

DAILY GLOBAL
COMMENTARY

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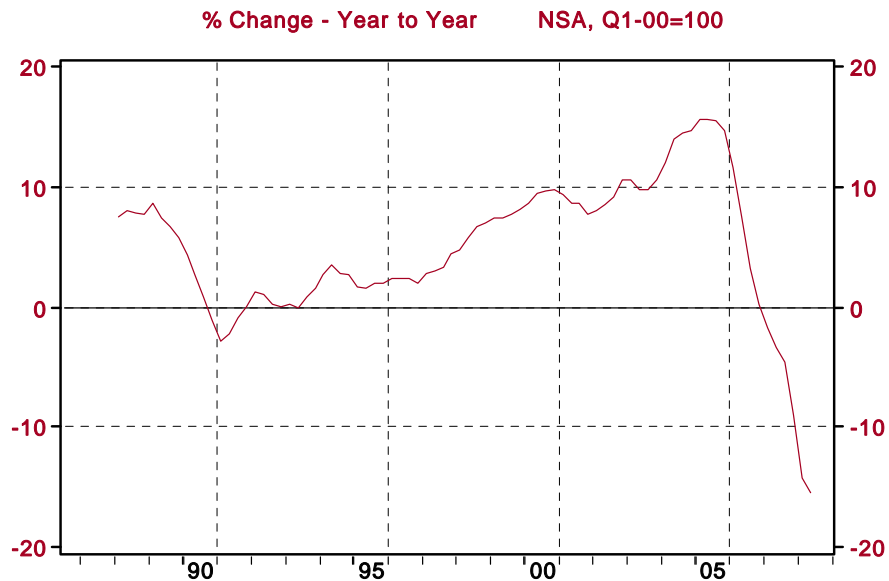
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A Perspective on Home Prices

August 27, 2008

There has been a significant decline in home prices for several months as shown in chart 1. Foreclosures and defaults continue to post an advancing trend. Elevated inventories of unsold homes are leading to questions about the extent of the decline in home prices. (Note: Colin Barr of *Fortune* magazine asked me several questions yesterday which led to this commentary).

Chart 1

S&P/Case-Shiller Home Price Index: U.S. National

Source: S&P, Fiserv, and MacroMarkets LLC /Haver Analytics

The price-to-rent ratio of homes and median price of existing homes as a percentage of median household income are useful measures to put home price trends in a big picture framework. The price-to-rent ratio (used here) is computed from the national Case-Shiller Home Price Index and Owners' Equivalent Rent of the Consumer Price Index. The Case-Shiller Price Index goes back to 1987:Q1. (For the convenience of reading a chart, I set the 1987:Q1 price-to-rent ratio = 100.) Excluding the go-go years when home prices climbed rapidly, the median price-to-rent ratio and mean price-to-rent ratio during 1987:Q1 – 2001:Q4 were 94.31 and 96.38, respectively. Compared with these numbers, the 125.4 price-to-rent ratio in the second quarter of 2008 is still at an elevated level. It appears that home prices have a long march ahead when compared with the mean (109.6) and median (102.5) price-to-rent ratio for the period 1987-2008:Q2 also. Notice that the variation, as measured by the standard deviation, is larger if the 2002-2008:Q2 period is considered in the computation (see table 1).

Chart 2

Price-to-rent ratio
1987:Q1 - 2008:Q2

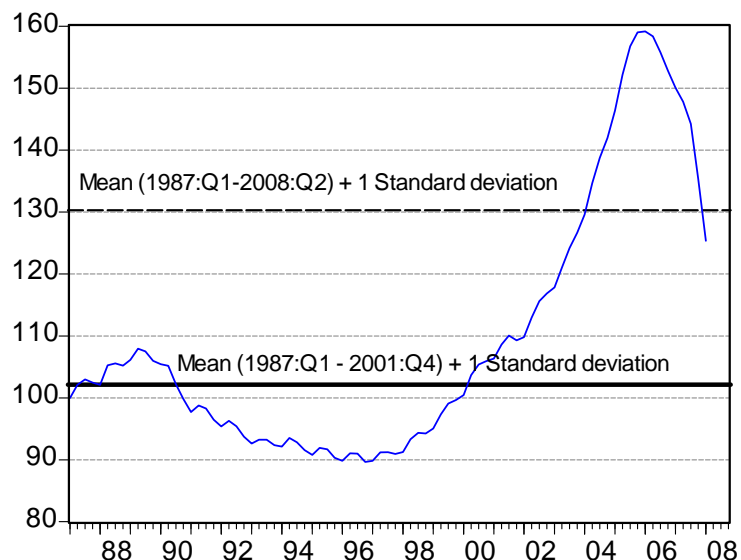


Table 1 – Case-Shiller Home Price Index vs. Rent

	Price-to-rent ratio	
	1987:Q1- 2001:Q4	1987:Q1- 2008:Q2
Mean	96.38	109.60
Median	94.31	102.45
Standard deviation	5.75	20.67

