Consumers Spend Big Despite Soaring Prices

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January retail sales surprised to the upside, nearly doubling forecasts with an enormous +3.8% month-over-month gain, a sharp rebound from the revised -2.5% decline logged in December. Although the COVID era has produced much larger monthly increases, it had been 20 years in the pre-COVID era since retail sales climbed this much in a single month. However, *the January number comes with its share of asterisks.* Most notably, the fact that retail sales represent *total dollars spent and are not adjusted for inflation*. Obviously, when inflation is running at a 40-year high, a very significant portion of the dollars handed over to merchants reflect higher prices. Another key consideration is that this report focuses almost entirely on goods, with restaurant sales being the sole contributor from the hard-hit service sector.

Non-store sales (e-commerce) followed up a December -11.4% decline with a +14.5% jump in January. This probably signals that consumers were hunkered down as the virus numbers rose. In the same vein, restaurant sales actually fell -0.9%. This category seems poised to surge as the weather warms. Picking through the major categories shows big increases in autos (+5.9%), furniture (+7.2%) and building materials (+4.1%). Gasoline station receipts fell -1.3%, but this has everything to with pump prices, which declined last month but should climb again in February.

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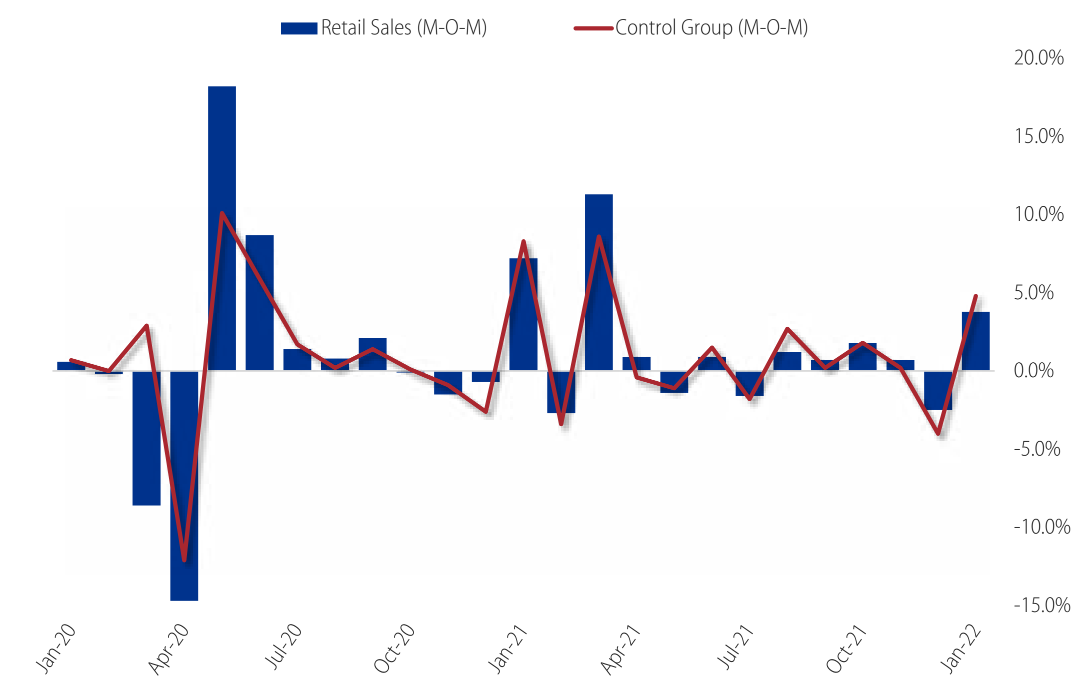
Retail Sales (Month-over-Month Percent Change)



Source: US Census Bureau

The simple fact that M2 money supply is up over +40% since the pandemic began means Americans have ample capacity to spend..

Still, it's impossible to dismiss this morning's data as noise. Consumers shook off higher prices and the Omicron surge, and far exceeded spending expectations. On a quarter-over-quarter, 3-month annualized basis, sales were up a whopping +7.5%.

This suggests first quarter GDP growth could be stronger than expected. The simple fact that M2 money supply is up over +40% since the pandemic began means Americans have ample *capacity to spend*. When the virus tide recedes and supply returns, it's easy to imagine a period of brisk economic growth.

The Fed has a lot to consider as it adjusts monetary policy. This report seems to indicate a resilient economy, which should be able to withstand multiple rate hikes without faltering, but bonds have actually rallied this morning, sending yields lower. The major stock indexes are down in early trading …but the day has just started.

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Market Indications as of 9:13 A.M. Central Time

DOW	Down -180 to 34,809 (HIGH: 36,800)
NASDAQ	Down -163 to 13,977 (HIGH: 16,057)
S&P 500	Down -34 to 4,437 (HIGH: 4,797)
1-Yr T-bill	current yield 1.06%; opening yield 1.04%
2-Yr T-note	current yield 1.56%; opening yield 1.57%
3-Yr T-note	current yield 1.78%; opening yield 1.79%
5-Yr T-note	current yield 1.92%; opening yield 1.93%
10-Yr T-note	current yield 2.03%; opening yield 2.04%
30-Yr T-bond	current yield 2.35%; opening yield 2.35%

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