Stephens

January 23, 2023
Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** declined last week to its lowest level since September. The report highlights the persistently tight labor market where businesses are reluctant to lay off workers despite a highly anticipated economic slowdown. Some analysts noted the extreme winter weather in parts of the country that made seasonal adjustments problematic. Claims in regular state programs declined 15,000 to 190,000 for the week ending January 14th, after reporting 205,000 initial claims the prior week. The four-week moving average dropped to 206,000 from 212,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased by 17,000 to 1.647 million for the week ending January 7th.

- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, plunged in January to the lowest level since May of 2020. This is the fifth contraction in the last six months, highlighting the depth of the problems the state's manufacturers are feeling as the Fed raises interest rates. The report showed steep declines in new orders as well as in the measures of prices paid and received, indicating further softening in inflationary pressures. The index recorded a negative 32.9 in January after a negative 11.2 reading in December. New orders fell to -31.1. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.

- The Commerce Department reported that **retail sales** were very weak in December and November sales were revised down as well. The weakness was broad-based with big declines in department stores, furniture sales, gasoline stations and car sales. Consumers are pulling back as the savings rate is near a record low and credit card balances are surging, even as a strong jobs market supports shoppers. Retail sales declined 1.1% in December after plunging a downwardly revised 1.0% in November. December retail sales are up 5.3% year-on-year. **Retail sales ex autos and gas** declined 0.7% in December after declining 0.5% in November. The numbers in this report are not adjusted for inflation.

- The Labor Department reported the **producer price index** fell by the most since April 2020 in December, signaling a pullback in inflationary pressures. The decline was driven by a plunge in goods prices, particularly food and energy. The producer price index decreased by 0.5% in December after climbing 0.2% the prior month. Year-on-year wholesale prices were up 6.2% in December compared to 7.3% in November. Goods prices, which make up 33% of the weighting plunged 1.6% in December after gaining 0.1% in November. Services, which make up 65% of the index climbed 0.1% in December after gaining 0.2% the prior month. The **core PPI**, which excludes volatile food and energy prices, gained 0.1% in December after gaining 0.2% the previous month, with a year-on-year gain of 5.5%. **PPI ex food, energy and trade** gained 0.1%.

- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, was unexpectedly weak in December for the third straight month. The manufacturing component of the index is losing momentum while utility use increased. The report reflects weakening demand as higher interest rates make their impact. Industrial production declined 0.7% in December after falling 0.6% in November. Production at factories, which make up 74.3% of output, fell 1.3% in December after declining 1.1% the previous month. Utilities gained 3.8% after increasing 4.5% in November and mining fell 0.9%. **Capacity utilization**, which measures the amount of a plant that is in use, decreased to 78.8% in December from 79.4% the prior month.

- The Commerce Department reported **business inventories** increased 0.4% in November after gaining 0.2% in October. **Business sales** dropped 0.8% in November after climbing 0.4% the prior month. The ratio of business inventories to sales climbed to 1.35 in November from 1.33 the prior month.

- The **National Association of Home Builders/Wells Fargo** reported housing sentiment climbed in January, possibly having reached a low point in December after more than a year of steady declines. Mortgage rates have slid since early November, though they are well above last year's levels. Still, the report indicated builders are contending with high construction costs and affordability conditions. The index of builder sentiment climbed to 35 in January from 31 last month. The index recorded an 84 in December of 2021.

- The Fed released the latest rendition of the **Beige Book,** which is based on information collected through January 9, 2023. This report is published eight times each year. The report showed economic activity was relatively unchanged since the previous report. Consumer spending increased slightly, auto sales were flat, tourism was robust in some areas and mortgage activity remained weak. Employment continued to grow at a modest to moderate pace with many firms hesitant to lay off employees even as demand for their goods and services slowed. Wage pressures remained elevated, though some Districts reported a slight easing. The pace of price increases is moderating and there is a continued easing in freight costs and prices for commodities.
- The Commerce Department reported that **housing starts** continued to decline in December with the fourth straight drop. For all of last year, housing starts declined for the first time since 2009. Rising mortgage rates have hit the housing market hard with new construction down 3% in 2022. Housing starts fell 1.4% in December to a 1,382,000 annualized rate following November's 1,401,000 pace. Single-family starts increased 11.3% in December with multi-family starts down by 19.0%. **Building permits**, a gauge of future construction, declined 1.6% in December to a 1,330,000 pace, the lowest level since June 2020. Permits are now running below starts, which is very rare, suggesting construction pipelines are drying up.
- The National Association of Realtors reported that **existing home sales** continued its decline in December, falling to the slowest pace in over a decade. The release marks the end of a difficult year where sales fell for a record eleven straight months. For all of last year, slightly more than five-million existing homes were sold, a drop of 17.8% from the prior year. Contract closings, which usually occur a month or two after a contract is signed, decreased 1.5% in December to a 4.02 million pace after dropping 7.9% in November. The median selling price decreased to $366,900 from $372,600 in November.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** surged last week as mortgage rates pulled back from recent highs. The index jumped 27.9% for the week ending January 13th, after climbing 1.2% the previous week. **Refinancing** applications increased 34.2% to 438.3 from 326.7 the prior week. **Home purchase mortgage applications** jumped 24.7% to 198.7. Refinancing made up 34.8% of applications with an average loan size of $262,700, while purchases average loan size was $401,300. The **average contract rate** on a 30-year fixed-rate mortgage decreased to 6.23% from 6.42% last week. The average contract rate was as high as 7.16% in October of last year.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.17%, 3.56%, 3.48% and 3.65%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -61, -8, 17, and -52 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	January 23	Dec Leading Index (-0.7%)	9:00 Central
Tuesday	January 24	Jan S&P Global US Manufacturing PMI (46.0)	8:45 Central
		Jan S&P Global US Services PMI (45.0)	8:45 Central
		Jan S&P Global U'S Composite PMI (46.4)	8:45 Central
Wednesday	January 25	Jan 20th MBA Mortgage Applications	6:00 Central
Thursday	January 26	Jan 21st Initial Jobless Claims (206k)	7:30 Central
		Dec Chicago Fed Nat Activity Index	7:30 Central
		4thQ Gross Domestic Product (2.7%)	7:30 Central
		4thQ GDP Price Index (3.2%)	7:30 Central
		4thQ Personal Consumption (2.8%)	7:30 Central
		Dec Goods Trade Balance (-$88.3b)	7:30 Central
		Dec Wholesale Inventories (0.5%)	7:30 Central
		Dec Retail Inventories (0.2%)	7:30 Central
		Dec Durable Goods Orders (2.5%)	7:30 Central
		Dec Durables Ex Transportation (-0.2%)	7:30 Central
		Dec Cap Goods Orders Nondef Ex Air (-0.2%)	7:30 Central
		Dec New Home Sales (610k)	9:00 Central
Friday	January 27	Dec Personal Income (0.2%)	7:30 Central
		Dec Personal Spending (-0.1%)	7:30 Central
		Dec PCE Deflator-YOY (5.0%)	7:30 Central
		Dec Pending Home Sales (-1.0%)	9:00 Central
		Jan University of Michigan Sentiment (64.6)	9:00 Central

Source: Bloomberg Finance L.P.