

## DAILY GLOBAL COMMENTARY

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### June 23-24 FOMC Meeting – Coast is Not Clear Yet, Minor Modifications of April Statement Likely

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The outcome of the June 23-24 FOMC meeting with regard to the federal funds rate is nearly certain. The policy statement of April 29 (see excerpt below) is likely to show small modifications about growth and inflation prospects.

*“The economy has continued to contract, though the pace of contraction appears to be somewhat slower. Household spending has shown signs of stabilizing but remains constrained by ongoing job losses, lower housing wealth, and tight credit. Weak sales prospects and difficulties in obtaining credit have led businesses to cut back on inventories, fixed investment, and staffing. Although the economic outlook has improved modestly since the March meeting, partly reflecting some easing of financial market conditions, economic activity is likely to remain weak for a time. Nonetheless, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability.*

*In light of increasing economic slack here and abroad, the Committee expects that inflation will remain subdued. Moreover, the Committee sees some risk that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term.”*

For all purposes, although the nature of incoming economic data and current financial market conditions indicate that the worst is behind us, real GDP in the second quarter is projected to decline again. The headline reading of real GDP should show a noticeably smaller drop in the second quarter compared with the 5.7% drop in the first quarter. There is mixed opinion in the marketplace about the third quarter performance of the economy. We expect the economy to gather steam only by the final three months of 2009. The FOMC’s projections show a decline of real GDP growth (Q4-to-Q4 basis) in 2009 to range between -2.0% and -1.3%. The bottom line is that the federal funds rate will hold unchanged for several months ahead.

Incoming economic reports are, for the most part, indicating that the economy is stabilizing. Here is a list of economic reports that allow the Fed to watch and wait temporarily before considering further action.

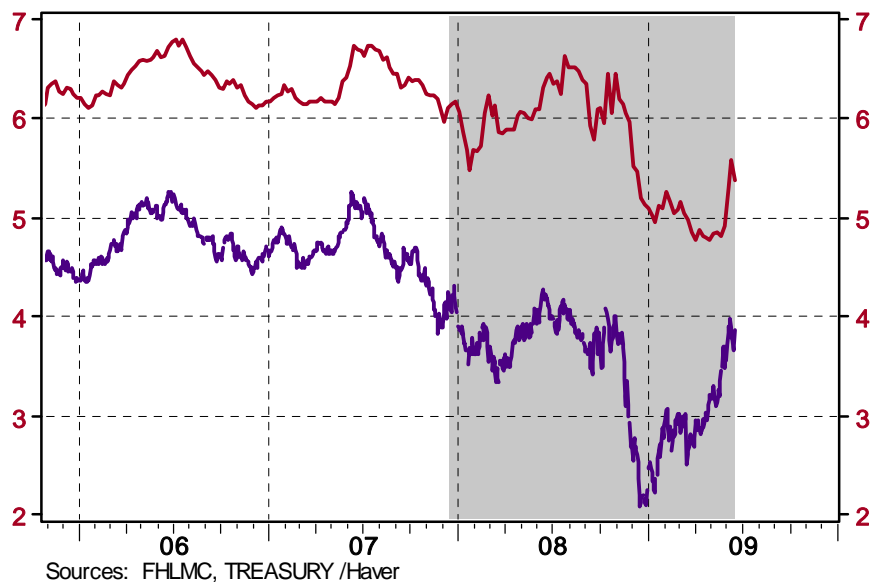
- Payrolls continue to decline but the pace of reduction in employment has slowed.
- The unemployment rate is a lagging economic indicator; therefore, the continued upward trend of the jobless rate will be less of a concern, for now.
- Initial jobless claims have peaked in March. Moreover, continuing claims fell sharply during the week ended June 12.
- The ISM manufacturing composite index was 42.8 in May. The New Orders Index hit a 51.1 mark, while the Supplier Deliveries Index was 49.8. Regional surveys also send a message of improving conditions, particularly the June Philadelphia Fed Survey.

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- Homes sales are stabilizing. Sales of new and existing homes increased in April, inventories of unsold homes appear to have peaked, and prices are falling less rapidly than in the earlier months.
- The Index of Leading Indicators has posted strong back-to-back monthly gains. The six-month change of the index has turned positive after two years. The year-to-year change of the index appears to have registered a trough.
- Credit market spreads have narrowed further since the April FOMC meeting.
- Measures of consumer sentiment (Conference Board's Consumer Confidence Index and University of Michigan Consumer Sentiment Index) have moved up noticeably.

