Summary

The stock market rallied on Friday following the release of a strong employment report, but it could not recover completely from the losses earlier in the week. The Dow Jones Industrial Average dropped 2.3%, the S&P 500 fell 1%, and the NASDAQ shed 0.8%.

The headlines from the March employment report were all positive. Nonfarm payrolls increased by 303,000, the unemployment rate ticked down to 3.8%, average hourly earnings were up 0.3%, and the average workweek increased to 34.4 hours. Nonfarm payroll outstripped analysts' forecast of 200,000 new jobs. The 3-month average for total nonfarm payrolls increased to 276,000 from 272,000 in February, well above the 200,000 jobs average in the years preceding the pandemic. All this occurred despite high interest rates. For wages, the March increase of average hourly earnings was in line with expectations. Over the last 12 months, average hourly earnings have risen 4.1%, versus 4.3% for the 12 months ending in February. Initial jobless claims for the week ending March 30 increased slightly, but still remained low at 221,000. Continuing jobless claims for the week ending March 23 decreased by 19,000 to 1.791 million. The number of job openings on the last business day of February remained mostly flat at 8.8 million.

Business activities continued to flourish in March. The ISM manufacturing and service indices checked in above 50%, the dividing line between expansion and contraction. Factory orders increased 1.4% month-over-month in February after declining a revised 3.8% in January. Total construction spending decreased 0.3% month-over-month in February. While this result disappointed some analysts, who were expecting a 0.6% increase, total construction spending was up 10.7% on an annual basis. The trade deficit in February widened to $68.9 billion from $67.6 billion in January. Consumer credit increased by $14.1 billion in February, equaling a seasonally adjusted annual rate of 3.4%.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
ISM Manufacturing Index (Mar – Mo 10:00)	50.3%	48.5%	
Construction Spending (Feb – Mo 10:00)	-0.3%	+0.6%	
Factory Orders (Feb – Tu 10:00)	+1.4%	+1.0%	
JOLTS - Job Openings (Feb – Tu 10:00)	8.756M	NA	Prior: 8.748M
ISM Non-Manufacturing Index (Mar – We 10:00)	51.4%	52.6%	
Initial Claims (03/30 – Th 8:30)	221K	214K	
Continuing Claims (03/23 – Th 8:30)	1791K	NA	Prior: 1810K
Trade Balance (Feb – Th 8:30)	-$68.9B	-$66.0B	
Nonfarm Payrolls (Mar – Fr 8:30)	303K	200K	Nonfarm Private Payrolls: 232K
Avg. Hourly Earnings (Mar – Fr 8:30)	+0.3%	+0.3%	
Unemployment Rate (Mar – Fr 8:30)	3.8%	3.8%	
Consumer Credit (Feb – Fr 15:00)	+$14.1B	NA	Prior: $17.7B
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
MBA Mortgage Applications Index (04/10 – Tu 7:00)	NA	-0.6%	
CPI (Mar – Tu 8:30)	+0.3%	+0.4%	
Core CPI (Mar – Tu 8:30)	+0.3%	+0.4%	
Treasury Budget (Mar – Tu 14:00)	NA	-$296.3B	
Initial Claims (04/10 – Th 8:30)	218K	221K	
Continuing Claims (03/30 – Th 8:30)	NA	1791K	
PPI (Mar – Th 8:30)	+0.3%	+0.6%	
Core PPI (Mar – Th 8:30)	+0.2%	+0.3%	
Import Prices (Mar – Fr 8:30)	NA	+0.3%	
Export Prices (Mar – Fr 8:30)	NA	+0.8%	
U. Michigan Consumer Sentiment – Prelim (Apr – Fr 10:00)	78.8	79.4	

