

DAILY GLOBAL
COMMENTARY

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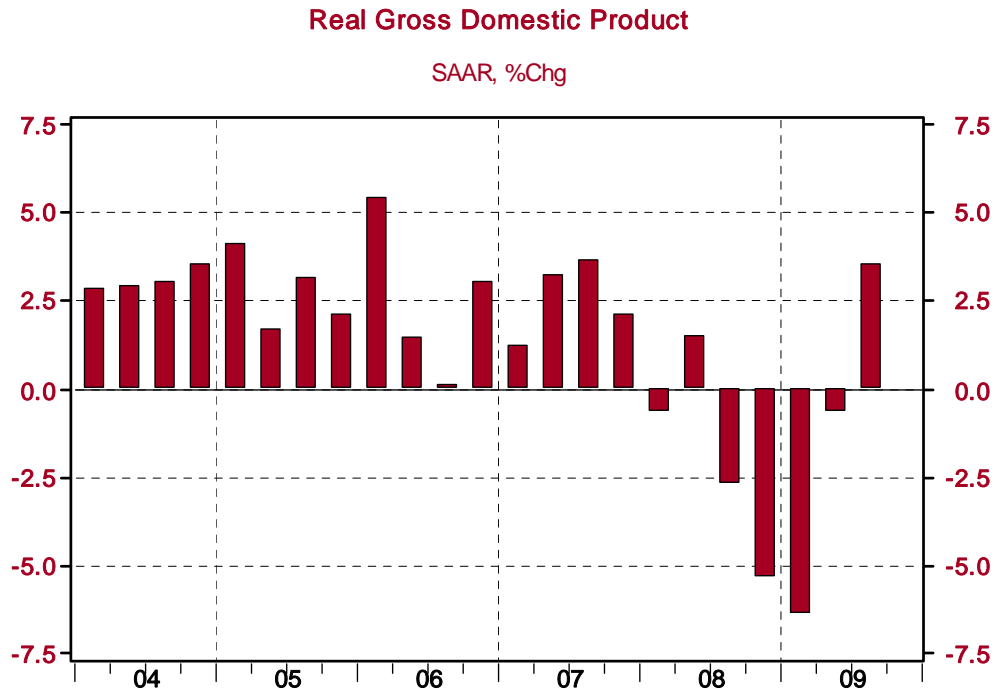
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Recession is History, Economy Back in Business

October 29, 2009

The recession is behind us. Real gross domestic product of the U.S. economy grew at an annual rate of 3.5% in the third quarter after a 0.75 drop in the prior quarter. This is the first increase of real GDP after a string of four quarterly declines. Real GDP has declined in five out of the six quarters of the recession.

Chart 1



Source: Bureau of Economic Analysis /Haver Analytics

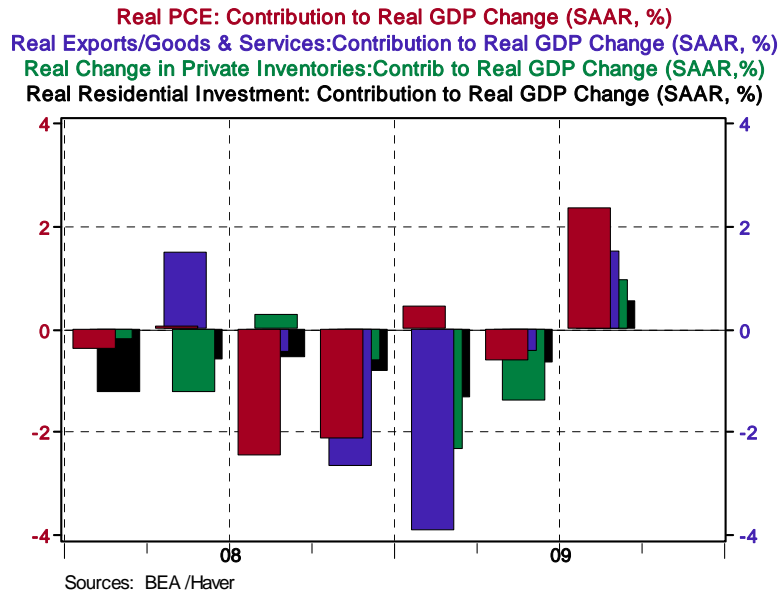
The Business Cycle Dating Committee of the National Bureau of Economic Research will make the official announcement after it confirms the turning point based on revisions of economic data. This recession is the longest on record in the post-war period and the deepest also. Real GDP has declined 3.8% from the peak in the second quarter of 2008 to the trough in the second quarter of 2009. This is the largest peak-to-trough decline of real GDP in the post-war period (see table 1).

