Northern Trust

DAILY GLOBAL
COMMENTARY

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New Home Construction Appears to be Establishing a Bottom

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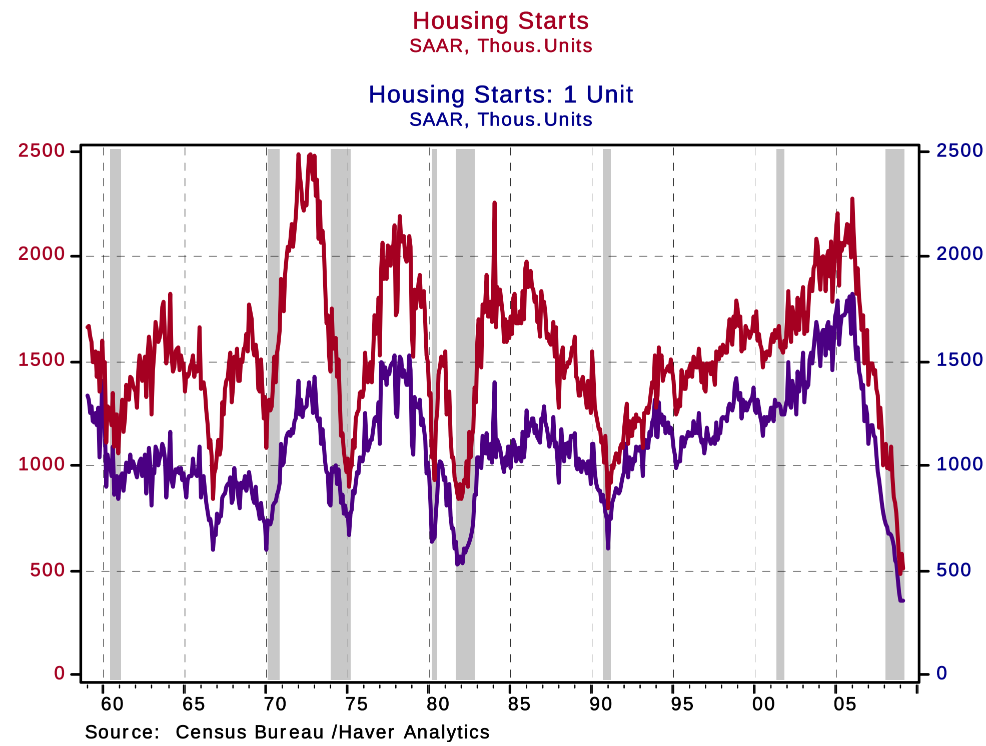
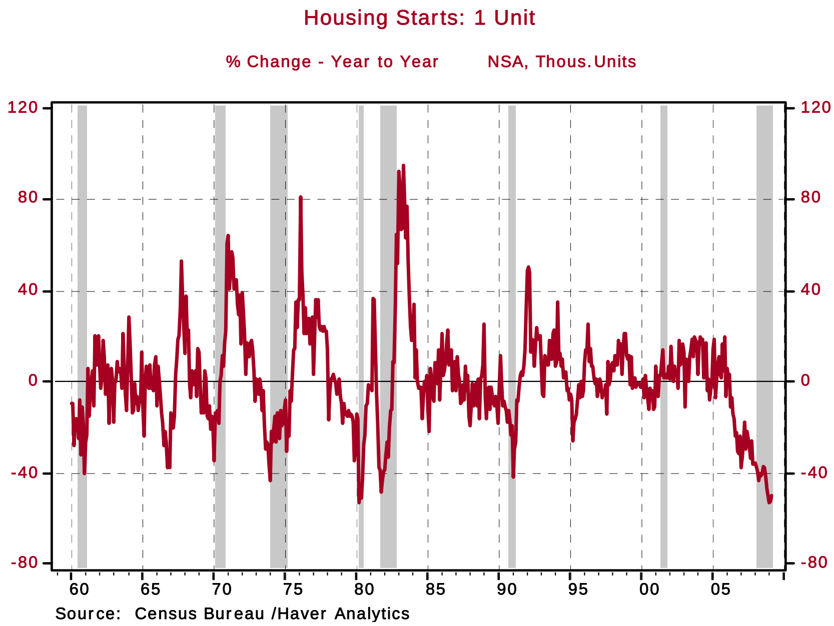
Home construction appears to have established a bottom in January. Total housing starts fell 10.8% to an annual rate of 510,000 in March, the second-lowest on record. The record low is the 488,000 mark of housing starts in January 2009. Single-family starts held steady at 358,000 in March; the record low for the series is 356,000 housing starts in January 2009. It appears that housing starts readings of January 2009 could be the cycle low. Regionally, starts of new homes rose in the Northeast (+6.3%) and Midwest (+15.9%) but fell in the South (-16.8%) and West (-26.3%). The elevated level of inventories of unsold new homes is the main reason to be less optimistic about the March data of housing starts. There was a 12.2-month supply of unsold new homes in the marketplace as of February 2009; the record high of a 12.9-month supply of inventories was recorded in January 2009.

