

# THE AUSTIN ADVISOR

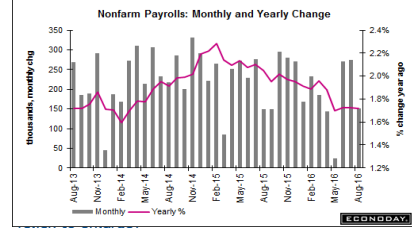
October 3, 2016

Markets	26-Sep	27-Sep	28-Sep	29-Sep	30-Sep	YTD%	31-Dec-15
DJIA	18,094.83	18,228.30	18,339.24	18,143.45	18,308.15	5.07%	17,425.03
S&P 500	2,146.10	2,159.93	2,171.37	2,151.13	2,168.27	6.08%	2,043.94
NASDAQ	5,257.49	5,305.71	5,318.55	5,269.15	5,312.00	6.08%	5,007.41
SNL Bank Index	407.61	411.27	413.86	407.24	413.68	-4.13%	431.48
Fed Funds Rate	0.40%	0.40%	0.40%	0.40%	0.40%		0.35%
1 Month LIBOR	0.52%	0.53%	0.52%	0.53%	0.53%		0.43%
3 Month LIBOR	0.85%	0.85%	0.84%	0.85%	0.85%		0.61%
3 Month T-Bill	0.25%	0.26%	0.27%	0.26%	0.29%		0.16%
1 Year Treasury	0.58%	0.58%	0.60%	0.59%	0.59%		0.65%
2 Year Treasury	0.76%	0.75%	0.75%	0.73%	0.77%		1.06%
3 Year Treasury	0.87%	0.86%	0.87%	0.85%	0.88%		1.31%
5 Year Treasury	1.13%	1.12%	1.13%	1.12%	1.14%		1.76%
10 Year Treasury	1.59%	1.56%	1.57%	1.56%	1.60%		2.27%
30 Year Treasury	2.32%	2.28%	2.29%	2.28%	2.32%		3.01%

## WEEKLY HIGHLIGHT

The economic data leveled in August, but should rebound in September

## NONFARM PAYROLLS



Economy	Week of September 26, 2016	
New Home Sales	609,000	Better than expected, but down from a post recession high of a revised 659,000 from July
Consumer Confidence	104.1	Up from an already high level in August, pointing to a resumption of accelerating consumer spending
Durable Goods Orders	0.00%	The flat monthly number was better than expected, with all the components flat with the weak monthly trend
Real GDP-Final	1.4%	Last revision to second quarter was up from 1.1%, with the housing sector coming in better the primary contributor
Personal Spending	0.0	August was a weak month with spending flat for the month, but this is expected to be a short term issue
Personal Income	0.2%	Income growth has been strong, but not for August, with a small increase reported
PCE Core Price Index	0.2%	Inflation has increased, with a monthly rate which would be more than 2.5% annually if it continues

## MONDAY MUSING

I saw a story in the newspaper about the police in Florida raiding a bingo game and ticketing 200 women for illegal gambling. I know Hollywood is always looking for material for crime story movies so I have come with a couple of titles for movies about this crime. How about No Country for Old Women. Or maybe Indicting Miss Daisy. How about The Lavender Hair Mob? I bet you can come up with some ideas. If so, send them to me and I will publish them and give you credit.

Calendar	Release	Covering	Week of October 3, 2016
Motor Vehicle Sales	Monday	September	Sales have held steady at over 17 million units annualized and are expected to remain at this level
ISM Index	Monday	September	The index dropped below breakeven of 50 in August, after reaching 52 this summer, with the consensus at 50.5 for September
Trade Deficit	Wednesday	August	On a dollar basis, the trade deficit has tightened at less than \$40B, but that is a function of lower oil prices
Unemployment	Friday	September	The consensus forecast calls for a drop to 4.8% from 4.9% as growth in the work force slows
Nonfarm Payrolls	Friday	September	Growth of 170,000 is expected following the weaker 126,000 reported for August
Avg. Hourly Earnings	Friday	September	Wage increases are expected to cause growth of 0.3% and contribute to higher inflation in the next year
Consumer Credit	Friday	August	An increase of \$16.8 billion is expected, with most of the growth coming from auto financing and student loans

# THE AUSTIN ADVISOR

## Commentary

After three months of solid economic growth led by the strong rebound in **consumer final demand**, the data released last week reflected a leveling. **Personal spending** was flat for August and incomes increased by half the monthly average of the prior three months. **Retail sales** for August were down from July, and **auto sales and housing sales** activity were less for the month than in July. The manufacturing sector remains stuck at no growth with industrial production down for August and durable goods orders declining after two months of strong growth.

The one piece of strong data was **consumer confidence**, which increased to a post recession high. This is being driven by the improved outlook for jobs in a tight labor market. This should lead to a rebound in **consumer final demand** and a much stronger September than August. Consumer final demand is driving economic growth, while the business sector remains cautious and unwilling to rebuild inventory or invest in their own needs. This will end when the cost of labor begins to push margins down to a point where increased productivity will be required to grow earnings for companies. **Inflation** is also beginning to increase. The **core PCE** price index was up 0.2% for August. Annualized, this is over a 2.5% inflation rate which is well above the Fed's target of 2%. The August report resulted in the year-over-year increase rising to 1.7% from 1.6%.

All of this data is getting lost in the noise of the election process, with both candidates talking about each other and not the issues we need to address. This week we'll see **the labor market report** for September. It is expected to reflect a solid increase in **nonfarm payrolls** and a drop in the **unemployment rate**. A lower unemployment rate is expected to be a function of fewer people returning to the workforce than has been the case in the last three months. We may be getting close to the end of growth in the workforce in the short run. That will drive the unemployment rate down quickly. The more important component of the report is the average hourly wage data. This should start to accelerate as we get closer to full employment and companies raise wages to attract the employees they need. This, along with rising health care costs, will drive employment cost data up. This will lead to companies beginning to spend money to increase productivity. While the August data was not consistent with our forecast, we expect the September data to recover and maintain our expectation of **Real GDP** growth above 3% for the third quarter.

Trusted Advisor to Financial Institutions

[www.austinassociates.com](http://www.austinassociates.com)

[info@austinassociates.com](mailto:info@austinassociates.com)