

DAILY GLOBAL  
COMMENTARY

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## The \$787 Billion Fiscal Stimulus Package – Facts Lost in Policy Rhetoric

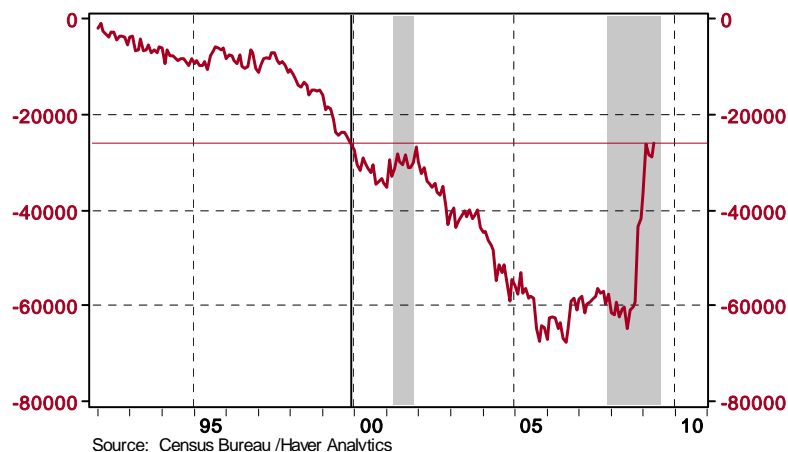
July 10, 2009

The burning question now is if yet another fiscal stimulus package is necessary. Advocates and critics of the necessity of a third stimulus package need to stop and examine the facts before mounting their respective defenses. On June 2, the Director Elmendorf of the Congressional Budget Office made a presentation at the IMF ([Implementation Lags of Fiscal Policy](#)) outlining the details of how much of the fiscal stimulus package has been spent and how much more is estimated to be disbursed by the end of 2009. Director Elmendorf's presentation indicates that as of May 22, 2009 *only 10%* of authorized expenditures have been disbursed (see Director Elmendorf's presentation). Total budget authority is \$379 billion and only \$36.7 billion has made its way into the spending stream. Moreover, only 24% of the total package of \$787 billion will be disbursed by the end of calendar year 2009. Putting the dollar amount in perspective, \$36.7 billion is only 0.26% of the U.S. economy! This drop in the bucket is unlikely to turnaround a historical economic slump in a jiffy. At the present time, it is necessary to assess if the stimulus package is working in the preferred direction and if modifications and enhancements are called for, but it is imprudent to declare that it is not successful and a sheer waste of tax dollars or that a bigger package is necessary. In recent days, much to the chagrin of economic bears, a wide range of economic reports point to improving economic conditions. Without doubt more bullish economic data are necessary to confirm that the economy is on firm footing. The intensity and nature of the economic and financial market crisis that has been underway suggests that economic miracles will not materialize in a short period, which means that a weak economic report does not translate into going back to the drawing board in a panic.

## Trade Gap Posts Significant Improvement in May

The trade deficit narrowed to \$26 billion in May from \$28.79 billion in April. Readings close to the May trade gap were last seen in November 1999 (see chart 1).

