FLORIDA PRIME

Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

In an announcement that had consequences for not only the pace of the economic recovery but also for the future of the Federal Reserve's quantitative easing program, the Department of Labor on Friday said that nonfarm payroll gains in June rose by a much stronger-than-expected 195,000 jobs, well above consensus estimates for a gain of 165,000 jobs. In another surprise, the announcement also revised April and May job gains higher by a combined 70,000. April's preliminary gain of 165,000 nonfarm jobs, which had been revised down to a more modest gain of 149,000 jobs last month, was revised sharply higher to a final gain of 199,000 jobs. And May's preliminary increase of 175,000 jobs was revised higher to a gain identical to June of 195,000 jobs. With those revisions, over the past three months, the economy created a solid average of 196,000 jobs, well above March's level of 142,000 jobs. While all this job growth was impressive, the unemployment rate remained unchanged at 7.6%, but possibly for the right reasons—unemployed workers who had previously given up on finding work are likely reacting to the improving economic picture by looking for employment again.

The announcement had added significance this month because markets across the board are so focused on when and how the Fed will begin cutting back on its massive QE program, currently running at $85 billion of monthly purchases of Treasury and agency mortgage-backed securities (MBS). The Fed has made it clear that the decision on when it will ease off the gas pedal will be data driven and is heavily focused on unemployment. A jobs report like the one released Friday could convince the Fed that the labor market is finally reaching the self-sustaining growth rate the Fed has been looking for. The announcement pushes up expectations that tapering of easing measures could begin as early as the September meeting of the Fed's Federal Open Market Committee (FOMC). While the tapering process could begin soon, it is still expected to be a long, carefully planned exit from easing, and one that will be based on continued improvement in the economy.

London interbank offered rates (Libor) were unchanged for the week, with three-month steady at 0.27%, six-month steady at 0.41%, and one-year at 0.69%. Short-term Treasuries were mixed, with one-month up a basis point to 0.03%, three-month steady at 0.04%, six-month down two basis points to 0.08% and one-year steady at 0.15%. Repo rates were up slightly but remained at low levels last week.

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Views are as of July 8, 2013, and are subject to change based on market conditions and other factors.