

Stressed Consumers Cut Back During the Holidays, but Help is on the Way

Consumer spending was expected to be weak, but this morning's release of the December retail sales report was quite a bit weaker than analysts had predicted. The Commerce Department announced overall retail sales dropped by a seasonally-adjusted -0.7% in December, well short of the expected *unchanged* reading, while the November retail sales print was lowered from -1.1% to -1.4%.

Spending fell in a number of key areas last month, none of which were particularly surprising. Eating and drinking establishments, general merchandise and electronics stores all retreated on a seasonally-adjusted basis. Gains were found in auto sales and sales at gasoline stations (which primarily reflect higher pump prices). If the volatile auto and gasoline components are factored out, December sales were down -2.1% following a revised -1.3% November decline.

The retail sales control group, a proxy for the consumption portion of the GDP calculation, fell by -1.9% after a -1.1% drop in November and a -0.2% decline in October. It's been more than 12 years since the control group number declined over three consecutive months. This suggests that many economists will be lowering their Q4 GDP estimates. It also indicates that business inventories are likely to be higher-than-expected entering the new year, meaning Q1 inventory accumulation could be light, which would further restrain economic growth early in 2021.

For the entire year, retail sales were actually up +0.6%, but this was the poorest showing in 11 years and well below the +4.1 average over the previous three years.

Much of the poor fourth quarter spending is a result of legislative delays in passing additional support. Many unemployed Americans were facing the near-term exhaustion of benefits. Congress subsequently passed, and the president signed, a \$900 billion relief package just after Christmas, and president-elect Biden proposed an additional \$1.9 trillion assistance package *yesterday*. Biden's "American Rescue Plan" will include a \$1,400 payment to individuals, \$400 per week in supplemental unemployment benefits through September, \$130 billion to safely reopen schools, \$160 billion for a national vaccination program, an additional \$30 billion in rental assistance, \$350 billion in aid for state and local governments and an increase in the minimum wage to \$15. This isn't a done-deal as many lawmakers have recently pivoted to a more conservative approach to spending.

The U.S. consumer had a rocky final quarter of the year, but the first quarter should be better. Jobless Americans will likely feel more secure if Biden's enhanced and extended unemployment benefits passes into law. However, the virus will continue to drive economic growth, and we are currently experiencing the highest daily death rate of the entire pandemic.

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

DOW	Down 234 to 30,757 (HIGH: 31,097)
NASDAQ	Down 105 to 13,007 (HIGH: 13,202)
S&P 500	Down 29 to 3,767 (HIGH: 3,825)
1-Yr T-bill	current yield 0.09%; opening yield 0.09%
2-Yr T-note	current yield 0.14%; opening yield 0.14%
5-Yr T-note	current yield 0.45%; opening yield 0.48%
10-Yr T-note	current yield 1.09%; opening yield 1.13%
30-Yr T-bond	current yield 1.84%; opening yield 1.87%

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