

DAILY GLOBAL
COMMENTARY

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Economic Data Underscore Weakness in Home Sales, Hiring, and Factory Activity

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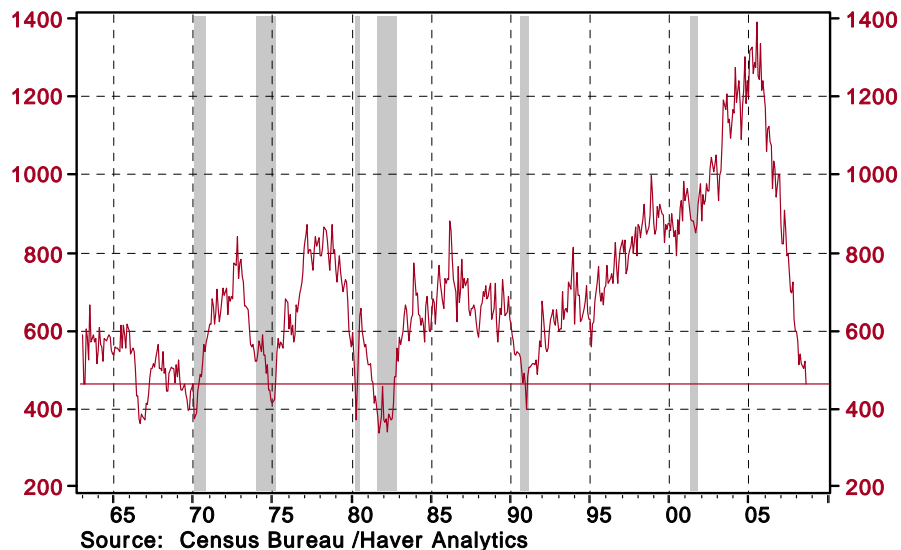
The \$700 billion rescue package and frozen credit markets have been in the lime light during the week. The latest development is that a deal has been struck in Congress about the package with details being worked out. Congress would disburse the funds in installments, there would be limits on executive compensation packages whose firms seek assistance, the government would have an equity stake in assisted companies such that taxpayers would reap a profit if the operation is successful, and it will also include measures to help some Americans avoid losing their homes.

Moving on to economic data which have taken the backseat, economic reports indicate that fundamentals continue to remain weak. **Sales of new single-family homes** fell 11.5% to an annual rate of 460,000 in August, a new low for the cycle and down 66.9% from the peak in July 2005 (see chart 1 and table 1). On a year-to-year basis, purchases of new single-family homes fell 35% in August, compared with a 41% drop in April, which has been the largest year-to-year decline in the current business cycle.

Chart 1

New 1-Family Houses Sold: United States

SAAR, Thous



On a regional basis, sales of new single-family homes posted large declines in the Northeast (-31.9%) and the West (-36.1%), climbed 7.3% in the Midwest, and slipped 2.1% in the South.

Sales of new single-family homes across business cycles

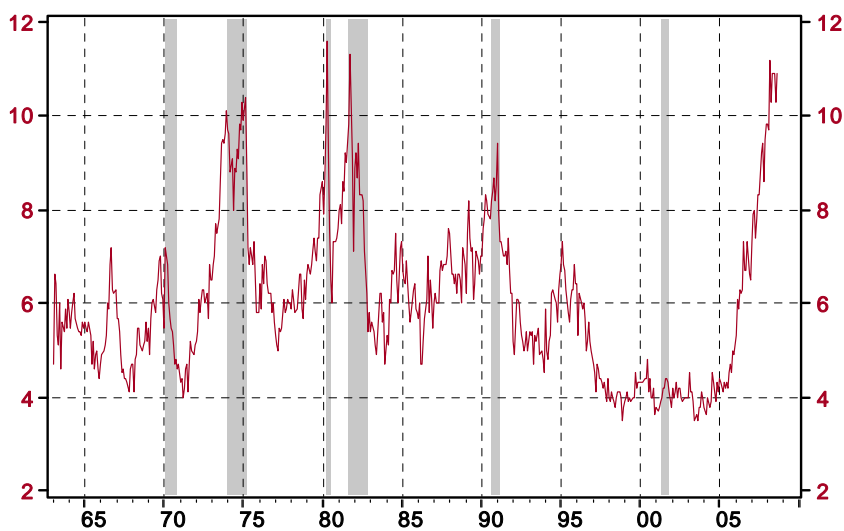
Recession - Economy	Peak of Sales New Single-Family Homes		Trough of Sales New Single-Family Homes		Peak-to- trough change (percent)
	Date	000s units	Date	000s units	
Dec. 69-Nov.70	Feb-69	524	Feb-70	373	-28.82%
Nov. 73-Mar.75	Oct-72	843	Jan-75	416	-50.65%
Jan.80-Jul. 80	Oct-78	872	Apr-80	370	-57.57%
Jul.81-Nov. 82	Aug-80	659	Apr-82	339	-48.56%
Jul. 90-Mar.91	Jul-89	731	Jan-91	401	-45.14%
Mar. 01-Nov. 01	Dec-00	983	Sep-01	853	-13.22%
Current cycle	Jul-05	1389	Aug-08	460	-66.88%

