

DAILY GLOBAL
COMMENTARY

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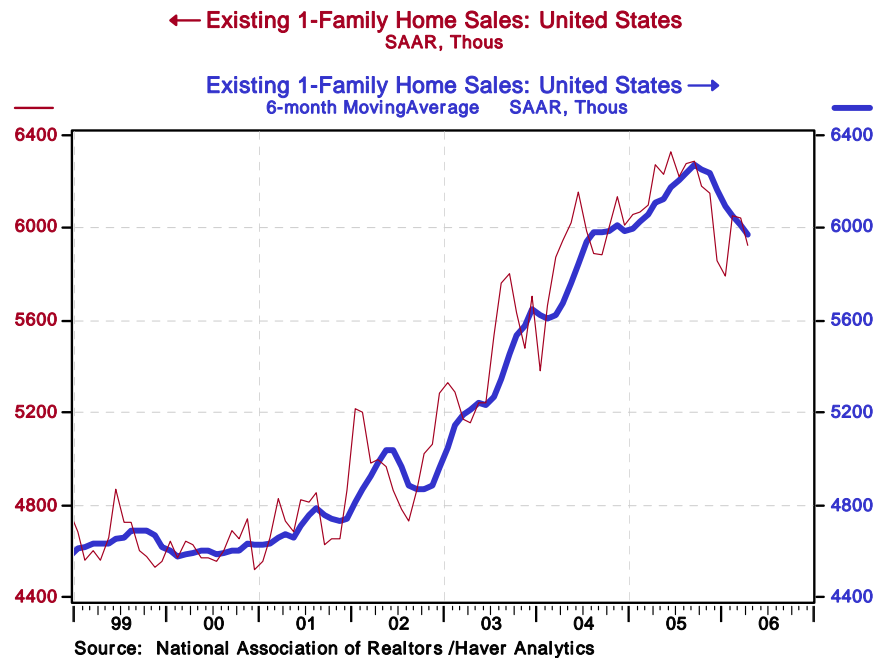
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Housing Market Is Cooling Down, No Doubts About It

May 25, 2006

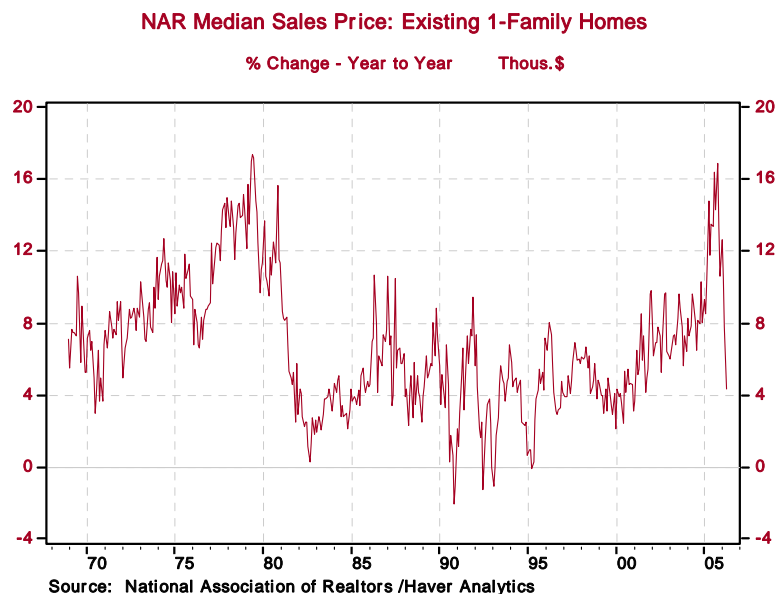
Sales of existing homes fell 2.0% to an annual rate of 6.76 million units in April vs. a 6.9 million pace in March. Sales of existing homes in April are down 7.0% from the 7.270 million unit peak established in June 2005. Sales of single-family existing homes declined 2.0% to an annual rate of 5.92 million in April, which is also down 7.0% from a peak of 6.33 million units in June 2005.

