FLORIDA PRIME

Weekly Commentary

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Short rates held steady last week despite consumer and producer price reports that betrayed a whiff of inflation. One-month London interbank offered rates dipped a basis point to 0.26%, while three-month, six-month and one-year Libor were unchanged at 0.31%, 0.47% and 0.80%, respectively.

During the week, both January's PPI and CPI came in above expectations. The core PPI jumped 1.6% year-over-year, with prices rising at both the finished and intermediate-goods stages. And the CPI rose 0.4% from December and also 1.6% year-over-year, abetted by the biggest rise in food prices since September 2008. Core CPI, however, was up only 0.2%. While the largest increase since October 2009, it was still below the Fed's implicit target range. What both reports suggest is that the commodity price spikes that have been happening elsewhere in the world are beginning to surface at home, though it should be noted that commodity prices—particularly foodstuffs—are a far smaller share of overall producer and consumer prices in the U.S. than in other countries.

In other economic news on the week, both the regional Philadelphia and New York manufacturing indexes beat expectations, with Philly's rising to its highest since January 2004 and New York's to its highest since last June. The Conference Board's leading indicators rose 0.1%, below expectations, but a big drop in construction permits was the major drag, in part because permits surged in December in advance of new building codes in various states. The index ex-permits was up 0.5%, slightly more than the December-January average and nearly double expectations. Also, an unexpected dip in January industrial production also may have been impacted by one-off factors, primarily weather's impact on mining and utilities. The report showed production of computers and electronic products, a key gauge of capital spending, rose at a 15% annualized pace the past 3 months.

Weather also may have played a role in January retail sales, which rose 0.3%—the 7th straight monthly increase—vs. expectations for a 0.5% increase. Building materials and restaurants & bars, areas most likely to see shoppers stay away during storms, suffered big declines, while essentially weather-proof online and grocery sales rose. Finally, minutes from the FOMC's late January meeting showed projections for inflation and unemployment were virtually the same as in December, indicating the Fed has no reason to begin thinking about increasing the target funds rate anytime soon.

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