Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** edged higher from the previous week, but was less than expected. The levels of the last two weeks have been the lowest for initial claims since the week of October 14th, indicating the labor market remains resilient as companies seek to retain employees. Claims in regular state programs increased 2,000 to 205,000 from the prior week's upwardly revised 203,000 for the week ending December 16th. The four-week moving average dropped to 212,000 from 213,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, fell 1,000 to 1.865 million for the week ending December 9th.
- The **National Association of Home Builders/Wells Fargo** reported builders housing sentiment climbed from very low levels in December. With mortgage rates down roughly 50 basis points over the past month, builders are reporting an uptick in activity as some prospective buyers who previously felt priced out of the market are taking a second look. The index of builder sentiment increased to 37 in December from 34 in November. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** surged in November. Lower mortgage rates, while still high, have spurred demand, with applications for home purchases in early December climbing to the highest level since early August. Housing starts rose 14.8% in November to a 1,560,000 annualized rate following October's downwardly revised 1,359,000 pace. Single-family starts increased 18.0% in November with multi-family starts up 6.9%. **Building permits**, a gauge of future construction, declined 2.5% in November to a 1,460,000 pace.
- The Commerce Department reported a **current-account deficit** of $200.3 billion during the third quarter of 2023. This is narrower than the $216.8 billion deficit in the prior quarter. The current account is considered the broadest measure of international trade, covering goods and services as well as income payments and government transfers.
- The National Association of Realtors reported that **existing home sales** climbed 0.8% in November to a selling rate of 3.82 million. A mix of still-high borrowing costs and elevated house prices has pressured buyers and sellers alike in the resale market, with the affordability index sliding to a record low in the third quarter. Contract closings usually occur a month or two after a contract is signed. The median selling price declined to $387,600 in November from $391,600 in October.
- The Conference Board's **consumer confidence index** surged in December by the most since early 2021. Consumers are upbeat about the inflation outlook, labor market prospects and business conditions. The confidence level points to an economy holding up well going into the new year. The index recorded a 110.7 in December from a downwardly revised 101.0 reading in November, previously reported as 102.0. The present situation index increased to 148.5 in December from 136.5 in November. The expectations index climbed to 85.6 in December from 77.4 the prior month, though it remained below 80, the threshold that historically signals a recession within the year.
- The third and final estimate by the Commerce Department of the 3rd quarter **gross domestic product** indicated economic activity expanded in the third quarter at the rate indicated in the first estimate. The gains come from a jump in spending on services, commodities and discretionary purchases of sporting equipment, airline travel, vacations and entertainment. Downward revisions in personal consumption pushed the third estimate of GDP to its original estimate. **Gross domestic product** expanded at a 4.9% annualized rate in the 3rd quarter, estimated last month at 5.2% growth. **Personal consumption** was revised down to 3.1%, reported last month as a gain of 3.6%. The **GDP price index** was revised down to 3.3% in the third quarter from the reported 3.6% last month.
- The Conference Board reported the **index of leading economic indicators** declined 0.5% in November, the thirteenth straight drop. The loss was led by a decline in consumer expectations, ISM new orders and building permits. The biggest positive contributor to the leading index was stock prices. The index of U.S. leading indicators is a gauge of the economic outlook for the next three to

six months. The **coincident index**, a gauge of current economic activity, was 0.2% in November after being unchanged in October.

- The Commerce Department reported **personal income** climbed 0.4% in November after gaining 0.3% the prior month. The gain was driven primarily by a jump in wages and salaries of 0.6%, versus 0.2% in October. **Personal spending** increased 0.2% in November. This report will inspire soft-landing optimism as inflation cooled notably, while personal income and spending continued to grow. Monthly **PCE inflation** declined 0.1% in November after remaining flat in October and year-on-year PCE falling to 2.6% from 2.9% in October. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.1% in November, bringing the year-on-year gain to 3.2%. **Disposable income**, or the money left over after taxes, increased 0.4% in November.
- The Commerce Department reported **durable goods orders** surprised to the upside in November due to a surge in transportation equipment. Durable goods, which are bookings for goods and materials meant to last at least three years, surged 5.4% in November after dropping a downwardly revised 5.1% in October. **Excluding transportation**, durable orders climbed 0.5% in November after declining 0.3% in October. The non-military capital goods orders excluding aircraft, a proxy for business investment, increased 0.8% in November after falling a downwardly revised 0.6% in October. The ratio of inventory to shipments fell to 1.85 in November from 1.87 the prior month.
- The Commerce Department reported sales of new homes unexpectedly declined in November after a downward revision the prior month. New housing inventory increased in November for the fourth consecutive month to the highest level in nearly a year, suggesting the housing market is recovering as mortgage rates decline from high levels. **New home sales** dropped 12.2% to a 590,000 annualized pace in November after reporting a downwardly revised 672,000 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 **University of Michigan's final index of consumer sentiment** jumped higher in December as concerns about inflation begin to improve amid a healthy labor market. The gauge of consumer confidence increased to 69.7 in December, which is higher than the earlier estimate of 69.4. This is higher than the 61.3 reading in November. The **index of current conditions** climbed to 73.3 from 68.3 the prior month while the **index of expectations** rose to 67.4 from 56.8 the prior month. The final reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, decreased to 2.9% in December from 3.2%. One year inflation expectations fell to 3.1% from 4.5%.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined last week after six straight months of increases. The index decreased 1.5% for the week ending December 15th. **Refinancing** applications fell 1.8% to 437.6 from 445.8 the prior week. **Home purchase mortgage applications** decreased 0.6% to 148.7. Refinancing made up 39.7% of applications with an average loan size of $274,900, while purchases average loan size was $416,000. The **average contract rate** on a 30-year fixed-rate mortgage declined to 6.83% from 7.07% last week. Rates hit a high of 7.90% seven weeks ago.

Source: Bloomberg Finance L.P.

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BOND MARKET REVIEW

Rates continue to decline last week after Fed Chair Jerome Powell signaled that the Fed was finished raising rates at the FOMC meeting the week earlier. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.32%, 3.87%, 3.90% and 4.05%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -45, 3, 15, and -27 basis points respectively.

Economic/Events Calendar

Tuesday	December 26	Nov Chicago Fed Nat Activity Index	7:30 Central
		Oct FHFA House Price Index (0.5%)	8:00 Central
		Oct S&P CoreLogic CS 20-City Index (0.60%)	8:00 Central
Thursday	December 28	Dec 23rd Initial Jobless Claims (210k)	7:30 Central
		Nov Goods Trade Balance (-$88.9b)	7:30 Central
		Nov Wholesale Inventories (-0.2%)	7:30 Central
		Nov Retail Inventories (0.2%)	7:30 Central
		Nov Pending Home Sales (0.9%)	9:00 Central

Source: Bloomberg Finance L.P.