



## Summary

U.S. stocks rallied on Friday, but the three major indices finished mixed for the week. The Dow Jones Industrial Average fell 0.94%, while the S&P 500 increased 0.35%, and the NASDAQ climbed 2.46%. Last week, we received conflicting data about the growth of the U.S. economy in the first quarter of 2023. Real gross domestic product (GDP) was revised upwards 0.2 points, to an annual rate of 1.3%. Upward revisions from the advance estimates for government spending and exports drove this revision. Conversely, first quarter real gross

domestic income (GDI) declined by 0.9% year-over-year. The GDI reading should in theory match the GDP, but the two measures often differ due to statistical discrepancy. New home sales exceeded expectations in April, with a total of 683,000 units sold at a seasonally adjusted annual rate. Personal income increased 0.4% in line with expectations while personal spending rose 0.8%, beating market expectations. The PCE price index rose 0.4% in April and the core PCE price index also advanced 0.4%. On a year-to-year basis, the PCE price

index was up 4.4% in April compared with 5.1% in March. The core PCE price index was up 4.7% in April compared to 4.6% in March. Initial unemployment claims for the week ending May 20 increased 4,000 to 229,000. Continuing jobless claims for the week ending March 13 declined 5,000 to 1,794,000. Durable goods orders were surprisingly up 1.1% in April compared with expectations for a 1.0% decrease. Consumer sentiment in May was down 7% from April, but not as much as expected.

### ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
New Home Sales (Apr – Tu 10:00)	683 TUAR	660 TUAR	Up 11.8% year-over-year
Pending Home Sales (Apr – Th 10:00)	0.0%	-2.9%	
Initial Claims (5/20 – Th 8:30)	229K	247K	The four-week moving average was 231,750
Continuing Claims (5/13 – Th 8:30)	1794K	NA	The four-week moving average was 1,800,250
GDP – Second Estimate (Q1 – Th 8:30)	+1.3%	+1.1%	Revised upwardly
Personal Income (Apr – Fr 8:30)	+0.4%	+0.4%	Real disposable personal income was flat
Personal Spending (Apr – Fr 8:30)	+0.8%	+0.4%	Real personal spending was up 0.5%
PCE Prices (Apr – Fr 8:30)	+0.4%	+0.3%	+4.4% year-over-year
PCE Prices – Core (Apr – Fr 8:30)	+0.4%	+0.3%	+4.7% year-over-year
Durable Orders (Apr – Fr 8:30)	+1.1%	-1.0%	
U. Michigan Consumer Sentiment (May – Fr 10:00)	59.2	57.8	
Upcoming Week: Indicator	Consensus Expectation*	Last Period	Comment
FHFA Housing Price Index (Mar – Tu 9:00)	NA	0.5%	Not available
S&P Case-Shiller Home Price Index (Mar – Tu 9:00)	-2.3%	0.4%	
Consumer Confidence (May – Tu 10:00)	99.5	101.3	
JOLTS- Job Openings (Apr – We 10:00)	NA	9.590 Mil.	Not available
Initial Unemployment Claims (5/29 – Th 8:30)	233 K	229K	
Continuing Claims (5/22 – Th 8:30)	NA	1794K	Not available
ISM Manufacturing (May – Th 10:00)	47.1	47.1	
Construction Spending (Apr – Th 10:00)	+0.2%	0.3%	
Nonfarm Payrolls (May – Fr 8:30)	+190K	+253K	
Nonfarm Private Payrolls (May – Fr 8:30)	+170K	+230K	
Unemployment Rate (May – Fr 8:30)	3.5%	0.5%	
Average Hourly Earnings (May – Fr 8:30)	+0.3%	+0.5%	
Average Workweek (May – Fr 8:30)	34.4	34.4	

\*Sources: [www.briefing.com](http://www.briefing.com) and [www.federalreserve.gov](http://www.federalreserve.gov)



