HilltopSecurities
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Government Support Fuels Consumer Spending

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This morning, the retail sales report topped forecasts for the second straight month. The +7.5% June increase followed a revised +18.2% record gain in May. Spending was positive in 10 of 13 categories with clothing sales up more than 100% month-over-month, while sales of furniture and electronics climbed 33% and 37% respectively. Auto sales and parts rose +8.2% as people opted for private vehicles over public transportation. Spending in grocery stores retreated -1.6% as more and more Americans cautiously began returning to restaurants last month. One of the more interesting things of note is that overall retail sales were *actually higher in June 2020 than in June 2019*. However, the trend is likely to be short-lived unless Congress is willing to extend the generous federal unemployment benefits that have helped fuel the recent surge in purchases. The better-than-expected June consumer spending will boost Q2 GDP growth forecasts, although GDP is still expected to be significantly negative when released in two weeks. The most current survey indicates a quarter-over-quarter drop of -35%…but the market is looking forward.

Also released this morning was the weekly initial jobless claims report. These first-time filings for unemployment benefits were just -201,000 the last week of January, reached a record high of 6.9 million new claims in late March and have subsequently declined for 15 straight weeks. This morning's release showed 1.3 million Americans had filed during the week ending July 11th. Compared to the March peak, this is clearly improvement, but it's still more than five-times the number from the comparable period last year. And, as the U.S. Department of Labor notes, the non-seasonally adjusted total was just over 1.5 million for the week ending July 11th, an increase of +7.8%. Digging a little deeper, the total unadjusted number of Americans claiming state benefits actually increased by 838k to 17.4 million. The number of people claiming either state or federal benefits in all programs for the week ending June 27th was just over 32 million, compared to 1.6 million a year ago. It's these government benefits that have helped keep consumers afloat, and whether or not the federal assistance is extended later this month is critical to the economic outlook for the remainder of the year.

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Yesterday, the consumer price index increased for the first time since February. The +0.6% month-over-month June gain, which matched the highest increase in 11 years, was driven primarily by a sharp +12.3 rise in gasoline. Food prices also climbed in June, with a +0.7% rise in grocery prices reflecting an oversized gain in the price of beef. Core CPI, which excludes food and energy prices, rose by a tame +0.2%. Of particular note affecting both headline CPI and core was a moderating of the so called "owner's equivalent rent," a proxy for housing cost. The +0.1% gain was the smallest in more than nine years as landlords reduced rents in response to tenants struggling to make their monthly payments.

On a year-over-year basis, headline CPI climbed from +0.1% to +0.6% while core CPI held steady at +1.2%, matching a nine-year low. For perspective, the Fed would like to see core inflation at, or even above +2.0%; it could be a long while before this occurs. Bloomberg noted that core inflation continued to move lower two years after the 2001 recession ended and 14 months after the official end of the Great Recession. The Fed is very unlikely to raise rates while inflation is so far below target. On a related note, Freddie Mac reported the average 30-year fixed mortgage rate was 3.03% for the week ending July 9th, while the 15-year average was 2.51%. Both are at record lows. Mortgage applications were up +5.1% last week on the shoulders of a +11.9% increase in refi apps; new purchase apps were actually down -6.1%.

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Please see disclosure on page 2.

Stocks are down in early trading following two days of rally driven by vaccine optimism. It'll be interesting to see how the equity markets digest Q2 corporate earnings. Bonds continue to rally, with treasuries inside of seven years trading at, or near record low yields.

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Market Indications as of 9:50 A.M. Central Time

DOW	DOWN 31 to 26,838 (HIGH: 29,551)
NASDAQ	Down 131 to 10,418 (HIGH: 10,617)
S&P 500	Down 13 to 3,213 (HIGH: 3,386)
1-Yr T-bill	current yield 0.14%; opening yield 0.14%
2-Yr T-note	current yield 0.15%; opening yield 0.16%
5-Yr T-note	current yield 0.27%; opening yield 0.29%
10-Yr T-note	current yield 0.60%; opening yield 0.63%
30-Yr T-bond	current yield 1.29%; opening yield 1.33%