

THE AUSTIN ADVISOR

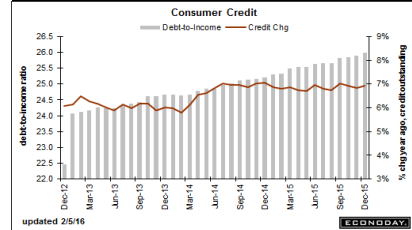
March 7, 2016

Markets	29-Feb	1-Mar	2-Mar	3-Mar	4-Mar	YTD%	31-Dec-15
DJIA	16,516.50	16,865.08	16,899.32	16,943.90	17,006.77	-2.40%	17,425.03
S&P 500	1,932.23	1,978.35	1,986.45	1,993.40	1,999.99	-2.15%	2,043.94
NASDAQ	4,557.95	4,689.60	4,703.42	4,707.42	4,717.02	-5.80%	5,007.41
SNL Bank Index	360.31	376.31	382.26	385.79	387.95	-10.09%	431.48
Fed Funds Rate	0.29%	0.36%	0.37%	0.37%	0.37%		0.35%
1 Month LIBOR	0.44%	0.44%	0.44%	0.44%	0.44%		0.43%
3 Month LIBOR	0.63%	0.63%	0.63%	0.64%	0.63%		0.61%
3 Month T-Bill	0.33%	0.33%	0.36%	0.28%	0.29%		0.16%
1 Year Treasury	0.62%	0.68%	0.67%	0.65%	0.67%		0.65%
2 Year Treasury	0.78%	0.85%	0.85%	0.85%	0.88%		1.06%
3 Year Treasury	0.91%	0.98%	1.00%	0.99%	1.04%		1.31%
5 Year Treasury	1.22%	1.31%	1.34%	1.33%	1.38%		1.76%
10 Year Treasury	1.74%	1.83%	1.84%	1.83%	1.88%		2.27%
30 Year Treasury	2.61%	2.70%	2.69%	2.65%	2.70%		3.01%

WEEKLY HIGHLIGHT

The uncertainties the Fed has been concerned about are beginning to settle down

CONSUMER CREDIT



Economy	Week of February 29, 2016	
Motor Vehicle Sales	17.5 Million	Sales held strong in February, and continue to reflect solid consumer final demand and financial strength
ISM Index	49.5	The index reported a surprising uptick from 48.2, which indicates manufacturing activity may have bottomed
Unemployment Rate	4.9%	No change from prior months, as the large increase in the labor force was matched by the growth of those working
Nonfarm Payrolls	242,000	Much larger increase than expected, and the prior two months were revised upward by a total of 30,000
Avg. Hourly Earnings	-0.1%	After the large jump in January wages contracted in February, leaving the YOY increase at 2.2%
Trade Deficit	-\$45.7 Billion	The decline in exports continues to exceed the drop in imports, with the drag on GDP growth expanding

MONDAY MUSING

I am always looking for material for these musings. One of the best sources is the classified section in the newspaper. For example an item from last week: For sale: cemetery plot \$200, so I don't have to spend eternity beside my ex wife. In the same section was the following: Now hiring cemetery superintendent. The successful candidate will have a proven record being able to work in a fast paced environment. My favorite is this one: Wanted; a baby crib, high chair, a playpen and two single beds. These are real since you cannot make it up.

Calendar	Release	Covering	Week of March 7, 2016
Consumer Credit	Monday	January	Credit expanded by a large \$21.3 B in December, and a solid \$16.5 billion increase is expected for January

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Commentary

The **labor market** report for February was released last Friday. It was generally another strong report. **Nonfarm payrolls** increased by 242,000, well above expectations. **Job growth** was revised upward for December and January by 30,000. That brings the three month average up to 220,000. The **unemployment rate** remained at 4.9%, even as the workforce increased by 555,000 in February. **Household employment** increased by 530,000. The sectors of the economy reporting growth in jobs included retail, trade and transportation, professional services and government. The sectors reporting declines included mining and manufacturing. The **participation rate** rose to 62.9%, up from 62.7%. The negative in the report was the 0.1% drop in average hourly earnings. The job growth continues to be in lower paying jobs, keeping wage growth low.

This report is not going to make the job of setting monetary policy any easier. **The Fed** is charged with promoting full employment and maintaining price stability. We are close to full employment, but not there as of yet. The **U-6 employment number**, which includes people who have given up looking for work or are part-time, did drop to 9.7% from 9.9%. This data must decline to convince the Fed we are at full employment. Price stability has been achieved with a 1.7% rise in the core rate of the **PCE price index** in the past year. The issue is not our current condition, but the risks going forward. The Fed was not able to call the risks balanced at their last **FOMC meeting**, as they did in December. Risk assessments have been affected by the volatility in financial markets and economic weakness in foreign economies. Those issues have settled down as oil prices have bottomed, stock prices have risen and market interest rates increased in the last two weeks.

The economic data other than employment was better last week than anticipated, led by the **ISM index**. The increase in this index may signal a bottom in manufacturing activity. The index remains below the breakeven level of 50, but is up from a month ago. **Auto sales** were strong again with no end in sight for the auto sales cycle. This should help manufacturing recover, even as the dollar remains strong and keeps export opportunities down. There are uncertainties the Fed will need to assess at their meeting next week. While conditions are more certain now than they were in January, the Fed is expected to be on hold with no change in rates until more evidence of a more stable environment is reported.

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