THE AUSTIN ADVISOR

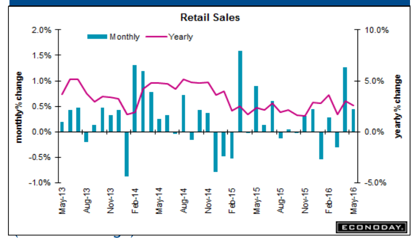
July 11, 2016

Markets	4-Jul	5-Jul	6-Jul	7-Jul	8-Jul	YTD%	31-Dec-15
DJIA	N/A	17,840.62	17,918.62	17,895.88	18,146.74	4.14%	17,425.03
S&P 500	N/A	2,088.55	2,099.73	2,097.90	2,129.90	4.21%	2,043.94
NASDAQ	N/A	4,822.90	4,859.16	4,876.81	4,956.76	-1.01%	5,007.41
SNL Bank Index	N/A	371.86	374.79	377.37	384.58	-10.87%	431.48
Fed Funds Rate	N/A	0.40%	0.40%	0.40%	0.40%		0.35%
1 Month LIBOR	0.47%	0.47%	0.47%	0.47%	0.48%		0.43%
3 Month LIBOR	0.66%	0.66%	0.66%	0.66%	0.67%		0.61%
3 Month T-Bill	0.28%	0.28%	0.27%	0.29%	0.28%		0.16%
1 Year Treasury	0.45%	0.44%	0.46%	0.47%	0.48%		0.65%
2 Year Treasury	0.59%	0.56%	0.58%	0.58%	0.61%		1.06%
3 Year Treasury	0.71%	0.66%	0.69%	0.69%	0.71%		1.31%
5 Year Treasury	1.00%	0.94%	0.95%	0.97%	0.95%		1.76%
10 Year Treasury	1.46%	1.37%	1.38%	1.40%	1.37%		2.27%
30 Year Treasury	2.24%	2.14%	2.14%	2.14%	2.11%		3.01%

WEEKLY HIGHLIGHT

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

RETAIL SALES



Economy	Week of July 4, 2016	
July 4th Holiday		
Trade Deficit	-$41.1 Billion	The large increase from the April data was a function of the 1.9% rise in imports, reflecting a strong dollar and final demand
Unemployment Rate	4.9%	The increase from 4.8% was due to growth of 414,000 in the size of the workforce reversing the declines of last two months
Nonfarm Payrolls	287,000	Nonfarm payrolls jumped in June after the very slow growth of the prior two months
Avg. Hourly Earnings	0.1%	The small monthly increase still left the YOY growth at 2.6% and is accelerating as the year unfolds
Consumer Credit	$18.6 Billion	A bigger increase than expected with credit card growth only $2.4 billion

MONDAY MUSING

I enjoy reading bumper stickers. What else is there to do when sitting at a red light? I am always surprised what people will stick on their cars. Excluding the ones I cannot put in this, here are a couple I have seen and laughed: 1. If you can read this I can slam on my brakes and sue you 2. Some people do not know how to drive. I call them "Everybody but me". 3. Hang up and drive. 4. Jesus loves you, everyone else thinks you are an idiot. Finally, on the back of an 18 wheeler "Wanted: Meaningful overnight relationship". Please respond with your favorite bumper sticker and I will share them.

Calendar	Release	Covering	Week of July 11, 2016
JOLTS	Tuesday	May	The posted job openings index is expected to drop slightly from the record high of 5.788 M posted in April
Producer Price Index	Thursday	June	Consensus forecasts call for an increase of 0.3%, after rising 0.4% in May, bringing core YOY increase to 1.2%
Consumer Price Index	Friday	June	Expectations call for an increase of 0.3%, up from 0.2% for May and taking the core YOY growth to 2.2%
Retail Sales	Friday	June	After two strong months of gains, sales are only expected to increase by 0.1%, still leaving solid second quarter growth
Industrial Production	Friday	June	This highly volatile data is expected to be up a strong 0.4%, reversing the 0.4% decline reported for May
Capacity Utilization	Friday	June	The operating rate remains mired around 75%, which is well below full capacity and limits inflation pressure

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Commentary

The all important monthly **labor market report** released last Friday did surprise everyone. **Job growth** was reported at 287,000 for the month of June, as compared to the revised 11,000 increase in May. This kind of volatility makes it very difficult for anyone to use monthly data in making financial decisions. **The Fed** cited the slow down in labor markets as a primary reason not to continue its efforts to **normalize monetary policy** by raising short-term managed rates in June. Those who believe the labor market has slowed cite the fact the second quarter monthly average for job growth has slowed to 147,000 following the first quarter monthly average of 190,000, and the 211,000 monthly average for all of 2015. Those who believe the labor market is tight, which will contribute to rising wages and higher **inflation**, view this slowdown as a reflection of fewer qualified workers seeking employment. It also appears to be a function of problems with seasonal adjustments used. May, a month when only 11,000 jobs were reported, is usually a month when high school and college graduates inflate the growth in the workforce and in jobs. It appears some of that was moved between the two months creating some strange data. Additionally, a strike at Verizon caused 30,000 jobs to be reported as lost in May and recovered in June as the strike was settled. The **JOLTS** report due out tomorrow should provide some evidence as to whether the labor market is soft. Other indicators such as the **ADP data** and **consumer confidence** would indicate a solid labor market.

The consumption side of the economy continues to improve. The **trade deficit** increased due to higher imports, indicating demand improved. The **retail sales** data due out Friday is expected to report a strong demand side, with sales up 0.5% excluding autos. **Auto sales** did dip below 17 million on an annualized basis in June, but this is a seasonally slow time as vacations and other activities affect sales. Even the manufacturing side of the economy is beginning to show some signs of life with **industrial production** expected to be reported up 0.4% for June, after dropping by 0.4% in May and the **ISM Index** jumped to above 53.

The U.S. economy is in much better shape than other countries and than many observers believe. None of this has caused inflation to accelerate. The **PPI** and **CPI** data due out this week is expected to reflect higher prices, but at a rate below the Fed's target of 2%. While the stock market has recovered from the shock of **Brexit**, the bond market has not. Capital continues to flow into our debt market, with rates well above those available in most other countries. While we believe this data supports our economic forecast of faster growth in the second half of this year, it is not yet enough to cause the Fed or market rates to move.

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