FLORIDA PRIME

Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

London interbank offered rates (Libor) were unchanged for the week, with three-month steady at 0.31%, six-month steady at 0.53%, and one-year steady at 0.86%. Short-term Treasuries were up across the board, with one-month up nine basis points to 0.16%, three-month up four basis points to 0.10%, six-month up one basis point to 0.14%, and one-year up three basis points to 0.19%. Overnight repo rates were up for the week, as well.

Federal Reserve Chairman Ben Bernanke addressed the impending fiscal cliff last week, saying that a failure on the part of leaders in Washington to act "would pose a substantial threat to the recovery." He also warned of Congressional Budget Office estimates that the fiscal cliff had the potential to send the economy toppling back into recession. The cliff already seems to be showing some effects, with companies simply deciding not to hire or invest in their businesses until there is some clarity on what to expect in the way of fiscal policies from Washington come January 2013. In the flash report for third-quarter GDP, real business fixed investment actually declined 1.3%, compared with a gains of 3.6% in the second quarter, 7.5% in the first quarter, 9.5% in last year's fourth quarter, and 19.0% in the year-ago third quarter, so the trend has clearly been accelerating to the downside. Business equipment and software spending was flat in the third quarter, which represents the weakest reading in three years, after gains of 4.8% in the second quarter, 5.4% in the first quarter, 8.8% in last year's fourth quarter and 18.3% in the year-ago third quarter. Business structure investment such as factories and office buildings fell by 4.4% in the third quarter on the heels of increases of 0.6% in the second quarter, 12.9% in the first quarter, 11.5% in last year's fourth quarter and a booming 20.7% in the year-ago third quarter.

The Conference Board's consumer confidence gauge rose to 72.2 in October, its highest level since February 2008. But the University of Michigan's final consumer sentiment index for November is now sitting at 82.7, still a five-year high but down slightly from November's preliminary reading at 84.9. This suggests that concerns about the election results may be seeping into everyone's collective consciousness. The personal savings rate fell in September to 3.3% from 3.7% in August, which is the lowest level since last November, so consumers will clearly need increased confidence to fuel stronger consumption trends during Christmas.

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