

# December 5, 2022

## Financial Services Group

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## Economic Review

- The Labor Department reported that **initial jobless claims** declined last week, interrupting a steady slow climb in claims over the last couple months. Thanksgiving week is a notoriously volatile time for claims, and it is reasonable to take last week's data with a grain of salt. Layoffs are climbing in the technology industry and other select industries as hiring freezes and job cuts mount. Claims in regular state programs decreased 16,000 to 225,000 for the week ending November 26<sup>th</sup>, after reporting 241,000 initial claims the prior week. The four-week moving average climbed to 228,750 from 227,000 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, increased 57,000 to 1.608 million for the week ending November 19<sup>th</sup>.
- The Federal Housing Finance Agency reported an increase of 0.1% in the **house price index** of purchase-only homes in September after declining 0.7% in August. This slight gain follows two months of declines. The year-on-year change in the house price index was 11.0% in September. The HPI is estimated using repeated observations of housing values for single-family homes on which at least two mortgages were originated and subsequently sold to Freddie Mac or Fannie Mae. The use of repeat transactions on the same unit helps to control for differences in the quality of the houses.
- The **S&P CoreLogic CaseShiller home price index** decreased 1.24% in September after falling 1.30% in August. The report indicates demand for housing continues to slow in September as higher mortgage rates and affordability pressure new homebuyers. The index climbed 13.06% in September from the same month in 2022. The index tracks changes in the value of homes in 20 metropolitan regions.
- The Conference Board's **consumer confidence index** dropped in November to its lowest level since July. Inflation expectations rose once again and concern grew about a recession that has been well discussed in the media and markets. The index recorded a 100.2 in November from a downwardly revised 102.2 reading in October, previously reported as 102.5. The present situation index decreased to 137.4 in November from a 138.7 reading in October. The expectations index dropped to 75.4 in November from 77.9 the prior month.
- **ADP Employer Services** reported that employment at companies cooled in November to the slowest pace in two years and wage gains moderated. The slowdown in hiring suggests employers are making adjustments to prepare for the weakening economic outlook. The hiring that did occur was by medium sized companies, while both large and small businesses reduced the number of hires. Companies increased payrolls by 127,000 in November after a gain of 239,000 in October. Services employment increased by 213,000 and manufacturing employment fell 86,000.
- The second estimate by the Commerce Department of the 3<sup>rd</sup> quarter **gross domestic product** showed economic growth improved in the third quarter after falling for the first two quarters of the year. Driving the positive GDP was business investment, continued consumer spending on services and government spending. Housing was a significant drag on growth. Gross domestic product expanded at a 2.9% annualized rate in the 3<sup>rd</sup> quarter, after falling 0.6% in the previous quarter. **Personal consumption**, which accounts for about 70% of the economy, gained 1.7% in the quarter, reported earlier as a 1.4% gain. The **GDP price index** gained 4.3% in the 3<sup>rd</sup> quarter, reported as a gain of 4.1% in the first estimate.
- The Commerce Department reported the **goods trade deficit** widened in October as imports increased and exports fell. The deficit increased 7.7% to \$99.0 billion in October. **Exports** fell 2.6% to \$173.7 billion and **imports** rose 0.9% to \$272.7 billion.
- The Commerce Department reported **wholesale inventories** rose 0.8% in October after gaining 0.6% the previous month. Year-on-year wholesale inventories have climbed 22.1%. **Retail**

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**inventories** decreased 0.2% in October after falling 0.1% in September and are up 21.1% year-on-year.

