THE AUSTIN ADVISOR

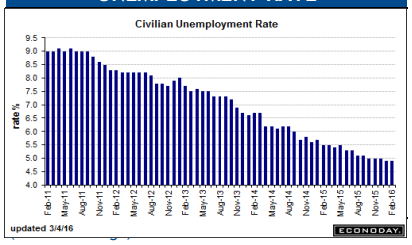
March 29, 2016

Markets	22-Mar	23-Mar	24-Mar	25-Mar	26-Mar	YTD%	31-Dec-15
DJIA	17,623.87	17,582.57	17,502.59	17,515.73	N/A	0.52%	17,425.03
S&P 500	2,051.60	2,049.80	2,036.71	2,035.94	N/A	-0.39%	2,043.94
NASDAQ	4,808.87	4,821.66	4,768.86	4,773.51	N/A	-4.67%	5,007.41
SNL Bank Index	391.93	390.38	386.30	383.50	N/A	-11.12%	431.48
Fed Funds Rate	0.37%	0.37%	0.37%	0.37%	0.37%		0.35%
1 Month LIBOR	0.43%	N/A	0.43%	0.44%	N/A		0.43%
3 Month LIBOR	0.62%	N/A	0.63%	0.63%	N/A		0.61%
3 Month T-Bill	0.31%	0.30%	0.30%	0.30%	0.30%		0.16%
1 Year Treasury	0.63%	0.64%	0.64%	0.63%	0.63%		0.65%
2 Year Treasury	0.87%	0.91%	0.87%	0.89%	0.89%		1.06%
3 Year Treasury	1.05%	1.08%	1.03%	1.05%	1.05%		1.31%
5 Year Treasury	1.38%	1.42%	1.37%	1.39%	1.39%		1.76%
10 Year Treasury	1.92%	1.94%	1.88%	1.91%	1.91%		2.27%
30 Year Treasury	2.72%	2.72%	2.65%	2.67%	2.67%		3.01%

WEEKLY HIGHLIGHT

A wealth of data over a two week period, has not clarified anything but volatility has subsided.

UNEMPLOYMENT RATE



Economy	Week of March 21, 2016	
Existing Home Sales	5.080 Million	Well below expectations, as a low level of inventory affects current sales, with buyers not finding the home they want
New Home Sales	512,000	Above consensus forecasts with strong sales gains in the West, leading continued strength in the housing sector
Durable Goods Orders	-2.8%	While manufacturing is beginning to improve it is not from durable goods, due to a decline following the big 4.2% growth in January
Real GDP - Final 4th Quarter	1.4%	The final number for 4th quarter growth was twice the rate first released, as consumer spending was revised to up 2.4%

MONDAY MUSING

This weeks Advisor is a day late getting to you. I was delayed by a full day getting home from a trip I took over Easter. We had pilot problems with the plane I was on. No, the pilot was not drunk. That was another airline. Our pilot took the plane out to the end of the runway turned around and brought the plane back to the terminal. I asked the flight attendant why it took three hours to find the problem. She told me it did not take that long but it did take a long time to find another pilot. I am glad I did not ask until we had landed.

Calendar	Release	Covering	Week of March 28, 2016
Personal Income	Monday	February	Forecasts of only 0.1% after the strong 0.5%, was less than the 0.2% actually reported for the month
Personal Spending	Monday	February	A small increase of 0.1% was reported, after the 0.5% jump in January that was revised downward to only 0.1%
PCE Core Price Index	Monday	February	The 0.1% increase reported for the month left the year-over-year increase at 1.7%, unchanged from last month
Consumer Confidence	Tuesday	March	A rebound from 92.2 to 94.3 is expected, after dropping from 98.6 in January remaining at solid growth levels
Motor Vehicle Sales	Friday	March	Sales are expected at better than 17.5 million annual rate, which is a reflection of a long-term sales cycle with many months left to go
Unemployment Rate	Friday	March	No change in the 4.9% unemployment rate is expected, but this depends on the size of the workforce
Nonfarm Payrolls	Friday	March	Job growth of 210,000 is the consensus forecast, which would be just under the average of the last six months
Avg. Hourly Earnings	Friday	March	After dropping by 0.1% in February, wages are expected to be up 0.2% for March
ISM Index	Friday	March	This indication of future manufacturing activity is expected to come in above 50, which is above breakeven

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Commentary

This will be a week full of economic data. Since I am writing this on Monday evening we already have the **personal income**, **spending** and **inflation** data from February. This data was less than had been expected, and the strong growth in incomes and spending for January was revised downward by a large amount. Based on this data, the level of **consumer final demand** is not starting the first quarter as strong as we have been forecasting. The inflation data in the form of the **Personal Consumption Expenditure** (PCE) core price index was up only 0.1%, after increasing by 0.3% in January. This index is closely watched by the **Federal Reserve,** as the measure they have targeted to reach is 2% in order to reduce the risk of **deflation** from overseas affects our economy.

The housing data from last week was mixed, with **existing home sales** less than expected and **new home sales** above expectations. Existing home sales are being held down by the lack of inventory of homes on the market in many sections of the country. This condition drives the growth in construction and new homes sold. They came in better than expected for February. The all-important **labor market** data will be released this Friday. The consensus forecast calls for no change in the **unemployment rate,** and 210,000 growth in **nonfarm payrolls**. This would be consistent with the average monthly data of the last six months. The unemployment rate will depend on the growth in the size of the labor force from the household survey. It was reported as having increased by 550,000 in the February report. This is based on the result of household survey when people are asked if they are looking for a job. That same survey also reported those who have a job increased by 530,000 for the month. Both of these numbers are well above the monthly data of the last year. We expect a much lower level of growth in the size of the labor force for March, but an average increase in those reporting they are now working. This condition would result in a decline in the unemployment rate from the 4.9% reported for the prior two months.

The consensus also expected the **ISM index** to rise to above the breakeven level of 50, indicating expansion in manufacturing activity in the next year. This index dropped below 50 four months ago, and has remained there as manufacturing activity slowed from companies working down inventory built in the middle of last year. Clearly the conditions that caused the **FOMC** to change their expectations for future moves to **normalize monetary policy** by only moving managed rates twice through year end, from the four increases they had been forecasting have diminished in the last month. Financial markets have recovered most of the declines experienced in the first six weeks of the year, and have traded with much lower volatility in the past two weeks. The **monetary stimulus** announced in Europe two weeks ago, is hoped to stabilize economic conditions and stem the risk of deflation spreading. Market interest rates have traded in a very narrow range in the last week, as investors wait for more data that could cause the Fed to change guidance again. This environment has kept a lid on deposit pricing moves but also increases the pressure on competitive loan pricing. We need some time to pass before investors and the Fed are convinced higher interest rates will not cause deflation in the U.S.

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