

DAILY GLOBAL COMMENTARY

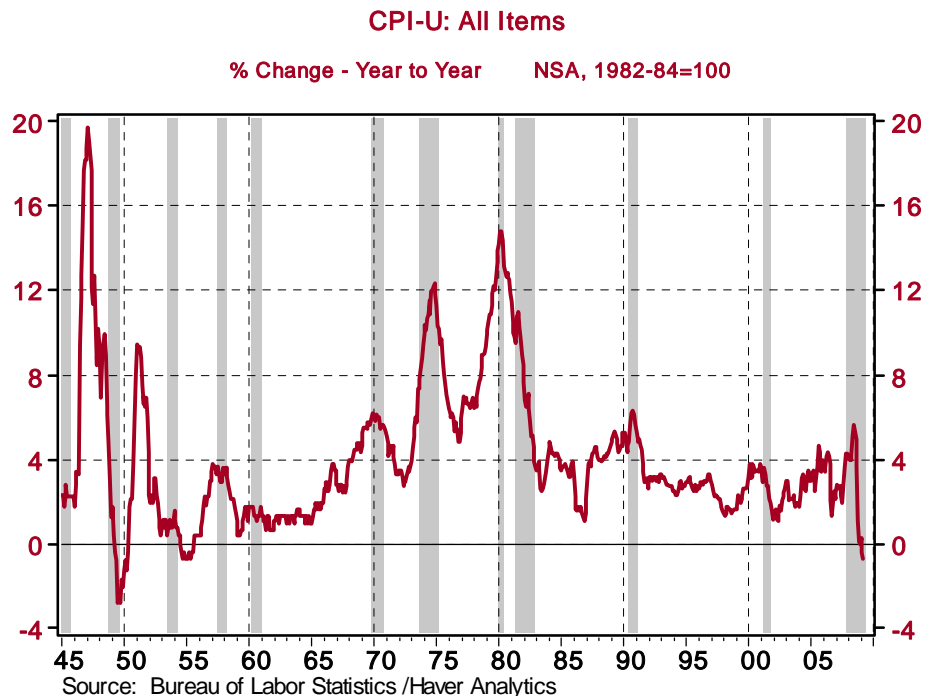
Northern Trust
Global Economic Research
50 South LaSalle
Chicago, Illinois 60603
northerntrust.com

Asha G. Bangalore
agb3@ntrs.com

The Hike in Core Consumer Price Index is Temporary May 15, 2009

The Consumer Price Index (CPI) was unchanged in April following a 0.1% drop in the prior month. The energy price index fell 2.4% in April after a 3.0% drop in March. Energy prices are expected to show an increase in the May CPI report, based on the information available so far. The food price index fell 0.2%, the third consecutive monthly decline. In the first four months of the year the CPI has risen at an annual rate of 1.9% vs. a 3.9% increase in all of 2008. On a year-to-year basis, the CPI has dropped 0.7% in April, the second consecutive monthly decline. The last time the CPI fell back-to-back for an extended period was in the 1954-1955 period (see chart 1).

