

DAILY GLOBAL
COMMENTARY

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

Asha Bangalore
agb3@ntrs.com

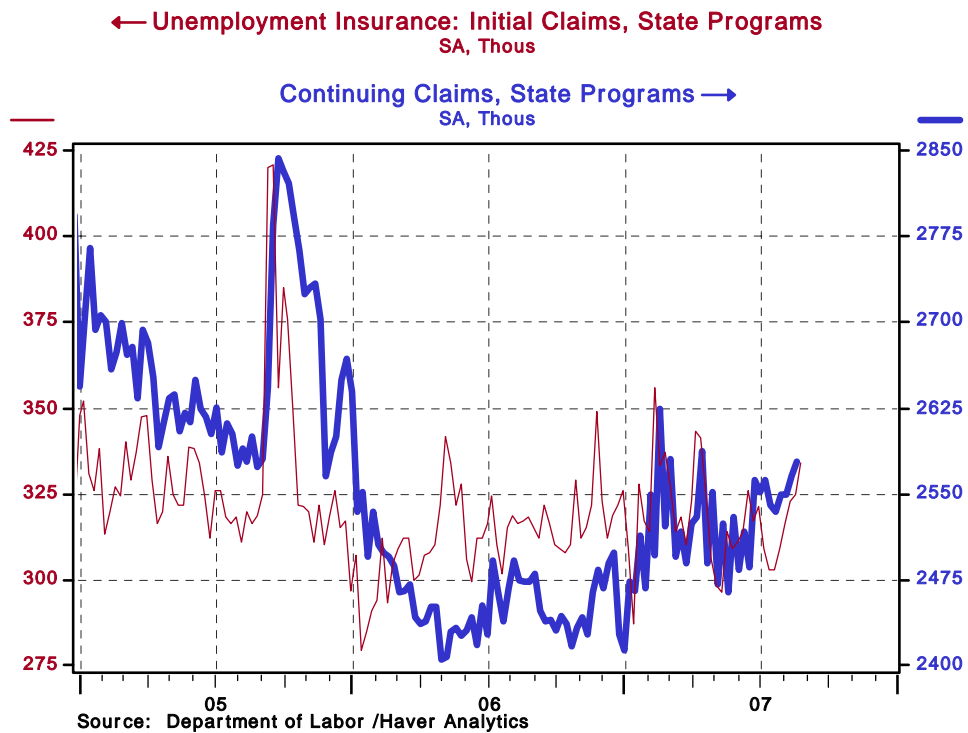
Chairman Bernanke Reveals Some Elements of Fed's Game Plan

August 31, 2007

Chairman Bernanke specified as much as is possible about the Fed's game plan to tackle the financial crisis. First, past economic data are not useful indicators; Fed will pay "close attention to the timeliest indicators" and anecdotal information from their contacts in the business world. Second, there is no specific timeline the Fed has in mind about policy changes but it will act as necessary to prevent a widespread economic disaster. In other words, Chairman Bernanke did not rule out a September 18 cut in the federal funds rate or promise it. He reiterated that the current financial market crisis has a significant bearing on the working of the overall economy.

The "timeliest indicators" we think are weekly initial jobless claims, August nonfarm payrolls, August retail sales, the August ISM manufacturing survey, and August industrial production. Each of these reports will be published prior to the September 18 FOMC meeting. The latest jobless claims data show that both initial claims and continuing claims are drifting up (see chart 1).

Chart 1

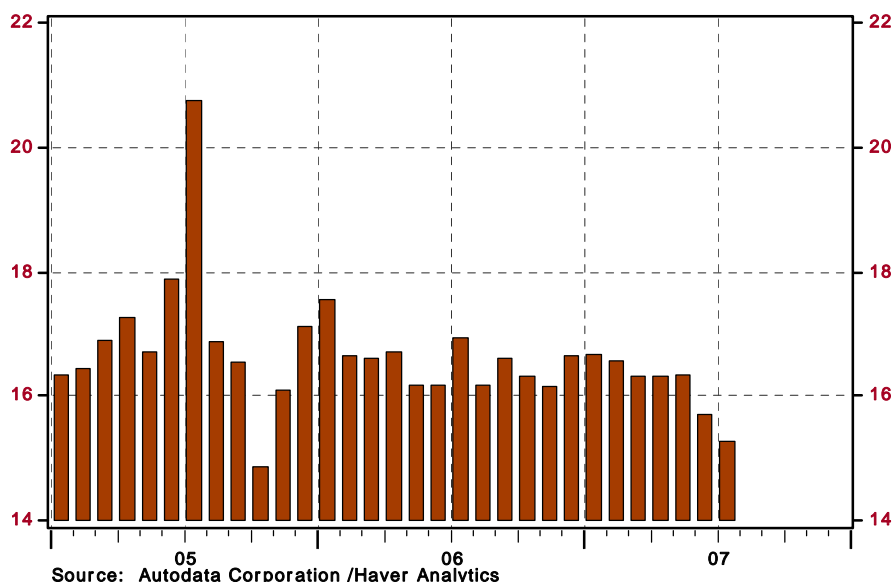


The CEO of AutoNation has indicated that his company's sales have been suffering. Auto sales have dropped during each of the seven months of the year. The sales tally for August will be published on September 4.

