



Summary

The stock market soared on Wednesday following the FOMC decision to keep the federal funds rate target unchanged. The Dow Jones Industrial Average gained 2.9%, ending the week at an all-time high. The S&P 500 closed 2.5% higher and the NASDAQ advanced 2.8% for the week. Most of the reports last week confirmed that inflation continues to decelerate. The consumer price index (CPI) increased 0.1% month-over-month in November while the core CPI, which excludes food and energy, rose 0.3%, as expected. The producer price index (PPI) for final demand, a leading indicator of future inflation, was unchanged month-over-month in November, as was the core PPI. On a year-over-year basis, the

core PPI was up 2.0%, which is in line with the Fed's target inflation rate. There are signs of deflationary pressures on the international market. November export prices were 0.9% lower than in October. Excluding agricultural goods, prices dropped 1.0%. Import prices also sank in November (-0.4%) driven by declining oil prices. Excluding oil, import prices were up 0.2% for the month. The November Treasury budget showed a deficit of \$314.0 billion compared to a deficit of \$248.5 billion in the same period a year ago. The jump was led by higher interest costs that rose from \$48 to \$72 billion. Total retail sales unexpectedly increased 0.3% month-over-month in November. Excluding autos and gasoline, sales rose

0.6% from the previous month. November's industrial production advanced 0.2% from the previous month, following a downwardly revised 0.9% decline (from -0.6%) in October. Mortgage rates have been declining since their peak at the end of October, incentivizing mortgage applications. The MBA mortgage application index rose 7.4% for the week ending December 8. Initial jobless claims for the week ending December 9 decreased 19,000 to 202,000, while continuing jobless claims kept on increasing. For the week ending December 2nd, there were 1.876 million workers claiming unemployment benefits, 20,000 more than in the preceding week.

Happy Holidays! The *Weekly Economic Update* will not be produced for the next two weeks and will resume on January 8, 2024.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
CPI (Nov – Tu 8:30)	+0.1%	0.0%	Core CPI: +0.3%
Treasury Budget (Nov – Tu 2:00)	-\$314.0B	NA	
MBA Mortgage Applications Index (12/09 – We 8:30)	+7.4%	NA	
PPI (Nov – We 8:30)	0.0%	0.0%	Core CPI: 0.0%
Initial Claims (12/09 – Th 8:30)	202K	222K	
Continuing Claims (12/02 – Th 8:30)	1,876K	NA	
Retail Sales (Nov – Th 8:30)	+0.3%	-0.1%	Retail sales ex-auto and gasoline: +0.6%
Export Prices (Nov – Th 8:30)	-0.9%	NA	Export Prices ex ag: -1.0%
Import Prices (Nov – Th 8:30)	-0.4%	NA	Import Prices ex oil: +0.2%
Industrial Production (Nov – Fr 9:15)	+0.2%	+0.2%	
Next Week: Indicator	Consensus Expectation*	Prior	Comment
Building Permits (Nov – Tu 8:30)	1460 TUAR	1487 TUAR	
Housing Starts (Nov – Tu 8:30)	1360 TUAR	1372 TUAR	
MBA Mortgage Applications Index (12/16 – We 8:30)	NA	+7.4%	Not available
Consumer Confidence (Nov – We 10:00)	104.0	102.0	
Existing Home Sales (Nov – We 10:00)	3.80 MUAR	3.79 MUAR	
Initial Claims (12/16 – Th 8:30)	218K	202K	
Continuing Claims (12/09 – Th 8:30)	NA	1876K	Not available
GDP - Third Estimate (Q3 – Th 8:30)	+5.2%	+5.2%	
GDP Deflator - Third Estimate (Q3 – Th 8:30)	+3.6%	+3.6%	
Personal Income (Nov – Th 8:30)	+0.4%	+0.2%	
Personal Spending (Nov – Th 8:30)	+0.2%	+0.2%	
PCE Prices (Nov – Th 8:30)	+0.1%	+0.0%	
Durable Orders (Nov – Th 8:30)	+2.5%	-5.4%	
New Home Sales (Nov – Th 8:30)	689 TUAR	679 TUAR	
U. of Michigan Consumer Sentiment – Final (Dec – Th 10:00)	69.7	69.4	

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



Economic Review

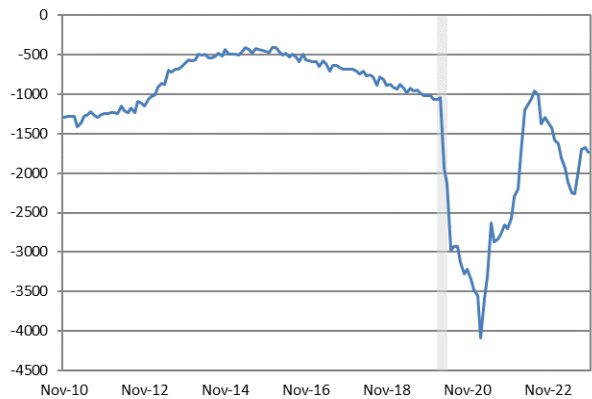
The 12-month trailing **TREASURY BUDGET** deficit increased from \$1,674 billion in October to \$1,739 billion in November. The November deficit resulted from outlays (\$588.8 billion) exceeding receipts (\$274.8 billion). The largest outlay by function was Social Security (\$116 billion), followed by Medicare (\$79 billion), Health (\$76 billion), Net Interest (\$72 billion), and National Defense (\$70 billion). Receipts from Individual Income Taxes were \$127 billion. Social Insurance & Retirement receipts totaled \$122 billion. Corporation Income Taxes receipts were \$8 billion.

