

DAILY GLOBAL
COMMENTARY

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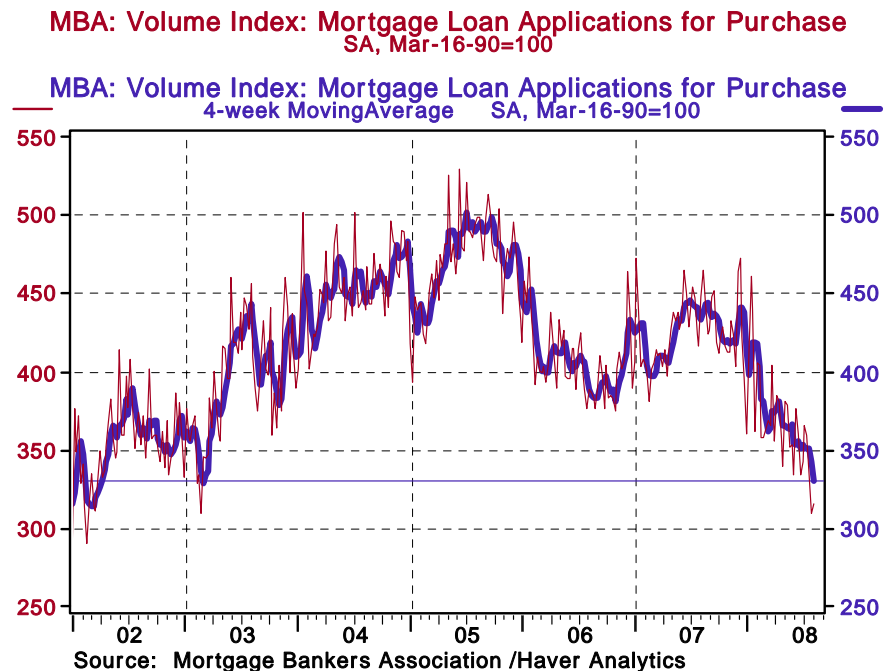
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Credit Crunch and Weak Employment Conditions Continue to Weigh on Housing Market

August 6, 2008

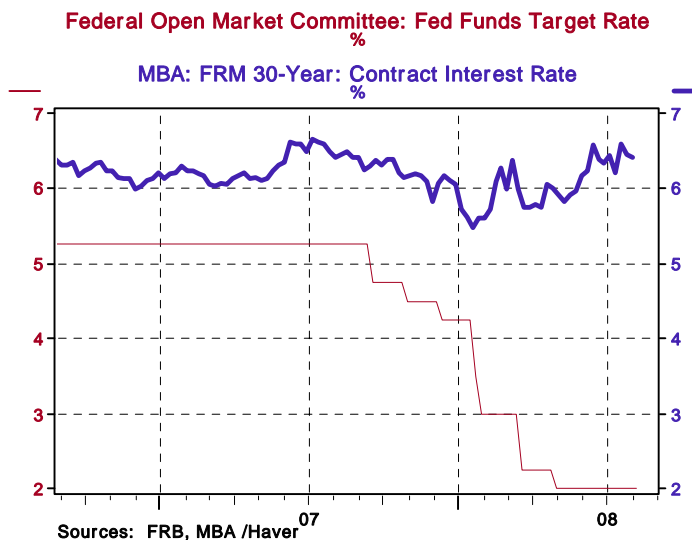
The Mortgage Bankers Association's Mortgage Purchase Index rose to 315.2 during the week ended August 2 from 309.5 in the prior week. According to the Mortgage Bankers Association, FHA loans accounted for a large part of the increase in the index, while applications for conventional mortgage loans declined. The four-week moving average of the Purchase Index at 330.0, the lowest since early-2003 (see chart 1), continues to trend down. During the same week, the Refinance Index rose slightly to 1121.8 from 1074.4.

Chart 1



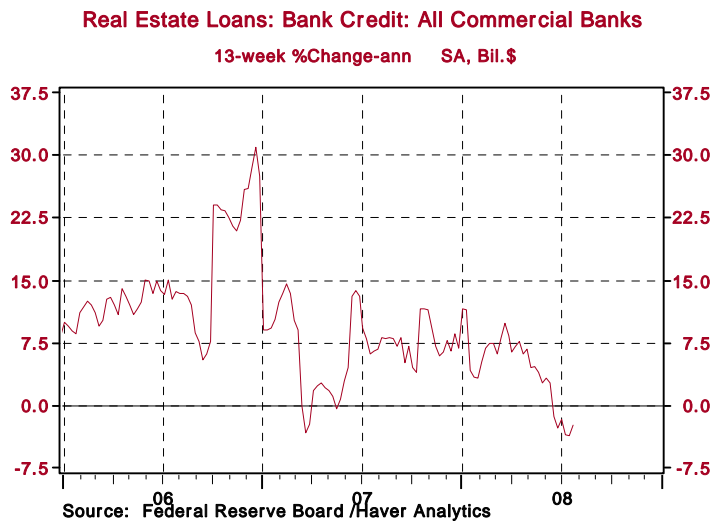
The July employment report underscored the weakness in the labor market with payrolls posting the seventh consecutive monthly decline and the unemployment rate climbing to 5.7%, the highest since November 2003. The weak trend in hiring is not supportive of a revival in home sales. In addition, the credit crunch is weighing on home purchases. Although the Fed has lowered the federal funds rate 200 bps since January, the 30-year fixed-rate mortgage is at 6.41%, up about 90 bps from its low in late-January (see chart 2).

