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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** declined again last week, posting its sixth straight week with fewer than 200,000 claims. Employers continue to hoard workers. Labor supply is not increasing in any meaningful way and there is no evidence this will change any time soon. Claims in regular state programs decreased 2,000 to 192,000 for the week ending February 18th, after reporting an upwardly revised 195,000 initial claims the prior week. The four-week moving average climbed to 191,250 from 189,750 the prior week. The total number of people continuing to receive regular ongoing state benefits, a report which is lagged one week, decreased by 37,000 to 1.654 million for the week ending February 11th.

- The National Association of Realtors reported that **existing home sales** continued its decline in January, falling to its slowest pace since 2010. Inventories edged higher in January with properties on the market for 33 days on average, up from 19 days a year earlier. Contract closings, which usually occur a month or two after a contract is signed, decreased 0.7% in January to a 4.00 million pace after dropping 2.2% in December. The median selling price decreased to $359,000 from $366,500 in December, and 1.3% higher than January of 2022.

- The **FOMC Minutes** for the January 31-February 1st meeting indicated the participants were concerned about downside risks to growth and saw risks to the inflation outlook as having become more balanced. Since the meeting, measures of inflation and economic growth indicate inflation is picking up and consumer spending and labor continue to be robust. The minutes indicate the policymakers want to see "substantially more evidence" of progress across a broader range of prices before they would consider backing off from a restrictive stance. No participants anticipated it would be appropriate to begin cutting rates in 2023, and will likely take time to achieve a sustained downward path in inflation. The participants noted that further softening in nominal wage growth will be needed to durably bring down inflation.

- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity edged higher in January. This is the first positive National Activity Index since September. The **Chicago Fed National index**, which draws on 85 economic indicators, was positive 0.23 in January after reporting a negative 0.46 in December. A reading above zero indicates above-trend-growth in the national economy. A reading less than -0.70 following a period of economic expansion indicates an increasing likelihood that a recession has begun.

- The second estimate by the Commerce Department of the 4th quarter **gross domestic product** showed growth in the fourth quarter was weaker than previously estimated, reflecting a downward revision to consumer spending. The Federal Reserve's preferred inflation gauge was revised higher. The details of the report show an economy that was losing steam at the end of 2022. Gross domestic product adjusted for inflation expanded at a 2.7% annualized rate in the 4th quarter, revised down from an earlier 2.9% estimate. **Personal consumption,** which accounts for about 70% of the economy, gained a disappointing 1.4% in the quarter with housing activity extremely weak and equipment spending down. The **GDP price index** gained 3.9% in the 4th quarter, revised from an initial estimate of 3.5%.

- The Commerce Department reported **personal income** climbed 0.6% in January and **personal spending** surged 1.8%. This is the biggest jump in consumer spending in nearly two years. The gain in consumer spending is supported by an exuberant labor market, boosting sentiment and giving consumers the wherewithal to keep spending. The savings rate climbed to 4.7% in January from 4.5% in December. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.6% in January, bringing the year-on-year gain to 5.4%, well above the central bank's target of 2.0%. The increasing inflationary pressures will make it difficult for the Fed to slow its hawkish policy of rate increases. Disposable income, or the money left over after taxes, increased 2.0% in January after climbing 0.4% in December.

- The Commerce Department reported sales of new homes increased more than expected in January to its highest level in nearly a year. The gain may signal some stabilization in the housing market after a very challenging year. **New home sales** rose 7.2% to a 670,000 annualized pace in January after reporting an upwardly revised 625,000 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 **University of Michigan's final index of consumer sentiment** improved in January, with short-term inflation expectations climbing and long-term inflation expectations stabilizing. Wage gains have improved the index's gauge of current personal finances to the highest level in a year. The gauge of consumer confidence increased to 67.0 in February from an earlier estimate of 66.4. This is an increase from the 64.9 reading in January. The **index of current conditions** rose to 70.7 from 68.4 the prior month while the **index of expectations** climbed to 64.7 from 62.7 the prior month. The final reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, remained unchanged at 2.9% in January. One year inflation expectations climbed to 4.1% from 3.9%.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** plunged last week as mortgage rates jumped. The index fell 13.3% for the week ending February 17th. **Refinancing** applications dropped 2.2% to 469.9 from 480.5 the prior week. **Home purchase mortgage applications** fell 18.1% to 147.1. Refinancing made up 32.5% of applications with an average loan size of $267,200, while purchases average loan size was $431,900. The **average contract rate** on a 30-year fixed-rate mortgage increased to 6.62% from 6.39% last week. The average contract rate was as high as 7.16% in October of last year.

BOND MARKET REVIEW

Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 4.81%, 4.22%, 3.94% and 3.93%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -59, -28, -1, and -88 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	February 27	Jan Durable Goods Orders (-4.0%)	7:30 Central
		Jan Durables Ex Transportation (0.1%)	7:30 Central
		Jan Cap Goods Orders Nondef Ex Air (0.0%)	7:30 Central
		Jan Pending Home Sales (1.0%)	9:00 Central
Tuesday	February 28	Jan Goods Trade Balance (-$91.0b)	7:30 Central
		Jan Wholesale Inventories (0.1%)	7:30 Central
		Jan Retail Inventories (0.2%)	7:30 Central
		Dec FHFA House Price Index (-0.2%)	8:00 Central
		Dec S&P CoreLogic CS 20-City Index (-0.40%)	8:00 Central
		Feb Conf Board Consumer Confidence (108.5)	9:00 Central
Wednesday	March 1	Feb 24th MBA Mortgage Applications	6:00 Central
		Jan Construction Spending (0.2%)	9:00 Central
		Feb ISM Manufacturing (48.0)	9:00 Central
Thursday	March 2	Feb 24th Initial Jobless Claims (195k)	7:30 Central
		4th Qtr Nonfarm Productivity (2.5%)	7:30 Central
		4th Qtr Unit Labor Costs (1.6%)	7:30 Central
Friday	March 3	Feb ISM Services Index (54.6)	9:00 Central

Source: Bloomberg Finance L.P.