

June 10, 2024

Financial Services Group

Author:

Economic Review



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- The Labor Department reported that **initial jobless claims** increased last week to its highest number since early May. Despite the increase, the level remains in a range that suggests the labor market remains tight. First time claims in regular state programs recorded 229,000 for the week ending June 1st after the prior week's report of 221,000. The four-week moving average declined to 222,250 from 223,000 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, gained 2,000 to 1,792,000 for the week ending May 25th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The Commerce Department reported that **construction spending** decreased 0.1% in April after falling 0.2% in March. Spending on residential construction climbed 0.1% while non-residential construction declined 0.3%. Government spending, which made up 23.2% of construction spending, decreased 0.2% and private spending fell 0.1%.
- The **Institute for Supply Management** reported its **manufacturing index** declined in May, continuing in contractionary territory. A weakening demand for manufactured goods amid stagnating improvement in supply conditions pushed the index lower. With firms largely working through inventory backlogs, production activity has hinged on demand, which softened in May. The manufacturing index recorded a 48.7 in May after a 49.2 reading in April. The new orders part of the index decreased to 45.4 in May from 49.1 in April and production lowered to 50.2 in May from 51.3 the prior month. A reading below 50 indicates contraction in the manufacturing sector.
- The Labor Department reported that **job openings** plunged in April to the lowest level in more than three years. The quits rate remains low and excess demand for labor is waning. The largest declines are in some of the most interest sensitive sectors. Available positions decreased to 8.059 million from a downwardly revised 8.355 million in the prior month. The quits rate, which measures voluntary job leavers as a share of total employment held steady at an upwardly revised 2.2% in April. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, declined to 1.24 in April, down from 1.30 in March and well below the peak of 2.0 reached in March 2022.
- The Commerce Department reported that **factory orders** climbed 0.7% in April after gaining a downwardly revised 0.7% in March. The gain was driven by a jump in defense orders, which were up 15.3%. **Factory orders ex transportation** increased 0.7% in April after climbing 0.4% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft climbed 0.2% in April after falling 0.2% in March.
- **ADP Employer Services** reported that companies hired at the slowest pace since the start of the year in May. Job gains and pay growth are slowing going into the second half of the year. While the labor market is solid, there are pockets of weakness tied to both producers and consumers. Companies increased payrolls by 152,000 in May after a downwardly revised gain of 188,000 in April. Services employment increased by 149,000 and manufacturing employment climbed by 3,000. Wage growth slowed for people who changed jobs with a 7.8% gain year-on-year and advanced at the slowest pace since August 2021 for workers who stayed in their job, with a 5.0% gain year-on-year.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, expanded to its highest level since August 2023. The May rebound was broad based across industries. The index recorded a 53.8 in May after a 49.4 reading in April. Business activity surged 10.3 points in May to 61.2. New orders climbed to 54.1 from 52.2 the previous month, the employment index climbed to 47.4 from 45.9 in April. Prices paid component edged lower to 58.1 in May from 59.2. This gauge of service providers accounts for 90% of the economy. A reading greater than 50 indicates expansion in the services sector.
- Bureau of Labor Statistics reported **worker's productivity** slowed in the 1st quarter by more than the original estimate and **unit labor costs** increased less than initially reported. Productivity climbed at an annualized pace of 0.2% in the first quarter after rising 3.5% in the fourth quarter. Productivity is a measure of economic output for each unit of input, primarily the cost of labor. Year-on-year

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productivity is up 2.9%. **Unit labor costs** in nonfarm businesses rose at a 4.0% annual rate in the 1st quarter and climbed 0.9% year-on-year, the slowest pace in three years.

