

DAILY GLOBAL COMMENTARY

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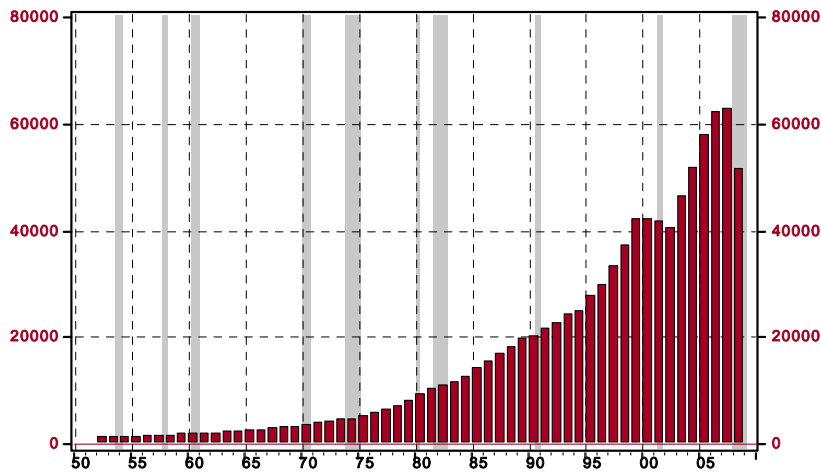
**Household Net Worth Records Historic Plunge**

March 12, 2009

Household net worth fell \$5.1 trillion in the fourth quarter of 2008, putting the annual decline at \$11.2 trillion. Net worth of households in 2008 is now slightly below the mark seen in 2004.

Chart 1  
 Households & Nonprofit Organizations: Net Worth

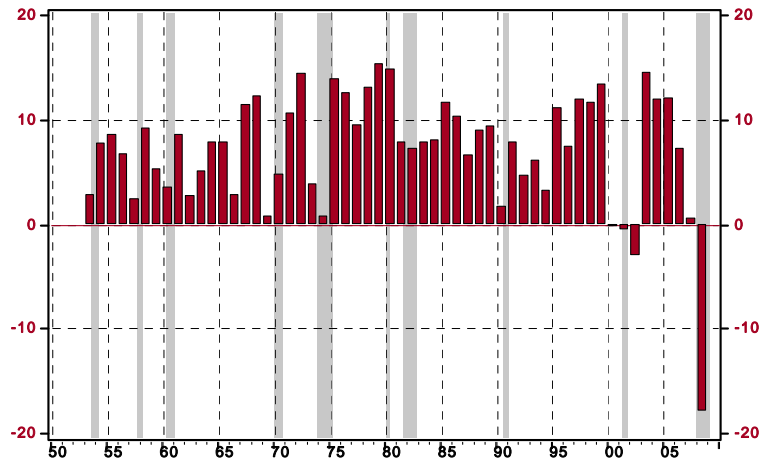
NSA, Bil. \$



The 2008 drop in net worth is the largest annual decline on record (see chart 2). During 2000-2002, households lost 3.8% of their net worth which was a record when it occurred. The 17.9% drop in net worth during 2008 is staggering and will have a significant impact on the future trajectory of household consumption and saving. Nearly 25% of the loss in net worth was from real estate, and equities and mutual fund shares made up 50% of the loss.

Chart 2  
 Households & Nonprofit Organizations: Net Worth

% Change - Period to Period NSA, Bil. \$



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Net worth of households has declined and their debt levels (chart 3) have grown noticeably slowly in 2008. But, the sharp drop in net worth has led to a debt-to-net worth ratio for households that is alarming (see chart 4).

