Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** increased last week, although this seasonally adjusted index can be volatile on a holiday-shortened week. The biggest surprise was a surge in continuing claims, which are a proxy for the number of people receiving unemployment benefits, suggesting out-of-work Americans are finding it more difficult to secure new employment. Claims in regular state programs increased 7,000 to 218,000 from the prior week's upwardly revised 211,000 for the week ending November 25th. The four-week moving average dropped to 220,000 from 220,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, surged 86,000 to 1.927 million for the week ending November 18th.

- The Commerce Department reported sales of new homes declined in October after a downward revision the prior month. A surge in mortgage rates and affordability issues are weighing on demand. Despite the decline, new home sales have generally been rising for the past year as elevated borrowing costs discourage homeowners from moving, reducing the number of existing homes from the market. **New home sales** decreased 5.6% to a 679,000 annualized pace in October after reporting a downwardly revised 719,000 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 Federal Housing Finance Agency reported the **house price index** of purchase-only homes increased 0.6% in September after gaining 0.7% in August. The year-on-year change in the house price index was 6.1% in September. 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** rose 0.67% in September after gaining 0.82% in August. This is the eighth straight increase in prices, reflecting strong buyer demand amid a tight supply of listings. The index increased 3.92% in September from the same month in 2022. The index tracks changes in the value of homes in 20 metropolitan regions.

- The Conference Board's **consumer confidence index** edged higher in November, the first increase in four months. Buying plans improved slightly in November, with Black Friday and Cyber Monday bringing the biggest online shopping period ever. Consumers still want to enjoy the holiday's and are searching for the best deals and discounts. Slowing inflation and a solid labor market are supporting confidence and preventing further decline, but the pace of improvement in inflation has been frustratingly slow. The index recorded a 102.0 in November from a downwardly revised 99.1 reading in October, previously reported as 102.6. The present situation index decreased to 138.2 in November from 138.6 in October. The expectations index climbed to 77.8 in November from 72.7 the prior month, though it remained below 80, the threshold that historically signals a recession within the year.

- The Commerce Department reported the **goods trade deficit** widened in October as exports declined and imports remained unchanged. The deficit increased 3.4% to $89.8 billion in October. **Exports** dropped 1.7% to $170.8 billion and **imports** remained unchanged at $260.6 billion.

- The Commerce Department reported **wholesale inventories** declined 0.2% in October after climbing 0.1% in September. Year-on-year wholesale inventories are down 2.0%. **Retail inventories** remained unchanged in October after gaining 0.4% in September and are up 5.4% year-on-year.

- The second estimate by the Commerce Department of the 3rd quarter **gross domestic product** indicated economic activity surged even more than initially reported in the third quarter. The gains come from a jump in spending on services, commodities and discretionary purchases of sporting equipment, airline travel, vacations and entertainment. Upward revisions in business investment and government spending pushed the second estimate of GDP higher. **Gross domestic product** expanded at a 5.2% annualized rate in the 3rd quarter, estimated last month at 4.9% growth.

Personal consumption, which accounts for about 70% of the economy, increased at a strong 3.6% annualized pace, down from the earlier estimate of 4.0. The core PCE deflator, which is closely watched by the Fed rose 2.3%. The **GDP price index** gained 3.6% in the 3rd quarter, estimated earlier to be a gain of 3.5%, suggesting inflation is not yet contained.

- The Fed released the latest rendition of the **Beige Book,** which is based on information collected through November 17, 2023. This report is published eight times each year. The report indicated economic activity has slowed since the previous report. Consumer spending was mixed, with spending on discretionary items and durable goods declining. Consumers showed increased price sensitivity. Travel and tourism activity was generally healthy. Consumer credit remained fairly healthy, farmers reported higher selling prices while commercial real estate activity continued to slow. Demand for labor continued to ease with more applicants available, but retention improved as well. Price increases largely moderated across the Districts.