Chart 2

Total Light Vehicle Retail Sales {Imported+Domestic}

SAAR, Mil. Units



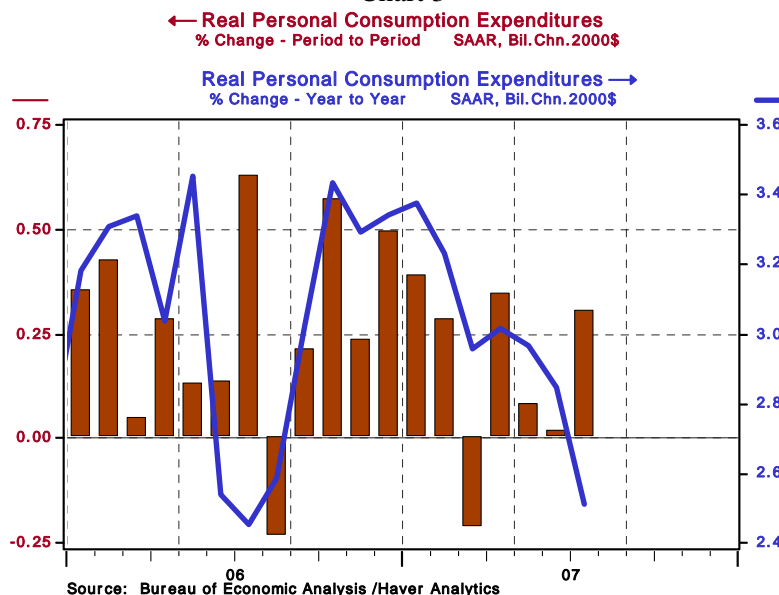
The Bush administration's proposal to allow the Federal Housing Administration to guarantee some mortgage loans of homeowners who are delinquent for more than 90 days in meeting their mortgage payments gives the Fed more time to evaluate the success of its new strategy of cutting the discount rate to provide liquidity. There are opinions that the proposal is a small plan that does not reach out to the multitude of subprime borrowers and that it is a negligible solution to the problem at hand.

Personal Consumer Spending and Core Inflation – July 2007

Inflation adjusted personal consumption expenditures increased 0.3% in July after holding steady in June. Outlays on durable goods (+0.5%), nondurable goods (+0.4%), and services (+0.2%) advanced in July. A conservative assumption of a 0.1% gain in August and September yields a 1.8% annualized increase in consumer spending during the third quarter, which is a tad higher than the 1.4% gain seen in the second quarter.

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Chart 3



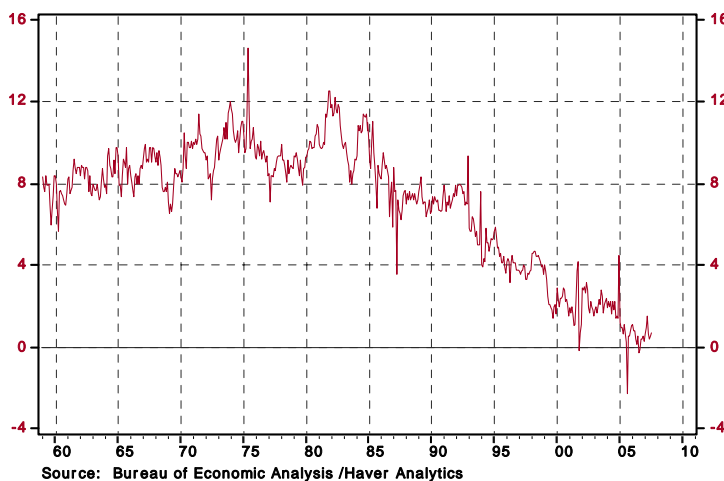
The core personal consumption expenditure price index, which excludes food and energy, edged up 0.1% in July. This small gain puts the year-to-year increase at 1.9%, matching the reading seen in June. The year-to-year change in the core personal consumption expenditure price index remains within the “comfort zone” of the Fed. Inflation is no longer the top most concern of the FOMC.

Personal income advanced 0.5% in July following a 0.4% gain in the prior month. Personal saving as a percentage of disposable income was 0.7% in July compared with 0.5% in June. During the first seven months of the year, the personal saving rate averaged 0.7% compared with a 0.5% rate in the same period in 2006.

Chart 4

Personal Saving Rate

SAAR, %



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