

DAILY GLOBAL COMMENTARY

Northern Trust
 Global Economic Research
 50 South LaSalle
 Chicago, Illinois 60603
 northerntrust.com

Asha Bangalore
agb3@ntrs.com

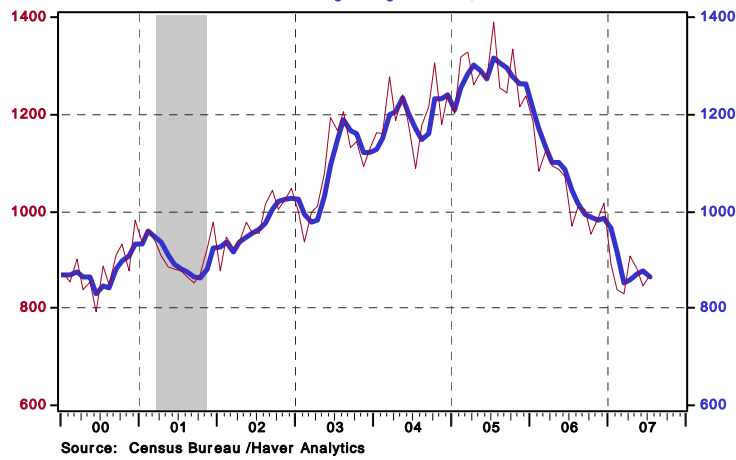
Gain in New Home Sales Is Inconsistent with Reports from Home Builders
 August 24, 2007

Sales of new homes rose 2.8% in July to an annual rate of 870,000 after declining in five of the six months ended June. On a regional basis, sales of new homes dropped in the Northeast (-24.3%) and Midwest (-0.9%) but rose in the South (+0.6%) and West (+22.4%). On a year-to-year basis, sales of new homes fell 10.8%, marking the nineteenth consecutive monthly drop. The median price of a single-family home rose 3.9% to \$239,500 and it is up 0.6% on a year-to-year basis.

Chart 1

< New 1-Family Houses Sold: United States
 SAAR, Thous

New 1-Family Houses Sold: United States >
 3-month Moving Average SAAR, Thous



Source: Census Bureau /Haver Analytics

There was a 7.5-month supply of new homes in the market during July compared with a 7.7-month supply in June. A reduction in home building activity has resulted in a small decline in inventories.

Chart 2

New 1-Family Houses For Sale: Months Supply

SA, Ratio

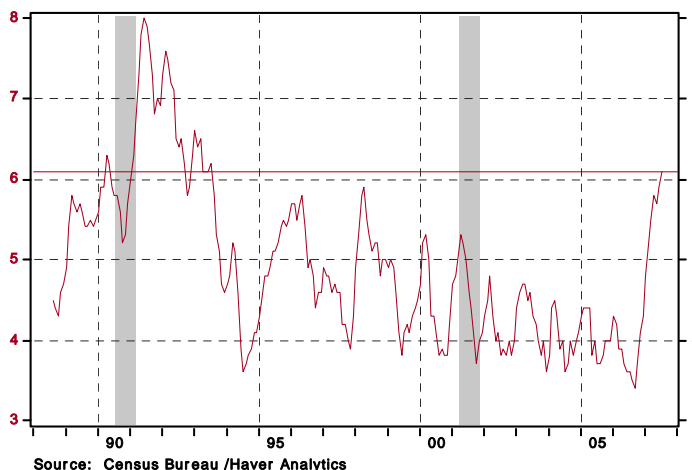


Source: Census Bureau /Haver Analytics

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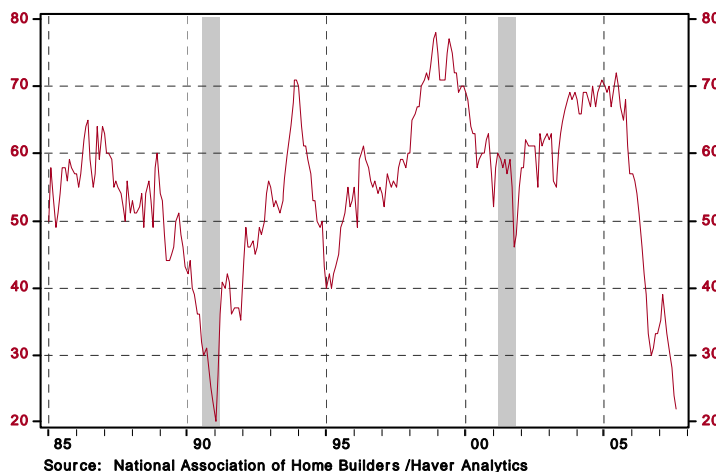
But, the median number of months to sell a new home rose to 6.1 months, up from 3.6 months in July 2006.

