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Economic Review

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- The Labor Department reported that **initial jobless claims** rose to the highest level since late May and higher than expectations. Volatility is often elevated around the holidays, and the week included Thanksgiving Day. Claims climbed 10,000 to 234,000 for the week ending November 24th. The four-week moving average, a less volatile measure than the weekly numbers, increased 4,750 to 223,250. The total number of people continuing to receive jobless benefits, a report which is lagged one week, increased 50,000 to 1.710 million for the week ending November 17th.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic growth improved in October. The **Chicago Fed National index**, which draws on 85 economic indicators, was positive 0.24 in October after reporting a downwardly revised positive 0.14 in September. A reading above zero indicates above-trend-growth in the national economy.
- The Federal Housing Finance Agency reported a gain of 0.2% in the **house price index** of purchase-only homes in September of 2018. The year-on-year change in the house price index was 6.0%. 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** indicated property values climbed 0.33% in September after gaining 0.09% the previous two months, signaling a cooling housing market as high borrowing costs and property values limit buyer interest. This is the slowest year-on-year pace in almost two years. The index climbed 5.15% in September from the same month in 2017. The index tracks changes in the value of homes in 20 metropolitan regions.
- The Conference Board's **consumer confidence index** fell in November for the first time in five months after recording an 18-year high last month. This month's index level is still the second highest this year. The recent volatility in the equity market and uncertainty due to the trade tariffs appear to finally be having an impact on confidence. The index recorded a 135.7 in November from a 137.9 reading in October. The expectations index dropped to 111.0 from 115.1 the prior month while the present situation index increased to 172.7 in November from 171.9 in October.
- The Commerce Department reported the **goods trade deficit** widened in October to a monthly record, indicating the tariff war is weighing on trade. The deficit widened to \$77.2 billion in October from \$76.3 billion in September. **Exports** fell 0.6% to \$140.5 billion and **imports** gained 0.1% to 217.8 billion.
- The Commerce Department reported **wholesale inventories** rose 0.7% in October after climbing 0.6% in September. Nondurable goods fell 0.9% and durable goods increased by 1.7%.
- The second estimate by the Commerce Department of the 3rd quarter **gross domestic product** showed economic strength as stronger business investment and a bigger boost from inventories cushioned a trade drag. The biggest change from the initial report last month came from stronger business investment. Nonresidential fixed investment grew 2.5%, revised from a 0.8% gain. Combined with a 4.2% pace of GDP growth in the second quarter, the results capped the best back-to-back quarters since 2014. **Personal consumption** which accounts for about 70% of the economy, grew 3.6%, revised from 4.0% last month. The **GDP price index** rose 1.7% after gaining 3.0% the previous period.
- The Commerce Department reported sales of new homes plunged in October, indicating rising mortgage rates are having an impact on housing demand. **New home sales** dropped 8.9% to a 544,000 annualized pace in October after reporting an upwardly revised 597,000 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.



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- The Commerce Department reported **personal spending**, which accounts for about 70% of the economy, continued its robust pace and climbed 0.6% in October after gaining a downwardly revised 0.2% in September. The **PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.2% in October, keeping the year-on-year gain at 2.0%, meeting the central bank's target. **Personal income** climbed 0.5% in October after gaining 0.2% the prior month. Personal income is up 4.3% year on year. Disposable income, or the money left over after taxes, rose at a 0.5% rate. The savings rate edged down to 6.2% in October from 6.3% in September.
- The National Association of Realtors reported the **index of pending home re-sales** unexpectedly fell by the most since January, reaching the lowest level since mid-2014. The results underscore the challenges as elevated prices and rising mortgage rates are keeping many potential home buyers on the sidelines. The number of contracts to purchase previously owned homes decreased 2.6% in October after climbing 0.7% in September. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.
- The minutes to the November 7-8 **FOMC meeting** show that there was no disagreement among policymakers that the rate hike announced at the meeting was appropriate. Overall, there is little new information in these Minutes. They continue to suggest the Fed views gradual rate hikes as appropriate. The majority of policymakers perceive fiscal policy and the consumer sector as providing upside risks to the economy. The majority of policymakers perceive the economy as doing well and likely to continue to do well and expect inflation to remain near the 2% target.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** rose 5.5% to 333.7 from 316.4 for the week ended November 23rd. **Refinancing applications** increased 0.5% to 787.7 from 783.7 the prior week. **Home purchase mortgage applications** gained 8.8% to 247.8. The **average contract rate** on a 30-year fixed-rate mortgage pulled back to 5.12% from 5.16% the prior week.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities were 2.79%, 2.81%, 2.99%, and 3.29%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 2, 18, 30, and 50 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

| | | | |
|-----------|------------|---|---------------|
| Monday | December 3 | Oct Construction Spending (0.4%) | 9:00 Central |
| | | Nov ISM Manufacturing (57.5) | 9:00 Central |
| Wednesday | December 5 | Nov 30 th MBA Mortgage Applications | 6:00 Central |
| | | Nov ADP Employment Change (195k) | 7:15 Central |
| | | 3 rd Qtr Nonfarm Productivity (2.3%) | 7:30 Central |
| | | 3 rd Qtr Unit Labor Costs (1.0%) | 7:30 Central |
| | | US Federal Reserve Releases Beige Book | 13:00 Central |
| Thursday | December 6 | Dec 1 st Initial Jobs Claims (225k) | 7:30 Central |
| | | Oct Trade Balance (-\$55.0b) | 7:30 Central |
| | | Nov ISM Non-Manufacturing Index (59.0) | 9:00 Central |
| | | Oct Factory Orders (-2.0%) | 9:00 Central |
| | | Oct Factory Orders Ex Transportation | 9:00 Central |
| Friday | December 7 | Nov Change in Nonfarm Payrolls (198k) | 7:30 Central |
| | | Nov Unemployment Rate (3.7%) | 7:30 Central |
| | | Nov Labor Force Participation Rate (62.9%) | 7:30 Central |
| | | Oct Wholesale Inventories (0.7%) | 9:00 Central |
| | | Oct Wholesale Trade Sales | 9:00 Central |
| | | Dec University of Michigan Sentiment (97.0) | 9:00 Central |
| | | Oct Consumer Credit (\$15.0b) | 14:00 Central |

Source: Bloomberg Finance L.P.

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