Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** declined for the fifth straight week to its lowest level since May 28th. The labor market remains very tight and the claims data do not show any shifts in momentum. There is a little bit more turnover in the labor market than was experienced last year and in early 2022, but it remains the case that workers who are let go are still having a relatively easy time finding a new job. The strength in the labor market puts pressure on the Fed to raise rates to further slow the economy and control inflation. Claims in regular state programs decreased 5,000 to 213,000 for the week ending September 9th, after reporting a downwardly revised 218,000 initial claims the prior week. The four-week moving average dropped to 224,000 from 232,000 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 2,000 to 1.403 million for the week ending September 3rd.
- The **National Federation of Independent Business** reported sentiment among small businesses improved in August by the most since June 2021 as business owners grew less pessimistic about the business outlook and inflation. The index climbed to 91.8 in August from an 89.9 reading in July. The index is still well below last year’s levels when it recorded a 100.1 in August of 2021.
- The Labor Department reported the **consumer price index** was stronger than expected and a game changer in terms of Fed expectations. The price gains were broad based for both goods and services. A deep decline in energy costs offset some of the price gains, but the report shows wages have now become the top driver of inflation. The Fed will now be even more concerned about a potential wage-price spiral and will force them to keep hiking rates to slow the pace of wage gains. The index unexpectedly gained 0.1% in August after remaining unchanged in July. The year-on-year change in consumer prices is 8.3% in August. Service prices gained 0.7% in August after climbing 0.3% in July. Prices of commodity based manufactured goods declined 0.8% in August after falling 0.5% the prior month driven by a 10.1% drop in energy commodities. The **core CPI**, which excludes volatile food and energy prices, gained 0.6% in August after climbing 0.3% the prior month. The year-on-year change in core CPI is 6.3%.
- The Treasury Department reported a **budget deficit** of $219.6 billion for the month of August with the government collecting $303.7 billion and spending $523.3 billion. This compares to a deficit of $170.6 billion a year earlier. The current year-to-date deficit as of August is $945.7 billion versus $2,711 billion last year. The federal government’s fiscal year goes from October to September.
- The Labor Department reported the **producer price index** declined in August as fuel costs continued to retreat. While gasoline prices eased in August, producers faced higher costs for services and some goods such as construction equipment. The producer price index decreased by 0.1% in August after declining 0.4% in July. Year-on-year wholesale prices were up 8.7% in August compared to 9.8% in July. Energy prices fell 6.0% in August, but are still up 25.9% year-on-year. Goods prices, which make up 33% of the weighting fell 1.2% in August after falling 1.7% in July. Services, which make up 65% of the index rose 0.4% in August after gaining 0.2% in July. The **core PPI**, which excludes volatile food and energy prices, rose 0.4% in August after gaining 0.3% the previous month, with a year-on-year gain of 7.3%. **PPI ex food, energy and trade** gained 0.2%.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity declined at a slower pace in September. New orders, an indicator of future demand, and shipments recovered, signaling a steadying in factory activity. The index recorded a negative 1.5 in September after a negative 31.3 reading in August. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** improved more than expected in August, even as declines in gasoline prices pulled that gains lower. Retail sales represent roughly half of total consumption, with the other half capturing service spending. The data showed robust auto sales and sales of building materials. Retail sales increased 0.3% in August after a downwardly revised decline

of 0.4% in July. August retail sales are up 9.1% year-on-year. **Retail sales ex autos and gas** climbed 0.3% in August after increasing 0.3% in July.

- The Labor Department reported the **import price index** decreased in August, led again by price drops for petroleum and industrial supplies. Import prices decreased 1.0% in August after falling 1.5% in July. The cost of petroleum declined 7.1% in August after declining 6.9% the prior month. Import prices are up 7.8% year-on-year. **Import prices ex petroleum** fell 0.2% in August after decreasing 0.7% the prior month.

- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, fell in August. Weak electricity production accounted for the bulk of the drop. Industrial production fell 0.2% in August after gaining 0.5% in July. Production at factories, which make up 74.3% of output, rose 0.1% in August after gaining 0.6% the previous month. Utilities declined 2.3% after falling 1.2% in July and mining remained unchanged. **Capacity utilization**, which measures the amount of a plant that is in use, decreased to 80.0% in August from 80.2% the prior month.

- The Commerce Department reported **business inventories** increased 0.6% in July after gaining 1.4% in June. **Business sales** decreased 0.9% in July after climbing 1.2% the prior month. The ratio of business inventories to sales increased to 1.32 in July from 1.30 in June.

- The **University of Michigan's preliminary index of consumer sentiment** rose to a five-month high in September as expectations about the economy continued to improve and consumer concerns about inflation receded with drops in the cost of gasoline. The index increased to 59.5 in September from a 58.2 reading in August. It posted a low of 50.0 in June. The decline in gas prices over the last three 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, declined to 2.8% in September from 2.9% in August. The **index of current conditions** increased to 58.9 from 58.6 the prior month while the **index of expectations** increased to 59.9 from 58.0.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell last week for the fifth straight week. The index decreased 1.2% for the week ending September 9th, after declining 0.8% the previous week. **Refinancing** applications fell 4.2% to 532.9 from 556.4 the prior week. **Home purchase mortgage applications** increased 0.2% to 198.1. Refinancing made up 30.2% of applications with an average loan size of $275,200, while purchases average loan size was $405,000. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 6.01% from 5.94% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 3.87%, 3.63%, 3.45% and 3.51%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -24, -18, 6, and -36 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	September 19	Sep NAHB Housing Market Index (47)	9:00 Central
Tuesday	September 20	Aug Housing Starts (1,450k)	7:30 Central
		Aug Building Permits (1,604k)	13:00 Central
Wednesday	September 21	Sep 16th MBA Mortgage Applications	6:00 Central
		Aug Existing Home Sales (4.70m)	9:00 Central
		FOMC Rate Decision (3.00% to 3.25%)	13:00 Central
		Interest on Reserve Balances Rate (3.15%)	13:00 Central
Thursday	September 22	Sep 17th Initial Jobless Claims (217k)	7:30 Central
		2nd Qtr Current Account Balance (-$260.0b)	7:30 Central
		Aug Leading Index (-0.1%)	9:00 Central

Source: Bloomberg Finance L.P.