

DAILY GLOBAL  
COMMENTARY

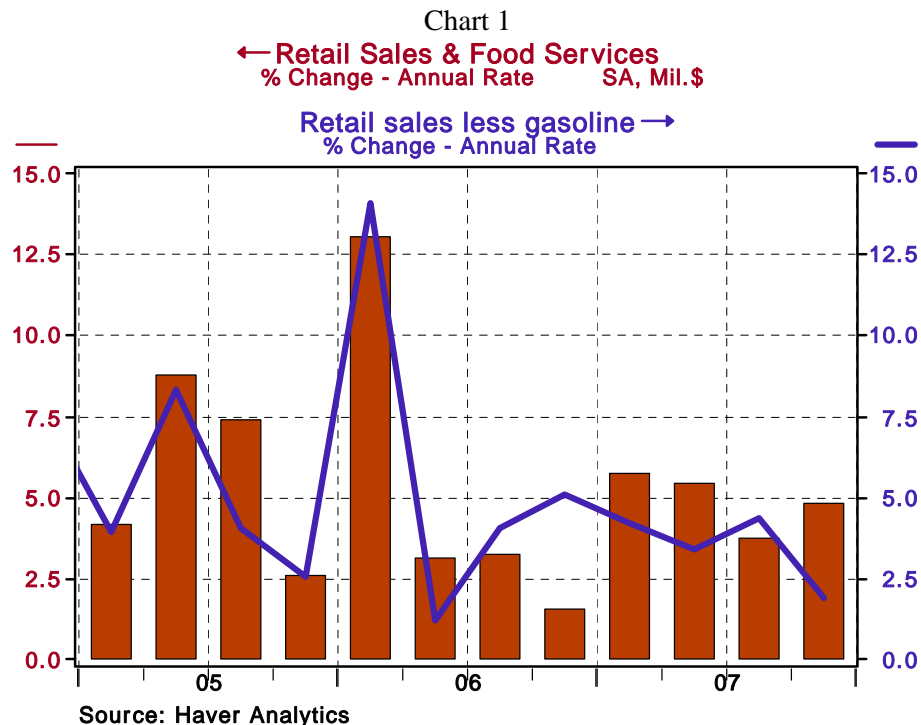
Northern Trust  
Global Economic Research  
50 South LaSalle  
Chicago, Illinois 60603  
northerntrust.com

Asha G. Bangalore  
agb3@ntrs.com

## Weak Retail Sales Reinforces Expectation of Substantive Monetary Policy Easing

January 15, 2008

Retail sales fell 0.4% in December after a revised 1.0% increase in November (previously estimated as a 1.2% gain). The October retail sales estimate was also revised down to unchanged from a 0.2% increase. Early Thanksgiving raised November retail sales and held down December purchases. Overall for the quarter, retail sales rose at an annual rate of 4.8% compared with a 3.7% gain in the third quarter. The gain in the headline number in the fourth quarter is from higher gasoline prices. Excluding gasoline, retail sales rose only 1.9% in the fourth quarter vs. a 4.4% jump in the third quarter. Auto sales fell 0.4% in December but unit auto sales that are reflected in consumer spending in the GDP show a small advance. For the quarter, unit auto sales were at a 16.2 million pace vs. a 15.9 million mark in the third quarter.



In December, sales of apparel declined 2.0%, furniture purchases increased 0.6% and that of general merchandise were up 0.3%. Sales of building materials dropped 2.9% during December following a 1.6% increase in the prior month. Excluding autos, gasoline, and building materials, retail sales moved up at an annual rate of 3.0% in the fourth quarter compared with a 5.1% gain in the third quarter. Consumer spending in the fourth quarter is predicted to have risen at an annual rate of close to 2.5% compared with a 2.8% increase in the third quarter. A more significant deceleration in consumer spending is predicted for the first-half of 2008. The December retail sales data suggest that aggressive easing of monetary policy on January 30 is nearly certain.

