CHANDLER ASSET MANAGEMENT

Economic highlights from the week ending on January 15, 2021

Shelly Henbest, CFA
Senior Credit Analyst

Retail sales momentum slowed during the holiday shopping season. On a year-over-year basis, retail sales were up 2.9% in December versus 3.7% in November. On a month-over-month basis, retail sales declined 0.7% in December, following a 1.4% decline in November. The month-over-month declines were broad-based in December on a seasonally adjusted basis, with outsized declines for non-store (e-commerce) sales, electronic & appliance stores, food service & drinking places, and department stores. Sales at clothing and accessories stores were positive in December, but this followed a sharp decline in November. Sales of motor vehicles and parts and gasoline also showed relative strength in December. According to the Energy Information Administration, average US regular retail gas prices increased nearly 6% in the month. Excluding vehicles and gas, retail sales fell 2.1% in December, following a 1.3% decline in November.

Overall, while retail sales remained positive on a year-over-year basis, we believe rising pressure on the labor market due to the virus and renewed business restrictions were a headwind to consumer spending trends at year-end. While the most recent round of fiscal relief and direct household payment checks may give some lift to consumer spending in January, we believe many consumers may use those funds for savings or to pay off credit card debt. We anticipate consumer discretionary spending may continue to face near-term headwinds due to the virus and elevated unemployment but may be poised to benefit from pent-up demand later this year.

In the most recent week, the number of initial jobless claims increased to 965,000 compared to 784,000 in the prior week. The level of continuing unemployment claims (where the data is lagged by one week) also increased to about 5.3 million from roughly 5.1 million in the prior week. Although continuing jobless claims are much lower than the peak of nearly 25 million last May, they remained well above the 2019 average of 1.7 million.

Although recent economic data has softened, we believe financial market participants remain focused on the longer-term view and the expectation of a return to pre-pandemic levels of economic activity as vaccine distribution accelerates. Month-to-date, the Treasury yield curve has steepened, with the 10-year Treasury yield up nearly 18 basis points to 1.09% (at the time of this report), while the front end of the Treasury yield curve remains anchored near zero. We believe the recent curve steepening has been driven by a number of factors including increased optimism about vaccines and the outlook for economic activity, fiscal relief and expectations for additional stimulus, and expectations for additional Treasury issuance.

Next Week

Housing Market Index, Housing Starts and Permits, Philly Fed Existing Home Sales,

Chandler Asset Management | info@chandlerasset.com | 800.317.4747 | chandlerasset.com

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