Yields Climb on Stronger than Expected Consumer Spending

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U.S. consumers may be strapped with record debt levels, but that burden has yet to make much of an impact on spending. Retail sales rose +0.7% in July, well above the median forecast of +0.4%, while the previous month increase was revised upward from +0.2% to +0.3%.

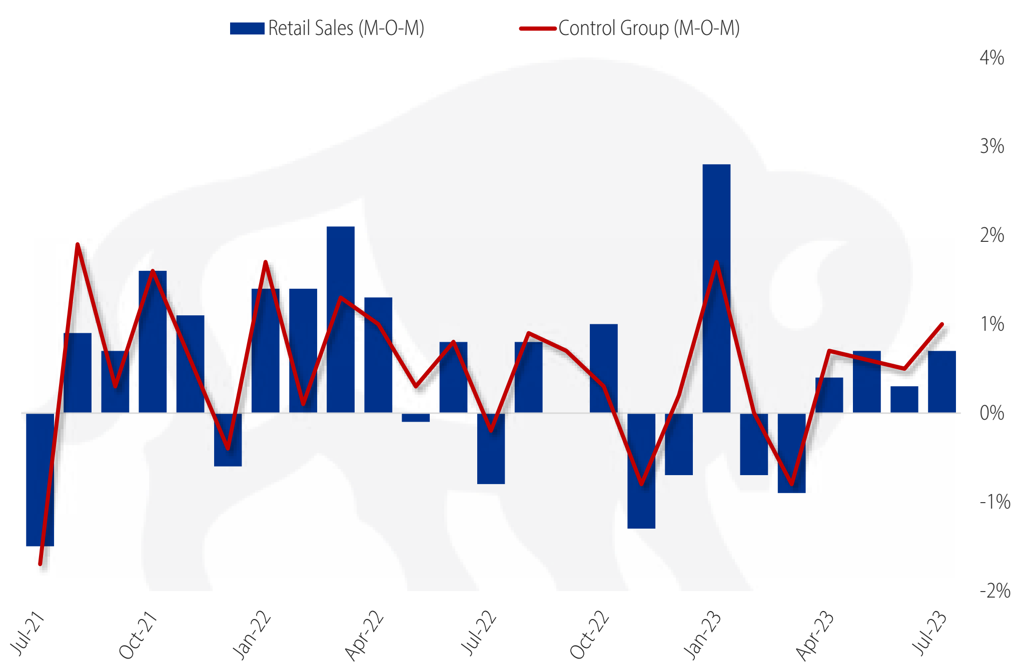
When the volatile auto and gasoline categories are excluded, sales rose +1.0%, topping the +0.4% forecast. The retail sales "control group," which excludes autos, gas, building materials and food services (and feeds directly into the quarterly GDP calculation) also rose +1.0%, *doubling the median forecast*.

On a three-month annualized basis, overall retail sales are now rising at a +4.5% annual pace. Last month, the three-month pace had slowed to +0.6%, which at the time suggested weakness entering the new quarter.

Sales rose in nine of 13 spending categories last month, up from seven in June. Sales at non-store retailers (online sales) climbed a robust +1.9% in July, the biggest increase this year. Analysts have suggested that Amazon's Prime Day event had a major impact on e-commerce during the month.

Sales at brick-and-mortar stores gained +0.8% while clothing sales were up +1.0% as students prepared to return to school.

Retail Sales (Month-over-Month Percent Change)



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Source: US Census Bureau

Restaurant and bar sales (the only service category captured in the report) rose +1.4%, up from +0.8% in June. Sales at gas stations climbed +0.4%, primarily reflecting higher pump prices during the month.

Sales of motor vehicles and parts were one of few major categories to falter in July (-0.3%). Other categories logging significant declines were furniture (-1.8%) and electronics (-1.3%).

A week ago, the Atlanta Fed's GDPNow model was tracking Q3 growth at a robust +4.1%. Todays' report is likely to push the model higher.

There are several reasons to discount this morning's numbers, but the takeaway is that U.S. consumers spent *quite a bit more than economists were expecting*. It's still early in the quarter, but with consumption making up roughly 70% of the nation's GDP, the July retail sales numbers point to another solid period of economic growth. A week ago, the Atlanta Fed's GDPNow model was tracking Q3 growth at a robust +4.1%. *Todays' report is likely to push the model higher.*

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Treasury yields have bounced around in early trading as market volatility continues, first selling off, then rallying. This morning's display of consumer resiliency is the last major data point before Fed Chairman Powell's widely-anticipated keynote speech at the Jackson Hole economic symposium on August 24th.

The futures market is still signaling a fractional 11% chance of a quarter point hike at the next FOMC meeting on September 20th. In just over two weeks, Powell will have the opportunity to embrace the market's take or brace investors for another hike.

Market Indications as of 9:25 A.M. Central Time

DOW	Down -319 to 34,989 (HIGH: 36,800)
NASDAQ	Down -136 to 13,652 (HIGH: 16,057)
S&P 500	Down -40 to 4,450 (HIGH: 4,797)
1-Yr T-bill	current yield 5.36%; opening yield 5.33%
2-Yr T-note	current yield 4.92%; opening yield 4.97%
3-Yr T-note	current yield 4.60%; opening yield 4.65%
5-Yr T-note	current yield 4.32%; opening yield 4.37%

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