

August 7, 2023 Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** held near the lowest levels of the year last week. Claims numbers in the summer months can be volatile as automakers close for their annual retooling period. Claims in regular state programs climbed 6,000 to 227,000 from the prior week's reported 221,000 for the week ending July 29th. The four-week moving average fell to 228,250 from 233,750 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, climbed 21,000 to 1.700 million for the week ending July 22nd.
- The Commerce Department reported that **construction spending** increased 0.5% in June. Spending on residential construction increased 0.9% while non-residential construction climbed 0.1%. Government spending, which made up 21.7% of construction spending, increased 0.3% and private spending gained 0.5%.
- The Labor Department reported that **job openings** decreased in May by 34,000 to 9.582 million. The decline in job openings over the past year has come mainly from small and medium-sized companies. Job openings increased in healthcare and state and local government excluding education. The level of quits dropped to 2.4% in June from 2.6%. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, remained at 1.6 in June. The job openings rate also remained unchanged at 5.8% in June, well above the 4.3% level at the end of 2019.
- The **Institute for Supply Management** reported its **manufacturing index** contracted for the ninth straight month in July. The gauge of exports fell to its lowest level this year as outbound shipments continued to decline. New orders and production remained in contractionary territory, but the rate of contraction slowed. Consumers continue to lower their spending on merchandise as they rotate to services and experiences. The manufacturing index recorded a 46.4 in July after a 46.0 reading in June. The new orders part of the index increased to 47.3 in July from 45.6 in June and production climbed to 48.3 in July from 46.7 the prior month. A reading below 50 indicates contraction in the manufacturing sector.
- **ADP Employer Services** reported that payrolls at U.S. companies increased in July by more than expected for a fourth straight month. The job gains were relatively broad-based, led by gains in leisure and hospitality. Companies increased payrolls by 324,000 in July after a downwardly revised gain of 455,000 in June. Services employment increased by 303,000 and manufacturing employment increased by 21,000.
- Bureau of Labor Statistics reported **worker's productivity** increased more than expected in the second quarter, driven primarily by a decline in hours worked. Productivity jumped 3.7% in the second quarter after declining 1.2% in the first quarter. Productivity is a measure of economic output for each unit of input, primarily the cost of labor. Year-on-year productivity is up 1.3%. The jump in productivity is mainly due to fewer hours worked, which usually happens because firms cut employee hours as the economy slows. **Unit labor costs** in nonfarm businesses rose at a 1.6% annual rate in the 2nd quarter and climbed 2.4% year-on-year.
- The Commerce Department reported that **factory orders** increased 2.3% in June after gaining 0.4% in May. The gains came from capital goods and transportation, while orders plunged for defense spending. **Factory orders ex transportation** climbed 0.2% in June after declining 0.4% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft increased 0.1% in June after gaining 0.4% in May.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, expanded in July at a slower pace than in June. The index recorded a 52.7 from 53.9 in June. New orders, orders for export and producers backlogs of orders all remain in expansionary territory. The business activity remained strong at 57.1, down from 59.2, new orders decreased to 55.0 from 55.5 in June and the employment index dropped to 50.7 from 53.1. This gauge of service

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providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.

- The Labor Department reported that payroll growth missed against expectations for the second straight month, indicating cracks are emerging in the labor market. 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 187,000 in July after gaining a downwardly revised 185,000 the prior month. The **unemployment rate** (household survey) decreased to 3.495% from 3.568% in June. The **labor force participation rate** remained unchanged at 62.6%. The average hourly earnings increased to \$33.74 from \$33.60 the prior month. Weekly hours declined to 34.3 in July from 34.4 in June.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined last week to its lowest level in nearly two months. The index fell 3.0% for the week ending July 28th. **Refinancing** applications fell 2.5% to 433.6 from 444.5 the prior week. **Home purchase mortgage applications** decreased 3.2% to 154.1. Refinancing made up 28.9% of applications with an average loan size of \$256,000, while purchases average loan size was \$423,400. The **average contract rate** on a 30-year fixed-rate mortgage rose 6 basis points to 6.93% from 6.87% last week.

BOND MARKET REVIEW

The yield curve steepened last week after Fitch downgraded the United States' long-term rating. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities were 4.76%, 4.13%, 4.03% and 4.20%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -63, -10, 17, and -56 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	August 7	Jun Consumer Credit (\$13.1b)	14:00 Central
Tuesday	August 8	Jul NFIB Small Business Optimism (91.1)	5:00 Central
		Jun Trade Balance (-\$65.0b)	7:30 Central
		Jun Wholesale Trade Sales (-0.2%)	9:00 Central
		Jun Wholesale Inventories (-0.3%)	9:00 Central
Wednesday	August 9	Aug 4 th MBA Mortgage Applications	6:00 Central
Thursday	August 10	Aug 5 th Initial Jobless Claims (230k)	7:30 Central
		Jul Consumer Price Index (0.2%)	7:30 Central
		Jul Consumer Price Index-YOY (3.3%)	7:30 Central
		Jul CPI Ex Food & Energy (0.2%)	7:30 Central
		Jul CPI Ex Food & Energy-YOY (4.7%)	7:30 Central
		Jul Budget Statement (-\$120.0b)	13:00 Central
Friday	August 11	Jul Producer Price Index (0.2%)	7:30 Central
		Jul Producer Price Index-YOY (0.7%)	7:30 Central
		Jul PPI Ex Food & Energy (0.2%)	7:30 Central
		Jul PPI Ex Food & Energy-YOY (2.3%)	7:30 Central
		Aug University of Michigan Sentiment (71.3)	9:00 Central

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