

## DAILY GLOBAL COMMENTARY

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### FOMC Meeting Ends with No Surprises

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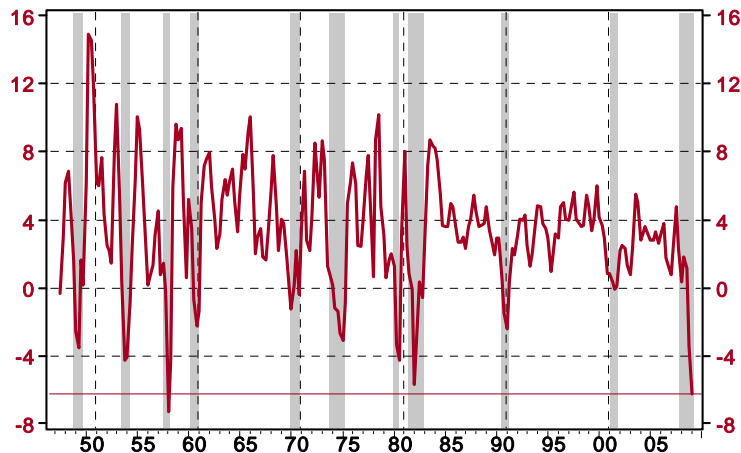
The federal funds rate was left unchanged at the target range of 0% to 1/4%, as expected. The Committee maintained that “it anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period.” The policy statement contained modifications that are consistent with market developments since the last meeting on March 18. The Committee now sees that the “pace of contraction” as “somewhat slower” compared with the March statement which noted that the “economy continues to contract.” Household spending was noted to show “signs of stabilizing” despite job losses, lower housing wealth, and tight credit. This perception is slightly different from March when household spending was depicted as more problematic. In the Fed’s opinion, “economic outlook has improved modestly” in the past month due to easing of financial market stress but “economic activity is likely to remain weak for a time.”

The statement reiterated the expansion of existing programs to buy agency debt and mortgage-backed securities and the new plan to purchase Treasury securities which were part of the March policy statement. The Fed has kept options open about these programs by including the following in today’s statement: “*The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets.*”

### Another Quarter of Deep and Wide Contraction in Economic Activity

Real gross domestic product (GDP) fell at an annual rate of 6.1% in the first quarter of 2009 after a 6.3% drop in the fourth quarter of 2008. Real GDP has declined at an annual rate of 6.2% in the last two quarters, which is the largest since the 1957:Q1-1958:Q2 period when the annualized reduction in real GDP was 7.4% (see chart 1).

