

February 10 2025 Financial Services Group

Author:

Economic Review



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- The Labor Department reported that **initial jobless claims** increased slightly last week reflecting a labor market that is trending sideways. Demand is soft, but not enough for businesses to shed payroll through layoffs. First time claims in regular state programs recorded 219,000 for the week ending February 1st, after the prior week's report of 208,000. The four-week moving average climbed to 216,750 from 212,750 the prior week. Continuing claims, a proxy for people who are already receiving benefits and still can't find a job, climbed 36,000 to 1,886,000 for the week ending January 25th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The Commerce Department reported that **construction spending** surged in December, driven by increased spending on home improvements and construction of single-family homes. Construction spending increased 0.5% in December after climbing 0.2% in November. Spending on residential construction jumped 1.5% while non-residential construction declined 0.2%. Government spending, which made up 23.0% of construction spending, decreased 0.5% and private spending climbed 0.9%.
- The **Institute for Supply Management** reported its **manufacturing index** improved to 50.9 in January, marking the first month of expansion since October 2022 and the highest level since September 2022. The manufacturing sector has gone through a rough patch with high interest rates and tariff threats, but may be the biggest winner from deregulation and long-term effects of the tariffs. The manufacturing index recorded a 50.9 in December after a 49.2 reading in November. The new orders part of the index increased to 55.1 in December from 52.1 in November and production climbed to 52.5 in December from 49.9 the prior month. The employment sub-index moved higher to 50.3 in December from 45.4 the prior month, indicating manufacturing employment is expanding. A reading above 50 indicates expansion in the manufacturing sector.
- The Labor Department reported that **job openings** decreased in December, with vacancies declining most in professional and business services, health care and social assistance, and finance and insurance. Available positions decreased by 556,000 to 7.600 million, from an upwardly revised 8.156 million in the prior month. The quits rate, which measures voluntary job leavers as a share of total employment remained at 2.0 in December, suggesting more people are losing confidence in their ability to find a new job. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, fell to 1.10 in December from 1.15 in November.
- The Commerce Department reported that **factory orders** fell 0.9% in December after decreasing 0.8% in November. **Factory orders ex transportation** climbed 0.3% in December after gaining 0.2% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft rose 0.4% in December after climbing 0.5% in November.
- **ADP Employer Services** reported that hiring at companies picked up in January indicating resilient job growth. Companies increased payrolls by 183,000 in January after an upwardly revised gain of 176,000 in December. Gains were concentrated in the services sector, led by trade and transportation, and leisure and hospitality industries. Services employment increased by 190,000 and manufacturing employment fell by 6,000. The ADP data indicated pay growth was stable, with earnings for workers who changed jobs climbing 6.8% from a year earlier. Pay gains for those who stayed in their current position rose by 4.7%.
- The Commerce Department reported the **trade deficit** widened sharply in December as companies front-load imports ahead of new tariffs. The deficit increased to \$98.4 billion in December from a deficit of \$78.9 billion in November. **Imports** climbed 3.5% to \$365.0 billion and **exports** decreased 2.6% to \$266.5 billion.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, decelerated in January as poor weather conditions impacting business levels and production were highlighted. Many also mentioned preparations or concerns related to potential tariff actions. The index recorded a 52.8 in January after a 54.0 reading in December. Business activity decreased in January to 54.5 from 58.0 the prior month. New orders declined to 51.3 from 54.4,

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while the employment index climbed to 52.3 from 51.3 in December. The prices paid component moved lower to 60.4 in January from 64.4. This gauge of service providers accounts for 90% of the economy. A reading above 50 indicates expansion in the services sector.

