

WEEK IN
REVIEW

July 28-August 1, 2008

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Central Bank Policies

Federal Reserve Policy

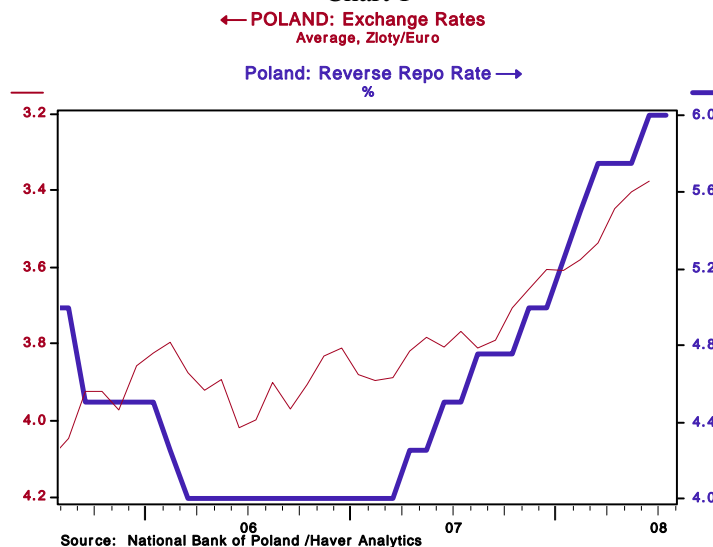
After the November elections, the National Bureau of Economic Research will tell us what we and the Fed already know – the U.S. economy currently is in a recession. Industrial commodity prices appear to have peaked, which will begin to moderate the trend in headline U.S. inflation in a couple of months. Businesses have little pricing power at the consumer level. There is no evidence of a wage-price spiral. The inflation-expectations' anchor does not appear to be dragging. The dollar appears to have stabilized, in large part because of economic growth in the rest of the world appears to be slowing significantly. Losses continue to mount on the books of financial institutions, which will inhibit credit creation. Is the Fed going to raise its funds rate target over the remainder of 2008? Not bloody likely!

European Central Bank Policy

The three major currencies of central Europe have appreciated strongly against the euro so far this year, boosted to varying degrees by rising interest rates, strong economic growth, and positive investor sentiment – the latter buoyed by the final confirmation that Slovakia will adopt the euro next January. However, there are some preliminary signs that the region's strong growth rates are about to slow. Interest rates may be at their peak in Poland and Hungary, and a rate cut may be in the cards in the Czech Republic. All of which suggests that the Polish zloty, Czech koruna, and Hungarian forint may also have peaked for now.

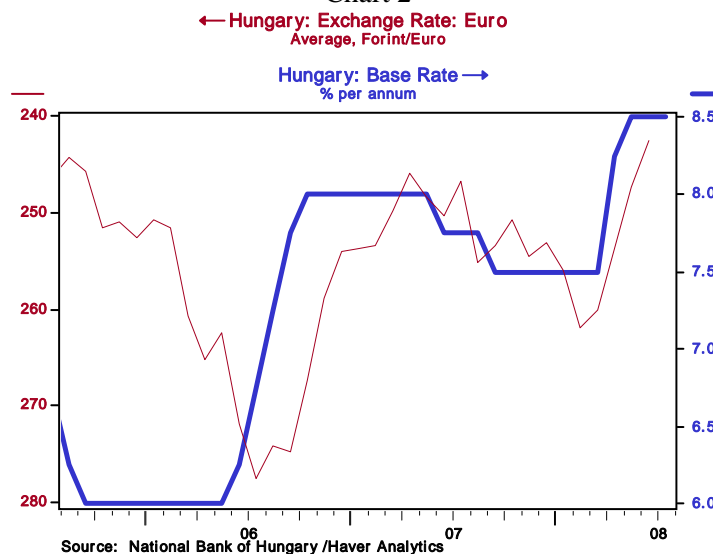
With Euro-zone membership coming up next January, Slovakia's central bank is focused on keeping its policy rate level with the ECB's refi rate. As a result, the bank yesterday left its two-week repo rate unchanged at 4.25% and will follow any subsequent ECB moves in the run-up to January 1. In the Big Three, however, the picture is more complicated. All three have been hit by a surge in inflation thanks to rocketing food and fuel prices. June's (EU-harmonized) annual rate came in at 6.7% in Hungary and in the Czech Republic, and at 4.6% in Poland. Currency appreciation has helped to restrain import price pressures somewhat in all three countries, but the Hungarian and Polish central banks remain biased toward tightening. However, the Czech central bank has shifted to a more dovish stance, and may even lower its policy rate next week.

Chart 1



Having hiked by a total of 100bps since the start of the year, Poland's central bank today left its main interest rate on hold at 6.0% for the second consecutive month. Polish growth remains robust (with the finance ministry's latest forecast of real GDP growth at 5.5% this year) and while inflation is not as high as in Hungary or the Czech Republic, there are concerns that the zloty is masking the strength of domestic inflationary pressures. Today's statement from the Monetary Policy Council specifically noted that the bank stands ready to hike rates further if needed to bring inflation back to the 2.5% target.

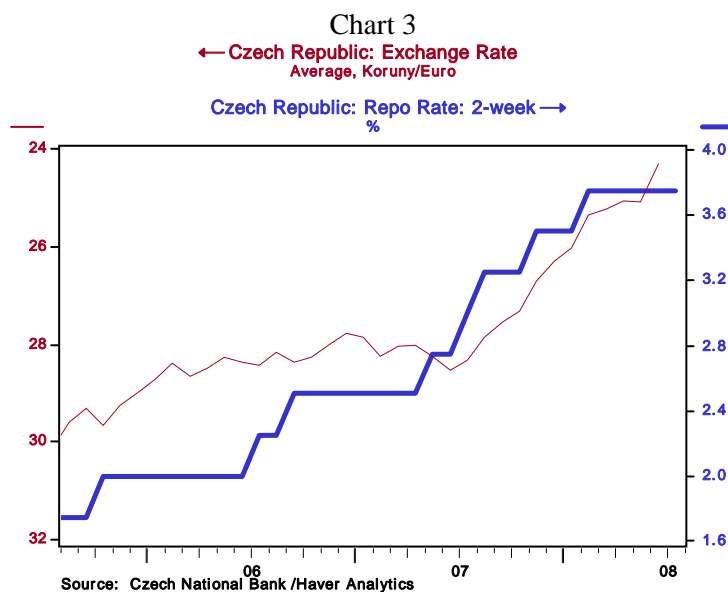
Chart 2



Hungary's central bank has also hiked by a total of 100bps so far this year, but last week left its base rate at 8.5% for the second consecutive month, citing the anti-inflationary impact of

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the strong forint. However, the bank also said that it would hike again if needed to meet its 3.0% inflation target. Growth is weakest in Hungary, with the government forecasting just 2.4% real GDP growth this year, but sentiment has been boosted by the Slovak effect, by the announcement of a major auto sector investment project, and by an improvement in the fiscal accounts. (This year's budget deficit is now expected to come in around 3.6% of GDP, down from 5.5% last year and 9.2% in 2006.) Hungarian exports also seem to be holding their own. Still, grumbles about forint strength may get louder, particularly if Czech rates start to come down.



In contrast with the neighbors, the Czech Republic's central bank has raised rates only once this year – 25bps back in February – and its benchmark two-week repo rate of 3.75% remains below that of the ECB. Still, the perception of the koruna as a regional safe haven has made it among the world's best performing currencies against the euro and the dollar this year. However, signs of an economic slowdown are clearest in the Czech Republic, where exports have started to stagnate and the finance ministry has trimmed its GDP growth forecast for this year to 4.6% (vs. 6.6% in 2007). PM TopolaneK has argued that the koruna's appreciation has outpaced productivity growth and so threatens the economy. Last week central bank Governor Tuma stated that the bank would stop discussing rate hikes and focus on whether to hold or cut at the August 7 meeting. He raised the concern that the currency's strength could push inflation below next year's target of 3.0%. Another member said today that the board may discuss a 50bps rate cut next week.

The Czech koruna has slipped about 4.5% over the past week as the markets have been convinced that a shift in strategy is imminent. Although July's inflation data (which will be released August 8 but doubtless made available to the August 7 board meeting) may seem to preclude a cut, the central bank is focused on the outlook for 2009. Assuming the bank's August inflation outlook shows the headline rate dropping next year, Czech interest rates likely are headed downward. However, it is unlikely that the Polish and Hungarian central banks will be in a rush to follow suit.

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Mr. Boskin, Facts Don't Support Your Hypothesis

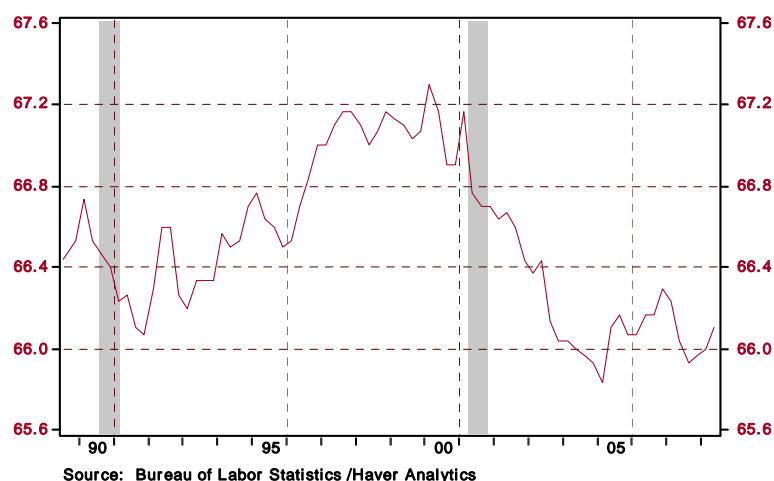
In an op-ed piece in today's (July 29) *Wall Street Journal*, Michael Boskin, the chairman of the Council of Economic Advisers for President George Herbert Walker Bush, writes how Barack Obama's proposed selective tax rate increases will bring on the next recession. To be more accurate, he should have argued how Obama's tax policy might prolong the *current* recession.

