

October 31, 2022

Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** edged higher last week. Companies are hesitant to lay off employees as they recalibrate the demand for labor as rates climb and the economy cools. Claims in regular state programs increased 3,000 to 217,000 for the week ending October 22nd, after reporting 214,000 initial claims the prior week. The four-week moving average climbed to 219,000 from 212,250 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 55,000 to 1.438 million for the week ending October 15th.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity edged higher in September to above-trend-growth after being adjusted to positive activity in August. The **Chicago Fed National index**, which draws on 85 economic indicators, was positive 0.10 in September after reporting a positive 0.10 in August. A reading above zero indicates above-trend-growth in the national economy.
- The Federal Housing Finance Agency reported a decline of 0.7% in the **house price index** of purchase-only homes in August after declining 0.6% in July. This is the second straight price decline after increasing every month 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 0.86% in August after falling 0.45% in July. The report indicates demand for housing continues to slow in August as higher mortgage rates and affordability pressure new homebuyers. The index climbed 13.08% in August 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** plunged in October as inflation and rising interest rates are getting consumers to reassess the economic outlook. The index recorded a 102.5 in October from a downwardly revised 107.8 reading in September, previously reported as 108.0. The present situation index decreased to 138.9 in October from a 150.2 reading in September. The expectations index dropped to 78.1 in October from 79.5 the prior month.
- The Commerce Department reported the **goods trade deficit** widened in September as imports increased and exports fell. The deficit increased 5.7% to \$92.2 billion in September. **Exports** fell 1.5% to \$177.6 billion and **imports** rose 0.8% to \$269.8 billion.
- The Commerce Department reported **wholesale inventories** rose 0.8% in September after gaining 1.4% the previous month. Year-on-year wholesale inventories have climbed 24.5%. **Retail inventories** increased 0.4% in September after gaining 1.4% in August and are up 22.2% year-on-year.
- The Commerce Department reported sales of new homes declined in September, resuming a downtrend as mortgage rates surge to its highest level since 2008. **New home sales** fell 10.9% to a 603,000 annualized pace in September after reporting a downwardly revised 677,000 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 3rd quarter **gross domestic product** showed economic growth improved in the third quarter after falling for the first two quarters of the year. Driving the positive GDP was business investment, continued consumer spending on services and government spending. Housing was a significant drag on growth. Gross domestic product expanded at a 2.6% annualized rate in the 3rd quarter, after falling 0.6% in the previous quarter. **Personal consumption**, which accounts for about 70% of the economy, gained 1.4% in the quarter

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after gaining 2.0% in the previous quarter. The **GDP price index** gained 4.1% in the 3rd quarter after increasing 9.0% in the 2nd quarter.

- The Commerce Department reported **durable goods orders** climbed in September, reflecting a steep jump in Boeing orders. Durable goods, which are bookings for goods and materials meant to last at least three years, climbed 0.4% in September after edging 0.2% higher in August. The non-military capital goods orders excluding aircraft, a proxy for business investment, fell 0.7% in September after gaining 0.8% in August. **Excluding transportation**, durable orders decreased 0.5% in September after remaining unchanged in August. The ratio of inventory to shipments remained unchanged at 1.78 in September.
- The Labor Department reported the **Employment Cost Index** for the 3rd quarter rose at a strong pace. This report is a key index to the Fed as it attempts to monitor inflationary pressures. The employment cost index is a broad gauge of wages and benefits. The index climbed 1.2% in the 3rd quarter after a gain of 1.3% in the prior quarter. Wages and salaries increased 1.3% and benefits rose 1.0%.
- The Commerce Department reported **personal income** rose 0.4% in September and nominal **personal spending** climbed 0.6%. Consumers spent 0.8% more on services such as housing, utilities and travel. The savings rate fell to 3.1% in September from 3.4% in August. The PCE Deflator, the preferred inflation gauge by the Federal Reserve, climbed 0.5% in September, bringing the year-on-year gain to 5.1%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.4% in September after climbing 0.5% higher in August.
- The National Association of Realtors reported the **index of pending home re-sales** declined in September for the eighth time this year. The number of contracts to purchase previously owned homes fell 10.2% in September after falling 1.9% in August. Pending home sales are down 31.0% on a seasonally adjusted year-on-year basis in September. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.
- The **University of Michigan's final index of consumer sentiment** edged higher in October to its highest level since April. A troubling part of the survey indicates consumers expect prices will climb at an annual rate of 2.9% over the next five to ten years, compared to last month's 2.7%. The gauge of consumer confidence increased to 59.9 in October from an earlier estimate of 59.8. This is an increase from the 58.6 reading in September. The **index of current conditions** rose to 65.6 from 59.7 the prior month while the **index of expectations** dropped to 56.2 from 58.0 the prior month.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** continued to fall last week, the tenth decline in eleven weeks. The index decreased 1.7% for the week ending October 21st, after falling 4.5% the previous week. **Refinancing** applications remained unchanged at 394.7. **Home purchase mortgage applications** decreased 2.3% to 160.4. Refinancing made up 28.8% of applications with an average loan size of \$265,000, while purchases average loan size was \$402,400. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.16% from 6.94% last week.

Source: Bloomberg Finance L.P.

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BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.47%, 4.34%, 4.22% and 4.33%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -13, -12, 11, and -14 basis points respectively.

Economic/Events Calendar

Tuesday	November 1	Sep JOLTS Job Openings (9,625k)	9:00 Central
		Sep Construction Spending (-0.6%)	9:00 Central
		Oct ISM Manufacturing Index (50.0)	9:00 Central
Wednesday	November 2	Oct 28 th MBA Mortgage Applications	6:00 Central
		Oct ADP Employment Change (180k)	7:15 Central
		FOMC Rate Decision (3.75% to 4.00%)	13:00 Central
		Interest on Reserve Balances Rate (3.90%)	13:00 Central
Thursday	November 3	Oct 29 th Initial Jobless Claims (220k)	7:30 Central
		Sep Trade Balance (-\$72.3b)	7:30 Central
		3 rd Qtr Nonfarm Productivity (0.5%)	7:30 Central
		3 rd Qtr Unit Labor Costs (4.0%)	7:30 Central
		Sep Factory Orders (0.3%)	9:00 Central
		Sep Factory Orders ex Transportation	9:00 Central
		Oct ISM Services Index (55.4)	9:00 Central
Friday	November 4	Oct Change in Nonfarm Payrolls (191k)	7:30 Central
		Oct Unemployment Rate (3.6%)	7:30 Central
		Oct Average Hourly Earnings-YOY (4.7%)	7:30 Central
		Oct Labor Force Participation Rate (62.3%)	7:30 Central
		Sep Consumer Credit (\$30.7b)	14:00 Central

Source: Bloomberg Finance L.P.

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