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Financial Services Group

Stephens

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Economic Review

- The Labor Department reported that **initial jobless claims** edged lower last week, remaining near a level that is consistent with a strong labor market. The unemployment rate is hovering near a five-decade low and there are about two job openings for every unemployed worker. Claims in regular state programs decreased 3,000 to 229,000 for the week ending June 11th, after reporting 232,000 initial claims the prior week. The four-week moving average climbed to 218,500 from 215,750 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 3,000 to 1.312 million for the week ending June 4th.

- The **National Federation of Independent Business** reported sentiment among small businesses declined in May, with owners expecting better business conditions dropping to its lowest level on record. Companies are concerned about slowing economic growth and inflation. The index declined to 93.1 in May from a 93.2 reading in April.

- The Labor Department reported the **producer price index** increased by 0.8% in May after climbing 0.4% in April and a 1.6% gain in March. Supply shortages in energy and services drove the index higher. The price gains are dashing hopes that inflation can be contained and as inflation pressures build across both the goods and services sectors. The price pressures reflect a labor shortage, supply/demand imbalance and supply chain disruptions that has been amplified by Russia's invasion of Ukraine. Goods prices, which make up 33% of the weighting rose 1.4% in May after gaining 1.3% in April. Services, which make up 65% of the index remained rose 0.4% in May after dropping 0.2% in April. Year-on-year wholesale prices were up 10.8% in May compared to 10.9% in April. The **core PPI**, which excludes volatile food and energy prices, rose 0.5% in May after gaining 0.2% the previous month, with a year-on-year gain of 8.3%. **PPI ex food, energy and trade** gained 0.5%.

- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, unexpectedly contracted in May for the second straight month. The index recorded a negative 1.2 in June after a negative 11.6 reading in May. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.

- The Commerce Department reported that **retail sales** contracted in May for the first time this year. The report showed that spending is rotating from goods to services and surging inflation is redirecting consumer spending toward essential purchases. Retail sales decreased 0.3% in May after a downwardly revised gain of 0.7% in April. May retail sales are up 8.2% year-on-year. **Retail sales ex autos and gas** climbed 0.1% in May after increasing 0.8% in April.

- The Labor Department reported the **import price index** increased in May at a faster rate as prices for petroleum, industrial supplies and food surged. Import prices increased 0.6% in May after gaining 0.4% in April.The cost of petroleum surged 6.7% in May after remaining unchanged the prior month. Import prices are up 11.7% year-on-year. **Import prices ex petroleum** fell 0.1% in May after increasing 0.5% the prior month.

- The Commerce Department reported **business inventories** increased 1.2% in April after gaining 2.4% in March. **Business sales** increased 0.4% in April after climbing 1.6% the prior month.The ratio of business inventories to sales increased to 1.29 from 1.28 in March.

- The **National Association of Home Builders/Wells Fargo** reported housing sentiment dropped to its lowest level in two years.A rapid rise in mortgage rates and the climbing cost of materials are hurting housing affordability. Supply chain issues continue to make it difficult to access materials. The index of builder sentiment fell to 67 in June from 69 last month, the sixth straight decline.

- The **FOMC** met on Wednesday and the committee raised the fed funds rates by 75 basis points. The targeted Federal Funds Rate is now between 150 basis points and 175 basis points. Chairman Powell hinted even odds of a 50 basis point or 75 basis point move at the next meeting. Then he hedged himself by saying the Fed "will react to the data." The current projection brings the targeted Federal Funds rate to around 4.125% by March 2023. The jump in inflation expectations has clearly unsettled the Fed. The interest on reserve balances was increased to 165 basis points from 90 basis points.

- The Commerce Department reported that **housing starts** dropped in May as mortgage rates continued to climb. There is a large supply of unfinished homes in the housing market, but the inventory of finished homes for sale is incredibly low.Last week, mortgage rates were hovering around 5.6%, well above the 3.5% at the beginning of this year and the highest since 2008. Housing starts fell 14.4% in May to a 1,549,000 annualized rate following April's 1,810,000 pace. Single-family starts retreated 9.2% in May with multi-family starts declining 23.7%. **Building permits**, a gauge of future construction, fell 7.0% in May to a 1,819,000 pace.

- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, edged higher in May. The gain was driven by strength in mining and utilities that offset weakness in manufacturing. The report indicated broad weakness in manufacturing with declines in production of machinery, appliances, electrical equipment and food and beverage.Wood product manufacturing posted the largest decline since February 2021, commensurate with a slowdown in housing construction. Industrial production rose 0.2% in May. Production at factories, which make up 75.9% of output, fell 0.1% in May after gaining 0.8% the previous month. Utilities climbed 1.0% after surging 5.5% in April and mining gained 1.3%. **Capacity utilization,** which measures the amount of a plant that is in use, increased to 79.0% in May from 78.9% the prior month.

- The Conference Board reported the **index of leading economic indicators** declined 0.4% in May, the third straight drop. The loss was led by a drop in stock prices, consumers expectations and a drop in building permits. 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, climbed 0.2% in May after gaining 0.5% in April.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** rose last week after four weeks of declines.The index increased 6.6% for the week ending June 10rd, after dropping 6.5% the previous week. **Refinancing** applications increased 3.7% to 735.5 from 709.5 the prior week. **Home purchase mortgage applications** increased 8.1% to 225.0. The **average contract rate** on a 30-year fixed-rate mortgage increased to 5.65% from 5.40% the prior week for a 30-year fixed rate loan.

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Bond Market Review

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 3.18%, 3.34%, 3.23%, and 3.28%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 16, -11, 5, and 10 basis points respectively.

Economic/Events Calendar

Tuesday	June 21	May Chicago Fed Nat Activity Index (0.47) May Existing Home Sales(5.40m)	7:30 Central 9:00 Central
Wednesday	June 22	Jun 17th MBA Mortgage Applications	6:00 Central
Thursday	June 23	Jun 18th Initial Jobless Claims (226k) 1st Qtr Current Account Balance (-$275.0b)	7:30 Central 7:30 Central
Friday	June 24	Jun Univ of Michigan Sentiment (50.2) May New Home Sales (590k)	9:00 Central 9:00 Central

Source: Bloomberg Finance L.P.