

# September 23, 2024

## Financial Services Group

Author:

### Economic Review



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- The Labor Department reported that **initial jobless claims** dropped to their lowest level since May last week, suggesting the labor market remains healthy even as hiring has slowed. The data may be distorted due to the holiday during the measured week. First time claims in regular state programs recorded 219,000 for the week ending September 14<sup>th</sup> after the prior week's report of 231,000. The four-week moving average dropped to 227,500 from 231,000 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, declined 14,000 to 1,829,000 for the week ending September 7<sup>th</sup>. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, unexpectedly expanded after nine straight months of contraction. The index recorded a positive 11.5 in September after a negative 4.7 reading in August. New orders and shipments both rose significantly. New orders recorded a positive 9.4 in September after a negative 7.9 reading in August while shipments climbed to positive 17.9 after a positive 0.3 reading last month. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** unexpectedly edged higher by 0.1% in August, supported by online purchases. Consumers are getting more frugal and going online to search for deals and discounts on essentials and back to school items. Consumers are having to pull back with the savings rate falling to 2.9% in July and a cooling labor market. Retail sales represent roughly half of total consumption, while the other half captures spending on services. **Retail sales ex autos and gas** increased 0.2% in August after gaining 0.4% in July. The numbers in this report are not adjusted for inflation.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities rebounded in August after declining in July due to the effects of Hurricane Beryl. Industrial production increased 0.8% in August after declining 0.9% in July. Production at factories, which make up 74% of output, rose 0.9% in August after falling 0.7% the previous month. Utilities remained unchanged in August after declining 3.0% in July while mining gained 0.8% in August after declining 0.4% the prior month. **Capacity utilization**, which measures the amount of a plant that is in use, increased to 78.0% in August from a downwardly revised 77.4% in July.
- The Commerce Department reported **business inventories** increased 0.4% in July after gaining 0.3% the prior month. Inventories are 2.5% higher than a year earlier. **Business sales** jumped 1.1% in July after remaining unchanged in June and May. Sales are 2.9% higher than a year earlier. The ratio of business inventories to sales declined to 1.37 in July from 1.38 in June.
- The **National Association of Home Builders/Wells Fargo** reported builder confidence rose for the first time in six months. Measures of prospective buyer traffic and present sales rose off their lows for the year and an outlook index for the next six months increased by 4 to 53. The index of builder sentiment gained 2 points to 41 in September. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** rebounded in August as builders anticipate falling borrowing costs and increased demand prospects. Housing starts climbed 9.6% in August to a 1,356,000 annualized rate after falling 6.9% in July to a 1,237,000 annualized rate. Single-family starts increased 15.8% in August with multi-family starts declining 4.2%. **Building permits**, a gauge of future construction, increased 4.9% in August to a 1,509,000 pace.
- The **FOMC** met on Wednesday and cut the Federal Funds target range by 50 basis points to 4.75% to 5.00%. The move was more than the 25 basis point cut the market expected, reflecting the Fed's assessment of a labor market that is clearly weakening. The rate cut is seen as a preemptive one that will be enough to stabilize the labor market. The dot plot indicates the bigger than expected cut

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will not be the norm, and the updated Summary of Economic Projections showed the median Fed official does not see a sharp economic deterioration.

- The Commerce Department reported a **current-account deficit** of \$266.8 billion during the second quarter of 2024. This is wider than the \$241.0 billion deficit in the prior quarter. The current account is considered the broadest measure of international trade, covering goods and services as well as income payments and government transfers.
- The Conference Board reported the **index of leading economic indicators** dropped 0.2% in August after declining 0.6% the prior month. The drop was led by a decline in ISM new orders, consumer expectations and the interest rate spread. The index of U.S. leading indicators is a gauge of the economic outlook for the next three to six months. The **coincident index**, a gauge of current economic activity, gained 0.3% in August after decreasing 0.1% in the previous month.
- The National Association of Realtors reported that **existing home sales** declined in August to the lowest level in ten months as affordability challenges continue to dampen demand. Contract closings decreased 2.5% in August to an annualized selling rate of 3.86 million units. There is a 4.2 month supply in August compared to 4.1 in July. The median price declined to \$416,700 from \$421,400 in July and 3.1% higher than a year earlier. Inventory has climbed to 1.35 million homes from 1.33 million last month.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** surged 14.2% last week as mortgage rates declined to the lowest level since September 2022. **Refinancing applications** jumped 24.2% to 941.4 after a 0.9% gain the prior week. **Home purchase mortgage applications** increased 5.4% to 146.1. Refinancing made up 51.2% of applications with an average loan size of \$355,800, while purchases average loan size at \$437,700. The **average contract rate** on a 30-year fixed-rate mortgage declined 14 basis points to 6.15% from 6.29% the prior week.

## BOND MARKET REVIEW

Rates were lower last week on comments from Fed Chair Jerome Powell that suggests the Fed is ready to start cutting the federal funds target rate. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 3.59%, 3.50%, 3.74% and 4.08%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -9, 24, 34, and 49 basis points respectively.

Source: Bloomberg Finance L.P.

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### Economic/Events Calendar

Monday	September 23	Aug Chicago Fed Nat Activity Index (-0.20)	7:30 Central
Tuesday	September 24	Jul FHFA House Price Index (0.2%)	8:00 Central
		Jul S&P CoreLogic CS 20-City Index (0.40%)	8:00 Central
		Sep Conf Board Consumer Confidence (103.0)	9:00 Central
Wednesday	September 25	Sep 20 <sup>th</sup> MBA Mortgage Applications	6:00 Central
		Aug New Home Sales (695k)	9:00 Central
Thursday	September 26	Sep 21 <sup>st</sup> Initial Jobless Claims (225k)	7:30 Central
		2 <sup>nd</sup> Qtr Gross Domestic Product-3 <sup>rd</sup> Est (2.9%)	7:30 Central
		2 <sup>nd</sup> Qtr GDP Price Index-3 <sup>rd</sup> Est (2.5%)	7:30 Central
		2 <sup>nd</sup> Qtr Personal Consumption-3 <sup>rd</sup> Est (2.9%)	7:30 Central
		Aug Durable Goods Orders (-2.7%)	7:30 Central
		Aug Durables Ex Transportation (0.1%)	7:30 Central
		Aug Cap Goods Orders Nondef Ex Air (0.1%)	7:30 Central
		Aug Pending Home Sales (-0.8%)	9:00 Central
Friday	September 27	Aug Personal Income (0.4%)	7:30 Central
		Aug Personal Spending (0.3%)	7:30 Central
		Aug Goods Trade Balance (-\$100.3b)	7:30 Central
		Aug University of Michigan Sentiment (69.3)	9:00 Central
		Aug Univ of Michigan 1-Yr Inflation (2.7%)	9:00 Central
		Aug Univ of Michigan 5-10 Yr Inflation (3.1%)	9:00 Central

Source: Bloomberg Finance L.P.

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