

DAILY GLOBAL
COMMENTARY

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“The Stimulus Didn’t Work” – An Overlooked Fact that Needs Mention September 18, 2009

In the Wall Street Journal of September 17, 2009 ([John Cogan, John Taylor, and Volker Wieland: The Stimulus Didn’t Work - WSJ.com](#)) the title is in past tense, implying the \$787 billion package has been fully utilized and now we can determine the success or failure of this big bill. The merits and flaws of this opinion piece have been published and more will be written. I would like to add to one important fact which underscores that the authors need to hold their horses until more evidence is available to conduct an objective analysis. According to the Congressional Budget Office **only 24%** of the authorized expenditure under the American Recovery and Reinvestment Act (ARRA) will have been disbursed by the end of fiscal year 2009, which is September 30. Economic data are now available only through July/August 2009. Need we say more about why an impartial and complete evaluation has to wait for a later day?



Components of the ARRA

	Total Amount (\$ billions)	Share Disbursed by End of Fiscal Year		
		2009	2010	2011
Discretionary spending (Highways, mass transit, energy efficiency, broadband, education, state aid)	308	11%	47%	72%
Entitlements (Food stamps, unemployment compensation, health IT, Medicaid matching rate, refundable tax credits)	267	32%	73%	91%
Revenues (Personal tax credits, business, energy, infrastructure)	212	31%	116%	119%
Total	787	24%	74%	91%

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Source: [Implementation Lags of Fiscal Policy, Congressional Budget Office](#)

Loan Delinquency and Charge-Off Rates at Troughs of Business Cycles

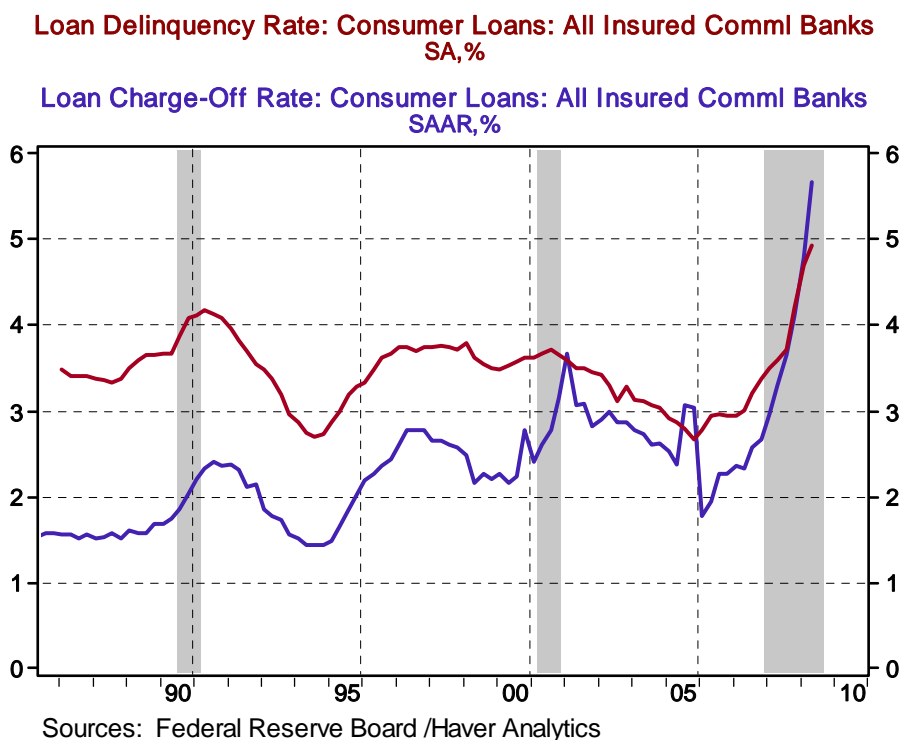
An economic recovery is underway as of the third quarter of 2009. The stability of the financial system and a working credit machine holds the key to sustained economic growth. The latest Senior Loan Officers Survey indicates that bankers remain skeptics and reluctant to lend. In the meanwhile, the Fed has injected boat loads of liquidity to support the financial system and restart the credit machine. Unfortunately, the Fed’s support has led to a surge in excess reserves. The

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upward trend of loan delinquency and charge off rates make a case for bankers to be strict underwriters of loans. What is the guidance from history about loan delinquency and charge off rates? Caveat: This analysis is based on the short history of data series published by the Fed.

