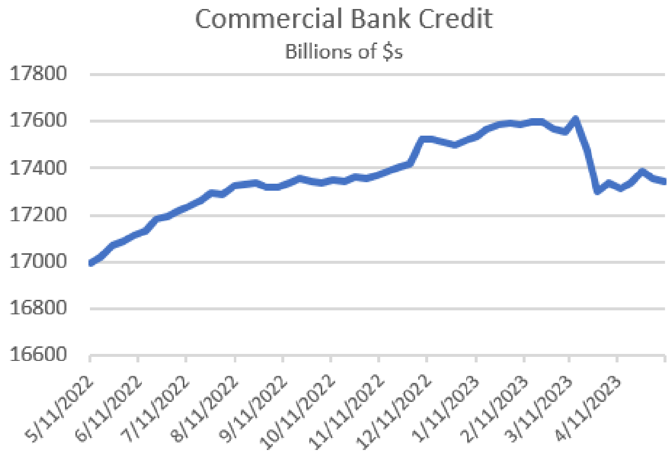


Finally, the Fed's aggressive rate-hiking campaign is not only deterring demand, but also crimping the supply of credit. The recent panic that saw three regional bank failures has been contained, but lenders have toughened credit standards, depriving wide swaths of borrowers of much needed funds. Indeed, bank credit suffered its biggest contraction on record following the banking turmoil that erupted in March. Reduced credit availability has the same growth-retarding effect as a rate hike, which is another reason the Fed may decide to pause at its June policy meeting.

## Big Toll on Small Businesses

The most harmful effects of reduced credit availability are falling on small businesses. Mom and pop establishments do not garner headlines, but they are the biggest generators of jobs in the economy. In fact, small businesses accounted for all the net job growth between February 2020 and the end of 2022. While heavy layoffs at high-profile tech firms are getting all the attention, the closing of the credit spigot for small firms is spurring an even greater surge of firings among these establishments. Labor Department data reveal that firms with 1-9 workers laid off or fired 341,000 workers in March, more than twice as many as in February. Unsurprisingly, small business sentiment is sinking fast.

According to the latest survey by the National Association of Independent Businesses, small business optimism is the lowest in more than a decade, with respondents citing restrictive credit availability and high borrowing costs as the principal sources of angst. Throughout most of the post-COVID recovery, labor shortages topped the list of worries for small businesses, reflecting how dramatically the times are changing. If small firms can't borrow, they can't meet payroll, indicating that labor demand, not supply, will pose more of a threat to the economy going forward.

Simply put, the glum mood of households and small businesses is beginning to affect behavior, making the outlook look more ominous than portrayed by incoming data. The Fed still clings to the hope that it can wrestle down inflation without causing a big spike in unemployment – achieving the so-called "soft landing." So far, so good, as the downbeat sentiment of households and businesses hasn't yet tanked the economy. Even the "dismal" economists and bearish investors are pushing back the timing of the expected recession, primarily reflecting the resilience of consumers. But that very resilience along with the still tight labor market is keeping inflation higher than the Fed is willing to tolerate. The question is, how much of an economic slowdown is the Fed willing to accept to get inflation down to its 2 percent target? It's hard to see or feel what everyone's worried about now, but that's probably the most worrisome element for the Fed to consider.

