

THE AUSTIN ADVISOR

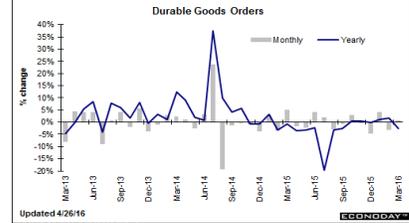
May 23, 2016

Markets	16-May	17-May	18-May	19-May	20-May	YTD%	31-Dec-15
DJIA	17,710.71	17,529.98	17,526.62	17,435.40	17,500.94	0.44%	17,425.03
S&P 500	2,066.66	2,047.21	2,047.63	2,040.04	2,052.32	0.41%	2,043.94
NASDAQ	4,775.46	4,715.73	4,739.12	4,712.53	4,769.56	-4.75%	5,007.41
SNL Bank Index	392.43	390.66	404.84	401.12	403.11	-6.57%	431.48
Fed Funds Rate	0.37%	0.37%	0.37%	0.37%	0.37%		0.35%
1 Month LIBOR	0.44%	0.44%	0.44%	0.44%	0.44%		0.43%
3 Month LIBOR	0.63%	0.63%	0.64%	0.65%	0.66%		0.61%
3 Month T-Bill	0.28%	0.28%	0.30%	0.31%	0.33%		0.16%
1 Year Treasury	0.57%	0.58%	0.63%	0.64%	0.67%		0.65%
2 Year Treasury	0.79%	0.82%	0.90%	0.89%	0.89%		1.06%
3 Year Treasury	0.94%	0.97%	1.08%	1.06%	1.05%		1.31%
5 Year Treasury	1.26%	1.29%	1.41%	1.38%	1.38%		1.76%
10 Year Treasury	1.75%	1.76%	1.87%	1.85%	1.85%		2.27%
30 Year Treasury	2.59%	2.59%	2.67%	2.64%	2.63%		3.01%

WEEKLY HIGHLIGHT

The minutes from the April FOMC meeting were a surprise to financial markets

DURABLE GOODS ORDERS



Economy	Week of May 16, 2016	
Consumer Price Index	0.4%	A 10% jump in gasoline prices caused the big increase, with the core rate up 0.2% for the month
Housing Starts	1.172 Million	Better than expected up 6.6%, but YOY is a negative 1.7%, reflecting the weak first three months of this year
Industrial Production	0.7%	Even better than the rebound expected, with manufacturing up 0.3% while mining was down 2.3%
Capacity Utilization	74.9%	Almost no change from the 74.8% in March, which keeps inflation pressure modest
Leading Indicators	0.6%	Another better piece of data coming in better than expected, indicating better economic growth going forward
Existing Home Sales	5.450 Million	Sales were up 1.7% for the month, driving YOY growth up to 6%, with low inventories keeping sales growth limited

MONDAY MUSING

I don't hold out much hope for this year's election. I keep being reminded of how stupid some people are and they get to vote. Last week I took a call for one of the people in the office that was out to lunch. I told the person calling that my partner would be back in twenty minutes. They asked me if that was eastern or central time. What? Then when I went to lunch, the person in the booth next to me yelled at the waitress because the sandwich they ordered had bacon on it. The waitress said the person had ordered a BLT. The customer said they thought the B was for the bread. Do you think either of these people understand the differences in economic policy between each candidate?

Calendar	Release	Covering	Week of May 23, 2016
New Home Sales	Tuesday	April	Sales have been running about 515,000 on average per month for the past 18 months, with 525,000 expected for April
Durable Goods Orders	Thursday	April	After no growth over the past 18 months, orders are expected to be up 0.3% following the 0.8% jump in March
Real GDP-Revised	Friday	1st qtr	An upward revision from the 0.5% growth already reported to 1% is expected, with housing and personal consumption up

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Commentary

The minutes of the April FOMC meeting were released last week with a strong indication the Fed is ready to raise short-term rates at their June meeting. The members of the committee were portrayed in the minutes as having a strong bias toward raising rates in June, assuming economic data improved from the weak first quarter results. The overall impression from these minutes reflect the belief the weak first quarter was temporary.

The data released since the April meeting has been better than the first quarter. **Retail sales** were up 1.3% in April, after an uptick in March. **Housing data** released last week was stronger for April than the first quarter. **Consumer credit** was up a huge \$29.9 billion in March, with credit card balances increasing by \$11.1 billion. **Auto sales** continue to run above 17 million on an annual basis. **Job growth** continues to increase, even with the smaller than average gain reported for April. **Wage rates** began to expand at a faster rate in March and continued in April. The **inflation** data has increased as oil prices have rebounded from below \$30 barrel in February to over \$47 per barrel, and the dollar has declined against the Euro. Both of these changes should reduce the **trade deficit**, creating less of a drag on domestic growth. In short, the data is much better in the second quarter than the first quarter, which is what the Fed expected according to the minutes of the last two FOMC meetings.

If we take the Fed at its word, they will move short rates up 25 basis points in June. However, the bond market is not pricing this move. The yield on the two year has moved up 11 bp in the last three days, but at 88 bp it is still below the 1% yield as it was just after the first Fed move in December. The ten-year is less than 1.90% and the five year is below 1.40%. These yields are 40 bp below December's level when the market was pricing in further Fed moves. The data due out this week is expected to continue to reflect a stronger economic environment with the first quarter **Real GDP** expected to be revised upward to near 1%, from 0.5%, and a second consecutive solid **durable goods report**. The bond market action in the first three days of this week should provide a good indication as to whether market interest rates are going to move higher quickly in the face of possible Fed action on June 15.

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