



The U.S. Economy in 2010 – A View from the Crow's Nest

February 2010

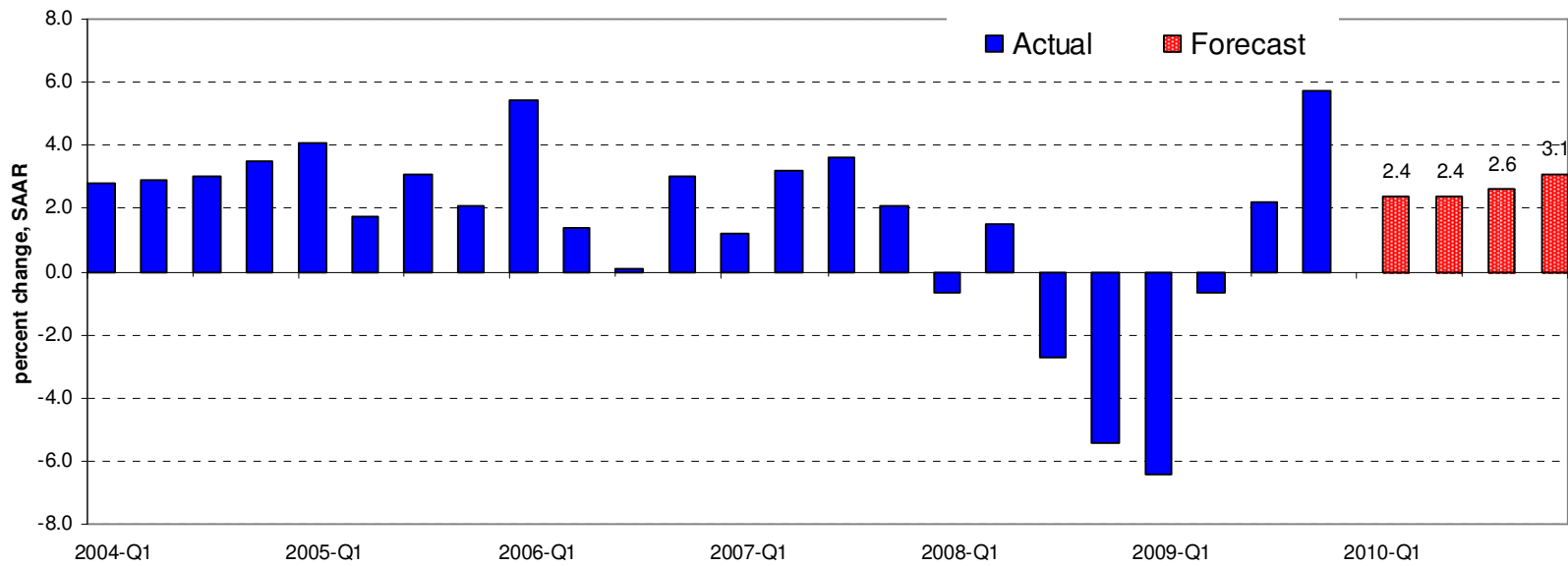
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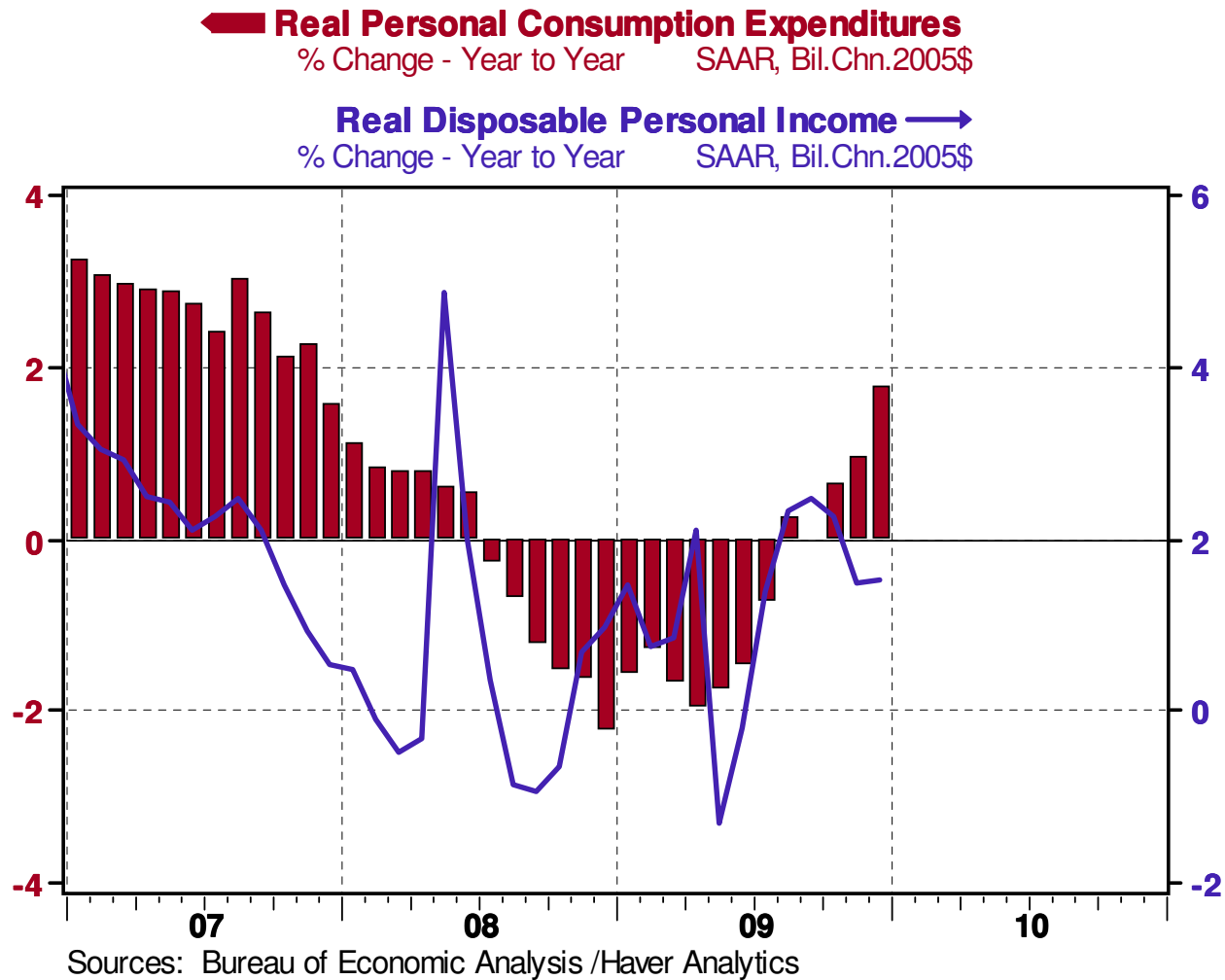
The recovery is here but economic growth is most likely to be sub-par.

