

THE AUSTIN ADVISOR

August 15, 2016

Markets	8-Aug	9-Aug	10-Aug	11-Aug	12-Aug	YTD%	31-Dec-15
DJIA	18,529.29	18,533.05	18,495.66	18,613.52	18,576.47	6.61%	17,425.03
S&P 500	2,180.89	2,181.74	2,175.49	2,185.79	2,184.05	6.85%	2,043.94
NASDAQ	5,213.14	5,225.48	5,204.58	5,228.40	5,232.90	4.50%	5,007.41
SNL Bank Index	413.09	413.06	407.69	409.29	407.81	-5.49%	431.48
Fed Funds Rate	0.40%	0.40%	0.40%	0.40%	0.40%		0.35%
1 Month LIBOR	0.51%	0.51%	0.52%	0.51%	0.51%		0.43%
3 Month LIBOR	0.81%	0.82%	0.82%	0.82%	0.82%		0.61%
3 Month T-Bill	0.31%	0.29%	0.28%	0.28%	0.29%		0.16%
1 Year Treasury	0.57%	0.55%	0.55%	0.55%	0.56%		0.65%
2 Year Treasury	0.74%	0.71%	0.69%	0.76%	0.71%		1.06%
3 Year Treasury	0.86%	0.84%	0.80%	0.88%	0.82%		1.31%
5 Year Treasury	1.15%	1.11%	1.07%	1.16%	1.10%		1.76%
10 Year Treasury	1.59%	1.55%	1.50%	1.57%	1.51%		2.27%
30 Year Treasury	2.30%	2.25%	2.23%	2.28%	2.23%		3.01%

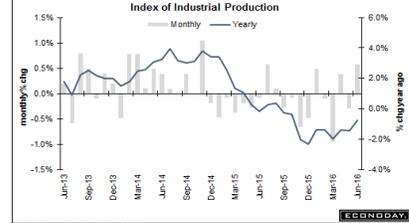
Economy	Week of August 8, 2016	
JOLTS	5.624 Million	The number of posted but unfilled job openings increased, indicating continued strong growth in jobs
Retail Sales	0.0%	No growth in sales was a surprise with auto sales strong, but nothing else, causing some concern about final demand
Producer Prices	-0.4%	After three months of higher inflation, prices dropped in July at the wholesale level

Calendar	Release	Covering	Week of August 15, 2016
Consumer Price Index	Tuesday	July	No net changes in inflation are expected for an index that has risen 2.3% on a core basis over the last twelve months
Housing Starts	Tuesday	July	The housing sector continues to expand at a steady pace, with expectations calling for an increase to 1.180 million
Industrial Production	Tuesday	July	Auto production drove activity up 0.6% in June and July is expected to be up 0.3% as manufacturing recovers
Capacity Utilization	Tuesday	July	The operating rate is expected to increase to 75.5% from 75.4%, but remains very low overall
Leading Indicators	Thursday	July	This index is not a major signal to investors, but it is signaling a continued and steady growth

WEEKLY HIGHLIGHT

It is the business sector of the economy that needs to improve to reach our growth forecasts

INDUSTRIAL PRODUCTION



MONDAY MUSING

Big mistake this weekend. My wife talked me into attending a couples retreat at our church. After 47 years of marriage, the last thing I wanted to do was find out all the things I do are wrong. On Saturday they separated us into two groups, one of husbands and one of wives. In my group they started by taking a survey on a number of issues. The last was a survey of the number of times each couple were intimate. The leader asked how many people were intimate once a week and about half raised their hands. Another third of the group responded to once a month. One guy jumped up, yelled and waved his hands to respond to once a year. The leader asked him why he was so excited. The guy said today was the day. Way too much information.

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Commentary

The issue for the economy is a lack of confidence in the business sector. Companies were not willing to maintain inventories in the second quarter, even as **final demand** surged. Companies have not been willing to invest in their own business with business fixed investment declining over the last three quarters. It is clear businesses are not convinced the surge in consumer spending experienced in the second quarter is sustainable. Additionally, uncertainty over tax policy and regulations going forward have caused caution by the corporate sector. They have added labor to maintain output because this cost can be reduced quickly should final demand decline.

This week we will get **industrial production** data and it is expected to up for the third consecutive month. The gains have been modest, but it is moving up. A significant portion of this growth has been associated with the auto industry as **auto sales** have moved up again after slowing in May and June. The small gains have been helped by the growth exports over the last three months. Data like the **retail sales** data from last week, which were reported as not having increased, only adds to the uncertainty. Finally, the political environment of this election has a large negative impact on business confidence.

The decline in inventories cannot continue as companies will not want to miss sales opportunities for lack of product. The weak retail sales data was a function of lower gasoline prices as oil prices dropped during July. Retail sales are a dollar measure of activity and not adjusted for price changes. The unit volume of activity is still increasing at a healthy pace. The **housing data** due out this week is expected to confirm spending is increasing. Rising housing starts and higher permits for future construction means job growth and higher spending as home buyers also spend money to furnish the new house. We continue to forecast a solid housing sector as pent-up demand from six years of weakness is driving housing demand. Additionally, demographic changes, with baby boomers demanding a different type of housing, will drive construction activity. The most important factor will be continued growth in consumption. With strong **job growth**, rising incomes and higher levels of **consumer confidence** we believe the caution of the business sector will diminish in the second half of the year. Continued solid final demand will cause the capex element in the **GDP** data to be a contribution to growth as opposed to the negative it was in the second quarter.

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