Yields Climb on Surprisingly Brisk Consumer Spending

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U.S. consumers made another strong statement last month as retail sales rose +0.6%, above the +0.4% median forecast and *the strongest sales pace of the quarter*. More importantly, December "control group" sales, which exclude auto dealers, building material stores, gas stations and food service, and are *used to calculate GDP*, jumped +0.8%, far exceeding the +0.2% median forecast. In addition, the November control group increase was revised higher from +0.4% to +0.5%.

On a year-over-year, seasonally-adjusted basis, both headline and control group sales are up +5.6%, *the strongest pace since January*.

Sales in nine of thirteen categories rose last month. Notable increases were found in auto dealers (+1.2%), clothing stores (+1.5%), department stores (+3.0%) and e-commerce (+1.5%). Declines were noted in furniture and home stores (-1.0%) and gasoline stations (-1.3%).

The retail sales report primarily reflects goods spending in an economy that consumes significantly more services, making it an imperfect spending picture. In addition, the data is not inflation-adjusted. However, goods prices have been flat to negative for much of 2023, so the higher price excuse is fading away. *It's hard to dismiss this report as anything other than strong*. Spending is expected to decrease in the first quarter, but that same expectation has been rooted in place for over a year.

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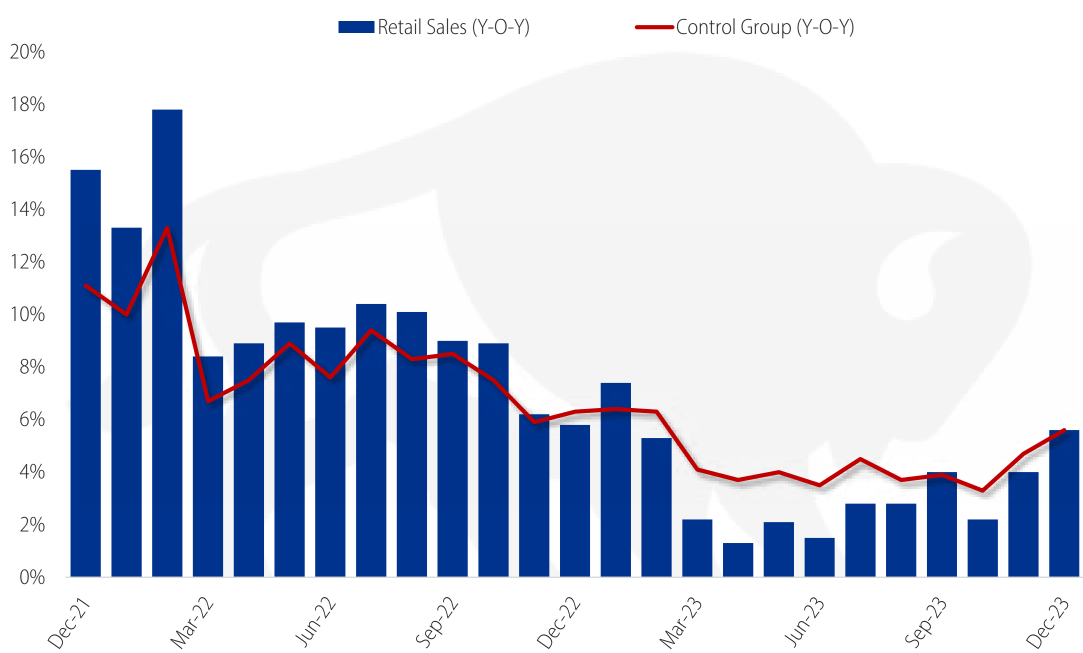
Retail Sales (Year-over-Year Percent Change)



Source: US Census Bureau

The initial measure of fourth quarter GDP will be released *next Thursday*. Today's report suggests considerably stronger economic growth for the final quarter of the year. Bond yields are higher in early trading as investors, *once again*, rethink expectations for Fed policy. Inflation seems to be on a steady decline, but any urgency to cut interest rates to rescue a struggling economy is in question.

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This morning's sell-off has reduced the number of rate cuts priced into the market this year from six to five. Futures continue to price-in a March cut, although that probability has fallen below 60%. *In reality, a rate cut announcement at the March FOMC meeting is extremely unlikely as Fed officials continue to signal patience*. From the Fed's perspective, it's *so far, so good*.

Market Indications as of 9:52 A.M. Central Time

DOW	Down -27 to 37,334 (HIGH 37,715)
NASDAQ	Down -166 to 14,778 (HIGH: 15,099)
S&P 500	Down -30 to 4,736 (HIGH: 4,784)
1-Yr T-bill	current yield 4.82%; opening yield 4.70%
2-Yr T-note	current yield 4.35%; opening yield 4.22%
3-Yr T-note	current yield 4.13%; opening yield 4.01%
5-Yr T-note	current yield 4.02%; opening yield 3.93%
10-Yr T-note	current yield 4.11%; opening yield 4.06%
30-Yr T-bond	current yield 4.32%; opening yield 4.30%