Another useful gauge for examining home prices is median price of an existing single-family home as a percentage of median household income. (Median household income data from the Census Bureau for 2008 will be published in 2009.) The median price of an existing single-family home as a percentage of median disposable income rose to a record high of 469.5% in 2005, far above the median value of 337.9% during the history of this series (1968-2007) which includes the inflationary period of the later 1970s and the sharp increase in home prices seen in the first seven years of the current decade. Excluding the problematic period of the 1970s and the current decade, the median was 336.5% (see table 2). Irrespective of which of these statistical measures one uses to evaluate the current status of the housing market, the median home price of an existing single-family home as a percentage of median household income was significantly higher than historical trends at the end of 2007 (see chart 3). If history is any guide, both gauges - price-to-rent ratio and the median price as percentage of median household income -- suggest that the bottom of home prices is not here yet.

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Chart 3

Median Price of 1-Family Existing Home as a Percent of Median Household Income

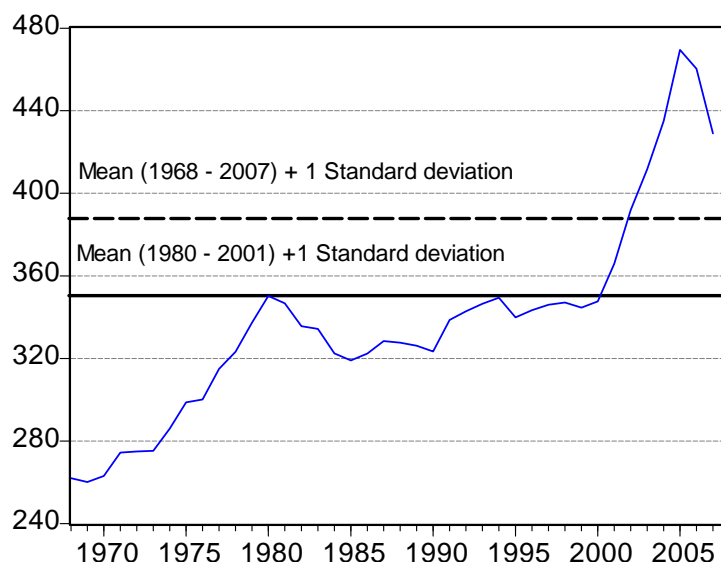


Table 2 – Median Price as % of Median Household Income

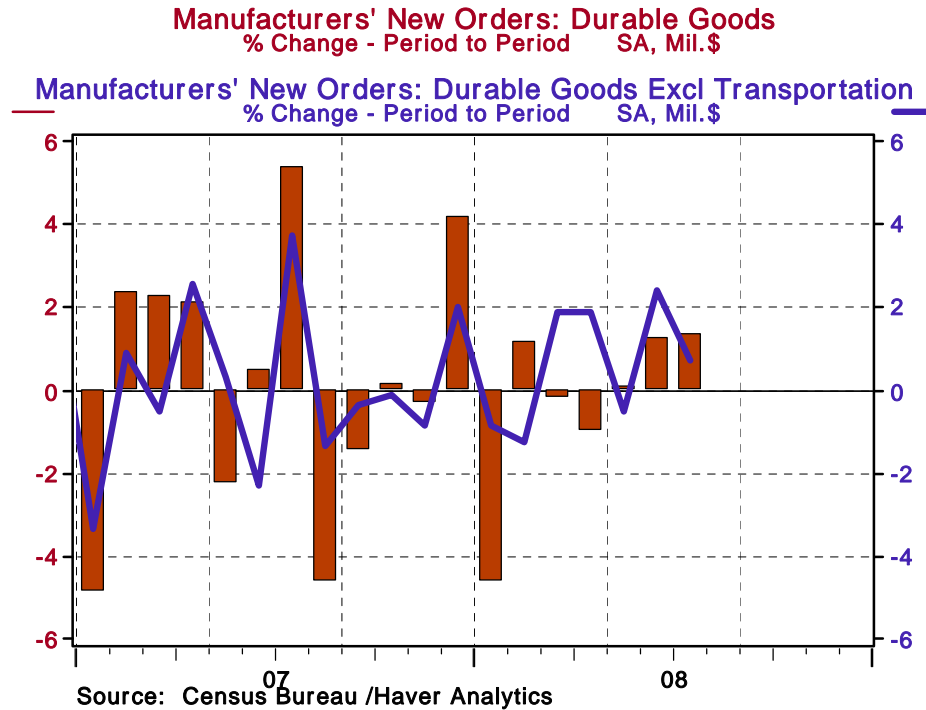
	Median Price as a % of Median Household Income	
	1980-2001	1968-2007
Mean	338.58	337.92
Median	341.41	336.50
Standard deviation	11.86	49.87

