

DAILY GLOBAL
COMMENTARY

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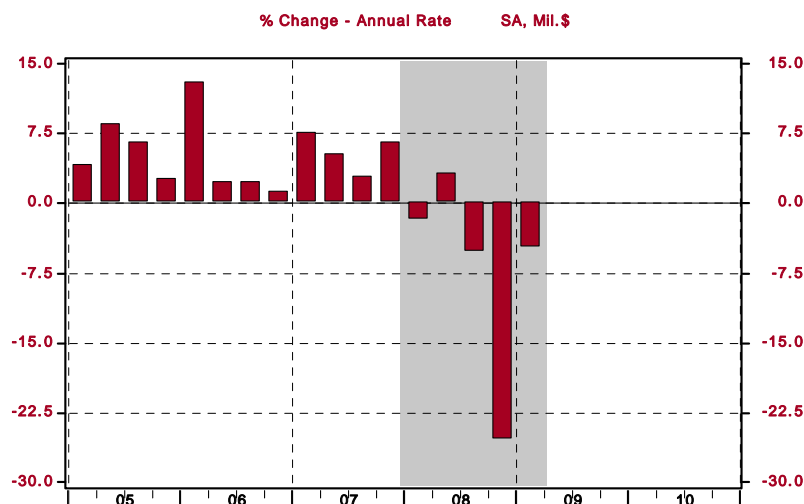
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March Retail Sales – Story of Weak Consumer Spending

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Retail sales fell 1.1% in March following a 0.3% increase in February (previously estimated as a 0.1% decline). Retail sales of January were revised up slightly to a 1.9% gain from a 1.8% increase. In March, the 1.6% drop in gasoline sales accounted for some of the decline. In addition, auto sales were reported as a 0.9% drop despite the increase in unit sales to 9.8 million units from 9.2 million in February. Unit auto sales data are reflected in GDP numbers which reduces the importance of the estimates included in the retail sales report. Excluding autos and gasoline, retail sales fell 0.8% in March after a 0.7% jump in February. Purchases of furniture (-1.7%), apparel (-1.8%), general merchandise (-0.2%), and building materials (-0.6%) fell in March. The widespread weakness of retail sales in March leaves the level of spending less than the quarterly average which is an arithmetical disadvantage for second quarter retail sales. Retail sales fell at an annual rate of 4.9% in the first quarter after a 25.5% plunge in the fourth quarter. Excluding gasoline, prices of which led to sharp drop in retail sales in the fourth quarter, retail sales edged down 0.4% in the first quarter compared with a 10.6% drop in the fourth quarter.

Chart 1
Retail Sales & Food Services



Source: Census Bureau/Haver Analytics

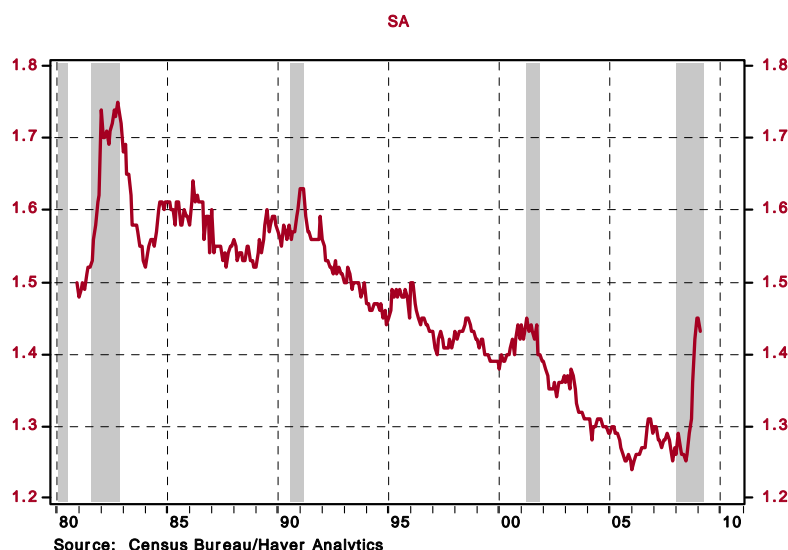
Retail Sales – March 2009

	January	February	March	08:Q4 quarterly change SAAR	09:Q1 quarterly change SAAR
Total Retail Sales & Food Service, % m-o-m	1.9	0.3	-1.1	-25.5	-4.9
% change y-o-y	-8.1	-11.5	-10.6		
Ex-auto, % m-o-m	1.6	1.0	-0.9	-23.2	-4.4
% change y-o-y	-4.9	-8.1	-7.3		
Ex- autos and gas % m-o-m	1.4	0.7	-0.8	-10.6	1.1
% change y-o-y	-0.4	-4.2	-3.0		
Exc. Bldg. mat., auto, gas, % m-o-m	1.7	0.9	-0.9	-9.2	3.3
% change y-o-y	0.8	-3.1	-3.5		

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In related news, business inventories fell 1.3% reflecting declines in retail (-1.2%), factory (-1.2%), and wholesale (-1.5%) inventories during February. A small increase in overall business sales led to a lower inventories-sales ratio in February (1.43 vs. 1.45 in January) which is a big plus as lower inventories-sales ratio will eventually translate into firms building inventories as demand gains strength. By contrast, a higher inventories-sales ratio implies that firms are unable to sell products and would be detrimental to economic activity. Today's economic reports -- retail sales, wholesale prices, business inventories, and a survey of small businesses -- underscore that the economy remains mired in a recession.

