WEEKLY ECONOMIC UPDATE

Summary

The stock market rebounded from three weeks of losses, posting major gains for the week. The Dow Jones Industrial Average climbed 3.7%, the S&P 500 advanced 2.9%, and the NASDAQ rose 2.4%.

Last week was dominated by inflation reports. The December CPI and PPI indicate that inflation has remained well over the target. Year-over-year, the CPI is up 2.9% from 2.8% in the previous month, and the PPI is up 3.3%, from 3.0% in November, both above the FOMC's 2% target. However, this recent acceleration was mainly driven by energy prices that are very volatile by nature; and, contrary to some prices that typically only go up, they can decrease over time. Excluding food and energy prices, the core PPI was flat, beating expectations. The core CPI increased 0.2% month-over-month, which was in line with the Briefing.com consensus estimate and slightly better than consensus estimates seen elsewhere. Export prices accelerated in December, while import prices were stable.

The Treasury budget posted a $86.7 billion deficit in December. For fiscal year 2025, the year-to-date deficit is nearly 40% higher than in the same period in fiscal year 2024. Retail sales were subdued in December, increasing 0.4% month-over-month not adjusted for price changes. Industrial production showed some rebound after being depressed in recent months by the hurricanes and the Boeing strike, rising 0.9% month-over-month. Depite climbing mortagage rates which are now sitting above 7%, mortgage applications jumped 33.3% on the week ending January 10 compared to the previous week. The housing market is showing encouraging signs of a surge in new supply. Total housing starts increased 15.8% month-over-month in December. Building permits were down 0.7% from the previous month, but this was stronger than expected. The labor market, overall, continues to remain in good shape. Initial jobless claims for the week ending January 11 increased by 14,000 to 217,000. Continuing jobless claims for the week ending January 4 decreased by 18,000 to 1.859 million.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Treasury Budget (Dec – Sun 14:00)	-$87.0B	NA	
PPI (Dec – Mon 08:30)	+0.2%	+0.3%	Core PPI: +0.0%
MBA Mortgage Applications Index (01/11 – Tue 07:00)	33.3%	NA	
CPI (Dec – Tue 08:30)	+0.4%	+0.3%	Core CPI: +0.2%
Retail Sales (Dec – Wed 08:30)	+0.4%	+0.5%	Retail Sales ex-auto: +0.4%
Initial Claims (01/11 – Wed 08:30)	217K	212K	
Continuing Claims (01/04 – Wed 08:30)	1,859K	NA	
Export Prices (Dec – Wed 08:30)	+0.3%	NA	Export Prices ex-ag. +:0.3%
Import Prices (Dec – Wed 08:30)	+0.1%	NA	Import Prices ex-oil: +0.1%
Business Inventories (Nov – Wed 10:00)	+0.1%	+0.1%	
Housing Starts (Dec – Thu 08:30)	1,499 TUAR	1,318 TUAR	
Building Permits (Dec – Thu 08:30)	1,483 TAUR	1,454 TUAR	
Industrial Production (Dec – Thu 09:15)	+0.9%	+0.3%	
Capacity Utilization (Dec – Thu 09:15)	77.6%	77.0%	
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
MBA Mortgage Applications Index (01/18 – Tue 07:00)	NA	33.3%	
Leading Indicators (Dec – Tue 10:00)	0.0%	0.3%	
EIA Crude Oil Inventories (01/18 – Tue 10:30)	NA	-1.96M	
Initial Claims (01/18 – Wed 08:30)	219K	217K	
Continuing Claims (01/11 – Wed 08:30)	NA	1,859K	
EIA Natural Gas Inventories (01/18 – Wed 10:30)	NA	-258 bcf	
Existing Home Sales (Dec – Thu 10:00)	4.21M	4.15M	
Univ. of Michigan Consumer Sentiment - Final (Jan – Thu 10:00)	73.0	74.0	