The inventory of unsold new homes climbed to a 10.9-month mark in August from 10.3 months in July, which is not an aspect one would expect to see at this point in the housing market correction. The peak reading for inventory of unsold new single-family homes was an 11.2-month supply in March 2008. This elevated level of inventory points to additional price declines in the near term.

Chart 2

New 1-Family Houses For Sale: Months Supply

SA, Ratio

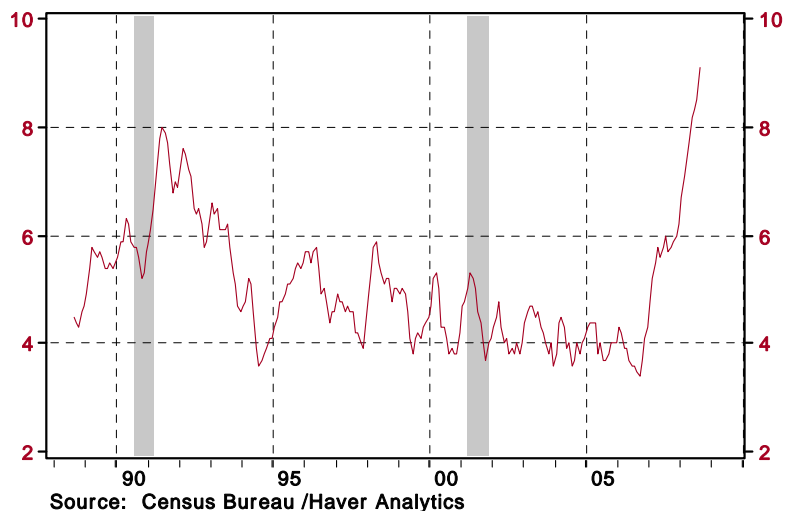


Source: Census Bureau /Haver Analytics

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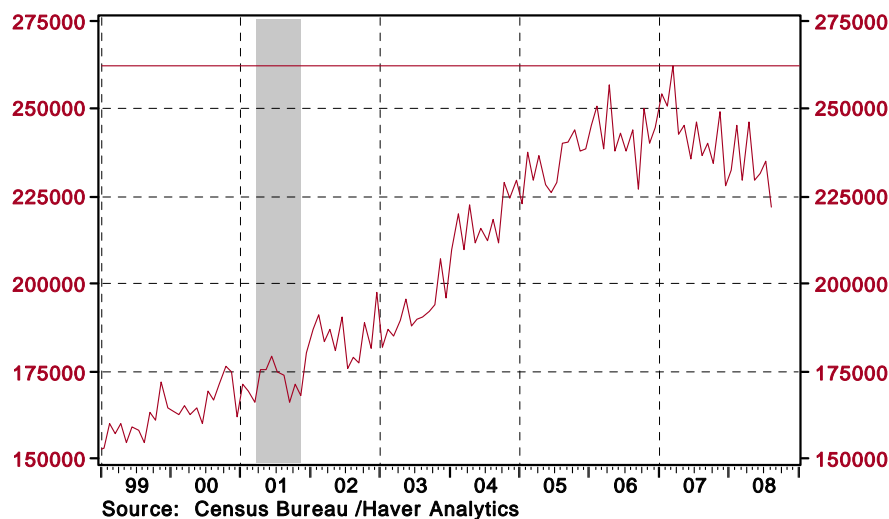
The median price of a new single-family home was \$221,900 in August, down 6.2% from a year ago. As mentioned earlier, the large inventory of unsold homes continues to put pressure on home prices. The median number of months to sell a completed home was 9.1-months in August (see chart 3).

