Northern Trust

DAILY GLOBAL COMMENTARY

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

Asha G. Bangalore
agb3@ntrs.com

Index of Leading Indicators Advances in January, but Wait Before Taking a Leap

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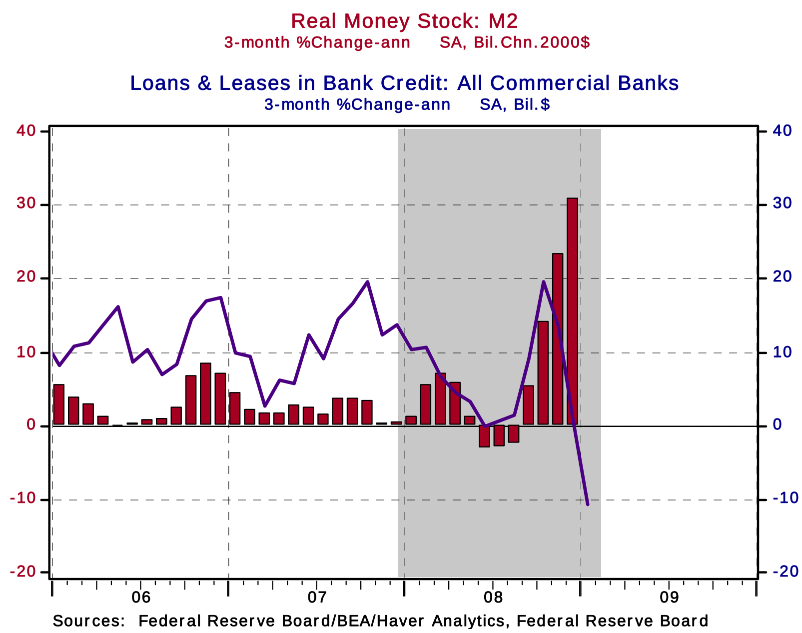
The Index of Leading Economic Indicators (LEI) increased 0.4% in January after a revised 0.2% gain in December, previously reported as a 0.3% increase. The index of LEI has moved up for two straight months. Historically, the LEI has been a reliable indicator warning about turning points of the economy ahead of other economic indicators. The two consecutive monthly gains of the index have to be interpreted with caution. Inflation adjusted money supply has made hefty positive contributions for five straight months and the interest rate spread is another component that has been an advancing component for several months. Both of these components have risen for reasons that do not reflect bullish economic conditions. Inflation adjusted money supply is advancing because currency, demand and saving deposits have risen sharply. At the same time, bank lending has contracted. The two signals are inconsistent and they do not denote the underlying conditions that suggest a revival of economic activity.

Chart 1



The 10-year Treasury note yield hit a low of 2.08% on December 18, 2008 (see chart 2) and registered a high of 3.07% on February 9 and was trading around 2.80% as of this writing. The federal funds rate will most likely hold at 0%-0.25% for the rest of the year. Therefore, an increasing interest rate spread reflects the upward trend of the 10-year Treasury note yield. Financial market participants are currently projecting a sharp increase in the supply of Treasury securities to finance the large stimulus package which is reflected in the upward movement of the 10-year Treasury note yield. As mentioned earlier, the cause for a widening of the spread is not expectations of economic growth but largely the expected jump in supply of 10-year Treasury securities. As result of these special factors, the contributions of these two components need to be scaled back.

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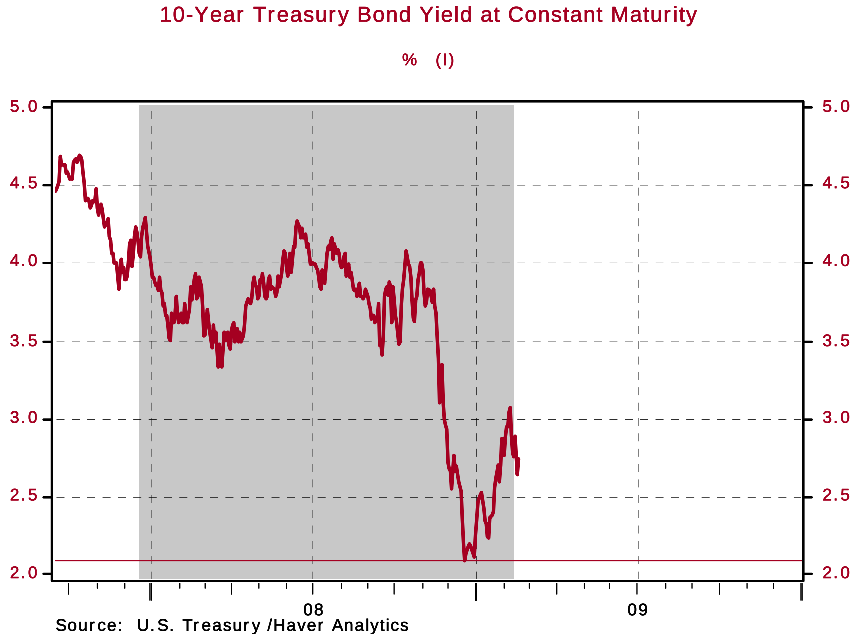
Chart 2