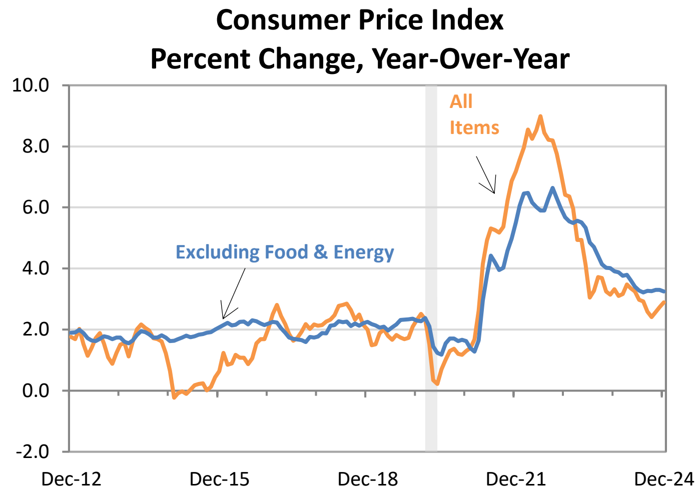
**Sources: www.briefing.com and www.federalreserve.gov*

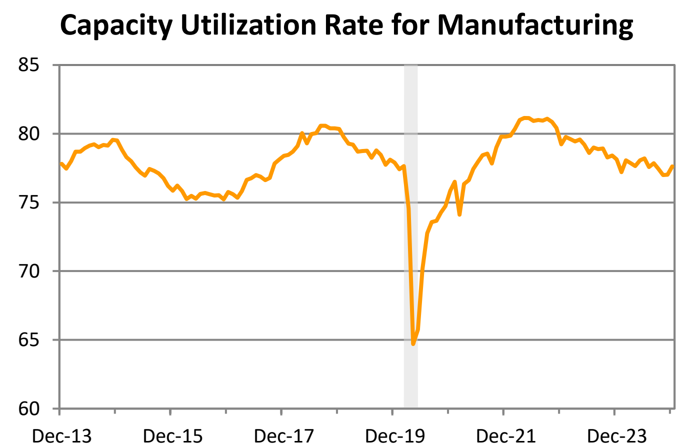
Economic Review

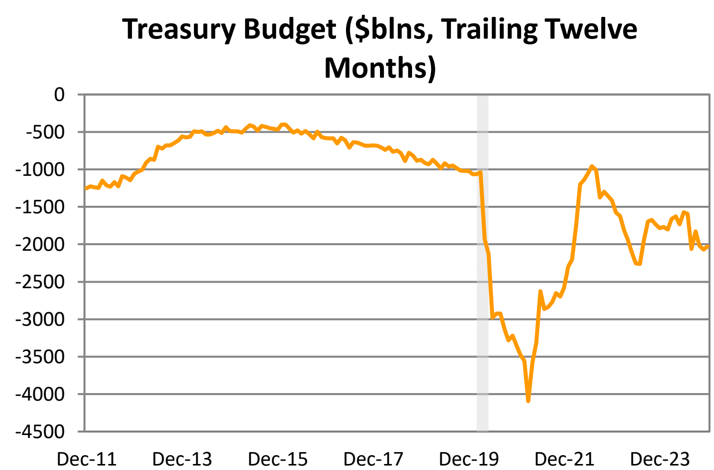
The CONSUMER PRICE INDEX (CPI) increased 0.4% month-over-month in December, increasing slightly from 0.3% in November. Core CPI, which excludes food and energy, was up 0.2% in December, slowing slightly from a 0.3% increase in November. Compared to December 2023, CPI is up 2.9%, compared to the year-over-year estimate of 2.7% in November. Core CPI was up 3.2% year-over-year in December, down from 3.3% in November. Food CPI slowed slightly this month, increasing 0.3% in December following a 0.4% increase in November. Housing CPI stayed stable at 0.3%. Given the concern over inflation in the United States, expectations for this CPI report were grim. However, this release indicates that inflation may not be as bad as feared — however, the consumer inflation rate is still well above the 2% target. In the FOMC's December meeting, governors were clear that they would be constantly weighing the importance of meeting the target for inflation while maintaining economic growth. With both measures better-than-expected but still significantly off-target, it is unclear what we might expect from the FOMC in early 2025.