Table 1 Real GDP Peak-to-Trough

Business Cycle Peak to Trough	Duration of recession	Decline in GDP Peak to trough
Nov. 1948 - Oct. 1949	11 months	-1.69%
Jul.1953 - May 1954	10 months	-1.97%
Aug.1957 - Apr. 1958	8 months	-3.73%
Apr. 1960 - Feb. 1961	10 months	-1.58%
Dec. 1969 - Nov. 1970	11 months	-0.63%
Nov. 1973 - Mar 1975	16 months	-3.19%
Jan 1980 - Jul 1980	6 months	-2.23%
Jul 1981 - Nov 1982	16 months	-2.87%
Jul 1990 - Mar 1991	8 months	-1.36%
Mar 2001 - Nov 2001	8 months	0.05%
December 2007 - June 2009?	18 months	-3.83%

In the third quarter, consumer spending accounted for the largest part of the growth in real GDP, followed by exports, inventories and residential investment expenditures. Of these four components, exports and inventories are most likely to continue to make large contributions in the quarters ahead. Consumer spending is projected to advance in the quarters ahead but at a noticeably slower pace. The surge in auto sales from the “cash for clunkers” program in the third quarter provided the temporary lift to consumer spending.

Chart 2

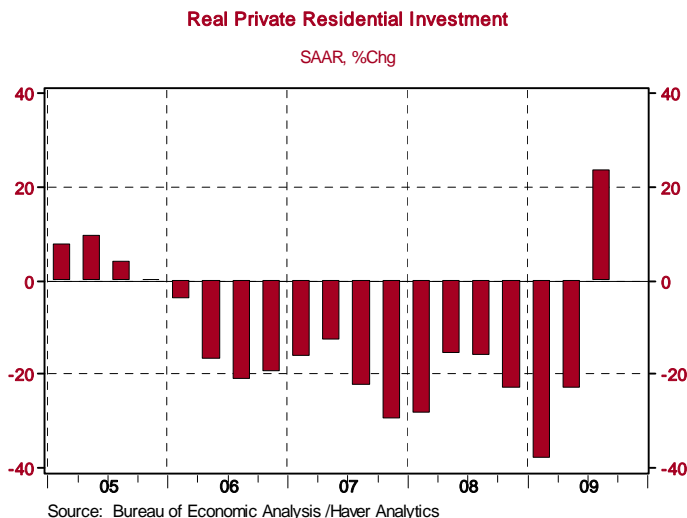


Residential investment expenditures grew at an annual rate of 23.4% in the third quarter, after a string of fourteen quarterly declines. Third quarter spike is encouraging but it is unclear if the

