FLORIDA PRIME

Weekly Commentary

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Interest rates were little moved last week by some relatively positive news on the domestic economic front. Three-month and one-year London interbank offered rates (Libor) each rose a basis point to 0.37% and 0.86%, respectively, while six-month Libor rose 2 basis points to 0.56%—all new 52-week highs Meanwhile, one-week Treasury bills held at 0.00%, while 13-week T-bills rose a basis point to 0.02% and 26-week T-bills rose half a basis point to 0.035%. The European Union continued to drive the credit markets, as investors worried about how—and how long it will take—EU officials to resolve sovereign-debt issues confronting Greece and other fiscally weak EU members. Concerns also mounted about global growth amid signs that Western Europe's economy is potentially on the verge of recession and on a rapid drop in global commodity prices, which suggests emerging-market growth, particularly in China, may be slowing significantly. Overhanging all of this, of course, are ongoing doubts about how the U.S. economy will hold up in the fourth quarter.

As for the just completed third quarter, there were several encouraging reports last week. Final revisions to the second quarter bumped real GDP up to 1.3%, final sales up to 1.6% and corporate profits up to an 8.8% annualized pace through the year's first half. At the same time, nondefense capital goods shipments accelerated in August, suggesting Q3 capital spending remained solid, with nondefense shipments and orders matching 2000 and 2008 cyclical peaks. Also, September's Chicago PMI—a fairly reliable barometer of national manufacturing activity short of the national ISM gauge—was higher than expected, bolstered by the largest monthly change in new orders in nearly two years. And jobless claims in the latest week unexpectedly plunged below the important 400,000 level that typically acts as a marker between robust and stagnant job growth.

All of this suggests the third-quarter GDP print not only will be positive, but may end up being the strongest quarter of the year. That may not be saying much for a year in which first-half growth was extremely slow and well short of forecasts, but it does suggest that if a recession is looming, it's likely not here yet.

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Views are as of October 3, 2011, and are subject to change based on market conditions and other factors.