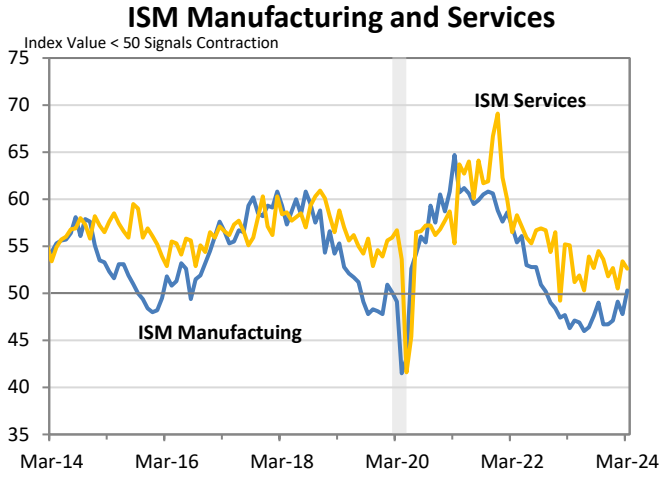
Sources: www.briefing.com and www.federalreserve.gov

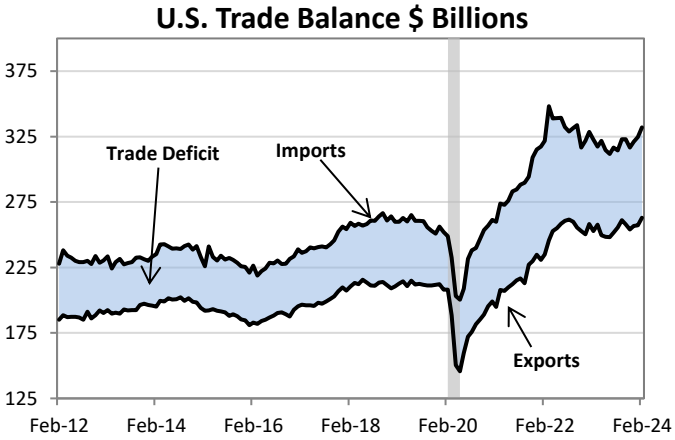
Economic Review

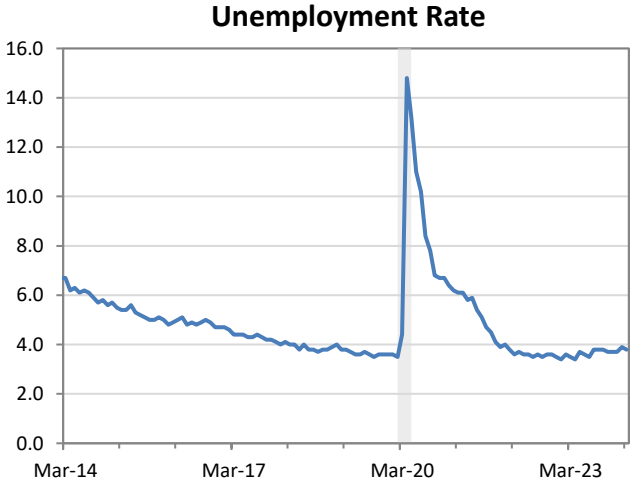
The March ISM MANUFACTURING Index checked in at 50.3%, up from 47.8% in February. The ISM SERVICES Index, however, decreased to 51.4% in March from 52.6% in February. Both sectors are experiencing expansion, as both are above 50%, the dividing line between expansion and contraction. That is the first time the ISM manufacturing Index checked in above 50.0% since September 2022. March marked the 15th consecutive month of growth in non-manufacturing services, although the index is shrinking. All components of the manufacturing index improved or held steady. Overall, non-manufacturing business activity and employment improved in March, but new orders, prices, supply deliveries, and backlog of orders declined from February to March, pulling the total index down.

The goods and services TRADE DEFICIT was $68.9 billion in February, up $1.3 billion from $67.6 billion in January, according to the Bureau of Economic Analysis. Both exports and imports increased in February with exports growing by a smaller amount (+$5.8 billion to $263.0 billion) than imports (+$7.1 billion to $331.9 billion). The goods deficit decreased $0.3 billion to $91.4 billion in February. The services surplus decreased $1.6 billion in February to $22.5 billion. Goods export increased the most for industrial supply (+$2.9 billion), food, feeds, and beverages (+$1.7 billion), and capital goods (+$1.5 billion). The export of automotive vehicles, parts, and engines decreased by $1.3 billion. Goods imports increased the most for consumer goods (+$1.6 billion) and automotive vehicles, parts, and engines (+$1.1 billion). The real goods deficit increased by $1.0 billion to $87.0 billion (in 2017 dollars).