Chart 1



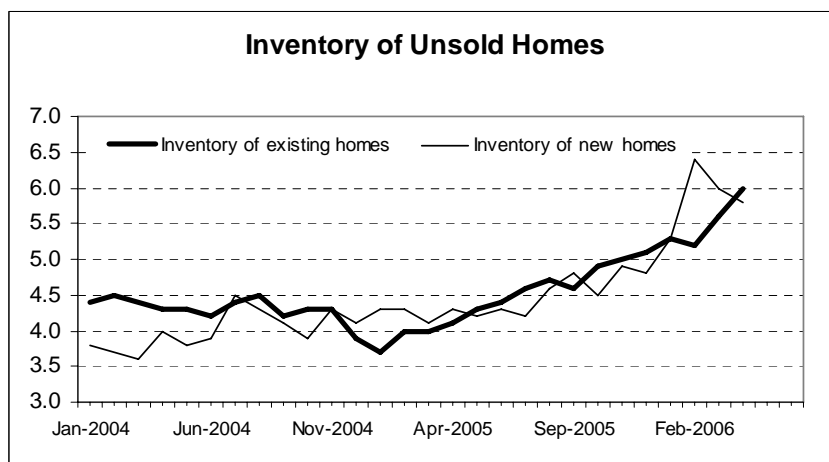
On a regional basis, sales of existing homes dropped 0.8% in the Northeast, 3.7% in the Midwest, 1.9% in the South, and 1.4% in the West. The median price of all existing homes rose to \$223,000 in April from \$218,000 in March. On a year-to-year basis it is up only 4.2%. The median price of a single-family existing home was \$222,700 in April, which puts the year-to-year increase at only 4.3%! (see chart 2). The 4.3% gain in the median price is noteworthy because the average gain in all of 2005 was 12.8% and the high was a 16.9% year-to-year increase in October 2005. The important consequence from this sharp deceleration in prices of existing homes is that households will have lower amounts available for home equity withdrawals to finance spending.

Chart 2



The inventory of unsold existing homes has climbed to a 6.0-month supply from 4.1-month supply a year ago. The number of unsold new homes also shows an upward trend. The question that needs an answer is how much more of a price correction we will see in coming months. The Fed is of the opinion that it is orderly at the present time.

Chart 3

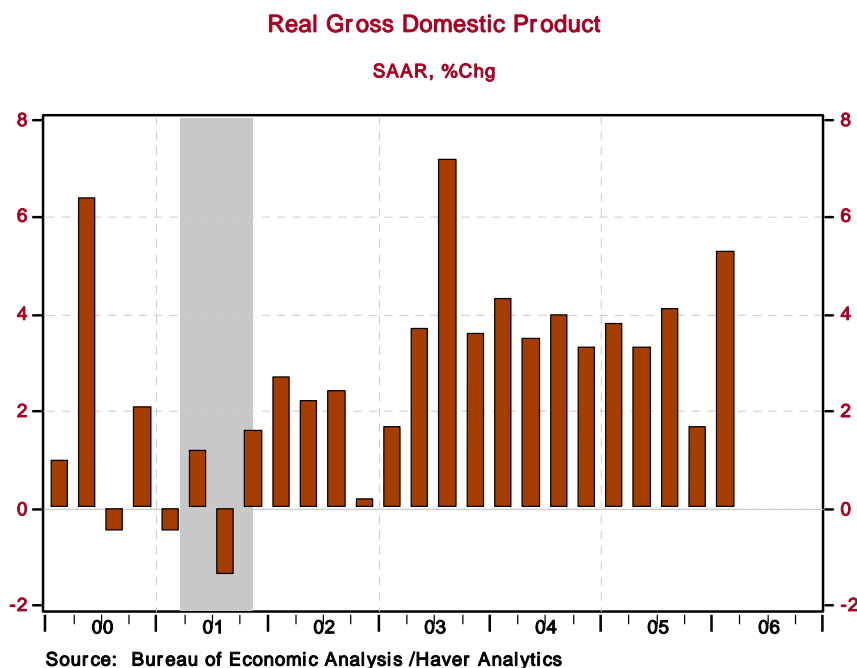


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Upward Revision of Q1 GDP Is History, Q2 GDP to Post Below Trend Growth

The U.S. economy grew at an annual rate of 5.3% in the first quarter vs. the advance estimate of a 4.8% increase. Upward revisions to expenditures on business structures (11.3% vs. 8.6%), net exports (\$669.9 billion vs. \$678.2 billion), residential investment expenditures (3.1% vs. 2.6%), government expenditures (4.3% vs. 3.9%) and inventories (\$32.2 billion vs. \$21.9 billion) more than offset downward revisions of consumption spending (5.2% vs. 5.5%) and equipment software spending (13.8% vs. 16.4%).

Chart 4



After-tax corporate profits adjusted for IVA and CCA increased \$93.3 billion to \$1155.1 billion in the first quarter, taking the year-to-year increase to 24.8%, the largest gain since the third quarter of 2002.

The upward revision of GDP should lead to a higher estimate for productivity growth in the first quarter than the prior estimate of a 3.2% increase in the first quarter and lower unit costs (it was a 2.5% increase in the first quarter). The likely projected downward revision in unit labor costs favors the doves on the FOMC. Incoming data indicate a sharp slowing of economic growth in the second quarter to about a 3.0% increase in GDP, with soft consumer spending accounting for much of the weakening.