Chart 1  
Trade Balance: Goods and Services, BOP Basis  
SA, Mil.\$

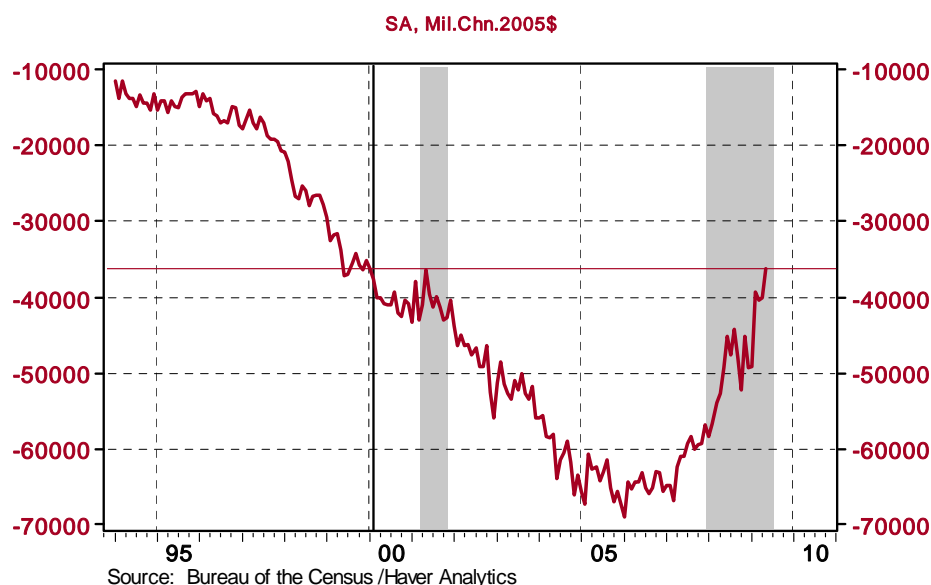


Source: Census Bureau /Haver Analytics

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After adjusting for inflation, the trade deficit of goods narrowed to \$36.2 billion. This is the smallest trade deficit since December 1999 (\$35.31 billion, see chart 2).

Chart 2  
Trade Balance, Customs Value



The significant improvement in the trade deficit is a big plus for second quarter real GDP and for the long term status of the economy.

In May, exports of goods and services rose 1.6%, following declines in March and April, while imports of goods and services fell 0.6%, marking the ninth consecutive monthly drop in the last ten months. The weakness in imports reflects the weakness in demand conditions in the U.S. economy.

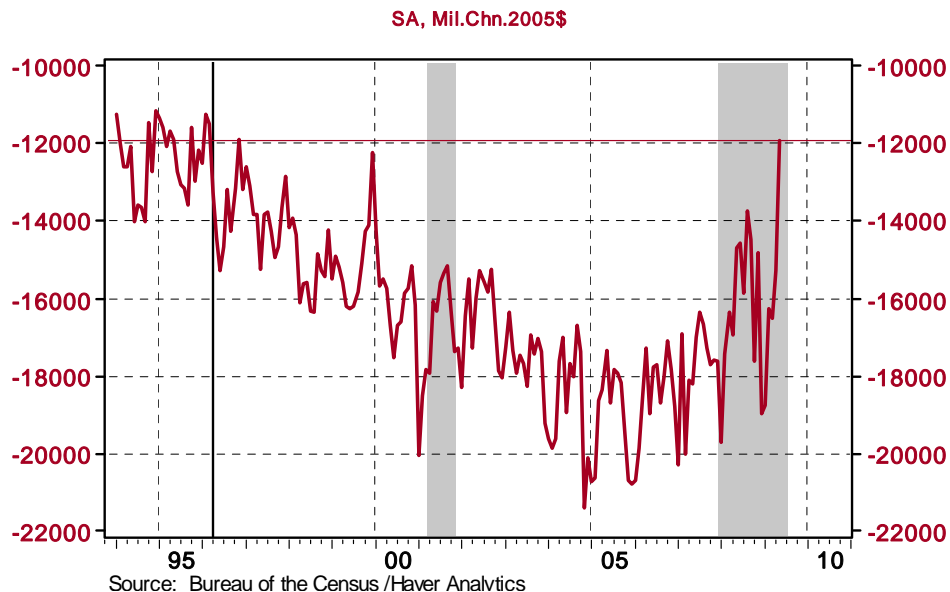
### International Trade in Goods and Services – May 2009

	Trade Balance (billions)			Exports (m-o-m % change)		Imports (m-o-m % change)	
	Goods & Services	Goods	Goods - 2000\$	Goods & Services	Goods - 2000\$	Goods & Services	Goods - 2000\$
Dec-08	-41.9	-53.2	-49.4	-6.1	-6.1	-5.4	-1.1
Jan-09	-36.6	-47.6	-49.1	-6.0	-8.5	-7.6	-5.6
Feb-09	-26.1	-37.2	-39.5	1.2	2.6	-5.6	-5.9
Mar-09	-28.5	-39.2	-40.2	-2.0	-0.5	0.0	0.3
Apr-09	-28.8	-39.9	-40.1	-2.0	-4.3	-1.5	-3.0
May-09	-26.0	-37.3	-36.2	1.6	1.9	-0.6	-2.1

The petroleum trade deficit was \$11.95 billion in May, the smallest since March 1996.