I am not here to argue for Obama's proposed tax increases. But I am here to argue that Boskin's alleged consequences of Obama's proposed tax increases are *not* supported by the *facts*. For example, Boskin argues that Obama's proposed increase in the marginal income tax for upper income households and the removal of the income cap for the Social Security tax will lead to a decline in work incentives. If so, the labor participation rate would be expected to fall. How does Boskin explain that the *decrease* in the marginal personal income tax rate put in place by the current Bush administration has coincided with a *drop* in the labor participation rate and the marginal tax rate *increase* put in place by the Clinton administration coincided with an *increase* in the labor participation rate (see Chart 4)? **Apparently, the labor participation rate is affected more by other factors than marginal personal income tax rates or Social Security tax incidence.**

Chart 4

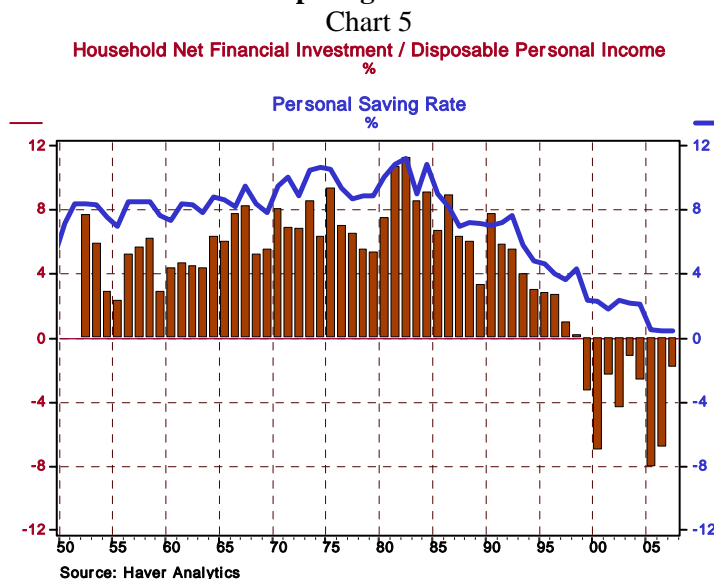
Civilian Participation Rate: 16 yr +

SA, %

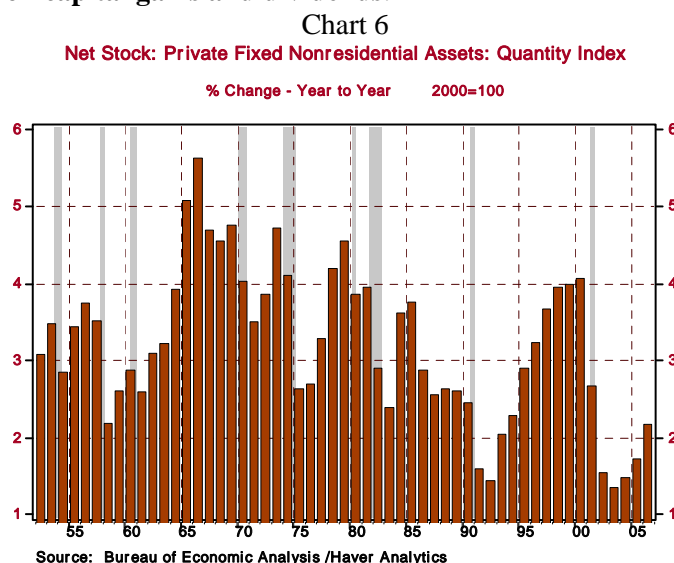


The tax policy put in place during the current Bush administration would seem to have been extremely favorable to saving and investment. Yet saving and investment has been anemic in the past seven years. Household net financial investment – their net acquisition of financial assets less their net increase in borrowing – dropped into negative territory in 1999 and has remained in negative territory through 2007 (see Chart 5). From 1952 through 1998, household net financial investment had *consistently* been positive. Even with the generous tax treatment on capital gains and dividends instituted by the current Bush administration, household net financial investment as a percent of disposable personal income plumbed new lows. The standard measure of the household saving rate plumbed post-World War II lows in

the past seven years (see also Chart 5). **Apparently, household saving is affected more by variables other than the tax rates on capital gains and dividends.**



What about business fixed investment? How has that fared in the past seven years with the reduction in marginal personal income tax rates and the reduction in tax rates on long-term capital gains and dividends? Uh oh – not so good. The only time in the post-World War II era when the net stock of nonresidential fixed assets grew *slower* than in recent years is when Mr. Boskin was chairman of the Council of Economic Advisers! **Apparently, real business capital accumulation is affected more by variables other than marginal income tax rates and the tax rates on capital gains and dividends.**



If Mr. Boskin does not want to fact-check his hypotheses, that's his business. But don't you think the editors of *The Wall Street Journal* would want to before publishing them?

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Highlights from U.S. Economic Reports

Employment Situation – July 2008

If it walks like a recession and talks like a recession, it must be a recession.

Civilian Unemployment Rate: 5.7% in July vs. 5.5% in June; cycle low is 4.4% in March 2007

Payroll Employment: -51,000 in July vs. -51,000 in June, net gain of 26,000 jobs after revisions of payroll estimates for May and June.

Hourly earnings: +6 cents to \$18.06, 3.4% yoy change vs. 3.4% yoy change in June; cycle high is 4.28% yoy change in Dec. 2006.

HIGHLIGHTS OF THE JULY 2008 EMPLOYMENT REPORT

	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
Household Survey						
Chg. in Civilian Labor Force (000)	-450	410	173	577	-144	213
Chg. in Civilian Employed (000)	-255	-24	362	-285	-155	-72
Civilian Unemployment Rate	4.8	5.1	5.0	5.5	5.5	5.7
Participation Rate	65.9	66.0	66.0	66.2	66.1	66.1
Employment-Population ratio	62.7	62.6	62.7	62.6	62.4	62.4
Establishment Survey						
Chg. in Total Nonfarm Payrolls (000)	-83	-88	-67	-47	-51	-51
Chg. in Private Nonfarm Payrolls (000)	-109	-103	-91	-99	-94	-76
Chg. in Manufacturing Payrolls (000)	-47	-46	-52	-21	-35	-35
Chg. in Services - Private Sector (000)	-18	-24	18	-48	-17	-30
Chg. in Government payrolls (000)	26	15	24	52	43	25
Total Workweek (Hours)						
Manufacturing Workweek (Hours)	41.1	41.2	41.0	41.0	41.0	41.0
Manufacturing Overtime (Hours)	4.0	4.0	4.0	3.9	3.8	3.8
Average Hourly Earnings						
	17.81	17.87	17.89	17.95	18.00	18.06
Chg. from prior month	0.3%	0.3%	0.1%	0.3%	0.3%	0.3%
Chg. from year ago	3.7%	3.7%	3.5%	3.5%	3.4%	3.4%
Average Weekly Earnings						
	600.20	604.01	604.68	604.92	606.60	606.82
Chg. from prior month	0.3%	0.6%	0.1%	0.0%	0.3%	0.0%
Chg. from year ago	3.7%	3.3%	3.5%	3.2%	2.8%	2.8%
Index of Aggregate Weekly Hours:						
Chg. from prior month in Total Index	-0.1%	0.3%	-0.1%	-0.4%	-0.1%	-0.4%
Chg. from prior month in Mfg. Index	-0.4%	-0.1%	-1.0%	-0.1%	-0.4%	-0.1%

Household Survey – The civilian unemployment rate increased by two “ticks” to 5.7% in July. The cycle low unemployment rate was 4.4% (December 2006 and March 2007). The broadest measure of labor underutilization, which includes the officially unemployed, those employed part-time but desiring full-time employment and those who are willing and able to

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work but have given up hope of employment, jumped four ticks in July to a level of 10.3% -- the highest level since September 2003 (see Chart 7). Speaking of part-time employment, the percentage of persons employed part-time but seeking full-time employment rose to 3.9% of total household employment in July. As Chart 8 shows, there has been a rapid increase in the ratio in recent months, which is typical as the economy slips into recession.

