THE PROBANK AUSTIN ADVISOR

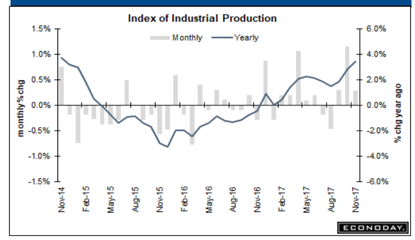
January 15, 2018

Markets	8-Jan	9-Jan	10-Jan	11-Jan	12-Jan	YTD%	29-Dec-17
DJIA	25,283.00	25,385.80	25,369.13	25,574.73	25,803.19	4.39%	24,719.22
S&P 500	2,747.71	2,751.29	2,748.23	2,767.56	2,786.24	4.21%	2,673.61
NASDAQ	7,157.39	7,163.58	7,153.57	7,211.78	7,261.06	5.18%	6,903.39
SNL Bank Index	627.65	633.32	640.62	644.86	650.44	5.30%	617.68
Fed Funds Rate	1.42%	1.42%	1.42%	1.42%	N / A		1.42%
1 Month LIBOR	1.55%	1.55%	1.55%	1.56%	1.56%		1.56%
3 Month LIBOR	1.71%	1.70%	1.71%	1.72%	1.72%		1.69%
3 Month T-Bill	1.45%	1.44%	1.42%	1.43%	1.43%		1.39%
1 Year Treasury	1.79%	1.78%	1.78%	1.77%	1.78%		1.76%
2 Year Treasury	1.96%	1.98%	1.98%	1.98%	1.99%		1.89%
3 Year Treasury	2.07%	2.09%	2.08%	2.09%	2.12%		1.98%
5 Year Treasury	2.29%	2.33%	2.32%	2.32%	2.35%		2.20%
10 Year Treasury	2.49%	2.55%	2.55%	2.54%	2.55%		2.40%
30 Year Treasury	2.81%	2.88%	2.88%	2.91%	2.85%		2.74%

WEEKLY HIGHLIGHT

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

INDUSTRIAL PRODUCTION



(click to enlarge)

Economy	Week of January 8, 2018	
Consumer Credit	$28.0 Billion	
JOLTS	5.879 Million	This lower than expected report and the downward revision for October may indicate the labor market is cooling
Producer Price Index	-0.1%	This is the first monthly decline since August of 2016, bringing the core rate YOY increase down to 2.3% from 2.4%
Consumer Price Index	0.1%	Housing and medical make up more than half the total, they continue to rise while the rest of the sectors remain muted
Retail Sales	0.4%	This was a solid report with November revised up to +0.9%, meaning the fourth quarter Real GDP report should be strong

ON THIS DAY IN HISTORY

1559 - Elizabeth I crowned Queen of England

1777 - New Connecticut (Vermont) declares independence from England

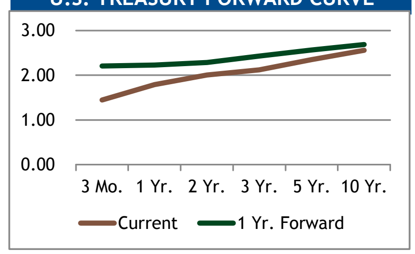
1844 - University of Notre Dame recieves its charter in Indiana

1919 - Two million gallons of molasses flood Boston, drowning 21 people

1934 - Dillinger shot several times while robbing the First National Bank

Calendar	Release	Covering	Week of January 15. 2018
Martin Luther King Holiday	Monday		Financial markets and many banks closed
Industrial Production	Wednesday	December	Manufacturing has been accelerating, with expectations of another increase at 0.4% for the month
Capacity Utilization	Wednesday	December	Along with rising output, the operating rate has risen to above 77%, with expectations of another increase to 77.3%
Housing Starts	Thursday	December	A small pull back from the very strong 1.297 M reported for November is expected at 1.280 M for December

U.S. TREASURY FORWARD CURVE



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Commentary

The news and data just keeps getting better. The data from last week reported continued strength in **consumer final demand** and some slowing in the very **tight labor market**. **Retail sales** for December were reported as having risen by 0.4%, which will contribute to a strong fourth quarter **Real GDP** report at the end of the month. This followed the upwardly revised data for November, moving from +0.8% to +0.9%. This strength was confirmed by the consumer credit data from November. **Consumer credit** had been averaging growth of $15 B a month in 2017, primarily driven by auto and student loans. The $28 B increase in November was much higher, with credit card balances growing by $11 B, as consumers were willing to increase spending by borrowing on their cards. They have not been willing to do this in the past eight years. Strong job growth and high levels of **consumer confidence** are the driving factors.

However, the really good news was not in the economic data but in more companies deciding to share the reduction in corporate taxes with employees. More companies announced raises in pay scales and one time bonuses because of the lower taxes they will pay in 2018. This was not factored into estimates of the impact of the tax reform on the economy. Consumers will have much more after tax, disposable income to fuel faster consumer final demand than has been achieved in the past few years. In spite of this fundamental economic strength, **inflation** remains well contained. The core rates for both the **PPI** and **CPI** were reported as very low for December. The year-over-year change for the core CPI moved down from 2.4% to 2.3% with the released of the December data.

Even with no inflation pressures evident, the **yield curve** did steepen modestly over the last month. The yield on the ten-year treasury has moved up by 19 basis points to 2.55% from 2.36%. The yield on the two-year has moved up by 10 basis points to reach 2.0%. The **TED spread** stands at 55 basis points, up from 49 basis points early last week. Investors may be beginning to believe the strong economic data and the impact of the tax reform act will begin to drive inflation higher. This would be great news for banks, as it would drive loan yields higher. Funding costs are already rising and higher asset yields are needed to maintain margins. This economic environment is already producing an acceleration in loan demand, with many clients reporting an increase in the early stages of new loan opportunities after the beginning of the new year. We now have clients unwilling to write new five year fixed rate loans below 5%. There are still banks willing to quote 4.5% for the same kind of loan, but those are fewer than was the case a month ago. It makes little sense to write a fixed rate loan for the same rate as the current Prime Rate. Banks that are willing to offer the lower rate are not getting paid for the extension of the duration of assets that results. We believe the loan rates are beginning to move higher and will continue to do so as bond rates move up and economic data continues to strengthen.

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