

Yields Slip on Unexpected Signs of Weakness

This morning's data releases seem to indicate continued weakening in the economy, which suggests the Fed's tightening plan may be a bit overaggressive.

Personal spending rose by just +0.2% in May, below the +0.4% median forecast, while the April increase was revised downward from +0.9% to +0.6%. When adjusted for inflation, real spending *fell* by -0.4% last month. *Consumer momentum is slipping.* With the personal savings rate down from 10.5% last July to a 13-year low of 5.2% in April at the same time elevated food and gas prices crowd out discretionary spending, the trend seems likely to continue.

Personal income rose +0.5% in May, matching both the median forecast and the April revised gain. Although still historically high, the last two months were below the +0.6% gains in February and March. This deceleration won't help replenish depleted savings or boost spending.

The PCE deflator, a key inflation measure, rose +0.6% in May, slightly below the median forecast, while the year-over-year increase held at +6.3%. This is down from a peak of +6.6% in March. The PCE core deflator, which excludes food and energy prices, rose by +0.3% for the fourth straight month. On a year-over-year basis, core PCE has gradually declined from a +5.3% cycle high in February to a seven-month low of +4.7% in May. Inflation isn't going away anytime soon, but it might have reached its peak.

In other news this morning, initial jobless claims (first-time filings for unemployment benefits) totaled 231k for the week ending June 24, and have now averaged 232k per week in June. By comparison, average claims were 195k in February and 178k in March. Although weekly benefit filings are still relatively low from a historical perspective, the extreme labor market tightness may be easing as the economy slows.

The bond market has now rallied for the third straight day as investors question Fed policy, and whether inflation or recession is the worser fate.

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Market Indications as of 11:26 A.M. Central Time

DOW	Down -116 to 30,913 (HIGH: 36,800)
NASDAQ	Down -51 to 11,127 (HIGH: 16,057)
S&P 500	Down -35 to 3,784 (HIGH: 4,797)
1-Yr T-bill	current yield 2.76%; opening yield 2.79%
2-Yr T-note	current yield 2.94%; opening yield 3.03%
3-Yr T-note	current yield 3.00%; opening yield 3.10%
5-Yr T-note	current yield 3.02%; opening yield 3.13%
10-Yr T-note	current yield 2.99%; opening yield 3.08%
30-Yr T-bond	current yield 3.13%; opening yield 3.21%

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