Real Gross Domestic Product
(quarter-to-quarter change, SAAR)





Consumer spending has stabilized. However, gains will be sluggish in the near term because the economic profile of households is fragile.

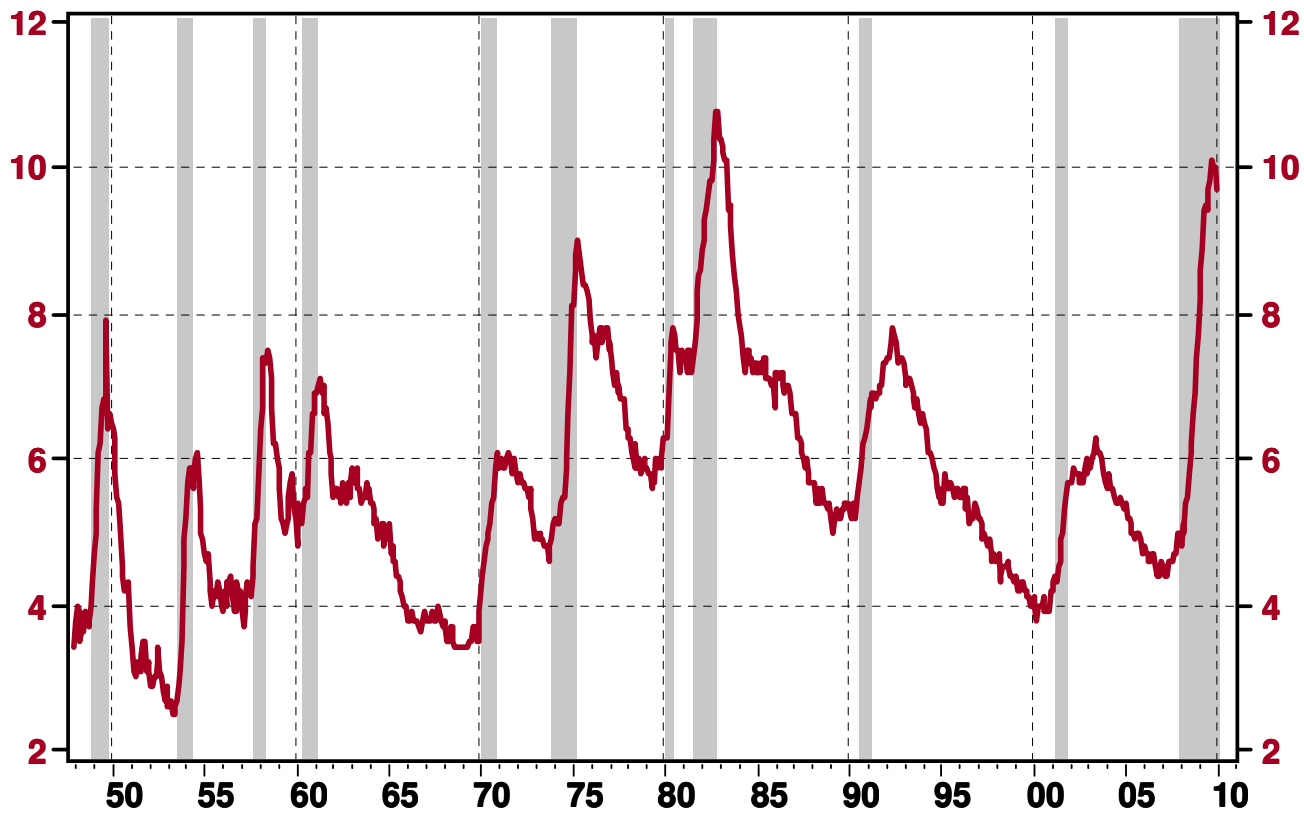




Employment conditions will remain significantly soft for several more months.

