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## Economic Review

Mr. Clark has been in investment banking since 1983. He is a Chartered Financial Analyst. He has been a fixed income strategist at Stephens Inc. since 1996, developing investment strategies, policies and procedures for institutions consistent with overall asset/liability management. Mr. Clark is the risk manager for Fixed Income Sales and Trading, monitoring inventories, product, transactions and counterparty risk. He is also a member of Stephens Fixed Income Management, providing discretionary management services for institutional customers. He is a member of the American Institute of Certified Public Accountants and the CFA Institute.

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- The Labor Department reported that **initial jobless claims** fell last week, reversing the previous weeks increase and continuing the declining trend. Demand for labor remains strong and job openings are plentiful. Claims in regular state programs decreased 17,000 to 232,000 for the week ending February 19<sup>th</sup>, after reporting 249,000 initial claims the prior week. The four-week moving average declined to 236,250 from 243,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, fell 112,000 to 1.476 million for the week ending February 12<sup>th</sup>.
- The Federal Housing Finance Agency reported a gain of 1.2% in the **house price index** of purchase-only homes in December after climbing 1.2% in November. The year-on-year change in the house price index was 17.6% 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** increased 1.46% in December after gaining 1.20% in November. We continue to see strong growth with limited housing inventory. The index climbed 18.56% in December from the same month in 2020. The index tracks changes in the value of homes in 20 metropolitan regions.
- The Conference Board's **consumer confidence index** declined in February to its lowest level since September as concerns about inflation and the impact of the Ukraine conflict more than offset the benefits of the fading impact of the Omicron variant. The index recorded a 110.5 in February from a downwardly revised 111.1 reading in January. The present situation index increased to 145.1 in February from a 144.5 reading in January. The expectations index dropped to 87.5 in February from 88.8 the prior month.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity improved in January. The **Chicago Fed National index**, which draws on 85 economic indicators, was positive 0.69 in January after reporting a positive 0.07 in December. A reading above zero indicates above-trend-growth in the national economy.
- The second estimate by the Commerce Department of the 4<sup>th</sup> quarter **gross domestic product** showed economic growth climbed slightly higher than the initial estimate, driven by a buildup in inventories. Much of the strength was concentrated at the start of the fourth quarter as consumers pulled forward their holiday shopping. Gross domestic product expanded at a 7.0% annualized rate in the 4<sup>th</sup> quarter, earlier reported as a gain of 6.9%. **Personal consumption**, which accounts for about 70% of the economy, gained 3.1% in the quarter, reported earlier as a gain of 3.3%. The **GDP price index** gained 7.1% in the 4<sup>th</sup> quarter, adjusting higher from the 6.9% initially reported.
- The Commerce Department reported sales of new homes retreated in January after a surge in purchases at the end of 2021. Climbing mortgage rates, high prices and limited inventory may be starting to pressure strong housing demand. **New home sales** declined 4.5% to a 801,000 annualized pace in January after reporting an upwardly revised 839,000 pace the prior month. 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 **personal income** remained unchanged last month as most stimulus payments ended. **Personal spending** rebounded in January, after a plunge in December due to a spike in Omicron cases. Inflation will impact real spending this year after six-months of consecutive declines in real income. The savings rate hit the lowest level since 2013. Personal income remained unchanged in January after climbing 0.4% in December. Personal spending jumped by 2.1% after declining by 0.8% in December. The PCE Deflator, the preferred inflation gauge by the Federal Reserve, climbed 0.6% in January, bringing the year-on-year gain to 6.1%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes,



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increased 0.1% in January after climbing 0.2% higher in December. The savings rate decreased to 6.4% in January from 8.2% the prior month.

- The Commerce Department reported **durable goods orders** rose in January by the most in four months with strength in capital spending and steady manufacturing growth to start the year. Durable goods, which are bookings for goods and materials meant to last at least three years, rose 1.6% in January and December was upwardly revised to a gain of 1.2% from last month's report of a 0.7% decline. The non-military capital goods orders excluding aircraft, a proxy for business investment, jumped 0.9% in January after gaining 0.4% in December. **Excluding transportation**, durable orders rose 0.7% in January after gaining 0.9% in December. The ratio of inventory to shipments declined to 1.76 from 1.77 in December.
- The National Association of Realtors reported the **index of pending home re-sales** declined for the third straight month as rising mortgage rates, high prices and low inventory pressure buyers. The number of contracts to purchase previously owned homes decreased 5.7% in January after dropping 2.3% in December. Pending home sales are down 9.1% on a seasonally adjusted year-on-year basis in January. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.
- The **University of Michigan's final index of consumer sentiment** decreased in February to its lowest level in more than a decade as consumers became more concerned about inflation and the impact of Russia's invasion of Ukraine. The gauge of consumer confidence increased to 62.8 from an earlier estimate of 61.7, although this is a decrease from the 67.2 reading in January. The **index of current conditions** dropped to 68.2 from 72.0 the prior month while the **index of expectations** fell to 59.4 from 64.1 the prior month.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** plunged 13.1% for the week ending February 18<sup>th</sup> after decreasing 5.4% the prior week. **Refinancing applications** decreased 15.6% to 1,678 from 1,989 the prior week. **Home purchase mortgage applications** fell 10.1% to 250.7. The **average contract rate** on a 30-year fixed-rate mortgage rose to 4.06% from 4.05% the prior week for a 30-year fixed rate loan.

## BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities were 1.57%, 1.87%, 1.96%, and 2.27%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 30, 9, 31, and 70 basis points respectively.

Source: Bloomberg Finance L.P.

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## Economic/Events Calendar

Monday	February 28	Jan Advance Goods Trade Balance (-\$99.5b)	7:30 Central
		Jan Wholesale Inventories (1.3%)	7:30 Central
		Jan Retail Inventories (1.0%)	7:30 Central
Tuesday	March 1	Jan Construction Spending (-0.1%)	9:00 Central
		Feb ISM Manufacturing (58.0)	9:00 Central
Wednesday	March 2	Feb 25 <sup>th</sup> MBA Mortgage Applications	6:00 Central
		Feb ADP Employment Change (375k)	7:15 Central
		U.S. Federal Reserve Releases Beige Book	13:00 Central
Thursday	March 3	Feb 26 <sup>th</sup> Initial Jobless Claims (225k)	7:30 Central
		4 <sup>th</sup> Qtr Nonfarm Productivity (6.6%)	7:30 Central
		4 <sup>th</sup> Qtr Unit Labor Costs (0.3%)	7:30 Central
		Feb ISM Services Index (61.0)	9:00 Central
		Jan Factory Orders (0.5%)	9:00 Central
		Jan Factory Orders Ex Transportation	9:00 Central
Friday	March 4	Feb Change in Nonfarm Payrolls (400k)	7:30 Central
		Feb Unemployment Rate (3.9%)	7:30 Central
		Feb Avg Hourly Earnings-YOY (5.8%)	7:30 Central
		Feb Labor Force Participation Rate (62.2%)	7:30 Central

Source: Bloomberg Finance L.P.

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