

THE AUSTIN ADVISOR

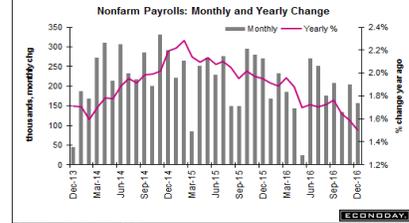
January 30, 2017

Markets	23-Jan	24-Jan	25-Jan	26-Jan	27-Jan	YTD%	30-Dec-16
DJIA	19,799.85	19,912.71	20,068.51	20,100.91	20,093.78	1.68%	19,762.60
S&P 500	2,265.20	2,280.07	2,298.37	2,296.68	2,294.69	2.50%	2,238.83
NASDAQ	5,552.94	5,600.96	5,656.34	5,655.18	5,660.78	5.16%	5,383.12
SNL Bank Index	521.18	529.35	539.04	541.87	539.06	1.20%	532.65
Fed Funds Rate	0.66%	0.66%	0.66%	0.66%	0.66%		0.55%
1 Month LIBOR	0.77%	0.77%	0.78%	0.78%	0.78%		0.77%
3 Month LIBOR	1.04%	1.03%	1.04%	1.04%	1.04%		1.00%
3 Month T-Bill	0.51%	0.51%	0.50%	0.51%	0.52%		0.51%
1 Year Treasury	0.79%	0.81%	0.82%	0.82%	0.82%		0.85%
2 Year Treasury	1.16%	1.21%	1.23%	1.21%	1.22%		1.20%
3 Year Treasury	1.43%	1.49%	1.52%	1.49%	1.48%		1.47%
5 Year Treasury	1.88%	1.94%	1.99%	1.95%	1.94%		1.93%
10 Year Treasury	2.41%	2.47%	2.53%	2.51%	2.49%		2.45%
30 Year Treasury	2.99%	3.05%	3.10%	3.08%	3.06%		3.06%

WEEKLY HIGHLIGHT

Financial markets are dealing with a wealth of data and events, which normally leads to volatility

NONFARM PAYROLLS



Economy Week of January 23, 2017

Existing Home Sales	5.490 Million	The drop from 5.650M was a function of lack of supply of homes for sale, with inventory the lowest since 1999
New Home Sales	536,000	Sales dropped by 10.4% in the month, with the prior two months revised up for this highly volatile data
Leading Indicators	0.5%	A solid increase, providing some evidence the economic expansion will continue through this year
Durable Goods Orders	-0.4%	The drop was a function of aircraft orders with the index, excluding transportation, up a strong 0.5%
Real GDP-Advance	1.9%	Well below our forecast and consensus expectations, but the advance report is subject to large revisions

MONDAY MUSING

I saw an interesting news segment on CNN last week. They played a repeat of Madonna's speech at the women's march. There were so many bleeps for the language used it was hard to follow the message. Then they showed some of the marchers with signs with language even President Trump has not been accused of using. The segment ended with an interview of a woman who was asked why she was marching. She said it was because President Trump is disgusting. I think we can remove the word civility from the dictionary.

Calendar Week of January 30, 2017

Calendar	Release	Covering	Week of January 30, 2017
Personal Income	Monday	December	Data was reported early this morning as an increase of 0.3%, up from the revised 0.1% growth reported for December
Personal Spending	Monday	December	Spending rose 0.5%, up from the 0.2% rise in November, led by the surge in auto sales
Core PCE Price Index	Monday	December	This inflation index reported no change for the month, and has now risen 1.7% over the past year
Consumer Confidence	Tuesday	January	Confidence jumped to 113.7 in December, the highest level post recession, and is expected to remain high at 112.2
Motor Vehicle Sales	Wednesday	January	Following a surge to 18.4M in December, sales are expected to be reported at a solid 17.7 M in January
ISM Index	Wednesday	December	The index has moved well above the expansion level of 50 in the last five months; expect 55 to be reported
FOMC Meeting Statement	Wednesday		No change in managed rates is expected from this meeting, with investors looking to the statement released for guidance
Unemployment Rate	Friday	January	No change in the 4.7% rate from December is expected
Nonfarm Payrolls	Friday	January	Job growth expectations call for 175,000 or at the average monthly growth of the last year
Avg. Hourly Earnings	Friday	January	Wages have increased at a rate above the average of the last year in the last three months; forecast call for another at 0.3%

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Commentary

The **Advance report** for fourth quarter economic growth was released last week, and came in well below our forecast and consensus expectations. Growth of 1.9% was down from the 3.5% of the third quarter and the 2.2% expected. This number translates into 1.6% for all of 2016, as compared to 2.4% for 2015. The Advance Report is computed using incomplete and estimated data. This means the number is subject to large revisions. The average revision in the last five years is 0.5%, and we expect a large upward revision at the end of February. The components of growth did change in the fourth quarter. **Personal consumption expenditures** increased by 2.5%, down from 3.0% in the third quarter. **Capital expenditures** increased at better than 4%, following no growth in the third quarter. Inventories rose by more than \$45 billion. The **trade deficit** was estimated at just under \$600 billion and was a huge widening of the deficit from the third quarter. The conclusion is domestic demand is continuing to provide for an expansion of economic activity, while an increasing level of demand is being met with imported products. Much of this trend is a function of the strong dollar making imports less expensive and export opportunities less prevalent. Markets did not react to this data and expect upward revisions going forward. We continue to forecast an end number of 2.9% for the quarter.

This week will experience a wealth of data and a **FOMC** meeting. No change in managed rates is expected from the FOMC, but the language of the statement will be closely monitored for any change in forward guidance. The **labor market report** for January will be released on Friday. The consensus expectation calls for no large change in the trend of the last year. Growth of 175,000 **nonfarm payrolls** would be consistent with the average monthly growth over the past year and no change in the **unemployment rate** at its current low level is forecast. The growth in average hourly earnings in the last four months indicates an acceleration in wages and can lead to higher **inflation** pressures. **Auto sales** will be released on Wednesday with strong sales levels the primary reason **consumer final demand** has been as strong as been reported in the last month. **Personal income** and spending were released this morning. **Personal spending** was up 0.5% in December and this data is the biggest reason we expect large upward revisions to **Real GDP**. December was a large rebound in final demand from a weak November. We do not believe this rebound was fully estimated in the GDP data for the fourth quarter. Manufacturing is beginning to improve, with the **ISM Index** well above the breakeven level of 50; it is expected to be reported at 55.0 for the month. The financial markets have a large amount of data to deal with over a two week period. This data and a FOMC meeting can lead to higher volatility as investors try to understand current and expected future economic conditions.

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