Northern Trust

DAILY GLOBAL
COMMENTARY

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The Factory Sector Has Turned the Corner

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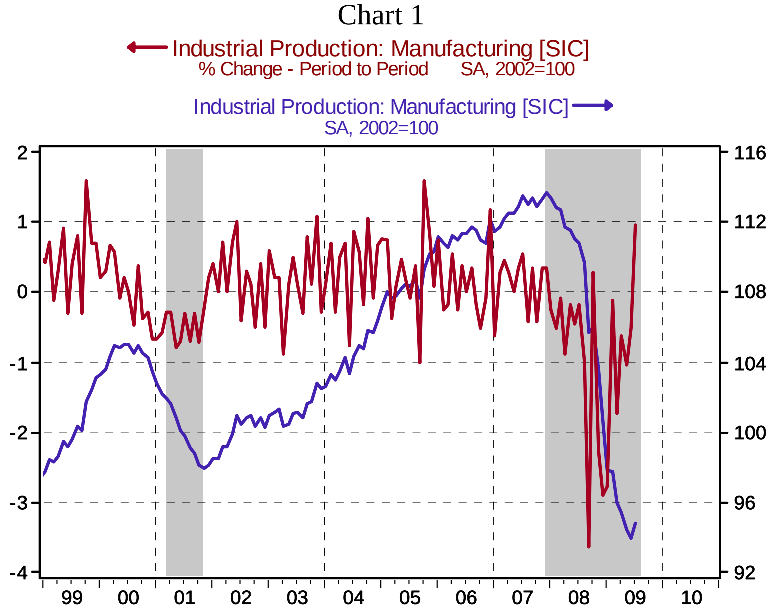
Industrial production increased 0.5% in July after a 0.4% drop in June. Factory production advanced 1.0% in July, following a 0.6% decline in the prior month. Production at the nation's factories has fallen every month between January 2008 and June 2009, with the exception of an increase in October 2008. In addition to the 20.1% rebound in auto production, which helped to raise the headline, factory production excluding autos rose 0.2%.

Industrial Production – July 2009

	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
Industrial Production*	-0.8	-1.6	-0.7	-1.1	-0.4	0.5
Total Capacity Utilization	70.6	69.5	69.0	68.3	68.1	68.5
Manufacturing output*	-0.1	-1.7	-0.7	-1.0	-0.6	1.0
Man. Capacity Utilization	67.1	65.9	65.6	65.0	64.7	65.4
Capacity Utilization ex. High-tech industries	67.2	66.1	65.7	65.2	64.9	65.7
High-tech industries - output*	-2.3	-0.3	1.1	-2.5	0.0	0.4
Manufact. Ex high-tech output*	0.0	-1.8	-0.8	-0.9	-0.6	1.0

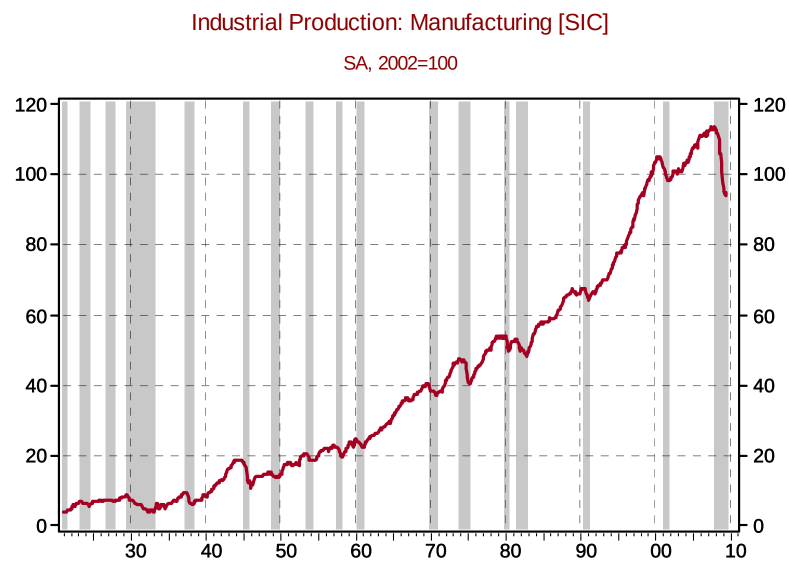
Factory production has recorded the bottom for this recession (see chart 1). The most important conclusion from charts 1 and 2 is that factory production turns the corner at the end of a recession.

