

# THE AUSTIN ADVISOR

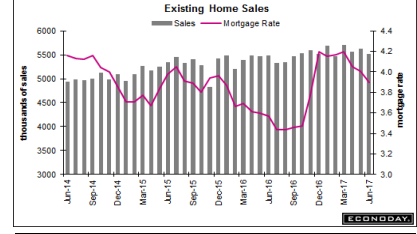
August 21, 2017

Markets	14-Aug	15-Aug	16-Aug	17-Aug	18-Aug	YTD%	30-Dec-16
DJIA	21,993.71	21,998.99	22,024.87	21,750.73	21,674.51	9.67%	19,762.60
S&P 500	2,465.84	2,464.61	2,468.11	2,430.01	2,425.55	8.34%	2,238.83
NASDAQ	6,340.23	6,333.01	6,345.11	6,221.91	6,216.53	15.48%	5,383.12
SNL Bank Index	548.83	548.87	546.31	535.27	535.26	0.49%	532.65
Fed Funds Rate	1.16%	1.16%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.23%	1.23%	1.23%	1.23%	1.24%		0.77%
3 Month LIBOR	1.31%	1.31%	1.32%	1.32%	1.31%		1.00%
3 Month T-Bill	1.02%	1.04%	1.02%	1.00%	1.02%		0.51%
1 Year Treasury	1.23%	1.23%	1.24%	1.24%	1.24%		0.85%
2 Year Treasury	1.33%	1.35%	1.33%	1.32%	1.33%		1.20%
3 Year Treasury	1.48%	1.51%	1.49%	1.46%	1.47%		1.47%
5 Year Treasury	1.77%	1.83%	1.79%	1.76%	1.77%		1.93%
10 Year Treasury	2.22%	2.27%	2.23%	2.19%	2.19%		2.45%
30 Year Treasury	2.81%	2.84%	2.81%	2.78%	2.78%		3.06%

## WEEKLY HIGHLIGHT

Retail sales strength reported for July was the first indication of accelerating final demand

## EXISTING HOME SALES



[\(click to enlarge\)](#)

## ON THIS DAY IN HISTORY

- 1841 - Venetian blind is patented
- 1878 - American Bar Association first organizes
- 1931 - Babe Ruth hits his 600th HR
- 1959 - Hawaii becomes the 50th state

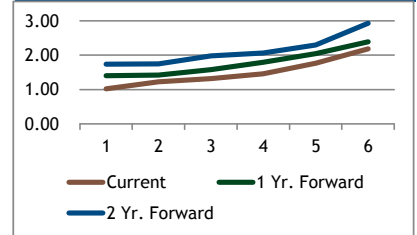
## Economy

	Week of August 14, 2017	
Retail Sales	0.6%	Not only was this report much stronger than expected, but the prior two months' data was revised upward by large amount
Housing Starts	1.155 million	This was less than expected, with multi-family units the biggest drop, as single family starts held steady at 856K
Industrial Production	0.2%	The report was below expectations, with a continued drop in auto production, causing manufacturing to drop by 0.1%
Capacity Utilization	76.7%	No change to the operating rate, which remains low, leaving excess capacity at a level which keeps inflation low
Leading Indicators	0.3%	Low market interest rates and high consumer confidence keeps this index rising in spite of lower building permits data

## Calendar

	Release	Covering	Week of August 21, 2017
New Home Sales	Wednesday	July	Sales moved up to above 600k in May and June, and inventories increased with about the same result for July at 610k
Existing Home Sales	Thursday	July	A small increase to 5.57m is expected, representing a solid environment which is driving prices up
Durable Goods Orders	Friday	July	This volatile data series is expected to drop by 5% for July, following the surge of 6.5% reported for June

## U.S. TREASURY FORWARD CURVE



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## Commentary

The first indication the second half of the year will be much better than the first was provided last week. **Retail sales** were reported as having increased by a strong 0.6% for the month of July. In addition, both May and June's results were revised upward. June moved from a first reported -0.2% to an increase of 0.3%. This strong report indicates consumers came back in a very strong manner after listless growth in the first five months of the year. One month does not make a trend, but it is a start. In order to generate better **Real GDP growth** than the 2.1% growth in the first half of the year, **consumer final demand** must grow at better than 3.5%. There had been no indication this was going to happen until this retail sales report, but there needs to be more than one or two months. Without an improvement in the **consumer spending** sector, Real GDP growth and **inflation** will remain well below the Fed's forecast.

Offsetting some of the strength of the retail sales data was the **housing starts** report. It came in below expectations and well below the June data. Housing in general has been running below 2016 rates of growth in the first half of 2017. Part of the problem is lack of inventory, with few houses in certain price ranges up for sale. Demand has been high for the few homes that are on the market and prices have risen. The problem is that prices have risen to the point where building new can produce a house that can be sold for the cost of building. Additionally, in many markets qualified employees cannot be found to work in the construction industry. These are barriers to seeing faster growth in the housing sector, to meet the level of the demand. This condition will add to inflation pressures going forward since housing costs are included in measures of inflation.

The news this week will be made in Jackson Hole, WY. It is the annual Economic Summit, held each year, and will include a presentation by **Fed Chair Yellen** on Friday. The debate as to whether **the Fed** will continue to raise short-term interest rates this year will be the central topic of discussion at this conference. We do not expect any concrete resolution of this question from this meeting. **The curve** continues to flatten, as intermediate and long-term rates dropped, as capital came out of stocks and into bonds last week. The political environment domestically and the issues with North Korea are reasons for a flight to safety we saw last week. We do not expect any change in the level of interest rates without further evidence of strength in the consumer sector and a cooling of the heated political situation.

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