Summary

U.S. stocks were little changed on Friday despite a better-than-expected June jobs report but ended the week in the green. The Dow Jones Industrial Average increased 0.8%, the S&P 500 climbed 1.9%, and the NASDAQ advanced 4.6% for the week. Economic reports were mostly positive last week. U.S. employers added more jobs than expected in June. Nonfarm payrolls advanced 372,000 last month compared with expectations for an increase of 250,000. The biggest gain was in the education/health sector (+96,000 jobs). Average hourly earnings increased 0.3% in June. On a year-over-year basis, average hourly earnings were up 5.1%. The unemployment rate held steady at 3.6% in June while the labor force participation rate dipped 0.1 point to 62.2%. In more labor market news, the Job Openings and Labor Turnover Survey (JOLTS) report showed that both the number of job openings and the number of hires declined in May. Factory orders were up 1.6% in May and orders for core capital goods, a proxy for business spending, advanced 0.6%. Consumer credit climbed $22.3 billion in June. Nonrevolving credit (mainly student and auto loans) rose $14.9 billion and revolving credit (mainly credit cards) was up $7.5 billion. Wholesale inventories jumped 1.8% in May and wholesale sales increased 0.5%. The services sector slowed last month but remained comfortably in expansion mode. The ISM Services Index declined 0.6 points in June to 55.3%; a reading above 50.0% indicates expansion. The U.S. trade deficit decreased less than expected in May as exports increased faster than imports.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Factory Orders (May – Tu 10:00)	+1.6%	+0.5%	Core capital goods orders increased 0.6%
ISM Services (Jun – We 10:00)	55.3%	54.2%	New orders index fell 2.0 points to 55.6%
JOLTS – Job Openings (May – We 10:00)	11.245 Mil.	NA	1.9 openings per available worker
Initial Unemployment Claims (7/2 – Th 8:30)	235 K	234 K	4-week moving average rose 750 to 232,500
Continuing Claims (6/26 – Th 8:30)	1,375 K	NA	
Trade Balance (May – Th 8:30)	-$85.5 Bil.	-$84.9 Bil.	Exports increased faster than imports
Nonfarm Payrolls (Jun – Fr 8:30)	+372 K	+250 K	Education/health employment up 96,000
Nonfarm Private Payrolls (Jun – Fr 8:30)	+381 K	+275 K	Government employment declined 9,000
Average Hourly Earnings (Jun – Fr 8:30)	+0.3%	+0.3%	+5.1% from June 2021
Unemployment Rate (Jun – Fr 8:30)	3.6%	3.6%	Labor force participation rate down 0.1 point to 62.2%
Average Workweek (Jun – Fr 8:30)	34.5	34.6	
Wholesale Inventories (May – Fr 10:00)	+1.8%	NA	Wholesale sales increased 0.5%
Consumer Credit (May – Fr 3:00)	+$22.3 Bil.	NA	Both revolving and nonrevolving credit rose
Upcoming Week: Indicator	**Consensus Expectation***	**Last Period**	**Comment**
Consumer Price Index (Jun – We 8:30)	+1.1%	+1.0%	
Core Consumer Price Index (Jun – We 8:30)	+0.6%	+0.6%	
Initial Unemployment Claims (7/9 – Th 8:30)	239 K	235 K	
Continuing Claims (7/2 – Th 8:30)	NA	1,375 K	Not available
Producer Price Index (Jun – Th 8:30)	+0.9%	+0.8%	
Core Producer Price Index (Jun – Th 8:30)	+0.5%	+0.5%	
Retail Sales (Jun – Fr 8:30)	+0.8%	-0.3%	
Core Retail Sales (Jun – Fr 8:30)	+0.6%	+0.5%	
Industrial Production (Jun – Fr 9:15)	+0.2%	+0.2%	
Capacity Utilization (Jun – Fr 9:15)	80.0%	79.0%	

