

DAILY GLOBAL COMMENTARY

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Further Thoughts on the Senior Loan Officers Survey May 8, 2008

We shared with you the wealth of information from the Senior Loan Officers Survey in the May 5 edition of the daily commentary. The main message was that the credit crunch is entrenched in both the business and consumer sectors of the economy. Readers asked for additional insights and here is a summary of the answers to their questions.

Charts 1 and 2 indicate that loan underwriting standards and growth of real GDP move in the opposite direction. The reasoning behind this relationship is that credit availability is tied to lending standards. If banks are tightening standards and credit is not available easily, it should translate into lower spending by firms, depending on funds from banks, and eventually to slower growth of GDP. Charts 1 and 2 illustrate this relationship. Standards of lending for large and medium firms (chart 1) and small firms (chart 2) advanced two quarters have the best inverse relationship with growth of real GDP. The conclusion is that the survey information is a leading indicator of the future path of the economy. Based on this information, it appears that the economy is most likely to show robust growth once bankers relax loan underwriting standards, which is probably several quarters away.

Chart 1

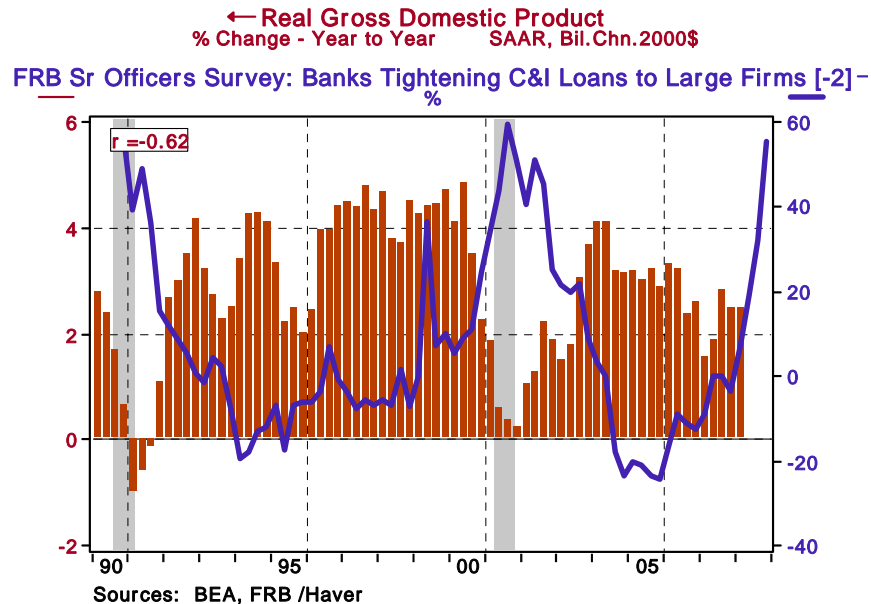
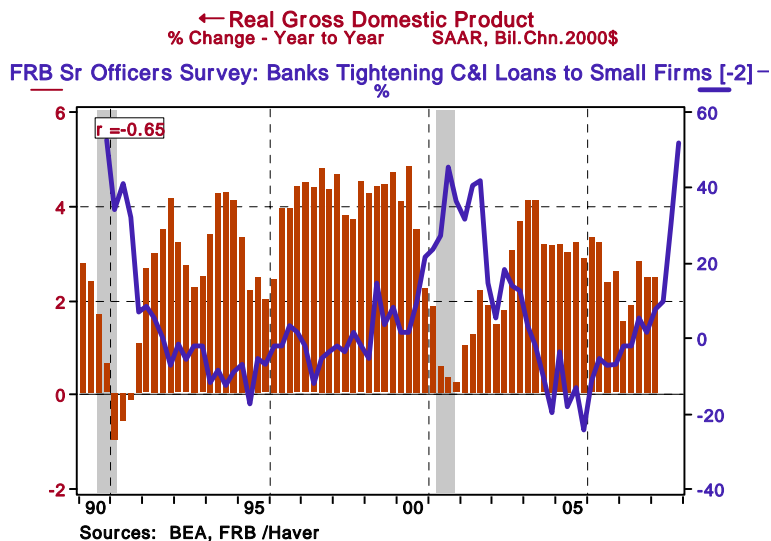


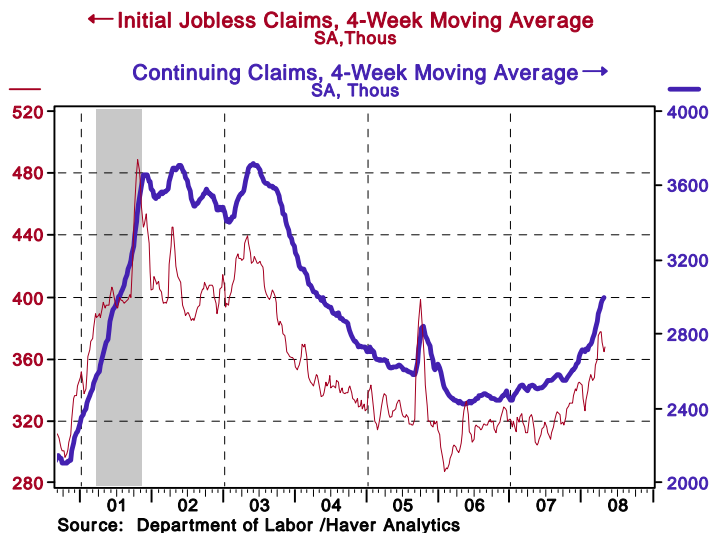
Chart 2



Jobless Claims – Labor Market Remains Mired In a Weak Demand Situation

Initial jobless claims dropped 18,000 to 365,000 in the week ended May 3. Continuing claims, which lag initial claims by one week, fell 10,000 to 3.020 million and the insured unemployment rate held steady at 2.3%. The trend (see chart 3) of the 4-week moving average is better indicator than weekly changes in jobless claims. The 4-week moving average of initial and continuing claims continue to send a message of a severe weakness in hiring

Chart 3



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