THE PROBANK AUSTIN ADVISOR

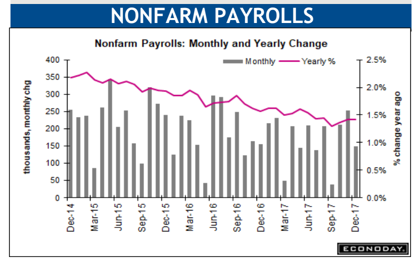
January 29, 2018

Markets	22-Jan	23-Jan	24-Jan	25-Jan	26-Jan	YTD%	29-Dec-17
DJIA	26,214.60	26,210.81	26,252.12	26,392.79	26,616.71	7.68%	24,719.22
S&P 500	2,832.97	2,839.13	2,837.54	2,839.25	2,872.87	7.45%	2,673.61
NASDAQ	7,408.03	7,460.29	7,415.06	7,411.16	7,505.77	8.73%	6,903.39
SNL Bank Index	660.07	660.19	664.41	662.98	666.25	7.86%	617.68
Fed Funds Rate	1.42%	1.42%	1.42%	1.42%	N / A		1.42%
1 Month LIBOR	1.56%	1.56%	1.56%	1.57%	1.57%		1.56%
3 Month LIBOR	1.74%	1.75%	1.75%	1.76%	1.77%		1.69%
3 Month T-Bill	1.44%	1.44%	1.43%	1.42%	1.41%		1.39%
1 Year Treasury	1.79%	1.78%	1.79%	1.80%	1.80%		1.76%
2 Year Treasury	2.08%	2.06%	2.08%	2.08%	2.13%		1.89%
3 Year Treasury	2.21%	2.18%	2.20%	2.20%	2.24%		1.98%
5 Year Treasury	2.46%	2.43%	2.43%	2.41%	2.47%		2.20%
10 Year Treasury	2.66%	2.63%	2.65%	2.63%	2.66%		2.40%
30 Year Treasury	2.93%	2.90%	2.93%	2.89%	2.91%		2.74%

WEEKLY HIGHLIGHT

Real GDP was lower than we expected in the fourth quarter, but the fundamentals were stronger

NONFARM PAYROLLS



(click to enlarge)

Economy	Week of January 22, 2018	
Existing Home Sales	5.570 Million	
New Home Sales	625,000	While sales declined from a revised $689 K, it is still the fourth best month since the recession and supply grew by $295 K
Leading Indicators	0.6%	This data has been very strong for the past year and this is another strong report fueled by a tight labor market

ON THIS DAY IN HISTORY

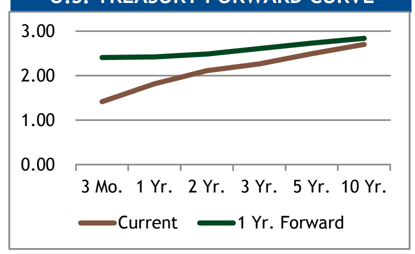
1595 - Shakespeare's 'Romeo & Juliet' first performed

1886 - Karl Benz patents the 'Benz Patent-Motorwagen', the World's first with a burning motor

1936 - 1st Baseball HOF class inducted and includes: Cobb, Ruth, Wagner, Mathewson & Johnson

Calendar	Release	Covering	Week of January 29. 2018
Personal Income	Monday	December	Incomes will be growing at a much faster pace due to the tax reform act and companies sharing the savings with employees; +0.4%
Personal Spending	Monday	December	Higher income growth and consumer confidence will fuel an increased pace of consumer final demand, expect a solid +0.4%
Core PCE Price Index	Monday	December	This key measure of inflation has not increased in the last six months and we expect only 0.2% for December
Consumer Confidence	Tuesday	January	After dropping in December to 122.1 from 129, consensus forecast calls for a small rebound to 123.5
FOMC Meeting Announcement	Wednesday		No change in monetary policy is expected from the last meeting to be chaired by Janet Yellen

U.S. TREASURY FORWARD CURVE



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Commentary

The fourth quarter **Real GDP report** was issued last Friday. It was estimated to be 2.6%, below our estimate of 3.1%. We expect upward revisions to this number when more complete data becomes available in the next two months. The details were as we expected. **Personal consumption expenditures** jumped by 3.8% in the quarter, as compared to 2.2% in the third quarter. **Capital spending** increased by 7.6%, as compared to 2.4% in the third quarter. Both federal, state, and local spending grew at a much better rate than any time in the last two years. The consumption side of the economy reflected accelerating rates of growth. The smaller total growth was effected by an expanding **trade deficit** and very low inventory accumulation. The trade deficit expanded from -$597.5 Billion in the third quarter to -$652.6 Billion in the fourth. Part of this expansion was the impact of the hurricanes in the third quarter that shut down ports and caused imports to be delayed. This increase in the trade deficit was a 1.1% drag on **Real GDP growth** for the quarter. We expect the deficit to narrow in 2018, primarily due to the decline of the dollar that has already occurred. The lower dollar makes our goods and services less expensive in the overseas markets and imports less competitively priced in domestic markets. Inventory growth slowed from $38.5 Billion in the third quarter to only $9.2 Billion in the fourth. The changing nature of the U.S. economy, with more products purchased directly from manufacturers through retailers such as Amazon, will change the level of inventories needed to meet demand. The growth reported was before the impact of the **tax reform act**. Lower taxes will boost capital spending as companies use some of the lower costs of taxes to invest in their business. None of the forecasts for the impact of the tax reform act included an expectation companies would use part of the tax savings to increase wages and pay bonuses to employees. These actions will drive personal income even higher than a tight labor market was already causing. This growth in incomes will fuel strong growth in consumer final demand in 2018.

This week will see the release of the **labor report** for January. This data is affected by seasonal adjustment factors which are out-of-date given the changes in the nature of the economy over the past decade. For example, retailing was reported as having lost 22,000 jobs in December as compared to November. This was probably due to the seasonal adjustment factor applied as retail jobs did not grow as much as the historical average in the strongest retailing month of the year. The problem is Amazon employees are not counted in retailing. Therefore, the changing way in which we buy products and cause Amazon jobs to grow and traditional retailers jobs not to grow as much as in the past, affects the monthly numbers. The reverse should be the case for January, with job growth stronger due to the seasonal adjustment expecting jobs to disappear when they did not occur in December. The surprise in the labor report should be on the upside as the consensus only calls for growth in **nonfarm payrolls** to be 176,000 and the unemployment rate to hold steady at 4.1%. This week is the last **FOMC meeting** for retiring **Chair Yellen**. We do not expect any change in current **monetary policy** at this meeting, but do expect an increase at the March meeting. The risks continue to be the economy growing faster than currently expected, the Fed raising managed rates more than three times this year and market interest rates rising more and faster than currently forecasted.

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