

## Robust Consumer Spending Keeps Rate Hikes on the Table

Once again, the U.S. consumer has exceeded spending forecasts. Retail sales unexpectedly climbed +0.7% in September, well above the +0.3% median forecast. Adding to the miss was an upward revision which boosted the August gain from +0.6% to +0.8%. On an annual basis, retail and food service sales were up +3.8%.

Retail sales are not adjusted for inflation, so higher prices boost overall receipts. However, despite receding prices, sales have remained solid during the quarter. If consumers' spending capacity has diminished, it's not showing up in the numbers. *Not yet anyway.*

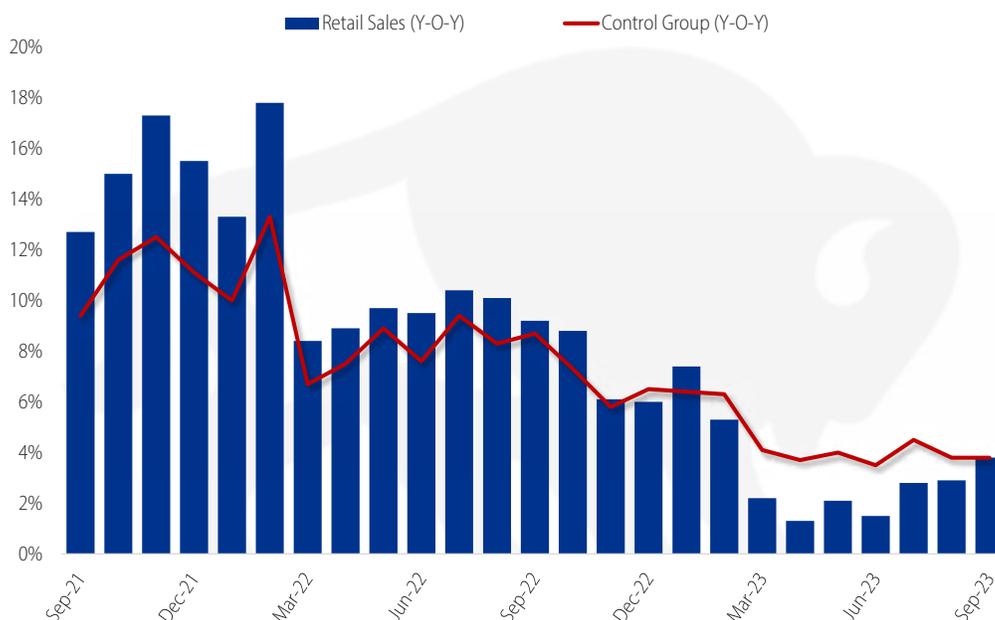
Spending was widespread last month with eight of 13 categories logging increases. Gas station sales rose +0.9% following a +6.7% jump in the prior month. Sales of vehicles and vehicle parts rose +1.0%, the strongest showing since May.

Restaurant and bar sales rose a surprisingly solid +0.9% in September, up from +0.4% in August. On a year-over-year basis, food service and drinking establishment sales were up +9.2%.

Non-store retailers rose +1.1% as internet spending remained ever-resilient. On a year-over-year basis, e-commerce is up +8.4%.

The few categories where spending decreased last month included electronics, building materials and clothing. Furniture and sporting goods/hobbies/books were flat.

### Retail Sales (Year-over-Year Percent Change)



Source: US Census Bureau

*Scott McIntyre, CFA*  
HilltopSecurities Asset Management  
Senior Portfolio Manager  
Managing Director  
512.481.2009  
scott.mcintyre@hilltopsecurities.com

*Greg Warner, CTP*  
HilltopSecurities Asset Management  
Senior Portfolio Manager  
Managing Director  
512.481.2012  
greg.warner@hilltopsecurities.com

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Control group sales, which exclude autos, gasoline, building materials and food services, *and are used in the GDP calculation*, rose +0.6% in September following a +0.2% August advance. For the quarter, control group sales were up an annualized +6.4%. Although the retail sales report focuses primarily on goods, the September strength along with the upward revision to August will further boost third quarter GDP growth. At this point, it appears as though the U.S. economy accelerated significantly from July-September, defying expectations for a second half slowdown.

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Bond yields are up across the curve in early trading as brisk consumer demand will keep rate hikes on the table. Although the futures market indicates just a 14% likelihood of an increase on November 1st, the possibility of a quarter point hike at the December or January FOMC meeting has risen above 50%.

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

DOW	Down -6 to 33,978 (HIGH: 36,800)
NASDAQ	Down -107 to 13,461 (HIGH: 16,057)
S&P 500	Down -34 to 4,340 (HIGH: 4,797)
1-Yr T-bill	current yield 5.47%; opening yield 5.38%
2-Yr T-note	current yield 5.18%; opening yield 5.10%
3-Yr T-note	current yield 4.97%; opening yield 4.87%
5-Yr T-note	current yield 4.84%; opening yield 4.72%
10-Yr T-note	current yield 4.83%; opening yield 4.71%
30-Yr T-bond	current yield 4.96%; opening yield 4.86%

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