



March 13, 2017

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## Economic Review

Mr. Clark has been in investment banking since 1983. He is a Chartered Financial Analyst. He has been a fixed income strategist at Stephens Inc. since 1996, developing investment strategies, policies and procedures for institutions consistent with overall asset/liability management. Mr. Clark is the risk manager for Fixed Income Sales and Trading, monitoring inventories, product, transactions and counterparty risk. He is also a member of Stephens Fixed Income Management, providing discretionary management services for institutional customers. He is a member of the American Institute of Certified Public Accountants and the CFA Institute.

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- The Labor Department reported that **initial jobless claims** rebounded last week from the lowest level of claims in 44 years. This level is consistent with a strong labor market as companies are reluctant to fire skilled employees. Claims rose 20,000 to 243,000 for the week ended March 4<sup>th</sup>. The four-week moving average, a less volatile measure than the weekly numbers, increased 2,250 to 236,500. The total number of people continuing to receive jobless benefits, a report which is lagged one week, dropped 6,000 to 2.058 million for the week ending February 25<sup>th</sup>.
- The Commerce Department reported that **factory orders** gained 1.2% in January after climbing 1.3% in December. For the prior 12 months, total factory orders have increased 3.8%. The much followed forward looking demand from businesses for nondefense capital goods, excluding aircraft showed a decline of 0.1% in January after gaining 0.8% in December. **Excluding transportation**, new orders gained 0.3% in January after a gain of 2.4% the prior month.
- The Commerce Department reported the **trade deficit** widened to the largest deficit in almost five years as a jump in imports of goods more than offset a smaller gain in shipments. The deficit increased 9.6% to \$48.5 billion in January. **Imports** gained 2.3% in January to \$240.6 billion and **exports** rose 0.6% to \$192.1 billion.
- The Federal Reserve reported **consumer credit** rose by the smallest amount in more than four years in January as consumers reduced credit card debt. Consumers increased credit \$8.8 billion in January after climbing \$14.8 billion in December. Credit card debt decreased \$3.8 billion with auto and student loan debt gaining \$12.6 billion.
- **ADP Employer Services** reported that companies added the most workers in almost three years in February with a surge in construction and manufacturing positions. February ADP payrolls rose 298,000 after increasing an upwardly revised 261,000 in January. Service provider's added 193,000 jobs, construction gained 66,000 and factories increased 32,000 jobs.
- The U.S. Bureau of Labor Statistics reported worker's productivity cooled in the fourth quarter after gaining the most in two years the prior quarter. The report showed **labor productivity** increased at a 1.3% annual rate during the 4<sup>th</sup> quarter of 2016 after soaring 3.3% in the third quarter. Productivity is up 1.0% from a year earlier. **Unit labor costs** in nonfarm businesses rose 1.7% in the 4<sup>th</sup> quarter after an upwardly revised 0.7% gain in the 3<sup>rd</sup> quarter.
- The Commerce Department reported **wholesale inventories** declined 0.2% in January, with inventories ex-petroleum down 0.1%. Wholesale sales fell 0.1% with nondurable good sales down 0.3% and durable sales up 0.1%. Auto sales climbed 3.2% with computer sales down 1.8% and machinery sales up 0.5%. Wholesale inventories and sales average about 31% of total business inventories. At the current pace of sales, wholesalers had enough goods on hand to last 1.29 months, the lowest level over the last two years.
- The Labor Department reported the **import price index** rose in February, driven by gains in the price of food. **Import prices** climbed 0.2% in February following a gain of 0.6% in January. **Import prices ex food and fuel** gained 0.3% after staying unchanged the prior month. Year-on-year import prices gained 4.6%, but were only up 0.8% ex-petroleum. Prices on petroleum imports fell 0.7% for the month and are up 73.3% year-on-year.
- The Labor Department reported the labor market added jobs at an accelerated pace for the second straight month, with a surge in gains in the construction and manufacturing sectors. **Nonfarm payrolls** grew by 235,000 **nonfarm jobs** in February, with January upwardly revised to a gain of 238,000 initially reported as a gain of 227,000. The **unemployment rate** dropped to 4.7% from 4.8% in January with the labor force participation rate increasing to 63.0% from 62.9% the prior month. Private payrolls were up 227,000 and government payrolls were up 8,000. **Average hourly earnings** increased to \$26.09 in February from \$26.03 in January. The **average weekly earnings** increased to \$897.50 from \$895.43 in January. The average workweek remained unchanged at 34.4 hours.



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- The Treasury Department reported a **budget deficit** of \$192.0 billion for the month of February, with the government collecting \$171.7 billion and spending \$363.8 billion. This compares to a \$192.6 billion deficit a year earlier.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** rose 3.3% to 405.7 from 392.9 for the week ended March 3<sup>rd</sup> after gaining 5.8% the prior week. **Refinancing applications** gained 5.2% to 1,358. **Home purchase mortgage applications** gained 1.7% to 235.0. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 4.36% from 4.30% the prior week.

## BOND MARKET REVIEW

- Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities were 1.35%, 2.10%, 2.57%, and 3.16%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at 75, 47, 59, and 181 basis points respectively.

## Economic/Events Calendar

|           |          |  |               |
|-----------|----------|--|---------------|
| Tuesday   | March 14 | <b>Feb Producer Price Index (0.1%)</b>             | 7:30 Central  |
|           |          | <b>Feb PPI ex Food and Energy (0.2%)</b>           | 7:30 Central  |
| Wednesday | March 15 | Mar 10 <sup>th</sup> MBA Mortgage Applications     | 6:00 Central  |
|           |          | Mar Empire Manufacturing (15.0)                    | 7:30 Central  |
|           |          | <b>Feb Consumer Price Index (0.0%)</b>             | 7:30 Central  |
|           |          | <b>Feb CPI ex Food and Energy (0.2%)</b>           | 7:30 Central  |
|           |          | <b>Feb Advance Retail Sales (0.1%)</b>             | 7:30 Central  |
|           |          | <b>Feb Retail Sales ex Auto &amp; Gas (0.2%)</b>   | 7:30 Central  |
|           |          | Mar NAHB Housing Market Index (65)                 | 9:00 Central  |
|           |          | Jan Business Inventories (0.3%)                    | 9:00 Central  |
|           |          | <b>FOMC Rate Decision (0.75%-1.00%)</b>            | 13:00 Central |
| Thursday  | March 16 | Mar 11 <sup>th</sup> Initial Jobless Claims (240k) | 7:30 Central  |
|           |          | Feb Housing Starts (1.264k)                        | 7:30 Central  |
|           |          | Feb Building Permits (1,267k)                      | 7:30 Central  |
|           |          | Jan JOLTS Job Openings (5,562k)                    | 9:00 Central  |
| Friday    | March 17 | Feb Industrial Production (0.2%)                   | 8:15 Central  |
|           |          | Feb Capacity Utilization (75.5%)                   | 8:15 Central  |
|           |          | Mar Prelim University of Michigan Sentiment (97.0) | 9:00 Central  |
|           |          | Feb Leading Index (0.5%)                           | 9:00 Central  |

Source: Bloomberg Finance L.P.

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