

October 3, 2022

Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** dropped to a five-month low indicating the labor market continues to show strength as employers hold onto their workers. Labor is still very hard to find, so firms are holding on to people who under normal conditions would have been laid off. Claims in regular state programs decreased 16,000 to 193,000 for the week ending September 24th, after reporting a downwardly revised 209,000 initial claims the prior week. The four-week moving average dropped to 207,000 from 215,750 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased 29,000 to 1.347 million for the week ending September 17th.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity slowed in August to neutral after above-trend-growth in July. The **Chicago Fed National index**, which draws on 85 economic indicators, was 0.00 in August after reporting a positive 0.29 in July. A reading above zero indicates above-trend-growth in the national economy.
- The Commerce Department reported **durable goods orders** declined in August, but the decline was the product of a steep drop in Boeing orders, 26 net new orders in August versus 126 net new orders in July. Much of decline was offset by orders for military equipment going to Ukraine and renewed interest in capex investment as companies continue to find ways to deal with the shortage of available labor. Durable goods, which are bookings for goods and materials meant to last at least three years, fell 0.2% in August after decreasing 0.1% in July. The non-military capital goods orders excluding aircraft, a proxy for business investment, rose 1.3% in August after gaining 0.7% in July. **Excluding transportation**, durable orders increased 0.2% in August after growing 0.2% in July. The ratio of inventory to shipments fell to 1.79 in August from 1.80 in July.
- The Federal Housing Finance Agency reported a decline of 0.6% in the **house price index** of purchase-only homes in July after climbing 0.1% in June. This is the first price decline since May of 2020. The year-on-year change in the house price index was 13.9% in July. The HPI is estimated using repeated observations of housing values for single-family homes on which at least two mortgages were originated and subsequently sold to Freddie Mac or Fannie Mae. The use of repeat transactions on the same unit helps to control for differences in the quality of the houses.
- The **S&P CoreLogic CaseShiller home price index** decreased 0.24% in July after gaining 0.25% in June. The report indicates demand for housing is slowing in July as higher mortgage rates and affordability pressure new homebuyers. The index climbed 16.06% in July from the same month in 2021. The index tracks changes in the value of homes in 20 metropolitan regions.
- The Conference Board's **consumer confidence index** rose more than expected in September to its highest level since April as falling gas prices and a strong labor market have consumers feeling better. The index recorded a 108.0 in September from an upwardly revised 103.6 reading in August, previously reported as 103.2. The present situation index increased to 149.6 in September from a 145.3 reading in August. The expectations index climbed to 80.3 in September from 75.8 the prior month.
- The Commerce Department reported sales of new homes rose unexpectedly in August, a small break in an otherwise weak housing sector. The gain in sales may reflect a race by buyers to beat further increases in borrowing costs and some buyers taking advantage of the lower costs by some builders. **New home sales** rose 28.8% to a 685,000 annualized pace in August after reporting an upwardly revised 532,000 pace the prior month. New home sales, which account for about 10% of the residential market, are accounted for when contracts are signed, which makes this data a more timely indicator than existing home transactions.
- The Commerce Department reported the **goods trade deficit** narrowed in August to its smallest level this year as imports fell more than exports. The deficit decreased 3.2% to \$87.3 billion in August. **Exports** fell 0.9% to \$179.8 billion and **imports** dropped 1.7% to \$267.1 billion.

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- The Commerce Department reported **wholesale inventories** rose 1.3% in August after gaining 0.6% the previous month. Year-on-year wholesale inventories have climbed 25.1%. **Retail inventories** increased 1.4% in August after gaining 1.1% in July and are up 21.6% year-on-year.
- The National Association of Realtors reported the **index of pending home re-sales** declined in August for the seventh time this year to the lowest level in over a decade. The number of contracts to purchase previously owned homes fell 2.0% in August after falling 0.6% in July. Pending home sales are down 24.2% on a seasonally adjusted year-on-year basis in August. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.
- The third and final estimate by the Commerce Department of the 2nd quarter **gross domestic product** showed economic growth declined for the second straight quarter. Gross domestic product contracted at a 0.6% annualized rate in the 2nd quarter. **Personal consumption**, which accounts for about 70% of the economy, gained 2.0% in the quarter after gaining 1.3% in the previous quarter. The **GDP price index** gained 9.0% in the 2nd quarter after increasing 8.3% in the 1st quarter.
- The Commerce Department reported **personal income** rose 0.3% in August and **personal spending** climbed 0.4%. While the numbers were better than expected, they show a weaker pace of wage growth and a lower savings rate, both negatives for underlying consumer health. The savings rate remained unchanged at 3.5% in August. The core PCE Deflator, the preferred inflation gauge by the Federal Reserve, rose 0.6% in August, bringing the year-on-year gain to 4.9%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.1% in August after climbing 0.5% in July.
- The **University of Michigan's final index of consumer sentiment** rose less than first expected as equity prices fell and the inflation outlook became more uncertain. The gauge of consumer confidence decreased to 58.6 in September from an earlier estimate of 59.5. This is an increase from the 58.2 reading in August. The **index of current conditions** rose to 59.7 from 58.6 the prior month while the **index of expectations** remained unchanged at 58.0.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell last week, the sixth decline in seven weeks. The index decreased 3.7% for the week ending September 23rd, after climbing 3.8% the previous week. **Refinancing** applications fell 10.9% to 524.1 from 588.1 the prior week. **Home purchase mortgage applications** decreased 0.4% to 199.3. Refinancing made up 30.2% of applications with an average loan size of \$271,800, while purchases average loan size was \$411,700. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 6.52% from 6.25% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.28%, 4.09%, 3.83% and 3.78%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -19, -26, -5, and -50 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

| | | | |
|-----------|-----------|---|--------------|
| Monday | October 3 | Aug Construction Spending (-0.3) | 7:30 Central |
| | | Sep ISM Manufacturing (52.0) | 9:00 Central |
| Tuesday | October 4 | Aug Factory Orders (0.0%) | 9:00 Central |
| | | Aug Factory Orders Ex Transportation (0.2%) | 9:00 Central |
| | | Aug JOLTS Job Openings (11,088k) | 9:00 Central |
| Wednesday | October 5 | Sep 30 th MBA Mortgage Applications | 6:00 Central |
| | | Sep ADP Employment Change (200k) | 7:15 Central |
| | | Aug Trade Balance (-\$67.7b) | 7:30 Central |
| | | Sep ISM Services Index (56.0) | 9:00 Central |
| Thursday | October 6 | Oct 1 st Initial Jobless Claims (205k) | 7:30 Central |
| Friday | October 7 | Sep Change in Nonfarm Payrolls (265k) | 7:30 Central |
| | | Sep Unemployment Rate (3.7%) | 7:30 Central |
| | | Sep Avg Hourly Earnings-YOY (5.1%) | 7:30 Central |
| | | Sep Labor Force Participation Rate (62.4%) | 7:30 Central |
| | | Aug Wholesale Inventories (1.3%) | 9:00 Central |
| | | Aug Wholesale Trade Sales (0.5%) | 9:00 Central |
| | | Aug Consumer Credit (\$25.0b) | 9:00 Central |

Source: Bloomberg Finance L.P.

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