FLORIDA PRIME

Weekly Commentary

NOVEMBER 5, 2012

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

London interbank offered rates (Libor) were basically static for the week, with three-month steady at 0.31%, six-month steady at 0.54%, and one-year Libor steady at 0.88%. Short-term Treasuries were mixed, with one-month down four basis points to 0.08%, three-month down three basis points to 0.09%, six-month steady at 0.15%, and one-year steady at 0.19%. Overnight repo rates were up for the week.

Last week's better-than-expected jobs report was still consistent with just 2% growth, and other economic gauges out this week pointed to modest but still subpar growth. The Institute for Supply Management's manufacturing index rose to 51.7, a bit above consensus and the second consecutive reading above 50, as new orders rose to their highest reading since May. Construction spending rose in September and was revised upward for August, pushing it above government estimates and indicating third-quarter GDP may be revised up from its initially estimated 2% increase. And consumer confidence rose in October to its highest level since February 2008, with both the present situation and expectations components improving. Housing continued to contribute to GDP, with home-prices rising a seventh consecutive month in August, with 19 regions posting gains led by Atlanta and Phoenix. September personal consumption expenditures rose by the most since August 2009, and for a third straight month, with nondurables having their biggest two-month advance since September 2005. October vehicle sales slipped from September but still rose 7% year-over-year—dealers blamed Hurricane Sandy for cutting off sales the final days of the month. Overall, the improvement indicates the consumer side of the economy is doing better than the business side, as the former seems to be less concerned about the fiscal cliff.

That dreaded fiscal cliff is, of course, getting closer. Even if the expiration of Bush tax cuts on households earning over $250,000 were the only piece of the cliff to hit, it would shave 1.4 percentage points off GDP in an economy that's shown only moderate growth lately. And real disposable income has fallen at a 0.8% annual rate since June and the savings rate is down to 3.3%, indicating consumers have virtually no cushion to absorb 2013's scheduled tax hikes if the fiscal cliff isn't addressed.

G40461-19 (11/12)