

WEEK IN
REVIEW

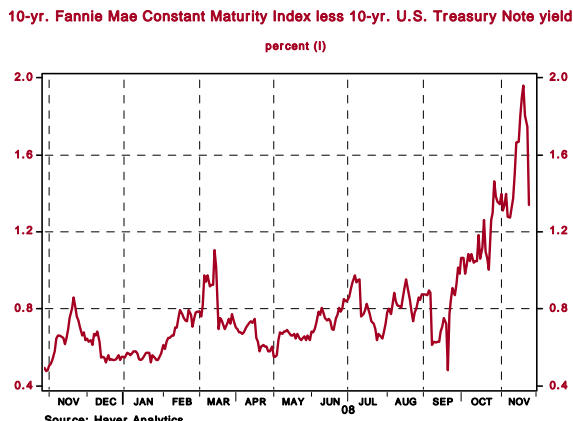
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November 24-November 26, 2008

Fed Policy: The Fed Steps In to Support Consumers Directly

On November 25, 2008, the Fed stepped in with reinforcements for consumers directly. This is a noteworthy action because over the past sixteen months Fed intervention has been directed to support financial institutions and the workings of the financial system. The Fed announced two programs amounting to new assistance of \$800 billion. (1). The Term Asset-Backed Securities Loan Facility (TALF) is a joint program with the Treasury. The program that will involve the Federal Reserve Bank of New York lending up to \$200 billion to holders of AAA-rated asset backed securities “backed by newly and recently originated consumer and small business loans.” The U.S. Treasury Department, under the Emergency Economic Stabilization Act of 2008, will absorb \$20 billion of losses and provide credit protection to the Federal Reserve Bank of New York for these non-recourse loans. The loans will involve a haircut based on the asset class and there is fee for participation. This new program is designed to address problems in the auto, student, credit card sectors, and loans guaranteed by the Small Business Administration. Loans to consumers have become scarce because securitization of consumer loans has come to a standstill. Extensions of loans to holders of these securities will enable the credit machine to resume working once again and enhance the availability of credit for households. A date and details are being worked out. One of the drawbacks of this program is that only AAA-rated securities are deemed eligible. It is entirely possible that soon a wider range of securities will be considered suitable for loans under this program. Treasury Secretary Paulson indicated that this is a “starting point” and it could be expanded to include other securities. (2). The Fed also announced it will start purchasing securities issued by Government Sponsored Enterprises (GSE) – Fannie Mae, Freddie Mac, and Federal Home Loan Banks – this week. Purchases of \$100 billion in GSE direct obligations and \$500 billion of mortgage backed securities backed by GSEs will be undertaken under this program. Spreads of these securities vis-à-vis Treasury securities had widened sharply (see chart 1) in recent days but then narrowed after this announcement. The objective of this action is to drive down mortgage rates and increase the availability of credit for purchases of homes. Reportedly, a reduction in mortgage rates occurred after this announcement.

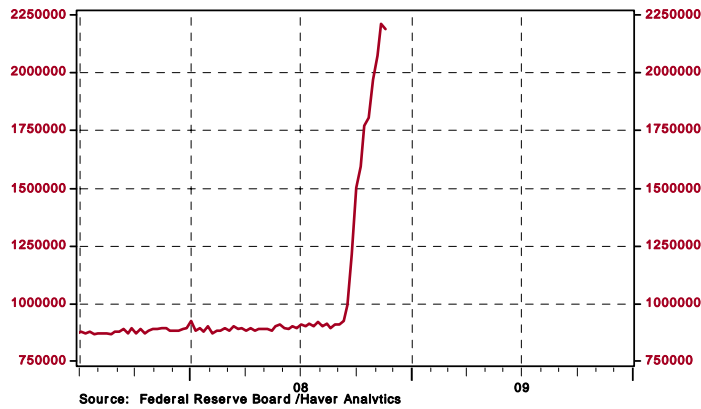
Chart 1



These actions will increase reserves in the banking system and increase the size of the Fed's balance sheet unless the Fed offsets these increases with reductions in its holdings of U.S. Treasury securities. The Fed's balance sheet as of November 25, 2008 had ballooned to 2.19 trillion from \$995.57 billion as of September 17, 2008.

Chart 2

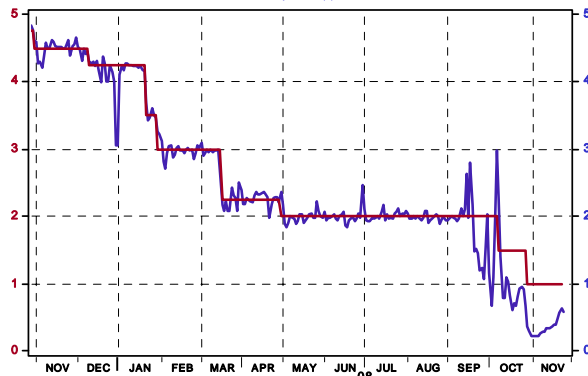
All Fed Res Banks: Total Assets
EOP, Mil.\$ as of November 19, 2008



These are emergency measures that are seen necessary at the present time. However, going forward as the seeds of inflation are being planted, the Fed will have a challenging task after nascent signs of a recovery emerge as to how soon and by how much it should begin tightening monetary policy. For now, the December 16 FOMC meeting is most likely to end with the FOMC lowering the target federal funds rate 50 bps to 0.50%. The effective federal funds rate was 0.59% on November 25, 2008, still below the current 1.00% target federal funds rate, but far above levels seen earlier in the month (see chart 3).

Chart 3

Federal Open Market Committee: Fed Funds Target Rate
Federal Funds [effective] Rate



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It is not entirely clear as to whether the Fed currently is attempting to hit its federal funds target or will attempt to in the foreseeable future. With the recent introduction of the payment of interest to depository institutions' reserve holdings at the Fed, it was expected that the floor level for the federal funds rate would be the level of the interest rate paid on excess reserves – reserves above what institutions are required to hold in relation to the transactions deposits on their books. The interest rate paid on excess reserves is equal to the level of the lowest FOMC federal funds rate target during a reserve maintenance period, which currently is 1.00%. The fact that the actual effective federal funds rate levels have consistently traded below the FOMC target in recent weeks indicates that other influences are at work.

What is the relevance of the federal funds rate in the current environment? In normal circumstances, the federal funds rate represents the marginal cost of funding for banks. Banks' various lending rates are mark-ups over the federal funds rate. The quantity of private credit demanded varies inversely with the level of the marked-up loan rate borrowers face. If the Fed wants to stimulate economic activity, it reduces the level of its federal funds target, which, in turn *under normal circumstances*, leads to a reduction in bank loan rates faced by borrowers. The lower loan rates induce borrowers to seek more credit from the banking system, which leads to increased purchases of goods, services and assets.

In the current environment, with bank capital being eroded by credit losses, banks are more constrained than usual in the amount of credit they can extend to private borrowers. Therefore, a lower federal funds rate does not necessarily lead to lower *effective* loan rates offered to private borrowers. So, in this situation, the impact on private-sector credit availability from the banking system is little affected by a reduction in the federal funds rate from, say, 1.00% to 0.50%.

However, bank credit extension to the *federal government* sector is less constrained by bank capital. So, a reduction in the federal funds rate *relative to* the yield on short-maturity U.S. Treasury securities would encourage banks to purchase more of these securities. By significantly increasing their purchases of Treasury securities at a positive spread over their funding costs, banks can increase their profits and, thus, their capital. The sooner banks repair their capital deficiencies, the sooner they can begin lending more to the private sector and, in turn, the sooner growth in economic activity will return.

This is what occurred in the early 1990s, another period when banks ability to lend to the private sector was capital constrained. Chart 4 shows that as the Fed aggressively cut its funds rate target level, the yield spread between the Treasury 2-year note and the fed funds target level became positive and very wide. Chart 5 shows that as this yield spread became increasingly more positive, banks significantly increased their holdings of U.S. Treasury and agency securities as a proportion of their total earning assets.