Civilian Unemployment Rate: 16 yr +

SA, %



Source: Bureau of Labor Statistics /Haver Analytics

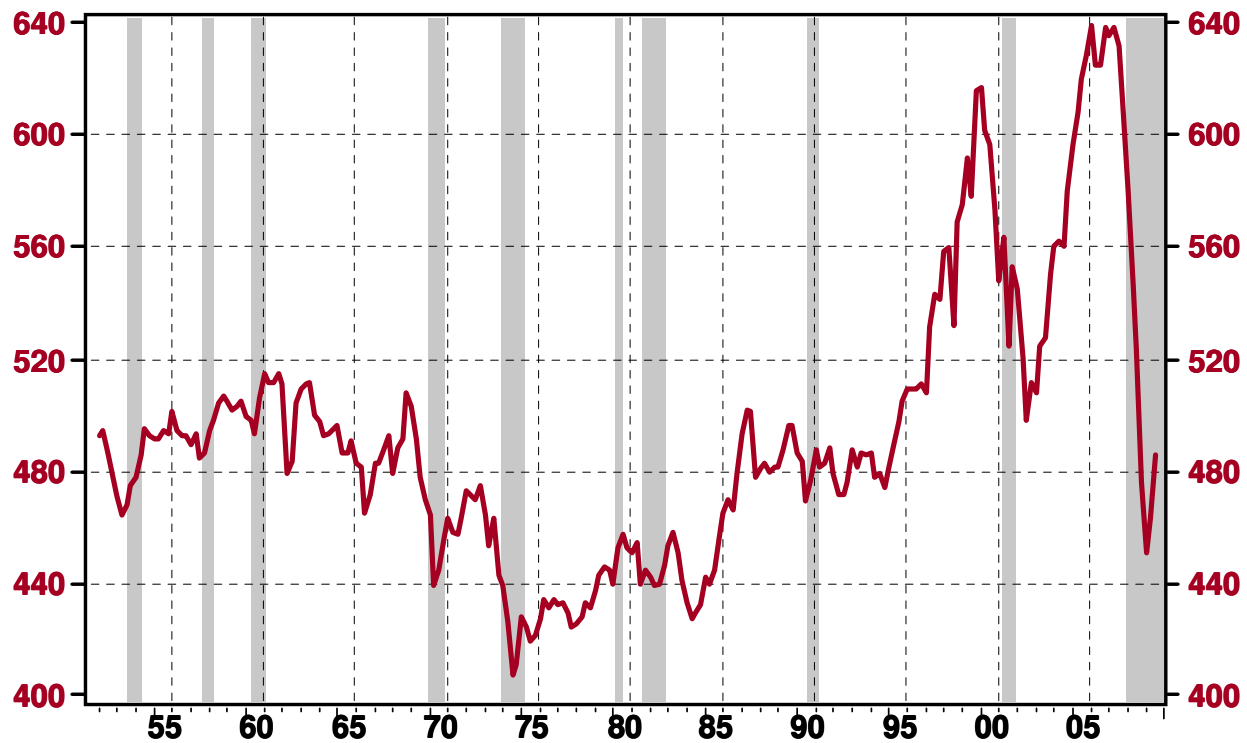


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Households have experienced a severe loss in net worth.

