THE PROBANK AUSTIN ADVISOR

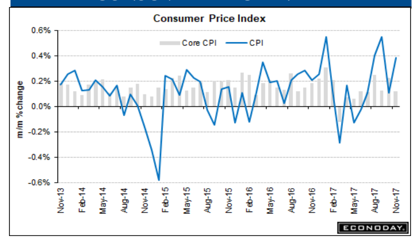
January 9, 2018

Markets	1-Jan	2-Jan	3-Jan	4-Jan	5-Jan	YTD%	29-Dec-17
DJIA	N / A	24,824.01	24,922.68	25,075.13	25,295.87	2.33%	24,719.22
S&P 500	N / A	2,695.81	2,713.06	2,723.99	2,743.15	2.60%	2,673.61
NASDAQ	N / A	7,006.90	7,065.53	7,077.91	7,136.56	3.38%	6,903.39
SNL Bank Index	N / A	621.01	622.38	628.29	629.75	1.95%	617.68
Fed Funds Rate	N / A	1.42%	1.42%	1.42%	1.42%		1.42%
1 Month LIBOR	N / A	1.56%	1.56%	1.56%	1.55%		1.56%
3 Month LIBOR	N / A	1.70%	1.70%	1.70%	1.70%		1.69%
3 Month T-Bill	1.39%	1.44%	1.41%	1.41%	1.39%		1.39%
1 Year Treasury	1.76%	1.83%	1.81%	1.82%	1.80%		1.76%
2 Year Treasury	1.89%	1.92%	1.94%	1.96%	1.96%		1.89%
3 Year Treasury	1.98%	2.01%	2.02%	2.05%	2.06%		1.98%
5 Year Treasury	2.20%	2.25%	2.25%	2.27%	2.29%		2.20%
10 Year Treasury	2.40%	2.46%	2.44%	2.46%	2.47%		2.40%
30 Year Treasury	2.74%	2.81%	2.78%	2.79%	2.81%		2.74%

WEEKLY HIGHLIGHT

The data from the Labor Department raises more questions than it answers

CONSUMER PRICE INDEX



(click to enlarge)

Economy	Week of January 1, 2018	
New Years Day		
Motor Vehicle Sales	17.9 Million	The best month of the year, other than the replacement spike in September and October
ISM Index	59.7	Up from 58.1 in November, led by new orders, reflecting a strong final demand environment for durable goods
Trade Deficit	-$50.5 Billion	The deficit widened to -$48.9 B in October as imports increased 2.5%, while exports rose by 2.3%
Unemployment	4.1%	As expected, no change in the unemployment rate as it remains at a 17 year low
Nonfarm Payrolls	148,000	Job growth was less than expected and below the average of 182,000 over the last twelve months
Avg. Hourly Earnings	0.3%	This is the first month of above average growth in wages in the past year, but must be followed with more months of growth

ON THIS DAY IN HISTORY

1493 - Columbus' first manatee sighting

1793 - 1st hot-air balloon flight in the US

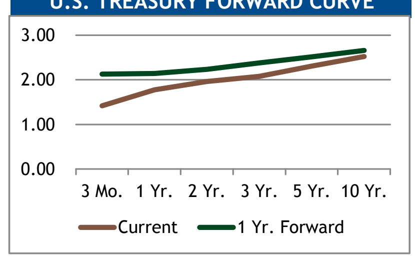
1811 - 1st Women's Golf Tournament held

1848 - 1st commercial bank in San Francisco established

1942 - Joe Louis wins heavyweight title

Calendar	Release	Covering	Week of January 8. 2018
Consumer Credit	Monday	November	The last two months have produced a jump in credit card balances as consumer spending improves; expect $18.4B
JOLTS	Tuesday	November	The total unfilled job openings is expected to rebound from 5.996 M to 6.100 M, consistent with a low unemployment rate
Producer Price Index	Thursday	December	While consumer price increases have been muted, wholesale prices have risen much faster; expect +0.2% for the month
Consumer Price Index	Friday	December	Gas prices are the biggest factor in rising consumer prices, but the core rate is expected to be up 0.2% for the month
Retail Sales	Friday	December	Another strong month of consumer final demand is expected with a +0.5% increase, following the +0.8% increase for November

U.S. TREASURY FORWARD CURVE



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Commentary

Should anyone not believe data released by the government is not keeping current with the changes taking place in the economy, the **labor market data** from last Friday should convince you. The Labor Department reported job growth of 148,000 for December. This was well below consensus forecasts and the average monthly increase in 2017. Within the total, the data reported a decline of 22,000 in the retail sector. This was for a month when seasonal jobs in retail usually increases. The decline reported was a surprise. Part of this could be explained by the number of store closings over the past year, but not all of it. There is a seasonal adjustment factor applied to this number, so the decline could be a function of fewer seasonal hires for the fewer stores than would normally be expected. But that is not the big problem. It turns out the Labor Department does not count workers for Amazon as retail workers. In fact, it is not clear they are counted anywhere. The warehousing and transportation sector was reported as only having increased by 1,800 jobs for the month. We do not believe these results. The change in the nature of retailing, as consumers move to on-line buying, is not being reflected in the old methodology used by the Labor Department to collect and report these numbers. The labor market is tight and the concern is the strength of the business cycle may be held down by the shortage of workers companies are experiencing. The Labor Department reported 5.308 million people who were unemployed but looking for jobs in December. The **JOLTS data** for the end of November is due out tomorrow and is expected to report 6 million unfilled job openings. The mismatch is a function of job skills with many of those looking for work not having the skills employers require for the open positions. This environment should be producing larger wage increases than has been reported as companies compete for workers having the skills required. This has not been the case as of yet. Average hourly earnings did increase by 0.3% in December, which was higher than the 0.1% reported for November. If the concern about higher inflation **the Fed** has been expressing is to develop, wage rates will need to accelerate in the coming months. The **tax reform** passed in December will cause after-tax, disposable income to jump beginning in February. This should generate an increase in **consumer final demand**. The **retail sales data** due out this Friday is expected to be a second consecutive month of strong gains. Retail sales were up 0.8% in November and are expected to be up 0.5% for December.

Finally, the manufacturing sector continues to accelerate with the **ISM Index** up again and durable goods orders strong. This is in addition to the strong housing data released in the last two months. None of this strong data is producing any meaningful increase in inflation, with the PPI and CPI due out this week. The impact is driving stock prices up in the first week of the new year and market interest rates continue to rise. The large move in the short end of **the curve** is dragging the long end up, but not as much as the rise driven by the Fed in the short end. The **TED spread** is under 50 basis points, with prospects of further declines increasing. We may not understand or trust the data coming out of government, but it is the only peg on which we can hang our hats.