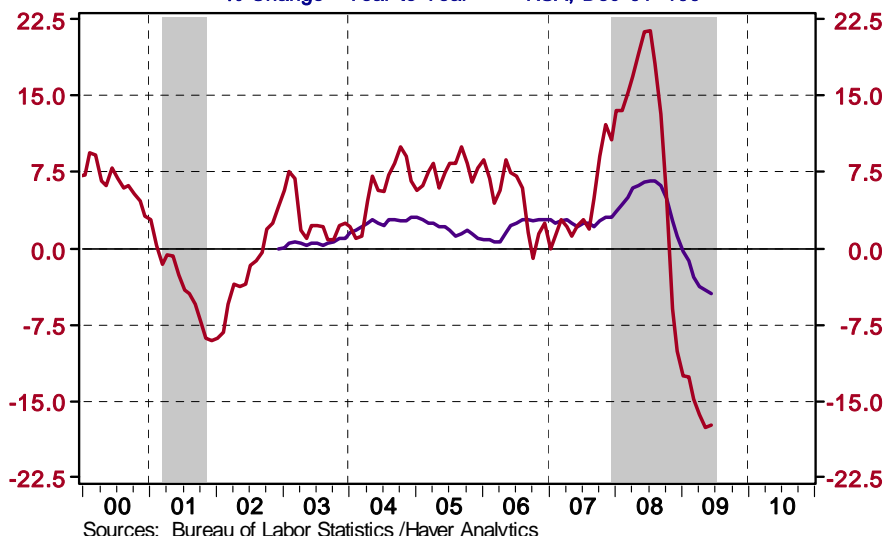
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Chart 3  
Trade Balance: Petroleum End-Use Commodity Category



The trade deficit narrowed vis-à-vis Canada, Mexico, Japan, and the EU but widened vis-à-vis China during May. In other related news, the import price index rose 3.2% in June, largely due to a 20.3% increase petroleum prices. The import price index excluding fuel moved up 0.2% but fell 4.6% on a year-to-year basis. Essentially, import prices do not present a threat.

Chart 4  
Import Price Index: All Imports  
% Change - Year to Year NSA, 2000=100  
Import Price Index: All Imports Excluding Fuels  
% Change - Year to Year NSA, Dec-01=100

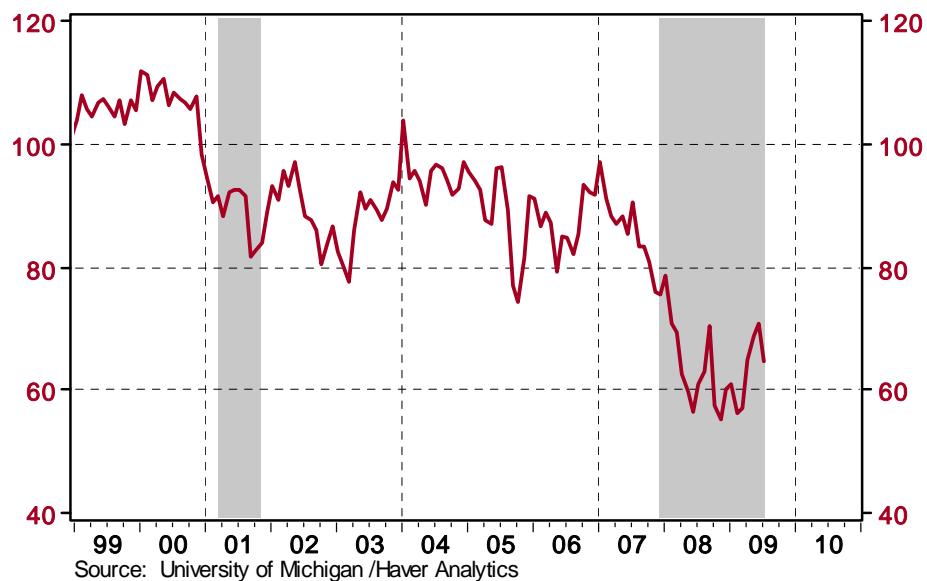


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## Consumer Outlook Turns a Bit Sour Once Again

