FLORIDA PRIME

Weekly Commentary

APRIL 22, 2013

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Contrary to other reports suggesting a spring slowdown, April's Beige Book from the Federal Reserve (the Fed) on current economic conditions noted the economy expanded at a "moderate" pace in early spring, an improvement from the "modest to moderate" pace seen in March's rendition of the same report. The ongoing recoveries in the housing and auto sectors were the largest cause for optimism, and they provided a boost to other sectors such as manufacturing and finance. This doesn't mean, however, that the Fed is likely to curtail its purchases of longer-term Treasuries and agency mortgage-backed securities, at its current monthly pace of $85 billion, before the third quarter of 2013. The Fed continues to focus on employment as a benchmark for economic recovery, and we are not yet making enough progress toward that goal. And inflation is not yet a problem either—the headline consumer price index (CPI) declined 0.2% in March, lowering the year-over-year rate to 1.5%, on falling energy prices and just a slight tick up in food prices. Core CPI also barely rose, putting the year-over-year rate at 1.9%. These numbers show inflation is not close to the Fed's target rate for rolling back easing measures of no more than 2.5%.

March housing starts jumped five times the expected increase but were driven exclusively by multifamily units, which hit a seven-year high. Single-family starts fell, March building permits were below the pace of starts a second straight month, and March builder sentiment dipped a third straight month on a decline in present sales and prospective buyers' traffic. No one doubts housing will help GDP this year—year-over-year starts, permits and sentiment are up significantly. But the housing-market index, a key confidence indicator, has slipped from a six-year high of 47 in January to 42 in April, although it is still triple where it was in September 2011 when the housing market bottomed. The housing sector seems to have hit a lull, which some blame on unseasonably cold weather and still-tight lending standards, and will need to pick up to be the growth catalyst many are forecasting.

London interbank offered rates (Libor) were largely unchanged for the week, with three-month steady at 0.28%, six-month down a basis point to 0.43%, and one-year steady at 0.72%. Short-term Treasuries were mixed, with one-month down one basis point to 0.04%, three-month down one basis point to 0.05%, six-month steady at 0.09%, and one-year up one basis point to 0.12%. Repo rates were down slightly for the week.

G40461-19 (04/13)

Views are as of April 22, 2013, and are subject to change based on market conditions and other factors.