FLORIDA PRIME

Weekly Commentary

JANUARY 10, 2011

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Hopes for a big jump in payrolls for December were dashed with Friday's report on the labor market, dousing a week of relatively robust economic news with splash of reality that illustrates how tough economic conditions actually are.

While the Labor Department reported that the unemployment rate fell four-tenths of a percent to 9.4%, the decline was driven partly by a shrinking labor pool—a sign discouraged workers were giving up the search, hardly a sign of economic strength. Moreover, nonfarm payrolls rose a disappointing 103,000, well below forecasts, particularly in light of the ADP payroll report earlier in the week that estimated payrolls surged 297,000 in December, the biggest monthly job in the 10 years since the payroll processing and HR consulting firm began collecting such data. Also on the week, weekly jobless claims climbed back above 400,000, although the less-volatile 4-week average that smoothes out weekly distortions fell more than expected to its lowest since July 2008.

Altogether, the employment reports suggested the jobs situation continues to improve—payrolls on the year expanded by 1.1 million, with November's and October's increases revised upward—but at a rate that's too slow to lower the jobless rate significantly. In fact, Fed Chairman Ben Bernanke, in justifying the central bank's aggressive monetary easing, cited this conundrum in testimony before a Senate Budget committee on Friday following release of December's employment report, saying "it could take 4 to 5 more years for the job market to normalize fully.''

Also during the week, the Institute of Supply Management said its manufacturing index rose slightly in December to 57, its best reading since May, with both new orders and production posting significant increases. The ISM also said its non-manufacturing composite index, representing the bulk of the economy, rose to its highest since May 2006. Separately, November construction spending rose more than expected, while December chain-store sales slowed from November, taking a bit of the bloom off the rose of the strongest holiday sales season in four years.

On the week, short credit rates barely moved while rates overall remained subdued.

G40461-18 (1/11)