

DAILY GLOBAL
COMMENTARY

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

Asha G. Bangalore
agb3@ntrs.com

Bernanke Mentions Positive Factors with Caveats

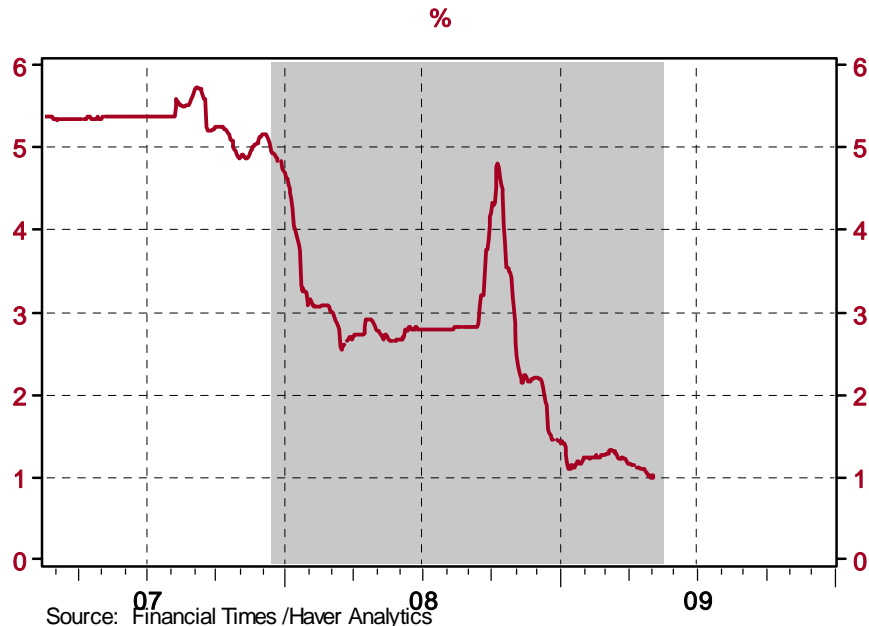
May 5, 2009

Chairman Bernanke's testimony at the Joint Economic Committee noted that "*the pace of contraction may be slowing, and they include some tentative signs that final demand, especially demand by households, may be stabilizing.*" This is good news, but he also added that "*a number of factors are likely to continue to weigh on consumer spending, among them weak labor market and the declines in equity and housing wealth that households have experienced over the past two years.*" In his opinion, the housing market indicators are suggesting that a trough has been established. The news from the business sector is less encouraging compared with the housing market and household sector. The latest data point to severely weak capital spending and a massive liquidation of inventories. However, the latest factory surveys indicate that although activity is still declining, the pace had moderated noticeably in April compared with the past seven months.

Bernanke also noted that the Fed expects economic activity to bottom out later in the year, assuming that financial conditions continue to mend. In this context, the Chairman remarked that "*a relapse in financial conditions would be a drag on economic activity and could cause the incipient recovery to stall.*" Supportive of Bernanke's optimism, the 3-month Libor has edged below 1.00% as of this writing (see chart 1, 0.98% on 5/5/09).

Chart 1

3-Month London Interbank Offered Rate: Based on US\$



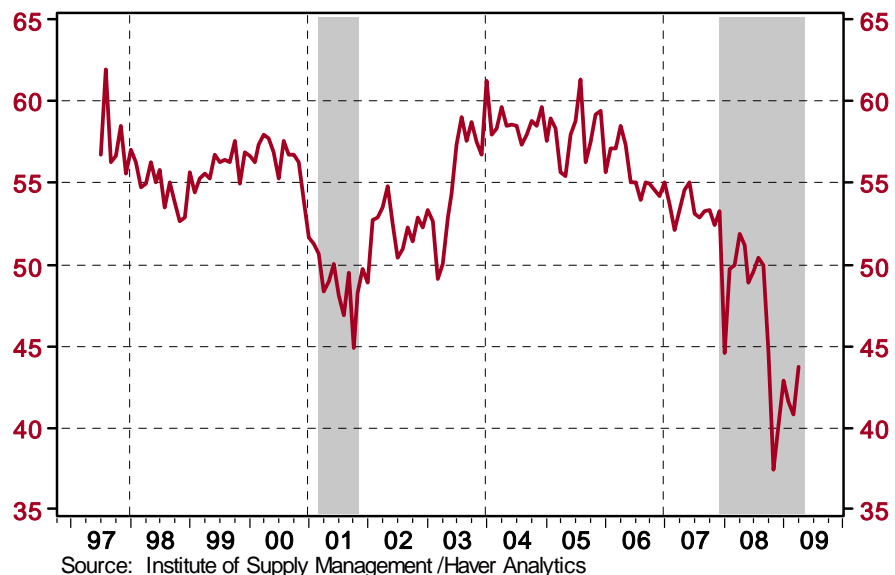
ISM Non-Manufacturing Survey Sends an Upbeat Signal

The ISM non-manufacturing survey report for April contained several noteworthy aspects. First, the composite index (average of new orders, business activity, employment, and supplier deliveries indexes) moved up to 43.7 in April from 40.8 in March, which is the highest level since October 2008. Second, the index tracking new orders rose 8.2 points to 47.0, the highest since September 2008. Third, with exception of supplier deliveries, all the sub-indexes advanced in April. Effectively, the ISM surveys of the factory and service sectors send a message of improving activity. Readings above 50.0, denoting an expansion of activity, are probably not too far away.

Chart 2

ISM Nonmanufacturing: NMI Composite Index

SA, 50+=Increasing



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