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Financial Services Group

Author:

Economic Review



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- The Labor Department reported that **initial jobless claims** dropped to its lowest level in three weeks, indicating demand for employees continues to be strong. Applications fell overall even as Hawaii reported a big spike after devastating wildfires. Claims in regular state programs declined 10,000 to 230,000 from the prior week's reported 240,000 for the week ending August 19th. The four-week moving average rose to 236,750 from 234,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, declined 9,000 to 1.702 million for the week ending August 12th.
- The National Association of Realtors reported that **existing home sales** declined 2.2% in July to a selling rate of 4.07 million, the lowest level since the start of the year. The lack of inventory in the resale market remains a key constraint with housing inventories at historic lows. Elevated mortgage rates are also discouraging home buying. Many homeowners with low locked in mortgage rates are choosing not to sell their homes. Contract closings usually occur a month or two after a contract is signed. The median selling price edged lower to \$406,700 from \$410,000 in June, but is 1.9% higher than July of 2023.
- The Commerce Department reported sales of new homes rose in July to the highest level in over a year as homebuilders benefit from limited supply in the resale market. Homeowners are inclined to stay in their current home as mortgage rates reach their highest levels in more than two decades. That has encouraged prospective buyers to seek out new construction. **New home sales** increased 4.4% to a 714,000 annualized pace in July after reporting a downwardly revised 684,000 pace the prior month. 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 Federal Reserve Bank of Chicago reported the pace of U.S. economic activity edged up in July, driven by a small increase in production-related indicators. The **Chicago Fed National Index**, which draws on 85 economic indicators, was positive 0.12 in July after reporting a negative 0.33 in June. Production-related indicators recorded a positive 0.18 and employment-related indicators contributed negative 0.02. A reading above zero indicates above-trend-growth in the national economy.
- The Commerce Department reported **durable goods orders** declined by the most since April of 2020 in July. The report reflects the drop in bookings for commercial aircraft after the previous months surge. The report underscores how high borrowing costs, tougher credit terms and concern about an economic downturn are curbing companies desire to spend on capital investments. Durable goods, which are bookings for goods and materials meant to last at least three years, fell 5.2% in July after gaining 4.4% in June. **Excluding transportation**, durable orders rose 0.5% in July after gaining 0.2% in June. The non-military capital goods orders excluding aircraft, a proxy for business investment, gained 0.1% in July after declining 0.4% in June. The ratio of inventory to shipments remained unchanged at 1.84 in July.
- The **University of Michigan's final index of consumer sentiment** declined in August from an almost two-year high in July. A jump in gasoline prices is weighing on consumer sentiment. The gauge of consumer confidence decreased to 69.5 in August, which is lower than the earlier estimate of 71.2. This is lower than the 71.6 reading in July. The **index of current conditions** declined to 75.7 from 76.6 the prior month while the **index of expectations** fell to 65.5 from 68.3 the prior month. The final reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, remained unchanged at 3.0% in August. One year inflation expectations rose to 3.5% from 3.4%.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined last week for the fifth-straight week as mortgage rates continue to climb. The index fell 4.2% for the week ending August 18th. **Refinancing** applications fell 2.8% to 397.1 from 408.4 the prior week. **Home purchase mortgage applications** decreased 5.0% to 142.0. Refinancing made up 29.5% of applications with an average loan size of \$254,500, while purchases average loan size was

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\$407,700. The **average contract rate** on a 30-year fixed-rate mortgage rose 15 basis points to 7.31% from 7.16% last week.

BOND MARKET REVIEW

Rates climbed for maturities less than 10 years and the yield curve flattened last week as Fed Chair Powell spoke at Jackson Hole and indicated the Fed would keep rates higher for longer to fight inflationary pressures. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities were 5.06%, 4.41%, 4.20% and 4.25%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -64, -20, 4, and -80 basis points respectively.

Economic/Events Calendar

Tuesday	August 29	Jun FHFA House Price Index (0.6%)	8:00 Central
		Jun S&P CoreLogic CS 20-City Index (0.80%)	8:00 Central
		Jul JOLTS Job Openings (9,450k)	9:00 Central
		Aug Conf Board Consumer Confidence (116.2)	9:00 Central
Wednesday	August 30	Aug 25 th MBA Mortgage Applications	6:00 Central
		Aug ADP Employment Change (198k)	7:15 Central
		Jul Goods Trade Balance (-\$90.0b)	7:30 Central
		Jul Wholesale Inventories (-0.3%)	7:30 Central
		Jul Retail Inventories (0.5%)	7:30 Central
		2 nd Qtr Gross Domestic Product (2.4%)	7:30 Central
		2 nd Qtr GDP Price Index (2.2%)	7:30 Central
		2 nd Qtr Personal Consumption (1.8%)	7:30 Central
Jul Pending Home Sales (-1.0%)	9:00 Central		
Thursday	August 31	Aug 26 th Initial Jobless Claims (235k)	7:30 Central
		Jul Personal Income (0.3%)	7:30 Central
		Jul Personal Spending (0.7%)	7:30 Central
		Jul PCE Deflator-YOY (3.3%)	7:30 Central
Friday	September 1	Aug Change in Nonfarm Payrolls (168k)	7:30 Central
		Aug Unemployment Rate (3.5%)	7:30 Central
		Aug Avg Hourly Earnings-YOY (4.3%)	7:30 Central
		Aug Labor Force Participation Rate (62.6%)	7:30 Central
		Jul Construction Spending (0.5%)	9:00 Central
		Aug ISM Manufacturing (47.0)	9:00 Central

Source: Bloomberg Finance L.P.

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