

## DAILY GLOBAL COMMENTARY

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

Asha G. Bangalore  
[agb3@ntrs.com](mailto:agb3@ntrs.com)

### Many Voices from the Fed, May be Chairman Bernanke Will Sort it Out Tomorrow November 28, 2007

---

Fed Presidents Plosser and Evans, and Governor Kohn have spoken in a little less than 24 hours but markets heard different messages. Chairman Bernanke's remarks tomorrow may help to sort out the mixed messages. Plosser and Evans sounded reluctant to lower the federal funds rate on December 11. Governor Kohn's comments this morning were that of a cautious central banker concerned about the reach of the ongoing financial turmoil and the dire consequences it may have.

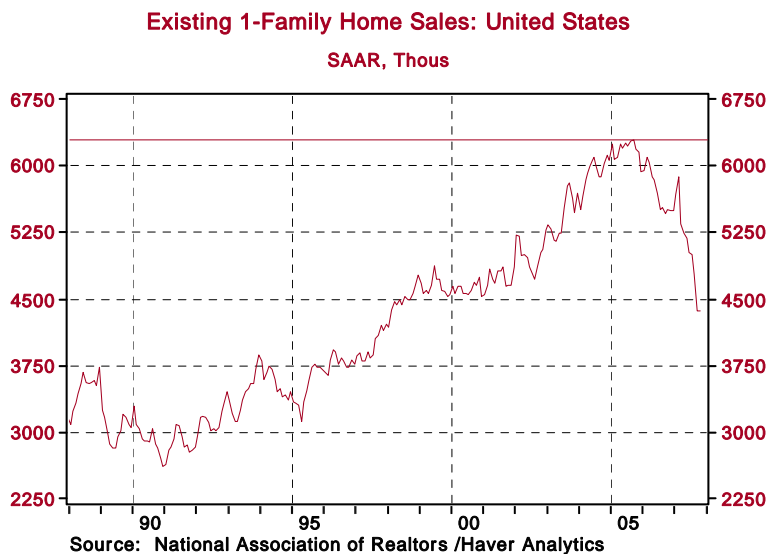
In particular, Governor Kohn noted that *"the increased turbulence of recent weeks partly reversed some of the improvement in market functioning over the late part of September and in October. Should the elevated turbulence persist, it would increase the possibility of further tightening in financial conditions for households and businesses. Heightened concerns about larger losses at financial institutions now reflected in various markets have depressed equity prices and could induce more intermediaries to adopt a more defensive posture in granting credit, not only for house purchases, but for other uses as well."* He also indicates that *"banks may be worried about access to liquidity in turbulent markets. Such a concern would lead to increased demands and reduced supplies of term funding, which would put upward pressure on rates."* The cautionary tone of his speech raised the probability of lower federal funds rate on December 11, which is in stark contrast to the message from Evans and Plosser. Evans and Kohn are voting members of the FOMC, while Plosser is a non-voting member.

The latest Beige Book paints a picture of an economy where economic conditions have failed to improve since the October report was published. In the November Beige Book, seven Districts reported slower pace of growth compared to the prior survey period. In October, the Beige Book indicated that five Districts were experiencing slowing economic conditions. Retailers were pessimistic about the holiday season and had a "cautious attitude" about holiday sales. News from the residential real estate was more bearish than in October. Higher prices for imported goods due to a weak dollar, rising energy and food prices were also cited. The tone of the overall report was indicative of a gloomy economic outlook.

### Existing Home Sales – Sales and Prices Are Down, Inventories Keep Climbing Up

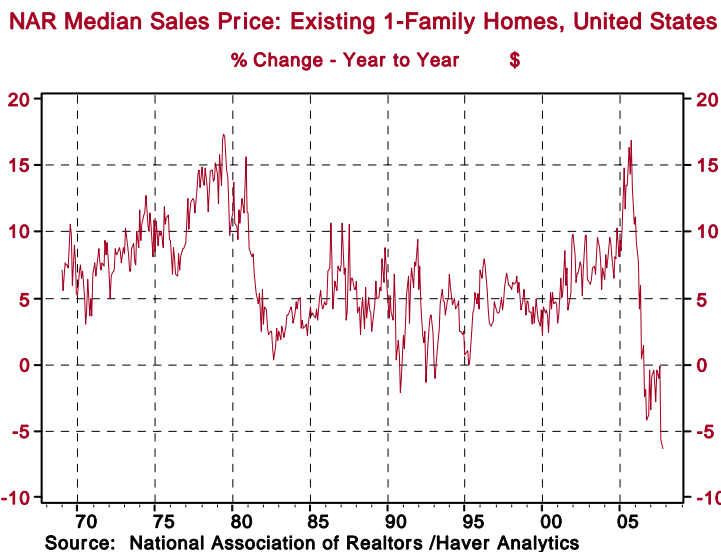
Sales of existing homes dropped 1.2% in October to an annual rate of 4.97 million units. The 9.1% drop in sales of condos and a flat reading for single-family homes is reflected in the headline reading. Sales of existing single-family homes are down 31.0% from their peak in September 2005. On a regional basis, sales of existing homes fell in the Midwest and West but held steady in the Northeast and South.

