Spending Slowdown Signals Softer Q1 Growth

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

Bonds are rallying (yields lower) in early trading on signs that consumer spending may be slowing more than expected. Although California fires and severe winter weather restrained purchases, January retail sales fell woefully short of forecasts. Headline sales were down -0.9%, the weakest performance since March 2023 and a sharp reversal following a revised +0.7% December gain.

More extreme weakness was concentrated last month in vehicles and parts (-2.8%), e-commerce (-1.9%) and building materials (-1.3%). Both gas station sales (boosted by rising pump prices) and restaurant and bar sales were up +0.9%.

The "control group," which excludes auto dealerships, gasoline stations, building material stores, and eating and drinking establishments (and is used to calculate GDP) fell -0.8% after a +0.8% increase in December. It's tempting to blame the tepid spending on the weather, but 9 of 13 spending categories were lower, suggesting consumer capacity may finally be waning.

The New York Fed reported yesterday that total consumer debt (mortgages, car loans, student loans and credit card balances) reached a record $18 trillion in the fourth quarter, while the percentage of delinquent consumer debt climbed to its highest level in nearly five years. On a more critical note, the percentage of auto loans and credit card balances considered seriously delinquent (90 days or more) is now at a 13-year high.

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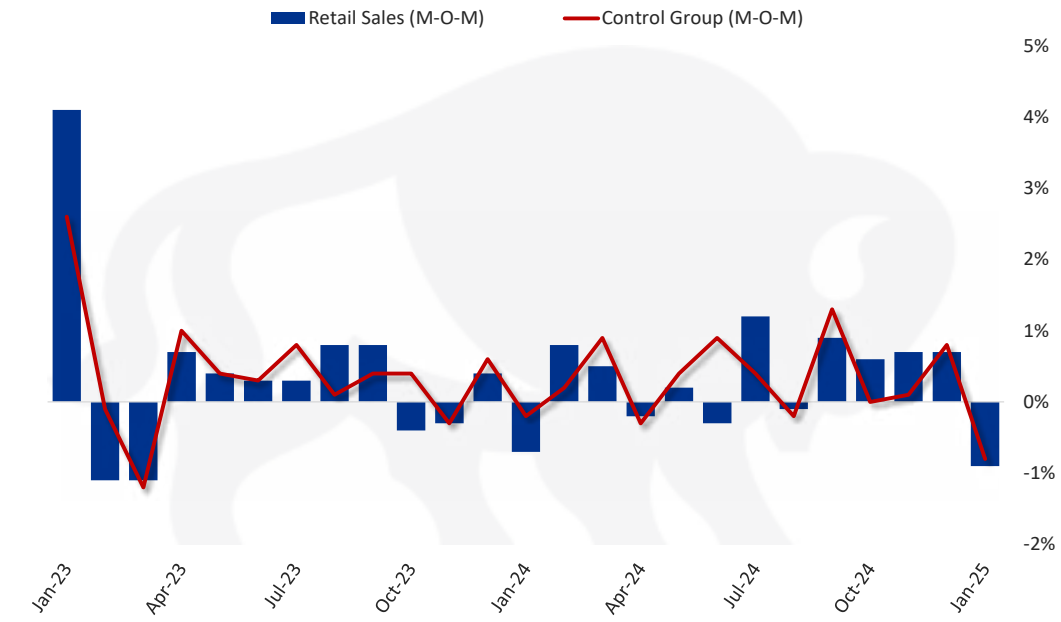
Retail Sales (Month-over-Month Percent Change)



Source: US Census Bureau

The retail sales report is the first major GDP input for the first quarter, and although fires and extreme weather make it somewhat suspect, it appears that the U.S. economy has begun the year on a down note. Weaker consumer demand (if it continues) would theoretically cool inflationary pressure enough to prompt Fed officials to resume rate cuts in the second half of the year.

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Market Indications as of 8:57 A.M. Central Time

DOW	Down -21 to 44,691 (HIGH: 45,014)
NASDAQ	Up 33 to 19,979 (HIGH: 20,174)
S&P 500	Up 7 to 6,122 (HIGH: 6,119)
1-Yr T-bill	current yield 4.23%; opening yield 4.25%
2-Yr T-note	current yield 4.26%; opening yield 4.31%
3-Yr T-note	current yield 4.27%; opening yield 4.33%
5-Yr T-note	current yield 4.32%; opening yield 4.40%
10-Yr T-note	current yield 4.47%; opening yield 4.54%
30-Yr T-bond	current yield 4.69%; opening yield 4.74%