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



The median price of a single-family home has dropped 15.5% from its peak in March 2007, the second largest peak-to-trough decline on record (see table 2), with a larger decline likely in the months ahead.

Chart 4
New 1-Family Houses: Median Sales Price
 Dollars



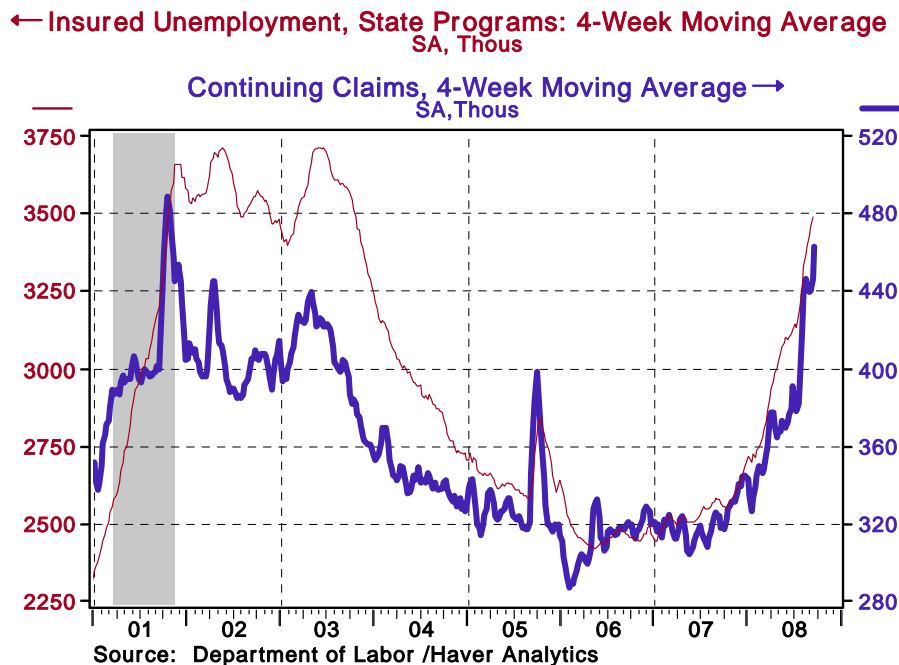
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Table 2 – Median price of single-family home across business cycles

Recession - Economy	Peak of Median Price Single-Family New Home Date	\$	Trough of Median Price Single-Family New Home Date	\$	Peak-to- trough change (percent)
Dec. 69-Nov.70	May-69	26,900	Oct-70	22,100	-17.84%
Nov. 73-Mar.75	Dec-73	35,700	Jan-74	34,200	-4.20%
Jan.80-Jul. 80	Sep-79	66,000	Dec-79	61,500	-6.82%
Jul.81-Nov. 82	Aug-81	72,600	Feb-82	65,700	-9.50%
Jul. 90-Mar.91	Apr-90	130,000	May-92	113,000	-13.08%
Mar. 01-Nov. 01	Dec-01	180,200	Sep-01	166,400	-7.66%
Current cycle	Mar-07	262,600	Aug-08	221,900	-15.50%

Initial jobless claims rose sharply in the week ended September 20 reflecting the impact of hurricanes. Initial jobless claims advanced 32,000 to 493,000 during the week ended September 20. The Labor Department has indicated that about 50,000 claims filed were related to Hurricanes Ike and Gustav. Continuing claims, which lag initial claims by one week, increased 63,000 to 3.542 million and the insured unemployment rate has held at 2.6% during three of the last four weeks. The main message is that firms remain reluctant to expand payrolls (see chart 5)

Chart 5



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The **durable goods** report for August shows widespread weakness. Orders of durable goods dropped 4.5% in August marked by a nearly 30.0% decline in orders of aircraft. Defense goods orders rose 9.4%, while bookings of non-defense capital goods excluding aircraft slipped 2.0%. With the exception of computers and electronic products, most categories posted declines in orders during August. On a year-to-year basis, both shipments and orders of durable goods turned strongly negative in August (see chart 6).

