Summary

The stock market soared this week following the results of the presidential election and the FOMC interest rate cut. The Dow Jones Industrial Average advanced 4.6%, the S&P 500 climbed 4.7%, and the NASDAQ jumped 5.7%. Consumers feel more optimistic about the economy. The preliminary University of Michigan Index of Consumer Sentiment for November jumped to 73.0 from 70.3 in October, beating analysts' expectations. However, consumers are moderating their purchasing. In September, consumer credit increased only $6 billion, less than half of what was predicted by analysts. While this measure does not include mortgages, the MBA Mortgage Application Index dropped 10.8% for the week ending November 2, marking the sixth consecutive weekly decline.

The trade balance deficit widened more than expected due to a weakening in exports and an acceleration of imports indicative of a U.S. economy that is running stronger than its global counterparts. New factory orders declined 0.5% month-over-month in September. The drop in new orders was limited to transportation. Excluding transportation, new orders were up 0.1%. The ISM Services PMI reached a two-year high, and points to a pace of expansion in the largest sector of the U.S. economy. This is in stark contrast to the continued contraction in manufacturing activities that was reported last week. The labor marker remains soft. Layoffs are low (initial jobless claims for the week ending November 2 increased by 3,000 to 221,000, less than expected). Nonetheless, for employees who do get laid off, it is more challenging to find a new job. Continuing jobless claims for the week ending October 26 increased by 39,000 to 1.892 million. That is the highest since November 13, 2021. Unit labor costs increased 1.9% following an upwardly revised 2.4% (from 0.4%) in Q2.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Factory Orders (Sep – Mon 10:00)	-0.5%	-0.4%	
Trade Balance (Sep – Tue 08:30)	-$74.0B	-$74.0B	
ISM Services PMI (Oct – Tue 10:00)	56.5%	53.5%	
MBA Mortgage Applications Index (11/02 – Wed 07:00)	-10.8%	NA	
Initial Claims (11/02 – Thu 08:30)	221K	222K	
Continuing Claims (10/26 – Thu 08:30)	1,892K	NA	
Productivity-Prel (Q3 – Thu 08:30)	+2.2%	+2.3%	
Unit Labor Costs-Prel (Q3 – Thu 08:30)	+1.9%	+0.5%	Q2 estimate revised to 2.4% (from 0.04)
Consumer Credit (Sep – Thu 15:00)	$6.0B	$13.5B	
U of Michigan Consumer Sentiment - Prelim (Nov – Fri 10:00)	73.0	70.6	
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
MBA Mortgage Applications Index (11/09 – Wed 07:00)	NA	-10.8%	
CPI (Oct – Wed 08:30)	+0.2%	+0.2%	
Core CPI (Oct – Wed 08:30)	+0.3%	+0.3%	
Treasury Budget (Oct – Wed 14:00)	NA	$64.0B	
Initial Claims (11/09 – Thu 08:30)	220K	221K	
Continuing Claims (11/02 – Thu 08:30)	NA	1,892K	
PPI (Oct – Thu 08:30)	+0.2%	0.0%	
Core PPI (Oct – Thu 08:30)	+0.3%	+0.2%	
Retail Sales (Oct – Fri 08:30)	+0.3%	+0.4%	
Retail Sales ex-auto (Oct – Fri 08:30)	+0.2%	+0.5%	
Import Prices (Oct – Fri 08:30)	NA	-0.4%	Import Prices ex-oil: +0.1%
Export Prices (Oct – Fri 08:30)	NA	-0.7%	Export Prices ex-ag.: -0.9%
Industrial Production (Oct – Fri 09:15)	-0.3%	-0.3%	
Capacity Utilization (Oct – Fri 09:15)	77.3%	77.5%	