Durable Goods Orders: Aircraft Orders Boost Headline

Orders of durable goods increased 1.3% in July after a similar increase in June. The noticeable 28% jump in aircraft orders following a 21.4% decline in June was largely expected. However, excluding transportation, bookings of durables increased only 0.7%, a more muted gain than the headline. The surprising strength in orders of durables is attributed to growing demand of exports. Going forward, the weakness in economic conditions among trading partners of the U.S. points to a less robust growth in exports.

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Chart 4



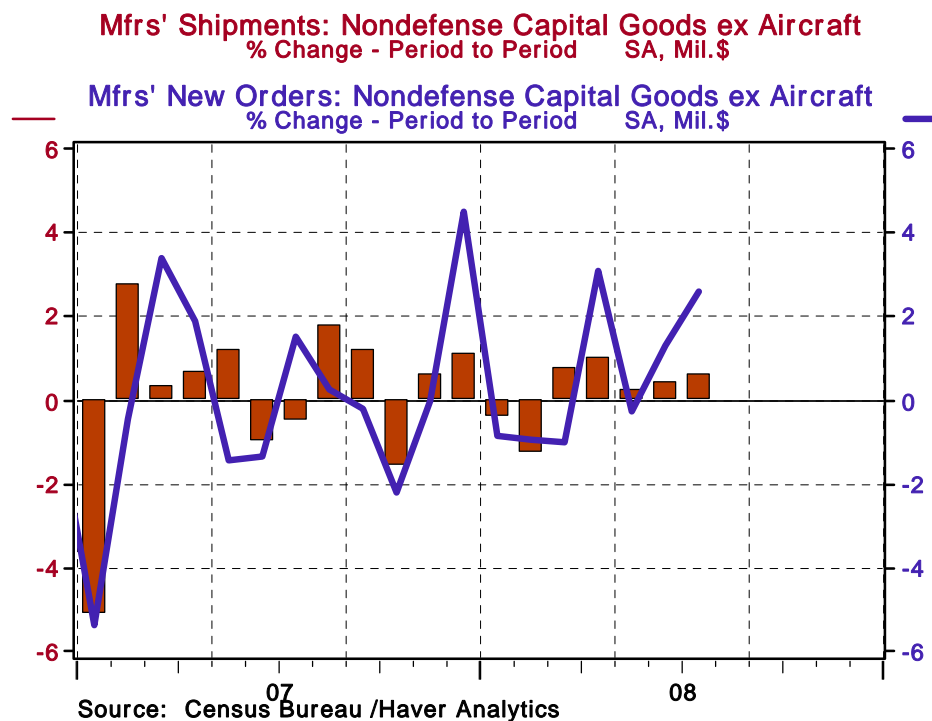
Orders of defense items fell 19.7% in July, after two months of strong consecutive gains. Primary metals (+2.2%), machinery (+4.6%), and autos (+1.2%) were some of the categories showing an increase in orders of durable goods.

DATE	DURABLE GOODS ORDERS - % CHANGE M-M				
	TOTAL	DEFENSE	NON-DEFENSE CAPITAL GOODS	NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT	COMPUTERS AND ELECTRONIC PRODUCTS
Feb-08	1.1	9.2	1.6	-0.9	1.5
Mar-08	-0.2	-13.2	1.4	-1.0	0.9
Apr-08	-1.0	3.3	-2.4	3.1	-2.0
May-08	0.1	14.1	0.0	-0.3	2.8
Jun-08	1.3	15.0	-2.6	1.3	-0.1
Jul-08	1.3	-25.7	6.3	2.6	-1.3

Shipments of durable goods moved up 2.5% in July. Shipments of non-defense capital goods excluding aircraft, proxy for capital spending in the GDP report, increased 0.6% in July after a 0.4% gain in the prior month. This is a big positive for third quarter GDP. Capital spending fell 3.4% in the second quarter.

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Chart 4



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>
Feb-08	-1.9	-3.6	-1.3	-8.8
Mar-08	-0.9	0.3	0.8	-0.8
Apr-08	1.8	1.8	1.0	5.9
May-08	-1.2	-0.2	0.2	-2.7
Jun-08	0.9	0.5	0.4	-3.4
Jul-08	2.5	1.6	0.6	5.7

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