FLORIDA PRIME

Weekly Commentary

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Last week's economic news built on the improving recovery theme of the past two months. But there were some hiccups in the global markets on higher-than-expected inflation readings in India and the UK, a rate increase by Brazil's central bank and the possibility that China, where Q4 GDP unexpectedly accelerated, may tighten more aggressively to rein in growth. On top of all this, commodity prices continued to surge, pushing global food and energy indexes to new highs. Despite all these global pressures, rates in the short credit markets, while off their historic lows, remained relatively unchanged at very low levels last week.

On the week, initial unemployment claims came in much lower than expected, more than offsetting the prior week's spike and dropping the less volatile 4-week average to its lowest in two years. The Conference Board's index of leading indicators also surprised, jumping 1% in December on top of November's 1.1% gain. But a big part of the increase was built on December's jump in building permits, which while a good sign for housing, meant the rest of index was more reflective of steady, not sizable, improvement in the economy.

As for housing, the 16.7 jump in December building permits, combined with a surprise and broad-based 12% increase in December existing home sales, suggested the market may be on the verge of moving beyond stabilization to possible growth—though a decline in December housing starts took some of the shine off the more hopeful reports. Elsewhere, regional reads on manufacturing activity in New York and Philadelphia for January came in slightly below expectations, though they remained solidly ensconced in expansion territory. Most notable, momentum in their employment and new-orders components accelerated, with the respective Philadelphia readings on those two subindexes their highest in 7 and 5 years.

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