THE AUSTIN ADVISOR

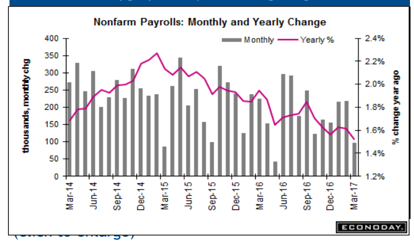
May 1, 2017

Markets	24-Apr	25-Apr	26-Apr	27-Apr	28-Apr	YTD%	30-Dec-16
DJIA	20,763.89	20,996.12	20,975.09	20,981.33	20,940.51	6.17%	19,762.60
S&P 500	2,374.15	2,388.61	2,387.45	2,388.77	2,384.20	6.70%	2,238.83
NASDAQ	5,983.82	6,025.49	6,025.23	6,048.94	6,047.61	12.37%	5,383.12
SNL Bank Index	533.69	538.65	540.22	535.80	529.69	0.59%	532.65
Fed Funds Rate	0.91%	0.91%	0.91%	0.91%	0.83%		0.55%
1 Month LIBOR	0.99%	0.99%	0.99%	1.00%	1.00%		0.77%
3 Month LIBOR	1.17%	1.17%	1.17%	1.17%	1.17%		1.00%
3 Month T-Bill	0.81%	0.82%	0.83%	0.81%	0.80%		0.51%
1 Year Treasury	1.03%	1.09%	1.07%	1.06%	1.07%		0.85%
2 Year Treasury	1.25%	1.29%	1.28%	1.25%	1.28%		1.20%
3 Year Treasury	1.44%	1.49%	1.46%	1.44%	1.45%		1.47%
5 Year Treasury	1.81%	1.87%	1.84%	1.81%	1.81%		1.93%
10 Year Treasury	2.28%	2.35%	2.32%	2.30%	2.29%		2.45%
30 Year Treasury	2.93%	2.99%	2.97%	2.96%	2.96%		3.06%

WEEKLY HIGHLIGHT

The weak first quarter Real GDP data was ignored by investors

NONFARM PAYROLLS



Economy	Week of April 24, 2017	
New Home Sales	621,000	Sales were well above expectations and the second best in the expansion phase of the business cycle
Consumer Confidence	120.3	The index dropped from a revised 124.9, but these two months are still the best in the last 10 years
Durable Goods Orders	0.7%	The increase was all due to aircraft orders, with a -0.2% result excluding transportation, as capital expenditures remain weak
Real GDP-Advance	0.7%	The weaker than expected number was a function of slow consumer spending growth estimated at only 0.3%

Calendar	Release	Covering	Week of May 1, 2017
Personal Income	Monday	March	Income growth was disappointing at only 0.2%, well below the average of the last six months
Personal Spending	Monday	March	No growth in personal spending for March is consistent with the slow growth reported for Real GDP
PCE Core Price Index	Monday	March	Given the data already released for the end of the quarter, we expect no change in prices for the core rate
ISM Index	Monday	April	After seven months of stronger than expected results, the consensus is expecting a drop to 56 from 57.2
Motor Vehicle Sales	Tuesday	April	A rebound from the weak March results is expected at 17.4 million, up from the 16.6 million sales level in the prior month
Trade Deficit	Thursday	March	A small widening in the deficit to -$44.5 from -$43.6 billion in February is expected
Unemployment Rate	Friday	April	The rate dropped from 4.7% in February to 4.5% in March, with a pull-back to 4.6% expected for April
Nonfarm Payrolls	Friday	April	Job growth was reported at only 98,000 in March and expectations call for a more average month at 185,000 for April
Avg. Hourly Earnings	Friday	April	An increase of 0.3% is expected as wage rates have only increased by 2.7% YOY, which is below our forecasts
Consumer Credit	Friday	March	A normal month of $15.5 billion is expected, reflecting the weakness of the first quarter

MONDAY MUSING

The worst part about getting my tax return done is the time I have to spend with an accountant. I have never seen someone who spends as much time solving a tax problem I did not know I had with an explanation I do not understand. My accountant is one of those people who does not know GAP is also a clothing store. I mean this guy watched the movie Indecent Proposal and immediately did a NPV calculation. I tried to lighten up the meeting by telling him his idea of birth control was his personality. He told me economists were created so accountants would have something to laugh at. I hate April.

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Commentary

The Advance report for first quarter **Real GDP** was even weaker than expected. The 0.7% growth was well below expectations of 1.1% and even further below our forecast. The most surprising component was **personal consumption expenditure** growth of only 0.3%. **Consumer final demand** has been leading the expansion over the last three years. This low growth in spending was not consistent with prior quarters or data from other sectors of the economy. We have long known the seasonal adjustment factors used by the **BEA** to calculate the **GDP** data is flawed. It has not been updated to reflect the changes in the way consumption occurs. Internet buying is not being fully captured in the data. The BEA is making changes, but they have not occurred as quickly as are needed. That being said, the first quarter was much slower than needed to generate 3% growth for the full year. Current consensus forecasts call for better than 3% real growth in the second quarter. Investors did not react to the weaker than expected report and are looking for a large rebound in the second quarter.

The first of the second quarter data will be released this week with the employment data on Friday. **Job growth** is expected to be at the monthly average of the past two years, with 185,000 for April. An important component will be any revisions to the March data when only 98,000 **nonfarm payroll** growth was reported. The **housing sector** is growing at a rapid rate. Demand is exceeding the supply of homes on the market for sale. This is driving prices up. The rising market value of homes will bring more buyers into the market even if mortgage rates rise. **Consumer confidence** is still high, even if there was a small decline from the record level reported for March. Job growth and a tight labor market will drive wage rates higher in the coming months. This should lead to better growth in consumer final demand. As the economies in our foreign trading partners continue to improve, the **trade deficit** should decline. A weaker dollar will also help keep the trade deficit lower. We do not believe the first quarter weakness will be repeated in the last three quarters of the year. We do expect the Advance report will be revised higher in subsequent reports. Better growth and a continued strong labor market are the keys to **the Fed** raising managed rates at their June **FOMC** meeting.

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