FLORIDA PRIME

Weekly Commentary

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London interbank offered rates (Libor) were almost unchanged for the week, with three-month down less than a basis point to 0.43%, six-month steady at 0.72%, and one-year Libor down less than a basis point to 1.04%. Short-term Treasuries were mixed, with one-month down one basis point to 0.09%, three-month down one basis point to 0.09%, six-month steady at 0.14%, and one-year up two basis points to 0.20%. Overnight repo rates were down slightly for the week.

There were a number of signs that the recovery was continuing on its upward, if glacial, pace. The University of Michigan's consumer sentiment preliminary index for August came in at 73.6, up from July's 72.3, and its highest reading since May. July retail sales showed an unexpected 0.8% increase, the biggest since February, reversing much of June's decline. Year-over-year, 26 of the last 30 months have generated above-average monthly gains in retail sales. July housing permits hit a four-year high, while starts remained up 22% year-over-year despite pulling back a tad from June's strong showing. Separately, August builder sentiment rose for a third straight month to its highest level since February 2007, and the National Association of Realtors said house prices are increasing in 75% of towns across the country as supplies dwindle. The job market continued to show strength, with the latest four-week moving average of unemployment claims falling to just 1,000 above the post-crisis low recorded during the week of March 31, corroborating July's acceleration in nonfarm payroll growth.

Important manufacturing surveys from Philadelphia and New York were both down, however, taking some of the shine off July's stronger-than-expected increase in industrial production. There were signs higher food and gas prices may soon begin to bite. Led by a 20.5% weather-related jump in corn prices, the largest month-over-month gain since October 2006, July's core producer prices rose 0.4% despite a decline in energy prices, which have moved up substantially in the intervening weeks, and the consumer price index will likely accelerate significantly this month and next as a result of higher food and gasoline prices. The renewed signs of economic recovery, coupled with indications that inflation might be on the horizon, could make it more difficult for the Federal Reserve to pull the trigger on another round of Quantitative Easing.

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