- The Commerce Department reported the **trade deficit** increased in April as the value of imports climbed faster than the value of exports. The deficit increased to \$74.6 billion in April from a deficit of \$68.6 billion in March. **Exports** climbed 0.8% to \$263.7 billion and **imports** increased 1.6% to \$338.2 billion.
- The Labor Department reported that payrolls surprised the market and surged in May. The report presented contradictory views of the labor market, with the establishment survey showing robust gains in nonfarm payrolls, while the household survey indicated the unemployment rate rose. The majority of gains came from health and education, leisure and hospitality, government and manufacturing and construction. The jobs report is made up of two surveys: one of households which provides the unemployment rate, labor force size and the labor force participation rate and the other is the establishment survey of businesses, which generates the payrolls and wage figures. The **Nonfarm payrolls** (employer survey) climbed a higher than expected 272,000 in May. The **unemployment rate** (household survey) increased to 3.964% in May from 3.865% in April. The **labor force participation rate** fell to 62.5% in May from 62.7%. The average hourly earnings increased to \$34.91 from \$34.77 the prior month. Weekly hours remained unchanged at 34.3.
- The Commerce Department reported **wholesale inventories** gained 0.1% in April to \$895.8 billion. Year-on-year wholesale inventories have declined 1.7%. **Wholesale trade sales** gained 0.1% in April after falling 1.3% in March, with year-on-year sales up 1.4%. The ratio of inventory to sales remained unchanged at 1.35.
- The Federal Reserve reported **consumer credit** grew less than expected in April and credit card balances declined for the first time in three years. Credit outstanding rose \$6.4 billion after declining a downwardly adjusted \$1.1 billion in March. Credit card debt decreased \$462 million to \$1.339 trillion after climbing \$1.7 billion the previous month. Auto and student loan debt increased \$6.9 billion in April after falling \$2.8 billion in March. Total non-revolving credit climbed to \$3.715 trillion. These figures are not adjusted for inflation.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** decreased last week for the second straight week. The index fell 5.2% for the week ending May 31st after declining 5.7% the prior week. **Refinancing** applications fell 6.8% to 432.1 from 463.8 the prior week. **Home purchase mortgage applications** decreased 4.4% to 132.3. Refinancing made up 31.1% of applications with an average loan size of \$254,500, while purchases average loan size at \$429,800. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.07% from 7.05% the prior week.

BOND MARKET REVIEW

Rates fell through the week on weak economic data only to spring back after the unexpected strong employment report. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities closed at 4.89%, 4.46%, 4.43% and 4.55%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -43, -3, 12, and -34 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

| | | | |
|-----------|---------|---|---------------|
| Tuesday | June 11 | May NFIB Small Business Optimism (89.7) | 5:00 Central |
| Wednesday | June 12 | Jun 7 th MBA Mortgage Applications | 6:00 Central |
| | | May Consumer Price Index (0.1%) | 7:30 Central |
| | | May Consumer Price Index-YOY (3.4%) | 7:30 Central |
| | | May CPI Ex Food & Energy (0.3%) | 7:30 Central |
| | | May CPI Ex Food & Energy-YOY (3.5%) | 7:30 Central |
| | | FOMC Rate Decision (5.25% - 5.50%) | 7:30 Central |
| | | Interest on Reserve Balance Rate (5.40%) | 7:30 Central |
| | | May Budget Statement (-\$262.5B) | 13:00 Central |
| Thursday | June 13 | Jun 8 th Initial Jobless Claims (225k) | 7:30 Central |
| | | May Producer Price Index (0.1%) | 7:30 Central |
| | | May Producer Price Index-YOY (2.5%) | 7:30 Central |
| | | May PPI Ex Food & Energy (0.3%) | 7:30 Central |
| | | May PPI Ex Food & Energy-YOY (2.5%) | 7:30 Central |
| Friday | June 14 | May Import Price Index (-0.1%) | 7:30 Central |
| | | May Import Price Index-YOY (1.5%) | 7:30 Central |
| | | May Import Price Index ex Petroleum (0.3%) | 7:30 Central |
| | | Jun University of Michigan Sentiment (72.0) | 9:00 Central |
| | | Jun Univ of Michigan 1-Year Inflation (3.2%) | 9:00 Central |
| | | Jun Univ of Michigan 5-10 Yr Inflation (3.0%) | 9:00 Central |

Source: Bloomberg Finance L.P.

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