Chart 6

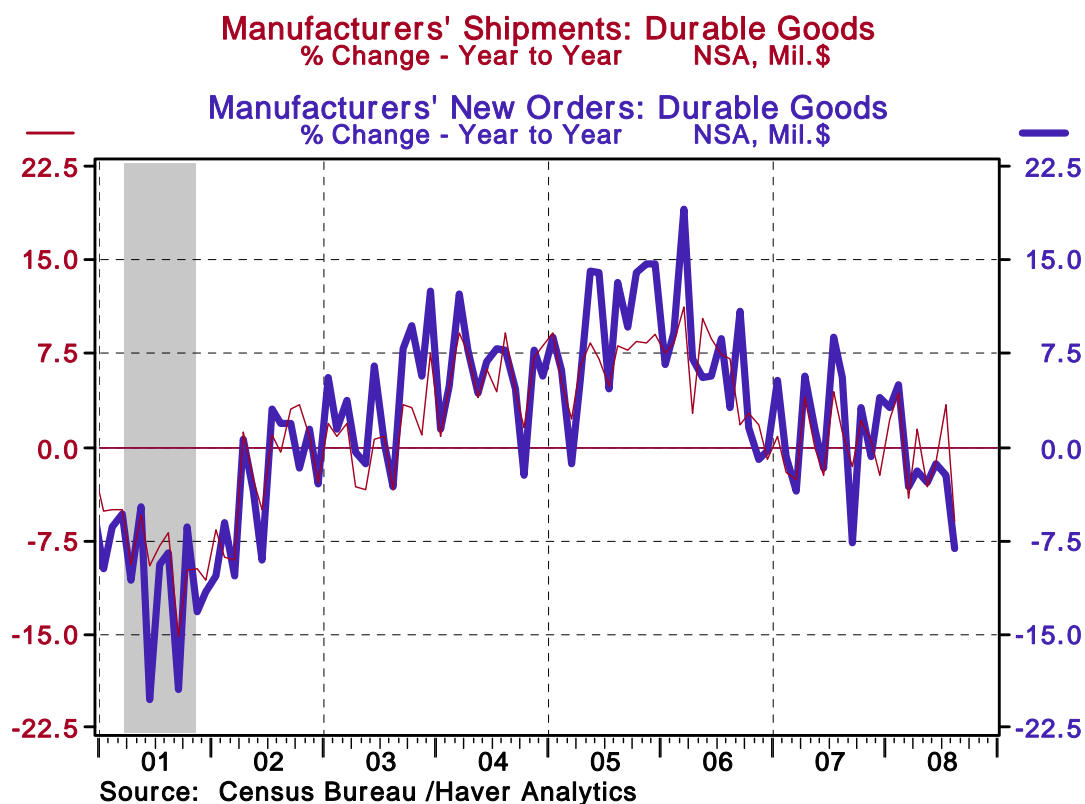


Table 3 – Orders of Durable Goods

DATE	DURABLE GOODS ORDERS - % CHANGE M-M				
	TOTAL	DEFENSE	NON-DEFENSE CAPITAL GOODS	NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT	COMPUTERS AND ELECTRONIC PRODUCTS
Feb-08	1.1	9.2	1.6	-0.9	1.5
Mar-08	-0.2	-13.2	1.4	-1.0	0.9
Apr-08	-1.0	3.3	-2.4	3.1	-2.0
May-08	0.1	14.1	0.0	-0.3	2.8
Jun-08	1.4	15.4	-2.3	1.6	1.0
Jul-08	0.8	-19.6	3.5	0.4	-4.5
Aug-08	-4.5	9.4	-7.5	-2.0	1.9

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Shipments of durable goods fell 3.5% in August after a 2.3% increase in the prior month. Shipments of non-defense capital goods excluding aircraft, a proxy for capital spending in the GDP report, dropped 1.7%. Inflation adjusted shipments of non-defense capital goods excluding aircraft in the July-August period fell at an annual rate of 4.0%, which implies a likely decline in capital spending in the third quarter GDP report.

