Summary

Last Tuesday, the stock market rallied on the news that inflation was moderating and finished strong for the week. The Dow Jones Industrial Average advanced 1.9%, the S&P 500 gained 2.2%, and the NASDAQ rose 2.4%. The October CPI was flat for the month while the core CPI (which excludes volatile food and energy prices) was up only 0.2%, less than expected. These positive results were confirmed on Wednesday by the news that the October PPI declined 0.5% from the previous month, the biggest drop since April. Excluding food and energy, the PPI was flat for the month, compared with expectations of a 0.3% increase. Import/export prices are also coming down. The price index for U.S. imports fell 0.8% in October, the first monthly drop since June 2023. The drop in oil prices is the main driver of this decline. Nonfuel import prices declined 0.2%. Month-over-month, U.S. export prices fell 1.1%.

The housing market is benefitting from a recent decline in mortgage rates. The MBA mortgage applications index increased for the second week in a row after reaching the lowest level since 1995. The annualized rate of housing starts and building permits for the month of October came in better than expected. The increase in the supply of new homes should provide some relief to the sector that has been facing a serious housing shortage.

The October Treasury Budget shrank by almost a quarter from a year earlier to $66.6 billion. Total retail sales declined 0.1% month-over-month in October. The slowdown in sales was smaller than expected (-0.3%) and excluding autos, retail sales were rose 0.1%. Total industrial production declined 0.6% month-over-month in October, with manufacturing output decreasing 0.7% on the back of a 10.0% drop in the output of motor vehicles and parts.

Unemployment claims are showing a softening in the labor market. Initial jobless claims for the week ending November 11 increased 13,000 to 231,000. Continuing jobless claims for the week ending October 28 climbed 22,000 to 1.865 million, their highest level since November 2021.

Have a wonderful Thanksgiving. The *Weekly Economic Update* will not be produced next week and will resume on December 4, 2023.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Treasury Budget (Sep – Mo 14:00)	-$66.6B	NA	October 2022: -$88B
CPI (Oct – Tu 8:30)	0.0%	+0.1%	Core CPI: 0.2%
MBA Mortgage Applications Index (11/04 – We 7:00)	+2.8%	NA	
Retail Sales (Oct – We 8:30)	-0.1%	-0.3%	Retail Sale ex-auto: 0.1%
PPI (Oct – We 8:30)	-0.5%	+0.1	Core PPI: 0.0%
Initial Claims (11/11 – Th 8:30)	231K	220K	
Continuing Claims (11/04 – Th 8:30)	1865K	NA	
Export Price Index (Oct – Th 8:30)	-1.1%	NA	Export Prices ex-ag.: -1.0%
Import Price Index (Oct – Th 8:30)	-0.8%	NA	Import Prices ex-oil: -0.2%
Industrial Production (Oct – Th 9:15)	-0.6%	-0.4%	
Housing starts (Oct – Fr 8:30)	1372 TUAR	1365 TUAR	
Building permits (Oct – Fr 8:30)	1487 TUAR	1445 TUAR	
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
Leading Indicators (Oct – Mo 14:00)	-0.7%	-0.7%	
Existing Home Sales (Oct – Tu 8:30)	3.90 TUAR	3.96 TUAR	
MBA Mortgage Applications Index (11/11 – We 7:00)	NA	+2.8%	
Initial Claims (11/18 – Th 8:30)	227K	231K	
Continuing Claims (11/11 – Th 8:30)	NA	1865K	
Durable Orders (Oct – We 8:30)	-3.1%	+4.7%	Durable Goods –ex transportation: +0.5%
U. of Michigan Consumer Sentiment – Final (Oct – We 8:30)	60.9	60.4	

