Weekly Commentary

FLORIDA PRIME

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

The latest batch of economic reports shows the manufacturing sector continuing to pick up steam, consumers remaining cautious but willing to spend and core inflation at the retail and wholesale level still running slightly below implied Fed targets. Combined, last week's data left short rates virtually unchanged.

December's 0.6% retail sales increase was a notch below expectations, while the University of Michigan's initial read of consumer sentiment for January came in below expectations, with respondents expressing concerns about current conditions, particularly jobs. While there are signs the labor market is improving—the Fed's latest Beige Book said all 12 districts reported rising employment in at least some sectors—the gains have come grudgingly. Jobless claims for the latest week jumped an unexpected 35,000, the biggest weekly increase since July, pushing claims to their highest since October.

Still, December's increase in retail sales marked the sixth straight month of increases and capped the best holiday sales season in four years. Most notable was the 1.1% jump in car sales, the best month for sales in 1½ years. With car sales perking up—they hit a 12.5 million annual pace in December—manufacturers have scheduled a 39% jump in first-quarter production, adding to manufacturing's strengthening rebound. December industrial production rose a better-than-expected 0.8%, pushing capacity utilization to its highest since August 2008.

Reports for December consumer prices showed core inflation running below 1%, while core producer prices were running at 1.4%. But the headline rates for each were substantially higher, reflecting surging energy and food commodity prices. The Fed, in its Beige Book report, noted that while retailers and manufacturers are confronting rising costs from these commodity price pressures, the pass-through to customers remains limited and wage pressures continue to be almost nonexistent.

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