

DAILY GLOBAL COMMENTARY

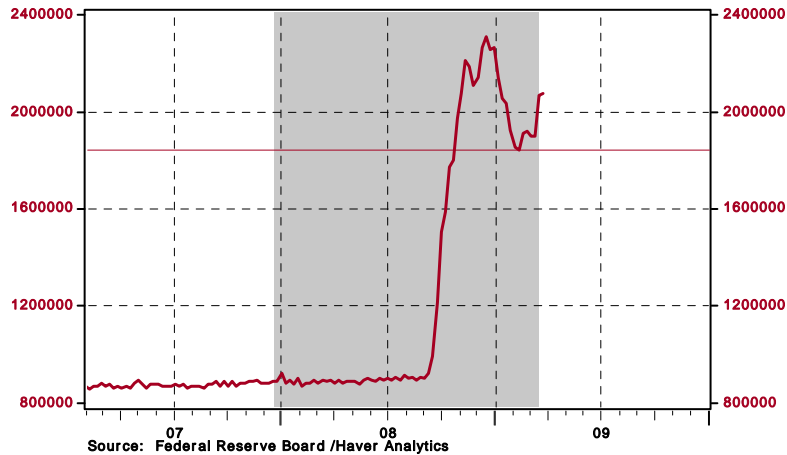
Northern Trust
Global Economic Research
50 South LaSalle
Chicago, Illinois 60603
northerntrust.com

Asha G. Bangalore
agb3@ntrs.com

Weekly Policy Update – The Fed’s Balance Sheet and Other Support Programs
March 27, 2009

The Fed’s balance sheet reversed direction and has resumed expansion since early-February. As of the week ended March 25, the balance sheet had risen to \$2.07 trillion from \$1.84 trillion as of the week ended February 11 (see chart 1). The balance sheet should expand further as a result of the TALF program which amounts to about \$1 trillion. The increase in purchases of agency debt (\$100 billion), mortgage backed securities (\$750 billion) and long-dated Treasury securities (\$300 billion) are reasons for an additional \$1.15 trillion increase in the size of the balance sheet. In sum, the Fed’s balance sheet is approaching a little over \$4 trillion.

Chart 1
All Fed Res Banks: Total Assets
EOP, Mil.\$



Excess reserves of the banking system continue to advance after a brief period during which they were declining.

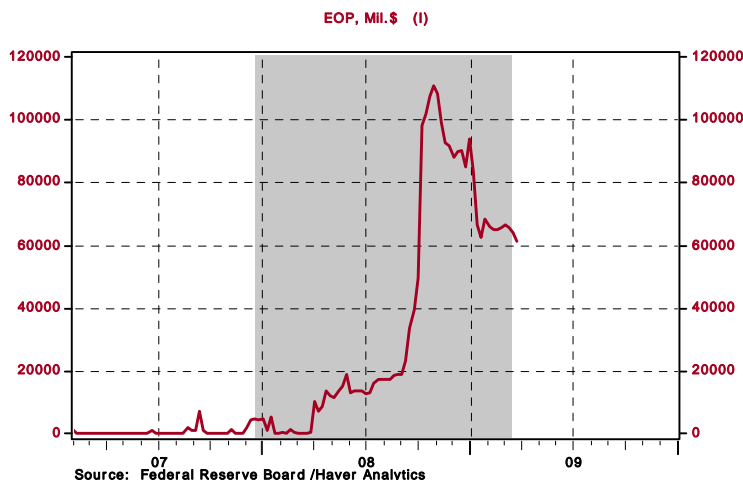
Chart 2
Adjusted Excess Reserves of Depository Institutions
NSA, Mil.\$



