July 15, 2024
Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** declined last week. July is a volatile month for claims as adjustments are made for automakers that are shutting down plants for maintenance. First time claims in regular state programs recorded 222,000 for the week ending July 6th after the prior week's report of 239,000. The four-week moving average dropped to 233,500 from 238,750 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, fell 4,000 to 1,852,000 for the week ending June 29th. The trend in continuing claims is rising, indicating more potential workers are having a hard time landing jobs. 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 reported **consumer credit** grew more than expected in May as consumers are relying more on credit cards to spend. Credit outstanding rose $11.4 billion after climbing $6.5 billion in April. Credit card debt increased $7.0 billion to $1.345 trillion after declining $0.9 billion the previous month. Borrowing rates on credit cards that charge interest rose to 22.76% in May, just shy of a record back to 1994. Auto and student loan debt increased $4.3 billion in May after gaining $7.4 billion in April. Total non-revolving credit climbed to $3.720 trillion. These figures are not adjusted for inflation.

- The **National Federation of Independent Business** reported sentiment among small businesses climbed in June for a third straight month as firms became less downbeat about the economy. While still pessimistic about the outlook for business conditions, the share of firms expecting the economy to worsen is the smallest in three years. The index climbed to 91.5 in June from a 90.5 reading in May.

- The Commerce Department reported **wholesale inventories** gained 0.6% in May to $901.7 billion. Year-on-year wholesale inventories have declined 0.5%. **Wholesale trade sales** gained 0.4% in May after climbing 0.2% in April, with year-on-year sales up 1.9%. The ratio of inventory to sales remained unchanged at 1.35.

- The Labor Department reported the **consumer price index** declined 0.1% in June after a soft reading in May. The report highlighted two material disinflationary forces being housing rents and car prices, as well as declining energy prices. Together with evidence of a cooling labor market, the June inflation data should boost the Fed's confidence that it is almost time to cut rates. 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 3.0% from last month's 3.3%. Service prices, which make up 64% of the index, gained 0.1% in June after gaining 0.2% in May. Prices of commodity based manufactured goods fell 0.4% in June after declining 0.4% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.1% in June after increasing 0.2% the prior month. The year-on-year change in core CPI is 3.3%, still higher than the Fed's target rate of 2.0%.

- The Treasury Department reported a **budget deficit** of $66.0 billion for the month of June with the government collecting $466.3 billion and spending $532.2 billion. This compares to a deficit of $227.8 billion a year earlier. The year-to-date deficit is $1,268 billion, which compares to a year-to-date deficit of $1,393 billion last year. June is the ninth month in the government's fiscal year.

- The Labor Department reported the **producer price index** climbed more than expected in June, driven by a pickup in margins at service providers, offsetting a second month of declines in the cost of goods. Wholesale prices climbed 0.2% in June after remaining unchanged in May. Year-on-year wholesale prices were up 2.6% in June after May's upwardly revised increase of 2.6%. Goods prices, which make up 30% of the weighting, fell 0.5% in June after declining 0.8% in May. Services, which make up 67% of the index, gained 0.6% in June after climbing 0.3% in May. The **core PPI**, which excludes volatile food and energy prices, climbed 0.4% in June, with a year-on-year gain of 3.0%. **PPI ex food, energy and trade** remained unchanged.

- The **University of Michigan's preliminary index of consumer sentiment** declined for the fourth straight month in July. Consumers, especially at lower income levels, are frustrated as their financial situation deteriorates amid high prices. Higher income consumers are still relatively well positioned to spend, but likely due more to stock market gains than economic fundamentals. Consumers' living standards are deteriorating suggesting they may be running out of savings. The gauge of consumer confidence decreased to 66.0 in July from 68.2 in June. The **index of current conditions** dropped to 64.1 from 65.9 the prior month while the **index of expectations** declined to 67.2 from 69.6 the prior month. The reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, fell to 2.9% in July from 3.0% in June. One-year inflation expectations also declined to 2.9% in July from 3.0% the prior month.

- The Mortgage Bankers Association reported the **MBA index of mortgage applications** fell 0.2% for the week ending July 5th after dropping 2.6% the prior week as mortgage rates remained near 7%. **Refinancing** applications declined 2.2% to 532.3 last week after declining 1.5% the prior week. **Home purchase mortgage applications** increased 1.0% to 144.3. Refinancing made up 34.9% of applications with an average loan size of $266,900, while purchases average loan size at $425,100. The **average contract rate** on a 30-year fixed-rate mortgage declined to 7.00% from 7.03% the prior week.

BOND MARKET REVIEW

Rates declined last week after the Consumer Price Index data indicated a drop in inflationary pressures may be enough to get the Fed to begin lowering the targeted Federal Funds rate in September. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.45%, 4.10%, 4.18% and 4.40%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -35, 8, 22, and -5 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Monday	July 15	Jul Empire Manufacturing (-7.6)	7:30 Central
Tuesday	July 16	Jun Retail Sales (-0.3%)	7:30 Central
		Jun Retail Sales Ex Auto & Gas (0.3%)	7:30 Central
		Jun Import Price Index (-0.2%)	7:30 Central
		Jun Import Price Index ex Petroleum (-0.1%)	7:30 Central
		Jun Import Price Index-YOY (1.1%)	7:30 Central
		May Business Inventories (0.5%)	9:00 Central
		Jul NAHB Housing Market Index (43)	9:00 Central
Wednesday	July 17	Jul 12th MBA Mortgage Applications	6:00 Central
		Jun Housing Starts (1,300k)	7:30 Central
		Jun Building Permits (1,400k)	7:30 Central
		Jun Industrial Production (0.3%)	8:15 Central
		Jun Capacity Utilization (78.4%)	8:15 Central
		Federal Reserve Releases Beige Book	13:00 Central
Thursday	July 18	Jul 13th Initial Jobless Claims (230k)	7:30 Central
		Jun Leading Index (-0.3%)	9:00 Central

Source: Bloomberg Finance L.P.