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## Good Retail Sales but not enough (as of now) for a Fed Hike

Friday 3:50 p.m. PDT, Las Vegas

Finally some good retail sales numbers after a string of disappointments. And the University of Michigan sentiment index spiked upward after lagging recently. The retail sales data kicked GDP estimates for this quarter up about 3 tenths, and most forecasters now see a 2% to 2 ½% gain for the second quarter. Although this represents a substantial increase from the first quarter, Q2 is shaping up to be lackluster at best. Remember that long-term productivity growth averaged 2% before the financial crisis. 2% should equal GDP growth *if* there were no gain in either payroll or hours worked; meaning productivity is still running well below average.

The PPI inflation ran just slightly below expectations, offsetting some of the upward lift the retail sales gave to yields; the ten year treasury actually ended down 5 bps to 1.70%. We still have one more payroll report and 2 more CPI reports before the June FOMC meeting, but the gathering consensus is that the data are not strong enough to warrant a hike at that meeting. Next Wednesday we will get the detailed minutes of the April meeting, but if a June increase is still active, we can expect the big guns at the Fed, particularly Yellen and Fischer, to hint in the next few weeks that The Fed might still hike rates.

Stocks continue to drift downward as uninspiring earnings give no reason for investors to chase equities. This week's big news is the continued downward drift of the world's most talked-about stock, Apple, and, even more important, the poor earnings and guidance of major retailers, Macy and Nordstrom's. Is the "department store" in terminal decline; will Amazon gobble up all retailing? These questions have been asked before, but are now being put forth with more urgency. And what does this all mean for retail REITs, which, because of low interest rates have been holding up quite well?

Election Update: The well-thought-of Quinnipiac organization came out last week showing much tighter than expected match-ups between Trump and Clinton in key battleground states such as Pennsylvania and Ohio. Clinton's poor showing in West Virginia has increased doubts about her candidacy. As a result, the odds of her winning the presidency in the betting markets have slipped to 2:1 from almost 4:1 the week before. Trump's surge has not helped the odds of the GOP retaining control of the Senate, which has now dropped below even money to 3:2 against. Although I still believe the race is Hillary's to lose, the fact she can't shake Sanders means her victory, if it occurs, is very unlikely to be a LBJ/Goldwater or Nixon/McGovern romp that many expected.

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