Chart 1



On a year-to-year basis, starts of single-family units fell 49.8% in March, which is a small improvement from the record decline of 53.7% in January 2009. Permit extensions for all homes dropped 9% to an annual rate of 513,000 and that of single-family homes declined 7.4% to an annual rate of 361,000 during March.

Chart 2



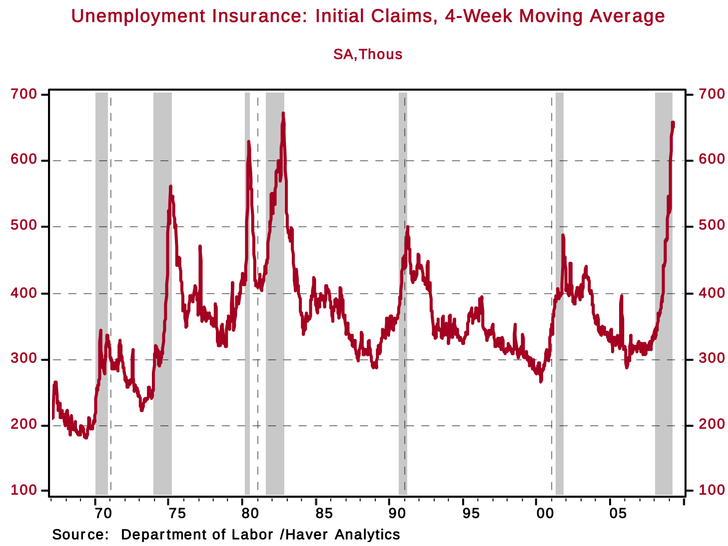
Housing Starts – Across Business Cycles

Recession	Peak - Housing Starts				Trough - Housing Starts			
	Date	Total Starts	Date	Single-family	Date	Total Starts	Date	Single-family
Apr. 60-Feb. 61	Feb-59	1667	Jan-59	1336	Dec-60	1063	Dec-60	841
Dec. 69-Nov.70	Jan-69	1769	Jan-69	967	Jan-70	1085	Jan-70	596
Nov. 73-Mar.75	Oct-72	2485	Sep-72	1399	Feb-75	904	Feb-75	667
Jan.80-Jul. 80	Apr-78	2197	Apr-78	1517	May-80	927	Mar-80	633
Jul.81-Nov. 82	Jan-81	1547	Sep-80	1019	Jan-82	843	Oct-81	523
Jul. 90-Mar.91	Jan-89	1621	Jan-89	1149	Jan-91	798	Jan-91	604
Mar. 01-Nov. 01	Feb-00	1737	Dec-99	1375	Oct-01	1540	Oct-01	1240
					Jan-09	488	Jan-09	356
Dec. 2007 - ?	Jan-06	2273	Jan-06	1823	Mar-09	510	Mar-09	358

Jobless Claims – Mixed News

Initial jobless claims fell 53,000 to 610,000 during the week ended April 11. The four-week moving average stands at 651,000, down from the cycle peak of 659,500. Historically, the four-week moving average peaks at the end of recession (see chart). If the four-week moving average were to post larger declines in the weeks ahead, it would be a meaningful signal that labor market conditions are turning the corner. It is premature to declare that a peak for four-week initial claims has been established. Continuing claims, which lag initial claims by one week, moved up 172,000 to 6.022 million, the first reading in excess of 6 million, and the insured unemployment rate rose to 4.5% from 4.4% in the prior week. These mixed signals should be sorted out in the weeks ahead.

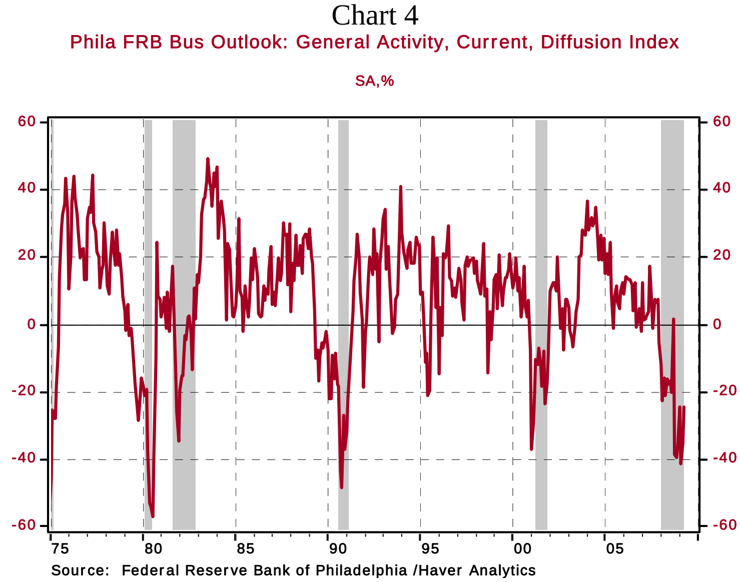
Chart 3



Philadelphia Fed Factory Survey – Is Regional Progress a Precursor of Nationwide Progress?

