THE AUSTIN ADVISOR

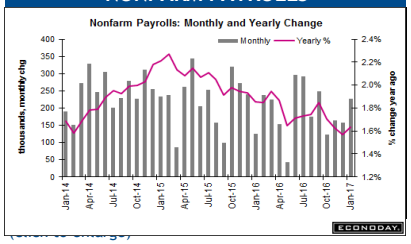
March 6, 2017

Markets	27-Feb	28-Feb	1-Mar	2-Mar	3-Mar	YTD%	30-Dec-16
DJIA	20,837.44	20,812.24	21,115.55	21,002.97	21,005.71	6.29%	19,762.60
S&P 500	2,369.75	2,363.64	2,395.96	2,381.92	2,383.12	6.44%	2,238.83
NASDAQ	5,861.90	5,825.44	5,904.03	5,861.22	5,870.75	9.06%	5,383.12
SNL Bank Index	558.61	556.85	574.28	563.61	566.49	6.35%	532.65
Fed Funds Rate	0.66%	0.57%	0.66%	0.66%	0.66%		0.55%
1 Month LIBOR	0.78%	0.79%	0.81%	0.83%	0.83%		0.77%
3 Month LIBOR	1.05%	1.06%	1.09%	1.10%	1.10%		1.00%
3 Month T-Bill	0.50%	0.53%	0.63%	0.67%	0.71%		0.51%
1 Year Treasury	0.81%	0.88%	0.92%	0.98%	0.98%		0.85%
2 Year Treasury	1.20%	1.22%	1.29%	1.32%	1.32%		1.20%
3 Year Treasury	1.46%	1.49%	1.57%	1.60%	1.59%		1.47%
5 Year Treasury	1.87%	1.89%	1.99%	2.03%	2.02%		1.93%
10 Year Treasury	2.36%	2.36%	2.46%	2.49%	2.49%		2.45%
30 Year Treasury	2.98%	2.97%	3.06%	3.09%	3.08%		3.06%

WEEKLY HIGHLIGHT

The labor market report due out this Friday is expected to be strong enough to drive the Fed next week

NONFARM PAYROLLS



Economy	Week of February 27, 2017	
Durable Goods Orders	1.8%	The positive number does not reflect the continuing weakness in factory activity, as it is a function of volatility in aircraft
Real GDP-First Revision	1.9%	No change from THE advance report, even as consumer final demand was revised upward to 3%
Consumer Confidence	114.8	This is the highest reading since 2007, reflecting the strong job market and income growth
Personal Income	0.4%	A solid increase in incomes, but a smaller growth in spending means the savings rate remained at 5.5%
Personal Spending	0.2%	Only modest growth in spending overall, but part of this was higher inflation as consumers are still cautious
Core PCE Price Index	0.3%	This higher monthly number does reflect rising inflation pressures, bringing the YOY increase up to 1.9%
Motor Vehicle Sales	17.6 Million	As expected for February, with a more normal level of sales after the surge reported for December
ISM Index	57.7	The strongest growth in the past three years, giving some indication of improving manufacturing in the coming months

MONDAY MUSING

I happened to catch a daytime talk show last week where they were interviewing a couple who had been married for seventy years. They asked the wife what was the secret to a long marriage. She said there were four things: "1-Find a man who cooks from time to time and likes to help at home; 2-Find a man who makes you laugh; 3 Find a man who likes you and loves to be intimate; 4-Never let the three men meet each other." I don't think they are going to make it to 71 years.

Calendar	Release	Covering	Week of March 6, 2017
Trade Deficit	Tuesday	January	Consensus expects a widening of the deficit to -$48.5 billion, as capital goods exported remains very weak
Consumer Credit	Tuesday	January	Auto lending and student loans are the biggest drivers, but credit card balances are beginning to pick-up, expect $18.3 Billion
Unemployment Rate	Friday	February	The rate has increased in the last three months as more people came back looking for jobs, expect drop to 4.7% from 4.8%
Nonfarm Payrolls	Friday	February	Jobs jumped in January by 227,000 and growth of 195,000 is expected for February, which would be above average
Avg. Hourly Earnings	Friday	February	Growth of 0.3% is expected for this volatile data series over the last six months

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Commentary

The bond market has reacted to the signals sent last week in speeches by several **Federal Reserve** members about the **FOMC** meeting next week. These speeches all laid the foundation for another increase in short-term managed rates on March 15. These speeches cited the solid economic data released in the last two months and the higher **inflation** data as reasons for the Fed to move. They appear to be concerned about getting behind the inflation curve with **monetary policy changes**. It is clear the **consumer final demand** sector of the economy is accelerating. **Personal consumption expenditures** were revised to a 3% rate of growth for the fourth quarter, up from 2.5% growth estimated in the **Advance Report**. Overall economic growth was not changed with the **trade deficit**, **inventories** and **capital spending** all revised lower for the quarter. We are in an environment where final demand is improving, while manufacturing output is not responding. Additionally, while exports did grow they are not growing as fast as imports, as much of the final demand growth is being met with foreign goods. The growth in the consumption side of the economy has not yet been met with an increase of output in domestic production. Companies are still not re-investing in their own businesses. When these parts of the economy begin to react to higher final demand, total economic growth will jump.

The key to a Fed move next week will be the **employment report** due out this Friday. It will take a very bad labor market report to keep the Fed from raising rates. The consensus forecast calls for **nonfarm payroll** growth of 195,000 for February. That would be above the monthly average of the last year, but below the large increase of 227,000 reported for January. The **consumer confidence** data reported last week reflected a 10 year high level. All indications are that final demand will continue to grow this year at a rate consistent with the last three quarters. The increase in the **ISM index** reported last week may mean some of this demand growth will be met with domestic production. The inflation data reported last week confirmed rising prices as reported the prior week with the **PPI** and **CPI**. The **core personal consumption expenditure price index** was up 0.3% for January, which was well above the 0.1% reported for December. The year-over-year increase now stands at 1.9% for the total and 1.7% for the core rate. This is approaching the Fed's stated goal of 2%. The Fed has the concern this rapid increase over the last three months means we will move above their target sooner than they expected. They believe they can raise rates to cutoff these pricing pressures without causing the economy to slow in overall growth. This expectation caused the short end of the curve to move up more than the intermediate and long end and the curve to flatten somewhat last week. This should put even more pressure on banks to raise deposit rates.

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