Northern Trust

DAILY GLOBAL COMMENTARY

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Chairman Bernanke Stresses Job Market and Credit Conditions, the Dollar Received Special Mention

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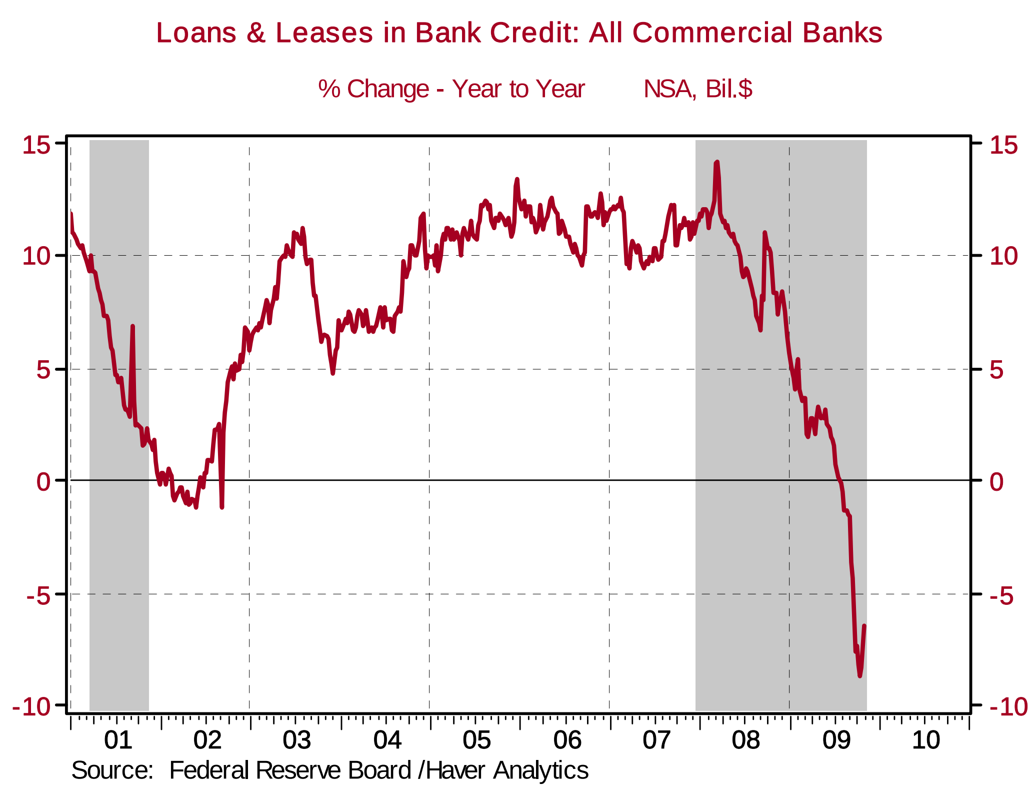
The Chairman spoke at length about credit conditions and the labor market. In his opinion, impaired financial market conditions have led to banks holding larger buffers compared to the situation prior to the onset of the current crisis. In addition, a shaky economic environment marked with high loan losses and uncertainty about regulatory capital standards are factors restraining the growth of credit. The impaired market for securitization is another aspect that is contributing to the reduction of credit availability. The main message is that the credit machine needs to function for self-sustained economic activity. There is a minor improvement to note on this front. Loan extensions remain noticeably weak (see chart 1) but for the week ended November 4, the decline was smaller (6.5%) compared with recent weeks. It appears that a trough has been established (see chart 1). Additional improvements with positive readings will be necessary to declare the coast is clear.

