FLORIDA PRIME

Weekly Commentary

MAY 14, 2012

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

London interbank offered rates remained largely unchanged during the week. Short-term Treasuries were up across the board, but repo rates remained steady.

A drop-off in fuel prices, along with falling natural gas prices, helped April's Producer Price Index to decline vs. expectations for an unchanged reading. Import food prices were down by the most since October 2009. The data provided some leeway for the Fed to consider additional easing, if and when necessary, without fear of pushing up consumer price inflation.

A number of different reports provided indications that 2012 is not likely to experience the same cyclical summer growth problem seen in each of the last two years. The Labor Department reported the job openings rate picked up to 2.7% in March, the highest level since July 2008, as all major private industries posted gains. The number of unemployed per job openings fell to 3.4, the fewest since November 2008, reflecting the gradual improvement in labor market conditions. The National Federation of Independent Business Optimism Index rose in April by the most in 18 months, matching its level of February 2011, which was the highest since the start of the last recession. Availability of loans and expected credit conditions rose to their best levels since the first half of 2008, lifting capital expenditure plans to their highest level since June 2008. Employment conditions also strengthened, suggesting the unemployment rate should continue to decline. On a year-over-year basis, the overall index was up 3.6%, consistent with above-trend economic growth.

After narrowing dramatically in February, the trade deficit widened in March by the most in 10 months. While the underlying data was reflective of a strengthening economy, the widening deficit likely will shave first quarter GDP slightly when the first revision comes out at the end of May. Exports jumped the most in eight months, as every category rose— a positive for the economy. But imports rose even more, the fifth largest gain since data started in 1992.

Overseas, euro-zone problems continued to bubble, especially in Greece and Spain. While there was more talk of a possible Greek exit from the euro, markets seemed to have priced in this eventuality already, cutting back on exposure and diminishing the possible influence on the rest of the world. And as always, it's important to note that Federated's taxable money markets have no exposure to any of the PIIGS (Portugal, Italy, Ireland, Greece and Spain).

G40461-19 (5/12)