The peak of delinquency and charge off rates for consumer loans has occurred after the trough of a recession in the 1991 and 2001 cycles (see chart 1). The 2001 recession was an exception, the consumer loan delinquency rate peaked one quarter prior to the end of the recession. This time around, the delinquency and charge off rates for consumer loans both have hit new record levels (see chart 1). The third quarter information will be published in mid-October.

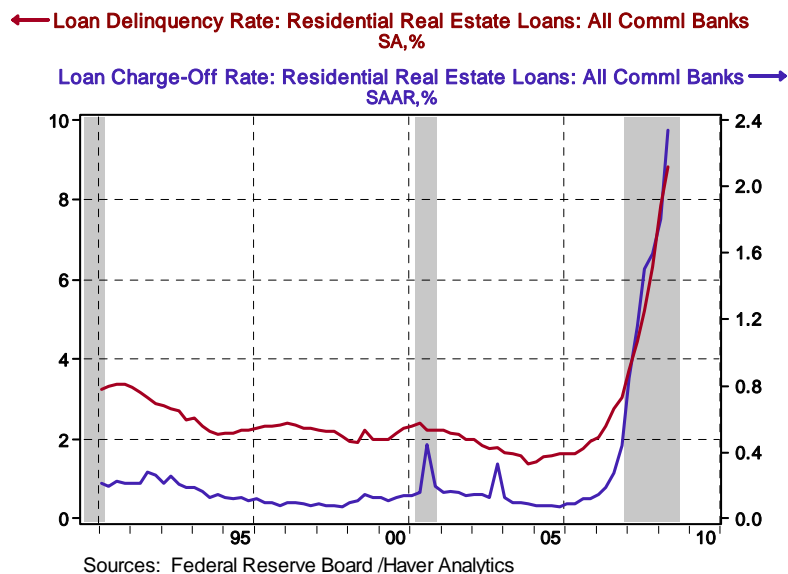
Chart 1



Delinquency and charge-off rates for residential real estate loans present a different picture (see chart 2). The nature of the housing market turmoil has left the delinquency and charge-off rates at record highs in the second quarter of 2009. The absence of a visible pattern prevents us from drawing firm conclusions from the short history of these data series.

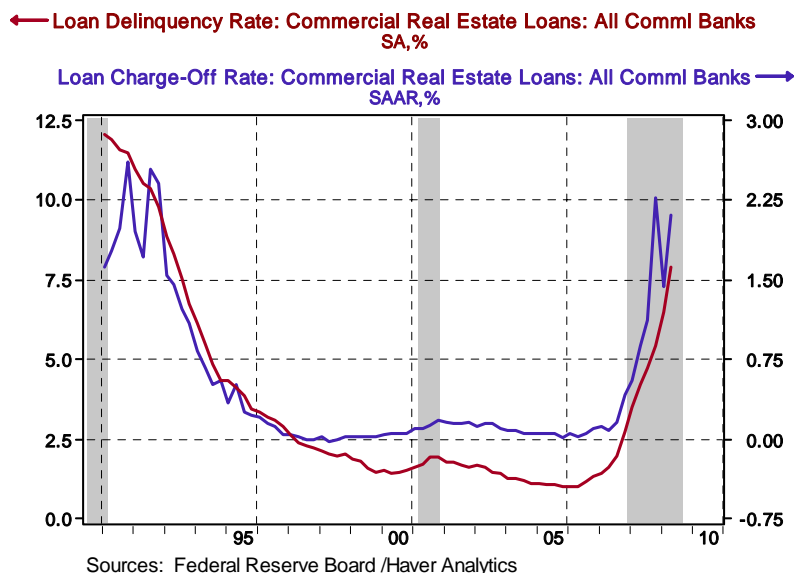
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Chart 2



