THE AUSTIN ADVISOR

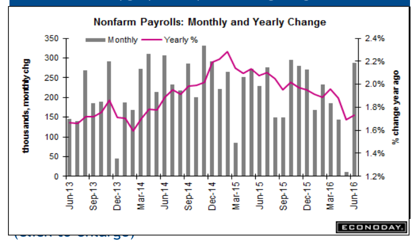
August 1, 2016

Markets	25-Jul	26-Jul	27-Jul	28-Jul	29-Jul	YTD%	31-Dec-15
DJIA	18,493.06	18,473.75	18,472.17	18,456.35	18,432.24	5.78%	17,425.03
S&P 500	2,168.48	2,169.18	2,166.58	2,170.06	2,173.60	6.34%	2,043.94
NASDAQ	5,097.63	5,110.05	5,139.81	5,154.98	5,162.13	3.09%	5,007.41
SNL Bank Index	399.63	401.33	403.02	403.03	401.09	-7.04%	431.48
Fed Funds Rate	0.40%	0.40%	0.40%	0.40%	0.30%		0.35%
1 Month LIBOR	0.49%	0.49%	0.50%	0.49%	0.50%		0.43%
3 Month LIBOR	0.73%	0.74%	0.75%	0.76%	0.76%		0.61%
3 Month T-Bill	0.32%	0.31%	0.31%	0.25%	0.28%		0.16%
1 Year Treasury	0.55%	0.55%	0.53%	0.53%	0.50%		0.65%
2 Year Treasury	0.72%	0.75%	0.73%	0.72%	0.67%		1.06%
3 Year Treasury	0.87%	0.87%	0.83%	0.82%	0.76%		1.31%
5 Year Treasury	1.15%	1.15%	1.10%	1.09%	1.03%		1.76%
10 Year Treasury	1.58%	1.57%	1.52%	1.52%	1.46%		2.27%
30 Year Treasury	2.29%	2.28%	2.23%	2.23%	2.18%		3.01%

WEEKLY HIGHLIGHT

The confusing data just keeps coming with a huge amount of new numbers due out this week

NONFARM PAYROLLS



Economy	Week of July 25, 2016	
Consumer Confidence	97.3	This confidence measure did not drop as expected after the big jump reported for June
New Home Sales	592,000	This June data was 25% above last year, with the highest reading since the recession in 2008-09
Durable Goods Orders	-4.0%	A second consecutive month of weakness, but excluding the highly volatile transportation sector the decline was only 0.5%
FOMC Meeting Ends		As expected, no change in monetary policy but the Fed did indicate the risks in the economy have diminished
Real GDP-Advance	1.2%	The headline number was well below expectations, but the internals reflect a much stronger environment

MONDAY MUSING

After two weeks of political conventions where everyone kept repeating their parties' same talking points (or in the case of Mrs. Trump, Mrs. Obama's talking points). I was surprised when, on the last night, two people were debating the violence problems in this country. One of them was using all kinds of data to support their position. After a couple minutes, the other person stood up and yelled that what was just said was a lie. The first person said, "I know it is, but please let me finish". Clearly the conventions last too long.

Calendar	Release	Covering	Week of August 1, 2016
ISM Index	Monday	July	This manufacturing index is expected to be unchanged at 53.2, which is a moderate but steady pace
Motor Vehicle Sales	Tuesday	July	A rebound to above 17 million annual rate is expected, after the drop to 16.7 million reported for June
Personal Income	Tuesday	June	Income growth is expected to be up 0.3%, keeping the steady improvement on track
Personal Spending	Tuesday	June	Spending has been the engine driving economic growth, with the consensus forecast at +0.3% for the month
PCE Core Price Index	Tuesday	June	Only a 0.1% rise is expected, keeping inflation risks low and the Fed on the sidelines
Unemployment	Friday	July	The rate has risen in the past two months on strong growth in the workforce, with expectations of a drop to 4.8% from 4.9%
Nonfarm Payrolls	Friday	July	Job growth rebounded in June and is expected to increase by a strong 185,000 for July
Avg. Hourly Earnings	Friday	July	A jump of 0.3% is expected as wages are rising from companies needing to atract and retain employees
Trade Deficit	Friday	June	The deficit is expected to widen from $41.1B to $43.2B, with both imports and exports rising
Consumer Credit	Friday	June	The consensus looks for a drop to $15.5B from $18.6B for the month, as credit card balances are expected to remain low

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Commentary

The **Advance Report** for second quarter economic growth again raised the issue of the quality of the data released. The Bureau of Economic Analysis reported **Real GDP growth** of only 1.2% for the quarter, well below consensus forecasts of 2.6% and our forecast of 2.9%. According to the BEA, **personal consumption expenditures** increased by 4.2% as compared to 1.6% in the first quarter. This sector represents 68% of total Real GDP. The drag on growth was centered in the business sector, with inventories declining by $13.0 billion and business fixed investment dropping by 9.7%. This data means future growth will be much higher. Rapid consumption was met with companies selling out of inventory and not increasing production. That will not last long as sales opportunities will be lost due to lack of product. The BEA also reported a decline in residential investment, which is in conflict with the monthly housing data for the quarter. **Home sales** rebounded to new post recession highs and **housing starts** and building permits were up each month in the quarter.

We anticipate large revisions to this sector data in the revised data over the next two months. In addition to the confusing data, the BEA also issued their annual revision to past data to include more complete results. For example, the first quarter of 2015 was revised from 0.4% to 2.0% growth. The BEA also changed methodological approaches to seasonal adjustment factors to compute growth. This is an admission the nature of spending and investment has changed over the past few years, and was not being fully captured with the old adjustments. Finally, the **trade deficit** was less of a drag than the first quarter with exports increasing more than imports. The headline number was surprising, but the underlying sector data reflected a much stronger economy.

We do anticipate large upward revisions to this data. The **FOMC** met last week and did not change **monetary policy**. The statement released did indicate risks to the economy had diminished, but the Fed did not move more hawkish as was expected. They remain cautious, but the statement did bring the possibility of a September rate hike back into play. This week will see the release of the July employment data. **Job growth** has been very volatile with growth of only 11,000 in May and a huge jump of 287,000 in June. This report should provide some evidence of whether the May data or the June data was the anomaly. The consensus is expecting growth of 185,000 to be reported for July, which would indicate May was the anomaly. All of the data due out this week is not expected to drive **market interest rates**. The data in total is not pointing to any real change in either the job market, **inflation** or **economic growth** from that which has existed over the past four years.

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