

Retail Sales Cool, Producers Prices Boil

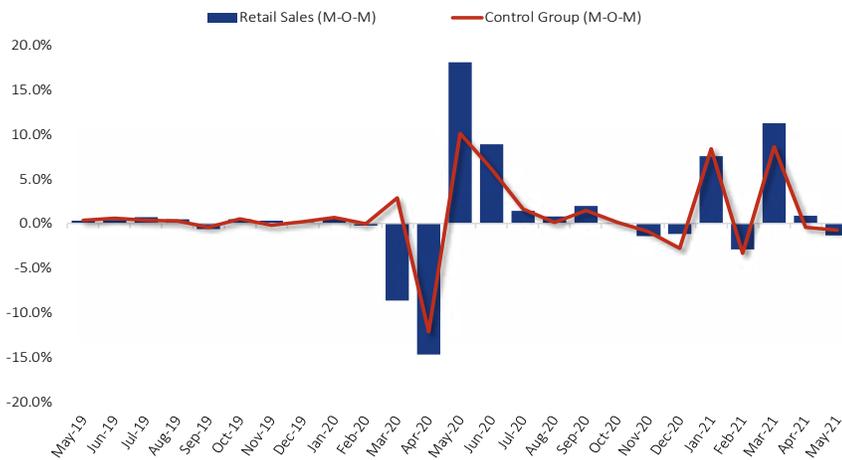
The Commerce Department’s report on May retail sales missed expectations, but the shortfall was offset by upward revisions to prior months. Despite the slight decline in May, sales remain well above pre-pandemic trends. Headline retail sales fell -1.3% during May, missing forecasts for a smaller -0.8% decline. However, upward revisions boosted April’s previously reported +0% unchanged reading to +0.9% and March’s already lofty +9.8% gain was increased to +11.3%. Recall that March and April sales were boosted by the last round of government stimulus, so a pullback in May was expected. The impact of various waves of stimulus dollars is clearly evident in the volatile month-to-month swings in the headline figure, but when the dust clears the total value of retail sales was \$620.2 billion in May, an 18% increase over February 2020’s pre-pandemic level. As the charts below reveal, retail sales have done remarkably well.

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Waves of stimulus have resulted in large month to month swings...

Retail Sales % Change Month-Over-Month

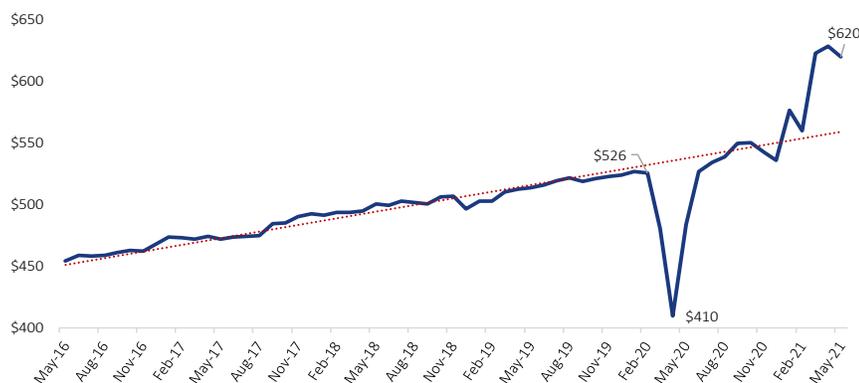


Source: US Census Bureau

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Despite May's decline, total sales remain well above trend...

Retail & Food Services Sales Total \$ (Billions) (Seasonally Adjusted)



Source: US Census Bureau

Details within the report show that eight of the 13 categories posted declines in May with weakness evident in big ticket items such as cars, furniture, building materials and electronics- all areas that were beneficiaries of stimulus checks but also areas that have reported widespread shortages which are likely restraining sales. May's data also hints at a shift towards services spending with restaurant sales climbing for a third straight month with a 1.8% advance. Over the last three months, restaurant and bar sales are up +20% as consumers look to get out and about. Before they head out, however, consumers apparently need something to wear as clothing store sales rose +3% in May. Aside from restaurants and bars, the retail sales data generally don't include spending on services, such as airfares, hotels, and sporting events. That data is captured in personal consumption figures that will be released later in the month and we'll be looking for further signs of the shift towards services and experiences then.

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The inflation story has been well documented and this morning's producer price index (PPI) for May stuck to the script with higher than expected gains of +0.8% month-over-month and +6.6% year-over-year in the headline figures. The core PPI rose +0.7% on the month and is up +5.3% year-over-year. We'll skip the details but suffice it to say the PPI data paints a picture of producers struggling to keep up with demand, and costs on the rise as a result. Shortages of raw materials, supply chain bottlenecks, and logistical issues including labor shortages are all contributing to growing price pressures.

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The Fed's policy setting Federal Open Market Committee began its two-day meeting today and the recent gains in inflation will no doubt be discussed at length. We don't expect any major changes in policy from the FOMC, but markets will be looking for any clues that the Fed is considering a shift in its aggressively easy monetary policy stance. Last week's consumer price index and today's producer price index both went well beyond the widely expected "base-effect" gains. Until today, markets have largely bought into the notion that recent price increases would be transitory, but the magnitude of recent gains is starting to raise some eyebrows.

Market Indications as of 10:19 A.M. Central Time

DOW	Down -147 to 34,246 (HIGH: 34,778)
NASDAQ	Down -68 to 14,106 (HIGH: 14,174)
S&P 500	Down -12 to 4,243 (HIGH: 4,255)
1-Yr T-bill	current yield 0.05%; opening yield 0.04%
2-Yr T-note	current yield 0.16%; opening yield 0.16%
3-Yr T-note	current yield 0.34%; opening yield 0.33%
5-Yr T-note	current yield 0.79%; opening yield 0.78%
10-Yr T-note	current yield 1.50%; opening yield 1.49%
30-Yr T-bond	current yield 2.20%; opening yield 2.18%

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