The Fed has purchased roughly \$170 billion in Treasury securities between the March announcement and June 16, 2009. Mortgage rates rose temporarily by the week ended June 12 to 5.59% but have lost about 20 bps since then (see chart 1), while the 10-year Treasury note yield has risen from a low of 2.51% on March 18, 2009 to a high of 3.98% on June 10, 2009. The 10-year Treasury note was trading at 3.80% as of this writing.

Chart 1  
**FHLMC: 30-Year Fixed-Rate Mortgages: U.S.**  
 %  
**10-Year Treasury Bond Yield at Constant Maturity**  
 %



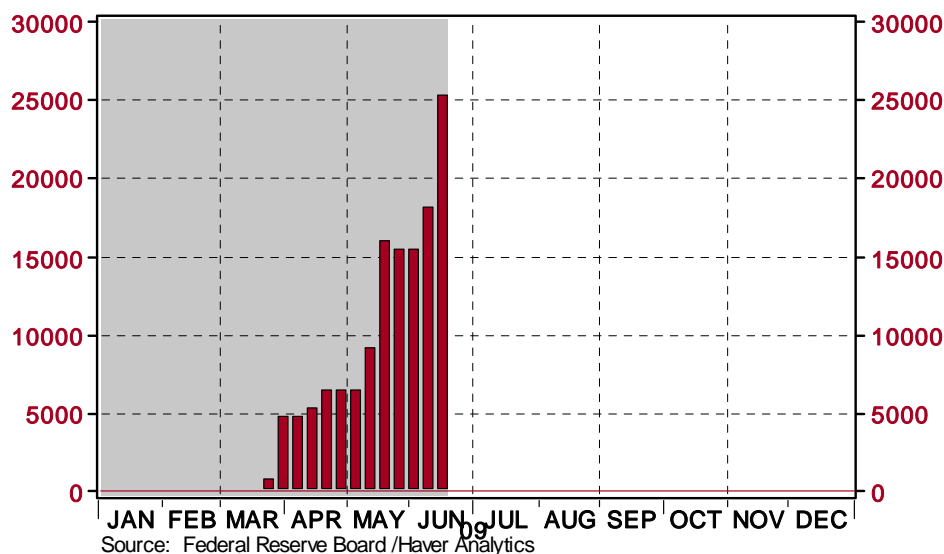
Vice Chairman Kohn spoke about the Fed's asset purchases in a speech on May 23, 2009. His remarks ran as follows: *"In open market operations, we have announced our intention to purchase up to \$1.75 trillion in longer-term Treasury notes and bonds, agency debt, and agency MBS during this year. This program is intended to stimulate real economic activity by holding down intermediate- and long-term interest rates by bringing down the term premium on these securities--a mechanism that is distinct from the traditional channel whereby a shift in the stance*

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of monetary policy affects longer-term yields by changing the expected path of short-term interest rates.<sup>5</sup> The preliminary evidence suggests that our program so far has worked.”

In a footnote of the same speech, Kohn notes that “any calculation of the effect of our asset purchases on the economy is highly uncertain.” It is unclear if additional purchases of these assets will be deemed necessary to maintain economic growth before a full recovery takes hold. It appears that since the full capacity of the program has not been exploited and the Term Asset-Backed Securities Loan Facility (TALF) is only gaining traction now, there is room for the Fed to wait and watch before it announces expansions/modifications of existing programs.

Chart 2  
**Reserve Bank Credit: Term Asset-Backed Securities Loan Facility**  
 Avg, Mil.\$



### Key Interest Rates

	6/19/2009	1-wk. change, bps	4-wk. change, bps	1-yr. change, bps
3-month Libor	0.61	-1	-5	-219
2-year U.S. Treasury note yield	1.23	-7	31	-165
10-year U.S. Treasury note yield	3.80	-1	35	-36

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## Next Week's Highlights – FOMC Meeting June 23-24

