

DAILY GLOBAL
COMMENTARY

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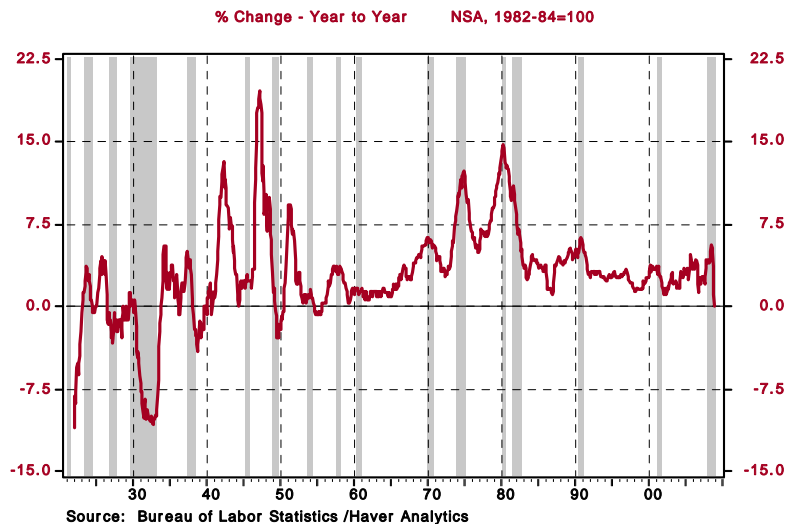
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January CPI Report – Underlying Trend of Deflation Will Fade Only Later

February 20, 2009

The Consumer Price Index (CPI) rose 0.3% in January, the first increase since July 2008. The CPI is unchanged from a year ago, the lowest reading since August 1955. The core CPI, which excludes food and energy, moved up 0.2% after a steady reading in December. On a year-to-year basis, the core CPI advanced 1.7% in January, the lowest since August 2004. Although these headlines take the edge off concerns about deflation temporarily, the underlying trend of deflation will fade only much later in 2009.

Chart 1
CPI-U: All Items



We are predicting a 0.9% drop of the CPI, on an annual average basis, in 2009 vs. a 3.8% increase in 2008. The Blue Chip Consensus forecast (February 2009) is a 0.8% decline of the CPI during 2009. We also expect real GDP to decline 2.7% in 2009. The Blue Chip Consensus prediction is a 1.9% drop in real GDP during 2009. The latest FOMC projections about the economy also include GDP contracting in 2009 (-1.3% to -0.5% on a Q4-to-Q4 basis) and the central tendency for inflation (based on personal consumption expenditure price index) has a forecast range of 0.3% to 1.0% on a year-over-year basis. The basic message is that 2009 is most likely to appear in history books as the year when both CPI and GDP declined. The last time this event occurred was in 1949 when the CPI fell 1.0% and GDP dropped 0.5%. On an annual average basis the CPI has dropped only in 1949 and 1955 (-0.3%) over in the post WWII period. The combination of falling prices and output is problematic because it can evolve into a deflationary spiral and that is precisely the reason that spending needs to grow in 2009. It also justifies the expansionary fiscal policy put in place in addition to aggressive monetary policy actions of the Fed. That is also the reason the FOMC predictions, published on February 18, include a longer-run forecast of inflation to influence expectations of inflation and reduce market alarm about impending deflation. On February 18, Chairman Bernanke noted that *“increased clarity about the FOMC’s views regarding longer-term inflation should help to better stabilise the public’s inflation expectations, thus contributing to keeping actual inflation from rising too high or falling too low”*.

