FLORIDA PRIME

# Weekly Commentary

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New week, same story: short credit rates keep inching up even as Treasury yields plumb record lows amid creeping uncertainty over both a positive outcome to the euro sovereign debt crisis and the prospect for the U.S. economy to avoid a double dip. Three-month London interbank offered rates (Libor) last week rose a basis point to 0.33%, 6-month Libor rose 2 basis points to 0.50% and one-year Libor rose a basis point to 0.81%. But while the 4-week Treasury bill rose half a basis point to 0.005%, 13-week and 26-week bills were unchanged in the weekly auction at 0.015% and 0.045%, respectively.

The biggest economic data point on the week was the August jobs report, which showed the Great American jobs machine literally stuck in neutral—payrolls were unchanged on the month, as a 17,000 net increase in private hiring was offset by the same amount of cutbacks in the government sector. Hours worked and hourly earnings also fell during the month, while revisions pared 58,000 jobs from already subpar gains for June and July. With job growth nil and consumer confidence at depression levels—the Conference Board's monthly reading for plunged by the most since October 2008 to 44.5, substantially below the average recession level of 73 and not even in eyesight of the average 102 for expansions—the question is what will fuel consumer spending? And if consumers climb back into their shells like they did in 2008 and 2009, and if the deficit-reduction wave causes government spending to flatten and maybe even fall, what's going to drive growth?

The good news is that last question is still theoretical. The reality is that July consumer spending surprised to the upside, rising the most in five months and, on an inflation-adjusted basis, surpassing its 2007 peak. And August vehicle sales held up in a month dominated by a potential government shutdown, a U.S. sovereign-debt downgrade, a sharp decline in equity markets, earthquakes and hurricanes. Moreover, despite their plunge in confidence, more than half of consumers told the Conference Board that they plan to buy a major appliance, the first time that sub-component has been this high in almost a year, and the number planning to buy cars and take a vacation also rose. In other words, it's still more "watch what we do, not what we say'' when it comes to consumers. Elsewhere, the ISM's manufacturing gauge came in above 50 in August, well above consensus expectations for a below-50 figure that indicates contraction, while July factory orders also rose above expectations. Both suggest a slowing manufacturing sector is still expanding.

The real issue appears to be growing disgust with Washington—polls show both the public and business are growing increasingly disenchanted with the White House and Congress. It seems that this growing discontent, more than deteriorating economic fundamentals, is what is causing all the volatility and uncertainty in the markets. Until that clears up, it could be that the rate environment we've been stuck in for a while is going to continue.

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**Views are as of September 6, 2011, and are subject to change based on market conditions and other factors.**