

DAILY GLOBAL COMMENTARY

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

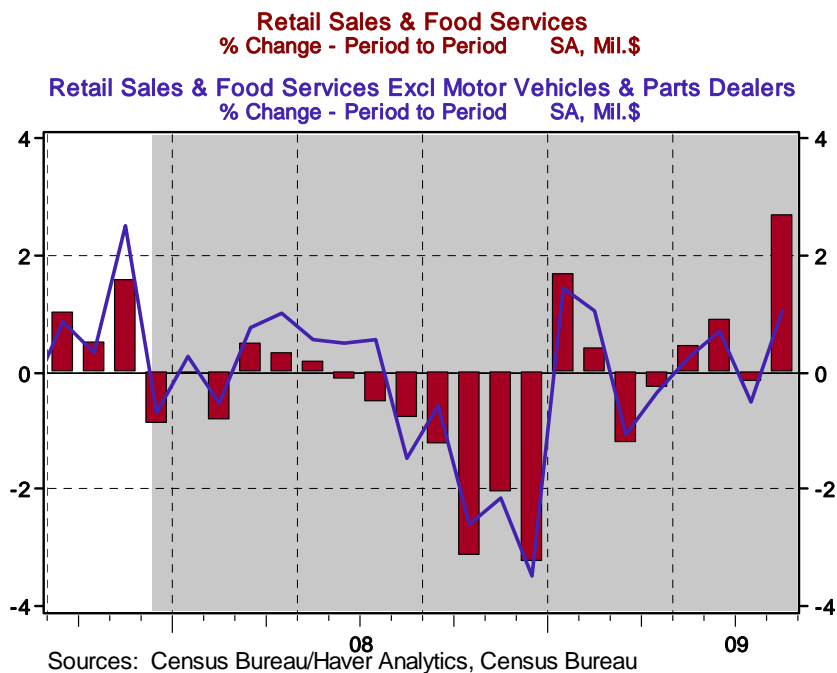
Asha G. Bangalore
agb3@ntrs.com

Autos and Non-auto Components Lift Retail Sales in August

September 15, 2009

The 2.7% jump in retail sales reflects a 1.1% increase in purchases of cars, a 5.1% gain in gasoline sales, and a 0.6% advance of retail sales excluding autos and gasoline. In other words, the strength in retail sales was widespread during August. The “cash for clunkers” program boosted auto sales in August, which should be followed by a partial reversal in the months ahead. The price-related hike in gasoline sales should show a moderating trend in September. Among the non-auto and gas components of retail sales, only purchases of building materials (-1.6%) and furniture (-1.2%) fell in August, while general merchandise (+1.6%) and apparel (+2.4%) sales moved up.

Chart 1



The July-August average of retail sales rose at an annual rate of 1.6% vs. a 1.4% drop in the second quarter. The headline numbers and sub-components show a noticeable improvement in retail sales in the third quarter compared with the second quarter. This bodes positively for third quarter consumer spending and the headline real GDP.

Retail Sales – August 2009

	<u>June</u>	<u>July</u>	<u>August</u>	<u>09:Q2</u> quarterly change SAAR	<u>09:Q3*</u> quarterly change SAAR
Total Retail Sales & Food Service, % m-o-m	0.9	-0.2	2.7	-1.4	1.6
% change y-o-y	-7.6	-8.2	-5.9		
Ex-auto, % m-o-m	0.7	-0.5	1.1	-1.2	0.6
% change y-o-y	-6.8	-8.2	-7.0		
Ex- autos and gas % m-o-m	0.1	-0.4	0.6	-3.1	-0.5
% change y-o-y	-2.5	-3.8	-3.6		
Exc. Bldg. mat., auto, gas, % m-o-m	0.1	-0.3	0.8	-2.8	0.6
% change y-o-y	-1.7	-2.3	-2.4		

* -annualized change based on July and August data

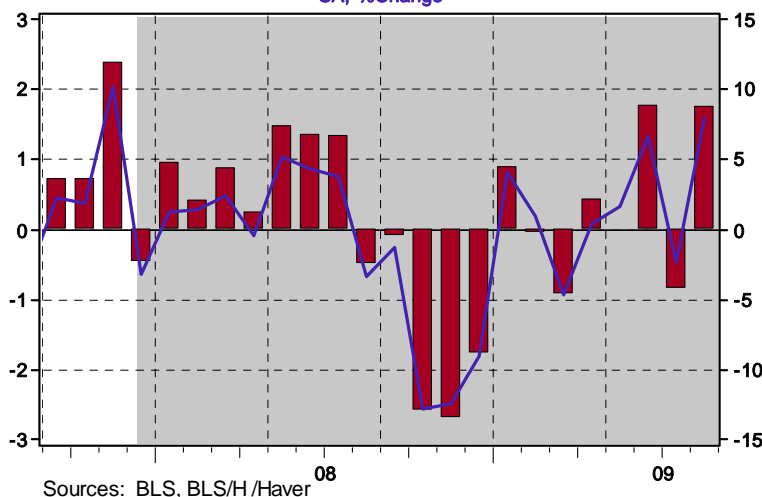
Wholesale Price Index Movement Largely an Energy Price Story

The Producer Price Index (PPI) of Finished Goods moved up 1.7% in August following a 0.9% drop in the prior month. The wide swings of this index are largely due to similar noticeable movements of the energy price index (see chart 2). According to the Labor Department, over 90% of the increase in the wholesale finished goods price index during August was the result of higher energy prices, which rose 8.0%. The 23% jump in gasoline price was the biggest culprit. This is most likely to be reversed in September, given the drop in gasoline prices during the first two weeks of the month.

