

DAILY GLOBAL  
COMMENTARY

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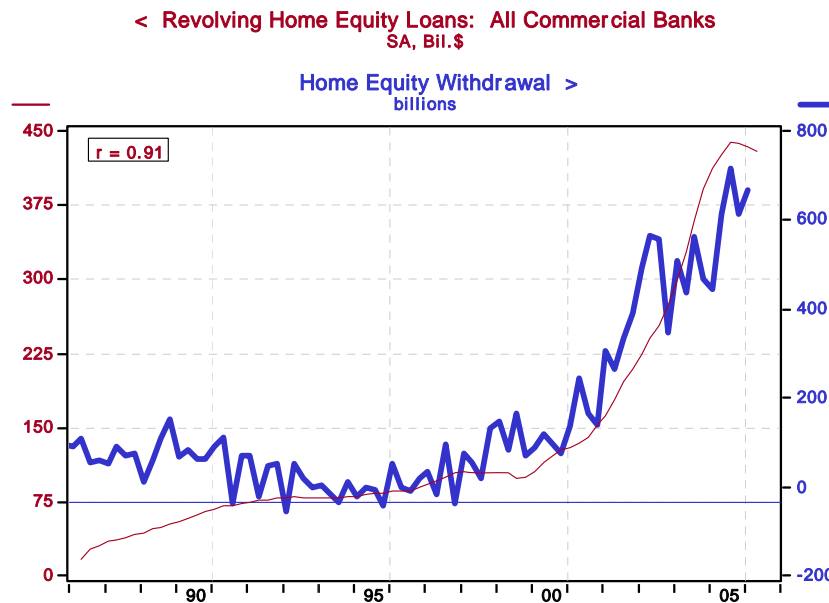
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## Growth of Home Equity Loans Turns Negative

August 21, 2006

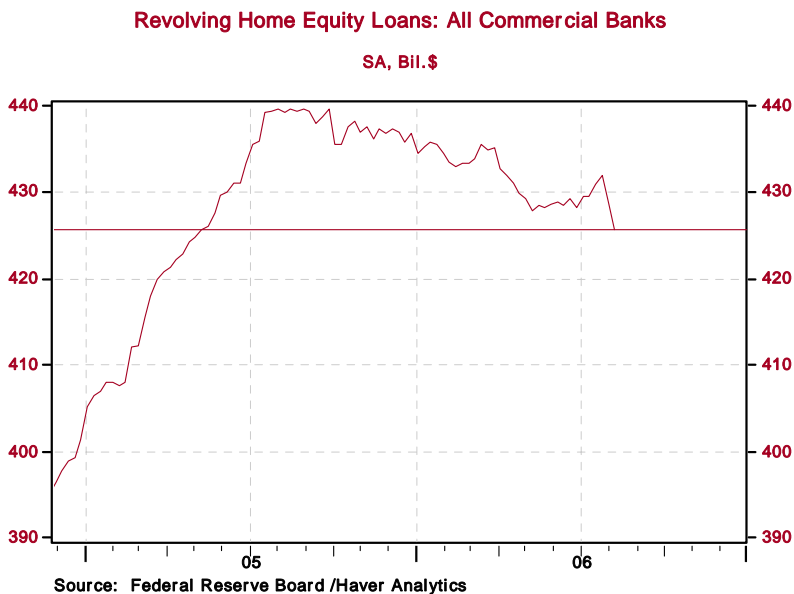
There is a great deal of market commentary devoted to how home equity withdrawals financed consumer expenditures in recent years. The conclusion from these remarks is that consumer spending will take a big hit as home equity withdrawals dry up because of a deceleration in home prices. Households tapped into home equity to the tune of about \$600 billion in 2005 to support their expenditures. Home equity withdrawal rose in the first quarter. Data for the second quarter will be published in September.

Chart 1



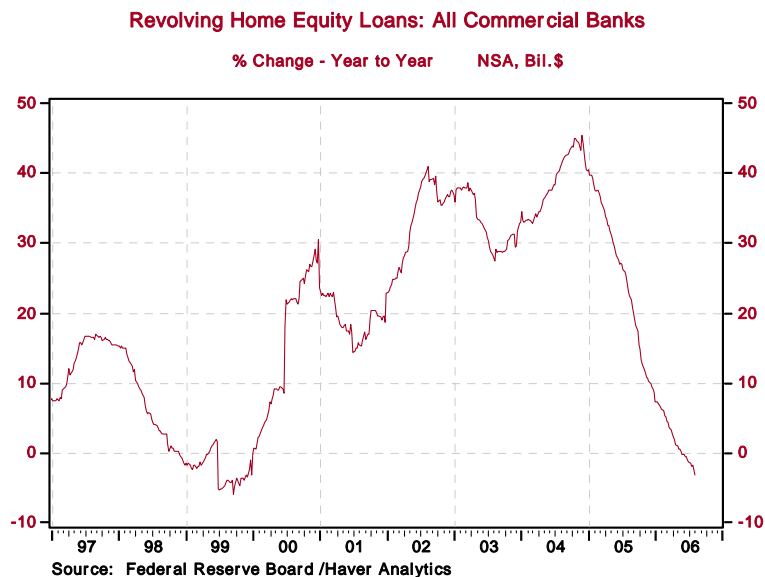
After the robust double digit increases seen in 2005, prices of homes have decelerated to low single-digit gains on a year-to-year basis. This is expected to reduce the amount of home equity withdrawal. Looking at weekly data for home equity loans, we come away with the conclusion that there is a noticeable reduction in home equity loans. As shown in Chart 2, the level of home equity loans is the lowest since May 2005. The ripple effects of this will be wide and deep as we have mentioned in several previous commentaries. The meager gain of 2.5% in consumer spending during the second quarter highlights this aspect.

Chart 2



In addition, the growth rate of home equity loans has turned negative. For the tenth straight week, home equity loans dropped from a year ago (see chart 3). In the absence of strong income growth, it will be a surprise if consumer spending shows rapid growth in the second-half of 2006.

Chart 3



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