What about commercial real estate loans? The charge-off rate peaked well after the recession ended in 1991 and the peak in 2001 coincided with the trough of the 2001 cycle. The peak delinquency rate of commercial real estate loans in 1991 and 2001 recessions coincided with the troughs of these two downturns. There is a growing expectation that commercial real estate loans will be the sector causing the next phase of the crisis in the banking industry. The Fed is examining books of bankers to prevent another turmoil ([FT.com / Financials - Fed wants picture of banks' property exposure](http://FT.com/Financials-Fed-wants-picture-of-banks-property-exposure)).

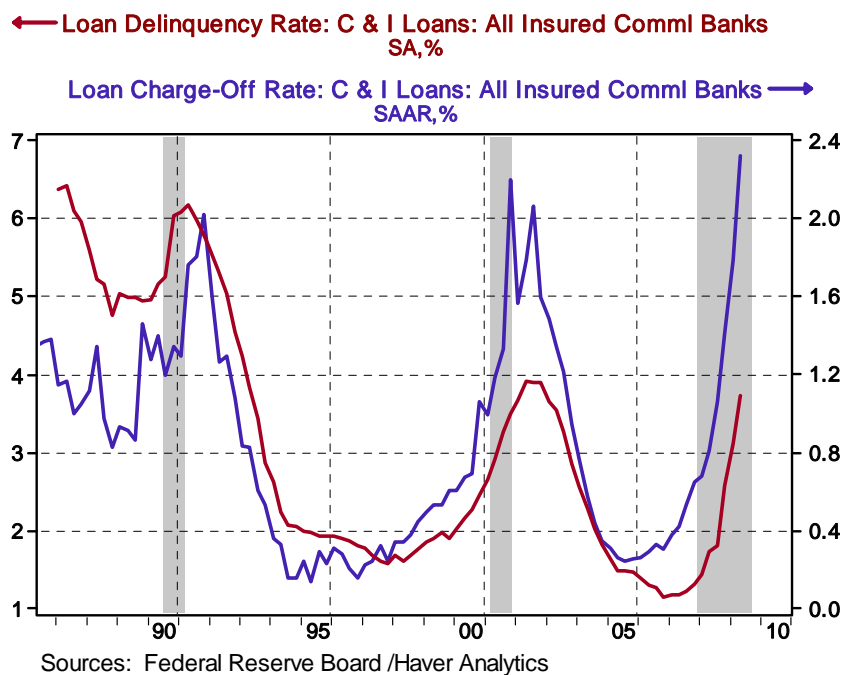
Chart 3



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The delinquency and charge-off rates of commercial and industrial (C&I) loans largely peak after a recession has ended (see chart 4).

Chart 4



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Key Interest Rates

	9/18/2009	1-wk. change, bps	4-wk. change, bps	1-yr. change, bps
3-month Libor	0.29	-1	-10	-292
2-year U.S. Treasury note yield	1.01	11	-12	-115
10-year U.S. Treasury note yield	3.48	14	-8	-30

