Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** edged lower last week after a sharp climb earlier in June. The data of the past few weeks have been signaling incremental labor market weakness, albeit from a position of extreme strength. First time claims in regular state programs recorded 233,000 for the week ending June 22nd after the prior week's report of 239,000. The four-week moving average climbed to 236,000 from 233,000 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, gained 18,000 to 1,839,000 for the week ending June 15th. This is the highest level of recurring applications since the end of 2021. 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 climbed into positive territory in May. The **Chicago Fed National index**, which draws on 85 economic indicators, was positive 0.18 in May after reporting a downwardly revised negative 0.26 in April. 48 of the indicators affected the index positively and 37 made negative contributions. A reading above zero indicates above-trend-growth in the national economy.

- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes increased 0.2% in April after remaining unchanged in March. The year-on-year change in the house price index was 6.3% in April. The HPI is estimated using repeated observations of housing values for single-family homes on which at least two mortgages were originated and subsequently sold to Freddie Mac or Fannie Mae. The use of repeat transactions on the same unit helps to control for differences in the quality of the houses.

- The **S&P CoreLogic CaseShiller home price index** rose 0.26% in April after gaining 0.30% in March. The index increased 7.20% from the same month in 2023. This is the fourteenth straight increase in prices. This index includes homes of all prices, while the sample for the FHFA index is based only on confirming mortgages, which leaves out much of the upper end of the housing market. The index tracks changes in the value of homes in 20 metropolitan regions.

- The Conference Board's **consumer confidence index** declined in June as consumer expectations of future income and business conditions weakened. The index recorded a 100.4 in June from a downwardly revised 101.3 reading in May, previously reported as 102.0. While expectations declined, consumers noted a small improvement in assessments of the current labor market The present situation index increased to 141.5 in June from 140.8 in May. The expectations index dropped to 73.0 in June from 74.9 the prior month.

- The Commerce Department reported sales of new homes declined in May and the inventory of new homes stands at the highest since 2008, as homebuyers anxiously await cheaper borrowing costs. . **New home sales** fell 11.3% to a 619,000 annualized pace in May after reporting an upwardly revised 698,000 pace the prior month. Buyers are largely restrained by affordability challenges with housing prices reaching a near record high and mortgage rates settling around 7%. The supply of new homes rose to 481,000 during the month, the highest since 2008. The report also showed the median sales price of a new house edged lower to $417,400, 0.9% lower than May 2023. 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 third and final estimate by the Commerce Department of the 1st quarter **gross domestic product** adjusted the first quarter activity slightly higher and personal consumption lower than the second estimate. Continued softness in retail sales and housing activity and a moderating labor market suggest cooler growth in coming months. **Gross domestic product** expanded at a 1.4% annualized rate in the 1st quarter, revised up from the second estimate of 1.3%, 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, was revised down to a 1.5% annualized pace from an earlier estimate of 2.0%, down from 3.3% in the 4th quarter. The core PCE deflator, which is closely watched by the Fed, was revised higher to 3.7% from the earlier estimate of 3.6%, a sharp gain from the previous quarter's 2.0% gain. 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 May as exports decreased at a faster pace than imports. The deficit increased 2.7% to $100.6 billion in May. **Exports** declined 2.7% in May to $166.7 billion from $171.3 billion in April and **imports** decreased 0.7% to $267.3 billion from $269.3 billion the prior month.

- The Commerce Department reported **durable goods orders**, which are bookings for goods and materials meant to last at least three years, edged 0.1% higher in May while orders in April was revised down to 0.2% from 0.6%. The report showed little demand across major categories and if not for autos, it would have been worse. The one bright spot is demand for AI products and other new technologies. **Excluding transportation**, durable orders declined 0.1% in May after climbing 0.4% in April. The non-military capital goods orders excluding aircraft, a proxy for business investment, dropped 0.6% in May after climbing 0.3% in April. The ratio of inventory to shipments increased to 1.86 in May from 1.85 in April.

- The Commerce Department reported **wholesale inventories** increased 0.6% in May after climbing 0.2% in April. Year-on-year wholesale inventories are down 0.5%. **Retail inventories** increased 0.7% in May after climbing 0.7% in April and are up 5.0% year-on-year.

- The National Association of Realtors reported the **index of pending home re-sales** unexpectedly fell to the lowest record on record in May. The number of contract signings decreased 2.1% in May after plunging 7.7% in April. 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 May after climbing 0.3% the prior month. The increase in income was driven by a 0.6% increase in employee compensation. **Personal spending** increased 0.2% in May after gaining 0.1% the prior month. Accelerating personal income paired with soft spending growth pushed the personal saving rate up to 3.9% in May from April's 3.7%. Monthly **PCE inflation** remained unchanged in May after climbing 0.3% in April and year-on-year PCE declined to 2.6%. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.1% in May, bringing the year-on-year gain to 2.6%. **Disposable income**, or the money left over after taxes, increased 0.5% in May.

- The **University of Michigan's final index of consumer sentiment** declined in June, but not as much as the preliminary survey indicated. The final sentiment index for the month dropped to 68.2 from 69.1 in May. The long-term inflation expectations remained unchanged at 3.0% in June. The one-year-ahead inflation expectations dropped to 3.0% from 3.3% in May. The **index of current conditions** declined to 65.9 from 69.6 the prior month while the **index of expectations** climbed to 69.6 from 68.8.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** rose 0.8% for the week ending June 21st after climbing 0.9% the prior week. **Refinancing** applications pulled back 0.1% to 552.4 last week after declining 0.4% the prior week. **Home purchase mortgage applications** increased 1.2% to 147.8. Refinancing made up 35.1% of applications with an average loan size of $270,000, while purchases average loan size at $430,500. The **average contract rate** on a 30-year fixed-rate mortgage declined to 6.93% from 6.94% the prior week.

Source: Bloomberg Finance L.P.

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BOND MARKET REVIEW

Rates increased last week and the yield curve steepened. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.75%, 4.38%, 4.40% and 4.56%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -37, 2, 16, and -19 basis points respectively.

Economic/Events Calendar

Monday	July 1	May Construction Spending (0.2%)	9:00 Central
		Jun ISM Manufacturing (49.1)	9:00 Central
Tuesday	July 2	May JOLTS Job Openings (7,955k)	9:00 Central
Wednesday	July 3	Jun 28th MBA Mortgage Applications	6:00 Central
		Jun ADP Employment Change (158k)	7:15 Central
		Jun 29th Initial Jobless Claims (235k)	7:30 Central
		May Trade Balance (-$76.0b)	7:30 Central
		May Factory Orders (0.3%)	9:00 Central
		May Factory Orders Ex Transportation	9:00 Central
		Jun ISM Services Index (52.5)	9:00 Central
		Jun 12th FOMC Meeting Minutes	13:00 Central
Friday	July 5	Jun Change in Nonfarm Payrolls (190k)	7:30 Central
		Jun Unemployment Rate (4.0%)	7:30 Central
		Jun Average Hourly Earnings-YOY (3.9%)	7:30 Central
		Jun Labor Force Participation Rate (62.6%)	7:30 Central

Source: Bloomberg Finance L.P.