Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** edged higher last week, but remained at a level that indicates a tight labor market. Despite major layoff announcements and some banking collapses, there is not any evidence of a negative impact on the labor market just yet. Claims in regular state programs rose 7,000 to 198,000 for the week ending March 25th, after reporting 191,000 initial claims the prior week. The four-week moving average climbed to 198,250 from 196,250 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased by 4,000 to 1.689 million for the week ending March 18th.

- The Commerce Department reported the **goods trade deficit** widened slightly in February for a third straight month as the decline in the value of exports was higher than the decline in imports. The deficit increased 0.6% to $91.6 billion in February. **Exports** fell 3.8% to $167.8 billion and **imports** dropped 2.3% to $259.5 billion.

- The Commerce Department reported **wholesale inventories** increased 0.2% in February after falling 0.5% the previous month. Year-on-year wholesale inventories have climbed 12.2%. **Retail inventories** increased 0.8% in February after gaining 0.1% in January and are up 10.8% year-on-year.

- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes increased 0.2% in January after falling 0.1% in December. The year-on-year change in the house price index was 5.3% in January. 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** decreased 0.43% in January after falling 0.53% in December, the seventh straight decline in home prices. Seller discounts have become more common as buyer demand has softened. Mortgage rates have been pulling back, but rates and affordability are still high. The index climbed 2.55% in January from the same month in 2022. The index tracks changes in the value of homes in 20 metropolitan regions.

- The Conference Board's **consumer confidence index** increased in March indicating jobs and income matter more to the average consumer than the banking sector turmoil. The consumer attitude remains resilient and their spending plans have only come in modestly. There are storm clouds on the horizon, but the consumer seems willing to wait until the rain drops hit before meaningfully changing their behavior. The index recorded a 104.2 in March from an upwardly revised 103.4 reading in February, previously reported as 102.9. The present situation index decreased to 151.1 in March from a 153.0 reading in February. The expectations index climbed to 73.0 in March from 70.4 the prior month.

- The National Association of Realtors reported the **index of pending home re-sales** unexpectedly increased in February, the third straight gain. The increase in sales indicates the housing market is stabilizing after last year's run up in mortgage rates. Pending home sales are based on houses under contract as reported by over 100 multiple listing services and 60 large real estate brokers. A sale is listed as pending when a seller accepts a sales contract on a property. The number of contracts to purchase previously owned homes rose 0.8% in February after surging 8.1% 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 third and final estimate by the Commerce Department of the 4th quarter **gross domestic product** showed growth in the fourth quarter was weaker than previously estimated, reflecting a downward revision to consumer spending. The details of the report show an economy that was losing steam at the end of 2022. Gross domestic product adjusted for inflation expanded at a 2.6%

annualized rate in the 4th quarter, revised down from an earlier 2.7% estimate. **Personal consumption,** which accounts for about 70% of the economy, gained a disappointing 1.0% in the quarter with housing activity extremely weak and equipment spending down. The **GDP price index** gained 3.9% in the 4th quarter, after rising 4.4% in the previous quarter.

- The Commerce Department reported **personal income** climbed 0.3% in February and **personal spending** edged higher by 0.2%. The gain in spending follows a surge of 2.0% in January. The gain in consumer spending is supported by an exuberant labor market, boosting sentiment and giving consumers the wherewithal to keep spending. The savings rate climbed to 4.6% in February from a downwardly revised 4.4% in January. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.3% in February, bringing the year-on-year gain to 5.0%, well above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.5% in February after climbing 2.0% in January.

- The **University of Michigan's final index of consumer sentiment** pulled back in March despite only a limited impact of high profile bank collapses. This is a concerning trend that indicates consumers are expecting a recession ahead. The gauge of consumer confidence decreased to 62.0 in March from an earlier estimate of 63.4. This is a decrease from the 67.0 reading in February. The **index of current conditions** dropped to 66.3 from 70.7 the prior month while the **index of expectations** declined to 59.2 from 64.7 the prior month. The final reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, climbed to 2.9% in March from 2.8% the prior month. One year inflation expectations declined to 3.6% from 4.1%.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased last week for the fourth straight gain. Mortgage rates hit a six-week low, but are still about two percentage points higher than they were a year ago. The index climbed 2.9% for the week ending March 24th. **Refinancing** applications increased 4.8% to 504.4 from 481.3 the prior week. **Home purchase mortgage applications** gained 2.0% to 172.7. Refinancing made up 29.1% of applications with an average loan size of $271,800, while purchases average loan size was $430,500. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 6.45% from 6.48% last week. The average contract rate was as high as 7.16% in October of last year.

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 4.03%, 3.57%, 3.47% and 3.65%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -46, -10, 18, and -38 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	April 3	Feb Construction Spending (0.0%)	9:00 Central
		Mar ISM Manufacturing (47.5)	9:00 Central
Tuesday	April 4	Feb JOLTS Job Openings (10,500k)	9:00 Central
		Feb Factory Orders (-0.5%)	9:00 Central
		Feb Factory Orders Ex Transportation (0.0%)	9:00 Central
		Feb Cap Goods Orders Nondef Ex Air (0.2%)	9:00 Central
Wednesday	April 5	Mar 31st MBA Mortgage Applications	6:00 Central
		Mar ADP Employment Change (210k)	7:15 Central
		Feb Trade Balance (-$68.8b)	7:30 Central
		Mar ISM Services Index (54.4)	9:00 Central
Thursday	April 6	April 1st Initial Jobless Claims (200k)	7:30 Central
Friday	April 7	Mar Change in Nonfarm Payrolls (240k)	7:30 Central
		Mar Unemployment Rate (3.6%)	7:30 Central
		Mar Average Hourly Earnings-YOY (4.3%)	7:30 Central
		Mar Labor Force Participation Rate (62.5%)	7:30 Central
		Feb Consumer Credit ($18.0b)	14:00 Central

Source: Bloomberg Finance L.P.