Global Economic Data

	Real GDP		CPI		Unemployment Rate			Central Bank Rate		
	SAAR, yoy %		NSA, yoy%		%	year-ago	%	year-ago		
United States	-3.9	Q2-09	-1.5	Jul-09	9.7	Aug-09	6.2	0.13	Aug-09	2.00
Euro-Area	-4.7	Q2-09	-0.2	Jul-09	9.5	Jul-09	7.5	1.00	Aug-09	4.25
Japan	-7.2	Q2-09	-2.2	Jul-09	5.7	Jul-09	4.0	0.10	Aug-09	0.50
UK	-5.5	Q2-09	1.5	Jul-09	5.0	Aug-09	2.8	0.50	Aug-09	5.00
Australia	0.6	Q1-09	1.5	Q1-09	5.8	Aug-09	4.1	3.00	Aug-09	7.25
Canada	-3.2	Q1-09	-0.8	Jul-09	8.7	Aug-09	6.2	0.25	Aug-09	3.00
China	7.9	Q2-09	-1.6	Jul-09	4.3	Q2-09	4	0.87	Jun-09	2.85
India	6.2	Q1-09	11.9	Jul-09	--	--	--	3.25	Aug-09	6.00
New Zealand	-2.2	Q1-09	1.9	Q1-09	6.0	Q2-09	4	2.50	Aug-09	8.00
Norway	-2.5	Q2-09	1.9	Jul-09	3.1	Q2-09	2.4	1.25	Aug-09	5.75
Singapore	-3.5	Q2-09	-0.5	Jul-09	3.3	Q2-09	2.2	0.22	Aug-09	0.73
South Korea	-2.2	Q2-09	2.2	Aug-09	3.8	Aug-09	3.2	2.00	Aug-09	5.25
Sweden	-6.1	Q2-09	-0.8	Jul-09	8.9	Aug-09	5.7	0.25	Aug-09	4.50
Switzerland	-2.1	Q2-09	-0.8	Jul-09	4.0	Aug-09	2.5	0.32	Aug-09	2.75
Taiwan	-7.0	Q2-09	0.0	Aug-09	6.0	Jul-09	4.0	1.25	Aug-09	3.63
Thailand	-5.0	Q2-09	-1.0	Aug-09	1.4	Jul-09	1.5	1.75	Aug-09	4.25

