# THE AUSTIN ADVISOR

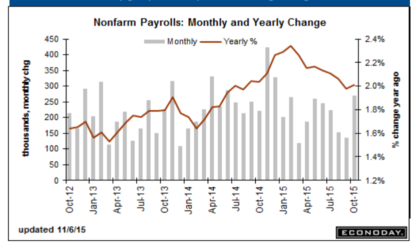
November 30, 2015

| Markets | 23-Nov | 24-Nov | 25-Nov | 26-Nov | 27-Nov | YTD% | 31-Dec-14 |
|---|---|---|---|---|---|---|---|
| DJIA | 17,792.68 | 17,812.19 | 17,813.39 | NA | 17,798.49 | -0.14% | 17,823.07 |
| S&P 500 | 2,086.59 | 2,089.14 | 2,088.87 | NA | 2,090.11 | 1.52% | 2,058.90 |
| NASDAQ | 5,102.48 | 5,102.81 | 5,116.14 | NA | 5,127.53 | 8.27% | 4,736.05 |
| SNL Bank Index | 447.68 | 447.48 | 447.50 | NA | 448.80 | 3.71% | 432.75 |
| Fed Funds Rate | 0.12% | 0.12% | 0.12% | NA | 0.12% | | 0.06% |
| 1 Month LIBOR | 0.22% | 0.23% | 0.23% | 0.23% | 0.24% | | 0.17% |
| 3 Month LIBOR | 0.39% | 0.40% | 0.41% | 0.41% | 0.41% | | 0.26% |
| 3 Month T-Bill | 0.14% | 0.16% | 0.19% | 0.19% | 0.18% | | 0.04% |
| 1 Year Treasury | 0.50% | 0.52% | 0.52% | 0.52% | 0.50% | | 0.25% |
| 2 Year Treasury | 0.94% | 0.93% | 0.93% | 0.93% | 0.92% | | 0.67% |
| 3 Year Treasury | 1.26% | 1.23% | 1.25% | 1.25% | 1.23% | | 1.10% |
| 5 Year Treasury | 1.70% | 1.66% | 1.66% | 1.66% | 1.64% | | 1.65% |
| 10 Year Treasury | 2.25% | 2.24% | 2.23% | 2.23% | 2.22% | | 2.17% |
| 30 Year Treasury | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | | 2.75% |

## WEEKLY HIGHLIGHT

A big week is scheduled, with comments from the Fed Chairman and the always important labor market data

## NONFARM PAYROLLS




| Economy | Week of November 23, 2015 | |
|---|---|---|
| Existing Home Sales | 5.36 Million | Down 3.4% for the month, but up 3.9% YOY with the lack of inventory being the biggest factor |
| Real GDP-Revised | 2.1% | The increase was primarily a function of a much smaller drag from inventories as they were revised upward |
| Consumer Confidence | 90.5 | Confidence dropped from 99.1, as opposed to expectations of a small increase, taking it to the lowest level since September, 2014 |
| Durable Goods Orders | 3.0% | Total growth was double expectations, with aircraft orders generating the big swing factor |
| Personal Income | 0.4% | As expected, with wage growth finally driving incomes higher as they were up 0.6% |
| Personal Spending | 0.1% | Lower than expected, causing the savings rate to jump above 5% as consumers continue to strengthen their balance sheets |
| Core PCE Price Index | 0.2% | The monthly increase was as expected, but still leaves the YOY increase at 1.3%, well below the Fed's target of 2% |
| New Home Sales | 495,000 | Up from a revised 447,000 in September, and up a solid 4.9% on a trailing twelve month basis |

## MONDAY MUSING

I was at a holiday party last week and was talking to two guys. One of them was a lawyer and the other was a doctor. People kept coming up to the doctor describing their aliments and asking for advice. At one point, the doctor asked the lawyer what he does to keep people from asking him legal questions at these kinds of events. The lawyer said he just sends an invoice to anyone who does. The doctor said that was a great idea and he was going to try it. The doctor called me this morning to tell me he got an invoice from the lawyer in the mail.

| Calendar | Release | Covering | Week of November 30, 2015 |
|---|---|---|---|
| Motor Vehicle Sales | Tuesday | November | Another month of better than 18 million annual sales level is expected to be reported, with no signs of slowing |
| ISM Index | Tuesday | November | Index is expected to remain above 50, but just barely, continuing modest expansion in manufacturing |
| Fed Chair Yellen | Thursday | | The Fed Chair testifies before a joint committee in Congress |
| Unemployment | Friday | November | The rate is expected to remain at 5%, but this is dependent on the estimate for the size of the workforce |
| Nonfarm Payrolls | Friday | November | Job growth was huge in October at 271,000, and is expected to remain strong at 190,000 for November |
| Avg. Hourly Earnings | Friday | November | Wage growth has been 0.4% in two of the last three months, but is only forecast to be up 0.2% for November |
| Trade Deficit | Friday | October | The trade deficit is expected to narrow by a small amount at -$40.6 B, down from -$40.8 B in September |

# THE AUSTIN ADVISOR

## Commentary

This will be the second week of a flurry of economic data for investors to digest.  The data last week was generally solid, with **durable goods orders** strong, and the **housing data** recovering most of the drops reported for September.  **Personal income** increased, while spending was less than expected.  Consumers increased the **savings rate** to above 5% in October, which provides fuel for better spending growth going forward.  Third quarter **Real GDP** was revised upward to 2.1%, largely due to higher inventory accumulation than first estimated.  This will detract from fourth quarter growth, as these inventories will be worked down especially at the retail level.  Consumers can expect price discounting for the holiday selling period, given the high inventory levels which exist.

As much as the data last week was important, it will be data this week and the testimony of **Fed Chairwoman Yellen** that will move markets.  She will testify before a joint committee of **Congress** on Thursday, and should lay the foundation for the expected increase in managed rates at the **FOMC** meeting in two weeks.  The issue should be settled with the **labor market report** due out this Friday.

**Job growth** is being forecast as increasing by 190,000, which is the monthly average of the last ten months.  This would be less than the huge increase reported for October, and the risk is job growth could come in well below the consensus forecast.  The **unemployment rate** is not expected to change from October's 5.0% rate, but this is driven by the estimate for the size of the labor force.  We do not expect a large increase in the number of people coming back into the labor force, since we have already experienced large growth in the past two years.  Those wanting a job have come back already.  The key data will be the **average hourly earnings data**.  Wages have increased at a much faster pace in two of the last three months, as companies must raise wages in order to retain and attract the workers they need.  **Rising labor costs** is the reason we are forecasting higher **inflation** rates in 2016.

The **bond market** continues to price in an expectation the **Fed** will raise the target for **Fed Funds** at their FOMC meeting on December 16.  The **two-year treasury** which is the most sensitive to changes in **Fed monetary policy** is now above a .90% yield and the **three month bill** is above .15%.  The intermediate and long end of **the curve** has not moved up, as investors are not pricing any increase in inflation as of yet.  A flattening yield curve is never good for bank margins or revenue.  Our forecast is the curve will continue to flatten through the first half of next year, and then begin to steepen as inflation data increases.  This environment makes pricing new loan demand difficult with the low competitive rates continuing to be offered by many banks while funding costs begin to rise.  Managing revenue growth will be the key to growing earnings in the

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www.austinassociates.com
info@austinassociates.com