

December 19, 2022 Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** dropped to its lowest level in two months last week, highlighting the resilient strength in the labor market. Claims in regular state programs decreased 20,000 to 211,000 for the week ending December 10th, after reporting 231,000 initial claims the prior week. The four-week moving average fell to 227,250 from 230,250 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, edged higher by 1,000 to 1.671 million for the week ending December 3rd. The low level of claims may have contributed to the remarkable degree of unity at the FOMC that the federal funds rate will have to remain at a high level to sufficiently restrain aggregate demand.
- The Treasury Department reported a **budget deficit** of \$248.5 billion for the month of November with the government collecting \$252.1 billion and spending \$500.6 billion. This compares to a deficit of \$191.3 billion a year earlier. The November year-to-date budget deficit is \$336.4 billion, which compares to a deficit of \$356.4 billion in November of 2021.
- The **National Federation of Independent Business** reported sentiment among small businesses edged higher in November, with price pressures and a tight labor market continuing to undermine sentiment. The index climbed to 91.9 in November from a 91.3 reading in October.
- The Labor Department reported the **consumer price index** was again below expectations in November. This is the second straight month of good news on inflation. Disinflation was widespread in core goods prices, but inflation in the key category of services ex rents was mixed. Used cars, energy and electronics items saw a substantial drop in prices. Recreation services and education services continue to see price increases. The index gained 0.1% in November after increasing 0.4% in October. The year-on-year change in consumer prices is 7.1% in November. Service prices gained 0.3% in November after climbing 0.4% in October. Prices of commodity based manufactured goods dropped 0.3% in November after gaining 0.5% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.2% in November after increasing 0.3% the prior month. The year-on-year change in core CPI is 6.0%.
- The Labor Department reported the **import price index** decreased in November for the fifth straight month, led by price drops for petroleum and industrial supplies. Import prices decreased 0.6% in November after falling 0.4% in October. The cost of petroleum declined 3.3% in November after declining 2.2% the prior month. Import prices are up 2.7% year-on-year. **Import prices ex petroleum** fell 0.3% in November after decreasing 0.2% the prior month.
- The **FOMC** met on Wednesday and the committee raised the fed funds rates by 50 basis points. The targeted Federal Funds Rate is now between 425 basis points and 450 basis points. The committee voted unanimously to raise the fed funds rate. The most striking takeaway from the meeting is the near uniform view that the restrictive level for rates exceeds 5.00%. It is clear the lower than expected CPI release did not change committee members' views. With the latest Summary of Economic Projections, the FOMC sent a clear signal they are more concerned with avoiding the policy error of under-tightening than of over-tightening.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, decreased for the fourth time in five months. The report showed price expectations increased and the outlook for business activity six months ahead improved. Measures of prices paid and received remain elevated. The index recorded a negative 11.2 in December after a positive 4.5 reading in November. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** fell sharply in November with a widespread decrease in spending. The holiday shopping season started with a whimper with outright declines in most categories. The decline indicates the Fed rate hikes are starting to have an effect, with consumers shifting their spending from goods to services, which largely are not captured in the retail

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sales report. Retail sales declined 0.6% in November after gaining 1.3% in previous month. There were outright declines in most categories including autos at -2.3%, furniture at -2.6%, department stores at -2.9% and online sales at -0.9%. October retail sales are up 6.5% year-on-year. **Retail sales ex autos and gas** declined 0.2% in November after increasing 0.8% in October. The numbers in this report are not adjusted for inflation.

- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, unexpectedly decreased in November for the second straight month. The manufacturing component of the index is losing momentum while utility use increased. The report reflects weakening demand as higher interest rates start to bite. Industrial production declined 0.2% in November after falling 0.1% in October. Production at factories, which make up 74.3% of output, fell 0.6% in November after gaining 0.3% the previous month. Utilities gained 3.6% after falling 1.3% in October and mining fell 0.7%. **Capacity utilization**, which measures the amount of a plant that is in use, decreased to 79.7% in November from 79.9% the prior month.
- The Commerce Department reported **business inventories** increased 0.3% in October after gaining 0.2% in September. **Business sales** increased 0.8% in October after remaining unchanged the prior month. The ratio of business inventories to sales remained unchanged at 1.33 in October.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased last week as borrowing costs steadied near an almost three-month low. The index increased 3.2% for the week ending December 9th, after losing 1.9% the previous week. **Refinancing** applications improved 2.8% to 350.5 last week from 340.8. **Home purchase mortgage applications** increased 4.0% to 182.6. Refinancing made up 29.4% of applications with an average loan size of \$275,500, while purchases average loan size was \$401,400. The **average contract rate** on a 30-year fixed-rate mortgage edged higher to 6.42% from 6.41% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.18%, 3.62%, 3.48% and 3.55%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -56, -14, 7, and -63 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	December 19	Dec NAHB Housing Market Index (34)	9:00 Central
Tuesday	December 20	Nov Housing Starts (1,400k)	7:30 Central
		Nov Building Permits (1,480k)	7:30 Central
Wednesday	December 21	Dec 16 th MBA Mortgage Applications	6:00 Central
		3 rd Qtr Current Account Balance (-\$222.0b)	7:30 Central
		Nov Existing Home Sales (4.20m)	7:30 Central
		Dec Conf Board Consumer Confidence (101.0)	9:00 Central
Thursday	December 22	Dec 17 th Initial Jobless Claims (222k)	7:30 Central
		3 rd Qtr Gross Domestic Product-3 rd Est (2.9%)	7:30 Central
		3 rd Qtr GDP Price Index (4.3%)	7:30 Central
		3 rd Qtr Personal Consumption (1.7%)	7:30 Central
		Nov Leading Index (-0.5%)	9:00 Central
Friday	December 23	Nov Personal Income (0.3%)	7:30 Central
		Nov Personal Spending (0.2%)	7:30 Central
		Nov PCE Deflator-YOY (5.5%)	7:30 Central
		Nov Durable Goods Orders (-1.0%)	7:30 Central
		Nov Durables Ex Transportation (0.0%)	7:30 Central
		Nov Cap Goods Orders Nondef Ex Air (0.0%)	7:30 Central
		Dec University of Michigan Sentiment (59.1)	9:00 Central
		Nov New Home Sales (600k)	9:00 Central

Source: Bloomberg Finance L.P.

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