THE PROBANK AUSTIN ADVISOR

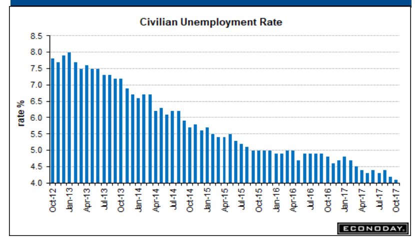
November 6, 2017

Markets	30-Oct	31-Oct	1-Nov	2-Nov	3-Nov	YTD%	30-Dec-16
DJIA	23,348.74	23,377.24	23,435.01	23,516.26	23,539.19	19.11%	19,762.60
S&P 500	2,572.83	2,575.26	2,579.36	2,579.85	2,587.84	15.59%	2,238.83
NASDAQ	6,698.96	6,727.67	6,716.53	6,714.94	6,764.44	25.66%	5,383.12
SNL Bank Index	590.11	588.82	589.61	594.12	592.41	11.22%	532.65
Fed Funds Rate	1.16%	1.07%	1.16%	1.16%	1.16%		0.55%
1 Month LIBOR	1.24%	1.24%	1.24%	1.24%	1.24%		0.77%
3 Month LIBOR	1.38%	1.38%	1.38%	1.39%	1.39%		1.00%
3 Month T-Bill	1.12%	1.15%	1.18%	1.17%	1.18%		0.51%
1 Year Treasury	1.42%	1.43%	1.46%	1.46%	1.49%		0.85%
2 Year Treasury	1.58%	1.60%	1.61%	1.61%	1.63%		1.20%
3 Year Treasury	1.71%	1.73%	1.74%	1.73%	1.74%		1.47%
5 Year Treasury	2.00%	2.01%	2.01%	2.00%	1.99%		1.93%
10 Year Treasury	2.37%	2.38%	2.37%	2.35%	2.34%		2.45%
30 Year Treasury	2.88%	2.88%	2.85%	2.83%	2.82%		3.06%

WEEKLY HIGHLIGHT

The Fed did not move, but did move up their view of current economic conditions

UNEMPLOYMENT RATE



(click to enlarge)

Economy	Week of October 30, 2017	
Personal Income	0.4%	As expected and is consistent with trend of the past year despite the weather problems in September
Personal Spending	1.0%	Surge in spending was a function of the jump in auto sales for vehicle replacement caused by hurricanes
Core PCE Price Index	0.1%	Still no indication of inflation heating up with only a 0.1% increase, leaving the YOY gain at 1.3%
Consumer Confidence	125.9	Huge increase from 120.6 and well above expectations with strong jobs data leading to expectations of rising wages
Motor Vehicle Sales	18.1 Million	Second month where vehicle replacement demands drove sales to a much higher level, meaning personal spending will be high
FOMC Meeting Statement		As expected, no change in monetary policy but guidance for an increase in December remains in place
ISM Index	58.7	A slight cooling from the 60.8 reported from September, but remains at a strong level indicating further growth going forward
Unemployment Rate	4.1%	The decline from 4.2% was a function of a huge drop of 724,000 in workforce of available workers
Nonfarm Payrolls	261,000	Less than expected, but prior two months were revised upward by 90,000, leaving a very tight labor market in place
Avg. Hourly Earnings	Unchanged	In spite of tight labor market wage growth remains muted, raising the question of whether inflation will accelerate
Trade Deficit	$-43.5 Billion	A slight widening of the deficit, with exports growing less than imports

ON THIS DAY IN HISTORY

1860 - Abraham Lincoln elected 16th President

1869 - 1st intercollegiate football game (Rutgers v. Princeton)

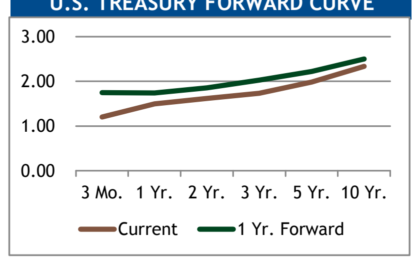
1885 - US Mint in Carson, NV closes

1923 - USSR adopts experimental calendar, with 5 day 'weeks'

1928 - Clevelanders vote to build a stadium with city bonds

Calendar	Release	Covering	Week of November 6, 2017
JOLTS Index	Tuesday	September	Unfilled job openings were 6.082 M in August and are expected to remain at this level for September
Consumer Credit	Tuesday	September	Consensus forecast calls for an increase of $17.4B, following the $13.1B reported for August

U.S. TREASURY FORWARD CURVE



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Commentary

The wealth of data released last week and **the FOMC** meeting produced no change in the outlook for the economy or monetary policy. The **employment report** released on Friday was further confirmation of a tightening labor market. **Nonfarm payrolls** increased by 261,000 which was less than the +300,000 rebound expected from the hurricane impacted September data. However, the revisions to the prior two months increased job growth by 90,000 from the data first reported. September's job growth was revised from a decline of 33,000 to an increase of 18,000. The **unemployment rate** dropped from 4.2% to 4.1%, due to an estimate of a drop of 724,000 in the workforce. This was a function of the problems in the survey's due to the lack of responses during the hurricanes. The **tight labor market** is best demonstrated by the estimate of 11.7 million available workers to fill the estimate of 6.08M unfilled job openings in the **JOLTS report** due out this week. The mystery is why this tight jobs market is not producing increases in wage rates. Average hourly earnings were unchanged in October, dropping the year-over-year increase to 2.4%, down from 2.8% at the end of September. Companies are not raising wages to retain and attract the workers they need and workers appear to be willing to take those jobs. Our forecast has included the expectation a tight labor market would produce rising wages and drive labor costs up, leading to higher inflation going forward. There is no evidence this is beginning.

The dilemma **the Fed** finds itself in is raising managed rates to control rising **inflation** in the future, when there is no indication inflation is rising. This conundrum was highlighted by the **Core PCE Price Index** for September. It only increased by 0.1% and has risen by 1.3% over the last twelve months. That is unchanged from the prior month. The Fed is fighting a nonexistent enemy. That notwithstanding, the FOMC met and did not change their guidance for future monetary policy moves. They have sent no signal they will not raise managed rates at their December meeting. The bond market is pricing in a 25 basis upward by the Fed at that meeting. The Fed did release a statement at the end of their meeting which was stronger in terms of the current condition of the economy. The **ISM Index** and **Consumer Confidence Index** both came in with strong reports, while **personal spending** for September was a huge +1.0% for the month, due to strong **auto sales** to replace vehicles lost in the hurricanes. This data means the 3.0% rate of the growth of **Real GDP** in the Advance Report will be revised upward at the end of November. The **personal consumption expenditure** growth estimate used in the Advance Report was only 2.4% and that should be revised upward given the personal spending data strength for the last month of the year. The **yield curve** continues to flatten, as short rates move up, in anticipation of further Fed action but the lack of actual inflation keeps intermediate and long rates low.