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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** remained near their historically low level last week. The low level of claims indicates companies are reluctant to lay off workers in a supply constrained labor market, even as the Fed has made it clear it will tighten policy until wages get under control. Claims in regular state programs edged higher by 2,000 to 216,000 for the week ending December 17th, after reporting 214,000 initial claims the prior week. The four-week moving average dropped to 221,750 from 228,000 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, declined by 6,000 to 1.672 million for the week ending December 10th.
- The **National Association of Home Builders/Wells Fargo** reported housing sentiment declined in December for the twelfth straight month. The index of builder sentiment fell to 31 in December from 33 last month. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** continued to decline in November and building permits plunged. Increased mortgage rates and inflationary pressures have made it more difficult for homebuyers to afford homes at these elevated prices. The sustained decline in new construction highlights the decline in housing demand. Housing starts fell 0.5% in November to a 1,427,000 annualized rate following October's 1,434,000 pace. Single-family starts declined 4.1% in November with multi-family starts higher by 4.9%. **Building permits**, a gauge of future construction, declined 11.2% in November to a 1,342,000 pace, the lowest level since June 2020. Permits are now running below starts, which is very rare, suggesting construction pipelines are drying up.
- The Commerce Department reported a **current-account deficit** of \$217.1 billion during the third quarter of 2022. This compares favorably to a deficit \$238.7 in the second 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** fell in November for the tenth consecutive month to the lowest level since May 2020. Mortgage rates and economic uncertainty are hurting affordability and demand. Mortgage rates have pulled back from their highs but remain roughly double what they were last year. Contract closings, which usually occur a month or two after a contract is signed, decreased 7.7% in November to a 4.09 million pace after dropping 5.9% in October. The median selling price decreased to \$370,700 from \$378,800 in October.
- The Conference Board's **consumer confidence index** rose in December to its highest level since April. The gain reflects the lower cost of gasoline after consumers suffered during the summer and are now feeling some relief. Inflation expectations softened significantly. The index recorded a 108.3 in December from an upwardly revised 101.4 reading in November, previously reported as 100.2. The present situation index increased to 147.2 in December from a 138.3 reading in November. The expectations index climbed to 82.4 in December from 76.7 the prior month.
- The third and final 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 3.2% 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 2.3% in the quarter, reported after the second estimate as a 1.7% gain. The **GDP price index** gained 4.4% in the 3rd quarter, reported as a gain of 4.3% in the second estimate.
- The Conference Board reported the **index of leading economic indicators** declined 1.0% in November, the ninth straight drop. The loss was led by a decline in building permits, jobless claims and consumer expectations. The index of U.S. leading indicators is a gauge of the economic outlook

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for the next three to six months. The **coincident index**, a gauge of current economic activity, climbed 0.1% in November after gaining 0.2% in October.

- The Commerce Department reported **personal income** rose a better than expected 0.4% in November and nominal **personal spending** climbed 0.1%. Consumers boosted spending on services, but pulled back spending on goods. The largest contributor was the increased spending on housing and also food services and recreation. Spending on goods dropped for both durables and non-durables. The savings rate climbed to 2.4% in November after posting 2.2% in October, the lowest since 2005. The core PCE Deflator, the preferred inflation gauge by the Federal Reserve, climbed 0.2% in November, bringing the year-on-year gain to 4.7%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.4% in November after climbing 0.7% higher in October.
- The Commerce Department reported **durable goods orders** fell in November, led by a steep decline in orders at Boeing. Rising economic uncertainty and a steep increase in interest rates are putting pressure on capex intentions. Durable goods, which are bookings for goods and materials meant to last at least three years, declined 2.1% in November after gaining 0.7% in October. The non-military capital goods orders excluding aircraft, a proxy for business investment, rose 0.2% in November after gaining 0.3% in October. **Excluding transportation**, durable orders increased 0.2% in November after climbing a downwardly revised 0.1% in October. The ratio of inventory to shipments declined to 1.77 in November from 1.78 in November.
- The **University of Michigan's final index of consumer sentiment** improved in December, reflecting easing price pressures and relief at the gas pump. The gauge of consumer confidence increased to 59.7 in December from an earlier estimate of 59.1. This is an increase from the 56.8 reading in November. The **index of current conditions** rose to 59.4 from 58.8 the prior month while the **index of expectations** climbed to 59.9 from 55.6 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 3.0% in November. One year inflation expectations slowed to 4.4% from 4.9%, driven by lower gasoline prices.
- The Commerce Department reported sales of new homes unexpectedly increased in November, suggesting some stabilization in demand as mortgage rates pulled back from their highs. **New home sales** rose 5.8% to a 640,000 annualized pace in November after reporting a downwardly revised 605,000 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 Mortgage Bankers Association reported the **MBA index of mortgage applications** increased last week as borrowing costs continued to pull back. The index increased 0.9% for the week ending December 16th, after gaining 3.2% the previous week. **Refinancing** applications improved 6.0% to 371.4 last week from 350.5. **Home purchase mortgage applications** decreased 0.1% to 182.5. Refinancing made up 31.3% of applications with an average loan size of \$271,100, while purchases average loan size was \$398,000. The **average contract rate** on a 30-year fixed-rate mortgage fell to 6.34% from 6.42% 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 4.32%, 3.86%, 3.75% and 3.82%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -46, -11, 7, and -50 basis points respectively.

Economic/Events Calendar

Tuesday	December 27	Nov Goods Trade Balance (-\$96.7b)	7:30 Central
		Nov Wholesale Inventories (0.3%)	7:30 Central
		Nov Retail Inventories (-0.1%)	7:30 Central
		Oct FHFA House Price Index (-0.7%)	8:00 Central
		Oct S&P CoreLogic CS 20-City Index (-1.10%)	8:00 Central
Wednesday	December 28	Nov Pending Home Sales (-1.2%)	9:00 Central
Thursday	December 29	Dec 24 th Initial Jobless Claims (225k)	7:30 Central

Source: Bloomberg Finance L.P.

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