Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** climbed last week as automakers shut down plants for maintenance. The bigger concern is a surge in continuing claims that reached the highest level since November 2021, as nine straight weeks of increases indicate unemployed workers are struggling to find new jobs. First time claims in regular state programs recorded 238,000 for the week ending June 29th after the prior week's report of 234,000. The four-week moving average climbed to 238,500 from 236,250 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, gained 26,000 to 1,858,000 for the week ending June 22nd. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.

- The Commerce Department reported that **construction spending** decreased 0.1% in May after climbing 0.3% in April. Spending on residential construction fell 0.2% while non-residential construction declined 0.1%. Government spending, which made up 22.8% of construction spending, increased 0.5% and private spending fell 0.3%.

- The **Institute for Supply Management** reported its **manufacturing index** edged lower in June, the third straight monthly decline. Demand is still contracting, so producers are hesitant to accumulate inventories and the order backlog is shrinking. With firms largely working through inventory backlogs, production activity has hinged on demand, which continued to soften in June. The manufacturing index recorded a 48.5 in June after a 48.7 reading in May. The new orders part of the index increased to 49.3 in June from 45.4 in May and production lowered to 48.5 in June from 50.2 the prior month. A reading below 50 indicates contraction in the manufacturing sector.

- The Labor Department reported that **job openings** unexpectedly rose in May, bucking a downtrend that reflects a slowdown in labor demand. The increase in vacancies came largely from government jobs. Available positions increased to 8.140 million from a downwardly revised 7.919 million in the prior month. The quits rate, which measures voluntary job leavers as a share of total employment held steady at 2.2% in May. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, declined to 1.22 in May, back to its pre-Covid level.

- **ADP Employer Services** reported that companies hired workers at a more moderate pace in June and wage growth cooled in private payrolls data. Companies increased payrolls by 150,000 in June after an upwardly revised gain of 157,000 in May. Services employment increased by 136,000 and manufacturing employment climbed by 14,000. Wage growth slowed for people who changed jobs with a 7.7% gain year-on-year and advanced at the slowest pace since August 2021 for workers who stayed in their job, with a 4.9% gain year-on-year.

- The Commerce Department reported the **goods trade deficit** widened in May as exports decreased at a faster pace than imports. The deficit increased 0.8% to $75.1 billion in May. **Exports** fell 0.7% in May to $261.7 billion from $263.4 billion in April and **imports** decreased 0.3% to $336.7 billion from $337.9 billion the prior month.

- The Commerce Department reported that **factory orders** fell 0.5% in May after gaining a downwardly revised 0.4% in April. The decline was broad based with defense spending being an exception. **Factory orders ex transportation** decreased 0.7% in May after climbing 0.5% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft dropped 0.6% in May after climbing 0.2% in April.

- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, pulled back in June, suggesting economic growth is starting to falter. The decline in spending on services was broad based as consumers rein in spending on leisure activities and focus more on essentials like health care services. The index recorded a 48.8 in June after a 53.8 reading in May. Business activity plunged 11.6 points in June to 49.6. New orders dropped to 47.3 from 54.1 the previous month, the employment index fell to 46.1 from 47.1 in May. The prices paid component moved lower to 56.3 in June from 58.1. This gauge of service providers accounts for 90% of the economy. A reading below 50 indicates contraction in the services sector.

- The Labor Department reported that payroll growth was higher than expected, obscuring a material cooling in labor. Downward revisions to past months' payrolls, a surprise increase in the unemployment rate and cooling wage growth signal a weakening labor market. The majority of gains came from industries that are less cyclical, such as government, health care and social assistance. The jobs report is made up of two surveys: one of households which provides the unemployment rate, labor force size and the labor force participation rate and the other is the establishment survey of businesses, which generates the payrolls and wage figures. The **Nonfarm payrolls** (employer survey) climbed a higher than expected 206,000 in June. The **unemployment rate** (household survey) increased to 4.054% in June from 3.964% in May. The **labor force participation rate** climbed to 62.6% in June from 62.5%. The average hourly earnings increased to $35.00 from $34.90 the prior month. Weekly hours remained unchanged at 34.3.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell 2.6% for the week ending June 28th after climbing 0.8% the prior week as mortgage rates climbed above 7%. **Refinancing** applications declined 1.5% to 544.1 last week after declining 0.1% the prior week. **Home purchase mortgage applications** decreased 3.3% to 142.9. Refinancing made up 35.7% of applications with an average loan size of $267,800, while purchases average loan size at $434,200. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.03% from 6.93% the prior week.

BOND MARKET REVIEW

Rates increased last week and the yield curve steepened. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.60%, 4.23%, 4.28% and 4.48%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -37, 5, 20, and -12 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	July 8	May Consumer Credit ($8.85b)	14:00 Central
Tuesday	July 9	Jun NFIB Small Business Optimism (90.2)	5:00 Central
Wednesday	July 10	Jul 5th MBA Mortgage Applications	6:00 Central
		May Wholesale Inventories (0.6%)	9:00 Central
		May Wholesale Sales (0.2%)	9:00 Central
Thursday	July 11	Jul 6th Initial Jobless Claims (236k)	7:30 Central
		Jun Consumer Price Index (0.1%)	7:30 Central
		Jun Consumer Price Index-YOY (3.1%)	7:30 Central
		Jun CPI Ex Food & Energy (0.2%)	7:30 Central
		Jun CPI Ex Food & Energy-YOY (3.4%)	7:30 Central
		Jun Budget Statement (-$77.1b)	13:00 Central
Friday	July 12	Jun Producer Price Index (0.1%)	7:30 Central
		Jun Producer Price Index-YOY (2.3%)	7:30 Central
		Jun PPI Ex Food & Energy (0.2%)	7:30 Central
		Jun PPI Ex Food & Energy-YOY (2.5%)	7:30 Central
		Univ of Michigan Sentiment (68.5)	9:00 Central
		Univ of Michigan 1-Yr Inflation (2.9%)	9:00 Central
		Univ of Michgan 5-10 Year Inflation (3.0%)	9:00 Central

Source: Bloomberg Finance L.P.