The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

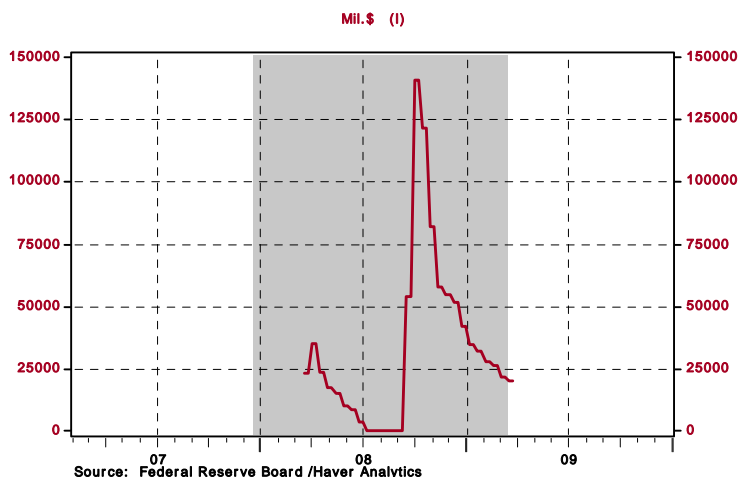
The Fed has instituted various programs in response to the current crisis to stabilize financial market conditions. The Term Auction Facility is one of the programs where the bid/cover ratio has declined but it is holding at a high level which suggests there is a need to continue this program. The Primary Credit (discount window borrowing) has reduced from the peak seen in the fall of 2008 but the elevated level points to a necessity for these funds (see chart 3).

Chart 3
Reserve Bank Credit: Primary Credit to Depository Institutions



The Primary Dealer Credit Facility (see chart 4) appears to be losing its attractiveness in the past few weeks, which leads us to conclude that this program may die a natural death soon.

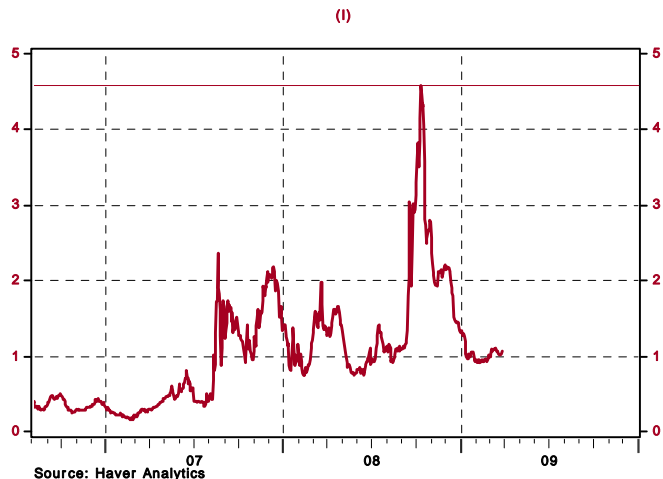
Chart 4
Primary Dealer Credit Facility



Has stress in credit markets reduced as result of these programs? Market spreads are down considerably from their peaks but they have yet to return to levels prior to the onset of the current crisis. The elevated 3-month Libor and Treasury bill spread (see chart 5) suggests continued credit market issues in the short end. There are similar problems in other credit markets also.

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

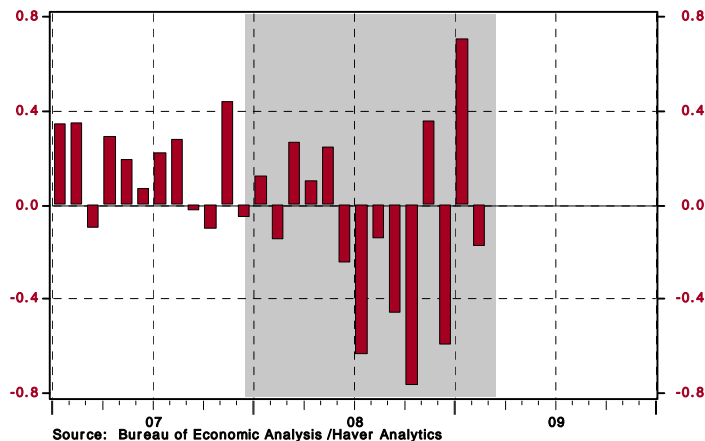
Chart 5
 Spread: 3-Month Libor less 3-Month Treasury Bill Rate



Consumer Spending in Q1 Most Likely to Show an Increase

Contrary to our earlier expectations, consumer spending in the first quarter is most likely to show an increase. The sharp upward revision of inflation adjusted consumer spending in January (+0.7% vs. +0.4% in the original report) is the main reason for this revision. Nominal consumer spending moved up 0.2% in February after a 1.0% increase in January. However, after adjusting for inflation, consumer spending fell 0.2% in February. A conservative assumption for March results in an overall increase of consumer spending in the first quarter of 2009 of roughly 0.6%-0.8%. This in turn will result in a modification of the headline GDP forecast, which we are working on as of this writing.

