THE AUSTIN ADVISOR

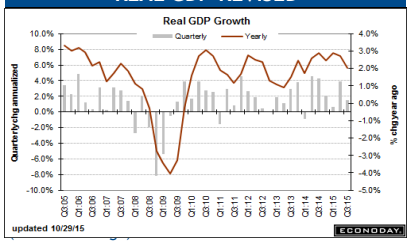
November 23, 2015

Markets	16-Nov	17-Nov	18-Nov	19-Nov	20-Nov	YTD%	31-Dec-14
DJIA	17,483.01	17,489.50	17,737.16	17,732.75	17,823.81	0.00%	17,823.07
S&P 500	2,053.19	2,050.44	2,083.58	2,081.24	2,089.17	1.47%	2,058.90
NASDAQ	4,984.62	4,986.02	5,075.20	5,073.64	5,104.92	7.79%	4,736.05
SNL Bank Index	442.38	441.33	449.74	449.96	449.68	3.91%	432.75
Fed Funds Rate	0.13%	0.13%	0.12%	0.12%	0.12%		0.06%
1 Month LIBOR	0.20%	0.20%	0.21%	0.21%	0.21%		0.17%
3 Month LIBOR	0.36%	0.37%	0.37%	0.38%	0.38%		0.26%
3 Month T-Bill	0.15%	0.14%	0.12%	0.11%	0.12%		0.04%
1 Year Treasury	0.50%	0.50%	0.49%	0.49%	0.49%		0.25%
2 Year Treasury	0.88%	0.86%	0.90%	0.91%	0.93%		0.67%
3 Year Treasury	1.18%	1.18%	1.21%	1.21%	1.23%		1.10%
5 Year Treasury	1.66%	1.66%	1.69%	1.68%	1.70%		1.65%
10 Year Treasury	2.27%	2.25%	2.27%	2.24%	2.26%		2.17%
30 Year Treasury	3.07%	3.04%	3.04%	3.00%	3.02%		2.75%

WEEKLY HIGHLIGHT

The market continues to price in a Fed move next month, but long-term rates are not expecting higher inflation

REAL GDP-REVISED



Economy	Week of November 16, 2015	
Consumer Price Index	0.2%	Both the total and core rate were up the same, bringing the YOY change for the core to +1.9%
Industrial Production	-0.2%	Excluding utility output, manufacturing was up 0.4%, giving some evidence this sector may begin to improve
Capacity Utilization	77.5%	As expected, and the low operting rate means inflation pressure will need to come from other sources
Housing Starts	1.060 Million	Well below expectations, with a big drop in multi-family while permits were up a strong 4.1%
Leading Indicators	0.6%	The first strong number in the past six months, lead by an increase in loan demand at the large banks

MONDAY MUSING

Donald Trump claims that you call someone who cannot make a living as an attorney, Senator. I have learned not to do a lot of politican jokes. They all seem to get elected. I am going have trouble not doing these with the election still a year away.

Calendar	Release	Covering	Week of November 23, 2015
Existing Home Sales	Monday	October	After the big increase in September, a small retreat is expected at 5.40 million down from 5.55 million
Real GDP-Revised	Tuesday	3rd Qtr	Growth is expected to be revised up from 1.5% to 2.1%, with retail inventories expected to provide a big boost
Consumer Confidence	Tuesday	November	An increase to 99.6 from 97.6 is expected for this index, that has been as high as 103 in the past six months
Durable Goods Orders	Wednesday	October	The declines of August and September are expected to be partially reversed, with an increase of 1.5% for October
Personal Income	Wednesday	October	A strong number is forecast for incomes at +0.4%, driven by rising wage rates as reported in the employment data
Personal Spending	Wednesday	October	A better month at +0.3% is expected, which is consistent with the monthly average of the last six months
Core PCE Price Index	Wednesday	October	An increase of 0.2% is expected, which would move the YOY increase up to 1.4% from 1.3%
New Home Sales	Wednesday	October	Sales declined in September due to lack of inventory, but is expected to recover to 500,000 for October as supply expands
Thanksgiving Holiday	Thursday		All financial markets closed

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Commentary

The data released last week, and due out this week, is expected to be strong enough to allow **the Fed** to go forward with the beginning of the process of normalizing **monetary policy** at the December **FOMC** meeting. That data included the **CPI inflation** numbers, **industrial production**, **housing starts** and the minutes from the October FOMC meeting. The **leading indicators index** was up for the first time in the last six months, while the manufacturing sector in the industrial production data improved. The data due out this week is expected to further strengthen the case for raising the target rate for **Fed Funds**.

Third quarter **Real GDP** is expected to be revised up from the 1.5% reported in the advance data, to above 2%. The upward revision will be driven by better **inventory accumulation** and a more stable **trade deficit**. **Personal consumption** expenditures are forecast to have remained above 3% growth for the quarter. The most important data due out this week will come in the personal income and spending release. Included will be the **PCE price index**. This is the inflation measure primarily used by the Fed. It is expected to be up 0.2% for the month, which would move the core rate up to 1.4% on a year-over-year basis. The Fed has a target of 2% and having this measure moving up, the Fed will be in a much better position to begin to move managed rates higher. The concern is that rising **interest rates** could stall a modest economic recovery and cause a recession. Strong final demand data supports the view that rising rates would not derail the expansion.

This phase of the **business cycle** has been much different than past expansions. The lingering affects of **deflation** has dampened final demand as consumers and businesses have used increased liquidity supplied by the Fed to pay down debt and build cash and savings. Therefore, this expansion has not produced speculative excesses as would normally occur six years into a recovery. **Consumer final demand** can continue to expand because it has been muted in the past six years. The decline in the **unemployment rate**, and continued growth in jobs, creates higher levels of consumer confidence for people who have de-leveraged and improved their financial condition. The tight **labor market** is now beginning to drive wage rates up, which provides the financial fuel for even higher levels of consumer spending going forward. Higher interest rates should not dampen this improved level of demand. Rising consumer final demand will offset the negative impact of the strong dollar and higher trade deficit and keep economic expansion on track. The Fed will move slowly, but they will begin to raise managed rates going forward. The recent rise in the yield on short-term treasuries as the two-year is trading above .90%, up from .50% one month ago, is the result of expectations the Fed is going to move in December.

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