Chart 7
Unempl+Margin Attach+Part Time Econ Reasons/CLF + Margin Attach

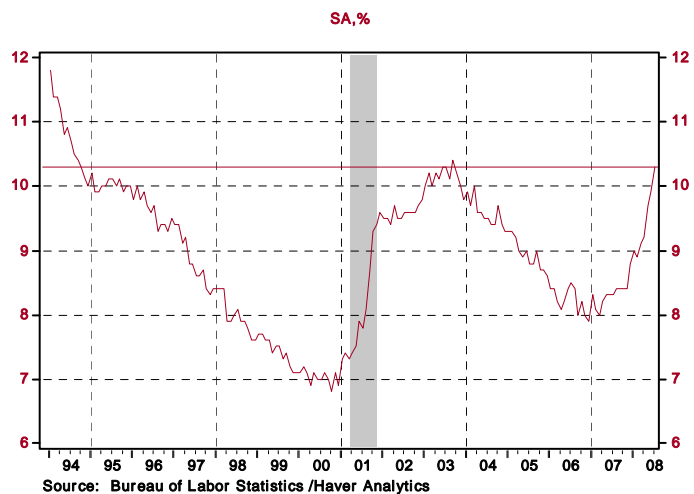
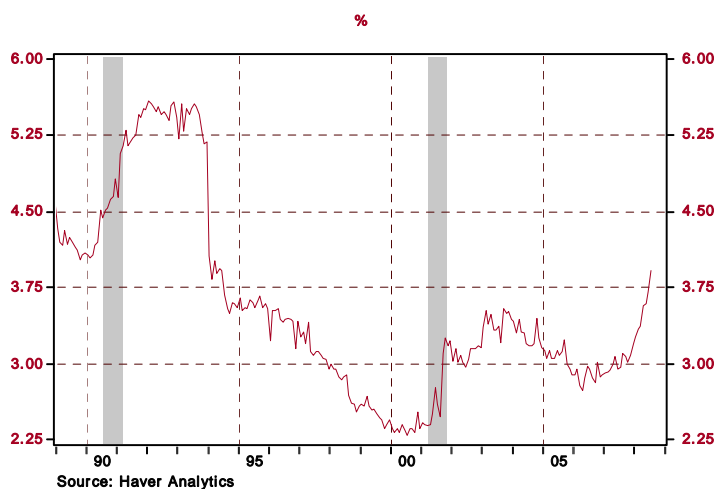


Chart 8
Household Employment: Part-time for Economic Reasons / Total

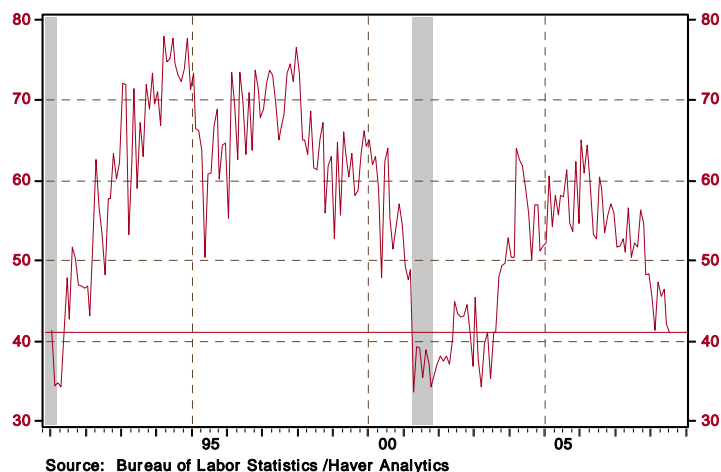


Establishment Survey – Total nonfarm payrolls fell by 51,000 in July – the seventh consecutive monthly decline. *Private* nonfarm payrolls fell by 76,000 in July. Although revisions to May and June *total* payrolls netted out to a plus 26,000 jobs, these revisions netted out to a minus 11,000 jobs in the *private* sector. There were job losses across a wide spectrum

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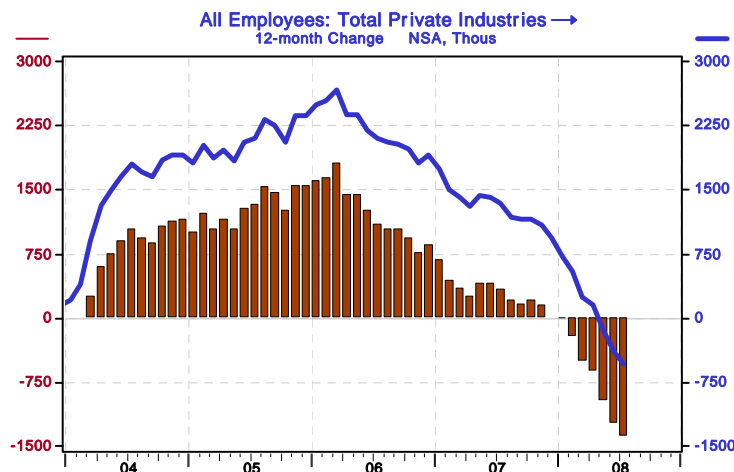
of industries as evidenced by the July diffusion index falling a full point to 41.2 – the lowest reading since August 2003 (see Chart 9).

Chart 9
Diffusion Index: Employees On Private Nonag Payrolls
% Rising



In the past 12 months, private nonfarm payrolls have declined by a net 535,000. In the past 12 months, the so-called birth/death adjustment has *added* a net 853,000 jobs. If the birth/death adjustment is excluded, private nonfarm payrolls declined by 1,388,000 in the 12 months ended July 2008 (see Chart 10). **If the birth/death adjustment is inaccurately biasing upward private nonfarm employment, then all of the other government economic statistics that are derived from nonfarm payrolls also are inaccurately biased upward.** Without the birth/death adjustment, perhaps the U.S. economy might not look quite as “resilient” as it allegedly is thought to be by *The Wall Street Journal* and its op-ed contributors.

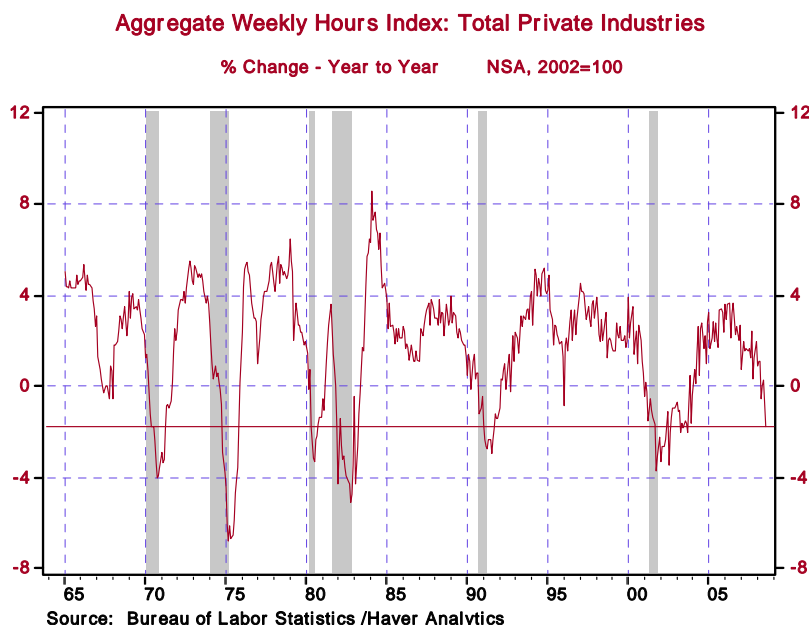
Chart 10
← 12-month chg. in Private Nonfarm Payrolls ex Birth/Death Adjustment
NSA, Thous.



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Production is a function of the number of workers, the hours these workers work and the productivity of these workers. The monthly employment report gives us two of these three variables – number of workers and hours worked by them. The combination of these two variables is called the index of aggregate weekly hours of production. In a less politically-correct time, this index was referred to man-hours of production. As shown in Chart 11, this index is down 1.73% in the 12 months ended July. I do not see any other time since the mid 1960s when the year-over-year change in the index of aggregate hours has gone from a positive reading to down minus 1.73% and the economy was not in a recession (the shaded areas in Chart 11). Perhaps things are different this time, but I would bet Ben Stein’s money that they are *not* different.

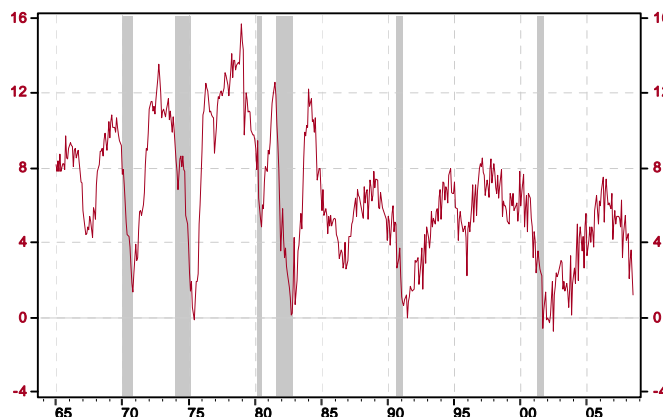
Chart 11



Folks were probably feverishly checking their mailboxes for Treasury rebate checks in July because their paychecks were light. The product of private nonfarm payrolls and average weekly earnings dropped 0.03% in July after increasing 0.22% in June. This augurs for a weak reading in the wage and salary component of the July personal income data. On a year-over-year basis, growth in this proxy for wages and salaries is up 1.18% in July (see Chart 12). What was the year-over-year change in the CPI in June? 5.02%. No wonder retailers are shuttering stores.