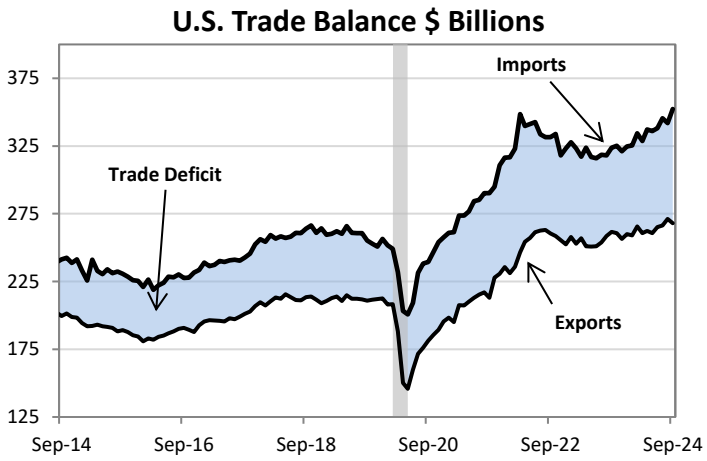
**Sources: www.briefing.com and www.federalreserve.gov*

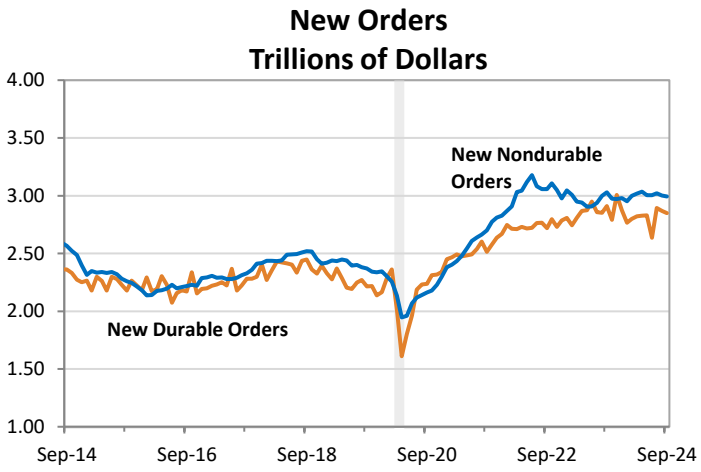
Economic Review

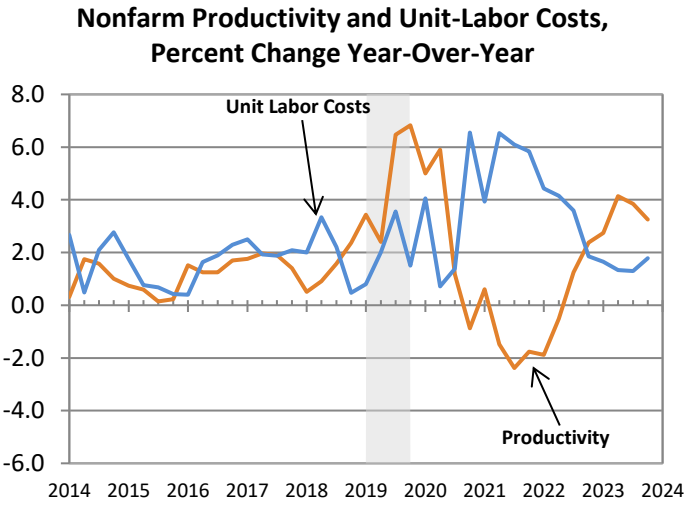
The September TRADE BALANCE Report showed a widening in the trade deficit to $84.4 billion from $70.8 billion in August. That widening was the result of exports decreasing $3.2 billion from August's level while imports increased $10.3 billion since August. The goods deficit increased $14.2 billion in September to $109.0 billion while the services surplus increased only $0.6 billion in September to $24.6 billion. Year-to-date, the goods and services deficit increased $69.6 billion, or 11.8%, from the same period in 2023. Exports increased $84.7 billion, or by 3.7% year-over-year. Imports increased $154.4 billion, or 5.3% year-over-year. Among major categories that saw large drops in September, exports of capital goods decreased $1.9 billion, exports of consumer goods decreased $1.4 billion, and exports of industrial supplies and materials decreased $1.4 billion.

FACTORY ORDERS declined 0.5% month-over-month in September, led by a 3.1% decline in transportation equipment. Excluding transportation, new factory orders were up 0.1% month-over-month following a 0.2% decline in August. A weakening in nondefense aircraft and parts orders (-22.7%) and defense aircraft and parts orders (-23.7%), were the primary basis for the decline in transportation orders in September. Motor vehicle bodies and parts orders, the largest component of transportation equipment, rebounded 0.6% from a 0.8 decline in August. New orders for nondefense capital goods excluding aircraft—a proxy for business spending— increased 0.7% on the heels of a 0.2% increase in August. New orders for nondurable goods continued to drop, declining another 0.2% after falling 0.7% in August.

