THE AUSTIN ADVISOR

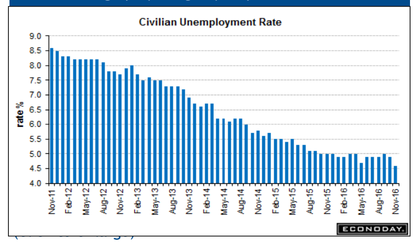
December 5, 2016

Markets	28-Nov	29-Nov	30-Nov	1-Dec	2-Dec	YTD%	31-Dec-15
DJIA	19,097.90	19,121.60	19,123.58	19,191.93	19,170.42	10.02%	17,425.03
S&P 500	2,201.72	2,204.66	2,198.81	2,191.08	2,191.95	7.24%	2,043.94
NASDAQ	5,368.81	5,379.92	5,323.68	5,251.11	5,255.65	4.96%	5,007.41
SNL Bank Index	493.80	495.40	504.32	514.60	509.13	18.00%	431.48
Fed Funds Rate	0.41%	0.41%	0.31%	0.41%	0.41%		0.35%
1 Month LIBOR	0.61%	0.62%	0.62%	0.63%	0.65%		0.43%
3 Month LIBOR	0.94%	0.93%	0.93%	0.94%	0.95%		0.61%
3 Month T-Bill	0.48%	0.48%	0.48%	0.48%	0.49%		0.16%
1 Year Treasury	0.79%	0.78%	0.80%	0.82%	0.80%		0.65%
2 Year Treasury	1.11%	1.09%	1.11%	1.14%	1.11%		1.06%
3 Year Treasury	1.38%	1.37%	1.40%	1.45%	1.40%		1.31%
5 Year Treasury	1.80%	1.78%	1.83%	1.90%	1.84%		1.76%
10 Year Treasury	2.32%	2.30%	2.37%	2.45%	2.40%		2.27%
30 Year Treasury	2.99%	2.95%	3.02%	3.10%	3.08%		3.01%

WEEKLY HIGHLIGHT

Economic data continues to reflect an acceleration in growth and expectations

UNEMPLOYMENT RATE



Economy		Week of November 28, 2016
Real GDP - Revised	3.2%	Revised up from the Advance rate of 2.9%, as consumer final demand was better than estimated
Consumer Confidence	107.1	Huge jump from 98.6 takes the index to highest level since the 08-09 recession, and strong job growth still expected
Personal Income	0.6%	Income growth was very strong and has been accelerating in the past five months, as a tight labor market continues
Personal Spending	0.3%	A decline in services spending offset the strong 1.0% growth in durable spending
Core PCE Price Index	0.1%	The total price index did drive the YOY increase up to 1.7% from 1.4%, but the core rate was affected by one time issues
ISM Manufacturing Index	53.2	Up from 51.9, indicating manfacturing may be accelerating as inventories are low and final demand is surging
Motor Vehicle Sales	17.9	Second strongest sales month in the last year, as a surge in consumer spending continues into the 4th quarter
Unemployment Rate	4.6%	The large drop from 4.9% in October was a function of the modest increase in the size of the labor force relative to new jobs
Nonfarm Payrolls	178,000	This was solid growth consistent with the last five months on average and enough to propel confidence higher
Avg. Hourly Earnings	-0.1%	The decline follows two months of above average increases, but may be a one month abnormality given the tight market

Calendar	Release	Covering	Week of December 5, 2016
Trade Deficit	Tuesday	October	A widening of the trade deficit from -$36.4 B in Sept. to -$42.5 B for October is reflective of the average of last year
JOLTS	Wednesday	October	The job openings index dropped to 5.486 M in Sept. and is expected to be back above 5.7 M in October
Consumer Credit	Wednesday	October	Another month of +$19 billion is expected on strong auto loan and credit card debt expansion

MONDAY MUSING

As most of you already know, my mind works in strange ways. For those of you who did not know this I am sharing some random thoughts in the last week. Message to all poets: I get it. Things are like other things. I am amazed the Chinese made a written language entirely out of tattoos. In an effort to keep my mind sharp as I get older, I like to read a thesaurus from time to time. I agree with the old saying, A mind is a terrible thing to garbage. A thesaurus was not used by the person who came up with the naming of a fireplace. I could go on but I have forgotten the question.

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Commentary

The wealth of economic data released last week painted a picture of accelerating growth in 2017. The two most important numbers looking forward were the huge jump in **consumer confidence** following the election, and the improvement in the **ISM index**. The Conference Board's consumer confidence index jumped to 107, the highest reading in almost ten years. Consumers believe jobs are going to continue to grow and wages will increase in a tight **labor market**. This should provide comfort to business people who have been unconvinced the surge in consumer spending was not sustainable. Business confidence in lower taxes and reduced regulations will contribute to rising profits next year. This change should lead to higher inventory growth and business fixed investment in the coming twelve months. The ISM index moved above 53, well above the breakeven level of 50. This indicates manufacturing activity should grow, which will also contribute to higher growth in business fixed investment. The monthly jobs data for November was a neutral number to financial markets. The growth in **nonfarm payrolls** was about the monthly average of the last twelve months. This is less than the monthly average of 2015 when jobs grew by 220,000 per month. It is enough to continue to drive unemployment down. The large drop in the **unemployment rate** was misleading. It came from a very low increase in the size of the workforce and modest increases in those reporting as having a job. This is after three months of a large increases in the size of the workforce, with people coming back to look for work. The take away is the labor market continues to tighten, with more companies having trouble finding qualified people to fill job openings. We are very close to full employment. This will allow the **Federal Reserve** to move managed rates up at next week's **FOMC** meeting.

The change in Washington to new fiscal stimulus from lower taxes, new infrastructure spending programs and reduced regulation takes pressure off the Fed to keep interest rates low. After several years when the Fed was the only game in town, fiscal stimulus will begin to contribute to better economic growth. Market interest rates are moving in expectation this environment will lead to higher inflation rates. The biggest move in market rates has been in the intermediate and long end of the curve. The spread between the yield on the two-year treasury and the ten-year has widened to 130 basis points from less than 75 bp two months ago. The steeper **yield curve** should lead to better discipline in loan pricing. So far this has not happened. Most of our clients are not reporting any meaningful increase in competitive loan rates being quoted. They have also not reported any upward movement in competitive deposit rates. Both of these should begin as the steeper yield curve works to benefit bank earnings in the next year.

Trusted Advisor to Financial Institutions
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