

# March 20, 2023

## Financial Services Group

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## Economic Review

- The Labor Department reported that **initial jobless claims** decreased last week, with the decline coming mostly from a reversal in New York. The report indicates labor supply is not increasing in any meaningful way. Claims in regular state programs fell 20,000 to 192,000 for the week ending March 11<sup>th</sup>, after reporting 212,000 initial claims the prior week. The four-week moving average edged lower to 196,500 from 197,250 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased by 29,000 to 1.684 million for the week ending March 4<sup>th</sup>.
- The **National Federation of Independent Business** reported sentiment among small businesses edged higher in February. The share of small businesses that raised prices in January slipped to the lowest level since April of 2021, indicating pricing pressures may be easing. Companies still struggle to attract and retain employees, with almost half of small business owners reporting vacancies in February. The index climbed to 90.9 in February from a 90.3 reading in January.
- The Labor Department reported the **consumer price index** again rose more than expected in February as prices of core services led by an acceleration in housing rents keep pressure on inflation. The report shows that inflation is not vanishing quickly, and there remains a compelling need for the Fed to continue raising rates. The index increased 0.4% in February after climbing 0.5% in January. The year-on-year change in consumer prices is 6.0% in February. Service prices gained 0.5% in February after climbing 0.6% in January. Prices of commodity based manufactured goods rose 0.2% in February after gaining 0.4% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.5% in February after increasing 0.4% the prior month. The year-on-year change in core CPI is 5.5%.
- The Labor Department reported the **producer price index** edged lower in February, surprising the market and possibly an early indication that inflation is beginning to slow. The producer price index decreased 0.1% in February after climbing 0.3% the prior month. Year-on-year wholesale prices were up 4.6% in February compared to 5.7% in January. Goods prices, which make up 31% of the weighting fell 0.2% in February after gaining 1.2% in January. Services, which make up 67% of the index declined 0.1% in February after falling 0.1% the prior month. The **core PPI**, which excludes volatile food and energy prices, remained unchanged in February after gaining 0.1% the previous month, with a year-on-year gain of 4.4%. **PPI ex food, energy and trade** gained 0.2%.
- The Commerce Department reported that **retail sales** fell in February after a surge in the prior month. The details reveal evidence that consumers are pulling back on big ticket items and focusing more on necessities. The strength was concentrated in grocery stores, health and personal care, general merchandisers and online shopping. Auto sales, furniture and restaurant sales were weak. Retail sales declined 0.4% in February after surging 3.2% in January. February retail sales are up 5.6% year-on-year. **Retail sales ex autos and gas** remained unchanged in February. The numbers in this report are not adjusted for inflation.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, deteriorated in March, contracting for a fourth straight month. The report showed both orders and shipments declined. The index recorded a negative 24.6 in March after a negative 5.8 reading in February. New orders recorded -21.7 after -7.8 in February and Shipments dropped to -13.4 after a 0.1 reading last month. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported **business inventories** decreased 0.1% in January after gaining 0.3% in December. **Business sales** increased 1.5% in January after falling 0.6% the prior month. The ratio of business inventories to sales fell to 1.34 in January from 1.36 the prior month.

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- The **National Association of Home Builders/Wells Fargo** reported housing sentiment climbed in March for the third straight month. The improvement so far in 2023 comes after a year-long rout in 2022. The increase in builder sentiment to a six-month high is fueled by more optimism about sales and the outlook for a pickup in buyer traffic. The index of builder sentiment climbed to 44 in March from 42 in February. The index recorded an 84 in December of 2021.
- The Labor Department reported the **import price index** decreased in February, led by a drop in prices for industrial supplies. Import prices decreased 0.1% in February after falling 0.4% in January. The cost of petroleum climbed 1.5% in February after declining 6.7% the prior month. Import prices are down 1.1% year-on-year. **Import prices ex petroleum** declined 0.4% in February after climbing 0.3% the prior month.
- The Commerce Department reported that **housing starts** increased in February for the first time in six months, led by a surge in multifamily projects. Despite the strength in starts, they remain well below completions and the total number of units under construction is now declining. Housing starts rose 9.8% in February to a 1,450,000 annualized rate following January's 1,321,000 pace. Single-family starts increased 1.1% in February with multi-family starts surging 24.0%. **Building permits**, a gauge of future construction, climbed 13.8% in February to a 1,524,000 pace.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, was flat in February. A deceleration is expected after the accumulation of inventories and slowing of new orders growth. Industrial production remained unchanged in February after climbing 0.3% in January. Production at factories, which make up 74.3% of output, rose 0.1% in February after increasing 1.3% the previous month. Utilities gained 0.5% after plunging 10.1% in January and mining fell 0.6%. **Capacity utilization**, which measures the amount of a plant that is in use, remained unchanged at 78.3% in February.
- The Conference Board reported the **index of leading economic indicators** declined 0.3% in February, the twelfth straight drop. The loss was led by a decline in consumer expectations and ISM New Orders. 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 0.1% in February after gaining 0.2% in January.
- The **University of Michigan's preliminary index of consumer sentiment** fell to its lowest reading since December, but remains above where it was trending throughout 2022. The one-year-ahead inflation expectations fell to 3.8% from 4.1% the previous month. The closely watched 5-10 year inflation expectations measure declined to 2.8% from 2.9% in February. The index decreased to 63.4 in March from a 67.0 reading in February. The **index of current conditions** fell to 66.4 from 70.7 the prior month while the **index of expectations** decreased to 61.5 from 64.7.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased 6.5% last week as mortgage rates declined for the first time in five weeks. The index climbed 6.5% for the week ending March 10<sup>th</sup>. **Refinancing** applications increased 4.8% to 458.9 from 437.9 the prior week. **Home purchase mortgage applications** gained 7.3% to 165.6. Refinancing made up 28.2% of applications with an average loan size of \$257,800, while purchases average loan size was \$430,800. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 6.71% from 6.79% 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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### BOND MARKET REVIEW

Rates continued to plunge with concerns about the banking sector. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 3.84%, 3.50%, 3.36% and 3.62%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -34, -14, 26, and -22 basis points respectively.

### Economic/Events Calendar

Tuesday	March 21	Feb Existing Home Sales (4.20m)	9:00 Central
Wednesday	March 22	Mar 17 <sup>th</sup> MBA Mortgage Applications	6:00 Central
		FOMC Rate Decision (4.75%-5.00%)	13:00 Central
		Interest on Reserve Balances Rate (4.90%)	13:00 Central
Thursday	March 23	Mar 18 <sup>th</sup> Initial Jobless Claims (200k)	7:30 Central
		4 <sup>th</sup> Qtr Current Account Balance (-\$213.2b)	7:30 Central
		Feb Chicago Fed Nat Activity Index (0.10)	7:30 Central
		Feb New Home Sales (650k)	9:00 Central
Friday	March 24	Feb Durable Goods Orders (0.7%)	7:30 Central
		Feb Durables Ex Transportation (0.2%)	7:30 Central
		Feb Cap Goods Orders Nondef Ex Air (-0.3%)	7:30 Central

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