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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** climbed again last week but remain at a very low level. Demand for labor is strong and there are no reason to believe this will change anytime soon. Even as initial claims have risen, the total rolls of benefit recipients has fallen, indicating more people are finding jobs than losing them. Claims in regular state programs increased 21,000 to 218,000 for the week ending May 14th, after reporting 197,000 initial claims the prior week. The four-week moving average rose to 199,500 from 191,250 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased 25,000 to 1.317 million for the week ending May 7th.
- 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. This is the second negative reading in the last three months. The decline was driven by big declines in both orders and shipments. The index recorded a negative 11.6 in May after a positive 24.6 reading in April. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** rose solidly in April, indicating the consumer is holding firm even with surging inflation, higher interest rates and the ending of stimulus payments. After surviving the March spike in gas prices, consumers went on a spending spree in April, using their credit cards and tapping into savings. Retail sales increased 0.9% in April after an upwardly revised gain of 1.4% in March. April retail sales are up 8.7% year-on-year. **Retail sales ex-autos and gas** climbed 1.0% in April after increasing 1.2% in March.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, increased at a strong pace in April. The data showed some encouraging signs that supply chain issues are easing, with industrial production increasing in a broad spectrum of manufacturing subsectors. Industrial production rose 1.1% in April, marking the third straight month of increases of at least 0.8%. Production at factories, which make up 75.9% of output, increased 0.8% in April after gaining 0.8% the previous month. Utilities climbed 2.4% after declining 0.3% in March and mining gained 1.6%. **Capacity utilization**, which measures the amount of a plant that is in use, increased to 79.0% in April from 78.2% the prior month.
- The Commerce Department reported **business inventories** increased 2.0% in March after gaining 1.8% in February. **Business sales** increased 1.8% in March after climbing 1.2% the prior month. The ratio of business inventories to sales remained unchanged at 1.27.
- The **National Association of Home Builders/Wells Fargo** reported housing sentiment dropped to its lowest level in almost two years. Building materials costs are up 19% from a year ago and mortgage rates have surged to a 12-year high. The index of builder sentiment fell to 69 in May from 77 last month, the fifth straight decline. Housing affordability is an increasing concern as the combination of surging mortgage rates, rising home prices and labor and supply constraints push material costs higher.
- The Commerce Department reported that **housing starts** edged lower in April as mortgage rates rose to the highest levels in twelve years and supply challenges continued to interrupt deliveries. The decline is due to a drop in single-family starts, with multi-family starts experiencing a sharp increase. Housing starts fell 0.2% in April to a 1,724,000 annualized rate following March's 1,728,000 pace. Single-family starts retreated 7.3% in April with multi-family starts jumping 15.3%. **Building permits**, a gauge of future construction, fell 3.2% in April to a 1,819,000 pace.

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- The National Association of Realtors reported that **existing home sales** fell in April to its slowest pace since June of 2020. The limited supply of properties, rising mortgage rates and high prices lowered buyers incentive to purchase. Contract closing, which usually occur a month or two after a contract is signed decreased 2.4% in April to a 5.61 million pace after dropping 3.0% in March. The median selling price increased to \$391,200 from \$374,800 in March.
- The Conference Board reported the **index of leading economic indicators** declined 0.3% in April after edging 0.1% higher in March. The loss was led by a drop in 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 0.4% in April after gaining 0.3% in March.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** plunged last week. The index decreased 11.0% for the week ending May 13th after climbing 2.0% the previous week. **Refinancing** applications decreased 9.5% to 826.9 from 913.6 the prior week. **Home purchase mortgage applications** decreased 11.9% to 225.0. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 5.49% from 5.53% the prior week for a 30-year fixed rate loan.

Bond Market Review

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 2.58%, 2.80%, 2.78%, and 2.99%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 22, -2, 21, and 41 basis points respectively.

Economic/Events Calendar

Monday	May 23	Apr Chicago Fed Nat Activity Index (50)	7:30 Central
Tuesday	May 24	Apr New Home Sales (750k)	9:00 Central
Wednesday	May 25	May 20th MBA Mortgage Applications	6:00 Central
		Apr Durable Goods Orders(0.6%)	7:30 Central
		Apr Durables ex Transportation (0.5%)	7:30 Central
		Apr Cap Goods Orders Nondef ex Air (0.5%)	7:30 Central
		May 4th FOMC Meeting Minutes Released	13:00 Central
Thursday	May 26	May 21st Initial Jobless Claims (215k)	7:30 Central
		1st Qtr Gross Domestic Product-2nd Est (-1.3%)	7:30 Central
		1st Qtr GDP Price Index-2nd Est (8.0%)	7:30 Central
		1st Qtr Personal Consumption-2nd Est (2.8%)	7:30 Central
		Apr Pending Home Sales(-2.0%)	9:00 Central
Friday	May 27	Apr Goods Trade Balance(-\$114.8b)	7:30 Central
		Apr Wholesale Inventories(2.0%)	7:30 Central
		Apr Personal Income(0.5%)	7:30 Central
		Apr Personal Spending(0.7%)	7:30 Central
		Apr PCE Deflator-YOY(6.2%)	7:30 Central
		May University of Michigan Sentiment (59.1)	9:00 Central

Source: Bloomberg Finance L.P.

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