

Consumer Spending Slows as Delta Surges and Stimulus Fades

Analysts had anticipated consumer spending would slow as stimulus checks were gradually spent. The expectation was that Americans would quickly return to work, and regular paychecks would pick up the slack. But, workers have been slow to return and the July Delta wave injected yet another dose of uncertainty. As a result, retail sales disappointed with a -1.1% drop in July, well below the -0.3% median forecast. Eight of 13 spending categories declined last month, led by a -3.9% drop in vehicle sales and a -2.6% decrease in clothing sales. The vehicle market has been hamstrung by depleted inventory and record high prices, while the dip in clothing sales probably reflects continued stay-at-home workers with little need for new business attire.

Significant increases were found last month in gas station sales (+2.4%), reflecting high pump prices and increased summer travel, as well as restaurant and bar sales (+1.7%). Eating and drinking establishments are the only service category captured in the retail sales report. Much of the summer reopening, including air travel and lodging fall outside the scope of this report, as do housing and healthcare, two of the larger monthly household expenses.

The retail sale “control group,” which excludes sales of autos, building materials, gasoline and food services fell -1.0%. *The control group is used to calculate GDP, so the July drop indicates a slow start to the third quarter.* With the Delta wave still gaining momentum, it’s unlikely that spending will pick up in August.

Headline retail sales are still up +15.9% year-over-year, but the base effect is fading after posting eye-popping annual gains of +53.6% in April, +27.4% in May and +19.1% in June.

Bond prices are generally flat this morning, while all three major U.S. stock indexes are down in early trading. In theory, the Fed would tighten monetary policy to slow economic growth and stem inflation. *This morning’s report suggests that GDP is moderating without the Fed’s help.* As a result, the first rate hike has probably edged further out in 2023. It’s not unusual for stocks to rally when weaker economic data suggests accommodative Fed policy will continue. This morning’s equity sell-off, coming a day after the S&P 500 and Dow set new highs, reflects rising uncertainty.

There’s still plenty of pent-up demand for big-ticket housing and autos, household balance sheets are in good shape and the amount of spending capacity is historically high. This means the economic foundation is solid, but the next few months could be bumpy.

In other news this morning, homebuilder sentiment dropped for the third straight month and is currently at the lowest level in over a year. The National Association of Home Builders (NAHB) Market Index fell from 80 to 75 in August. Demand for homes is still strong, but inventories are tight, and shortages of materials and labor are still

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

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

With the Delta wave still gaining momentum, it’s unlikely that spending will pick up in August.

This morning’s report suggests that GDP is moderating without the Fed’s help. As a result, the first rate hike has probably edged further out in 2023.

creating bottlenecks. At 75, the current level is still well above the 20-year average of 50, but has dropped from a frothy 90 last November.

Market Indications as of 10:32 A.M. Central Time

| | |
|--------------|--|
| DOW | Down 283 to 35,343 (HIGH: 35,625) |
| NASDAQ | Down 152 to 14,642 (HIGH: 14,895) |
| S&P 500 | Down 30 to 4,450 (HIGH: 4,480) |
| 1-Yr T-bill | current yield 0.07%; opening yield 0.06% |
| 2-Yr T-note | current yield 0.21%; opening yield 0.21% |
| 3-Yr T-note | current yield 0.42%; opening yield 0.42% |
| 5-Yr T-note | current yield 0.76%; opening yield 0.76% |
| 10-Yr T-note | current yield 1.27%; opening yield 1.26% |
| 30-Yr T-bond | current yield 1.93%; opening yield 1.93% |

The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.