

DAILY GLOBAL COMMENTARY

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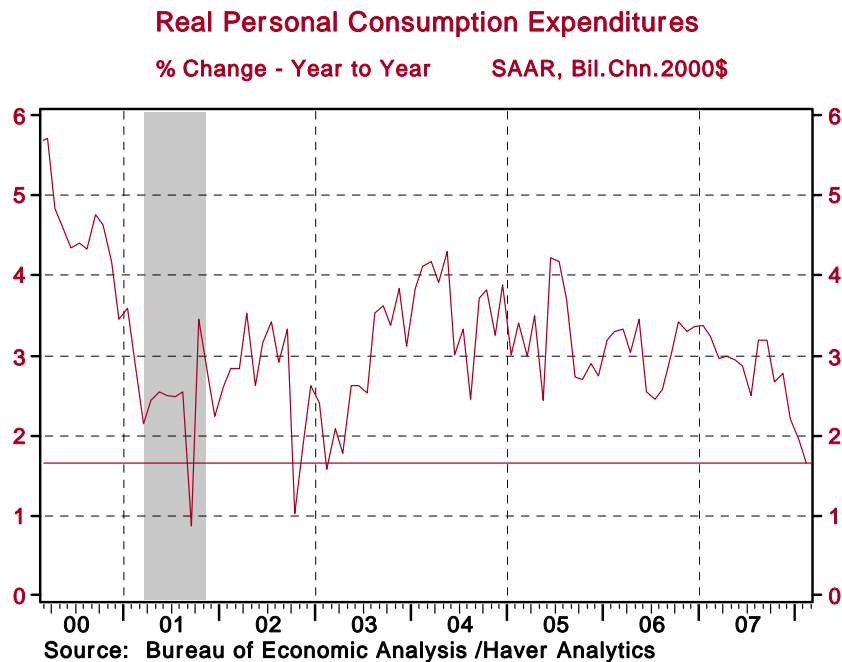
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Consumer Spending Shows Sharp Deceleration

March 28, 2008

Nominal consumer spending grew 0.1% in February following a 0.4% gain in the prior month. However, inflation adjusted consumer spending held steady in February after a revised 0.1% increase in January and a 0.1% drop in December (previously October, December, and January consumer outlays were reported as steady readings). The year-to-year change in inflation adjusted consumer spending is 1.66%, the smallest increase in five years (see chart 1). A further deceleration in consumer spending is likely in the months ahead given the weak employment conditions, slowing growth in compensation (see chart 2) and sharp reduction in mortgage equity withdrawal, which had given strong support to consumer spending in the 2004-2006 period.

Chart 1

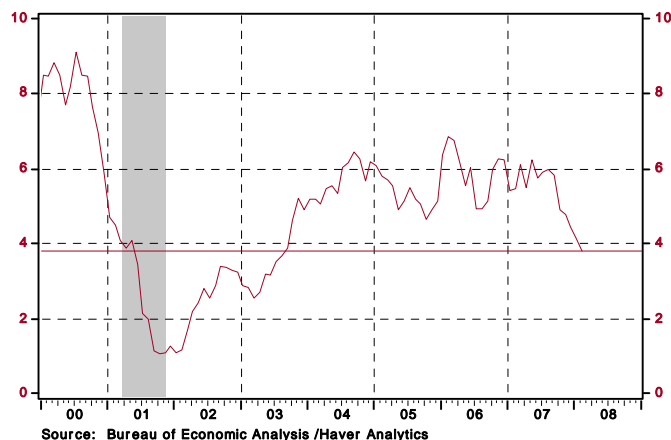


Personal income increased 0.5% in February after a 0.3% advance in the prior month. The headline gain in personal income was partly due to a 2.2% increase in transfer payments. Compensation to employees grew only 0.3% in February, putting the year-to-year increase at 3.8%, the smallest gain since August 2003 (see chart 2).