Chart 3
New 1-Family Houses: Median No of Months for Sale Since Completion
 NSA, Months



Today's report that suggests a recovery in sales of new homes is not anywhere close. At the same time, the increase in sales and price are suspect because the financial press has a number of stories everyday about home builders reporting significant declines in sales and earnings, a plethora of incentives to move sales, cancellations of contracts, and so on. Cancellations of contracts to purchase homes are not reflected in this report. It is reasonable to assume that excluding cancellations leads to overestimating sales of new homes and underestimating inventories of unsold homes. Also, the home builders (see chart 4) survey for August showed the second lowest reading in the history of series. We need to see reports of future months and watch out for revisions of estimates of home sales.

Chart 4
Home Builders: Housing Market Index {Composite}
 SA, All Good = 100



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Durable Goods Orders - Strength Is Probably Temporary

Orders of durable goods increased 5.9% in July following a 1.9% gain during June. Autos (+9.8%), aircraft (+35.7%) and defense goods (+35.7%) provided the major boost to orders of durable goods in addition to strong contributions from all major categories of durable goods.

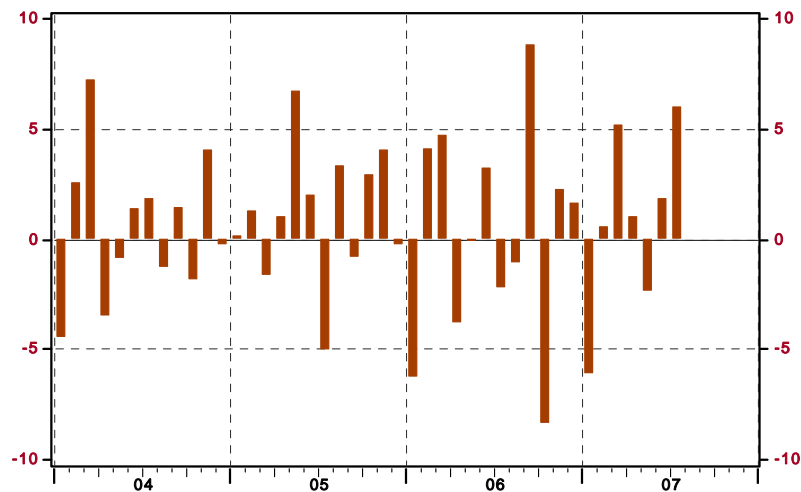
DURABLE GOODS ORDERS - % CHANGE M-M

| <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> |
|-------------|--------------|----------------|--------------------------------------|--|--|
| Jan-07 | -6.1 | 46.1 | -16.5 | -4.4 | -6.6 |
| Feb-07 | 0.5 | -14.4 | 6.1 | -2.4 | 4.6 |
| Mar-07 | 5.1 | 0.5 | 13.8 | 4.6 | -1.3 |
| Apr-07 | 1.0 | -0.2 | -0.3 | 2.0 | 1.2 |
| May-07 | -2.4 | 7.2 | -6.8 | -1.5 | 5.3 |
| Jun-07 | 1.9 | -12.6 | 6.4 | -0.1 | -4.4 |
| Jul-07 | 5.9 | 35.7 | 5.8 | 2.2 | 7.4 |

Chart 5

Manufacturers' New Orders: Durable Goods

% Change - Period to Period SA, Mil. \$



Source: Census Bureau /Haver Analytics

Shipments of durable goods increased 3.8% in July following a 1.1% decline in June. Shipments of non-defense capital goods excluding aircraft, the input for capital spending in the GDP report, moved up only 0.5% in July compared with a 0.8% drop in June. Shipments of non-defense capital goods excluding aircraft should post strong gains in August and September to make a strong contribution to GDP because the level of orders in July is barely above the second quarter average. Given projections of soft consumer spending in the months ahead, it is unlikely that orders of durable goods will continue to show strong gains in the near term.

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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> |
|-------------|--------------|--|--|--|
| Jan-07 | -1.5 | -2.7 | -4.2 | 10.0 |
| Feb-07 | -1.5 | -0.5 | 0.6 | -6.0 |
| Mar-07 | 1.3 | 1.7 | 1.6 | -2.4 |
| Apr-07 | 2.0 | 1.1 | 0.9 | 8.9 |
| May-07 | 0.2 | 0.7 | 0.7 | -2.4 |
| Jun-07 | -1.1 | -0.5 | -0.8 | -4.0 |
| Jul-07 | 3.8 | 1.4 | 0.5 | 3.8 |

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