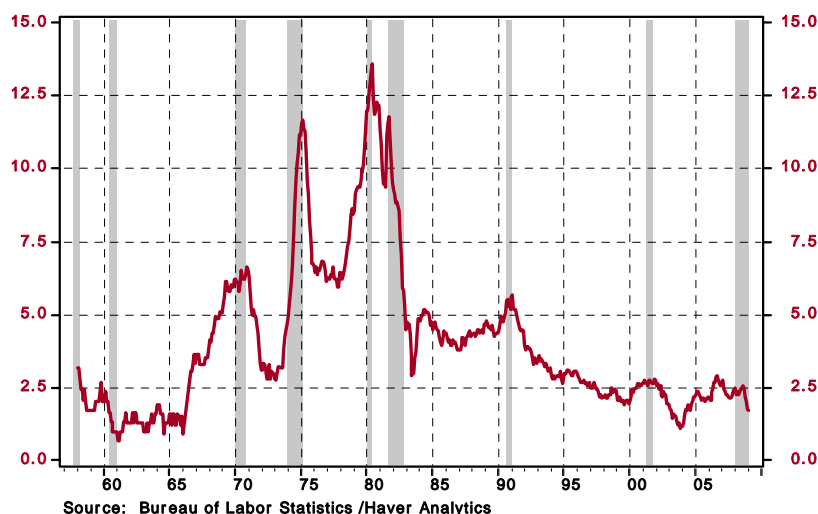
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The details of the report show that the energy price index moved up 1.7% in January, after five consecutive monthly declines. The early quotes for February suggest an increase in the energy price index. The food price index inched up 0.1% following an unchanged reading for the prior month. The core CPI, which excludes food and energy, is up 1.7% in January, as mentioned earlier. Higher prices for cars (+0.2%), clothing (+0.3%), medical care (+0.4%), and shelter (+0.2%) were some of the price hikes that led to an increase of the core CPI.

Chart 2

CPI-U: All Items Less Food and Energy

% Change - Year to Year NSA, 1982-84=100



HIGHLIGHTS OF THE CONSUMER PRICE INDEX – JANUARY 2009

	% change prior month	annualized % change 3 mo. ago	annualized % change 6 mo. ago	% change Jan-09 yoy Jan-08 yoy	
CPI - ALL ITEMS	0.3	-8.4	-5.8	0.0	0.1
CORE - ALL ITEMS LESS FOOD & ENERGY (77.75)*	0.2	0.9	1.0	1.7	1.8
CPI ALL ITEMS LESS ENERGY (92.4)	0.2	1.0	1.4	2.2	2.4
FOOD (14.63)	0.1	1.1	3.6	5.3	5.9
ENERGY (7.62)	1.7	-65.4	-53.0	-20.4	-21.3
SHELTER (33.2)	0.2	1.4	1.5	1.8	1.9
COMMODITIES (39.6)	0.5	-20.8	-14.9	-4.0	-4.1
COMMODITIES LESS FOOD & ENERGY (21.5)	0.1	-0.9	-1.3	-0.5	-0.6
SERVICES (60.4)	0.1	1.0	1.0	2.8	3.0
SERVICES LESS ENERGY SERVICES (56.3)	0.2	1.6	1.9	2.5	2.7
FRB CLEVELAND MEDIAN CPI	0.2	2.0	2.4	2.7	3.1

* - Figures in parentheses denote the relative importance of each category in the CPI.

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Highlights of Next Week: Bernanke testifies on 2/24 at 10.00 am ET

Date	Economic Indicator	TNT	Consensus	Previous
2/24/2009	Case/Shiller Home Price Index (Dec.)		-2.2%	-2.2%
	Consumer Confidence (Feb)		35.5	37.7
2/25/2009	Existing home sales (Jan.)		4.8 mln.	4.74 mln.
2/26/2009	Initial claims ('000s)		625	627
	Durable goods orders (Jan.)	-2.50%	-2.5%	-3.0%
	New Home Sales (Jan.)		0.33 mln	0.33 mln
2/27/2009	Real GDP 2008:Q4 Preliminary est.	-5.00%	-5.4%	-3.8%
	Consumer Sentiment Index (Feb.)		56.0	61.2

Key Interest Rates

	2/20/2009	1-wk. change, bps	4-wk. change, bps	1-yr. change, bps
3-month Libor	1.25	1	8	-183
2-year U.S. Treasury note yield	0.93	-6	10	-105
10-year U.S. Treasury note yield	2.78	-27	13	-101