Chart 4

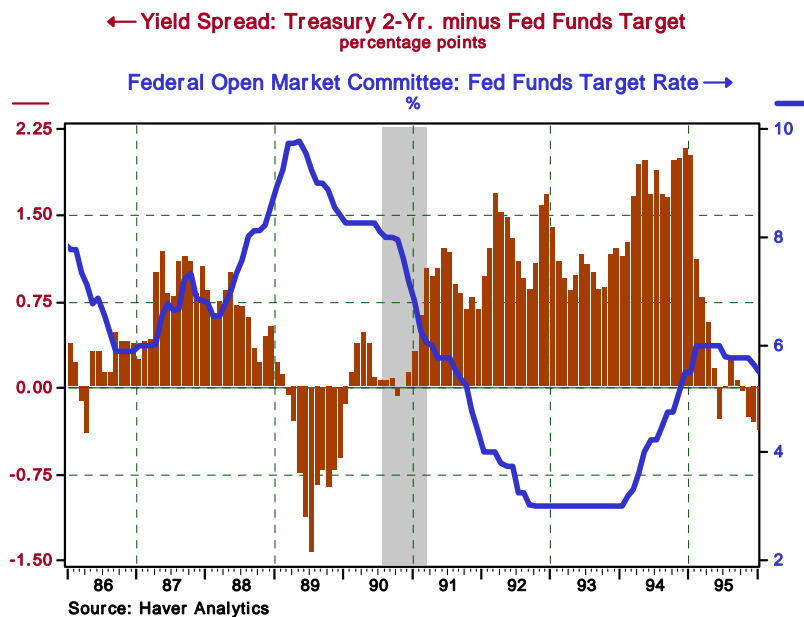
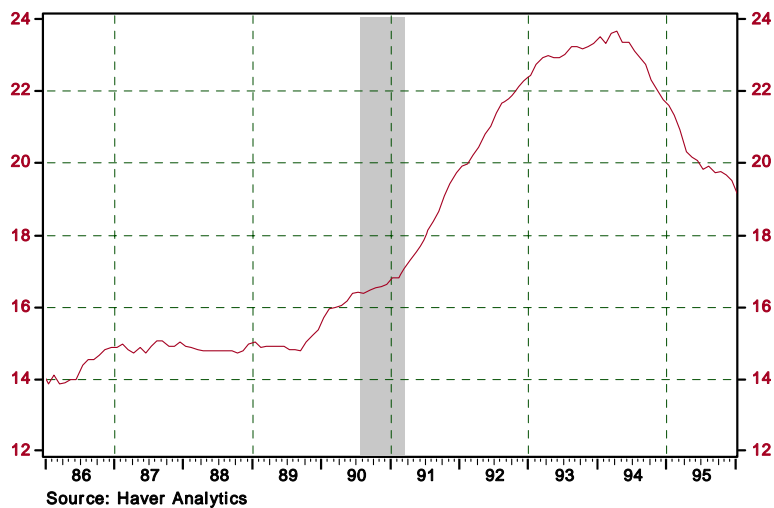


Chart 5

Commercial Banks: Treasury/Agency Securities as % of Bank Credit

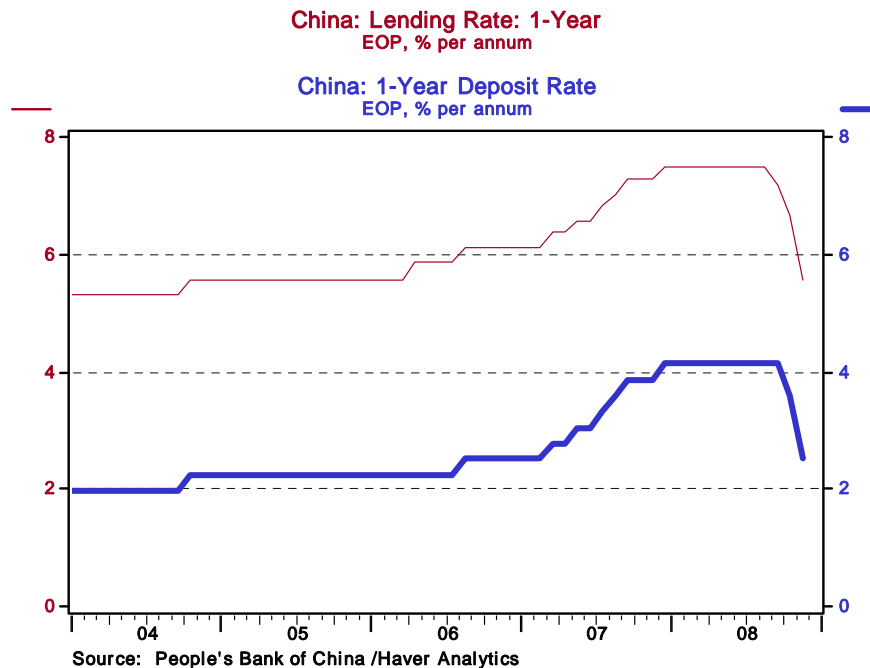


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China: Getting Serious About The Slowing Economy

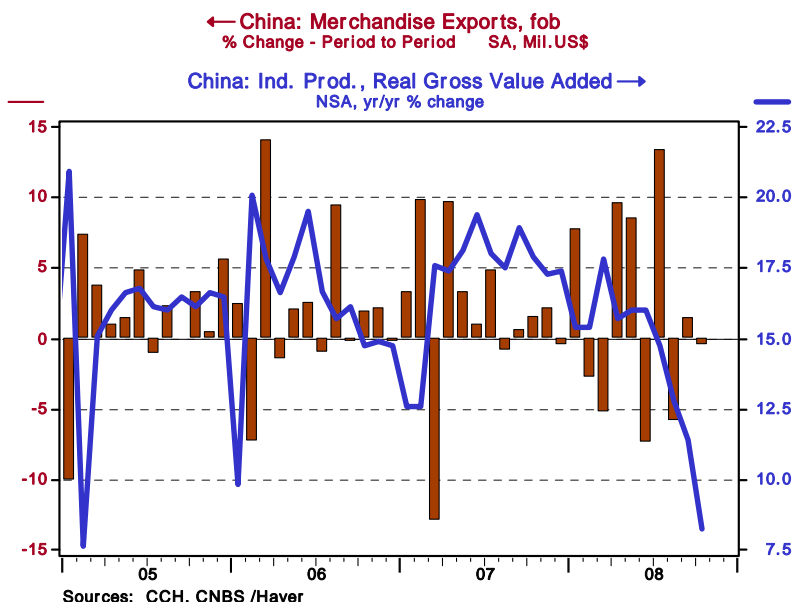
The People's Bank of China (PBoC) slashed its benchmark one-year loan and deposit rates by 108 basis points apiece today, reducing them to 5.58% and 2.52%, respectively. This dramatic move comes well after the industrialized economies coordinated a major monetary easing – most central banks have already turned their attention toward liquidity concerns and an eventual global recession. Only three months ago, Beijing had a proactive mindset, thinking about economic stimulus to compensate for the post-Games lull and a general slowdown in global production. The first question that comes to our mind is why does the government suddenly seem to be lagging in its response?

Chart 6



One fact worth noting is that the immediate economic impact on the Chinese economy has not been as clear-cut as in the industrialized countries. The Olympic Games threw in plenty of distractions and had widespread effects on economic indicators. Retail sales were positively impacted from the many tourists flooding into the country, but conversely, industrial production fell off as many factories closed in response to temporary anti-pollution measures. The conclusion of numerous infrastructure projects shifted flows of goods and inputs, and plenty of other one-off factors added a lot of noise to China's economic statistics. Only after the Games passed and some of those factors fell from the calculations did a clearer picture emerge, and the trends are not promising. Industrial production continues to fall, and monthly export growth is showing signs of weakness.

Chart 7



To be fair, the PBoC issued minor rate cuts over the past three months, and the government did offer a supplementary fiscal stimulus package (although the latter used a rather fast and loose interpretation of ‘stimulative’ measures). Today’s more dramatic move suggests that PBoC officials are now firmly convinced that China will be joining the rest of the world in a significant economic slowdown. Some forecasts recently suggested that after GDP growth of nearly 12% in 2007, the economy could slow to below 10% this year and perhaps 7.5% in 2009. While the growth rate itself is still enviable, officials in Beijing realize all too well that a deceleration of over four percentage points will not go unnoticed, and they will likely be taking more action before the year is up.

