

DAILY GLOBAL
COMMENTARY

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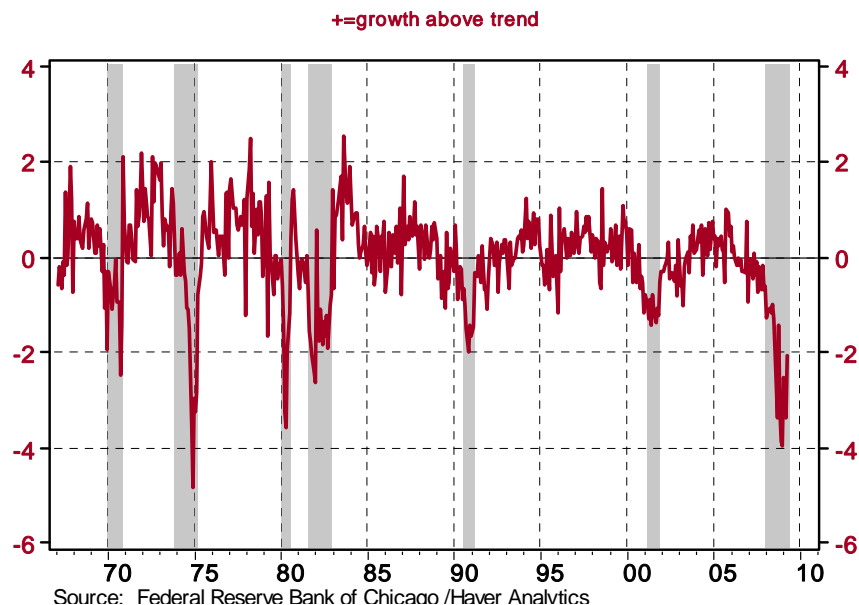
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Chicago National Activity Index Sends an Upbeat Message

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The Chicago Fed national activity Index (CFNAI) in April moved up to -2.06 from -3.36 in March. Readings below zero denote an economy that is growing below trend. The index registered a trough in January 2009 (-3.99). The index is based on 85 indicators of national activity classified under four broad categories – production and income, employment, personal consumption and housing, and sales, orders, and inventories. In April, all of these four categories improved.

Chart 1
FRB Chicago National Activity Index



The Chicago Fed suggests that the month-to-month movements of the index are volatile and recommends the 3-month moving average (MA3) of the index as a better indicator of national economic growth. The 3-month moving average of the CFNAI was -2.65 in April vs. -3.29 in March. This index bottomed out in January 2009 (-3.69, see chart 2). Historically, an inflection point of the 3-month moving average of the CFNAI is associated with an end of a recession or an imminent end (see table 1). The historical information of the CFNAI on a 3-month moving average basis indicates that the bottom of the CFNAI-MA3 coincides with the trough of a business cycle (1969 and 2001 recessions) or it leads the trough of a business cycle by 1-3 months (see table 1). The CFNAI-MA3 gave a false signal in the 1981-82 recession when the bottom of the index in January 1982 looked nearly established but was reversed in May 1982. It was only by November 1982 it was certain the index was conveying more accurately that the economy had turned around. In sum, economic conditions are improving based on the CFNAI-MA3. Setbacks from the auto industry restructuring should not be surprising. We will need to watch for a few months to confirm that it is not a false signal.

