April 10, 2023
Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** fell last week, but the data reflects updated seasonal factors that raise the level of underlying claims. Claims numbers have been artificially low stemming from pandemic-related problems in seasonally adjusting the data. Claims in regular state programs fell 18,000 to 228,000 for the week ending April 1st, but that is after the prior week's figure was revised up by 48,000 to 246,000. The four-week moving average declined to 237,750 from 242,000 the prior week. Both initial and continuing claims are above their pre-pandemic averages, signaling that labor market conditions are cooling. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased by 6,000 to 1.823 million for the week ending March 25th.

- The Commerce Department reported that **construction spending** declined 0.1% in February after January was revised to a gain of 0.4%, reported last month as a 0.1% loss. Spending on residential construction fell 0.6% while non-residential construction climbed 0.4%. Government spending, which makes up 21.2% of construction spending, decreased 0.2% and private spending remained unchanged.

- The **Institute for Supply Management** reported its **manufacturing index** dropped to its lowest levels since the early days of the pandemic. Rising interest rates, growing recession fears and tighter lending conditions appear to be weighing on business investment. The manufacturing index recorded a 46.3 in March after a 47.7 reading in February. The index reached a high of 63.7 in March of 2021. The new orders part of the index decreased to 44.3 in March from 47.0 in February and production climbed to 47.8 in March from 47.3 the prior month. A reading below 50 indicates contraction in the manufacturing sector.

- The Labor Department reported that **job openings** dropped in February to its lowest level since May of 2021. The decline suggests demand for labor is cooling in some industries, but is still too tight for the Fed. Job openings decreased by 632,000 in February to 9.931 million, from a downwardly revised 10.563 million in January. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, declined to 1.7 in February from 1.9 in January. The job openings rate fell to 6.0% from 6.4% the previous month, well above the 4.3% level at the end of 2019. The quits rate climbed to 2.6% in February from 2.5% in January.

- The Commerce Department reported that **factory orders** declined 0.7% in February after falling 2.1% in January. **Factory orders ex transportation** fell 0.3% in February after gaining 0.8% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft declined 0.1% in February after gaining 0.5% in January.

- **ADP Employer Services** reported that payrolls at U.S. companies added fewer jobs than expected in March and wage growth slowed, indicating the labor market may be showing signs of cooling. Firms in manufacturing, financial activities and professional and business services cut payrolls. Companies increased payrolls by 145,000 in March after an upwardly revised gain of 261,000 in February. Services employment increased by 75,000 and manufacturing employment increased by 70,000.

- The Commerce Department reported the **trade deficit** widened in February for the third-straight month as the value of exports fell more than imports. The deficit increased to $70.5 billion in February from a deficit of $68.7 billion in January. **Exports** declined 2.7% to $251.2 billion and **imports** dropped 1.5% to $321.7 billion.

- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, expanded at a slower pace in March, indicating demand for services is cooling. The service ISM dropped in March to 51.2 from 55.1 the prior month. The business activity fell to 55.4 from 56.3. New orders plunged to 52.2 from 62.6. The employment index fell to 51.3 from 54.0. This gauge of service providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.

- The Labor Department reported that payroll growth slowed down in March, but is still too fast for Fed policymakers. Job growth continues to be driven by leisure and hospitality and education and healthcare. Manufacturing and construction shed a small amount of jobs and information and finance payrolls rebounded modestly. **Nonfarm payrolls** (employer survey) climbed 236,000 in March after gaining 326,000 the prior month. The **unemployment rate** (household survey) declined to 3.502% from 3.571% in February, as more new joiners to the labor force were able to find jobs quickly. The **labor force participation rate** climbed to 62.6% in March from 62.5% the previous month. The average hourly earnings increased to $33.18 from $33.09 the prior month. Weekly hours pulled back to 34.4 in February from 34.5.
- The Federal Reserve reported **consumer credit** rose less than expected in February, held back by the smallest increase in credit card balances in nearly two years. Consumer credit increased $15.3 billion after gaining an upwardly revised $19.5 billion in January. Credit card debt increased $5.0 billion to $1.220 trillion. Auto and student loan debt increased by $10.3 billion to $3.600 trillion. These figures are not adjusted for inflation.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased last week after four weeks of gains. Mortgage rates hit a seven-week low, but are still about two percentage points higher than they were a year ago. The index declined 4.1% for the week ending March 31st. **Refinancing** applications decreased 5.4% to 477.2 from 504.4 the prior week. **Home purchase mortgage applications** fell 3.5% to 166.6. Refinancing made up 28.6% of applications with an average loan size of $264,100, while purchases average loan size was $428,000. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 6.40% from 6.45% 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 3.98%, 3.38%, 3.39% and 3.61%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -60, 1, 22, and -37 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	April 10	Feb Wholesale Trade Sales (0.6%)	9:00 Central
		Feb Wholesale Inventories (0.2%)	9:00 Central
Tuesday	April 11	Mar NFIB Small Business Optimism (89.8)	5:00 Central
Wednesday	April 12	Apr 7th MBA Mortgage Applications	6:00 Central
		Mar Consumer Price Index (0.2%)	7:30 Central
		Mar Consumer Price Index-YOY (5.1%)	7:30 Central
		Mar CPI ex Food & Energy (0.4%)	7:30 Central
		Mar CPI ex Food & Energy-YOY (5.6%)	7:30 Central
		Mar Budget Statement (-$313.5b)	13:00 Central
		Mar 22nd FOMC Meeting Minutes	13:00 Central
Thursday	April 13	April 8th Initial Jobless Claims (235k)	7:30 Central
		Mar Producer Price Index (0.0%)	7:30 Central
		Mar Producer Price Index-YOY (3.0%)	7:30 Central
		Mar PPI ex Food & Energy (0.2%)	7:30 Central
		Mar PPI ex Food & Energy-YOY (3.4%)	7:30 Central
Friday	April 14	Mar Retail Sales (-0.4%)	7:30 Central
		Mar Retail Sales ex Auto & Gas (-0.6%)	7:30 Central
		Mar Import Price Index (-0.1%)	7:30 Central
		Mar Import Price Index-YOY (-4.1%)	7:30 Central
		Mar Import Price Index ex Petroleum (0.0%)	7:30 Central
		Mar Industrial Production (0.2%)	8:15 Central
		Mar Capacity Utilization (79.1%)	8:15 Central
		Feb Business Inventories (0.3%)	9:00 Central
		Apr University of Michigan Sentiment (62.2)	9:00 Central

Source: Bloomberg Finance L.P.