

THE AUSTIN ADVISOR

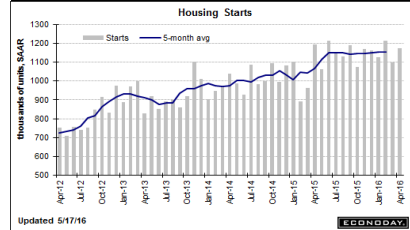
June 13, 2016

Markets	6-Jun	7-Jun	8-Jun	9-Jun	10-Jun	YTD%	31-Dec-15
DJIA	17,920.33	17,938.28	18,005.05	17,985.19	17,865.34	2.53%	17,425.03
S&P 500	2,109.41	2,112.13	2,119.12	2,115.48	2,096.07	2.55%	2,043.94
NASDAQ	4,968.71	4,961.75	4,974.64	4,958.62	4,894.55	-2.25%	5,007.41
SNL Bank Index	413.99	411.44	411.95	406.75	400.36	-7.21%	431.48
Fed Funds Rate	0.37%	0.37%	0.37%	0.37%	0.37%		0.35%
1 Month LIBOR	0.45%	0.45%	0.45%	0.45%	0.45%		0.43%
3 Month LIBOR	0.66%	0.66%	0.66%	0.66%	0.66%		0.61%
3 Month T-Bill	0.28%	0.28%	0.24%	0.26%	0.26%		0.16%
1 Year Treasury	0.60%	0.59%	0.60%	0.59%	0.57%		0.65%
2 Year Treasury	0.80%	0.78%	0.78%	0.77%	0.73%		1.06%
3 Year Treasury	0.94%	0.94%	0.93%	0.91%	0.87%		1.31%
5 Year Treasury	1.25%	1.23%	1.23%	1.22%	1.17%		1.76%
10 Year Treasury	1.73%	1.72%	1.71%	1.68%	1.64%		2.27%
30 Year Treasury	2.55%	2.54%	2.51%	2.48%	2.44%		3.01%

WEEKLY HIGHLIGHT

The FOMC meets this week, with no change in monetary policy expected

HOUSING STARTS



Economy Week of June 6, 2016

Consumer Credit	\$13.4 Billion	A much smaller gain than expected for April, as the surge in spending was from existing liquidity and not debt
JOLTS Index	5.788 Million	Job openings are up at the end of April, but job growth slowed in May

MONDAY MUSING

There is something very wrong with our hiring process. We had a meeting last week at which our new analyst was present. I used the old joke about the thermos bottle being the greatest invention of all time since you could put hot things in it and it would stay hot or cold things in it and they would stay cold. How does it know? (if you hire enough young people, you can tell old jokes). The next day the analyst stopped by my office to show me the new thermos they had just bought. It had lunch in it. I asked what was for lunch and the analyst told me hot chicken soup and an ice cream bar for dessert. (please note: my sensitivity training is working since this story is gender neutral).

Calendar Week of June 13, 2016

Calendar	Release	Covering	Week of June 13, 2016
Retail Sales	Tuesday	May	Following the huge 1.3% growth reported for April, sales are only expected to be up 0.3% for May
Producer Price Index	Wednesday	May	Inflation data continues to be well contained, even with commodity price increases, with expectations at only 0.3%
Industrial Production	Wednesday	May	The utility sector has created volatility on a monthly basis, but with a drop of 0.1% expected manufacturing remains weak
Capacity Utilization	Wednesday	May	The operating rate at 75% creates no inflation pressures
FOMC Meeting	Wednesday		No change in monetary policy is expected from this meeting, but revisions to Fed forecasts will be the most important
Consumer Price Index	Thursday	May	Consensus calls for only 0.3% for headline and a decline of 0.2% excluding food and energy
Housing Starts	Friday	May	On average, starts have been running 1.1 million SAAR each month for the last year, and is expected to remain at that level

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Commentary

Consensus market expectation for a June rate hike by the Fed peaked at 40% prior to the release of the **employment report** for May. The slowdown in **job growth** to only 38,000 eliminated expectations of any Fed move at the meeting this week. The reason it remains on hold in its plan to **normalize monetary policy** changed between the April and June meeting. In April, it was the weakness in **consumer final demand** in the first quarter of the year, even as the labor market continued to tighten. The June meeting results are being driven by a risk of a slowing jobs market, even as consumer final demand has rebounded in the second quarter. Other sectors of the economy are growing at moderate rates. The **housing sector** is one of those, with **housing starts** expected to be at the monthly average of the last year. The annual rate of just over 1.1 million is double the lows reached at the bottom of the recession. **Auto sales** continue to run above 17 million on an annual basis. **Retail sales** jumped in April and is expected to be up again for May. The consumption side of the economy has rebounded and income growth has strengthened.

We are left with the concern about job growth slowing. We are confused with the labor data. The **JOLTS index** increased again at the end of April, but **nonfarm payroll** growth was low. The **unemployment rate** dropped to 4.7% due to a decline of 484,000 in the size of the workforce. This data makes sense if we have fewer people qualified to fill the jobs that are available. If this is the reason for the confusing data it would mean wage rates will increase at a faster pace as companies compete for the employees they need. Stronger final demand growth and rising wages will lead to higher inflation going forward. The Fed will issue its revised forecasts for economic growth and inflation at this week's meeting. Given the conditions cited above, we would expect upward revisions to both growth and inflation forecasts from the Fed. The key to future Fed moves will be the language at the press conference that follows the **FOMC meeting**, the changes in the Fed's expectations and whether the **labor market** data improves in the next two months. We continue to forecast three Fed increases this year.

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