# Economic Review

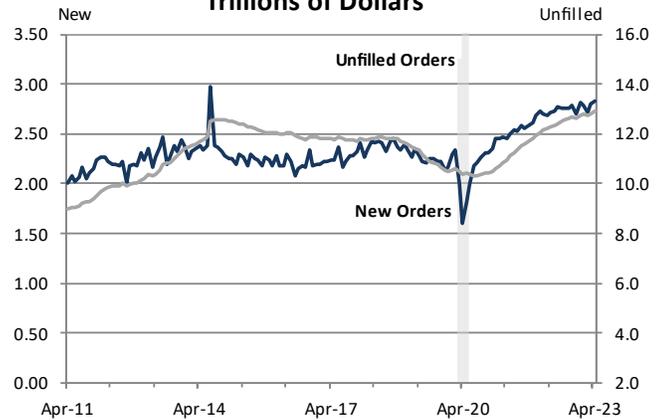
Orders for U.S. manufactured goods intended to last at least three years increased unexpectedly in April by 1.1%, following an upwardly revised 3.3% increase (from 3.2%) in March. The increase was driven by new orders for transportation equipment, which rose 3.7% after increasing 9.9% in March. New orders for defense aircraft and parts surged 32.7% following a 26.9% increase in March, more than compensating for the decrease in new orders for motor vehicles and parts (-0.1%). New orders for machinery were also up 1.0% after declining 0.2% in March. New orders for primary metals and for computers and electronic products fell 0.5% and 1.4%, respectively. New orders for fabricated metal products were flat.

The PCE PRICE INDEX climbed 0.4% and the core PCE price index (which excludes food and energy) also rose 0.4%. On a year-over-year basis, the overall PCE price index was 4.4% higher and the core measure was up 4.7%. Personal Income increased 0.4% in April and personal spending was up 0.8% from March. Wages and salaries increased 0.5%, after a 0.3% gain in March. Rental income advanced 1.5% from March and the personal savings rate as a percentage of disposable income fell to

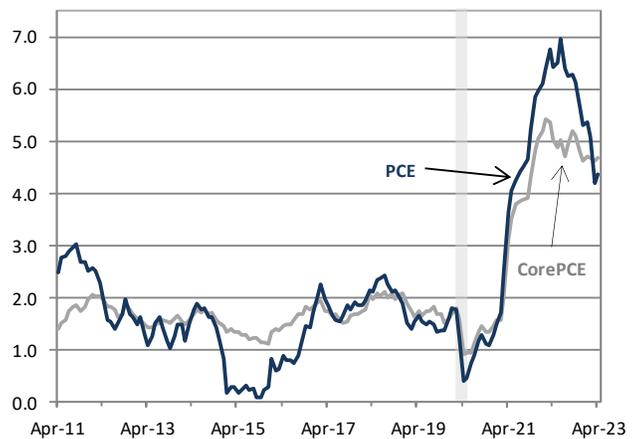
4.1% following a rate of 4.5% in March.

NEW HOME SALES, which are counted at contract signing, rose 4.1% in April to 683,000 units sold at a seasonally adjusted annual rate. The April results are up 11.8% from April 2022 rate. This was the first time that the year-over-year growth rate was positive since March 2021, except for a minor uptick in February 2022. The Northeast region saw the largest decline in year-over-year home sales (46.7%) while sales fell only by 2.8% in the West; new home sales climbed instead in the Midwest and in the South (23.4% and 20.6% respectively) compared to 12 months ago. The median sales price for a new home in April was \$420,800 and the average sales price was \$501,000. The increase in mortgage rates over the past several months has impeded demand for housing, as evidenced by the sales declines in the higher-priced Northeast and West regions and the 8.2% year-over-year decline in the median selling price of a new home while the average sales price declined 10.9%. At the April rate, there was a supply of 7.6 months of new homes for sale. This is down from 8.5 months in April 2022. Supply pressures and affordability will also likely remain an issue for new home sales in the months ahead.

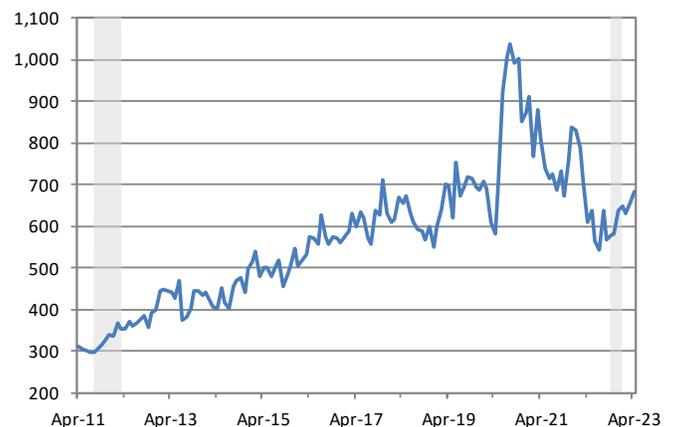
### Durable Goods Orders Trillions of Dollars



