

# THE AUSTIN ADVISOR

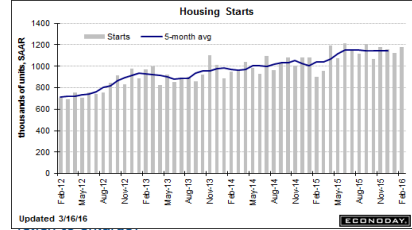
April 18, 2016

Markets	11-Apr	12-Apr	13-Apr	14-Apr	15-Apr	YTD%	31-Dec-15
DJIA	17,556.41	17,721.25	17,908.28	17,926.43	17,897.46	2.71%	17,425.03
S&P 500	2,041.99	2,061.72	2,082.42	2,082.78	2,080.73	1.80%	2,043.94
NASDAQ	4,833.40	4,872.09	4,947.42	4,945.89	4,938.22	-1.38%	5,007.41
SNL Bank Index	372.25	378.74	392.65	395.97	393.35	-8.84%	431.48
Fed Funds Rate	0.37%	0.37%	0.37%	0.37%	0.37%		0.35%
1 Month LIBOR	0.44%	0.44%	0.43%	0.44%	0.44%		0.43%
3 Month LIBOR	0.63%	0.63%	0.63%	0.63%	0.63%		0.61%
3 Month T-Bill	0.23%	0.22%	0.23%	0.22%	0.22%		0.16%
1 Year Treasury	0.53%	0.54%	0.55%	0.55%	0.53%		0.65%
2 Year Treasury	0.70%	0.74%	0.75%	0.77%	0.74%		1.06%
3 Year Treasury	0.85%	0.90%	0.90%	0.92%	0.87%		1.31%
5 Year Treasury	1.16%	1.22%	1.22%	1.26%	1.22%		1.76%
10 Year Treasury	1.73%	1.79%	1.77%	1.80%	1.76%		2.27%
30 Year Treasury	2.56%	2.61%	2.58%	2.61%	2.56%		3.01%

## WEEKLY HIGHLIGHT

The forecast of better than 2% Real GDP growth in the first quarter is not supported by the data being released

## HOUSING STARTS



Economy	Week of April 11, 2016	
Retail Sales	-0.3%	The decline was primarily due to lower auto sales, with sales up 0.1% when excluding auto's
Producer Price Index	-0.1%	The increase in oil prices was not enough to drive total wholesale prices higher in March
Consumer Price Index	0.1%	The rise in gasoline prices has largely been an April event creating no inflation pressures as of yet
Industrial Production	-0.6%	Manufacturing was dragged down by a 1.6% decline in auto production and a 2.9% drop in mining
Capacity Utilization	74.8%	The operating rate dropped from a revised 75.3%, as first quarter weakness was across the board

## MONDAY MUSING

Today is one we all look forward to every year. It is tax day. I think we all should try the approach used by one guy I read about who filed for an extension with the explanation, "It has been a difficult year with my youngest daughter's college costs, my oldest daughter's wedding, our new boat and the two week trip to Europe. I am not able to make my tax payment currently. However, I am planning on making the payment as soon as I receive the settlement from the lawsuit we have won over my wife's tattoo." This guy is not worried about the political discourse in this country.

Calendar	Release	Covering	Week of April 18, 2016
Housing Starts	Tuesday	March	After a strong rebound to 1.178 million, starts are expected to settle at 1.167 million, but permits are expected to rise
Existing Home Sales	Wednesday	March	Sales are being limited by lack of inventory and are forecast to rebound to 5.270 million from 5.080 million in February
Leading Indicators	Thursday	March	A solid 0.5% jump is the consensus forecast and would be much stronger than the prior two months

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## Commentary

The data released last week did not confirm our forecast of improvement in economic conditions and higher **inflation**. Neither the **PPI**, nor the **CPI** reflected any impact from the rise in the price of oil to over \$40 per barrel, or the increase in retail gas prices experienced in late March and early April. The **OPEC** meeting held over the weekend was expected to produce an agreement capping oil production levels, but the meeting fell apart when Iran skipped the meeting and said they were going to increase production. Those Ayatollahs do not play well with others. This failure should lead to a decline in the price of oil and gasoline in the next three months. Another OPEC meeting is scheduled in June, with little expectation of a cut in production and a rise in price until that meeting.

**Industrial production** declined again, with all three components (manufacturing, mining and utility) down in March. This is not the kind of data needed to get **Real GDP** growth for the first quarter up to the level we had been expecting. This week's data will focus on the **housing sector**. This sector is expected to report strong growth for March, with **starts** and **existing home sales** rebounding from the weaker February results. An important number to look for will be the permits data in the starts report. Existing home sales have been held down by a lack of inventory of homes for sale. With more demand, the lack of inventory should lead to better construction activity to meet the sales opportunities. New permits are expected to jump. Strong job growth is expected to drive the Leading Indicators up after two months of weaker reports.

In total, the data of the last three weeks does not support our forecast of better than 2% Real GDP growth in the first quarter. The consensus forecast is for less than 1%, with some forecasts of a negative quarter. This stagnant economic environment is somewhat of a mystery given the strong **consumer confidence** data, strong **job growth** data and the rising levels of **personal income** in the form of higher wage rates. Consumers do not seem willing to increase **spending** and **final demand** from the tepid levels of the last five years.

Perhaps the turmoil in the political process we are experiencing is having a greater impact on **consumer spending** than we had expected. Certainly the nature of political discourse in this election cycle does not generate confidence about the future direction of **fiscal policy**. It is difficult to spend either by consumers or businesses when no one knows what tax rates may do going forward. There is not a clear consensus as to the role of the federal government. Many want the federal government to insure equal opportunity, while others want the government to insure equal outcome. Until voters make a clear decision as to what role the government should play, it is difficult to reach a consensus and move forward. The weather may have turned to spring but the U.S. economy remains mired in winter.

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