# THE AUSTIN ADVISOR

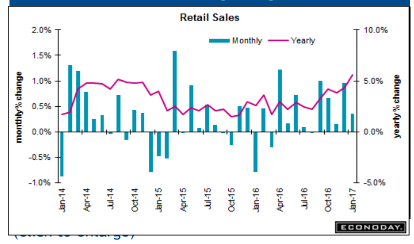
March 13, 2017

| Markets | 6-Mar | 7-Mar | 8-Mar | 9-Mar | 10-Mar | YTD% | 30-Dec-16 |
|---|---|---|---|---|---|---|---|
| DJIA | 20,954.34 | 20,924.76 | 20,855.73 | 20,854.73 | 20,902.98 | 5.77% | 19,762.60 |
| S&P 500 | 2,375.31 | 2,368.39 | 2,362.98 | 2,364.87 | 2,372.60 | 5.98% | 2,238.83 |
| NASDAQ | 5,849.18 | 5,833.93 | 5,837.55 | 5,834.26 | 5,861.73 | 8.89% | 5,383.12 |
| SNL Bank Index | 562.58 | 560.60 | 559.95 | 561.56 | 560.44 | 5.22% | 532.65 |
| Fed Funds Rate | 0.66% | 0.66% | 0.66% | 0.66% | 0.66% | | 0.55% |
| 1 Month LIBOR | 0.85% | 0.85% | 0.86% | 0.88% | 0.89% | | 0.77% |
| 3 Month LIBOR | 1.11% | 1.11% | 1.11% | 1.12% | 1.12% | | 1.00% |
| 3 Month T-Bill | 0.74% | 0.76% | 0.73% | 0.73% | 0.75% | | 0.51% |
| 1 Year Treasury | 0.97% | 1.02% | 1.03% | 1.04% | 1.03% | | 0.85% |
| 2 Year Treasury | 1.31% | 1.32% | 1.36% | 1.37% | 1.36% | | 1.20% |
| 3 Year Treasury | 1.60% | 1.62% | 1.65% | 1.67% | 1.66% | | 1.47% |
| 5 Year Treasury | 2.02% | 2.05% | 2.08% | 2.13% | 2.11% | | 1.93% |
| 10 Year Treasury | 2.49% | 2.52% | 2.57% | 2.60% | 2.58% | | 2.45% |
| 30 Year Treasury | 3.10% | 3.11% | 3.15% | 3.19% | 3.16% | | 3.06% |

## WEEKLY HIGHLIGHT

The Fed is now expected to move managed rates up this Wednesday

## RETAIL SALES




| Economy | Week of March 6, 2017 | |
|---|---|---|
| Trade Deficit | -$48.5Billion | The deficit widened from -$44.3B, as imports increased more than exports, and continues to be a drag on total growth |
| Consumer Credit | $8.8 Billion | The low growth in credit reflected the lack of credit card balances and only modest growth in student and auto loans |
| Unemployment Rate | 4.7% | The rate dropped from 4.8% as more people come back looking for work and the labor force grows |
| Nonfarm Payrolls | 235,000 | Another strong month of job growth and January was revised upward to 238,000 from 227,000 |
| Avg. Hourly Earnings | 0.2% | Wages have not yet begun to increase, even as the tight labor market expands |

## MONDAY MUSING

I was watching Michigan win the Big Ten basketball tournament with my son and my two grandsons.  At half time the two boys started to argue about who could have the remote to check out what was going on in other games.  They argued for five minutes before my son told them how easy they have it.  He told them when he was their age he had to walk 10 feet through thick shag carpet to change to one of 9 channels.  My grandsons only response was to ask, "what is shag carpet?"  I am getting old.

| Calendar | Release | Covering | Week of March 13, 2017 |
|---|---|---|---|
| Producer Price Index | Tuesday | February | An abnormally large increase of 0.6% in January is expected to be followed by a very modest 0.1% rise in February |
| Consumer Price Index | Wednesday | February | As with the PPI, the CPI experienced a large 0.6% jump in January to be followed with only 0.1% for February |
| Retail Sales | Wednesday | February | This important data will provide some evidence of whether the consumer is maintaining spending, expect +0.2% |
| FOMC Announcement | Wednesday | 2pm | The Fed is expected to raise managed rates again, with the press conference and new forecasts to follow |
| Housing Starts | Thursday | February | The housing sector continues to expand at an accelerating pace with 1.266 million starts expected, up from 1.246M |
| JOLTS | Thursday | January | The job openings index has been holding at 5.5 million for the last three months and is expected to remain at this level |
| Industrial Production | Friday | February | The weather affects utility output and this data, which happened in January, while February is expected to be up a modest 0.2% |
| Capacity Utilization | Friday | February | The operating rate remains at just above 75%, which limits inflation pressures from supply constraints |
| Leading Indicators | Friday | February | Strong consumer confidence and strong housing sectors with factory orders beginning to improve, expect +0.4% |

# THE AUSTIN ADVISOR

## Commentary

As recently as three weeks ago, no one expected the **Fed** to raise managed interest rates at the **FOMC** meeting scheduled for next week.  Today, the Fed Funds future market is pricing in a 97% probability of an increase this Wednesday.  The factors which have caused this change in expectations include: higher **inflation** data in the last two months, stronger **job growth** as evidenced by the 235,000 growth reported last Friday for the month of February, 16 year highs in **consumer confidence** indices, strong growth in the **housing sector,** and a strong **retail sales** report for January with a solid February expected.  The consumption side of the economy shows every sign of remaining strong.  Faster overall economic growth will come when the production side of the economy improves, and less of the domestic demand is met with imports.  The inflation data released in the last month has also increased and stands at just under the 2% target set by the Fed.  This environment has led the Fed to be concerned they are getting behind the increasing inflation data being released.  As a result, members of the committee, including **Chairwoman Yellen**, have given speeches sending a strong signal they will raise rates at this weeks meeting.

The bond market took those signals to break out of the trading range of the last two months.  The ten-year treasury had topped out at 2.5% in the middle of December and had remained below that yield since.  It closed last Friday at 2.61%.  The five-year treasury had been trading below 2% for the last two months and closed last week at 2.11%.  Finally, the two year was not able to move above 1.25% and was at 1.36% last Friday.  The bond market is pricing in the expectation of higher inflation and the Fed needing to raise managed rates sooner than had been expected.  The only data that might have kept the Fed from moving was the labor market report last Friday.  If it was a weak number, the Fed could have waited.  However, the data was even stronger in February than it was for January.  Job growth was revised upward for January from 227,000 to 238,000 and was reported at 235,000 for February.  Importantly, manufacturing jobs increased last month.  The **unemployment rate** dropped to 4.7% from 4.8%, even with strong growth in the size of the workforce.  Finally, the **participation rate** increased last month indicating we are making progress in creating the number of jobs needed to absorb people coming back looking for work.  This report is more than enough to cause the Fed to move.  This is a Fed meeting with updated economic forecasts and guidence on future monetary policy moves.  It will also be followed with a press conference by Yellen to provide insight into future monetary policy direction.  It will be a lot of new information to be absorbed by a market that has already broken above its trading range.

**Trusted Advisor to Financial Institutions**
www.austinassociates.com
www.probank.com