The University of Michigan Consumer Sentiment Index fell to 64.6 in the early-July survey from 70.8 in June. Both the Current Conditions Index (70.4 vs. 73.2 in June) and the Expectations Index (60.9 vs. 69.2 in June) dropped in July. The decline in the Consumer Expectations Index is a big negative for the July Index of Leading Economic Indicators. The latest outlook of consumers has turned grim after showing improvements during five of the six months ended June.

Chart 5  
**University of Michigan: Consumer Sentiment**  
 NSA, Q1-66=100



## Key Interest Rates

	7/10/2009	1-wk. change, bps	4-wk. change, bps	1-yr. change, bps
3-month Libor	0.51	-5	-15	-228
2-year U.S. Treasury note yield	0.89	-9	-3	-170
10-year U.S. Treasury note yield	3.29	-22	-18	-67

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## Next Week's Highlights – Minutes of FOMC Meeting on July 15

Date	Economic Indicator	TNT	Consensus	Previous
7/14/2007	Retail sales (June)	0.5%	0.5%	0.5%
	Retail sales ex. auto		0.4%	0.5%
	Producer Price Index (June)	0.7%	0.9%	0.2%
	Core Producer Price Index (June)	0.1%	0.1%	-0.1%
	Business Inventories (May)			
7/15/2009	Consumer Price Index (June)	0.4%	0.6%	0.1%
	Core Consumer Price Index (June)	0.1%	0.1%	0.1%
	Industrial Production (June)	-0.80%	-0.6%	-1.1%
	Capacity Utilization rate	67.5%	67.9%	68.3%
7/16/2009	Initial Jobless Claims		575,000	565,000
	NAHB Survey		9.0	9.0
7/17/2009	Housing Starts (June)	520,000	533,000	532,000

## Global Economic Data

	Real GDP		CPI		Unemployment Rate		Central Bank Rate		
	SAAR, yoy %		NSA, yoy%		%	year-ago	%	year-ago	
United States	-2.5	Q1-09	-1.3	May-09	9.5	Jun-09	5.6	0.13 Jun-09	2.00
Euro-Area	-4.9	Q1-09	0.0	May-09	9.5	May-09	7.4	1.00 Jun-09	4.00
Japan	-8.4	Q1-09	-1.1	May-09	5.2	May-09	4.0	0.10 Jun-09	0.50
UK	-4.9	Q1-09	2.2	May-09	4.8	May-09	2.5	0.50 Jun-09	5.00
Australia	0.4	Q1-09	2.5	Q1-09	5.8	Jun-09	4.2	3.00 Jun-09	7.25
Canada	-2.1	Q1-09	0.1	May-09	8.6	Jun-09	6.2	0.25 Jun-09	3.00
China	6.1	Q1-09	0.0	May-09		Q2-09	4	0.81 May-09	2.53
India	5.7	Q1-09	8.6	May-09	--	--	--	3.25 Jun-09	6.00
New Zealand	-2.2	Q1-09	3.0	Q1-09	5.0	Q1-09	3.7	2.50 Jun-09	8.25
Norway	-0.3	Q1-09	3.4	May-09	3.1	Q1-09	2.5	1.25 Jun-09	5.75
Singapore	-10.4	Q1-09	-0.3	May-09	3.3	Q1-09	2.3	0.21 Jun-09	0.71
South Korea	-4.3	Q1-09	2.0	Jun-09	4.0	May-09	3.1	2.00 Jun-09	5.00
Sweden	-6.4	Q1-09	-0.8	May-09	8.9	May-09	5.8	0.50 Jun-09	4.25
Switzerland	-1.6	Q1-09	-1.0	May-09	3.8	Jun-09	2.5	0.40 Jun-09	2.79
Taiwan	-10.9	Q1-09	0.0	Jun-09	5.8	May-09	3.9	1.25 Jun-09	3.63
Thailand	-7.1	Q1-09	-4.0	Jun-09	1.8	May-09	1.3	1.75 Jun-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