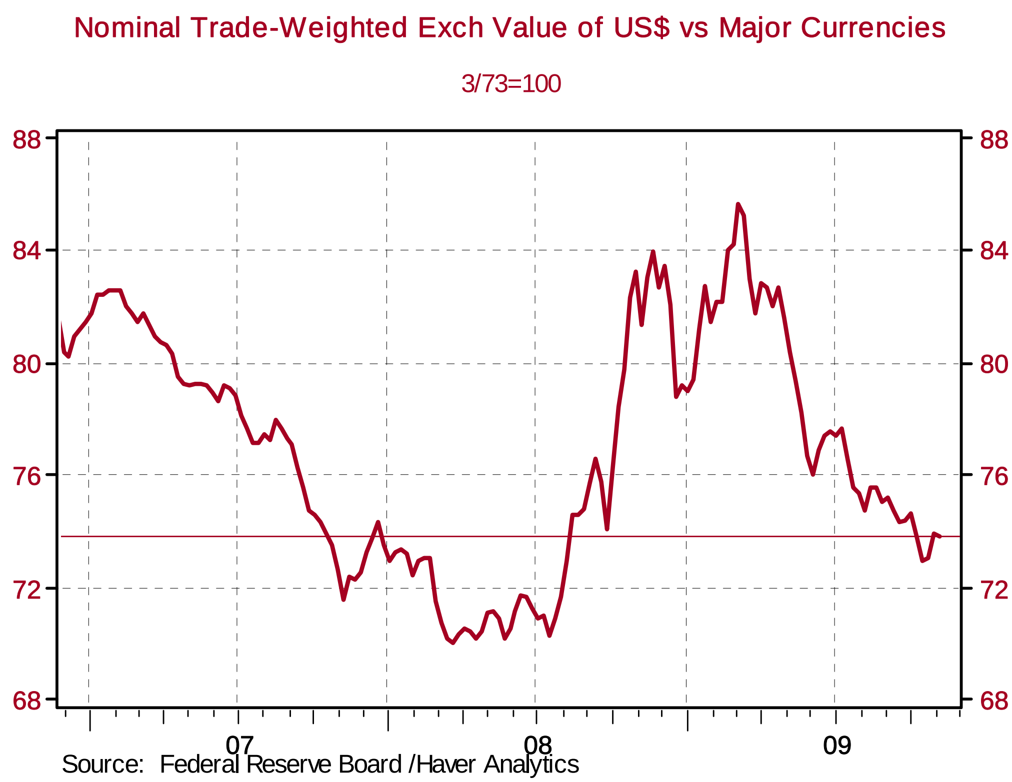
Chart 1



Bernanke also spoke extensively about the labor market and more or less reiterated the well known aspects of the current labor market conditions. He raised the issue of a "jobless recovery" and highlighted the reasons for this likelihood of this situation.

The explicit mention of the dollar was the most important departure from earlier speeches. He noted that the Fed is "*attentive to the implications of changes in the value of the dollar and will continue to formulate policy to guard against risks to our dual mandate to foster both maximum employment and price stability. Our commitment to our dual objectives, together with the underlying strengths of the U.S. economy, will help ensure that the dollar is strong and a source of global financial stability.*" The trade weighted dollar has lost nearly 10% from a year ago but it is higher than the lows of early-2008 (see chart 3). Historically, the dollar is the domain of the Treasury Department.

