

## Consumers Lean on Credit to Sustain Spending, Producer Prices Moderate

Following yesterday's softer than expected October consumer price index (CPI), investors were looking for corroboration from today's retail sales and producer price index (PPI). The results were mixed as PPI was generally weaker than expected while retail sales were a bit better than expected.

The October PPI headline fell -0.5%, well below the expected gain of +0.1% as a huge -15.3% drop in gasoline prices drove the headline down. The year-over-year reading was pulled down to +1.3, well short of the +1.9% median estimate in Bloomberg's survey and a huge drop from +2.2% in the 12-months through September. Ex food and energy, PPI was unchanged last month and up +2.4% year-over-year, the smallest annual increase since January 2021.

The PPI report can be quite volatile from month to month and is chock full of details we won't delve into here, but stripping out food, energy and trade services to look at a less volatile measure reveals the smallest gain in five months. And costs of processed goods for intermediate demand, which measures prices earlier in the production pipeline, fell by the most since May. The bottom line is that as supply chains have normalized and energy costs have subsided, inflationary pressures at the producer level are easing, though not collapsing.

Turning our attention to the Census Bureau's advance retail sales report, the October headline sales figure fell -0.1%, better than the expected decline of -0.3%, while September's data was revised up from +0.7% to +0.9%. Seven of the 13 categories registered declines last month, led by furniture and car dealers. Nonetheless, control group sales -- a less volatile measure used in GDP calculations that strips out sales at gas stations, auto dealers, building materials stores and food services -- rose +0.2% last month, matching expectations, while September was revised up a tenth from +0.6% to +0.7%. Control group sales are up +3.5% over the prior 12 months.

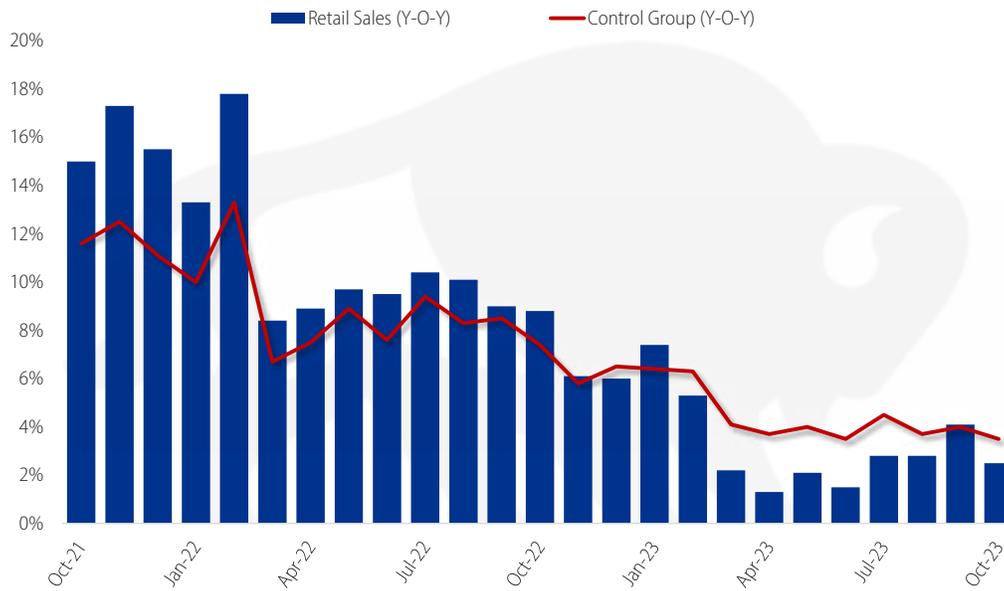
There were no big surprises in the October sales data and perhaps the most notable point is that after an exceptionally strong third quarter and the widely publicized resumption of student loan payments, there was not a larger pullback in consumer spending.

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



Source: US Census Bureau

On a cautionary note, consumers appear to be leaning on credit to sustain their spending. According to the New York Federal Reserve, credit card debt grew by \$154 billion in the third quarter, notching the largest annual increase since 1999 and climbing to a record high \$1.08 trillion. That debt is expensive, with an average interest rate north of 21%, also a record high.

In other news, the U.S. House of Representative passed a stopgap spending measure that should avert a government shutdown. The short-term funding measure cleared the House in a 336-95 vote and now heads to the Senate where it has support from both party leaders. The debate is not over, however, as the bill merely extends funding at current levels until January 19 for some agencies and to February 2 for others. Congress will now have plenty of time to fight it out.

## Market Indications as of 10:00 A.M. Central Time

DOW	Up 155 to 34,982 (HIGH: 36,800)
NASDAQ	Up 86 to 14,180 (HIGH: 16,057)
S&P 500	Up 22 to 4,518 (HIGH: 4,797)
1-Yr T-bill	current yield 5.29%; opening yield 5.20%
2-Yr T-note	current yield 4.91%; opening yield 4.84%
3-Yr T-note	current yield 4.67%; opening yield 4.59%
5-Yr T-note	current yield 4.52%; opening yield 4.44%
10-Yr T-note	current yield 4.53%; opening yield 4.45%
30-Yr T-bond	current yield 4.68%; opening yield 4.61%

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