FLORIDA PRIME

Weekly Commentary

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London interbank offered rates (Libor) were down very slightly for the week, with three-month steady at 0.41%, six-month down a basis point to 0.70%, and one-year Libor down less than a basis point to 1.02%. Short-term Treasuries were up slightly, with one-month steady at 0.09%, three-month up two basis points to 0.11%, six-month steady at 0.14%, and one-year up two basis points to 0.18%. Overnight repo rates were up slightly for the week, as well.

Friday's jobs report was a disappointment, revealing that only 96,000 nonfarm jobs were added to the economy in August, well below consensus and almost half the whisper number that had been moving up on surprisingly robust private payroll gains announced just the day before. The unemployment rate fell to 8.1%, but the decline came mainly because the labor force participation rate dropped to its lowest level in 30 years. June and July gains also were lowered significantly. The poor progress on jobs seemed to pave the way for the Federal Reserve's Federal Open Market Committee to consider a possible QE3 and a likely further extension into 2015 of the 0% federal funds target rate when it meets this week.

There were some signs of encouragement. August auto sales surprised, hitting their highest level since February as light-vehicle sales rose 15.3% year-over-year on a selling-days adjusted basis and 14.2% year-to-date. Gains were attributed to pent-up demand, consumer discounts, new models, more favorable credit, low financing and fleet deliveries fueled by government orders. Other indicators were mixed, though. The August Institute for Supply Management (ISM) services index surprised slightly on broad-based improvement led by employment growth, which is important because private-sector jobs represent 80% of employment. However, ISM's manufacturing index contracted a third straight month in August by the most in three years, suggesting business conditions will remain weak in the month ahead. Taken together, the reports do not appear to signal any change in the modest pace of output growth, suggesting real GDP a bit below 2%.

Despite the improvement in housing starts, construction spending plunged in July on declines across residential and commercial real estate—the sharpest one-month drop since July 2011. Ongoing cuts in state and local government spending also continue to be a drag on construction spending, while the pickup in home sales and building isn't showing up at do-it-yourself chains—households have actually reduced spending on home improvements.

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