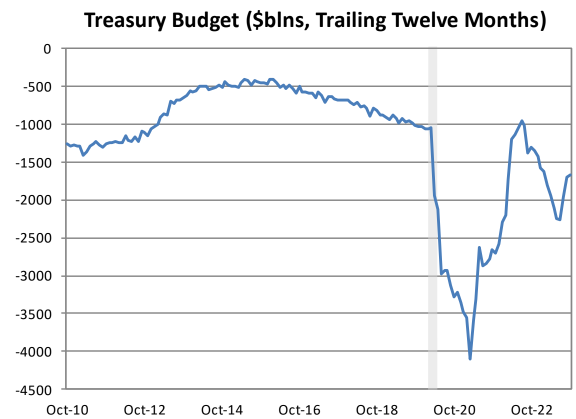
**Sources: www.briefing.com and www.federalreserve.gov*

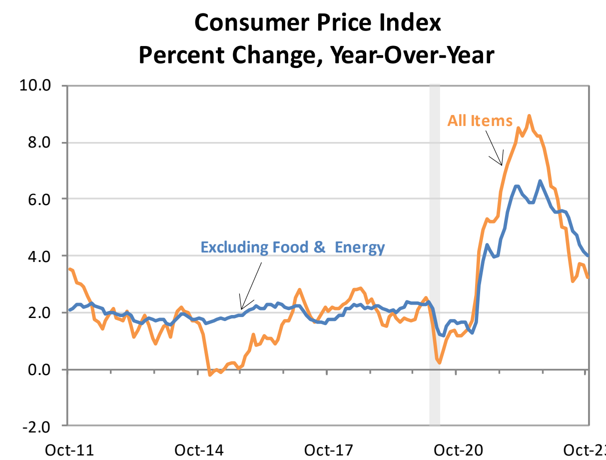
Economic Review

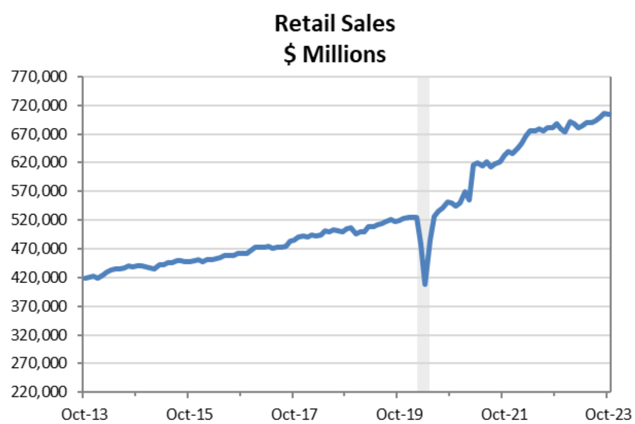
The October TREASURY BUDGET showed a deficit of $66.6 billion, bringing the trailing 12-month deficit to -$1.67 trillion, a slight improvement from the September $1.7 trillion. The October advancement is due to a 27% boost in federal revenue to $403 billion, following tax payments rolling in from California and other states that had annual tax filing deadlines extended due to natural disasters. Outlays, meanwhile, rose 16% to $470 billion. Interest on the U.S. government's debt, at $89 billion, was the second largest outlay in October after monthly Social Security payments of $118 billion. A year ago, interest on debt was exceeded by Social Security, national defense spending, and the combined total of the government-run Medicaid and Medicare health insurance programs. Higher rates are the reason for the increasing incidence of interest payments.

Total CPI improved substantially in October. Year-over-year, the index was up 3.2%, versus 3.7% in September. A continued decline in energy prices is behind the recent drop in the CPI. The energy index was down 2.5% month-over-month and 4.5% year-over-year, paced by a 5.0% monthly decline in the gasoline index. Even after removing energy and food prices, the so-called CORE CPI showed some improvement, with the index up 4.0%, versus 4.1% in September, on a yearly basis. At this point, most of the inflation is anchored in housing costs. The all-items index, less shelter, was up just 1.5% year-over-year. The shelter index, up 0.3% month-over-month, remains 6.7% higher than a year ago.

