Northern Trust

DAILY GLOBAL COMMENTARY

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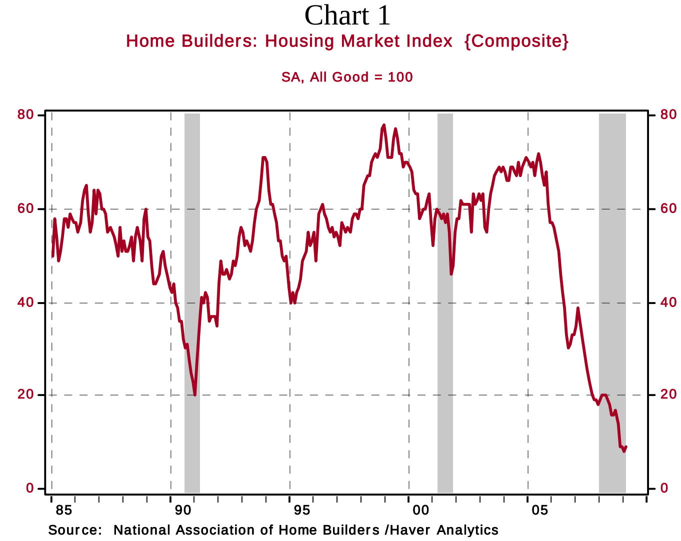
Housing Market Index Showing Signs of Stability?

February 17, 2009

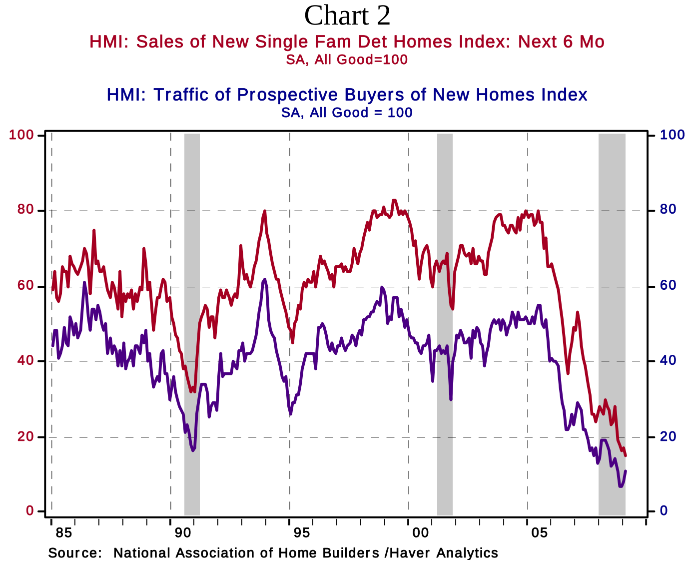
The Housing Market Index (HMI) of the National Association of Home Builders inched up to 9.0 in February from 8.0 in January. It is a small but noteworthy improvement because a decline of the same magnitude would be seen in a different light. Also, it is necessary to note that this is a single monthly reading. Additional gains of the index in the months ahead will be necessary to confirm that the housing market has turned the corner.

Chart 1



The index tracking present sales moved up to 7.0 from 6.0 in January, but the index measuring sales six months ahead slipped to 15.0 during February from 17.0 in the prior month. The index reflecting traffic of prospective buyers jumped to 11.0 in February from 8.0 in the previous month, another significant aspect of the report.

Chart 2



Foreign Appetite for Treasury Securities Remains in Place, For Now

The tremendous supply of U.S. Treasury securities in the pipeline is cited as a factor that may deter foreign appetite for U.S. Treasury securities. In December, net private sector purchases of U.S. Treasury securities were $11.1 billion putting quarterly net purchases at $45.5 billion. Net purchases of Treasury securities were higher in the second ($86.7 billion) and third ($67.7 billion) quarters of 2008. Net official purchases of Treasury securities increased $3.9 billion in December, after two monthly declines. In the fourth quarter, official purchases of Treasury securities declined. In 2008, private sector net purchases of Treasury securities stood at $239.4 billion vs. $195 billion during 2007, while official purchases were $76.6 billion in 2008 vs. $3.0 billion in 2007 (see chart 4).