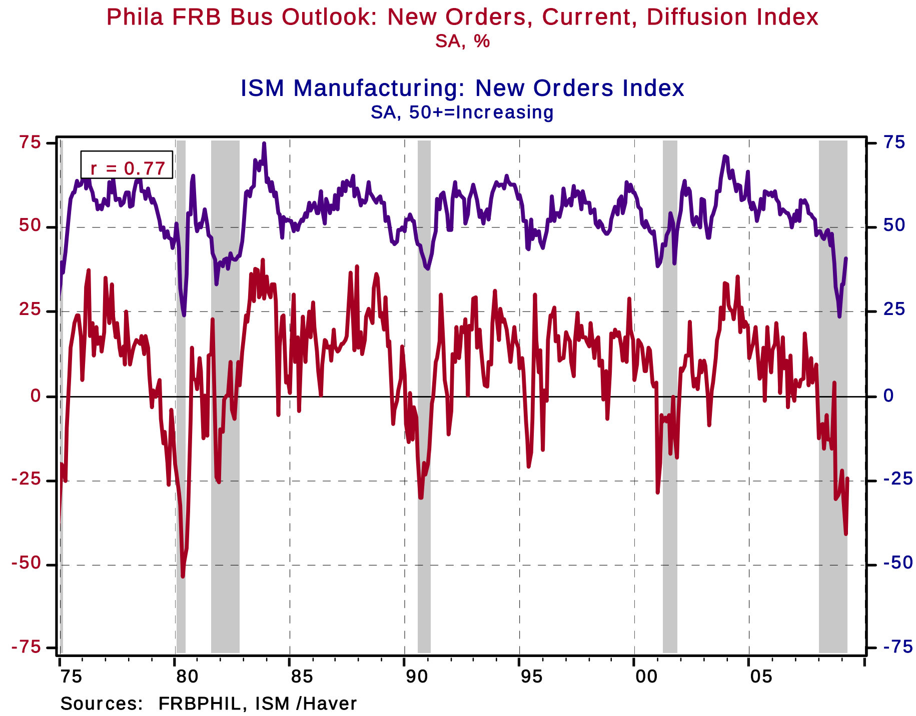
The Federal Reserve Bank of Philadelphia's factory survey shows a contracting factory but at a significantly slower pace than the trend seen in recent months. The General Business Conditions Index for April increased to -24.4 from -35.0 in March. Indexes tracking new orders (-24.3 vs. -40.7 in March), and employment (-44.9 vs. -52.0) also posted gains, while the Shipments Index fell to -35.7 from -26.5 in March. The index reflecting future conditions rose to 36.5 in March from 14.5 in the prior month.

Chart 4



Does the performance of the regional survey offer insights about the national factory survey, to be published on May 1? The new orders indexes of the ISM manufacturing survey and the Philadelphia Fed's factory survey have a strong (0.77) positive correlation, which leads us to expect an improvement in the national survey. The New Orders Index of the ISM manufacturing survey has moved up 8.0 points in the first quarter of 2009 compared with the fourth quarter average.

Chart 5



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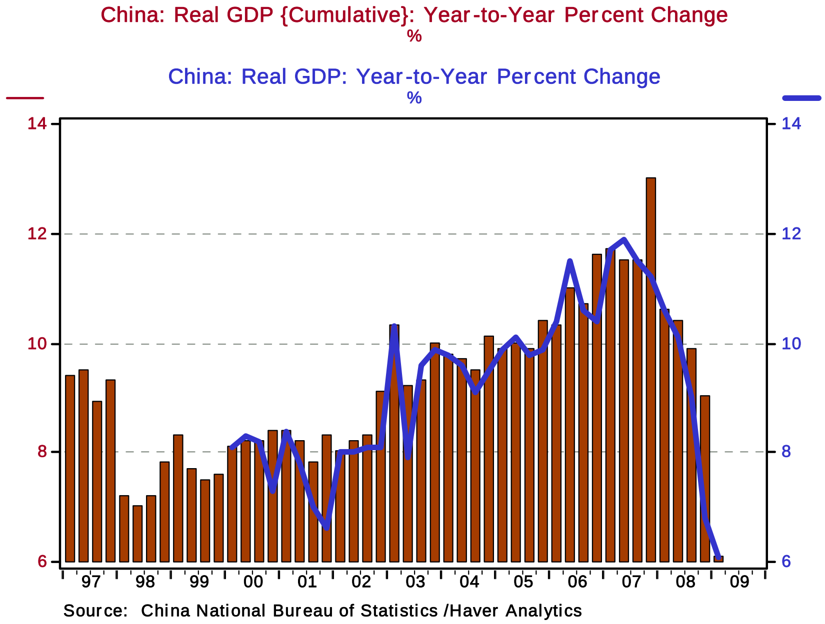
China: So Much for Fast Recoveries

