THE AUSTIN ADVISOR

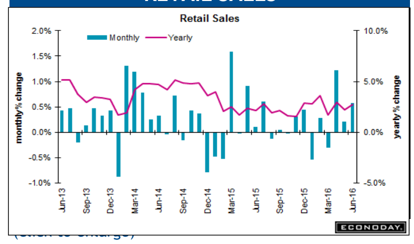
August 8, 2016

Markets	1-Aug	2-Aug	3-Aug	4-Aug	5-Aug	YTD%	31-Dec-15
DJIA	18,404.51	18,313.77	18,355.00	18,352.05	18,543.53	6.42%	17,425.03
S&P 500	2,170.84	2,157.03	2,163.79	2,164.25	2,182.87	6.80%	2,043.94
NASDAQ	5,184.20	5,137.73	5,159.74	5,166.25	5,221.12	4.27%	5,007.41
SNL Bank Index	398.46	395.68	400.76	400.88	412.88	-4.31%	431.48
Fed Funds Rate	0.40%	0.40%	0.40%	0.40%	0.40%		0.35%
1 Month LIBOR	0.49%	0.49%	0.50%	0.50%	0.50%		0.43%
3 Month LIBOR	0.76%	0.77%	0.78%	0.79%	0.79%		0.61%
3 Month T-Bill	0.29%	0.29%	0.28%	0.26%	0.28%		0.16%
1 Year Treasury	0.50%	0.50%	0.53%	0.51%	0.56%		0.65%
2 Year Treasury	0.67%	0.67%	0.67%	0.64%	0.72%		1.06%
3 Year Treasury	0.78%	0.79%	0.78%	0.76%	0.86%		1.31%
5 Year Treasury	1.06%	1.07%	1.07%	1.03%	1.13%		1.76%
10 Year Treasury	1.51%	1.55%	1.55%	1.51%	1.59%		2.27%
30 Year Treasury	2.24%	2.29%	2.29%	2.25%	2.32%		3.01%

WEEKLY HIGHLIGHT

Strong data across the board last week has raised the possibility of a Fed move in September

RETAIL SALES



Economy	Week of August 1, 2016	
ISM Index	52.6	The small drop from 53.2 was primarily due to the soft labor data two months ago, but index remains positive for the future
Motor Vehicle Sales	17.9 Million	July was a strong rebound from the softer sales data in the prior two months, reflective of strong consumer final demand
Personal Income	0.2%	Income growth was modest, but continues to be steady and does create the fuel needed to spur spending
Personal Spending	0.4%	Final demand remains very strong through the end of the second quarter and above expectations
PCE Core Price Index	0.1%	Inflation remains below the Fed's target but has increased at +1.9% over the past six months, above the 1.6% YOY
Unemployment	4.9%	No change in the rate as the strong job growth was matched by the increase in size of workforce
Nonfarm Payrolls	255,000	A much stronger growth than was expected, eliminating the concerns of two months ago
Avg. Hourly Earnings	0.3%	A jump in the wage rate reflects a tighter labor market, as companies raise wages to meet employee needs
Trade Deficit	-$44.5 billion	The deficit widened due to a rise in imports caused by rising final demand in the U.S.
Consumer Credit	$12.3 Billion	The weaker number was due to a slow down in student and auto loans in June, with credit card borrowing up a strong $7.7B

MONDAY MUSING

Watching coverage of the Olympics is frustrating. There is five minutes of action and twenty minutes of participant profiles and ten minutes of discussion of mosquitos and pollution. The profiles are necessary since no one remembers any of these athletes. Last night, a U.S. swimmer won the 400 meter freestyle and broke the world record by 2 seconds. Can you name that swimmer? Other than the basketball team, golfers, Michael Phelps and the Williams sisters, can you name any other athletes? There is more talking by the commentators than I do at an ALCO meeting. (the swimmer was Katie Ledecky)

Calendar	Release	Covering	Week of August 8, 2016
JOLTS	Tuesday	June	The job openings index dropped slightly in May, but remains at a historically high 5.5 million
Retail Sales	Friday	July	The consensus forecast is for an increase of 0.4% after the strong 0.6% growth in June
Producer Prices	Friday	July	After a big increase of 0.5% in June, wholesale prices are only expected to be up 0.1% for July as oil price delcines ocurred

Commentary

The Fed has cited the concerns about a slowdown in the **labor market** as a reason to hold **monetary policy** at current levels. Those concerns have diminished with the last two months of data. The July report, released last Friday, was even stronger than the June report. **Nonfarm payrolls** increased by 255,000 in total, with **private sector jobs** increasing by 217,000. The data from the prior two months were revised upward by an additional 18,000 jobs. This strong growth follows the revised 292,000 increase reported for June. The Fed was concerned about possible slack in the labor market, but these two months of data affirms the slow growth in jobs in April and May was transitory. As importantly, **average hourly earnings** were up 0.3% in July, providing evidence companies are raising wages in order to retain and attract the employees they need. Faster **personal income growth** provides the fuel to feed continued strong **consumer final demand** and faster overall economic growth.

The wealth of data released last week all reflected this strong growth in consumer spending. **Personal spending** was up 0.4% for the month of June. **Consumer credit** in total did not hold prior months levels, but credit card balances were up a strong $7.7 billion. **Auto sales** rebounded from the slower months of May and June, and the increase in the **trade deficit** was primarily due to the increase in imports from higher demand levels in the U.S. This strength is expected to be confirmed with the release of **retail sales** for July due out this Friday. This strong data has brought back the possibility of a Fed move in September with **Fed Funds futures** now pricing in a 33% probability, up from less than 10%. Even the speeches of several Fed members over the past two weeks appear to indicate the **FOMC** is moving to a more hawkish stance. Market interest rates did move up slightly with this data, but these rates remain well below year-end 2015 when the market was expecting a full 100 basis points of increase by the Fed in 2016.

We do not believe the Fed is ready to resume its stated objective of **normalizing monetary policy** by raising managed rates as of yet. **Inflation** remains below the Fed's target of 2%, with the **core PCE price index** up only 1.6% over the past year. This index has increased by 1.9% in the first six months of this year, but was only up 0.1% in June. We do not expect the Fed to move rates higher until they are convinced the labor market will remain tight and inflation moves above their target. We do not anticipate both of these conditions to be met until December of this year.