Economic Update

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1. FOMC INTEREST RATE DECISION

- The FOMC left its benchmark federal funds rate unchanged at its January policy meeting as improving inflation and consumer expectations data has reduced the committee's need to continue its monetary tightening. Still, the timing of potential rate cuts in 2024 remains uncertain as officials grapple with the complexity of domestic and global economic risks.
- As the inflation picture continued to improve to close 2023, markets increasingly forecasted several Fed rate cuts in 2024. By the final trading day in December, fed futures markets assigned a 74% probability for a March rate cut. However, recent statements of caution by Fed officials and increased global economic uncertainty— notably attacks on commercial shipping in the Red Sea—have made futures markets more hawkish. Currently, fed futures markets forecast an 81.5% probability that rates stay unchanged in March.
- Still, dovish sentiment in the market isn't unfounded. While the unemployment rate has returned to pre-pandemic levels, it has slowly increased over the past 12 months, with layoffs recently appearing to pick up steam. Over the past few weeks, several notable companies, particularly in the tech and media space, have announced significant layoffs. Initial jobless claims have not seen a meaningful uptick, but quits have declined— evidence of a weakening labor market.
- FOMC members will likely move cautiously through their subsequent interest rate decisions as they weigh these developments and digest incoming inflation data.

2. SENIOR LOAN OFFICER OPINION SURVEY

- In January, the Federal Reserve released its quarterly Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS), which reflected tighter lending standards and weakening demand across several loan types compared to the previous quarter.
- Respondents reported tightening standards and weaker loan demand to commercial and industrial businesses of all sizes, while the commercial and real estate loan market experienced a similar contraction.
- Residential real estate loans of all categories except governmental residential mortgages and government-sponsored enterprise-eligible mortgages saw standards tighten. Banks also reported weaker demand for home-equity lines of credit, while consumer loans, including credit cards and auto loans, also saw

tightening standards alongside weakening demand.

3. MORTGAGE RATES AND APPLICATIONS

- According to data from the Mortgage Bankers Association, the average contract on a 30-year fixed-rate mortgage (on balances $726k or less) rose slightly to 6.8% during the week ending on February 2nd, 2024.
- Rates stand at their highest in four weeks but below the 23-year peak of 7.9% in October.
- Despite the uptick, mortgage applications climbed 3.7% during the same week, following a 7.2% decline the previous week.
- Refinance applications accelerated further, rising by 12.6% following a 1.6% increase during the last week of January. Conversely, new home applications dropped 60 basis points week-over-week following an 11.4% decline during the previous week.

4. 2024 HOUSING MARKET PREDICTIONS

- An article by Forbes advisor noted that while mortgage rates have improved in recent months, home affordability will likely remain a pressing challenge in 2024 as prices remain sticky and housing supply struggles to catch up to demand.
- Many would-be homebuyers were stuck on the sideline in 2023 as borrowing rates surged and existing owners in older, fixed, low-rate mortgages were less inclined to sell at lower prices.
- Experts expect conditions to improve in 2024, forecasting a busier spring home buying season this year compared to last. However, rates are unlikely to return to pre-pandemic levels, which is likely to keep the issue of existing owners “locked in” at lower rates a salient problem for the purchase market.
- According to Jiayi Xu, an economist at Realtor.com, roughly two-thirds of all outstanding residential mortgages have rates below 4%, making it challenging for the housing market to thaw significantly if rates remain north of this range.
- Nonetheless, experts expect that some reduction from today’s 6-7% range will induce higher transaction volume as demand rises, recharging upward pressure on home prices and incentivizing would-be sellers

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back into the market.

5. HOUSEHOLD DEBT

- According to the Federal Reserve Bank of New York, consumer debt in the US climbed precipitously during the fourth quarter of 2023, rising by $212 billion or 1.2$% from the previous quarter to $17.5 trillion—a new all-time high.
- Mortgage balances rose by $112 billion, followed by credit card balances (+50 billion) and auto loan balances ($12 billion).
- Other balances, including retail cards and other consumer loans, rose by a combined $25 billion, while student loan balances remained relatively unchanged.
- Delinquency rates were higher compared to the third quarter, climbing to 3.1% of all outstanding debt—an uptick of 10 basis points. However, delinquency rates remain below pre-pandemic levels, suggesting that inflation may be causing rising debt levels to appear more severe than reality.

6. JANUARY JOBS REPORT

- According to the Bureau of Labor Statistics, the US economy added 353,000 new jobs in January, while the unemployment rate was unchanged at 3.7%.
- Both metrics point to continued resilience in the labor market amid inflation pressures and interest rate increases, which may further complicate rate-cut considerations in the near term.
- Professional and business services led all sectors with 77,000 job adds, followed by healthcare (+70,000), retail trade (+45,000), and social assistance (+30,000).
- Declines were led by the mining, quarrying, and oil and gas extraction industry (-5,000), which, conversely, saw little net change during 2023.
- Employment changed little in major industries such as construction, wholesale trade, transportation and warehousing, financial activities, leisure and hospitality, and other services.

7. JOB OPENINGS AND LABOR TURNOVER

- According to the Bureau of Labor Statistics, the number of job openings in the United States changed little in December, charting at 9.0 million on the last business day of December.

- Total hires and separations were also little changed at 5.6 million and 5.4 million, respectively. Quits and layoffs saw little movement compared to the previous month, registering 3.4 million and 1.6 million, respectively.
- Job openings increased at a faster rate for establishments with 5,000 or more employees, while those with 1-9 employees and 10 to 49 employees saw little change.
- On a state level, job openings were up in 2 states (Illinois and Colorado) and down in 4 (Mississippi, Florida, Georgia, and Tennessee), while little changed across all other states and the District of Columbia.

8. LOGISTICS MANAGERS INDEX

- The US Logistics Managers Index increased in January to its highest level in three months and, for the first time since September, has seen each sub-metric of its index expand, according to the report.
- The expansion of the index was led by an increase in inventories, particularly activity by retailers who began to restock in January following the holiday season. Resultingly, inventory costs expanded considerably, while transportation costs rose for the first time since June 2022.
- Warehouse activity rose but at a slower pace, with expansion in both warehousing capacity and utilization.
- The report authors note that while January's uptick is a strong signal, seasonality factors remain at play, requiring additional months of data before concluding that the logistics industry is returning to a period of growth.

9. CONSTRUCTION SPENDING

- According to the US Census Bureau, US construction spending climbed by 0.9% month-over-month in December, in line with November's revised measurement and exceeding market estimates.
- Over the 12 months ending in December, total construction spending rose by 13.7%, while total construction value in 2023 was 7% above 2022 levels.
- Private construction spending grew by 0.7% in December, primarily driven by a 1.4% increase in residential sector spending, particularly single-family homes. Meanwhile, the non-residential declined by 0.2%. Public

spending rose by 1.3% compared to November.

10. UNITED STATES ECONOMIC OPTIMISM INDEX

- According to the Real Clear Markets/TIPP Economic Optimism Index, sentiment fell in February compared to the previous month and registered below the consensus forecast.
- The index segments measuring respondents' personal financial outlooks and confidence in Federal Economic Policies declined from January. Meanwhile, the index's six-month economic outlook segment improved compared to last month.
- Investor optimism fell while it gained among non-investors, with investors experiencing a stronger directional movement in sentiment than non-investors.

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SUMMARY OF SOURCES

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