Chart 1  
Real Gross Domestic Product  
2-qtr %Change-ann SAAR, Bil.Chn.2000\$

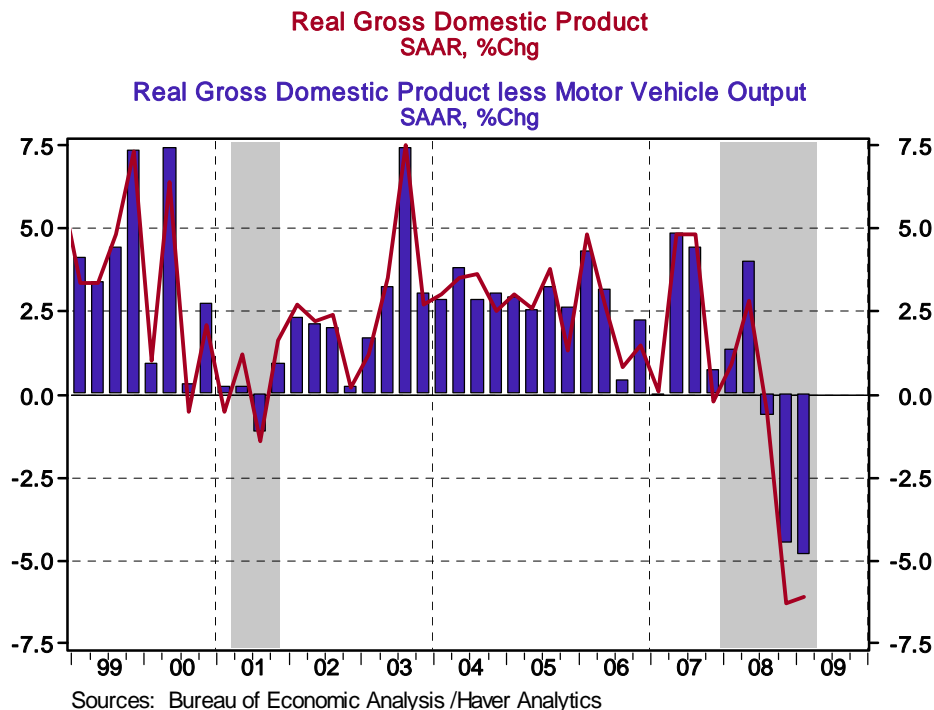


Source: Bureau of Economic Analysis/Haver Analytics

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The auto sector is accountable for a significant part of the drop in real GDP in both the fourth quarter of 2008 and the first quarter of 2009. Motor vehicle output deducted 2.01 percentage points from real GDP growth in the fourth quarter and 1.36 percentage points in the first quarter. Excluding autos, real GDP declined 4.5% and 4.9% in the fourth and first quarters, respectively (see chart 2).

Chart 2



The 2.2% increase in consumer spending in the first quarter is unlikely to be repeated in the second and third quarters of 2009. The sharp declines in residential structures (-44.2%), equipment and software (-33.8%), residential investment expenditures (-38%), exports (-30%), and a significant reduction in inventories (-\$103.7 billion) more than offset the strength in consumer spending. Government spending also posted a 3.9% drop in the first quarter, which is most likely to rebound in the second quarter. Final sales fell 3.4% in the first quarter after a 6.2% drop in the prior quarter.

In addition to the large setback from inventories (see chart 3) in the first quarter, outlays on structures posted a new post-war record low (see charts 4), while the equipment and software spending component's contribution to real GDP in the first quarter was the most negative on record since the third quarter of 1952 (see chart 5).

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Chart 3  
**Inventories as % of Real GDP**  
 percent

