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 0.35%, six-month down two basis points to 0.62%, and one-year Libor down one basis point to 0.96%. Short-term Treasuries were up, however, with one-month up four basis points to 0.10%, three-month up one basis point to 0.11%, six-month up one basis point to 0.15%, and one-year up one basis point to 0.18%. Overnight repo rates were up for the week.

In a big surprise last week, the latest jobs numbers showed unemployment falling to 7.8% for September, versus expectations for an increase to 8.2%, the first time the rate slipped under 8% in 44 months. The drop-off stems from an 873,000 surge in historically volatile household employment, which is based on a relatively small 50,000 phone survey; the much more extensive and reliable survey of business establishments put nonfarm payroll gains at an in-line and muted 114,000 for the month. The prior two months were upwardly revised by 86,000, an amount more than accounted for by the markup in government jobs in July and August. September's manufacturing index also provided encouragement, topping 50 (the breakeven point between expansion and contraction), for the first time in four months on increases in new orders, production, employment and supplier deliveries. But the 51.5 headline reading suggests continued softness—the index averaged 53 the first six months of 2012 and 55.2 for 2011. The separate nonmanufacturing index also unexpectedly rose to its highest level since March. It's been above 50 since December 2009 and has increased three straight months, with improvements in all underlying components save employment, which reversed much of the prior month's rise. Auto sales showed some momentum, too. Slowly improving consumer confidence and employment, readily available credit and new model launches that are exciting consumers pushed September sales to their highest level since February 2008 and up 67% from their recession low.

August construction spending fell by 0.60% from July's numbers, though, and it would have been worse had housing's rebound not spurred a healthy increase in home building. The disappointing report—and a drop-off in commercial and industrial loans, which have contracted in five of the past six weeks and are growing at their slowest pace since April 2011—suggests ongoing downward pressure on consensus GDP estimates for the third quarter.

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