Net Worth as a Percent of Disposable Income

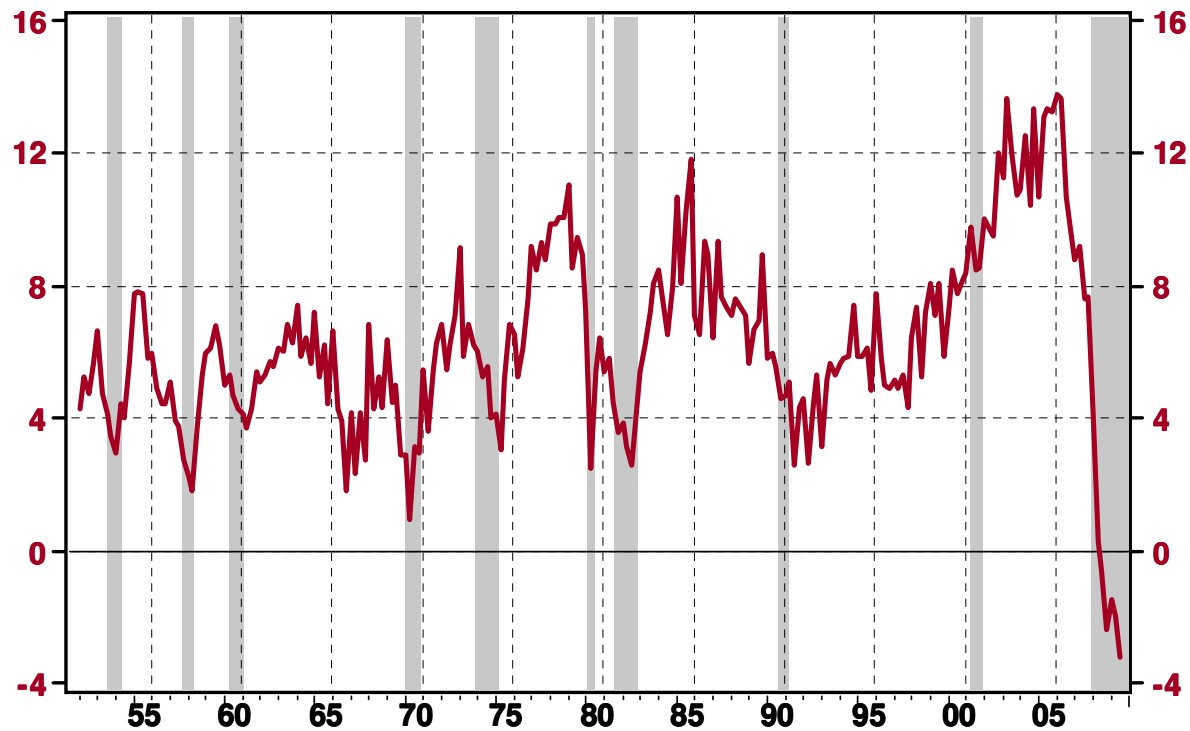


Source: Haver Analytics



Households are under significant financial stress and ...

Household Borrowing as a Percent of After-tax Income



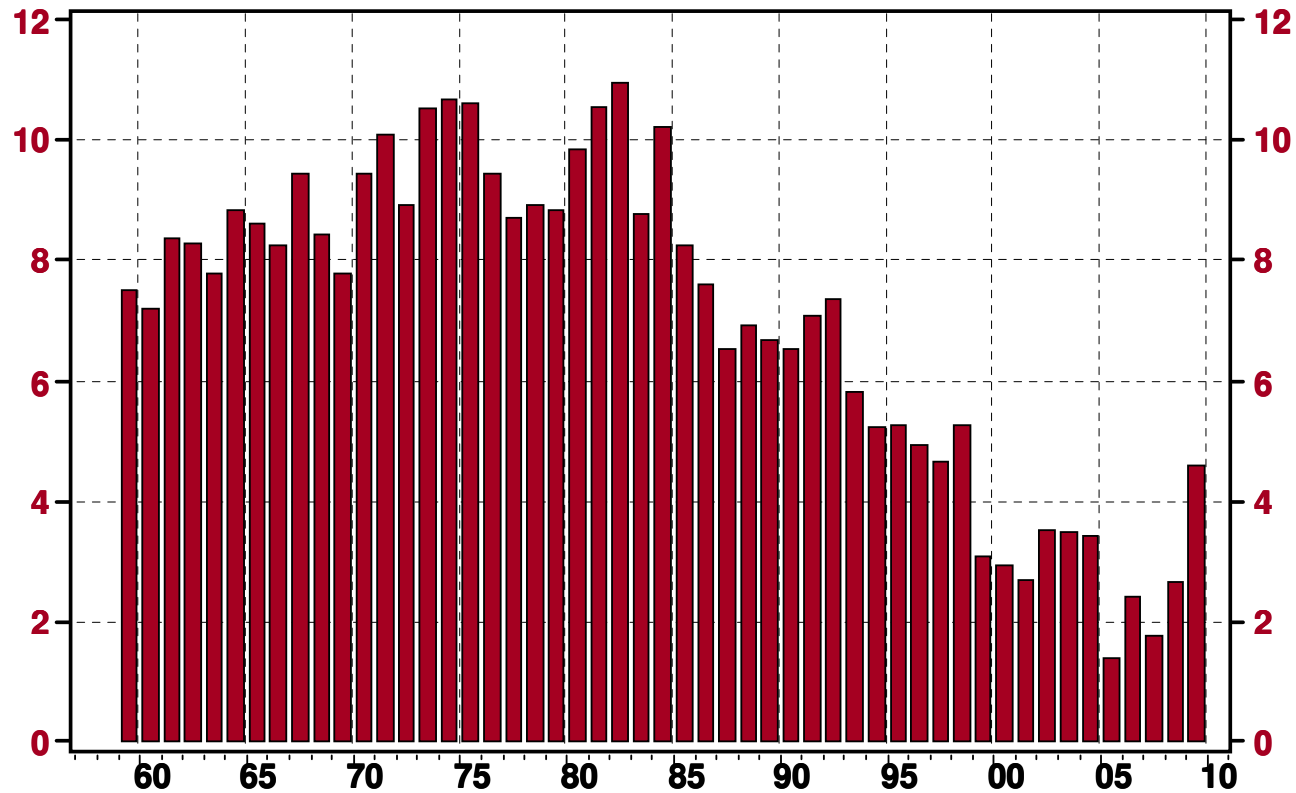
Source: Haver Analytics



...have scanty rainy day funds. They are rediscovering the virtues of thrift.

Personal Saving Rate

SAAR, %



Source: Bureau of Economic Analysis /Haver Analytics



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Housing Market – Attractive mortgage rates and lower prices of homes have lifted home sales from their cycle low.

