

THE
Investment Pool NEWS

Economic outlook

December 2004

SHORT TERM MARKETS

For the fifth consecutive meeting, Dr. Alan Greenspan and the Federal Reserve Open Market Committee (FOMC) increased the overnight Fed Funds interest rate by 25 basis points (bp) to 2.25% on December 14th. Maintaining this "measured pace," we could see the Fed Funds rate above 3% by the end of June 2005. The Fed also announced that they would release the minutes of the FOMC meetings after only three weeks. This new transparency from the Fed has also resulted in a significant reduction in volatility, as the range of market participants' expectations narrows. The FOMC appears determined to reach a point of monetary neutrality where the economy continues to grow without spurring an increase in inflation. As commodity prices have come back from their highs and the plunging dollar has stabilized, the economy appears poised to continue its 3-year run.

Mac reports that the average 30-year fixed mortgage rate was 5.77% in the week of 1/7/2005, down from 5.81% the previous week.

SOLID ISM INDEXES

The ISM's manufacturing index was up 0.8 points in December, very much in line with expectations. The manufacturing ISM has held in the high 50's for several months as the manufacturing climate has steadily improved. The weaker dollar is likely helping things for those firms that compete internationally. The export-order index hit a 7-month high of 60 in December. New orders in general were quite strong as the new order index jumped to an 11-month high of 67.4. The ISM's

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FACTORY ORDERS RISE

Factory orders rose 1.2% in November versus an expectation for a gain of 1%. Durable goods orders were up 1.4% while orders for non-durables rose 1%. Orders for "core" capital goods (non-defense capital goods excluding aircraft) were up 0.8%. The report was generally a positive one in terms of affirming prospects for continued strength in investment spending.

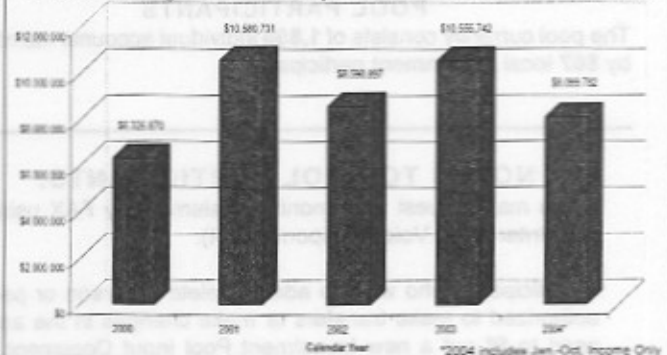
SHARP DROP IN MORTGAGE INDEX

The Mortgage Bankers Association's index of mortgage activity fell sharply in the week of 12/31/2004 dropping from 677.4 to 605.7. This put it at its lowest level since last June. The refinancing index fell just 5.7% from 1803.9 to 1701.3, but the purchase index plunged 13.7% from 483.8 to 417.3. This was the lowest it had been since last February. The purchase index generally falls significantly in the last week of the year, but this year's fall was proportionally quite a bit larger than those of the last two years. The difference this year may have been the extremely harsh weather that hit much of the country in late December. Freddie

non-manufacturing index rose 1.8 points to 63.1, the highest it has been since July.

FAVORABLE EMPLOYMENT REPORT

The payroll employment report for December showed a gain in jobs of 157,000. This was slightly below the consensus expectation of 175,000 but it was enhanced by upward revisions to October and November employment totaling 34,000. The unemployment rate was unchanged at 5.4%.

Chart 1
Securities Lending Income Earned by the Local Government Investment Pool

Per Investment Policy Guidelines "The Local Government Pooled securities may be loaned to qualified borrowers in accordance with Florida Statutes and consistent with SEC Rule 2a-7."