

DAILY GLOBAL
COMMENTARY

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Weekly Policy Update: Signs of “Green Shoots” Across the Economy?

April 17, 2009

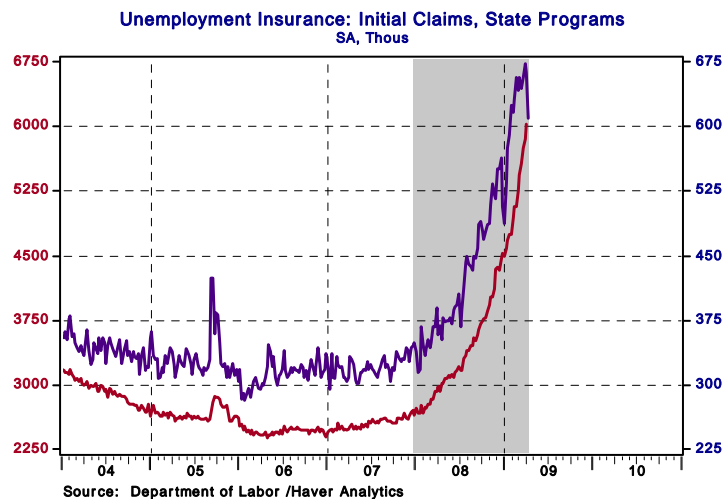
Chairman Bernanke introduced the “green shoots” image and it is now a part of economic and financial vocabulary. How widespread are the green shoots? How meaningful are these green shoots? How much nurturing is necessary before there is a premature demise of green shoots?



Source: The New York Times, April 7, 2009

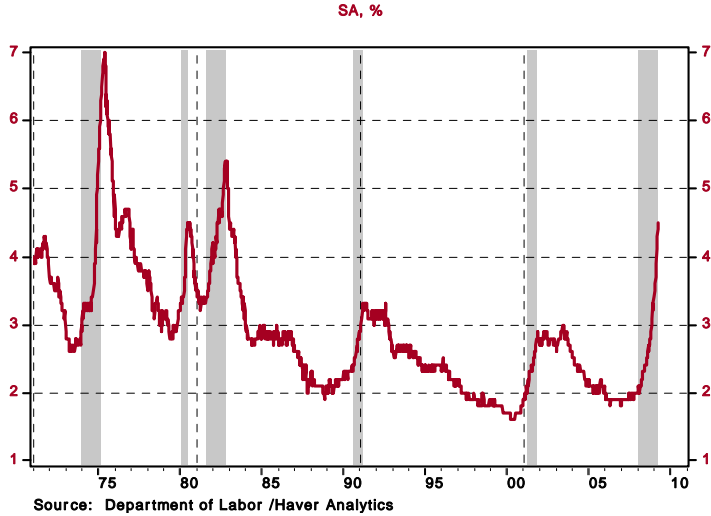
Let's us start with the weekly economic indicators. Initial unemployment claims are in the “green shoots” category but continuing claims and the insured unemployment rate are still beneath the soil. Initial jobless claims fell while continuing claims and the insured unemployment rate advanced during the latest week. Initial jobless claims have dropped in three out of the last six weeks. For the week ended April 11, initial jobless claims were down to 610,000 from what appears to be the cycle peak of 674,000 registered during the week ended March 28. Is this meaningful? It is noteworthy, but additional weekly declines and a drop in continuing claims and the insured unemployment rate will be necessary to conclude that the worst is behind us.