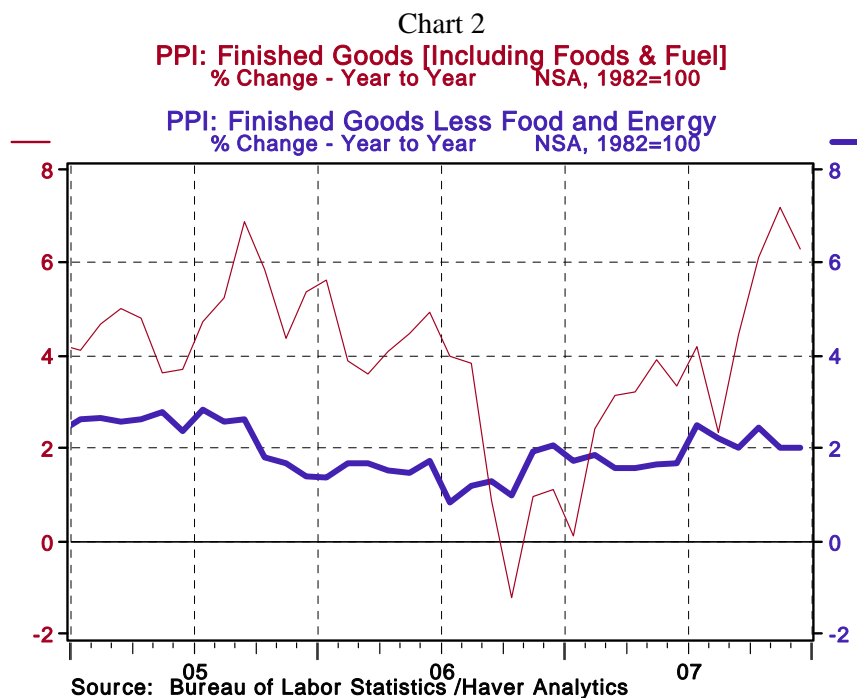
The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

## Retail Sales – December 2007

	<u>October</u>	<u>November</u>	<u>December</u>	<u>07:Q3</u> <u>quarterly change SAAR</u>	<u>07:Q4</u> <u>quarterly change SAAR</u>
<b>Total Retail Sales &amp; Food Service, % m-o-m</b>	<b>0.0</b>	<b>1.0</b>	<b>-0.4</b>	<b>3.7</b>	<b>4.8</b>
% change y-o-y	6.3	6.5	3.2		
<b>Ex-auto, % m-o-m</b>	<b>0.2</b>	<b>1.7</b>	<b>-0.4</b>	<b>3.4</b>	<b>5.5</b>
% change y-o-y	6.1	7.7	3.9		
<b>Ex- autos and gas % m-o-m</b>	<b>-0.1</b>	<b>0.9</b>	<b>-0.2</b>	<b>4.3</b>	<b>1.9</b>
% change y-o-y	4.6	5.6	2.5		
<b>Exc. Bldg. mat., auto, gas, % m-o-m</b>	<b>0.0</b>	<b>0.8</b>	<b>0.2</b>	<b>5.1</b>	<b>3.0</b>
% change y-o-y	5.0	6.0	3.1		

## A Drop in Energy Prices Translates To Decline in Wholesale Price Index

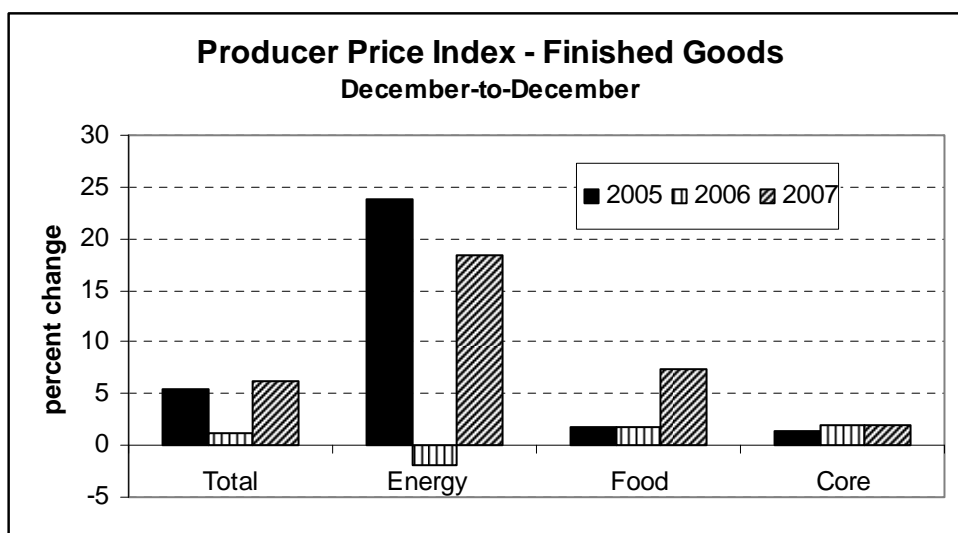
The Producer Price Index (PPI) for Finished Goods fell 0.1% in December after a 3.2% jump in November. The headline reflects the swings in the energy price index; the energy price index dropped 1.9% in December following a hefty 14.1% gain in November. The energy price index has posted an 18.4% jump in 2007, after a 2.0% drop in 2006 and a 23.9% gain in 2005. The food price index advanced 1.3% in December, putting the year-to-year gain at 7.4% vs. a 1.7% increase in 2006. In 2007, the finished goods PPI has moved up 6.3% compared with a benign 1.1% increase in 2006. The main culprits were food and energy prices in 2007.



