

## Stronger Q1 Spending Complicates Fed Policy

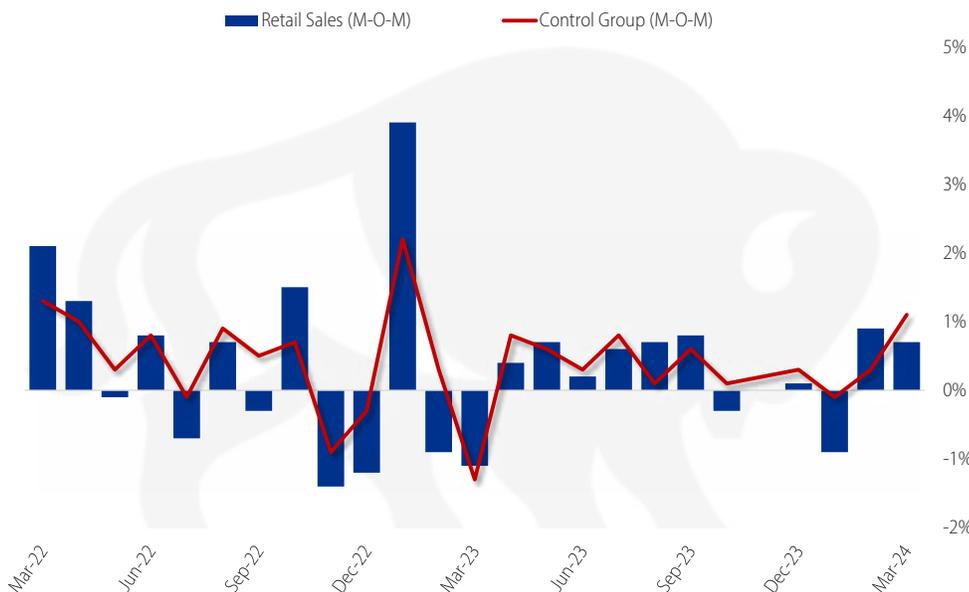
U.S. retail sales rose by +0.7% in March, well above the +0.4% median forecast, while the previously reported February sales increase was revised upward from +0.6% to +0.9%. Gas station sales (+2.1%) were a primary driver of the overall gain last month, as were online sales (+2.7%). Other major categories logging increases in March were building materials stores (+0.7%) and eating and drinking establishments (+0.5%).

A number of categories registered declines last month, including sporting goods (-1.8%), clothing (-1.6%), electronics (-1.2%), motor vehicles (-0.7%) and furniture (-0.3%). The “control group,” which excludes sales at gas stations, auto dealers, building materials stores, and eating and drinking establishments, climbed +1.1% in March, nearly triple the median forecast, while February control group sales were revised upward from 0.0% to +0.3%. On a year-over-year basis, overall retail sales were up +4.0%, a sharp acceleration from the +2.1% annual pace in February.

The bottom line this morning is that first quarter GDP is likely to be stronger than previously forecast, and the economy will enter Q2 with a little more momentum. Normally, this would be a welcome development, but Fed officials are in an increasingly tight spot. They can’t begin cutting rates until inflation is on a sustained downtrend. Cutting rates prematurely would only fuel the economy, which would add to existing price pressure.

Yields are higher in early trading as investors contemplate the expected higher-for-longer Fed policy stance.

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



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Source: US Census Bureau

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## Market Indications as of 10:41 A.M. Central Time

DOW	Up 146 to 38,129 (HIGH: 39,807)
NASDAQ	Up 13 to 16,188 (HIGH: 16,442)
S&P 500	Up 4 to 5,127 (HIGH: 5,254)
1-Yr T-bill	current yield 5.18%; opening yield 5.09%
2-Yr T-note	current yield 4.96%; opening yield 4.89%
3-Yr T-note	current yield 4.81%; opening yield 4.73%
5-Yr T-note	current yield 4.66%; opening yield 4.56%
10-Yr T-note	current yield 4.64%; opening yield 4.53%
30-Yr T-bond	current yield 4.74%; opening yield 4.65%

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