After a strong Q3, October RETAIL SALES were down 0.1% for the month to $704,954 million. Sales declined the most at durable goods stores; motor vehicles and parts dealer sales were down 1.0%, building material and garden equipment sales weakened 0.3%, while furniture and home furnishing sales dropped 2.0% month-over-month. October sales at electronics and appliance stores remained strong, registering a 0.6% increase for the month. Sales at nondurable goods stores were flat for clothing, up for food (+0.6%), and down for general merchandising (-0.2%). After adjusting for inflation, real retail sales were down 0.2% for the month and 0.7% yearly.







Fed Speeches

On November 16, Governor Lisa D. Cook addressed the participants of the “Global Linkages in a Post-Pandemic World” conference sponsored by the Federal Reserve Bank of San Francisco Center for Pacific Basin Studies. In her opening remarks, Governor Cook emphasized that when economies are interconnected, the effect of a monetary policy in one country can impact other countries:

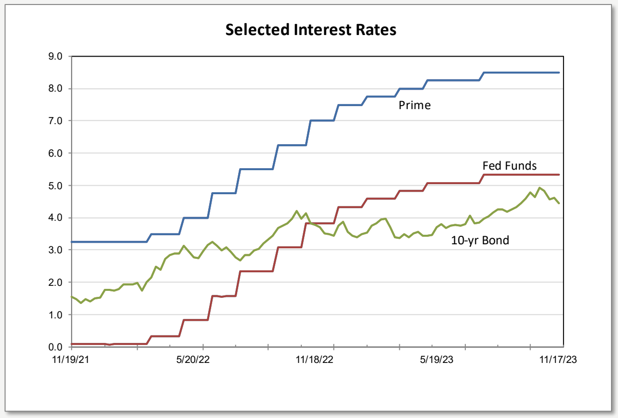
> *“U.S. monetary policy actions can produce spillovers abroad and create tradeoffs for foreign monetary policy.”*

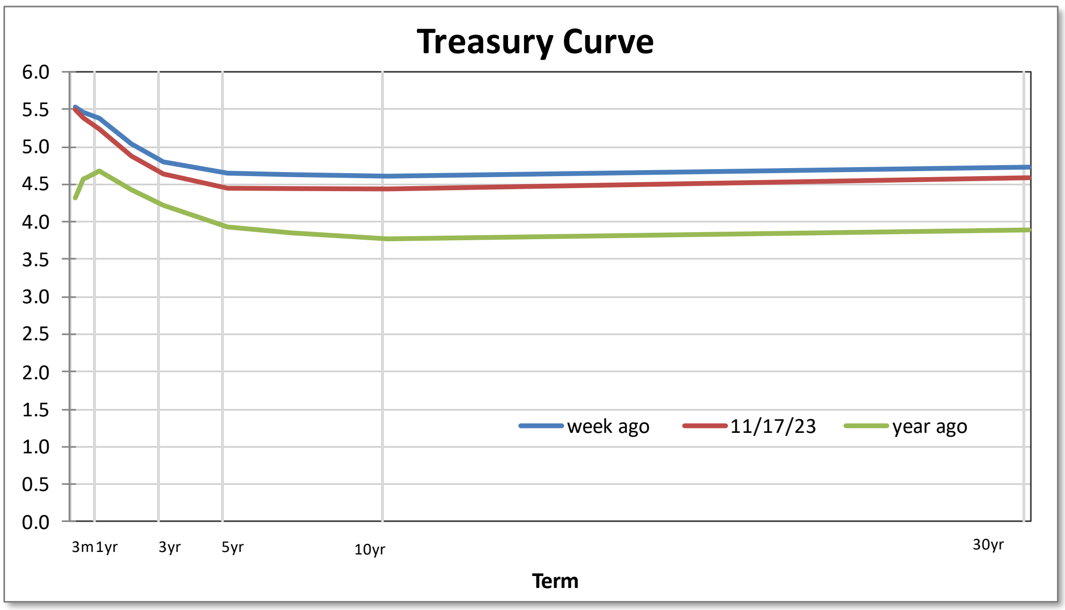
These spillovers operate through three channels. The first channel is domestic demand. When the central banks tighten monetary policies in the United States, they restrain domestic demand, and implicitly also demand for imports, de facto dampening foreign GDP and inflation. The second channel is the financial channel. Domestic tightening of monetary policies is accompanied by a rise in yields on government securities. When the yields in the United States increase, international investors are drawn to rebalance their portfolios in favor of U.S. assets. The third channel is the exchange rate:

> *“A surprise increase in U.S. interest rates relative to foreign rates usually leads to dollar appreciation. This currency movement lowers the prices of foreign goods and services relative to those of the U.S., thereby restraining U.S. GDP and strengthening foreign GDP. The weaker currency and the resulting higher activity abroad tend to push up foreign inflation.”*

Financial Markets

The market welcomed the news that inflation is cooling down and posted major gains for the week. The Dow Jones Industrial Average gained 1.9%, the S&P 500 2.2%, and the NASDAQ 2.4%. Investors are betting that the Fed is done raising interest rates, at least for now. Yields on government securities and municipal bonds dropped across the board. The average 30-year conventional mortgage rate shed another 6 basis points to 7.44%. The price of gold increased 2.2%. Crude oil prices dropped 2.1% finishing the week at $75.75 per barrel. On the Forex market, the US dollar traded higher against the Japanese Yen (+1.4%) but lost ground on the euro (-2.1%).





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 November policy meeting. In the statement released following the November 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	8.6	5.4	5.41	5.7	5.2	4.9	5.0	7.6
1st Qtr '24	8.8	5.6	5.60	5.8	5.4	5.1	5.3	7.6
2nd Qtr	8.7	5.5	5.52	5.7	5.7	5.3	5.5	7.6
3rd Qtr	8.3	5.2	5.19	5.5	5.6	5.4	5.7	7.2
4th Qtr	7.9	4.8	4.77	5.1	5.3	5.4	5.6	6.8

**Forecast as of October 27, 2023*

FINANCIAL MARKET SUMMARY

	As of 11/17/2023	As of 11/10/2023	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)	5.32	5.32	0	2	2
Fed Funds (Wed close)	5.33	5.33	0	0	0
TREASURIES (BE) (Changes in BPs)					
3 Months	5.50	5.53	(3)	(8)	(5)
6 Months	5.39	5.46	(7)	(15)	(13)
1 Year	5.24	5.38	(14)	(17)	(11)
2 Years	4.88	5.04	(16)	(19)	(4)
5 Years	4.45	4.65	(20)	(41)	7
10 Years	4.44	4.61	(17)	(49)	18
30 Years	4.59	4.73	(14)	(50)	21
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	3.20	3.41	(21)	(56)	4
5-Year Muni	2.98	3.19	(21)	(57)	12
10-Year Muni	3.05	3.27	(22)	(50)	22
30-Year Muni	4.11	4.28	(17)	(52)	24
30-Year Conventional Mortgage	7.44	7.50	(6)	(19)	35
MARKET INDICATORS (Changes in %)					
DJIA	34,947.28	34,283.10	1.9	5.5	1.3
S&P 500	4,514.02	4,415.24	2.2	6.9	3.3
NASDAQ	14,125.48	13,798.11	2.4	8.8	6.3
CRB Futures	310.68	310.05	0.2	(3.9)	0.7
Oil (WTI Crude)	75.75	77.39	(2.1)	(13.6)	(8.8)
Gold	1,980.16	1,936.86	2.2	(0.1)	4.8
Yen / Dollar	151.54	149.38	1.4	1.3	4.6
Dollar / Euro	1.09	1.07	2.1	3.0	0.3