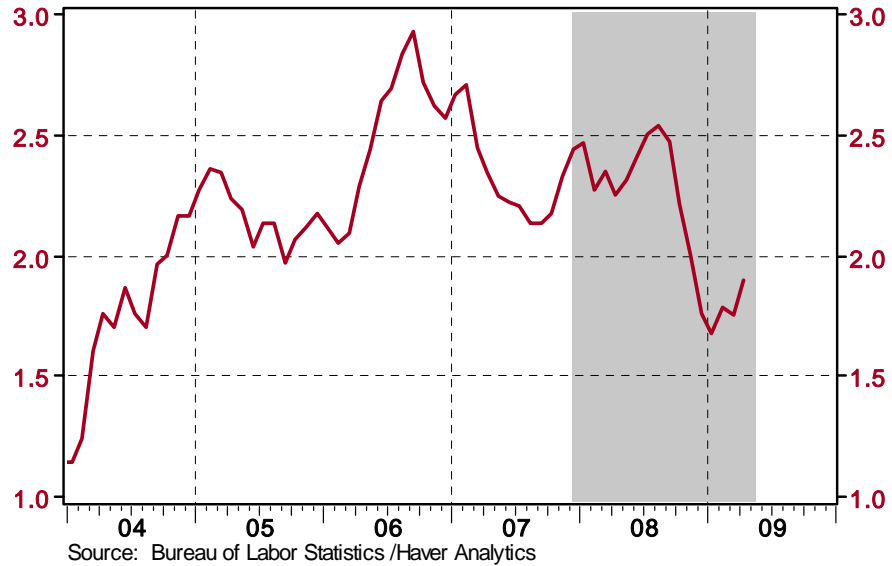
Chart 1



The core CPI, which excludes food and energy, rose 0.3% in April. The BLS indicated that over 40% of the increase in the core CPI was from higher tobacco prices for the second month. The tobacco price index went up 9.3% in April, which reflects the hike in federal excise tax on cigarettes. In addition, the jump in the medical care price index (+0.4%), higher prices for new cars (+0.4%), and gains in the shelter index (+0.2%) were the major gains recorded among the core items of the CPI. Lower prices for clothes (-0.2%) and air travel (-1.5%) helped to trim back the advance of the CPI in April. On a year-to-year basis, the core CPI rose 1.9% in April after holding between 1.7% and 1.8% for four straight months; the small acceleration reflects the hike in tobacco prices.

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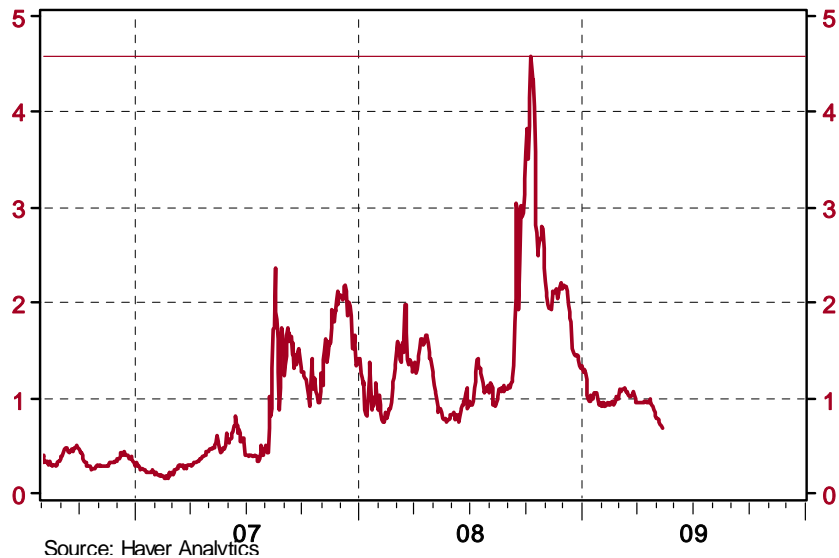
Chart 2
CPI-U: All Items Less Food and Energy
 % Change - Year to Year NSA, 1982-84=100



The threat of inflation is not on the radar screen of the FOMC at the present time, the focus of the FOMC is financial market stability and economic growth. Financial market stability is evolving gradually as seen in the narrowing of spreads between more risky securities and less risky securities (see charts 3-5).

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

(l)



