Stephens

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Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** increased last week, while recurring applications for unemployment benefits rose for a sixth straight week to the highest level since April. Companies are adding jobs at a healthy pace and the unemployment rates remain low, but the pace of hiring is losing steam, making it more difficult for some job seekers to find work. Claims in regular state programs increased 5,000 to 217,000 from the prior week's upwardly revised 212,000 for the week ending October 28th. The four-week moving average climbed to 210,000 from 208,000 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, increased 35,000 to 1.818 million for the week ending October 21st.

- The Labor Department reported the **Employment Cost Index** for the 3rd quarter was higher than expected, an unwelcome indication for the Fed that employment cost increases are gaining. The Employment Cost Index is the Fed's preferred measure of wages. The index climbed 1.1% in the 3rd quarter after a gain of 1.0% in the 2nd quarter. Wages and salaries increased 1.2% and benefits rose 0.9%. State and local government workers drove the acceleration. Wages in the government workers sector grew 6.1% annualized compared to 4.3% in the private sector.

- The Federal Housing Finance Agency reported the **house price index** of purchase-only homes increased 0.6% in August after gaining 0.8% in July. The year-on-year change in the house price index was 5.6% in August. 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 1.01% in August after gaining 0.78% in July. This is the seventh straight increase, reflecting growing buyer demand amid a tight supply of listings. The index increased 2.16% in August from the same month in 2022. The index tracks changes in the value of homes in 20 metropolitan regions.

- The Conference Board's **consumer confidence index** declined in October for the third straight month, dropping to a five-month low. Customers continued to be preoccupied with rising prices and concerns about the political situation and higher interest rates. Buying plans softened, with smaller shares of consumers expecting to buy a car, home or major appliance. The index recorded a 102.6 in October from an upwardly revised 104.3 reading in September, previously reported as 103.0. The present situation index decreased to 143.1 in October, the lowest in nearly a year. The expectations index dropped to 75.6 in October from 76.4 the prior month.

- **ADP Employer Services** reported that payrolls at U.S. companies added fewer jobs than expected in October. Demand for workers is slowing, with cuts in professional and business services. Companies increased payrolls by 113,000 in October after a gain of 89,000 in September. Services employment increased by 107,000 and manufacturing employment increased by 6,000.

- The Commerce Department reported that **construction spending** increased 0.4% in September. Spending on residential construction increased 0.6% while non-residential construction climbed 0.3%. Government spending, which made up 22.1% of construction spending, increased 0.4% and private spending gained 0.4%.

- The Labor Department reported that **job openings** unexpectedly climbed in September by 56,000 to 9.553 million. The increase was in food services and accommodation, arts, entertainment and recreation. Job openings declined in other serves, professional and business services and healthcare and social assistance. The quits rate, which measures voluntary job leavers as a share of total employment held at 2.3%, matching the lowest since 2020. The vacancy-to-unemployed ratio, the Fed's preferred gauge of labor-market tightness, held steady at 1.5. The job openings rate also remained unchanged at 5.7% in September.

- The **Institute for Supply Management** reported its **manufacturing index** contracted in October at a faster pace. Demand for products is weakening and consumers have grown more sensitive to prices.

The manufacturing index recorded a 46.7 in October from 49.0 in September. The new orders part of the index decreased to 45.5 in October from 49.2 in September and production dropped to 50.4 in October from 52.5 the prior month. A reading below 50 indicates contraction in the manufacturing sector.

- The **FOMC** met on Wednesday and held the targeted federal funds rate as expected to a range of 5.25% to 5.50% for the second straight meeting. The FOMC statement was very similar to the last meeting and Fed Chair Powell made statements that were considered dovish by market watchers. Treasury rates had a steep fall after the meeting, suggesting the market believes the FOMC is finished with any further rate hikes and will now focus on how long the Fed will wait before lowering targeted rates.
- Bureau of Labor Statistics reported **worker's productivity** increased more than expected in the third quarter, driven primarily by higher output. Productivity jumped an annualized pace of 4.7% in the third quarter after gaining 3.6% in the second quarter. Productivity is a measure of economic output for each unit of input, primarily the cost of labor. Year-on-year productivity is up 2.2%. The jump in productivity is mainly due to a surge in output growth of 5.9% compared to growth in aggregate hours which increased 1.1%. **Unit labor costs** in nonfarm businesses declined at a 0.8% annual rate in the 3rd quarter and climbed 1.9% year-on-year.
- The Commerce Department reported that **factory orders** increased 2.8% in September after climbing 1.0% in August. The gain was driven by a 12.7% increase in transportation spending. Nondefense capital goods orders climbed 3.2% in September after increasing 0.8% in August. **Factory orders ex transportation** climbed 0.8% in September after gaining 1.5% the prior month. The closely followed forward looking demand from businesses for nondefense capital goods, excluding aircraft increased 0.5% in September after gaining 0.9% in August.
- The Labor Department reported that payroll growth was slower than expected in October and the previous two months gains were adjusted significantly lower. There was a significant decline in auto manufacturing related to the UAW strike, but also declines in transportation and warehousing, information services and financial services. 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 lower than expected 150,000 in October after gaining a downwardly revised 297,000 the prior month. The **unemployment rate** (household survey) climbed to 3.879% in October from 3.787% in September. The **labor force participation rate** fell to 62.7% from 62.8% in September. The average hourly earnings increased to $34.00 from $33.93 the prior month. Weekly hours declined to 34.3 from 34.4.
- The **Institute for Supply Management** reported its **Services** index, which covers services and construction, expanded in October at the slowest pace in five months as business activity softened and employers scaled back hiring. The index recorded a 51.8 from 53.6 in September. New orders climbed to 55.5, up from 51.8 in August, business activity dropped to 54.1 in September from 58.8 the prior month, the employment index decreased to 50.2 from 53.4, and prices paid edged lower to 58.6 from 58.9. This gauge of service providers accounts for 90% of the economy. A reading more than 50 indicates expansion in the services sector.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** declined last week for the third consecutive week. The index decreased 2.1% for the week ending October 27th. **Refinancing** applications fell 3.5% to 341.7 from 354.0 the prior week. **Home purchase mortgage applications** decreased 1.4% to 125.2. Refinancing made up 31.2% of applications with an average

Source: Bloomberg Finance L.P.

loan size of $241,700, while purchases average loan size was $407,800. The **average contract rate** on a 30-year fixed-rate mortgage edged lower to 7.86% from 7.90% the prior week.

BOND MARKET REVIEW

Rates dropped sharply last week after the FOMC meeting kept rates unchanged and continued to drop after a weak unemployment report on Friday. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.84%, 4.50%, 4.57% and 4.77%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -34, 7, 20, and -7 basis points respectively.

Economic/Events Calendar

Tuesday	November 7	Sep Trade Balance (-$60.0b)	7:30 Central
		Sep Consumer Credit ($9.25b)	14:00 Central
Wednesday	November 8	Nov 3rd MBA Mortgage Applications	6:00 Central
		Sep Wholesale Trade Sales	9:00 Central
		Sep Wholesale Inventories (0.0%)	9:00 Central
Thursday	November 9	Nov 4th Initial Jobless Claims (220k)	7:30 Central
Friday	November 10	Nov University of Michigan Sentiment (63.5)	9:00 Central

Source: Bloomberg Finance L.P.