CAPACITY UTILIZATION jumped to 77.6% in December from 77% in November. While this is a recovery from when utilization was depressed in November and October, the utilization rate is down 2.1 percentage points from its long-term average. Industrial production increased to 0.9% from a 0.2% increase in November, and industrial production was up 0.5% year-over-year. Output of utilities surged 2.1% in December, following a 0.7% contraction in November; mining utilization, which fell 0.5% in November, similarly surged and increased 1.8% in December. Manufacturing also saw a recovery in December, increasing 0.6%, an improvement from November. Overall, December showed a rebound from the previous months, when hurricanes and strikes depressed economic activity.

The December TREASURY BUDGET showed a deficit of $86.7 billion, an improvement from a deficit of $129.4 billion in December 2023. Since the Treasury Budget data is not seasonally adjusted, it cannot be compared to November. Outlays, which in December were $541 billion, exceeded the $454 billion in receipts, causing the deficit. Social Security, ($124 billion in December), National Defense ($83 billion), Net Interest ($82 billion), and Health ($81 billion) made up the bulk of the outlays. Individual Income Taxes totaled $212 billion and Social Insurance & Retirement Receipts totaled $137 billion, making up most of receipts. The fiscal year-to-date deficit is $710.9 billion this year compared to $509.9 billion in the same period last year. Overall, the deficit so far in fiscal year 2025 is 39.4% larger than the deficit for the same period in fiscal year 2024.







Fed Speeches

During an interview with CNBC on January 16, Governor Christopher Waller sounded confident that inflation is on the right path toward the Fed's 2% target.

> *"Right now, I think inflation is going to continue to come in towards our target. The year over year, stickiness that we saw in 2024, I think will start to dissipate. So I may be a little more optimistic about inflation coming down than the rest of my colleagues, and that's what's driving my outlook for the path for policy."*

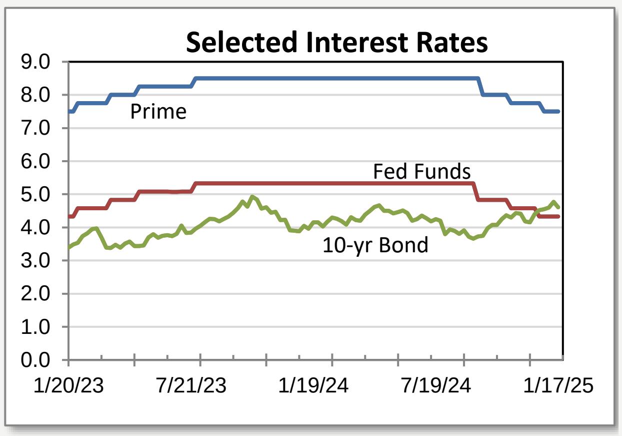
The Governor is optimistic that the central bank could lower interest rates multiple times this year, with the first cut coming in the first half of the year. How many cuts will follow remains an open question that rests on the economic reports of the upcoming months.