Chart 2

FRB Chicago National Activity Index: 3 Mo. Moving Average

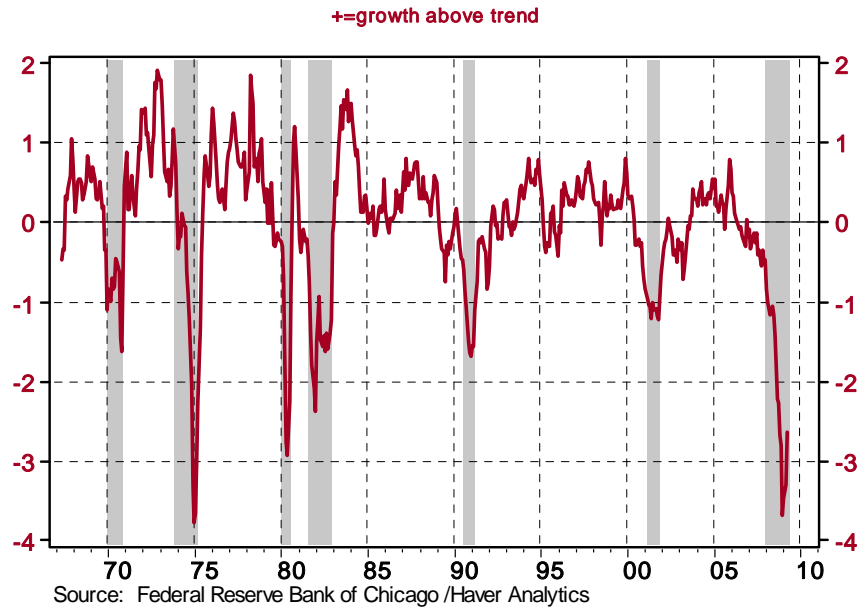


Table 1 Business Cycles and CFNAI-MA3 Trough

Peak to Trough Business Cycles	Trough of CFNAI-MA3
Dec.1969 - Nov.1970	November-70
Nov.1973 - Mar.1975	January-75
Jan.1980 - Jul.1980	June-80
Jul.1981 - Nov.1982	August-82
Jul.1990 - Mar.1991	January-91
Mar. 2001 - Nov.2001	November-01
Dec. 2007 - ???	Jan-09

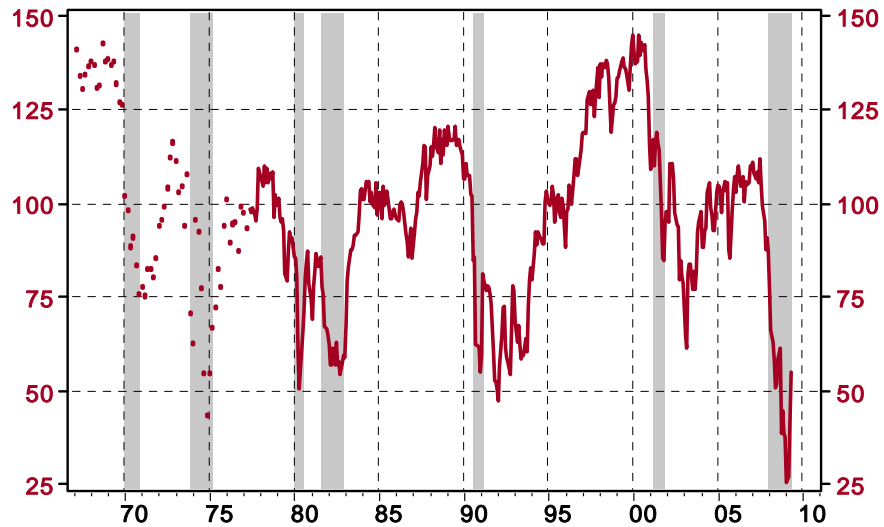
Consumer Confidence Index Posts Significant Jump in May

The Conference Board’s Consumer Confidence Index rose to 54.9 from a revised 40.8 reading in April. The Present Situation Index advanced 3.4 points to 28.9 and the Expectations Index rose 21.3 points to 72.3.

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Chart 3
Consumer Confidence

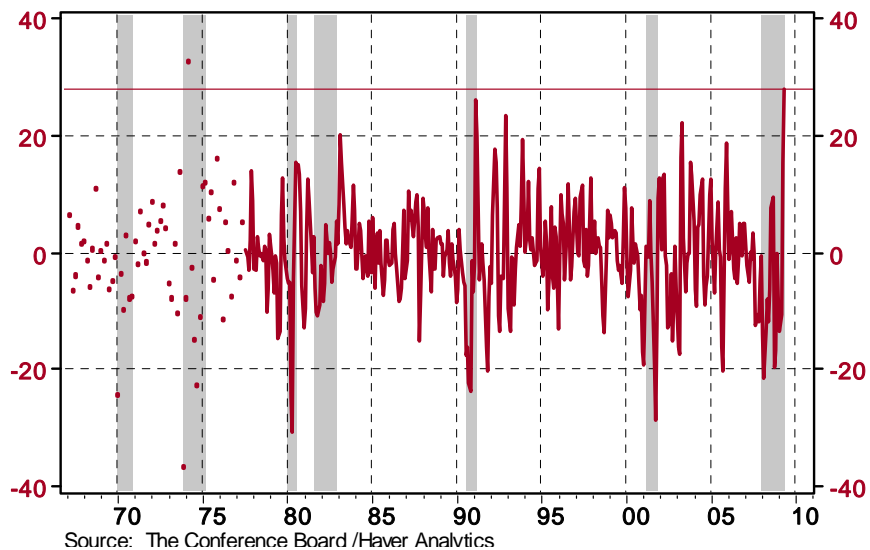
SA, 1985=100



The 28 point jump in the April-May period is the second largest two-month gain seen in the history of the survey which began in 1967. The survey was held six times a year until the late-1970s. In 1974, the index increased 32.4 points over the span of the February and April surveys.