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Chart 4

Moody's Baa less 10-year U.S. Treasury Note Yield

percent

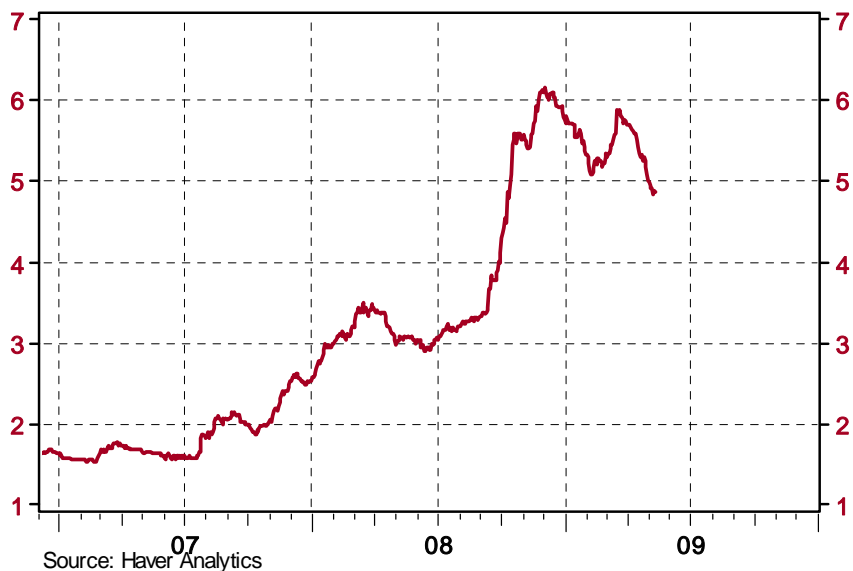
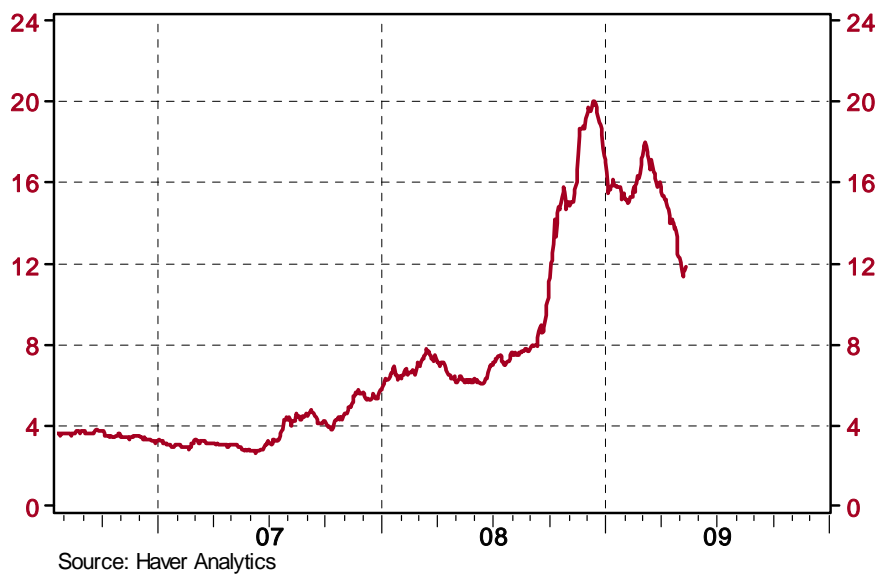


Chart 5

Merril Lynch Junk Bond yield less 10-year Treasury Note yield

percent



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Consumer Price Index – April 2009

	% change prior month	annualized % change			% change		
		year-to-date	3 mo. ago	6 mo. ago	Apr-09 yoy	Apr-08 yoy	Dec-08 yoy
CPI - ALL ITEMS	0.0	1.6	0.9	-3.9	-0.7	3.9	0.1
CORE - ALL ITEMS LESS FOOD & ENERGY (77.75)*	0.3	2.4	2.5	1.7	1.9	2.3	1.8
CPI ALL ITEMS LESS ENERGY (92.4)	0.2	1.8	1.8	1.4	2.1	2.7	2.4
FOOD (14.63)	-0.2	-1.1	-1.7	-0.3	3.3	5.1	5.9
ENERGY (7.62)	-2.4	-1.5	-8.5	-43.8	-25.2	15.9	-21.3
SHELTER (33.2)	0.2	1.0	0.6	1.0	1.6	2.6	1.9
COMMODITIES (39.6)	-0.1	3.1	2.0	-10.1	-4.6	4.8	-4.1
COMMODITIES LESS FOOD & ENERGY (21.5)	0.5	4.4	5.4	2.2	0.9	0.1	-0.6
SERVICES (60.4)	0.0	0.6	0.3	0.7	2.0	3.3	3.0
SERVICES LESS ENERGY SERVICES (56.3)	0.2	1.6	1.4	1.5	2.3	3.1	2.7
FRB CLEVELAND MEDIAN CPI	0.2	2.3	2.1	2.1	2.6	3.0	2.9