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Chart 12
Product of Private Nonfarm Payrolls and Average Weekly Earnings
 % Change - Year to Year, NSA



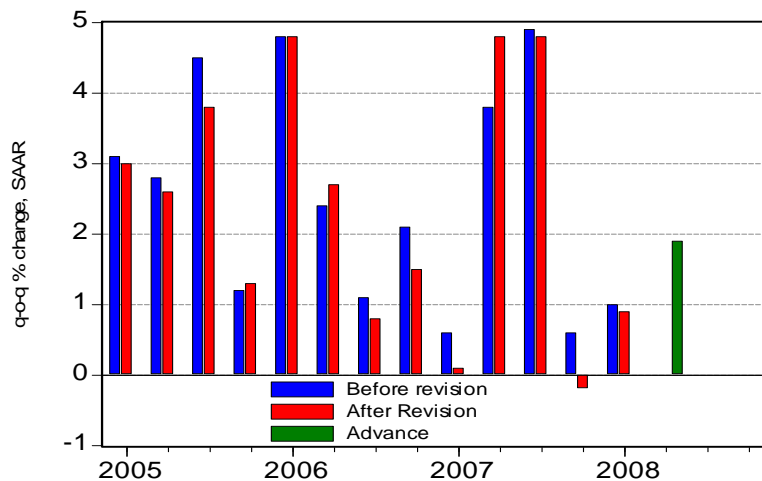
Real Gross Domestic Product – 2008:Q2

Temporary Boost from Fiscal Stimulus Package Accounts for Growth in 2008:Q2

Real gross domestic product of the U.S. economy grew at an annual rate of 1.9% in the second quarter, following a revised 0.9% increase in the first quarter. This report also contained revisions of GDP estimates going back to the first quarter of 2005.

Real GDP grew at a slightly slower pace during the period of revision (2005-2007, see chart 13). The most noteworthy aspect was the contraction in real GDP growth in the fourth quarter of 2007 (-0.2%) from an increase of 0.6% as per the previously published estimate.

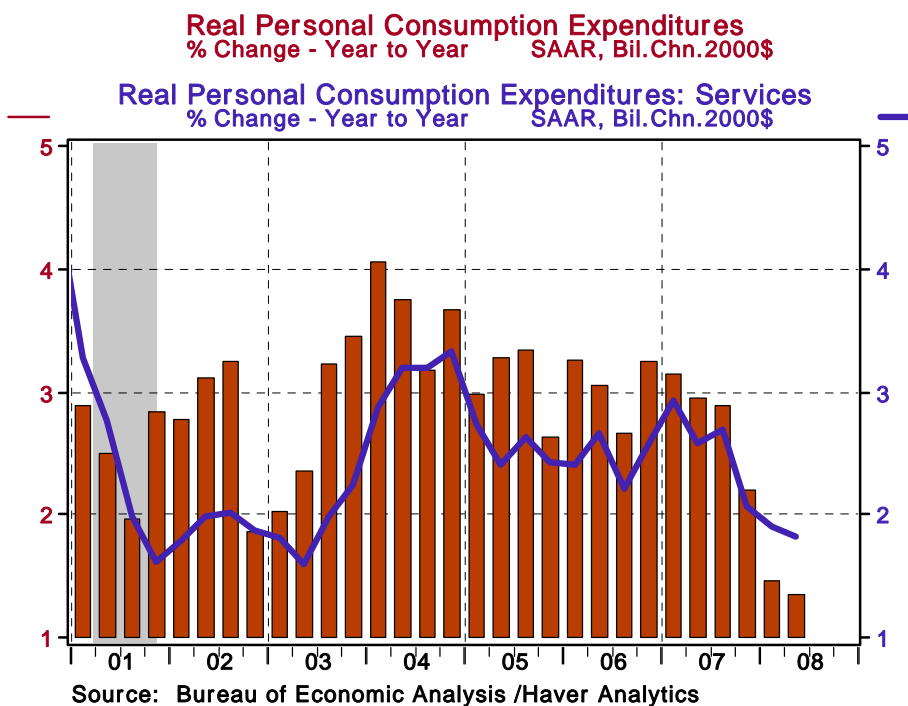
Chart 13
 Change in Real Gross Domestic Product
 (q-o-q, SAAR)



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In the second quarter, consumer spending grew at an annual rate of 1.5%, which is an improvement from the 0.9% increase in the first quarter. The fiscal stimulus package gave a boost to consumer spending in the second quarter. This being a one-off event implies that going forward consumer spending is most likely to show significant weakness in the absence of extra dollars from tax rebates. Of the three major components of consumer spending, purchases of durable goods are now down for two consecutive quarters. Outlays on non-durable picked up in the second quarter. Services, a relatively steady part of consumer spending, show the smallest gain (+1.8% on a year-to-year basis) since the first quarter of 2003 (see chart 14).

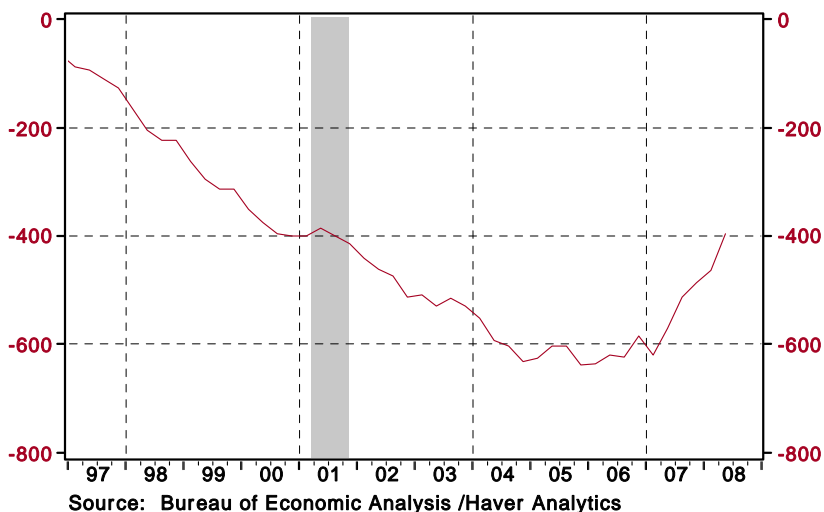
Chart 14



Exports of goods and services grew at an annual rate of 9.2% in the second quarter, while imports fell 6.6%. The resultant sharp narrowing of the trade gap (-\$395.2 billion vs. -\$462.0 billion) was another big plus for the headline. Imports have declined for three straight quarters, which has helped to narrow the trade gap. The outstanding growth in exports may not be a repeat story because incoming data from trading partners of the U.S. has been weak, suggesting that less positive contributions from exports are likely in the quarters ahead.

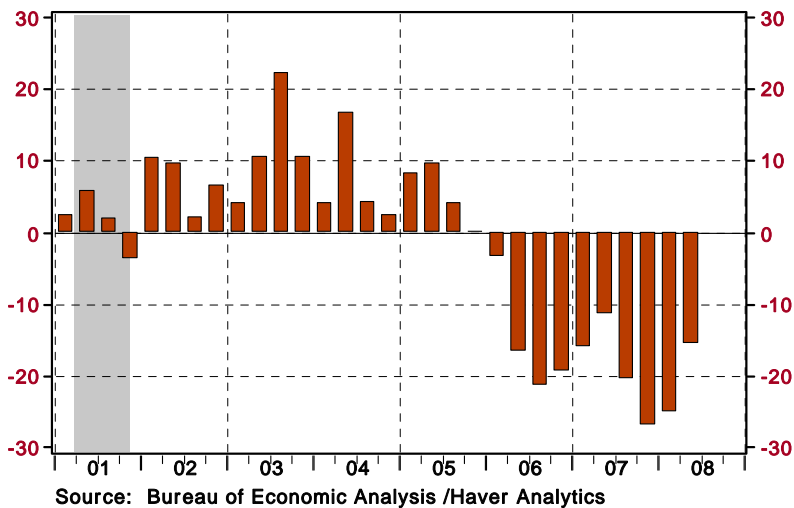
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Chart 15
Real Net Exports of Goods & Services
 SAAR, Bil.Chn.2000\$



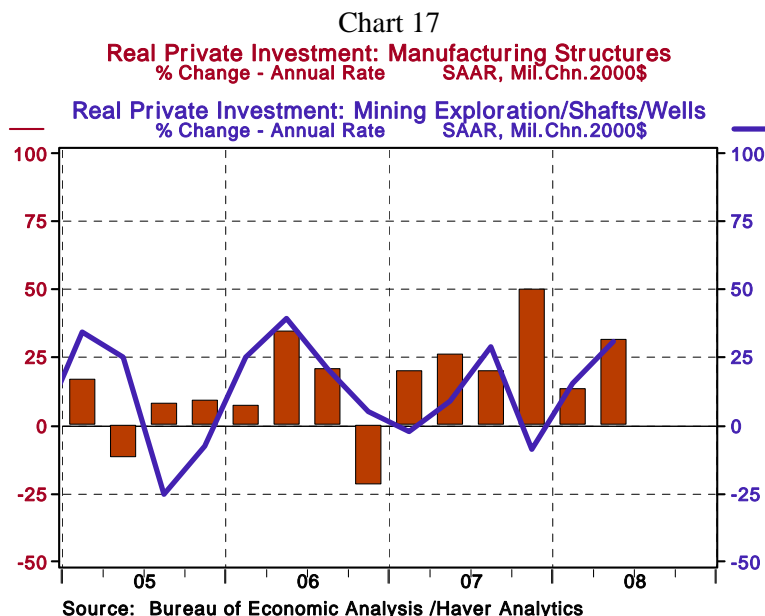
The 3.4% jump in government expenditures compared with a 1.9% gain in the first quarter was another factor contributing to the growth of the economy. Residential investment expenditures fell at an annual rate of 15.6% in the second quarter, the smallest decline in the last four quarters (see chart 16). The second quarter reading of residential investment expenditures is encouraging to the degree that it suggests that the rate of decline for this component of GDP is moderating. However, actual growth in residential investment expenditures is several quarters away.