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Global Economic Data

	Real GDP		CPI		Unemployment Rate			Central Bank Rate		
	SAAR, yoy %		NSA, yoy%		%	year-ago	%	year-ago		
United States	-0.2	Q3-08	0.0	Dec-08	7.6	Jan-09	4.9	0.13	Jan-09	3.00
Euro-Area	-1.2	Q3-08	1.6	Dec-08	8.0	Dec-08	7.2	2.00	Jan-09	4.00
Japan	-4.6	Q3-08	0.4	Dec-08	4.4	Dec-08	3.8	0.10	Jan-09	0.50
UK	0.3	Q3-08	3.0	Dec-08	3.8	Jan-09	2.5	1.50	Jan-09	5.50
Australia	1.9	Q3-08	3.7	Q3-08	4.8	Jan-09	4.1	4.25	Jan-09	6.75
Canada	0.5	Q3-08	1.1	Dec-08	7.2	Jan-09	5.8	1.00	Jan-09	4.00
China	6.8	Q4-08	0.9	Dec-08	4.2	Q4-08	4	1.14	Dec-08	1.89
India	7.6	Q3-08	9.7	Dec-08	--	--	--	4.00	Jan-09	6.00
New Zealand	-1.4	Q3-08	3.4	Q3-08	4.6	Q4-08	3.4	3.50	Jan-09	8.25
Norway	0.8	Q3-08	2.2	Dec-08	2.4	Q3-08	2.9	3.00	Jan-09	5.25
Singapore	-3.6	Q3-08	4.4	Dec-08	2.6	Q4-08	1.7	0.27	Jan-09	1.72
South Korea	-3.6	Q3-08	3.7	Jan-09	3.4	Jan-09	3.1	2.50	Jan-09	5.00
Sweden	0.3	Q3-08	1.3	Dec-08	6.8	Jan-09	6.0	2.00	Jan-09	4.00
Switzerland	1.7	Q3-08	0.1	Dec-08	2.9	Jan-09	2.6	0.53	Jan-09	2.65
Taiwan	-7.9	Q3-08	0.0	Jan-09	5.0	Dec-08	3.9	1.50	Jan-09	3.38
Thailand	4.1	Q3-08	-0.4	Jan-09	1.7	Dec-08	1.2	2.50	Jan-09	3.75
* UK - Claimant Count Unemployment Rate										
* Thailand - GDP Non-Seasonally Adjusted										
* EA-13, UK, Sweden - Harmonized Unemployment										