Chart 3

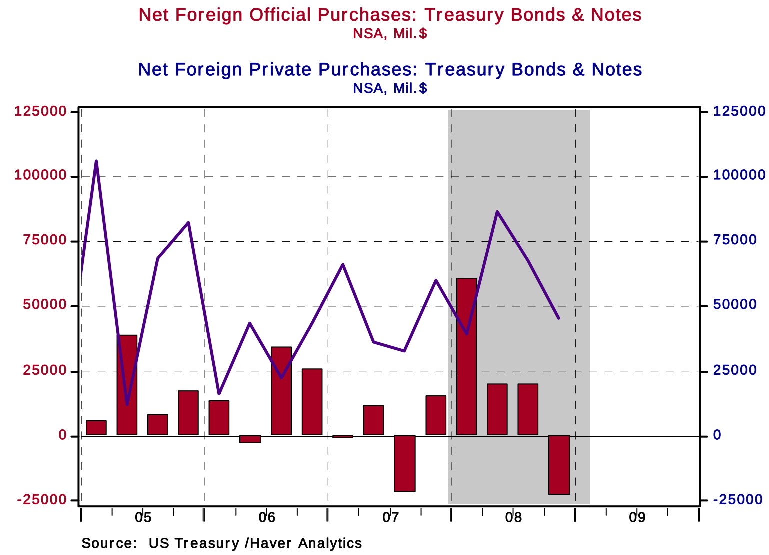
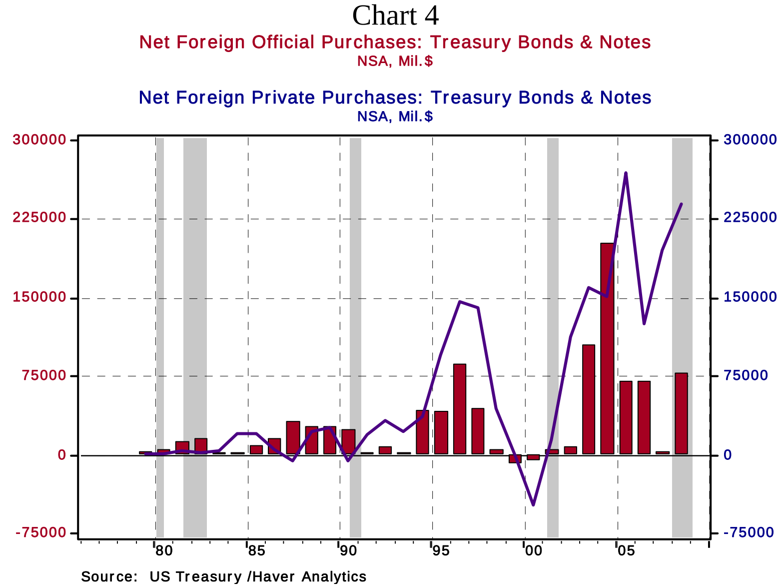


Chart 4



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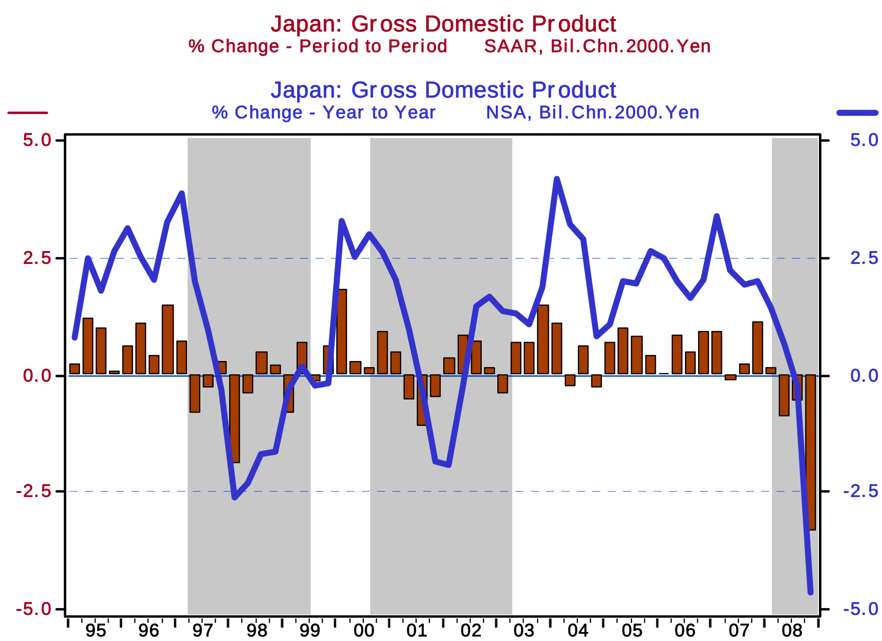
Japan: Maybe 'Abysmal' Was an Understatement