Among the other components of the index, consumer expectations also made a positive contribution during January. However, consumer expectations fell 8.7 points in the early-February survey after two monthly gains. Of the remaining seven components, gains in orders of consumer durables and capital goods are assumptions which are most likely to be revised down after the durable goods report is published next week. Five components of the LEI advanced in January, while the remaining five fell. Stock prices, supplier deliveries, building permits, number of initial jobless claims, and factory workweek declined in January. During the six months ended January, the LEI has declined at an annual rate of 3.7% vs. 2.1% in the prior six-month period. Therefore, it is too early to view the gains of the LEI as an indicator of improving economic conditions.

Wholesale Prices Moved Up in January, But Inflation is a Non-Issue, For Now

The Producer Price Index (PPI) for Finished Goods rose 0.8% in January, following a string of five monthly declines. The major culprit was a 3.7% jump of the energy price index which had declined for six consecutive months and a 0.4% increase of the core PPI, which excludes food and energy. The food price index fell 0.4% in January after a 1.4% drop in the prior month. Higher energy prices in February point to another monthly gain of the energy price index.

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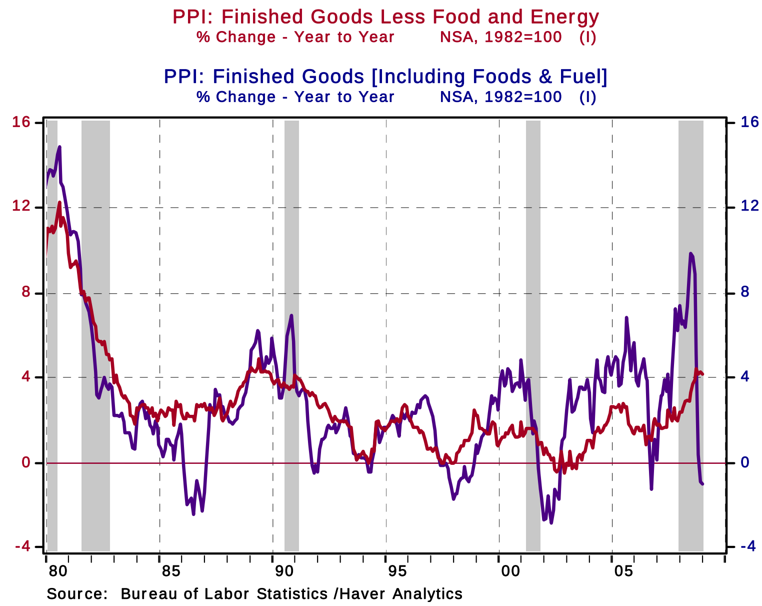
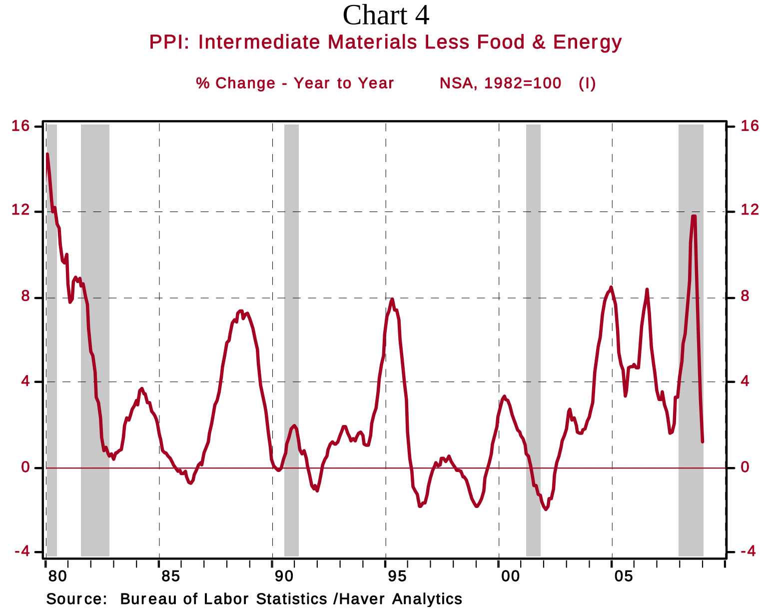
Chart 3



Among the core items, higher prices for toys, sporting goods, commercial furniture, passenger cars, and communication equipment helped to raise the core PPI in January. On a year-to-year basis, the core PPI was up 4.2%, a deceleration from the 4.4% peak in October 2008. At the earlier stages of production, the intermediate goods price index fell 0.7% and the core intermediate goods price index was down 1.1%. The core intermediate goods price index rose 1.2% from a year ago, a sharp moderation from the nearly 12.0% increase in September 2008.

