

## Bond Yields Rise as Hot PPI Trumps Moderate Retail Sales

The total value of U.S. retail sales rose +0.6% in February, less than the +0.8% median forecast, with just eight of 13 categories logging gains during the month. Sales were generally expected to rebound after a weather-tinted January slump, but the bounce-back was *less than analysts had anticipated*. It was notable that the previously reported decline in January sales was revised lower from -0.8% to -1.1%, while the December sales increase was recalculated downward from +0.4% to +0.1%.

Higher pump prices in February pushed sales receipts at gasoline stations up +0.9%, the first gain since September. The other major contributor last month came from auto dealerships, which rose +1.8%, the largest increase since last May.

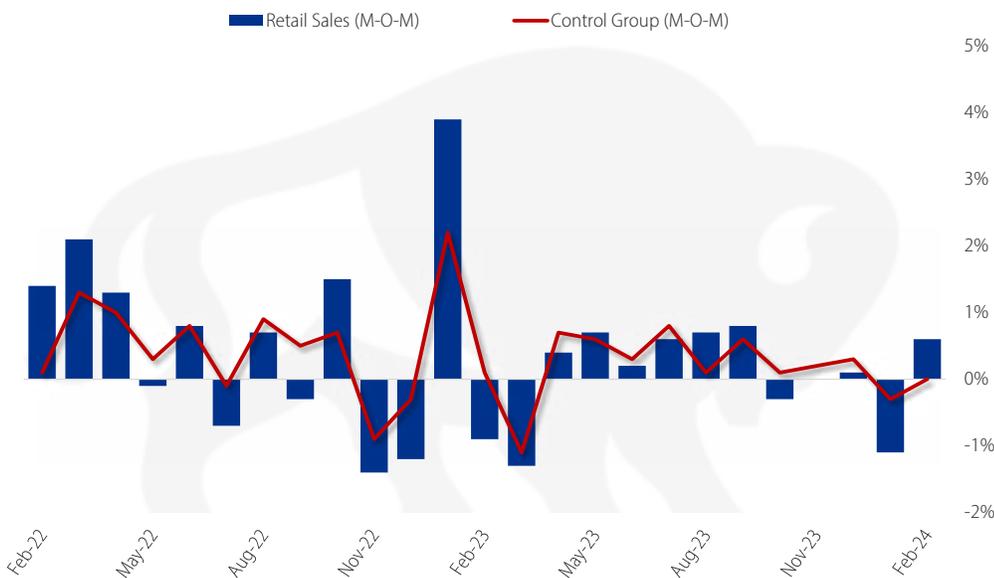
Favorable weather conditions seemed to bring consumers out in February, as sales at eating and drinking establishments rose +0.4% following back-to-back declines in January (-1.0%) and December (-0.5%). On a related weather note, brick and mortar general merchandise sales were up +0.4% while online sales were down -0.1%.

“Control group sales,” which exclude gas stations, auto dealerships, building materials stores and eating and drinking establishments, were *unchanged* in February after falling a revised -0.3% in January. Because the control group is used to calculate GDP, it carries significant weight. The fact that the last two months have indicated moderation in consumer spending suggests first quarter weakening in the overall economy, which by extension suggests easing of price pressure.

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



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Source: US Census Bureau

However, the producer price index (PPI) for February came in on the hot side this morning, more than counterbalancing weakness in consumer demand. Headline final demand PPI rose +0.6% in February, doubling both the January print and the February median forecast. The increase last month was driven primarily by a +4.4% rise in energy prices and a +0.9% gain in transportation and warehousing costs. On a year-over-year basis, headline PPI is now rising at a +1.6% pace, up from +1.0% in January.

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Core PPI was up +0.3% last month, slightly above the +0.2% forecast. On an annual basis, core producer prices held steady at +2.0%. Although core PPI appears to be in line with the Fed's target, it's risen slightly in early 2024. *The direction is a concern.*

Given that *consumer inflation* was also higher than expected in February, investors were particularly sensitive to PPI. Fed officials will meet next week to contemplate both a slowing economy and stubborn inflationary pressure. The Fed's inflation forecast is likely to be adjusted higher at next week's meeting, while their updated "dot plot" may indicate a slower path of rate cuts this year as a result.

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Bond yields are up across the curve this morning as higher prices are seen as more problematic than the possibility of slower growth.

## Market Indications as of 9:39 A.M. Central Time

DOW	Down -23 to 39,020 (HIGH: 39,132)
NASDAQ	Up 6 to 16,184 (HIGH: 16,275)
S&P 500	Down -14 to 5,151 (HIGH: 5,175)
1-Yr T-bill	current yield 5.05%; opening yield 5.01%
2-Yr T-note	current yield 4.67%; opening yield 4.64%
3-Yr T-note	current yield 4.45%; opening yield 4.38%
5-Yr T-note	current yield 4.28%; opening yield 4.19%
10-Yr T-note	current yield 4.28%; opening yield 4.19%
30-Yr T-bond	current yield 4.42%; opening yield 4.34%

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