

Gas Prices and Broad Spending Lift March Retail Sales

Today the U.S. Census Bureau reported stronger-than-expected retail sales for March, with headline sales rising 1.7% month over month, beating the 1.4% consensus estimate and marking the largest monthly gain in a year.

The major cause of the increase was higher gasoline prices. Spending at gas stations surged 15.5% month over month, reflecting a sharp rise in prices at the pump and providing a sizable bump to the overall headline figure.

More importantly, underlying demand also showed strength. The control group used directly in GDP calculations, rose 0.7%, well above the 0.2% expectation. This measure excludes autos, gasoline, building materials, and food services, which brings a tighter focus on consumer spending trends.

Some analysts noted that part of the strength in the report may be related to larger than usual tax refunds flowing into bank accounts during tax season, providing consumers with additional spending power.

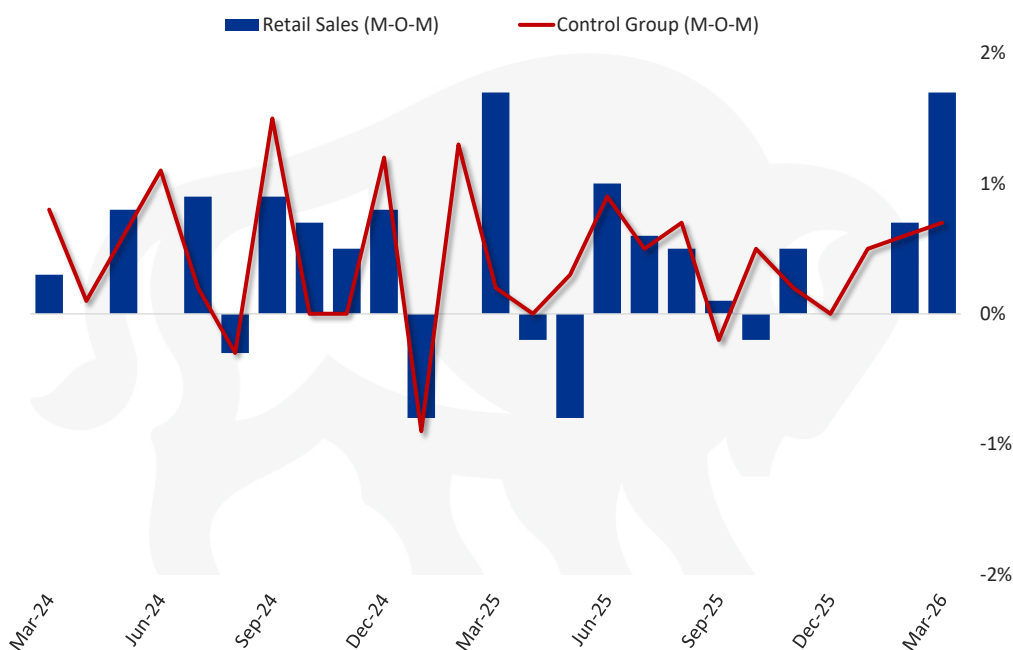
Most categories were positive across the board. Of the 13 sectors, only one posted a decline, miscellaneous store retailers. These would be florists, pet stores, office supply stores. Furniture and home furnishings stores rose 2%, while nonstore (online) retailers increased 1%. The food services and drinking places category, the only services component within the retail report, rose a modest 0.1%, suggesting consumers remain somewhat cautious on discretionary services spending.

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Retail Sales (Month-over-Month Percent Change)



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Source: US Census Bureau

Adding to the positive report, January and February retail sales were both revised higher, improving the overall outlook for first quarter economic growth. Following this report, estimates for Q1 GDP are likely to improve. The Atlanta Fed's GDPNow model currently projects 1.3% real GDP growth for the first quarter.

Altogether, the report points to stronger consumer demand even as higher gas prices absorb a larger share of household budgets. While it's an encouraging report today, a sustained period of elevated fuel costs could eventually crowd out discretionary spending, particularly on services and non essential goods.

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Elsewhere in the markets, Kevin Warsh's confirmation hearings are set to begin today, though the nomination faces headwinds. Several Senate Democrats have already indicated opposition, and North Carolina Republican Sen. Thom Tillis is also expected to oppose the nomination as long as the Justice Department's investigation involving the Federal Reserve remains ongoing.

Market Indications as of 10:13 A.M. Central Time

DOW	Up 8 to 49,450 (HIGH: 50,188)
NASDAQ	Up 16 to 24,420 (HIGH: 24,468)
S&P 500	Down -6 to 7,103 (HIGH: 7,126)
1-Yr T-bill	current yield 3.68%; opening yield 3.63%
2-Yr T-note	current yield 3.78%; opening yield 3.72%
3-Yr T-note	current yield 3.79%; opening yield 3.74%
5-Yr T-note	current yield 3.91%; opening yield 3.85%
10-Yr T-note	current yield 4.29%; opening yield 4.25%
30-Yr T-bond	current yield 4.90%; opening yield 4.88%

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