Chart 16
Real Private Residential Investment
 SAAR, %Chg

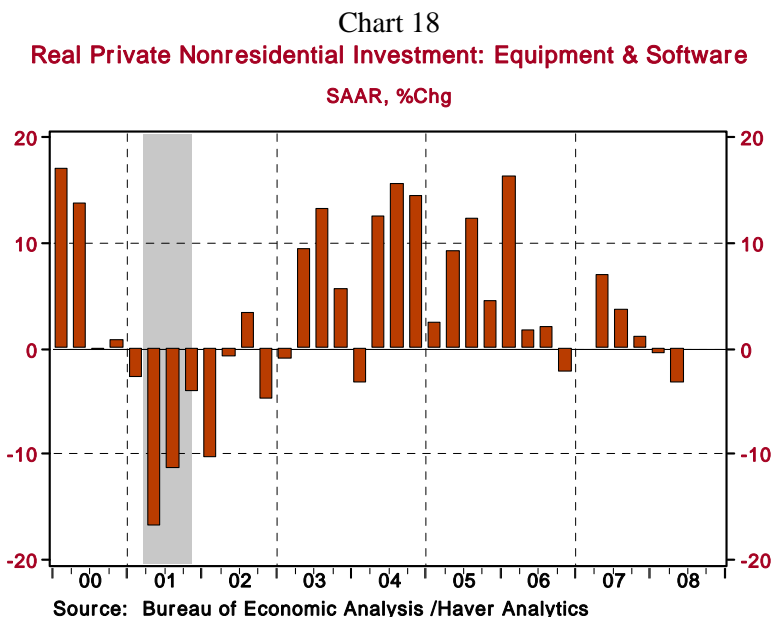


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The 14.4% increase in outlays on structures was concentrated in activities related to the oil industry (mining and exploration moved at an annual rate of 30.6%) and manufacturing structures (+31%). The upward trend of oil prices has been the impetus to activity in the oil industry.



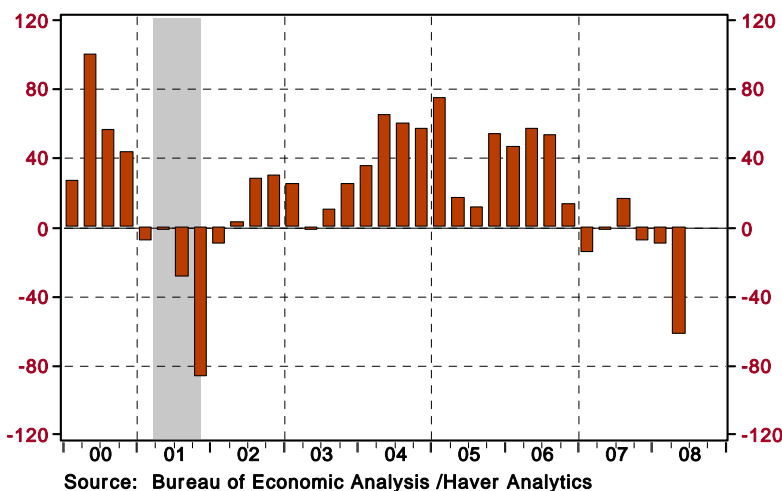
Weak economic conditions have brought about the decline in capital spending, with the 3.4% drop in the second quarter, marking the second consecutive quarterly decline. Given weak economic conditions in the near term, there is little reason to believe that capital spending will be the source of economic growth in the near term.



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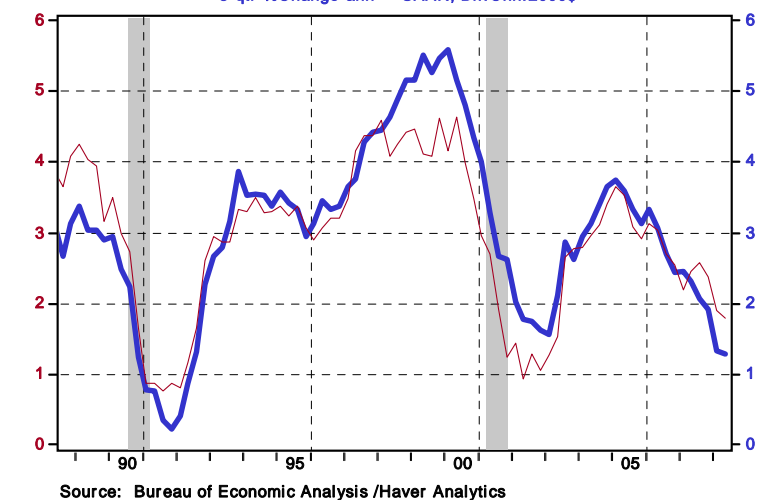
The reduction in inventories (-\$62.2 billion vs. -\$10.2 billion in Q1) was larger than the drop recorded in the first quarter (see chart 19). The bulk of the drop in inventories was in the factory sector. By comparison retail and wholesale inventories showed smaller declines. In an environment of weak demand conditions, firms should be unwilling to add to their stockpiles.

Chart 19
Real Change in Private Inventories
 SAAR, Bil.Chn.2000\$



Essentially, economic growth has slowed over the past two years (see chart 20). We have gone down the laundry list of the different components of GDP and concluded that it is unlikely that any one sector can possibly give a lift to economic growth in the near term.

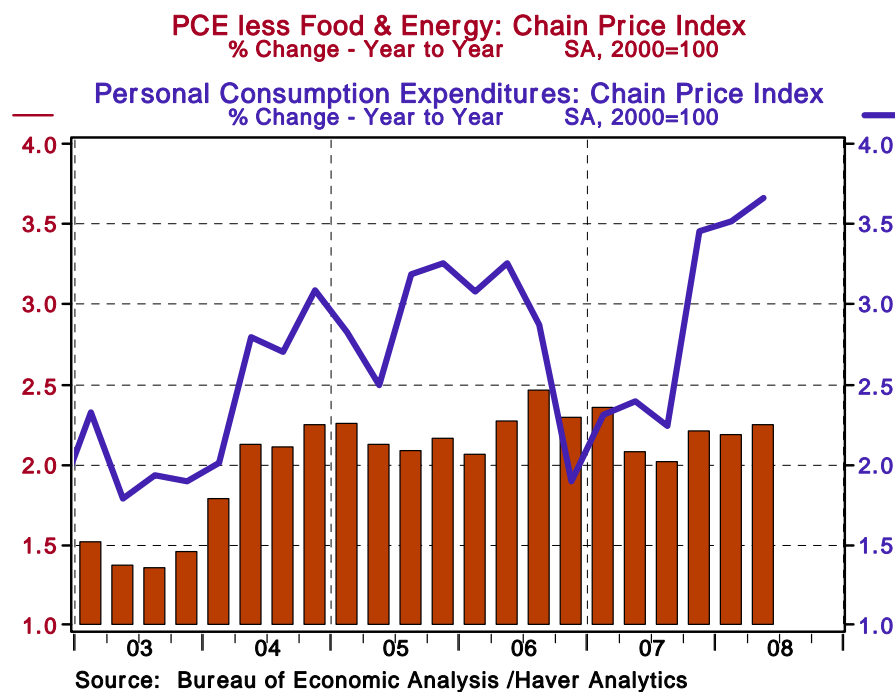
Chart 20
Real Gross Domestic Product
 8-qtr %Change-ann SAAR, Bil.Chn.2000\$
Final Sales to Domestic Purchasers
 8-qtr %Change-ann SAAR, Bil.Chn.2000\$



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Price indexes indicate food and energy prices have raised overall inflation readings while the core is still above the implicit target of 2.0% year-to-year change (see chart 21).

Chart 21



It is nearly certain the Fed will leave the federal funds rate unchanged at the August 5 meeting. The market expects a higher federal funds rate at the end of the year. We do not. The details of the GDP report point to significant weakness in the economy. Against this backdrop and financial market fragility, the Fed would only exacerbate the economic situation by raising the federal funds rate in haste. Fighting inflation will have to remain on the back burner until financial and economic conditions improve. By that time, inflation is likely to be moderating as it is a lagging economic process.