Date	Economic Indicator	TNT	Consensus	Previous
6/23/2009	Existing home sales (May)		4.81 mln.	4.68 mln.
6/24/2009	Durable goods orders (May) New Home Sales (May)	-0.5%	-0.7% 0.36 mln	1.7% 0.352 mln.
6/25/2009	Initial claims ('000s) Real GDP 2009:Q1 Final est.	-5.7%	600 -5.7%	608 -5.7%
6/26/2009	Personal Income (May) Personal Consumption Exp. (May) Consumer Sentiment Index (June)	0.2% -0.1%	0.3% 0.3% 69.0	0.5% -0.1% 68.7

## Global Economic Data

	Real GDP		CPI		Unemployment Rate		Central Bank Rate			
	SAAR, yoy %		NSA, yoy%		%	year-ago	%	year-ago		
United States	-2.5	Q4-08	-1.3	Apr-09	9.4	May-09	5.5	0.13	May-09	2.00
Euro-Area	-4.8	Q4-08	0.0	Apr-09	9.2	Apr-09	7.3	1.00	May-09	4.00
Japan	-8.4	Q4-08	-0.1	Apr-09	5.0	Apr-09	4.0	0.10	May-09	0.50
UK	-4.1	Q4-08	2.2	Apr-09	4.8	May-09	2.5	0.50	May-09	5.00
Australia	0.4	Q4-08	2.5	Q4-08	5.7	May-09	4.2	3.00	May-09	7.25
Canada	-2.1	Q4-08	0.1	Apr-09	8.4	May-09	6.1	0.25	May-09	3.00
China	6.1	Q1-09	-1.2	Apr-09	4.2	Q4-08	4.1	0.82	Apr-09	2.31
India	5.7	Q4-08	8.7	Apr-09	--	--	--	3.25	May-09	6.00
New Zealand	-2.3	Q4-08	3.0	Q4-08	5.0	Q1-09	3.8	2.50	May-09	8.25
Norway	-0.3	Q4-08	3.0	Apr-09	3.1	Q1-09	2.4	1.50	May-09	5.50
Singapore	-10.4	Q4-08	-0.7	Apr-09	3.3	Q1-09	1.9	0.18	May-09	0.65
South Korea	-4.3	Q4-08	2.7	May-09	4.0	May-09	3.1	2.00	May-09	5.00
Sweden	-6.4	Q4-08	-0.5	Apr-09	8.9	May-09	5.8	0.50	May-09	4.25
Switzerland	-1.6	Q4-08	-1.0	Apr-09	3.5	May-09	2.5	0.40	May-09	2.78
Taiwan	-10.9	Q4-08	0.0	May-09	5.8	Apr-09	3.9	1.25	May-09	3.50
Thailand	-7.1	Q4-08	-3.3	May-09	1.6	Apr-09	1.2	1.75	May-09	3.75

\* UK - Claimant Count Unemployment Rate  
\* Thailand - GDP Non-Seasonally Adjusted  
\* EA-13, UK, Sweden - Harmonized Unemployment

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## Historical US Economic Data

