

July 24, 2023

Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** decreased last week to its lowest level in two months. The low level of jobless claims reflect a resilient labor market as businesses hold onto employees. Claims in regular state programs fell 9,000 to 228,000 from the prior week's reported 237,000 for the week ending July 15th. The four-week moving average fell to 237,500 from 246,750 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, climbed 33,000 to 1.754 million for the week ending July 8th.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, edged higher in July. The index reported that orders climbed higher and inflationary pressures eased. The index recorded a positive 1.1 in July after a positive 6.6 reading in June. New orders recorded a positive 3.3 in July after a positive 3.1 reading in June and shipments declined to 13.4 after a positive 22.0 reading last month. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** softened in June with weakness in building materials, food and department stores. Retail sales climbed 0.2% in June after gaining 0.5% the prior month. In recent months, retail sales have been very choppy and have been subject to significant revisions. Sales surged in January in response to the Social Security COLA, then sales slowed significantly in February and March. Sales in the second quarter started off looking strong, but the tone has been more mixed in subsequent releases. **Retail sales ex autos and gas** climbed 0.3% in June. Retail sales represent roughly half of total consumption, while the other half captures spending on services. The numbers in this report are not adjusted for inflation.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, declined in June for the second straight month. The report indicates manufacturers are avoiding producing excess inventory in anticipation of declining consumer demand. Production at factories, which make up 74.3% of output, fell 0.3% in June after decreasing 0.2% the previous month. Utilities declined 2.6% in June after falling 1.5% in May and mining declined 0.2% in June after falling 1.4% in May. **Capacity utilization**, which measures the amount of a plant that is in use, fell to 78.9% from a downwardly revised 79.4% in May.
- The Commerce Department reported **business inventories** increased 0.2% in May after climbing 0.1% in April. **Business sales** climbed 0.2% in May after falling 0.1% the prior month. The ratio of business inventories to sales remained unchanged at 1.40 in May.
- The **National Association of Home Builders/Wells Fargo** reported builders housing sentiment rose in July to the highest level in 13 months. Home buyers are opting for new construction amid a tight supply of houses, even as mortgage rates climb. The improvement so far in 2023 comes after a year-long rout in 2022. The index of builder sentiment climbed to 56 in July from 55 in June. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** pulled back in June after spiking to lofty levels in May. Housing starts declined 8.0% in June to a 1,434,000 annualized rate following May's 1,559,000 pace, the fastest pace of starts since April 2022. Single-family starts fell 7.0% in June with multi-family starts down 9.9%. Demand has been resilient and construction activity is bouncing back to meet this demand even as high mortgage rates, high wages for construction workers and high cost for materials push up costs. **Building permits**, a gauge of future construction, declined 3.7% in June to a 1,440,000 pace.
- The National Association of Realtors reported that **existing home sales** declined 3.3% in June to a selling rate of 4.16 million, a five-month low. The lack of inventory in the resale market remains a key constraint with housing inventories at historic lows. Many homeowners with low locked in mortgage rates are choosing not to sell their homes. Contract closings usually occur a month or two after a

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contract is signed. The median selling price increased to \$410,200 from \$396,400 in May, but is down 0.9% from June of 2023.

- The Conference Board reported the **index of leading economic indicators** declined 0.7% in June, the sixteenth straight drop. The loss was led by a decline in consumer expectations, ISM New Orders, the interest rate spread and jobless claims. The biggest positive contributor to the leading index was stock prices. 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, remained unchanged in June.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** edged higher last week, as mortgage rates pulled back from lofty levels. The index rose 1.1% for the week ending July 14th. **Refinancing** applications gained 7.3% to 446.4 from 416.0 the prior week. **Home purchase mortgage applications** decreased 1.3% to 163.2. Refinancing made up 28.4% of applications with an average loan size of \$257,900, while purchases average loan size was \$418,600. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 6.87% from 7.07% last week.

BOND MARKET REVIEW

Rates climbed last week and the yield curve steepened as the Fed indicated it will likely continue to raise rates. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities were 4.84%, 4.09%, 3.83% and 3.90%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -75, -26, 7, and -94 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	July 24	Jun Chicago Fed Nat Activity Index (-0.16)	7:30 Central
Tuesday	July 25	May FHFA House Price Index (0.6%)	8:00 Central
		May S&P CoreLogic CS 20-City Index (0.70%)	8:00 Central
		Jul Conf Board Consumer Confidence (112.0)	9:00 Central
Wednesday	July 26	Jul 21 st MBA Mortgage Applications	6:00 Central
		Jun New Home Sales (725k)	9:00 Central
		FOMC Rate Decision (5.25%-5.50%)	13:00 Central
		Interest on Reserve Balances Rate (5.40%)	13:00 Central
Thursday	July 27	Jul 22 nd Initial Jobless Claims (235k)	7:30 Central
		2 nd Qtr Annual Gross Domestic Product (1.8%)	7:30 Central
		2 nd Qtr Annual GDP Price Index (3.1%)	7:30 Central
		2 nd Qtr Annual Personal Consumption (1.2%)	7:30 Central
		Jun Durable Goods Orders (1.0%)	7:30 Central
		Jun Durables Ex Transportation (0.1%)	7:30 Central
		Jun Cap Goods Orders Nondef Ex Air (-0.2%)	7:30 Central
		Jun Goods Trade Balance (-\$91.9b)	7:30 Central
		Jun Wholesale Inventories (-0.1%)	7:30 Central
		Jun Retail Inventories	7:30 Central
		Jun Pending Home Sales (-0.5%)	9:00 Central
Friday	July 28	2 nd Qtr Employment Cost Index (1.1%)	7:30 Central
		Jun Personal Income (0.5%)	7:30 Central
		Jun Personal Spending (0.4%)	7:30 Central
		Jun PCE Deflator-YOY (3.0%)	7:30 Central
		Jul University of Michigan Sentiment (72.6)	9:00 Central

Source: Bloomberg Finance L.P.

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