The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

Excluding food and energy, the core PPI was up 0.2% in December, with the 2.0% year-to-year increase in 2007 matching the gain recorded in 2006. Prices of passenger cars (-0.9%) light trucks (-0.3%), and furniture (-0.3%) fell in December but prices of computers rose 0.4%.

Chart 3



The intermediate goods price index was down 0.2% but the core intermediate goods price index held steady in December. On a year-to-year basis, the core intermediate goods price index has risen 3.3% in 2007 vs. a 4.5% increase in 2006, which implies weaker pipeline price pressures in 2007.

### Producer Price Index – December 2007

	% change prior month	annualized % change		% change	
		3 mo. ago	6 mo. ago	Dec-07 yoy	Dec-06 yoy
<b>PPI - FINISHED GOODS</b>					
ALL ITEMS	-0.1	13.3	7.0	6.3	1.1
CORE - ALL ITEMS LESS FOOD & ENERGY	0.2	2.2	2.0	2.0	2.0
FOOD	1.3	9.4	6.7	7.4	1.7
ENERGY	-1.9	51.9	21.4	18.4	-2.0
CAPITAL EQUIPMENT	0.1	1.3	1.2	1.3	2.3
<b>PPI - INTERMEDIATE GOODS</b>					
ALL ITEMS	-0.2	15.0	7.0	6.8	2.8
CORE	0.0	4.6	2.3	3.3	4.5
<b>PPI - CRUDE GOODS</b>					
ALL ITEMS	1.0	59.6	20.9	20.6	-4.7
CORE	0.0	3.6	7.9	16.8	17.0

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

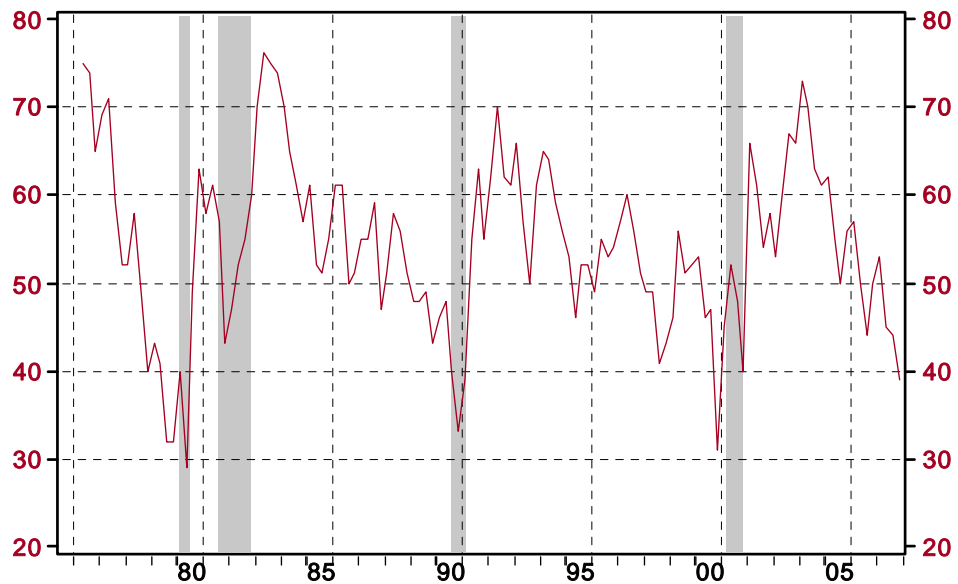
## CEO Confidence Index Lowest In Current Cycle

Confidence about the economy and their own industries at the present time and six months ahead is captured in the CEO Confidence Index. This index fell to 39 in the fourth quarter, down from 44 in the third quarter and the lowest in the current expansion which began in November 2001. Historical evidence (see chart 4) suggests that the current reading of this index is approaching levels seen in a recession.

Chart 4

### CEO Business Confidence Survey: Business Executive Confidence

50+=Positive



Source: The Conference Board /Haver Analytics

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.