Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** remained unchanged last week as claims remain locked in a tight range since the first week of February. The data shows no evidence of increasing layoffs or increasing friction against people finding a new job after losing one. First time claims in regular state programs recorded 208,000 for the week ending April 27th after the prior week's report of 208,000. The four-week moving average declined to 210,000 from 213,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, also remained unchanged at 1.774 million for the week ending April 20th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.

- The Labor Department reported the **Employment Cost Index** accelerated in the 1st quarter, indicating persistent wage pressures that are keeping inflation elevated. Minimum wage increases in more than 25 states put upward pressure on wages throughout the first quarter. The Employment Cost Index is the Fed's preferred measure of wages. The index climbed 1.2% in the 1st quarter after a gain of 0.9% in the 4th quarter. The year-on-year gain is 4.2%. Wages and salaries increased 1.1% and benefits rose 1.1%. Wages in the government workers sector grew 1.3% compared to 1.1% in the private sector.

- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes increased 1.2% in February after declining 0.1% in January. The year-on-year change in the house price index was 7.0% in February. 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** rose 0.61% in February after gaining 0.17% in January. The index increased 7.29% from the same month in 2023. This is the twelfth straight increase in prices. This index includes homes of all prices, while the sample for the FHFA index is based only on confirming mortgages, which leaves out much of the upper end of the housing market. The index tracks changes in the value of homes in 20 metropolitan regions.

- The Conference Board's **consumer confidence index** fell in April to the lowest level since the middle of 2022. Consumers are battling elevated inflation, high borrowing costs, a cooling labor market and deteriorating business conditions. The index recorded a 97.0 in April from a downwardly revised 103.1 reading in February, previously reported as 104.7. The present situation index decreased to 142.9 in April from 146.8 in March. The expectations index fell to 66.4 in April from 74.0 the prior month.

- **ADP Employer Services** reported that companies hired at a strong and broad pace in April. The report points to solid demand for workers across multiple industries, led by hiring in leisure and hospitality as well as construction. Companies increased payrolls by 192,000 in April after an upwardly revised gain of 208,000 in March. Services employment increased by 145,000 and manufacturing employment climbed by 47,000. Wage growth slowed for people who changed jobs with a 9.3% gain year-on-year and advanced at the slowest pace since August 2021 for workers who stayed in their job, with a 5.0% gain year-on-year.

- The Commerce Department reported that **construction spending** decreased 0.2% in March after remaining unchanged in February. Spending on residential construction decreased 0.7% while non-residential construction climbed 0.2%. Government spending, which made up 23.2% of construction spending, increased 0.8% and private spending fell 0.5%.

- The Labor Department reported that **job openings** fell in March to the lowest level in three years. Indicating the labor market is moving into better alignment and reducing wage pressures. The largest declines are in some of the most interest sensitive sectors. Available positions decreased to 8.488 million from an upwardly revised 8.813 million in the prior month. The quits rate, which measures voluntary job leavers as a share of total employment dropped to 2.1% from 2.2% in February. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, declined to 1.32 in March, down from 1.36 in February and well below the peak of 2.0 reached in March 2022. The job openings rate declined to 5.1% from 5.3% in February.

- The **Institute for Supply Management** reported its **manufacturing index** fell back into contractionary territory in April after the prior month's upside surprise. April's surprise was a significant increase in the prices paid part of the index, while new orders and production declined from March. The gain in prices adds to concerns that the Fed's fight against inflation will be difficult. The manufacturing index recorded a 49.2 in April after a 50.3 reading in March. The new orders part of the index decreased to 49.1 in April from 51.4 in March and production lowered to 51.3 in April from 54.6 the prior month. A reading below 50 indicates contraction in the manufacturing sector.

- The **FOMC** met on Wednesday and held the targeted federal funds rate as expected to a range of 5.25% to 5.50% for the sixth straight meeting. There were two notable changes in the policy statement. The first acknowledged the lack of progress toward the 2% inflation target over the past few months. The second major change in the statement was the announcement that the Fed will start tapering quantitative tightening in June. The Fed will reduce the maximum amount of Treasuries allowed to run off its balance sheet to $25 billion per month, from the current $60 billion. Chair Powell stated the goal is to achieve a soft landing and his baseline is that inflation can return to the Fed's 2% target without generating a large rise in unemployment.

