FLORIDA PRIME

Weekly Commentary

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London interbank offered rates (Libor) were down slightly for the week, with three-month steady at 0.31%, six-month down a basis point to 0.53%, and one-year Libor down two basis points to 0.86%. Short-term Treasuries were mixed, with one-month up five basis points to 0.13%, three-month steady at 0.09%, six-month steady at 0.15%, and one-year down a basis point to 0.18%. Overnight repo rates were down for the week.

The trade deficit narrowed more than expected in September and the August deficit was revised lower, indicating that third quarter GDP is likely to be revised up. Although the trend in export growth has continued to moderate, exports have held up much better than the manufacturing export orders index. The deficit was quite a bit narrower than factored into the advance estimate of third-quarter GDP, so that real GDP growth for the quarter is tracking close to 2.9%, well up from the initially reported 2% pace. Consumer sentiment unexpectedly rose in early November to its highest level since July 2007—suggesting momentum going into the holiday sales season. The Rasmussen survey of U.S. consumer confidence also rose again in early November; the Discover Spending Monitor surged in October to a record high; and total consumer credit rose more than expected in September.

Hurricane Sandy hit at a vulnerable time, though, just as the U.S. economy appeared to be emerging from its 2012 growth problem. If the aftermath of 2005's Hurricane Katrina is any indication, unemployment claims could surge by more than 100,000 over the next few weeks—a problem for a labor market struggling to pull out of its subpar funk. Despite ticking up in October, employment has been range-bound for most of this year, indicating lackluster expectations for job growth. Various studies also suggest fourth-quarter GDP could be trimmed by 0.5 points or so, with the positive rebuild impact not kicking in until early spring.

Overseas, German factory orders fell much more than expected in September, driven by plunging foreign orders from its EU neighbors. Industrial production also fell the same month by the most in five months, as every major category but consumer goods slumped. Germany is likely headed for a mild recession as the weakness in manufacturing is partly offset by the relative strength in consumers. Here at home, markets continue to wait for indications from Washington the elected officials are willing to compromise before we reach, and possibly go over, the dreaded fiscal cliff.

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Views are as of November 12, 2012, and are subject to change based on market conditions and other factors.