

April 29, 2024

Financial Services Group

Author:

Economic Review



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- The Labor Department reported that **initial jobless claims** unexpectedly declined last week, indicating a resilient labor market continues to show strength. Claims have been in an extremely narrow range since the beginning of February. First time claims in regular state programs recorded 207,000 for the week ending April 10th after the prior week's report of 212,000. The four-week moving average declined to 213,250 from 214,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, decreased 15,000 to 1.781 million for the week ending April 14th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The Federal Reserve Bank of Chicago reported the pace of U.S. economic activity edged higher in March. The **Chicago Fed National index**, which draws on 85 economic indicators, was positive 0.15 in March after reporting an upwardly revised positive 0.09 in February. 50 of the indicators affected the index positively and 35 made negative contributions. A reading above zero indicates above-trend-growth in the national economy.
- The Commerce Department reported sales of new homes bounced back in March, adding to a climbing inventory that pushed house prices lower. **New home sales** rose 8.8% to a 693,000 annualized pace in March after reporting a downwardly revised 637,000 pace the prior month. While the resale market is struggling with a lack of inventory, builders are stepping in to fill the void. The supply of new homes rose to 477,000 during the month, the highest since 2008. The report also showed the median sales price of a new house decreased 1.9% from a year ago to \$430,700. 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 Commerce Department reported **durable goods orders**, which are bookings for goods and materials meant to last at least three years, increased 2.6% in March and orders in February were revised down to 0.7% from 1.3%. The gain was driven by bookings for commercial aircraft with Boeing Company reporting 113 orders in March, up from 15 in February. **Excluding transportation**, durable orders climbed 0.2% in March after climbing 0.1% in February. The non-military capital goods orders excluding aircraft, a proxy for business investment, increased 0.2% in March after gaining 0.4% in February. The ratio of inventory to shipments remained unchanged at 1.87 in March.
- The initial estimate by the Commerce Department of the 1st quarter **gross domestic product** showed a sharp downshift in economic growth, driven by a drop in inventories and exports, while resilient household demand and business investment growth helped generate faster inflation. The drop in economic growth and gains in inflationary pressures have brought the term "stagflation" back to the forefront. **Gross domestic product** expanded at a 1.6% annualized rate in the 1st quarter following an impressive 3.4% gain in the 4th quarter and 4.9% gain in the 3rd quarter. **Personal consumption**, which accounts for about 70% of the economy, increased at a 2.5% annualized pace, down from 3.3% in the 4th quarter. The core PCE deflator, which is closely watched by the Fed, rose 3.7%, a sharp gain from the previous month's 2.0% gain and much higher than the Fed's target of 2.0%. The **GDP price index** gained 3.1% in the 1st quarter after a 1.6% gain in the 4th quarter, suggesting inflation is picking up.
- The Commerce Department reported the **goods trade deficit** widened in March as exports dropped at a faster pace than imports. The deficit increased 1.7% to \$91.8 billion in March. **Exports** declined 3.5% to \$169.2 billion from \$175.3 billion in February and **imports** decreased 1.7% to \$261.0 billion from \$265.6 billion the prior month.
- The Commerce Department reported **wholesale inventories** decreased 0.4% in March after climbing 0.4% in February. Year-on-year wholesale inventories are down 2.1%. **Retail inventories** increased 0.3% in March after climbing 0.5% in February and are up 4.4% year-on-year.
- The National Association of Realtors reported the **index of pending home re-sales** reached their highest levels in a year in spite of persistently high borrowing costs and a low supply of houses. The housing market has generally been on the upswing in recent months as home buyers show a gradual

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acceptance of borrowing costs that are still double their levels in 2021. Housing inventories are also reaching their highest level since 2020. The number of contract signings increased 3.4% in March after climbing 1.6% in February. Pending home sales are based on houses under contract as reported by over 100 multiple listing services and 60 large real estate brokers. A sale is listed as pending when a seller accepts a sales contract on a property. Pending sales are a leading indicator in the housing sector as they reflect contracts signed, as opposed to actual closed and final sales.

- The Commerce Department reported **personal income** increased 0.5% in March after climbing 0.3% the prior month. **Personal spending** increased 0.8% in March after gaining 0.8% the prior month. Spending gains caused the savings rate to drop to 3.2% in March from 3.6% the prior month, the lowest level since October 2022. The key sources of income was employee compensation, rental income and government transfer payments. Monthly **PCE inflation** rose 0.3% in March after climbing 0.3% in February and year-on-year PCE climbed to 2.7% from 2.5%. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.3% in March, bringing the year-on-year gain to 2.8%. **Disposable income**, or the money left over after taxes, increased 0.5% in March.
- The **University of Michigan's final index of consumer sentiment** pulled back in April on dimmer views of personal finances and the economy as inflation expectations climbed. The final sentiment index for the month dropped to 77.2 from 79.4 in March. The long-term inflation expectations rose to 3.0% in April from 2.8% in March. The one-year-ahead inflation expectations rose to 3.2% from 2.9% in March. The **index of current conditions** declined to 79.0 from 82.5 the prior month while the **index of expectations** dropped to 76.0 from 77.4.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased last week for the first time in three weeks as mortgage rates climbed to the highest level in five months. The index fell 2.7% for the week ending April 19th after climbing 3.3% the prior week. **Refinancing** applications fell 5.6% to 472.7 from 500.7 the prior week. **Home purchase mortgage applications** decreased 1.0% to 144.2. Refinancing made up 30.8% of applications with an average loan size of \$255,800, while purchases average loan size was \$437,900. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.24% from 7.13% the prior week.

BOND MARKET REVIEW

Rates moved higher again last week as inflation data pressures the FOMC in front of their meeting this week. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.99%, 4.69%, 4.66% and 4.78%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -30, -3, 12, and -21 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Tuesday	April 30	1 st Qtr Employment Cost Index (1.0%)	7:30 Central
		Feb FHFA House Price Index (0.2%)	8:00 Central
		Feb S&P CoreLogic CS 20-City Index (0.10%)	8:00 Central
		Apr Conf Board Consumer Confidence (104.0)	9:00 Central
Wednesday	May 1	Apr 26 th MBA Mortgage Applications	6:00 Central
		Apr ADP Employment Change (180k)	7:15 Central
		Mar Construction Spending (0.3%)	9:00 Central
		Mar JOLTS Job Openings (8,670k)	9:00 Central
		Apr ISM Manufacturing (50.0)	9:00 Central
		FOMC Rate Decision (5.25% - 5.50%)	13:00 Central
		Interest on Reserve Balances (5.40%)	13:00 Central
Thursday	May 2	Apr 27 th Initial Jobless Claims (212k)	7:30 Central
		Mar Trade Balance (-\$69.5b)	7:30 Central
		1 st Qtr Nonfarm Productivity (0.8%)	7:30 Central
		1 st Qtr Unit Labor Costs (3.2%)	7:30 Central
		Mar Factory Orders (1.5%)	9:00 Central
		Mar Factory Orders ex Transportation	9:00 Central
Friday	May 3	Apr Change in Nonfarm Payrolls (244k)	7:30 Central
		Apr Unemployment Rate (3.8%)	7:30 Central
		Apr Average Hourly Earnings-YOY (4.0%)	7:30 Central
		Apr Labor Force Participation Rate (62.7%)	7:30 Central
		Apr ISM Services Index (52.0)	9:00 Central

Source: Bloomberg Finance L.P.

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