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Financial Services Group

Author:

Economic Review



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- The Labor Department reported that **initial jobless claims** remain stable even as the United Auto Workers strike approached the one-month mark. Claims in regular state programs remained unchanged at 209,000 for the week ending October 7th. The four-week moving average declined to 206,250 from 209,250 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, increased 30,000 to 1.702 million for the week ending September 30th.
- The **National Federation of Independent Business** reported sentiment among small businesses dropped to a four-month low in September. The decline reflects falling expectations for the economy and pessimism about credit availability. The index declined to 90.8 in September from a 91.3 reading in August. A net 43% of small business owners saw business conditions deteriorating in the next six months and a net 10% of firms see tougher credit conditions.
- The Commerce Department reported **wholesale inventories** declined 0.1% in August to \$900.2 billion. Year-on-year wholesale inventories have declined 1.0%. **Wholesale trade sales** jumped 1.8% in August after gaining 1.2% in July, with year-on-year sales down 1.7%. The ratio of inventory to sales declined to 1.36 in August from 1.39 in July.
- The Labor Department reported the **producer price index** rose more than expected in September, largely due to higher energy costs. Prices climbed 0.5% in September after gaining 0.7% in August. The cost of gasoline increased 5.4% in September after surging 20% in August. Year-on-year wholesale prices climbed 2.2% in September. Goods prices, which make up 31% of the weighting gained 0.9% in September after climbing 2.0% in August. Services, which make up 67% of the index, climbed 0.3% in September after increasing 0.2% the prior month. The **core PPI**, which excludes volatile food and energy prices, rose 0.3% in September after increasing 0.2% the previous month, with a year-on-year gain of 2.7%. **PPI ex food, energy and trade** climbed 0.2% in September.
- The **FOMC Minutes** for the September 19th-20th meeting show policymakers agreed that policy should remain restrictive for some time to keep cooling down inflation while noting risks had become more balanced. Participants agreed the committee was in a position to proceed carefully and that policy decisions would be data dependent. The policymakers held their benchmark lending rate at a range of 5.25% to 5.50%. They also signaled rates would stay higher for longer than previously expected. The minutes noted a majority of Fed officials saw one more rate increase would likely be appropriate to help cool off demand and get inflation closer to their 2.0% inflation target.
- The Labor Department reported the **consumer price index** rose more than expected in September, adding pressure for the Fed to keep rates higher for longer. Shelter inflation and gasoline prices were firmer than expected, with weakness in apparel and used cars limiting the gain. The report pushed rates higher amid signs that inflation is bottoming out at a level far higher than the Fed's target. The headline CPI for September was 0.4%. The year-on-year change in consumer prices is 3.7% in September. Service prices gained 0.6% in September after gaining 0.4% in August. Prices of commodity based manufactured goods rose 0.1% in September after gaining 1.0% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.3% in September after increasing 0.3% the prior month. The year-on-year change in core CPI is 4.1%.
- The Labor Department reported the **import price index** increased 0.1% in September after jumping 0.6% in August. The gain was due to an increase in fuel prices and industrial supplies. The cost of petroleum rose 4.9% in September after increasing 9.0% the prior month. Import prices are down 1.7% year-on-year. **Import prices ex petroleum** declined 0.3% in September after falling 0.1% the prior month and have dropped 1.2% year-on-year.
- The **University of Michigan's preliminary index of consumer sentiment** declined sharply in October to 63.0 from 68.1 in September. Concerns about inflation are growing again after stabilizing earlier this year. Households are most concerned about high costs of groceries and fuel. The long-term inflation expectations climbed to 3.0% in October from 2.8% the prior month. The one-year-ahead inflation expectations jumped to 3.8% from 3.2% in September. The **index of current**

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conditions dropped to 66.7 from 71.4 the prior month while the **index of expectations** decreased to 60.7 from 66.0.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** edged higher last week, but remains near the lowest level in almost three decades. The index increased 0.6% for the week ending October 6th. **Refinancing applications** rose 0.3% to 385.8 from 384.6 the prior week. **Home purchase mortgage applications** increased 0.7% to 137.5. Refinancing made up 31.6% of applications with an average loan size of \$245,100, while purchases average loan size was \$421,600. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.67% from 7.53% the prior week.

BOND MARKET REVIEW

Rates pulled back last week in reaction to Middle East turmoil, even as inflationary data pressured rates higher. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 5.05%, 4.64%, 4.61% and 4.75%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -41, -3, 14, and -30 basis points respectively.

Economic/Events Calendar

Monday	October 16	Oct Empire Manufacturing (-5.0)	7:30 Central
Tuesday	October 17	Sep Retail Sales (0.2%)	7:30 Central
		Sep Retail Sales Ex Auto & Gas (0.2%)	7:30 Central
		Sep Industrial Production (-0.1%)	8:15 Central
		Sep Capacity Utilization (79.5%)	8:15 Central
		Aug Business Inventories (0.3%)	9:00 Central
		Oct NAHB Housing Market Index (45)	9:00 Central
Wednesday	October 18	Oct 13 th MBA Mortgage Applications	6:00 Central
		Sep Housing Starts (1,410k)	7:30 Central
		Sep Building Permits (1,450k)	7:30 Central
		Federal Reserve Releases Beige Book	13:00 Central
Thursday	October 19	Oct 14 th Initial Jobless Claims (210k)	7:30 Central
		Sep Existing Home Sales (3.90m)	9:00 Central
		Sep Leading Index (-0.4%)	9:00 Central

Source: Bloomberg Finance L.P.

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