Highlights from U.S. Economic Reports

New and Existing Home Sales – October 2008

Dark Clouds Continue to Linger Over the Housing Market

Sales of **existing homes** fell 3.1% to an annual rate of 4.98 million units in October after a downwardly-revised 4.7% increase. Sales of single-family existing homes dropped 3.3% to an annual rate of 4.43 million units in October vs. a 5.3% gain in September. The sales pace of single-family homes has moved between 4.26 million and 4.47 million in the first ten months of the year.

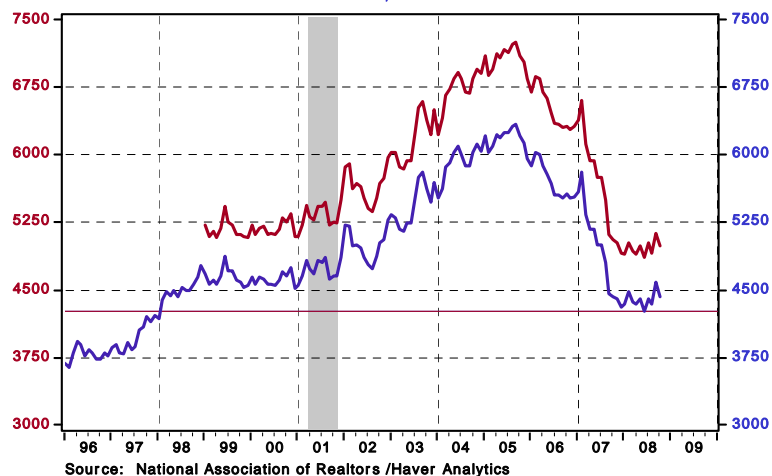
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Chart 8

NAR Total Existing Home Sales, United States
SAAR, Thous

Existing 1-Family Home Sales: United States
SAAR, Thous



Regionally, sales of single-family homes fell in the Midwest (-5.7%), South (-4.0%), West (-2.6%) but advanced in the Northeast (+1.6%) during October. On a year-to-year basis, sales of single-family homes have risen in excess of 40% for two straight months (see chart 2), while sales of existing single-family homes in the Northeast, South, and Midwest fell in October (see chart 3). The big jump in foreclosures in the West has led to lower prices and a pickup in sales of existing homes in the West.

Table 1 Sales of Existing Homes Across Business Cycles

Recession - Economy	Peak of Single-Family Existing home sales		Trough of Single-Family Existing home sales		Peak-to-trough change (percent)
	Date	'000s units	Date	'000s units	
Dec. 69-Nov.70	Dec-68	1710	Mar-70	1370	-19.88%
Nov. 73-Mar.75	Feb-74	2380	Jan-75	2060	-13.45%
Jan.80-Jul. 80	Nov-78	4150	May-80	2480	-40.24%
Jul.81-Nov. 82	Sep-80	3400	May-82	1860	-45.29%
Jul. 90-Mar.91	Dec-88	3730	Dec-90	2620	-29.76%
Mar. 01-Nov. 01	Mar-01	4830	Sep-01	4630	-4.14%
Current cycle	Sep-05	6340	Jun-08	4260	-32.81%
			Oct-08	4430	-30.13%

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Chart 9

Existing 1-Family Home Sales: West

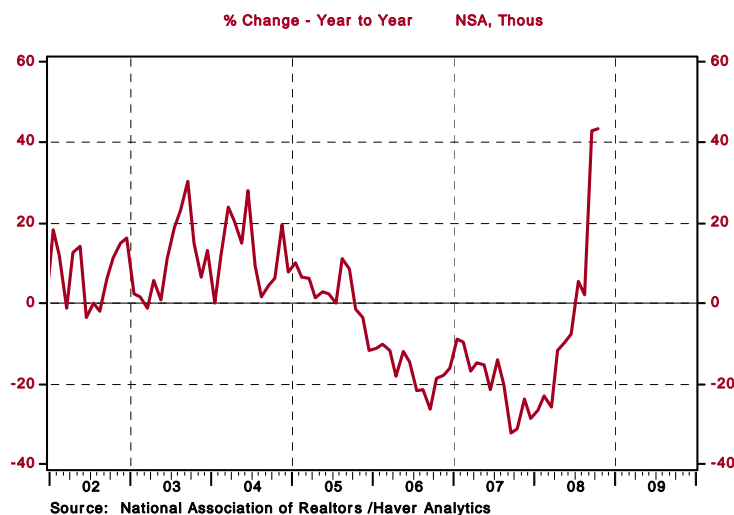
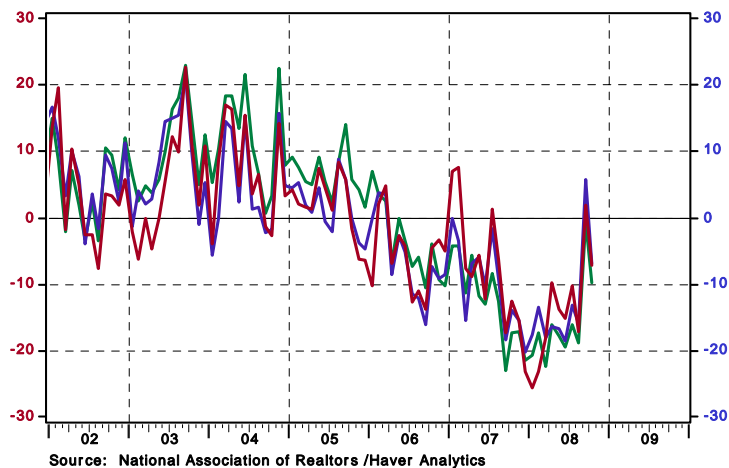


Chart 10

Sales of Existing Single-family homes: Northeast yoy change % NSA

Midwest yoy change yoy % NSA

South yoy change yoy % NSA



The median price of an existing single-family home at \$183,300 (down 4.2% mom) in October is down 11.2% from a year ago – the largest drop on record (see chart 4). The inventory of unsold existing homes rose to a 10.2-months supply in October from a 10-month mark in September. The elevated level of inventories implies that additional price declines are nearly certain in the months ahead.

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Chart 11

NAR Median Sales Price: Existing 1-Family Homes, United States

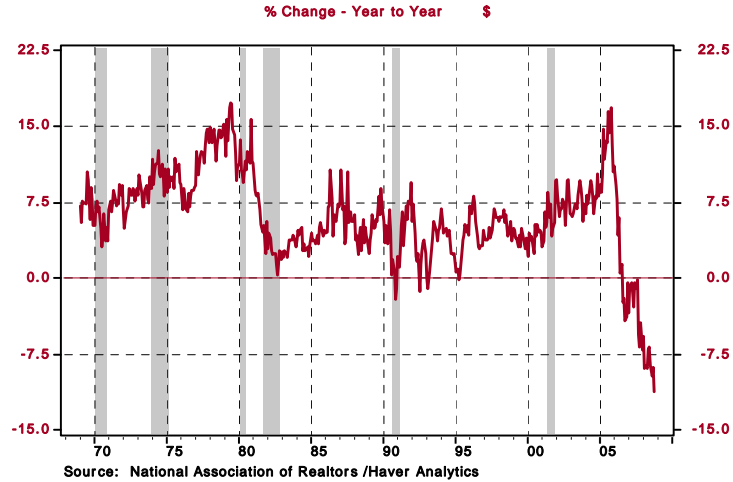


Chart 12

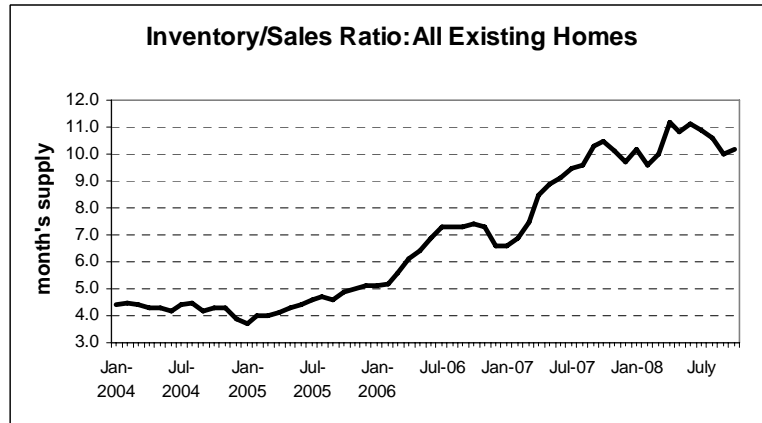


Table 2 Median Price of Single-Family Existing Single-Family Home Across Business Cycles

