

# THE AUSTIN ADVISOR

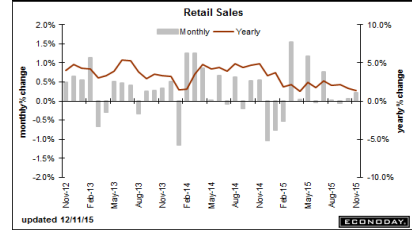
January 11, 2016

Markets	4-Jan	5-Jan	6-Jan	7-Jan	8-Jan	YTD%	31-Dec-15
DJIA	17,148.94	17,158.66	16,906.51	16,514.10	16,346.45	-6.19%	17,425.03
S&P 500	2,012.66	2,016.71	1,990.26	1,943.09	1,922.03	-5.96%	2,043.94
NASDAQ	4,903.09	4,891.43	4,835.77	4,689.43	4,643.63	-7.26%	5,007.41
SNL Bank Index	420.29	420.16	413.60	399.72	391.89	-9.18%	431.48
Fed Funds Rate	0.36%	0.36%	0.36%	0.36%	0.36%		0.35%
1 Month LIBOR	0.42%	0.42%	0.42%	0.42%	0.42%		0.43%
3 Month LIBOR	0.61%	0.62%	0.62%	0.62%	0.62%		0.61%
3 Month T-Bill	0.22%	0.20%	0.21%	0.20%	0.20%		0.16%
1 Year Treasury	0.61%	0.68%	0.67%	0.66%	0.64%		0.65%
2 Year Treasury	1.02%	1.04%	0.99%	0.96%	0.94%		1.06%
3 Year Treasury	1.31%	1.32%	1.26%	1.22%	1.20%		1.31%
5 Year Treasury	1.73%	1.73%	1.65%	1.61%	1.57%		1.76%
10 Year Treasury	2.24%	2.25%	2.18%	2.16%	2.13%		2.27%
30 Year Treasury	2.98%	3.01%	2.94%	2.92%	2.91%		3.01%

## WEEKLY HIGHLIGHT

Global markets have caused our market to correct, even as economic data remains solid

## RETAIL SALES



## Economy Week of December 28, 2015

ISM Index	48.2	Rather than recovering some of the declines in the last year, the index dipped again reflecting contracting manufacturing
Motor Vehicle Sales	17.3 Million	The expected seasonal decline did not occur to the degree expected, with sales down from the huge 18.1M for November
Trade Deficit	-\$42.4 Billion	This non-inflation adjusted data was better than expected, but does show the slowing rate of global trade
Unemployment	5.0%	The rate was unchanged, as those coming back into the workforce equaled the large growth in payrolls
Nonfarm Payrolls	292,000	A huge increase well above expectations, and the prior two months were revised upward by 50,000
Avg. Hourly Earnings	0.0%	No increase in wages, but due to weak data from last year, the YOY increase went up to 2.5% from 2.3% last month
Consumer Credit	\$14.0 Billion	Well below forecasts for November and below trend line, but credit card debt was up a solid \$5.7 billion

## MONDAY MUSING

I spent some time over the holidays cleaning out my files. I found some news items which I had filed away, but never used because I could not put them together for a story. In order to complete my project, I will share a couple of them. I thought the story of the guy who showed up for this trial for auto theft in a stolen car was odd. His explanation was he did not want to be late. There was a story about a school teacher who was suspended from her job for being late to work 111 times in the last two years. Her explanation was she should have stopped eating breakfast at home. The one I like the best was Alaska Airlines managed to lose the luggage of the president of airlines. Seems like justice to me. Your challenge is to weave these three true stories into one. Let me know.

## Calendar Week of January 11, 2016

JOLTS Index	Tuesday	November	This index of unfilled job openings is expected to remain well above 5 million, meaning continued strong job growth
Producer Price Index	Friday	December	After jumping by 0.3% in November, wholesale prices are expected to be down but the core rate up for December
Retail Sales	Friday	December	The seasonal slowdown in auto sales held back total sales as measured by this non-inflation adjusted data
Industrial Production	Friday	December	Manufacturing has slowed and a warm month keeps utility output low, with expectations for a decline of 0.2%
Capacity Utilization	Friday	December	The operating rate is forecast to have dropped below 77% for the month and keeps inflation pressures in check

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## Commentary

The **U.S. stock market** took a major hit last week for reasons well beyond our understanding. It declined in sympathy with equity markets around the world but specifically, **China**. The Chinese took several steps to try and stop the slide, including another round of currency devaluation and restrictions on trading in their stock markets. These drastic steps were done poorly, and added to the downward pressure on stocks with greater uncertainty. The economic data released by China is very suspect, and investors have reached the conclusion that economic conditions are worse than the data would suggest, driving the Chinese to the drastic moves. None of these issues have affected the U.S. economy as of yet.

The data released last week, including the **labor market report** for December, continues to be strong with acceleration in **economic growth** being indicated. **Nonfarm payrolls** increased by 292,000 in December, and both October and November's were revised upward by 50,000. This drives the average monthly growth in jobs for the last quarter of 2015 up to 280,000, a level not achieved since the second half of 2014. As is usually the case, rapid growth in jobs causes more people to come back to the workforce. The **unemployment rate** was unchanged as the growth in the workforce was about equal to the growth in those working. The only disappointing number was the **average hourly earnings** data. Wages did not increase in December. Because the data from early 2015 was negative, the year-over-year growth in wages did increase by 2.5%. Income growth has not occurred even as the tightness in the labor market has increased. The basis of our forecast for higher **Real GDP** growth in 2016 than 2015 is based on the expectation that income growth will accelerate to fuel the higher levels of personal consumption expenditures needed. To date, that has not happened.

Rapid job growth and higher levels of incomes should drive **consumer confidence** higher and propel **consumer spending** to levels needed to generate growth above 3% this year. The fourth quarter Real GDP data will be lower than the average for the full year 2015 due to the increased **trade deficit** and lower **inventory growth**. The key data will be personal consumption expenditure growth, which we are forecasting to be above 3%. The **retail sales** data due out this week for December should provide some clue as to this expectation. Excluding volatile auto sales and gasoline, sales are forecast to be up 0.3% for the month. The unit volume increase for this non-inflation adjusted data would be even higher. This week will be the beginning of earnings releases from the fourth quarter. Should earnings and forward guidance by companies come below forecasts, further stock price declines will follow. However, better than the pessimistic outlook currently driving the equity market could reverse our market.

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