THE AUSTIN ADVISOR

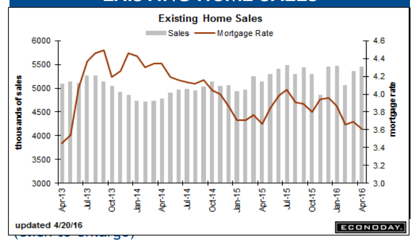
June 20, 2016

Markets	13-Jun	14-Jun	15-Jun	16-Jun	17-Jun	YTD%	31-Dec-15
DJIA	17,732.48	17,674.82	17,640.17	17,733.10	17,675.16	1.44%	17,425.03
S&P 500	2,079.06	2,075.32	2,071.50	2,077.99	2,071.22	1.33%	2,043.94
NASDAQ	4,848.44	4,843.55	4,834.93	4,844.92	4,800.34	-4.14%	5,007.41
SNL Bank Index	396.00	387.33	387.63	386.76	387.42	-10.21%	431.48
Fed Funds Rate	0.37%	0.37%	0.37%	0.38%	0.38%		0.35%
1 Month LIBOR	0.44%	0.44%	0.45%	0.45%	0.45%		0.43%
3 Month LIBOR	0.65%	0.65%	0.66%	0.65%	0.64%		0.61%
3 Month T-Bill	0.27%	0.27%	0.26%	0.27%	0.27%		0.16%
1 Year Treasury	0.55%	0.55%	0.52%	0.53%	0.51%		0.65%
2 Year Treasury	0.73%	0.74%	0.69%	0.70%	0.70%		1.06%
3 Year Treasury	0.84%	0.85%	0.81%	0.81%	0.83%		1.31%
5 Year Treasury	1.14%	1.15%	1.10%	1.10%	1.13%		1.76%
10 Year Treasury	1.62%	1.62%	1.60%	1.57%	1.62%		2.27%
30 Year Treasury	2.43%	2.43%	2.43%	2.39%	2.43%		3.01%

WEEKLY HIGHLIGHT

A Fed reversal of prior guidance causes financial market volatility

EXISTING HOME SALES



Economy		Week of June 13, 2016
Retail Sales	0.5%	Better than expected following the huge jump in April, with solid gains across all sectors
Producer Price Index	0.4%	Higher than expected, giving some indication inflation is beginning to increase as ex-food and energy were up 0.3%
Industrial Production	-0.4%	The decline was caused by a drop in auto production, even as sales remain strong, meaning a drawdown in inventories
Capacity Utilization	74.9%	Again, the drop from 75.3% was largely a function of auto production which should reverse in coming months
FOMC Meeting		A stunning move to a more dovish position, even as domestic economic data continues to strengthen
Consumer Price Index	0.2%	Prices are being increased at a faster pace, with the core CPI up 2.2% on a Y/Y basis
Housing Starts	1.164 Million	Housing is doing better than expected, and permits are beginning to accelerate as builders catch up with demand

Calendar	Release	Covering	Week of June 20, 2016
Existing Home Sales	Wednesday	May	Sales are expected to be reported at 5.570 million on an annual basis, up from 5.450 million in April
New Home Sales	Thursday	May	New home sales surged in April to above 600,000 and are expected to settle at 565,000 for May
Leading Indicators	Thursday	June	This little watched index had been trending down, but jumped 0.6% in April, and is expected to be up 0.2% for May
Durable Goods Orders	Friday	June	This data is very volatile on a monthly basis surging by 3.4% in April, but flat Y/Y and there is no good consensus for May

MONDAY MUSING

Not many people know this but Bernie Sanders does have business experience. He owned a MacDonald's in New Hampshire, but the business failed after two days. He had a plan whereby you could order anything you wanted and the guy behind you in line had to pay. He then came up with a line of men's clothes that featured pants with only one pocket. He determined Democrats only needed one pocket since they always had one hand out. Republicans needed one pocket to line. The bad news was the clothes looked like what he wears.

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Commentary

In what I can only call a stunning move, the **FOMC** meeting last week resulted in a strong move to a more dovish position on future monetary policy changes. **The Fed** had been sending signals with minutes from prior meetings and speeches made by Fed governors, including Chairwoman Yellen, that they were moving towards a more hawkish position. The Fed appeared ready to take the second step in **normalizing monetary policy**. The meeting last week resulted in lowering economic forecasts and the timing of any move by the Fed. They did acknowledge the improvement in the U.S. economy, with **consumer final demand** growing at a much better rate in the second quarter than the first. Even with that said, the Fed cited the possible negative impact of England leaving the EU (the vote is this week) and the concern over a slowing rate of growth in jobs as reasons to stay on hold. They also cited the lack of **inflation** as reason to stay on the sidelines.

We view this as a reversal of guidance, and means the Fed will not raise rates until December at the soonest. This becomes a matter of deciding what the Fed should do as opposed to what they say they will do. We have learned not to fight the Fed. The Fed is not data dependent. The data does support further moves this year. Consumer final demand is accelerating, with **retail sales** up by big numbers the last two months. **Wage rates** are beginning to accelerate, and **personal income** is growing at a faster pace. **Auto** and **home sales** are stronger and the **trade deficit** is declining with better export sales. The only area of concern is business fixed investment, as companies are holding back on equipment purchases given the uncertainty over fiscal policy. The Fed has added to that uncertainty with its action last week. Inflation is beginning to increase with the core rate for the **CPI** above 2% on a year-over-year basis. The lower **job growth** data is a result of having fewer qualified workers to fill the growing number of unfilled jobs posted in this country.

Every client we have talked to this month is reporting strong **net new loan demand,** with loan pipelines growing. The data supports the Fed's prior position of being able to raise managed interest rates gradually over the next two years, without causing the economy to decline. The Fed does not hold this view in spite of the data, but has found every reason possible to hold steady. **Competitive loan rates** will remain low and margins in the banking industry will be under pressure in this environment.

Trusted Advisor to Financial Institutions
www.austinassociates.com
info@austinassociates.com