Table 4 – Shipments of Durable Goods

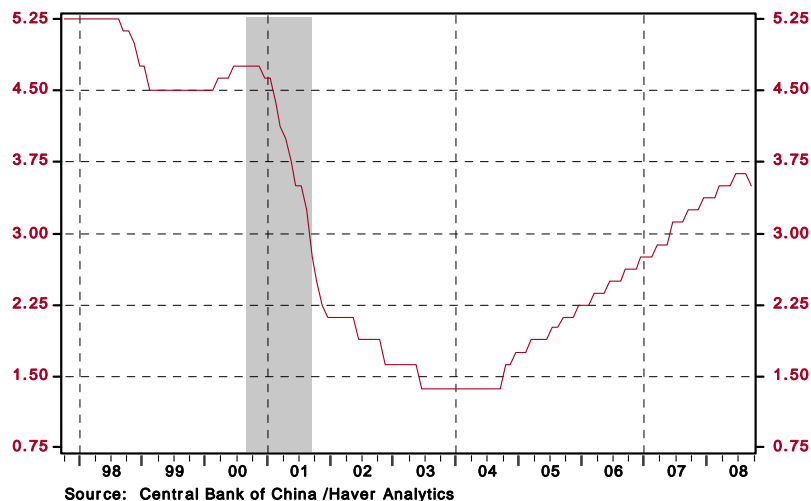
DURABLE GOODS SHIPMENTS- % CHANGE M-M				
DATE	TOTAL	NON-DEFENSE CAPITAL CAPITAL GOODS	NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT	COMPUTERS AND ELECTRONIC PRODUCTS
Feb-08	-1.9	-3.6	-1.3	-8.8
Mar-08	-0.9	0.3	0.8	-0.8
Apr-08	1.8	1.8	1.0	5.9
May-08	-1.2	-0.2	0.2	-2.7
Jun-08	0.9	0.7	0.6	-3.6
Jul-08	2.3	1.4	0.4	6.2
Aug-08	-3.5	-2.8	-1.7	-4.8

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Taiwan and the Flat-Panel Drag

Taiwan’s central bank surprised the world on Thursday by cutting rates for the first time in five years and establishing a potential peak to its tightening cycle. The 12.5 basis point cut brings its benchmark discount rate to 3.5%, and comes after raising rates in the previous sixteen consecutive policy meetings since 2004 to quell inflationary pressures from rising oil and food prices. (Shaded area is recession in Taiwan.)