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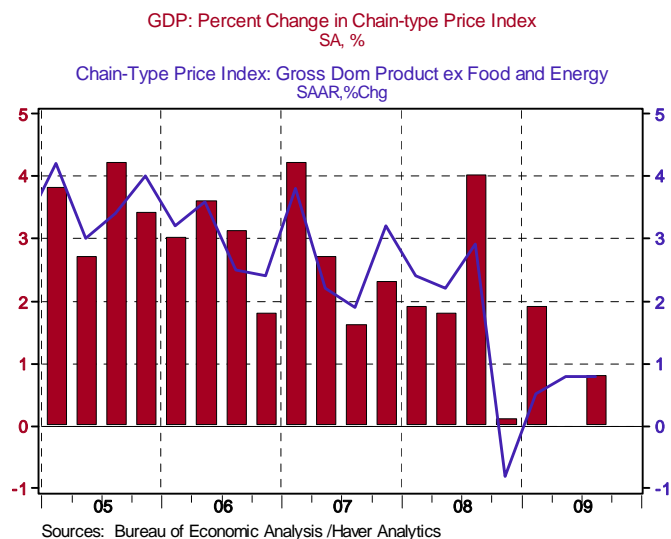
robust pace will remain durable. The \$8000 first-time home buyer tax credit program helped boost home sales in addition to low mortgage rates and home prices.

Chart 3



Final sales to domestic purchasers increased at an annual rate of 3.0% in the third quarter. The 2.3% increase in government expenditures is expected to show a more robust gain in the near term, which should show the impact of fiscal spending plan envisaged for 2010. The GDP price indexes suggest that inflation is contained, again underscoring that inflation is not the primary issue at the present time.

Chart 4



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Going forward, the lift to the headline GDP number in the third quarter is partly from future auto sales, which implies that consumer spending and GDP growth are most likely to show more muted growth in the fourth quarter of 2009 and first quarter of 2010. The Fed is hold for several months until it is confirmed the unemployment rate has peaked.

Table 2 Real Gross Domestic Product 2009:Q3 Advance Estimate

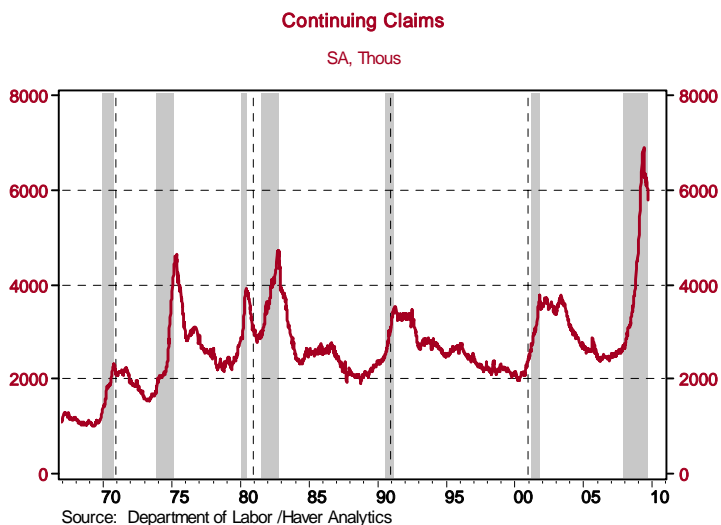
	Levels (Billions of chained 2005 dollars)			Percent Change (SAAR)		
	09:1 Final	09:2 Final	09:3 Advance	From 08:4 to 09:1	From 09:1 to 09:2	From 09:2 to 09:3
GDP	12925.4	12901.5	13014.0	-6.4	-0.7	3.5
CONSUMPTION	9209.2	9189.0	9265.1	0.6	-0.9	3.4
DURABLE GOODS	1087.2	1071.7	1127.2	3.9	-5.6	22.3
NONDURABLE GOODS	2035.5	2025.7	2035.9	1.9	-1.9	2.0
SERVICES	6076.0	6078.8	6096.6	-0.3	0.2	1.2
INVESTMENT	1558.5	1456.7	1496.8	-50.5	-23.7	11.5
FIXED INVESTMENT	1687.5	1631.9	1641.1	-39.0	-12.5	2.3
NONRESIDENTIAL	1321.2	1288.4	1280.2	-39.2	-9.6	-2.5
STRUCTURES	419.4	400.0	390.7	-43.6	-17.3	-9.0
EQUIPMENT & SOFTWARE	887.5	876.5	879.0	-36.4	-4.9	1.1
RESIDENTIAL	367.9	344.4	362.9	-38.2	-23.3	23.4
CHG. BUS. INVENT.	-113.9	-160.2	-130.8			
NET EXPORTS	-386.5	-330.4	-348.3			
EXPORTS	1434.5	1419.5	1469.1	-29.9	-4.1	14.7
IMPORTS	1821.0	1749.8	1817.3	-36.4	-14.7	16.4
GOVERNMENT (Cons. & Invest.)	2527.2	2568.6	2583.4	-2.6	6.7	2.3
FEDERAL	996.3	1023.5	1043.1	-4.3	11.4	7.9
DEFENSE	672.8	695.2	709.3	-5.1	14.0	8.4
OTHER	323.4	328.2	333.6	-2.5	6.1	6.8
STATE AND LOCAL	1533.3	1548.0	1543.7	-1.5	3.9	-1.1
DISP. PERS. INC.	9926.4	10020.0	9933.0	0.2	3.8	-3.4
FINAL SALES	13055.8	13077.8	13160.4	-4.1	0.7	2.5
FINAL SALES TO DOM. PURCHASERS	13432.7	13401.4	13501.5	-6.4	-0.9	3.0
PRICE DEFLATORS:						
GDP CHAIN TYPE	109.7	109.7	109.9	1.9	0.0	0.8
GDP EX. FOOD & ENERGY				0.5	0.8	0.8
PCE CHAIN TYPE	108.4	0.0	109.6	-1.5	1.4	2.8
PCE EX. FOOD & ENERGY	108.2	108.7	109.1	1.1	2.0	1.4