Chart 1
Continuing Claims
SA, Thous



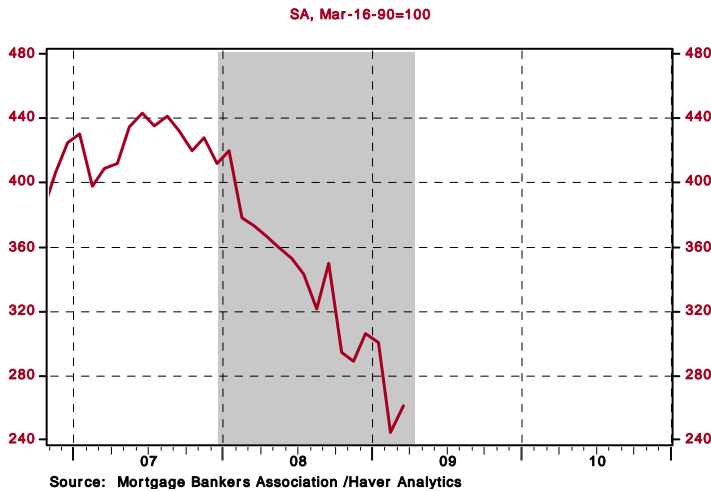
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Chart 2
Insured Unemployment Rate: Percent of Covered Employment



In the housing market, applications for purchases of homes are moving up gradually. In March, there was a 6.7% increase in the number of mortgage applications for purchases and the average of mortgage applications for purchase in the first two weeks of April (280.9) exceeds the average recorded in March. The rising rate of foreclosures and weak employment conditions reduce expectations of a rapid recovery. Nevertheless, the recent uptick of the Mortgage Purchase Index is notable.

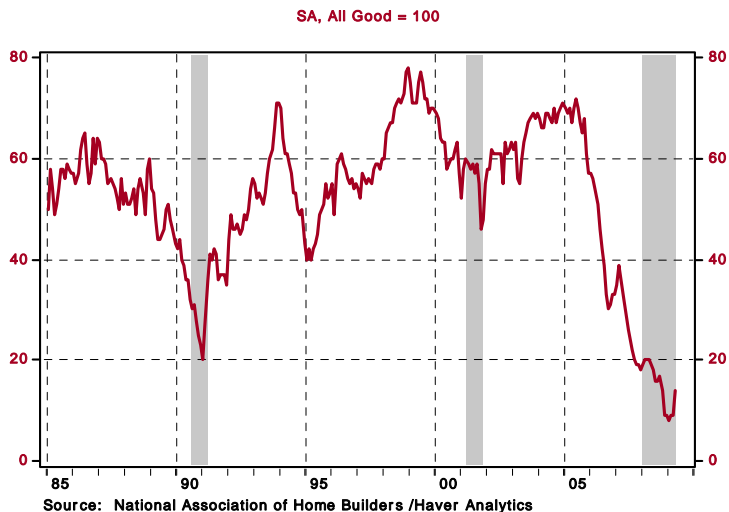
Chart 3
MBA: Volume Index: Mortgage Loan Applications for Purchase



Staying within the realm of the housing market, the April survey of the National Association of Home Builders contained indications of less gloomy home builders. The Housing Market Index (HMI) increased to 14 in April from 9 in March. Indexes tracking current sales (13 vs. 8 in March), sales of homes six months down the road (25 vs. 15 in March), and traffic of prospective buyers (14 vs. 9 in March) advanced in April.

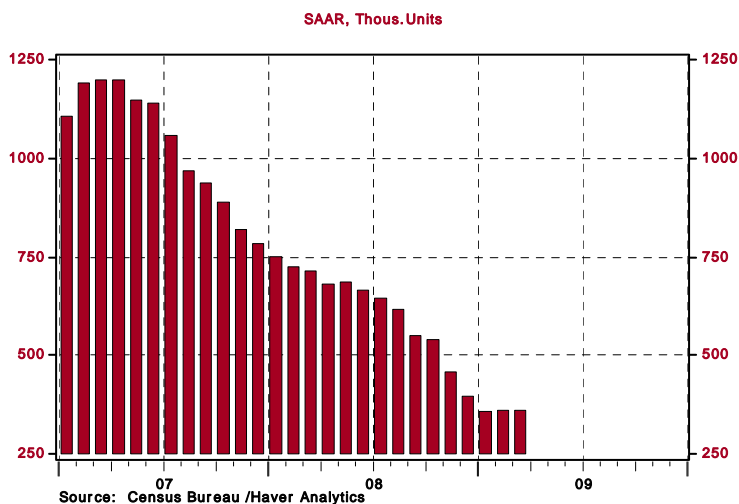
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Chart 4
Home Builders: Housing Market Index {Composite}