- The Commerce Department reported the **trade deficit** edged lower in March as the value of exports dropped faster than the value of imports. The deficit decreased to $69.4 billion in March from a deficit of $69.5 billion in February. **Exports** declined 2.0% to $257.6 billion and **imports** decreased 1.6% to $327.0 billion.

- Bureau of Labor Statistics reported **worker's productivity** slowed in the 1st quarter and **unit labor costs** surged. The gain in unit labor costs, which is closely watched by the Fed, rose by the most in a year adding to risks inflation will remain elevated. Productivity climbed at an annualized pace of 0.3% in the first quarter after rising 3.5% in the fourth quarter. Productivity is a measure of economic output for each unit of input, primarily the cost of labor. Year-on-year productivity is up 2.9%. **Unit labor costs** in nonfarm businesses rose at a 4.7% annual rate in the 1st quarter and climbed 1.8% year-on-year.

- The Commerce Department reported that **factory orders** climbed 1.6% in March after gaining 1.2% in February. The gain was driven by an uptick in aviation orders, with transportation up 7.8%. **Factory orders ex transportation** increased 0.5% in March after climbing 1.1% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft climbed 0.1% in March after gaining 0.4% in February.

- The Labor Department reported that payrolls scaled back in April and the unemployment rate unexpectedly rose, suggesting a cooling is underway in the labor market. The report showed demand for workers is moderating after a strong start to the year. Compared with March, hiring for leisure and hospitality, construction and government workers fell sharply. Average hourly earnings declined to the slowest year-on-year pace since May 2021. 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 lower than expected 175,000 in April. The **unemployment rate** (household survey) increased to 3.865% in April from 3.829% in March. The **labor force participation rate** remained unchanged at 62.7%. The average hourly earnings increased to $34.75 from $34.68 the prior month. Weekly hours decreased to 34.3 from 34.4.

Source: Bloomberg Finance L.P.

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- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, contracted for the first time in more than two years. The index recorded a 49.4 in April after a 51.4 reading in March. Business activity slumped 6.5 points in April to 50.9, the lowest level since May 2020. New orders declined to 52.2 from 54.4 the previous month, the employment index dropped to 45.9 from 48.5 in March. Prices paid component rose sharply to 59.2 from 53.4, with firms noting higher unit costs on products and services. This gauge of service providers accounts for 90% of the economy. A reading less than 50 indicates contraction in the services sector.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased last week for the second straight week as mortgage rates climbed to the highest level in five months. The index fell 2.3% for the week ending April 26th after falling 2.7% the prior week. **Refinancing** applications fell 3.3% to 456.9 from 472.7 the prior week. **Home purchase mortgage applications** decreased 1.7% to 141.7. Refinancing made up 30.2% of applications with an average loan size of $244,600, while purchases average loan size was $436,000. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.29% from 7.24% the prior week.

BOND MARKET REVIEW

Rates fell last week after Fed Chair Powell came out less hawkish than expected and a much weaker than expected employment report on Friday. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.82%, 4.50%, 4.51% and 4.66%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -32, 1, 15, and -16 basis points respectively.

Economic/Events Calendar

Tuesday	May 7	Mar Consumer Credit ($15.0b)	14:00 Central
Wednesday	May 8	May 3rd MBA Mortgage Applications	6:00 Central
		Mar Wholesale Trade Sales (0.8%)	9:00 Central
		Mar Wholesale Inventories (-0.4%)	9:00 Central
Thursday	May 9	May 4th Initial Jobless Claims (212k)	7:30 Central
Friday	May 10	May University of Michigan Sentiment (76.2)	9:00 Central
		Apr Budget Statement ($250.0b)	13:00 Central

Source: Bloomberg Finance L.P.