

# THE PROBANK AUSTIN ADVISOR

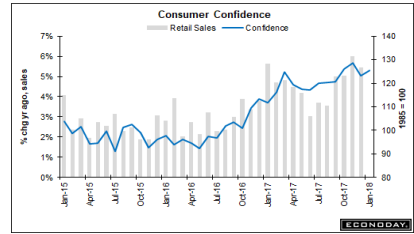
February 26, 2018

Markets	19-Feb	20-Feb	21-Feb	22-Feb	23-Feb	YTD%	29-Dec-17
DJIA	N / A	24,964.75	24,797.78	24,962.48	25,309.99	2.39%	24,719.22
S&P 500	N / A	2,716.26	2,701.33	2,703.96	2,747.30	2.76%	2,673.61
NASDAQ	N / A	7,234.31	7,218.23	7,210.09	7,337.39	6.29%	6,903.39
SNL Bank Index	N / A	646.42	648.85	641.51	650.93	5.38%	617.68
Fed Funds Rate	N / A	1.42%	1.42%	1.42%	1.42%		1.42%
1 Month LIBOR	1.60%	1.60%	1.60%	1.62%	1.63%		1.56%
3 Month LIBOR	1.89%	1.90%	1.92%	1.94%	1.96%		1.69%
3 Month T-Bill	1.62%	1.66%	1.64%	1.63%	1.64%		1.39%
1 Year Treasury	2.00%	2.01%	2.03%	2.02%	2.02%		1.76%
2 Year Treasury	2.21%	2.25%	2.26%	2.25%	2.25%		1.89%
3 Year Treasury	2.38%	2.40%	2.44%	2.42%	2.39%		1.98%
5 Year Treasury	2.63%	2.65%	2.69%	2.66%	2.62%		2.20%
10 Year Treasury	2.87%	2.88%	2.94%	2.92%	2.88%		2.40%
30 Year Treasury	3.13%	3.15%	3.22%	3.21%	3.16%		2.74%

## WEEKLY HIGHLIGHT

The lack of data last week added to volatility, but that will not be a problem this week.

## CONSUMER CONFIDENCE



[\(click to enlarge\)](#)

## ON THIS DAY IN HISTORY

1909 - A color motion picture is shown to the general public for the first time

1917 - The world's first jazz record is created

1991 - The world's first web browser is presented to the public

2011 - Space Shuttle Discovery Docks for Last Time

## Economy

### Week of February 19, 2018

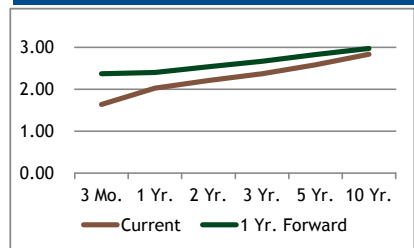
Existing Home Sales	5.380 Million	An unexpected decline of 3.2%, which helped the supply to increase to a still low 3.4 months from the 19 year low of 3.2 months
Leading Indicators	1.0%	Up from 0.6% in December, led by building permits and the ISM new orders index, providing evidence growth will remain strong

## Calendar

### Release Covering Week of February 26, 2018

New Home Sales	Monday	January	The highly volatile monthly data is expected to drop to 600,000 from 625,000 in December and over 650,000 in December
Durable Goods Orders	Tuesday	January	Volatile aircraft and vehicles are expected drag the total down to -2.0% but up 0.4% excluding transportation
Consumer Confidence	Tuesday	February	The recovery of stock prices and strong jobs and income expectations are expected to keep the survey at a strong 126.5, up from 125.4
Real GDP-Revised	Wednesday	4th Qtr	The widening trade deficit and downward revisions to retail sales for December are expected to cause a downward revision to 2.5% from the prior 2.6% release
Motor Vehicle Sales	Thursday	February	Forecasts call for a drop to 16.5 million from a strong 17.2M reported for January as auto sales slow
Personal Income	Thursday	January	Income growth has accelerated and has been solid with +0.3% expected for January reflecting rising wage rates
Personal Spending	Thursday	January	The expected 0.2% increase for January would be half the rate of growth of December, which starts the first quarter on a weak note
Core PCE Price Index	Thursday	January	The monthly inflation data can be volatile with 0.3% expected, while the Y/Y trend should continue to increase
ISM Index	Thursday	January	The new orders component has driven the index well above break-even at 59.1, with expectations of a small drop to 58.6

## U.S. TREASURY FORWARD CURVE



# THE PROBANK AUSTIN ADVISOR

## Commentary

Coming off a week with very limited economic data, this week will provide a wealth of new data. On balance, we expect the data to reflect a slowing in the strong growth at the end of 2017. **Real GDP** is due to be revised from the 2.6% growth estimate in the advance report to 2.5%. The small downward revision is due to lower growth in **consumption** than was estimated in the advance report, a larger **trade deficit** and still low inventory accumulation. The **personal income**, spending and inflation data due out this week is not expected to change forecasts for growth in the first quarter. Incomes are rising at a slightly faster pace than the past five years but growth is not as strong as we expect in coming months. The impact to after tax disposable income of the **tax reductions** will not begin to affect the data until the February data due out in March. The lag between rising incomes and stronger growth in final demand means consumption data will not contribute to faster total growth until the second quarter of the year. The key **Core PCE price index** is expected to be reported at 0.3% for the month, which is stronger than the monthly average of the last two years. It will not change the Y/Y increase from 1.5%, still below the Fed's target of 2.0%. The three key pieces of data will be **durable goods orders**, **consumer confidence** and the **ISM index**. These three reports are ones looking forward. Durable goods orders are a good indicator of future **capital spending** results and consumer confidence reports will include some of the **stock market volatility** experienced in late January. Durable goods orders are affected by large ticket items like aircraft and can be very volatile on a monthly basis. Investors will focus on growth excluding transportation and that is expected to be up a solid 0.4% taking the Y/Y growth up to 8.4%.

**Consumer confidence** is expected to decline by a small amount after reaching a post-recession high in November, but still remain at a strong level above 125. The **ISM index** has been very strong in the past year which should lead to better manufacturing activity. However, **industrial production data** has not followed as expected. Delivery times are slowing indicating some supply constraints which leads to **price increases**. Confirmation of this indicator is expected in the next three months. The **bond market** has reacted to the slightly slower growth data of the last two weeks and forecasts for the data due out this week. The yield on the **ten-year treasury** reached 2.95% last week before dropping back to 2.86% by the end of the week. The **two-year treasury** remains at 2.23% which dropped the **TED spread** to 63 basis points from more than 70 two weeks ago. The short end of the **curve** moved up last week in anticipation of another increase in managed rates at the **FOMC meeting** on March 21. The minutes of the January FOMC meeting were released last week and raised the possibility of **four Fed moves** this year. In order for that to happen, the soft data of the last two weeks must rebound as the impact of the tax cuts begin to drive consumption higher and the **lower dollar** causes the trade deficit to narrow. **Consumption growth** appears solid and inventories are very low. This should lay the foundation for much better data in the coming two months.

Trusted Advisor to Financial Institutions

[www.austinassociates.com](http://www.austinassociates.com)

[www.probank.com](http://www.probank.com)