Recession - Economy	Peak of Median Price Existing Single-Family Home Date	\$	Trough of Median Price Existing Single-Family Home Date	\$	Peak-to- trough change (percent)
Dec. 69-Nov.70	Jul-70	23,700	Oct-70	22,700	-4.22%
Nov. 73-Mar.75	Jul-74	33,000	Oct-74	31,900	-3.33%
Jan.80-Jul. 80	Jun-79	56,800	Nov-79	55,600	-2.11%
Jul.81-Nov. 82	Jun-82	69,400	Oct-82	66,900	-3.60%
Jul. 90-Mar.91	Jun-90	101,200	Dec-90	94,200	-6.92%
Mar. 01-Nov. 01	Jun-01	160,800	Oct-01	153,800	-4.35%
Current cycle	Jul-06	230,900	Oct-08	181,800	-21.26%

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Sales of **new single-family homes** fell 5.3% to an annual rate of 433,000 in October, which is close to the 401,000 cycle low of the 1990-91 recession. Purchases of new homes dropped in the South (6.0%) and West (-18%) but advanced in the Northeast (+22.6%) and Midwest (+6.0%).

Chart 13

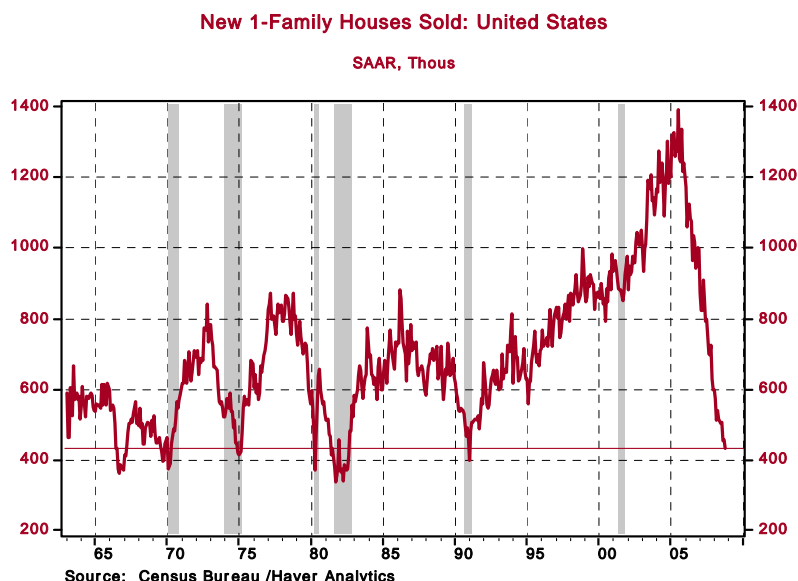


Table 3: Sales of New Single-Family Homes Across Business Cycles

Recession - Economy	Peak of Sales		Trough of Sales		Peak-to-trough change (percent)
	New Single-Family Homes Date	000s units	New Single-Family Homes Date	000s units	
Dec. 69-Nov.70	Feb-69	524	Feb-70	373	-28.82%
Nov. 73-Mar.75	Oct-72	843	Jan-75	416	-50.65%
Jan.80-Jul. 80	Oct-78	872	Apr-80	370	-57.57%
Jul.81-Nov. 82	Aug-80	659	Apr-82	339	-48.56%
Jul. 90-Mar.91	Jul-89	731	Jan-91	401	-45.14%
Mar. 01-Nov. 01	Dec-00	983	Sep-01	853	-13.22%
Current cycle	Jul-05	1389	Oct-08	433	-68.83%

The median price of a single-family home declined to \$218,300 in October, down 7.0% from a year ago. The median price of a new single-family home has fallen 17% from the peak in March 2007, which is twice the size of the decline seen in across business cycles since 1969 (median decline in 8.6%).

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Chart 14

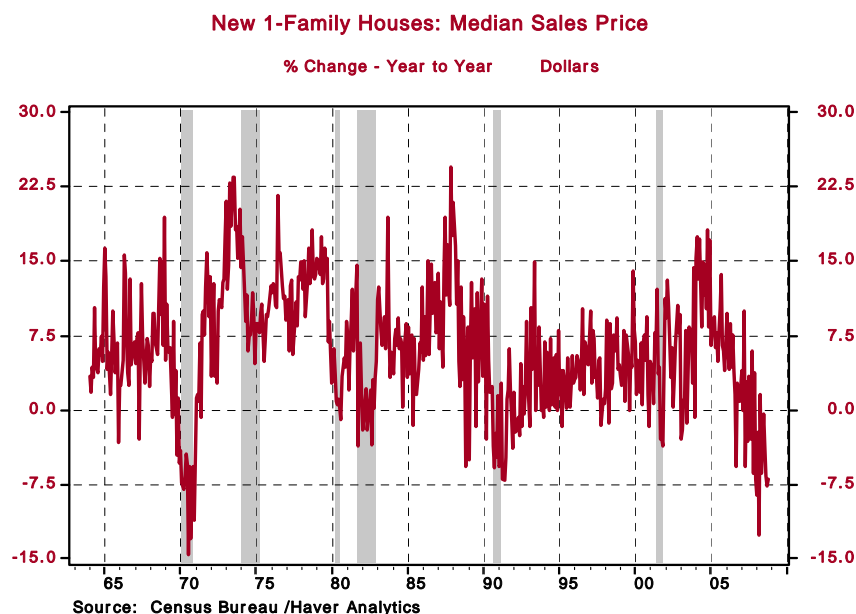


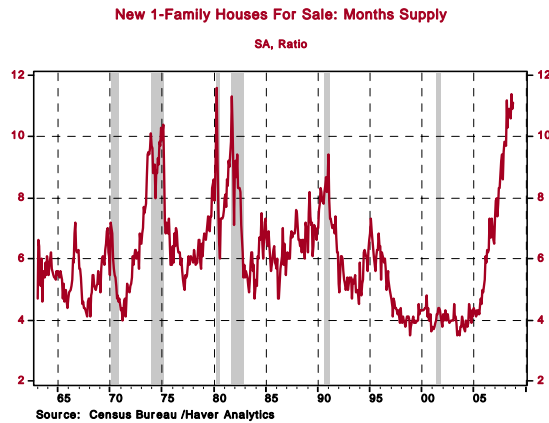
Table 4: Median Price of New Single-Family Homes Across Business Cycles

Recession - Economy	Peak of Median Price Single-Family New Home		Trough of Median Price Single-Family New Home		Peak-to- trough change (percent)
	Date	\$	Date	\$	
Dec. 69-Nov.70	May-69	26,900	Oct-70	22,100	-17.84%
Nov. 73-Mar.75	Dec-73	35,700	Jan-74	34,200	-4.20%
Jan.80-Jul. 80	Sep-79	66,000	Dec-79	61,500	-6.82%
Jul.81-Nov. 82	Aug-81	72,600	Feb-82	65,700	-9.50%
Jul. 90-Mar.91	Apr-90	130,000	May-92	113,000	-13.08%
Mar. 01-Nov. 01	Dec-01	180,200	Sep-01	166,400	-7.66%
Current cycle	Mar-07	262,600	Oct-08	218,000	-16.98%

At the October sales pace, new single-family homes would take 11.1 months to sell if inventories have to be reduced completely. The record high mark is 11.6 month supply in the 1980 recession (see chart 15). Once again, the elevated level of inventories presents a problem, implying that additional price declines should be expected.