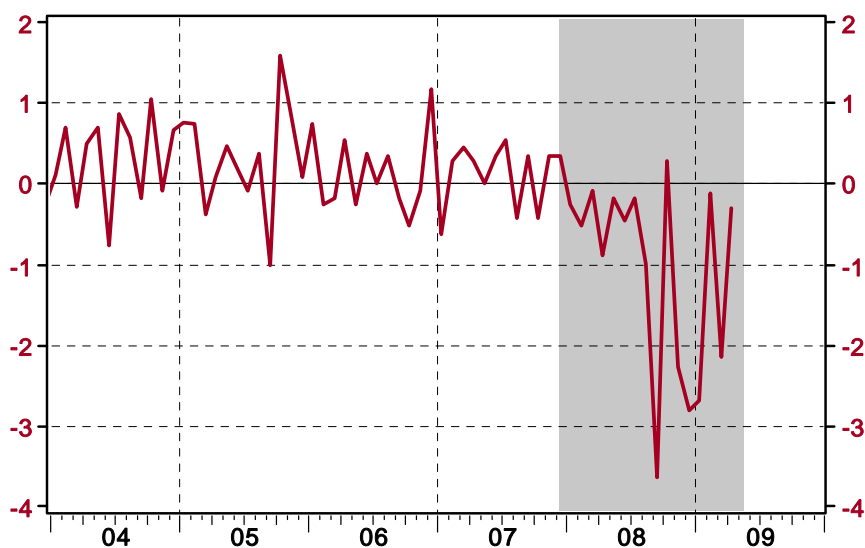
* - Figures in parentheses denote the relative importance of each category in the CPI.

Factory Production – Moderation in Pace of Decline

Industrial production dropped 0.5% in April vs. a 1.7% decline in March. Factory production fell 0.3%, while output of utilities rose 0.4% and that of mining fell 3.2% in April. The decline in factory activity shows a moderation on a month-to-month (chart 6) and year-to-year basis (see chart 7). This is the most important aspect of the toady's report.

Chart 6
Industrial Production: Manufacturing [SIC]

% Change - Period to Period SA, 2002=100



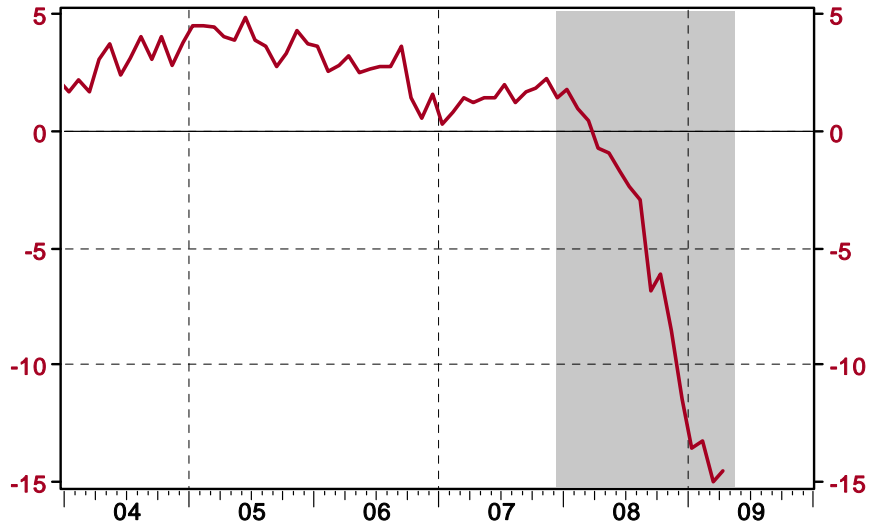
Source: Federal Reserve Board /Haver Analytics

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Chart 7

Industrial Production: Manufacturing [SIC]

