FLORIDA PRIME

Weekly Commentary

JULY 11, 2011

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Rates continued their relatively stable trend as overnight, one-month, three-month, six-month and 12-month London interbank offered rates (Libor) ended the week at 0.124%, 0.185%, 0.246%, 0.398% and 0.735%, respectively.

With respect to the short-term rate outlook, Federal Reserve Chairman Ben Bernanke and his colleagues have set out their plan, which is to continue supporting the economy by investing the proceeds of maturing securities after Quantitative Easing 2. If the economy continues to grow over the summer, the Fed will likely stop re-investing and the next step would be to change the "extended period" language. Keep in mind that Chairman Bernanke has defined "extended period" as two or three Federal Open Market Committee meetings, which means it is likely well into 2012 before the Fed makes a rate move.

Employment

The week's news was dominated by a report issued by the Department of Labor showing no improvement in the employment situation in June. Nonfarm payroll employment was essentially unchanged in June (+18,000), and the unemployment rate was little changed at 9.2%. According to the report, employment in most major private-sector industries changed little over the month. Government employment continued to trend down. The number of persons unemployed for less than five weeks increased by 412,000 in June while the number of long-term unemployed (those jobless for 27 weeks and over) was essentially unchanged over the month, at 6.3 million, and accounted for 44.4% of the unemployed.
This news cancelled out the Department of Labor's somewhat brighter news earlier in the week that the number of new claims for unemployment benefits fell 14,000 during the previous week to the lowest level in seven weeks. The four-week average also declined for the first time in four weeks, to 424,750. However, new applications for benefits have been above the 400,000 level for 13 weeks. The number of continuing claims for the week of June 25 declined 43,000 to 3.6 million; claims have been slowly moving lower with the four-week average down 20,000 from a month earlier.

Manufacturing

Institute for Supply Management reported during the week that May was a solid improvement for the factory sector as new orders for both durable and nondurable goods rose 0.8% compared to April's disappointing 0.9% decline. New orders for durable goods saw a 2.1% gain in aircraft and motor vehicles, while non-durable orders were down 0.2%.