Giant Step Up in Consumer Spending to Push Q1 GDP Higher

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

Retail sales soared by +9.8% as a combination of warmer weather, vaccine success, business reopenings, pent-up demand, piles of available cash, tax refunds and stimulus checks unleashed a spending wave in March. The value of total retail sales, at $619 billion, is now +17% above the level from February of last year. The U.S. Commerce Department reported all 13 spending categories logged gains last month, and with the single exception of the restaurant category, all have now exceeded pre-pandemic levels. The March overall increase was well above the +5.8 median forecast, the highest reading since last May *and the second highest single month gain in at least three decades*.

Bloomberg reported restaurant receipts climbed by +13.4% while clothing store sales climbed by +18.3% last month. These large spending increases, in otherwise downtrodden sectors, are more signs of normality returning fast.

The year-over-year gains are completely warped given that this year's surge is compared to last year's fear-driven shutdown. The numbers are trivial, but interesting: headline sales were up +30.4%, vehicle sale up +75.7% and clothing store sales up +104.6%.

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The retail sales "control group," which excludes food service sales, auto dealers, building materials and gasoline stations fell just below the +7.2% median forecast at +6.9%. If there was a disappointment, this was it. However, it too was the second strongest single month advance in at least three decades. The robust spending by U.S. consumers will push Q1 GDP forecasts sharply higher, but the question now becomes…*how much does Q2 spending advance in the absence of additional stimulus?*

There's good reason to expect another big retail sales number in April as the timing of stimulus checks suggests consumers wouldn't have had too many days to spend before the data cutoff. May and June sales are likely to be fueled by job growth and broad reopening of the service sector as summer begins and vacation-starved Americans begin traveling in mass.

In other news from this morning:

- Initial jobless claims fell from 769k to 576k for the week ending April 9th to the lowest level in 56 weeks, yet another sign that the labor market has shifted into a higher gear.
- The Empire Manufacturing survey rose to its highest level since 2017 as New York factory activity continued to increase. The 26.3 reading was well above the 12.9 pre-pandemic reading from 14 months ago, and a head-shaking rebound in optimism from the -78.2 number 12 months ago.
- The Philly Fed Business Outlook survey, which begin the year at 11.1, climbed to 50.2 in April, *the highest reading in 48 years*. This was in sharp contrast to a year earlier when the survey reading was -56.6.

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Please see disclosure starting on page 2.

The Fed presumably expects spending and price pressures to spike for a few months before reverting to a more modest pace. However, the majority of economic data released over the past month has been much stronger than expected, and anecdotal evidence suggests summer spending could be epic. If Biden's $2.3 trillion infrastructure package passes, the table could be set for above-trend growth to continue for years. Fed policy has *never been more accommodative*, and the near-term domestic economic outlook is brighter than it's been in generations. If the positive surprises continue, the Fed's patience could be tested.

Both the DOW and S&P 500 are at fresh record highs this morning and Nasdaq is within a fraction of its peak. Bond market prices are rallying in early trading…*which frankly doesn't make a whole lot of sense*.

Market Indications as of 10:09 A.M. Central Time

DOW	Up 274 to 34,005 (NEW HIGH)
NASDAQ	Up 173 to 14,031 (HIGH: 14,095)
S&P 500	Up 36 to 4,161 (NEW HIGH)
1-Yr T-bill	current yield 0.06%; opening yield 0.05%
2-Yr T-note	current yield 0.16%; opening yield 0.16%
5-Yr T-note	current yield 0.81%; opening yield 0.86%
10-Yr T-note	current yield 1.55%; opening yield 1.64%
30-Yr T-bond	current yield 2.22%; opening yield 2.32%