It is not normally like us to say 'we told you so', but the release of briskly-compiled Q1 GDP figures for China provides a compelling argument to use that phrase – not that we would. The numbers came in below consensus, and should put to rest for the moment any suggestions that China is somehow amazingly resilient to global contagion.

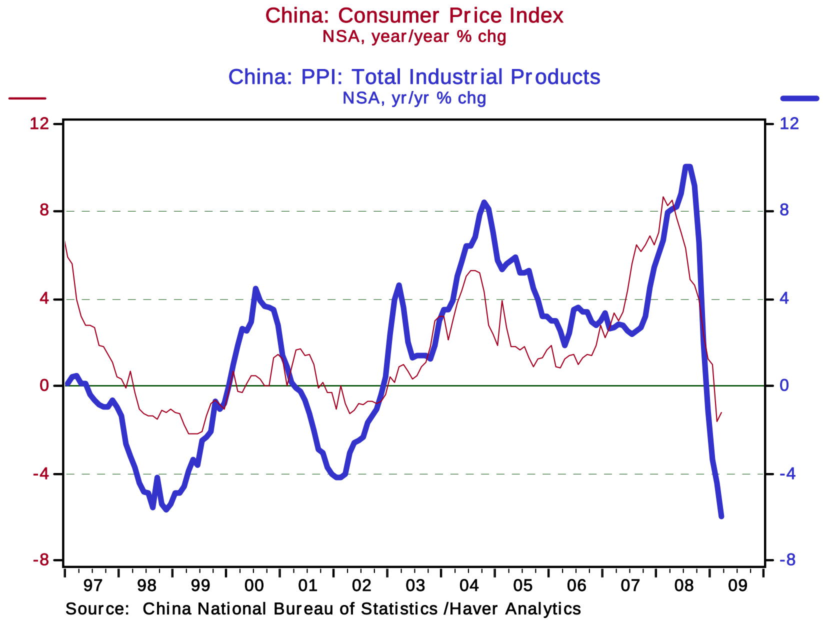
In our comment on April 2 (see "China: Signs Of A Recovery – Already?") we pondered over surprisingly high confidence figures suggesting that Q1 would show the first stages of a rebound. We had our doubts, and indeed, the 6.1% year-over-year growth figure was the worst posted since 1991. Now this figure is nothing to scoff at, but when any country experiences a slowdown in economic activity of at least four percentage points in less than a year, people should take notice.

Chart 6



Also confirming concerns about the economy are the various price indices, which have slipped to levels not seen since the 1997 Asia financial crisis. The two-year stint of deflation witnessed eleven years ago resolved itself in an uneven fashion that was vulnerable to further dips, and China did not fully reclaim price stability until 2003. And this time around, the fall in demand and domestic prices has been much more drastic and immediate. Demand is not likely to regain strength until Q3 at the earliest, and a recovery in prices will lag that by several months.

Chart 7



However, we do see some bright spots in today's figures. Considering how dramatically export demand and other external indicators have fallen, the Q1 figure did not follow in step, which suggests that the first signs of Beijing's fiscal stimulus are finding their way into the national accounts. (This would be the minor stimulus package announced prior to the Beijing Games, when the government offered additional spending to counter the effects of "Olympic hangover".) This might just be enough to keep growth above the 6.0% mark until the real fiscal stimulus package kicks in and the ultra-high amounts of bank lending since November turn into real economic activity. Our wager is that Q2 GDP hovers right at the 6.0% level before a slow migration north, though underlying (and unreported) base effects in the data could put some variance in that movement. The overall trend, however, looks like a slow recovery starting in Q3.

Through all the speculation, however, is a longer-term concern about how China will adapt to a very weak export sector that is unlikely to see growth until next year and may not return to its more familiar double-digit expansion rate for some time after that. The labor-intensive export sector equaled 37.8% of GDP at its end-2006 peak and over the past nine quarters has fallen to only 22.8%. Fiscal measures can only offer a temporary fix for the millions of suddenly unemployed factory workers. After that, permanent jobs will be required to prevent those displaced workers (and the annual addition of 6.1 million college graduates) from getting restless.

Chart 8