Summary

Last week, all eyes were on the inflation reports as it can influence FOMC monetary policy for 2024. Overall, investors seem optimistic that U.S. inflation is under control and they expect the Fed to start cutting interest rates sometime this year. The Dow Jones Industrial Average advanced 0.3%, the S&P 500 rose 1.8%, and the NASDAQ jumped 3.1%.

The consumer price index (CPI), the most widely used measure of current inflation, increased more than expected in December (0.3% vs expected 0.2%). The producer price index (PPI), a leading indicator of future inflation, unexpectedly declined (-0.1%) in December. This is the third consecutive month marking a PPI decline. As in the two months before, the December decline was driven by deflation of the index for final demand goods (-0.4%). The index for final demand services has been flat since October. Declining energy prices continue to drive down the PPI. However, a recent escalation of tension in the Middle East is elevating the risk of reversing that trend. The WTI crude price briefly jumped 2.5% on Friday after U.S.-led strikes in Yemen. Excluding volatile energy and food prices, the core PPI was flat month-over-month. On a year-over-year basis, the index moderated to 1.8% versus 1.9% in November.

The labor market continues to show signs of resilience. Initial jobless claims for the week ending January 6 decreased by 1,000 to 202,000. Continuing jobless claims for the week ending December 30 declined by 34,000 to 1.834 million. The November trade balance was better than expected, showing a deficit of $63.2 billion. The December Treasury Budget showed a deficit of $129.0 billion compared to a deficit of $85.0 billion in the same period a year ago. The deficit in December resulted from outlays ($558.7 billion) exceeding receipts ($429.3 billion). Mortgage applications surged 9.9% in the first week of 2024, according to the Mortgage Bankers Association (MBA), compared to the week ending December 29, 2023.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Consumer Credit (Nov – Mo 15:00)	+$23.7B	+$9.3B	
Trade Balance (Nov – Tu 8:30)	-$63.2B	-$64.7B	
MBA Mortgage Applications Index (1/6 – We 7:00)	+9.9%	NA	
CPI (Dec – Th 8:30)	+0.3%	+0.2%	
Core CPI (Dec – Th 8:30)	+0.3%	+0.2%	
Initial Claims (1/6 – Th 8:30)	202K	209K	
Continuing Claims (12/30 – Th 8:30)	1834K	NA	
Treasury Budget (Dec – Th 14:00)	-$129.0B	NA	
PPI (Dec – Fr 8:30)	-0.1%	+0.1%	
Core PPI (Dec – Fr 8:30)	0.0%	+0.2%	
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
MBA Mortgage Applications Index (1/13 – We 7:00)	NA	+9.9%	
Retail Sales (Dec– We 8:30)	+0.5%	+0.3%	Retail Sales ex-auto: 0.2%
Export Prices (Dec – We 8:30)	NA	-0.9%	Export Prices ex-ag.: -1.0%
Import Prices (Dec – We 8:30)	NA	-0.4%	Import Prices ex-oil: 0.2%
Industrial Production (Dec – We 9:15)	-0.1%	0.2%	
Initial Claims (1/13 – Th 8:30)	206K	202K	
Continuing Claims (1/6 – Th 8:30)	NA	1834K	
Housing Starts (Dec – Th 8:30)	1417 TUAR	1560 TUAR	
Building Permits (Dec – Th 8:30)	1478 TUAR	1460 TUAR	
Existing Home Sales (Dec – Fr 10:00)	3.80 MUAR	3.82 MUAR	
U. of Michigan Consumer Sentiment – Prelim (Jan – Fr 10:00)	68.8	69.7	

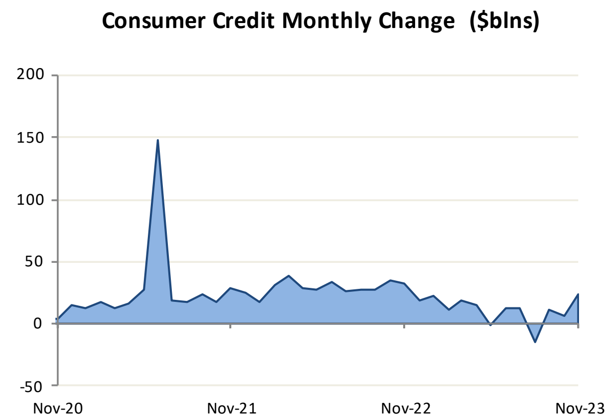
**Sources: www.briefing.com and www.federalreserve.gov*

