

# September 26, 2022

## Financial Services Group

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## Economic Review

- The Labor Department reported that **initial jobless claims** climbed slightly last week from an almost four month low. The labor market remains very tight, however hiring is expected to weaken as the Federal Reserve raises interest rates, with employment being a key sacrifice in the central bank's effort to bring down inflation. Claims in regular state programs increased 5,000 to 213,000 for the week ending September 17<sup>th</sup>, after reporting a downwardly revised 208,000 initial claims the prior week. The four-week moving average dropped to 216,750 from 222,750 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased 22,000 to 1.379 million for the week ending September 10<sup>th</sup>.
- The **National Association of Home Builders/Wells Fargo** reported housing sentiment declined in September for the ninth straight month. The loss in builder confidence reflects a surge in mortgage rates to levels above 6% as well as elevated construction costs. The index of builder sentiment fell to 46 in September from 49 last month. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** unexpectedly increased in August, driven by gains in multifamily projects. As higher mortgage rates and elevated home prices have pushed home affordability beyond many buyer's capabilities, builders are focusing more on apartments. Housing starts rose 12.2% in August to a 1,575,000 annualized rate following July's 1,404,000 pace. Single-family starts climbed 3.4% in August with multi-family starts surging 28.0%. **Building permits**, a gauge of future construction, fell 10.0% in August to a 1,517,000 pace. This is the lowest level of permits since June of 2020.
- The National Association of Realtors reported that **existing home sales** fell in August for the seventh straight month, a new cycle low. Fed policy tightening is clearly having an impact on the housing sector. Soaring financing costs and elevated home prices are keeping many potential buyers from purchasing a home. The average rate on a 30-year fixed mortgage surged to 6.25% last week. Contract closings, which usually occur a month or two after a contract is signed, decreased 0.4% in August to a 4.80 million pace after dropping 5.7% in July. The median selling price decreased to \$389,500 from \$399,200 in July.
- The **FOMC** met on Wednesday and the committee raised the fed funds rates by 75 basis points. The targeted Federal Funds Rate is now between 300 basis points and 325 basis points. Chairman Powell's message was unambiguously hawkish, pointing out the FOMC is resolved to bring inflation down, signaling a greater willingness on the part of the Fed to tolerate economic pain. The dot plot now implies another 75 basis point hike in November. Powell said he wants the real funds rate to reach 1% before pausing. In order to get there with a 4.6% nominal rate, inflation expectations would have to fall by about 100 basis points by March. The interest on reserve balances was increased to 315 basis points from 240 basis points.
- The Commerce Department reported a **current-account deficit** of \$251.1 billion during the second quarter of 2022. This compares favorably to a deficit \$282.5 in the first quarter. The current account is considered the broadest measure of international trade, covering goods and services as well as income payments and government transfers.
- The Conference Board reported the **index of leading economic indicators** declined 0.3% in August, the sixth straight drop. The loss was led by a decline in building permits, consumer expectations, a drop in new orders and a drop in the average workweek. 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, climbed 0.1% in August after gaining 0.5% in July.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** rose last week after five straight weeks of declines. The index increased 3.8% for the week ending September 16<sup>th</sup>, after declining 1.2% the previous week. **Refinancing** applications rose 10.4% to 588.1 from 532.9 the prior week. **Home purchase mortgage applications** increased 1.0% to 200.1.

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Refinancing made up 32.5% of applications with an average loan size of \$267,200, while purchases average loan size was \$413,200. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 6.25% from 6.01% last week.

### BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.20%, 3.98%, 3.68% and 3.61%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -22, -30, -7, and -59 basis points respectively.

### Economic/Events Calendar

Monday	September 26	Aug Chicago Fed Nat Activity Index (0.23)	7:30 Central
Tuesday	September 27	Aug Durable Goods Orders (-0.3%)	7:30 Central
		Aug Durables Ex Transportation (0.2%)	7:30 Central
		Aug Cap Goods Orders Nondef Ex Air (0.2%)	7:30 Central
		Jul FHFA House Price Index (0.0%)	8:00 Central
		Jul S&P CoreLogic CS 20-City Index (0.20%)	8:00 Central
		Sep Conf Board Consumr Confidence (104.5)	9:00 Central
Wednesday	September 28	Aug New Home Sales (500k)	9:00 Central
		Sep 23 <sup>rd</sup> MBA Mortgage Applications	6:00 Central
		Aug Goods Trade Balance (-\$89.0b)	7:30 Central
		Aug Wholesale Inventories (0.5%)	7:30 Central
		Aug Retail Inventories (1.0%)	7:30 Central
Thursday	September 29	Aug Pending Home Sales (-1.5%)	9:00 Central
		Sep 24 <sup>th</sup> Initial Jobless Claims (215k)	7:30 Central
		2 <sup>nd</sup> Qtr Gross Domestic Product (-0.6%)	7:30 Central
		2 <sup>nd</sup> Qtr GDP Price Index (8.9%)	7:30 Central
Friday	September 30	2 <sup>nd</sup> Qtr Personal Consumption (1.5%)	7:30 Central
		Aug Personal Income (0.3%)	7:30 Central
		Aug Personal Spending (0.2%)	7:30 Central
		Aug PCE Deflator-YOY (6.0%)	7:30 Central
		Sep University of Michigan Sentiment (59.5)	9:00 Central

Source: Bloomberg Finance L.P.

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