## BankRI Executive Management

**William C. Tsonos**
President & CEO
WTsonos@bankri.com

**Steven M. Parente**
Executive Vice President, Director of Retail Banking
SParente@bankri.com

# FINANCIAL INDICATORS

| | April | March | February | January | December | November | October | 12-Month Range High | 12-Month Range Low |
|---|---|---|---|---|---|---|---|---|---|
| Prime Rate | 8.00 | 7.82 | 7.74 | 7.50 | 7.27 | 6.95 | 6.25 | 8.00 | 3.94 |
| 3-Month Treasury Bill Rate | 4.92 | 4.69 | 4.65 | 4.54 | 4.25 | 4.15 | 3.72 | 4.92 | 0.98 |
| 5-Year Treasury Note Rate | 3.54 | 3.82 | 3.94 | 3.64 | 3.76 | 4.06 | 4.18 | 4.18 | 2.87 |
| 10-Year Treasury Note Rate | 3.46 | 3.66 | 3.75 | 3.53 | 3.62 | 3.89 | 3.98 | 3.98 | 2.90 |
| 30-Year Treasury Bond Rate | 3.68 | 3.77 | 3.80 | 3.66 | 3.66 | 4.00 | 4.04 | 4.04 | 3.07 |
| Tax-Exempt Bond Yield | 3.44 | 3.59 | 3.66 | 3.46 | 3.65 | 3.76 | 3.93 | 3.93 | 3.16 |
| Corporate Bond Yield (AAA) | 4.47 | 4.60 | 4.56 | 4.40 | 4.43 | 4.90 | 5.10 | 5.10 | 4.06 |
| Conventional 30-Year Mortgage Rate | 6.34 | 6.54 | 6.26 | 6.27 | 6.36 | 6.81 | 6.90 | 6.90 | 5.22 |
| | | | | | | | | | |
| Dow Jones Industrial average | 33731 | 32483 | 33648 | 33656 | 33482 | 33418 | 30571 | 33731 | 30571 |
| S&P 500 Index | 4121 | 3969 | 4080 | 3961 | 3912 | 3917 | 3726 | 4159 | 3726 |
| Dividend Yield (S&P) | 1.65 | 1.67 | 1.73 | 1.68 | 1.70 | 1.65 | 1.73 | 1.85 | 1.56 |
| P/E Ratio (S&P) | 19.9 | 19.6 | 18.9 | 19.3 | 18.2 | 19.2 | 18.7 | 20.7 | 17.3 |
| | | | | | | | | | |
| Dollar Exchange Rate (vs. Major Currencies) | 119.4 | 120.8 | 120.3 | 119.8 | 122.3 | 125.0 | 127.6 | 127.6 | 119.4 |

* Monthly Averages

**Economic Indicators**

| | April | March | February | January | December | November | October | 12-Month Range High | 12-Month Range Low |
|---|---|---|---|---|---|---|---|---|---|
| Housing Starts (Thousands of Units) | 1401 | 1371 | 1436 | 1340 | 1357 | 1427 | 1432 | 1561 | 1340 |
| New Home Sales (Thousands of Units) | | 683 | 623 | 648 | 622 | 582 | 589 | 683 | 543 |
| New Home Prices (Thousands of Dollars) | | 450 | 433 | 429 | 480 | 462 | 497 | 497 | 429 |
| | | | | | | | | | |
| Retail Sales (% Change Year Ago) | 1.6 | 2.4 | 5.3 | 7.4 | 6.0 | 6.1 | 8.8 | 10.30 | 1.6 |
| Industrial Production (% Change Year Ago) | 0.2 | 0.1 | 0.8 | 1.5 | 0.6 | 1.8 | 3.0 | 4.7 | 0.1 |
| Operating Rate (% of Capacity) | 79.7 | 79.4 | 79.5 | 49.6 | 78.9 | 80.3 | 80.6 | 80.8 | 49.6 |
| Inventory Sales Ratio (Months) | | 1.39 | 1.38 | 1.37 | 1.39 | 1.37 | 1.36 | 1.39 | 1.29 |
| Real Gross Domestic Product (Annual % Change) | | 1.1 | | | 2.6 | | | 3.2 | -0.6 |
| | | | | | | | | | |
| Unemployment Rate (Percent) | 3.4 | 3.5 | 3.6 | 3.4 | 3.5 | 3.6 | 3.7 | 3.7 | 3.4 |
| Payroll Employment (Change in Thousands) | 253 | 165 | 248 | 472 | 239 | 290 | 324 | 568 | 165 |
| Hourly Earnings (% Change Year Ago) | 4.4 | 4.3 | 4.7 | 4.4 | 4.8 | 5.0 | 4.9 | 5.5 | 4.3 |
| Personal Income (% Change Year Ago) | | 6.0 | 6.2 | 6.4 | 5.7 | 5.7 | 5.7 | 6.4 | 1.4 |
| Savings Rate (Percent of Disposable Income) | | 5.1 | 4.8 | 4.5 | 4.4 | 4.1 | 3.4 | 4.8 | 2.7 |
| Consumer Credit (Change in Blns. Of Dollars) | | 26.5 | 15.0 | 23.4 | 18.8 | 33.4 | 35.0 | 35.0 | 6.3 |
| | | | | | | | | | |
| Consumer Prices (% Change Year Ago) | 4.9 | 5.0 | 6.0 | 6.4 | 6.5 | 7.1 | 7.7 | 9.1 | 4.9 |
| CPI Less Food & Energy (% Change Year Ago) | 5.5 | 5.6 | 5.5 | 5.6 | 5.7 | 6.0 | 6.3 | 6.6 | 5.5 |
| Wholesale Prices (% Change Year Ago) | 2.8 | 3.7 | 4.5 | 5.7 | 6.5 | 7.3 | 8.2 | 11.2 | 2.8 |