FLORIDA PRIME

Weekly Commentary

DECEMBER 24, 2012

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The fiscal cliff continues to loom as a major factor in the new year, and we're already seeing the initial tremors as we get closer to the deadline. Capital spending has been slowing dramatically, threatening growth next year even if a deal is reached, and bank lending has been slowing since June and is only growing at an anemic 2.6% year-over-year pace.

The impact on the money fund world of a failure to solve the cliff issue is expected to be somewhat negligible in the short term. On a longer term basis, of course, if the mechanisms associated with the cliff—tax increases, spending cuts and loss of services—do kick in, it's likely we're going back into a recession, a move that clearly would have implications for savings and interest rates. While the sparring partners in Washington don't look as if they'll meet the year-end deadline for a compromise, it's more likely that some sort of resolution will come about by the time of the inauguration, and as a result should not have too much of an impact on short-term market conditions.

Real GDP for the July-September period was revised up again to an above-consensus 3.1%, lifting the average growth rate thus far this year to 2.1%, ahead of the Fed's most recent estimate of 1.7%-1.8%. Details of the report were solid, with final sales accounting for the entire gain rather than higher inventory accumulation. However, this picture of accelerating growth is not supported by income, output, business surveys or hours-worked data. Nonetheless, these numbers suggest no recession and continued moderate growth in 2013—as long as the fiscal cliff can be resolved.

G40461-19 (12/12)

Views are as of December 24, 2012, and are subject to change based on market conditions and other factors.