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Chart 15

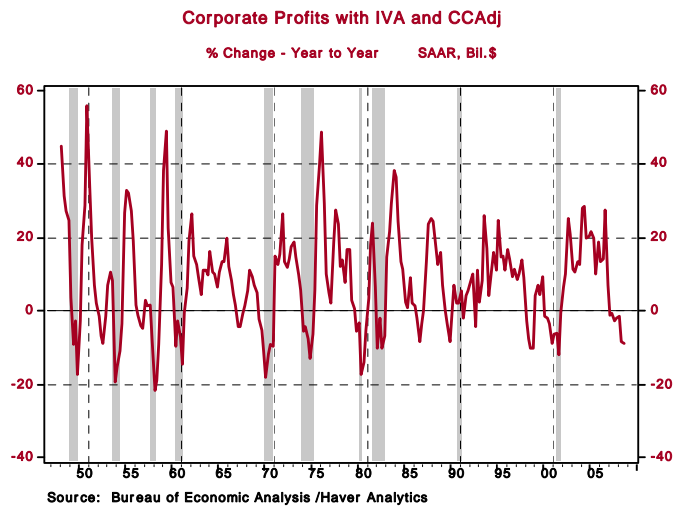


GDP 2008:Q3 Preliminary Estimate, Personal Consumer Spending and Income – October 2008

Corporate Profits and Q3 GDP Preliminary Estimate

Corporate profits with inventory valuation and capital consumption allowances decreased 0.9% in the third quarter following a 3.8% decline in the second quarter. On a year-to-year basis, corporate profits fell 9.0% vs. an 8.3% drop in the second quarter. Corporate profits have now dropped for six straight quarters on a year-to-year basis (see chart 16). The back-to-back declines in corporate profits suggest impending weakness in business spending in the quarters ahead. There was a bit of positive news — corporate profits of the non-financial sector rose 6.1% after four straight quarterly declines.

Chart 16



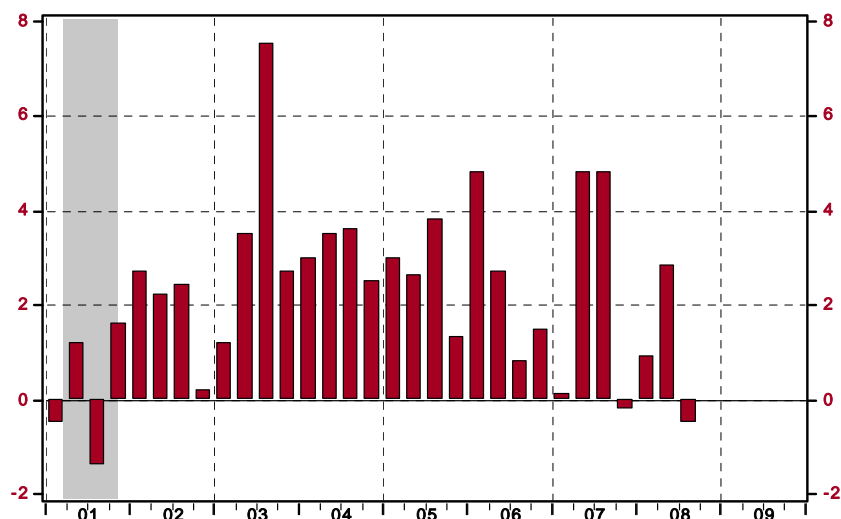
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Real gross domestic product declined at an annual average rate of 0.5% in the third quarter of 2008, slightly weaker than the advance estimate of a 0.3% drop. With the exception of residential investment expenditures which were less negative after revision (-17.6% vs. -19.1%), all the major components – consumer spending, business spending, government outlays, and net exports – were weaker than estimates of the advance report. Inventories declined \$29.1 billion in the third quarter compared with a reduction of \$50.6 billion in the second quarter. Going forward, real GDP is expected to show a decline that is upward of 4.0% in the fourth quarter of 2008. The Fed is widely expected to lower the federal funds rate to 0.50% on December 16, 2008.

Chart 17

Real Gross Domestic Product

SAAR, %Chg



Source: Bureau of Economic Analysis /Haver Analytics

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Real Gross Domestic Product 2008:Q3 Preliminary Estimate

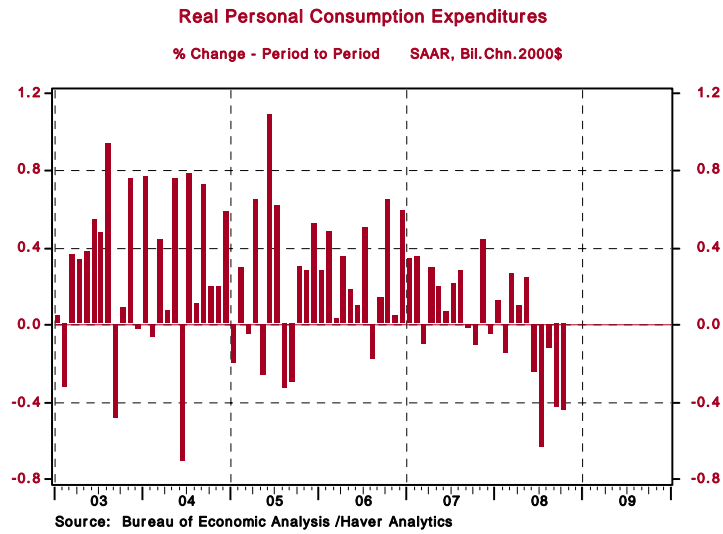
	(2000 chained dollars)				Percent Change (SAAR) from prior quarter			
	08:1 Final	08:2 Final	08:3 Advance	08:3 Preliminary	08:1 Fin	08:2 Fin	08:3 Adv	08:3 Prel.
GDP	11646.0	11727.4	11720.0	11712.3	0.9	2.8	-0.3	-0.5
CONSUMPTION	8316.1	8341.3	8275.2	8262.1	0.9	1.2	-3.1	-3.7
DURABLE GOODS	1237.0	1228.3	1182.5	1178.8	-4.3	-2.8	-14.1	-15.2
NONDURABLE GOODS	2397.9	2420.7	2380.7	2377.8	-0.4	3.9	-6.4	-6.9
SERVICES	4704.3	4712.1	4719.2	4712.2	2.4	0.7	0.6	0.0
INVESTMENT	1754.7	1702.0	1693.7	1703.9	-5.8	-11.5	-1.9	0.4
FIXED INVESTMENT	1762.4	1754.9	1729.8	1730.0	-5.6	-1.7	-5.6	-5.6
NONRESIDENTIAL	1423.1	1431.8	1428.3	1426.5	2.4	2.5	-1.0	-1.5
STRUCTURES	326.4	340.5	347.0	346.0	8.6	18.5	7.9	6.6
EQUIPM. & SOFTWARE	1088.6	1074.7	1059.6	1059.2	-0.6	-5.0	-5.5	-5.7
RESIDENTIAL	383.0	369.6	350.5	352.1	-25.1	-13.3	-19.1	-17.6
CHG. BUS. INVENT.	-10.2	-50.6	-38.5	-29.1				
NET EXPORTS	-462.0	-381.3	-350.0	-352.3				
EXPORTS	1500.6	1544.7	1567.0	1557.8	5.1	12.3	5.9	3.4
IMPORTS	1962.6	1926.0	1916.9	1910.2	-0.8	-7.3	-1.9	-3.2
GOVERNMENT (C & I)	2039.1	2058.9	2088.3	2085.9	1.9	3.9	5.8	5.4
FEDERAL	772.6	785.0	810.8	810.4	5.8	6.6	13.8	13.6
DEFENSE	518.9	528.1	550.6	550.5	7.3	7.3	18.1	18.0
OTHER	253.2	256.3	259.4	259.1	2.9	5.0	4.8	4.5
STATE AND LOCAL	1266.7	1274.4	1278.9	1276.9	-0.3	2.5	1.4	0.8
DISP. PERS. INC.	8680.0	8914.6	8715.1	8679.5	-0.1	11.9	-8.7	-9.2
FINAL SALES	11653.7	11778.8	11755.2	11737.9	0.9	4.4	-0.8	-1.4
GROSS DOMESTIC PURCHASES	12113.3	12153.0	12097.5	12082.2	0.1	1.3	-1.8	-2.3
PRICE DEFLATORS:								
GDP CHAIN TYPE	121.6	122.0	123.2	123.2	2.6	1.1	4.2	4.2
GDP EX. FOOD & ENERGY					2.0	1.5	3.4	3.3
PCE CHAIN TYPE	120.3	121.5	123.2	123.1	3.6	4.3	5.4	5.2
PCE EX. FOOD & ENERGY	116.2	116.8	117.6	117.5	2.3	2.2	2.9	2.6

Weakness in Consumer Spending Most Likely to Persist

Nominal consumer spending fell 1.0% in October, while inflation adjusted consumer spending dropped 0.5%. Real purchases of durables and non-durables dropped 3.8% and 0.6%, respectively, in October. Real service outlays moved up 0.2% during October, matching the gain seen in September. Inflation adjusted consumer spending has declined for five straight months, the longest string of declines since the 1981-82 recession. Based on October data and conservative assumptions about November and December, consumer spending is most likely to post a 4.0% drop in the fourth quarter after a 3.7% decline in the third quarter.