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Historical US Economic Data

	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08	Aug-08	Jul-08	Jun-08	May-08	Apr-08	Mar-08	Feb-08
Payroll Employment (000)	-598	-577	-597	-380	-321	-175	-128	-161	-137	-160	-122	-144
% Change, Year Ago *	-2.5	-2.2	-1.6	-1.1	-0.7	-0.4	-0.3	-0.2	-0.1	0.2	0.3	0.5
Unemployment Rate (%)	7.6	7.2	6.8	6.6	6.2	6.2	5.8	5.6	5.5	5.0	5.1	4.8
Avg. Hourly Earnings (% Chg.)	0.3	0.4	0.3	0.4	0.2	0.4	0.3	0.3	0.3	0.2	0.4	0.3
% Change, Year Ago	3.9	4.0	3.9	3.9	3.6	3.8	3.5	3.6	3.7	3.8	3.9	3.8
PPI (% Chg.)	0.8	-1.9	-2.5	-2.7	-0.1	-0.5	1.3	1.3	1.5	0.2	0.9	0.4
% Change, Year Ago *	-1.0	-0.9	0.4	5.2	8.8	9.7	9.9	9.1	7.3	6.4	6.7	6.5
CPI (% Chg.)	0.3	-0.8	-1.7	-0.8	0.0	0.0	0.7	0.9	0.5	0.2	0.4	0.2
% Change, Year Ago *	0.0	0.1	1.1	3.7	4.9	5.4	5.6	5.0	4.2	3.9	4.0	4.0
ISM Diffusion Index (%)	35.6	32.9	36.6	38.7	43.4	49.3	49.5	49.5	49.3	48.6	49.0	48.8
Industrial Production (% Chg.)	-1.8	-2.4	-1.2	1.6	-4.1	-1.3	0.0	0.1	-0.2	-0.5	-0.2	-0.3
% Change, Year Ago	-10.0	-8.2	-5.9	-4.3	-6.2	-2.0	-0.7	-0.1	0.2	0.4	1.5	1.6
Capacity Utilization (%)	72.0	73.3	75.2	76.1	75.0	78.3	79.4	79.6	79.6	79.9	80.4	80.7
Nondefense Cap. Goods ex Aircraft												
- Orders (% Chg.)		-3.2	1.1	-6.7	-3.4	-2.3	0.3	1.6	-0.3	3.1	-1.0	-0.9
% Change, Year Ago *		-13.4	-7.9	-7.2	0.1	-0.2	6.6	3.4	3.4	2.6	-1.1	8.8
- Shipments (% Chg.)		0.6	-1.3	-3.7	1.7	-2.1	0.3	0.6	0.2	1.0	0.8	-1.3
% Change, Year Ago *		-4.8	-5.2	-2.2	2.7	-1.6	6.1	2.0	2.7	3.7	1.0	6.1
Retail Sales (% Chg.)	1.0	-3.0	-2.4	-3.4	-1.6	-0.7	-0.6	0.1	0.8	0.2	0.5	-0.9
% Change, Year Ago	-9.0	-8.6	-10.0	-4.0	0.1	-0.4	4.1	1.4	2.5	3.7	0.3	7.0
Real Personal Consumption (% Chg.)		-0.5	0.3	-0.6	-0.5	-0.1	-0.6	-0.2	0.2	0.1	0.3	-0.2
% Change, Year Ago		-1.7	-1.2	-1.1	-0.6	-0.2	0.2	1.1	1.4	1.3	1.5	1.2
Personal Income (% Chg.)		-0.2	-0.4	-0.1	0.0	0.3	-0.8	0.1	1.8	0.0	0.4	0.2
% Change, Year Ago		1.4	2.1	2.9	3.3	3.8	3.9	5.3	5.6	4.0	3.9	4.1
New Home Sales (SAAR, mn)		0.33	0.39	0.41	0.43	0.45	0.51	0.50	0.52	0.54	0.51	0.57
% Change, Year Ago *		-47.7	-40.0	-43.9	-34.0	-36.7	-36.8	-38.4	-38.0	-41.0	-38.8	-29.4
Existing Home Sales (SAAR, mn)		4.74	4.45	4.91	5.14	4.91	5.02	4.85	4.99	4.89	4.94	5.03
% Change, Year Ago *		1.1	-18.0	-1.9	6.8	-15.0	-11.3	-16.7	-16.3	-15.7	-22.5	-19.4
Housing Starts (SAAR, mn)	0.47	0.56	0.66	0.77	0.82	0.85	0.95	1.09	0.98	1.00	0.99	1.11
% Change, Year Ago *	-57.3	-44.4	-46.5	-40.7	-27.2	-37.0	-32.2	-25.6	-32.8	-34.0	-33.6	-24.0
International Trade (Bils \$)		-39.9	-41.6	-57.2	-57.1	-59.4	-61.6	-59.2	-60.5	-61.9	-57.5	-62.0
	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06
Real GDP, Chain Weighted, SAAR	-3.8	-0.5	2.8	0.9	-0.2	4.8	4.8	0.0	1.5	0.8	2.7	4.8
% Change, Year Ago	-0.2	0.7	2.1	2.5	2.3	2.8	1.8	1.3	2.4	2.4	3.2	3.1
Chain-Weighted Price Index, SAAR	-0.1	3.9	1.1	2.6	2.8	1.5	2.0	4.1	2.2	2.8	2.7	3.5
% Change, Year Ago	1.9	2.6	2.0	2.3	2.6	2.5	2.8	2.9	2.8	3.2	3.5	3.4
Nominal GDP, SAAR	-4.1	3.4	4.1	3.5	2.3	6.4	6.9	4.3	3.7	3.6	5.5	8.6
% Change, Year Ago	1.7	3.3	4.1	4.7	4.9	5.3	4.6	4.3	5.3	5.7	6.8	6.6
Employment Cost Index (%)	0.5	0.7	0.7	0.7	0.8	0.8	0.9	0.8	0.8	1.0	0.9	0.6
% Change, Year Ago	2.6	2.9	3.1	3.3	3.3	3.3	3.3	3.5	3.3	3.3	3.0	2.8
Productivity Nonfarm, SAAR	3.2	1.5	3.6	2.6	0.8	5.8	4.1	0.0	0.2	-2.1	1.8	2.5
% Change, Year Ago	2.7	2.2	3.2	3.3	2.7	2.5	0.5	0.0	0.6	0.3	1.7	1.3
Unit Labor Costs, Nonfarm, SAAR	1.8	2.6	-2.6	1.2	4.5	-2.4	-3.2	4.9	9.1	4.1	-1.1	2.6
% Change, Year Ago	0.7	1.4	0.1	0.0	0.9	2.0	3.7	4.2	3.6	2.6	2.2	2.9

Source: Haver Analytics

* NSA

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