

DAILY GLOBAL
COMMENTARY

Northern Trust
Global Economic Research
50 South LaSalle
Chicago, Illinois 60603
northerntrust.com

Asha Bangalore
agb3@ntrs.com

December 12th FOMC Meeting: What is Different?

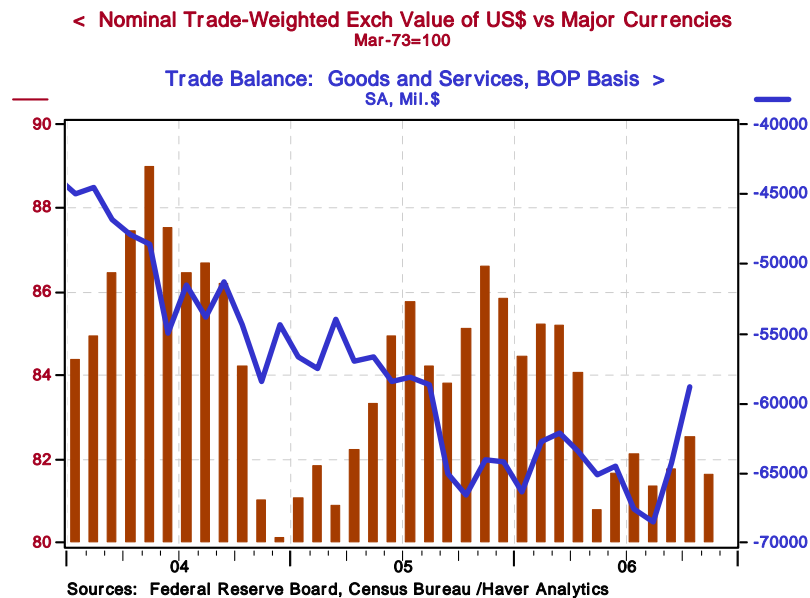
December 12, 2006

The federal funds rate was held at 5.25%, the Fed maintains a bias toward tightening, and President Lacker dissented -- no surprises here. One word and one phrase is the difference from the October 25 policy statement. Further weakening of housing market is now described as “*substantial*” cooling of the housing market. The October statement referred to this as “a cooling of the housing market.” Projection of the future is less optimistic. “*Although recent indicators have been mixed*, the economy is likely to expand at a moderate pace.” The October 25 statement merely noted that “the economy is likely to expand at a moderate pace,” with no reference to mixed economic indicators. The FOMC is not ready to lower the federal funds now but it will after additional confirmation of weakness from economic reports of next 2-3 months. A 5.00% federal funds rate on March 21 is strong possibility.

Lower Oil Prices, Weak Dollar and Soft Economy Help Narrow Trade Gap

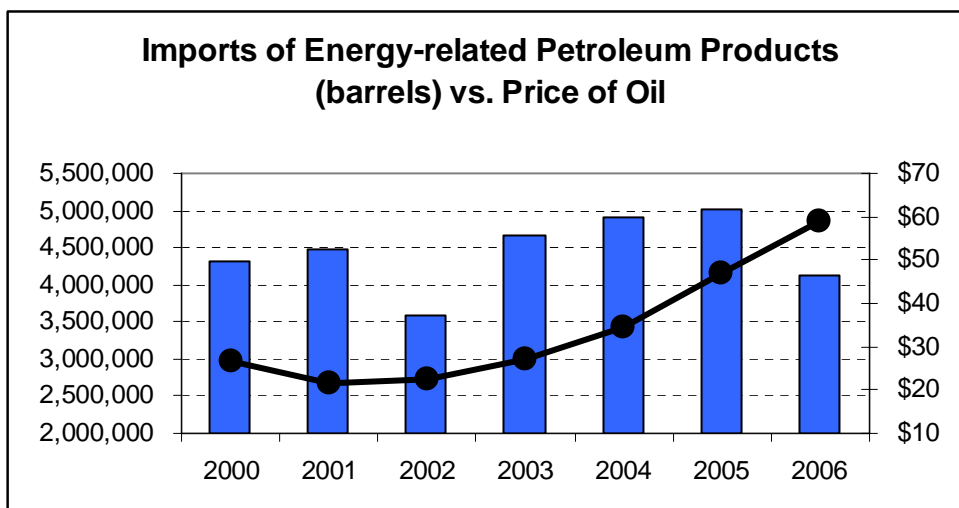
The trade deficit of the U.S. economy narrowed in October to \$58.9 billion from \$64.3 billion in the prior month. The October trade deficit is the smallest since July 2005. Lower oil prices, a weak dollar, and soft growth are factors that played a role in reducing the trade gap.

