Consumer Spending Proves Surprisingly Solid in August

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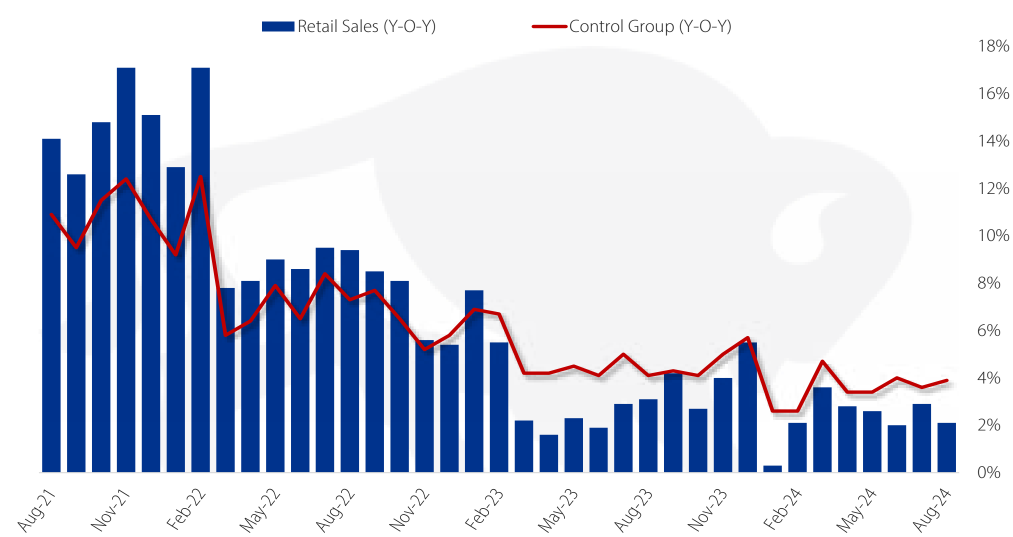
With one day left before Fed officials vote on the size of what is now certain to be the first rate cut in over four years, the U.S. consumer (despite dwindling savings and mounting credit card debt) unexpectedly increased purchases in August. Overall retail sales, forecasted to fall -0.2% last month, actually rose +0.1% while the July gain was revised higher from +1.0% to +1.1%.

Lower pump prices pulled gasoline station receipts down -1.2%, while food and beverage sales fell -0.7% and motor vehicle sale sales slipped -0.1% . Most of the increase last month was attributed to online sales, which rose +1.4%. The retail sales "control group," which excludes auto dealers, food services, gas stations and building materials stores, *and is used to calculate GDP*, increased +0.3% in August while the July gain was revised upward from +0.3% to +0.4%.

Just five of 12 spending categories rose last month, as lower prices kept reciepts at gasoline stations and auto dealerships in check. This morning's report suggests that the U.S. economy continues to grow. Third quarter GDP, tracking at +2.5% (GDPNow Sept 9), will likely be revised higher. Recent concerns by Fed officials that the economy is weakening were eased a bit.

Bond yields are slightly higher in early trading, although the futures market continues to indicate nearly a 70% chance that Fed officials will opt for a larger half point cut tomorrow afternoon.

Retail Sales (Year-over-Year Percent Change)



Source: US Census Bureau

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Market Indications as of 10:04 A.M. Central Time

DOW	Up 152 to 41,775 (NEW HIGH)
NASDAQ	Up 136 to 17,728 (HIGH: 18,647)
S&P 500	Up 36 to 5,669 (NEW HIGH)
1-Yr T-bill	current yield 4.00%; opening yield 3.95%
2-Yr T-note	current yield 3.60%; opening yield 3.56%
3-Yr T-note	current yield 3.46%; opening yield 3.42%
5-Yr T-note	current yield 3.44%; opening yield 3.40%
10-Yr T-note	current yield 3.64%; opening yield 3.62%
30-Yr T-bond	current yield 3.93%; opening yield 3.93%

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