THE AUSTIN ADVISOR

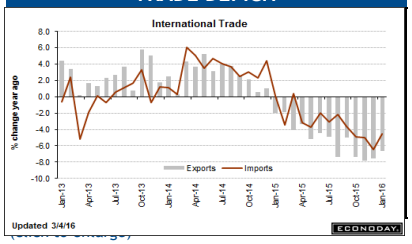
April 4, 2016

Markets	28-Mar	29-Mar	30-Mar	31-Mar	1-Apr	YTD%	31-Dec-15
DJIA	17,535.39	17,633.11	17,716.66	17,685.09	17,792.75	2.11%	17,425.03
S&P 500	2,037.05	2,055.01	2,063.95	2,059.74	2,072.78	1.41%	2,043.94
NASDAQ	4,766.79	4,846.62	4,869.29	4,869.85	4,914.54	-1.85%	5,007.41
SNL Bank Index	382.75	380.33	383.59	381.40	383.78	-11.05%	431.48
Fed Funds Rate	0.37%	0.37%	0.37%	0.25%	0.37%		0.35%
1 Month LIBOR	N/A	0.43%	0.43%	0.44%	0.44%		0.43%
3 Month LIBOR	N/A	0.63%	0.63%	0.63%	0.63%		0.61%
3 Month T-Bill	0.29%	0.23%	0.20%	0.21%	0.23%		0.16%
1 Year Treasury	0.65%	0.63%	0.61%	0.59%	0.62%		0.65%
2 Year Treasury	0.89%	0.78%	0.76%	0.73%	0.76%		1.06%
3 Year Treasury	1.04%	0.94%	0.91%	0.87%	0.90%		1.31%
5 Year Treasury	1.37%	1.29%	1.26%	1.21%	1.24%		1.76%
10 Year Treasury	1.89%	1.81%	1.83%	1.78%	1.79%		2.27%
30 Year Treasury	2.66%	2.60%	2.65%	2.61%	2.62%		3.01%

WEEKLY HIGHLIGHT

The Fed, in an effort to be transparent, allows members of the FOMC to give speeches; a practice they should stop

TRADE DEFICIT



Economy	Week of March 28, 2016	
Personal Income	0.2%	The dollar level of income growth slowed in February from the large increase of 0.5% reported for January
Personal Spending	0.1%	Spending growth on a dollar basis slowed in February, and January's increase was revised downward to +0.1%
PCE Core Price Index	0.1%	The 0.1% increase for February was less than expected, but kept the year-over-year gain at 1.7% or below the Fed's target of 2%
Consumer Confidence	96.2	A surprise on the upside with the jump from 94.0 in February as the outlook for jobs continues to be positive, driving confidence up
Motor Vehicle Sales	16.6 Million	The annual sales rate dropped from 17.6M in February, with one slower month not reversing the strong sales level over the past year
Unemployment	5.0%	The uptick from 4.9% was a function of strong growth in the size of the labor force, as more people began looking for work
Nonfarm Payrolls	215,000	Growth in jobs is consistent, with the monthly average of the last six months and remains strong
Avg. Hourly Earnings	0.3%	Wages increased at a much stronger pace than February, and is the same strong level that was reported for January
ISM Index	51.8	A much better report than expected, with expansion in manufacturing activity indicated for the next six months

MONDAY MUSING

I received what I thought was good news last week. A long-time friend who had never married called to report he was engaged. He had found a woman who had many things in common with him after many years of looking. I asked him where he met this girl and he told me it was on-line through a dating site. It all sounded good until he told me the dating site he used was Ancestry.Com. The first person who came up on the site had a leaf beside her name. He may have to move to another state south of Ohio to be truly happy.

Calendar	Release	Covering	Week of April 4, 2016
Trade Deficit	Tuesday	February	The trade deficit is expected to expand to -$46.2 billion from -$45.7 billion in January, and continues to be a drag on domestic growth
FOMC Minutes	Wednesday	March	The minutes from the March FOMC meeting does move markets as more information about the discussion becomes available

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Commentary

The Fed has taken any steam out of market interest rates in the last two weeks. The **FOMC** meeting held in late March resulted in lowering expectations for economic growth and future increases in managed rates by the Fed this year. **Chairwoman Yellen** gave a speech last week to the Economic Club of New York which was even more dovish than the language in the statement released after the FOMC meeting. In that speech, she indicated she thought the **labor market** data was overstating the strength in the labor market. She cited the large number of people having part-time jobs as an indication considerable slack exists in the labor market, and that employers have a large pool of potential employees from which to chose. In her opinion, this slack will keep wage rates from increasing this year and keep **inflation** pressures low.

We believe she is wrong. Many of our clients report their commercial borrowers are reporting real difficulty in finding qualified employees to fill open positions. Several economic development executives we have talked to have said they can attract companies to their area if they can supply qualified employees. We also believe their has been a change in the culture in this country, with many more people wanting part-time work in order to have more free time to do the things they enjoy. We believe their is a labor shortage, which will only get worse as more baby boomers reach retirement in the next ten years. These factors lead us to believe wage rates will accelerate over the next few years, and push costs up for many companies.

The labor report for March released last Friday was strong. **Nonfarm payrolls** increased by 215,000, which is the monthly average over the last year. There was no indication job growth was slowing. The **unemployment rate** moved up from 4.9% to 5.0%, because the workforce increased by 396,000 while those reporting as having a job increased by 246,000. This is typical in an environment where the economy is expanding at a faster rate. Average hourly earnings grew by 0.3%, after declining by 0.1% in February and growing by 0.3% in January. Wage rates are beginning to grow at a faster pace this year than has been the case in the past three years. The February decline we view as an anomaly and not reflective of the trend in wages. We are expecting further acceleration in wages this year.

Having said this, we believe it will take surprisingly strong data for several months to convince the Fed they were wrong to be concerned about slack in the labor market. We expect the Fed will behind **the curve** in moving monetary policy given their dovish outlook. That means they will need to move in larger amounts and at a faster clip when they do begin to move. This means the curve could steepen as investors recognize higher inflation pressures before the Fed. A steeper curve would be positive for banks since it could lead to higher loan rates before the large increases in funding costs occur.

Trusted Advisor to Financial Institutions
www.austinassociates.com
info@austinassociates.com