

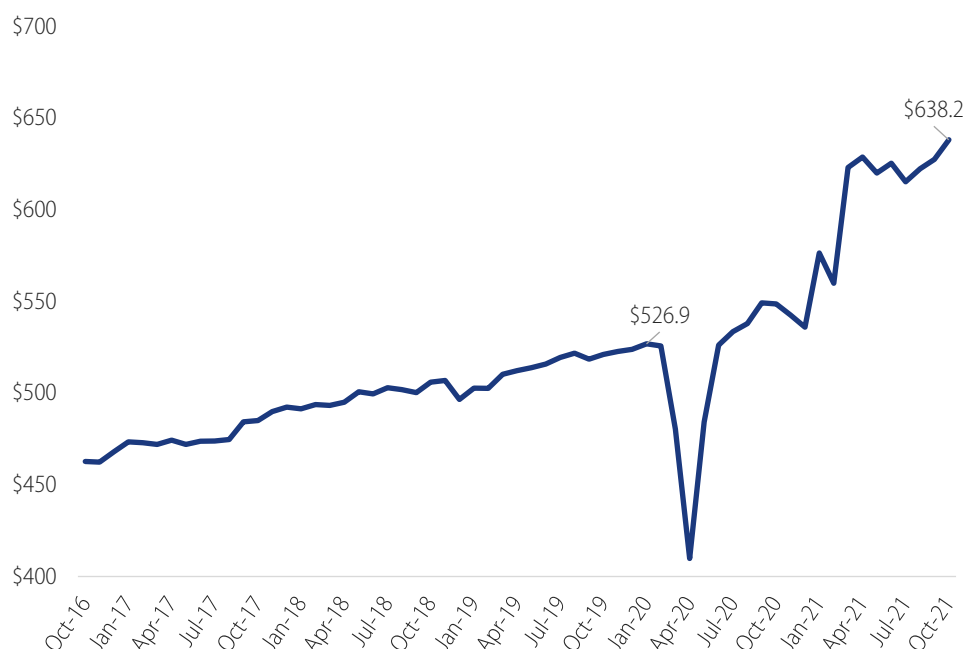
## Higher Prices and Early Holiday Purchases Boost October Retail Spending

The advance measure of retail sales rose by +1.7% in October to \$638.2 billion, a +14.7% increase from a year ago. The headline number is seasonally-adjusted, but it's reported in nominal dollars and doesn't factor in price changes. This means elevated global inflation is pushing spending levels much higher than would otherwise be the case. However, if sales at gas stations and auto dealers (two of the categories most impacted by higher prices) are excluded, sales were still up +1.4%, double the expected +0.7% gain. Sales at auto dealers were up +1.8% for the month and +9.6% year-over-year, while gas station sales rose +3.9% and +45.3% year-over-year.

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### Retail & Food Service Sales-Seasonally Adjusted \$ (in billions)



Source: U.S. Census Bureau.

Sales at clothing stores declined by -0.7% last month after a +2.1% return to work/school bounce in September, while sales at eating and drinking establishments (the only service category included in the report) were *flat* for the month.

The "control group," which excludes sales at gas stations, auto dealers, building materials stores and food services climbed +1.6%, well above the +0.9% median forecast. The control group feeds directly into the GDP calculation.

In all likelihood, the better-than-expected consumer spending last month also reflects early holiday shopping efforts. Tales of ports clogged with merchandise have probably caused future purchases to be pulled forward. A +4.0% rise in non-store sales in October indicates e-commerce is taking a large slice of the pre-holiday buying. Although today's report should boost the fourth quarter GDP outlook, it remains to be seen whether the three-month streak of positive retail sales advances

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Keep in mind that in recent years before the pandemic, U.S. consumers had spent a majority of their dollars on services. The pandemic forced a major shift to goods, and the retail sales report focuses almost entirely on goods. There are already signs that service spending is picking up. This is a key to continued spending going forward.

The bottom line is that October sales were better-than-expected, but there's a number of unusual factors in play. If overall prices weren't rising at the fastest pace in three decades, the headline sales gain would be a fraction of the reported advance. And, if the nation weren't fixated on the idea that holiday shelves could be emptied *before* Christmas, there'd be little reason to get a head start. Still, retail sales were positive for the third straight month and the October report was stronger-than-expected. Consumers have the *capacity to spend*; all they need going forward are things to buy.

On a related note from last week, the University of Michigan consumer sentiment index for October fell to its lowest level in 10 years. Both present conditions and future outlook took a hit, as *buying conditions* for household goods fell to the second lowest point since the series began in 1978. The inflation outlook a year from now was +4.9%, the highest since 2008, with about 25% of Americans surveyed indicating that inflation had reduced their living standards. Sagging confidence doesn't necessarily translate into lower spending, but it doesn't help.

## Market Indications as of 9:40 A.M. Central Time

DOW	Up 111 to 36,199 (HIGH: 36,432)
NASDAQ	Up 39 to 15,893 (HIGH: 15,982)
S&P 500	Up 12 to 4,695 (HIGH: 4,702)
1-Yr T-bill	current yield 0.16%; opening yield 0.15%
2-Yr T-note	current yield 0.52%; opening yield 0.52%
3-Yr T-note	current yield 0.86%; opening yield 0.87%
5-Yr T-note	current yield 1.25%; opening yield 1.26%
10-Yr T-note	current yield 1.61%; opening yield 1.62%
30-Yr T-bond	current yield 1.99%; opening yield 2.00%

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