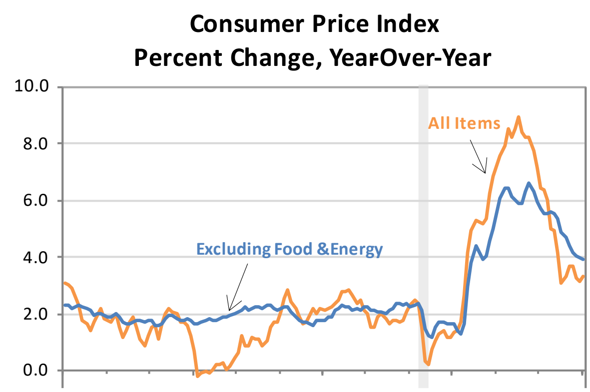
Economic Review

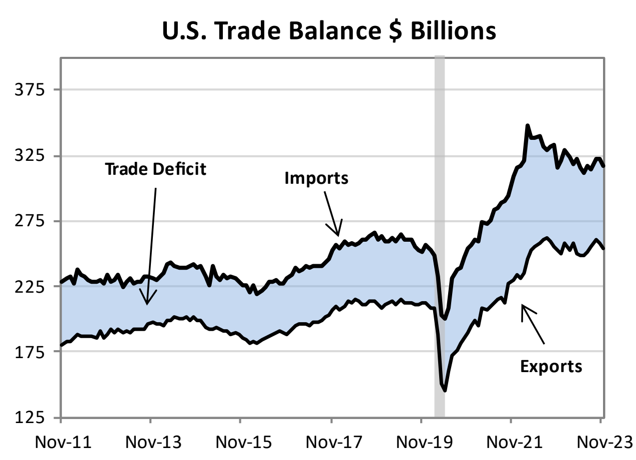
CONSUMER CREDIT rose in November by $23.7 billion, reversing a downward trend that started at the end of 2022. Revolving credit outstanding, which includes credit cards, soared $19.1 billion, the most since March 2022. The remaining $4.6 billion represents an increase in non-revolving credit, such as loans for vehicles and student loans. Revolving credit is up at an annual rate of 17.7%. Non-revolving credit instead increased at an annual rate of 1.5%. The November report suggests that consumers are leaning more on credit to maintain their spending. But bigger credit card balances and higher borrowing costs are raising the risk of consumers pulling back on discretionary spending in the coming months. Consumer credit does not include mortgages.

Inflation, while improved, has lost some of its downward momentum. December headline CPI was up 3.4% year-over-year, versus 3.1% in November. Shelter costs continue to contribute over half of the overall increase in the cost of living. Core CPI, which excludes more volatile energy and food prices, moderated instead to 3.9% from 4.0% in the previous month. Other indexes with notable increases over the last year include motor vehicle insurance (+20.3%), hospital services (+5.5%), and medical care commodities (+4.7%). Price increases varied across the nation. December inflation was highest in Pacific coastal states at 3.8%, followed closely by states in the South. Prices rose the least in New England (+2.3%) and Middle Atlantic states (+2.4%).

The November TRADE BALANCE narrowed to -$63.2 billion from -$64.5 billion in October. A weakening in global demand led to a $4.8 billion decline in exports compared to October. However, imports declined even more ($6.1 billion) reducing the trade deficit by $1.3 billion. Exports of industrial supplies and materials decreased $3.6 billion. Imports of consumer goods declined $4.1 billion, with cell phones and other household goods imports down $1.9 billion. The November narrowing of the trade deficit reflected a decrease in the goods deficit of $0.6 billion to $89.4 billion and an increase in the services surplus of $0.7 billion to $26.2 billion.







Fed Speeches

Federal Reserve Bank of New York President John C. Williams spoke on January 10th at the Bronx EDC and BICNY's 2024 Regional Economic Outlook, N.Y. In his opening remarks, President Williams reminded the audience of the Fed's dual mandate: to achieve maximum employment and price stability. The first part of the mandate is undoubtedly reached:

> *"And the national unemployment rate has been at or below 4 percent for two straight years now, the longest such stretch in over five decades."*

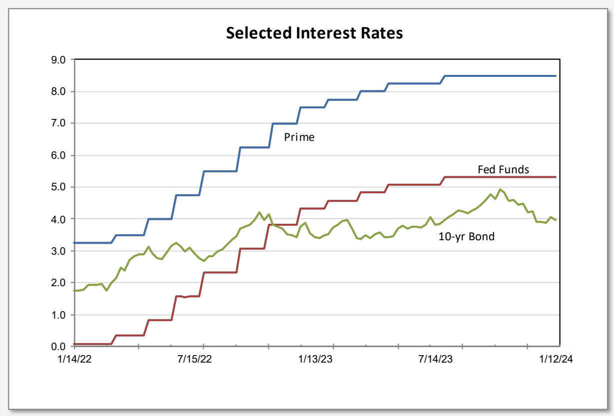
There are encouraging signs that the aggressive monetary policy put in place by the FOMC since March 2022 has curtailed inflation, but there are remaining risks that may jeopardize price stability in the future. Therefore, President William does not anticipate the Fed rolling back the federal funds rate target very soon:

