

## May 20, 2024 Financial Services Group

Author:

### Economic Review



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- The Labor Department reported that **initial jobless claims** pulled back for the week ending May 11<sup>th</sup> after the prior week's surge. Claims in New York dropped after jumping the previous week, likely due to New York City public schools being on spring break. Some workers such as bus drivers are allowed to apply for benefits during school breaks, which tend to make weekly data volatile. First time claims in regular state programs recorded 222,000 for the week ending May 11<sup>th</sup> after the prior week's report of 232,000. The four-week moving average climbed to 217,750 from 215,250 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, gained 13,000 to 1,794,000 for the week ending May 4<sup>th</sup>. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The **National Federation of Independent Business** reported sentiment among small businesses climbed from a very low level, remaining at a depressed level. The index climbed to 89.7 in April from a 88.5 reading in March. Sales expectations improved while the share of owners planning price increases fell to a one-year low.
- The Labor Department reported the **producer price index** increased in April from a year earlier by the most since April of 2023. The price gain was driven by higher prices for services and higher fuel costs. Wholesale prices rose 0.5% in April after being revised down by 0.1% in March. Year-on-year wholesale prices were up 2.2% in April. Goods prices, which make up 30% of the weighting, climbed 0.4% in April after declining 0.2% in March. Services, which make up 67% of the index, surged 0.6% in April after falling 0.1% in March. The **core PPI**, which excludes volatile food and energy prices, rose 0.5% in April after falling 0.1% in March, with a year-on-year gain of 2.4%. **PPI ex food, energy and trade** climbed 0.4% in April.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity contracted for the sixth straight month. The index recorded a negative 15.6 in May after a negative 14.3 reading in April. New orders recorded a negative 16.5 in May after a negative 16.2 reading in April while shipments increased to negative 1.2 after a negative 14.4 reading last month. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Labor Department reported the **consumer price index** cooled in April for the first time in six months. The figures offer some hope that inflation is resuming its downward trend. Consumer prices increased 0.3% in April with the year-on-year change declining to 3.4% from last month's 3.5%. Service prices, which make up 64% of the index, gained 0.4% in April after gaining 0.5% in March. Prices of commodity based manufactured goods rose 0.2% in April after climbing 0.1% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.3% in April after increasing 0.4% the prior month. The year-on-year change in core CPI is 3.6%, still much higher than the Fed's target rate of 2.0%.
- The Commerce Department reported that **retail sales** stalled in April and the previous two months reports were revised lower. The slowdown in spending reflects a moderation in aggregate earnings, high borrowing costs and mounting debt. Consumers have less additional income to buy items and much of the spending during the month was on necessities, such as food and gasoline. The value of retail purchases remained unchanged in April after climbing a downwardly revised 0.6% the prior month. Consumers spent more at gasoline stations, clothing, electronics, and food and beverages. Spending declined at non-store retailers, sporting goods, motor vehicles and health and personal care. Retail sales represent roughly half of total consumption, while the other half captures spending on services. **Retail sales ex autos and gas** decreased 0.1% in April. The numbers in this report are not adjusted for inflation.
- The Commerce Department reported **business inventories** decreased 0.1% in March after climbing 0.3% the prior month. Inventories are 0.7% higher than a year earlier. **Business sales** fell 0.1%

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after surging 1.4% in February. Sales are 2.1% higher than a year earlier. The ratio of business inventories to sales remained unchanged at 1.37.

- The **National Association of Home Builders/Wells Fargo** reported builders housing sentiment declined in May for the first time in six months. A lack of progress on reducing inflation pushed long-term rates higher and hurt expectations of lower rates this year. The index of builder sentiment dropped 6 points to 45 in May, the lowest level since the start of the year. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** remain suppressed in April as mortgage rates weigh on housing activity. The pace of single-family housing starts was essentially steady between March and April. A modest increase in the pace of construction in the West largely offset declines in the Northeast. The pace of starts in the South and Midwest held steady. Construction in multifamily housing picked up, but remains slow compared to the prior two years. Housing starts climbed 5.7% in April to a 1,360,000 annualized rate after plunging 16.8% in March to a 1,287,000 annualized rate. Single-family starts decreased 0.4% in April with multi-family starts up 30.6%. **Building permits**, a gauge of future construction, decreased 3.0% in April to a 1,440,000 pace. This follows a decline of 5.0% in March.
- The Labor Department reported the **import price index** rose 0.9% in April after climbing 0.6% the prior month. The gain was driven by a jump in prices for petroleum, food and industrial supplies. The cost of petroleum rose 2.9% in April after increasing 6.7% the prior month. Import prices are 1.1% higher year-on-year. **Import prices ex petroleum** climbed 0.7% in April for a year-on-year gain of 0.7%.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, remained unchanged in April, restrained by a drop in factory output that highlights weakness in the manufacturing sector. This follows a gain of 0.1% in March, revised down from 0.4% last month. Manufacturing has had difficulty building momentum amid rising input prices and inconsistent demand. Production at factories, which make up 74% of output, fell 0.3% in April after gaining 0.2% the previous month. Utilities rose 2.8% in April after gaining 1.6% in March while mining fell 0.6% in April after declining 1.1% the prior month. **Capacity utilization**, which measures the amount of a plant that is in use, declined to 78.4% in April from an upwardly revised 78.5% in March.
- The Conference Board reported the **index of leading economic indicators** dropped 0.6% in April after falling 0.3% the prior month. The drop was led by a decline in consumer expectations, ISM new orders, a negative interest rate spread, and a drop in building permits. The index of U.S. leading indicators is a gauge of the economic outlook for the next three to six months. The **coincident index**, a gauge of current economic activity, increased 0.2% in April after climbing 0.2% in March.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased last week for the second straight week after mortgage rates continued to pull back from a five month high. The index rose 0.5% for the week ending May 10<sup>th</sup> after climbing 2.6% the prior week. **Refinancing** applications rose 4.7% to 499.9 from 477.5 the prior week. **Home purchase mortgage applications** decreased 1.7% to 141.7. Refinancing made up 32.0% of applications with an average loan size of \$255,200, while purchases average loan size at \$437,700. The **average contract rate** on a 30-year fixed-rate mortgage dropped to 7.08% from 7.18% the prior week.

Source: Bloomberg Finance L.P.

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### BOND MARKET REVIEW

Rates were lower last week after the CPI report showed inflation cooled for consumers for the first time this year and retail sales slowed. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.82%, 4.45%, 4.42% and 4.56%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -37, -3, 14, and -26 basis points respectively.

### Economic/Events Calendar

Wednesday	May 22	May 17 <sup>th</sup> MBA Mortgage Applications	6:00 Central
		Apr Existing Home Sales (4.22m)	9:00 Central
		May 1 <sup>st</sup> FOMC Meeting Minutes	13:00 Central
Thursday	May 23	May 18 <sup>th</sup> Initial Jobless Claims (220k)	7:30 Central
		Apr Chicago Fed Nat Activity Index (0.13)	7:30 Central
		Apr New Home Sales (679k)	9:00 Central
Friday	May 24	Apr Durable Goods Orders (-0.7%)	7:30 Central
		Apr Durables Ex Transportation (0.1%)	7:30 Central
		Apr Cap Goods Orders Nondef Ex Air (0.1%)	7:30 Central
		May University of Michigan Sentiment (67.7)	7:30 Central

Source: Bloomberg Finance L.P.

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