

# THE AUSTIN ADVISOR

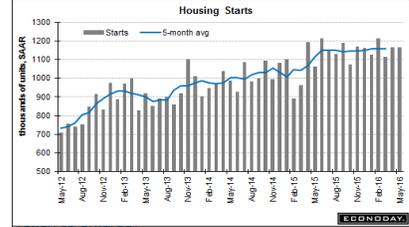
July 18, 2016

Markets	11-Jul	12-Jul	13-Jul	14-Jul	15-Jul	YTD%	31-Dec-15
DJIA	18,226.93	18,347.67	18,372.12	18,506.41	18,516.55	6.26%	17,425.03
S&P 500	2,137.16	2,152.14	2,152.43	2,163.75	2,161.74	5.76%	2,043.94
NASDAQ	4,988.64	5,022.82	5,005.73	5,034.06	5,029.59	0.44%	5,007.41
SNL Bank Index	387.76	394.54	393.93	400.03	398.68	-7.60%	431.48
Fed Funds Rate	0.40%	0.40%	0.40%	0.40%	0.40%		0.35%
1 Month LIBOR	0.48%	0.48%	0.48%	0.48%	0.48%		0.43%
3 Month LIBOR	0.67%	0.67%	0.68%	0.68%	0.69%		0.61%
3 Month T-Bill	0.31%	0.29%	0.31%	0.32%	0.32%		0.16%
1 Year Treasury	0.50%	0.52%	0.51%	0.53%	0.52%		0.65%
2 Year Treasury	0.66%	0.69%	0.68%	0.68%	0.71%		1.06%
3 Year Treasury	0.77%	0.81%	0.80%	0.82%	0.87%		1.31%
5 Year Treasury	1.03%	1.10%	1.07%	1.10%	1.15%		1.76%
10 Year Treasury	1.43%	1.53%	1.48%	1.53%	1.60%		2.27%
30 Year Treasury	2.14%	2.24%	2.18%	2.25%	2.30%		3.01%

## WEEKLY HIGHLIGHT

The political turmoil in the U.S. poses a risk to continued low rates

## HOUSING STARTS



Economy	Week of July 11, 2016	
JOLTS	5.500 Million	
Producer Price Index	0.5%	Above expectations, with core rate up 0.4%, bringing YOY increase in the core to 1.3%
Consumer Price Index	0.2%	The monthly number was modest, but the YOY increase in the core now stands at 2.3%
Retail Sales	0.6%	Well above forecasts, with sales excluding autos up a strong 0.7%, as final demand continues to accelerate
Industrial Production	0.6%	A strong month as auto production surged in June, following the one month weakness reported for May
Capacity Utilization	75.4%	Up from 74.9%, but the operating rate is still well below inflationary levels

## MONDAY MUSING

Sometimes reading a newspaper is better than relying on cable or the internet for news. Newspapers need to fill space, so there are stories included which cannot be found anywhere else. The Sunday paper included the story of a 911 operator in Florida who was recently fired. The operator received a call from a home owner who had discovered a five foot rattlesnake in their house. The home owner wanted to know what to do. The operator asked if they were a member of ASPCA or the Green Party. The home owner said no. The operator told the caller to smash it with a shovel. You lose your job if you are politically incorrect with any animal.

Calendar	Release	Covering	Week of July 18, 2016
Housing Starts	Tuesday	June	Starts are running above 1 million on an annual basis, with consensus at a small increase to 1.170 million for June
Existing Home Sales	Thursday	June	A decline from last months level of 5.530 million to 5.475 million is expected, with the lack of inventory limiting growth
Leading Indicators	Thursday	June	This volatile index was down 0.2% in May, but is expected to be up 0.3% in June to continue its pattern of the last few months

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## Commentary

The economic data continues to come in as we have expected. Our forecast called for faster total economic growth driven by an acceleration in **consumer final demand**. After a weak first quarter, which we believe was a function of problems with seasonal adjustment factors, the second quarter is going to be very strong. **Retail sales** for June were reported as having increased by 0.6% for the month following the solid first two months of the quarter. The **housing data** for June is due out this week and is expected to remain as strong as it has been in the second quarter. These two sectors represent over 75% of total **Real GDP**. **Personal consumption expenditures** were reported as having increased less than 2% in the first quarter, but are going to be above 3% for the second quarter. This growth should drive Real GDP up by 3% for the second quarter, well above the 1.1% of the first quarter and 1.4% in the fourth quarter of last year.

**Job growth** remains strong, with the limiting factor being a lack of qualified workers to fill open jobs. **Wage rates** are rising as companies compete for employees. Last week, Starbucks and J.P Morgan announced across the board salary increases to allow them to retain and attract the employees they need. Personal income growth is improving. Job growth and wage increases will continue to feed high levels of **consumer confidence**. The stock market is at record levels and residential real estate market values are rising. This causes a positive impact from the wealth effect of greater home equity totals and higher values in retirement accounts.

All of this is in spite of the political turmoil in this country from the election process and violence of police attacks in the past two weeks. The Republican convention is this week, and the risk is it could produce further violence and could erode some of the consumer confidence we have gained. All of this is producing increases in **inflation**, with both the **CPI** and **PPI** increasing in June at a rate well above the growth of the past six years. In spite of the risk of rising inflation, the bond market continues to price in the risk of the deflation. The yield on the five year is just over 1%, down from 1.75% at year-end. The ten year treasury is yielding just over 1.5%, down from 2.25% at year-end. Part of the reason for these low yields is the rate environment in other countries. The yield on the ten year German bond remains negative, as does Switzerland and Japan. These countries are pumping liquidity into their economies in an effort to stimulate faster economic growth. Capital flows into the U.S. bond market as investors seek higher returns. The risk is this flow of capital can change if the political turmoil causes investors to view the U.S. as less politically stable than they have in the past. The fundamentals indicate market rates should be higher than is the case, but there is little reason to think this is going to change this year.

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