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Financial Services Group

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Economic Review



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- The Labor Department reported that **initial jobless claims** edged higher this week from the lowest levels since February. Businesses continue to be reluctant to let go of workers they struggled to find over the last three years. While excess demand for labor has been dissipating, we have yet to see layoff activity pick up. Claims in regular state programs climbed 3,000 to 220,000 from the prior week's upwardly revised 217,000 for the week ending September 9th. The four-week moving average declined to 224,500 from 229,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, increased 4,000 to 1.688 million for the week ending September 2nd.
- The **National Federation of Independent Business** reported sentiment among small businesses declined slightly in August as gasoline prices jumped and concerns about economic activity grew. The index declined to 91.3 in August from a 91.9 reading in July. Inflation has picked up for small businesses and there is still difficulty in hiring employees. Sentiment is still negative, but improving from very low levels.
- The Labor Department reported the **consumer price index** rose in August by the most in over a year. A jump in gasoline prices, car insurance and prescription drugs accounted for the bulk of the increase. Even when stripping out energy and food prices, the core CPI accelerated on a monthly basis for the first time since February. The headline CPI for August was 0.6%. The year-on-year change in consumer prices is 3.7% in August. Service prices gained 0.4% in August after gaining 0.3% in July. Prices of commodity based manufactured goods rose 1.0% in August after declining 0.1% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.3% in August after increasing 0.2% the prior month. The year-on-year change in core CPI is 4.3%.
- The Treasury Department reported a **budget surplus** of \$89.3 billion for the month of August with the government collecting \$283.1 billion and spending \$193.9 billion. The surplus includes the impact from the \$319 billion Debt Relief Reversal downward modification to the Department of Education Federal Direct Student Loans program. This compares to a deficit of \$219.6 billion a year earlier. The August year-to-date budget deficit is \$1,524 billion, which compares to a deficit of \$945.7 billion in August of 2022. The fiscal year begins on October 1st.
- The Commerce Department reported that **retail sales** jumped in August, continuing a string of three months of surprisingly strong consumer spending. Unlike June and July however, August month's retail sales numbers were boosted by gasoline station sales. Outside of gasoline, spending was much more modest in August. Retail sales increased 0.6% in August after gaining a downwardly revised 0.5% the prior month. Momentum in the economy, especially from consumers, has been more persistent than expected at the start of the year. Retail sales represent roughly half of total consumption, while the other half captures spending on services. **Retail sales ex autos and gas** climbed 0.2% in August. The numbers in this report are not adjusted for inflation.
- The Labor Department reported the **producer price index** climbed 0.7% in August, the biggest gain in more than a year. The jump was boosted by rising energy and transportation costs. The cost of gasoline surged 20% in August, accounting for much of the gain. Year-on-year wholesale prices climbed 1.6% in August. Goods prices, which make up 31% of the weighting gained 2.0% in August after climbing 0.3% in July. Services, which make up 67% of the index, climbed 0.2% in August after increasing 0.5% the prior month. The **core PPI**, which excludes volatile food and energy prices, rose 0.2% in August after increasing 0.4% the previous month, with a year-on-year gain of 2.2%. **PPI ex food, energy and trade** climbed 0.3% in August.
- The Commerce Department reported **business inventories** remained unchanged in July after declining 0.1% in June. **Business sales** jumped 0.6% in July after declining 0.2% the prior month. The ratio of business inventories to sales declined to 1.39 in July from 1.40 in June.
- The Labor Department reported the **import price index** increased 0.5% in August after climbing a downwardly adjusted 0.1% in July. The gain was entirely due to an increase in fuel prices. The cost of petroleum rose 6.5% in August after increasing 1.9% the prior month. Import prices are down

September 18, 2023

Financial Services Group

3.0% year-on-year. **Import prices ex petroleum** remained unchanged in August for the second straight month and declined 1.1% year-on-year.

- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, unexpectedly expanded in September. Manufacturing has struggled this year as producers contend with weak export markets and efforts by companies to align inventories with sales. But this month's new orders and shipments jumped to expansionary levels. The index recorded a positive 1.9 in September after a negative 19.0 reading in August. New orders recorded a positive 5.1 in September after a negative 19.9 reading in August and shipments increased to positive 12.4 after a negative 12.3 reading last month. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, increased by 0.4% in August after climbing 0.7% in July. The gains came primarily from defense, business equipment, machinery and electronics. There was a significant decline in motor vehicles and parts. Production at factories, which make up 74.3% of output, climbed 0.1% in August after increasing 0.4% the previous month. Utilities climbed 0.9% in August after surging 4.4% in July and mining gained 1.4% in August after falling 0.2% in July. **Capacity utilization**, which measures the amount of a plant that is in use, rose to 79.7% from an upwardly revised 79.5% in July.
- The **University of Michigan's preliminary index of consumer sentiment** declined in August to 67.7 from 69.5 in August. The positive news is that inflation expectations remain well anchored as higher gasoline prices did not pass through to expectations and consumers believe the slowdown in overall prices will continue. The long-term inflation expectations dropped to 2.7% in September from 3.0% the prior month. The one-year-ahead inflation expectations declined to 3.1% from 3.5% in August. The **index of current conditions** dropped to 69.8 from 75.7 the prior month while the **index of expectations** increased to 66.3 from 65.5.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined last week as mortgage rates continue their climb. Housing affordability stands at a record low as limited inventory keeps home prices elevated and higher borrowing costs make mortgage payments difficult. The index declined 0.8% for the week ending September 8th. **Refinancing** applications fell 5.4% to 367.0 from 388.1 the prior week. **Home purchase mortgage applications** increased 1.3% to 143.7. Refinancing made up 29.1% of applications with an average loan size of \$258,800, while purchases average loan size was \$412,900. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.27% from 7.21% the prior week.

BOND MARKET REVIEW

Rates continued their march higher as the market braces for the FOMC meeting on Wednesday. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmark securities closed at 5.03%, 4.46%, 4.33% and 4.42%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -57, -13, 9, and -61 basis points respectively.

Source: Bloomberg Finance L.P.

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September 18, 2023

Financial Services Group

Economic/Events Calendar

Monday	September 18	Sep NAHB Housing Market Index (49)	9:00 Central
Tuesday	September 19	Aug Housing Starts (1,439k)	7:30 Central
		Aug Building Permits (1,440k)	7:30 Central
Wednesday	September 20	Sep 15 th MBA Mortgage Applications	6:00 Central
		FOMC Rate Decision (5.25%-5.50%)	13:00 Central
		Interest on Reserve Balances Rate (5.40%)	13:00 Central
Thursday	September 21	Sep 16 th Initial Jobless Claims (225k)	7:30 Central
		2 nd Qtr Current Account Balance (-\$221.0b)	7:30 Central
		Aug Existing Home Sales (4.10m)	9:00 Central
		Aug Leading Index (-0.5%)	9:00 Central

Source: Bloomberg Finance L.P.

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