THE AUSTIN ADVISOR

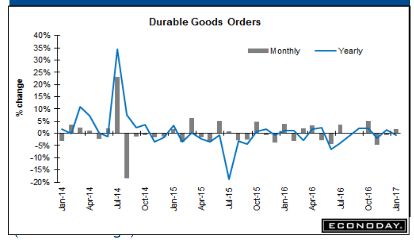
March 20, 2017

Markets	13-Mar	14-Mar	15-Mar	16-Mar	17-Mar	YTD%	30-Dec-16
DJIA	20,881.48	20,837.37	20,950.10	20,934.55	20,914.62	5.83%	19,762.60
S&P 500	2,373.47	2,365.45	2,385.26	2,381.38	2,378.25	6.23%	2,238.83
NASDAQ	5,875.78	5,856.82	5,900.05	5,900.76	5,901.00	9.62%	5,383.12
SNL Bank Index	560.48	560.24	558.07	560.95	555.86	4.36%	532.65
Fed Funds Rate	0.66%	0.66%	0.66%	0.91%	0.91%		0.55%
1 Month LIBOR	0.91%	0.93%	0.94%	0.98%	0.98%		0.77%
3 Month LIBOR	1.13%	1.14%	1.15%	1.15%	1.15%		1.00%
3 Month T-Bill	0.79%	0.78%	0.73%	0.73%	0.73%		0.51%
1 Year Treasury	1.06%	1.06%	1.02%	1.01%	1.00%		0.85%
2 Year Treasury	1.40%	1.40%	1.33%	1.35%	1.33%		1.20%
3 Year Treasury	1.69%	1.68%	1.59%	1.63%	1.60%		1.47%
5 Year Treasury	2.14%	2.13%	2.02%	2.05%	2.03%		1.93%
10 Year Treasury	2.62%	2.60%	2.51%	2.53%	2.50%		2.45%
30 Year Treasury	3.20%	3.17%	3.11%	3.14%	3.11%		3.06%

WEEKLY HIGHLIGHT

As expected, the Fed moved managed rates up last week but did not change its guidence going forward

DURABLE GOODS ORDERS



Economy	Week of March 13, 2017	
Producer Price Index	0.3%	The higher than expected monthly data has now driven the year-over-year increase to 2.2% and the core rate up to 1.5%
Consumer Price Index	0.1%	This small monthly increase follows the huge 0.6% rise in January and leaves the core rate YOY increase at 2.2%
Retail Sales	0.1%	A smaller number than expected, with January revised upward to 0.6% with auto sales declining
FOMC Announcement		As widely expected, the Fed did raise the target Funds rate by 25 basis points
Housing Starts	1.288 Million	The warm weather in February contributed to a stronger housing sector than expected, led by single family homes up 3.1%
JOLTS	5.626 Million	Up from 5.539M at year-end and at the average of the last year with no indication the labor market is slowing
Industrial Production	Unchanged	No growth in output is an effect of a warm month, with utility output restrained while manufacturing was up 0.5%
Capacity Utilization	75.4%	The operating rate remains stuck as companies are not increasing production, even as final demand continues to grow
Leading Indicatiors	0.6%	Third consecutive month of strong growth signals acceleration in the overall economy over the next six months

Calendar	Release	Covering	Week of March 20, 2017
Existing Home Sales	Wednesday	February	Sales were soft for 2016, increasing just 3.8%, but started 2017 with a strong gain to 5.690M in January, expect 5.555M
New Home Sales	Thursday	February	A rebound to 565,000 is expected after the soft January data as weather allowed better activity than normal
Durable Goods Orders	Friday	February	The strong manufacturing activity reports last week are expected to be confirmed, with a solid 1.5% rise in durable goods

MONDAY MUSING

Some of you may remember I had a friend named Ralph. He got pulled over for going 65 in a 45 mph zone a few years ago. The cop asked for his license and Ralph said he did not have one since it was revoked for drunk driving. The cop asked for the registration and Ralph said he did not have it since he had stole the car and the owner was dead in the trunk. The cop stepped back and called for back up. Within two minutes the car was surrounded by five police cars including the Chief of police. The Chief approached the car and Ralph handed him his valid license and registration for the car. The Chief asked him to open the trunk and of course, it was empty. Ralph then said to the Chief, "I bet the cop also told you I was speeding." Ralph was still on probation when he died.

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Commentary

The **Federal Reserve** did not disappoint investors last week. They did raise the target for **Fed Funds** by 25 basis points, taking the rate up to the 75-100 bp range. They did disappoint with the language used making the announcement, the tone used in the press conference and the revised economic and **monetary policy** forecasts they issue quarterly. Investors were looking for specific guidence for future actions, but did not get any. Clearly, the Fed is going to raise rates again this year, but did not change their previous view of three increases in 2017. The market was looking for more hawkish language from the Fed than was provided.

This week may provide more clarity with ten Fed governors, including **Chairwomen Yellen**, are scheduled to give speeches to various groups. It was these speaking opportunities that were used to signal the move made last week. The Fed is concerned about **inflation** moving faster than they had been anticipating. The new language included in the statement released last Wednesday was to discuss the goal of a symmetric position. By this they almost eliminated any concern of deflation as a risk. They will be managing monetary policy according to the pricing pressures experienced going forward. The inflation data released last week was higher than expected, and has driven the **PPI** up to just under the Fed's target of 2% and the **CPI** is already running above that level. Should inflation pressures increase from this point, the Fed will move more than two more times this year as they have said.

The manufacturing sector of the economy is beginning to show some strength. The **industrial production** data last week and the expected durable goods data due out this week reflect an increased level of domestic production. This should not be a surprise since **final demand** has been strong for the last year, and companies did not increase output to meet this demand. They reduced inventories to satisfy the demand. That cannot continue to this or they will miss sales opportunities for lack of product. The limiting factor appears to be the inability to find qualified employees to generate higher output. Finally, the **housing data** due out this week is expected to reflect a much better sales environment than has been the case over the last year. Higher mortgage rates have not yet caused sales to decline. The one piece of data of some concern was the **retail sales** levels of February. They came out well below expectations and January's surge. The first quarter of the last three years have been have been weak with some concern about the seasonal adjustment factors used to compute the data. It appears that may be a problem again this year.