

THE AUSTIN ADVISOR

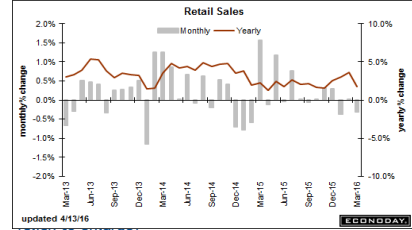
May 10, 2016

Markets	2-May	3-May	4-May	5-May	6-May	YTD%	31-Dec-15
DJIA	17,891.16	17,750.91	17,651.26	17,660.71	17,740.63	1.81%	17,425.03
S&P 500	2,081.43	2,063.37	2,051.12	2,050.63	2,057.14	0.65%	2,043.94
NASDAQ	4,817.59	4,763.22	4,725.64	4,717.09	4,736.16	-5.42%	5,007.41
SNL Bank Index	410.27	402.31	395.13	393.57	394.93	-8.47%	431.48
Fed Funds Rate	0.37%	0.37%	0.37%	0.37%	0.37%		0.35%
1 Month LIBOR	N/A	0.44%	0.44%	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	0.22%	0.21%	0.19%	0.20%	0.19%		0.16%
1 Year Treasury	0.55%	0.53%	0.52%	0.51%	0.51%		0.65%
2 Year Treasury	0.80%	0.75%	0.75%	0.72%	0.74%		1.06%
3 Year Treasury	0.96%	0.92%	0.89%	0.87%	0.90%		1.31%
5 Year Treasury	1.32%	1.25%	1.23%	1.20%	1.23%		1.76%
10 Year Treasury	1.88%	1.81%	1.79%	1.76%	1.79%		2.27%
30 Year Treasury	2.71%	2.66%	2.64%	2.60%	2.62%		3.01%

WEEKLY HIGHLIGHT

The labor market reported a lower rate of job growth than any month this year

RETAIL SALES



Economy Week of May 2, 2016

ISM Index	50.8	The index declined, but remained above breakeven of 50, indicating modest growth in manufacturing this year
Motor Vehicle Sales	17.4 Million	Auto sales remain strong, even as production levels have dropped
Trade Deficit	-\$40.4 Billion	Smallest monthly deficit this year, with imports dropping more than exports
Unemployment Rate	5.0%	No change in the rate, but a huge drop in the size of the workforce matched by a drop in those employed
Nonfarm Payrolls	160,000	Smallest gain for any month this year, but additional monthly data is required to conclude a slowdown is occurring
Avg. Hourly Earnings	0.3%	Another gain of 0.3% confirms wage rates are rising at a faster pace, generating better income growth this year
Consumer Credit	\$29.7 Billion	After several months of tepid results, the huge jump for March was led by a large \$11.1 B rise in credit card debt

MONDAY MUSING

One of the things that drives me crazy is pulling away from the drive-thru window at McDonald's, only to find they put the wrong sandwich in the bag. It seems to happen more often recently, but I think it is not always their fault. I was watching a ball game over the weekend with a friend, and he decided to order a pizza. When it was delivered, he opened the box and yelled they did not put any toppings on it. It was just the crust. I looked at it and told him he had opened the box upside down.

Calendar Week of May 9, 2016

Calendar	Release	Covering	Week of May 9, 2016
JOLTS Index	Tuesday	March	This job openings number should provide some indication if job growth is slowing or will rebound in coming months
Retail Sales	Friday	April	After dropping in March, the consensus expects a sharp rebound with 1% growth for the month
Producer Price Index	Friday	April	Rising commodity prices, including oil in April, should produce the first of what we expect will be many months of higher data

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Commentary

The **labor market report** for April did nothing to cause the Fed to move sooner in their effort to **normalize monetary policy**. **Nonfarm payroll** growth of 160,000 for the month was the lowest growth this year and well below the average of the last 18 months. This led some to believe the labor market was running out of steam. Lower job growth would undermine **consumer confidence** and keep **final demand** growth low. The **unemployment rate** remained at 5.0%, with large declines in both the size of the workforce and those employed. However, **average hourly earnings** rose 0.3% for the month and has increased by 2.7% over the last twelve months. The tight labor market is beginning to cause better income growth. The **JOLTS index** due this week should give some indication as to job growth going forward. If the data remains above 5.3 million, job growth should rebound above 200,000 per month for the rest of the year.

We believe the April increase, while respectable, is not reflective of the strength in the labor market. We do not believe there has been a drop in the sustainable job growth we have experienced over the past two years. The **trade deficit** was much lower than has been experienced over the past year. We expect the trade deficit to continue to decline, as the dollar weakness of the past month improves export opportunities and imports drop. This will reduce the drag to overall economic growth from the huge trade deficit experienced in the last year.

The **retail sales** data due out this week is expected to report a solid rebound in sales after the decline reported for March. This expectation was confirmed with the large increase in consumer debt reported for March, including the very large increase of \$11.1 billion in revolving debt. Consumers were willing to borrow to increase consumption. The **Producer Price Index** is expected to much higher in April, as this is the first month rising commodity prices, including oil, will drive overall prices higher.

Even with the mixed data released in the last two months we are maintaining our forecast of better than 3% **Real GDP** in the second half of the year. We continue to forecast an increase in inflation to above the Fed's of 2%. The data to be released later this month and into June should begin to provide evidence that a slowing pace of growth in the first four months of the year will rebound led by consumer final demand. This should provide the room for the Fed to continue to raise short-term rates this year.

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