Weekly Commentary

FLORIDA PRIME

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On Friday, the advance estimate of first-quarter Gross Domestic Product (GDP) growth came in at 2.5%, up significantly from the fourth-quarter's anemic 0.4% increase but below consensus expectations, which had been predicting a 3.0% rise. Much of the improvement was owed to inventories, which added a full percentage point to growth after slicing 1.5 points off last year's fourth quarter. Final sales, a key measure of underlying demand, slowed to 1.5% from 1.9%, indicating weakening momentum to start off the year. Plunging government expenditures, primarily related to defense and related sequester-driven cuts, were a key factor. Consumer spending was up a solid 3.2%, but was fueled by savings as personal income fell a 3.2% annualized rate, lowering the savings rate to 2.6%.

Results were mixed, at best, in other economic statistics last week. The number of potential homebuyers jumped 25% in March from a year ago, but supplies shrank 17%, causing existing-home sales to slip 0.6% as those buyers couldn't find homes. New home sales did better, rising 1.5% after plunging 7.6% in February. Sales continue to trend well above year-ago levels, as do prices—year-over-year, March's FHFA house price index was up 7.1% and real median existing-home prices were up 9.5%, the most since December 2005. Durable goods orders sank 5.7% in March after surging 4.3% in February, a further sign of the slowing reflected in the regional indicators. Even excluding aircraft, March orders ex-transportation were down 1.4% after falling 1.7% in February. Electrical equipment, machinery and primary metal orders were notably weak. As earnings corporate reports have been coming in, results have been moderately positive. For the most part, companies are beating expectations, but seem to be doing it through cost-cutting, and revenue growth has generally been weak.

Last week the Treasury announced it would sell $76 billion in Treasury bills this week, cutting the weekly bill supply by $9 billion. This move was not unexpected as the Treasury's cash balance at the Federal Reserve totaled $170 billion as of April 24, versus $100 billion at this same time last year. The Treasury ended the first quarter of 2013 with more cash on hand than had been expected, and is collecting more revenue this tax season, as some 2013 income was pushed into 2012.

London interbank offered rates (Libor) were largely unchanged for the week, with three-month steady at 0.28%, six-month steady at 0.43%, and one-year down less than a basis point to 0.71%. Short-term Treasuries were unchanged, with one-month steady at 0.04%, three-month at 0.05%, six-month at 0.09%, and one-year remaining steady at 0.12%. Repo rates were down for the week.