THE AUSTIN ADVISOR

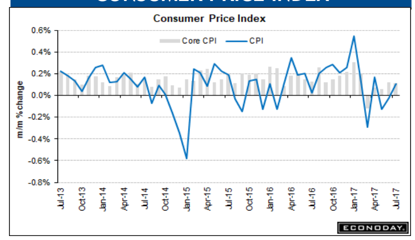
September 11, 2017

Markets	4-Sep	5-Sep	6-Sep	7-Sep	8-Sep	YTD%	30-Dec-16
DJIA	N / A	21,753.31	21,807.64	21,784.78	21,797.79	10.30%	19,762.60
S&P 500	N / A	2,457.85	2,465.54	2,465.10	2,461.43	9.94%	2,238.83
NASDAQ	N / A	6,375.57	6,393.31	6,397.87	6,360.19	18.15%	5,383.12
SNL Bank Index	N / A	526.91	527.87	518.32	519.98	-2.38%	532.65
Fed Funds Rate	N / A	1.16%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.23%	1.23%	1.23%	1.24%	1.24%		0.77%
3 Month LIBOR	1.32%	1.32%	1.32%	1.32%	1.31%		1.00%
3 Month T-Bill	N / A	1.03%	1.07%	1.05%	1.04%		0.51%
1 Year Treasury	N / A	1.23%	1.24%	1.21%	1.22%		0.85%
2 Year Treasury	N / A	1.30%	1.30%	1.27%	1.27%		1.20%
3 Year Treasury	N / A	1.40%	1.42%	1.38%	1.39%		1.47%
5 Year Treasury	N / A	1.65%	1.69%	1.63%	1.64%		1.93%
10 Year Treasury	N / A	2.07%	2.10%	2.05%	2.06%		2.45%
30 Year Treasury	N / A	2.69%	2.72%	2.66%	2.67%		3.06%

WEEKLY HIGHLIGHT

The Hurricanes of the last two weeks will alter the timing of growth and will result in higher spending

CONSUMER PRICE INDEX



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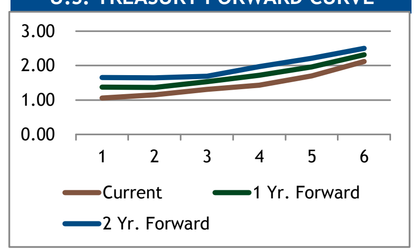
Economy	Week of September 4, 2017	
Labor Day		All financial markets closed
Trade Deficit	-$43.7 Billion	Only a slightly larger deficit than than prior months, but still running at a much higher rate than past years
Consumer Credit	$18.5 Billion	The large jump from $11.8B in June was due to auto and student loans, as credit card debt was up a modest $2.6B

ON THIS DAY IN HISTORY

We remember those who lost their lives on this day in 2001.

Calendar	Release	Covering	Week of September 11, 2017
JOLTS	Tuesday	July	The job openings report surged in June to above 6 million and is expected to remain at this high level in July
Producer Price Index	Wednesday	August	After declining by 0.1% in July, an increase of 0.3% is expected for August as weather issues begin to affect prices
Consumer Price Index	Thursday	August	The focus is on the core rate as energy prices were rising even before the hurricanes in the last three weeks, expect 0.3%
Retail Sales	Friday	August	The weak auto sales in August will keep overall sales to be held down to only a 0.1% increase after the huge 0.6% gain in July
Industrial Production	Friday	August	The manufacturing sector has begun to improve with production to replenish inventories, we expect a 0.3% rise
Capacity Utilization	Friday	August	The operating rate remains well below inflation levels with 76.8% expected, but is up from 75.3% last year

U.S. TREASURY FORWARD CURVE



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Commentary

The economic data for the third and fourth quarter of this year will be affected by the hurricanes experienced in Texas and Florida. **Real GDP growth** will be lower in the third quarter because of the storms, but will be higher in the fourth quarter and first quarter of next year. As an example, there are estimates of over 1 million autos destroyed in Texas from Hurricane Harvey. Those cars will need to be replaced with new cars, most of which will be paid for by insurance companies. This will boost **auto sales** in the fourth quarter from what it would have been otherwise. The same will be occur from Irma. This will boost manufacturing in the fourth quarter. Spending on reconstruction will cause consumption to grow at a faster rate in the fourth quarter after being depressed in the third quarter. This weather factor will also affect **inflation**. Prices for food and energy have already risen as a result of the storms, but should subside in the fourth quarter and first quarter. Other sectors, such as building supplies, will jump in prices as demand rises from reconstruction needs. Consumption will be higher in the first half of next year as a result. The net is slower growth in the third and fourth quarter, but faster growth in the first half of next year than would otherwise be the case. Inflation will be higher also. However, the weather affected pressure on prices will be ignored by the Fed and investors. The core rate will be higher as sectors like building materials drive up the cost of building anywhere in the country. Investors have already taken the term structure of market interest rates down as the storms passed. Investors believe the environment has changed and it means the Fed will not raise managed rates as much or as soon as had been expected before the storms. The yield on the ten-year treasury has dropped from 2.6% at the beginning of the year to 2.02% currently. Even the short end of **the curve** has declined in the last two weeks, with the yield on the two-year down 10 basis points in the last two weeks.

Expectations of future Fed monetary policy has changed as inflation pressures continue to be low. We now expect no change in managed rates this year and only have one increase in our forecast for 2018. The one factor which could change this forecast would be a surge in inflation. Prior to the storms, there has been no evidence this was beginning. The data over the next three months will be ignored by the Fed as being weather related and not a long term increase in pricing pressure. We are stuck in this flat curve environment for the next year at least. Pricing pressure in lending has already begun with lower loan quotes being reported in many markets. Growth of top line revenue for banks is going to be difficult to achieve going forward.