THE AUSTIN ADVISOR

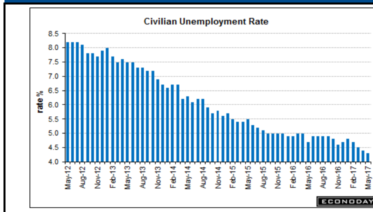
June 5, 2017

Markets	29-May	30-May	31-May	1-Jun	2-Jun	YTD%	30-Dec-16
DJIA	N / A	21,029.47	21,008.65	21,144.18	21,206.29	7.31%	19,762.60
S&P 500	N / A	2,412.91	2,411.80	2,430.06	2,439.07	8.94%	2,238.83
NASDAQ	N / A	6,203.19	6,198.52	6,246.83	6,305.80	17.14%	5,383.12
SNL Bank Index	N / A	518.52	511.38	518.24	515.81	-3.16%	532.65
Fed Funds Rate	N / A	0.91%	0.91%	0.91%	0.91%		0.55%
1 Month LIBOR	N / A	1.05%	1.06%	1.08%	1.09%		0.77%
3 Month LIBOR	N / A	1.20%	1.21%	1.22%	1.22%		1.00%
3 Month T-Bill	0.94%	0.93%	0.98%	0.98%	0.98%		0.51%
1 Year Treasury	1.17%	1.16%	1.17%	1.16%	1.16%		0.85%
2 Year Treasury	1.30%	1.28%	1.28%	1.28%	1.28%		1.20%
3 Year Treasury	1.46%	1.44%	1.44%	1.45%	1.42%		1.47%
5 Year Treasury	1.79%	1.76%	1.75%	1.76%	1.71%		1.93%
10 Year Treasury	2.25%	2.21%	2.21%	2.21%	2.15%		2.45%
30 Year Treasury	2.92%	2.88%	2.87%	2.87%	2.80%		3.06%

WEEKLY HIGHLIGHT

The data to start the second quarter has not been as strong as we expected

UNEMPLOYMENT RATE



(click to enlarge)

Economy		Week of May 29, 2017
Personal Income	0.4%	Incomes increased at a much better pace in April than the prior three months, starting the second quarter off to a strong start
Personal Spending	0.4%	While the savings rate remained at 5.5%, the growth in spending mirrored the rise in incomes for a solid start to the second quarter
PCE Core Price Index	0.2%	Inflation was up, but less than the growth in incomes or spending, continuing the trend of little indication it is becoming a risk
Consumer Confidence	117.9	While confidence has slipped from the post recession highs three months ago, it is strong with six months above 110
Motor Vehicle Sales	16.7 Million	Sales declined again to less than the twelve month average of over 17 million, which means retail sales will be affected
ISM Index	54.9	This index of manufacturing activity has been very strong and this upward data from April indicates solid growth going forward
Unemployment Rate	4.3%	The drop from 4.4% takes the rate to its lowest level since 2005, with the size of the workforce declining
Nonfarm Payrolls	138,000	Well below expectations and the average monthly gain over the last year, with the lack of qualified workers the barrier
Avg. Hourly Earnings	0.2%	The issue of a tight labor market and limited wage growth is very difficult to reconcile, but wages are stuck at a 2.5% growth annually
Trade Deficit	$47.6 Billion	The quarter starts out with a widening of the deficit with imports up and exports down, making the second quarter look weaker

MONDAY MUSING

Now that I have reached the age I have, I seem to be associating with more older people than I used to. Recently, I met a couple of 75 year olds who had just married. Stan told me it was a difficult process to go through. They had to discuss everything such as which house to live in, how to separate banking accounts and other mundane life issues. Finally, they got to the question of sex. Stan asked his bride what she thought about it and she replied, "infrequently". Stan asked her if that was one word or two. I am surprised they still got married.

Calendar	Release	Covering	Week of June 5, 2017
JOLTS	Tueaday	April	The index stood at a very strong 5.743 million at the end of March, indicating employers are having trouble finding workers
Consumer Credit	Wednesday	April	A rise to $17 billion for the month is expected, with auto and student loan growth the primary causes

THE AUSTIN ADVISOR

Commentary

With most of the April data now in, the second quarter is not starting as strong as we expected. The **trade deficit** widened in April, with exports declining by 0.3% and imports rising by 0.8%. This will cause the trade deficit to be more of a drag on **Real GDP** growth than we anticipated. **Auto sales** were under the 17 million annual rate we have run on average over the last two years. That means **retail sales** data for May will be lower. The **employment report** for May was mixed. **Job growth** of only 138,000 was well below the consensus forecast and wage growth remains stuck at about a 2.5% annual rate of growth. The **unemployment rate** did decline to a post recession low of 4.3% as more people left the workforce than the number of those now working. This data, combined with the **JOLTS report** due out this week, indicates companies are having more trouble finding qualified employees for the jobs that are unfilled. Normally this condition would lead to faster growth in wages as companies compete with each other for the workers who are qualified. We have been expecting this, but to date, it has not happened. As a result, inflation is not rising from higher labor costs. We may have reached a plateau for job growth, with the number of unfilled positions rising and job growth lower than the 185,000 per month average of the last year. **Personal income and spending** did rise by a solid 0.4% in April. It does appear consumers are willing to spend the increasing incomes they are generating. That should cause a solid rebound in **personal consumption expenditures** in the second quarter Real GDP data.

The yield curve continues to flatten, with short-term rates rising and intermediate and long-term rates dropping. **The Fed** is expected to raise managed rates at their **FOMC** meeting next week and this is driving short market rates higher. Low inflation pressures and continued political uncertainty, where the prospects of any fiscal stimulus getting through Congress is not very bright, puts pressure on the long end of the curve. The Fed is closer to beginning the process of shrinking their balance sheet by not replacing all of the cash flow from their existing portfolio. This should have some impact on market interest rates, but this is going to be gradual over an extended period time. Its biggest impact will be on deposit growth in the banking industry. We hope to get further guidence about this process coming out of the FOMC meeting next week. The Fed has said they view the first half of this year as a transitory period for the economy and they expect better growth in the second half. We should get more information about this view next week as well. There is little data for the markets to digest this week, so investors will be even more focused on the Fed meeting next week.