THE AUSTIN ADVISOR

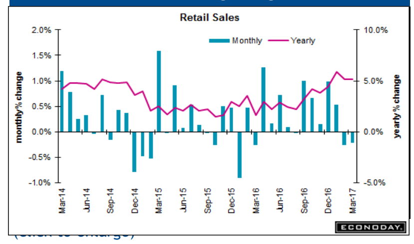
May 8, 2017

Markets	1-May	2-May	3-May	4-May	5-May	YTD%	30-Dec-16
DJIA	20,913.46	20,949.89	20,957.90	20,951.47	21,006.94	6.02%	19,762.60
S&P 500	2,388.33	2,391.17	2,388.13	2,389.52	2,399.29	6.73%	2,238.83
NASDAQ	6,091.60	6,095.37	6,072.55	6,075.34	6,100.76	12.86%	5,383.12
SNL Bank Index	534.17	532.28	536.65	538.21	536.81	1.04%	532.65
Fed Funds Rate	0.91%	0.91%	0.91%	0.91%	0.91%		0.55%
1 Month LIBOR	N/A	0.99%	0.99%	0.99%	0.99%		0.77%
3 Month LIBOR	N/A	1.17%	1.17%	1.18%	1.18%		1.00%
3 Month T-Bill	0.83%	0.82%	0.85%	0.86%	0.90%		0.51%
1 Year Treasury	1.09%	1.08%	1.10%	1.11%	1.10%		0.85%
2 Year Treasury	1.28%	1.27%	1.30%	1.32%	1.32%		1.20%
3 Year Treasury	1.48%	1.45%	1.50%	1.51%	1.52%		1.47%
5 Year Treasury	1.84%	1.81%	1.86%	1.88%	1.89%		1.93%
10 Year Treasury	2.33%	2.29%	2.33%	2.36%	2.36%		2.45%
30 Year Treasury	3.00%	2.97%	2.97%	3.00%	2.99%		3.06%

WEEKLY HIGHLIGHT

The first of the second quarter is expected to reverse the weak data from the first quarter

RETAIL SALES



Economy		Week of May 1, 2017
Personal Income	0.2%	The last of the weak first quarter data reflected the slowdown in consumer demand and limited growth in incomes
Personal Spending	0.0	The no growth data from March means little upward revision to first quarter Real GDP from the consumption side
PCE Core Price Index	-0.1%	With limited growth in incomes and demand, inflation data was muted for March but has been rising YOY at 1.6%
ISM Index	54.8	Down from 57.2, but still well above the expansion level of 50, with seven consecutive months of beating expectations
Motor Vehicle Sales	16.9 Million	Up slightly from the 16.6M reported for March, but sales have slowed from the 17.5M monthly average in the past year
Trade Deficit	-$43.7Billion	The trade deficit narrowed slightly in March, which should add to first quarter Real GDP growth
Unemployment Rate	4.4%	Down from 4.5% and the U6 number dropped to 8.2%, with a drop in those unemployed of 146,000
Nonfarm Payrolls	211,000	Well above expectations, now making three of the first four months of the year above 200k
Avg. Hourly Earnings	0.3%	While the labor market tightens, wage growth has not accelerated as expected with YOY increase at 2.5%
Consumer Credit	$16.4 Billion	Growth held steady in total, but credit card debt only increased by $2B, reflecting continuing weakness in consumer spending

MONDAY MUSING

It was time for my annual physical last week and I had a problem. After several years of looking, I had finally found a doctor who was overweight and smoked. He died so I had to find a new one. I tried his partner but I think I made a mistake. When the new doctor came into the room he reached into his pocket to get his pen to begin writing, he pulled out a rectal thermometer and said, "now where did I leave my pen?" I may need to find a younger doctor who does not use a pen.

Calendar	Release	Covering	Week of May 8, 2017
JOLTS	Tuesday	March	The Job Openings and Labor Transfer Survey lags a month and provides further insight into the tight labor market condition
Producer Price Index	Thursday	April	After dropping by 0.1% in March, wholesale prices are expected to increase by a small 0.2% for April reflecting low inflation
Consumer Price Index	Friday	April	A small increase of 0.2% is expected following the -0.3% reported for March, again reflecting little inflation pressure
Retail Sales	Friday	April	Consumer spending was down in March, with retail sales reported at -0.2%, but April is expected to be up a strong 0.6%

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Commentary

The first of the second quarter economic data is starting to be released. Most forecasts, including **the Fed's**, expect a huge rebound in growth after the very weak first quarter reports. The **labor market** continues to tighten, with **nonfarm payrolls** increasing by 211,000 following the revised 79,000 for March. Job growth was above 200,000 per month in three of the first four months of the year. It averaged 189,000 over the first four months, even with the very low number for March. The view that the March data was flawed by adjustment factors and a weather problem during the week of the survey was strengthened by the strong rebound reported for April. **Unemployment** dropped to 4.4%, with a decline in those unemployed and little growth in the size of the labor force. The strength in the report and the drop in those working part-time who want full-time employment has been a central part of our forecast for the past year. What has not happened is a rise in wages and incomes. We have been expecting an acceleration in wage rates as companies find it much more difficult to find qualified employees to fill their needs. The data does not reflect this happening yet. Rising incomes and continued strong job growth are central to our forecast of a strong consumer spending environment in 2017. That was not the case in the first quarter, with **PCE growth** of only 0.3% for the first quarter. The first indication of whether the second quarter will be much stronger will be released this Friday, with the April **retail sales** data. After declining in March, sales are expected to be reported as having increased by a strong 0.6% in April. Should this be the case, the concern the adjustment factors used to compile data in the first quarter are flawed will again be raised.

The Fed met last week and said they believe the weak first quarter data was "transitory", with much better growth in the final three quarters of the year expected. They will need stronger data if they are to raise managed rates again at their June **FOMC meeting** as we are forecasting. In this environment, **inflation** has remained unchanged. Using all the measures of inflation including the **PPI**, **CPI** and core PCE indices, inflation is running at just below the 2% level the Fed has said is their target. Inflation will not go above this level unless labor costs rise and final demand accelerates. The Fed is going to need to see the basis for this developing in the next six months if they are to continue their program of normalizing monetary policy. The results of the French elections should calm concerns of geopolitical risks and allow the dollar to decline. The **trade deficit** will narrow if the dollar declines. In short, the risks continue to be high that the perfect conditions of faster economic growth, low inflation, fiscal stimulus including a tax cut and recovery in foreign economies will not unfold as expected.