FLORIDA PRIME

Weekly Commentary

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The economic recovery seemed to be moving onto firmer ground, with manufacturing, housing, autos, employment and consumer confidence all strengthening (although consumer spending has been soft thus far this year, likely due to tax-law changes and higher energy prices). With winter fading, Hurricane Sandy may soon shift from a headwind to an economic tailwind, as the rebuilding in the northeast commences. Last week saw strong economic releases, such as Friday's nonfarm payroll report of 236,000 new jobs, which beat consensus estimates of a 165,000 job gain by a wide margin. The overall gains dropped the unemployment rate to 7.7%, its lowest level since 2008. These are certainly welcome developments, but future employment numbers may be impacted by the U.S. automatic spending sequester that went into effect on March 1 and the furloughs to come if the parties in Washington can't come up with a compromise. If the sequestration does remain in place, monthly full-time payroll employment growth could be weighed down by 50,000 to 75,000 a month, with three-quarters of the cuts coming in government.

The Federal Reserve (the Fed) released summary results of their latest bank stress tests on Thursday. The Fed said the nation's largest banks, through significant increases in both the quality and quantity of capital during the past four years, have improved their ability to withstand adverse hypothetical economic scenarios. According to the Fed, the banks "are collectively in a much stronger capital position than before the financial crisis." Of note, all of the banks on Federated's approved list passed the stress test, which was not a surprise.

London interbank offered rates (Libor) were down slightly for the week, with three-month steady at 0.28%, six-month down a basis point to 0.45%, and one-year down two basis points to 0.73%. Short-term Treasuries were mixed, with one-month up two basis points to 0.09%, three-month down one basis point to 0.10%, six-month down one basis point to 0.11%, and one-year down a basis point to 0.15%. Repo rates averaged in the mid teens.

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