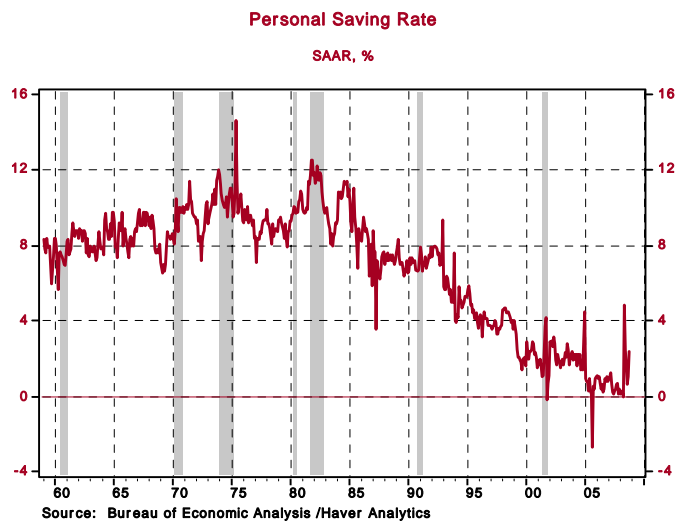
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Chart 18



The 0.3% increase in personal income during October follows a 0.1% gain in September that was affected by hurricanes. Personal saving as a percent of disposable income was 2.4% in October compared with 1.0% in September. A small upward drift in personal saving is emerging.

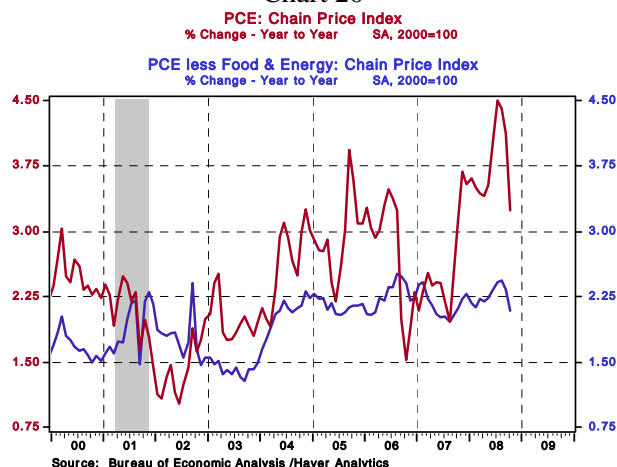
Chart 19



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A significant moderation of both overall and core inflation is visible in October. On a year-to-year basis, the personal consumption expenditure price index rose 3.2% in October, down from 4.13% in September and a cycle high of 4.50% in July 2008. The core personal consumption expenditure price index moved up 2.08% from a year ago compared with a 2.43% cycle high mark in August (see chart 6). A more significant moderation of inflation is likely in the months ahead given projections of weak economic conditions.

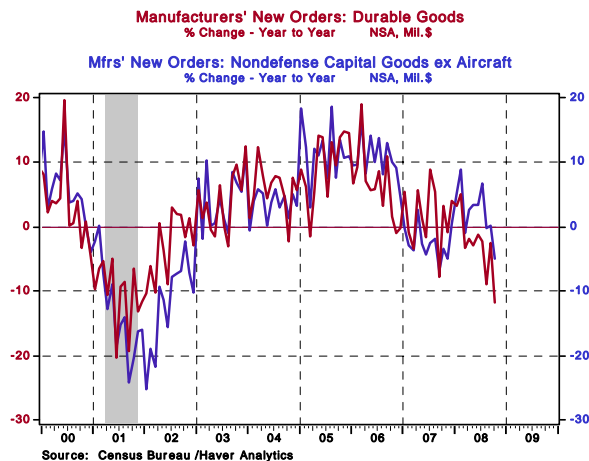
Chart 20



Durable Goods Orders Show Widespread Weakness

The 6.2% drop in orders of durable goods reflects widespread weakness in bookings of durable factory goods. In October, with the exception of the communications component (+7.7%), all major categories of durable goods orders posted declines. Defense (-31%), aircraft (-4.7%), general machinery (-6.8%), motor vehicle (-4.5%) and electronics and computers (-2.4%) were some of the declining components.

Chart 21

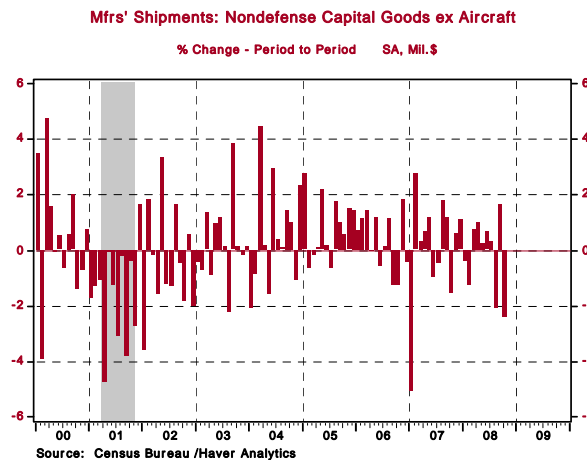


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DURABLE GOODS ORDERS - % CHANGE M-M					
<u>DATE</u>	<u>TOTAL</u>	<u>DEFENSE</u>	<u>NON-DEFENSE CAPITAL GOODS</u>	<u>NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT</u>	<u>COMPUTERS AND ELECTRONIC PRODUCTS</u>
Apr-08	-1.0	3.3	-2.4	3.1	-2.0
May-08	0.1	14.1	0.0	-0.3	2.8
Jun-08	1.4	15.4	-2.3	1.6	1.0
Jul-08	0.7	-19.6	3.5	0.3	-4.5
Aug-08	-5.5	8.3	-7.8	-2.3	1.9
Sep-08	-0.2	22.2	-1.0	-3.3	-3.0
Oct-08	-6.2	-31.0	-3.6	-4.0	-2.4

Shipments of durable goods declined 2.4% in October, inclusive of a 2.4% drop in shipments of non-defense capital goods excluding aircraft. The weakness in shipments of non-defense capital goods excluding aircraft is indicative of a significant drop in capital spending in the fourth quarter which should exceed the 5.7% annualized decline in the third quarter.

Chart 22



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>
Apr-08	1.8	1.8	1.0	5.9
May-08	-1.2	-0.2	0.2	-2.7
Jun-08	0.9	0.7	0.6	-3.6
Jul-08	2.2	1.2	0.3	6.0
Aug-08	-4.2	-3.3	-2.1	-5.6
Sep-08	-0.2	1.1	1.6	-2.3
Oct-08	-2.4	-3.3	-2.4	3.2

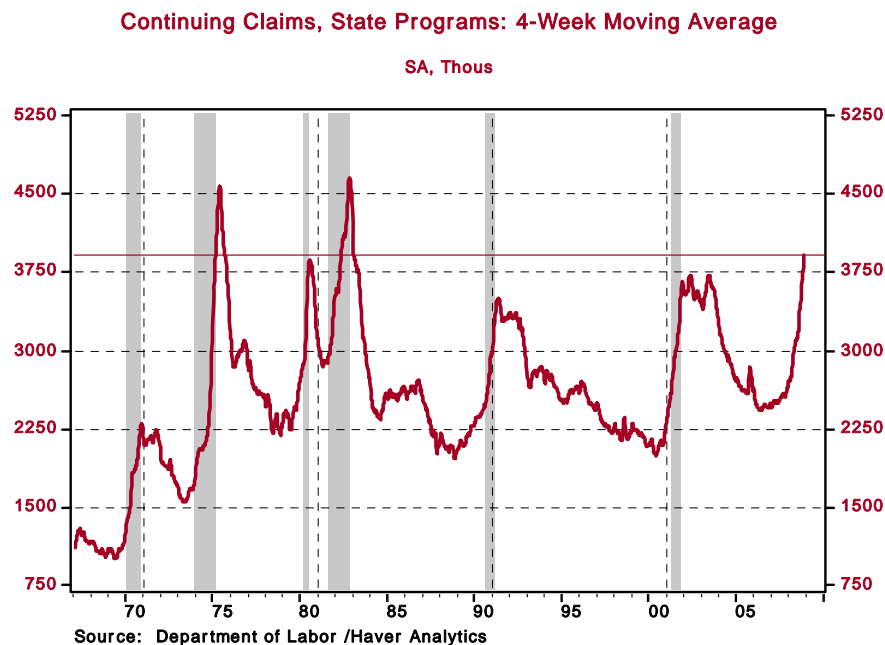
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Initial Jobless Claims

Jobless Claims Could Soon Match the High Seen in the 1981 Recession

Initial jobless claims fell 14,000 to 529,000 in the week ended November 21. Continuing claims, which exceed initial claims by one week, fell 54,000 to 3.962 million. The 4-week moving average of continuing claims (see chart 9) is at the highest level since the 1981-82 recession. Readings of the current cycle could soon match the level seen in the 1981-82 recession (see chart 9).

