THE AUSTIN ADVISOR

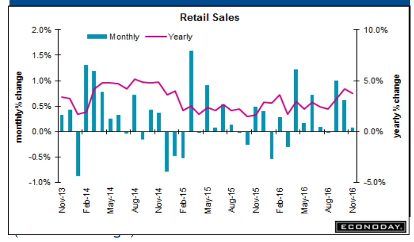
January 9, 2017

Markets	2-Jan	3-Jan	4-Jan	5-Jan	6-Jan	YTD%	30-Dec-16
DJIA	N/A	19,881.76	19,942.16	19,899.29	19,963.80	1.02%	19,762.60
S&P 500	N/A	2,257.83	2,270.75	2,269.00	2,276.98	1.70%	2,238.83
NASDAQ	N/A	5,429.08	5,477.01	5,487.94	5,521.06	2.56%	5,383.12
SNL Bank Index	N/A	538.17	543.03	535.22	536.30	0.68%	532.65
Fed Funds Rate	N/A	0.66%	0.66%	0.66%	0.66%		0.55%
1 Month LIBOR	N/A	0.77%	0.77%	0.77%	0.76%		0.77%
3 Month LIBOR	N/A	1.00%	1.01%	1.01%	1.01%		1.00%
3 Month T-Bill	0.51%	0.53%	0.53%	0.52%	0.53%		0.51%
1 Year Treasury	0.85%	0.89%	0.87%	0.83%	0.85%		0.85%
2 Year Treasury	1.20%	1.22%	1.24%	1.17%	1.22%		1.20%
3 Year Treasury	1.47%	1.50%	1.50%	1.43%	1.50%		1.47%
5 Year Treasury	1.93%	1.94%	1.94%	1.86%	1.92%		1.93%
10 Year Treasury	2.45%	2.45%	2.46%	2.37%	2.42%		2.45%
30 Year Treasury	3.06%	3.04%	3.05%	2.96%	3.00%		3.06%

WEEKLY HIGHLIGHT

The jobs report did raise the possibility of higher inflation due to wage growth

RETAIL SALES



Economy	Week of January 2, 2017	
ISM Index	54.7	Up 1.5 points in December to its highest reading in the last two years, led by new orders
Motor Vehicle Sales	18.5Million	Much stronger than expected and should contribute to very strong December retail sales data
Unemployment Rate	4.7%	The uptick from 4.6% was a function of strong growth in the labor force, as jobs attract people now looking for work
Nonfarm Payrolls	156,000	Job growth for the month was less than expected, but upward revisions to prior months bring the average up to forecasts
Avg. Hourly Earnings	0.4%	This is the second month out of the last three with wages increasing at an accelerating pace
Trade Deficit	-$45.5 Billion	The deficit widened more than expected in November, with imports up 1.1% and exports down 0.2%

MONDAY MUSING

I no longer read the want ads in the newspaper, but I did have one catch my eye in the Sunday paper. The Ad read: "Now hiring, Cemetery Superintendent. The successful candidate must to able to supervise in a fast paced environment." Either this was written by a consultant or the work is done during the dark.

Calendar	Release	Covering	Week of January 9, 2017
Consumer Credit	Monday	November	An increase of $18.5 B is expected, as credit card and auto loans were up on strong final demand
JOLTS	Tuesday	November	The job openings index has backed down slightly to 5.534M in the last two months, but is still a high level in the cycle
Producer Price Index	Friday	December	The PPI jumped 0.4% in November, and is expected to report another increase of 0.3% for December
Retail Sales	Friday	December	The large 0.7% increase expected is being driven by strong auto sales and higher gasoline prices

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Commentary

The data from last week was the first providing an indication of how 2016 ended, and what growth can be expected for the fourth quarter. The most important was the employment report. **Nonfarm payrolls** increased by 156,000, which was well below expectations. The prior two months were revised upward by 19,000. This keeps the monthly average of the last three months at 182,000. This is still reflective of a strong **labor market**. The most important element in the employment report was the big increase in average hourly earnings. They were up 0.4% for the month, and are now up 2.9% on a year-over-year basis. Anything above 3% does create higher inflationary pressures. It also adds to the ability of consumers to increase spending. The tight labor market is beginning to drive wages and incomes up as employers compete for qualified employees. The labor market report made the case for higher inflation and faster economic growth even stronger.

This forecast will be tested this week with the release of **Producer Prices** and **retail sales** for December. Both **inflation** and final demand were low in November and the expectation is they rebounded in December. The car sales data from last week should drive a strong retail sales number and the higher wage rates and oil prices should drive the PPI up. The key question is how strong will the fourth quarter **Real GDP** growth be. A month ago, consensus forecasts were for about 2%, down from the 3.5% final third quarter result. With the stronger December final demand data and continued job growth, consensus forecasts have moved up to 2.5%. We are at 2.9% for the quarter. This would be enough to cause **the Fed** to execute another increase in managed rates either late in the first quarter or early in the second quarter.

The variable in the first quarter is always the weather. The first quarter in both of the last two years were affected by bad weather and depressed growth. We also have concerns with the seasonal adjustment factors used to calculate the data. Spending patterns have changed over the years and these have not been fully captured by the seasonal adjustments. All of this strong data is before any benefits from tax reform or new federal spending programs are enacted. It does not include lower costs from a reduction in regulations promised by the new administration. There is much to be optimistic about as we start the new year.

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