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 0.31%, six-month down two basis points to 0.54%, and one-year Libor down two basis points to 0.88%. Short-term Treasuries were up across the board, with one-month up one basis point to 0.12%, three-month up two basis points to 0.12%, six-month up a basis point to 0.15%, and one-year up a basis point to 0.19%. Overnight repo rates were up slightly for the week.

Last week's 2% flash estimate for gross domestic product growth in the third quarter beat expectations and was led by big jumps in government defense spending, which accounted for nearly a third of the increase, and residential investment, which accounted for a sixth of the increase. Private consumption also rose more than expected, reflecting the recent pickup in consumers' moods. On the downside, this summer's severe drought drove down farm inventories, shaving growth by 0.4 percentage points. The report was solid but growth remains extremely subpar for this stage of recovery, raising concerns about what happens in the fourth quarter. September new-home sales surged to 389,000 units, the highest level since April 2010, when there was a home-buyer tax credit. This time, a fundamental improvement in demand is the cause. But to add context, the last time we saw sales so low outside of the housing crisis aftermath was in the early 1980s. Housing should contribute to GDP, but not nearly enough to offset the "fiscal cliff" we might be facing. American consumers are generally aware of the debate about the "fiscal cliff" but aren't worried enough to scale back holiday spending plans, according to data from the National Retail Federation. Improving consumer attitudes and labor-market conditions led the group to predict sales over the holiday season will jump 4.1%, its most optimistic forecast since the recession.

The better-than-expected 9.9% increase in September durable goods orders—up 2% ex-transportation—masked discouraging news on the capital expenditures front. Nondefense capital goods orders ex-aircraft were flat and the prior month was revised down, pushing core capital goods orders down 7.4% year-over-year. And North American companies have announced 62,600 job cuts at home and abroad since September 1, the biggest two-month total since the start of 2010. Firings have totaled 158,100 so far this year, more than the 129,000 job cuts during the same period in 2011.