	May-09	Apr-09	Mar-09	Feb-09	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08	Aug-08	Jul-08	Jun-08
Payroll Employment (000)	-345	-504	-652	-681	-741	-681	-597	-380	-321	-175	-128	-161
% Change, Year Ago *	-3.9	-3.7	-3.5	-3.1	-2.7	-2.2	-1.6	-1.1	-0.7	-0.4	-0.3	-0.2
Unemployment Rate (%)	9.4	8.9	8.5	8.1	7.6	7.2	6.8	6.6	6.2	6.2	5.8	5.6
Avg. Hourly Earnings (% Chg.)	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.4	0.2	0.4	0.3	0.3
% Change, Year Ago	3.1	3.2	3.4	3.5	3.7	3.9	3.9	3.9	3.6	3.8	3.5	3.6
PPI (% Chg.)	0.2	0.3	-1.2	0.1	0.9	-1.8	-2.7	-2.6	-0.1	-0.5	1.3	1.3
% Change, Year Ago *	-5.0	-3.7	-3.5	-1.3	-0.9	-0.9	0.4	5.2	8.8	9.7	9.9	9.1
CPI (% Chg.)	0.1	0.0	-0.1	0.4	0.3	-0.8	-1.7	-0.8	0.0	0.0	0.7	0.9
% Change, Year Ago *	-1.3	-0.7	-0.4	0.2	0.0	0.1	1.1	3.7	4.9	5.4	5.6	5.0
ISM Diffusion Index (%)	42.8	40.1	36.3	35.8	35.6	32.9	36.6	38.7	43.4	49.3	49.5	49.5
Industrial Production (% Chg.)	-1.1	-0.7	-1.8	-0.8	-2.1	-2.3	-1.3	1.3	-4.0	-1.1	-0.1	-0.2
% Change, Year Ago	-13.4	-12.7	-12.6	-11.3	-10.8	-8.9	-6.5	-4.7	-6.4	-2.2	-1.0	-0.7
Capacity Utilization (%)	68.3	69.0	69.4	70.7	71.2	72.7	74.4	75.4	74.5	77.6	78.6	78.7
Nondefense Cap. Goods ex Aircraft												
- Orders (% Chg.)		-2.4	-1.4	4.1	-12.3	-5.9	1.1	-6.7	-3.4	-2.3	0.3	1.6
% Change, Year Ago *		-26.9	-20.0	-25.0	-25.4	-14.7	-7.9	-7.2	0.1	-0.2	6.6	3.4
- Shipments (% Chg.)		-2.5	-1.7	-0.2	-9.4	0.1	-1.3	-3.7	1.7	-2.1	0.3	0.6
% Change, Year Ago *		-18.3	-14.3	-15.6	-13.4	-4.7	-5.2	-2.2	2.7	-1.6	6.1	2.0
Retail Sales (% Chg.)	0.5	-0.2	-1.2	0.4	1.7	-3.2	-2.1	-3.1	-1.5	-0.5	-0.7	0.2
% Change, Year Ago	-11.1	-9.2	-10.6	-11.6	-8.4	-8.8	-10.1	-4.2	-0.2	-0.6	3.8	1.1
Real Personal Consumption (% Chg.)		-0.1	-0.3	0.1	0.7	-0.6	0.4	-0.8	-0.5	-0.1	-0.6	-0.2
% Change, Year Ago		-1.9	-1.7	-1.1	-1.3	-1.9	-1.4	-1.3	-0.6	-0.2	0.2	1.1
Personal Income (% Chg.)		0.5	-0.2	-0.2	0.0	-0.2	-0.4	-0.2	0.1	0.3	-0.8	0.1
% Change, Year Ago		0.7	0.3	0.9	1.3	1.3	2.0	2.9	3.4	3.9	4.0	5.3
New Home Sales (SAAR, mn)		0.35	0.35	0.36	0.33	0.37	0.39	0.41	0.44	0.44	0.50	0.49
% Change, Year Ago *		-32.7	-32.7	-39.6	-45.5	-40.9	-40.0	-43.9	-34.0	-36.7	-36.8	-38.4
Existing Home Sales (SAAR, mn)		4.68	4.55	4.71	4.49	4.74	4.54	4.94	5.10	4.93	4.99	4.90
% Change, Year Ago *		-4.6	-4.8	-10.3	-7.6	0.3	-17.0	-1.9	6.8	-15.0	-11.3	-16.7
Housing Starts (SAAR, mn)	0.53	0.45	0.52	0.57	0.49	0.56	0.66	0.76	0.82	0.85	0.93	1.08
% Change, Year Ago *	-44.2	-54.4	-48.1	-49.2	-54.9	-45.3	-46.5	-40.7	-27.2	-37.0	-32.2	-25.6
International Trade (Bils \$)		-29.2	-28.5	-26.1	-36.6	-41.9	-43.2	-59.4	-60.1	-60.9	-64.9	-60.2
	<b>Q1-09</b>	<b>Q4-08</b>	<b>Q3-08</b>	<b>Q2-08</b>	<b>Q1-08</b>	<b>Q4-07</b>	<b>Q3-07</b>	<b>Q2-07</b>	<b>Q1-07</b>	<b>Q4-06</b>	<b>Q3-06</b>	<b>Q2-06</b>
Real GDP, Chain Weighted, SAAR	-5.7	-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	-2.5	-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	2.8	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	-3.1	-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	-0.4	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	1.6	-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	1.9	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	3.0	5.1	3.5	-2.8	1.1	5.0	-2.5	-3.3	4.8	9.6	3.9	-1.1
% Change, Year Ago	2.2	1.7	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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