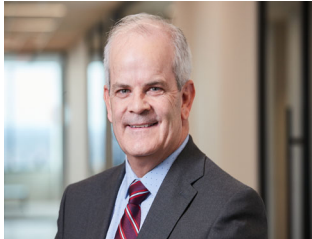


## January 8, 2024 Financial Services Group

Author:

### Economic Review



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- The Labor Department reported that **initial jobless claims** decreased last week, indicating that businesses continue to be reticent to let go of workers they struggled to find over the last three years. Consumer spending has been solid over the holiday season, allowing employers to hold on to employees longer than expected. First time claims in regular state programs decreased 18,000 to 202,000 from the prior week's upwardly revised 220,000 for the week ending December 30<sup>th</sup>. The four-week moving average dropped to 207,750 from 212,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, fell 31,000 to 1.855 million for the week ending December 23<sup>rd</sup>.
- The Commerce Department reported that **construction spending** increased 0.4% in November. Spending on residential construction increased 1.0% while non-residential construction fell 0.1%. Government spending, which made up 22.2% of construction spending, decreased 0.7% and private spending gained 0.7%.
- The **Institute for Supply Management** reported its **manufacturing index** contracted in December for a 14<sup>th</sup> straight month but at a slower pace. This month extends the longest stretch of shrinking activity since 2000, when the dot.com bubble burst. The manufacturing index recorded a 47.4 in December after reporting the same 46.7 in October and November. The new orders part of the index decreased to 47.1 in December from 48.3 in November and production climbed to 50.3 in December from 48.5 the prior month. A reading below 50 indicates contraction in the manufacturing sector.
- The Labor Department reported that **job openings** declined in December to the lowest level since early 2021, as fewer workers quit their positions and the number of hires fell. Available positions decreased to 8.790 million from an upwardly revised 8.850 million in the prior month. The largest declines were in transportation, warehousing and utilities, and leisure and hospitality. The quits rate, which measures voluntary job leavers as a share of total employment fell to 2.2%. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, climbed to 1.40 in November from 1.36 in October. The job openings rate remained unchanged at 5.3%.
- The **FOMC Minutes** for the December 12<sup>th</sup>–13<sup>th</sup> meeting read more hawkish than Chair Powell's post meeting press conference. Powell's indications that the Fed was likely done with rate hikes have caused a dramatic easing in financial conditions that the Committee is clearly not comfortable with. The minutes show policymakers discussed economic forecasts, policy rates and also started "talking about talking about" when to slow the pace of quantitative tightening. The Fed staff saw growth slowing in the fourth quarter, described the labor market as "tight", noting that banks appeared to tighten credit conditions, and growth of credit card balances had moderated. The Fed has been on hold since July and their communication suggests they are pleased with the developments in the economy since then.
- **ADP Employer Services** reported that payrolls at U.S. companies added more jobs than expected in December while wage gains continued to cool. The report is consistent with an outlook for sustained economic growth and slowing inflation. Companies increased payrolls by 164,000 in December after a downwardly revised gain of 101,000 in November. Services employment increased by 155,000 and manufacturing employment climbed by 9,000.
- The Labor Department reported that payroll growth surprised to the upside in December, with **nonfarm payrolls** gaining 216,000. Private payrolls were more subdued, gaining 164,000. In addition, there were downward revisions to the prior two months of 71,000. The gains were driven mostly by education, healthcare and government workers. The jobs report is made up of two surveys: one of households which provides the unemployment rate, labor force size and labor force participation rate and the other is the establishment survey of businesses, which generates the payrolls and wage figures. The **unemployment rate** (household survey) edged higher to 3.743% in December from 3.725% in November, with 676,000 dropping out of the labor force. The **labor force participation rate** dropped to 62.5% in December from 62.8% in November. The average hourly

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earnings increased to \$34.27 from \$34.12 the prior month. Weekly hours decreased to 34.3 from 34.4.

- The Commerce Department reported that **factory orders** increased 2.6% in November after declining 3.4% in October. The gain was driven by a 15.3% gain in transportation spending. **Factory orders ex transportation** climbed 0.1% in November after declining 1.3% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft increased 0.8% in November after falling 0.6% in October.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, expanded in December at the slowest pace since May. The index recorded a 50.6 in December after a 52.7 reading in November. New orders dropped to 52.8 from 55.5 the previous month, business activity climbed to 56.6 in December from 55.1, the employment index plunged into contractionary territory at 43.3, and prices paid edged fell to 57.4 from 58.3. The services sector remains in expansionary territory, but the pace of expansion has slowed considerably. This gauge of service providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** plunged last week after mortgage rates climbed for the first time in ten weeks. The index decreased 10.7% for the week ending December 29<sup>th</sup>. **Refinancing** applications fell 18.1% to 358.2 from 437.2 the prior week. **Home purchase mortgage applications** decreased 7.6% to 140.7. Refinancing made up 36.3% of applications with an average loan size of \$267,500, while purchases average loan size was \$407,200. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 6.76% from 6.71% last week.

## BOND MARKET REVIEW

Rates increased last week after the employment report signaled the labor market was stronger than expected and may pressure the Fed to be less hawkish. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.38%, 4.01%, 4.05% and 4.20%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -37, 4, 15, and -18 basis points respectively.

Source: Bloomberg Finance L.P.

This report has been prepared solely for informative purposes as of its stated date and is not a solicitation, or an offer, to buy or sell any security. All expressions of opinion reflect the judgment of the individual expressing the opinion and are subject to change. This report does not purport to be a complete description of the markets or developments referred to in the material. Information included in the report was obtained from internal and external sources which we consider reliable, but we have not independently verified such information and do not guarantee that it is accurate or complete. Prices, yields, and availability are subject to change with the market. There is no assurance any forward looking statements will be realized or any of the trends mentioned will continue. Nothing in this report is intended, or should be construed, as legal, accounting, regulatory or tax advice. Additional information available upon request.

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### Economic/Events Calendar

Monday	January 8	Nov Consumer Credit (\$9.0b)	14:00 Central
Tuesday	January 9	Dec NFIB Small Business Optimism (90.8)	5:00 Central
		Nov Trade Balance (-\$64.9b)	7:30 Central
Wednesday	January 10	Jan 5 <sup>th</sup> MBA Mortgage Applications	6:00 Central
		Nov Wholesale Inventories (-0.2%)	9:00 Central
		Nov Wholesale Sales (0.5%)	9:00 Central
Thursday	January 11	Jan 6 <sup>th</sup> Initial Jobless Claims (210k)	7:30 Central
		Dec Consumer Price Index (0.2%)	7:30 Central
		Dec Consumer Price Index-YOY (3.2%)	7:30 Central
		Dec CPI Ex Food & Energy (0.3%)	7:30 Central
		Dec CPI Ex Food & Energy-YOY (3.8%)	7:30 Central
		Dec Budget Statement (-\$62.5b)	13:00 Central
Friday	January 12	Dec Producer Price Index (0.1%)	7:30 Central
		Dec Producer Price Index-YOY (1.3%)	7:30 Central
		Dec PPI Ex Food & Energy (0.2%)	7:30 Central
		Dec PPI Ex Food & Energy-YOY (2.0%)	7:30 Central

Source: Bloomberg Finance L.P.

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