

# June 24, 2024

## Financial Services Group

Author:

### Economic Review



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- The Labor Department reported that **initial jobless claims** pulled back slightly after rising significantly over the prior two weeks. Last week initial claims reached a ten-month high as demand for labor drops further and the supply of available workers increases. First time claims in regular state programs recorded 238,000 for the week ending June 15<sup>th</sup> after the prior week's report of 243,000. The four-week moving average climbed to 232,750 from 227,250 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, gained 15,000 to 1,828,000 for the week ending June 8<sup>th</sup>. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, contracted for the seventh straight month, but at the slowest pace in four months. The index recorded a negative 6.0 in June after a negative 15.6 reading in May. New orders recorded a negative 1.0 in June after a negative 16.5 reading in May while shipments increased to positive 3.3 after a negative 1.2 reading last month. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** was limited for the second straight month. The slowdown in spending reflects a moderation in aggregate earnings, high borrowing costs and mounting debt. The value of retail purchases edged higher by 0.1% in May after a downwardly revised decline of 0.2% in April. Consumers spent more at sporting goods stores, automobiles and parts and non-retail stores. Spending declined at gasoline stations, furniture and building materials. Retail sales represent roughly half of total consumption, while the other half captures spending on services. **Retail sales ex autos and gas** increased 0.1% in May after falling 0.3% in April. The numbers in this report are not adjusted for inflation.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, signaled a broad-based pickup in factory output in May. The report is a welcome sign for a manufacturing sector that has been struggling for momentum. Industrial production gained 0.9% in May after remaining unchanged in April. Production at factories, which make up 74% of output, rose 0.9% in May after declining 0.4% the previous month. Utilities rose 1.6% in May after gaining 4.1% in April while mining rose 0.3% in May after declining 0.7% the prior month. **Capacity utilization**, which measures the amount of a plant that is in use, increased to 78.7% in May from a downwardly revised 78.2% in April.
- The Commerce Department reported **business inventories** increased 0.3% in April after falling 0.1% the prior month. Inventories are 1.0% higher than a year earlier. **Business sales** also rose 0.3% after declining 0.2% in March. Sales are 2.2% higher than a year earlier. The ratio of business inventories to sales remained unchanged at 1.37.
- The **National Association of Home Builders/Wells Fargo** reported builders housing sentiment declined in June to the lowest level this year as elevated mortgage rates and high costs limit prospective buyer interest. The index of builder sentiment dropped 2 points to 43 in June. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** fell in May to the slowest pace since June 2020. Starts slowed into the peak in mortgage rates in October, then rebounded as rates came down from about 8% to around 6.75% in November and December. Starts are slowing again as the expected drop in rates has been postponed and the Fed looks for more evidence that inflation pressures are subsiding. Housing starts fell 5.5% in May to a 1,277,000 annualized rate after climbing 4.1% in April to a 1,352,000 annualized rate. Single-family starts decreased 5.2% in May with multi-family starts down 6.6%. **Building permits**, a gauge of future construction, decreased 3.8% in May to a 1,386,000 pace. This follows a decline of 3.0% in April and 5.0% in March.
- The Commerce Department reported a **current-account deficit** of \$237.6 billion during the first quarter of 2024. This is wider than the \$221.8 billion deficit in the prior quarter. The current account

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is considered the broadest measure of international trade, covering goods and services as well as income payments and government transfers.

- The Conference Board reported the **index of leading economic indicators** dropped 0.5% in May after falling 0.6% the prior month. The drop was led by a decline in ISM new orders, a decline in consumer expectations, a negative interest rate spread, and a drop in building permits. The index of U.S. leading indicators is a gauge of the economic outlook for the next three to six months. The **coincident index**, a gauge of current economic activity, increased 0.4% in May after climbing 0.1% in the previous month.
- The National Association of Realtors reported that **existing home sales** fell for the third straight month in May as high borrowing costs and near record home prices pressure demand. Contract closings decreased 0.7% in May to an annualized selling rate of 4.11 million units. Elevated mortgage rates and record housing prices underscore persistent affordability challenges, with the median price of \$419,300. Inventory has edged up a bit in recent months, with the supply of homes increasing 18.5% in May from the same month last year to 1.28 million.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** rose 0.9% for the week ending June 14<sup>th</sup> after surging 15.6% the prior week. **Refinancing** applications pulled back 0.4% to 552.7 last week after jumping 28.4% the prior week. **Home purchase mortgage applications** increased 1.6% to 146.0. Refinancing made up 35.2% of applications with an average loan size of \$265,300, while purchases average loan size at \$430,300. The **average contract rate** on a 30-year fixed-rate mortgage declined to 6.94% from 7.02% the prior week.

## BOND MARKET REVIEW

Rates stabilized last week after plunging the week earlier. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.73%, 4.27%, 4.26% and 4.40%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -46, -1, 14, and -33 basis points respectively.

Source: Bloomberg Finance L.P.

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### Economic/Events Calendar

Tuesday	June 25	May Chicago Fed Nat Activity Index (-0.25)	7:30 Central
		Apr FHFA House Price Index (0.3%)	9:00 Central
		Apr S&P CoreLogic CS 20-City Index (0.30%)	9:00 Central
		Jun Conf Board Consumer Confidence (100.0)	9:00 Central
Wednesday	June 26	Jun 21 <sup>st</sup> MBA Mortgage Applications	6:00 Central
		May New Home Sales (638k)	9:00 Central
Thursday	June 27	Jun 22 <sup>nd</sup> Initial Jobless Claims (235k)	7:30 Central
		1 <sup>st</sup> Qtr Gross Domestic Product -3 <sup>rd</sup> Est (1.4%)	7:30 Central
		1 <sup>st</sup> Qtr GDP Price Index-3 <sup>rd</sup> Est (3.0%)	7:30 Central
		1 <sup>st</sup> Qtr Personal Consumption-3 <sup>rd</sup> Est (2.0%)	7:30 Central
		May Goods Trade Balance (-\$96.0b)	7:30 Central
		May Durable Goods Orders (-0.3%)	7:30 Central
		May Durables Ex Transportation (0.1%)	7:30 Central
		May Cap Goods Orders Nondef Ex Air (0.1%)	7:30 Central
		May Wholesale Inventories (0.1%)	7:30 Central
		May Retail Inventories (0.4%)	7:30 Central
May Pending Home Sales (0.5%)	9:00 Central		
Friday	June 28	May Personal Income (0.4%)	7:30 Central
		May Personal Spending (0.3%)	7:30 Central
		May PCE Price Index-YOY (2.6%)	7:30 Central
		Jun University of Michigan Sentiment (66.0)	9:00 Central

Source: Bloomberg Finance L.P.

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