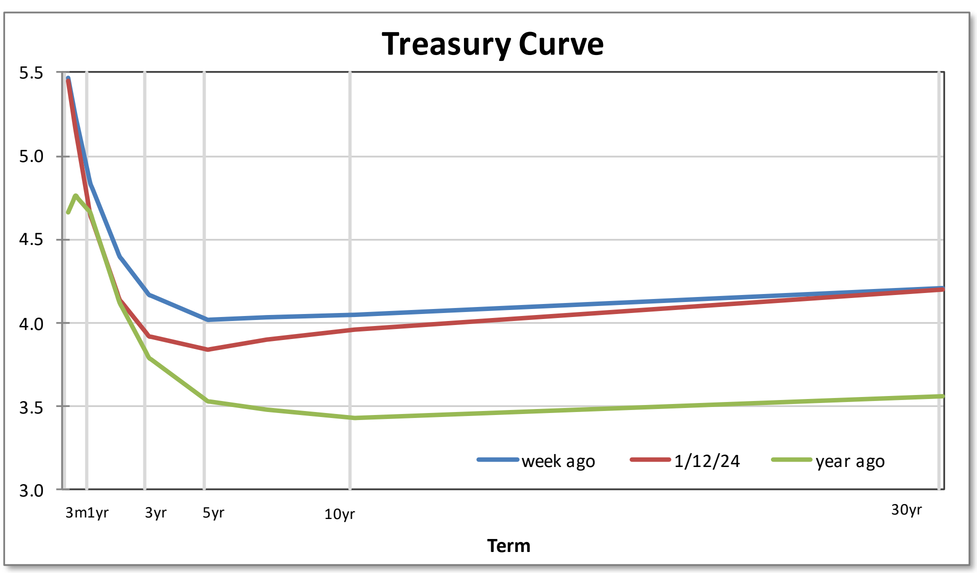
> *"I expect that we will need to maintain a restrictive stance of policy for some time to fully achieve our goals, and it will only be appropriate to dial back the degree of policy restraint when we are confident that inflation is moving toward 2 percent on a sustained basis."*

President Williams concluded his remarks with a forecast for 2024. He expects GDP growth to slow to 1-1/4% this year and the unemployment rate to rise to around 4%. He expects inflation to continue to moderate with the PCE price index increasing around 2-1/4% in 2024 and 2% in 2025.

Financial Markets

The stock market ended the week on a positive note. The Dow Jones Industrial Average gained 0.3%, the S&P 500 advanced 1.8%, and the NASDAQ rose 2.4%. Yields on government securities dropped across the board, with 1 to 5-year notes losing the most. Yields in short and medium-term municipal bonds advanced. The average 30-year conventional mortgage rate increased 4 basis points. The price of gold increased 0.2%. Crude oil prices ended the week at $72.72 per barrel after briefly hitting $75 per barrel on the news of the United States strike in Yamen. In the forex market, the U.S. dollar appreciated 0.2% against the Japanese Yen but lost ground against the euro.





Interest Rate Forecast*

The Federal Open Market Committee (FOMC) kept the federal funds rate target at 5.25% to 5.50% during the Fed's December policy meeting. In the statement released following the meeting, the FOMC said, "In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
4th Qtr '23	8.5	5.3	5.33	5.5	5.0	4.6	4.8	7.5
1st Qtr '24	8.5	5.4	5.35	5.5	4.9	4.6	4.7	7.6
2nd Qtr	8.4	5.3	5.27	5.4	4.9	4.8	4.8	7.7
3rd Qtr	8.1	5.0	4.94	5.1	4.8	4.7	4.8	7.4
4th Qtr	7.7	4.5	4.52	4.8	4.6	4.6	4.8	7.0

**Forecast as of November 27, 2023*

FINANCIAL MARKET SUMMARY

	As of 1/12/2023	As of 1/5/2023	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	8.50	8.50	0	0	0
Secured Overnight Financing Rate (SOFR)	5.31	5.32	(1)	0	0
Fed Funds (Wed close)	5.33	5.33	0	0	0
TREASURIES (BE) (Changes in BPs)					
3 Months	5.45	5.47	(2)	1	(17)
6 Months	5.16	5.24	(8)	(17)	(41)
1 Year	4.65	4.84	(19)	(30)	(76)
2 Years	4.14	4.40	(26)	(30)	(90)
5 Years	3.84	4.02	(18)	(7)	(81)
10 Years	3.96	4.05	(9)	5	(67)
30 Years	4.20	4.21	(1)	20	(58)
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.66	2.57	9	12	(92)
5-Year Muni	2.31	2.28	3	4	(103)
10-Year Muni	2.35	2.34	1	8	(106)
30-Year Muni	3.49	3.49	0	2	(88)
30-Year Conventional Mortgage	6.66	6.62	4	(29)	(91)
MARKET INDICATORS (Changes in %)					
DJIA	37,592.98	37,466.11	0.3	0.8	11.7
S&P 500	4,783.83	4,697.24	1.8	1.4	10.5
NASDAQ	14,972.76	14,524.07	3.1	1.1	11.7
CRB Futures	302.66	304.10	(0.5)	0.2	(5.6)
Oil (WTI Crude)	72.72	73.91	(1.6)	2.1	(12.2)
Gold	2,048.95	2,044.87	0.2	1.4	6.3
Yen / Dollar	144.92	144.70	0.2	(0.0)	(2.9)
Dollar / Euro	1.10	1.09	0.1	0.5	4.2