Chart 2



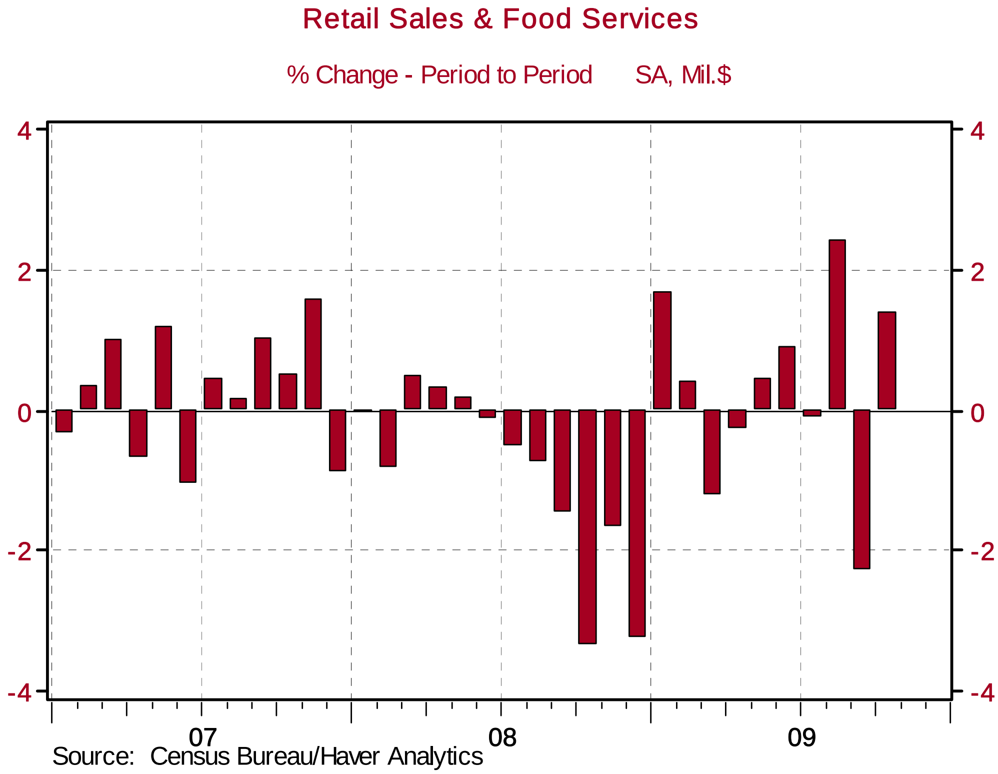
The inflationary implications of the weak dollar are restrained partly by the enormous slack in the economy. However, prices of imported goods excluding fuel have risen for three straight months and commodity prices have also risen. Although inflation expectations have risen in recent days, the overall picture is that of a contained situation. Inflation expectations will be watched closely in the months ahead.

Chart 3

October Retail Sales – Noteworthy Gains of Several Components

Retail sales rose 1.4% in October, after downward revisions of retail sales in September (-2.3% vs. earlier estimate of -1.5%). The downward revision of retail sales in September combined with the widening of the trade deficit in September implies a lower estimate of third quarter real GDP (+3.5%).

Chart 4



In October, retail sales excluding building materials (part of residential investment expenditure in GDP), autos (unit sales are consistent with auto spending component of consumer spending in GDP), and gasoline (excluded due to volatility of prices) advanced 0.5% after strong readings in August and September (see chart 5). In addition, retail sales excluding, building materials, autos, and gasoline rose 1.4% in October, the first year-to-year gain since October 2008 (see chart 6). The main point is that consumer spending is recovering gradually. Purchases of apparel (+0.4%), general merchandise (+0.8%), and spending in restaurants (+1.2%) rose in October while purchases of electronic items and furniture declined.