Combined Sales of New and Existing Homes

(thous)

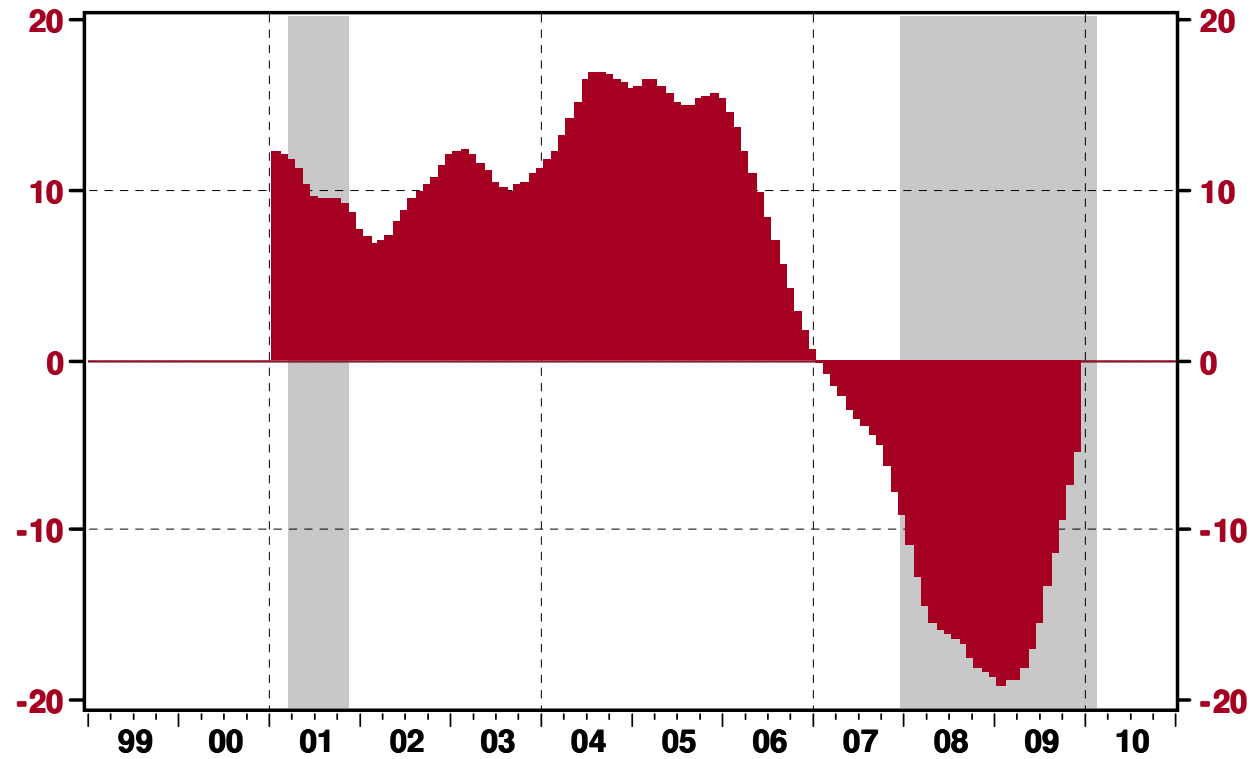




Home prices are stabilizing.