Total Continuing Claims are Stabilizing

Initial jobless claims were virtually unchanged at 531,000 during the week ended October 24 from the 530,000 reading of the prior week. Continuing claims, which lag initial claims by one week, fell 148,000 to 5.945 million, marking the fourth consecutive weekly decline. A part of this drop is attributed to the expiry of 26 weeks of eligibility for unemployment insurance.

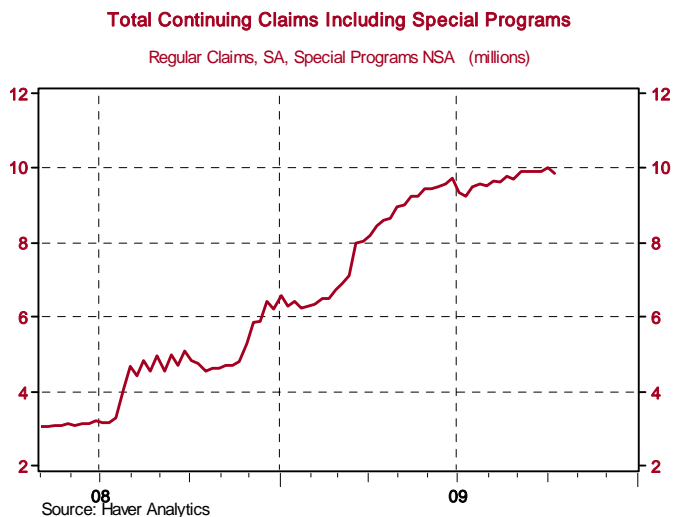
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Chart 5



Upon the completion of 26 weeks, recipients can collect unemployment insurance under the Extended Benefits Program and Emergency Unemployment Compensation Program. Therefore, the true size of recipient of unemployment insurance is a sum total of recipients under these various programs. Data for the special programs lags initial jobless claims data by two weeks. During the week ended October 10, total continuing claims inclusive of seasonally adjusted continuing claims and those under the special programs dropped to 9.84 million from a revised peak of 10 million during the week ended October 3. This decline is noteworthy because it is the first positive sign in the labor market after several weeks. We should be able to confirm the improvement as additional data become available.

Chart 6



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