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Real Gross Domestic Product 2008:Q2 Advance Estimate

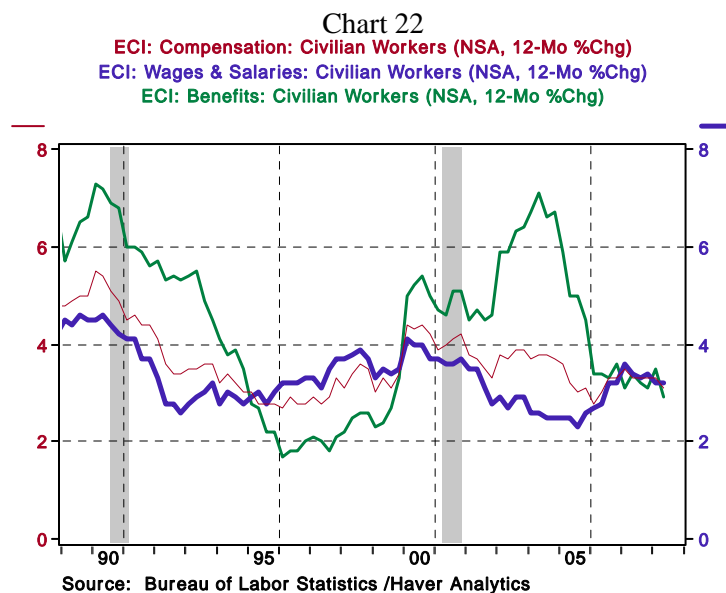
	Levels (Billions of chained 2000 dollars)			Percent Change (SAAR)		
	07:4 Final	08:1 Final	08:2 Advance	From 07:3 to 07:4	From 08:1 to 08:2	From 08:1 to 08:2
GDP	11620.7	11646.0	11700.6	-0.2	0.9	1.9
CONSUMPTION	8298.2	8316.1	8347.5	1.0	0.9	1.5
DURABLE GOODS	1250.6	1237.0	1227.7	0.4	-4.3	-3.0
NONDURABLE GOODS	2400.2	2397.9	2421.7	0.3	-0.4	4.0
SERVICES	4676.1	4704.3	4717.4	1.4	2.4	1.1
INVESTMENT	1781.3	1754.7	1686.0	-11.9	-5.8	-14.8
FIXED INVESTMENT	1788.2	1762.4	1751.6	-6.2	-5.6	-2.4
NONRESIDENTIAL	1414.7	1423.1	1431.3	3.4	2.4	2.3
STRUCTURES	319.7	326.4	337.5	8.5	8.6	14.4
EQUIPMENT & SOFTWARE	1090.1	1088.6	1079.2	1.0	-0.6	-3.4
RESIDENTIAL	411.6	383.0	367.1	-27.0	-25.1	-15.6
CHG. BUS. INVENT.	-8.1	-10.2	-62.2			
NET EXPORTS	-484.5	-462.0	-395.2			
EXPORTS	1482.1	1500.6	1534.1	4.4	5.1	9.2
IMPORTS	1966.5	1962.6	1929.2	-2.3	-0.8	-6.6
GOVERNMENT (Cons. & Invest.)	2029.4	2039.1	2056.3	0.8	1.9	3.4
FEDERAL	761.7	772.6	785.2	-0.5	5.8	6.7
DEFENSE	509.9	518.9	528.2	-0.9	7.3	7.3
OTHER	251.5	253.2	256.6	0.4	2.9	5.3
STATE AND LOCAL	1267.5	1266.7	1271.7	1.6	-0.3	1.6
DISP. PERS. INC.	8683.1	8680.0	8914.6	0.6	-0.1	11.3
FINAL SALES	11628.0	11653.7	11764.4	0.8	0.9	3.9
FINAL SALES TO DOM. PURCHASERS	12109.8	12113.3	12153.0	-0.1	0.1	1.3
PRICE DEFLATORS:						
GDP CHAIN TYPE	120.8	121.6	121.9	2.8	2.6	1.1
GDP EX. FOOD & ENERGY				2.4	2.0	1.4
PCE CHAIN TYPE	119.2	120.3	121.5	4.3	3.6	4.2
PCE EX. FOOD & ENERGY	115.5	116.2	116.8	2.5	2.3	2.1

Employment Cost Index – 2008:Q2

Labor Costs Do Not Present An Inflationary Threat

The Employment Cost Index (ECI) moved up 0.7% in the second quarter, matching the gain seen in the first quarter. Wages and salaries increased 0.7% in the second quarter, one notch down from a 0.8% gain in the prior quarter. The increase in benefits (0.6%) during the second quarter was unchanged from the first quarter. On a year-to-year basis, the ECI advanced 3.1% vs. 3.3% in the first quarter. The main message is that labor compensation costs do not present an inflationary threat.

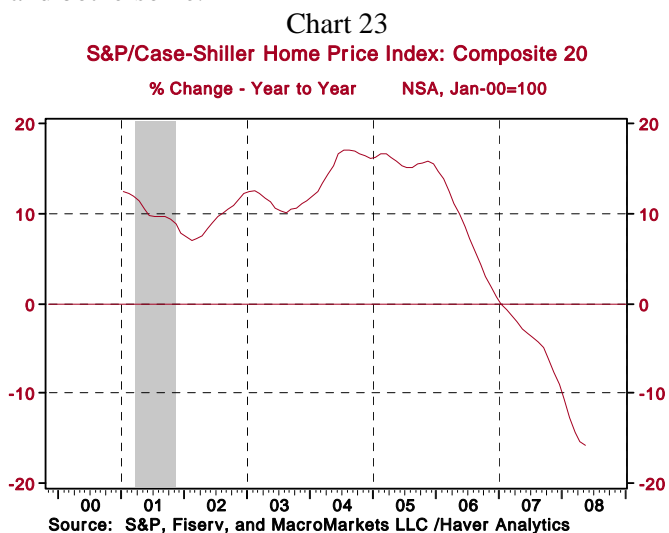
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Case/Shiller Price Index – May 2008

Home Prices Are Likely To Maintain Downward Trend Until the Stock of Unsold Homes Falls

The composite Case-Shiller Home Price Index for 20 metro areas fell 15.8% in May compared with the price index a year ago. Of the 20 metro areas, ten metro areas continue to record double-digit drops in prices. It is also noteworthy that price indexes of thirteen metro areas posted year-to-year declines that were larger than in April. In other words, prices reductions remain widespread and bothersome.



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The basic message is that home prices are most likely to show significant declines until the stock of unsold homes falls to historical levels. There was a 11.1-month inventory of unsold existing homes in June, up from 9.1-month mark in June 2007. The average inventory of unsold existing homes has risen from 4.5-months supply in 2005 to 6.5-months in 2006 and 8.9-months in 2007.

Consumer Confidence Index- July 2008

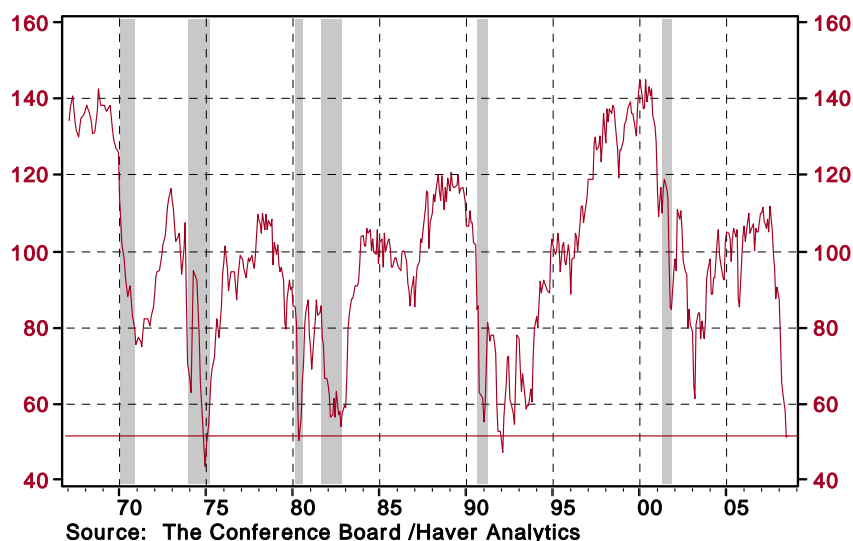
Consumer Confidence Index Stabilizes Close to Cycle Low, Consumers Remain Pessimistic about Jobs

The Conference Board’s Consumer Confidence Index moved up slightly to 51.9 in July from 51.0 in June. The June reading of the index appears to be the cycle low, for now. The July report suggests that outlook of consumers is stabilizing. The improvement in July was entirely from an increase in the Expectations Index (43.0 vs. 41.4 in June), while the Present Situation Index (65.3 vs. 65.4 in June) was virtually unchanged.

Chart 24

Consumer Confidence

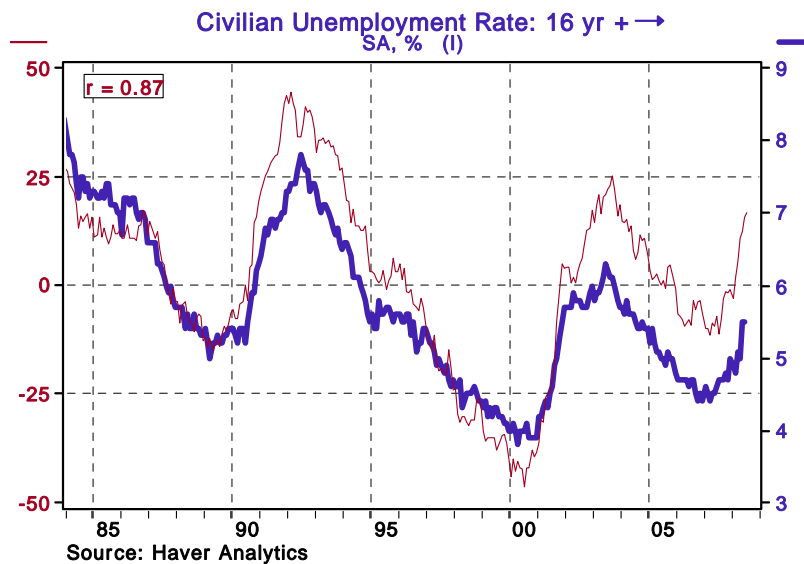
SA, 1985=100 (I)



The difference between the index tracking “jobs hard to get” and “jobs plentiful” climbed up to 16.8 in July, the highest since December 2003 (see chart 25).

