FLORIDA PRIME™

Weekly Commentary

FEBRUARY 3, 2020

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

GDP, Fed stay the course

The Federal Reserve didn't touch the fed funds rate at the conclusion of its policy meeting last week, but did a little maneuvering in some of its internal administrative rates. All told, officials seemed happy with where they are at 1.5-1.75%, but still are miffed that inflation is so low.

Economic data have a built-in lag, so we may see a negative turn in later reports due to the spreading coronavirus. Not all statistics will be as affected as others; consumer confidence might be one of them. For now, it is solid. Better than that, actually, with the Conference Board's measure this month close to a 20-year high.

Housing is less likely to feel the impact, and that may mean the surge in various data will continue. Sales of new houses and pending home sales actually dropped in December, according to the latest report, but that was before the coronavirus began its rise. Numbers for 2019 as a whole are strong. Add to this that existing sales have been robust, home prices are rising and applications for mortgages are as high as they have been in a decade and even bears must admit the housing market is doing well.

The biggest number of all, U.S. gross domestic product (GDP) growth, overcame several potential sinkholes, including the trade conflict and a slowdown in manufacturing, to hit 2.1% in the fourth quarter in the preliminary reading. That matches the third quarter's reading and means, barring a revision, that the economy grew 2.3% in 2019. Not great, but not bad.

The London interbank offered rate (Libor) ended the week from the previous with 1-month unchanged at 1.65%, 3-month decreasing from 1.80% to 1.76% and 6-month slipping from 1.83% to 1.76%.