

THE AUSTIN ADVISOR

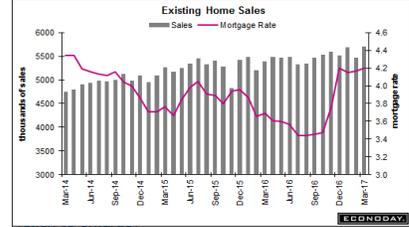
May 22, 2017

| Markets | 15-May | 16-May | 17-May | 18-May | 19-May | YTD% | 30-Dec-16 |
|------------------|-----------|-----------|-----------|-----------|-----------|--------|-----------|
| DJIA | 20,981.94 | 20,979.75 | 20,606.93 | 20,663.02 | 20,804.84 | 5.27% | 19,762.60 |
| S&P 500 | 2,402.32 | 2,400.67 | 2,357.03 | 2,365.72 | 2,381.73 | 6.38% | 2,238.83 |
| NASDAQ | 6,149.67 | 6,169.87 | 6,011.24 | 6,055.13 | 6,083.70 | 13.01% | 5,383.12 |
| SNL Bank Index | 533.73 | 535.48 | 514.63 | 516.46 | 520.99 | -2.19% | 532.65 |
| Fed Funds Rate | 0.91% | 0.91% | 0.91% | 0.91% | 0.91% | | 0.55% |
| 1 Month LIBOR | 1.00% | 1.00% | 1.00% | 1.01% | 1.02% | | 0.77% |
| 3 Month LIBOR | 1.18% | 1.18% | 1.18% | 1.17% | 1.19% | | 1.00% |
| 3 Month T-Bill | 0.90% | 0.90% | 0.90% | 0.93% | 0.92% | | 0.51% |
| 1 Year Treasury | 1.11% | 1.11% | 1.08% | 1.09% | 1.10% | | 0.85% |
| 2 Year Treasury | 1.31% | 1.29% | 1.26% | 1.27% | 1.28% | | 1.20% |
| 3 Year Treasury | 1.49% | 1.48% | 1.42% | 1.44% | 1.45% | | 1.47% |
| 5 Year Treasury | 1.86% | 1.86% | 1.76% | 1.78% | 1.79% | | 1.93% |
| 10 Year Treasury | 2.34% | 2.33% | 2.22% | 2.23% | 2.23% | | 2.45% |
| 30 Year Treasury | 3.00% | 2.99% | 2.91% | 2.90% | 2.90% | | 3.06% |

WEEKLY HIGHLIGHT

Better data last week puts a Fed increase in June back in play

EXISTING HOME SALES



Economy Week of May 15, 2017

| | | |
|-----------------------|---------------|---|
| Housing Starts | 1.172 Million | In spite of strong builder confidence survey's starts were down 2.6%, well below expectations |
| Industrial Production | 1.0% | This well above expectation result was driven by a surge in manufacturing, which was also up 1.0% |
| Capacity Utilization | 76.7% | Confirming a strong start to the second quarter was the jump in the operating rate, which had been holding in the 75% range |
| Leading Indicators | 0.3% | This index has been consistent with solid results in the last year and the April data was no exception |

MONDAY MUSING

I was playing catch with my grandson last week when he asked me, "Why are we here?" Well this was a great opportunity to impart wisdom and the experience that only comes with age. We stopped throwing the ball while I explained the meaning of life to him. After listening to me for almost 45 minutes he finally said, "Weren't we supposed to pick grandma up at the store today?" Needless to say, grandma was not happy when we finally picked her up.

Calendar Week of May 22, 2017

| Calendar | Release | Covering | Week of May 22, 2017 |
|---------------------------|-----------|----------|--|
| New Home Sales | Tuesday | April | This has been a source of strength this year, with solid growth and expectations of another good month at 604,000 |
| Existing Home Sales | Wednesday | April | Sales reached a ten year high rate in March and the \$5.65M expected, while down from \$5.71M, is still a strong month |
| Durable Goods Orders | Friday | April | Aircraft orders were the reason for the big jump in March; ex-transportation at a -0.2% and -0.4% expected for April |
| Real GDP - Final Revision | Friday | 1st Qtr | The consensus only expects an increase from 0.7% to 0.8%, with only a modest 0.1% upward revision to consumer spending |

THE AUSTIN ADVISOR

Commentary

The economic data released last week does reflect a strong start to second quarter **Real GDP** growth. **Industrial production** was up a strong 1% for the month and the manufacturing component was also up a full 1%. The operating rate jumped to 76.7% from 76.1% in March, which is well above the 75.4% average for all of 2016. The **housing starts** data was down from the post recession high reached in March, but this data will get stronger given builder confidence and the lack of inventory of existing homes for sale. Market prices of housing are rising and that will drive even more demand going forward. The **existing home sales** data is depressed due to the lack of inventory on the market, with only a 3.4 month supply at even depressed sales levels.

The important question is whether this kind of data will allow **the Fed** to continue the process of **normalizing monetary policy** in light of the political turmoil unfolding in Washington. This process appears to be one that will last through most of this summer. Congress will be hard pressed to accomplish anything during the investigations. Any movement on tax reform or infrastructure spending will not be enacted in time to have an impact on economic growth in 2017. The data due out this week will not have an impact on the risks investors are focused upon. The market moves will come from events and news on the political front. Equity prices have recovered from the sell off in the middle of last week. Intermediate and long-term market interest rates have not. The short end of **the curve** did not move on the equity market sell off. Investors are still expecting another increase in managed rates by the Fed at the **FOMC** meeting the third week of June.

We believe the Fed will need another strong labor market report, better retail sales for May and an increase in the **inflation** data in order to raise rates in June. We are forecasting strong data for all of these sectors and the Fed to move rates up in June. We continue to believe **consumer final demand** will drive total economic growth above 3% for the last three quarters of the year and inflation will be higher. This should drive market rates up faster than the Fed moves. We expect the **yield curve** will steepen with intermediate and long-term rates moving up more and faster than short-term rates for the remainder of the year. It is encouraging to have clients report that loan rates have risen and little change has occurred for deposit rates. Net interest income growth was stronger in the first four months of the year than most budgets included. This trend should continue and revenues should grow at above average rates this year.

Trusted Advisor to Financial Institutions

www.austinassociates.com

www.probank.com