S&P/Case-Shiller Home Price Index: Composite 20

% Change - Year to Year NSA, Jan-00=100



Source: S&P, Fiserv, and MacroMarkets LLC /Haver Analytics

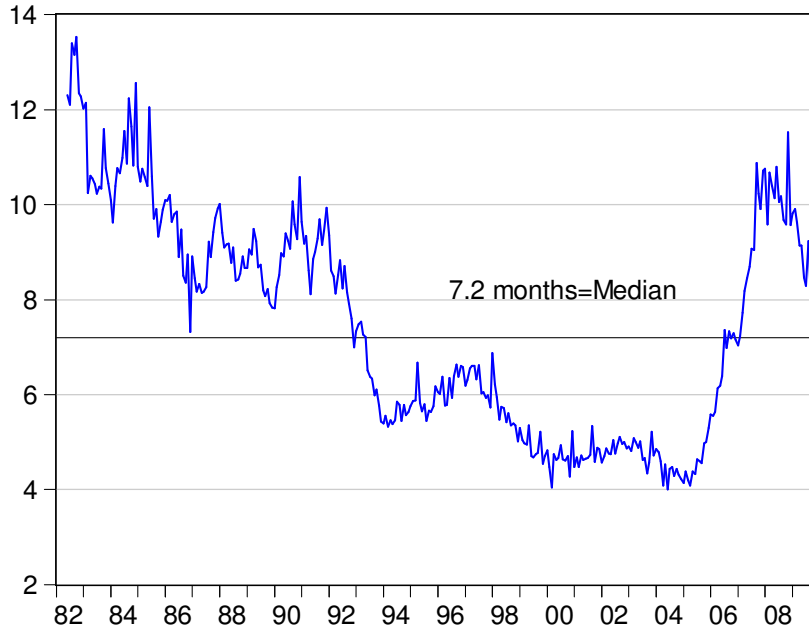


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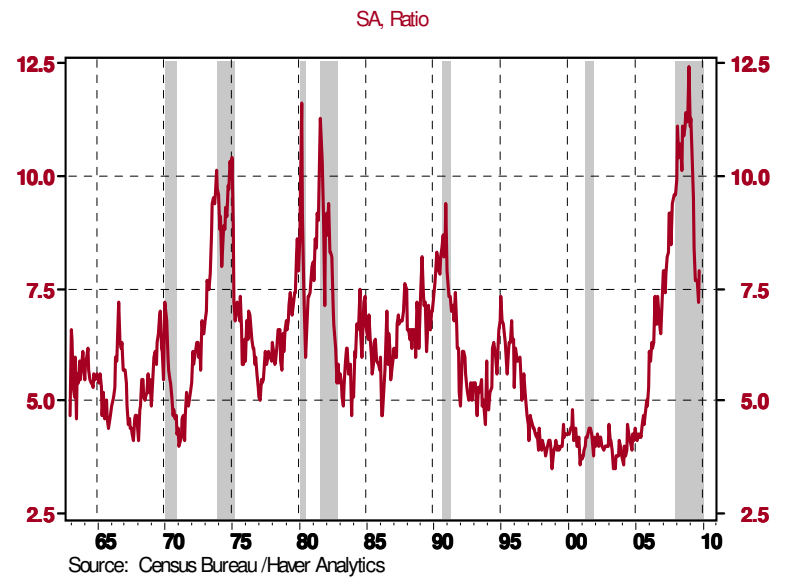


Inventories of unsold homes show a notable decline.

Existing Single-Family Homes - Inventory/Sales Ratio
Months' Supply, SA



New 1-Family Houses For Sale: Months Supply

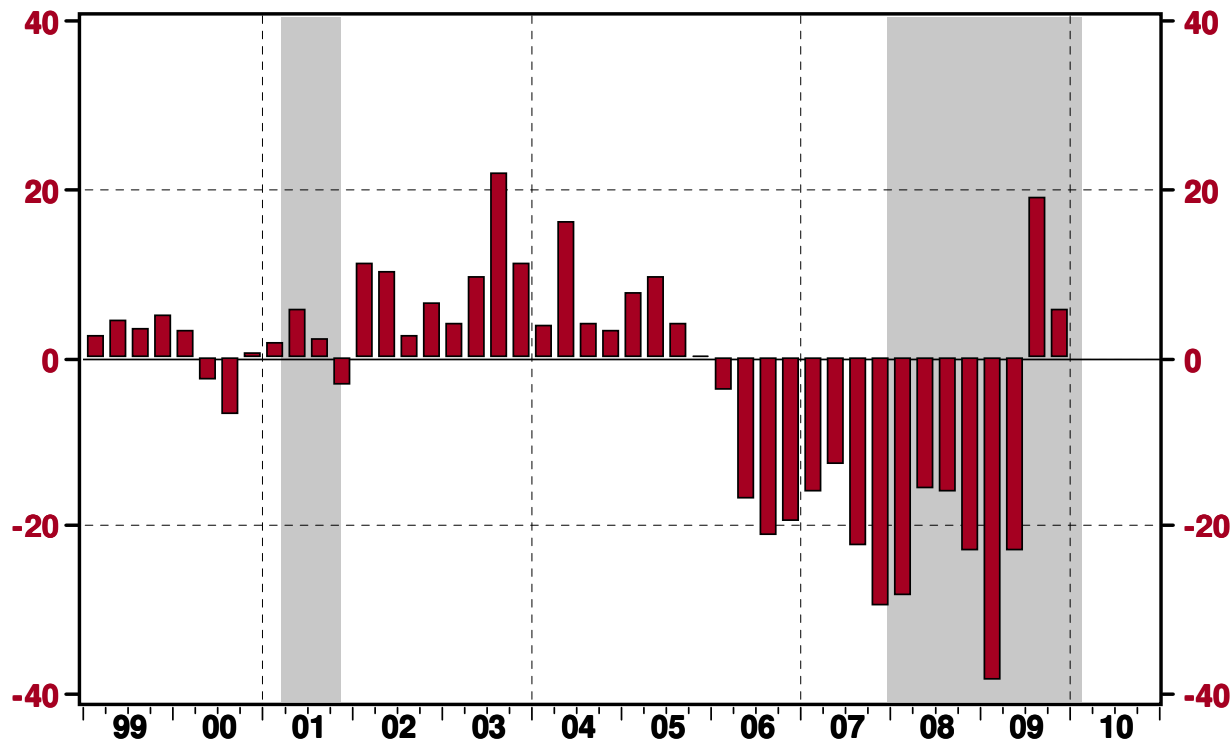




Residential investment expenditures advanced in the latter half of 2009 and positive contributions are predicted for the subsequent quarters