% Change - Year to Year SA, 2002=100



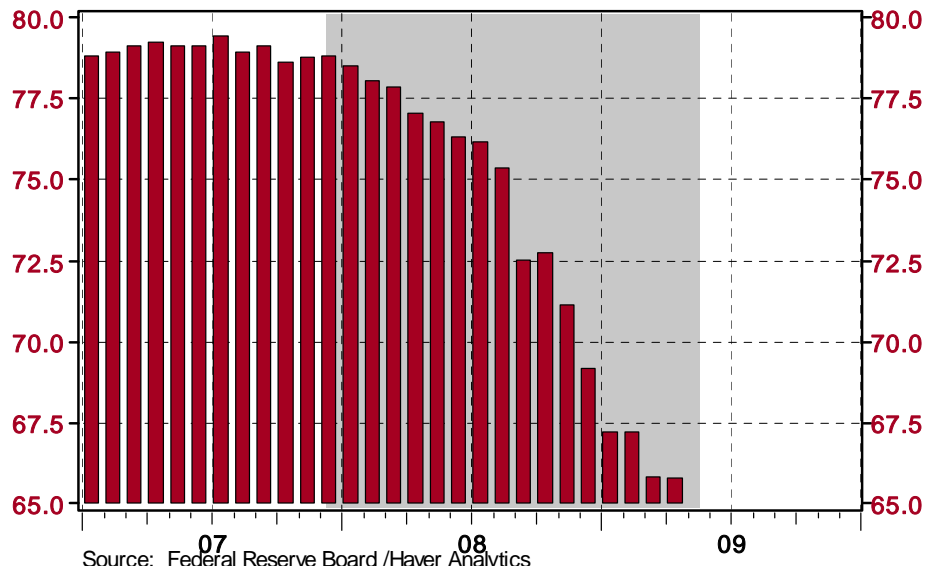
Source: Federal Reserve Board /Haver Analytics

The operating rate of the factory sector edged down to 65.7% during April from 65.8% in March, which is a new record low.

Chart 8

Capacity Utilization: Manufacturing [SIC]

SA, Percent of Capacity

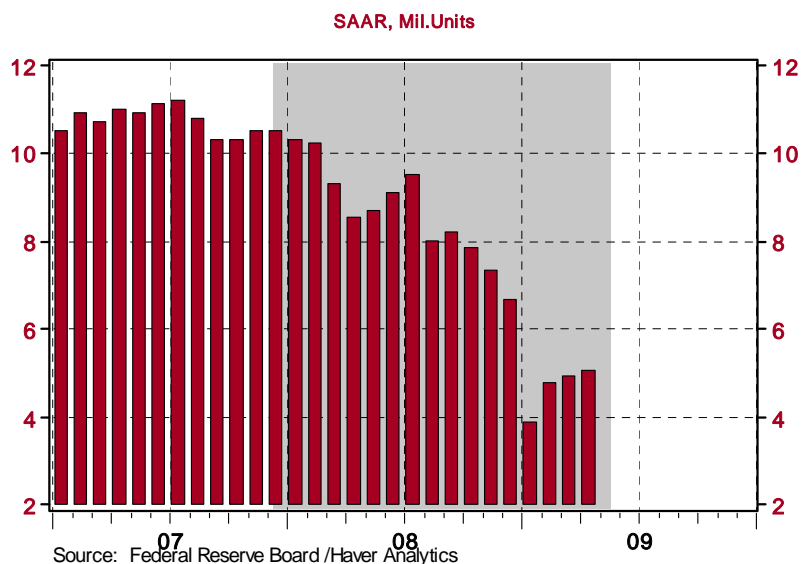


Source: Federal Reserve Board /Haver Analytics

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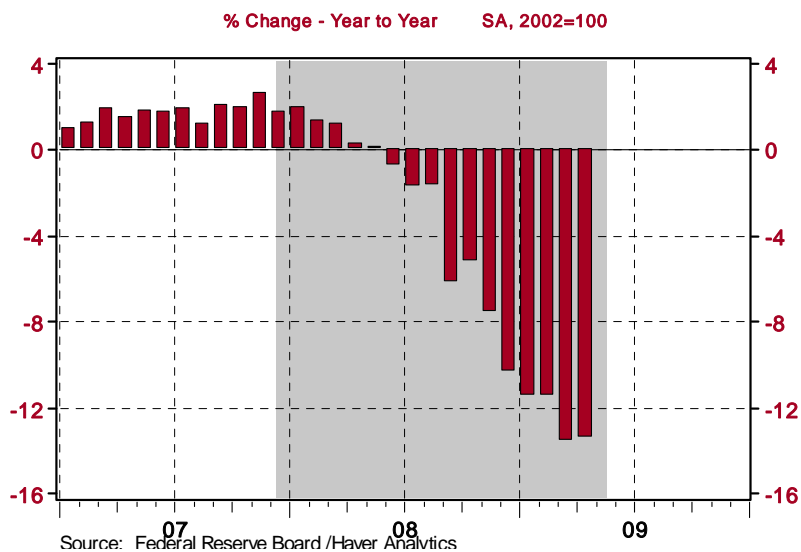
Auto assemblies rose to an annual rate of 5.04 million units in April, up from 4.93 million in March. The Chrysler plant shutdowns and GM plant shutdowns in the second and third quarter, respectively, will distort the readings of factory activity in the months ahead.

