THE AUSTIN ADVISOR

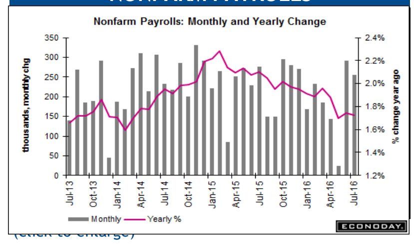
August 29, 2016

Markets	22-Aug	23-Aug	24-Aug	25-Aug	26-Aug	YTD%	31-Dec-15
DJIA	18,529.42	18,547.30	18,481.48	18,448.41	18,395.40	5.57%	17,425.03
S&P 500	2,182.64	2,186.90	2,175.44	2,172.47	2,169.04	6.12%	2,043.94
NASDAQ	5,244.60	5,260.08	5,217.70	5,212.20	5,218.92	4.22%	5,007.41
SNL Bank Index	414.22	414.66	415.19	416.28	418.71	-2.96%	431.48
Fed Funds Rate	0.40%	0.40%	0.40%	0.40%	0.40%		0.35%
1 Month LIBOR	0.52%	0.52%	0.52%	0.52%	0.52%		0.43%
3 Month LIBOR	0.83%	0.83%	0.83%	0.83%	0.83%		0.61%
3 Month T-Bill	0.29%	0.30%	0.31%	0.33%	0.34%		0.16%
1 Year Treasury	0.58%	0.58%	0.59%	0.60%	0.62%		0.65%
2 Year Treasury	0.76%	0.74%	0.76%	0.78%	0.84%		1.06%
3 Year Treasury	0.86%	0.86%	0.87%	0.89%	0.96%		1.31%
5 Year Treasury	1.15%	1.15%	1.13%	1.16%	1.23%		1.76%
10 Year Treasury	1.55%	1.55%	1.56%	1.58%	1.62%		2.27%
30 Year Treasury	2.24%	2.24%	2.24%	2.27%	2.29%		3.01%

WEEKLY HIGHLIGHT

The meeting in Jackson Hole raised the possibility of a Fed move in September

NONFARM PAYROLLS



Economy	Week of August 22, 2016	
New Home Sales	654,000	A jump of 12.4% for the month is well above consensus forecasts, confirming a strong housing sector
Existing Home Sales	5.39 Million	The drop from from 5.57M reported for June is a function of the lack of inventory of homes for sales
Durable Goods Orders	4.4%	The strong rebound from June's decline of 4.2%, with manufacturing showing modest signs of expansion
Real GDP-Revised	1.1%	Headline data revised down from 1.2%, but consumption data was revised upward to 4.4% from 4.2%
Fed Chair Yellen Speaks		Yellen may have sent the signal the Fed will raise rates at their September meeting

MONDAY MUSING

I gave a speech last week in Iowa to a group of clients for one of my banks. It was a tough crowd. During the question and answer period, one of clients commented that 99 percent of economists give the rest a bad name. I told him 42.7% of all statistics are made up on the spot. He brought up the old one handed economist comment and I told him my other hand has a different set of fingers. The meeting went downhill from there. I understand light travels faster than sound and that is why some people appear bright until they speak. I doubt I will be asked back to Iowa.

Calendar	Release	Covering	Week of August 29, 2016
Personal Income	Monday	July	This data has been released with income growth continuing to be solid at 0.4% for the month, up from 0.3% for June
Personal Spending	Monday	July	Spending increased by 0.3% or slightly less than the strong 0.5% reported for June
Core PCE Price Index	Monday	July	This measure of inflation was up 0.1% for the month, which leaves the year-over-year increase at 1.6%
Consumer Confidence	Tuesday	August	This measure of confidence jumped by 5 full points in July and is expected to be unchanged at a strong 97.3 for August
Motor Vehicle Sales	Thursday	August	Auto sales rebounded in July after two months of slower results and is expected to hold above 17 M for August
ISM Index	Thursday	August	The index is used to signal future manufacturing activity and is expected to remain above 52, indicating modest growth
Unemployment	Friday	August	Consensus forecasts call for a drop to 4.8% from 4.9% on slower growth in the size of the workforce
Nonfarm Payrolls	Friday	August	After two consecutive months of very strong growth, jobs are expected to grow by 175,000 for August
Avg. Hourly Earnings	Friday	August	Wage growth has accelerated in the past six months, with expectations of 0.2% or slightly less than the past three months
Trade Deficit	Friday	July	A large narrowing of the deficit is expected, with growth in exports and a decline in imports adding to faster 3rd qtr growth

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Commentary

The issue investors are dealing with is the meaning of the speech Fed Chairwoman Yellen gave last week. The key phrase from her speech was, "The case for an increase in the federal funds rate has strengthened in recent months." Does that mean the Fed will move managed rates higher at their September **FOMC** meeting? Was the statement the signal to the market of the Fed's intention in the short term? Market interest rates moved up by 10 basis points across the curve after the speech. That move does not discount a move in September. The Fed maintains any decision is data dependent. The **inflation data** has not reached the target of 2% while the Fed says they will not wait for inflation to reach that level so long as the short-term outlook for inflation does get to that rate. No help there. We will get the **labor market report** this week and that should provide the data the Fed needs to make a decision next month. **Job growth** has been very strong in the last two months, with **nonfarm payrolls** up an average of 245,000. Expectations are for an increase of 175,000 for August. If job growth is above 200,000, the chances of the Fed moving up are much higher than the current market rates reflect.

The other data from last week and expectations for the data this week all reflect continued acceleration in total economic growth from the weak first half of the year. The **housing data** was very strong in the last two weeks. **Auto sales** are running above 17M on an annual basis. **Personal consumption growth** is expanding as job growth and higher consumer confidence is bringing final demand up to the levels we had been expecting. Even the expected drop in the **trade deficit** will reduce the drag to overall growth in the third quarter. Should this solid **final demand** environment continue, business fixed investment will begin to turn positive. Also, **inventories** should be positive in the third quarter as companies rebuild from the decline reported for the second quarter. None of this is reflected in current market interest rates.

While the yield on the ten-year treasury has moved above 1.6%, it is still well below the 2.25% of last December. The yield on the five-year is at 1.2%, down from 1.75% at year end. Investors do not expect inflation to move higher in the short run. The one rate that has jumped is three-month LIBOR. It is at .85%, up from .25% at year end. Foreign capital is moving toward the expectation of a Fed move in September. The key will be the labor market report this Friday.

Trusted Advisor to Financial Institutions
www.austinassociates.com
info@austinassociates.com