Markets Cheer as Consumer Spending Slows and Prices Moderate

For the first time in four months, the consumer price index (CPI) came in *cooler than expected*. The overall CPI for April rose +0.3%, slightly below the +0.4% median forecast. On an annual basis, CPI slipped from +3.5% to +3.4%, still above the +3.1% January pace, but well below the +9.1% peak in June 2022. A +2.8% increase in gasoline prices and a *still too high* +0.4% rise in both rent and owners equivalent rent contributed over 70% of the monthly increase according to the Bureau of Labor Statistics.

Despite stubbornly high housing costs, other key price measures were well behaved in April. The food index was *unchanged,* with the food-at-home (groceries) subcomponent down -0.2%, and food-away-from home (restaurants) up +0.3%. Prices for new (-0.1%) and used (-1.4%) vehicles continued to decline. Both are now lower on an annual basis.

In the same vein as the surprisingly large increase in portfolio management fees in the April PPI report, financial services costs in the April CPI report rose +2.5%, reflecting record stock market gains. The cost of vehicle insurance continued to rise, up another +1.8% for the month, pushing the year-over-year increase to a nauseating +22.6%.

Core CPI, which excludes food and energy prices, rose +0.3% in April following three straight months of +0.4% gains. On an annual basis, core CPI slid to a three-year low of +3.6%. The so called "supercore" inflation, which measures core services minus housing, rose +0.4%, the slowest since December …although the annual supercore pace of +4.9% is the highest since last year.

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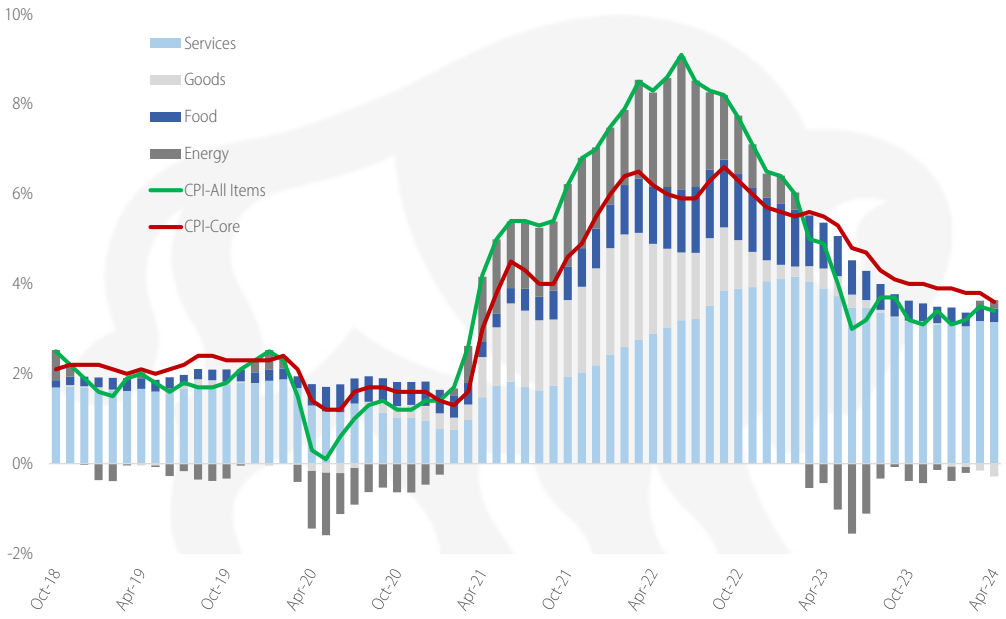
Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

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The April CPI was a relief in that it ended a three-month string of ugly reports, but it doesn't signal an end to the inflation battle. The Fed will need to see at least another two months of softer price data, as well as a sustained decline in the PCE inflation measure.

Both stocks and bonds are rallying this morning in early trading. The slight cooling of consumer inflation is part of the story today, but indications that consumers are finally spending less is a bigger factor. April retail sales were much weaker than expected, *unchanged* for the month and well below the +0.4% median forecast. More importantly, "control group" sales, which exclude auto dealers, gas stations, eating and drinking establishments and building materials stores, fell -0.3% last month. Since the control group numbers are used to calculate GDP, this morning's numbers point to weakening Q2 economic growth.

When soft retail sales are combined with slowing consumer prices, two very weak ISM reports and moderation in the labor market, a turning point may be in sight.

The overall spending report was undeniably tepid but would have been quite weaker if not for a +3.1% rise in gas station sales. Lower pump prices so far in May suggest that the next retail sales report could extend the slowdown.

As Fed officials have cautioned, *one month doesn't make a trend*. We're not there yet. However, when soft retail sales are combined with slowing consumer prices, two very weak ISM reports and moderation in the labor market, a turning point may be in sight.

Market Indications as of 9:14 AM. Central Time

DOW	Up 142 to 39,700 (HIGH: 39,807)
NASDAQ	Up 83 to 16,594 (HIGH: 16,442)
S&P 500	Up 22 to 5,268 (HIGH: 5,254)
1-Yr T-bill	current yield 5.11%; opening yield 5.11%
2-Yr T-note	current yield 4.76%; opening yield 4.82%
3-Yr T-note	current yield 4.55%; opening yield 4.62%
5-Yr T-note	current yield 4.39%; opening yield 4.46%
10-Yr T-note	current yield 4.38%; opening yield 4.45%
30-Yr T-bond	current yield 4.54%; opening yield 4.59%