Chart 1



Sources: Federal Reserve Board /Haver Analytics

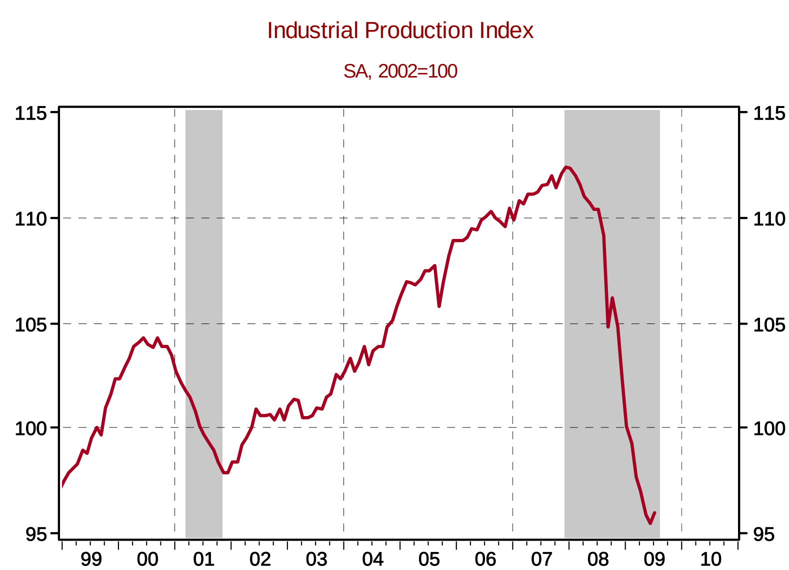
Chart 2



Source: Federal Reserve Board /Haver Analytics

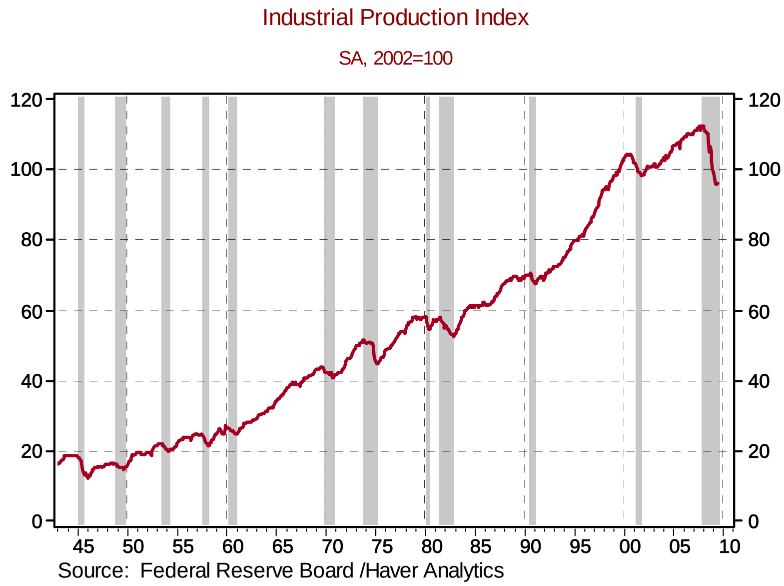
The Business Cycle Dating Committee of the National Bureau of Economic Research uses four variables --nonfarm payrolls, industrial production, real personal income less transfer payments, and real manufacturing and trade sales -- to date turning points of a business cycles. The Committee places more emphasis on output rather than employment. The industrial production index also sends a message similar to that of the factory index (see charts 3 and 4, a snapshot of the recent business cycle and an historical chart, respectively.)