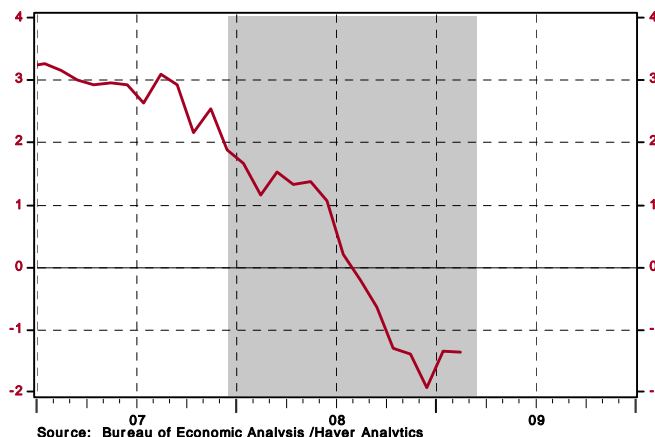
Chart 6
 Real Personal Consumption Expenditures
 % Change - Period to Period SAAR, Bil.Chn.2000\$



The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

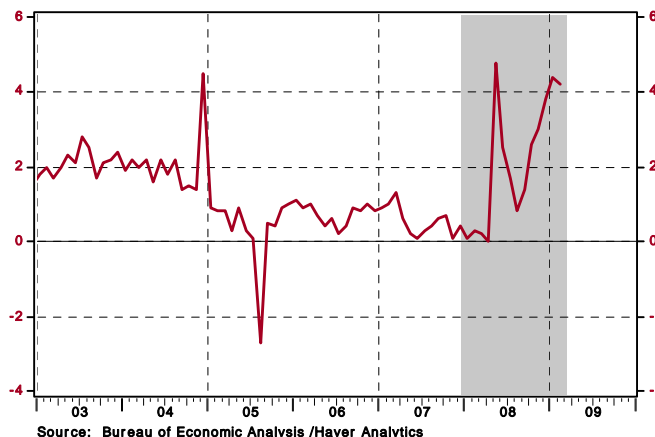
On a year-to-year basis, real consumer spending fell 1.37% in February, nearly matching the 1.35% year-to-year decline in January. The 1.9% decline in December appears to be the largest decline in consumer spending, so far (see chart 7).

Chart 7
Real Personal Consumption Expenditures
 % Change - Year to Year SAAR, Bil.Chn.2000\$



The near term trend of consumer spending is most likely to be weak owing to the severe declines in payroll employment. Consumer saving in February was 4.2% of disposable income, down slightly from the 4.4% mark in January. The 3.1% saving rate in the fourth quarter of 2008 is the highest in nearly ten years, excluding the spikes related to tax rebates. Based on the January-February readings, the saving rate in first quarter of 2009 could surpass the fourth quarter mark.

Chart 8
Personal Saving Rate
 SAAR, %



Personal income fell 0.2% in February reflecting a 0.4% drop in wages and salaries. The personal consumption expenditure price index increased 0.35% in February, putting the year-to-year increase at 0.99%. The core personal consumption expenditure price index, which excludes food and energy, rose 0.2% in February, with year-to-year increase at 1.83%.

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

Key Interest rates

	3/27/2009	1-wk. change, bps	4-wk. change, bps	1-yr. change, bps
3-month Libor	1.22	0	-4	-148
2-year U.S. Treasury note yield	0.90	1	-10	-77
10-year U.S. Treasury note yield	2.76	11	-26	-71

Next Week's Highlights

Date	Economic Indicator	TNT	Consensus	Previous
4/1/2009	ISM Manufacturing (Mar.)		36	35.8
	Construction outlays (Feb.)		-1.6	-3.3%
	Auto sales (Mar.) mln.		9.2	9.1
4/2/2009	Initial claims ('000s)		650	652
	Factory Orders (Feb.)		1.5%	-3.3%
4/3/2009	Unemployment rate (Mar.)	8.4%	8.5%	8.1%
	Payroll employment ('000s)	-600	-650	-651

