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Financial Services Group

Economic Review

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- The Labor Department reported that **initial jobless claims** spiked to a one-year high last week, reflecting increases in Michigan and states hit by Hurricane Helene. The jobless claims data are likely in for a stretch of volatility in the wake of hurricanes Helene and Milton, complicating efforts by the Federal Reserve to accurately gauge underlying developments in the labor market. First time claims in regular state programs recorded 258,000 for the week ending October 5th after the prior week's report of 225,000. The four-week moving average climbed to 231,000 from 224,250 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, increased 42,000 to 1,861,000 for the week ending September 28th. 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 at a slower pace in August, restrained by the largest drop in credit card balances since March of 2021. Credit outstanding rose $8.9 billion after climbing $26.6 billion in July. Credit card debt decreased $1.4 billion to $1.358 trillion after jumping $10.6 billion the previous month. Auto and student loan debt increased $10.3 billion in August after gaining $16.0 billion in July. Total non-revolving credit climbed to $3.740 trillion. These figures are not adjusted for inflation.
- The **National Federation of Independent Business** reported sentiment among small businesses remained restrained in September, with the uncertainty index reaching the highest level on record in front of the presidential election. The uncertainty is pressuring small businesses to delay capital spending plans and inventory investments. The index edged higher to 91.5 in September from a 91.2 reading in August.
- The Commerce Department reported the **goods trade deficit** narrowed in August as exports increased and imports declined. The deficit decreased 10.8% to $70.4 billion in August. **Exports** rose 2.0% in August to $271.8 billion from $266.5 billion in July and **imports** decreased 0.9% to $342.2 billion from $345.4 billion the prior month.
- The Commerce Department reported **wholesale inventories** gained 0.1% in August to $904.8 billion. Year-on-year wholesale inventories have climbed 0.6%. **Wholesale trade sales** declined 0.1% in August after climbing 1.1% in July, with year-on-year sales up 2.1%. The ratio of inventory to sales remained unchanged at 1.35 in August.
- The **FOMC Minutes** for the September 17th-September 18th meeting indicated the Fed's decision for a jumbo rate cut was motivated mostly by risk management considerations. Almost all of the participants thought upside risks to inflation had diminished and downside risks to employment had increased. The participants believed a "recalibration" of the policy stance would begin to bring it into better alignment with recent indicators of inflation and the labor market.
- The Labor Department reported the **consumer price index** climbed 0.2% in September, higher than the 0.1% the market anticipated. The higher than expected gain in the CPI data reflects a pause in the recent progress toward moderating price pressures. The price gain was boosted by housing and food, which accounted for over 75% of the advance. The higher than expected inflation figures, along with the previous week's blowout employment report, has amplified the debate on future Fed rate cuts. Consumer prices year-on-year declined to 2.4% from last month's 2.5%. Service prices, which make up 64% of the index, gained 0.4% in September after gaining 0.3% in August. Prices of commodity based manufactured goods fell 0.2% in September after declining 0.1% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.3% in September after increasing 0.3% the prior month. The year-on-year change in core CPI advanced to 3.3% in September from 3.2% the prior month.
- The Labor Department reported the **producer price index** was unchanged in September, restrained by declines in the cost of gasoline. Price gains at the wholesale level are progressing toward tamer inflation with year-on-year gains at their lowest since February. Wholesale prices remained

unchanged in September after increasing 0.2% in August. Year-on-year wholesale prices were up 1.8% in September after August's report of 1.9%. Goods prices, which make up 30% of the weighting, declined 0.2% in September after remaining unchanged in August. Services, which make up 67% of the index, climbed 0.2% in September after increasing 0.4% in August. The **core PPI**, which excludes volatile food and energy prices, rose 0.2% in September, with a year-on-year gain of 2.8%. **PPI ex food, energy and trade** climbed 0.1% in September.

- The **University of Michigan's preliminary index of consumer sentiment** fell in October for the first time in three months as lingering frustration with a high cost of living offset positive news about employment. Consumer expectations are subject to change as the presidential campaign comes into greater focus. The gauge of consumer confidence decreased to 68.9 in October from 70.1 in September. The **index of current conditions** dropped to 62.7 from 63.3 the prior month while the **index of expectations** decreased to 72.9 from 74.4 the prior month. The reading for 5-10 year inflation expectations, an inflation indicator closely watched by the Fed, fell to 3.0% in October from 3.1% in September. One-year inflation expectations climbed to 2.9% from the prior month's 2.7%.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined 5.1% last week as mortgage rates jumped by the most since July 2023. **Refinancing** applications declined 9.3% to 997.3 after a 2.9% drop the prior week. H**ome purchase mortgage applications** decreased 0.1% to 149.2. Refinancing made up 52.4% of applications with an average loan size of $357,600, while purchases average loan size at $452,600. The **average contract rate** on a 30-year fixed-rate mortgage climbed 22 basis points to 6.36% from 6.14% the prior week.

BOND MARKET REVIEW

Rates moved higher last week as the market adjusts to the Fed's policy on cutting rates and the expected impact on inflation. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 3.96%, 3.90%, 4.10% and 4.25%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -6, 20, 15, and 29 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

Tuesday	October 15	Oct Empire Manufacturing (3.6)	7:30 Central
Wednesday	October 16	Oct 11th MBA Mortgage Applications	6:00 Central
		Sep Import Price Index (-0.3%)	7:30 Central
		Sep Import Price Index-YOY (0.0%)	7:30 Central
		Sep Import Price Index ex Petroleum	7:30 Central
Thursday	October 17	Oct 12th Initial Jobless Claims (253k)	7:30 Central
		Sep Retail Sales (03%)	7:30 Central
		Sep Retail Sales Ex Auto & Gas (0.3%)	7:30 Central
		Sep Industrial Production (-0.1%)	8:15 Central
		Sep Capacity Utilization (77.8%)	8:15 Central
		Aug Business Inventories (0.3%)	9:00 Central
		Oct NAHB Housing Market Index (42)	9:00 Central
Friday	October 18	Sep Housing Starts (1,350k)	7:30 Central
		Sep Building Permits (1,455k)	7:30 Central

Source: Bloomberg Finance L.P.