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REAL GDP 2006:Q1 PRELIMINARY ESTIMATE

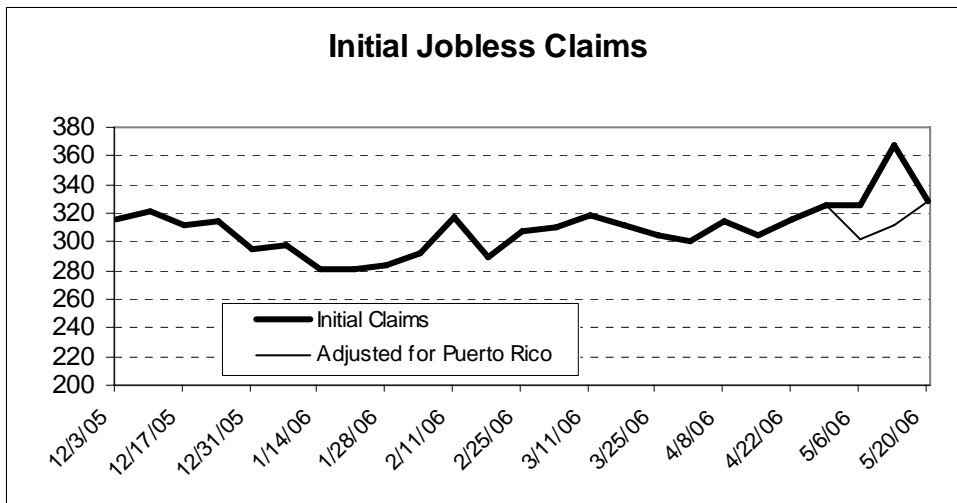
	(2000 chained dollars)				Percent Change (SAAR)			
	05:3 Final	05:4 Final	06:1 Advance	06:2 Preliminary	from prior quarter			
					05:3 Fin	05:4 Fin	06:1 Adv	06:2 Prel.
GDP	11202.3	11248.3	11381.4	11394.7	4.1	1.7	4.8	5.3
CONSUMPTION	7907.9	7925.4	8032.0	8026.7	4.1	0.9	5.5	5.2
DURABLE GOODS	1169.7	1117.7	1171.2	1171.1	9.3	-16.6	20.6	20.5
NONDURABLE GOODS	2305.8	2334.2	2365.3	2367.0	3.5	5.0	5.4	5.7
SERVICES	4453.5	4482.6	4514.0	4507.6	3.3	2.6	2.8	2.2
INVESTMENT	1909.4	1981.9	2013.4	2021.7	5.3	16.1	6.5	8.3
FIXED INVESTMENT	1921.5	1940.0	1986.4	1983.8	8.0	3.9	9.9	9.3
NONRESIDENTIAL	1305.2	1319.7	1364.6	1361.0	8.5	4.5	14.3	13.1
STRUCTURES	254.1	256.0	261.4	263.0	2.2	3.1	8.6	11.3
EQUIPM. & SOFTWARE	1067.5	1080.6	1122.4	1116.0	10.6	5.0	16.4	13.8
RESIDENTIAL	610.0	614.2	618.2	618.8	7.3	2.8	2.6	3.1
CHG. BUS. INVENT.	-13.3	37.9	21.9	32.3				
NET EXPORTS	-617.5	-655.2	-678.2	-669.9				
EXPORTS	1202.7	1217.6	1252.8	1260.2	2.5	5.1	12.1	14.7
IMPORTS	1820.2	1872.9	1931.0	1930.1	2.4	12.1	13.0	12.8
GOVERNMENT (C & I)	1998.1	1994.1	2013.2	2015.2	2.9	-0.8	3.9	4.3
FEDERAL	749.5	744.6	764.0	763.4	7.4	-2.6	10.8	10.5
DEFENSE	503.6	492.0	504.2	503.3	10.0	-8.9	10.3	9.6
OTHER	245.6	252.5	259.6	259.9	2.4	11.7	11.7	12.2
STATE AND LOCAL	1248.5	1249.3	1249.3	1251.9	0.2	0.2	0.0	0.8
DISP. PERS. INC.	8060.8	8206.4	8282.7	8218.6	-2.0	6.7	3.8	2.1
FINAL SALES	11214.4	11207.5	11355.3	11357.9	4.6	-0.2	5.4	5.5
GROSS DOMESTIC PURCHASES	11823.0	11854.1	12025.3	12019.7	4.5	1.1	5.9	5.7
PRICE DEFLATORS:								
GDP CHAIN TYPE	112.6	113.5	114.4	114.5	3.3	3.5	3.3	3.3
GDP EX. FOOD & ENERGY					2.8	3.4	3.3	3.3
PCE CHAIN TYPE	111.8	112.6	113.2	113.2	3.7	2.9	2.0	2.0
PCE EX. FOOD & ENERGY	109.5	110.1	110.7	110.6	1.4	2.4	2.0	2.0

Initial Jobless Claims Show Slight Upward Drift

Initial jobless claims dropped 40,000 to 329,000 during the week ended May 20. Government shutdowns in Puerto Rico raised readings of initial claims in each of the prior two weeks. After adjusting for this one-off event, the four-week moving average of initial jobless claims has risen from 314,750 at the end of April to 317,000 in the latest week. Continuing claims, which lag initial claims by one week, rose 38,000 to 2.42 million. The insured unemployment rate drifted back to 1.9% after two weekly readings of 1.8%.

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Chart 5



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