

May 31, 2022

## Financial Services Group

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## Economic Review

- The Labor Department reported that **initial jobless claims** declined last week, suggesting the labor market remains very strong. There has been a lot of noise in the claims data recently, but the consistency of the data for applications for unemployment insurance suggest that not much has really changed in the labor market. Claims in regular state programs decreased 8,000 to 210,000 for the week ending May 21st, after reporting 218,000 initial claims the prior week. The four-week moving average rose to 206,750 from 199,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 31,000 to 1.346 million for the week ending May 14th.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity improved in April. The **Chicago Fed National index**, which draws on 85 economic indicators, was positive 0.47 in April after reporting a positive 0.36 in March. A reading above zero indicates above-trend-growth in the national economy.
- The Commerce Department reported sales of new homes plunged in April to its lowest level in two years. Higher costs, supply chain disruptions and surging mortgage rates are sidelining many prospective buyers. New home sales declined 16.6% to a 591,000 annualized pace in April after reporting a downwardly revised 709,000 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 Commerce Department reported **durable goods orders** climbed in April, even as supply chain issues, specifically semi-conductor shortages, limit production. Businesses appear ready to spend on capex in response to labor market shortages and strong aggregate demand. Durable goods, which are bookings for goods and materials meant to last at least three years, rose 0.4% in April after increasing a downwardly revised 0.6% in March. The non-military capital goods orders excluding aircraft, a proxy for business investment, rose 0.3% in April after surging 1.1% in March. **Excluding transportation**, durable orders increased 0.3% in April after growing 1.1% in March. The ratio of inventory to shipments climbed to 1.81 from 1.80 in March.
- The **FOMC Minutes** for the May 3-4th meeting indicated a unanimous commitment among policymakers to get inflation under control. The minutes reiterate the Fed's desire to move policy towards a neutral stance "expeditiously" and note that it remains likely that policy will have to move into a restrictive stance at some point to achieve the dual mandate.
- The second estimate by the Commerce Department of the 1st quarter **gross domestic product** showed economic growth declined for the first time since 2020. Gross domestic product contracted at a 1.5% annualized rate in the 1st quarter, after gaining 6.9% in the previous quarter. **Personal consumption**, which accounts for about 70% of the economy, gained 3.1% in the quarter after gaining 2.5% in the previous quarter. The **GDP price index** gained 8.1% in the 1st quarter after increasing 7.1% in the 4th quarter.
- The National Association of Realtors reported the **index of pending home sales** declined for the sixth straight month as rising mortgage rates, high prices and low inventory continue to pressure buyers. The number of contracts to purchase previously owned homes decreased 3.9% in April after dropping 1.6% in March. Pending home sales are down 9.1% on a seasonally adjusted year-on-year basis in April. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.

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- The Commerce Department reported the **goods trade deficit** narrowed in April from a record level in March. Imports declined amid lockdowns in China. The deficit decreased 15.9% to \$105.9 billion in April. **Exports** rose 3.1% to \$173.9 billion and imports declined 5.0% to \$279.9 billion.
- The Commerce Department reported **wholesale inventories** rose 2.1% in April after gaining 2.7% the previous month. Year-on-year wholesale inventories have climbed 23.8%. **Retail inventories** increased 0.7% in April after gaining 3.0% in March and are up 15.0% year-on-year.
- The Commerce Department reported **personal income** rose 0.4% in April and **personal spending** surged 0.9%. Consumers are relying more and more on their savings to maintain the current high level of spending. The savings rate fell to 4.4% in April, the lowest level since September 2008. The PCE Deflator, the preferred inflation gauge by the Federal Reserve, climbed 0.3% in April, bringing the year-on-year gain to 6.3%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.3% in April after climbing 0.4% higher in March.
- The **University of Michigan's final index of consumer sentiment** decreased in May to its lowest level in a decade as consumers grow more concerned about inflation. The gauge of consumer confidence decreased to 58.4 in May from an earlier estimate of 59.1. This is a decrease from the 65.2 reading in April. The **index of current conditions** fell to 63.3 from 69.4 the prior month while the **index of expectations** dropped to 55.2 from 62.5 the prior month.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined last week. The index decreased 1.2% for the week ending May 20th after dropping 11.0% the previous week. **Refinancing** applications decreased 3.9% to 794.9 from 826.9 the prior week. **Home purchase mortgage applications** increased 0.2% to 225.5. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 5.46% from 5.49% 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.

Source: Bloomberg Finance L.P.

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### Economic/Events Calendar

Tuesday	May 31	Mar FHFA House Price Index (2.0%)	8:00 Central
		Mar S&P CoreLogic CS 20-City Index (1.90%)	8:00 Central
		May Conf Board Consumer Confidence (103.6)	9:00 Central
Wednesday	June 1	May 27th MBA Mortgage Applications	6:00 Central
		Apr Construction Spending (0.5%)	9:00 Central
		May ISM Manufacturing (54.5)	9:00 Central
		Apr JOLTS Job Openings (11,300k)	9:00 Central
		U.S. Federal Reserve Releases Beige Book	13:00 Central
Thursday	June 2	May 28th Initial Jobless Claims (210k)	7:30 Central
		May ADP Employment Change(300k)	7:15 Central
		1st Qtr Nonfarm Productivity (-7.5%)	7:30 Central
		1st Qtr Unit Labor Costs (11.6%)	7:30 Central
		Apr Factory Orders(0.7%)	9:00 Central
		Apr Factory Orders ex Transportation	9:00 Central
Friday	June 3	May Change in Nonfarm Payrolls (325k)	7:30 Central
		May Unemployment Rate(3.5%)	7:30 Central
		May Avg Hourly Earnings -YOY (5.2%)	7:30 Central
		May Labor Force Participation Rate (62.3%)	7:30 Central
		May ISM Services Index(56.5)	9:00 Central

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