FLORIDA PRIME

Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Credit and economic conditions continued to improve last week, with overnight repo rates reaching nearly 20 basis points, Treasury bill yields rising slightly and London interbank offered rates (Libor) dipping slightly. In Europe, Libor's companion interbank offered rates between euro-zone lenders (Euribor) fell sharply after the European Central Bank completed a second massive injection of liquidity into the European banking markets via another round of low-rate three-year loans.

On the domestic front, last week's economic reports reflected consumers' improving fiscal and mental health. The Conference Board's monthly confidence gauge easily topped forecasts, with the current conditions and expectations components at their healthiest readings since the recession ended. February chain-store and auto sales also were much stronger than expected, and fourth-quarter GDP was revised up two ticks to 3% on a massive $106 billion upward revision to wages and salaries, which bodes well for future spending.

There were some headline disappointments. January's consumer spending increase was below forecasts, though an unusually warm winter likely played a role as utility consumption was down sharply. And February's ISM manufacturing index unexpectedly slowed, contradicting strong regional manufacturing reports from Texas, Richmond and Chicago, as well as the Beige Book's reports of expanding activity in the dozen Fed districts.

Still, the ISM and spending gauges remained indicative of an economy that is expanding and a consumer who is beginning to believe it, his outlook bolstered by a labor market that also seems to be clearly improving. The four-week average of initial jobless claims is now at a four-year low and appears to have settled at a level that historically has been associated with robust job growth.

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