

June 17, 2024

Financial Services Group

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Economic Review



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- The Labor Department reported that **initial jobless claims** jumped to the highest level in nine months last week, led by a large increase in California. The increase could be related to the end of the school year or general seasonal volatility. California's new law that mandates a \$20 minimum wage for fast-food workers took effect in April. First time claims in regular state programs recorded 242,000 for the week ending June 8th after the prior week's report of 229,000. The four-week moving average climbed to 227,000 from 222,250 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, gained 30,000 to 1,820,000 for the week ending June 1st. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The **National Federation of Independent Business** reported sentiment among small businesses edged up in May to the highest level this year. Five of the 10 components that make up the sentiment gauge increased, led by improvement in the share of owners who expect the economy to improve. Firms' plans to increase employment also improved. The index climbed to 90.5 in May from an 89.7 reading in April.
- The Labor Department reported the **consumer price index** remained unchanged in May, the first month since the summer of 2022 without an increase in headline inflation. Many necessities such as groceries, gasoline and car insurance became cheaper. This report builds the case that inflation has resumed its downward path after an unanticipated surge in the first quarter. Consumer prices year-on-year change declined to 3.3% from last month's 3.4%. Service prices, which make up 64% of the index, gained 0.2% in May after gaining 0.4% in April. Prices of commodity based manufactured goods fell 0.4% in May after climbing 0.2% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.2% in May after increasing 0.3% the prior month. The year-on-year change in core CPI is 3.4%, still much higher than the Fed's target rate of 2.0%.
- The **FOMC** met on Wednesday and held the targeted federal funds rate as expected to a range of 5.25% to 5.50% for the seventh straight meeting. The pace of balance sheet runoff was also unchanged at \$25 billion per month for Treasuries and \$35 billion per month for MBS. The policy statement was mostly unchanged, but the Fed modified the language to reflect a modest improvement in the intermeeting period. The SEP dot plot was more hawkish than expected, signaling only one rate cut in 2024, down from three in March. Chair Jerome Powell comments after the meeting essentially boiled down to a desire to maximize the potential for a soft landing.
- The Treasury Department reported a **budget deficit** of \$347.1 billion for the month of May with the government collecting \$323.6 billion and spending \$670.8 billion. This compares to a deficit of \$240.3 billion a year earlier. The year-to-date deficit is \$1,202 billion, which compares to a year-to-date deficit of \$1,165 billion last year. May is the eighth month in the government's fiscal year.
- The Labor Department reported the **producer price index** unexpectedly declined in May by the most in seven months, another welcome development in the fight against inflation. Wholesale prices declined 0.2% in May after surging 0.5% in April. Year-on-year wholesale prices were up 2.2% in May after April's upwardly revised increase of 2.3%. Goods prices, which make up 30% of the weighting, fell 0.8% in May after climbing 0.4% in April. Services, which make up 67% of the index, remained unchanged after increasing 0.6% in April. The **core PPI**, which excludes volatile food and energy prices, remained unchanged in May, with a year-on-year gain of 2.3%. **PPI ex food, energy and trade** remained unchanged.
- The Labor Department reported the **import price index** fell 0.4% in May after surging 0.9% the prior month. The loss was driven by a 2.0% drop in prices for industrial supplies and a decline of 1.7% in petroleum. Import prices are 1.1% higher year-on-year. **Import prices ex petroleum** fell 0.3% in May for a year-on-year gain of 0.4%.
- The **University of Michigan's preliminary index of consumer sentiment** declined for the third straight month in June. Consumers saw their personal finances deteriorate, even as consumers push back against price hikes. Inflation expectations remained at the highest levels since November for

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both the one-year and long-term indexes. Consumers' living standards are deteriorating suggesting they may be running out of savings. The gauge of consumer confidence decreased to 65.6 in June from 69.1 in May. The **index of current conditions** dropped to 62.5 from 69.6 the prior month while the **index of expectations** declined to 67.6 from 68.8 the prior month. The reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, climbed to 3.1% in June from 3.0% in May. One-year inflation expectations remained unchanged at 3.3%.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** surged last week as mortgage rates pulled back from two weeks of gains. The index rose 15.6% for the week ending June 7th after dropping 5.2% the prior week. **Refinancing** applications jumped 28.4% to 554.7 from 432.1 the prior week. **Home purchase mortgage applications** increased 8.6% to 1143.7. Refinancing made up 35.2% of applications with an average loan size of \$271,100, while purchases average loan size at \$428,700. The **average contract rate** on a 30-year fixed-rate mortgage declined to 7.02% from 7.07% the prior week.

BOND MARKET REVIEW

Rates plunged during the week on reports that inflation slowed during the month of May. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities closed at 4.70%, 4.24%, 4.22% and 4.35%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -46, -2, 13, and -35 basis points respectively.

Economic/Events Calendar

Monday	June 17	Jun Empire Manufacturing (-10.0)	7:30 Central
Tuesday	June 18	May Retail Sales (0.3%)	7:30 Central
		May Retail Sales Ex Auto & Gas (0.4%)	7:30 Central
		May Industrial Production (0.3%)	7:30 Central
		May Capacity Utilization (78.6%)	7:30 Central
		Apr Business Inventories (0.3%)	9:00 Central
Wednesday	June 19	Jun 14 th MBA Mortgage Applications	6:00 Central
		Jun NAHB Housing Market Index (46)	9:00 Central
Thursday	June 20	Jun 15 th Initial Jobless Claims (235k)	7:30 Central
		May Housing Starts (1,373k)	7:30 Central
		May Building Permits (1,450k)	7:30 Central
		1 st Qtr Current Account Balance (-\$206.8b)	7:30 Central
Friday	June 21	May Leading Economic Index (-0.3%)	9:00 Central
		May Existing Home Sales (4.10m)	9:00 Central

Source: Bloomberg Finance L.P.

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