

# March 18, 2024

## Financial Services Group

Author:

### Economic Review



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- The Labor Department reported that **initial jobless claims** edged lower last week from the previous week's downwardly revised print. So far this year, jobless claims have been indicative of very low layoff rates, but announcements continue to pile up, foreshadowing future layoffs. First time claims in regular state programs recorded 209,000 for the week ending March 9<sup>th</sup> after the prior week's downwardly revised 210,000. The four-week moving average fell to 208,000 from 208,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, rose 17,000 to 1.811 million for the week ending March 2<sup>nd</sup>. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%, with the previous month revised down to 1.2%.
- The **National Federation of Independent Business** reported sentiment among small businesses declined to a nine-month low in February. The index declined to 89.4 in February from an 89.9 reading in January. Small business owners are still managing the elevated costs of higher prices and interest rates. Top concerns include policies related to taxes and regulations as well as chronic worries about future conditions.
- The Labor Department reported the **consumer price index** rose above expectations for the second straight month in February, with a surprisingly strong core CPI print. The report adds to evidence that inflation is proving stubborn and will make it more difficult for the Fed to lower rates. Consumer prices increased 0.4% in February with the year-on-year change climbing to 3.2% from last month's 3.1%. Service prices, which make up 64% of the index, gained 0.5% in February after gaining 0.7% in January. Prices of commodity based manufactured goods rose 0.4% in February after declining 0.3% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.4% in February after increasing 0.4% the prior month. The year-on-year change in core CPI is 3.8%, still about twice as high as the Fed's target rate of 2.0%. Shelter and gasoline contributed over 60% of the overall monthly advance, and prices were up for used cars, apparel, auto insurance and airfares.
- The Treasury Department reported a **budget deficit** of \$296.3 billion for the month of February with the government collecting \$271.1 billion and spending \$567.4 billion. This compares to a deficit of \$262.4 billion a year earlier. The year-to-date deficit is \$828.1 billion, which compares to a year-to-date deficit of \$722.6 billion last year. February is the fifth month in the government's fiscal year.
- The Commerce Department reported that **retail sales** rose less than expected in February after a steep drop the prior month, underscoring concerns about the durability of consumer spending. The consumer is growing more discerning as the labor market shows signs of cooling, credit access becomes more limited and prices on items continue to climb. Retail sales climbed 0.6% in February after plunging a downwardly revised 1.1% the prior month. Consumers spent more on used car purchases and building materials and less on furniture, clothing, health and e-commerce. Retail sales represent roughly half of total consumption, while the other half captures spending on services. **Retail sales ex autos and gas** increased 0.3% in February. The numbers in this report are not adjusted for inflation.
- The Labor Department reported the **producer price index** rose in February by the most in six months, driven by higher prices on energy and food. Wholesale prices rose 0.6% in February after climbing 0.3% in January. Year-on-year wholesale prices were up 1.6% in February. The report signals that inflationary pressures at the wholesale level may be resisting more than expected. Goods prices, which make up 30% of the weighting, rose 1.2% in February after falling 0.1% in January. Services, which make up 67% of the index, climbed 0.3% in February after increasing 0.5% in January. The **core PPI**, which excludes volatile food and energy prices, rose 0.3% in February after surging 0.5% in January, with a year-on-year gain of 2.0%. **PPI ex food, energy and trade** climbed 0.4% in February.
- The Commerce Department reported **business inventories** remained unchanged in January after increasing 0.3% in December. **Business sales** plunged 1.3% in January after remaining unchanged the prior month. The ratio of business inventories to sales climbed to 1.39 from 1.37 the prior month.

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- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, indicated factory activity contracted for the fourth straight month. The index recorded a negative 20.9 in March after a negative 2.4 reading in February. New orders recorded a negative 17.2 in March after a negative 6.3 reading in February while shipments decreased to negative 6.9 after a positive 2.8 reading last month. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Labor Department reported the **import price index** rose 0.3% in February after climbing 0.8% the prior month. The gain was driven by a jump in prices for natural gas, as well as broad based gains in industrial supplies, food and beverages, imported fuels and lubricants. The cost of petroleum rose 1.7% in February after increasing 1.8% the prior month. Import prices are down 0.8% year-on-year. **Import prices ex petroleum** rose 0.2% in February are down 0.8% year-on-year.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, climbed 0.1% in February after declining 0.5% in January, which was revised down from a reported 0.1% loss last month. Milder weather spurred a snapback in factory output, but damped utility demand. Production at factories, which make up 74.3% of output, rose 0.8% in February after falling 1.1% the previous month. Utilities fell 7.5% in February after gaining 7.4% in January while mining rose 2.2% in February after dropping 2.9% the prior month. **Capacity utilization**, which measures the amount of a plant that is in use, remained unchanged at 78.3% in February from a downwardly revised 78.5% in January.
- The **University of Michigan's preliminary index of consumer sentiment** edged lower in March after three straight months of improvement. The gauge of consumer confidence decreased to 76.5 in March from 76.9 in February. The **index of current conditions** remained unchanged at 79.4 while the **index of expectations** declined to 74.6 from 75.2 the prior month. The reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, remained at 2.9% in March. One year inflation expectations remained unchanged at 3.0%.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased last week for the second straight month as mortgage rates moved lower. The index rose 7.1% for the week ending March 8<sup>th</sup> after climbing 9.7% the prior week. **Refinancing** applications rose 12.2% to 480.3 from 428.1 the prior week. **Home purchase mortgage applications** increased 4.7% to 147.7. Refinancing made up 31.6% of applications with an average loan size of \$274,600, while purchases average loan size was \$444,300. The **average contract rate** on a 30-year fixed-rate mortgage dropped to 6.84% from 7.02% the prior week.

## BOND MARKET REVIEW

Rates surged last week as inflation data was surprisingly firm making it increasingly unlikely the Fed will begin cutting rates anytime soon. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.73%, 4.33%, 4.31% and 4.43%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -40, -2, 12, and -30 basis points respectively.

Source: Bloomberg Finance L.P.

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### Economic/Events Calendar

Monday	March 18	Mar NAHB Housing Market Index (48)	9:00 Central
Tuesday	March 19	Feb Housing Starts (1,430k)	7:30 Central
		Feb Building Permits (1,500k)	7:30 Central
Wednesday	March 13	Mar 15 <sup>th</sup> MBA Mortgage Applications	6:00 Central
		FOMC Rate Decision (5.25% to 5.50%)	13:00 Central
		Interest on Reserve Balances Rate (\$5.40%)	13:00 Central
Thursday	March 14	Mar 16 <sup>th</sup> Initial Jobless Claims (215k)	7:30 Central
		4 <sup>th</sup> Qtr Current Account Balance (-\$209.0b)	7:30 Central
		Feb Leading Index (-0.2%)	9:00 Central
		Feb Existing Home Sales (3.94m)	9:00 Central

Source: Bloomberg Finance L.P.

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