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Federal Aid Fuels Consumer Spending in July

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Headline retail sales rose +1.2% in July. Although the overall increase fell short of the +2.1% median forecast, upward revisions to prior month sales made up for the shortfall. June headline sales, previously reported up +7.5%, were revised higher to +8.4%. Increases over three straight months have now boosted total retail sales value in the U.S. up +2.7% year-over-year, and +1.7% higher than February's pre-pandemic level. Spending was positive in 9 of 13 categories; appliances, electronics and gasoline station sales were the primary drivers, while auto sales, building materials and sporting goods lagged in July.

The important retail sales "control group" (used to calculated GDP) climbed +1.4% in July, nearly double the median forecast, while the previously reported June advance was revised sharply higher from +5.6% to +7.7%. Like overall sales, core sales also moved above pre-pandemic levels, now up +4.9% since February.

As was the case in May and June, the July sales gain was driven by large government transfer payments. The most visible of these, a $600 weekly unemployment benefit from the federal government, effectively ended two weeks ago. The Senate was unable to reach an agreement on the next round of rescue dollars and has subsequently adjourned until September 8th, although members can be called back for a vote if an agreement is reached. The major impasse is centered on state and local government aid, with the Democrats advocating for significant municipal support while the GOP pushes back. Both sides are in favor of extending supplemental unemployment benefits, although the amount has been fiercely debated.

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The bottom line this morning is that consumer spending has now fully recovered, but that recovery was fueled by a massive government supplement that is very unlikely to be duplicated. With no $600 weekly checks expected in August, unemployed consumers should spend less this month…thereby slowing growth. And, if there is no forthcoming aid package for state and local governments, significant numbers of municipal workers could lose their jobs in the near future. The next three months obviously brings a tremendous amount of uncertainty. Up to this point, economic recovery has been easy with government support fueling the engine. The recent resurgence of the virus has subsequently tapped the brakes, and without additional support the momentum gained over the past three months seems likely to stall.

Also this morning, the Labor Department reported total hours worked from March through June plunged -43%, while output dropped -38.9%, both measures reflected the biggest quarterly declines since recordkeeping in the series began in 1947. The result was a +7.3% annualized increase in worker productivity, the largest gain in more than 11 years. These numbers are both eye-popping and altogether irrelevant.

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Stocks are down in early trading. There are countless underlying reasons for today's decline, but a primary driver is most certainly the inability of Congress to feed the market.

Please see disclosure on page 2.

Market Indications as of 9:55 A.M. Central Time

DOW	Down 19 to 27,877 (HIGH: 29,551)
NASDAQ	Down 47 to 10,995 (HIGH: 11,108)
S&P 500	Down 2 to 3,371 (HIGH: 3,386)
1-Yr T-bill	current yield 0.13%; opening yield 0.13%
2-Yr T-note	current yield 0.15%; opening yield 0.16%
5-Yr T-note	current yield 0.30%; opening yield 0.32%
10-Yr T-note	current yield 0.70%; opening yield 0.72%
30-Yr T-bond	current yield 1.43%; opening yield 1.43%