Global Economic Data

	Real GDP		CPI		Unemployment Rate			Central Bank Rate		
	SAAR, yoy %		NSA, yoy%		%	year-ago		%	year-ago	
United States	-0.8	Q3-08	0.2	Jan-09	8.1	Feb-09	4.8	0.13	Feb-09	3.00
Euro-Area	-1.3	Q3-08	1.2	Jan-09	8.2	Jan-09	7.3	2.00	Feb-09	4.00
Japan	-4.3	Q3-08	-0.1	Jan-09	4.1	Jan-09	3.8	0.10	Feb-09	0.50
UK	-2.0	Q3-08	3.1	Jan-09	4.3	Feb-09	2.5	1.00	Feb-09	5.25
Australia	0.3	Q3-08	3.7	Q3-08	5.2	Feb-09	3.9	3.25	Feb-09	7.00
Canada	-0.7	Q3-08	1.4	Jan-09	7.7	Feb-09	5.9	1.00	Feb-09	4.00
China	6.8	Q4-08	-1.7	Jan-09	4.2	Q4-08	4	0.86	Jan-09	1.98
India	5.4	Q3-08	10.4	Jan-09	--	--	--	4.00	Feb-09	6.00
New Zealand	-2.3	Q3-08	3.4	Q3-08	4.6	Q4-08	3.4	3.50	Feb-09	8.25
Norway	0.8	Q3-08	2.5	Jan-09	2.9	Q4-08	2.5	2.50	Feb-09	5.25
Singapore	-4.0	Q3-08	1.8	Jan-09	2.5	Q4-08	1.7	0.30	Feb-09	1.18
South Korea	-3.4	Q3-08	4.1	Feb-09	3.5	Feb-09	3.1	2.00	Feb-09	5.00
Sweden	-4.4	Q3-08	0.9	Jan-09	7.9	Feb-09	6.0	1.00	Feb-09	4.25
Switzerland	-0.1	Q3-08	0.2	Jan-09	3.1	Feb-09	2.5	0.50	Feb-09	2.80
Taiwan	-7.9	Q3-08	0.0	Feb-09	5.6	Feb-09	3.9	1.25	Feb-09	3.38
Thailand	-4.3	Q3-08	-0.1	Feb-09	2.0	Jan-09	1.2	2.00	Feb-09	3.50
* UK - Claimant Count Unemployment Rate										
* Thailand - GDP Non-Seasonally Adjusted										
* EA-13, UK, Sweden - Harmonized Unemployment										

