Stephens

# November 20, 2023
# Financial Services Group


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## Economic Review

- The Labor Department reported that **initial jobless claims** rose to the highest level since August 19th, with continuing applications climbing to the highest level in almost two years. The gains in applications indicate the labor market is cooling and raises the likelihood of an economic slowdown. Claims in regular state programs increased 13,000 to 231,000 from the prior week's upwardly revised 218,000 for the week ending November 11th. The four-week moving average climbed to 220,250 from 212,500 the prior week. Continuing claims, which include people who have received unemployment benefits for a week or more, increased 32,000 to 1.865 million for the week ending November 4th. This is the eighth straight increase in continuing claims.
- The Treasury Department reported a **budget deficit** of $66.6 billion for the month of October with the government collecting $403.4 billion and spending $470.0 billion. This compares to a deficit of $87.9 billion a year earlier. October is the first month in the government's fiscal year.
- The **National Federation of Independent Business** reported sentiment among small businesses edged lower in October. The index declined to 90.7 in October from a 90.8 reading in September, the lowest level in five months. The most notable development was the decline in earnings trends and a cooling in job creation plans. The share of owners expecting better business conditions over the next six months remained unchanged at a net negative 43%, showing that sentiment is still depressed.
- The Labor Department reported the **consumer price index** remained unchanged in October with the year-on-year change dramatically dropping from 3.7% to 3.2%. The surprisingly soft reading convinced many market watchers that the Fed is finished raising rates. The weakening inflation data is broad based, with shelter components remaining the final holdout. Service prices gained 0.3% in October after gaining 0.6% in September. Prices of commodity based manufactured goods declined 0.4% in October after climbing 0.1% the prior month. The **core CPI**, which excludes volatile food and energy prices, gained 0.2% in October after increasing 0.3% the prior month. The year-on-year change in core CPI is 4.0%, still twice as high as the Fed's target rate of 2.0%.
- The Commerce Department reported that **retail sales** slowed in October, taking a breather after unsustainable spending in the third quarter of 2023. The drop in spending was broad-based and suggests the consumer will slow down, which was expected given the resumption of student loan payments and running a savings rate that is near record lows. Retail sales decreased 0.1% in October after gaining an upwardly revised 0.9% the prior month. Retail sales represent roughly half of total consumption, while the other half captures spending on services. **Retail sales ex autos and gas** climbed 0.1% in October. The numbers in this report are not adjusted for inflation.
- The Labor Department reported the **producer price index** unexpectedly declined 0.5% in October, the most since April 2020. The drop adds to evidence of softening inflationary pressures across the economy. Year-on-year wholesale prices climbed 1.3% in October. Goods prices, which make up 31% of the weighting declined 1.4% in October after climbing 0.8% in September. Services, which make up 67% of the index, remained unchanged in October after increasing 0.2% the prior month. The **core PPI**, which excludes volatile food and energy prices, remained unchanged in October after increasing 0.2% the previous month, with a year-on-year gain of 2.4%. **PPI ex food, energy and trade** climbed 0.1% in October.
- 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 November, although a sharp deterioration in firms' views about the outlook casts doubt on the sustainability of manufacturing growth. The index recorded a positive 9.1 in November after a negative 4.6 reading in October. New orders recorded a negative 4.9 in November after a negative 4.2 reading in October while shipments increased to positive 10.0 after a positive 1.4 reading last month. Readings above zero signal expansion in New York, northern New Jersey, and southern Connecticut.

- The Commerce Department reported **business inventories** rose 0.4% in September after climbing 0.4% in August. **Business sales** increased 1.1% in September gaining 1.4% the prior month. The ratio of business inventories to sales declined to 1.36 in September from 1.37 in August.
- The Labor Department reported the **import price index** decreased 0.8% in October after climbing an upwardly adjusted 0.4% in September. The drop was driven by a decrease in fuel prices. The cost of petroleum fell 6.5% in October after increasing 6.8% the prior month. Import prices are down 2.0% year-on-year. **Import prices ex petroleum** declined 0.2% in October for the second straight month and declined 1.1% year-on-year.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, decreased by 0.6% in October after climbing 0.1% in September, which was revised down from a reported 0.3% gain last month. The pullback in activity reflects an automaker strike and a drop in utility use. Production at factories, which make up 74.3% of output, fell 0.7% in October after increasing 0.2% the previous month. Utilities fell 1.6% in October after dropping 0.6% in September while mining gained 0.4% in October after staying unchanged the prior month. **Capacity utilization**, which measures the amount of a plant that is in use, fell to 78.9% from a downwardly revised 79.5% in September.
- The **National Association of Home Builders/Wells Fargo** reported builders housing sentiment fell to its lowest level this year in November. Surging mortgage rates, declining affordability and a lack of buildable lots are driving many prospective buyers out of the market. The index of builder sentiment declined to 34 in November from 40 in October. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** unexpectedly rose in October, indicating builders continue to benefit from the limited supply of houses in the resale market. Housing starts rose 1.9% in October to a 1,372,000 annualized rate following September's downwardly revised 1,346,000 pace. Single-family starts increased 0.2% in October with multi-family starts up 6.3%. **Building permits**, a gauge of future construction, gained 1.1% in October to a 1,487,000 pace.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** climbed last week after mortgage rates dropped from their highs two weeks earlier. The index increased 2.8% for the week ending November 10th. **Refinancing** applications rose 2.0% to 354.3 from 347.3 the prior week. **Home purchase mortgage applications** increased 3.3% to 133.2. Refinancing made up 31.9% of applications with an average loan size of $247,000, while purchases average loan size was $406,600. The **average contract rate** on a 30-year fixed-rate mortgage remained unchanged at 7.61% after plunging 25 basis points the prior week.

## BOND MARKET REVIEW

Rates tumbled last week after weak inflation data lowered market expectations on future rate hikes by the Fed. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.89%, 4.44%, 4.44% and 4.59%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -45, 0, 15, and -30 basis points respectively.

Source: Bloomberg Finance L.P.

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## Economic/Events Calendar

| | | | |
|---|---|---|---|
| Monday | November 20 | Oct Leading Index (-0.7%) | 9:00 Central |
| Tuesday | November 21 | Oct Chicago Fed Nat Index (0.00) | 7:30 Central |
| | | Oct Existing Home Sales (3.90m) | 9:00 Central |
| | | Nov 1st FOMC Meeting Minutes released | 13:00 Central |
| Wednesday | November 22 | Nov 17th MBA Mortgage Applications | 6:00 Central |
| | | Nov 18th Initial Jobless Claims (227k) | 7:30 Central |
| | | Oct Durable Goods Orders (-3.2%) | 7:30 Central |
| | | Oct Durables ex Transportation (0.1%) | 7:30 Central |
| | | Oct Cap Goods Orders Nondef Ex Air (0.1%) | 7:30 Central |
| | | Nov University of Michigan Sentiment (60.8) | 9:00 Central |

Source: Bloomberg Finance L.P.