

Robust Consumer Spending Keeps Fed Tightening in Play

U.S. retail sales climbed by +1.3% in October, topping the +1.0% median forecast *with the largest monthly increase since January*. Vehicle sales rose +1.3%, while gas station sales (reflecting higher pump prices) increased by +4.1% during the month. These two categories accounted for roughly half of the overall gain. When gas and autos are excluded, sales were up +0.9%, easily topping the +0.2% ex gas and auto forecast.

The “control group,” which excludes sales at gas stations, auto dealers, building materials stores and food service establishments, rose +0.7% last month, more than doubling forecasts. Since the control group data feeds into the quarterly GDP calculation, the solid October gain suggests stronger fourth quarter growth than analysts had expected. Normally, this would be seen as a positive, but when the Fed is actively trying to slow demand, a robust sales number is unwelcome.

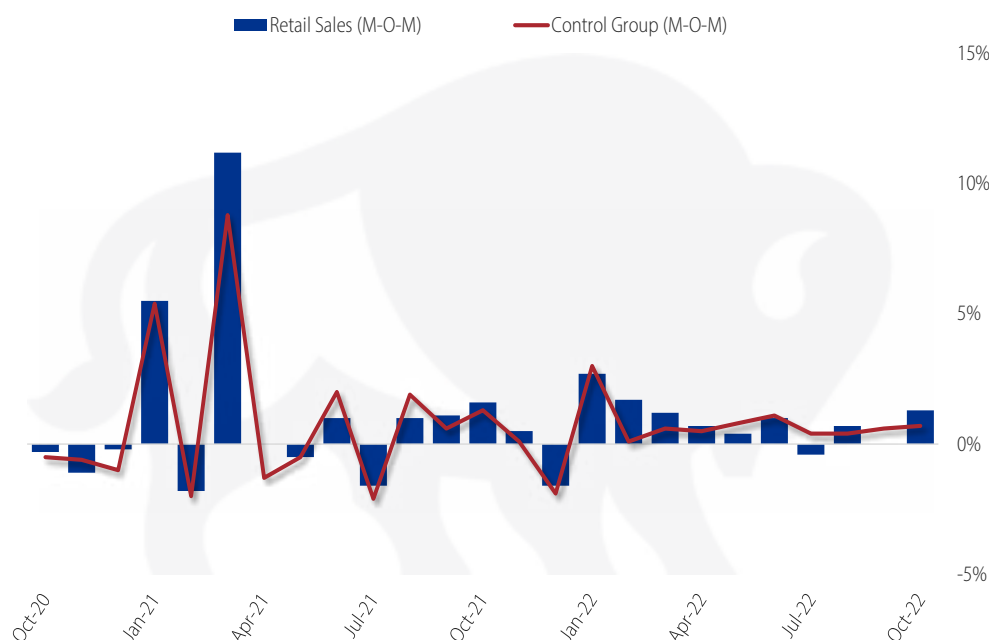
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Retail Sales (Month-over-Month Percent Change)



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Source: US Census Bureau

Gains were fairly broad-based, with sales in nine of 13 categories rising in October. In addition to gas and autos, other notable increases last month were seen in food and beverage sales (+1.4%) and furniture (+1.1%). A sizable gain in e-commerce (+1.2%) came at the expense of a -2.1% drop in brick and mortar department store sales.

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Market Indications as of 9:39 A.M. Central Time

DOW	Up 20 to 33,613 (HIGH: 36,800)
NASDAQ	Down -153 to 11,205 (HIGH: 16,057)
S&P 500	Down -20 to 3,971 (HIGH: 4,797)
1-Yr T-bill	current yield 4.60%; opening yield 4.54%
2-Yr T-note	current yield 4.36%; opening yield 4.33%
3-Yr T-note	current yield 4.13%; opening yield 4.13%
5-Yr T-note	current yield 3.87%; opening yield 3.89%
10-Yr T-note	current yield 3.74%; opening yield 3.77%
30-Yr T-bond	current yield 3.91%; opening yield 3.96%

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