Summary

The stock market tumbled last week on the news that the US labor market was much stronger than expected. The Dow Jones Industrial Average and the S&P 500 dropped almost 2.0%, while the NASDAQ fell 2.3%. On Tuesday, the Bureau of Labor Statistics reported that the number of job openings on the last day of November rose to 8.1 million, the highest level since May 2024. A higher-than-expected increase in nonfarm payroll ignited fears that the Fed will pause relaxing its tight monetary policy for a while. The increase in payroll seems to be due to a decline in quits more than an acceleration of hiring. December's unemployment rate slipped to 4.1% from 4.2% in November. This trend is likely to continue. The number of new unemployment claims for the week ending January 4 declined by 10,000 to 201,000, its lowest level since January last year. However, continuing jobless claims for the week ending December 27 increased by 33,000 to 1.87 millon, suggesting that for those who lose their job, it is getting more challenging to find new employment. There are now 1.2 job openings per unemployed, down from 2 jobs per unemployed in 2022. December hourly earnings were up 0.3%, bringing the annual increase for 2024 to 3.9%.

Among other nonjob market-related reports, factory orders decreased by 0.4% month-over-month in November. Excluding transportation, factory orders rose 0.2%. The trade deficit widened to $78.2 billion in November. Total consumer credit fell by $7.5 billion in November, driven by a $13.8 billion decrease in revolving credit. ISM Services PMI increased to 54.1% in December, indicating an acceleration of activity.

Finally, the preliminary University of Michigan Index of Consumer Sentiment for January slipped to 73.2 from 74.0 in December on worries about the future path of inflation.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Factory Orders (Nov – Sun 10:00)	-0.4%	-0.3%	Factory Orders ex-transportation: +0.2%
Trade Balance (Nov – Mon 08:30)	-$78.2B	-$77.9B	
ISM Services (Dec – Mon 10:00)	54.1%	53.0%	
JOLTS - Job Openings (Nov – Mon 10:00)	8.098M	NA	
MBA Mortgage Applications Index (01/04 – Tue 07:00)	-3.7%	NA	
Initial Claims (01/04 – Tue 08:30)	201K	218K	
Continuing Claims (12/27 – Tue 08:30)	1,867K	NA	
Consumer Credit (Nov – Tue 15:00)	-$7.5B	$9.1B	
Nonfarm Payrolls (Dec – Thu 08:30)	256K	154K	
Nonfarm Private Payrolls (Dec – Thu 08:30)	223K	140K	
Avg. Hourly Earnings (Dec – Thu 08:30)	+0.3%	+0.3%	
Unemployment Rate (Dec – Thu 08:30)	4.1%	4.2%	
Average Workweek (Dec – Thu 08:30)	34.3	34.3	
U of Michigan Consumer Sentiment - Prelim (Jan – Thu 10:00)	73.2	73.5	

Next Week: Indicator	Consensus Expectation*	Prior	Comment
Treasury Budget (Dec – Sun 14:00)	NA	-$367.0B	
PPI (Dec – Mon 08:30)	+0.3%	+0.4%	Core PPI: +0.2%
MBA Mortgage Applications Index (01/11 – Tue 07:00)	NA	-3.7%	
CPI (Dec – Tue 08:30)	+0.3%	+0.3%	Core CPI: +0.3%
Retail Sales (Dec – Wed 08:30)	+0.5%	+0.7%	Retail Sales ex-auto: +0.2%
Initial Claims (01/11 – Wed 08:30)	212K	201K	
Continuing Claims (01/04 – Wed 08:30)	NA	1,867K	
Export Prices (Dec – Wed 08:30)	NA	0.0%	Export Prices ex-ag. :0.1%
Import Prices (Dec – Wed 08:30)	NA	0.1%	Import Prices ex-oil: 0.0%
Housing Starts (Dec – Thu 08:30)	1,318 TUAR	1,289 TUAR	
Building Permits (Dec – Thu 08:30)	1,454 TUAR	1,505 TUAR	
Industrial Production (Dec – Thu 09:15)	+0.3%	-0.1%	