Chart 3

Households: Liabilities: Credit Market Debt  
SA, Bll\$

Households: Liabilities: Credit Market Debt Growth  
SAAR, %

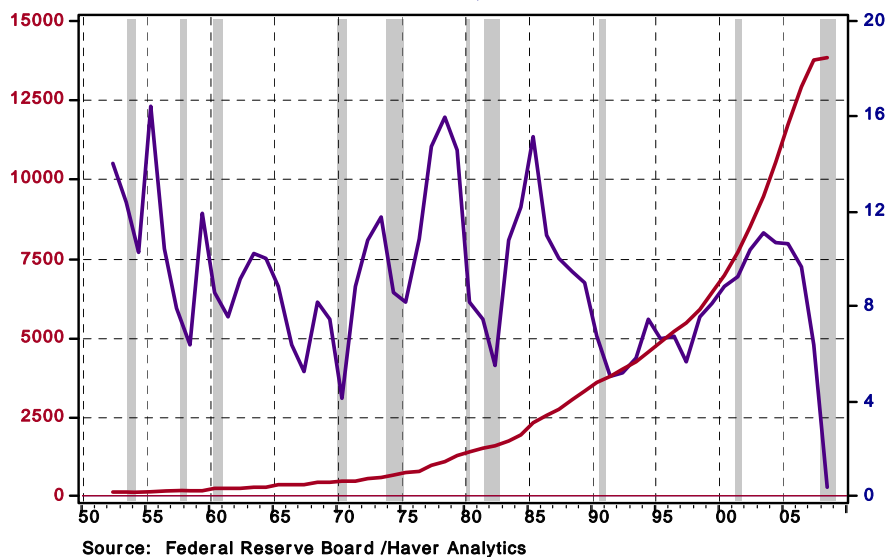
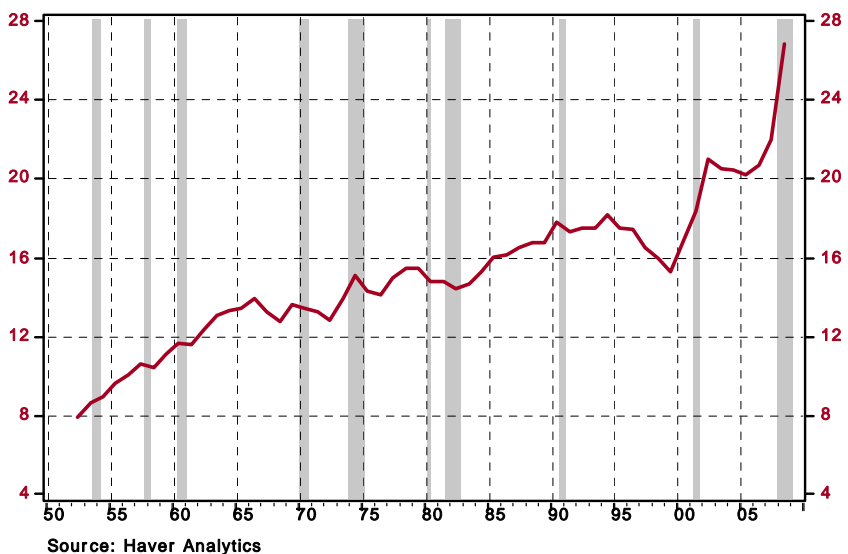


Chart 4

Households: Debt/Net Worth

%

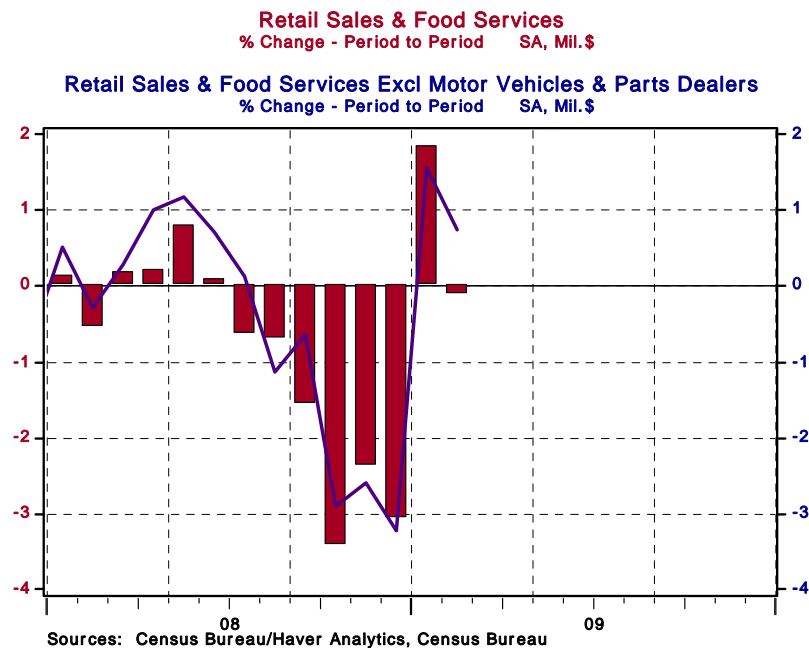


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## Consumer Spending – Less Pronounced Weakness in Q1

Retail sales dropped 0.1% in February after a 1.8% gain in the prior month. Excluding autos (-4.3%) and gasoline (+3.4%), retail sales moved up 0.5% in February vs. a 1.4% jump in January. Most of the major components of retail sales excluding autos and gasoline advanced in February – apparel (+2.8%), general merchandise (+1.3%), furniture (+0.7%), electronics and appliances (+1.2%). The exceptions were the 0.2% decline in sales of building materials and a 0.7% drop in purchases of food. In addition to the strength implied by these numbers, retail sales in January were revised to a 1.8% increase from the earlier estimate of a 0.7% gain, which implies that real consumer spending in January will be raised from the current estimate of a 0.4% increase. Therefore, on a quarterly basis, real consumer spending is most likely to show a decline in the first quarter but it will be significantly smaller than the 3.8% and 4.3% drops recorded in the third and fourth quarters of 2008.