Chart 9
IP: Motor Vehicle Assemblies



Excluding autos, factory production was down 0.4% in April vs. a 2.2% drop in March. On a year-to-year basis, factory output excluding autos fell 13.42% in April vs. a 13.6% drop in March. In conclusion, factory surveys and production data suggest that factory production continues to contract, but the pace of decline has slowed.

Chart 10
Industrial Production: Manufacturing Excl Motor Vehicles & Parts



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Industrial Production – April 2009

	<u>Nov-08</u>	<u>Dec-08</u>	<u>Jan-09</u>	<u>Feb-09</u>	<u>Mar-09</u>	<u>Apr-09</u>
Industrial Production*	-1.3	-2.2	-2.1	-1.0	-1.7	-0.5
Total Capacity Utilization	74.4	72.8	71.3	70.6	69.4	69.1
Manufacturing output*	-2.2	-2.9	-2.7	-0.1	-2.1	-0.3
Man. Capacity Utilization	71.1	69.1	67.2	67.2	65.8	65.7
Capacity Utilization ex. High-tech industries	71.2	69.2	67.3	67.4	66.0	65.9
High-tech industries - output*	-6.2	-4.2	-0.2	-2.1	-2.0	-0.7
Manufact. Ex high-tech output*	-2.0	-2.8	-2.8	0.0	-2.1	-0.3

* - percent change from prior month

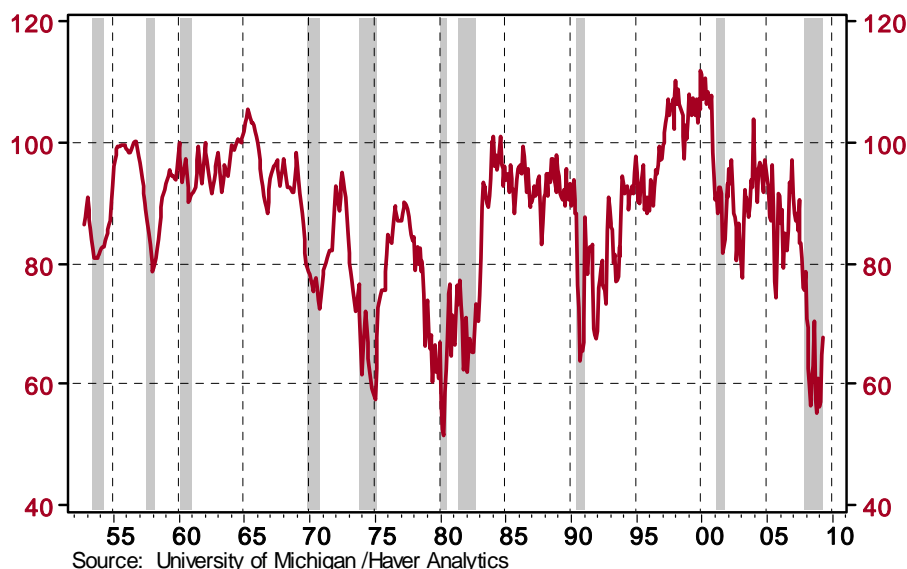
Consumer Sentiment Improves in May

The University of Michigan Consumer Sentiment Index moved up 2.8 points to 67.9 in the preliminary survey for May. The index has now climbed 12.6 points from the cycle low of 55.3 registered in November 2008. The Current Economic Conditions Index fell 2.1 points to 66.2 in May, while the Expectations Index rose 5.9 points to 69 in May. The Expectations Index has advanced 18.5 points from the recent low of 50.5 posted in February 2009. The cycle low was 49.2 seen in June 2008.

