THE AUSTIN ADVISOR

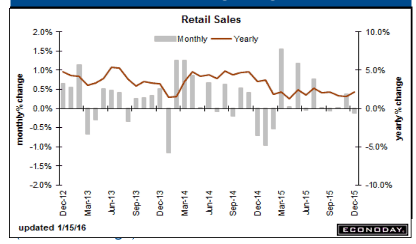
February 8, 2016

Markets	1-Feb	2-Feb	3-Feb	4-Feb	5-Feb	YTD%	31-Dec-15
DJIA	16,449.18	16,153.54	16,336.66	16,416.58	16,204.83	-7.00%	17,425.03
S&P 500	1,939.38	1,903.03	1,912.53	1,915.45	1,880.05	-8.02%	2,043.94
NASDAQ	4,620.37	4,516.95	4,504.24	4,509.56	4,363.14	-12.87%	5,007.41
SNL Bank Index	379.72	367.69	366.58	371.27	366.14	-15.14%	431.48
Fed Funds Rate	0.29%	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%	0.62%		0.61%
3 Month T-Bill	0.35%	0.34%	0.33%	0.29%	0.30%		0.16%
1 Year Treasury	0.47%	0.54%	0.54%	0.52%	0.55%		0.65%
2 Year Treasury	0.81%	0.75%	0.72%	0.70%	0.74%		1.06%
3 Year Treasury	1.01%	0.93%	0.91%	0.90%	0.91%		1.31%
5 Year Treasury	1.38%	1.28%	1.27%	1.25%	1.25%		1.76%
10 Year Treasury	1.97%	1.87%	1.88%	1.87%	1.86%		2.27%
30 Year Treasury	2.77%	2.67%	2.70%	2.70%	2.68%		3.01%

WEEKLY HIGHLIGHT

Economic data in the U.S. remains solid and does not reflect the spreading of weak growth in foreign markets

RETAIL SALES



Economy		Week of February 1, 2016
Personal Income	0.3%	Another solid month of increasing incomes, which puts money in the consumers' pockets to support higher spending
Personal Spending	0.0%	The growth in incomes is not being translated into higher final demand levels through year-end
PCE Core Price Index	0.0%	The core rate was unchanged for the month, but has moved to up 1.4% on a year-over-year basis
ISM Index	48.2	This is the fourth consecutive month of readings below break-even of 50, indicating further slowing in manufacturing
Motor Vehicle	17.6 Million	After slowing somewhat in November and December, sales rebounded in January to very strong levels
Unemployment	4.9%	The strengh in the data was the number employed jumping even as the workforce expanded
Nonfarm Payrolls	158,000	The growth in jobs was well below expectations, and below the average of the last six months
Avg. Hourly Earnings	0.5%	The huge increase in wages was driven by increasing minimum wage rates in more than a dozen states
Trade Deficit	-$43.4 Billion	The deficit widened, with exports still declining more than imports on a volume basis
Consumer Credit	$21.3 Billion	Well above expectations, with credit card debt up $5.8 billion, following the $6.4 billion gain in November

Calendar	Release	Covering	Week of February 8, 2016
JOLTS Index	Tuesday	December	The job openings index has been increasing in the last three months, and another increase is expected at 5.475 million
Retail Sales	Friday	January	The consensus forecast is for +0.2%, which is a small rise after the decline of 0.1% in December

MONDAY MUSING

I am not sure what was more difficult watch this weekend, the Super Bowl or the Republican Debate. A lot of defense was played in both. I did come across a quote from Abraham Lincoln which some of the current Republican's should remember. Lincoln was accused of saying different things to different groups when he was running for office. The newspaper accused him of be two-faced. Lincoln responded by saying, "if I am two-faced, would I be wearing this one?" I can think of at least three candidates where this would work.

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Commentary

The issue affecting both stock and bond prices is whether the weakness in foreign economies will spread to the U.S. Will the drop in commodity prices, including oil, cause a recession? Will weak **foreign demand** for our products cause a recession? Will the strength of the dollar, which makes our products more expensive and imports less expensive, drive the **trade deficit** higher and drag our growth down? Will **financial market volatility** undermine consumer confidence and cause **final demand** to decline? Finally, will these uncertainties cause **the Fed** to stop its announced intention to **normalize monetary policy** by raising short term interest rates? It is a circle of worries beginning with monetary policy changes causing a recession, and a recession causing the Fed to delay any changes in policy.

The wealth of economic data released last week only added to the confusion. Clearly the **manufacturing sector** of the economy has slowed, with lower inventory accumulation and declining levels of industrial production. The **ISM index** was reported as under the expansion rate of 50 for the fourth consecutive month. **Personal spending** was reported as flat for the month of December. The spending data is not adjusted for **inflation**, so declining gas prices causes the dollar level of spending to decline, even if unit volume sales are rising. The trade deficit for December was smaller than forecast, but is still well above 2014 levels.

The positive side of the data from last week was **personal income growth**, the **labor market** report, **auto sales** and **consumer credit**. The growth in **nonfarm payrolls** was less than anticipated for January, while the other components were much better than expected. The **unemployment rate** dropped to 4.9% from 5.0% in December. Those having jobs increased by 409,000, while the labor force (those looking for work) rose by 284,000. Average hourly earnings increased by a huge 0.5% for the month due, in part, to an increase in the minimum wage in more than a dozen states. **Wages** are rising as the labor market continues to tighten, and companies must raise wages to retain and attract the employees they need. Auto sales continue to run well above 17 million on an annualized basis, with the average age of existing fleet still well over ten years. The **housing sector** reported a huge rebound in sales in December, with expectations for another big increase in January.

The data released for January does not indicate the risks in foreign economies have affected the U.S. labor market. The labor market continues to tighten and the **JOLTS index,** due out this week, is expected to confirm continued job growth as the number of unfilled job openings increases. The issue is whether the risks being priced into financial markets will cause the Fed to pause at their March **FOMC** meeting and not execute the next indicated rate increase. The Fed has said they are data dependent and the data does not indicate the business expansion is at risk as of yet. Inflation remains very low, but the labor market continues to tighten. We do believe the Fed will raise rates again this year. They may not raise them in March if volatility remains high and a more stable global economic environment does not begin, but the Fed will raise rates to higher levels in 2016.

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