

# THE PROBANK AUSTIN ADVISOR

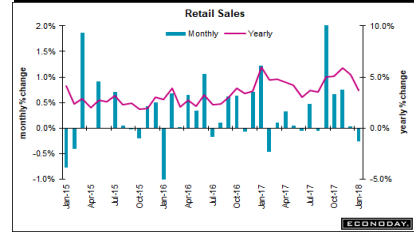
March 12, 2018

Markets	5-Mar	6-Mar	7-Mar	8-Mar	9-Mar	YTD%	29-Dec-17
DJIA	24,874.76	24,884.12	24,801.36	24,895.21	25,335.74	2.49%	24,719.22
S&P 500	2,720.94	2,728.12	2,726.80	2,738.97	2,786.57	4.22%	2,673.61
NASDAQ	7,330.70	7,372.01	7,396.65	7,427.95	7,560.81	9.52%	6,903.39
SNL Bank Index	644.06	645.73	645.54	644.47	658.93	6.68%	617.68
Fed Funds Rate	1.42%	1.42%	1.42%	1.42%	1.42%		1.42%
1 Month LIBOR	1.70%	1.71%	1.72%	1.74%	1.75%		1.56%
3 Month LIBOR	2.03%	2.05%	2.06%	2.07%	2.09%		1.69%
3 Month T-Bill	1.70%	1.68%	1.68%	1.67%	1.67%		1.39%
1 Year Treasury	2.06%	2.06%	2.05%	2.05%	2.03%		1.76%
2 Year Treasury	2.24%	2.25%	2.25%	2.25%	2.27%		1.89%
3 Year Treasury	2.41%	2.42%	2.42%	2.42%	2.45%		1.98%
5 Year Treasury	2.65%	2.65%	2.65%	2.63%	2.65%		2.20%
10 Year Treasury	2.88%	2.88%	2.89%	2.86%	2.90%		2.40%
30 Year Treasury	3.16%	3.14%	3.15%	3.13%	3.16%		2.74%

## WEEKLY HIGHLIGHT

A very strong labor market report is being offset with the prospects of tariffs

## RETAIL SALES



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

## ON THIS DAY IN HISTORY

1894 - Coca-Cola is sold in bottles for the first time.

1945 - Diarist Anne Frank dies in a German concentration camp.

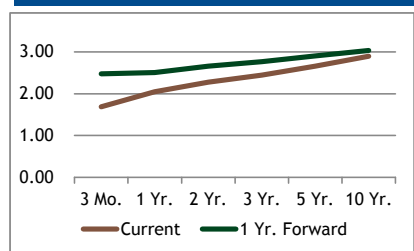
1959 - The U.S. House of Representatives joins the Senate in approving the statehood of Hawaii.

1985 - The United States and the Soviet Union begin arms control talks in Geneva.

Economy	Week of March 5, 2018	
Trade Deficit	-\$56.6 Billion	The deficit widened more than expected, with a weaker dollar not yet affecting the drop in exports
Consumer Credit	\$13.9 Billion	This January data was lower than forecast and is consistent with other data showing a softening of consumer spending for the month
Unemployment Rate	4.1%	No change in the rate in spite of the surge in jobs as a huge increase in the size of the workforce as also reported
Nonfarm Payrolls	313,000	A huge monthly growth in jobs, with both December and January's growth revised upward, making a tight labor market even tighter
Avg. Hourly Earnings	0.1%	Wage growth remains very low in spite of near full employment conditions which keeps inflation risks low

Calendar	Release	Covering	Week of March 12, 2018
Consumer Price Index	Tuesday	February	The stronger economic growth has not caused inflation data to move higher, with only a 0.2% increase expected
Producer Price Index	Wednesday	February	No inflation pressures evident as the consensus forecast calls for only a 0.2% increase for the month and 2.2% Y/Y for the core
Retail Sales	Wednesday	February	A rebound in consumer spending in February from weaker data the prior two months is expected at +0.4% after -0.3% for January
Housing Starts	Friday	February	Following a surge to 1.326 M in January, a pull back to 1.290 M is the consensus forecast
Industrial Production	Friday	February	After a decline of 0.1%, a rebound to +0.3% is expected led by manufacturing activity based on the ISM index and employment growth
Capacity Utilization	Friday	February	At 77.7%, inflation is not expected to be driven higher by supply constraints from limited production capacity
JOLTS	Friday	January	The unfilled job openings total has dropped from above 6 M in November but remains near record highs at 5.85 M

## U.S. TREASURY FORWARD CURVE



# THE PROBANK AUSTIN ADVISOR

## Commentary

The **labor market report** released on Friday blew away all expectations. **Job growth** was reported as having risen by 313,000 in February and both January and December's data revised upward by a total of 54,000. There was strong growth in **manufacturing and construction jobs** and even growth in **retail**, a sector that has been slow in the last two months. Temporary help increased by 27,000 which indicates companies are having trouble finding qualified workers to fill job openings. The **unemployment rate** remained at 4.1% due to the 866,000 increase in the size of the workforce taking the total size to just under 162 million with those of working age not holding a job to 95 million. This drove the **participation rate** up to 63%. This is the highest level since 2003. The growth in **manufacturing jobs** in the last three months indicates **industrial production data** should be stronger for February than the consensus forecast currently in the market. In spite of the fact that we're at full employment, **average hourly earnings** only rose 0.1% for the month and dropped from 2.9% to 2.6% on a year-over-year basis. The risk the **Fed** has been trying to address is the possible surge in wages as companies raise wages to retain and attract the employees they need to meet **strong final demand**. To date, this has not occurred but the risk we see is at a tipping point and **labor costs** begin to drive inflation higher.

**Inflation risks** were increased by the decision to impose **tariffs** on selected imports of metals. Should these tariffs be imposed, it would increase the cost to many products such as auto's. The **auto companies** will pass on the increased costs by raising prices. While the higher costs will not be fully recovered with **higher prices**, it will add to higher price pressures. Tariffs will also slow **job growth** as companies try to control other costs to offset the rising cost of commodities. Tariffs will also lower **consumer spending** as prices rise at a faster rate. All in all, a **trade war** is not positive for economic growth or inflation. These cross currents will add to the pressure on the **Federal Reserve** to raise managed rates. **The FOMC** meets next week with everyone expecting a hike in **short-term rates**. The Fed may provide further guidance on future **monetary policy** direction and timing with more forecasts now moving to expecting four increases in 2018. The data due out this week is expected to reflect a solid expansion continuing with little inflation. **Industrial production** should rebound and the **CPI** and **PPI** are expected to be well contained. The fundamentals remain strong but a change in fiscal policy in the form of tariffs could offset the benefits from **tax reform**. Intervention in market pricing will create **uncertainty** and dampen **future growth prospects**.

Trusted Advisor to Financial Institutions

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

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