

December 12, 2022

Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** edged higher last week. While the labor data can be choppy around the holidays, the current trend is for claims to climb higher from historically low levels. Claims in regular state programs increased 4,000 to 230,000 for the week ending December 3rd, after reporting 226,000 initial claims the prior week. The four-week moving average climbed to 230,000 from 229,000 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 62,000 to 1.671 million for the week ending November 26th. This is the highest level since February, suggesting workers who are losing their jobs are having more trouble finding a new one.
- The Commerce Department reported that **factory orders** climbed 1.0% in October after increasing 0.3% in September. **Factory orders ex transportation** rose 0.8% after declining 0.2% in September. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft increased 0.6% in October after falling 0.7% in September.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, expanded at a faster pace in November, bolstered by holiday activity. The service ISM climbed in November to 56.5 from 54.4 the prior month. The business activity jumped to 64.7 from 55.7. New orders fell to 56.0 from 56.5. The employment index climbed to 51.5 from 49.1. This gauge of service providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.
- The Commerce Department reported the **trade deficit** widened in October for the second straight month. The deficit increased to \$78.2 billion in October from a deficit of \$74.1 billion in September. **Exports** fell 0.7% to \$256.6 billion and **imports** climbed 0.6% to \$334.8 billion.
- Bureau of Labor Statistics reported **worker's productivity** increased more than earlier estimates in the third quarter after steep declines in the first half of the year. Productivity gained 0.8% in the third quarter after dropping 4.1% in the second quarter and plunging 5.9% in the first. Productivity is a measure of economic output for each unit of input, primarily the cost of labor. The decline in productivity reflects a weakening economy while labor costs climb. Productivity is down 1.3% from a year earlier. **Unit labor costs** in nonfarm businesses rose at a 2.4% annual rate in the 3rd quarter, estimated at 3.5% in an earlier report. This follows a surge of 8.9% in the previous quarter.
- The Federal Reserve reported **consumer credit** accelerated in October reflecting an increase in credit card balances and steady growth in student loan and auto debt. Consumer credit increased \$27.1 billion after gaining an upwardly revised \$25.8 billion in September. Credit card debt increased \$10.1 billion to \$1.171 trillion. Auto and student loan debt increased by \$17.0 billion to \$3.558 trillion. These figures are not adjusted for inflation.
- The Labor Department reported the **producer price index** rose more than expected in November, driven by services. While the gain in prices is slowing down, the gains are higher than the Fed target and are shifting to the services area that is considered more sticky. Wage pressures, especially in the labor intensive services industries, are pushing inflation higher. The producer price index increased by 0.3% in November after climbing 0.3% the prior month. Year-on-year wholesale prices were up 7.4% in November compared to 8.1% in October. Goods prices, which make up 33% of the weighting rose 0.1% in November after gaining 0.6% in October. Services, which make up 65% of the index climbed 0.4% in November after gaining 0.1% the prior month. The **core PPI**, which excludes volatile food and energy prices, gained 0.4% in November after gaining 0.1% the previous month, with a year-on-year gain of 6.2%. **PPI ex food, energy and trade** gained 0.3%.
- The Commerce Department reported **wholesale inventories** rose 0.5% in October to \$923.8 billion after gaining 0.6% in September. Year-on-year wholesale inventories have gained 21.9%. **Wholesale trade sales** increased 0.4% in October after gaining 0.1% in September, with year-on-year sales up 11.9%. The ratio of inventory to sales remained unchanged at 1.32.

December 12, 2022

Financial Services Group

- The **University of Michigan's preliminary index of consumer sentiment** came in above expectations in December, even with widespread recession chatter and news about layoffs. A fall in gasoline prices and wage gains more than offset concerns about a likely recession. The one-year-ahead inflation expectations fell to 4.6% from 4.9% the previous month. The closely watched 5-10 year inflation expectations measure remained at 3.0%. The index increased to 59.1 in December from a 56.8 reading in November. The **index of current conditions** climbed to 60.2 from 58.8 the prior month while the **index of expectations** increased to 58.4 from 55.6.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased last week for the second straight week even as mortgage rates fell to the lowest level in more than two months. The index decreased 1.9% for the week ending December 2nd, after losing 0.8% the previous week. **Refinancing** applications improved 4.7% to 340.8 last week from 325.5. **Home purchase mortgage applications** decreased 3.0% to 175.5. Refinancing made up 28.7% of applications with an average loan size of \$261,000, while purchases average loan size was \$387,300. The **average contract rate** on a 30-year fixed-rate mortgage declined to 6.41% from 6.49% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.34%, 3.77%, 3.58% and 3.56%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -57, -19, -2, and -78 basis points respectively.

Source: Bloomberg Finance L.P.

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December 12, 2022

Financial Services Group

Economic/Events Calendar

Monday	December 12	Nov Budget Statement (-\$248.0n)	13:00 Central
Tuesday	December 13	Nov NFIB Small Business Optimism (90.5)	5:00 Central
		Nov Consumer Price Index (0.3%)	7:30 Central
		Nov Consumer Price Index-YOY (7.3%)	7:30 Central
		Nov CPI Ex Food & Energy (0.3%)	7:30 Central
		Nov CPI Ex Food & Energy-YOY (6.1%)	7:30 Central
Wednesday	December 14	Dec 9 th MBA Mortgage Applications	6:00 Central
		Nov Import Price Index (-0.5%)	7:30 Central
		Nov Import Price Index-YOY (3.2%)	7:30 Central
		Nov Import Price Index ex Petroleum (-0.5%)	7:30 Central
		FOMC Rate Decision (4.25% - 4.50%)	13:00 Central
		Interest on Reserve Balances Rate (4.40%)	13:00 Central
Thursday	December 15	Dec 10 th Initial Jobless Claims (231k)	7:30 Central
		Dec Empire Manufacturing (-1.0)	7:30 Central
		Nov Retail Sales (-0.2%)	7:30 Central
		Nov Retail Sales Ex Auto & Gas (0.1%)	7:30 Central
		Nov Industrial Production (0.1%)	8:15 Central
		Nov Capacity Utilization (79.8%)	8:15 Central
		Oct Business Inventories (0.4%)	9:00 Central

Source: Bloomberg Finance L.P.

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