Starts of new single-family homes held steady in March at an annual rate of 358,000. The record low for single-family housing starts is 356,000 in January 2009. It appears that the readings of housing starts of January 2009 could be the cycle low. Reports on home sales will be published later in the month. The Beige Book prepared for the April 28-29 FOMC meeting noted that *“housing markets remained depressed overall, but there were some signs that conditions may be stabilizing.”*

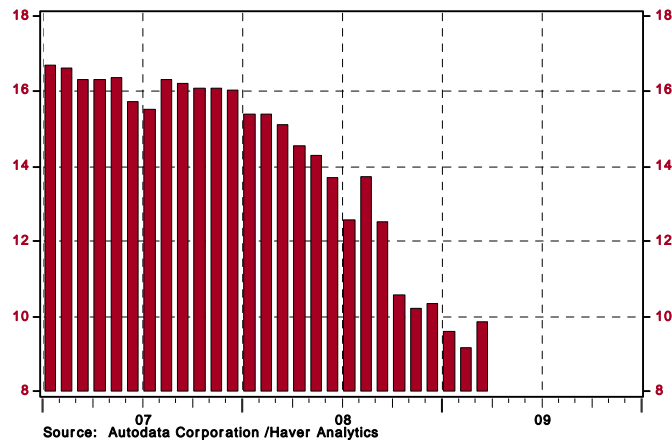
Chart 5
Housing Starts: 1 Unit



Moving on to other economic reports, auto sales gained strength in March. Auto sales rose to an annual rate of 9.8 million units from 9.12 million in February. News from the auto industry is that the scrap rate of autos exceeds the pace of purchases, so a significant pickup in auto sales should not be far behind.

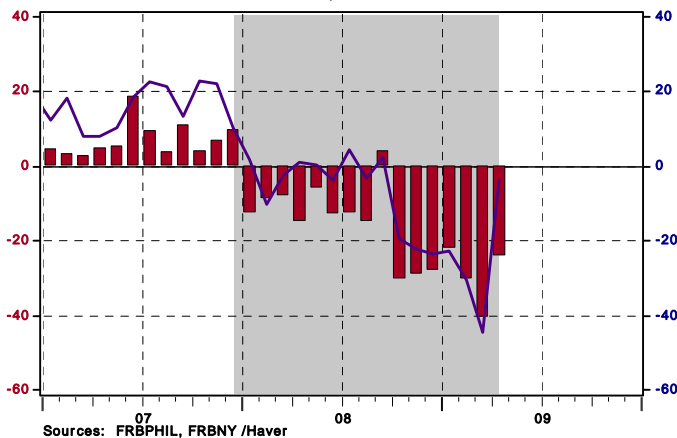
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Chart 6
Total Light Vehicle Retail Sales (Imported+Domestic)
 SAAR, Mil. Units



News from the factory sector is also encouraging. The Federal Reserve Bank of Philadelphia’s factory survey shows a contracting factory sector 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. The New Orders Index of the Empire State Manufacturing survey increased to -3.9 in April from -44.8 in March. In March, the New Orders Index of the national ISM manufacturing survey rose 8 points to 41.2, an 18.1 point jump since December. The results of the April ISM manufacturing survey will validate if these regional reports are representative of the nation. The latest Beige Book mentioned that “*manufacturing activity continued to decline in most Districts and across a wide range of industries. Several reports, however, noted that the pace of decline had slowed or that factory activity had stabilized.*”

Chart 7
Phila FRB Bus Outlook: New Orders, Current, Diffusion Index
 SA, %
Empire State Mfg: New Orders: Diffusion Index
 SA, Net%



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In financial markets, most credit market spreads continue to narrow. However they are yet to send a message that credit markets are operating in an environment that is close to conditions that prevailed prior to August 2007. That said, we cannot discount the improvements in place. Charts 8-10 show the extent of the narrowing of credit market spreads.