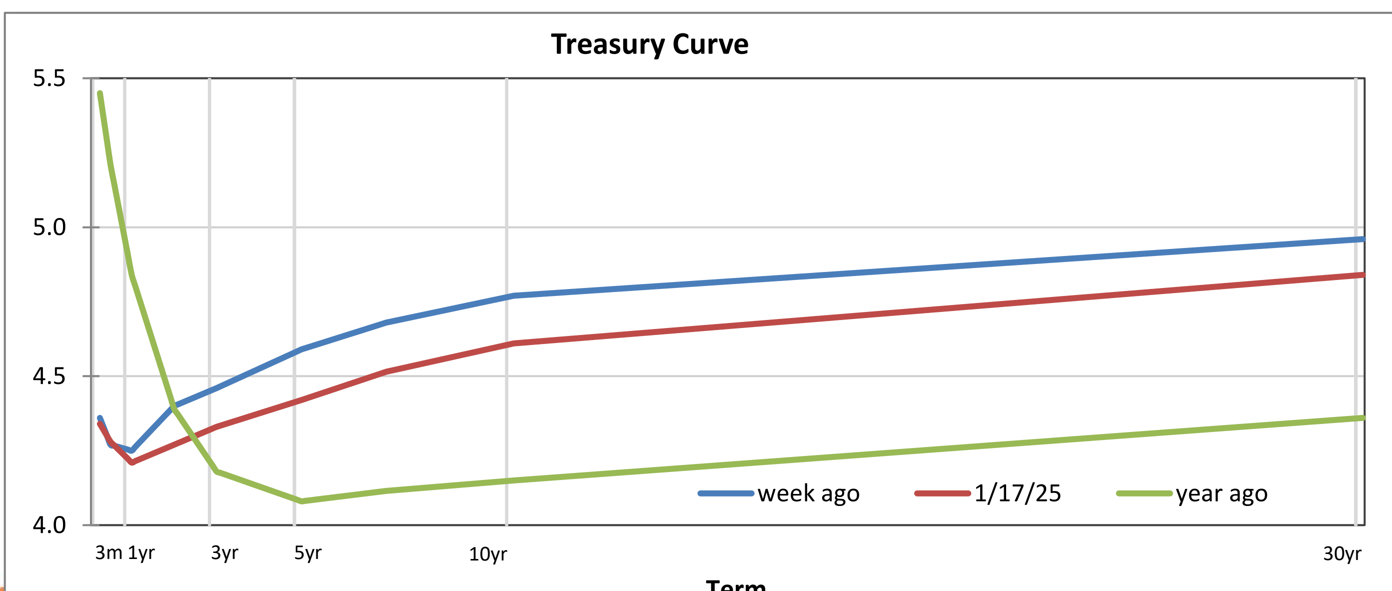
> *"That's all going to be driven by the data. I mean, if we make a lot of progress, you could do more. If the data doesn't cooperate, then you're going to be back to two and going maybe even one, if we just get a lot of sticky inflation."*

Expectations of a May rate cut rose to 50% following Waller's remarks.

Financial Markets

All major indexes posted weekly gains for the first time in three weeks. The Dow Jones Industrial Average rose 3.7%, the S&P 500 advanced 2.9%, and the NASDAQ gained 2.4%. Overall, traders were pleased with December's CPI report and are feeling more bullish about future rate cuts, sending yields on medium and long-term Treasury securities sharply down. The 30-year conventional mortgage rate rose 11 basis points, now sitting above the 7% mark, the highest level since May last year. Oil prices gained 1.7%, ending the week at $77.88/barrel. The price of gold advanced 0.5%. In the Forex market, the dollar index received strong after posting gains in the past weeks. The greenback traded 0.9% lower against the Yen and 0.3% lower against the Euro.





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 1/17/2025	As of 1/10/2025	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)	4.29	4.30	(1)	(1)	(56)
Fed Funds (Wed close)	4.33	4.33	0	0	(50)
TREASURIES (BE) (Changes in BPs)					
3 Months	4.34	4.36	(2)	0	(39)
6 Months	4.28	4.27	1	(1)	(17)
1 Year	4.21	4.25	(4)	(6)	2
2 Years	4.27	4.40	(13)	(3)	32
5 Years	4.42	4.59	(17)	5	54
10 Years	4.61	4.77	(16)	9	53
30 Years	4.84	4.96	(12)	12	46
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.83	2.85	(2)	1	33
5-Year Muni	2.95	2.98	(3)	4	47
10-Year Muni	3.19	3.24	(5)	28	45
30-Year Muni	4.04	4.10	(6)	15	39
30-Year Conventional Mortgage	7.04	6.93	11	32	60
MARKET INDICATORS (Changes in %)					
DJIA	43,487.83	41,938.45	3.7	1.5	0.5
S&P 500	5,996.66	5,827.04	2.9	1.1	2.3
NASDAQ	19,630.20	19,161.63	2.4	0.3	6.2
CRB Futures	374.82	368.36	1.8	6.8	12.5
Oil (WTI Crude)	77.88	76.57	1.7	9.6	3.2
Gold	2,703.25	2,689.76	0.5	3.1	(0.7)
Yen / Dollar	156.30	157.73	(0.9)	1.7	4.8
Dollar / Euro	1.03	1.02	0.3	(1.5)	(5.5)