- The Commerce Department reported **personal income** climbed 0.2% in October after gaining 0.4% the prior month. The gain was driven primarily by investment income and transfer payments. Wages and salaries only grew 0.1%, versus 0.5% in September. **Personal spending** also increased 0.2% in October. The figures are consistent with expectations the economy will moderate in the fourth quarter following the strongest growth pace in nearly two years in the third quarter. Monthly **PCE inflation** was flat in October with energy prices dropping and year-on-year PCE falling to 3.0% from 3.4% in September. Consumer spending, inflation and the labor market all cooled in recent weeks, adding to evidence the economy is slowing. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.2% in October, bringing the year-on-year gain to 3.5%. **Disposable income**, or the money left over after taxes, increased 0.3% in October.

- The National Association of Realtors reported the **index of pending home re-sales** fell to its lowest level on record in October. Mortgage rates were at their highest and contract signings for existing homes were at their lowest in more than 20 years. Pending home sales are down 6.6% from a year earlier on an unadjusted basis. Sales dropped 1.5% in October after climbing 1.0% in September. The combination or 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 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 that **construction spending** increased 0.6% in October. Spending on residential construction increased 1.2% while non-residential construction climbed 0.1%. Government spending, which made up 22.1% of construction spending, increased 0.2% and private spending gained 0.7%.

- The **Institute for Supply Management** reported its **manufacturing index** contracted in November for a 13th straight month as high interest rates continue to pressure the goods producing side of the economy. Demand for products is weakening and consumers have grown more sensitive to prices. The manufacturing index recorded a 46.7 in November after reporting the same 46.7in October. The new orders part of the index increased to 48.3 in November from 45.5 in October and production dropped to 48.5 in November from 50.4 the prior month. A reading below 50 indicates contraction in the manufacturing sector.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** climbed last week for the fourth straight month, with mortgage rates continuing to drop from their highs. The index increased 0.3% for the week ending November 24th. **Refinancing** applications declined 8.9% to 327.8 from 359.9 the prior week. **Home purchase mortgage applications** increased 4.7% to 144.9. Refinancing made up 30.6% of applications with an average loan size of $251,800, while purchases

Source: Bloomberg Finance L.P.

average loan size was $411,100. The **average contract rate** on a 30-year fixed-rate mortgage declined to 7.37% from 7.41% last week. Rates hit a high of 7.90% four weeks ago.

BOND MARKET REVIEW

Rates plunged last week as investors became more convinced the Fed was done raising rates and would cut rates next year. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.54%, 4.12%, 4.20% and 4.39%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -42, 8, 19, and -35 basis points respectively.

Economic/Events Calendar

Monday	December 4	Oct Factory Orders (-3.0%)	9:00 Central
		Oct Factory Orders Ex Transportation (-1.2%)	9:00 Central
Tuesday	December 5	Oct JOLTS Job Openings (9,300k)	9:00 Central
		Nov ISM Services Index (52.2)	9:00 Central
Wednesday	December 6	Dec 1st MBA Mortgage Applications	6:00 Central
		Nov ADP Employment Change (125k)	7:15 Central
		3rd Qtr Nonfarm Productivity (4.9%)	7:30 Central
		3rd Qtr Unit Labor Costs (-0.9%)	7:30 Central
		Oct Trade Balance (-$64.2b)	7:30 Central
Thursday	December 7	Dec 2nd Initial Jobless Claims (221k)	7:30 Central
		Oct Wholesale Trade Sales	9:00 Central
		Oct Wholesale Inventories (-0.2%)	9:00 Central
		Oct Consumer Credit ($8.5b)	14:00 Central
Friday	December 8	Nov Change in Nonfarm Payrolls (180k)	7:30 Central
		Nov Unemployment Rate (3.9%)	7:30 Central
		Nov Avg Hourly Earnings-YOY (4.0%)	7:30 Central
		Nov Labor Force Participation Rate (62.7%)	7:30 Central
		Nov University of Michigan Sentiment (62.0)	9:00 Central

Source: Bloomberg Finance L.P.