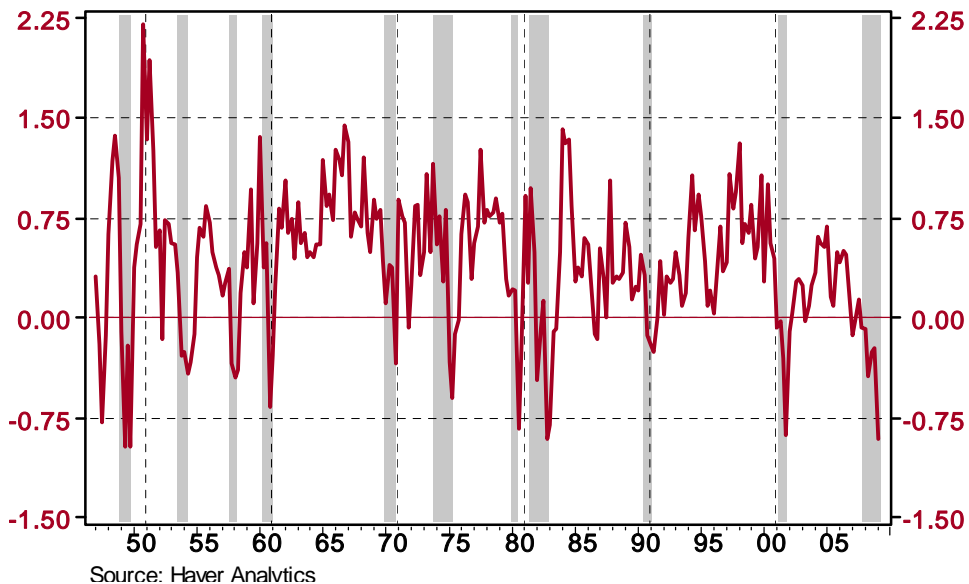
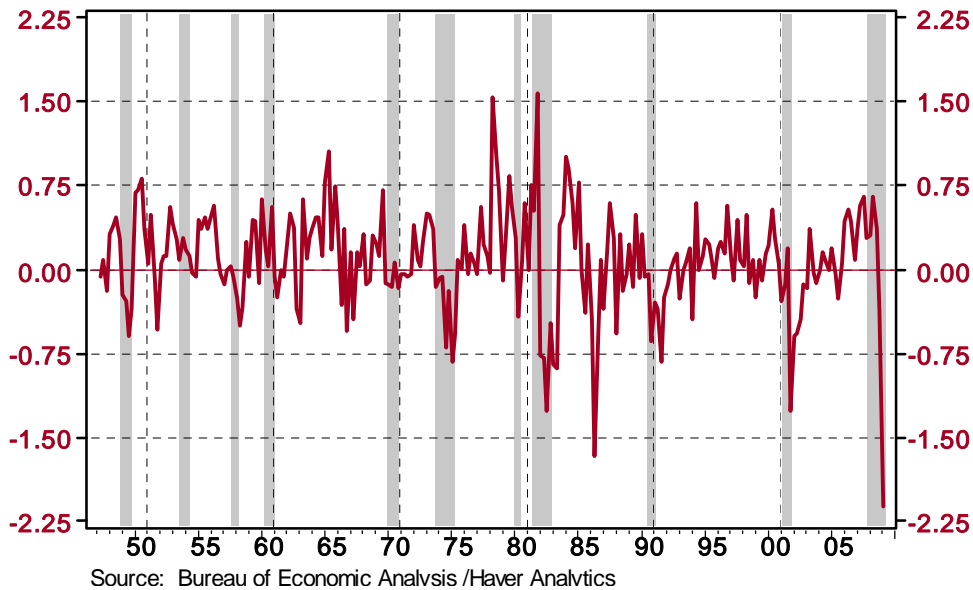
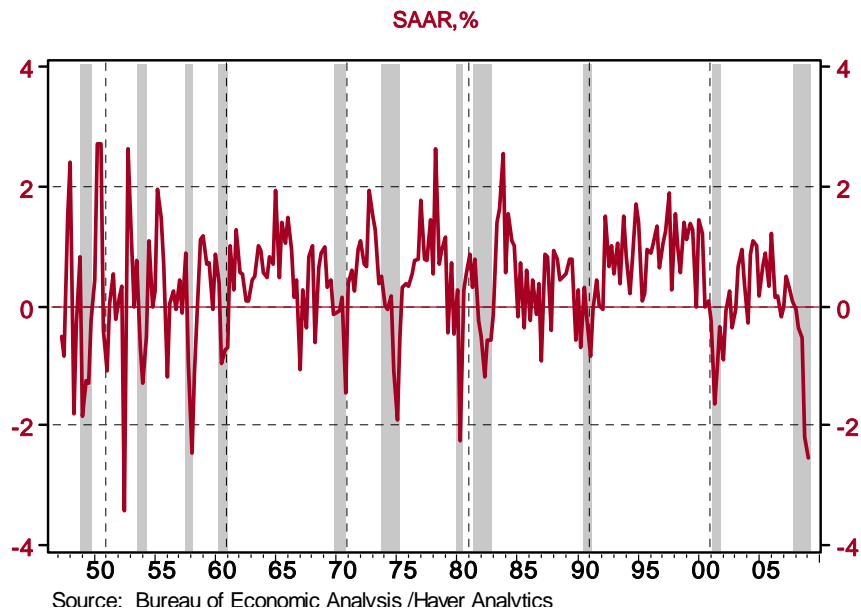


Chart 4  
**Real Nonresidential Structures: Contribution to Real GDP Change**  
 SAAR,%



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Chart 5  
Real Nonresidential Equip & Software: Contrib to Real GDP Change



A decline in real GDP, albeit more modest, is projected for the second quarter. GM’s plans to cut production should translate into another noticeably weak third quarter headline for real GDP, followed by a stronger than previously expected fourth quarter. The annual decline in real GDP is now projected to be roughly 3.5% in 2009, which is a tad higher than the 3.3% decline assumed in the **alternative adverse scenario** of the stress test of the 19 major banks under the Treasury’s Capital Assistance Program.

The severely weak tone of GDP numbers in the last two quarters has lead to frequent comparisons with the Great Depression. Table 1 compares the behavior of real GDP, unemployment, inflation, and stock prices during the early-1930s and now.

