A Weak Headline Masks Otherwise Solid October Sales

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The October retail sales report appeared weak compared to the previous month, although the underlying data was surprisingly solid. The total value of retail sales in October rose +0.2%, slightly above the +0.1% median forecast, following a more robust +0.8% headline gain in the previous month.

Because the retail sales report is seasonally-adjusted *but not adjusted for inflation*, volatile energy prices can have a disproportionate impact. That was the case in September as a huge +6.0% increase in gasoline prices drove the headline upward. Gas station sales rose a more moderate +1.5% in October, but it was mostly a -1.6% decline in auto sales that dragged the overall number down. When gas and autos are excluded, sales were up +0.5%, slightly above forecasts.

Seven of 13 categories logged gains in October, with non-store sales (e-commerce) accounting for the vast majority of the increase. The "control group," which excludes sales at gasoline stations, auto dealers, building materials stores and food service establishments, climbed +0.6%, topping the +0.4% median forecast. At the same time, the previously reported September control group increase was revised upward from +0.1% to +0.5%. Since the control group numbers feed directly into the GDP calculation, this morning's report signals *stronger economic growth* in the third quarter and a solid start to the fourth quarter.

The prospect of stronger economic growth implies increased consumer demand, which suggests the Fed may need to tighten further to stifle price pressures. Bond yields initially rose in early trading but have since rallied, presumably a flight-to-quality response to a stumbling stock market.

Market Indications as of 9:36 A.M. Central Time

DOW	Down -529 to 51,079 (HIGH: 54,349)
NASDAQ	Down -225 to 24,284 (HIGH: 27,600)
S&P 500	Down -36 to 7,381 (HIGH: 7,819)
1-Yr T-bill	current yield 4.59%; opening yield 4.58%
2-Yr T-note	current yield 4.81%; opening yield 4.82%
3-Yr T-note	current yield 4.87%; opening yield 4.87%
5-Yr T-note	current yield 4.93%; opening yield 4.93%
10-Yr T-note	current yield 5.12%; opening yield 5.12%
30-Yr T-bond	current yield 5.47%; opening yield 5.47%

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