

# October 30, 2023

## Financial Services Group

Author:

### Economic Review



Troy Clark, CFA  
Senior VP

Mr. Clark has been in investment banking since 1983. He is a Chartered Financial Analyst. He has been a fixed income strategist at Stephens Inc. since 1996, developing investment strategies, policies and procedures for institutions consistent with overall asset/liability management. Mr. Clark is the risk manager for Fixed Income Sales and Trading, monitoring inventories, product, transactions and counterparty risk. He is also a member of Stephens Fixed Income Management, providing discretionary management services for institutional customers. He is a member of the American Institute of Certified Public Accountants and the CFA Institute.

tclark@stephens.com

Stephens Inc.  
111 Center Street  
Little Rock, AR 72201

501.377.6314  
800.809.2016

www.stephens.com

Member NYSE, SIPC

- The Labor Department reported that **initial jobless claims** edged higher last week from very low levels, but continuing unemployment insurance claims surged indicating layoffs are low but workers are finding it increasingly difficult to find new jobs. Claims in regular state programs increased 10,000 to 210,000 from the prior week's upwardly revised 200,000 for the week ending October 21<sup>st</sup>. The four-week moving average climbed to 207,500 from 206,250 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, increased 63,000 to 1.790 million for the week ending October 14<sup>th</sup>.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity edged higher in September. The **Chicago Fed National index**, which draws on 85 economic indicators, was positive 0.02 in September after reporting a negative 0.22 in August. Production-related indicators recorded a positive 0.03, up from negative 0.10 in August. A reading above zero indicates above-trend-growth in the national economy.
- The Commerce Department reported sales of new homes increased in September at the fastest pace since early 2022. A lack of listings in the resale market has pushed housing demand for new construction even as decades high mortgage rates and elevated housing prices make housing difficult. **New home sales** increased 12.3% to a 759,000 annualized pace in September after reporting an upwardly revised 676,000 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 initial estimate by the Commerce Department of the 3<sup>rd</sup> quarter **gross domestic product** indicated economic activity surged in the third quarter, driven by a jump in consumer spending. The gains come from a jump in spending on services, commodities and discretionary purchases of sporting equipment, airline travel, vacations and entertainment. **Gross domestic product** expanded at a 4.9% annualized rate in the 3<sup>rd</sup> quarter. **Personal consumption**, which accounts for about 70% of the economy, increased at a strong 4.0% annualized pace, up from 0.8% in the 2<sup>nd</sup> quarter. The core PCE deflator, which is closely watched by the Fed rose 2.4%. The **GDP price index** gained 3.5% in the 3<sup>rd</sup> quarter after 1.7% in the 2<sup>nd</sup> quarter, suggesting inflation is not yet contained.
- The Commerce Department reported the **goods trade deficit** edged higher in September as both exports and imports increased. The deficit increased 1.1% to \$85.8 billion in September. **Exports** climbed 2.9% to \$174.0 billion and **imports** rose 2.4% to \$259.8 billion.
- The Commerce Department reported **wholesale inventories** remained unchanged in September after falling 0.1% the previous month. Year-on-year wholesale inventories are down 1.3%. **Retail inventories** increased 0.9% in September after gaining 1.1% in August and are up 5.6% year-on-year.
- The Commerce Department reported **durable goods orders** rose more than expected in September with large gains in nondefense aircraft and capital goods orders. Durable goods, which are bookings for goods and materials meant to last at least three years, rose 4.7% in September after declining 0.1% in August. **Excluding transportation**, durable orders rose 0.5% in September after gaining 0.5% in August. The non-military capital goods orders excluding aircraft, a proxy for business investment, gained 0.6% in September after gaining 1.1% in August. The ratio of inventory to shipments rose to 1.85 in September from 1.84 the prior month.
- The National Association of Realtors reported the **index of pending home re-sales** rose in September but remained near the lowest level on record. A surge in mortgage rates to around 8% is making it difficult to finance a home purchase. Sales climbed 1.1% in September after declining 7.1% in August. The combination of high mortgage rates and lack of housing inventory continues to be a major constraint to rising sales. Pending home sales are based on houses under contract as reported by over 100 multiple listing services and 60 large real estate brokers. A sale is listed as

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pending when a seller accepts a sales contract on a property. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.

