

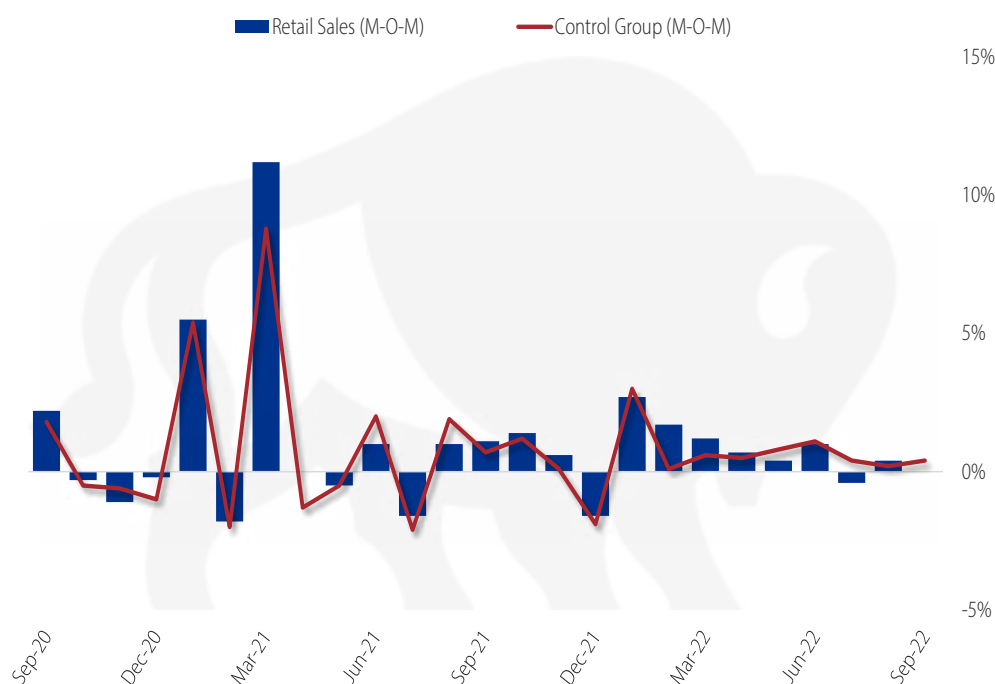
Consumer Spending Slows, but not Enough to Alter Fed Path

This morning's September retail sales report indicates that consumer spending may be slowing down. The headline reading for retail and food service sales was *unchanged* in September, slightly weaker-than-expected following a +0.4% reading in August. Seven of 13 categories showed declining sales last month, including auto dealers (-0.6%) and building materials stores (-0.4%). Sales at electronics stores (-0.8%) and gas stations (-1.4%) were also down, although much of the decline for these two can be attributed to falling prices. Overall sales are still +8.6% higher than a year earlier, but since this report isn't adjusted for inflation, sales are essentially *flat* on an annual basis.

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Retail Sales (Month-over-Month Percent Change)



Source: US Census Bureau

The retail sales control group (which excludes autos, building materials, gasoline station receipts and food services) rose +0.4% in September, just above the +0.3% median forecast. Control group data feeds into the GDP calculation, so this better-than-expected number will boost the third quarter growth a bit.

In other economic news this morning, the U.S. import price index declined by -1.2% in the month of September, a bit cooler than the -1.1% median forecast, and the third consecutive negative monthly reading. The strength of the U.S. dollar continues to weigh down prices of imported goods. On a year-over-year basis, the index is still up +6.0%, but this is now less than half of the +12.5% peak in March.

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The financial markets are anxious to see results from Fed policy, in both weakening demand and lower prices. This morning's data releases (at least on the surface) indicated a little of both. At this point, the Fed won't pivot from a determined fourth straight 75 bp hike in November, but the case for less aggressive future hikes may have improved.

Both stocks and bonds initially responded to the morning's data with a nice rally, but as the stronger underlying details of the report chipped away at the optics of the weaker headline, the rally has given way to another market sell-off.

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

DOW	Down -94 to 29,944 (HIGH: 36,800)
NASDAQ	Down -140 to 10,510 (HIGH: 16,057)
S&P 500	Down -48 to 3,622 (HIGH: 4,797)
1-Yr T-bill	current yield 4.45%; opening yield 4.35%
2-Yr T-note	current yield 4.47%; opening yield 4.49%
3-Yr T-note	current yield 4.46%; opening yield 4.46%
5-Yr T-note	current yield 4.22%; opening yield 4.23%
10-Yr T-note	current yield 3.98%; opening yield 3.96%
30-Yr T-bond	current yield 3.96%; opening yield 3.93%

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