Chart 11

University of Michigan: Consumer Sentiment

NSA, Q1-66=100 (I)



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Key Interest Rates

	5/15/2009	1-wk. change, bps	4-wk. change, bps	1-yr. change, bps
3-month Libor	0.83	-11	-28	-187
2-year U.S. Treasury note yield	0.85	-15	-14	-162
10-year U.S. Treasury note yield	3.14	-15	16	-71

Next Week's Highlights

FOMC Minutes – May 20

Date	Economic Indicator	TNT	Consensus	Previous
5/18/2009	NAHB Survey (May)		14.0	16.0
5/19/2020	Housing Starts (Apr.)	480,000	552,000	551,00
5/21/2009	Initial Jobless Claims		630	637
	Leading Economic Indicators (Apr.)	0.9%	0.8%	-0.3%
	Philly Fed Survey (May)			

Global Economic Data

	Real GDP		CPI		Unemployment Rate			Central Bank Rate		
	SAAR, yoy %		NSA, yoy%		%	year-ago		%	year-ago	
United States	-2.6	Q4-08	-0.7	Mar-09	8.9	Apr-09	5	0.13	Apr-09	2.00
Euro-Area	-4.6	Q4-08	0.6	Mar-09	8.9	Mar-09	7.2	1.25	Apr-09	4.00
Japan	-4.3	Q4-08	-0.3	Mar-09	4.8	Mar-09	3.8	0.10	Apr-09	0.50
UK	-2.0	Q4-08	2.9	Mar-09	4.7	Apr-09	2.5	0.50	Apr-09	5.00
Australia	0.3	Q4-08	2.5	Q4-08	5.4	Apr-09	4.2	3.00	Apr-09	7.25
Canada	-0.7	Q4-08	1.2	Mar-09	8.0	Apr-09	6	0.25	Apr-09	3.00
China	6.1	Q1-09	-1.4	Mar-09	4.2	Q4-08	4.1	0.81	Mar-09	2.07
India	5.4	Q4-08	8.0	Mar-09	--	--	--	3.25	Apr-09	6.00
New Zealand	-2.3	Q4-08	3.0	Q4-08	5.0	Q1-09	3.8	2.50	Apr-09	8.25
Norway	0.8	Q4-08	2.9	Mar-09	2.8	Q4-08	2.7	2.00	Apr-09	5.50
Singapore	-4.0	Q4-08	1.6	Mar-09	3.2	Q1-09	1.9	0.19	Apr-09	0.99
South Korea	-4.4	Q4-08	3.6	Apr-09	3.7	Apr-09	3.1	2.00	Apr-09	5.00
Sweden	-4.4	Q4-08	-0.1	Mar-09	7.7	Mar-09	5.9	0.50	Apr-09	4.25
Switzerland	-0.1	Q4-08	-0.3	Mar-09	3.4	Apr-09	2.5	0.40	Apr-09	2.81
Taiwan	-8.1	Q4-08	0.0	Apr-09	5.7	Mar-09	3.9	1.25	Apr-09	3.50
Thailand	-4.3	Q4-08	-0.9	Apr-09	1.7	Mar-09	1.3	1.75	Apr-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

