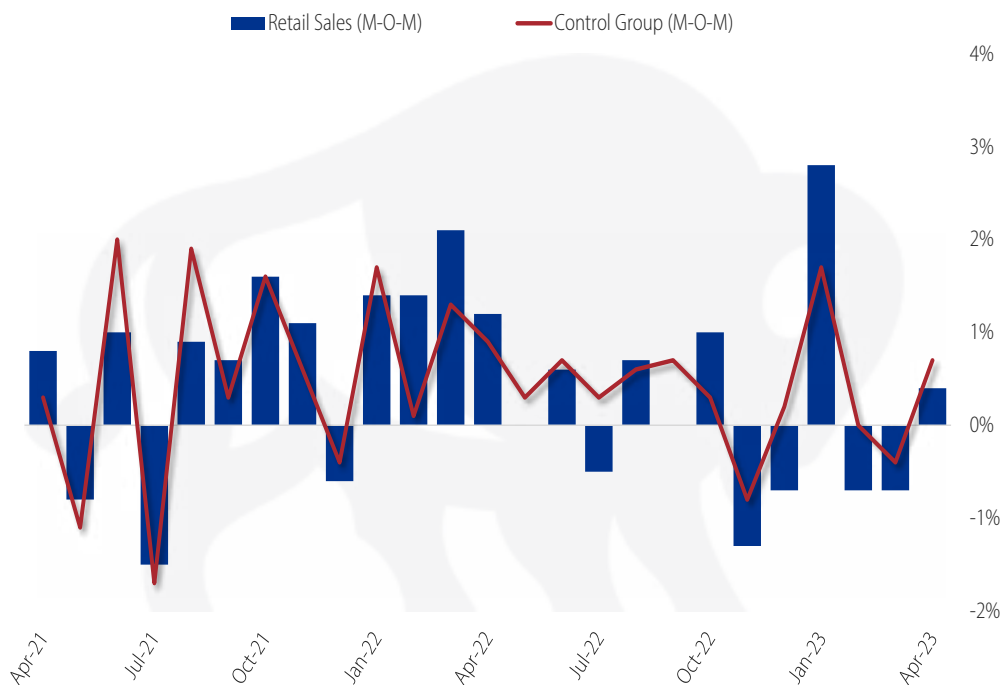


Consumer Spending is Solid for Now, with Weakness on the Horizon

U.S. retail sales rose +0.4% in April, below the +0.8% median forecast, but a respectable rebound after a -0.7% revised drop in March. Seven of 13 spending categories increased in April, up from three.

Retail Sales (Month-over-Month Percent Change)



Source: US Census Bureau

Gasoline station sales decreased by -0.3% after falling -0.7% in March. Since the price of gas was roughly 7% higher during the survey period, the drop in total station receipts reflects softness in consumer demand. Sales of vehicles and parts rose +0.4% after slipping -1.4% in the prior month. When auto and gas station sales are excluded, sales rose +0.4%, matching the median forecast.

General merchandise sales reversed two months of decline with a +0.9% gain in April, while non-retail (e-commerce) sales rose +1.2%. Spending at restaurants and bars, the only service category included in the report, climbed by a still solid +0.6%. The retail sales "control group," which excludes the categories of food service, autos, gasoline and building materials rose +0.7% in April after falling in the previous month. Other categories experiencing slower sales last month include furniture, electronics and sporting goods. This is in-line with the broad spending shift from goods to services.

On the surface, it was a fairly solid report but the underlying numbers flash weakness ahead. On a year-over-year basis, retail sales were up just +0.2%, while six months earlier, the annual sales pace was +8.5%. Considering that core consumer inflation

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is still above 5%, and retail sales are *not adjusted for inflation*, the April weakness is more pronounced. With consumer debt levels already at record highs, economic contraction on the horizon and no promises of government stimulus to ease the pain of recession, Fed policy seems to be taking hold. This reinforces the idea that the Fed can afford to pause in June, but there is still nothing to indicate rate cuts will begin before 2024.

With consumer debt levels already at record highs, economic contraction on the horizon and no promises of government stimulus to ease the pain of recession, Fed policy seems to be taking hold.

Market Indications as of 9:05 A.M. Central Time

DOW	Down -173 to 33,176 (HIGH: 36,800)
NASDAQ	Down -15 to 12,350 (HIGH: 16,057)
S&P 500	Down -5 to 4,131 (HIGH: 4,797)
1-Yr T-bill	current yield 4.82%; opening yield 4.69%
2-Yr T-note	current yield 4.06%; opening yield 4.01%
3-Yr T-note	current yield 3.72%; opening yield 3.67%
5-Yr T-note	current yield 3.51%; opening yield 3.47%
10-Yr T-note	current yield 3.56%; opening yield 3.50%
30-Yr T-bond	current yield 3.90%; opening yield 3.84%

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