**Sources: www.briefing.com and www.federalreserve.gov*

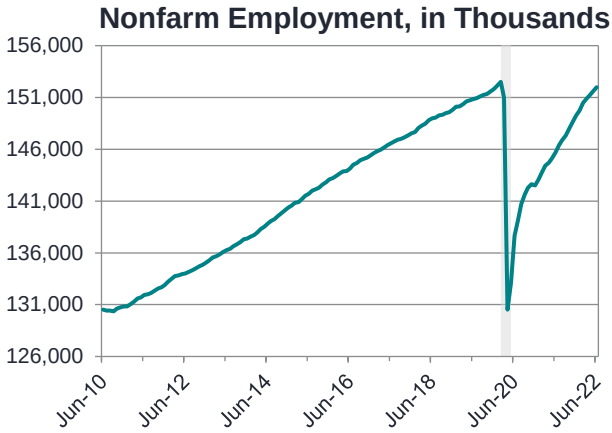
Economic Review

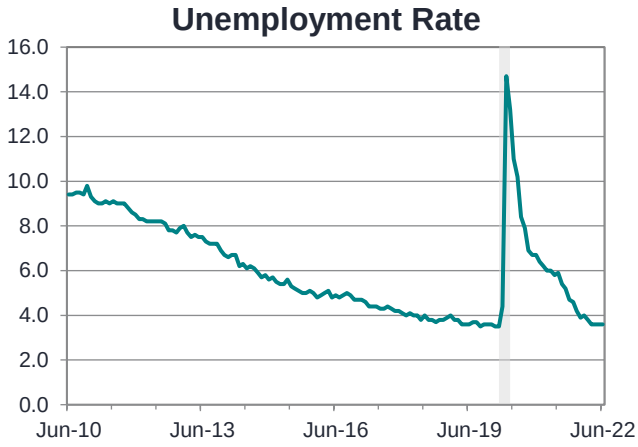
U.S. employers added more jobs than expected last month. NONFARM PAYROLLS increased 372,000 in June after a downwardly revised gain of 384,000 in May. The education/health sector added 96,000 jobs last month and employment in the professional and business services sector was up 74,000. NONFARM PRIVATE PAYROLLS climbed 381,000 after an upwardly revised increase of 336,000 in May. The AVERAGE WORKWEEK was unchanged at 34.5 hours. AVERAGE HOURLY EARNINGS for all employees on private nonfarm payrolls were $32.08, up 0.3% from the previous month; over the past 12 months, average hourly earnings advanced 5.1%.

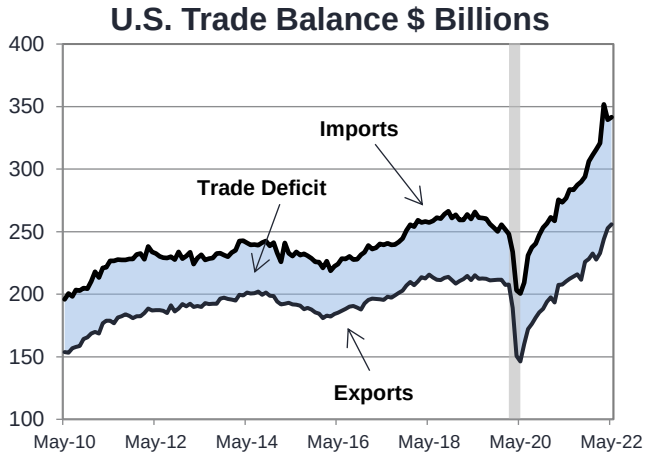
The U.S. jobless rate held steady last month while the labor force participation rate declined modestly. The UNEMPLOYMENT RATE was unchanged at 3.6% in June while the labor force participation rate edged down 0.1 percentage point to 62.2%. The number of people unemployed for 27 weeks or longer decreased to 1.3 million in June and made up 22.6% of the unemployed. The Labor Department's U-6 rate, which accounts for people who have stopped looking for work or cannot find full-time jobs, declined 0.4 percentage points to 6.7% and was down 3.1 percentage points from June 2021. Down slightly from May, 7.1% of employed persons teleworked because of the pandemic in June. Increasing 0.3 million from May, 2.1 million people reported in June that they were unable to work because their employer closed or lost business due to the pandemic.

The U.S. trade deficit decreased less than expected in May as exports rose more than imports. The INTERNATIONAL TRADE DEFICIT declined to $85.5 billion in May from a downwardly revised $86.7 billion in April. Exports advanced $3.0 billion to $255.9 billion in May. Goods exports increased $3.0 billion while exports of services were up less than $0.1 billion. Imports climbed $1.9 billion to $341.4 billion; goods imports increased $0.1 billion and imports of services rose $1.8 billion. Compared with a year ago, the total deficit climbed $18.9 billion with exports rising $45.6 billion or 21.7% and imports advancing $50.6 billion or 21.7%.