March's UNEMPLOYMENT rate edged down to 3.8% from 3.9% in February according to Friday's report of the Bureau of Labor Statistics. The unemployment rate has been in a narrow range of 3.7% to 3.9% since August 2023. The labor force participation rate, which increased from 62.5% in February to 62.7% in March, together with a mostly unchanged number of unemployed people explains the March decline in the unemployment rate. Among the major worker groups, the unemployment rate for Blacks (6.4%) increased in March, while the rates for Asians (2.5%) and Hispanics (4.5%) decreased. The jobless rates for adult men (3.3%), adult women (3.6 percent), teenagers (12.6%), and Whites (3.4%) showed little or no change over the month.







Fed Speeches

Governor Adriana D. Kugler addressed participants at the Weidenbaum Center on the Economy, Government, and Public Policy on April 3. The Governor highlighted that the rise in inflation from 2021 to mid-2023 was due to a mix of demand and supply shocks:

> *"Demand shocks accounted for roughly two-thirds of the 2021 pickup in, and 2023 slowing of, core PCE inflation, with the remaining one-third related to supply."*

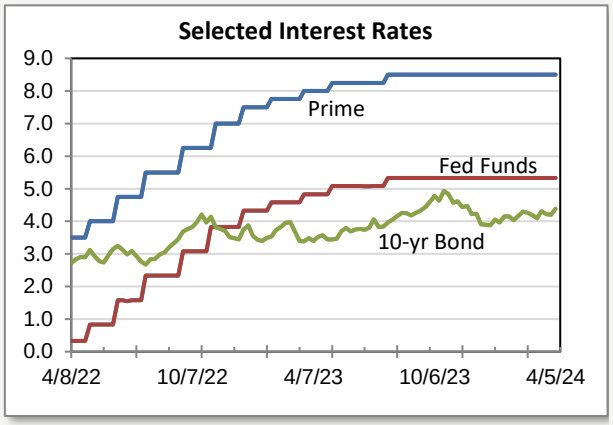
As more and more supply chain disruptions were resolved and the FOMC started tightening its fiscal policy, inflation began to ease but as of the beginning of 2024, it remains above the FOMC's 2% target. Governor Kugler is confident that this disinflationary trend will continue in 2024 without causing an increase in unemployment:

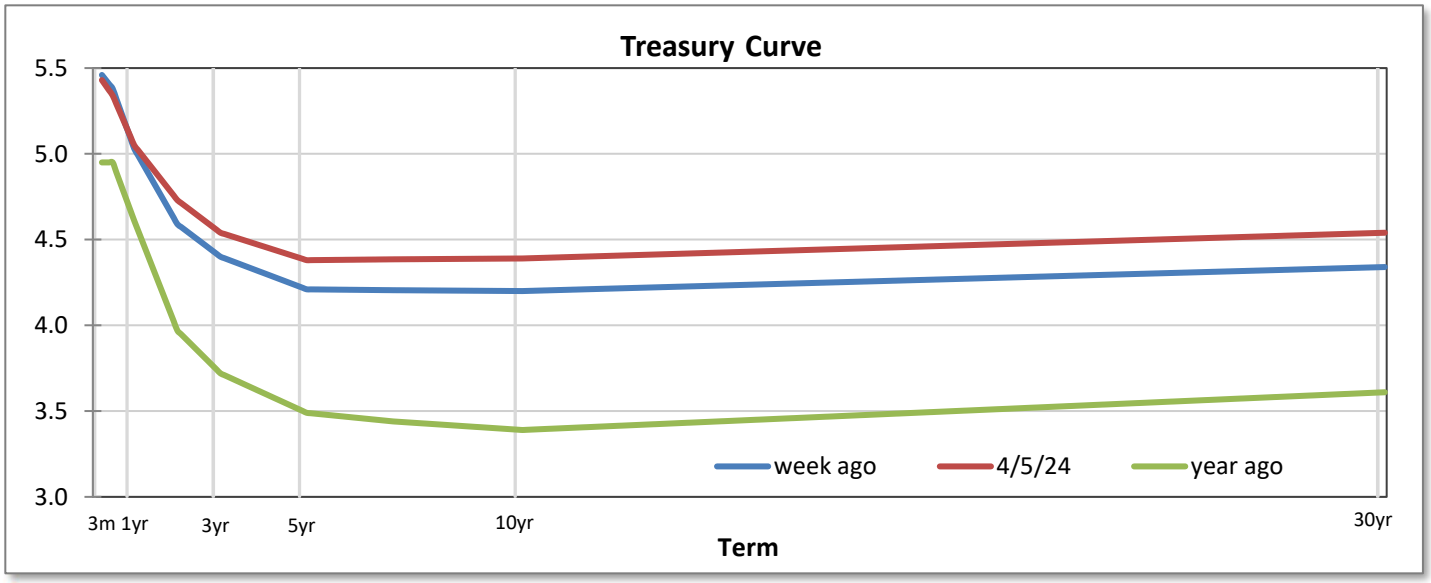
> *"On the demand side, I expect consumption growth to slow some this year, as households have drawn down large balances of excess savings accumulated during the pandemic and are facing restrictive financial conditions. We may already be seeing some of that slowing; consumer spending was soft in January and February, on average, suggesting that we are on track for lower consumption growth in the first quarter than we saw during the second half of last year."*