Nominal **RETAIL SALES** (including food services) totaled \$705.7 billion in November, a 4.1% year-over-year increase. Most of this increase was driven by inflation. After adjusting for inflation, total retail sales were up only 0.9% from a year ago. Nominal retail sales increased 0.3% month-over-month in November. Lower oil prices lead to consumers spending 2.9% less at the pump. Excluding gasoline stations, sales were up 0.6% for the month. Despite the traditional family oriented Thanksgiving dinner, consumers opted to eat out more in November. Sales at

food and beverage stores increased 0.2%, but sales at food services and drinking places jumped 1.6%. In a key month for retail ahead of the holiday season, sales were up 1.3% at sporting goods stores and 0.6% at clothing stores, but down at department stores (-2.5%) and electronic and appliance stores (-1.1%). The shift toward online shopping continues with sales at non-store retailers increasing 1.0% for the month.

Inflation continues to moderate. The consumer price index (CPI) was up 3.1% year-over-year, versus 3.2% in October. Core CPI, which excludes food and energy, was unchanged from October, at 4.0% year-over-year. Core CPI was lower than total CPI because energy prices were down 5.4% from last year. Housing continues to be the main driver of inflation. The shelter index is up 6.5% year-over-year, accounting for nearly 70% of the increase in core CPI. The all-items less shelter index was up only 1.4% annually. Food prices were 2.9% higher year-over-year.

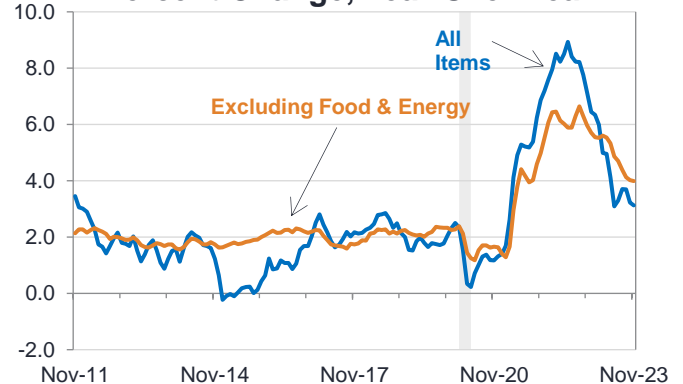
Federal Budget (\$blns, Trailing Twelve Months)



Retail Sales
\$ Millions



Consumer Price Index
Percent Change, Year-Over-Year





Fed Speeches

Federal Reserve Chairman Jerome Powell held a news conference following the December 13-14 Federal Open Market Committee meeting. As anticipated, the Committee decided to leave the fed funds rate target unchanged at 5.25% to 5.50% but to continue to reduce securities holdings. The Chair suggested that the Fed is done raising interest rates and that cuts are likely in 2024:

"While participants do not view it as likely to be appropriate to raise interest rates further, neither do they want to take the possibility off the table. If the economy evolves as projected, the median participant projects that the appropriate level of the federal funds rate will be 4.6 percent at the end of

2024, 3.6 percent at the end of 2025, and 2.9 percent at the end of 2026, still above the median longer-term rate."