Chart 2

← PPI: Finished Goods
% Change - Period to Period SA, 1982=100

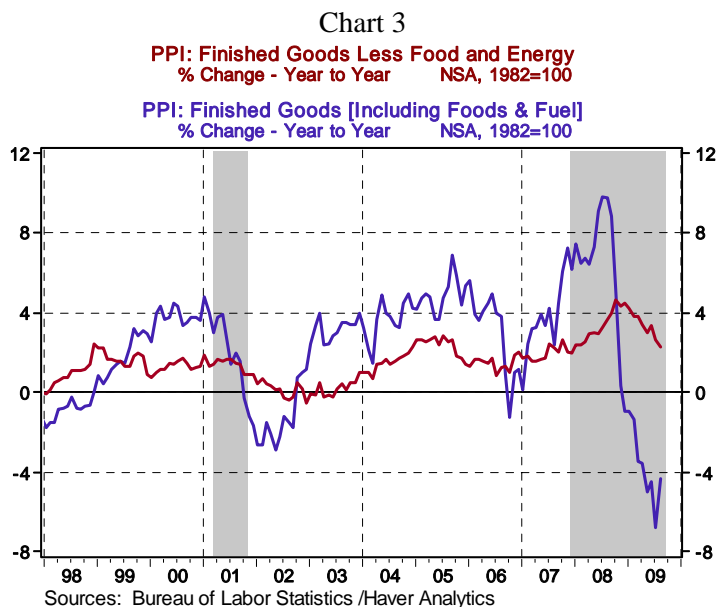
PPI: Finished Fuel and Energy →
SA, %Change



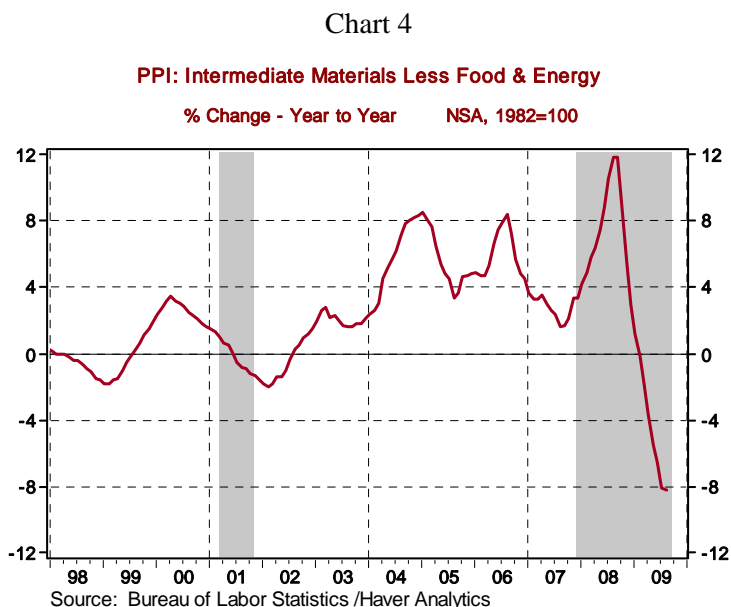
The food price index was up 0.4% after recording a 1.5% drop in July. A large part of the increase in food prices was due to the 5.9% jump in prices of fresh fruits and melons. Excluding food and energy, the core PPI rose 0.2% in August compared with a 0.1% drop in July. The 0.8% increase

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of the light motor vehicle index in August accounted for over fifty percent of the gain in the core PPI. The 0.7% increase of the passenger car price index also played a role in lifting the core PPI.



At the earlier stages of production, intermediate goods price index (+1.8%) and core intermediate goods price measure (+0.6%) advanced in August. However, on a year-to-year basis, the core intermediate goods price index continues to decline (see chart 4). The main take away is that whole prices do not present a threat at the present time.



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Producer Price Index – August 2009

	% change	annualized % change			% change		
	prior month	year-to-date	3 mo. ago	6 mo. ago	Aug-09 yoy	Aug-08 yoy	Dec-08 yoy
PPI - FINISHED GOODS							
ALL ITEMS	1.7	4.5	11.0	4.3	-4.3	9.7	-0.9
CORE - ALL ITEMS LESS FOOD & ENERGY	0.2	1.6	2.4	1.4	2.3	3.7	4.5
FOOD	0.4	-3.4	0.0	-1.7	-4.1	9.0	3.2
ENERGY	8.0	23.2	59.6	19.8	-21.1	27.6	-20.3
CAPITAL EQUIPMENT	0.3	0.7	2.3	0.6	1.6	3.3	4.3
PPI - INTERMEDIATE GOODS							
ALL ITEMS	1.8	1.1	14.8	3.5	-12.3	16.3	-2.3
CORE	0.6	-2.5	4.8	-0.3	-8.2	11.8	3.3
PPI - CRUDE GOODS							
ALL ITEMS	3.8	2.6	15.9	21.1	-35.2	35.4	-24.6
CORE	6.0	28.7	57.2	37.0	-30.0	31.4	-24.1

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