Chart 8
Spread: 3-Month Libor less 3-Month Treasury Bill Rate

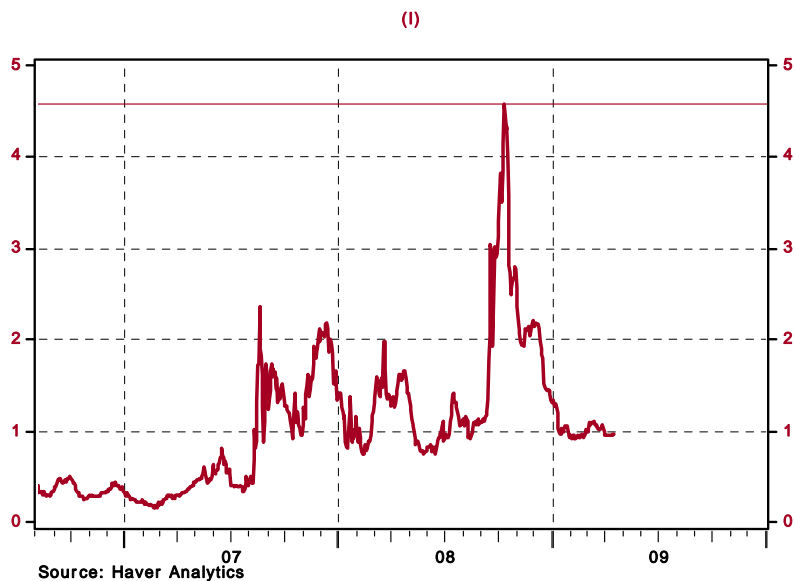
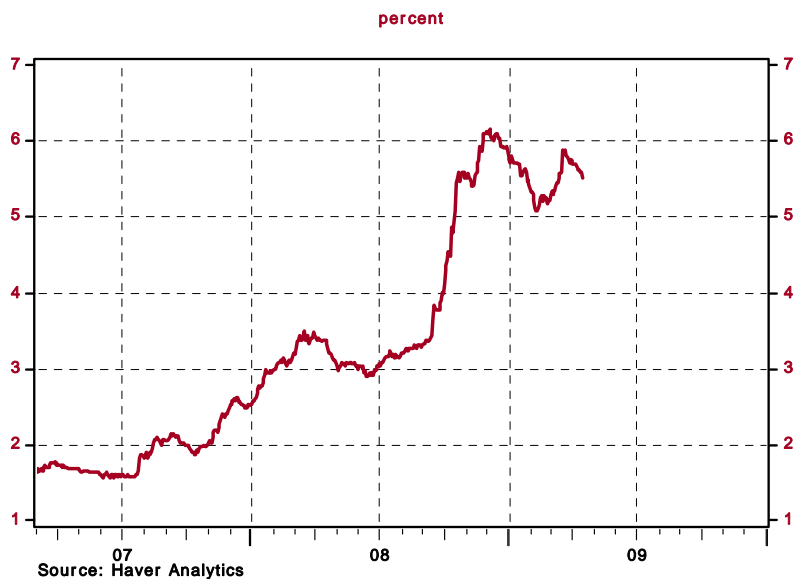
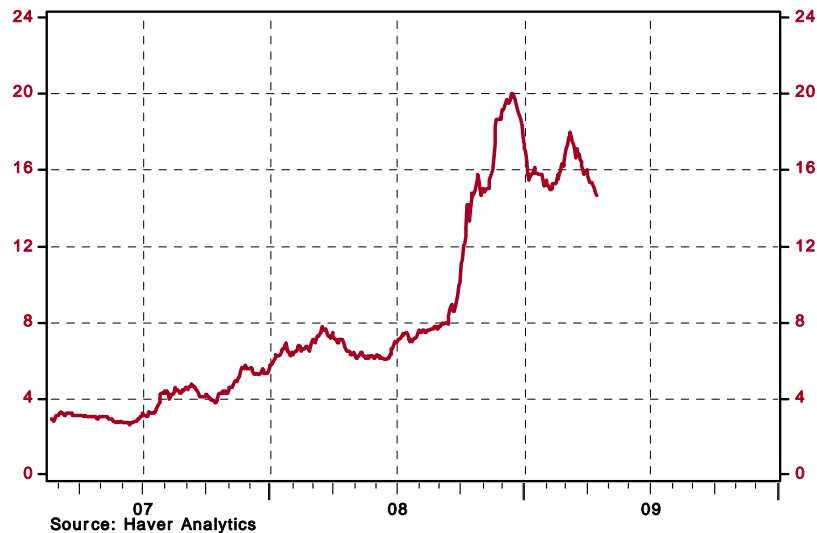