Chart 1



The median price of all existing homes declined 1.2% from a month ago to \$207,800, putting the year ago change at 5.1%. The median price of an existing single-family home moved down 1.4% to \$205,700 from September and is down 6.3% from a year ago, the largest decline on record. The median price of a single-family home is down 10.9% to \$205,700 from its peak in July 2006 when it was \$230,700.

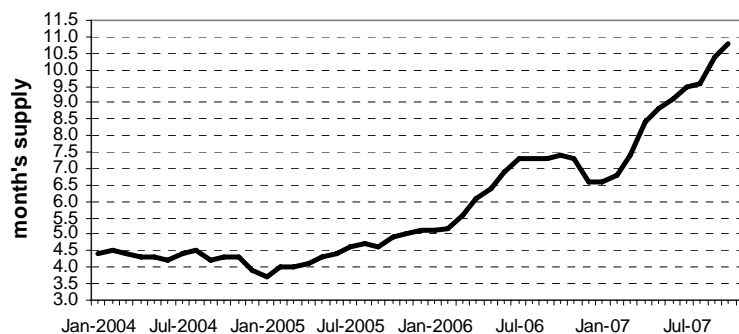
Chart 2



The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

The number of unsold single family homes rose to a 10.8-month supply in October up from 10.5-month mark in September and a 7.4-month reading in October 2006. The inventory of unsold single-family was 10.5-month supply vs. 7.2-months in October 2006. In the condo market there was a 13.1-month supply in October compared with at 9.1-month supply a year ago.

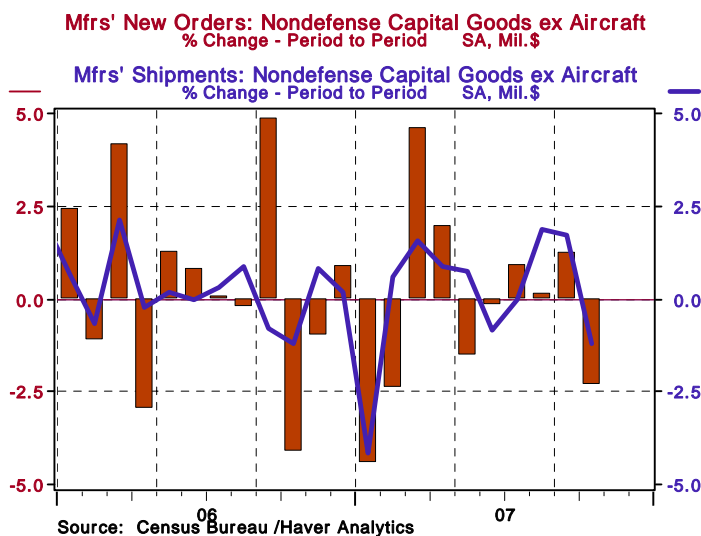
Chart 3  
Inventory/Sales Ratio: All Existing Homes



### Durable Goods Orders and Shipments Were Soft in October

Orders of durable goods fell 0.4% after posting declines in August and September. With the exception of primary metals (+3.0%), defense (+16.1%), and fabricated metals (+2.3%), all other major categories -- motor vehicles (-1.4%), aircraft (-5.2%), computers and electronics (-8.4%) -- showed a drop in orders in October. Orders of non-defense capital goods excluding aircraft fell 2.3% in October following three consecutive monthly gains.

Chart 4



The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

**DURABLE GOODS ORDERS - % CHANGE M-M**

<u>DATE</u>	<u>TOTAL</u>	<u>DEFENSE</u>	<u>NON-DEFENSE CAPITAL GOODS</u>	<u>NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT</u>	<u>COMPUTERS AND ELECTRONIC PRODUCTS</u>
<b>Apr-07</b>	1.0	-0.2	-0.3	2.0	1.2
<b>May-07</b>	-2.4	7.2	-6.8	-1.5	5.3
<b>Jun-07</b>	1.8	-13.9	6.3	-0.2	-4.9
<b>Jul-07</b>	5.9	45.7	4.8	0.9	6.1
<b>Aug-07</b>	-5.3	6.3	-12.0	0.1	-1.1
<b>Sep-07</b>	-1.4	-26.8	4.8	1.2	5.4
<b>Oct-07</b>	-0.4	16.1	-3.1	-2.3	-8.4

Shipments of non-defense increased 0.6% in October, following two consecutive monthly declines. Shipments of non-defense capital goods excluding aircraft, the input for capital spending in the GDP report, fell 1.2% in October, after three consecutive monthly gains. This bodes poorly for fourth quarter capital spending.

**DURABLE GOODS SHIPMENTS- % CHANGE M-M**

<u>DATE</u>	<u>TOTAL</u>	<u>NON-DEFENSE CAPITAL CAPITAL GOODS</u>	<u>NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT</u>	<u>COMPUTERS AND ELECTRONIC PRODUCTS</u>
<b>Apr-07</b>	2.0	1.1	0.9	8.9
<b>May-07</b>	0.2	0.7	0.7	-2.4
<b>Jun-07</b>	-1.1	-0.5	-0.8	-4.1
<b>Jul-07</b>	4.0	1.0	0.0	2.6
<b>Aug-07</b>	-1.9	1.6	1.9	0.7
<b>Sep-07</b>	-1.7	0.8	1.7	-0.6
<b>Oct-07</b>	0.6	-0.6	-1.2	1.8

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.