	Jun-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08	Aug-08	Jul-08
Payroll Employment (000)	-467	-322	-519	-652	-681	-741	-681	-597	-380	-321	-175	-128
% Change, Year Ago *	-4.1	-3.9	-3.8	-3.5	-3.1	-2.7	-2.2	-1.6	-1.1	-0.7	-0.4	-0.3
Unemployment Rate (%)	9.5	9.4	8.9	8.5	8.1	7.6	7.2	6.8	6.6	6.2	6.2	5.8
Avg. Hourly Earnings (% Chg.)	0.0	0.2	0.0	0.2	0.2	0.2	0.3	0.3	0.4	0.2	0.4	0.3
% Change, Year Ago	2.7	3.0	3.1	3.4	3.5	3.7	3.9	3.9	3.9	3.6	3.8	3.5
PPI (% Chg.)		0.2	0.3	-1.2	0.1	0.9	-1.8	-2.7	-2.6	-0.1	-0.5	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
CPI (% Chg.)		0.1	0.0	-0.1	0.4	0.3	-0.8	-1.7	-0.8	0.0	0.0	0.7
% 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
ISM Diffusion Index (%)	44.8	42.8	40.1	36.3	35.8	35.6	32.9	36.6	38.7	43.4	49.3	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
% 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
Capacity Utilization (Goods)		68.3	69.0	69.4	70.7	71.2	72.7	74.4	75.4	74.5	77.6	78.6
Nondefense Cap. Goods ex Aircraft												
- Orders (% Chg.)		4.7	-3.5	-1.4	4.1	-12.3	-5.9	1.1	-6.7	-3.4	-2.3	0.3
% Change, Year Ago *		-23.9	-27.3	-20.0	-25.0	-25.4	-14.7	-7.9	-7.2	0.1	-0.2	6.6
- Shipments (% Chg.)		-0.3	-2.9	-1.7	-0.2	-9.4	0.1	-1.3	-3.7	1.7	-2.1	0.3
% Change, Year Ago *		-19.6	-18.3	-14.3	-15.6	-13.4	-4.7	-5.2	-2.2	2.7	-1.6	6.1
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
% 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
Real Personal Consumption (% Chg.)		0.2	-0.1	-0.2	0.0	0.7	-0.6	0.4	-0.8	-0.5	-0.1	-0.6
% Change, Year Ago		-1.9	-1.8	-1.7	-1.2	-1.4	-1.9	-1.4	-1.3	-0.6	-0.2	0.2
Personal Income (% Chg.)		1.4	0.7	-0.3	-0.3	0.0	-0.2	-0.4	-0.2	0.1	0.3	-0.8
% Change, Year Ago		0.3	0.8	0.1	0.8	1.3	1.3	2.0	2.9	3.4	3.9	4.0
New Home Sales (SAAR, mn)		0.34	0.34	0.34	0.35	0.33	0.37	0.39	0.41	0.44	0.44	0.50
% Change, Year Ago *		-34.7	-34.7	-34.7	-39.6	-45.5	-40.9	-40.0	-43.9	-34.0	-36.7	-36.8
Existing Home Sales (SAAR, mn)		4.77	4.66	4.55	4.71	4.49	4.74	4.54	4.94	5.10	4.93	4.99
% Change, Year Ago *		-6.6	-4.8	-4.8	-10.3	-7.6	0.3	-17.0	-1.9	6.8	-15.0	-11.3
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
% 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
International Trade (Bils \$)		-26.0	-28.8	-28.5	-26.1	-36.6	-41.9	-43.2	-59.4	-60.1	-60.9	-64.9
	<b>Q2-09</b>	<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>
Real GDP, Chain Weighted, SAAR		-5.5	-6.3	-0.5	2.8	0.9	-0.2	4.8	4.8	0.0	1.5	0.8
% 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
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
% 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
Nominal GDP, SAAR		-2.9	-5.8	3.4	4.1	3.5	2.3	6.4	6.9	4.3	3.7	3.6
% 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
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
% 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
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
% 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
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
% 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

Source: Haver Analytics

\* NSA

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