FLORIDA PRIME

Weekly Commentary

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London interbank offered rates (Libor) were almost unchanged, with three-month steady at 0.45%, six-month down less than a basis point to 0.72%, and one-year Libor steady at 1.06%. Short-term Treasuries were up slightly, with one-month steady at 0.07%, three-month up two basis points to 0.11%, six-month up one basis point 0.15%, and one-year holding steady at 0.17%. Overnight repo rates were up slightly for the week, as well.

June's above-consensus increase in durable goods orders—the second straight monthly upside surprise—masked growing weakness in capital expenditures. Ex-aircraft orders, nondefense capital goods orders fell a third time in four months, reflecting the recent economic weakness and increased uncertainty over the outlook. On a year-over-year basis, capital expenditure orders are up 1.8%, the least since January 2010. The University of Michigan's final take on consumer sentiment for July showed a slight rise, to 72.3, but remained below June's final read and well below May's high for the year. Concerns about weak income and job growth are weighing significantly on confidence, while a growing number also are expressing worries about the pending fiscal cliff, with 45% reporting unfavorable perceptions of government policy.

This past week, the Bureau of Economic Analysis' initial estimate said second-quarter real GDP rose 1.5%, below first-quarter GDP of 2.0%. Real GDP growth was revised up for the period for the preceding four quarters, indicating an economy that has been a little healthier than what was reported. Other reports this week also suggest modest growth. The Chicago Federal Reserve's National Activity Index rose slightly; and jobless claims fell sharply for the fourth time in five weeks, dropping the 4-week average to its lowest level since March. The Federal Housing Finance Agency's home price index has now risen in five out of the past six months, indicative of a recovery that has broadened from multi-family starts to include more single-family starts and stable-to-higher home prices. Both new and pending home sales unexpectedly fell, but analysts blamed a shortage of lower-end houses. The ratio of new/existing homes for sale versus the U.S. working-age population is at 40-year lows, and National Association of Home Builders' housing index is at a five-year high.

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