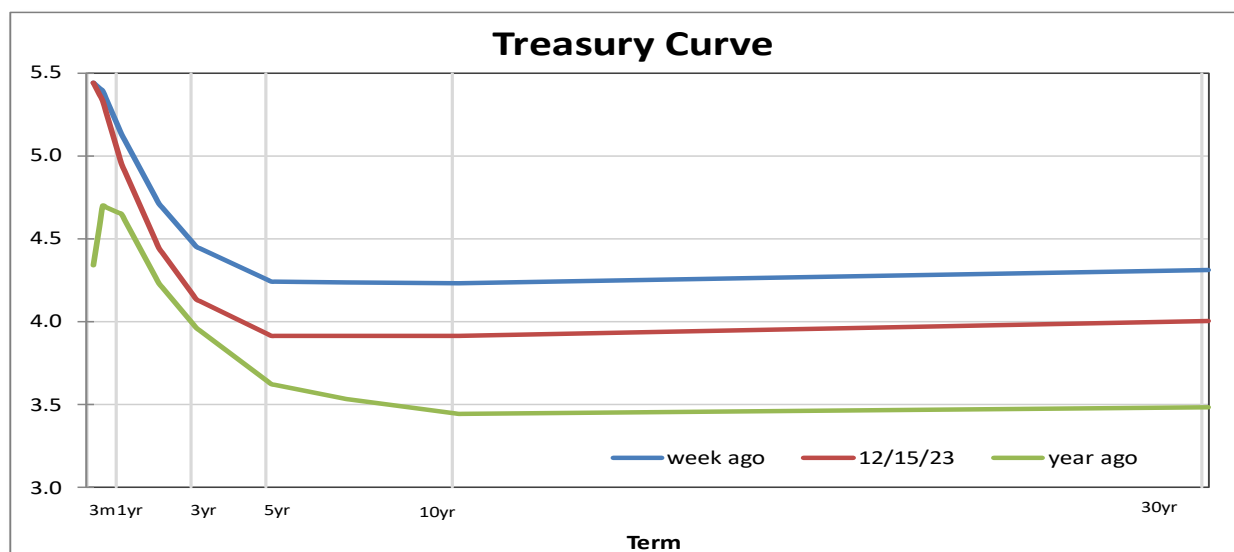
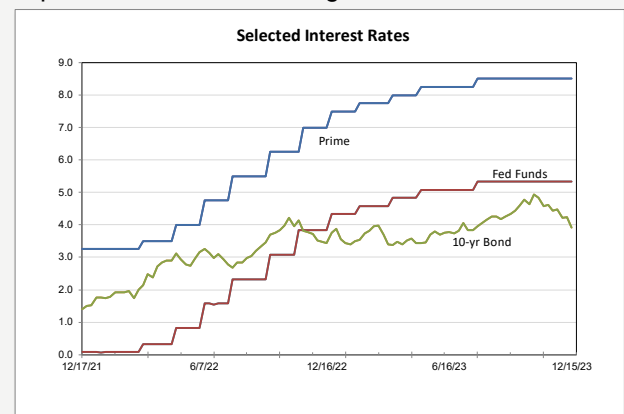
The question on the table is how soon the Fed will start lowering the funds rates. When asked how far inflation must cool off before the Fed will start lowering interest rates, Chair Powell suggested that it will be well before inflation drops to its target rate:

"The reason you wouldn't wait to get to 2 percent to cut rates is that policy would be, it would be too late."

Because monetary policies have a lagged effect on the economy lags, keeping higher interest rates until inflation drops to the 2% target may inflict a risky strain on the economy.

Financial Markets

Last week, the stock market posted major gains with the Dow Jones Industrial Average gaining 2.9%, the S&P 500 advancing 2.5%, and the NASDAQ rising 2.8%. Dow Jones Industrial Average is at now an all-time high. Yields on government securities and municipal bonds fell on the news that members of the FOMC expect the federal funds target rate to decline in 2024. The average 30-year conventional mortgage rate dropped below 7% for the first time since August. The price of gold increased 0.8%. Crude oil prices rose 0.6%, finishing at \$71.64 per barrel. Expectations of lower interest rates in 2024 pushed down the value of the U.S. dollar, which lost 1.9% against the Japanese Yen and 1.2% 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 December meeting, the FOMC said, "the Committee will continue to assess additional information and its implications for monetary policy. In determining the

extent of any additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee

will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects

economic activity and inflation, and economic and financial developments".

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
4 th Qtr '23	8.5	5.3	5.33	5.5	5.0	4.6	4.8	7.5
1 st Qtr '24	8.5	5.4	5.35	5.5	4.9	4.6	4.7	7.6
2 nd Qtr	8.4	5.3	5.27	5.4	4.9	4.8	4.8	7.7
3 rd Qtr	8.1	5.0	4.94	5.1	4.8	4.7	4.8	7.4
4 th 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 12/15/2023	As of 12/8/2023	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)	(1)	1
Fed Funds (Wed close)	5.33	5.33	0	0	0
TREASURIES (BE) (Changes in BPs)					
3 Months	5.44	5.44	0	(6)	(12)
6 Months	5.33	5.39	(6)	(6)	(16)
1 Year	4.95	5.13	(18)	(29)	(48)
2 Years	4.44	4.71	(27)	(44)	(58)
5 Years	3.91	4.24	(33)	(54)	(54)
10 Years	3.91	4.23	(32)	(53)	(42)
30 Years	4.00	4.31	(31)	(59)	(42)
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.54	2.81	(27)	(66)	(65)
5-Year Muni	2.27	2.47	(20)	(71)	(66)
10-Year Muni	2.34	2.55	(21)	(64)	(61)
30-Year Muni	3.47	3.66	(19)	(64)	(51)
30-Year Conventional Mortgage	6.95	7.03	(8)	(49)	(23)
MARKET INDICATORS (Changes in %)					
DJIA	37,305.16	36,247.87	2.9	6.7	7.8
S&P 500	4,719.19	4,604.37	2.5	4.5	6.0
NASDAQ	14,813.92	14,403.97	2.8	4.9	8.1
CRB Futures	302.20	299.33	1.0	(2.7)	(7.2)
Oil (WTI Crude)	71.64	71.23	0.6	(7.4)	(17.8)
Gold	2,019.74	2,004.67	0.8	2.0	5.0
Yen / Dollar	142.26	144.95	(1.9)	(6.1)	(3.8)
Dollar / Euro	1.09	1.08	1.2	(0.1)	2.2



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