THE AUSTIN ADVISOR

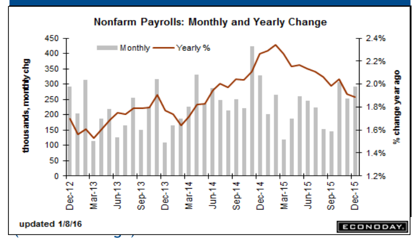
February 1, 2016

Markets	25-Jan	26-Jan	27-Jan	28-Jan	29-Jan	YTD%	31-Dec-15
DJIA	15,885.22	16,167.23	15,944.46	16,069.64	16,466.30	-5.50%	17,425.03
S&P 500	1,877.08	1,903.63	1,882.95	1,893.36	1,940.24	-5.07%	2,043.94
NASDAQ	4,518.49	4,567.67	4,468.17	4,506.68	4,613.95	-7.86%	5,007.41
SNL Bank Index	358.82	366.97	368.52	371.23	382.93	-11.25%	431.48
Fed Funds Rate	0.38%	0.38%	0.38%	0.38%	0.38%		0.35%
1 Month LIBOR	0.43%	0.43%	0.43%	0.43%	0.43%		0.43%
3 Month LIBOR	0.62%	0.62%	0.62%	0.62%	0.61%		0.61%
3 Month T-Bill	0.31%	0.31%	0.32%	0.35%	0.33%		0.16%
1 Year Treasury	0.47%	0.47%	0.47%	0.47%	0.47%		0.65%
2 Year Treasury	0.88%	0.85%	0.84%	0.83%	0.76%		1.06%
3 Year Treasury	1.10%	1.07%	1.07%	1.05%	0.97%		1.31%
5 Year Treasury	1.47%	1.45%	1.43%	1.40%	1.33%		1.76%
10 Year Treasury	2.03%	2.01%	2.02%	2.00%	1.94%		2.27%
30 Year Treasury	2.80%	2.79%	2.80%	2.79%	2.75%		3.01%

WEEKLY HIGHLIGHT

A weaker fourth quarter Real GDP estimate calls into question any further Fed action

NONFARM PAYROLLS



Economy	Week of January 25, 2016	
Consumer Confidence	98.1	The outlook for jobs and expectations for rising incomes are the primary reasons for a much better reading than expected
New Home Sales	544,000	Sales were up 10.8% for the month which was well above forecasts, with the supply dropping to 5.2 months from 5.6
FOMC Meeting		No change in monetary policy and the statement eliminated the language about balanced risks
Durable Goods Orders	-5.1%	While housing is strong, low manufacturing levels have depressed durable goods orders
Real GDP Advance	0.7%	The advance report is subject to large revisions, but the first estimate was well below expectations

MONDAY MUSING

I have been losing confidence in the intelligence of the American people. I thought this was a function of the election season we are experiencing, but two events happened last week to cause me to believe it may be a larger issue. I got a phone call and the caller asked, "Who is this?". I said, "This is Bob, with whom did you wish to speak?". The caller asked, "Did you just say whom?". I said yes. The caller said."Sorry, I have the wrong number". Then I called a store and asked the clerk. "Are you on the north or south side of the street?". The clerk said,"It depends on which direction you are coming from". Maybe the political polls are correct.

Calendar	Release	Covering	Week of February 1, 2016
Personal Income	Monday	December	Incomes are expected to increase by 0.3%, which would match the solid increase reported for November
Personal Spending	Monday	December	Final demand slowed in December, with only a 0.1% increase expected
ISM Index	Monday	January	The strong dollar and weak foreign demand has slowed manufacturing, with forecasts of 48.3, well below expansion levels of 50
Motor Vehicle	Tuesday	January	Auto sales remain strong with 17.5 million the consensus forecast, slightly higher than sales levels in December
Unemployment	Friday	January	No change in the 5.0% reported for December is expected, but it depends on the growth in the size of the workforce
Nonfarm Payrolls	Friday	January	An increase of 190,000 is expected which is solid, but less than the monthly average of the last three months
Avg. Hourly Earnings	Friday	January	A strong gain of 0.3% is the consensus as a tight labor market is beginning to drive wage rates up
Trade Deficit	Friday	December	The dollar level of the non-inflation adjusted trade deficit is expected to be -$43.2 billion, slightly higher than the -$42.4B in November
Consumer Credit	Friday	December	Credit card balances have been increasing which leads to a forecast of $16.5 billion, up from $14.0B in November

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Commentary

The preliminary look at fourth quarter economic growth was well below levels expected just two months ago. The expected drag on growth from lower **inventory build** and a larger **trade deficit** was reported. In addition to those factors, there was the slowdown in **consumption** which was not expected. Consumption spending slowed from 3.0% in the third quarter, to 2.2% in the fourth. It must be noted the results released in the advance report are subject to large revisions, with neither the trade deficit nor personal spending for December yet released. Both of these were estimates in this release. Additionally, seasonal adjustment factors used for this data may understate actual consumer spending patterns in the fourth quarter. Even if this data is revised upward in subsequent releases, it is clear the momentum of **consumer final demand** was diminished in the fourth quarter. Now the question is whether this was a one quarter event or is it a long-term slowdown in spending growth. Our view is that it is an anomaly and spending growth will resume in the first half of 2016.

Auto sales remain strong, even if they were slightly lower in the last two months of last year. The **housing sector** recovered in December with inventory of unsold new and existing homes at very low levels. This should cause prices to rise going forward and cause sales levels to remain solid. **Personal income** is beginning to rise as a tight **labor market** is forcing companies to raise wages to retain and attract the workers they need. In short, the weak fourth quarter will force us to lower growth in the first half of this year, but we remain optimistic about economic growth in the second half of the year. The **FOMC** met last week and, as expected, did not change **monetary policy. The Fed** was more cautious about the current conditions. They did eliminate the language used after their December meeting, which referred to the risks to the economy as balanced. They did cite global economic conditions and volatility in financial markets as reasons to be concerned.

On balance, the Fed statement did not send a strong signal they are not prepared to move forward with their stated plan to raise managed rates four times this year, for a total of 100 basis points. If economic conditions and financial markets stabilize, even at these lower levels, in the next month we believe the Fed will take the second step in **normalizing monetary policy** in March. The **Fed Funds** futures market has eliminated this expectation in current pricing. The **bond market** is not pricing four increases or 100 basis points this year. Even if the Fed delays the next reduction in accommodative monetary policy, they do believe raising managed rates is appropriate over the course of this year. Based on the meetings we have had with clients in the last month, very few banks or credit unions have moved deposit rates after the Fed increase in December. Only two markets have reported a rise in competitive non-maturity deposit rates. On the other hand, every client reports competitive loan rates did not move. A five-year, fixed rate commercial loan is still being quoted at 4% or less in most markets. Any increase in deposit rates will cause even more pressure on net interest income growth this year.

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