Nonfarm business sector labor PRODUCTIVITY increased 2.2% in the third quarter following a 2.1% increase for the second quarter. The productivity increase stemmed from output increasing 3.5% and hours worked increasing 1.2%. From the same quarter a year ago, nonfarm business sector labor productivity has increased 2.0%. UNIT LABOR COSTS increased 1.9% quarter-over-quarter, a smaller acceleration than the 2.4% for the second quarter. The increase in unit labor costs resulted from a 4.2% increase in hourly compensation and a 2.2% increase in productivity. Unit labor costs in the manufacturing sector increased 5.3%, driven by a 6.4% increase in hourly compensation and a 1.0% increase in productivity.







Fed Speeches

On November 7, the FOMC voted unanimously to lower the benchmark rate by 25 basis points to a target range of 4.5%-4.75%. At the press conference following the conclusion of the meeting, Chair Powell highlighted the need for the current cut despite a strong performance of the economy in the recent month:

> "*The latest economic data have been strong and that's, of course, a great thing and highly welcomed. But of course, our mandate is maximum for employment and price stability, and we think that even with today's cut policy is still restrictive*"

Chair Powell expects the FOMC to continue the process of relaxing its monetary policy, albeit he did not commit to another cut in December:

> "*We're going to wait and see how things come in in December. I mean, I -- it's just -- I would put it this way, we're on a path to a more neutral stance. And that's very much what we're on. That has not changed at all since September. And you know, we're just going to have to see where the data leads us. We have, you know, a whole six weeks of data to look at to make that decision in December. Obviously, I'm not ruling it out or in.*"

Finally Chair Powell stated that the results of the election are not going to affect the committee policy decision in the short run, but it is too early to say whether they will affect monetary policy in the long term

> "*Now, just in principle, it's possible that any administration's policies or policies put in place by Congress could have economic effects over time that would matter for our pursuit of our dual mandate goals.*"

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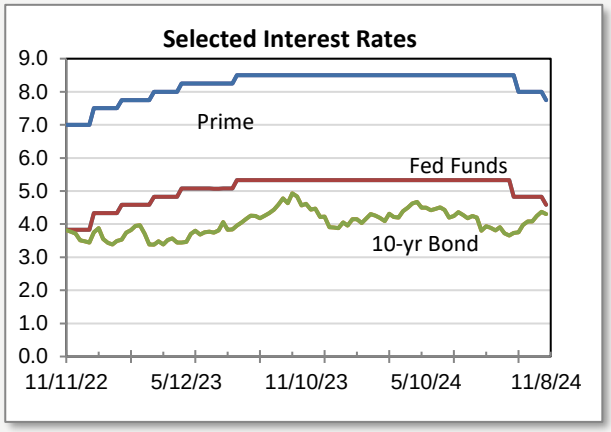
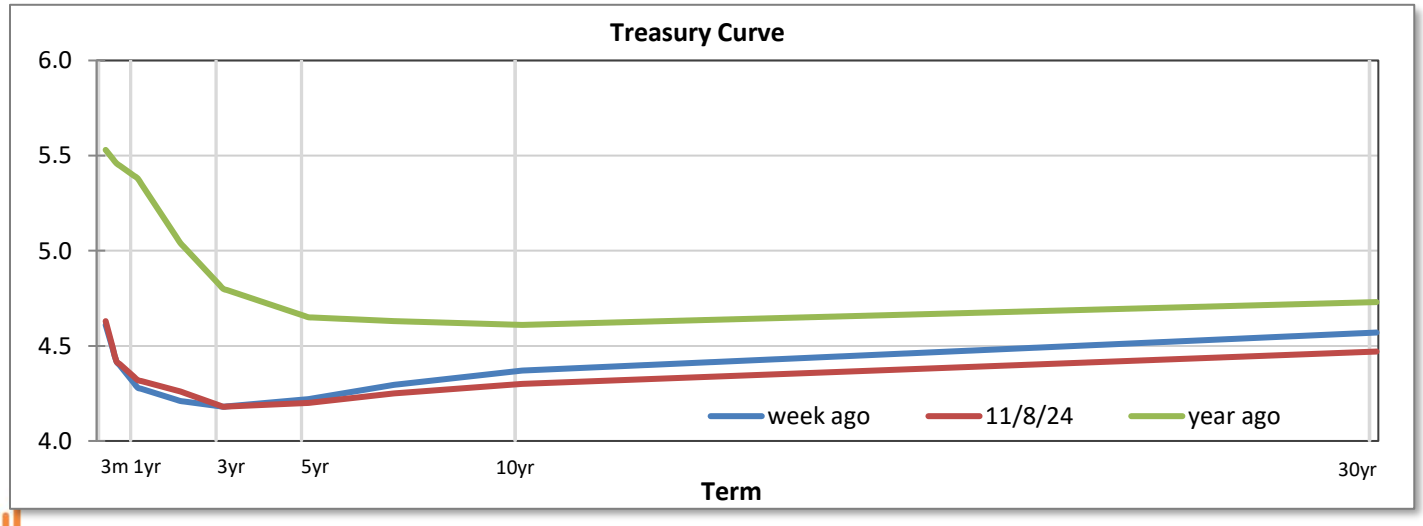
Financial Markets