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

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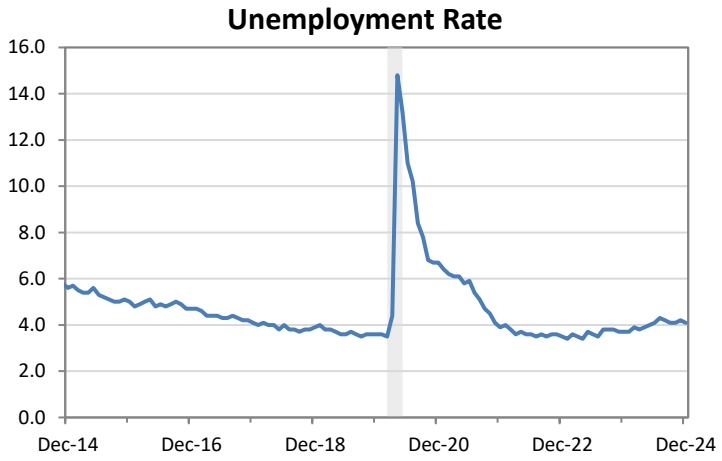
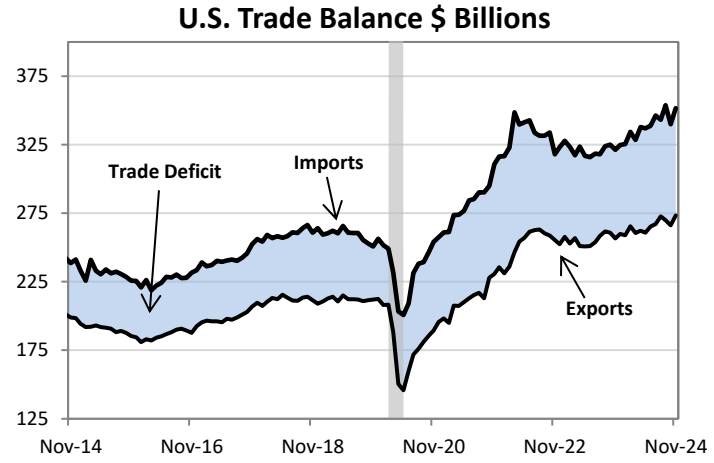
Economic Review

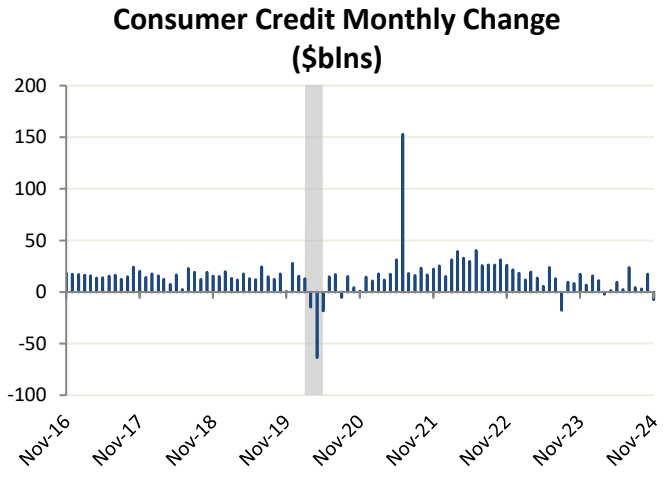
The UNEMPLOYMENT RATE inched down in December from 4.2% to 4.1%. Among major racial/ethnic groups, the unemployment rate decreased from 3.8% to 3.6% for whites, 5.3% to 5.1% for Latinos, and 6.4% to 6.1% for Blacks. The length of unemployment also fell slightly, with the unemployed for 27 weeks or more making up 22.4% of the total unemployment versus 23.1% in November. It does not appear that the decline in unemployment was driven by individuals dropping out of the workforce since the labor force participation rate held steady at 62.5%. December private sector payroll increased by 223,000. This increase was driven by service-providing establishments that added 231,000 jobs, The goods-producing sector lost 8,000 jobs. The latter was driven by a contraction in manufacturing employment (-13,000), while construction added 8,000. Overall, the December jobs report indicated a strong labor market.

The TRADE BALANCE widened to $78.2 billion in November from $73.6 billion in October. Both imports and exports increased in November, with exports increasing by $7.1 billion and imports by $11.6 billion, compared to October levels. The increase in imports is likely due to the President-elect's plan to increase tariffs. Imports of industrial supplies and materials saw the biggest increase in November, increasing by $3.7 billion. Capital goods increased by $3.5 billion, imports of foods, feeds, and beverages increased by $1.4 billion, and imports of automotive vehicles and parts increased by $1.2 billion. Businesses may be attempting to get ahead of the expected tariff increase by overstocking inventory now to avoid higher import costs in the future.

