

September 5, 2023

Financial Services Group

Author:

Economic Review



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- The Labor Department reported that **initial jobless claims** declined slightly last week as the data again shows there is not any real evidence of a pickup in layoff activity. Layoffs remain low as almost all the softening in the labor market has come from declining demand for workers. Claims in regular state programs declined 4,000 from the prior week's upwardly revised 232,000 for the week ending August 26th. The four-week moving average edged higher to 237,500 from 237,250 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, increased 28,000 to 1.725 million for the week ending August 19th.
- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes increased 0.3% in June after gaining 0.7% in May. The year-on-year change in the house price index was 3.1% in June. 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 a better than expected 0.92% in June after gaining 1.04% in May. This is the fifth straight increase, reflecting growing buyer demand amid a tight supply of listings. The index declined 0.35% in June from the same month in 2022. The index tracks changes in the value of homes in 20 metropolitan regions.
- The Labor Department reported that **job openings** decreased in June by 338,000 to 8.827 million. The decline in job openings is more than expected and is at a two-year low. The decline reflects dissipating excess labor demand as job growth slows and the unemployment rate remains low. The level of quits dropped to 2.3% in July from 2.4%, the lowest since the start of 2021. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, fell to 1.5 in July. The job openings rate fell to 5.3% in July, from 5.5% in June.
- The Conference Board's **consumer confidence index** plunged in August as inflation remains elevated, interest rates have jumped higher, gasoline prices go up and job available becomes questionable. The index recorded a 106.1 in August from a downwardly revised 114.0 reading in July, previously reported as 117.0. The present situation index decreased to 144.8 in August from a 153.0 reading in July. The expectations index dropped to 80.2 in August from 88.0 the prior month.
- **ADP Employer Services** reported that payrolls at U.S. companies increased in August by less than expected. Companies increased payrolls by 177,000 in August after an upwardly revised gain of 371,000 in July. Services employment increased by 154,000 and manufacturing employment increased by 23,000.
- The Commerce Department reported the **goods trade deficit** widened in July as imports increased faster than exports. The deficit increased 2.6% to \$91.2 billion in July. **Exports** climbed 1.5% to \$164.8 billion and **imports** climbed 1.9% to \$256.0 billion.
- The Commerce Department reported **wholesale inventories** decreased 0.1% in July after falling 0.7% the previous month. Year-on-year wholesale inventories are up 0.5%. **Retail inventories** increased 0.3% in July after gaining 0.5% in June and are up 4.5% year-on-year.
- The second estimate by the Commerce Department of the 2nd quarter **gross domestic product** revised economic activity lower. A downward revision to business investment more than offset an upward revision in consumer spending. **Gross domestic product** expanded at a 2.1% annualized rate in the 2nd quarter, less than the 2.4% reported last month. **Personal consumption**, which accounts for about 70% of the economy, was revised higher to 1.7%, reported last month at 1.6%. The core PCE deflator, which is closely watched by the Fed rose 3.7%. The **GDP price index** gained 2.0% in the 2nd quarter, suggesting efforts to contain inflation are improving.
- The National Association of Realtors reported the **index of pending home re-sales** unexpectedly rose in July for the second straight month. Sales gained 0.9% in July after gaining 0.4% in June.

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Mortgage rates are high and the lack of housing inventory continues to be a major constraint to rising sales. 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** rose a lackluster 0.2% in July while **personal spending** increased 0.8%. Personal income is fading as the labor market weakens and excess savings dwindle. The jump in spending was for largely for experiences that will likely slowdown as the savings rate drops. The **core PCE Deflator**, the preferred inflation gauge by the Federal Reserve, climbed 0.2% in July, bringing the year-on-year gain to 3.3%. Disposable income, or the money left over after taxes, remained unchanged in July after climbing 0.2% in June.
- The Labor Department reported that payroll growth was higher than expected in August as more workers joined the workforce, most notably older workers and prime working age women. There was also a significant downward revision for the prior two months. The jobs report is made up of two surveys: one of households which provides the unemployment rate, labor force size and labor force participation rate and the other is the establishment survey of businesses, which generates the payrolls and wage figures. **Nonfarm payrolls** (employer survey) climbed a higher than expected 187,000 in August after gaining a downwardly revised 157,000 the prior month. The **unemployment rate** (household survey) increased to 3.786% from 3.495% in July. The **labor force participation rate** rose to 62.8% from 62.6% as 736,000 workers joined the labor force. The average hourly earnings increased to \$33.82 from \$33.74 the prior month. Weekly hours increased to 34.4 in August from 34.3 in July.
- The Commerce Department reported that **construction spending** increased 0.7% in July. Spending on residential construction increased 1.4% while non-residential construction climbed 0.1%. Government spending, which made up 21.5% of construction spending, decreased 0.4% and private spending gained 1.0%.
- The **Institute for Supply Management** reported its **manufacturing index** contracted in August at a slower rate. New orders slowed while production rose to a neutral reading. Consumers continue to lower their spending on merchandise as they rotate to services and experiences. The manufacturing index recorded a 47.6 in August after a 46.4 reading in July. The new orders part of the index decreased to 46.8 in August from 47.3 in July and production climbed to 50.0 in August from 48.3 the prior month. A reading below 50 indicates contraction in the manufacturing sector.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** climbed from three decade lows as mortgage rates held near their highs. The index climbed 2.3% for the week ending August 25th. **Refinancing** applications rose 2.5% to 407.1 from 397.1 the prior week. **Home purchase mortgage applications** increased 2.0% to 144.9. Refinancing made up 30.1% of applications with an average loan size of \$260,400, while purchases average loan size was \$413,100. The **average contract rate** on a 30-year fixed-rate mortgage remained unchanged at 7.31%.

Source: Bloomberg Finance L.P.

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BOND MARKET REVIEW

Rates fell early in the week and then climbed after the employment report last Friday and the yield curve steepened. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed on Friday at 4.88%, 4.30%, 4.18% and 4.29%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -58, -12, 11, and -59 basis points respectively.

Economic/Events Calendar

Tuesday	September 5	Jul Factory Orders (-2.5%)	9:00 Central
		Jul Factory Orders Ex Transportation (0.1%)	9:00 Central
Wednesday	September 6	Sep 1 st MBA Mortgage Applications	6:00 Central
		Jul Trade Balance (-\$68.0b)	7:30 Central
		Aug ISM Services Index (52.5)	9:00 Central
		Federal Reserve Releases Beige Book	14:00 Central
Thursday	September 7	Sep 2 nd Initial Jobless Claims (233k)	7:30 Central
		2 nd Qtr Nonfarm Productivity-final (3.4%)	7:30 Central
		2 nd Qtr Unit Labor Costs-final (1.9%)	7:30 Central
Friday	September 8	Jul Wholesale Sales (0.3%)	9:00 Central
		Jul Wholesale Inventories (-0.1%)	9:00 Central
		Jul Consumer Credit (\$16.0b)	14:00 Central

Source: Bloomberg Finance L.P.

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