Chart 9
Spread: Moody's Baa less 10-year U.S. Treasury Note Yield



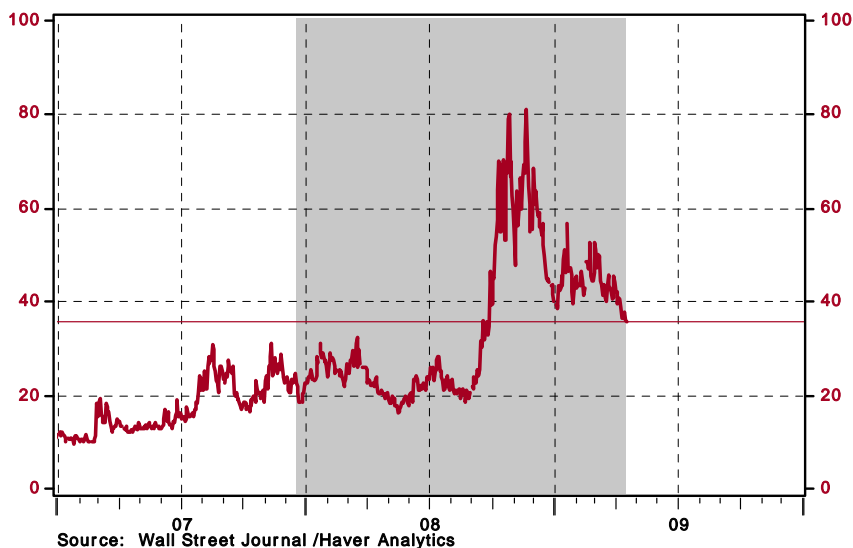
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Chart 10
 Spread: Merrill Lynch Junk Bond yield less 10-year Treasury Note yield
 percent



The CBOE Market Volatility Index was 35.79 on April 16, after hovering around 80 in October 2008. The level of the index as of April 16 matches the readings seen after the Fannie Mae and Freddie Mac receivership story unfolded and Lehman Brothers collapsed.

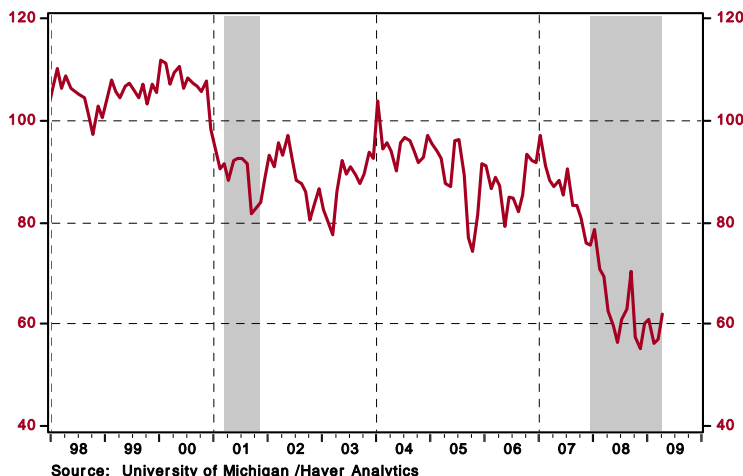
Chart 11
 CBOE Market Volatility Index, VIX



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The preliminary University of Michigan Consumer Sentiment Index for April showed an improvement in the outlook of consumers. The Consumer Sentiment Index moved up 4.6 points to 61.9. The Current Economic Conditions Index (+3.3 points to 66.6) and the Expectations Index (+5.4 to 58.9) advanced in April.

