Consumer Spending Perks up as the Quarter Ends

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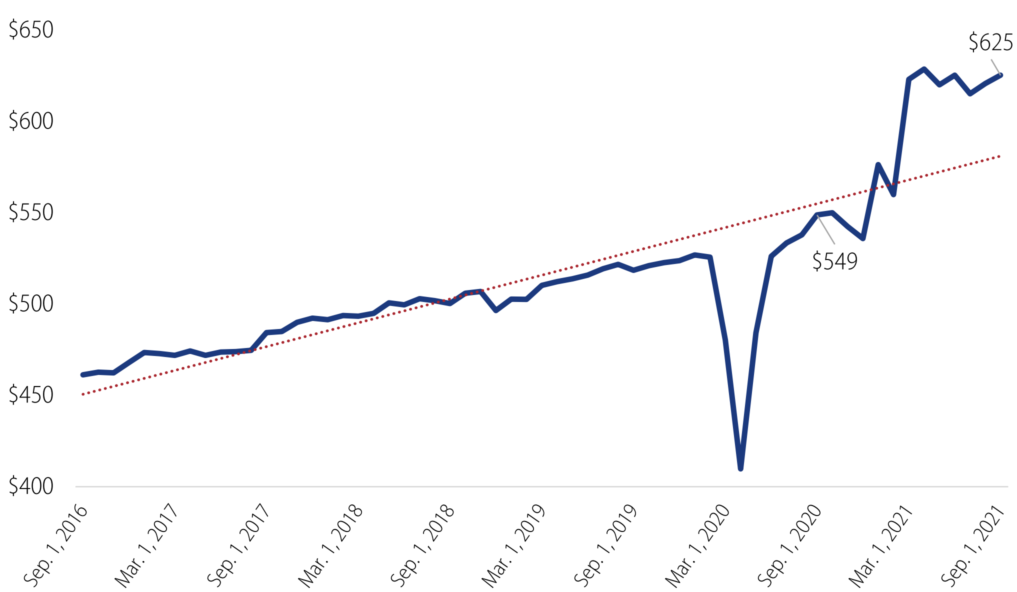
GDP growth has clearly slowed in the third quarter, but consumer spending should enter the final quarter of the year with solid momentum. Retail sales were up +0.7% in September, well above the -0.2% median forecast as shoppers focused less on services and more on goods. Sales in the two previous months were revised upward with July revised from -1.8% to -1.6% and August from +0.7% to +0.9%.

Although the report was significantly better than expected with 11 of 13 spending categories posting gains last month, elevated prices made a considerable contribution to the overall value of sales. In particular, spending at auto dealers (+0.6%) and gasoline stations (+1.8%) reflected higher prices rather than increased sales. It's also important to note that the retail sales report focuses almost exclusively on goods, including only restaurant and bar sales in the service category. The lingering COVID wave has curtailed overall service spending and cash-flush consumers simply shifted spending to goods. This creates the impression that overall spending is stronger than it is. The reality is that third quarter consumption is somewhere in the neighborhood of +2.0%, while second quarter consumption was +12.0%. Since consumers contribute roughly two-thirds of economic growth, the sharp deceleration will be reflected in a weaker GDP report in two weeks.

On a positive note, the total dollar value of retail sales is up $76 billion year-over-year, and spending *capacity* remains high. The major impediment for shoppers entering the holiday season continues to be depleted inventories. This story isn't likely to fade away.

Retail & Food Services Sales Total ($ Billions) *(Seasonally Adjusted)*

The total dollar value of September retail sales was $76 billion above last year with sales running well above trend.



Source: U.S. Census Bureau.

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In other news from yesterday, the headline Producer Price Index (PPI) rose +0.5% in September, slightly below forecast and the smallest monthly gain of 2021. However, the +8.6% year-over-year pace is the highest since the BLS began tabulating the annual data 11 years ago, and has been increasing at an even quicker pace over the past six months. Rising energy prices were a major contributor to the headline final demand number with gasoline up +3.9%. Core PPI rose by just +0.1% in September, below the +0.4% forecast, and the smallest increase of 2021. The year-over-year PPI core was up +6.8%, the highest in 11 years of BLS data collection. So, *depending on your point of view, the September PPI report was either cooling or the hottest in years. Regardless, few expect inflation will retreat noticeably until global supply chains untangle.*

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Initial jobless claims (first-time unemployment benefits filings) fell by -36k last week to 293k, the lowest reading since March 2020. Continuing claims also fell to their lowest level in 18 months. On a related note, the Job Openings and Labor Turnover Survey (JOLTS) for August showed the first decline in job openings since last December. However, the 10.44 million openings were the second highest on record and far exceed the 7.674 million Americans officially counted as unemployed by the BLS in September.

The minutes to the September FOMC meeting, released on Wednesday afternoon, contributed additional details to the Fed's taper plan. It's now almost certain that the official start date to the QE taper will be announced on November 3rd at the conclusion of the next FOMC meeting. Fed officials expect to trim $15 billion per month from the current $120 billion in monthly QE purchases beginning in November or December, until reaching zero. This pace can be adjusted or paused as conditions warrant, but if all goes as planned, new QE purchases will end mid-summer. At some point after tapering is complete, committee members will discuss the timing of the first rate increase.

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Bonds have traded off in early trading this morning as stronger data implies less need for Fed support.

Market Indications as of 9:32 A.M. Central Time

DOW	Up 260 to 35,173 (HIGH: 35,625)
NASDAQ	Up 33 to 14,856 (HIGH: 15,374)
S&P 500	Up 30 to 4,468 (HIGH: 4,537)
1-Yr T-bill	current yield 0.10%; opening yield 0.09%
2-Yr T-note	current yield 0.37; opening yield 0.36%
3-Yr T-note	current yield 0.66%; opening yield 0.64%
5-Yr T-note	current yield 1.09%; opening yield 1.05%
10-Yr T-note	current yield 1.56%; opening yield 1.52%
30-Yr T-bond	current yield 2.06%; opening yield 2.02%