With US markets closed yesterday, Japan's economic news received extra attention – and not for the better. The release of Q4 GDP figures matched our verbal forecast of 'abysmal' and put Tokyo's markets on watch for further bad news. GDP fell by 3.3% on the quarter and by 4.6% on a year-over-year basis, with 2008 posting a decline of 0.7% for the year as a whole. The quarterly decline was the worst drop in 34 years, and there is not much evidence to suggest that Q1 2009 will somehow suggest the worst has passed.

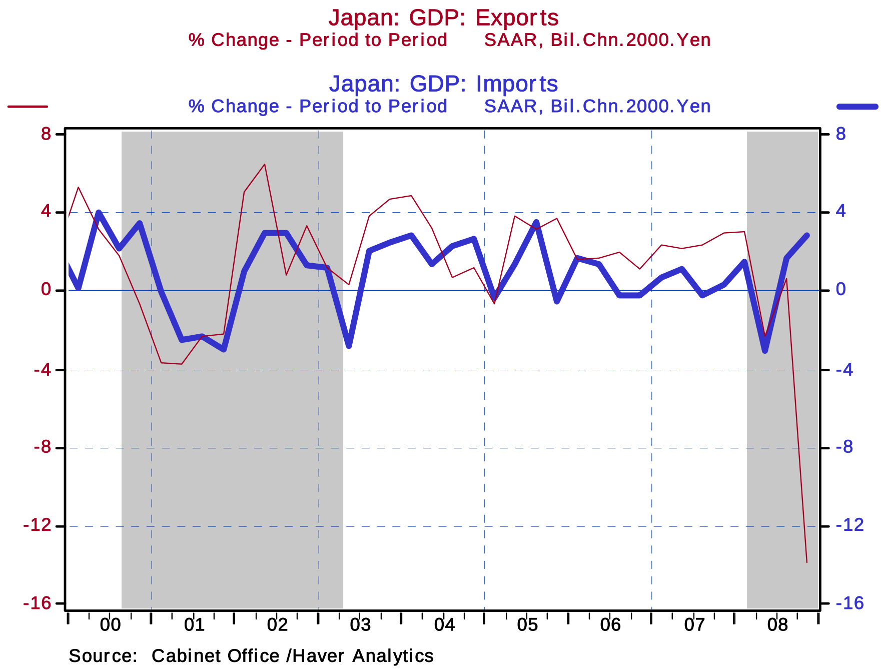
Chart 5



Source: Cabinet Office /Haver Analytics

The main culprit of this sudden fall was net exports, which plummeted 47.6% on the quarter to about 3.0% of GDP, but all major categories of national production dipped to some degree. On a quarterly basis, Q4 imports eked out a 2.9% gain while exports fell by 13.9%. It is almost certain that imports will contract in Q1, but with exports seemingly in freefall, we recognize that net exports will not be a generous contributor to economic growth in 2009.

Chart 6



Looking into 2009, we expect Q1 to show less of a decline in GDP as net exports find a floor, but by no means does this imply stability. With the industrialized world in recession and not interested in overseas purchases, Japan will not be able to export itself out of trouble. The first signs of economic life will not emerge at least until Q2 when the new fiscal year begins and stimulative policies kick in, and by Q3 the bulk of the government's economic priming should be showing up in the economic releases. However, considering the stiff headwind that Japan faces this year in the form of low global demand and weak confidence, neither economic contraction nor deflation will be reversed in 2009.

Also of note is the ruling LDP's inability to effectively govern during this period of crisis. Prime Minister Taro Aso's approval rating is 14% and falling, while the party as a whole only claims a rating of 22%. The upper house is under opposition control, giving it the power to stall legislation, and general elections are due by October. With all of these political complications, it is not surprising that PM Aso cannot improve his own situation, much less the lives of the country's 127 million residents. And until matters settle down in Tokyo, Japanese consumers have every reason to contain their enthusiasm until after the October elections at the earliest.

Last month the Bank of Japan released an ominous outlook, suggesting the economy would be in recession until Q1 2010 and experience deflation until 2011 (See "Japan: No Sale!", January 22, 2009). Given yesterday's GDP release and today's situation, we have no real choice but to share the central bank's woeful outlook.