THE AUSTIN ADVISOR

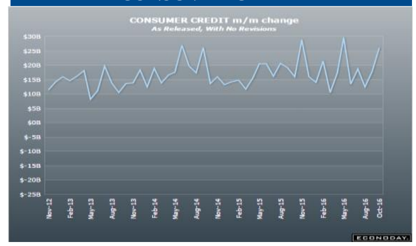
November 7, 2016

Markets	31-Oct	1-Nov	2-Nov	3-Nov	4-Nov	YTD%	31-Dec-15
DJIA	18,142.42	18,037.10	17,959.64	17,930.67	17,888.28	2.66%	17,425.03
S&P 500	2,126.15	2,111.72	2,097.94	2,088.66	2,085.18	2.02%	2,043.94
NASDAQ	5,189.14	5,153.58	5,105.57	5,058.41	5,046.37	0.78%	5,007.41
SNL Bank Index	430.07	429.29	424.34	424.25	422.61	-2.05%	431.48
Fed Funds Rate	0.31%	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	0.88%	0.88%	0.88%	0.88%	0.88%		0.61%
3 Month T-Bill	0.34%	0.35%	0.37%	0.38%	0.38%		0.16%
1 Year Treasury	0.66%	0.65%	0.64%	0.64%	0.62%		0.65%
2 Year Treasury	0.86%	0.83%	0.81%	0.81%	0.80%		1.06%
3 Year Treasury	1.00%	0.99%	0.98%	0.98%	0.95%		1.31%
5 Year Treasury	1.31%	1.30%	1.26%	1.26%	1.24%		1.76%
10 Year Treasury	1.84%	1.83%	1.81%	1.82%	1.79%		2.27%
30 Year Treasury	2.58%	2.58%	2.56%	2.60%	2.56%		3.01%

WEEKLY HIGHLIGHT

The election will dominate investor attitudes this week, with continued gridlock the most likely outcome

CONSUMER CREDIT



Economy	Week of October 31, 2016	
Personal Income	0.3%	Incomes rose slightly faster in September than in August, but it was less than the growth in wages
Personal Spending	0.5%	Consumer final demand surge led by strong auto sales, which should lead to an upward revision in third quarter Real GDP
PCE Core Price Index	0.1%	Inflation remains contained with no change in the 1.7% YOY increase from last month
Motor Vehicle Sales	18.3 Million	Strongest month since the recession, meaning retail sales and fourth quarter Real GDP will be stronger than consensus
ISM Index	51.9	A small change from the 51.5 reported for September, but remains above the expansion level of 50
FOMC Annoucement		As expected, no change in monetary policy but language in statement did add to consensus forecasts of a rise in December
Unemployment Rate	4.9%	Down from 5.0% as the growth in the labor force slowed, signaling we may be approaching full employment
Nonfarm Payrolls	161,000	A solid month, while the prior two months were revised upward by 44,000, reflecting continuing strength in labor market
Avg Hourly Earnings	0.4%	The tight labor market is starting to drive wage rates up as companies compete for employees
Trade Deficit	-$36.4 Billion	The narrowing of the deficit was greater than expected as exports were up more than estimated

MONDAY MUSING

While there may be a number of uncertainties surrounding the election, there is one certainty already. There will be no Nativity Scenes in Washington this year. While they have more than enough donkey's to fill the stable, there are not three wise men to be found.

Calendar	Release	Covering	Week of November 7, 2016
Consumer Credit	Monday	September	A huge surge in August is expected to be followed by a solid increase of $18.5 billion for September, as auto loans were strong
Elections	Tuesday		We do expect that a financial market reaction to the results will occur on Wednesday
JOLTS	Tuesday	September	This index of job openings and labor transfer rates dropped from a record 5.7 million to 5.4 million in August
Veterans Day	Friday		Many banks closed

THE AUSTIN ADVISOR

Commentary

The data from last week was solid. The **labor market** is tight and that is contributing to an increase in average hourly earnings. They increased by 0.4% for the month and have risen by 2.8% over the last twelve months. This level of growth will drive labor costs up and cause higher **inflation** pressures going forward. The growth in **nonfarm payrolls** was enough to cause the **unemployment rate** to drop back to 4.9%. We continue to forecast further declines in the unemployment rate, with those coming back into the labor force who had given up looking for work to be less going forward than has been the case in the last three months. The **JOLTS** report due on Tuesday is expected to rebound, indicating a large number of unfilled job openings. We are approaching, if not already at, full employment. The **personal spending** surge in September and the smaller trade deficit than had been estimated, means a strong upward revision to third quarter **Real GDP** should be released at the end of this month. We should be well above 3% growth for the quarter. The **auto sales** data for October indicates the fourth quarter is getting off to a solid growth pattern. Consumers are in a solid financial condition with a savings rate well above 5% over the past two years, an optimistic jobs market, pent-up demand from several years of low spending growth and high confidence levels. We continue to look for Real GDP growth driven by **personal consumption expenditures,** to be at or just above the 3.5% rate through the end of 2017. This forecast is a full one percentage point higher than the Fed's and consensus forecast. This kind of growth will allow the **Fed** to move managed interest rates up during the year. We are looking for four increases between now and year-end 2017.

The most important market event this week will be the election. The question investors have on the eve of the election is whether the Democrats take control of the Senate. They need to pick up four seats to pull even and five to take control. Gridlock is expected to continue if the Senate remains in the control of the Republicans. No matter what happens with the election, there is little chance for meaningful progress on fiscal policy such as tax reform since the House remains in Republican control. The only outcome which would change this outlook would be a surprise on either side with a sweep by one of the two parties. The economy is in good shape, with growth moving higher at a consistent pace. Inflation is beginning to experience rising pressures from labor costs and the Fed is in a position to continue to "normalize" monetary policy. The election is not expected to alter this outlook.

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