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

Historical US Economic Data

	Feb-09	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08	Aug-08	Jul-08	Jun-08	May-08	Apr-08	Mar-08
Payroll Employment (000)	-651	-655	-681	-597	-380	-321	-175	-128	-161	-137	-160	-122
% Change, Year Ago *	-3.0	-2.7	-2.2	-1.6	-1.1	-0.7	-0.4	-0.3	-0.2	-0.1	0.2	0.3
Unemployment Rate (%)	8.1	7.6	7.2	6.8	6.6	6.2	6.2	5.8	5.6	5.5	5.0	5.1
Avg. Hourly Earnings (% Chg.)	0.2	0.2	0.3	0.3	0.4	0.2	0.4	0.3	0.3	0.3	0.2	0.4
% Change, Year Ago	3.6	3.8	3.9	3.9	3.9	3.6	3.8	3.5	3.6	3.7	3.8	3.9
PPI (% Chg.)	0.1	0.8	-1.9	-2.6	-2.6	-0.1	-0.5	1.3	1.3	1.5	0.2	0.9
% Change, Year Ago *	-1.3	-1.0	-0.9	0.4	5.2	8.8	9.7	9.9	9.1	7.3	6.4	6.7
CPI (% Chg.)	0.4	0.3	-0.8	-1.7	-0.8	0.0	0.0	0.7	0.9	0.5	0.2	0.4
% Change, Year Ago *	0.2	0.0	0.1	1.1	3.7	4.9	5.4	5.6	5.0	4.2	3.9	4.0
ISM Diffusion Index (%)	35.8	35.6	32.9	36.6	38.7	43.4	49.3	49.5	49.5	49.3	48.6	49.0
Industrial Production (% Chg.)	-1.5	-2.0	-2.4	-1.3	1.4	-4.0	-1.1	-0.1	-0.2	-0.3	-0.6	-0.4
% Change, Year Ago	-11.8	-10.7	-8.9	-6.4	-4.6	-6.4	-2.2	-1.0	-0.7	-0.4	0.0	0.9
Capacity Utilization (%)	70.2	71.3	72.7	74.6	75.5	74.5	77.6	78.6	78.7	78.9	79.2	79.8
Nondefense Cap. Goods ex Aircraft												
- Orders (% Chg.)	6.6	-11.3	-5.9	1.1	-6.7	-3.4	-2.3	0.3	1.6	-0.3	3.1	-1.0
% Change, Year Ago *	-22.8	-24.7	-14.7	-7.9	-7.2	0.1	-0.2	6.6	3.4	3.4	2.6	-1.1
- Shipments (% Chg.)	0.6	-8.9	0.1	-1.3	-3.7	1.7	-2.1	0.3	0.6	0.2	1.0	0.8
% Change, Year Ago *	-14.9	-13.2	-4.7	-5.2	-2.2	2.7	-1.6	6.1	2.0	2.7	3.7	1.0
Retail Sales (% Chg.)	-0.1	1.8	-3.1	-2.4	-3.4	-1.6	-0.7	-0.6	0.1	0.8	0.2	0.2
% Change, Year Ago	-12.3	-8.3	-8.6	-10.0	-4.0	0.1	-0.4	4.1	1.4	2.5	3.7	0.3
Real Personal Consumption (% Chg.)	-0.2	0.7	-0.6	0.4	-0.8	-0.5	-0.1	-0.6	-0.2	0.2	0.1	0.3
% Change, Year Ago	-1.4	-1.4	-1.9	-1.4	-1.3	-0.6	-0.2	0.2	1.1	1.4	1.3	1.5
Personal Income (% Chg.)	-0.2	0.2	-0.3	-0.5	-0.1	0.1	0.3	-0.8	0.1	1.8	0.0	0.4
% Change, Year Ago	1.0	1.4	1.3	2.1	3.0	3.4	3.9	4.0	5.3	5.6	4.0	3.9
New Home Sales (SAAR, mn)	0.34	0.32	0.37	0.39	0.40	0.43	0.45	0.51	0.50	0.52	0.54	0.51
% Change, Year Ago *	-43.8	-47.7	-40.9	-40.0	-43.9	-34.0	-36.7	-36.8	-38.4	-38.0	-41.0	-38.8
Existing Home Sales (SAAR, mn)	4.72	4.49	4.74	4.54	4.94	5.10	4.93	4.99	4.90	4.95	4.85	4.92
% Change, Year Ago *	-10.3	-7.6	0.3	-17.0	-1.9	6.8	-15.0	-11.3	-16.7	-16.3	-15.7	-22.5
Housing Starts (SAAR, mn)	0.58	0.48	0.56	0.66	0.77	0.82	0.85	0.95	1.09	0.98	1.00	0.99
% Change, Year Ago *	-48.5	-56.1	-45.3	-46.5	-40.7	-27.2	-37.0	-32.2	-25.6	-32.8	-34.0	-33.6
International Trade (Bils \$)		-36.0	-39.9	-42.5	-58.0	-58.1	-60.2	-62.5	-59.1	-60.5	-61.8	-57.4
	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	-6.3	-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	-0.8	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	0.5	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	2.0	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	-5.8	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	1.2	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	-0.4	2.2	4.7	2.6	-0.5	7.0	4.8	-0.6	-0.4	-1.6	2.4	1.9
% Change, Year Ago	2.2	2.2	3.4	3.5	2.6	2.6	0.5	-0.1	0.6	0.3	1.7	1.3
Unit Labor Costs, Nonfarm, SAAR	5.7	3.5	-2.8	1.1	5.0	-2.5	-3.3	4.8	9.6	3.9	-1.1	2.6
% Change, Year Ago	1.8	1.6	0.1	0.0	0.9	2.0	3.6	4.2	3.7	2.6	2.2	2.9

Source: Haver Analytics

* NSA

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.