

April 17, 2023

Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** rose last week, continuing their gradual climb since the beginning of the year. The gains reflect cuts from tech and financial firms and come mostly from California. Claims in regular state programs climbed 11,000 to 239,000 for the week ending April 8th. The four-week moving average increased to 240,000 from 237,750 the prior week. Both initial and continuing claims are above their pre-pandemic averages, signaling that labor market conditions are cooling. Continuing claims, which include people who have received unemployment benefits for a week or more, fell by 13,000 to 1.810 million for the week ending April 1st.
- The Commerce Department reported **wholesale inventories** edged higher by 0.1% in February to \$919.2 billion after declining 0.6% in January. Year-on-year wholesale inventories have gained 12.0%. **Wholesale trade sales** gained 0.4% in February after climbing a downwardly revised 0.4% in January, with year-on-year sales up 1.3%. The ratio of inventory to sales declined to 1.37 in February from 1.38 in January.
- The **National Federation of Independent Business** reported sentiment among small businesses declined in March. Concerns about inflation and quality of labor continue to be small businesses greatest concerns, but tighter credit conditions is a growing issue as well. The index fell to 90.1 in March from a 90.9 reading in February.
- The Labor Department reported the **consumer price index** rose slightly below expectations in March, with a decline in energy prices and a surprising flat reading on food. Under the hood, the pressure that is pushing service prices higher shows no real signs of stopping. The still elevated core prices show inflation remains sticky and recent OPEC production cuts suggest the good news on headline inflation is likely to be short-lived. The index increased 0.1% in March after climbing 0.4% in February. The year-on-year change in consumer prices is 5.0% in March. Service prices gained 0.3% in March after gaining 0.5% in February. Prices of commodity based manufactured goods fell 0.3% in March after climbing 0.2% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.4% in March after increasing 0.5% the prior month. The year-on-year change in core CPI is 5.6%.
- The Treasury Department reported a **budget deficit** of \$378.1 billion for the month of March with the government collecting \$313.2 billion and spending \$691.3 billion. This compares to a deficit of \$192.6 billion a year earlier. The March year-to-date budget deficit is \$1,100.7 billion, which compares to a deficit of \$668.2 billion in March of 2022. The fiscal year begins on October 1st.
- The **FOMC Minutes** for the March 21st-22nd meeting indicated inflation fears still dominated policymakers concerns. The minutes indicate the labor market is still stubbornly tight, inflation is unacceptably high and supercore inflation shows few signs of softening. The banking turmoil appears contained, even though a credit crunch may still be in the cards as banks raise lending standards. The FOMC participants agreed that supercore inflation, i.e. core services ex housing, was showing little evidence of disinflation. The minutes support the idea of at least one more rate increase in May.
- The Labor Department reported the **producer price index** declined in March, indicating price pressures continue to ease throughout the supply chain. Most of the decline was due to goods, with 80% of that decline tied to a drop in gasoline. The decline in energy prices is probably temporary as energy prices have since increased in reaction to the announced OPEC production cuts. The producer price index decreased 0.5% in March after remaining unchanged the prior month. Year-on-year wholesale prices were up 2.7% in March compared to 4.9% in February. Goods prices, which make up 31% of the weighting fell 1.0% in March after dropping 0.3% in February. Services, which make up 67% of the index declined 0.3% in March after climbing 0.1% the prior month. The **core PPI**, which excludes volatile food and energy prices, declined 0.1% in March after gaining 0.2% the previous month, with a year-on-year gain of 3.4%. **PPI ex food, energy and trade** gained 0.1%.

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- The Commerce Department reported that **retail sales** fell in March, a second straight month of lackluster sales after a surge in January. Consumers appear to be holding back on spending as they expect the economy to worsen. Looking ahead, higher gasoline prices and a potential credit crunch should add more pressure on demand in coming months. Retail sales declined 1.0% in March and fell 0.2% in February after surging 3.1% in January. March retail sales are up 2.9% year-on-year. **Retail sales ex autos and gas** declined 0.3% in March. The numbers in this report are not adjusted for inflation.
- The Labor Department reported the **import price index** decreased in March, led by a drop in prices for industrial supplies and petroleum. Import prices decreased 0.6% in March after falling 0.2% in February. The cost of petroleum fell 1.2% in March after declining 0.2% the prior month. Import prices are down 4.6% year-on-year. **Import prices ex petroleum** declined 0.6% in March after falling 0.3% the prior month.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, climbed in March. The gain was driven by a sharp increase in utility use. Production at factories, which make up 74.3% of output, declined 0.5% in March after increasing 0.6% the previous month. This is the first decline at U.S. factories this year. Utilities surged 8.4% in March after declining 0.7% in February and mining fell 0.5%. **Capacity utilization**, which measures the amount of a plant that is in use, climbed to 79.8% in March from 79.6% in February.
- The Commerce Department reported **business inventories** increased 0.2% in February after falling 0.2% in January. **Business sales** remained unchanged in February after surging 1.2% the prior month. The ratio of business inventories to sales remained unchanged at 1.36 in February.
- The **University of Michigan's preliminary index of consumer sentiment** rebounded in April even as year-ahead inflation expectations jumped sharply. The one-year-ahead inflation expectations, which are highly sensitive to gas prices, surged to 4.6% from 3.6% the previous month. The closely watched 5-10 year inflation expectations measure remained unchanged at 2.6%. The index increased to 63.5 in April from a 62.0 reading in March. The **index of current conditions** rose to 68.6 from 66.3 the prior month while the **index of expectations** increased to 60.3 from 59.2.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased last week after mortgage rates fell for a fifth-straight week to the lowest level in two months. The index climbed 5.3% for the week ending April 7th. **Refinancing** applications increased 0.1% to 477.5 from 477.2 the prior week. **Home purchase mortgage applications** rose 7.8% to 179.6. Refinancing made up 27.0% of applications with an average loan size of \$267,700, while purchases average loan size was \$431,900. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 6.30% from 6.40% 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 benchmark securities were 4.10%, 3.61%, 3.51% and 3.73%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -49, -10, 22, and -37 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	April 17	Apr Empire Manufacturing (-18)	7:30 Central
		Apr NAHB Housing Market Index (45)	9:00 Central
Tuesday	April 18	Mar Housing Starts (1,400k)	7:30 Central
		Mar Building Permits (1,450k)	7:30 Central
Wednesday	April 19	Apr 14 th MBA Mortgage Applications	6:00 Central
		Federal Reserve Releases Beige Book	13:00 Central
Thursday	April 20	April 15 th Initial Jobless Claims (240k)	7:30 Central
		Mar Existing Home Sales (4.50m)	9:00 Central
		Mar Leading Index (-0.7%)	9:00 Central

Source: Bloomberg Finance L.P.

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