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## WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

March 3, 2023

### US ECONOMIC INDICATORS

Economic releases were fairly light this week. The February ISM (Institute for Supply Management) manufacturing index rose from 47.4 to 47.7, while the services index fell to 55.1 from 55.2. Initial jobless claims fell for the week, while unit labor costs rose 3.2%.

**Our Take:** This week's economic indicators followed recent trends. The manufacturing ISM was weaker than expected and remained in contractionary territory, while the service ISM was stronger than expected and indicated expansion. The services sector is the Fed's main inflationary concern and nothing in these reports will likely change their thinking. On the employment side, job markets remain tight as jobless claims are falling and costs are rising.

### INFLATION

Inflation is accelerating in Germany, France, and Spain, according to reports this week. Eurozone year-over-year core inflation rose to 5.6% from 5.3%.

**Our Take:** Inflation is a worldwide phenomenon, meaning price increases overseas will make containing inflation in the U.S. more difficult. Similar to the Fed, the European Central Bank is expected to continue hiking rates.

### MUNICIPALS

New Jersey Democratic Governor Phil Murphy unveiled his \$53.1 billion budget proposal for the 2024 fiscal year. The budget plan proposes increasing spending by 5% and calls for more school aid and a property tax rebate program, along with spending for transportation and funding for public pensions. Governor Murphy's plan does not include any tax increases. In response to the proposal, Republicans have called for tax cuts for the next fiscal year.

**Our Take:** New Jersey has experienced higher-than-expected revenue collections. New Jersey's budget includes a record proposed surplus of \$10.1 billion. Last year's proposed budget surplus during the budgeting process was \$6.8 billion. The balanced budget along with only a slight decline in expected tax collections is a step in the right direction for New Jersey, which remains one of the nation's lowest rated states.



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The ISM Manufacturing Index is an indicator of the level of economic activity in the manufacturing sector in the United States. A number above 50 indicates an expansion of U.S. manufacturing, while a number below 50 indicates a contraction.