Weekly Commentary

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London interbank offered rates (Libor) were unchanged for yet another week, with three-month steady at 0.31%, six-month steady at 0.53%, and one-year steady at 0.86%. Short-term Treasuries were down across the board, with one-month down five basis points to 0.11%, three-month down two basis points to 0.08%, six-month down one basis point to 0.13%, and one-year down one basis point to 0.18%. Overnight repo rates were down for the week, as well.

We're seeing some real gains, but vulnerabilities, too. Housing has gone from a big drag to one of a few catalysts—October pending home sales rose an above-consensus 18% year-over-year, lifting the future sales gauge to its highest since April 2010, when sales got a lift from a temporary tax credit. Mortgage purchase applications also moved sharply above their third quarter average the past three weeks. October new home sales did slip but it appears Sandy played a role as sales in the Northeast slumped 32%. Still, at 1.76 million units, the supply of new homes is only modestly above July's historic low. And the number of homes for sale normalized for the number of potential buyers is a record low by a wide margin. Consumers seem to be in a positive mood, too. Thanksgiving weekend retail sales reached $59 billion, up 12.1% over 2011, helping ease but not fully offset Sandy's sting, which caused most major chains to post disappointing sales for the month and consumer spending to slip. Online sales for Black Friday topped $1 billion for the first time and Cyber Monday sales hit $1.5 billion, up 17% from a year ago and the biggest Internet shopping day in history.

There were some notes of caution, though. The increase from 2% to 2.7% real growth was driven by a large upward revision to nonfarm inventories, which rose at their fastest pace in two years. A rising inventory build is often seen as a harbinger of slower growth. Real final sales to private domestic purchasers were revised down to their weakest rate since '09's fourth quarter, with softer growth in transport, computers and "other equipment''—consistent with the very soft tone to capital goods orders and shipments. And unemployment remains elevated. The underlying weaknesses in the recovery show the vulnerabilities to the fiscal cliff, and reveal an economy not healthy enough to withstand the significant negative impact higher taxes could have on economic activity. While roughly half of Americans think the fiscal cliff will have little or no impact on their finances, businesses are much more skeptical—almost 50% of companies have altered plans due to cliff concerns.