Chart 4
Consumer Confidence

2-month Change SA, 1985=100



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As part of the survey, respondents indicate their assessment of employment conditions and the responses are reported as the “Jobs Hard-to-Get” and “Jobs Plentiful” Indexes. The net of these two indexes has a strong positive correlation with the unemployment rate. In May, the difference between the “Jobs Hard-to-Get” and “Jobs Plentiful” Indexes was 39, down from a cycle high of 44.1 in March 2009. Historical comparisons of the unemployment rate and the net of the jobs index indicate that the net jobs index has been, at best, a leading indicator of the peak of the jobless rate in three business cycles and, at the worst, a lagging indicator in three business cycles (see chart 5 and table 2). The main message is that the U.S. economy is approaching the trough of the recession that is underway. A similar conclusion is implied in the CFNAI report of today.

Chart 5
Jobs Hard to Get Minus Jobs Plentiful
 (l)
Civilian Unemployment Rate: 16 yr +
 SA, %

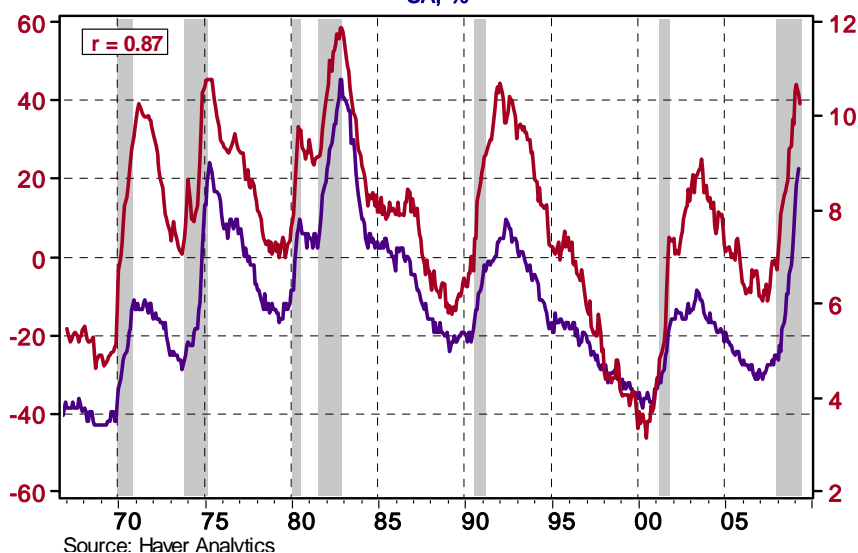


Table 2 Unemployment rate vs. Job Outlook from Consumer Confidence Survey

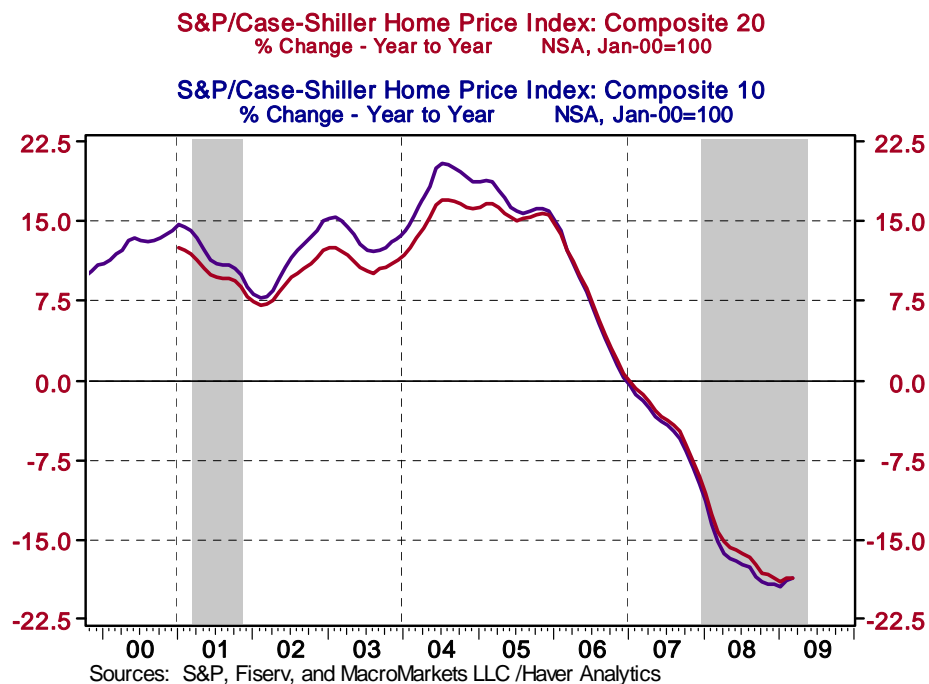
Peak to Trough Business Cycles	Date	Cycle high of unemployment rate after the end of the recession	Date	Peak of "Jobs hard to Get" Index Minus "Jobs Plentiful" Index
Dec.1969 - Nov.1970	Dec-70	6.1	Apr-71	39.1
Nov.1973 - Mar.1975	May-75	9.0	Apr-75	45.5
Jan.1980 - Jul.1980	Jul-80	7.8	Jun-80	33.4
Jul.1981 - Nov.1982	Dec-82	10.8	Dec-82	58.7
Jul.1990 - Mar.1991	Jun-92	7.8	Feb-92	44.5
Mar. 2001 - Nov.2001	Jun-03	6.3	Sep-03	25.2
Dec. 2007 - ???	Apr-09	8.9	Mar-09	44.1
			May-09	39.0