Chart 12
University of Michigan: Consumer Sentiment
NSA, Q1-66=100



Pulling the strings together, “green shoots” are appearing simultaneously with spring and we will be watching for more signals that will herald the economic recovery. For now, it is not self-sustaining economic growth yet. Stability in the financial sector with clean balance sheets of banks and a working credit machine will be necessary for self-sustaining economic growth. The positive economic signals are small but significant because a further slide in economic activity is not the scenario one would want to envision in the sixth quarter of a recession.

Key Interest Rates

	4/17/2009	1-wk. change, bps	4-wk. change, bps	1-yr. change, bps
3-month Libor	1.10	-3	-22	-158
2-year U.S. Treasury note yield	0.95	-1	-7	-88
10-year U.S. Treasury note yield	2.93	-3	7	-59

Next Week's Highlights

Date	Economic Indicator	TNT	Consensus	Previous
4/20/2009	Leading Economic Indicators (Mar.)	-0.3%	-0.2%	-0.4%
4/23/2009	Existing home sales (Mar.)		4.69 mln.	4.72 mln.
	Initial claims ('000s)		633	610
4/24/2009	Durable goods orders (Mar.)	-1.50%	-1.5%	3.5%
	New Home Sales (Mar.)		0.34 mln.	0.33 mln

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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	-0.8	Q4-08	-0.4	Feb-09	8.5	Mar-09	5.1	0.13	Mar-09	2.25
Euro-Area	-1.5	Q4-08	0.6	Feb-09	8.5	Feb-09	7.2	1.50	Mar-09	4.00
Japan	-4.3	Q4-08	-0.1	Feb-09	4.4	Feb-09	3.9	0.10	Mar-09	0.50
UK	-2.0	Q4-08	3.1	Feb-09	4.3	Feb-09	2.5	0.50	Mar-09	5.25
Australia	0.3	Q4-08	3.7	Q4-08	5.7	Mar-09	4	3.25	Mar-09	7.25
Canada	-0.7	Q4-08	1.2	Feb-09	8.0	Mar-09	6.1	0.50	Mar-09	3.50
China	6.1	Q1-09	-1.1	Feb-09	4.2	Q4-08	4.1	0.83	Feb-09	2.29
India	5.4	Q4-08	9.6	Feb-09	--	--	--	3.50	Mar-09	6.00
New Zealand	-2.3	Q4-08	3.0	Q4-08	4.6	Q4-08	3.7	3.00	Mar-09	8.25
Norway	0.8	Q4-08	2.5	Feb-09	2.9	Q4-08	2.8	2.00	Mar-09	5.25
Singapore	-4.0	Q4-08	1.8	Feb-09	2.5	Q4-08	2.8	0.43	Mar-09	0.83
South Korea	-3.4	Q4-08	3.9	Mar-09	3.7	Mar-09	3.1	2.00	Mar-09	5.00
Sweden	-4.4	Q4-08	0.2	Feb-09	7.9	Feb-09	6.0	1.00	Mar-09	4.25
Switzerland	-0.1	Q4-08	-0.4	Feb-09	3.3	Mar-09	2.5	0.40	Mar-09	2.89
Taiwan	-7.9	Q4-08	0.0	Mar-09	5.6	Feb-09	3.9	1.25	Mar-09	3.50
Thailand	-4.3	Q4-08	-0.2	Mar-09	1.7	Feb-09	1.4	2.00	Mar-09	3.50
* UK - Claimant Count Unemployment Rate										
* Thailand - GDP Non-Seasonally Adjusted										
* EA-13, UK, Sweden - Harmonized Unemployment										