Real Private Residential Investment

% Change - Annual Rate SAAR, Bil.Chn.2005\$

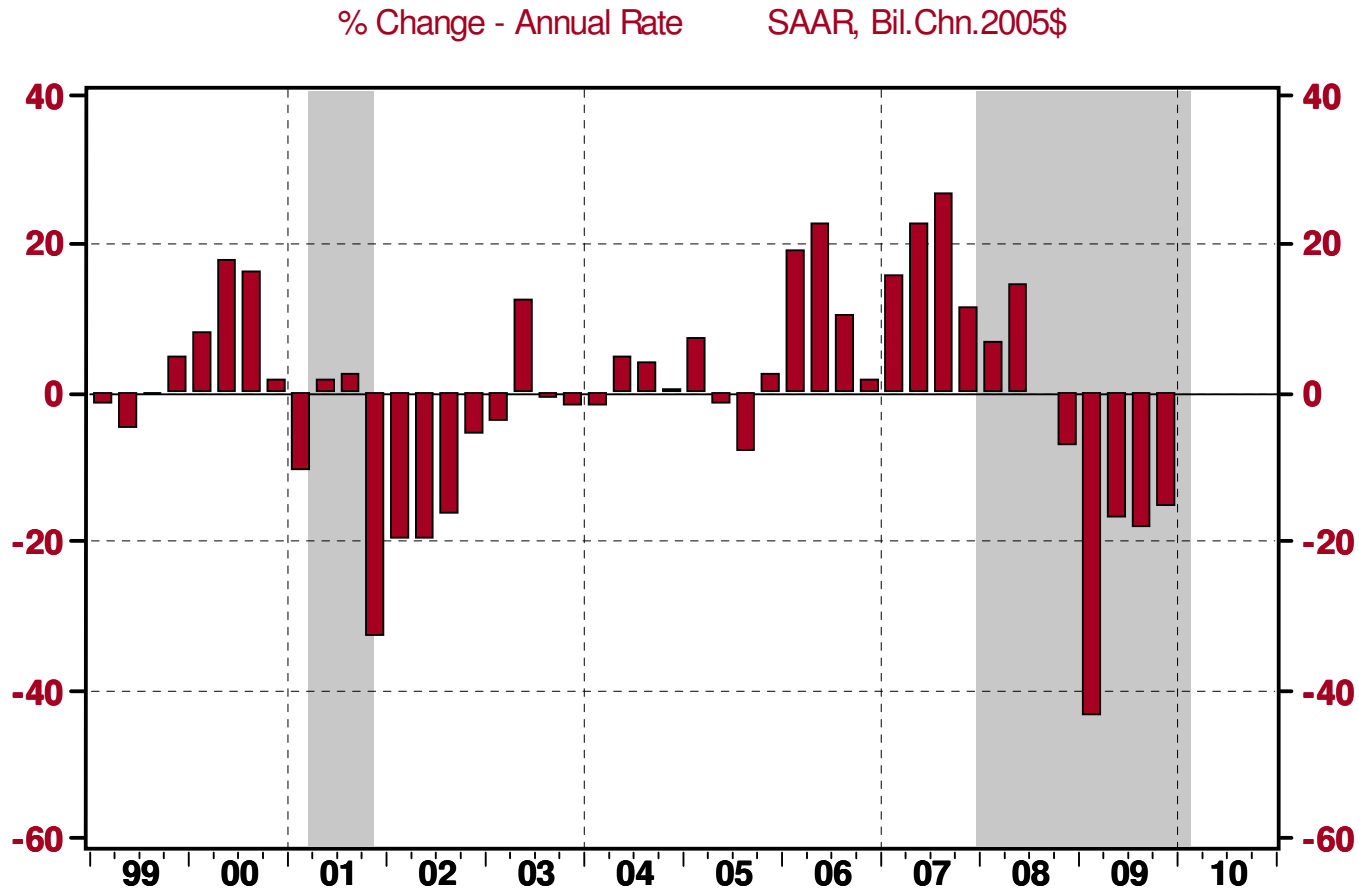


Source: Bureau of Economic Analysis /Haver Analytics



The unfavorable fundamentals of the commercial real estate sector point to continued weakness in 2010.