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Case-Shiller Home Price Index – Noteworthy Price Movements, but More is Required

The Case-Shiller Home Price Index, the 20-city composite index, declined 2.2% in March, matching the drop seen in February. On a year-to-year basis, the 20-city composite index fell 18.7% vs. a nearly similar drop in February. The 10-city Case-Shiller Price Index was down 18.69% from a year ago in March vs. an 18.89% drop recorded in February. A smaller drop in home prices would have been the preferable case, but the fact that a larger decline compared with February was not reported is encouraging. The worst case scenario laid out in the Capital Assistance Program assumes a 22% year-to-year decline of the 10-city Case-Shiller Home Price Index in the fourth quarter of 2009, while a 14% drop is the baseline scenario. In the first quarter, the 10-city Case-Shiller Home Price fell 19.0% from a year ago after a 19.15% drop in the fourth quarter of 2008.

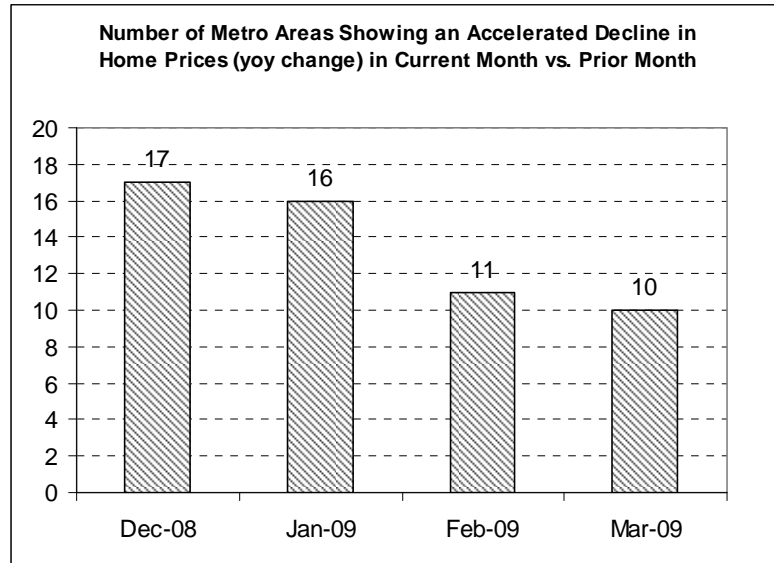
Chart 6



Ten out of the twenty price indexes that make up the 20-city Case-Shiller Home Price Index recorded larger year-to-year declines in March compared with the prior month. The number of metro areas recording accelerating declines in a given month vs. the prior month has dropped to 50% of the metro areas from 85% in December (see chart 7). The sideways movement of the year-to-year change in home prices and the fact that fewer metro areas show an accelerating trend of price declines are pointing to a possible turning point. However, the elevated level of unsold homes remains a sore aspect of the housing market situation.

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Chart 7



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