The stock market posted large gains last week with all major indexes hitting new record highs. The Dow Jones Industrial Average climbed 4.6%, the S&P 500 and gained 4.7%, and the NASDAQ surged 5.7%. Yields on short-term Treasuries shifted up while yields on longer term bonds dropped, reversing the trend from recent weeks. The average 30-year conventional mortgage rate gained 7 basis points despite the Fed's rate cut on Thursday. Gold prices receded 1.9%. Oil prices rose 1.4%, ending the week at $70.47 per barrel. On the forex market, the U.S. dollar lost some ground against the Yen (-0.3%) but traded 1.1% higher against the Euro.





Interest Rate Forecast*

During the Fed's November policy meeting, the Federal Open Market Committee (FOMC) cut the federal funds target rate by 25 bps to 4.25% to 4.75% while continuing to reduce its holding of Treasury securities. In the statement released following the meeting, the FOMC said, "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
3rd Qtr. '24	7.75	4.61	4.61	4.36	3.80	3.93	4.09	6.23
4th Qtr	7.16	4.04	4.03	4.06	3.61	3.78	3.89	6.02
1st Qtr '25	6.83	3.71	3.70	3.86	3.54	3.73	3.91	5.82
2nd Qtr	6.42	3.29	3.28	3.42	3.39	3.58	3.89	5.71
3rd Qtr	6.25	3.13	3.11	3.26	3.28	3.52	3.89	5.67

October 2024

FINANCIAL MARKET SUMMARY

	As of 11/8/2024	As of 11/1/2024	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	7.75	8.00	(25)	(25)	(75)
Secured Overnight Financing Rate (SOFR)	4.82	4.86	(4)	1	(52)
Fed Funds (Wed close)	4.58	4.83	(25)	(25)	(75)
TREASURIES (BE) (Changes in BPs)					
3 Months	4.63	4.61	2	(10)	(70)
6 Months	4.42	4.42	0	(2)	(60)
1 Year	4.32	4.28	4	14	(18)
2 Years	4.26	4.21	5	31	21
5 Years	4.20	4.22	(2)	32	40
10 Years	4.30	4.37	(7)	22	36
30 Years	4.47	4.57	(10)	8	24
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.66	2.69	(3)	15	(1)
5-Year Muni	2.71	2.74	(3)	22	9
10-Year Muni	2.99	3.04	(5)	50	31
30-Year Muni	3.77	3.86	(9)	7	13
30-Year Conventional Mortgage	6.79	6.72	7	47	32
MARKET INDICATORS (Changes in %)					
DJIA	43,988.99	42,052.19	4.6	2.6	11.4
S&P 500	5,995.54	5,728.80	4.7	3.1	12.2
NASDAQ	19,286.78	18,239.92	5.7	5.1	15.2
CRB Futures	336.55	333.57	0.9	(2.9)	3.3
Oil (WTI Crude)	70.47	69.49	1.4	(5.6)	(4.9)
Gold	2,683.98	2,736.53	(1.9)	1.0	10.5
Yen / Dollar	152.55	153.01	(0.3)	2.6	4.1
Dollar / Euro	1.07	1.08	(1.1)	(2.0)	(1.8)