Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** increased to a six-week high. The increase was partly due to Hurricane Ian as claims rose by 10 thousand in Florida. Despite the gains, claims are still near their historical low levels, indicating continued strength in the labor market. Claims in regular state programs increased 9,000 to 228,000 for the week ending October 8th, after reporting 219,000 initial claims the prior week. The four-week moving average climbed to 211,500 from 206,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 3,000 to 1.368 million for the week ending September 24th.

- The **National Federation of Independent Business** reported sentiment among small businesses edged higher in September but continues to linger near historical low levels. The survey reported firms grew less negative about the outlook for sales and a decreasing share said they raised prices. The index climbed to 92.1 in September from a 91.8 reading in August. 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 **producer price index** increased more than expected in September, adding to concerns that inflation is getting entrenched. The price gains are concerning as the Fed was hoping inflation would moderate as supply shocks ease. The producer price index increased by 0.4% in September after declining 0.2% the prior month. Year-on-year wholesale prices were up 8.5% in September compared to 8.7% in August. Energy prices climbed 0.7% and are up 24.2% year-on-year. Goods prices, which make up 33% of the weighting rose 0.4% in September after falling 1.1% in August. Services, which make up 65% of the index rose 0.4% in September after gaining 0.3% the prior month. The **core PPI**, which excludes volatile food and energy prices, rose 0.3% in September after gaining 0.3% the previous month, with a year-on-year gain of 7.2%. **PPI ex food, energy and trade** gained 0.4%.

- The **FOMC Minutes** for the September 20-21st meeting showed policy makers are clearly concerned about the persistence of inflation. Inflation is declining slower than anticipated as the committee cited labor market tightness, continued supply chain disruptions and increasing cost for shelter. The policymakers have moved to aggressive tightening as their analysis indicates the risks from higher inflation exceeds the cost of higher unemployment. A number of policymakers cited a potential wage-price spiral as a risk to the inflation outlook.

- The Labor Department reported the **consumer price index** was again stronger than expected with service inflation continuing to explode higher. The Fed wants to see a meaningful and sustained slowdown in core inflation, so this report cements a 75 basis point hike in November and raises the odds of another 75 basis point hike in December. The only good news is that the easing of commodity and supply chain pressures seem to finally be feeding through to retail prices. The index gained 0.4% in September after climbing 0.1% in August. The year-on-year change in consumer prices is 8.2% in September. Service prices gained 0.8% in September after climbing 0.7% in August. Prices of commodity based manufactured goods declined 0.3% in September after falling 0.8% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.6% in September after increasing 0.6% the prior month. The year-on-year change in core CPI is 6.6%.

- The Commerce Department reported that **retail sales** stalled in September as consumers paired back discretionary purchases. This report is not adjusted for inflation, so a decrease in gas station sales was mostly due to a decline in prices at the pump. Building material sales declined and auto sales were soft. On the other hand, restaurant sales were solid and department store sales improved. Retail sales represent roughly half of total consumption, with the other half capturing service spending. Retail sales remained unchanged in September after an upwardly revised gain of 0.4% in August. September retail sales are up 8.6% year-on-year. **Retail sales ex autos and gas** climbed 0.3% in September after increasing 0.6% in August.

- The Labor Department reported the **import price index** decreased in September, led again by price drops for petroleum and industrial supplies. Import prices decreased 1.2% in September after falling 1.1% in August. The cost of petroleum declined 7.5% in September after declining 8.3% the prior month. Import prices are up 6.0% year-on-year. **Import prices ex petroleum** fell 0.5% in September after decreasing 0.2% the prior month.
- The Commerce Department reported **business inventories** increased 0.8% in August after gaining 0.5% in July. **Business sales** increased 0.3% in August after falling 1.0% the prior month. The ratio of business inventories to sales increased to 1.33 in August from 1.32 in July.
- The **University of Michigan's preliminary index of consumer sentiment** rose to a six-month high in October driven primarily by an improvement in buying conditions for durable goods and expectations that prices will climb. Inflation expectations rose for the first time in seven months, a concerning development for the Fed as it tries to keep consumers inflation views anchored. The index increased to 59.8 in October from a 58.6 reading in September. It posted a low of 50.0 in June. The long-run inflation expectations index closely monitored by the Fed, climbed to 2.9% in October from 2.7% in September. The **index of current conditions** increased to 65.3 from 59.7 the prior month while the **index of expectations** dropped to 56.2 from 58.0.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** continued to fall last week, the eighth decline in nine weeks. The index decreased 2.0% for the week ending October 7th, after falling 14.2% the previous week. **Refinancing** applications fell 1.8% to 423.2 from 430.9 the prior week. **Home purchase mortgage applications** decreased 2.1% to 170.5. Refinancing made up 29.0% of applications with an average loan size of $265,600, while purchases average loan size was $399,100. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 6.81% from 6.75% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.50%, 4.27%, 4.02% and 3.99%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -23, -25, -3, and -51 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	October 17	Oct Empire Manufacturing (-4.3)	7:30 Central
Tuesday	October 18	Sep Industrial Production (0.1%)	8:15 Central
		Sep Capacity Utilization (80.0%)	8:15 Central
		Oct NAHB Housing Market Index (43)	9:00 Central
Wednesday	October 19	Oct 14th MBA Mortgage Applications	6:00 Central
		Sep Housing Starts (1,470k)	7:30 Central
		Sep Building Permits (1,530k)	7:30 Central
		US Federal Reserve Releases Beige Book	13:00 Central
Thursday	October 20	Oct 15th Initial Jobless Claims (230k)	7:30 Central
		Sep Existing Home Sales (4.69m)	9:00 Central
		Sep Leading Index (-0.3%)	9:00 Central

Source: Bloomberg Finance L.P.