Chart 3



Source: Federal Reserve Board /Haver Analytics

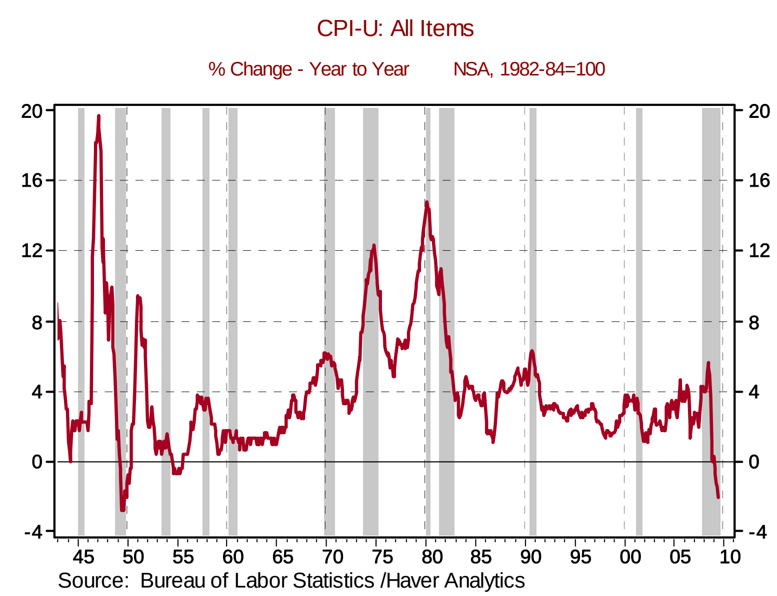
Chart 4



Inflation Remains Contained

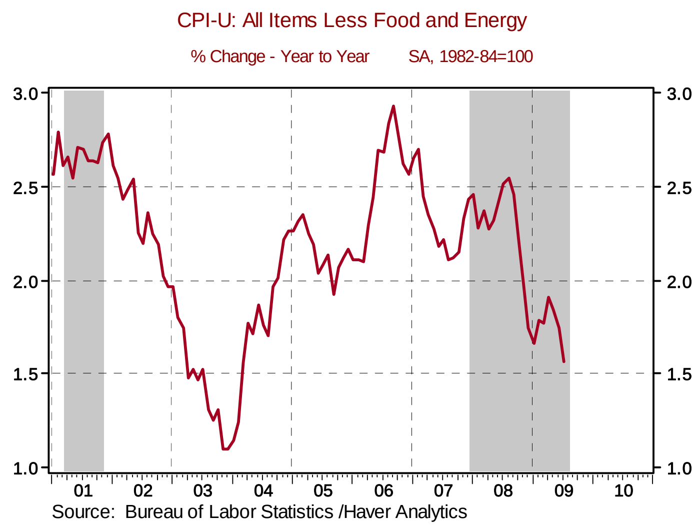
The Consumer Price Index (CPI) held steady in July after a 0.7% surge in June. On a year-to-year basis, the CPI has fallen 2.1%. In July, the energy price index fell 0.4% and the food price index dropped 0.3%. Energy prices have retraced a part of the July decline in the early weeks of August.

Chart 5



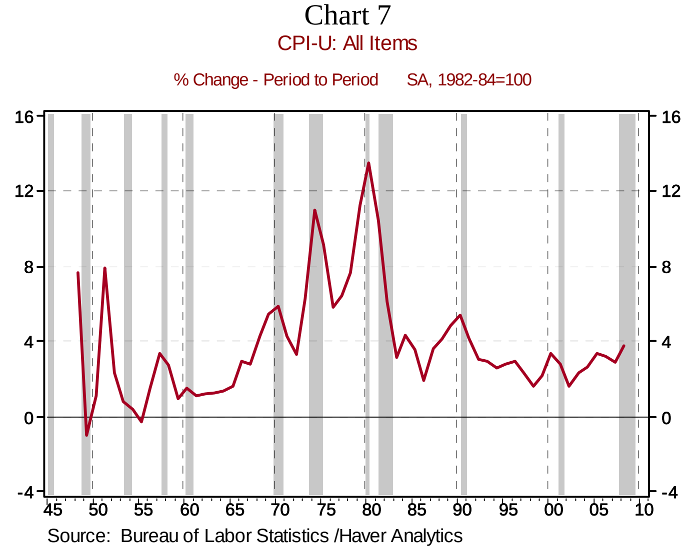
The core CPI, which excludes food and energy, moved up 0.1% in July vs. a 0.2% gain in the prior month. The July core CPI has risen 1.56% from a year ago. The peak for the core CPI is 2.93% in September 2006.