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Historical US Economic Data

	Mar-09	Feb-09	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08	Aug-08	Jul-08	Jun-08	May-08	Apr-08
Payroll Employment (000)	-663	-651	-741	-681	-597	-380	-321	-175	-128	-161	-137	-160
% Change, Year Ago *	-3.5	-3.1	-2.7	-2.2	-1.6	-1.1	-0.7	-0.4	-0.3	-0.2	-0.1	0.2
Unemployment Rate (%)	8.5	8.1	7.6	7.2	6.8	6.6	6.2	6.2	5.8	5.6	5.5	5.0
Avg. Hourly Earnings (% Chg.)	0.2	0.2	0.2	0.3	0.3	0.4	0.2	0.4	0.3	0.3	0.3	0.2
% Change, Year Ago	3.4	3.6	3.7	3.9	3.9	3.9	3.6	3.8	3.5	3.6	3.7	3.8
PPI (% Chg.)	-1.2	0.1	0.8	-1.8	-2.7	-2.6	-0.1	-0.5	1.3	1.3	1.5	0.2
% Change, Year Ago *	-3.5	-1.3	-1.0	-0.9	0.4	5.2	8.8	9.7	9.9	9.1	7.3	6.4
CPI (% Chg.)	-0.1	0.4	0.3	-0.8	-1.7	-0.8	0.0	0.0	0.7	0.9	0.5	0.2
% Change, Year Ago *	-0.4	0.2	0.0	0.1	1.1	3.7	4.9	5.4	5.6	5.0	4.2	3.9
ISM Diffusion Index (%)	36.3	35.8	35.6	32.9	36.6	38.7	43.4	49.3	49.5	49.5	49.3	48.6
Industrial Production (% Chg.)	-1.5	-1.5	-2.1	-2.2	-1.2	1.3	-4.0	-1.1	-0.1	-0.2	-0.3	-0.6
% Change, Year Ago	-12.8	-11.8	-10.7	-8.8	-6.4	-4.7	-6.4	-2.2	-1.0	-0.7	-0.4	0.0
Capacity Utilization (Goods)	69.3	70.3	71.3	72.8	74.5	75.4	74.5	77.6	78.6	78.7	78.9	79.2
Nondefense Cap. Goods ex Aircraft												
- Orders (% Chg.)		7.1	-12.3	-5.9	1.1	-6.7	-3.4	-2.3	0.3	1.6	-0.3	3.1
% Change, Year Ago *		-23.2	-25.4	-14.7	-7.9	-7.2	0.1	-0.2	6.6	3.4	3.4	2.6
- Shipments (% Chg.)		0.6	-9.4	0.1	-1.3	-3.7	1.7	-2.1	0.3	0.6	0.2	1.0
% Change, Year Ago *		-15.3	-13.4	-4.7	-5.2	-2.2	2.7	-1.6	6.1	2.0	2.7	3.7
Retail Sales (% Chg.)	-1.1	0.3	1.9	-3.1	-2.4	-3.4	-1.6	-0.7	-0.6	0.1	0.8	0.2
% Change, Year Ago	-10.6	-11.5	-8.1	-8.6	-10.0	-4.0	0.1	-0.4	4.1	1.4	2.5	3.7
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
% 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
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
% 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
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
% 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
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
% 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
Housing Starts (SAAR, mn)	0.51	0.57	0.49	0.56	0.66	0.77	0.82	0.85	0.95	1.09	0.98	1.00
% Change, Year Ago *	-49.0	-49.6	-54.9	-45.3	-46.5	-40.7	-27.2	-37.0	-32.2	-25.6	-32.8	-34.0
International Trade (Bils \$)		-26.0	-36.2	-39.9	-42.5	-58.0	-58.1	-60.2	-62.5	-59.1	-60.5	-61.8
	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06
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
% 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
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
% 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
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
% 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
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
% 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
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
% 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
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
% 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

Source: Haver Analytics

* NSA

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