

June 5, 2023  
Financial Services Group

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## Economic Review

- The Labor Department reported that **initial jobless claims** edged higher last week indicating we are in the early stages of cooling. Claims had looked like they were telling an emerging story of labor weakness prior to last week's revisions, but now it is clear that most of the pickup in filings since January was related to fraud in Massachusetts. Claims in regular state programs climbed 2,000 to 232,000 for the week ending May 27<sup>th</sup>. The four-week moving average declined to 229,500 from 232,000 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, rose 6,000 to 1.795 million for the week ending May 20<sup>th</sup>.
- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes increased 0.6% in March after gaining 0.7% in February. The year-on-year change in the house price index was 3.6% in March. 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** unexpectedly climbed 0.42% in March after gaining 0.29% in February. The index declined 1.15% in March from the same month in 2022. The index tracks changes in the value of homes in 20 metropolitan regions.
- The Conference Board's **consumer confidence index** decreased in May to its lowest level in six months as views about the current state of the labor market and the outlook for business conditions slipped ahead of a deal to raise the debt ceiling. The index recorded a 102.3 in May from an upwardly revised 103.7 reading in April, previously reported as 101.3. The present situation index decreased to 148.6 in May from a 151.8 reading in April. The expectations index fell to 71.5 in May from 71.7 the prior month. The gap between the present situation and expectations remains consistent with levels that have preceded each recession since 1980.
- The Labor Department reported that **job openings** increased in April by 358,000 to 10.103 million. The jump in job openings surprised the market as other indicators show the labor market slowly cooling. The level of quits declined to its lowest level since February 2021, indicating growing concerns about job security. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, climbed to 1.8 in April from 1.6 in March. The job openings rate rose to 6.1% from 5.9% the previous month, well above the 4.3% level at the end of 2019. The quits rate declined to 2.5% in April from 2.6% in March.
- The Fed released the latest rendition of the **Beige Book**, which is based on information collected through May 22, 2023. This report is published eight times each year. The report showed economic activity was relatively unchanged since the previous report. Expectations for future growth deteriorated a little. Consumer spending was steady or higher, with growth in spending on leisure and hospitality. Manufacturing activity was flat or up and supply chain issues continued to improve. Employment increased in most Districts, though at a slower rate than previous reports. Overall price levels rose moderately during this reporting period, though the rate of price increases appeared to be slowing.
- **ADP Employer Services** reported that payrolls at U.S. companies increased in May by more than expected for a second straight month. The gain highlights the resilient labor market even as the economy cools. Companies increased payrolls by 278,000 in May after a downwardly revised gain of 291,000 in April. Services employment increased by 168,000 and manufacturing employment increased by 110,000.
- Bureau of Labor Statistics reported **worker's productivity** fell in the first quarter by less than an earlier estimate. Productivity declined 2.1% in the first quarter, reported last month as a decline of 2.7%. Productivity is a measure of economic output for each unit of input, primarily the cost of labor.

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Year-on-year productivity is down 0.8%. The decline in productivity reflects a weakening economy while labor costs climb. **Unit labor costs** in nonfarm businesses rose at a 4.2% annual rate in the 1<sup>st</sup> quarter, reported earlier at 6.3% and climbed 3.8% year-on-year. The considerable downward revision in labor costs takes some of the pressure off the Fed in its fight against inflation.

- The Commerce Department reported that **construction spending** increased 1.2% in April. Spending on residential construction climbed 0.4% while non-residential construction increased 1.9%. Government spending, which made up 20.1% of construction spending, increased 1.1% and private spending gained 1.3%.
- The **Institute for Supply Management** reported its **manufacturing index** contracted for the seventh straight month in May, signaling the manufacturing sector continues to weaken. Orders contracted at a faster pace while a measure of costs fell by the most in nearly a year. Companies are getting inventories more in line with sales and consumers are continuing to shift spending from goods to services. The manufacturing index recorded a 46.9 in May after a 47.1 reading in April. The new orders part of the index decreased to 42.6 in May from 45.7 in April and production climbed to 51.1 in May from 48.9 the prior month. A reading below 50 indicates contraction in the manufacturing sector.
- The Labor Department reported that payroll growth came in much stronger than expected for May, but also indicated a jump in unemployment. The jobs report is made up of two surveys: one of households where the employment rate comes from and the other of businesses, which generates the payrolls and wage figures. The household survey showed people entering the labor force had a tough time finding a job. There was also an increase in previously employed persons who became unemployed. The business survey however painted a picture of strength. Payroll growth was strong and wages among workers who are not in management rose the most in six months. **Nonfarm payrolls** (employer survey) climbed 339,000 in May after gaining 294,000 the prior month. The **unemployment rate** (household survey) increased to 3.655% from 3.394% in April. The **labor force participation rate** remained unchanged at 62.6%. The average hourly earnings increased to \$33.44 from \$33.33 the prior month. Weekly hours declined to 34.3 in May from 34.4 in April.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell last week as borrowing costs surged. The index declined 3.7% for the week ending May 26<sup>th</sup>. **Refinancing applications** fell 6.9% to 412.5 from 443.0 the prior week. **Home purchase mortgage applications** declined 2.5% to 154.4. Refinancing made up 26.7% of applications with an average loan size of \$258,400, while purchases average loan size was \$439,400. The **average contract rate** on a 30-year fixed-rate mortgage increased to 6.91% from 6.69% last week.

## BOND MARKET REVIEW

Rates pulled back last week as the government pushed through an increase in the debt ceiling. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities were 4.50%, 3.84%, 3.69% and 3.89%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -66, -15, 20, and -61 basis points respectively.

Source: Bloomberg Finance L.P.

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### Economic/Events Calendar

Monday	June 5	Apr Factory Orders (0.8%)	9:00 Central
		Apr Factory Orders Ex Transportation (0.2%)	9:00 Central
		Apr Cap Goods Orders Nondef Ex Air (1.3%)	9:00 Central
		May ISM Services Index (52.4)	9:00 Central
Wednesday	June 7	Jun 2 <sup>nd</sup> MBA Mortgage Applications	6:00 Central
		Apr Trade Balance (-\$75.6b)	7:30 Central
		Apr Consumer Credit (\$22.0b)	14:00 Central
Thursday	June 8	Jun 3 <sup>rd</sup> Initial Jobless Claims (235k)	7:30 Central
		Apr Wholesale Inventories (-0.2%)	9:00 Central
		Apr Wholesale Trade Sales (0.9%)	9:00 Central

Source: Bloomberg Finance L.P.

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