

# THE AUSTIN ADVISOR

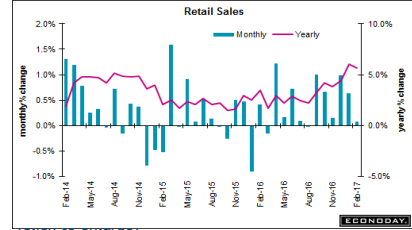
April 10, 2017

Markets	3-Apr	4-Apr	5-Apr	6-Apr	7-Apr	YTD%	30-Dec-16
DJIA	20,650.21	20,689.24	20,648.15	20,662.95	20,656.10	4.52%	19,762.60
S&P 500	2,358.84	2,360.16	2,352.95	2,357.49	2,355.54	5.21%	2,238.83
NASDAQ	5,894.68	5,898.61	5,864.48	5,878.95	5,877.81	9.19%	5,383.12
SNL Bank Index	533.73	532.19	526.53	530.20	527.61	-0.95%	532.65
Fed Funds Rate	0.91%	0.91%	0.91%	0.91%	0.91%		0.55%
1 Month LIBOR	0.98%	0.99%	0.99%	0.99%	0.99%		0.77%
3 Month LIBOR	1.15%	1.15%	1.15%	1.16%	1.16%		1.00%
3 Month T-Bill	0.79%	0.79%	0.80%	0.79%	0.82%		0.51%
1 Year Treasury	1.02%	1.03%	1.03%	1.05%	1.08%		0.85%
2 Year Treasury	1.24%	1.25%	1.24%	1.24%	1.29%		1.20%
3 Year Treasury	1.47%	1.47%	1.44%	1.45%	1.52%		1.47%
5 Year Treasury	1.88%	1.88%	1.85%	1.87%	1.92%		1.93%
10 Year Treasury	2.35%	2.36%	2.34%	2.34%	2.38%		2.45%
30 Year Treasury	2.98%	2.99%	2.98%	2.99%	3.00%		3.06%

## WEEKLY HIGHLIGHT

Conflicting data continues to leave investors in a quandary

## RETAIL SALES



## Economy Week of April 3, 2017

Motor Vehicle Sales	16.6 Million	A weak number at the lowest monthly level in the past two years, with consumer final demand weak in the first quarter
ISM Index	57.2	Down from 57.7 but still a very strong report, well above neutral of 50, indicating acceleration in manufacturing this year
Trade Deficit	-\$43.6 Billion	The deficit narrowed in February which will help first Real GDP data come in stronger than has been forecast
Unemployment Rate	4.5%	A surprising drop from 4.7% as the number of unemployed dropped by 326,000 with the rate the lowest since 2007
Nonfarm Payrolls	98,000	This shocking number was well below anything expected and not consistent with other measures of the labor market
Avg. Hourly Earnings	0.2%	Now the low growth in wages is being blamed on the lack of highly skilled workers where job openings are huge
Consumer Credit	\$15.2 Billion	As expected and represents a rebound to the average of the last year from the weak data reported for January

## MONDAY MUSING

We all know a group of lions is called a pride and a group of geese is called a gaggle. Those are easy, but did you know about the following: A stagger of drunks; A tedium of accountants and a jerk of politicians. This last one reminded me of the best advice I have ever received. Never trust someone in love, drunk or running for any elected office. This has never been more true than today.

## Calendar Week of April 10, 2017

Calendar	Release	Covering	Week of April 10, 2017
JOLTS	Tuesday	February	The job openings picture is expected to remain positive, with more than 5.5 million unfilled positions at the end of February
Producer Price Index	Thursday	March	Producer Prices started the year at an accelerating pace, but the consensus expects no change for March
Consumer Price Index	Friday	March	After a jump at the end of last year, prices have not moved in the last two months with a third month of little change expected
Retail Sales	Friday	March	Following only 0.1% growth in February, no growth is expected for March as the slowdown in consumer final demand continues

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## Commentary

Another week of conflicting data. The condition of the **labor market** was called into question last week with the release of the monthly employment report. **Nonfarm payrolls** were reported as having only increased by 98,000 for the month of March, well below expectations and well below the 180,000 monthly average of the last twelve months. The Labor Department reported private sector jobs only rose by 91,000 for the month. This compares to the ADP employment report, which estimated private sector jobs increased by 263,000 for the month. The ADP survey is always stronger than the Labor Department's estimate but the spread between the two for March was much larger than normal. There is some speculation the Labor Department's survey was conducted during the week of the large snow storm in the east and it affected the result. Some evidence this might be the case was provided with the report the **unemployment rate** dropped to 4.5% with a reduction of 326,000 of those unemployed. We will not know which of these reports is the better reflection of the condition of the labor market until revisions are issued in early May. It is clear **consumer final demand** was weak in the first quarter. **Auto sales** were reported as having dropped 5.7% from February. The **trade deficit** narrowed, with imports almost unchanged reflecting a reduced level of consumer spending on those imports. The **retail sales** data due out this week is expected to confirm this weaker tone to **consumer spending** from the first quarter. The one solid number from last week was the **ISM Index**. It remained above 57, indicating an expanding level of manufacturing in the next year.

Finally, the minutes of the last **FOMC** meeting were released. It is clear from these minutes, the Fed is much closer to beginning the process of letting their balance sheet shrink. They will do this by not replacing the cash flow from the portfolio by buying bonds. This process will remove liquidity from the economy. We believe this will reduce liquidity in the banking system as deposits decline. The impact of this will be an upward move in loan pricing in the industry. Banks will not have excess liquidity to fund loans at low rates. In addition, yields in foreign bonds have now turned positive. Negative interest rates in Japan and Germany have now moved up to provide positive nominal returns. This should serve to reduce the flow of foreign capital into our debt market. A stronger growth in the last three quarters of the year, a tight labor market, higher inflation, reduced flow of foreign capital into the U.S., the Fed continuing to raise **managed rates** and a smaller balance sheet are the reasons we continue to forecast much higher interest rates in 2017.

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