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Economy could be deflating Fed plans

Economic data released last week was mixed. On the positive side, business productivity in the second quarter increased, an improvement over the poor figure for the first quarter. This seems to have translated into a rise in small business optimism for the next half year.

The volatility (or fear) index remains low, with no signs that Federal Reserve rate-tightening is upsetting the markets. However, the Fed itself was likely upset by the latest report on inflation, which slipped in the major reports, highlighted by a subdued consumer report up just 0.1%. It is the fifth consecutive month it has missed expectations. Producer prices also softened. Because of the Fed's stalwart focus on inflation, disappointing figures such as these could derail its expected rate hike in December.

The short end of the London interbank offered rate (Libor) yield rose a basis point last week from the week prior, ending with 1-month Libor at 1.22%, 3-month at 1.32% and 6-month at 1.46%.