

August 8, 2022

Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** continued their climb last week. Jobless claims have been rising over the past several months, especially in the tech sector. While labor conditions are easing, they are still at a healthy level and large scale layoffs have not begun. Claims in regular state programs increased 6,000 to 260,000 for the week ending July 30th, after reporting 254,000 initial claims the prior week. The four-week moving average climbed to 254,750 from 248,750 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 48,000 to 1.416 million for the week ending July 23rd, the highest level since early April.
- The Commerce Department reported that **construction spending** declined 1.1% in June, with spending down for both residential and non-residential. Spending on residential fell 1.6% in June while non-residential spending fell 0.5%. Government spending, which makes up 19.6% of construction spending, decreased 0.5% and private spending declined 1.3%.
- The **Institute for Supply Management** reported its **manufacturing index** dropped to its lowest level since June 2020 as companies slowed production in the face of shrinking orders and rising inventories. The slowdown in orders is helping relieve the supply chain bottlenecks and slow price increases. The manufacturing index recorded a 52.8 in July from a 53.0 reading in June. The index reached a high of 63.7 in March of 2021. The new orders part of the index dropped to 48.0 from 49.2 in June and production recorded a 53.5 from the prior months 54.9. A reading above 50 indicates expansion in the manufacturing sector.
- The Labor Department reported that **job openings** declined in June, supporting the Fed's stated goal of destroying excess job openings without destroying actual jobs and pushing up the unemployment rate. Job openings decreased by 605,000 in June to 10.698 million, from an upwardly revised 11.303 million in May. There are about 1.8 jobs for every unemployed person in June. The job openings rate fell to 6.6% from 6.9% in May, down from a peak of 7.3% in March. This is still well above the average of 4.5% in the fourth quarter of 2019. The quits rate remained unchanged at 2.8%.
- The Commerce Department reported that **factory orders** increased 2.0% in June after climbing 1.8% in May. **Factory orders ex transportation** increased 1.4% after gaining 1.8% in May. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft increased 0.7% in June after gaining 0.5% in May.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, unexpectedly improved in July to its highest reading since April. The service ISM improved in July to 56.7 from 55.3. The business activity improved to 59.9 from 56.1, hitting the highest level since December 2021. New orders rose to 59.9 from 55.6, the highest reading since March. The employment index improved to 49.9 from 47.4, which was the lowest reading since July 2020. This services report stands in contrast to other surveys like the ISM Manufacturing Index that showed the slowest pace in over two years. This gauge of service providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.
- The Commerce Department reported the **trade deficit** narrowed in June for the third straight month. The deficit decreased to \$79.6 billion in June from a deficit of \$84.9 billion in May. **Exports** rose 1.7% to \$260.8 billion and **imports** declined 0.3% to \$340.4 billion.
- The Labor Department report indicated that employers hired at a pace that exceeded expectations in July. Hiring was broad based and led by leisure and hospitality, education and healthcare and technology. The jobs report is composed of two surveys, one of employers and the other of households. The employer survey provides payroll and wage figures and the household survey determines jobless and participation rates. **Nonfarm payrolls** (employer survey) climbed 528,000 in July and the previous month was revised 26,000 higher than previously reported. The **unemployment rate** (household survey) declined to 3.458% from 3.604% in June. The **labor force**

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participation rate pulled back to 62.1% in July from 62.2% in June. The average hourly earnings increased to \$32.27 from \$32.12 the prior month. Weekly hours remained unchanged at 34.6.

- The Federal Reserve reported **consumer credit** surged in June with a record increase in non-revolving loans and a big jump in credit card lending. Consumer credit increased \$40.2 billion after gaining an upwardly revised \$23.8 billion in May. Credit card debt increased \$14.8 billion to \$1.126 trillion with auto and student loan debt increasing by \$25.4 billion to \$3.502 trillion. These figures are not adjusted for inflation.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** rose last week after mortgage rates plunged. The index increased 1.2% for the week ending July 29th, after dropping 1.8% the previous week. **Refinancing** applications increased 1.5% to 640.6 from 631.4 the prior week. **Home purchase mortgage applications** increased 1.0% to 208.4. Refinancing made up 30.8% of applications with an average loan size of \$275,800, while purchases average loan size was \$413,000. The **average contract rate** on a 30-year fixed-rate mortgage declined to 5.43% from 5.74% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 3.23%, 2.96%, 2.83% and 3.07%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -27, -13, 24, and -16 basis points respectively.

Economic/Events Calendar

Tuesday	August 9	Jul NFIB Small Business Optimism (89.5)	9:00 Central
		2 nd Qtr Nonfarm Productivity (-4.6%)	9:00 Central
		2 nd Qtr Unit Labor Costs (9.5%)	9:00 Central
Wednesday	August 10	Aug 5 th MBA Mortgage Applications	6:00 Central
		Jul Consumer Price Index (0.2%)	7:30 Central
		Jul Consumer Price Index-YOY (8.7%)	7:30 Central
		Jul CPI ex Food & Energy (0.5%)	7:30 Central
		Jul CPI ex Food & Energy-YOY (6.1%)	7:30 Central
		Jun Wholesale Inventories (1.9%)	9:00 Central
		Jun Wholesale Trade Sales (0.5%)	9:00 Central
	Jul Budget Statement (-\$170.0b)	13:00 Central	
Thursday	August 11	Aug 6 th Initial Jobless Claims (265k)	7:30 Central
		Jul Producer Price Index (0.2%)	7:30 Central
		Jul Producer Price Index-YOY (10.4%)	7:30 Central
		Jul PPI ex Food & Energy (0.4%)	7:30 Central
		Jul PPI ex Food & Energy-YOY (7.7%)	7:30 Central

Source: Bloomberg Finance L.P.

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Friday	August 12	Jul Import Price Index (-1.0%)	7:30 Central
		Jul Import Price Index-YOY (9.4%)	7:30 Central
		Jul Import Price Index ex Petroleum (-0.1%)	7:30 Central
		Jul University of Michigan Sentiment (52.5)	9:00 Central

Source: Bloomberg Finance L.P.

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