

Bond Yields Fall on Soft Retail Sales Report

Consumer spending unexpectedly slowed last month as an increasing number of Americans adjusted their purchases in response to dwindled savings and higher debt burdens. Retail sales rose by just +0.1% in May, below the +0.4% median forecast, while previously reported April sales were revised downward from *unchanged* to -0.2%. Motor vehicle sales, which account for nearly 20% to the overall number, were one of just a few strong categories last month as the +0.8% increase added 0.16 percentage points. When the volatile auto category is excluded, *sales were negative for the second straight month.*

Sales at eating and drinking establishments were down -0.4% in May, reversing a +0.4% April rise, while sales at gasoline stations fell -2.2 following a +1.9% increase. Since the report is not adjusted for inflation, the drop in gas station sales simply reflects lower gas prices, but falling restaurant and bar sales are meaningful.

Control group sales, which exclude food services, autos, building materials and gasoline stations (and are used to calculate GDP) rose by +0.4% in May, slightly below the +0.5% median forecast. More importantly, the April control group number was revised downward from -0.3% to -0.5%.

This morning's report suggests consumers may finally be feeling the strain of higher prices and mounting debt. The personal savings rate in April was 3.6%, less than half the 7.7% pre-pandemic rate in February 2020, while total outstanding credit card balances remain well above \$1.1 trillion. In theory, reduced spending should eventually result in slower economic growth, an easing of price pressures and lower lending rates. Thus, bond yields are down (slightly) in early trading as investors consider the possibility that Fed officials may be able to begin rate cuts a little earlier.

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Market Indications as of 8:50 A.M. Central Time

DOW	Down Up 89 to 38,868 (HIGH: 40,004)
NASDAQ	Down -14 to 17,8943 (HIGH: 17857)
S&P 500	Up 10 to 5,483 (NEW HIGH)
1-Yr T-bill	current yield 5.09%; opening yield 5.10%
2-Yr T-note	current yield 4.72%; opening yield 4.76%
3-Yr T-note	current yield 4.45%; opening yield 4.49%
5-Yr T-note	current yield 4.26%; opening yield 4.29%
10-Yr T-note	current yield 4.25%; opening yield 4.27%
30-Yr T-bond	current yield 4.39%; opening yield 4.40%

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