THE AUSTIN ADVISOR

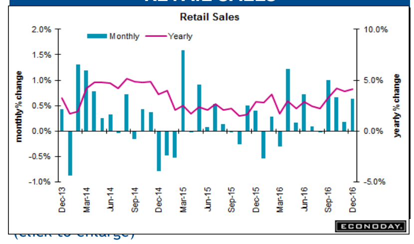
February 13, 2017

Markets	6-Feb	7-Feb	8-Feb	9-Feb	10-Feb	YTD%	30-Dec-16
DJIA	20,052.42	20,090.29	20,054.34	20,172.40	20,269.37	2.56%	19,762.60
S&P 500	2,292.56	2,293.08	2,294.67	2,307.87	2,316.10	3.45%	2,238.83
NASDAQ	5,663.55	5,674.22	5,682.45	5,715.18	5,734.13	6.52%	5,383.12
SNL Bank Index	536.91	534.66	529.19	537.72	538.82	1.16%	532.65
Fed Funds Rate	0.66%	0.66%	0.66%	0.66%	0.66%		0.55%
1 Month LIBOR	0.78%	0.77%	0.77%	0.77%	0.77%		0.77%
3 Month LIBOR	1.04%	1.04%	1.03%	1.03%	1.04%		1.00%
3 Month T-Bill	0.53%	0.53%	0.54%	0.54%	0.55%		0.51%
1 Year Treasury	0.79%	0.80%	0.79%	0.80%	0.81%		0.85%
2 Year Treasury	1.16%	1.16%	1.15%	1.20%	1.20%		1.20%
3 Year Treasury	1.43%	1.43%	1.40%	1.46%	1.47%		1.47%
5 Year Treasury	1.86%	1.85%	1.81%	1.88%	1.89%		1.93%
10 Year Treasury	2.42%	2.40%	2.34%	2.40%	2.41%		2.45%
30 Year Treasury	3.05%	3.02%	2.96%	3.02%	3.01%		3.06%

WEEKLY HIGHLIGHT

The first month of the quarter has started out with much better growth than the last quarter

RETAIL SALES



Economy	Week of February 6, 2017	
Trade Deficit	-$44.3 Billion	The deficit narrowed in December, which will contribute to an upward revision to fourth quarter Real GDP
JOLTS	5.501 Millon	Little changed from November's report, while the spread between openings and hiring remains large
Consumer Credit	$14.2 Billion	Well below expectations as credit card debt was weak, even for the normally strong December shopping experience

MONDAY MUSING

I was in line at the post office last week. The guy in front of me had what must have been a thousand pink envelopes with hearts on them. They also smelled of perfume. I couldn't resist asking him about so many Valentine Day cards. He told me he does this every year and each one is signed, "Guess Who". I asked him why he does that and he told me he was divorce lawyer. Now that is a marketing plan.

Calendar	Release	Covering	Week of February 13, 2017
Producer Price Index	Tuesday	January	An increase of 0.3% is expected, or the same increase as December, bringing the YOY increase up to 1.7% for the core
Consumer Price Index	Wednesday	January	Another month of 0.3% growth is expected, keeping the YOY change for the core rate at 2.2%
Retail Sales	Wednesday	January	Following the surge in sales in December of 0.6%, a much smaller increase of 0.1% is expected for January
Industrial Production	Wednesday	January	The headline number is expected to be unchanged, but the manufacturing component is expected to be up 0.2%
Capacity Utilization	Wednesday	January	No change in the low 75.5% operating rate is expected, keeping inflation pressures from supply at a low level
Housing Starts	Thursday	January	At a seasonally low point, starts are expected to be up slightly to 1.232 million from the December level
Leading Indicators	Friday	January	Another strong number is expected at a 0.4% rise, following the 0.5% rise in December, driving expectations up for the next year

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Commentary

The monthly data for the first month of the quarter is starting to be released. The data released at this point has been stronger than the data for the fourth quarter of last year. The **employment report** was the first, but the data due out this week is expected to follow with better numbers. Some of the data must be examined closely. **Retail sales** are expected to be unchanged in total, but up a much better 0.5% when **auto sales** are excluded. December was a very strong car sales month and January resulted in a strong 17.5M release, but that was down from December. The data should reflect a strong start to the first quarter for **personal consumption expenditures**. The **inflation** data is expected to report an increase in prices at a higher rate than has been the case in the past three years. Even the **industrial production** data is expected to up when the volatile utility output is excluded. Utility output is affected by weather and January was warmer than normal for many parts of the country. Manufacturing activity is expected to be reported as having increased by 0.2% for the month. Even the leading indicators are expected to report a second consecutive month of strength.

Our forecast for a much stronger growth in the economy in 2017 than any year in the last six appears to be getting off to a strong start. This should give **the Fed** the room they need to raise managed rates in order to get them closer to a normal level. Economic growth close to the long-term average rate of growth would justify **monetary policy** at a neutral level. We believe a Fed Funds rate at 3% and a prime rate at 6% represents normal in an economy growing at 3.5%. We do not expect to reach this normal level in 2017, but do expect rates will continue to rise into 2018.

The good news is we are starting to hear clients experiencing better pricing in loans. There are still a few banks and credit unions offering to do five year, fixed rates at less than 4%, but the number of those have declined. More banks are quoting rates above 4.5% for the same type of loan. We even have some clients who are at 5% for this type of loan. At the same time, very few banks have raised rates on non-maturity account balances. The higher rates being quoted by nonbanks, like insurance companies and brokers, is the competition. The experience of the 2008-09 bank failure history does mean more consumers do value the FDIC insurance and makes it more difficult to draw cash from banks and into money market mutual funds offering yields above 60 basis points. Market interest rates have traded in a narrow range since the middle of December, as investors try to digest all of the actions of the new administration. We look for the breakout from this trading range to be on the upside in the next three months. Should this happen, pressure on deposit rates will start to put upward pressure on funding costs. Higher loan yields are need to offset this negative to net interest income growth.

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