Chart 23



International Economic Highlights

Deepening Recession in Germany and Across the Euro-zone

The European Central Bank (ECB) will be cutting its refi rate again next week (December 4), the only question being whether the policymakers will opt for a third consecutive 50bp reduction, or bite the bullet and make a larger cut. Last week various Governing Council

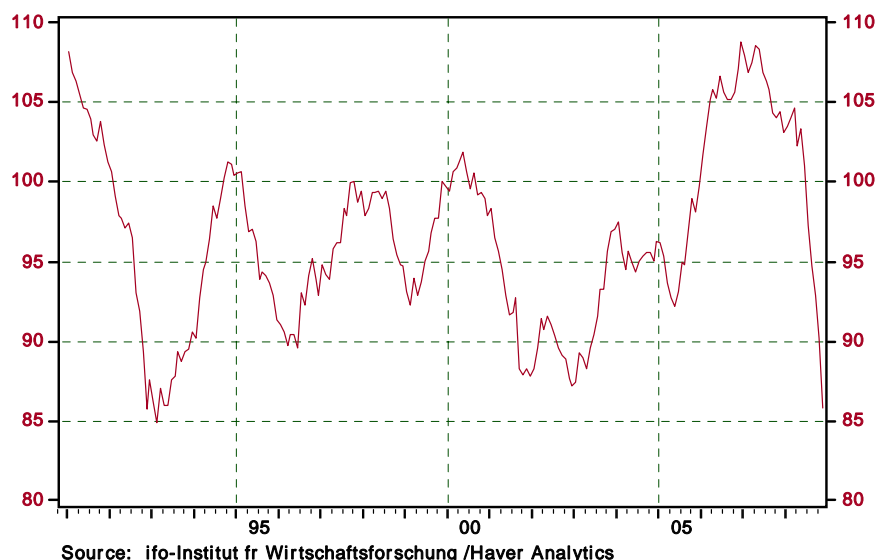
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members were making it clear that they expect a 50bp easing, but after this morning's data releases some may argue for a more significant move.

Today's November Ifo business climate index for Germany – a poll of around 7,000 firms from this key exporting nation – was downright dire. Overall sentiment plunged to its lowest level in nearly 16 years, coming in at just 85.8, down from 90.2 in October. This was the biggest one-month drop since the immediate aftermath of the September 2001 terrorist attacks on the US. The gauge of current conditions fell to 94.8 (99.9 in October) but once again the big news was the expectations index, which plunged to 77.6 (81.4 in October). This is a new record-low expectations reading since the survey began back in 1990 – the previous low-point having been set last month.

Chart 24
Germany: Ifo Business Climate Index: All Sectors
SA, 2000=100



The Ifo comes hard on the heels of last Friday's release of various Markit PMI indices. The German surveys showed the country's manufacturing sector in a rapid contraction – the flash PMI came in at 36.7, down from 42.9 in October, well below the 50.0 mark that divides growth from contraction and the lowest since the index began in 1996. The services sector PMI came in at its lowest in five years, at 46.2 (48.3 in October), but the expectations component hit a record low of just 31.4. Clearly, the export powerhouse of the Euro-zone is starting to take a major hit from the global downturn – which indicates the severity of the drop in global demand and also points to a further marked contraction for the Euro-zone over the coming months.

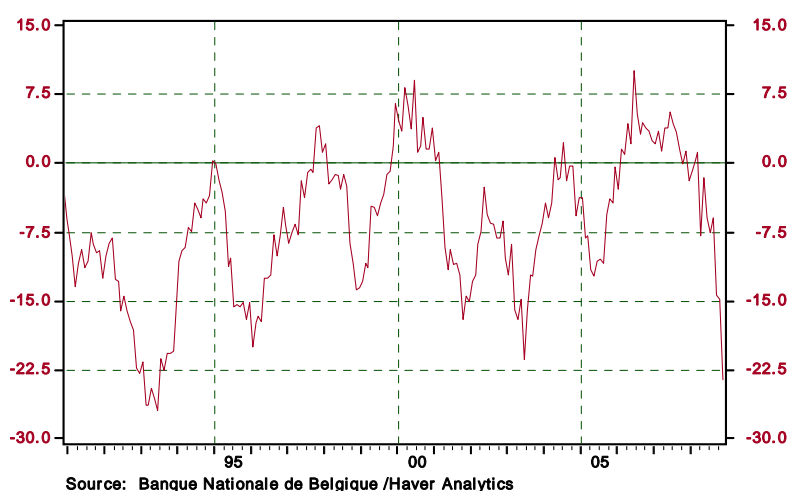
Last week's PMI surveys for the 15-member Euro-zone as a whole also hit record lows, with the manufacturing indicator dropping to 36.2 (41.1 in October) and the services indicator down to 43.3 (45.8 the previous month). Today came the news that industrial new orders in

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the Euro-zone dropped 3.9% on the month in September – before the ongoing credit crunch started to hit the real economy, and indicating that industrial output will contract in Q4.

This gloomy prognosis was born out by November's Belgian National Bank business confidence index (a leading indicator for Euro-zone growth about six months out), also released this morning. The overall index dropped to -23.7 from -14.8 in October, falling to its lowest level since mid-1993. The sharpest fall was in the manufacturing component, which plunged from -14.9 in October to -27.1 in November.

Chart 25
Belgium: BNB Business Survey: Total Industry
SA, % Balance



The Euro-zone is in a technical recession, having recorded negative real GDP growth in the second and third quarters of this year, and appears to be headed for a more severe contraction in Q4 and again in Q1 2009. There is an increasing risk that growth will not return to the 'zone until Q4 next year. The ECB's refi rate – currently at 3.25% – is headed toward the 2.00% level before the end of Q1 2009, and may go lower still. The question is: how fast will it get there?

U.S Highlights for Next Week

1. **ISM Manufacturing Survey** [Dec. 1] – The consensus for the manufacturing ISM composite index is 38.4 vs. 38.9 in October.
2. **Employment Situation** [Dec. 5] – Payroll employment in November is predicted to have dropped 300,000 after 240,000 jobs were lost in October. The unemployment rate is expected to move up two notches to 6.7%. **Consensus: Payrolls - -300,000 vs. -240,000 in October, unemployment rate: 6.7% vs. 6.5% in October**

Other reports – Construction spending (Dec. 1), auto sales (Dec. 2), ISM non-manufacturing, productivity and costs (Dec.3), and factory orders (Dec. 4),

