FLORIDA PRIME

Weekly Commentary

JANUARY 21, 2013

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

London interbank offered rates (Libor) were down slightly for the week, with three-month steady at 0.30%, six-month down two basis points to 0.48%, and one-year down one basis point to 0.81%. Short-term Treasuries were up slightly, with one-month steady at 0.04%, three-month up a basis point to 0.08%, six-month steady at 0.10%, and one-year steady at 0.14%. Overnight repo rates were down for the week.

With many eyes, including the Federal Reserve, watching unemployment rates as a bellwether for an end to quantitative easing (and low rates), there are two positive leading indicators on the horizon which suggest that job growth may be ready to improve. Initial weekly jobless claims—an important leading economic and employment indicator—plunged to a five-year cycle low of 335,000 for the week ended Jan. 12, which is the survey week for the upcoming January employment report to be flashed on Friday, Feb. 1. Also, the ADP report, which is a forward-looking proxy for private payroll growth, gained 215,000 jobs in December, compared with 148,000 in November and 157,000 in October.

Housing is doing well, too. The National Association of Home Builders sentiment index, while unchanged in January, remains at its highest level in nearly seven years and has risen 22 points from a year ago, one of the largest gains in any 12-month period in the index's 27 years. December housing starts surged 12%, partly on unseasonably dry and warm weather, but the gains were spread across single family and multifamily, and across all four major regions. Other surveys show price gains accelerating, with futures contracts suggesting a 6% increase in home prices this year. Housing could add 30 basis points to GDP this year. And manufacturing's soft patch appears to be ending, as well. While December headline industrial production rose in line with consensus, manufacturing output and capacity utilization were better than expected, with overall December production weighed down by utilities due to unseasonably warm weather. Production of computer and electronics equipment—a key proxy for spending on capital expenditures—had the largest one-month gain in eight months, as well.