THE AUSTIN ADVISOR

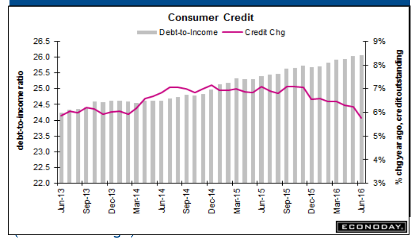
September 6, 2016

Markets	29-Aug	30-Aug	31-Aug	1-Sep	2-Sep	YTD%	31-Dec-15
DJIA	18,502.99	18,454.30	18,400.88	18,419.30	18,491.96	6.12%	17,425.03
S&P 500	2,180.38	2,176.12	2,170.95	2,170.86	2,179.98	6.66%	2,043.94
NASDAQ	5,232.33	5,222.99	5,213.22	5,227.21	5,249.90	4.84%	5,007.41
SNL Bank Index	422.71	428.09	428.64	426.12	428.07	-0.79%	431.48
Fed Funds Rate	0.40%	0.40%	0.30%	0.40%	0.40%		0.35%
1 Month LIBOR	N / A	0.52%	0.52%	0.52%	0.53%		0.43%
3 Month LIBOR	N / A	0.84%	0.84%	0.84%	0.84%		0.61%
3 Month T-Bill	0.33%	0.33%	0.33%	0.33%	0.33%		0.16%
1 Year Treasury	0.62%	0.61%	0.61%	0.60%	0.59%		0.65%
2 Year Treasury	0.81%	0.80%	0.80%	0.78%	0.80%		1.06%
3 Year Treasury	0.92%	0.92%	0.92%	0.91%	0.92%		1.31%
5 Year Treasury	1.18%	1.18%	1.19%	1.18%	1.20%		1.76%
10 Year Treasury	1.57%	1.57%	1.58%	1.57%	1.60%		2.27%
30 Year Treasury	2.22%	2.23%	2.23%	2.23%	2.28%		3.01%

WEEKLY HIGHLIGHT

The labor market report did not change our outlook for no change by the Fed until December

CONSUMER CREDIT



Economy	Week of August 29, 2016	
Personal Income	0.4%	The increase reported for July represents another acceleration of incomes as wages were up 0.5%
Personal Spending	0.3	The growth in spending was slightly less than the 0.5% increase for June, but is still a solid number
Core PCE Price Index	0.1%	Even the better economy has not driven prices higher, with the YOY increase holding at 1.6%
Consumer Confidence	101.1	A surprising jump from 96.7 in July, driven by expectations for faster income growth from a tight labor market
Motor Vehicle Sales	17.0 Million	Down from 17.9 million reported for July, but this data can be very volatile on a monthly basis and is a strong number
ISM Index	49.4	In spite of other data reflecting better manufacturing activity, this future indicator droped to a contracting level
Unemployment	4.9%	No change as the increase in the workforce and jobs were about equal, which reduces pressure on the labor market
Nonfarm Payrolls	151,000	The growth in jobs was less than the last two months and the average of the last twelve months
Avg. Hourly Earnings	0.1%	The increase in hourly earnings was less than the last three months, keeping inflation pressures low
Trade Deficit	-$39.5 Billion	The narrowing of the trade deficit means better Real GDP growth for the third quarter as exports rise and imports drop

MONDAY MUSING

Sometimes the meaning of a printed message is not as clear as it needs to be. I was at the casino in Toledo over the weekend to play a little blackjack. The guy next to me was losing the whole evening when he asked to borrow my cell phone. He said he needed to call the number on a sign that read, "Got a gambling problem? Call 1800-Gambler". When they answered, the guy said, "I have an ace and a five. The dealer has a six. What should I do?'. The call did not last long and the guy took another card, which was another ace. No help.

Calendar	Release	Covering	Week of September 5, 2016
JOLTS	Wednesday	July	This index jumped up to 5.624 million at the end of June and with strong job growth, the index should be down slightly
Consumer Credit	Thursday	July	After a soft report for June, credit is expected to increase by $15.3 billion for July, with credit card balances continuing to grow

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Commentary

The **labor market report** for August was released last Friday. It was a respectable number, with 151,000 **nonfarm payroll** growth and the **unemployment rate** remaining at 4.9%. It was not strong enough to force the **FOMC** to raise managed rates at their September 20-21 meeting. Average hourly earnings only increased by 0.1%, which means there is little upward cost pressure to cause **inflation** to increase in the coming months. Inflation remains below the Fed's target of 2%, and there is little reason to believe prices are going jump up in the coming months. The dominant attitude on the Fed is there is no reason to continue the effort to **normalize monetary policy,** unless inflation risk is higher. The Fed is more concerned that deflation risk is a larger threat. It does not matter that other economic data is very strong. **Consumer confidence** jumped 4.5 points in August, rising to 101.4. This increase was primarily due to the better outlook for jobs and consumer expectations for higher incomes over the next six months. The **auto sales** data for August was lower than the average of the past year, but still remains at 17 million on an annualized basis. The **housing sector** is very strong with new and existing home sales running at post recession highs. The **trade deficit** dropped in July, which will produce less of a drag on domestic economic growth in the third quarter. Third quarter forecasts for Real GDP growth will be revised upward from an already stronger growth expectation. The smaller growth in jobs in August means the labor market is not overheating and should not generate a jump in inflation in the second half of the year.

The modest signal sent by **Fed Chairwoman Yellen** at the Jackson Hole meeting two weeks ago was not sufficient to cause us to believe the Fed will move rates this month. An increase in December remains the most likely timing for the next Fed action. The current low competitive loan rate environment will continue until market interest rates move higher. The ten-year and five-year treasuries have moved up 10 basis points in the last two weeks, but remain well below the levels of year-end 2015. Last December was when the market was discounting four upward moves by the Fed over twelve months. At that time the yield on the five-year was 1.75%. It is 1.16% today. The yield on the ten-year was 2.25% at year-end. It is now 1.60%. These lower intermediate and long-term market rates are what is keeping new loan quotes to remain low. Without an increase in inflation expectations, these market rates will not move higher.

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