Chart 2
Inventory/Sales Ratio: Total Business



Chairman Bernanke's speech at Morehouse College in Atlanta was a succinct description of the events that have unfolded since August 2007. It was presented as answers to four questions: (1). How did we get here? (2). What is the Fed doing to address the situation? (3). Does the Fed's response risk a surge in inflation down the road? (4). Why did the Fed and Treasury act to prevent the bankruptcies of major financial firms? Answers to these questions have been addressed on prior occasions. These are important questions and answers to each one of them clarify the Fed's position and response as the crisis is being tackled. The response to question 3 about inflation stands out because how the Fed unwinds the aggressive steps will determine the credibility of the central bank going forward.

"We have a number of effective tools that will allow us to drain excess liquidity and begin to raise rates at the appropriate time; that said, unwinding or scaling down some of our special lending programs will almost certainly have to be part of our strategy for reducing policy stimulus once the recovery is under way.

We are thinking carefully about these issues; indeed, they have occupied a significant portion of recent FOMC meetings. I can assure you that monetary policy makers are fully committed to acting as needed to withdraw on a timely basis the extraordinary support

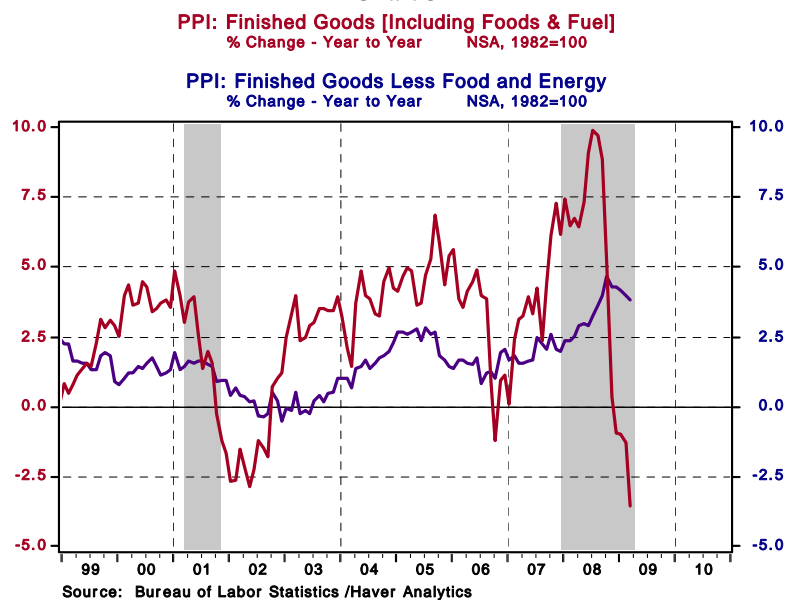
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now being provided to the economy, and we are confident in our ability to do so. To be sure, decisions about when and how quickly to proceed will require a careful balancing of the risk of withdrawing support before the recovery is firmly established versus the risk of allowing inflation to rise above its preferred level in the medium term. However, this delicate balancing of risks is a challenge that central banks face in the early stages of every economic recovery. I believe that we are well equipped to make those judgments appropriately. In addition, when the time comes, our ability to clearly communicate our policy goals and our assessment of the outlook will be crucial to minimizing public uncertainty about our policy decisions.”

Wholesale Prices Report – Benign Story for March

The Producer Price Index (PPI) of Finished Goods fell 1.2% in March, inclusive of declines in prices of energy (-5.5%) and food (-0.7%). Energy prices fell at an annual rate of 2.7% in the first quarter after a 76.7% plunge in the prior quarter. Excluding food and energy, the core PPI of Finished Goods held steady in March. By contrast, food prices have fallen more sharply in the three months ended March (-10.1%) vs. the three months ended December 2008 (-4.8%).

Chart 3



Excluding food and energy, the core PPI was unchanged in March. The indexes for light motor trucks; alcoholic beverages; women's, girls', and infants' apparel; and periodicals fell in March. Higher prices for toys, sporting goods, and small arms were recorded in March. The PPI core price index moved up at an annual rate of 2.6% in the three months ended March, matching the increase seen in the prior three-month period. On a year-to-year basis, the core PPI was up 3.8% in March, down from a peak of 4.7% in October 2008. Wholesale prices at the intermediate and crude levels also fell in March.