- The National Association of Realtors reported the **index of pending home re-sales** declined in October for the ninth time this year. The number of contracts to purchase previously owned homes fell 4.6% in October after declining 8.7% in September. Pending home sales are down 36.7% on a seasonally adjusted year-on-year basis in October. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.
- The Labor Department reported that **job openings** slowed in October, but at a slower rate than Fed policymakers are comfortable with. Job openings are declining gradually, but are still extremely high compared to pre-pandemic levels. Job openings decreased by 353,000 in October to 10.334 million, from a downwardly revised 10.687 million in September. There are about 1.7 jobs for every unemployed job seeker in October. The job openings rate fell to 6.3% from 6.5% in September, well above the average of 4.5% in the fourth quarter of 2019. The quits rate fell to 2.6% in October from 2.7% the prior month.
- The Fed released the latest rendition of the **Beige Book**, which is based on information collected through November 23, 2022. This report is published eight times each year. The report showed economic activity was flat or up slightly since the previous report and down from the modest average pace of growth in the prior Beige Book period. Interest rates and inflation continued to weigh on activity, with greater uncertainty concerning the outlook. Travel and tourism reported moderate gains and restaurants and hospitality venues enjoyed robust demand. Auto sales declined slightly and manufacturing activity was mixed. The higher interest rates further dented home sales.
- The Commerce Department reported **personal income** rose a healthy 0.7% in October and nominal **personal spending** climbed 0.8%. Consumers boosted spending on both goods and services. Consumers saw their purchasing power climb as gasoline prices fell sharply in October. The savings rate fell to 2.3% in October, the lowest since 2005. The core PCE Deflator, the preferred inflation gauge by the Federal Reserve, climbed 0.2% in October, bringing the year-on-year gain to 5.0%, above the central bank's target of 2.0%. Disposable income, or the money left over after taxes, increased 0.7% in October after climbing 0.3% higher in September.
- The Commerce Department reported that **construction spending** decreased 0.3% in October, with spending down in the private sector, but climbing in the public sector. Spending on both residential and non-residential construction fell 0.3%. Government spending, which makes up 20.9% of construction spending, increased 0.6% and private spending fell 0.5%.
- The **Institute for Supply Management** reported its **manufacturing index** dropped to its lowest level since May 2020. The decline below 50 brings a 29-month streak of expansion to an end. Demand is clearly slowing but at a gradual pace. The manufacturing index recorded a 49.0 in November after a 50.2 reading in October. The index reached a high of 63.7 in March of 2021. The new orders part of the index declined to 47.2 from 49.2 in October and production fell to 51.5 in November from 52.3 the prior month. A reading below 50 indicates contraction in the manufacturing sector.
- The Labor Department report was a solid report that indicates it will be difficult for the Fed to get inflation back to target. Wage growth accelerated, which further pressures the Fed to take a prolonged restrictive policy to get inflation under control. The jobs report is composed of two surveys, one of employers and the other of households. The employment survey showed strength in the labor market while the household survey painted a different picture. The employer survey provides payroll and wage figures and the household survey determines jobless and participation rates. **Nonfarm payrolls** (employer survey) climbed 263,000 in November after gaining 284,000 the prior month. The **unemployment rate** (household survey) edged lower to 3.655% from 3.680% in October. The **labor**

Source: Bloomberg Finance L.P.

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**force participation rate** fell 0.1% to 62.1% in November as the labor force decreased by 186,000. The average hourly earnings increased to \$32.82 from \$32.64 the prior month. Weekly hours remained declined to 34.4 in October from 34.5.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased last week even as mortgage rates fell to the lowest level in more than two months. The index decreased 0.8% for the week ending November 25<sup>th</sup>, after gaining 2.2% the previous week. **Refinancing** applications declined 12.9% to 325.5 last week from 373.6. **Home purchase mortgage applications** increased 3.8% to 181.0. Refinancing made up 26.1% of applications with an average loan size of \$275,100, while purchases average loan size was \$399,900. The **average contract rate** on a 30-year fixed-rate mortgage declined to 6.49% from 6.67% last week.

## BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.27%, 3.65%, 3.49% and 3.55%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -62, -16, 6, and -72 basis points respectively.

## Economic/Events Calendar

Monday	December 5	Oct Factory Orders (0.7%)	9:00 Central
		Oct Factory Orders Ex Transportation	9:00 Central
		Nov ISM Services Index (53.5)	9:00 Central
Tuesday	December 6	Oct Trade Balance (-\$80.0b)	7:30 Central
Wednesday	December 7	Dec 2 <sup>nd</sup> MBA Mortgage Applications	6:00 Central
		3 <sup>rd</sup> Qtr Nonfarm Productivity (0.6%)	7:30 Central
		3 <sup>rd</sup> Qtr Unit Labor Costs (3.1%)	7:30 Central
Thursday	December 8	Dec 3 <sup>rd</sup> Initial Jobless Claims (230k)	7:30 Central
Friday	December 9	Nov Producer Price Index (0.2%)	7:30 Central
		Nov Producer Price Index-YOY (7.2%)	7:30 Central
		Nov PPI Ex Food & Energy (0.2%)	7:30 Central
		Nov PPI Ex Food & Energy-YOY (5.9%)	7:30 Central
		Oct Wholesale Trade Sales (0.3%)	9:00 Central
		Oct Wholesale Inventories (0.8%)	9:00 Central
		Dec Univ of Michigan Sentiment (56.9)	9:00 Central

Source: Bloomberg Finance L.P.

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