THE AUSTIN ADVISOR

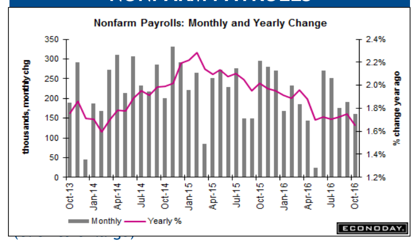
November 28, 2016

Markets	21-Nov	22-Nov	23-Nov	24-Nov	25-Nov	YTD%	31-Dec-15
DJIA	18,956.69	19,023.87	19,083.18	N / A	19,152.14	9.91%	17,425.03
S&P 500	2,198.18	2,202.94	2,204.72	N / A	2,213.35	8.29%	2,043.94
NASDAQ	5,368.86	5,386.35	5,380.68	N / A	5,398.92	7.82%	5,007.41
SNL Bank Index	495.57	497.65	500.84	N / A	502.63	16.49%	431.48
Fed Funds Rate	0.41%	0.41%	0.41%	N / A	N / A		0.35%
1 Month LIBOR	0.57%	0.58%	0.59%	0.60%	0.61%		0.43%
3 Month LIBOR	0.92%	0.92%	0.93%	0.94%	0.94%		0.61%
3 Month T-Bill	0.46%	0.49%	0.51%	0.51%	0.49%		0.16%
1 Year Treasury	0.78%	0.78%	0.80%	0.80%	0.81%		0.65%
2 Year Treasury	1.08%	1.07%	1.12%	1.12%	1.12%		1.06%
3 Year Treasury	1.36%	1.35%	1.40%	1.40%	1.41%		1.31%
5 Year Treasury	1.79%	1.77%	1.83%	1.83%	1.83%		1.76%
10 Year Treasury	2.33%	2.31%	2.36%	2.36%	2.36%		2.27%
30 Year Treasury	3.00%	3.00%	3.02%	3.02%	3.01%		3.01%

WEEKLY HIGHLIGHT

Market interest rates continue to move higher as expectations for inflation are rising

NONFARM PAYROLLS



Economy	Week of November 21, 2016	
Existing Home Sales	5.600 Million	Instead of an expected decline, sales grew by 2% in October and were 5.9% higher than a year ago
Durable Goods Orders	4.8%	Orders surged in October, and September was revised upward to +0.4% from -0.1%, bringing the gain this year to 2.1%
New Home Sales	563,000	A 1.9% decline from a revised 574,000 sales rate in September, which allowed the inventory to expand

Calendar	Release	Covering	Week of November 28, 2016
Real GDP - Revised	Tuesday	3rd Qtr	The consensus forecast is for an upward revision to 3.1% from the 2.9% growth in the advance report
Consumer Confidence	Tuesday	November	The index dropped to 98.6 from 104 in September, and is expected to rebound to 101 for November
Personal Income	Wednesday	October	Incomes have been improving in the past four months, with expectations for +0.4% following the +0.3% reported for Sept.
Personal Spending	Wednesday	October	Consumer spending has been accelerating with 0.5% growth in Sept., and a third consecutive month of 0.5% is expected
Core PCE Price Index	Wednesday	October	Another low inflation number of 0.1% for the month is expected, which would keep the YOY increase at 1.7%
ISM Manufacturing Index	Thursday	November	A small gain from 51.9 to 52.3 is expected, keeping the index at an expansion level
Motor Vehicle Sales	Thursday	November	Sales incentives are keeping auto sales at a high level, with expectations at 17.8 M following the 18.3M for October
Unemployment Rate	Friday	November	The rate is forecast to remain at 4.9%, but this will depend on a large gain in the size of the workforce
Nonfarm Payrolls	Friday	November	The consensus expectation is for a 170,000 increase in jobs, which would be about the same as the 161,000 for October
Avg. Hourly Earnings	Friday	November	The consensus calls for only a 0.2% rise, after three months of double that rate

MONDAY MUSING

The President Elect said after the election he wants to unify America. Many people thought this goal was another campaign promise he will not keep. However, since the election he has managed to unify the Democratic Party with the Green Party. Now, if he can unify the Republican Party, we will be left with only two sides to unify. This may be a bit more difficult.

Commentary

Market interest rates continued to rise last week. **The curve** continues to steepen. The yield on the ten-year treasury reached 2.35%, up 50 basis points in the last month. The five-year treasury is up 49 bp in the same time frame. The two-year has risen by 27 bp, or about half the increase in longer term maturities. The fact that shorter maturities have risen less than the intermediate and long end is an indication investors are beginning to price in an inflation risk premium into the bond market. The rising inflation risk is being driven by stronger economic data and expectations fiscal policy will change early next year with the new administration.

The stronger economy is coming from strong **consumer final demand** and the elimination of the drag on the economy from **business fixed investment**. Third quarter **Real GDP** is expected to be revised up from the 2.9% growth reported in the advance data. Better **personal expenditure** growth than was estimated in the advance report is expected to result in a 3.1% revised total growth number. **Existing home sales** were strong as reported last week, which means the **housing sector** is solid and will continue to contribute to overall growth. This is in spite of the rise in mortgage rates experienced in the last two weeks. The secondary market rate for a 30 year mortgage is now at 4%, up from less than 3.5% two months ago. The normal response to this kind of change is to create a surge in loan demand as buyers rush to buy now fearing rates will be even higher the longer they wait. The slowdown occurs later. The housing sector has experienced six years of below average sales growth and well below the growth in family formations. There is still a high level of pent-up demand to be satisfied. This is even more the case if buyers conclude buying a house is a good investment because the market value of the property is increasing.

We do expect some softening in demand in the first quarter of next year as these higher financing costs affect monthly payments. It appears the holiday retail season has gotten off to a strong start, with expectations of about 4% growth from last year. This would be enough to drive fourth quarter Real GDP up more than the growth of the third quarter. **Business confidence** has improved as managements of companies appear more interested in investing in their business. Lower corporate tax rates and bringing capital back to the U.S. would have a huge positive impact on business fixed investments. Inventories have been brought down in the last three quarters and companies are going to increase production to rebuild low inventory levels. **The Fed** meets next week and has little choice but to raise managed rates by 25 bp. All of this should drive better loan demand for banks, but we have yet to see higher loan pricing.

Trusted Advisor to Financial Institutions
www.austinassociates.com
info@austinassociates.com