Consumer credit decreased by $7.5 billion in November after increasing by $17.3 billion in October. This is only the third time consumer credit has contracted in the past 16 months. This contraction was driven by revolving credit that decreased by $13.8 billion to $1.359 trillion. Nonrevolving credit increased by $6.2 billion to $3.743 trillion. After adjusting for seasonal variation, consumer credit increased 1.8%. Revolving credit decreased at an annual rate of 12.0%, while nonrevolving credit increased at 2.0%.







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Fed Speeches

Governor Michelle W. Bowman spoke at the California Banker Association's 2025 Bank Presidents Seminar in Laguna Beach. Compared to other FOMC voting members, Governor Bowman had advocated a more gradual approach to lowering interest rates. She voted against the ½ percentage cut in September and reluctantly favored the last ¼ percentage point reduction in December.

"*But given the lack of continued progress on lowering inflation and the ongoing strength in economic activity and in the labor market, I could have supported taking no action at the December meeting.*"

Governor Bowman is not completely sold that the fight against inflation is over. She remains concerned about the potential upside risk of stickier inflation:

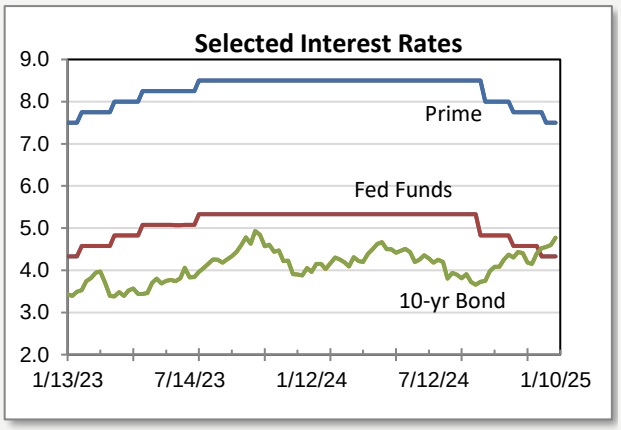
"*Persistently elevated core inflation continues to reflect pressures on housing services prices, possibly due to an increase in demand for affordable housing amid an inelastic supply*."

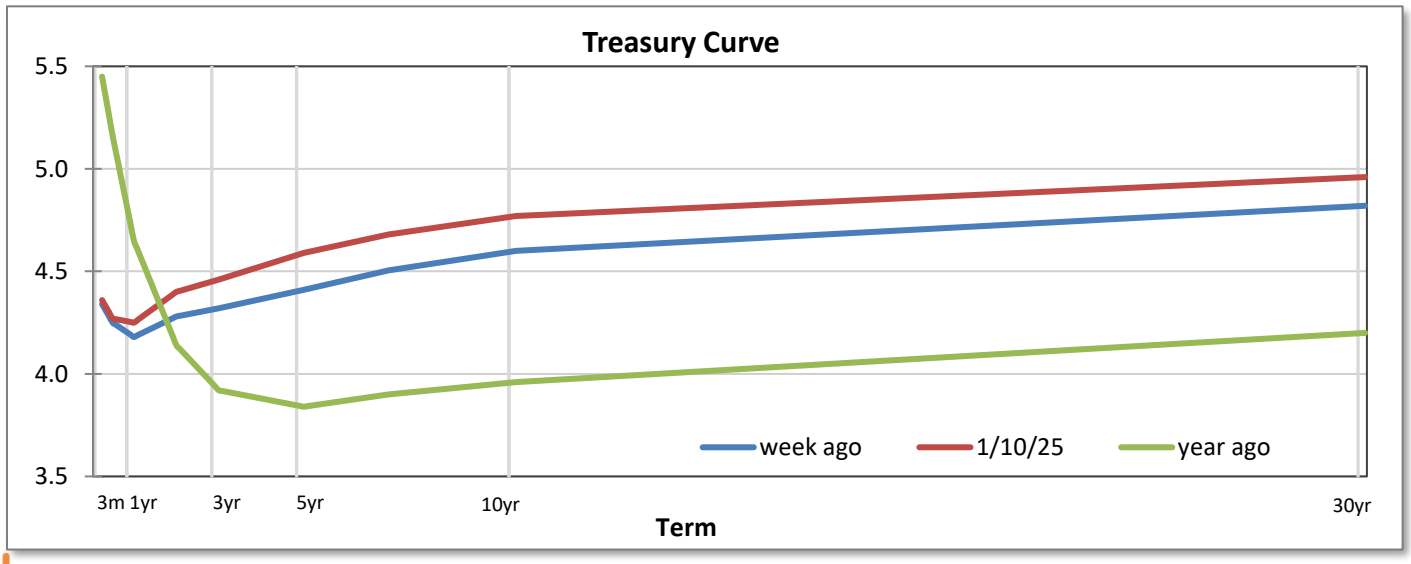
Overall, Governor Bowman believes that monetary policies should not be preset but driven by data and adapt to new developments. So far, she does not see the need to rush further rate cuts:

"*Given the ongoing strength in the economy, it seems unlikely that the overall level of interest rates and borrowing costs are providing meaningful restraint. With equity prices more than 20 percent higher than a year ago, easier financial conditions may be contributing to the lack of further progress on slowing inflation. In fact, concerns about inflation risks seem to partly explain the recent notable increase in the 10-year Treasury yield back to values last seen in the spring of 2024. In light of these considerations, I continue to prefer a cautious and gradual approach to adjusting policy*."

Financial Markets

The stock market plummeted on Friday on a better-than-expected employment report. The Dow Jones Industrial Average and the S&P 500 fell 1.9%, while the NASDAQ dropped 2.3%. The strong hiring reinforced investors' fears that the Fed will pause interest rate cuts, pushing yields on US Treasury securities and municipal bonds up. The 30-year conventional mortgage rate rose two basis points and now sits at 6.93%. Oil prices gained 3.5%, ending the week at $75.57/barrel. The price of gold advanced 1.9%. In the Forex market, the dollar index jumped to a two-year high on the news of a resilient US economy. The greenback gained 0.3% higher against the Yen and 0.6% higher against the Euro.





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Interest Rate Forecast*

During the Fed's December policy meeting, the Federal Open Market Committee (FOMC) cut the federal funds target rate by 25 bps to 4.25% to 4.50% while continuing to reduce its holding of Treasury securities. In the statement released following the meeting, the FOMC said, "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
1st Qtr '25	7.50	4.38	4.36	4.32	4.27	4.46	4.55	6.74
2nd Qtr	7.34	4.21	4.20	4.24	4.11	4.35	4.51	6.63
3rd Qtr	7.09	3.96	3.95	4.05	4.00	4.10	4.27	6.33
4th Qtr	6.84	3.71	3.70	3.87	3.85	3.92	4.09	6.08
1st Qtr '26	6.59	3.46	3.45	3.64	3.70	3.76	3.99	5.96

January 2024

FINANCIAL MARKET SUMMARY

	As of 1/10/2025	As of 1/3/2025	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	7.50	7.50	0	(25)	(50)
Secured Overnight Financing Rate (SOFR)	4.30	4.40	(10)	(32)	(51)
Fed Funds (Wed close)	4.33	4.33	0	(25)	(50)
TREASURIES (BE) (Changes in BPs)					
3 Months	4.36	4.34	2	2	(37)
6 Months	4.27	4.25	2	(5)	(17)
1 Year	4.25	4.18	7	1	7
2 Years	4.40	4.28	12	15	45
5 Years	4.59	4.41	18	34	71
10 Years	4.77	4.60	17	37	69
30 Years	4.96	4.82	14	35	57
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.85	2.79	6	22	34
5-Year Muni	2.98	2.87	11	29	49
10-Year Muni	3.24	3.09	15	55	49
30-Year Muni	4.10	3.85	25	45	40
30-Year Conventional Mortgage	6.93	6.91	2	33	61
MARKET INDICATORS (Changes in %)					
DJIA	41,938.45	42,732.13	(1.9)	(4.3)	(2.2)
S&P 500	5,827.04	5,942.47	(1.9)	(3.7)	0.2
NASDAQ	19,161.63	19,621.68	(2.3)	(3.8)	4.5
CRB Futures	368.36	356.99	3.2	4.1	6.3
Oil (WTI Crude)	76.57	73.96	3.5	14.1	2.6
Gold	2,689.76	2,640.22	1.9	1.5	1.2
Yen / Dollar	157.73	157.26	0.3	5.2	6.1
Dollar / Euro	1.02	1.03	(0.6)	(2.5)	(6.3)

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