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Global Economic Data

	Real GDP		CPI		Unemployment Rate			Central Bank Rate		
	SAAR, yoy %		NSA, yoy%		%		year-ago	%		year-ago
United States	0.7	Q2-08	3.7	Sep-08	6.5	Oct-08	4.8	1.00	Sep-08	4.75
Euro-Area	0.7	Q2-08	3.2	Sep-08	7.5	Sep-08	7.3	3.75	Oct-08	4.00
Japan	0.0	Q2-08	2.1	Sep-08	4.0	Sep-08	4.0	0.30	Oct-08	0.50
UK	0.3	Q2-08	4.5	Sep-08	3.0	Oct-08	2.6	4.50	Oct-08	5.75
Australia	2.7	Q2-08	5.0	Q2-08	4.3	Oct-08	4.3	6.00	Oct-08	6.50
Canada	0.7	Q2-08	2.6	Sep-08	6.2	Oct-08	5.8	2.25	Oct-08	4.50
China	9.0	Q3-08	4.0	Sep-08	4.0	Q3-08	4	2.50	Oct-08	2.77
India	7.9	Q2-08	9.8	Sep-08	--	--	--	6.00	Oct-08	6.00
New Zealand	-0.3	Q2-08	5.1	Q2-08	4.2	Q3-08	3.5	6.50	Oct-08	8.25
Norway	0.6	Q2-08	5.5	Sep-08	2.4	Q3-08	2.5	4.75	Oct-08	5.00
Singapore	-0.7	Q2-08	6.4	Sep-08	2.2	Q3-08	1.7	0.58	Oct-08	2.29
South Korea	3.8	Q2-08	4.8	Oct-08	3.2	Oct-08	3.2	4.25	Oct-08	5.00
Sweden	0.9	Q2-08	4.0	Sep-08	6.1	Oct-08	6.1	3.75	Oct-08	4.00
Switzerland	2.4	Q2-08	2.6	Sep-08	2.6	Oct-08	2.6	2.72	Oct-08	2.75
Taiwan	-0.6	Q2-08	0.0	Oct-08	4.3	Oct-08	3.9	3.00	Oct-08	3.25
Thailand	4.1	Q2-08	3.9	Oct-08	1.4	Sep-08	1.4	4.25	Oct-08	3.75

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

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Historical US Economic Data

	Oct-08	Sep-08	Aug-08	Jul-08	Jun-08	May-08	Apr-08	Mar-08	Feb-08	Jan-08	Dec-07	Nov-07
Payroll Employment (000)	-240	-284	-127	-67	-100	-47	-67	-88	-83	-76	41	60
% Change, Year Ago *	-0.8	-0.5	-0.2	-0.1	0.0	0.1	0.3	0.4	0.6	0.7	0.8	0.9
Unemployment Rate (%)	6.5	6.1	6.1	5.7	5.5	5.5	5.0	5.1	4.8	4.9	5.0	4.7
Avg. Hourly Earnings (% Chg.)	0.2	0.2	0.4	0.3	0.3	0.3	0.1	0.3	0.3	0.3	0.3	0.3
% Change, Year Ago	3.5	3.4	3.6	3.4	3.4	3.5	3.5	3.7	3.7	3.7	3.7	3.8
PPI (% Chg.)	-2.8	-0.4	-0.9	1.2	1.7	1.4	0.3	0.9	0.3	1.2	-0.5	2.6
% Change, Year Ago *	5.2	8.7	9.6	9.8	9.1	7.3	6.4	6.7	6.5	7.4	6.2	7.3
CPI (% Chg.)	-1.0	0.0	-0.1	0.8	1.1	0.6	0.2	0.3	0.0	0.4	0.4	0.9
% Change, Year Ago *	3.7	4.9	5.4	5.6	5.0	4.2	3.9	4.0	4.0	4.3	4.1	4.3
ISM Diffusion Index (%)	38.9	43.5	49.9	50.0	50.2	49.6	48.6	48.6	48.3	50.7	48.4	50.0
Industrial Production (% Chg.)	1.3	-3.7	-1.2	0.1	0.1	-0.2	-0.5	-0.2	-0.3	0.2	0.1	0.4
% Change, Year Ago	-4.1	-5.6	-1.7	-0.5	0.0	0.2	0.4	1.5	1.6	2.5	2.0	2.5
Capacity Utilization (%)	76.4	75.5	78.5	79.6	79.6	79.6	79.9	80.4	80.7	81.0	81.0	81.1
Nondefense Cap. Goods ex Aircraft												
- Orders (% Chg.)	-4.0	-3.3	-2.3	0.3	1.6	-0.3	3.1	-1.0	-0.9	-0.8	4.5	0.0
% Change, Year Ago *	-4.9	0.1	-0.2	6.6	3.4	3.4	2.6	-1.1	8.8	5.3	0.3	-4.8
- Shipments (% Chg.)	-2.4	1.6	-2.1	0.3	0.6	0.2	1.0	0.8	-1.3	-0.4	1.1	0.6
% Change, Year Ago *	-1.1	2.4	-1.6	6.1	2.0	2.7	3.7	1.0	6.1	6.2	1.2	0.0
Retail Sales (% Chg.)	-2.8	-1.3	-0.7	-0.6	0.1	0.8	0.2	0.5	-0.5	0.6	-0.9	0.5
% Change, Year Ago	-3.3	0.1	-0.4	4.1	1.4	2.5	3.7	0.3	7.0	4.7	2.5	6.4
Real Personal Consumption (% Chg.)	-0.5	-0.4	-0.1	-0.6	-0.2	0.2	0.1	0.3	-0.2	0.1	-0.1	0.4
% Change, Year Ago	-0.9	-0.6	-0.2	0.2	1.1	1.4	1.3	1.5	1.2	1.7	1.9	2.5
Personal Income (% Chg.)	0.3	0.1	0.3	-0.8	0.1	1.8	0.0	0.4	0.2	0.1	0.4	0.4
% Change, Year Ago	3.3	3.2	3.7	3.9	5.3	5.6	4.0	3.9	4.1	4.7	5.4	5.9
New Home Sales (SAAR, mn)	0.43	0.46	0.45	0.51	0.50	0.52	0.54	0.51	0.57	0.60	0.60	0.63
% Change, Year Ago *	-40.4	-32.1	-35.0	-36.8	-38.4	-38.0	-41.0	-38.8	-29.4	-33.3	-38.0	-36.6
Existing Home Sales (SAAR, mn)	4.98	5.14	4.91	5.02	4.85	4.99	4.89	4.94	5.03	4.89	4.91	5.02
% Change, Year Ago *	-0.7	6.8	-15.0	-11.3	-16.7	-16.3	-15.7	-22.5	-19.4	-23.2	-23.2	-17.8
Housing Starts (SAAR, mn)	0.79	0.83	0.85	0.95	1.09	0.98	1.00	0.99	1.11	1.06	1.00	1.18
% Change, Year Ago *	-40.0	-27.6	-37.0	-32.2	-25.6	-32.8	-34.0	-33.6	-24.0	-25.5	-38.7	-22.9
International Trade (Bils \$)		-56.5	-59.1	-61.3	-58.8	-60.2	-61.5	-57.0	-61.4	-58.7	-57.6	-59.9
	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05
Real GDP, Chain Weighted, SAAR	-0.5	2.8	0.9	-0.2	4.8	4.8	0.0	1.5	0.8	2.7	4.8	1.3
% Change, Year Ago	0.7	2.1	2.5	2.3	2.8	1.8	1.3	2.4	2.4	3.2	3.1	2.7
Chain-Weighted Price Index, SAAR	4.2	1.1	2.6	2.8	1.5	2.0	4.1	2.2	2.8	2.7	3.5	3.7
% Change, Year Ago	2.7	2.0	2.3	2.6	2.5	2.8	2.9	2.8	3.2	3.5	3.4	3.5
Nominal GDP, SAAR	3.6	4.1	3.5	2.3	6.4	6.9	4.3	3.7	3.6	5.5	8.6	5.1
% Change, Year Ago	3.4	4.1	4.7	4.9	5.3	4.6	4.3	5.3	5.7	6.8	6.6	6.3
Employment Cost Index (%)	0.7	0.7	0.7	0.8	0.8	0.9	0.8	0.8	1.0	0.9	0.6	0.8
% Change, Year Ago	2.9	3.1	3.3	3.3	3.3	3.3	3.5	3.3	3.3	3.0	2.8	3.1
Productivity Nonfarm, SAAR	1.1	3.6	2.6	0.8	5.8	4.1	0.0	0.2	-2.1	1.8	2.5	-1.1
% Change, Year Ago	2.0	3.2	3.3	2.7	2.5	0.5	0.0	0.6	0.3	1.7	1.3	1.5
Unit Labor Costs, Nonfarm, SAAR	3.6	-0.1	1.2	4.5	-2.4	-3.2	4.9	9.1	4.1	-1.1	2.6	4.9
% Change, Year Ago	2.3	0.8	0.0	0.9	2.0	3.7	4.2	3.6	2.6	2.2	2.9	2.1

Source: Haver Analytics

* NSA

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