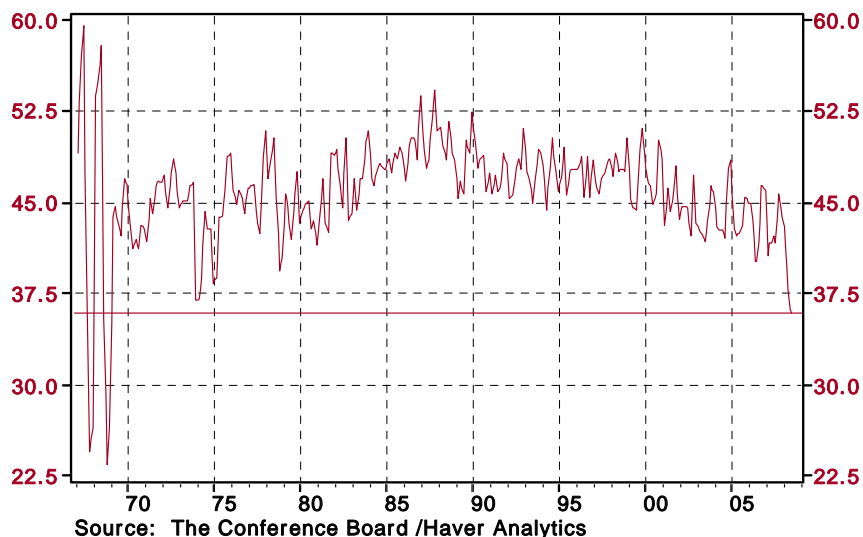
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Chart 25
 ← 'Jobs Hard to Get' Less 'Jobs Plentiful' →



Financially strapped households indicate that very few have plans for a vacation in the next six months. Only 35.8% of the respondents plan to go on a vacation, the lowest number since December 1968. Discretionary consumer spending is taking a hit in the current economic crisis.

Chart 26
 Vacation Intended Within 6 Months
 % Respondents; SA (I)



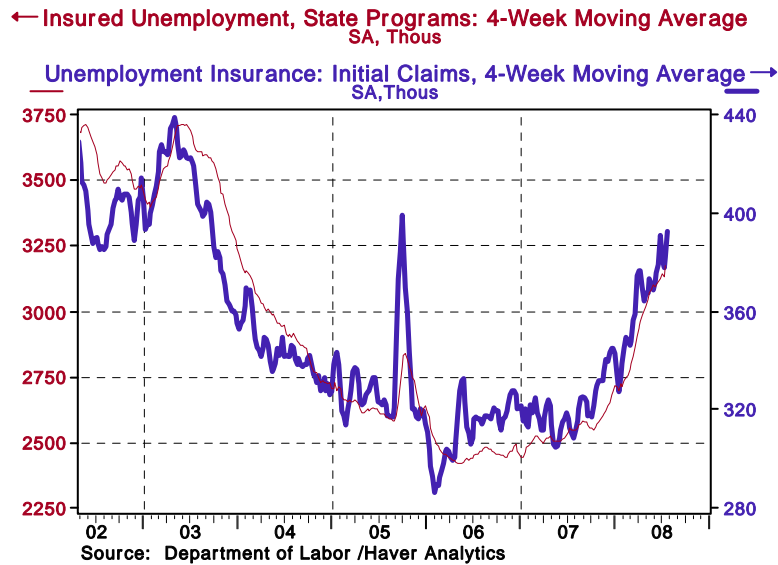
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Initial Jobless Claims

Hiring Freeze Remains In Place

Initial jobless claims rose 44,000 to 448,000 during the week ended July 26, following substantial gains in the each of the prior two weeks. Continuing claims, which lag initial claims by one week, moved up 185,000 to 3.282 million.

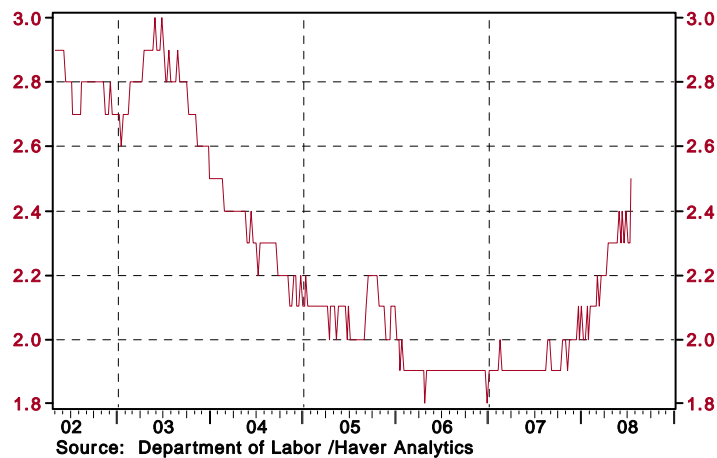
Chart 27



The insured unemployment rate moved up to 2.5% from 2.3% in the prior week. A similar jump in the insured unemployment rate in one week last occurred in the week ended April 14, 2001. We remain skeptical of the size because these numbers are known to be revised in the subsequent week.

Chart 28

Insured Unemployment Rate: Percent of Covered Employment
SA, %



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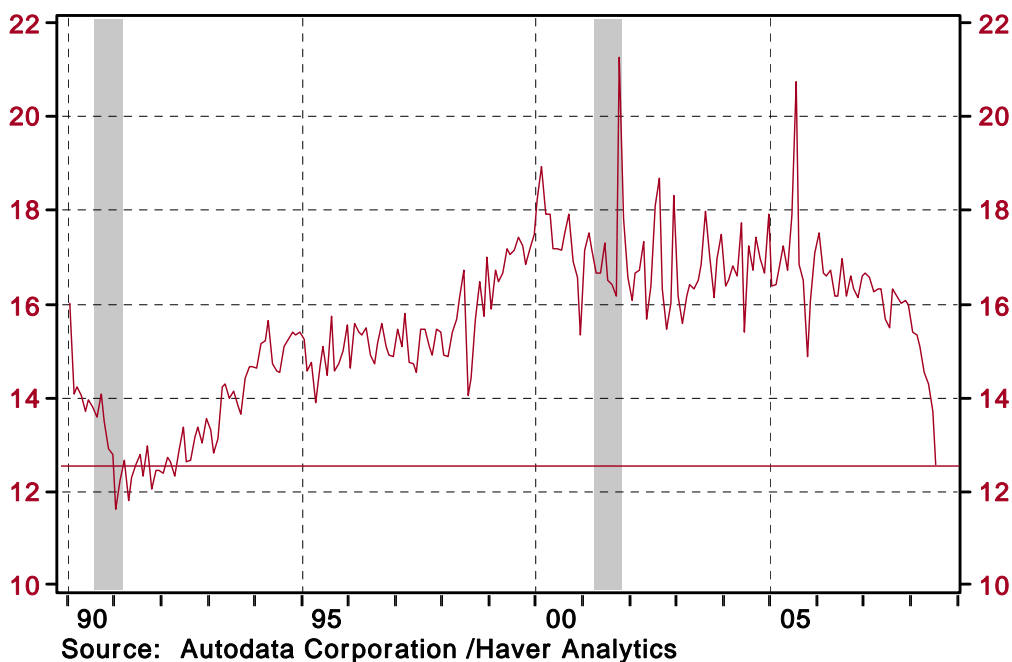
A new law extending the number of weeks that unemployed workers can collect unemployment benefits was seen as the reason for the sharp increase in jobless claims. According to the Labor Department, the impact of the new law will result in jobless claims being higher than normal for the next few weeks. The message here is that data distortions from a change in the law could be exaggerating the true trend, but the fact that workers are seeking accommodation under the new law is indicative of significantly weak labor market conditions.

Auto Sales – July 2008

Auto sales fell to an annual rate of 12.55 million units in July, the lowest since April 1992. The chart speaks for itself, do we need to say more?

Chart 29

Total Light Vehicle Retail Sales {Imported+Domestic} SAAR, Mil. Units



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ISM Report – July 2008

US Mfg. ISM Holds Relatively Steady, Rest of the World's Weakens

The US manufacturing ISM composite index was 50.0 in July, down only marginally from June's 50.2 reading. The new orders index continued to exhibit weakness, dropping 4.6 points in July to a level of 45.0. This marks the eighth consecutive month in which the new orders index was below 50.0. Apparently some of the July weakness was due to a softening in new export orders, with that index declining 4.5 points to a level of 54.0. Perhaps the reason for some softening in new export orders is the slowdown in manufacturing activity in the rest of the world. The Eurozone, the UK and China all reported declines in their version of the ISM index. A global manufacturing composite ISM index calculated by JP Morgan declined to 49.0 in July from 49.5 in June – a five-year low. So much for “decoupling.”