First-time jobless claims increased modestly last week. INITIAL CLAMS rose 4,000 to 235,000 for the week ending July 2. The four-week moving average was up 750 to 232,500. CONTINUED BENEFITS advanced 51,000 to 1,375,000 for the week ending June 25. The four-week moving average, a better measure of underlying trends, was rose 16,500 to 1,335,000.







Fed Speeches

Federal Reserve Bank of St. Louis President and CEO James Bullard spoke to the Little Rock Regional Chamber in Little Rock, Arkansas last week. President Bullard said the Federal Reserve must act to preserve its credibility before inflation expectations become unmoored.

"In the 1970s, inflation expectations became unmoored and it took years for the Fed to bring inflation back to lower levels. The real economy was also volatile during this process."

Federal Reserve Bank of St. Louis President & CEO James Bullard

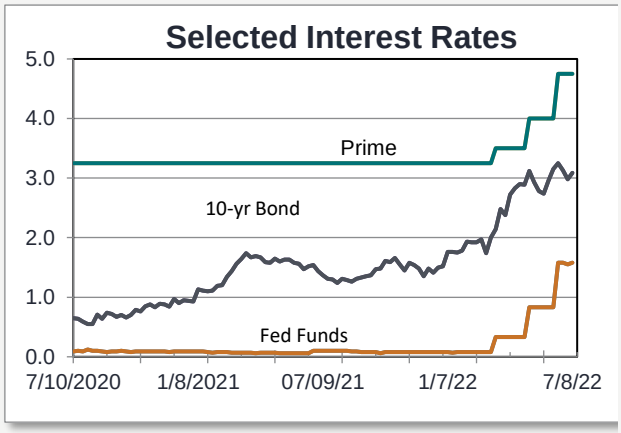
- *The current U.S. macroeconomic situation is straining the Fed's credibility with respect to its inflation target.*
- *In economic theory, expected inflation and actual inflation should be closely related.*
- *The current divergence between actual inflation readings and TIPS-based expected inflation will have to be resolved, possibly resulting in still higher inflation expectations.*
- *In the 1970s, inflation expectations became unmoored, and it took years for the Fed to bring inflation back to lower levels. The real economy was also volatile during this process.*

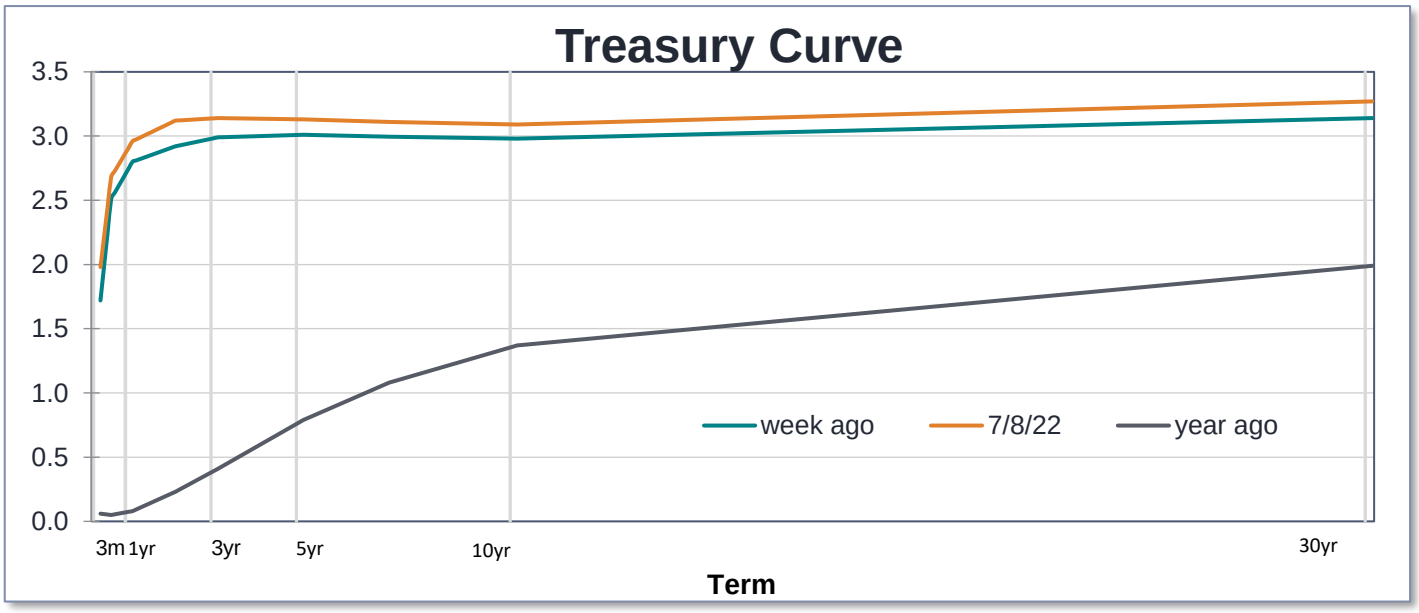
President Bullard also discussed the recent discrepancy between gross domestic product (GDP) and gross domestic income (GDI). He said the GDI growth rate, which has remained positive, is more consistent with the labor force growth the United States is experiencing, signaling a positive outlook for the U.S. economy.

