

## DAILY GLOBAL COMMENTARY

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

Asha G. Bangalore  
[agb3@ntrs.com](mailto:agb3@ntrs.com)

### Index of Leading Economic Indicators – Confirms Economic Recovery is Underway

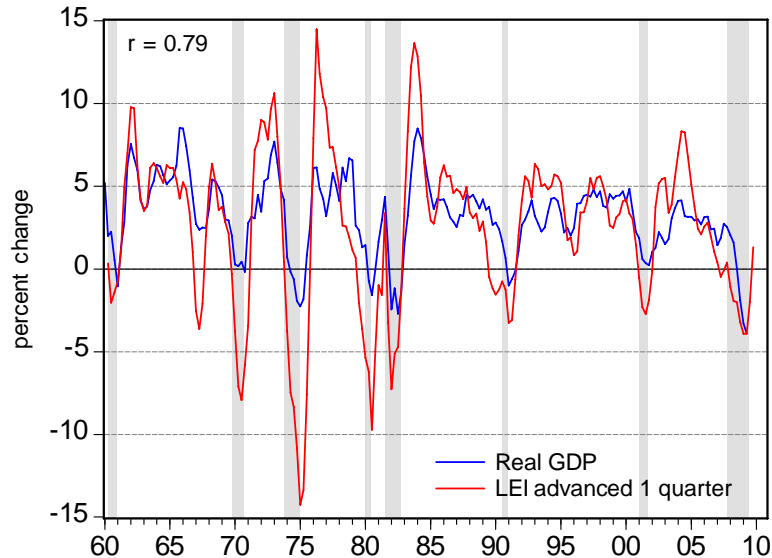
September 21, 2009

Chairman Bernanke noted last week that a recovery is most likely underway. Our forecast is for a 2.5% increase in real GDP during the third quarter, which is slightly lower than the market consensus. The advance estimate of real GDP for the third quarter will be published on October 29.

The Index of Leading Economic Indicators rose 0.6% in August, the fifth consecutive monthly increase of the index. On a year-to-year basis, the index moved up 1.89%, the largest gain since May 2006. The July-August average translates to a 1.32% from the third quarter of 2008, the first increase since the first quarter of 2007. Historically, the year-to-year change in the LEI advanced one quarter has a strong positive correlation with the year-to-year change in real GDP (see chart 1). This evidence and other economic reports -- ISM manufacturing survey, industrial productions index – support expectations that an economic recovery commenced in the third quarter of 2009.

Chart 1

Index of Leading Economic Indicators vs. Real GDP  
year-to-year percent change



In August, the workweek held steady, jobless claims, orders of non-defense capital goods and real money supply declined. The remaining seven components – orders of durable consumer goods, supplier deliveries, building permits, interest rate spreads, index of consumer expectations, and stock prices moved up. Effectively, there is a widespread improvement in economic conditions, which had been brought about by policy changes. The impact from monetary policy accommodation is evident. The possible impact from the \$787 billion fiscal stimulus package will be available in 2010. By the end of fiscal year 2009, roughly 24% of the fiscal package will have been spent.

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.