Chart 5



## Retail Sales – February 2009

	December	January	February	08:Q4	09:Q1*
<b>Total Retail Sales &amp; Food Service, % m-o-m</b>	-3.1	1.8	-0.1	-25.5	-4.5
% change y-o-y	-8.6	-8.3	-12.3		
<b>Ex-auto, % m-o-m</b>	-3.2	1.6	0.7	-23.2	-4.5
% change y-o-y	-6.0	-5.1	-8.7		
<b>Ex- autos and gas % m-o-m</b>	-1.8	1.4	0.5	-10.6	1.4
% change y-o-y	-2.6	-0.6	-4.7		
<b>Exc. Bldg. mat., auto, gas, % m-o-m</b>	-3.3	1.8	0.8	-9.2	3.3
% change y-o-y	-2.4	0.7	-3.7		

\* -annualized change based on Jan. - Feb. data

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The important question is if this pace of gains in retail sales will prevail in an environment where employment conditions are abysmal. The dire employment situation persuades us to forecast weakness in consumer spending in the near term (see comment on initial jobless claims below).

### Inventories-Sales Ratio Holds Steady in January

Business inventories (-1.1%) and sales (-1.0%) both fell in January, but the pace of the decline was more modest compared with the drops seen in December when both inventories (-1.6%) and sales (-3.4%) also recorded reductions. The good news is that the inventories-sales ratio held steady at the cycle high of 1.43. The cycle high during the 2001 recession was 1.45 in April 2001.

Chart 6

#### Inventory/Sales Ratio: Total Business

SA



### The Labor Market Remains Mired in a Recession

Initial jobless claims rose 9,000 to 354,000 in the week ended March 7. Continuing claims, which lag initial claims by one week, also moved up 193,000 to 5.317 million, a new record high. The insured unemployment rate increased to 4.0% from 3.8% in the previous week. This jobless rate is the highest since June 1983. The main message is that the labor market remains mired in a recession.

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Chart 7  
Continuing Claims

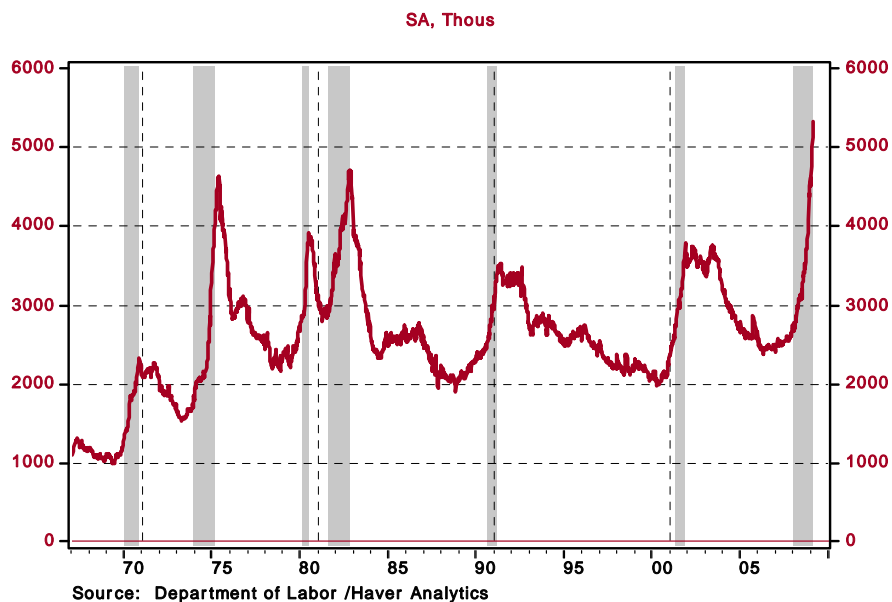
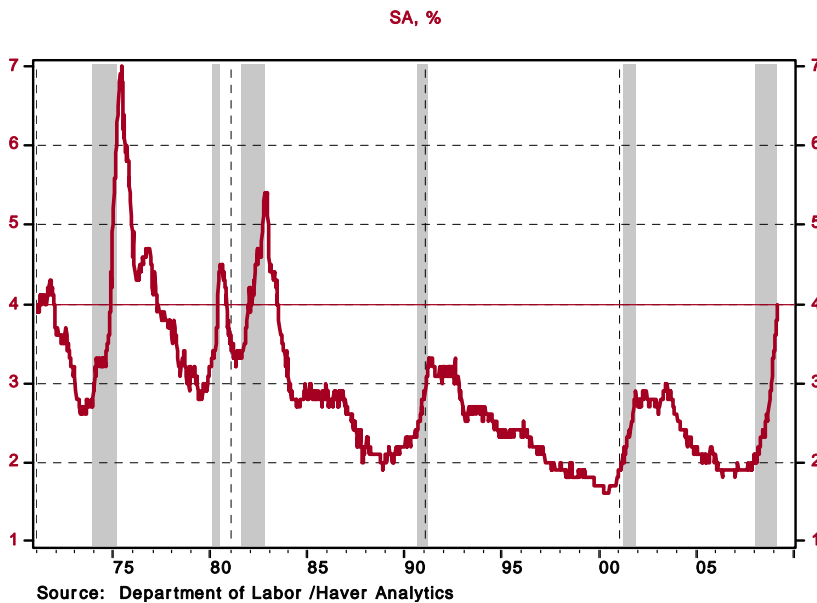


Chart 8  
Insured Unemployment Rate: Percent of Covered Employment



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