Chart 5

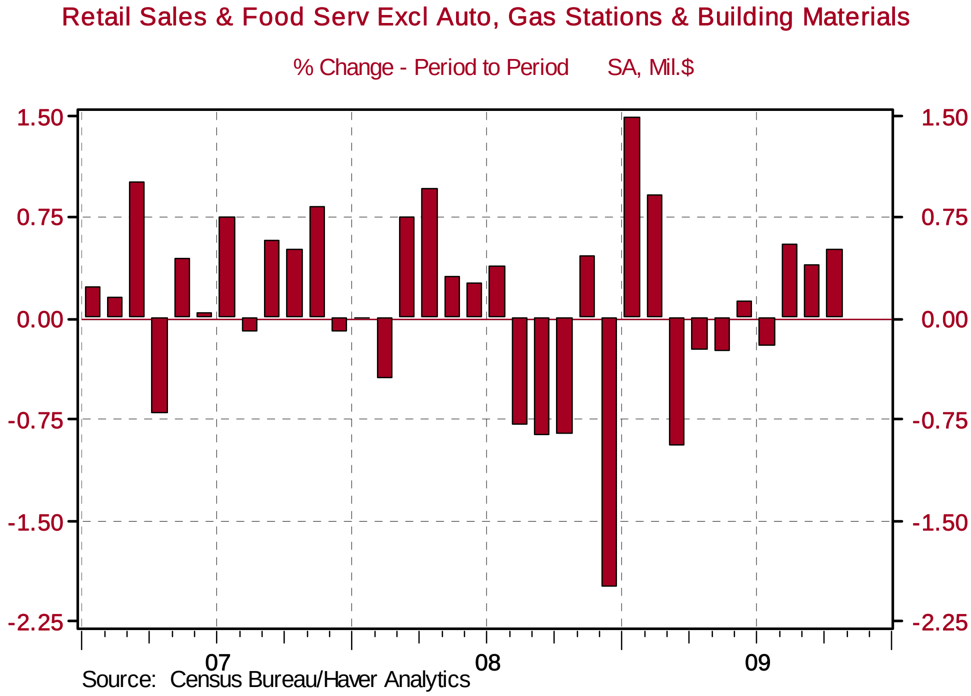


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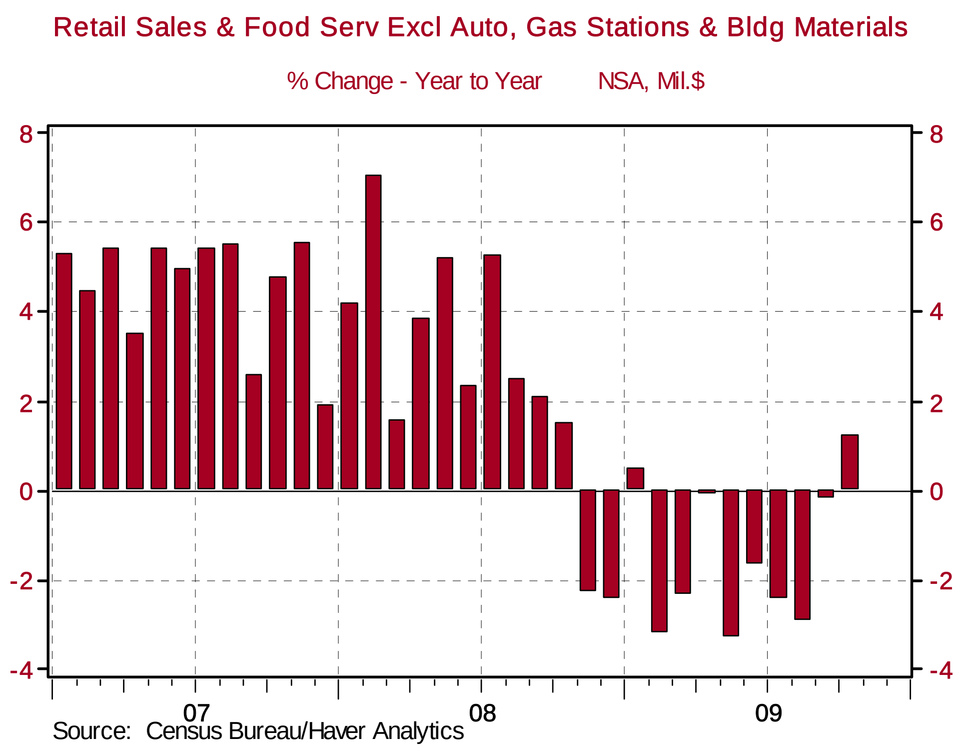
Chart 6



Retail Sales – October 2009

	August	September	October	09:Q3	09:Q4
				quarterly change SAAR	
Total Retail Sales & Food Service, % m-o-m	**2.4**	**-2.3**	**1.4**	**6.0**	**2.5**
% change y-o-y	-6.6	-6.3	-1.7		
Ex-auto, % m-o-m	**0.8**	**0.4**	**0.2**	**3.1**	**3.1**
% change y-o-y	-7.5	-5.2	-2.4		
Ex- autos and gas % m-o-m	**0.4**	**0.3**	**0.3**	**-0.1**	**2.4**
% change y-o-y	-4.1	-1.6	-0.6		
Exc. Bldg. mat., auto, gas, % m-o-m	**0.6**	**0.4**	**0.5**	**1.4**	**4.0**
% change y-o-y	-3.0	-0.1	1.4		
* -annualized change based on October data					