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 two basis points to 0.33%, six-month down two basis points to 0.60%, and one-year Libor down two basis points to 0.94%. Short-term Treasuries were largely unchanged, with one-month up two basis points to 0.12%, three-month steady at 0.11%, six-month steady at 0.15%, and one-year steady at 0.18%. Overnight repo rates were down slightly for the week.

Consumers seem to be getting more optimistic about this slow but steady recovery. October's stronger-than-expected preliminary reading of consumer sentiment is indicating a 5-year high, the third straight monthly increase, reflecting current conditions that were close to 4 ½-year highs and consumer expectations that improved even more than the current conditions component. Consumer sentiment and business sentiment have drifted in opposite directions over the last couple of months, though—possibly because business leaders are more forward looking in nature than consumers and are cognizant of the looming fiscal cliff. Unfortunately, it is the business leaders who do the hiring.

Small business hiring plans fell slightly in September, with the employment components weakening considerably. The only time hiring plans have been worse was in the 1991 recession, the 2008 recession and a one-month dip in March 2003 after the Iraq invasion. While the annualized increase in GDP since the end of the recession has been 2.1%, exports have been up 6.2% over the same period, helping to increase manufacturing employment by 217,000. However, recent data suggest that the export contribution is rapidly diminishing—with imports little changed, August's surprise widening in the trade deficit reflected a decline in exports, where year-over-year growth has fallen from 15.1% a year ago to just 1.6%. This means the onus for near-term growth increasingly must fall on consumer spending, housing and business investment, and of those three, only housing is exhibiting momentum.

So it appears fourth-quarter GDP increasingly will have to rely on housing to offset slowing global growth and the impact of that on domestic manufacturing. So far, there are signs it's doing its part—the Fed's Beige Book noted that home prices and residential construction were on the rise in most districts, and banks are reporting a surge in mortgage-refinance applications, driven by exceptionally low mortgage rates—the 30-year rate hit an all-time low of 3.53% a week ago.