THE AUSTIN ADVISOR

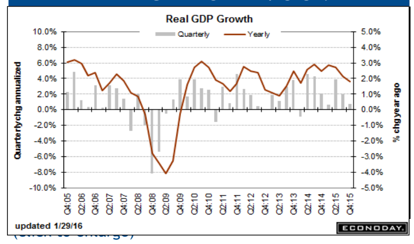
February 22, 2016

Markets	15-Feb	16-Feb	17-Feb	18-Feb	19-Feb	YTD%	31-Dec-15
DJIA	N/A	16,196.41	16,453.83	16,413.43	16,391.99	-5.93%	17,425.03
S&P 500	N/A	1,895.58	1,926.83	1,917.83	1,917.78	-6.17%	2,043.94
NASDAQ	N/A	4,435.96	4,534.07	4,487.54	4,504.43	-10.04%	5,007.41
SNL Bank Index	N/A	365.60	367.88	362.38	363.52	-15.75%	431.48
Fed Funds Rate	N/A	0.38%	0.37%	0.38%	0.38%		0.35%
1 Month LIBOR	0.43%	0.43%	0.43%	0.43%	0.43%		0.43%
3 Month LIBOR	0.62%	0.62%	0.62%	0.62%	0.62%		0.61%
3 Month T-Bill	0.30%	0.30%	0.30%	0.30%	0.31%		0.16%
1 Year Treasury	0.51%	0.51%	0.53%	0.53%	0.53%		0.65%
2 Year Treasury	0.71%	0.74%	0.74%	0.71%	0.76%		1.06%
3 Year Treasury	0.89%	0.91%	0.93%	0.88%	0.91%		1.31%
5 Year Treasury	1.20%	1.23%	1.26%	1.21%	1.24%		1.76%
10 Year Treasury	1.74%	1.78%	1.81%	1.75%	1.76%		2.27%
30 Year Treasury	2.60%	2.64%	2.68%	2.62%	2.61%		3.01%

WEEKLY HIGHLIGHT

Financial markets recovered last week, leading to greater flexibility at the Fed to continue to normalize monetary policy

REAL GDP-1ST REVISION



Economy	Week of February 15, 2016	
Presidents Day		Financial Markets Closed
Housing Starts	1.099 Million	Down 3.8% from the revised December data with weather on the east coast, but permits were up indicating strong growth
Producer Price Index	0.1%	The headline number was consistent with past data, but the core rate jumped 0.4% creating some inflation concerns
Industrial Production	0.9%	The surge in manufacturing activity was led by auto production and utility output, with cold weather affecting the total
Capacity Utilization	77.1%	Strong gain from December's 76.4% reading, with autos and utilities the biggest contributors
Leading Indicators	-0.2%	Another month of decline following the-0.3% reported for January, with stock prices a bigger issue
Consumer Price Index	0.0%	No change in the total, but up 0.3% for the core, driving the year-over-year increase for the core to +2.2%

MONDAY MUSING

Several people I know (I cannot call them friends for obvious reasons) have suggested I needed to join a new 12 step program for compulsive talkers. I did not listen to the first few who suggested I needed this program but after talking it over with the last three, I have decided they might be right. I found the group here in Toledo. It is called An Anon Anon. I did a MapQuest search for directions to the meeting and discovered MapQuest could eliminate the first five directions they provide. I know how to get out of my neighborhood. Some things are just obvious.

Calendar	Release	Covering	Week of February 22, 2016
Consumer Confidence	Tuesday	February	The consensus forecast expects a drop from 98.1 to 97.2, even with the stock market volatility
Exisiting Home Sales	Tuesday	January	A drop from 5.46 million to 5.32 million is expected, with both low inventory and weather causing a softening
New Home Sales	Wednesday	January	Monthly data is highly volatile and is expected to drop from 544K to 520K in the seasonally slow time
Durable Goods Orders	Thursday	January	Renewed strength in manufacturing, led by autos, is expected to result in a +2.0% gain after the 5.1% decline in December
Real GDP-1st Revision	Friday	4th Quarter	A downward revision from 0.7% to 0.4% is expected on less inventory build and less capital spending than first estimated
Personal Income	Friday	January	Income growth has improved with +0.5% expected, well above the 0.3% average of the last four months
Personal Spending	Friday	January	Consumer final demand has improved from the fourth quarter with +0.3% forecast, up from no change in December
PCE Core Price Index	Friday	January	An increase of 0.2% for the month is forecast, which would keep the YOY increase at 1.4%

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Commentary

If **the Fed** needs stability in financial markets to continue it's efforts to **normalize monetary policy**, they got it last week. Stock prices moved higher, recovering some of the losses experienced in the first six weeks of the year. This rally may only be a bear market rally, but at least it reflected some relationship between economic fundamentals and pricing for financial assets.

The economic data did not reflect the risk of recession in the U.S. The weaker **housing data** was affected by harsh weather in the northeast. For example, housing starts declined in January while building permits rose. This indicates housing starts will rebound in the coming months. **Inflation** data is beginning to move higher. The headline data was not alarming, but the core rates for both the **PPI** and **CPI** were elevated from prior months' data. The low total inflation is kept down by low commodity prices, including oil. Oil prices stabilized as **OPEC** began discussing production limits. Currently those limits are at high levels relative to demand and therefore, oil prices are not expected to rebound over the next three months. Production must be cut in order to drive oil prices higher. Excluding this transitory factor, prices are rising as higher labor costs in a tight **labor market** are beginning to drive core inflation up. This is the condition the Fed is trying to get in front of by raising managed rates.

This week is going produce a wealth of data to either confirm or reject this outlook. The core **PCE index** is expected to be reported as having increased by 0.2% for the month. This is the index used by the Fed to gauge inflation. An increase of 0.2% would produce a 1.4% increase on a year-over-year basis. This is below the Fed's target of 2.0%, but it is up from the increase experienced during 2015. The downward revision expected for the fourth quarter of 2015 is a function of inventory declines and rising **trade deficits**. The key data will be personal consumption expenditures for the quarter. It was reported as having increased by 2.2% in the advance report. Any change to this estimate will provide a clear picture of **consumer final demand**. The **consumer confidence** data due on Tuesday should provide the first indication of the impact of the equity market declines on consumer final demand. Other indices of consumer sentiment have reflected only a modest impact as of yet. The **durable goods orders** are expected to go higher, reversing the trend of the last three months. The **industrial production** data from last week reflected a rebound in manufacturing activity in January, which would lead to higher business fixed investment in the first quarter.

Investors do not expect the Fed to change managed rates at the next **FOMC** meeting in March. The Fed needs more time to insure the kind of data released last week and expected this week will continue. Stable oil prices and higher equity prices will remove the fears of deflation and recession. We do expect the Fed to take the next step in normalizing monetary policy by June. Rising short-term rates will follow; intermediate and long-term rates will rise when investors begin to price higher inflation expectations in the second half of the year.

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