### PCE Chain Type Index Percent Change, Year-Over-Year



### New Home Sales Thousands





## Fed Speeches

Christopher Walker, Governor of the Federal Reserve System, gave a speech at the 2023 Santa Barbara County Economic Summit about the possibility of further increases in interest rates by the Federal Open Market Committee (FOMC):

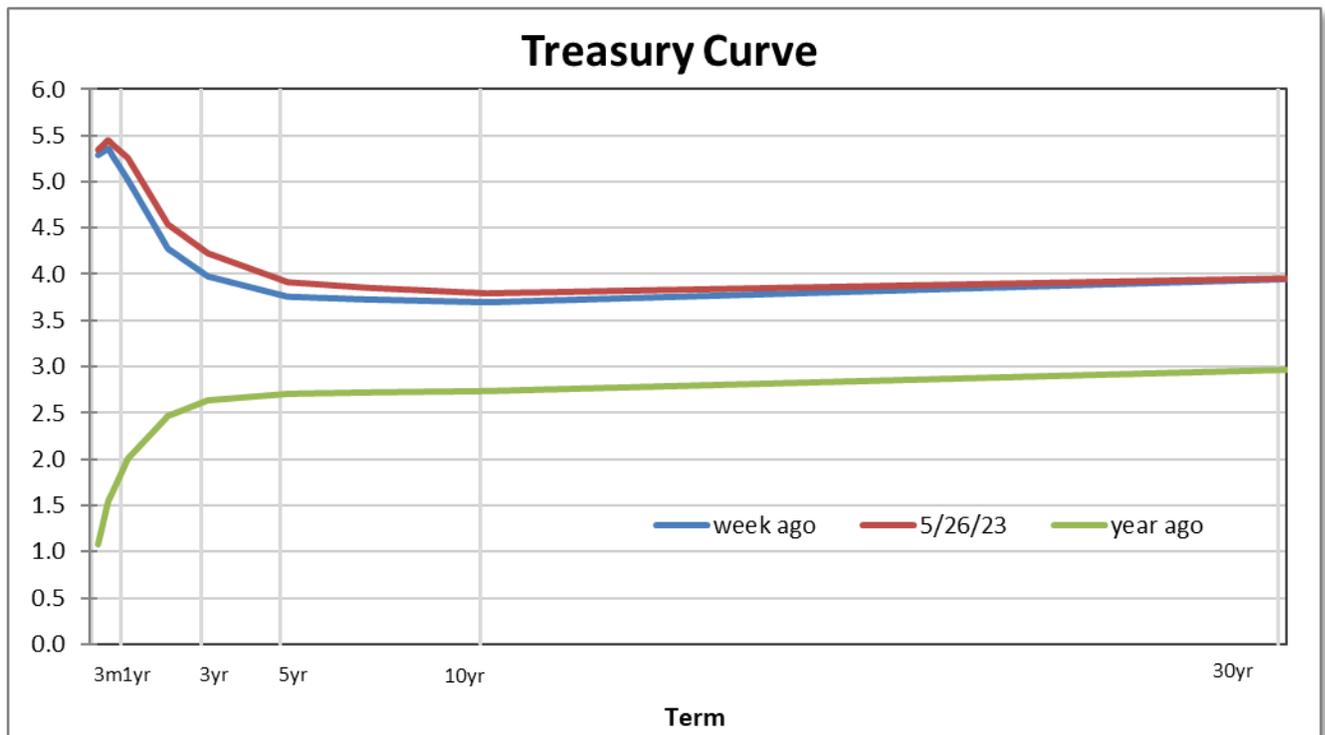
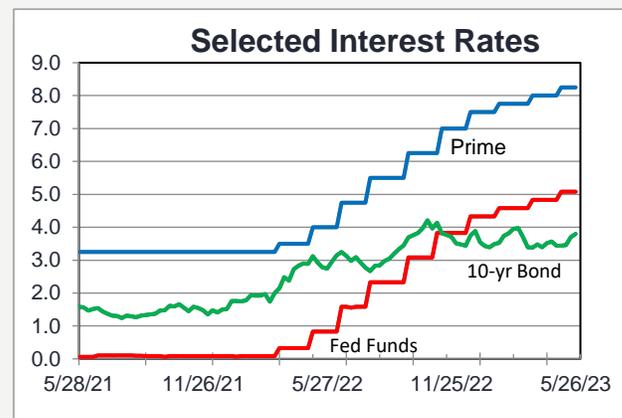
*Despite this slowing in activity from last year, we have a very tight labor market and high inflation. We also are at a period of higher-than-usual uncertainty about how credit conditions are evolving in response to the recent bank failures and stress among some other mid-size banks.*

