

# THE AUSTIN ADVISOR

February 6, 2017

Markets	30-Jan	31-Jan	1-Feb	2-Feb	3-Feb	YTD%	30-Dec-16
DJIA	19,971.13	19,864.09	19,890.94	19,884.91	20,071.46	1.56%	19,762.60
S&P 500	2,280.90	2,278.87	2,279.55	2,280.85	2,297.42	2.62%	2,238.83
NASDAQ	5,613.71	5,614.79	5,642.65	5,636.20	5,666.77	5.27%	5,383.12
SNL Bank Index	532.81	529.67	530.39	527.08	540.32	1.44%	532.65
Fed Funds Rate	0.66%	0.56%	0.56%	0.66%	0.66%		0.55%
1 Month LIBOR	0.78%	0.78%	0.78%	0.78%	0.78%		0.77%
3 Month LIBOR	1.03%	1.03%	1.03%	1.03%	1.03%		1.00%
3 Month T-Bill	0.51%	0.52%	0.51%	0.52%	0.51%		0.51%
1 Year Treasury	0.81%	0.84%	0.83%	0.84%	0.82%		0.85%
2 Year Treasury	1.22%	1.19%	1.22%	1.21%	1.21%		1.20%
3 Year Treasury	1.48%	1.46%	1.49%	1.48%	1.49%		1.47%
5 Year Treasury	1.94%	1.90%	1.93%	1.92%	1.93%		1.93%
10 Year Treasury	2.49%	2.45%	2.48%	2.48%	2.49%		2.45%
30 Year Treasury	3.08%	3.05%	3.08%	3.09%	3.11%		3.06%

## WEEKLY HIGHLIGHT

The jobs report was the highlight of a week, filled with new data for investors to digest

## ISM INDEX



## Economy Week of January 30, 2017

Personal Income	0.3%	The moderate increase in December hid the better growth in wages and salaries at 0.4%
Personal Spending	0.5%	Consumer spending was much stronger in December than November, which should add to revised 4th Qtr Real GDP
Core PCE Price Index	0.1%	Inflation remains well contained with this small increase and YOY rise at 1.7%, which is below the Fed's target of 2%
Consumer Confidence	111.8	As expected, confidence dropped from the 15 year high reported in December, but remains very strong
Motor Vehicle Sales	17.6 Million	Down from huge 18.4M results in December, but January is a seasonally slow month as sales have plateaued
ISM Index	56.0	This indicator of future manufacturing activity moved higher in January to well above the breakeven level of 50
FOMC Meeting Statement		The Fed did not change monetary policy and the statement which followed did not reflect any change in direction
Unemployment Rate	4.8%	Up from 4.7%, as more people returned to the workforce to look for jobs than the growth in those working
Nonfarm Payrolls	227,000	A much stronger growth in jobs in January than any of the last five months, with growth across the board
Avg. Hourly Earnings	0.1%	This was a surprise with several states raising the minimum wage; expectations were for a much higher number

## MONDAY MUSING

I should know better than to go to a Super Bowl party with a bunch of people who do not understand football. What is so difficult to understand? Explaining the overtime rules to some people can be frustrating. Why can they not understand that if one team scores a touchdown the game is over, even if the other team does not get to try to match it. I cannot remember when I heard "Its not fair" so often. Wait a minute, I do remember when I heard that complaint so often. It was after the election.

## Calendar Week of February 6, 2017

Calendar	Release	Covering	Week of February 6, 2017
Trade Deficit	Tuesday	December	Little change from the -\$45.2 Billion reported for November is expected for December, as the deficit continues to widen
JOLTS	Tuesday	December	The unfilled job openings data did drop in November from a high level recorded in the second half of 2016
Consumer Credit	Tuesday	December	Solid consumer spending will result in another month of above average growth in debt led by auto loans; expect \$20.5 B

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## Commentary

The most visible data each month is the **labor report**. The report issued last Friday for January was a very strong set of data. **Job growth** was well above the average monthly increases of the last year. **Nonfarm payrolls** grew by 227,000, as compared to average growth of 178,000 in the past year. Job growth was across the board, with government jobs the only sector experiencing a decline. Additionally, those coming back into the workforce looking for a job was larger than the growth in jobs, causing the **unemployment rate** to rise to 4.8%. This was offset by the increase in the participation rate. The weak component of the report was the small increase in average hourly earnings. Wages had begun to accelerate in the second half of last year, but the January data indicated that growth had flattened. This data is usually used to determine the tightness of the labor market. The modest 2.5% growth over the past year indicates there is still some slack in the labor market.

The employment data was not the only news. The **ISM Index** rose to 56, indicating the manufacturing sector will be improving over the next year. This outlook was confirmed by the strong growth in manufacturing jobs in January. The **personal income and spending** data was mixed. **Final demand** was up a strong 0.5% for December, but that was largely a function of the strong **auto sales** for the month. Auto sales have plateaued over the last six months at about 17.5 million on an annual basis. This is a solid level of sales but we do not expect it to increase going forward. The growth in incomes was less than we expected and does not add any **inflation** pressure. This data, added to the average hourly earnings data from the labor market report, adds no pressure on the **Fed** to raise rates due to higher inflation.

The Fed met last week with no major change in their guidance for future **monetary policy**. The low inflation data and the language in the Fed's statement reduced the probability of the Fed move at their next **FOMC** meeting in late March. The December data on a strong increase in personal spending and the **trade deficit** due out this week should provide the evidence of an upward revision in fourth quarter **Real GDP**, since both of these factors were estimates in the Advance Report. On balance, the data from last week was reflective of a strong economy that is improving. That should allow the Fed to get to where they have said they want to be with monetary policy. We continue to look for three rate moves by the Fed in 2017.

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