If data will support this trajectory in the upcoming months, she envisions the FOMC starting to lower the federal funds rate sometime this year.

Financial Markets

The stock market finished lower last week with the Dow Jones Industrial Average losing 2.3%, the S&P 500 dropping 1.0% and the NASDAQ retreating 0.8%. The 3 and 6-month treasury bill yields shed a few basis points (bps), while all other treasury securities and municipal bonds saw their yields rise. The 10-year treasury bond advanced 19 bps. The average 30-year conventional mortgage rate increased 3 bps and finished the week at 6.82%. The price of gold continued to rise (+4.3%), outstripping last week's record high. Crude oil prices saw a sharp jump (+4.3%) on concerns of a conflict between Israel and Iran that could tighten crude supply. The U.S. dollar traded higher against the Japanese Yen (0.2%) but lost ground against the Euro (-0.4%).





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 March policy meeting. In the statement released following the meeting, the FOMC said, "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
2nd Qtr '24	8.50	5.36	5.36	5.37	4.53	4.21	4.36	6.76
3rd Qtr	8.25	5.13	5.11	5.20	4.54	4.22	4.36	6.67
4th Qtr	8.00	4.88	4.86	5.04	4.54	4.22	4.43	6.61
1st Qtr '25	7.67	4.54	4.52	4.73	4.44	4.24	4.44	6.51
2nd Qtr	7.33	4.21	4.19	4.37	4.31	4.25	4.46	6.41

March 2024

FINANCIAL MARKET SUMMARY

	As of 4/5/2024	As of 3/29/2024	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)	5.32	5.33	(1)	1	0
Fed Funds (Wed close)	5.33	5.33	0	0	0
TREASURIES (BE) (Changes in BPs)					
3 Months	5.43	5.46	(3)	(3)	(4)
6 Months	5.34	5.38	(4)	0	10
1 Year	5.05	5.03	2	13	21
2 Years	4.73	4.59	14	25	33
5 Years	4.38	4.21	17	32	36
10 Years	4.39	4.20	19	30	34
30 Years	4.54	4.34	20	28	33
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	3.13	2.99	14	35	56
5-Year Muni	2.65	2.52	13	24	37
10-Year Muni	2.64	2.52	12	23	30
30-Year Muni	3.86	3.73	13	21	37
30-Year Conventional Mortgage	6.82	6.79	3	(6)	20
MARKET INDICATORS (Changes in %)					
DJIA	38,904.04	39,807.37	(2.3)	0.5	3.8
S&P 500	5,204.34	5,254.35	(1.0)	1.6	10.8
NASDAQ	16,248.52	16,379.46	(0.8)	1.0	11.9
CRB Futures	344.88	336.03	2.6	8.0	13.4
Oil (WTI Crude)	86.72	83.17	4.3	8.7	21.0
Gold	2,326.42	2,229.87	4.3	6.8	13.8
Yen / Dollar	151.61	151.35	0.2	1.0	7.5
Dollar / Euro	1.08	1.08	0.4	(0.9)	(0.9)

