THE AUSTIN ADVISOR

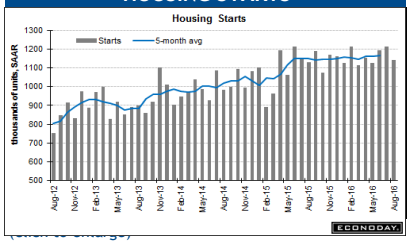
October 17, 2016

Markets	10-Oct	11-Oct	12-Oct	13-Oct	14-Oct	YTD%	31-Dec-15
DJIA	18,329.04	18,128.66	18,144.20	18,098.94	18,138.38	4.09%	17,425.03
S&P 500	2,163.66	2,136.73	2,139.18	2,132.55	2,132.98	4.36%	2,043.94
NASDAQ	5,328.67	5,246.79	5,239.02	5,213.33	5,214.16	4.13%	5,007.41
SNL Bank Index	426.53	422.41	421.64	415.25	416.65	-3.44%	431.48
Fed Funds Rate	N / A	0.41%	0.41%	0.41%	0.41%		0.35%
1 Month LIBOR	0.53%	0.53%	0.53%	0.53%	0.54%		0.43%
3 Month LIBOR	0.87%	0.88%	0.88%	0.88%	0.88%		0.61%
3 Month T-Bill	0.33%	0.35%	0.37%	0.30%	0.32%		0.16%
1 Year Treasury	0.66%	0.69%	0.68%	0.66%	0.66%		0.65%
2 Year Treasury	0.83%	0.87%	0.87%	0.85%	0.84%		1.06%
3 Year Treasury	0.99%	1.03%	0.99%	1.00%	1.00%		1.31%
5 Year Treasury	1.26%	1.30%	1.31%	1.27%	1.28%		1.76%
10 Year Treasury	1.73%	1.77%	1.79%	1.75%	1.80%		2.27%
30 Year Treasury	2.46%	2.50%	2.51%	2.48%	2.55%		3.01%

WEEKLY HIGHLIGHT

The election process is about to end, reducing at least one uncertainty

HOUSING STARTS



Economy	Week of October 10, 2016	
JOLTS	5.443 Million	Down from a record 5.831M, but still a very strong number indicating continuing job growth
Producer Price Index	0.3%	As expected and higher than the past four years' average monthly results, taking the YOY data to up 0.7% from no change
Retail Sales	0.6%	A very strong report, reversing the small decline in August, indicating the quarter ended on a strong note

MONDAY MUSING

The computer age has created a whole new language, some of it better than the old terms. For example, if Obamacare does not work, we call it Version 1.1. If you are Donald Trump, we say you are not user friendly. Finally, if you are Hilary Clinton and cannot solve any problem it is because she did not understand the source code. Everything can be blamed on the computer.

Calendar	Release	Covering	Week of October 17, 2016
Industrial Production	Monday	September	An increase of 0.2% is expected, following the decline of 0.4% in August, as manufacturing remains stagnet
Capacity Utilization	Monday	September	The operating rate remains stuck at 75.5%, meaning no inflation pressure from output restrictions
Consumer Price Index	Tuesday	September	Inflation is rising from higher costs of labor with 0.3% expected for the month, raising the YOY growth to more than 2.4%
Housing Starts	Wednesday	September	A rise to an annual rate of 1.180 million reflects the continued recovery in the housing sector
Existing Home Sales	Thursday	September	Existing home sales growth has been slower than the industry in total with a lack of inventory the reason, expect 5.35M
Leading Indicators	Thursday	September	A rebound of +0.2% is the consensus after the drop of 0.2% in August

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Commentary

The limited data last week continues to point to a solid third quarter **Real GDP** report next week. **Retail sales** were up a strong 0.6%, reversing the weaker result from August. This is the key to continuing the recovery, which has been well below average. Jobs are growing, consumers have more liquidity and their confidence levels are high. There is still pent up demand from five years of below average final demand growth. Finally, it appears the election is determined with the explosion of the Trump campaign over the last two weeks.

The only question is whether the House or Senate will change. It does not appear they will, although the Republican majority in both will probably decline. What this means to financial markets and the economy is little will change. We will still have gridlock in Washington. At least we know the outlook for fiscal policy. There will be modest spending programs, no real change in tax policy and little relief from the burden of regulations. The question is whether this environment will allow business confidence to improve and generate growth in business fixed investment. Businesses have been unwilling to invest their liquidity in new equipment or expanded, more efficient production facilities. They have dropped inventories as the concern about a slowdown in **final demand** is going to occur in the coming months. The end of the turmoil from the election process should ease some of these concerns.

The data due out this week will be centered on the housing sector. **Housing starts** and building permits will provide evidence of whether this sector is going to continue to expand or slow after the seasonal strength of this past summer. **Existing home sales** have lagged the industry growth being held down by the lack of homes for sale in many markets. We look for existing home sales to improve as more alternatives become available from the growth in new construction in the past year. The bigger news this week will come from four governors who are scheduled to give speeches. They should provide some insight as to the current expectation of a 25 basis point increase in short term interest rates in December. **Inflation** is starting to increase with the **PPI** up in September and the **CPI** due out this week expected to do the same. **Market interest rates** have moved up in anticipation of a **Fed** move, but have not moved up to include any increase in inflation. We continue to forecast inflation above the Fed's target of 2% by early 2017. That is much sooner than the Fed's published expectation. Should the bond market begin to price in inflation risk, the **curve** could steepen, with intermediate and long-term rates moving higher.

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