First Quarter GDP Outlook Suddenly Much Brighter

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My apologies to fellow Texans facing much bigger issues than quarterly GDP projections. We went 60 hours without power and most of Monday and Tuesday without water. At one point, it was 45 degrees in the house. I know we weren't alone and recognize many of you may have endured more significant problems. I sincerely hope things are better and will continue to improve.

The range of first quarter GDP estimates have been remarkably wide as analysts consider not only the traditional data inputs, but also timing and magnitude of trillion dollar aid packages, an apparent COVID slowing trend and an increasing vaccination rate. Another wildcard is the simple fact that household wealth has reached new record highs in each of the last three quarters, and the U.S. savings rate remains elevated. The capacity to spend is in place. The only question is...when will the spending be unleashed?

The expectation had been later this year, but yesterday's eye-popping retail sales report for January has raised eyebrows and prompted recalculations of forecasts. After three consecutive months of negative prints and a disappointing holiday shopping season, January sales absolutely crushed the +1.1% median forecast with a +5.3% spending surge. On a year-over-year (pre-pandemic) basis, headline sales were up +7.4%. The best explanation for the January jump is that government payments from the December $900 billion aid package didn't reach consumers until January, and unemployed workers were in limbo until year end, not certain their benefits would continue.

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All 13 categories registered month-over-month gains in January, with surprising increases in eating and drinking establishments (+6.9%) and general merchandise stores (+5.5%). Online sales continued to soar with an +11% gain for the month as cautious Americans opted for home delivery.

Residential (housing) and business spending were thought to be primary drivers of Q1 growth, but the huge January contribution by consumers pushed the Atlanta Fed's GDPNow Q1 measure up from +4.5% a week ago to +9.5% as of yesterday. Obviously, it's still very early in the quarter, but with additional government aid on the way, it's easy to imagine growth will exceed previous lackluster forecasts.

Bond yields on the long end continue to trek higher along with growth expectations. Stocks are stumbling this morning after Walmart fell short of earnings forecasts and announced expectations for slower growth next year, while initial jobless claims reversed a strengthening labor trend, rising +13k to 848k last week. Perhaps the bigger surprise in the claims data was the revision to the previous week, as new unemployment filings were revised sharply upward from 793k to 861k.

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The economic outlook has shifted with considerably better Q1 growth likely, but there is still plenty of uncertainty in the coming months as evidenced by rising unemployment claims. While the CDC is keeping a watchful eye on the spread of the dangerous U.K. and South African virus variants in the U.S., vaccine distribution is fast improving.

Market Indications as of 11:38 A.M. Central Time

DOW	Down 243 to 31,369 (HIGH: 31,437)
NASDAQ	Down 162 to 13,804 (HIGH: 14,095)
S&P 500	Down 33 to 3,898 (HIGH: 3,935)
1-Yr T-bill	current yield 0.05%; opening yield 0.6%
2-Yr T-note	current yield 0.10%; opening yield 0.10%
5-Yr T-note	current yield 0.54%; opening yield 0.55%
10-Yr T-note	current yield 1.28%; opening yield 1.27%
30-Yr T-bond	current yield 2.06%; opening yield 2.04%