

THE AUSTIN ADVISOR

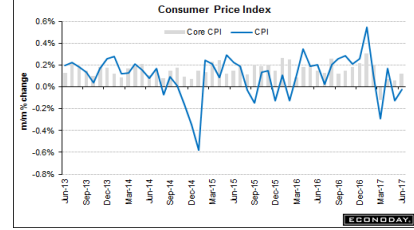
August 7, 2017

Markets	31-Jul	1-Aug	2-Aug	3-Aug	4-Aug	YTD%	30-Dec-16
DJIA	21,891.12	21,963.92	22,016.24	22,026.10	22,092.81	11.79%	19,762.60
S&P 500	2,470.30	2,476.35	2,477.57	2,472.16	2,476.83	10.63%	2,238.83
NASDAQ	6,348.12	6,362.94	6,362.65	6,340.34	6,351.56	17.99%	5,383.12
SNL Bank Index	552.62	557.43	557.15	552.99	557.88	4.74%	532.65
Fed Funds Rate	1.07%	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%	1.31%	1.31%	1.31%	1.31%		1.00%
3 Month T-Bill	1.07%	1.08%	1.08%	1.08%	1.08%		0.51%
1 Year Treasury	1.23%	1.22%	1.24%	1.22%	1.23%		0.85%
2 Year Treasury	1.34%	1.34%	1.36%	1.34%	1.36%		1.20%
3 Year Treasury	1.51%	1.50%	1.52%	1.49%	1.51%		1.47%
5 Year Treasury	1.84%	1.80%	1.82%	1.79%	1.82%		1.93%
10 Year Treasury	2.30%	2.26%	2.27%	2.24%	2.27%		2.45%
30 Year Treasury	2.89%	2.86%	2.85%	2.81%	2.84%		3.06%

WEEKLY HIGHLIGHT

A strong labor market report for July did not include a surge in wages to create inflationary pressures

CONSUMER PRICE INDEX



[\(click to enlarge\)](#)

ON THIS DAY IN HISTORY

1606 - Shakespeare's Macbeth first performed

1782 - George Washington creates the Purple Heart medal

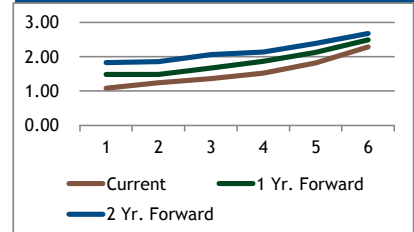
1907 - Walter Johnson wins his 1st game

1909 - US issues 1st Lincoln penny

1942 - First American offensive in the Pacific in WWII

Economy	Week of July 31, 2017	
Motor Vehicle Sales	16.7 Million	Auto sales have weakened in four of the last five months as consumer spending remains stagnant
Personal Income	Unchanged	Incomes did not grow in June in spite of a tight labor market, as companies are not raising wages
Personal Spending	0.1%	The spending data remains muted even with strong job growth and high consumer confidence levels
Core PCE Index	0.1%	As a result of the income and spending data remaining weak, inflation remains well below the target set by the Fed
ISM Index	56.3	This strong report was as expected, indicating a much stronger second half for manufacturing activity
Unemployment Rate	4.3%	Down from the June level of 4.4%, as growth in the labor force was less than the past three months
Nonfarm Payrolls	209,000	Job growth was much better than expected and well above the average of 189,000 in the first half of the year
Avg. Hourly Earnings	0.3%	Wage growth was better than the average of the first half, but is still well below inflationary levels
Trade Deficit	-\$43.6 Billion	The deficit was smaller than expected and will be a positive to second quarter Real GDP revisions

U.S. TREASURY FORWARD CURVE



Calendar	Release	Covering	Week of August 7, 2017
Consumer Credit	Monday	June	Credit growth is expected to hold steady at \$16 billion, but the components are changing with credit debt beginning to grow
JOLTS	Tuesday	June	Unfilled job openings remain high, with 5.62 million expected for the end of June
Producer Prices	Thursday	July	No inflation pressures are expected at 0.1% for the month, keeping the year-over-year change at 1.9% for the core rate
Consumer Price Index	Friday	July	An increase of 0.2% is expected, which still leaves the YOY change for the core rate below the 2% level sought by the Fed

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Commentary

The employment data released last week for July was stronger than expected and well above the average of the first half of the year. Jobs grew by 209,000 for the month, above the 189,000 monthly average of the past six months. The **unemployment rate** dropped to 4.3% from 4.4% in June. In spite of this kind of growth, wage gains were modest. Average hourly earnings only rose by 0.3%, keeping the YOY increase at 2.5%. The strong **labor market** is not putting upward pressure on labor costs and creating inflationary pressures. The primary reason **the Fed** is concerned about rising **inflation** is an expectation labor costs will begin to rise and these costs will be passed on in the form of higher prices. After three years of very strong job growth, this risk has not occurred. The bond market does not believe it will. The inflation data due out this week is not expected to reflect any upward pressure on prices. The weak monthly data will leave the year-over-year increase in prices below the Fed's target of 2%. Without inflation pressures rising, intermediate and long-term market rates will not move higher. The **personal spending** data from June and the **auto sales** data from July released last week does not indicate any surge in **consumer final demand**. Consumption spending must increase at a faster pace to add to inflation pressures. Neither cost/push nor demand/pull inflation conditions are being reported. The **trade deficit** was reported lower than estimated for June, which will drive the second quarter **Real GDP** growth up from the 2.6% in the **Advance Report**.

When all of the data is complete for the quarter, we expect growth to come in at 3%. The consumption data released to date does not indicate this level of growth will continue in the third quarter. The economic fundamentals do not suggest any large change in market interest rates going forward. The fundamentals must change in order for our forecast of a steepening in the **yield curve** to unfold. Inflation must begin to rise and come in above 2% in the second half of the year in order for the Fed to continue its **normalization of monetary policy**. Consumption must increase at a faster pace and wage rates must increase at a better pace. We have not yet changed our forecast of higher inflation and rising intermediate and long-term interest rates before another increase in short-term rates in December. We do recognize the fundamentals must change in the next three months for our forecast to unfold. The July final demand data, wage data and inflation data must be much stronger than has been the case in the last six months. We are at the fork in the road with the path taken determined in the short run.

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