- The Labor Department reported that payrolls came in dramatically stronger than expected in January. Hiring surged and unemployment fell to a 53-year low. The payroll gains were broad-based, with factories, retailers and restaurants adding jobs. Even construction increased employment amid a slump in housing. The report showed that employers are holding on to their workers they struggled so much to find over the past two years. The impressive payroll report adds pressure on the Federal Reserve to keep raising interest rates to contain inflation. **Nonfarm payrolls** (employer survey) climbed 517,000 in January after gaining 260,000 the prior month. The **unemployment rate** (household survey) dropped to 3.434% from 3.469% in December, the lowest level since May of 1969. The **labor force participation rate** climbed to 61.4% in January from 61.3% the previous month. The average hourly earnings increased to $33.03 from $32.93 the prior month. Weekly hours jumped to 34.7 in January from 34.4.

- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, surged far more than expected in January and back into expansion territory. The jump was led by a rebound in business activity and new orders. The gain is partly explained by a bounce back after severe winter weather created holiday travel chaos and caused widespread power outages in late December. The service ISM increased in January to 55.2 from 49.2 the prior month. The business activity rose to 60.4 from 53.5. New orders climbed to 60.4 from 45.2. The employment

Source: Bloomberg Finance L.P.

index rose to 50.0 from 49.4. This gauge of service providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined last week after three straight weeks of gains. The index fell 9.0% for the week ending January 27th. **Refinancing** applications declined 7.1% to 466.6 from 502.3 the prior week. **Home purchase mortgage applications** dropped 10.3% to 184.3. Refinancing made up 31.2% of applications with an average loan size of $269,000, while purchases average loan size was $416,800. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 6.19% from 6.20% 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 4.29%, 3.66%, 3.52% and 3.61%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -63, -14, 9, and -68 basis points respectively.

Economic/Events Calendar

Tuesday	February 7	Dec Trade Balance (-$68.5b)	7:30 Central
		Dec Consumer Credit ($25.0b)	14:00 Central
Wednesday	February 8	Feb 3rd MBA Mortgage Applications	6:00 Central
		Dec Wholesale Trade Sales (-0.2%)	9:00 Central
		Dec Wholesale Inventories (0.1%)	9:00 Central
Thursday	February 9	Feb 4th Initial Jobless Claims (190k)	7:30 Central
Friday	February 10	Feb University of Michigan Sentiment (65.0)	9:00 Central
		Jan Budget Statement (-$55.0b)	13:00 Central

Source: Bloomberg Finance L.P.