Governor Walker highlighted the difficult job of taming inflation without putting additional stress to the banking system, which in recent months has witnessed several bank failures:

*Alternatively, one might view the current and incoming data as supporting a hike in June but believe that caution is warranted because there is a high level of uncertainty about how credit conditions are evolving. Another hike combined with an abrupt and unexpected tightening of credit conditions may push the economy down in a rapid and undesirable manner.*

## Financial Markets

The Dow Jones Industrial Average declined 0.94% last week, while the S&P 500 advanced 0.35%, and the NASDAQ climbed 2.46%. Treasury yields were slightly higher across the curve as the 10-year yield increased 10 basis points (bps) to 3.80% and the 30-year yield rose 1 bps to 3.96%. Oil prices advanced 1.4%, ending the week at \$72.79 per barrel. The U.S. dollar moved up 1.9% against the Japanese yen and the euro declined 0.7% against the greenback last week.





## Interest Rate Forecast\*

The Federal Open Market Committee (FOMC) raised the federal funds rate target to 5.00% to 5.25% at the Fed's May policy meeting. In the statement released following the May meeting, the FOMC said, "Economic activity expanded at a modest pace in the first quarter. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains

elevated. The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses

are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The

Committee remains highly attentive to inflation risks."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
2 <sup>nd</sup> Qtr '23	8.15	5.00	4.97	5.17	4.12	3.54	3.79	6.38
3 <sup>rd</sup> Qtr	8.25	5.13	5.10	5.32	4.50	4.08	4.10	6.58
4 <sup>th</sup> Qtr	8.25	5.13	5.10	5.29	4.80	4.65	4.50	6.62
1 <sup>st</sup> Qtr '24	8.25	5.13	5.10	5.26	5.10	5.15	5.10	6.72
2 <sup>nd</sup> Qtr	8.08	4.96	4.94	5.05	5.14	5.26	5.35	6.65

\* Forecast as of April 28, 2023

## FINANCIAL MARKET SUMMARY

	As of 5/26/2023	As of 5/19/2023	Weekly Change	4-Week Change	13-Week Change
<b>MONEY MARKETS (Changes in BPs)</b>					
Prime	8.25	8.25	0	25	50
LIBOR Index Base Rate (1Month)	5.16	5.14	2	13	54
Fed Funds (Wed close)	5.08	5.08	0	25	50
<b>TREASURIES (BE) (Changes in BPs)</b>					
3 Months	5.34	5.29	5	24	48
6 Months	5.44	5.36	8	38	38
1 Year	5.25	5.02	23	45	20
2 Years	4.54	4.28	26	50	(24)
5 Years	3.92	3.76	16	41	(27)
10 Years	3.80	3.70	10	36	(15)
30 Years	3.96	3.95	1	29	3
<b>MUNICIPALS- AAA G.O. &amp; Mortgage (Changes in BPs)</b>					
2-Year Muni	3.07	2.98	9	37	12
5-Year Muni	2.76	2.63	13	39	12
10-Year Muni	2.69	2.54	15	32	6
30-Year Muni	3.72	3.62	10	25	6
30-Year Conventional Mortgage	6.57	6.39	18	14	7
<b>MARKET INDICATORS (Changes in %)</b>					
DJIA	33,093.34	33,426.63	(1.0)	(2.9)	0.8
S&P 500	4,205.45	4,191.98	0.3	0.9	5.9
NASDAQ	12,975.69	12,657.90	2.5	6.1	13.9
CRB Futures	288.45	289.74	(0.4)	(2.4)	(1.2)
Oil (WTI Crude)	72.79	71.77	1.4	(6.5)	(4.6)
Gold	1,947.36	1,977.81	(1.5)	(2.1)	7.1
Yen / Dollar	140.59	137.98	1.9	3.1	3.1
Dollar / Euro	1.07	1.08	(0.7)	(2.6)	1.7



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