THE AUSTIN ADVISOR

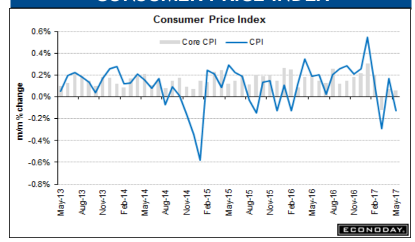
July 10, 2017

Markets	3-Jul	4-Jul	5-Jul	6-Jul	7-Jul	YTD%	30-Dec-16
DJIA	21,479.27	N / A	21,478.17	21,320.04	21,414.34	8.36%	19,762.60
S&P 500	2,429.01	N / A	2,432.54	2,409.75	2,425.18	8.32%	2,238.83
NASDAQ	6,110.06	N / A	6,150.86	6,089.46	6,153.08	14.30%	5,383.12
SNL Bank Index	560.92	N / A	562.54	558.14	561.15	5.35%	532.65
Fed Funds Rate	1.16%	N / A	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.23%	1.22%	1.22%	1.22%	1.23%		0.77%
3 Month LIBOR	1.30%	1.30%	1.30%	1.30%	1.31%		1.00%
3 Month T-Bill	1.06%	1.06%	1.05%	1.04%	1.05%		0.51%
1 Year Treasury	1.24%	1.24%	1.24%	1.23%	1.22%		0.85%
2 Year Treasury	1.41%	1.41%	1.41%	1.40%	1.40%		1.20%
3 Year Treasury	1.60%	1.60%	1.59%	1.60%	1.60%		1.47%
5 Year Treasury	1.93%	1.93%	1.92%	1.94%	1.95%		1.93%
10 Year Treasury	2.35%	2.35%	2.33%	2.37%	2.39%		2.45%
30 Year Treasury	2.86%	2.86%	2.85%	2.90%	2.93%		3.06%

WEEKLY HIGHLIGHT

The split between a tight labor market and low wage growth continued with June data

CONSUMER PRICE INDEX



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Economy		Week of June 26, 2017
ISM Index	57.8	The highest reading since 2014, indicating manufacturing activity will accelerate in the second half of the year
Fourth of July Holiday		Markets Closed
Trade Deficit	-$46.5 Billion	The deficit narrowed from April, with exports rising more than imports, becoming less of a drag of overall growth
Unemployment Rate	4.4%	Up from 4.3% in May as more people came back into the labor force than the solid increase in jobs
Nonfarm Payrolls	222,000	This is a strong report and both April and May were revised upward by 47,000
Avg. Hourly Earnings	0.2%	Even with a tight labor market, wage gains remain modest with only a 2.5% growth on a year-over-year basis

ON THIS DAY IN HISTORY

1832 - President Jackson vetoes legislation to re-charter 2nd Bank of US

1863 - Battle of Charleston

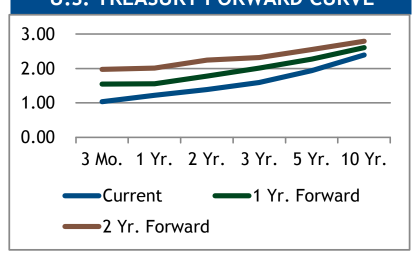
1914 - Boston Red Sox purchase Babe ruth from the Baltimore Orioles

1938 - 'Yankee Clipper' completes 1st passenger flight over Atlantic

1965 - The Rolling Stones score their 1st US #1 with '(I Can't Get No) Satisfaction'

Calendar	Release	Covering	Week of July 3, 2017
Consumer Credit	Monday	May	After the very small increase of $8.2B in April, a more normal monthly average of $14.6B is expected
JOLTS	Tuesday	May	Job openings have been averaging 6 million over the last three months, with that level expected again
Producer Price Index	Thursday	June	A second consecutive month of no change is expected, but the core rate is expected to be up 0.2% after 0.3% in May
Consumer Price Index	Friday	June	After dropping by 0.1% in May, a rise of 0.1% is expected for June providing no evidence of inflation pressures building
Retail Sales	Friday	June	A small increase of only 0.1% is the consensus forecast after the decline of 0.3% in May
Industrial Production	Friday	June	Even with a strong ISM report, manufacturing activity is expected to be only 0.3% following the flat report for May

U.S. TREASURY FORWARD CURVE



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Commentary

The conundrum of a **tight labor** market and low wage growth was again reported for June. **Job growth** was reported as a very strong 222,000, after two months of below average increases. Those lower growth numbers of April and May were eliminated with upward revisions totaling 47,000. The size of the pool of available workers declined to 12.4 million. Those coming back into the labor force looking for jobs were greater than the growth in employed and caused the unemployment rate to inch higher to 4.4% from 4.3% in May. This condition should be confirmed with this weeks **JOLTS report,** with expectations of about 6 million unfilled job openings in May. In spite of this tight condition, wage rates only increased by 0.1% in June. The explanation of this split between a tight labor market and little wage growth is the jobs that are growing are low pay, entry level jobs. The JOLTS index would reflect the inability of employers to find qualified employees for the higher paying positions. The wage rates for jobs requiring specific skills could be increasing but not moving the wage data due the lack of people with those skills. If a company is not paying the higher wage because the job is not filled, wage gains are held down. This condition cannot continue for long. The strong **ISM index** and low **inventory growth** in the first and second quarter means output needs to accelerate in the second half of the year, even if final demand remains muted. Companies will need to find the employees they need, with the skills required, by pulling them from current employers. This will cause labor costs to accelerate quickly over the next six months.

Inflation is not a problem yet as evidenced by the expected low **PPI** and **CPI** data due to be released this week. The core rate for the PPI has been 2.1% in the last year. The core rate for the CPI has risen by only 1.7% in the last year. This data is below the Fed's target of 2%. Without faster growth in labor costs, it is difficult to project inflation rising to the Fed's target. The Fed believes labor costs will accelerate in the coming six months and continuing the normalization process for monetary policy is still appropriate. If inflation does not begin to move higher, the Fed will need to pause in the their effort to shrink their balance sheet and to move managed rates to a neutral position. The action in the bond market has moved in the direction of the Fed's forecast. Intermediate and long-term rates have moved up by 20 bp, with little change in yields on the short end of **the curve**. The curve remains flat but market rates moving up on higher inflation data is still our forecast for the last six months of the year. This higher inflation data will not start with the June data set to be released this week.

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