Weekly Commentary

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Economic reports lined up to corroborate the Federal Reserve's position that U.S. economic growth slowed in the winter. Prior to its Federal Open Market Committee meeting midweek, indicators showed that consumer confidence and manufacturing had weakened. Then, in the morning of the release of the FOMC's policy statement, the flash gross domestic product reading for the first quarter came in near zero—lower growth than most economists had expected. As the week ended, additional poor reports on manufacturing backed up the earlier ones. A drop in jobless claims and a rise in consumer spending were positives, however. The FOMC statement said that the downturn in the economy was in part based on transitory elements, such as the strong dollar and low energy prices, all of which appeared to push the timing of a hike in interest rates to later this year than had been hoped.

Month-end pressures had a considerable effect on short rates last week. The yield on the 1-month Treasury flat lined at zero percent and the 3-month remained exceptionally low at two basis points. The 1- and 3-month London Interbank Offered Rate (Libor) did not budge at 18 and 27 basis points, respectively. Similarly, neither the rate for the Fed's overnight reverse-repo facility, at 0.05%, nor that of the overnight Treasury and mortgage-backed repo, at 0.06% and 0.08%, changed from last week.