Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** edged lower last week signaling the labor market continues to be tight. Since the Fed considers labor market strength a key cause of inflation, we can expect continued upward pressure on rates. Layoff announcements have become more frequent for larger companies, but data suggest that small businesses are absorbing laid off workers. Claims in regular state programs decreased 4,000 to 222,000 for the week ending November 12th, after reporting 226,000 initial claims the prior week. The four-week moving average climbed to 221,000 from 219,000 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 13,000 to 1.507 million for the week ending November 5th.

- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, increased for the first time in four months. The report showed increases in shipments, employment and inventories. Measures of prices paid and received remain elevated. The index recorded a positive 4.5 in November after a negative 9.1 reading in October. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.

- The Labor Department reported the **producer price index** decelerated from prior months in October. The improving inflation data suggests the supply of goods is getting more in line with demand. Inflationary pressures continue to be elevated as consumer inflation expectations have risen. Wage pressures, especially in labor intensive services industries, are pushing inflation higher. The producer price index increased by 0.2% in October after climbing 0.2% the prior month. Year-on-year wholesale prices were up 8.0% in October compared to 8.4% in September. Goods prices, which make up 33% of the weighting rose 0.6% in October after gaining 0.3% in September. Services, which make up 65% of the index declined 0.1% in October after gaining 0.2% the prior month. The **core PPI**, which excludes volatile food and energy prices, remained unchanged in October after gaining 0.2% the previous month, with a year-on-year gain of 6.7%. **PPI ex food, energy and trade** gained 0.2%.

- The Commerce Department reported that **retail sales** increased by the most in eight months in October. The gain suggests demand for goods is holding up despite high inflation, surging interest rates and expectations of an economic downturn. The spending gains were broad based, with strong gains in auto sales, gasoline, food, furniture and building materials. Much of the spending gains are being financed by credit cards. This report is not adjusted for inflation. Retail sales represent roughly half of total consumption, with the other half capturing service spending. Retail sales climbed 1.3% in October after remaining unchanged in September. October retail sales are up 7.9% year-on-year. **Retail sales ex autos and gas** climbed 0.9% in October after increasing 0.6% in September.

- The Labor Department reported the **import price index** decreased in October for the fourth straight month, led by price drops for petroleum, industrial supplies and food. Import prices decreased 0.2% in October after falling 1.1% in September. The cost of petroleum declined 1.2% in October after declining 7.2% the prior month. Import prices are up 4.2% year-on-year. **Import prices ex petroleum** fell 0.2% in October after decreasing 0.3% the prior month.

- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, decreased in October. The manufacturing component of the index is losing momentum, and utility use and mining output fell. The report pointed to reductions in order backlogs, less lean inventories, improvements in the supply chain and lower prices. Industrial production declined 0.1% in October after climbing 0.1% in September. Production at factories, which make up 74.3% of output, rose 0.1% in October after gaining 0.2% the previous month. Utilities declined 1.5% after falling 1.7% in September and mining fell 0.4%. **Capacity utilization**, which measures the amount of a plant that is in use, decreased to 79.9% in October from 80.1% the prior month.

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- The Commerce Department reported **business inventories** increased 0.4% in September after gaining 0.9% in August. **Business sales** increased 0.2% in September after climbing 0.3% the prior month. The ratio of business inventories to sales remained unchanged at 1.31 in September.
- The **National Association of Home Builders/Wells Fargo** reported housing sentiment declined in November for the eleventh straight month to its lowest level since early 2020. The loss in builder confidence reflects a surge in mortgage rates to levels near 7% as well as elevated construction costs. The index of builder sentiment fell to 33 in November from 38 last month. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** fell continued to decline in October as builders have to deal with shrinking demand as higher mortgage rates and affordability keep buyers out of the market. Housing starts fell 4.2% in October to a 1,425,000 annualized rate following September's 1,488,000 pace. Single-family starts declined 6.1% in October with multi-family starts down 1.2%. **Building permits**, a gauge of future construction, declined 2.4% in October to a 1,526,000 pace.
- The National Association of Realtors reported that **existing home sales** fell in October for a record ninth straight month. Mortgage rates continue to climb, squeezing potential homebuyers from qualifying or affording a home. Contract closings, which usually occur a month or two after a contract is signed, decreased 5.9% in October to a 4.43 million pace after dropping 1.5% in September. The median selling price decreased to $379,100 from $383,500 in September.
- The Conference Board reported the **index of leading economic indicators** declined 0.8% in October, the eighth straight drop. The loss was led by a decline in consumer expectations, jobless claims, stock prices, and a drop in new orders. 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 0.2% in October after gaining 0.1% in September.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased last week for the second time in the last fourteen weeks. The index increased 2.7% for the week ending November 11th, after falling 0.1% the previous week. **Refinancing** applications dropped 1.6% to 367.1 last week from 373.1. **Home purchase mortgage applications** increased 4.4% to 169.7. Refinancing made up 27.6% of applications with an average loan size of $267,600, while purchases average loan size was $389,400. The **average contract rate** on a 30-year fixed-rate mortgage declined to 6.90% from 7.14% last week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.53%, 4.01%, 3.83% and 3.93%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -52, -18, 10, and -60 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	November 21	Oct Chicago Fed Nat Activity Index (0.0)	7:30 Central
Wednesday	November 23	Nov 18th MBA Mortgage Applications	6:00 Central
		Nov 19th Initial Jobless Claims (225k)	7:30 Central
		Oct Durable Goods Orders (0.4%)	7:30 Central
		Oct Durable Ex Transportation (0.0%)	7:30 Central
		Oct Cap Goods Orders Nondef Ex Air (0.0%)	7:30 Central
		Nov University of Michigan Sentiment (55.0)	9:00 Central
		Oct New Home Sales (570k)	9:00 Central
		FOMC Meeting Minutes for Nov 2nd Meeting	13:00 Central

Source: Bloomberg Finance L.P.