- The Commerce Department reported **personal spending** rose a solid 0.4% in September and **personal income** increased 0.3%. Resilient household demand paired with a pickup in inflation underscores momentum heading into the fourth quarter. Spending was driven by purchases of both goods and services, including cars, medicine and travel. The spending was supported by the strength of the labor market, a record surge in household wealth at the start of the year and lingering pandemic era savings. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.3% in September, bringing the year-on-year gain to 3.7%. Disposable income, or the money left over after taxes, declined 0.1% in September.
- The **University of Michigan's final index of consumer sentiment** declined in October on inflation concerns as expectations for gas prices to climb a year from now. Concerns about global turmoil, climbing inflation, high financing costs, a cooling labor market and the resumption of student loan payments is taking a toll on sentiment. The gauge of consumer confidence decreased to 63.8 in October, which is higher than the earlier estimate of 63.0. This is lower than the 67.9 reading in September. The **index of current conditions** declined to 70.6 from 71.1 the prior month while the **index of expectations** fell to 59.3 from 65.8 the prior month. The final reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, increased to 3.0% in October from 2.8%. One year inflation expectations rose to 4.2% from 3.2%.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined last week to its lowest level in almost three decades as mortgage rates increased for a seventh-straight week. The index decreased 1.0% for the week ending October 20<sup>th</sup>. **Refinancing** applications rose 1.8% to 354.0 from 347.6 the prior week. **Home purchase mortgage applications** decreased 2.2% to 127.0. Refinancing made up 31.4% of applications with an average loan size of \$256,100, while purchases average loan size was \$410,700. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.90% from 7.70% the prior week.

## BOND MARKET REVIEW

Rates pulled back from lofty levels last week as more market watchers forecast a slowing economy. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 5.00%, 4.76%, 4.83% and 5.01%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -24, 7, 18, and 1 basis points respectively.

Source: Bloomberg Finance L.P.

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### Economic/Events Calendar

Tuesday	October 31	3 <sup>rd</sup> Qtr Employment Cost Index (1.0%)	7:30 Central
		Aug FHFA House Price Index (0.5%)	8:00 Central
		Aug S&P CoreLogic CS 20-City Index (0.75%)	8:00 Central
		Oct Conf Board Consumer Confidence (100.5)	9:00 Central
Wednesday	November 1	Oct 27 <sup>th</sup> MBA Mortgage Applications	6:00 Central
		Oct ADP Employment Change (150k)	7:15 Central
		Sep Construction Spending (0.4%)	9:00 Central
		Sep JOLTS Job Openings (9,350k)	9:00 Central
		Oct ISM Manufacturing (49.0)	9:00 Central
		FOMC Rate Decision (5.25% to 5.50%)	13:00 Central
		Interest on Reserve Balances Rate (5.40%)	13:00 Central
Thursday	November 2	Oct 28 <sup>th</sup> Initial Jobless Claims (210k)	7:30 Central
		3 <sup>rd</sup> Qtr Nonfarm Productivity (4.3%)	7:30 Central
		3 <sup>rd</sup> Qtr Unit Labor Costs (0.5%)	7:30 Central
		Sep Factory Orders (2.3%)	9:00 Central
		Sep Factory Orders Ex Transportation	9:00 Central
Friday	November 3	Oct Change in Nonfarm Payrolls (180k)	7:30 Central
		Oct Unemployment Rate (3.8%)	7:30 Central
		Oct Avg Hourly Earnings-YOY (4.0%)	7:30 Central
		Oct Labor Force Participation Rate (62.8%)	7:30 Central
		Oct ISM Services Index (53.0)	9:00 Central

Source: Bloomberg Finance L.P.

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