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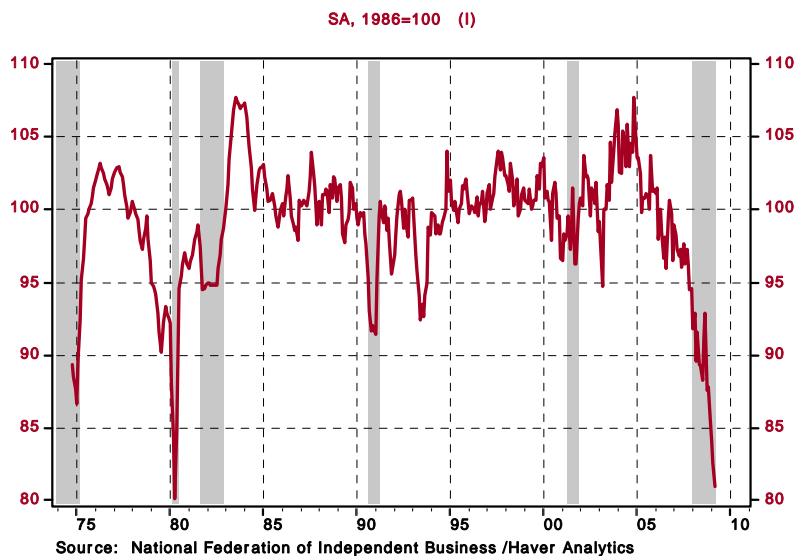
Producer Price Index – March 2009

	% change prior month	annualized % change		% change	
		3 mo. ago	6 mo. ago	Mar-09 yoy	Mar-08 yoy
PPI - FINISHED GOODS					
ALL ITEMS	-1.1	-0.9	-13.8	-3.5	-0.9
CORE - ALL ITEMS LESS FOOD & ENERGY	0.0	2.6	2.6	3.8	4.3
FOOD	-0.7	-10.1	-7.5	-1.1	3.7
ENERGY	-5.5	-2.7	-52.4	-25.4	-20.3
CAPITAL EQUIPMENT	-0.2	1.5	2.1	3.4	4.0
PPI - INTERMEDIATE GOODS					
ALL ITEMS	-1.5	-11.7	-27.0	-8.9	-1.7
CORE	-0.3	-7.7	-16.0	-1.6	3.3
PPI - CRUDE GOODS					
ALL ITEMS	-0.3	-27.2	-60.0	-39.0	-25.0
CORE	-1.6	-0.4	-57.3	-33.2	-24.3

Small Businesses Remain Gloomy about the Future

The National Federation of Independent Business (NFIB) survey shows that small businesses remain gloomy about business conditions. The Small Business Optimism Index fell to 81.0 in March, the lowest on record since April 1980 (80.1), from 82.6 in February.

Chart 4
NFIB: Small Business Optimism Index



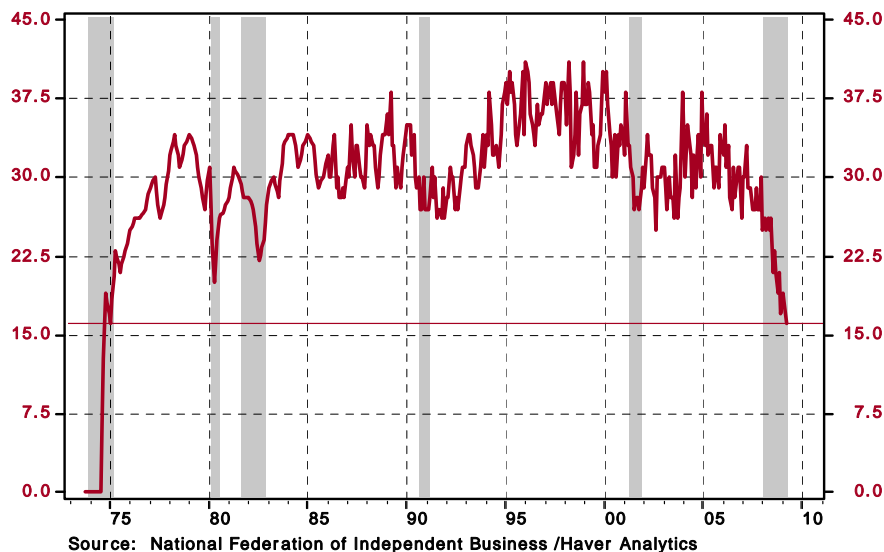
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The decline in the Optimism Index reflects widespread pessimism. Indexes tracking expectations about sales, the economy, and credit conditions were lower than in February. Expectations about hiring (-10) were the weakest on record. Capital expenditure plans match the weakness seen in the 1973-75 recession (see chart 5).

Chart 5

NFIB: Percent Planning Capital Expenditures next 3 to 6 Months

SA, % (I)



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