**Table 1 – Early-1930s vs. Current Economic Situation**

Economic Indicator	Early 1930s	Current Economic Situation
<b>Real GDP</b>	Real GDP fell 8.6%, 6.4%, 13% and 1.3% during 1930, 1931, 1932, and 1933, respectively.	Real GDP rose 1.1% in 2008, it is expected to decline about 3.5% in 2009
<b>Unemployment rate</b>	The peak of the jobless rate in 1933 was 25.6%.	The unemployment rate was 8.5% in March 2009 and it is projected to reach 10% in December 2009.
<b>Prices</b>	The Consumer Price Index fell each year from 1927-33, excluding 1929 when it held steady. 1927: -1.9% 1931: -8.9% 1928: -1.2% 1932: -10.3% 1929: 0.0 1933: -5.2% 1930: -2.7% 1934: +3.5%	The Consumer Price Index moved up 3.8% in 2008 and it is forecast to decline 0.6% in 2009.
<b>Stock market</b>	The S&P 500 (monthly average) plunged 85% between October 1929 and June 1932	Between October 9, 2007 and March 5, 2009 the S&P 500 has lost 56%.

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**TABLE 2 REAL GROSS DOMESTIC PRODUCT 2009:Q1 ADVANCE ESTIMATE**

	Levels (Billions of chained 2000 dollars)			Percent Change (SAAR)		
	08:3 Final	08:4 Final	09:1 Advance	From 08:2 to 08:3	From 08:3 to 08:4	From 08:4 to 09:1
GDP	11712.4	11522.1	11340.9	-0.5	-6.3	-6.1
CONSUMPTION	8260.6	8170.5	8214.2	-3.8	-4.3	2.2
DURABLE GOODS	1180.1	1108.6	1133.9	-14.8	-22.1	9.4
NONDURABLE GOODS	2376.3	2318.6	2326.2	-7.1	-9.4	1.3
SERVICES	4711.3	4729.4	4746.5	-0.1	1.5	1.5
INVESTMENT	1703.7	1596.0	1329.8	0.4	-23.0	-51.8
FIXED INVESTMENT	1731.1	1627.0	1444.3	-5.3	-22.0	-37.9
NONRESIDENTIAL	1425.7	1341.1	1190.6	-1.7	-21.7	-37.9
STRUCTURES	348.4	339.9	293.9	9.7	-9.4	-44.2
EQUIPMENT & SOFTWARE	1054.0	970.5	875.3	-7.5	-28.1	-33.8
RESIDENTIAL	353.7	331.6	294.2	-16.0	-22.8	-38.0
CHG. BUS. INVENT.	-29.6	-25.8	-103.7			
NET EXPORTS	-353.1	-364.5	-308.4			
EXPORTS	1556.1	1454.9	1331.0	3.0	-23.6	-30.0
IMPORTS	1909.1	1819.4	1639.5	-3.5	-17.5	-34.1
GOVERNMENT (Cons. & Invest.)	2088.1	2094.7	2073.8	5.8	1.3	-3.9
FEDERAL	810.8	824.5	816.1	13.8	7.0	-4.0
DEFENSE	550.4	555.0	545.9	18.0	3.4	-6.4
OTHER	259.5	268.9	269.8	5.1	15.3	1.3
STATE AND LOCAL	1278.7	1272.3	1259.7	1.3	-2.0	-3.9
DISP. PERS. INC.	8689.1	8754.2	8886.6	-8.8	2.7	6.2
FINAL SALES	11739.2	11552.2	11452.3	-1.3	-6.2	-3.4
FINAL SALES TO DOM. PURCHASERS	12084.1	11904.0	11747.7	-2.3	-5.8	-5.1
PRICE DEFLATORS:						
GDP CHAIN TYPE	123.1	123.3	124.2	3.9	0.5	2.9
GDP EX. FOOD & ENERGY				3.0	0.4	2.0
PCE CHAIN TYPE	123.0	121.5	121.2	5.0	-4.9	-1.0
PCE EX. FOOD & ENERGY	117.5	117.7	118.2	2.4	0.9	1.5

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