# THE AUSTIN ADVISOR

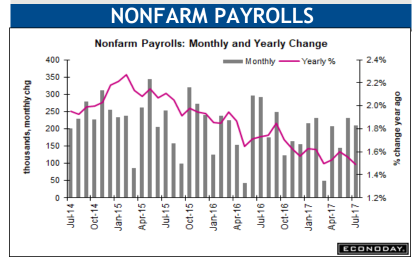
August 28, 2017

| Markets | 21-Aug | 22-Aug | 23-Aug | 24-Aug | 25-Aug | YTD% | 30-Dec-16 |
|---|---|---|---|---|---|---|---|
| DJIA | 21,703.75 | 21,899.89 | 21,812.09 | 21,783.40 | 21,813.67 | 10.38% | 19,762.60 |
| S&P 500 | 2,428.37 | 2,452.51 | 2,444.04 | 2,438.97 | 2,443.05 | 9.12% | 2,238.83 |
| NASDAQ | 6,213.13 | 6,297.48 | 6,278.41 | 6,271.33 | 6,265.64 | 16.39% | 5,383.12 |
| SNL Bank Index | 533.68 | 539.43 | 539.43 | 540.90 | 541.36 | 1.63% | 532.65 |
| Fed Funds Rate | 1.16% | 1.16% | 1.16% | 1.16% | 1.16% | | 0.55% |
| 1 Month LIBOR | 1.24% | 1.24% | 1.23% | 1.23% | 1.24% | | 0.77% |
| 3 Month LIBOR | 1.31% | 1.32% | 1.32% | 1.32% | 1.32% | | 1.00% |
| 3 Month T-Bill | 1.00% | 1.00% | 1.00% | 1.02% | 1.03% | | 0.51% |
| 1 Year Treasury | 1.23% | 1.24% | 1.22% | 1.23% | 1.23% | | 0.85% |
| 2 Year Treasury | 1.32% | 1.33% | 1.32% | 1.33% | 1.35% | | 1.20% |
| 3 Year Treasury | 1.46% | 1.48% | 1.45% | 1.47% | 1.47% | | 1.47% |
| 5 Year Treasury | 1.76% | 1.80% | 1.76% | 1.78% | 1.77% | | 1.93% |
| 10 Year Treasury | 2.18% | 2.22% | 2.17% | 2.19% | 2.17% | | 2.45% |
| 30 Year Treasury | 2.77% | 2.79% | 2.75% | 2.77% | 2.75% | | 3.06% |

## WEEKLY HIGHLIGHT

Economic data has improved, but this has not led to rising inflation pressures

## NONFARM PAYROLLS




(click to enlarge)

| Economy | Week of August 21, 2017 | |
|---|---|---|
| New Home Sales | 571,000 | Well below prior months and expectations, while prior two months were revised upward to strong numbers |
| Existing Home Sales | 5.440 Million | The decline of 1.3% was weaker than expected and is consistent with the new home sales data, keeping downward trend intact |
| Durable Goods Orders | -6.8% | The highly volatile aircraft orders component was the issue, with non-transportation orders up 0.5% |

## ON THIS DAY IN HISTORY

1609 - Henry Hudson discovers what is now Delaware Bay

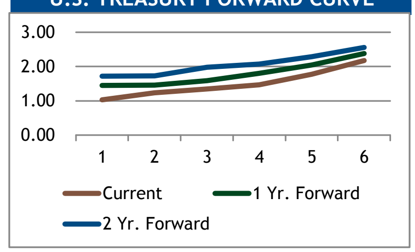
1845 - Scientific American magazine publishes its first issue

1884 - First known photograph of a tornado is taken

1963 - Dr. King delivers his "I have a dream" speech

| Calendar | Release | Covering | Week of August 28, 2017 |
|---|---|---|---|
| Consumer Confidence | Tuesday | August | Confidence has been running at near record highs at above 120 for the last three months and is expected to be 120.3 for August |
| Real GDP-Revised | Wednesday | 2nd Quarter | Consensus calls for an upward revision from 2.6% to 2.8%, while we expect it to be above 3% |
| Personal Income | Thursday | July | Income growth is expected to be up 0.4% for July, following no growth in June |
| Personal Spending | Thursday | July | The important spending growth is forecast to have jumped 0.4% following weak numbers for the last six months |
| Core PCE Index | Thursday | July | Even with the improved final demand numbers inflation is expected to be low at only 0.1%, leaving the YOY increase at 1.4% |
| Motor Vehicle Sales | Friday | August | Sales have leveled at 16.5 million with 16.7M expected for the month, as this has slowed from above 17M in 2016 |
| Unemployment | Friday | August | The rate is expected to be unchanged at 4.3% as the growth in the workforce is about equal to the growth in jobs |
| Nonfarm Payrolls | Friday | August | An increase of 180,000 is the consensus forecast, after a surge in jobs of better than 215,000 in the prior two months |
| Avg. Hourly Earnings | Friday | August | Only an increase of 0.2% following the 0.3% growth reported for July, keeping inflation expectations very low |
| ISM Index | Friday | August | This index reflecting future manufacturing activity has been very strong and is expected to remain high at 56.6 for August |

## U.S. TREASURY FORWARD CURVE



## Commentary

There will be a wealth of data released this week. Most of it is expected to reflect a stronger economic environment than the first six months of the year. Second quarter **Real GDP** will be revised from the 2.6% increase reported in the **Advance report**. This revision is expected upward to 2.8%. We are expecting better than 3% due to higher **consumer spending**, a lower **trade deficit** and a better **housing sector** in June than was estimated in the Advance Report. The **housing data** released last week did revise both May and June upward, even as the July sales data was lower than expected. Personal spending due out this week is forecast to be much higher in July than the June data, indicating a solid start to the third quarter. **Consumer confidence,** due out tomorrow, is expected to remain at near record highs and the jobs data due out on Friday is forecast to remain solid after very strong growth reported for June and July. The one area not expected to change is the lack of **inflation**. The core rate for the **PCE price index** was only 0.1%, keeping the year-over-year increase at 1.4%. This is down from 1.9% for all of 2016. Wage rates are not increasing at a rate reflective of the tight labor markets. Wages have increased by 2.5% over the last year. The hurricane in Texas this week is expected to drive gasoline prices up as production and refining are impacted and supplies are disrupted. Investors and the Fed focus on the core rate, which excludes the weather affected total inflation data. This low rate of inflation is keeping intermediate and long-term market interest rates low. There is limited prospect of any increase in market rates without higher inflation risks.

The Jackson Hole Economic Summit held last week produced no news to change the outlook for future **monetary policy** direction. The Fed has not changed its guidence of one more rate increase this year and the beginning of the plan to shrink their balance sheet. The increases the Fed has already executed this year are beginning to affect funding costs for banks. More of our clients are having to respond to large depositors demand for higher yields by pricing these deposits up in order to maintain relationships. The decision to match new, higher rates for short-term deposits is a strategic decision, not a financial one. Most community banks continue to have excess liquidity, with low loan-to-asset ratio's. These banks do not need the deposits, but are reluctant to allow customers to move balances to other higher yielding alternatives. Loan demand has leveled at a slower pace than experienced late last year and early this year. This has led some banks to extend terms on loans at lower rates than was the case six months ago. This environment causes concerns by regulators. The **FDIC** has issued position papers on increasing interest rate risk being assumed in the industry. Even if the economy does grow at better than 3% over the last three quarters of this year, market rates will not move higher without this growth causing some upward pressure on inflation. While we are getting better data on the economy over the last four months, this has not translated into higher inflation risks.