Chart 2

Compensation of Employees, Received

% Change - Year to Year SAAR, Bil.\$

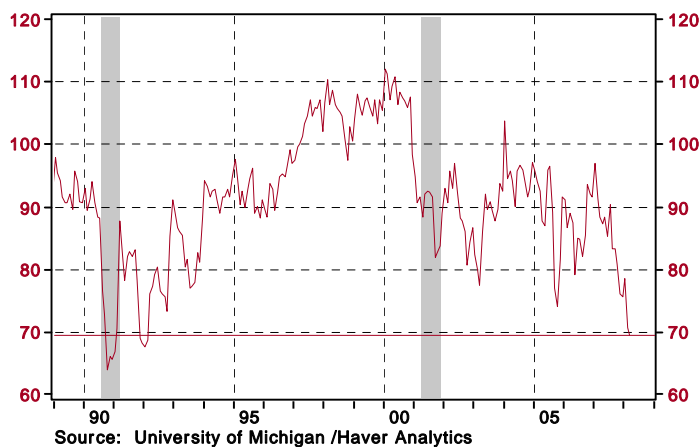


Consumer confidence measures have dropped sharply in March. The University of Michigan Consumer Sentiment Index fell to 69.5 in March, the lowest in eighteen years (see chart 3). The final estimate for March shows a sharp drop in the Expectations Index to 60.1 and the Current Economic Conditions Index to 84.2. Earlier in the week, the Conference Board's Consumer Confidence Index showed a decline to 64.5 in March, the lowest reading for the current business cycle, excluding the 61.4 mark seen in March 2003 when the war in Iraq commenced. Although the link between consumer spending and consumer confidence measures has been tenuous in recent years, nevertheless they are not supportive of robust growth in consumer spending under present economic and financial conditions.

Chart 3

University of Michigan: Consumer Sentiment

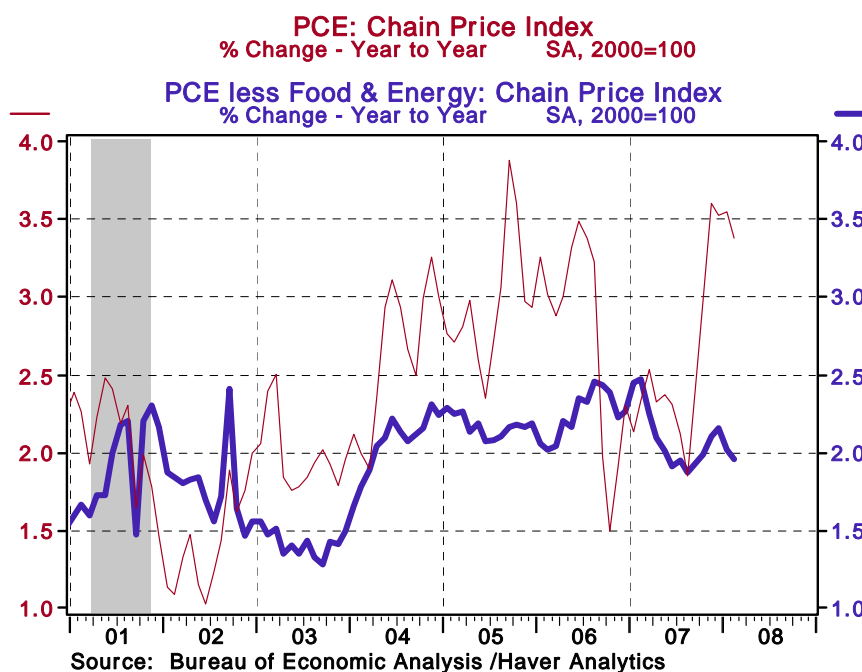
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The good news is that the personal saving as percentage of disposable income increased to 0.3% in February compared with a minus 0.1% reading in January. Also, overall inflation and core inflation appear to be receding. Overall inflation, as measured by the personal consumption expenditure price index, increased 3.38% in February on a year-to-year basis reflecting higher energy and food prices, but it is down from a recent peak of 3.6%. Core inflation, which excludes food and energy, moved up 1.96% during the twelve months ended February after a recent high of 2.15% in December 2007 (see chart 4)

Chart 4



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