FLORIDA PRIME

Weekly Commentary

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Rates continued on a relatively stable path as overnight, one-month, three-month, six-month and 12-month London interbank offered rates (Libor) ended the week at 0.12%, 0.19%, 0.25%, 0.40% and 0.73%, respectively.

U.S. economic data weakened in May according to a range of data released during the week. The employment picture remained a concern as the U.S. Labor Department reported that only 54,000 new jobs were added in May, the fewest in eight months. Private companies hired 83,000 new employees, the lowest number in nearly a year. The unemployment rate increased slightly from 9% to 9.1%. However, initial jobless claims did decline slightly during the last week in May.

Manufacturing growth slowed in May, according to the Institute for Supply Management (ISM). The ISM's manufacturing purchasing managers' index fell to 53.5 in May from 60.4 in April. New orders slowed a very significant 10.7 points to 51.0, indicating a much slower rate of growth. ISM readings above 50 indicate expanding activity.

Consumer confidence also dropped in May according to the Conference Board's consumer confidence index, which is at a six-month low. Consumer expectations were weak across a range of economic factors--including business conditions, employment and income.

Chairman Ben Bernanke and the majority of Federal Open Market Committee members will be extremely reluctant to raise benchmark interest rates until the economy picks up steam. The recent growth slowdown should prove transitory, owing in large measure to the temporary impact of Japan's tragic earthquake and to rising commodity prices, which appear to have peaked. Assuming growth revives this fall, the first rate hike is still possible in the fourth quarter of 2011 or the first quarter of next year. Importantly, market interest rates could be expected to start moving higher before policy rates as evidence emerges that the economy is reaccelerating.

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