- *U.S. GDP, the total value of goods and services produced domestically, is supposed to equal U.S. GDI, the total value of income earned domestically.*
- *However, these two numbers do not match, and this is called a "statistical discrepancy."*
- *Because of this discrepancy, these two measures of output provide conflicting views of recent economic conditions: GDP suggests a declining economy, but GDI points to a growing economy.*
- *At this point, it appears that the GDI measure is more consistent with observed labor markets, suggesting the economy continues to grow.*

Financial Markets

U.S. stocks rose last week with the Dow Jones Industrial Average increasing 0.8%, the S&P 500 climbing 1.9%, and the NASDAQ advancing 4.6%. Treasury yields were higher across the curve with the 10-year yield rising 11 basis points (bps) to 3.09% and the 30-year yield jumping 13 bps to 3.27%. Oil prices fell 3.3% and ended the week at $104.83 per barrel. The U.S. dollar rose 0.7% against the Japanese yen and the euro declined 2.2% against the greenback last week.





Interest Rate Forecast*

The Federal Open Market Committee (FOMC) raised the federal funds rate target to 1.5% to 1.75% at the Fed's June policy meeting. In the statement released following the June meeting, the FOMC said, "Overall economic activity appears to have picked up after edging down in the first quarter. Job gains have been robust in recent months and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures." The statement went on to say, "…the Committee anticipates ongoing increases in the target range will be appropriate."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
3rd Qtr '22	5.25	2.13	2.16	2.58	3.57	3.59	3.73	5.93
4th Qtr	6.88	3.79	3.88	4.08	4.38	4.24	4.31	6.21
1st Qtr '23	7.54	4.46	4.56	4.44	4.65	4.43	4.58	6.27
2nd Qtr	7.54	4.46	4.56	4.44	4.65	4.43	4.58	6.12
3rd Qtr	7.38	4.29	4.39	4.18	4.29	4.24	4.54	5.76

Forecast as of June 28, 2022

FINANCIAL MARKET SUMMARY

	As of 7/8/2022	As of 7/1/2022	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	4.75	4.75	0	75	125
LIBOR Index Base Rate (1Month)	1.79	1.67	12	60	134
Fed Funds (Wed close)	1.58	1.55	3	75	125
TREASURIES (BE) (Changes in BPs)					
3 Months	1.98	1.72	26	59	128
6 Months	2.68	2.51	17	70	149
1 Year	2.96	2.80	16	38	115
2 Years	3.12	2.92	20	6	59
5 Years	3.13	3.01	12	(12)	37
10 Years	3.09	2.98	11	(6)	37
30 Years	3.27	3.14	13	7	51
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	1.80	1.90	(10)	2	(14)
5-Year Muni	2.11	2.22	(11)	0	(8)
10-Year Muni	2.55	2.70	(15)	44	15
30-Year Muni	3.09	3.20	(11)	(1)	33
30-Year Conventional Mortgage	5.30	5.70	(40)	7	58
MARKET INDICATORS (Changes in %)					
DJIA	31,338.15	31,097.26	0.8	(0.2)	(9.7)
S&P 500	3,899.38	3,825.33	1.9	(0.0)	(13.1)
NASDAQ	11,635.31	11,127.84	4.6	2.6	(15.1)
CRB Futures	307.07	311.31	(1.4)	(11.6)	(3.2)
Oil (WTI Crude)	104.83	108.43	(3.3)	(12.9)	6.9
Gold	1,740.00	1,801.50	(3.4)	(7.2)	(10.7)
Yen / Dollar	136.09	135.21	0.7	1.2	9.5
Dollar / Euro	1.02	1.04	(2.2)	(3.2)	(6.4)