Chart 7
Taiwan: Central Bank of China Rediscount Rate
 % per annum

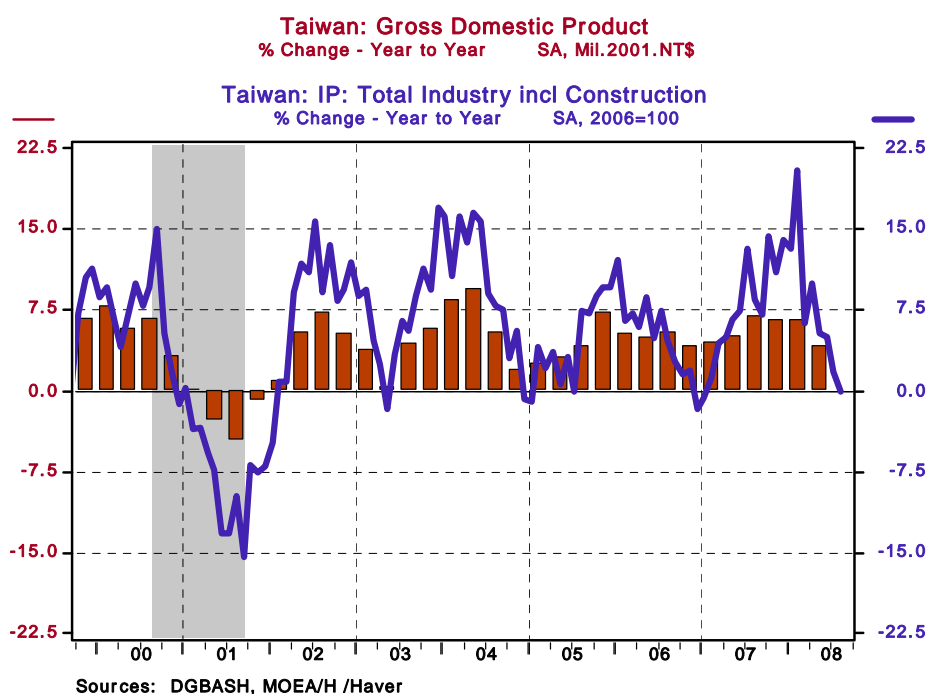


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In the official statement, Taiwan's central bank explained, "As the risk of a slowing economy has risen and inflationary pressures are easing, we have decided to cut interest rates." Fortunately, the committee had both the CPI reading and industrial production (IP) levels from the month of August in making its decision.

A quick gander at the IP trend (see chart below) would certainly have us jumping aboard the cutting bus, keeping in mind that industry accounts for over one-quarter of the country's total economic activity. (Also please keep in mind that this manufacturing powerhouse produces 80% of the world's motherboards and 40% of the world's flat-panel displays. The latest reading for August export orders was not good, and part of the slowdown in IP is a direct result of the world economy demanding less of Taiwan's integral computer and electronic hardware. August export orders rose yoy at the slowest pace in more than five years, and fell for the first time in six years to Taiwan's largest export market – China.)

Chart 8



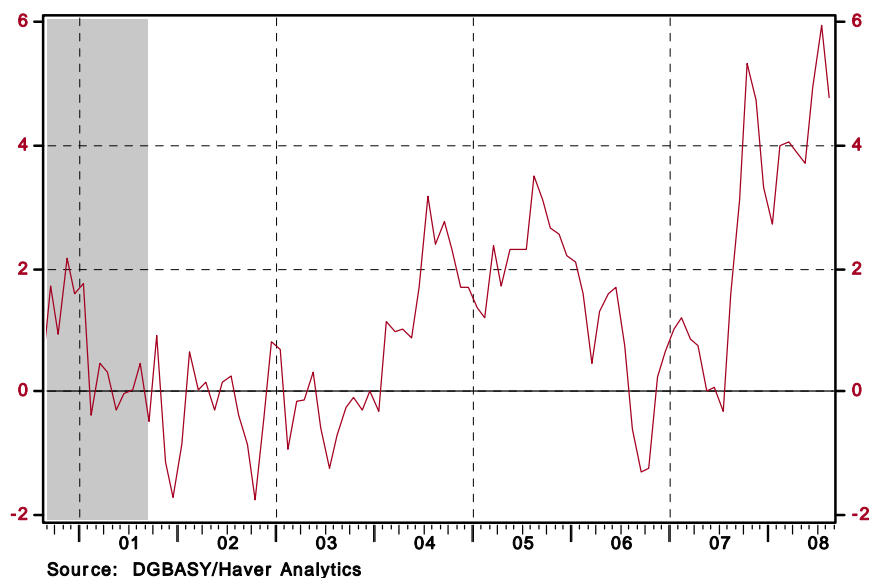
However, the August CPI reading is not so convincing. Consumer price inflation reached a 14-year high in July of 5.93% from a year earlier. August's reading of 4.78% is an obvious improvement but certainly nothing to write home about – and especially nothing to cut rates over. We would have expected the experts to wait for further inflation data to avoid the mistake of calling a false peak, especially given the resiliency of crude and food prices throughout this global slowdown.

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Chart 9

Taiwan: CPI: All Items

% Change - Year to Year SA, 2006=100



That said, we have most likely seen the peak of the latest tightening cycle. The central bank has obviously shifted its concern from inflation to growth following troubling data releases from its manufacturing sector and an apparent peak in the rate of inflation. Given the world's current predilection away from splurging on flat-panel TVs, we'd say another rate cut is very likely at the next policy meeting.

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