THE AUSTIN ADVISOR

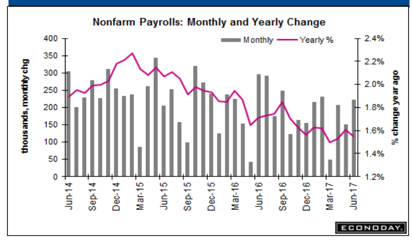
July 31, 2017

Markets	24-Jul	25-Jul	26-Jul	27-Jul	28-Jul	YTD%	30-Dec-16
DJIA	21,513.17	21,613.43	21,711.01	21,796.55	21,830.31	10.46%	19,762.60
S&P 500	2,469.91	2,477.13	2,477.83	2,475.42	2,472.10	10.42%	2,238.83
NASDAQ	6,410.81	6,412.17	6,422.75	6,382.19	6,374.68	18.42%	5,383.12
SNL Bank Index	550.33	559.38	553.65	551.91	548.34	2.95%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.23%	1.23%	1.23%	1.23%	1.23%		0.77%
3 Month LIBOR	1.31%	1.32%	1.31%	1.31%	1.31%		1.00%
3 Month T-Bill	1.17%	1.18%	1.13%	1.11%	1.08%		0.51%
1 Year Treasury	1.23%	1.24%	1.23%	1.22%	1.22%		0.85%
2 Year Treasury	1.37%	1.40%	1.36%	1.36%	1.34%		1.20%
3 Year Treasury	1.53%	1.56%	1.50%	1.52%	1.51%		1.47%
5 Year Treasury	1.83%	1.90%	1.83%	1.84%	1.83%		1.93%
10 Year Treasury	2.26%	2.33%	2.29%	2.32%	2.30%		2.45%
30 Year Treasury	2.83%	2.91%	2.89%	2.93%	2.89%		3.06%

WEEKLY HIGHLIGHT

The Fed did not change it's economic or monetary policy forecasts

NONFARM PAYROLLS



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Economy	Week of July 24, 2017	
Existing Home Sales	5.520 Million	The 1.8% decline from May was larger than expected, but the surge in prices continues indicating a lack of inventory
Consumer Confidence	121.1	The jobs market is the primary cause of the surge in confidence to just below the peak in March
New Home Sales	610,000	New home sales are steady and at a high level, providing further evidence of a lack of inventory in existing homes
FOMC Meeting Ends		As expected, no change in current monetary policy, but a firmer date for balance sheet declines provided
Durable Goods Orders	6.5%	The huge jump was a function of the volatile aircraft sector, with orders up 0.2% when excluding them
Real GDP-Advance Report	2.6%	The Advance report was better than expected, with both capex and consumer spending better than expected

ON THIS DAY IN HISTORY

1498 - Christopher Columbus discovers Trinidad in his 3rd voyage

1790 - 1st US patent granted, for a potash process

1922 - Ralph Samuelson rides world's 1st water skis

1971 - Apollo 15 astronauts take 6.5 hr electric car ride on Moon

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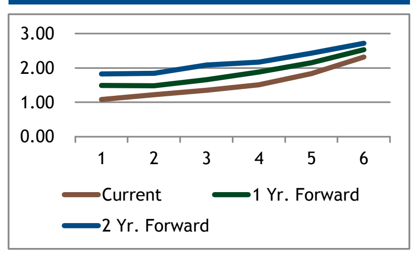
Calendar	Release	Covering	Week of July 31, 2017
Motor Vehicle Sales	Tuesday	July	Auto sales have been below the average monthly rate in 2016 every month, with 16.8 M expected for July
Personal Income	Tuesday	June	Another month of 0.4% growth is expected, but the income growth has not been translated into growth in spending
Personal Spending	Tuesday	June	Again, the small 0.1% increase is much less than would be expected with confidence and job growth strong
Core PCE Index	Tuesday	June	The lack of final demand growth keeps inflation pressure low, with only a 0.1% increase expected, keeping YOY at 1.4%
ISM Index	Tuesday	July	A small pullback in this indicator of manufacturing going forward is expected at 56.4, down from a very strong 57.8 in June
Unemployment Rate	Friday	July	A smaller increase in the size of the workforce is expected to result in a drop in the rate to 4.3% from 4.4%
Nonfarm Payrolls	Friday	July	Job growth is expected at the monthly average this year of 180,000, which would keep momentum solid
Avg. Hourly Earnings	Friday	July	This strong job growth and tight labor market is not causing wages to accelerate, with expectations at only a 0.3% gain
Trade Deficit	Friday	June	A drop from -$46.5 B to -$44.5 B is expected, which would cause an upward revision to second quarter Real GDP

U.S. TREASURY FORWARD CURVE



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Commentary

There was no change by **the Fed** in either current **monetary policy** or guidence for future rate actions from last week's **FOMC meeting**. The Fed did give a better signal as to the timing of their effort to shrink the size of their balance sheet. It now appears they will announce the beginning of the process at the September meeting and begin in October. They did not change their guidence of one more rate increase this year. We expect it at the December meeting. They also did not change their economic and **inflation** outlook. They continue to refer to the last five years of slow economic growth and low inflation as transitory and are forecasting faster growth and higher inflation pressures in the second half of this year.

The Advance report for **Real GDP growth** came in above consensus forecasts at 2.6%, just below our forecast of 2.7%. The Advance report is subject to large revisions and the bias over the last three years has been upward. We believe we will end up at 3% when all of the data is compiled. The annual benchmark revisions did not change the trend of economic growth in the past three years. First quarter 2017 was revised to 1.2% growth, down from 1.4% last reported. The biggest factor was the lower level of income growth in the revised data. The issue of a strong labor market not resulting in above average growth in wages remains. This trend is expected to be reported this Friday with the June employment report. **Job growth** is expected to remain at the monthly average of 180,000 reported this year, but average hourly earnings are not expected to have increased by more than 0.3%. That would not change the 2.5% increase in the last year. The inflation pressure we have been forecasting coming from higher labor costs has not unfolded.

It is hard to understand why **consumer final demand** has not increased at a faster pace in this environment of low unemployment, continued strong job growth and high levels of **consumer confidence**. The conference board reported their consumer confidence survey jumped last month to just below the post recession high reached in March. These kinds of economic conditions have generated strong growth in consumer spending in the past. **Personal spending** is only expected to increase by 0.1% for June and **auto sales** are expected to remain under 17 million on an annualized basis for July. Our choice is to accept that the environment of the last five years will continue going forward or to continue to forecast that final demand will surge to more historically normal levels. We have been forecasting this surge for the past two years and it has not happened. At this point, we are leaving our forecast of better than 3% Real GDP growth in the second half of the year. We are forecasting personal consumption expenditures of better than 3.5%, up from the 2.8% growth reported for the second quarter and 1.9% growth in the first quarter. This kind of growth is necessary for the Fed to raise rates again in December.

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