Chart 4



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PRODUCER PRICE INDEX – JANUARY 2009

	% change prior month	annualized % change 3 mo. ago	annualized % change 6 mo. ago	% change Jan-09 yoy	% change Jan-08 yoy
PPI - FINISHED GOODS					
ALL ITEMS	0.8	-13.3	-13.0	-1.0	-0.9
CORE - ALL ITEMS LESS FOOD & ENERGY	0.4	2.9	4.0	4.2	4.3
FOOD	-0.4	-6.2	-2.7	1.8	3.7
ENERGY	3.7	-53.5	-52.9	-18.4	-20.3
CAPITAL EQUIPMENT	0.5	3.1	3.9	4.0	4.0
PPI - INTERMEDIATE GOODS					
ALL ITEMS	-0.7	-31.5	-26.3	-3.5	-1.7
CORE	-1.1	-22.2	-13.2	1.2	3.3
PPI - CRUDE GOODS					
ALL ITEMS	-2.9	-58.5	-70.6	-29.1	-25.0
CORE	0.1	-63.8	-67.0	-27.9	-24.3

Jobless Claims – Dismal Labor Market Conditions Persist

Initial jobless claims held steady at 627,000 during the week ended February 14. Continuing claims, which lag initial claims by one week, rose 170,000 to 4.987 million. The insured unemployment rate rose to 3.7% from 3.6% in the prior week. These staggering numbers underscore the dire status of the labor market.

Chart 5

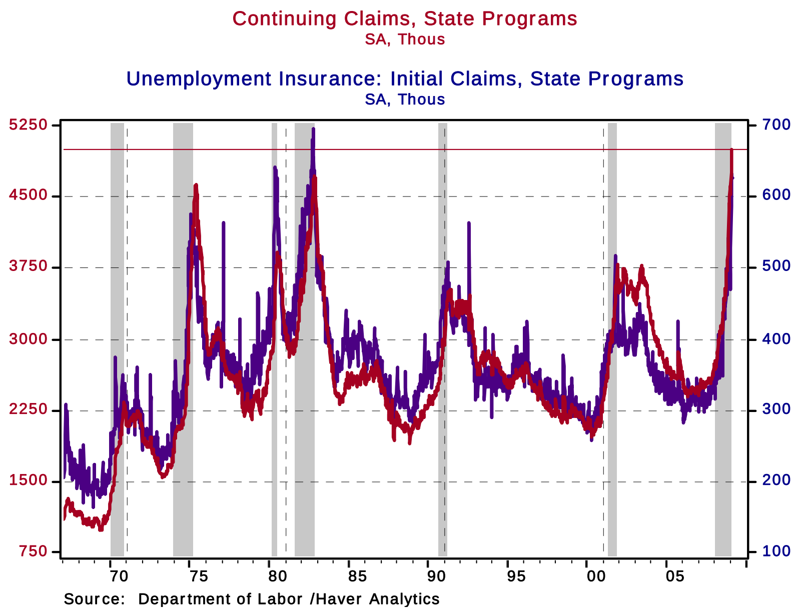

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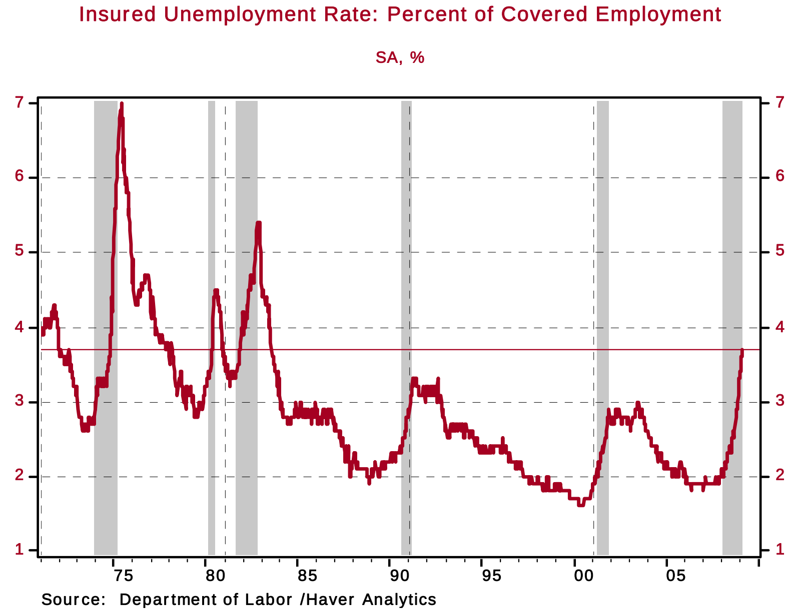
Chart 6



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