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

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Historical US Economic Data

	Aug-09	Jul-09	Jun-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08
Payroll Employment (000)	-216	-276	-463	-303	-519	-652	-681	-741	-681	-597	-380	-321
% Change, Year Ago *	-4.3	-4.2	-4.1	-3.9	-3.8	-3.5	-3.1	-2.7	-2.2	-1.6	-1.1	-0.7
Unemployment Rate (%)	9.7	9.4	9.5	9.4	8.9	8.5	8.1	7.6	7.2	6.8	6.6	6.2
Avg. Hourly Earnings (% Chg.)	0.3	0.3	0.1	0.2	0.0	0.2	0.2	0.2	0.3	0.3	0.4	0.2
% Change, Year Ago	2.6	2.7	2.8	3.0	3.1	3.4	3.5	3.7	3.9	3.9	3.9	3.6
PPI (% Chg.)	1.7	-0.9	1.8	0.0	0.4	-0.9	-0.1	0.9	-1.8	-2.7	-2.6	-0.1
% Change, Year Ago *	-4.3	-6.8	-4.6	-5.0	-3.5	-3.4	-1.4	-0.9	-0.9	0.4	5.2	8.8
CPI (% Chg.)	0.4	0.0	0.7	0.1	0.0	-0.1	0.4	0.3	-0.8	-1.7	-0.8	0.0
% Change, Year Ago *	-1.5	-2.1	-1.4	-1.3	-0.7	-0.4	0.2	0.0	0.1	1.1	3.7	4.9
ISM Diffusion Index (%)	52.9	48.9	44.8	42.8	40.1	36.3	35.8	35.6	32.9	36.6	38.7	43.4
Industrial Production (% Chg.)	0.8	1.0	-0.4	-1.1	-0.6	-1.6	-0.8	-2.2	-2.3	-1.3	1.3	-4.0
% Change, Year Ago	-10.7	-12.4	-13.3	-13.2	-12.5	-12.5	-11.3	-10.9	-8.9	-6.5	-4.7	-6.4
Capacity Utilization (%)	69.6	69.0	68.3	68.5	69.2	69.5	70.6	71.1	72.7	74.4	75.4	74.5
Nondefense Cap. Goods ex Aircraft												
- Orders (% Chg.)		-0.3	3.8	4.3	-3.5	-1.4	4.1	-12.3	-5.9	1.1	-6.7	-3.4
% Change, Year Ago *		-20.1	-19.1	-24.4	-27.3	-20.0	-25.0	-25.4	-14.7	-7.9	-7.2	0.1
- Shipments (% Chg.)		0.8	1.4	-0.4	-2.9	-1.7	-0.2	-9.4	0.1	-1.3	-3.7	1.7
% Change, Year Ago *		-15.6	-16.2	-19.6	-18.3	-14.3	-15.6	-13.4	-4.7	-5.2	-2.2	2.7
Retail Sales (% Chg.)	2.7	-0.2	0.9	0.5	-0.3	-1.2	0.4	1.7	-3.2	-2.1	-3.1	-1.2
% Change, Year Ago	-5.9	-8.2	-7.6	-11.3	-9.2	-10.6	-11.6	-8.4	-8.8	-10.1	-4.2	-0.2
Real Personal Consumption (% Chg.)		0.2	0.1	0.1	-0.2	-0.2	0.1	0.6	-0.7	0.1	-0.3	-0.5
% Change, Year Ago		-0.8	-1.6	-1.7	-1.9	-1.7	-1.3	-1.6	-2.2	-1.7	-1.5	-1.2
Personal Income (% Chg.)		0.0	-1.1	1.4	0.3	-0.5	-0.8	-1.3	-0.3	-0.3	-0.3	0.1
% Change, Year Ago		-2.4	-3.2	-2.2	-2.0	-2.2	-1.6	-0.8	0.4	1.1	1.8	2.5
New Home Sales (SAAR, mn)		0.43	0.40	0.36	0.35	0.33	0.35	0.33	0.37	0.39	0.41	0.44
% Change, Year Ago *		-9.3	-20.0	-30.6	-34.7	-36.7	-39.6	-45.5	-40.9	-40.0	-43.9	-34.0
Existing Home Sales (SAAR, mn)		5.24	4.89	4.72	4.66	4.55	4.71	4.49	4.74	4.54	4.94	5.10
% Change, Year Ago *		5.6	3.4	-7.5	-4.8	-4.8	-10.3	-7.6	0.3	-17.0	-1.9	6.8
Housing Starts (SAAR, mn)	0.60	0.59	0.59	0.55	0.48	0.52	0.57	0.49	0.56	0.66	0.76	0.82
% Change, Year Ago *	-27.9	-34.8	-42.3	-43.1	-52.5	-48.1	-49.2	-54.9	-45.3	-46.5	-40.7	-27.2
International Trade (Bils \$)		-32.0	-27.5	-26.4	-29.1	-28.9	-26.6	-37.0	-41.9	-43.2	-59.4	-60.1
	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06
Real GDP, Chain Weighted, SAAR	-1.0	-6.4	-5.4	-2.7	1.5	-0.7	2.1	3.6	3.2	1.2	3.0	0.1
% Change, Year Ago	-3.9	-3.3	-1.9	0.0	1.6	2.0	2.5	2.7	1.9	1.4	2.4	2.2
Chain-Weighted Price Index, SAAR	0.0	1.9	0.1	4.0	1.8	1.9	2.3	1.6	2.7	4.2	1.8	3.1
% Change, Year Ago	1.5	1.9	1.9	2.5	1.9	2.1	2.7	2.6	3.0	3.2	2.9	3.3
Nominal GDP, SAAR	-1.0	-4.6	-5.4	1.4	3.5	1.0	4.5	5.3	6.0	5.5	4.8	3.2
% Change, Year Ago	-2.4	-1.4	0.1	2.6	3.6	4.2	5.3	5.4	4.9	4.6	5.4	5.6
Employment Cost Index (%)	0.4	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	1.8	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	6.6	0.3	0.8	-0.1	3.1	-0.1	2.0	5.5	2.8	1.2	2.4	-1.9
% Change, Year Ago	1.9	1.0	0.9	1.2	2.6	2.5	2.8	2.9	1.1	0.5	0.9	0.2
Unit Labor Costs, Nonfarm, SAAR	-5.9	-5.0	2.0	4.6	-1.8	1.7	3.0	-2.7	-0.7	3.5	6.5	3.4
% Change, Year Ago	-1.2	-0.1	1.6	1.9	0.1	0.3	0.7	1.6	3.1	3.7	3.5	2.5

Source: Haver Analytics

* NSA

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