FLORIDA PRIME

Weekly Commentary

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London interbank offered rates (Libor) were down across the board for the week, with three-month down one basis point to 0.36%, six-month down two basis points to 0.64%, and one-year Libor down one basis point to 0.97%. Short-term Treasuries were mixed, with one-month up one basis point to 0.06%, three-month down one basis point to 0.10%, six-month steady at 0.14%, and one-year down one basis point to 0.17%. Overnight repo rates were up for the week.

Consumer confidence seems to have taken an upturn—the Conference Board's confidence gauge rose sharply in September to a seven-month high, led by a sharp rise in expectations, and gains were broad-based across most categories. August's gauge was revised upward, too. The University of Michigan's final take on September sentiment slipped slightly from its initial estimate but was still up significantly from August, led by rising expectations and by respondents reporting hearing more about job gains than job losses for the first time since May. This should be good news for consumer spending, as the "expectations" components of both gauges historically have presaged consumption patterns. The housing sector continued to do its part for the recovery as well, with August new-home sales remaining close to July's two-year high, with year-over-year sales up 28%. August pending home sales did slip from an upwardly revised July, in part because supply was limited, leaving the gauge—a good indicator of future existing home sales—unchanged since June but up 9.6% year-over-year.

There were some negatives. After factoring out the impact of higher energy prices, inflation-adjusted personal spending edged up just 0.1% in August and real disposable income fell, for the first decline in nine months. The tepid data threatens the sustainability of recent consumer spending gains and adds to the picture of final demand growth that has slowed materially in recent months, across household, business and export sectors. This weakening was reflected in the final estimate of second-quarter GDP growth, which was slashed from 1.7% to 1.25% on broad-based adjustments to personal consumption, non-residential fixed investment and inventory accumulation. Manufacturing looked cloudy, too. Although most of the decline was due to volatile aircraft orders, August durable goods orders fell much more than expected, with orders ex-transportation also surprising to the downside. Core capital goods orders are now down 5% on the year. On top of last week's negative Philadelphia and New York Empire readings, the Chicago PMI also dipped into contraction territory in September.

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Views are as of October 1, 2012, and are subject to change based on market conditions and other factors.