Chart 2



Financially impaired banks are in no position to extend mortgage loans and this is evident in the reduction of real estate loans in recent months (see chart 3).

Chart 3

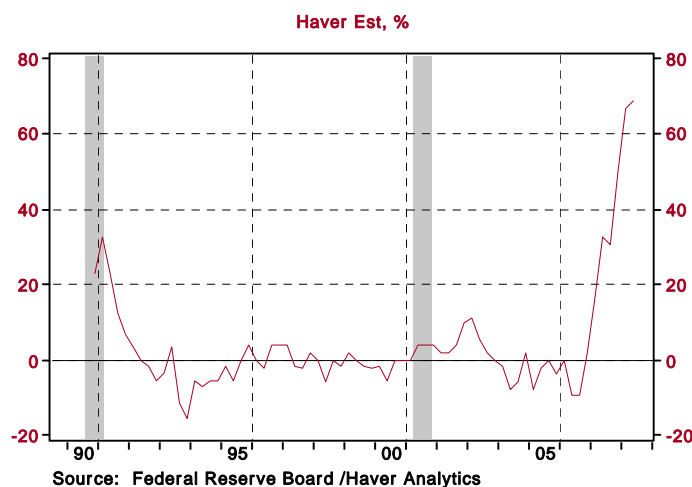


Also, banks have tightened lending standards to the extent that the number of banks tightening mortgage under writing standards now exceeds what prevailed in the 1990-91 recession (see chart 4).

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Chart 4

FRB Sr Loan Survey: Res Mortgages: Net Share, Banks Tightening

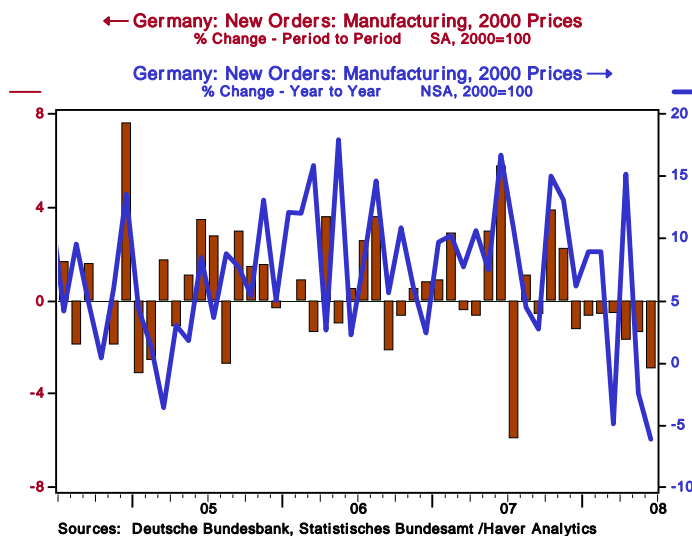


Sales reports of existing and new home for June contained faint signs of a housing market mending but additional support from a pickup in hiring and willingness of banks to lend money will be necessary for stability in the housing market.


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German Manufacturing Orders Take A Hit From Weak Euro-zone Demand

Midst a steady drumbeat of weak-to-negative economic news out of the Euro-zone in the past few days, there was one report today that gives particular cause for concern – German manufacturing orders. Germany has been the ‘zone’s economic powerhouse in the past few quarters, continuing to see steady-to-strong GDP growth even as demand and output started to weaken, or even outright slide, in France, Italy, and Spain. However, falling demand from the neighbors is starting to take a toll.



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German manufacturing orders dropped a steeper-than-expected 2.9% s.a. on the month in June and were down 6.1% on the year. One month of weakness may not be so unusual – after all, orders crashed for a month at the start of Q3 2007, then quickly picked up again. But the trend is disconcerting. This was the seventh straight monthly decline, the longest series of declines since German reunification way back in October 1990. Furthermore, it left orders down 4.1% q-o-q in Q2, the sharpest quarterly contraction in sixteen years.

The drop in orders in June was largely thanks to weaker demand from overseas, which dropped 5.1% on the month, with Euro-zone orders down 7.7%. Domestic orders slipped just 0.6%. In particular, capital goods orders were down 4.4% overall, with capital goods orders from the Euro-zone slumping 10.5%. Tomorrow's industrial output data for June is likely to confirm a slowdown in Q2. With indicators of domestic consumption also weakening, preliminary Q2 GDP data – due August 14 – will show negative growth, which adds to the probability that the ECB is done with rate hikes for this cycle.