Chart 1



Lower prices reduced the import bill in October compared with prior months. As the price of imported oil has more than doubled in the past three years, the demand for imported oil shows a significant drop in 2006 (see chart 2), with declines posted in 6 out of 10 months.

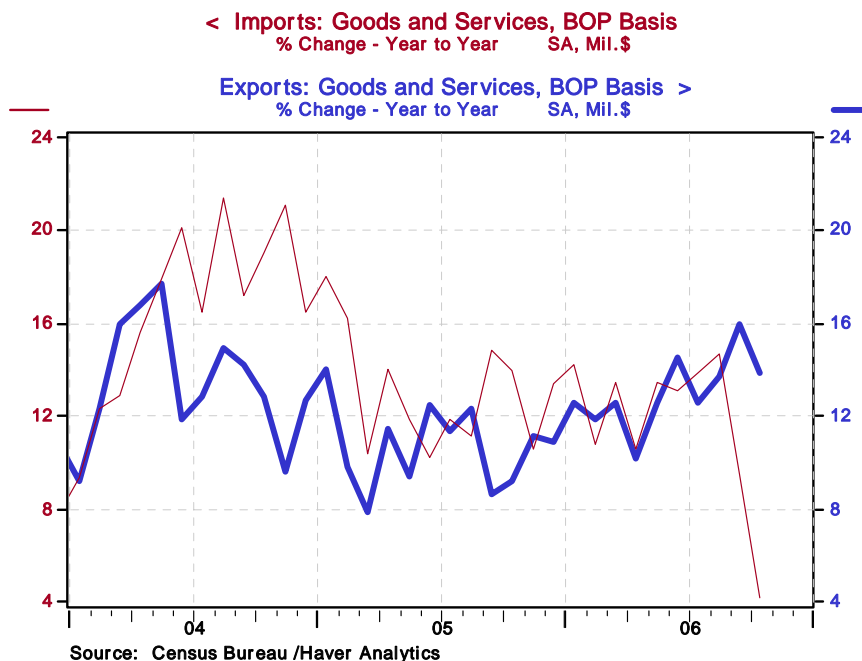
Chart 2



Imports of oil and prices for 2006 are for Jan. – Oct.

In addition, a weak dollar and soft economic growth have translated into an increase in exports and a drop in imports. In October, exports of goods and services continued to advance, marking the eighth monthly gain in the ten months of 2006. Imports of goods and services fell 2.7% in October after a 1.9% drop in the prior month.

Chart 3



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A smaller trade gap is a plus for GDP growth in the fourth quarter. However, support from other components of GDP is weak and the U.S. economy is projected to grow below 2.0% in the last three months of the year.

Trade Balance – October 2006

	<u>Trade Balance</u>		<u>Exports (m-o-m % change)</u>		<u>Imports (m-o-m % change)</u>	
	<u>Goods & Services</u>	<u>Goods</u>	<u>Goods & Services</u>	<u>Goods - 2000\$</u>	<u>Goods & Services</u>	<u>Goods - 2000\$</u>
May-06	-65.2	-71.0	2.2	1.8	2.4	0.4
Jun-06	-64.5	-70.0	2.3	2.9	1.1	1.1
Jul-06	-67.5	-73.5	-1.1	-2.0	0.9	0.3
Aug-06	-68.5	-74.9	2.3	2.5	2.0	1.9
Sep-06	-64.3	-70.3	0.5	1.2	-1.9	-1.0
Oct-06	-58.9	-65.1	0.2	0.4	-2.7	-1.3

The trade deficit widened during October vis-à-vis China (\$24.4 billion vs. \$23.0 billion), Euro area (\$7.0 billion vs. \$5.2 billion) and Japan (\$8.2 billion vs. \$6.7 billion), but narrowed vis-à-vis Canada (\$5.4 billion vs. \$5.7 billion in August) and Mexico (\$5.2 billion vs. \$5.8 billion).

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