

August 15, 2022

Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** rose for a second straight week last week and held near the highest level since November. While demand for labor remains quite strong, the modest pickup in claims suggest that turnover may be increasing in weaker firms that are struggling with slowing growth. Claims in regular state programs increased 14,000 to 262,000 for the week ending August 6th, after reporting a downwardly revised 248,000 initial claims the prior week. The four-week moving average climbed to 252,000 from 247,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 8,000 to 1.428 million for the week ending July 30th. This is the highest count for continuing claims since April 1st.
- The **National Federation of Independent Business** reported sentiment among small businesses improved slightly in July, but remained well below pre-pandemic levels as persistent inflation and concern about an economic downturn subdued optimism. The index climbed to 89.9 in July from an 89.5 reading in June. The index was 99.7 in July of 2021.
- Bureau of Labor Statistics reported worker's productivity declined again in the second quarter after plunging in the first quarter. **Labor productivity**, or nonfarm business employee output per hour, decreased at a 4.6% annual rate in the second quarter after declining at a 7.4% pace in the previous quarter. Real output fell 2.1% and hours worked increased 2.6%. Productivity is down 2.5% from a year earlier, the deepest decline on record. **Unit labor costs** in nonfarm businesses rose at a 10.8% annual rate in the 2nd quarter after surging 12.7% in the previous quarter. The gain in labor costs risks keeping inflation elevated and forcing the Fed to raise rates.
- The Labor Department reported the **consumer price index** was as good as the market and the Fed could have wanted. Energy prices pulled back and the report showed a broad-based slowdown in core pressures. Pressures from commodity prices, supply chain issues and reopening costs are all fading. Labor costs continue to be an issue and will keep a floor on inflation pressures. The index remained unchanged in July after gaining 1.3% the prior month. The year-on-year change in consumer prices is 8.5% in July. Service prices gained 0.3% in July after climbing 0.9% in June. Prices of commodity based manufactured goods declined 0.5% in July after climbing 2.1% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.3% in July after climbing 0.7% the prior month. The year-on-year change in core CPI is 5.9%.
- The Commerce Department reported **wholesale inventories** rose 1.8% in June to \$895.4 billion after gaining 1.9% in May. Year-on-year wholesale inventories have gained 25.5%. **Wholesale trade sales** increased 1.8% in June after gaining 0.7% in May, with year-on-year sales up 20.4%. The ratio of inventory to sales remained unchanged at 1.26 in June.
- The Treasury Department reported a **budget deficit** of \$211.1 billion for the month of July with the government collecting \$269.3 billion and spending \$480.4 billion. This compares to a deficit of \$302.1 billion a year earlier. The current year-to-date deficit as of July is \$726.1 billion versus \$2,540 billion last year. The federal government's fiscal year goes from October to September.
- The Labor Department reported the **producer price index** unexpectedly fell for the first time in two years driven primarily by a drop in energy prices. The producer price index decreased by 0.5% in July after climbing 1.0% in June. Year-on-year wholesale prices were up 9.8% in July compared to 11.3% in June. Energy prices fell 9.0% in July, but are still up 36.8% year-on-year. Goods prices, which make up 33% of the weighting fell 1.8% in July after gaining 2.3% in June. Services, which make up 65% of the index rose 0.1% in July after gaining 0.3% in June. The **core PPI**, which excludes volatile food and energy prices, rose 0.2% in July after gaining 0.4% the previous month, with a year-on-year gain of 7.6%. **PPI ex food, energy and trade** gained 0.2%.
- The Labor Department reported the **import price index** decreased in July, led by price drops for petroleum and industrial supplies. Import prices decreased 1.4% in July after gaining 0.3% in June.

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The cost of petroleum declined 6.8% in July after climbing 5.9% the prior month. Import prices are up 8.8% year-on-year. **Import prices ex petroleum** fell 0.7% in July after decreasing 0.5% the prior month.

- The **University of Michigan's preliminary index of consumer sentiment** rose to a three-month high in August as expectations about the economy improved. The index increased to 55.1 in August from a 51.5 reading in July. The decline in gas prices over the last two months and the Fed's tougher stance on inflation have re-anchored inflation expectations. The long-run inflation expectations index closely monitored by the Fed, climbed to 3.0% in August from 2.9% in July. The **index of current conditions** decreased to 55.5 from 58.1 the prior month while the **index of expectations** increased to 54.9 from 47.3.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** edged higher last week. The index increased 0.2% for the week ending August 5th, after climbing 1.2% the previous week. **Refinancing** applications increased 3.5% to 662.9 from 640.6 the prior week. **Home purchase mortgage applications** decreased 1.4% to 205.4. Refinancing made up 32.0% of applications with an average loan size of \$286,000, while purchases average loan size was \$416,300. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 5.47% from 5.43% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 3.24%, 2.96%, 2.83% and 3.11%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -28, -13, 28, and -13 basis points respectively.

Economic/Events Calendar

Monday	August 15	Aug Empire Manufacturing (5.0)	7:30 Central
		Aug NAHB Housing Market Index (54)	9:00 Central
Tuesday	August 16	Jul Housing Starts (1,527k)	7:30 Central
		Jul Building Permits (1,640k)	7:30 Central
		Jul Industrial Production (0.3%)	8:15 Central
		Jul Capacity Utilization (80.2%)	8:15 Central
Wednesday	August 17	Aug 12 th MBA Mortgage Applications	6:00 Central
		Jul Retail Sales (0.1%)	7:30 Central
		Jul Retail Sales Ex Auto & Gas (0.4%)	7:30 Central
		Jun Business Inventories (1.4%)	9:00 Central
		FOMC Meeting Minutes for Jul 26-27 Meeting	13:00 Central
Thursday	August 18	Aug 13 th Initial Jobless Claims (265k)	7:30 Central
		Jul Existing Home Sales (4.87m)	9:00 Central
		Jul Leading Index (-0.5%)	9:00 Central

Source: Bloomberg Finance L.P.

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