	Apr-09	Mar-09	Feb-09	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08	Aug-08	Jul-08	Jun-08	May-08
Payroll Employment (000)	-539	-699	-681	-741	-681	-597	-380	-321	-175	-128	-161	-137
% Change, Year Ago *	-3.8	-3.5	-3.1	-2.7	-2.2	-1.6	-1.1	-0.7	-0.4	-0.3	-0.2	-0.1
Unemployment Rate (%)	8.9	8.5	8.1	7.6	7.2	6.8	6.6	6.2	6.2	5.8	5.6	5.5
Avg. Hourly Earnings (% Chg.)	0.1	0.2	0.2	0.2	0.3	0.3	0.4	0.2	0.4	0.3	0.3	0.3
% Change, Year Ago	3.2	3.4	3.5	3.7	3.9	3.9	3.9	3.6	3.8	3.5	3.6	3.7
PPI (% Chg.)	0.3	-1.2	0.1	0.8	-1.8	-2.7	-2.6	-0.1	-0.5	1.3	1.3	1.5
% Change, Year Ago *	-3.7	-3.5	-1.3	-1.0	-0.9	0.4	5.2	8.8	9.7	9.9	9.1	7.3
CPI (% Chg.)	0.0	-0.1	0.4	0.3	-0.8	-1.7	-0.8	0.0	0.0	0.7	0.9	0.5
% Change, Year Ago *	-0.7	-0.4	0.2	0.0	0.1	1.1	3.7	4.9	5.4	5.6	5.0	4.2
ISM Diffusion Index (%)	40.1	36.3	35.8	35.6	32.9	36.6	38.7	43.4	49.3	49.5	49.5	49.3
Industrial Production (% Chg.)	-0.5	-1.7	-1.0	-2.1	-2.2	-1.3	1.3	-4.0	-1.1	-0.1	-0.2	-0.3
% Change, Year Ago	-12.5	-12.6	-11.4	-10.7	-8.9	-6.5	-4.7	-6.4	-2.2	-1.0	-0.7	-0.4
Capacity Utilization (Goods)	69.1	69.4	70.6	71.3	72.8	74.4	75.4	74.5	77.6	78.6	78.7	78.9
Nondefense Cap. Goods ex Aircraft												
- Orders (% Chg.)		0.4	4.1	-12.3	-5.9	1.1	-6.7	-3.4	-2.3	0.3	1.6	-0.3
% Change, Year Ago *		-19.3	-25.0	-25.4	-14.7	-7.9	-7.2	0.1	-0.2	6.6	3.4	3.4
- Shipments (% Chg.)		-1.7	-0.2	-9.4	0.1	-1.3	-3.7	1.7	-2.1	0.3	0.6	0.2
% Change, Year Ago *		-14.8	-15.6	-13.4	-4.7	-5.2	-2.2	2.7	-1.6	6.1	2.0	2.7
Retail Sales (% Chg.)	-0.4	-1.3	0.4	1.7	-3.2	-2.1	-3.1	-1.5	-0.5	-0.7	0.2	0.1
% Change, Year Ago	-9.4	-10.6	-11.6	-8.4	-8.8	-10.1	-4.2	-0.2	-0.6	3.8	1.1	2.2
Real Personal Consumption (% Chg.)		-0.2	0.1	0.9	-0.6	0.4	-0.8	-0.5	-0.1	-0.6	-0.2	0.2
% Change, Year Ago		-1.5	-1.0	-1.2	-1.9	-1.4	-1.3	-0.6	-0.2	0.2	1.1	1.4
Personal Income (% Chg.)		-0.3	-0.2	0.1	-0.3	-0.5	-0.1	0.1	0.3	-0.8	0.1	1.8
% Change, Year Ago		0.3	1.0	1.4	1.3	2.1	3.0	3.4	3.9	4.0	5.3	5.6
New Home Sales (SAAR, mn)		0.36	0.36	0.33	0.37	0.39	0.40	0.43	0.45	0.51	0.50	0.52
% Change, Year Ago *		-30.6	-39.6	-45.5	-40.9	-40.0	-43.9	-34.0	-36.7	-36.8	-38.4	-38.0
Existing Home Sales (SAAR, mn)		4.57	4.71	4.49	4.74	4.54	4.94	5.10	4.93	4.99	4.90	4.95
% Change, Year Ago *		-4.0	-10.3	-7.6	0.3	-17.0	-1.9	6.8	-15.0	-11.3	-16.7	-16.3
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
% 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
International Trade (Bils \$)		-27.6	-26.1	-36.2	-39.9	-42.5	-58.0	-58.1	-60.2	-62.5	-59.1	-60.5
	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	-6.1	-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	-2.6	-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	2.9	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	2.1	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	-3.5	-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	-0.5	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 (%)	0.3	0.6	0.6	0.7	0.7	0.8	0.8	0.9	0.8	0.9	0.9	0.9
% Change, Year Ago	2.1	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	0.8	-0.6	2.2	4.7	2.6	-0.5	7.0	4.8	-0.6	-0.4	-1.6	2.4
% Change, Year Ago	1.8	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	3.3	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	2.4	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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