Chart 6



In July, the price index for shelter fell 0.2%; within the shelter group, the indexes for rent and owners' equivalent rent were both unchanged in July after rising 0.1% in June. New car prices (+0.5%) increased in July, along with higher prices for clothes (+0.6%), air travel (+2.1%), medical care (+0.2%), and tobacco (+2.2%). The July CPI data allow the Fed to remain on hold until a meaningful economic recovery is underway. The year 2009 will end with a drop in the annual CPI, the third decline on record in the post-war period. The last two declines of the CPI occurred in 1949 and 1955 (see chart 7).

Chart 7



Consumer Price Index – July 2009

	% change	annualized % change			% change		
	prior month	year-to-date	3 mo. ago	6 mo. ago	July-09 yoy	July-08 yoy	Dec-08 yoy
CPI - ALL ITEMS	0.0	2.4	3.4	2.2	-2.1	5.6	0.1
CORE - ALL ITEMS LESS FOOD & ENERGY (77.75)*	0.1	2.1	1.7	2.1	1.5	2.5	1.8
CPI ALL ITEMS LESS ENERGY (92.4)	0.0	1.6	1.2	1.5	1.4	3.0	2.4
FOOD (14.63)	-0.3	-1.4	-1.8	-1.7	0.9	6.0	5.9
ENERGY (7.62)	-0.4	11.8	32.5	10.1	-28.1	29.3	-21.3
SHELTER (33.2)	-0.2	0.6	0.1	0.4	0.9	2.5	1.9
COMMODITIES (39.6)	0.0	5.2	8.1	5.0	-5.9	7.8	-4.1
COMMODITIES LESS FOOD & ENERGY (21.5)	0.2	3.8	2.9	4.1	1.4	0.6	-0.6
SERVICES (60.4)	0.0	0.5	0.4	0.3	0.6	4.1	3.0
SERVICES LESS ENERGY SERVICES (56.3)	0.0	1.5	1.3	1.3	1.6	3.3	2.7
FRB CLEVELAND MEDIAN CPI	0.0	1.5	0.5	1.3	1.9	3.2	2.9

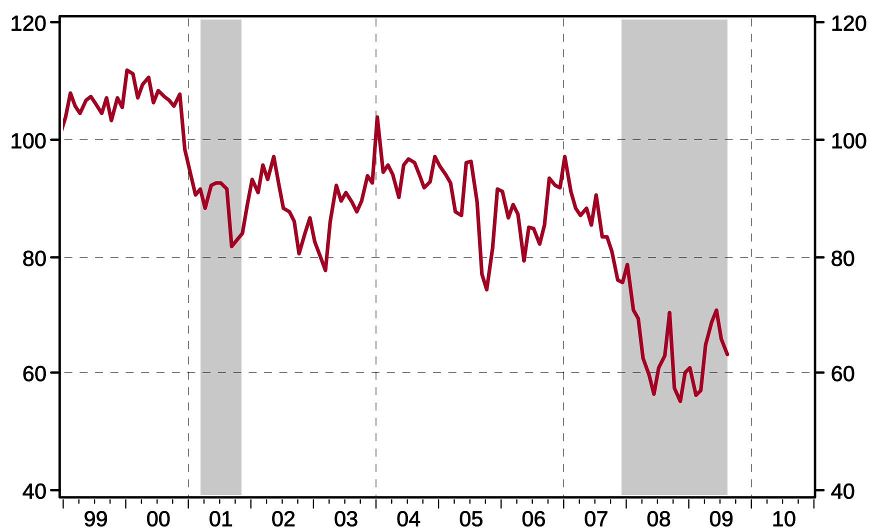
Consumer Sentiment Index Dips Again

The University of Michigan Consumer Sentiment Index fell 63.2 in the preliminary August survey from 66.0 in the month of July. The Expectations Index (62.1 vs. 63.2 in July) and Current Economic Conditions Index (64.9 vs.70.5 in July) dropped in August. The weak labor market conditions continue to drive down consumer outlook.

Chart 8

University of Michigan: Consumer Sentiment

NSA, Q1-66=100



Source: University of Michigan /Haver Analytics