

# August 29, 2022

## Financial Services Group

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## Economic Review

- The Labor Department reported that **initial jobless claims** declined for the second straight week, signaling the labor market continues to show strength. This strength is defying the Fed's efforts to cool labor demand in order to get inflation under control. Claims in regular state programs decreased 2,000 to 243,000 for the week ending August 20<sup>th</sup>, after reporting a downwardly revised 245,000 initial claims the prior week. The four-week moving average climbed to 247,000 from 245,500 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased 19,000 to 1.415 million for the week ending August 13<sup>th</sup>.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity returned to above-trend-growth in July after two straight months of below-trend-growth. The **Chicago Fed National index**, which draws on 85 economic indicators, was positive 0.27 in July after reporting a negative 0.25 in June. A reading above zero indicates above-trend-growth in the national economy.
- The Commerce Department reported sales of new homes fell in July for the sixth time this year and to the slowest pace in more than six years. A mix of rising mortgage rates and high home prices is keeping many potential buyers from buying a home. **New home sales** fell 12.6% to a 511,000 annualized pace in July after reporting a downwardly revised 585,000 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** were unchanged in July, driven by a 50% drop in orders for defense aircraft and parts, reversing the prior month's gains. Spending related to defense has been volatile due to the war in Ukraine. Non-military spending showed positive momentum holding up with core orders and shipments showing strength. Durable goods, which are bookings for goods and materials meant to last at least three years, remained unchanged in July after increasing 2.2% in June. The non-military capital goods orders excluding aircraft, a proxy for business investment, rose 0.4% in July after surging 0.9% in June. **Excluding transportation**, durable orders increased 0.3% in July after growing 0.3% in June. The ratio of inventory to shipments remained unchanged at 1.80 in July.
- The National Association of Realtors reported the **index of pending home re-sales** dropped in July for the sixth time this year to the lowest level since April of 2020. The number of contracts to purchase previously owned homes fell 1.0% in July after falling 8.9% in June. Pending home sales are down 22.5% on a seasonally adjusted year-on-year basis in July. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.
- The second estimate by the Commerce Department of the 2<sup>nd</sup> quarter **gross domestic product** showed economic growth declined for the second straight quarter. Gross domestic product contracted at a 0.6% annualized rate in the 2<sup>nd</sup> quarter, earlier estimated as a contraction of 0.9%. A report on profit margins showed companies reached their widest since 1950, indicating prices charged by businesses are outpacing their increased costs for production and labor. Nominal GDP increased by 8.4% but the GDP deflator rose by 9.0%. **Personal consumption**, which accounts for about 70% of the economy, gained 1.5% in the quarter after gaining 1.8% in the previous quarter. The **GDP price index** gained 8.9% in the 2<sup>nd</sup> quarter after increasing 8.2% in the 1<sup>st</sup> quarter.
- The Commerce Department reported the **goods trade deficit** narrowed in July to its smallest level this year as imports fell more than exports. The deficit decreased 9.7% to \$89.1 billion in July. **Exports** fell 0.2% to \$181.0 billion and **imports** dropped 3.5% to \$270.0 billion.
- The Commerce Department reported **wholesale inventories** rose 0.8% in July after gaining 1.9% the previous month. Year-on-year wholesale inventories have climbed 25.4%. **Retail inventories** increased 1.1% in July after gaining 1.9% in June and are up 20.2% year-on-year.

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- The Commerce Department reported **personal income** rose a disappointing 0.2% in July and **personal spending** climbed an even worse 0.1%. These numbers are not adjusted for inflation. Nominal spending on goods declined 0.2% in July, while spending on services rose 0.3%. The savings rate remained unchanged at 5.0% in July. The PCE Deflator, the preferred inflation gauge by the Federal Reserve, declined 0.1% in July, bringing the year-on-year gain to 4.6%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.2% in July after climbing 0.7% in June.
- The **University of Michigan's final index of consumer sentiment** rose more than expected as gasoline prices continued to drop. The gauge of consumer confidence increased to 58.2 in August from an earlier estimate of 55.1. This is an increase from the 51.5 reading in July. The **index of current conditions** rose to 58.6 from 51.5 the prior month while the **index of expectations** jumped to 58.0 from 47.3 the prior month.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell last week for the second straight week. The index decreased 1.2% for the week ending August 19<sup>th</sup>, after declining 2.3% the previous week. **Refinancing** applications fell 2.8% to 609.8 from 627.1 the prior week. **Home purchase mortgage applications** decreased 0.5% to 202.8. Refinancing made up 31.1% of applications with an average loan size of \$269,000, while purchases average loan size was \$406,400. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 5.65% from 5.45% last week.

## BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 3.40%, 3.21%, 3.04% and 3.19%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -19, -17, 15, and -21 basis points respectively.

Source: Bloomberg Finance L.P.

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### Economic/Events Calendar

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Tuesday	August 30	Jun FHFA House Price Index (0.8%)	8:00 Central
		2 <sup>nd</sup> Qtr House Price Purchased Index	8:00 Central
		Jun S&P CoreLogic CS 20-City Index (0.90%)	8:00 Central
		Aug Conf Board Consumer Confidence (98.0)	9:00 Central
		Jul JOLTS Job Openings (10,375k)	9:00 Central
Wednesday	August 31	Aug 26 <sup>th</sup> MBA Mortgage Applications	6:00 Central
		Aug ADP Employment Change (300k)	7:15 Central
Thursday	September 1	Aug 27 <sup>th</sup> Initial Jobless Claims (248k)	7:30 Central
		2 <sup>nd</sup> Qtr Nonfarm Productivity (-4.3%)	7:30 Central
		2 <sup>nd</sup> Qtr Unit Labor Costs (10.7%)	7:30 Central
		Jul Construction Spending (-0.3%)	9:00 Central
		Aug ISM Manufacturing (51.9)	9:00 Central
Friday	September 2	Aug Change in Nonfarm Payrolls (300k)	7:30 Central
		Aug Unemployment Rate (3.5%)	7:30 Central
		Aug Average Hourly Earnings-YOY (5.3%)	7:30 Central
		Aug Labor Force Participation Rate (62.2%)	7:30 Central
		Jul Factory Orders (0.2%)	9:00 Central
		Jul Factory Orders Ex Transportation	9:00 Central

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