April 8, 2024
Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** rose to its highest level since January last week. Layoffs ticked up to round out the first quarter, though they are still below last year's levels. We are seeing a moderation in hiring rather than a surge in firings at this point. First time claims in regular state programs recorded 221,000 for the week ending March 30th after the prior week's report of 212,000. The four-week moving average climbed to 214,250 from 211,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, declined 19,000 to 1.791 million for the week ending March 23rd. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The Commerce Department reported that **construction spending** decreased 0.3% in February. Spending on residential construction increased 0.7% while non-residential construction fell 1.0%. Government spending, which made up 22.7% of construction spending, decreased 1.2% and private spending remained unchanged.
- The **Institute for Supply Management** reported its **manufacturing index** surprised the market, surging into expansionary territory for the first time since September 2022. The gain adds to concerns that the Fed's fight against inflation will be difficult. The manufacturing index recorded a 50.3 in March after a 47.8 reading in February. The new orders part of the index increased to 51.4 in March from 49.2 in February and production surged to 54.6 in March from 48.4 the prior month. A reading above 50 indicates expansion in the manufacturing sector.
- The Labor Department reported that **job openings** rose slightly in February, indicating labor demand is stabilizing at an elevated level. The labor market is coming into better alignment and wage pressures are subsiding. Available positions increased to 8.756 million from a downwardly revised 8.748 million in the prior month. Openings increased most in finance and insurance, state and local government, and entertainment and recreation. The quits rate, which measures voluntary job leavers as a share of total employment climbed to 2.2% from 2.1% in January. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, declined to 1.36 in February, down from 1.43 in January and well below the peak of 2.0 reached in March 2022. The job openings rate remained unchanged at 5.3% in February.
- The Commerce Department reported that **factory orders** climbed 1.4% in February after plunging 3.8% in January. The gain was driven by an uptick in aviation orders, with transportation up 3.3% after collapsing 18.3% in January. **Factory orders ex transportation** increased 1.1% in February after falling 0.6% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft climbed 0.7% in February after dropping 0.3% in January and declining 0.6% in December.
- **ADP Employer Services** reported that companies increased hiring last month by the most since July in a broad advance and wage gains accelerated. The report points to solid demand for workers. Companies increased payrolls by 184,000 in March after an upwardly revised gain of 155,000 in February. Services employment increased by 142,000 and manufacturing employment climbed by 42,000. Wage growth picked up for people who changed jobs with a 10.0% gain year-on-year, but advanced at the slowest pace since August 2021 for workers who stayed in their job, with a 5.1% gain year-on-year.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, grew at a much slower pace than expected in March, suggesting the economy remains on fragile footing with borrowing costs elevated. Inventory levels contracted at a faster pace for a fourth straight month, suggesting firms demand outlook is not positive enough to meaningfully refill inventories. The index recorded a 51.4 in March after a 52.6 reading in February. New orders declined to 54.4 from 56.1 the previous month, business activity climbed to 57.4, while the employment index edged higher to 48.5. This gauge of service providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.

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- The Commerce Department reported the **trade deficit** increased in February as the value of imports climbed faster than the value of exports. The deficit increased to $68.9 billion in February from a deficit of $67.6 billion in January. **Exports** climbed 2.3% to $263.0 billion and **imports** increased 2.2% to $331.9 billion.
- The Labor Department reported that payrolls rose in March by the most in nearly a year and the unemployment rate dropped, suggesting the labor market continues to be strong and elevates concern for continued inflationary pressures. The job gains were concentrated mainly in health care, government and construction. The jobs report is made up of two surveys: one of households which provides the unemployment rate, labor force size and labor force participation rate and the other is the establishment survey of businesses, which generates the payrolls and wage figures. **Nonfarm payrolls** (employer survey) climbed a higher than expected 303,000 in March. The surge in total employment lowered the **unemployment rate** (household survey) to 3.829% in March from 3.857% in February. The **labor force participation rate** climbed to 62.7% from 62.5% in February. The average hourly earnings increased to $34.69 from $34.57 the prior month. Weekly hours increased to 34.4 from 34.3.
- The Federal Reserve reported **consumer credit** increased to a record $5.05 trillion in February. Credit outstanding rose $14.1 billion in February after climbing $17.7 billion in January. Credit card debt increased $11.3 billion to $1.339 trillion after climbing $8.6 billion the previous month. Auto and student loan debt increased $2.9 billion in February after increasing 9.1 billion in January. Total non-revolving credit climbed to $3.712 trillion. Interestingly, the Fed's report showed for credit cards that charge interest, the rate is now 22.63%. It was under 17% before the start of the pandemic. These figures are not adjusted for inflation.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased last week for the third straight week. The index fell 0.6% for the week ending March 29th after dropping 0.7% the prior week. **Refinancing** applications fell 1.6% to 453.5 from 460.9 the prior week. **Home purchase mortgage applications** decreased 0.1% to 145.6. Refinancing made up 30.3% of applications with an average loan size of $263,500, while purchases average loan size was $453,000. The **average contract rate** on a 30-year fixed-rate mortgage declined to 6.91% from 6.93% the prior week.

BOND MARKET REVIEW

Rates moved higher last week as energy prices surged and employment data was stronger than expected making it less likely the Fed will begin to cut rates soon. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.79%, 4.39%, 4.40% and 4.55%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -36, 1, 15, and -20 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Tuesday	April 9	Mar NFIB Small Business Optimism (89.9)	9:00 Central
Wednesday	April 10	Apr 5th MBA Mortgage Applications	6:00 Central
		Mar Consumer Price Index (0.3%)	7:30 Central
		Mar Consumer Price Index-YOY (3.4%)	7:30 Central
		Mar CPI Ex Food & Energy (0.3%)	7:30 Central
		Mar CPI Ex Food & Energy-YOY (3.7%)	7:30 Central
		Feb Wholesale Trade Sales (0.8%)	9:00 Central
		Feb Wholesale Inventories (0.5%)	9:00 Central
		Mar 20th FOMC meeting Minutes	13:00 Central
		Mar Budget Statement (-$195.0b)	13:00 Central
Thursday	April 11	Apr 6th Initial Jobless Claims (215k)	7:30 Central
		Mar Producer Price Index (0.3%)	7:30 Central
		Mar Producer Price Index-YOY (2.2%)	7:30 Central
		Mar PPI Ex Food & Energy (0.2%)	7:30 Central
		Mar PPI Ex Food & Energy-YOY (2.3%)	7:30 Central
Friday	April 12	Mar Import Price Index (0.3%)	7:30 Central
		Mar Import Price Index-YOY (0.3%)	7:30 Central
		Mar Import Price Index ex Petroleum (0.1%)	7:30 Central
		Apr University of Michigan Sentiment (79.0)	9:00 Central
		Univ of Michigan 1-yr Inflation (2.9%)	9:00 Central
		Univ of Michigan 5-10 yr Inflation (2.9%)	9:00 Central

Source: Bloomberg Finance L.P.