Fed Still on Track for July Hike after Mixed Retail Sales Report

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The overall value of retail sales rose less than expected in June, although the pace of consumer spending remains inconsistent with recession. Eight of 13 spending categories showed increases in June, matching the previous month. Headline sales rose +0.2%, down from a revised +0.5% increase in May and well below the +0.5% median forecast. However, "control group" sales, which exclude auto dealers, gas stations, building materials stores and food service establishments rose a surprising +0.6%, triple the median forecast. Since the control group number is used in the quarterly GDP calculation, today's report suggests the second quarter ended on a slightly higher note.

E-commerce rose a surprising +1.9% in June, while brick and mortar store sales fell by -2.4%. Sales at restaurants and bars rose by just +0.1% after climbing +1.2% in May. These categories may reflect Americans choosing to stay home during the hottest June on record.

Auto sales continued to improve (+0.3%) as dealer lots gradually fill. Furniture sales were positive for the first time since January (+1.4%) reflecting a summer spark in housing. Gas station receipts fell -1.4% despite a slight increase in gas prices.

On a year-over-year basis, the slowdown in spending is more apparent with a modest +1.7% increase. Since retail sales are not inflation-adjusted, spending is likely flat.

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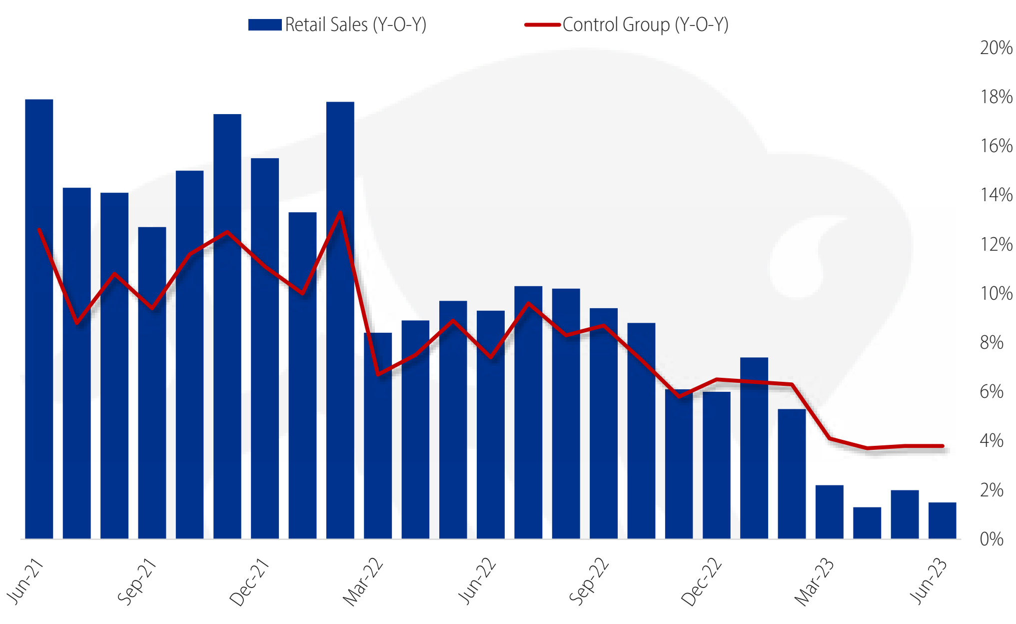
Retail Sales (Year-over-Year Percent Change)



Source: US Census Bureau

The U.S. economy remains resilient (for now) despite Fed efforts to slow demand.

Overall, it was a mixed report. Fed officials will appreciate moderation at eating and drinking establishments, the only service sector category included in the report. Second quarter consumption should remain in positive territory, although likely to be well below the first quarter pace. The U.S. economy remains resilient (for now) despite Fed efforts to slow demand.

Nothing in this report suggests the Fed won't announce one more 25 basis point increase next Wednesday. Bonds have rallied in early trading (yields lower) as investors imagine the fabled soft landing scenario playing out, with Fed officials retreating back to the sidelines after next week's FOMC meeting.

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Market Indications as of 9:14 A.M. Central Time

DOW	Up 211 to 34,796 (HIGH: 36,800)
NASDAQ	Down -38 to 14,207 (HIGH: 16,057)
S&P 500	Up 4 to 4,527 (HIGH: 4,797)
1-Yr T-bill	current yield 5.29%; opening yield 5.28%
2-Yr T-note	current yield 4.71%; opening yield 4.74%
3-Yr T-note	current yield 4.29%; opening yield 4.33%
5-Yr T-note	current yield 3.96%; opening yield 4.01%
10-Yr T-note	current yield 3.77%; opening yield 3.80%
30-Yr T-bond	current yield 3.90%; opening yield 3.92%