- Bureau of Labor Statistics reported **labor productivity** advanced at a firm pace in the fourth quarter, capping another year of impressive efficiency gains. Productivity climbed at an annualized pace of 1.2% in the fourth quarter after rising 2.3% in the third quarter. Productivity for all of last year increased 2.3%, the most in 14 years, excluding the pandemic surge in 2020. Unit labor costs for the 4th quarter increased at a 3.0% rate following a revised 0.5% in the 3rd quarter. On a year-over-year basis, unit labor costs were up 2.7%.
- The Labor Department reported the labor market payrolls came up short of expectations in January. There is a lot of noise in this report due to annual revisions to both seasonal factors and population estimates, so the data needs to be taken with a grain of salt. The jobs report is made up of two surveys: one of households which provides the unemployment rate, labor force size and the labor force participation rate and the other is the establishment survey of businesses, which generates the payrolls and wage figures. The **Nonfarm payrolls** (employer survey) climbed 143,000 in January after an upwardly revised gain of 307,000 in December. The **unemployment rate** (household survey) decreased to 4.011% in January from 4.086% in December. The **labor force participation rate** climbed to 62.6% from 62.5% the prior month. The average hourly earnings increased to \$35.87 in January from \$35.70 the prior month. Weekly hours declined to 34.1 from 34.2.
- The Commerce Department reported **wholesale inventories** declined 0.5% in December to \$898.5 billion. Year-on-year wholesale inventories have declined 0.1%. **Wholesale trade sales** jumped 1.0% in December after increasing 0.9% in November, with year-on-year sales up 2.8%. The ratio of inventory to sales declined to 1.31 from 1.33 in November.
- The **University of Michigan's preliminary index of consumer sentiment** declined in January to a seven-month low on a jump in short-term inflation expectations related to concerns about tariffs. The gauge of consumer confidence decreased to 67.8 in February from 71.1 in January. The **index of current conditions** fell to 68.7 from 74.0 the prior month while the **index of expectations** declined to 67.3 from 69.3 the prior month. The reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, climbed to 3.3% in February from 3.2% in January. One-year inflation expectations jumped to 4.3% from the prior month's 3.3%.
- The Federal Reserve reported **consumer credit** surged by the most on record in December, with massive gains in credit card balances and non-revolving credit. Credit outstanding jumped \$40.8 billion after declining 5.4 billion in November. Credit card debt surged \$22.9 billion in December to \$1.382 trillion after declining 13.8 billion the previous month. Auto and student loan debt increased \$18.0 billion in December after gaining \$8.5 billion in November. Total non-revolving credit climbed to \$3.763 trillion. These figures are not adjusted for inflation.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased 2.2% last week after declining 2.0% the prior week. **Refinancing applications** increased 12.2% to 584.3 from 520.9 the prior week. **Home purchase mortgage applications** declined 3.5% to 156.7. Refinancing made up 39.0% of applications with an average loan size of \$288,400, while purchases average loan size is \$447,300. The **average contract rate** on a 30-year fixed-rate mortgage declined to 6.97% from 7.02% the previous week.

Source: Bloomberg Finance L.P.

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BOND MARKET REVIEW

The yield curve flattened last week after the stronger than expected employment report. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.29%, 4.35%, 4.49% and 4.69%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 6, 14, 20, and 40 basis points respectively.

Economic/Events Calendar

Tuesday	February 11	Jan NFIB Small Business Optimism (104.7)	9:00 Central
Wednesday	February 12	Feb 7 th MBA Mortgage Applications	6:00 Central
		Jan Consumer Price Index (0.3%)	7:30 Central
		Jan Consumer Price Index-YOY (2.9%)	7:30 Central
		Jan CPI ex Food & Energy (0.3%)	7:30 Central
		Jan CPI ex Food & Energy-YOY (3.1%)	7:30 Central
		Jan Federal Budget Balance (-\$78.3b)	13:00 Central
Thursday	February 13	Feb 8 th Initial Jobless Claims (216K)	7:30 Central
		Jan Producer Price Index (0.3%)	7:30 Central
		Jan Producer Price Index-YOY (3.3%)	7:30 Central
		Jan PPI ex Food & Energy (0.3%)	7:30 Central
		Jan PPI ex Food & Energy-YOY (3.3%)	7:30 Central
Friday	February 14	Jan Retail Sales (-0.1%)	7:30 Central
		Jan Retail Sales ex Auto & Gas (0.3%)	7:30 Central
		Jan Import Price Index (0.4%)	7:30 Central
		Jan Import Price Index-YOY (1.9%)	7:30 Central
		Jan Import Price Index ex Petroleum (0.1%)	7:30 Central
		Jan Industrial Production (0.3%)	8:15 Central
		Jan Capacity Utilization (77.7%)	8:15 Central
		Dec Business Inventories (-0.1%)	9:00 Central

Source: Bloomberg Finance L.P.

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