U.S Highlights for Next Week – FOMC Meeting on Tuesday, August 5

1. **Personal Income and Spending** [Aug. 4] – The earnings and payroll numbers for June indicate moderate growth in income [+0.2%]. Auto sales fell to annual rate of 13.6 million from 14.3 million in May. Non-auto retail sales were lackluster, excluding price-related hikes in gas and food sales. All of this available information points to a steady reading of consumer spending in July. **Consensus:** Personal income -0.2%, consumer spending 0.5%

Other reports – Factory orders [Aug. 4], Pending Home Sales [Aug. 7], Productivity and Costs [Aug. 8]

Key Interest Rates

	8/1/2008	1-wk. change, bps	4-wk. change, bps	1-yr. change, bps
3-month Libor	2.79	0	0	-257
2-year U.S. Treasury note yield	2.50	-20	-4	-196
10-year U.S. Treasury note yield	3.94	-16	-5	-77

Global Economic Data

	Real GDP		CPI		Unemployment Rate			Central Bank Rate		
	SAAR, yoy %		NSA, yoy%		% year-ago			% year-ago		
United States	1.8	Q1-08	5.0	Jun-08	5.7	Jul-08	4.7	2.00	Jul-08	5.25
Euro-Area	2.1	Q1-08	4.0	Jun-08	7.3	Jun-08	7.4	4.25	Jul-08	4.00
Japan	1.3	Q1-08	2.0	Jun-08	4.1	Jun-08	3.7	0.50	Jul-08	0.50
UK	2.3	Q1-08	3.8	Jun-08	2.6	Jun-08	2.7	5.00	Jul-08	5.75
Australia	3.6	Q1-08	4.5	Q1-08	4.2	Jun-08	4.3	7.25	Jul-08	6.25
Canada	1.7	Q1-08	3.1	Jun-08	6.2	Jun-08	6.1	3.00	Jul-08	4.50
China	10.1	Q2-08	0.1	Jun-08	4.0	Q1-08	4.2	2.85	Jun-08	2.06
India	8.8	Q1-08	7.7	Jun-08	--	--	--	6.00	Jul-08	6.00
New Zealand	0.7	Q1-08	4.0	Q1-08	3.6	Q1-08	3.6	8.00	Jul-08	8.25
Norway	3.7	Q1-08	3.4	Jun-08	2.4	Q1-08	3.7	5.75	Jul-08	4.50
Singapore	6.8	Q1-08	7.5	Jun-08	2.3	Q2-08	2.3	0.37	Jul-08	2.37
South Korea	4.7	Q1-08	5.9	Jul-08	3.2	Jun-08	3.3	5.00	Jul-08	4.75
Sweden	1.0	Q1-08	4.3	Jun-08	7.0	Jun-08	6.8	4.50	Jul-08	3.50
Switzerland	3.1	Q1-08	3.1	Jun-08	2.5	Jun-08	2.8	2.76	Jul-08	2.71
Taiwan	6.3	Q1-08		Jul-08	3.9	Jun-08	3.9	3.63	Jul-08	3.13
Thailand	6.1	Q1-08	9.2	Jul-08		Jul-08	1.6	3.75	Jun-08	4.00

* UK - Claimant Count Unemployment Rate
 * Thailand - GDP Non-Seasonally Adjusted
 * EA-13, UK, Sweden - Harmonized Unemployment

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Historical US Economic Data

	Jul-08	Jun-08	May-08	Apr-08	Mar-08	Feb-08	Jan-08	Dec-07	Nov-07	Oct-07	Sep-07	Aug-07
Payroll Employment (000)	-51	-51	-47	-67	-88	-83	-76	41	60	140	81	74
% Change, Year Ago *	0.0	0.0	0.1	0.3	0.4	0.6	0.7	0.8	0.9	1.0	1.0	1.0
Unemployment Rate (%)	5.7	5.5	5.5	5.0	5.1	4.8	4.9	5.0	4.7	4.8	4.7	4.7
Avg. Hourly Earnings (% Chg.)	0.3	0.3	0.3	0.1	0.3	0.3	0.3	0.3	0.3	0.1	0.3	0.2
% Change, Year Ago	3.4	3.4	3.5	3.5	3.7	3.7	3.7	3.7	3.8	3.8	4.1	4.0
PPI (% Chg.)		1.8	1.4	0.2	1.0	0.3	1.2	-0.5	2.6	0.5	0.5	-0.8
% Change, Year Ago *		9.2	7.2	6.5	6.9	6.5	7.4	6.2	7.3	6.1	4.4	2.3
CPI (% Chg.)		1.1	0.6	0.2	0.3	0.0	0.4	0.4	0.9	0.3	0.4	0.0
% Change, Year Ago *		5.0	4.2	3.9	4.0	4.0	4.3	4.1	4.3	3.5	2.8	2.0
ISM Diffusion Index (%)	50.0	50.2	49.6	48.6	48.6	48.3	50.7	48.4	50.0	50.4	50.5	51.2
Industrial Production (% Chg.)		0.5	-0.2	-0.7	0.1	-0.4	0.2	0.1	0.4	-0.4	0.3	0.0
% Change, Year Ago		0.3	0.2	0.4	1.6	1.5	2.5	2.0	2.5	1.9	2.2	1.6
Capacity Utilization (%)		79.9	79.6	79.9	80.5	80.3	81.0	81.0	81.1	80.8	81.3	81.2
Nondefense Cap. Goods ex Aircraft												
- Orders (% Chg.)		1.4	-0.1	3.1	-1.0	-0.9	-0.8	4.5	0.0	-2.2	-0.2	0.3
% Change, Year Ago *		4.6	3.7	2.6	-1.1	8.8	5.3	0.3	-4.8	-3.5	-7.0	-1.8
- Shipments (% Chg.)		0.7	0.2	1.0	0.8	-1.3	-0.4	1.1	0.6	-1.6	1.2	1.8
% Change, Year Ago *		2.9	2.7	3.7	1.0	6.1	6.2	1.2	0.0	1.7	-0.4	-1.1
Retail Sales (% Chg.)		0.1	0.8	0.2	0.5	-0.5	0.6	-0.9	1.2	0.0	0.7	0.2
% Change, Year Ago		1.0	2.5	3.7	0.3	7.0	4.7	2.5	6.4	6.3	2.8	4.0
Real Personal Consumption (% Chg.)			0.4	0.2	0.2	-0.1	0.2	-0.1	0.3	0.1	0.2	0.4
% Change, Year Ago			2.2	1.9	2.1	1.6	2.0	2.2	2.8	2.7	3.2	3.2
Personal Income (% Chg.)			1.9	0.3	0.3	0.5	0.2	0.5	0.4	0.4	0.4	0.4
% Change, Year Ago			6.4	4.9	4.3	4.8	5.1	5.9	6.2	6.2	6.4	6.4
New Home Sales (SAAR, mn)		0.53	0.53	0.54	0.51	0.57	0.60	0.60	0.63	0.72	0.69	0.70
% Change, Year Ago *		-32.9	-35.4	-41.0	-38.8	-29.4	-33.3	-38.0	-36.6	-23.0	-33.8	-31.8
Existing Home Sales (SAAR, mn)		4.86	4.99	4.89	4.94	5.03	4.89	4.91	5.02	5.06	5.11	5.50
% Change, Year Ago *		-16.7	-16.3	-15.7	-22.5	-19.4	-23.2	-23.2	-17.8	-18.7	-22.5	-12.1
Housing Starts (SAAR, mn)		1.07	0.98	1.00	0.99	1.11	1.06	1.00	1.18	1.28	1.19	1.34
% Change, Year Ago *		-27.6	-33.2	-34.0	-33.6	-24.0	-25.5	-38.7	-22.9	-11.9	-32.4	-17.4
International Trade (Bils \$)			-59.8	-60.5	-56.5	-60.6	-57.9	-57.6	-59.9	-56.3	-55.5	-55.3
	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05	Q3-05
Real GDP, Chain Weighted, SAAR	1.9	0.9	-0.2	4.8	4.8	0.0	1.5	0.8	2.7	4.8	1.3	3.9
% Change, Year Ago	1.8	2.5	2.3	2.8	1.8	1.3	2.4	2.4	3.2	3.1	2.7	3.0
Chain-Weighted Price Index, SAAR	1.1	2.6	2.8	1.5	2.0	4.1	2.2	2.8	2.7	3.5	3.7	4.1
% Change, Year Ago	2.0	2.3	2.6	2.5	2.8	2.9	2.8	3.2	3.5	3.4	3.5	3.4
Nominal GDP, SAAR	3.0	3.5	2.3	6.4	6.9	4.3	3.7	3.6	5.5	8.6	5.1	8.1
% Change, Year Ago	3.8	4.7	4.9	5.3	4.6	4.3	5.3	5.7	6.8	6.6	6.3	6.4
Employment Cost Index (%)	0.7	0.7	0.8	0.8	0.9	0.8	0.8	1.0	0.9	0.6	0.8	0.7
% Change, Year Ago	3.1	3.3	3.3	3.3	3.3	3.5	3.3	3.3	3.0	2.8	3.1	3.0
Productivity Nonfarm, SAAR		2.6	1.8	6.0	2.7	1.3	1.4	-1.6	1.3	2.2	-1.5	4.5
% Change, Year Ago		3.3	2.9	2.8	1.0	0.6	0.8	0.1	1.6	1.4	1.7	2.2
Unit Labor Costs, Nonfarm, SAAR		2.2	4.7	-2.5	-1.3	5.0	10.7	3.1	-1.3	4.5	4.3	1.3
% Change, Year Ago		0.7	1.4	2.8	4.3	4.3	4.2	2.6	2.2	2.8	1.6	1.7

Source: Haver Analytics

* NSA

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