THE AUSTIN ADVISOR

July 5, 2016

Markets	27-Jun	28-Jun	29-Jun	30-Jun	1-Jul	YTD%	31-Dec-15
DJIA	17,140.24	17,409.72	17,694.68	17,929.99	17,949.37	3.01%	17,425.03
S&P 500	2,000.54	2,036.09	2,070.77	2,098.86	2,102.95	2.89%	2,043.94
NASDAQ	4,594.44	4,691.87	4,779.25	4,842.67	4,862.57	-2.89%	5,007.41
SNL Bank Index	359.22	369.92	379.81	385.62	381.70	-11.54%	431.48
Fed Funds Rate	0.41%	0.41%	0.41%	0.30%	0.30%		0.35%
1 Month LIBOR	0.46%	0.46%	0.47%	0.47%	0.47%		0.43%
3 Month LIBOR	0.63%	0.63%	0.65%	0.65%	0.65%		0.61%
3 Month T-Bill	0.27%	0.26%	0.26%	0.26%	0.28%		0.16%
1 Year Treasury	0.45%	0.45%	0.46%	0.45%	0.45%		0.65%
2 Year Treasury	0.61%	0.61%	0.62%	0.58%	0.59%		1.06%
3 Year Treasury	0.70%	0.71%	0.74%	0.71%	0.71%		1.31%
5 Year Treasury	1.00%	1.00%	1.03%	1.01%	1.00%		1.76%
10 Year Treasury	1.46%	1.46%	1.50%	1.49%	1.46%		2.27%
30 Year Treasury	2.28%	2.27%	2.30%	2.30%	2.24%		3.01%

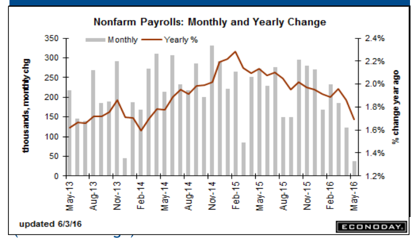
Economy		Week of June 27, 2016
Real GDP-Final	1.1%	Upward revision from 0.8%, primarily due to better exports and housing data
Consumer Confidence	98.0	Huge jump of 6 points due to the best reading since October of last year, with solid data for all sectors
Personal Income	0.2%	Income growth in May was less than the strong 0.5% jump in April, but was still a solid number
Personal Spending	0.4%	Spending growth remained strong, providing evidence final demand will be a big contributor to second quarter growth
PCE Core Price Index	0.2%	Inflation data remains muted with this index and remains at +1.6% on a YOY basis
Motor Vehicle Sales	16.7 million	This is the first indication consumer final demand may not remain strong, but it is only one month of weaker data
ISM Index	53.2	A solid gain from 51.3 reported in May, even with auto production down

Calendar	Release	Covering	Week of July 4, 2016
July 4th Holiday	Monday		All Markets Closed
Trade Deficit	Wednesday	May	The trade deficit has been declining as imports have dropped more than exports, with an expectation of -$40.2 billion
Unemployment Rate	Friday	June	Following the big decline to 4.7% for May, a small rebound to 4.8% is forecast for June
Nonfarm Payrolls	Friday	June	The all important job growth data is expected to be 180,000 for June, after the drop to only 38,000 for May
Avg. Hourly Earnings	Friday	June	Another month of 0.2% growth is the consensus forecast, which does not reflect acceleration in wages as of yet
Consumer Credit	Friday	May	Credit growth slowed in April to $13.4B, but is forecast to rebound to $16.3 billion for May, reflecting strong auto sales

WEEKLY HIGHLIGHT

Economic data continues to improve, but that is not driving Fed decisions

NONFARM PAYROLLS



MONDAY MUSING

Did you see the story in the newspaper about the barber in Washington D.C. who told a priest there was no charge for the hair cut as he viewed it as a gift to the lord? The priest sent him 12 Bibles and a thank you note. The barber told a policeman there was no charge for a hair cut as it was a service to the community. The next day the barber received a dozen donuts and a thank you note from the cop. The barber told a Senator there was no charge as it was a service to the nation. The next morning there were 12 Senators waiting for the shop to open. Ba-Da-Boom.

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Commentary

While all the concerns affecting financial markets are in foreign economic and political conditions, the economic data in the U.S. is improving. Last week **consumer confidence** jumped by six points, and this survey was completed after the release of the weak May jobs growth report. The outlook for jobs usually has a big impact on confidence. **Personal spending** was up a solid 0.4% in May, following up the 1.1% jump reported for April. The **ISM index** rose to above 53, taking it well above the expansion level of 50. The index indicates improving manufacturing activity going forward. The only weaker data was **auto sales.** The data due out this week will feature the **labor market** report for June. **Job growth** slowed in the three months ending in May. It was the primary reason **the Fed** did not raise rates at their June meeting.

The consensus forecast calls for **nonfarm payrolls** to increase by 180,000 for June. That would be enough to allow investors to believe the May growth of only 38,000 was just a temporary slowing in growth. Growth matching the forecast would be well above the average of the last three months, and just below the average monthly growth of the past twelve months. The Fed would refer to this as transitory and not indicative of the long-term trend. The equity market recovered almost all of the losses experienced after the **Brexit vote** of two weeks ago, as investors realized this event is well into the future and will have little impact on economic conditions in the U.S. The largest impact is on currency levels, with the pound dropping against the dollar. This would normally cause the **trade deficit** to increase, but it has been declining in the last three months. Imports have dropped more than exports, and Brexit will not change this trend in the next year. **Real GDP** will be higher with less of a drag from the trade deficit.

In short, the weakness of the last two quarters when Real GDP growth has been 1.4% and 1.1% should improve with the second quarter data. This improvement will be led by stronger **consumer final demand**, strong housing activity and a lower trade deficit. The issue for the Fed and the bond market in terms of the data will be whether **inflation** accelerates as growth moves to higher levels. To date, there has been no increase in the **core PCE index,** while both the **CPI** and **PPI** have moved up to above the 2% target set by the Fed. None of this makes any difference to a Fed which is no longer data driven but rather, is event driven. The Fed continues to believe the glass is half empty and any risks anywhere in the World is reason enough not to **normalize monetary policy**.

Trusted Advisor to Financial Institutions
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