

February 21, 2023

Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** declined slightly last week, posting its fifth straight week with fewer than 200,000 claims. The labor market continues to be very tight even as the Fed raises rates to slow the economy. Claims in regular state programs decreased 1,000 to 194,000 for the week ending February 11th, after reporting a downwardly revised 195,000 initial claims the prior week. The four-week moving average climbed to 189,500 from 189,000 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased by 16,000 to 1.696 million for the week ending February 4th.
- The **National Federation of Independent Business** reported sentiment among small businesses edged higher in January. The share of small businesses that raised prices in January slipped to the lowest level since May of 2021. Companies still struggle to attract and retain employees, with almost half of small business owners raising compensation in January. The index climbed to 90.3 in January from a 89.8 reading in December.
- The Labor Department reported the **consumer price index** rose the most in three months, signaling that inflationary pressures are not going away anytime soon. Price pressures are getting entrenched which will pressure the Fed to increase interest rates and for a longer period of time. The index increased 0.5% in January after climbing a revised 0.1% in December. The year-on-year change in consumer prices is 6.4% in January. Service prices gained 0.6% in January after climbing 0.7% in December. Prices of commodity based manufactured goods rose 0.4% in January after falling 0.7% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.4% in January after increasing 0.4% the prior month. The year-on-year change in core CPI is 5.6%.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, contracted in February for a third straight month. This is the sixth contraction in the last seven months, highlighting the depth of the problems the state's manufacturers are feeling as the Fed raises interest rates. The report showed continued declines in new orders and a decline in the average workweek. The index recorded a negative 5.8 in February after a negative 32.9 reading in January. New orders recorded at -7.8. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** were very strong in January after weak reports in December and November. The strength was broad-based with big increases in restaurant and bar sales, automobile, furniture and electronics. Retail sales surged 3.0% in January after plunging 1.1% in both December and November. January retail sales are up 6.7% year-on-year. **Retail sales ex autos and gas** increased 2.6% in January after declining 0.4% in December. The numbers in this report are not adjusted for inflation.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, was flat in January. A big decline in demand for heat due to unseasonably warm weather offset gains in factory output. Factory output rose in January by the most in nearly a year, suggesting improving supply chains and firmer demand are offering some relief in a challenging manufacturing sector. Industrial production remained unchanged in January after falling 1.0% in December. Production at factories, which make up 74.3% of output, rose 1.0% in January after declining 1.8% the previous month. Utilities plunged 9.9% after increasing 5.1% in December and mining rose 2.0%. **Capacity utilization**, which measures the amount of a plant that is in use, decreased to 78.3% in January from 78.4% the prior month.
- The Commerce Department reported **business inventories** increased 0.3% in December after gaining 0.3% in November. **Business sales** dropped 0.6% in December after falling 1.2% the prior month. The ratio of business inventories to sales climbed to 1.37 in December from 1.35 the prior month.

February 21, 2023 Financial Services Group

- The **National Association of Home Builders/Wells Fargo** reported housing sentiment climbed in February for the second straight month. The improvement so far in 2023 comes after a year-long rut in 2022. The increase in builder sentiment to a five-month high is fueled by more optimism about sales and the outlook for a pickup in buyer traffic. Forecasts indicate the housing market has passed peak mortgage rates for this cycle. The index of builder sentiment climbed to 42 in February from 35 in January and 31 in December. The index recorded an 84 in December of 2021.
- The Labor Department reported the **producer price index** rose more than expected in January, signaling that inflationary pressures are still elevated despite the Fed's aggressive monetary policy actions over the past year. The PPI has generally been cooling in recent months amid improving supply chains, a pullback in many commodity prices and a pullback in goods demand. The producer price index increased 0.7% in January after declining 0.2% the prior month. Year-on-year wholesale prices were up 6.0% in January compared to 6.5% in December. Goods prices, which make up 31% of the weighting climbed 1.2% in January after falling 1.4% in December. Services, which make up 67% of the index climbed 0.4% in January after gaining 0.4% the prior month. The **core PPI**, which excludes volatile food and energy prices, gained 0.5% in January after gaining 0.3% the previous month, with a year-on-year gain of 5.4%. **PPI ex food, energy and trade** gained 0.6%.
- The Commerce Department reported that **housing starts** continued their decline in January with the fifth straight drop. High mortgage rates continue to depress housing activity. Perhaps the most significant aspect of this report is that starts are now below completions. This usually precedes downturns in the sector with backlogs now being cleared and fewer projects started than completed, builders are not going to need as many workers. Housing starts fell 4.5% in January to a 1,309,000 annualized rate following December's 1,371,000 pace. Single-family starts decreased 4.3% in January with multi-family starts down by 4.9%. **Building permits**, a gauge of future construction, climbed 0.1% in January to a 1,339,000 pace.
- The Labor Department reported the **import price index** decreased in January for the seventh straight month, led by a drop in petroleum prices. Import prices increased 0.2% in January after falling 0.1% in December. The cost of petroleum declined 4.5% in January after declining 7.3% the prior month. Import prices are up 0.8% year-on-year. **Import prices ex petroleum** climbed 0.2% in January after climbing 0.7% the prior month.
- The Conference Board reported the **index of leading economic indicators** declined 0.3% in January, the eleventh straight drop. The loss was led by a decline in ISM new orders and consumer expectations. 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 0.2% in January after remaining unchanged in December.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased last week as mortgage rates jumped. The index fell 7.7% for the week ending February 10th. **Refinancing applications** dropped 12.5% to 480.5 from 549.3 the prior week. **Home purchase mortgage applications** fell 5.5% to 179.6. Refinancing made up 32.0% of applications with an average loan size of \$274,300, while purchases average loan size was \$433,300. The **average contract rate** on a 30-year fixed-rate mortgage increased to 6.39% from 6.18% last week. The average contract rate was as high as 7.16% in October of last year.

Source: Bloomberg Finance L.P.

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February 21, 2023

Financial Services Group

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.62%, 4.03%, 3.81% and 3.87%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -59, -22, 6, and -75 basis points respectively.

Economic/Events Calendar

Tuesday	February 21	Jan Existing Home Sales (4.10m)	9:00 Central
Wednesday	February 22	Feb 17 th MBA Mortgage Applications	6:00 Central
		Feb 1 st FOMC Meeting Minutes	13:00 Central
Thursday	February 23	Feb 11 th Initial Jobless Claims (199k)	7:30 Central
		Jan Chicago Fed Nat Activity Index (0.00)	7:30 Central
		4 th Qtr Gross Domestic Product-2 nd Est (2.9%)	7:30 Central
		4 th Qtr GDP Price Index-2 nd Est (3.5%)	7:30 Central
		4 th Qtr Personal Consumption-2 nd Est (2.0%)	7:30 Central
Friday	February 24	Jan Personal Income (1.1%)	7:30 Central
		Jan Personal Spending (1.3%)	7:30 Central
		Jan PCE Deflator-YOY (5.0%)	7:30 Central
		Jan New Home Sales (620k)	9:00 Central
		Feb University of Michigan Sentiment (66.4)	9:00 Central

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