Real Private Nonresidential Investment: Structures



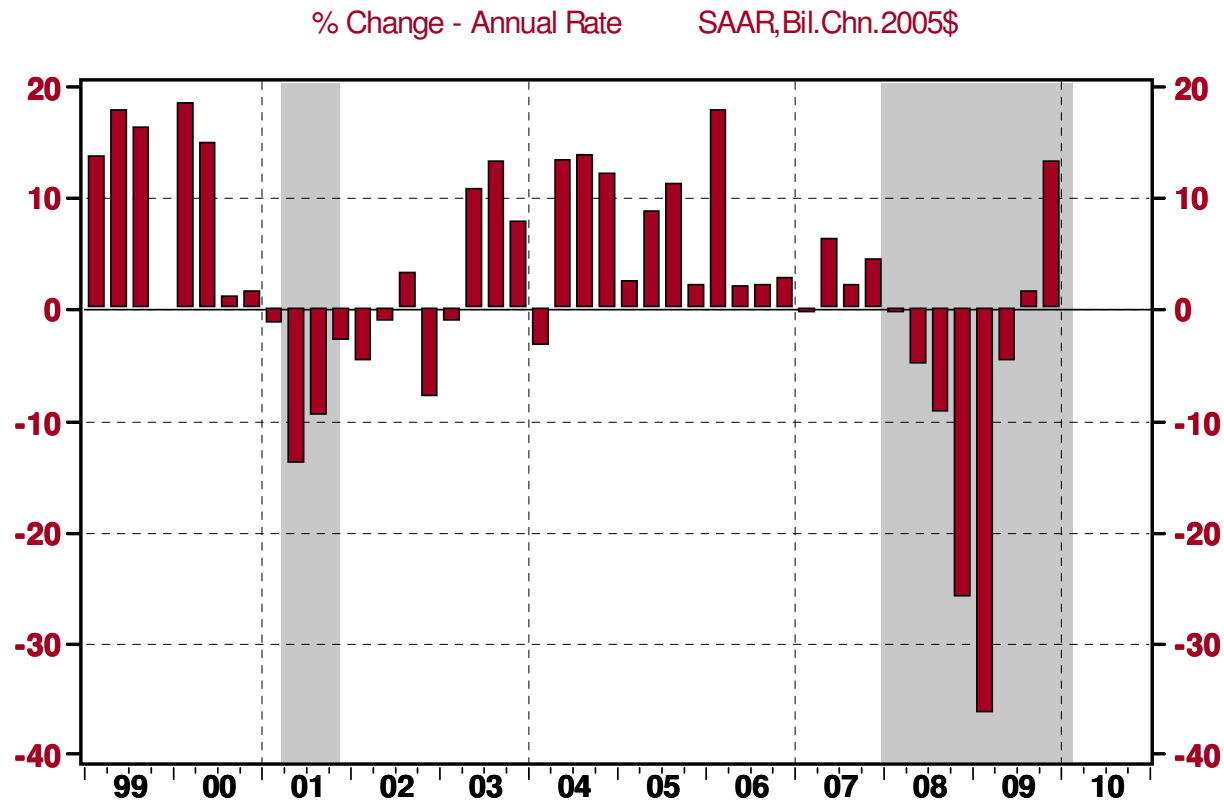
Source: Bureau of Economic Analysis /Haver Analytics





Capital spending is projected to show muted growth in 2010 largely due to a cautious stance of businesses and the low operating rate of industries.

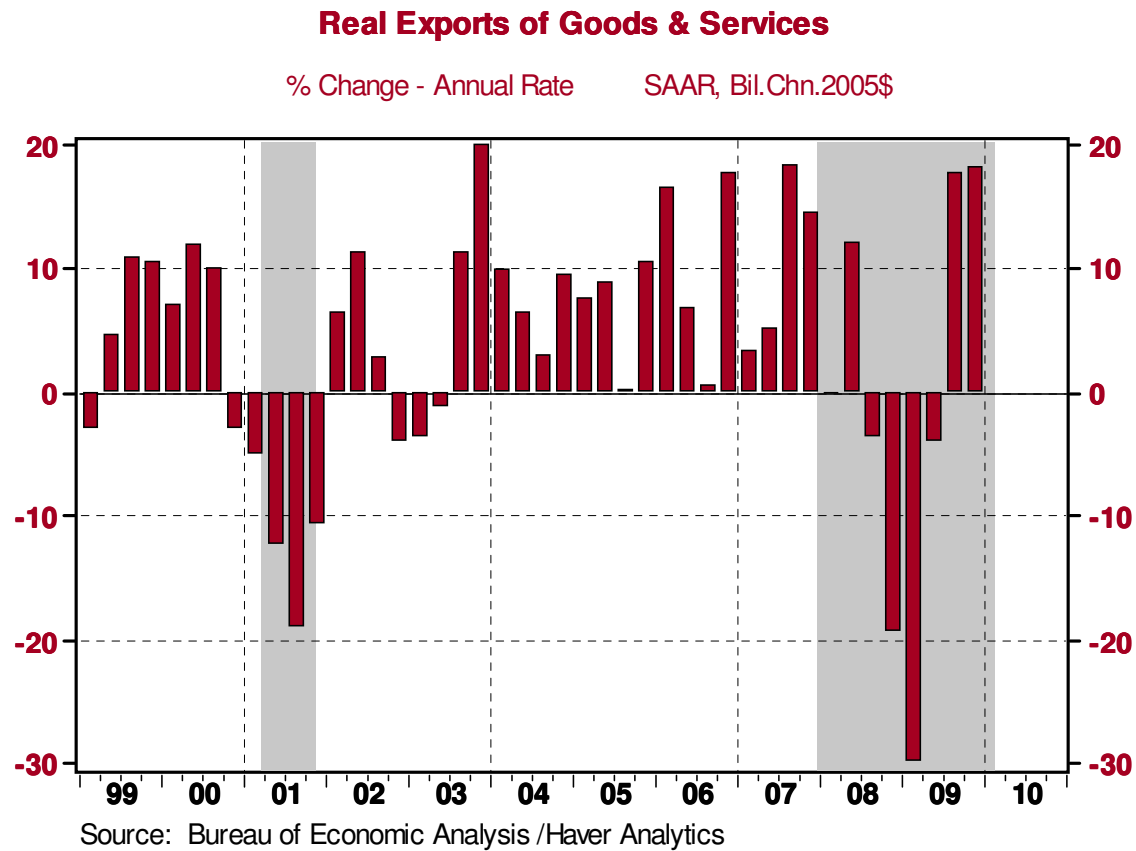
Real Private Nonresidential Investment: Equipment & Software



Source: Bureau of Economic Analysis /Haver Analytics

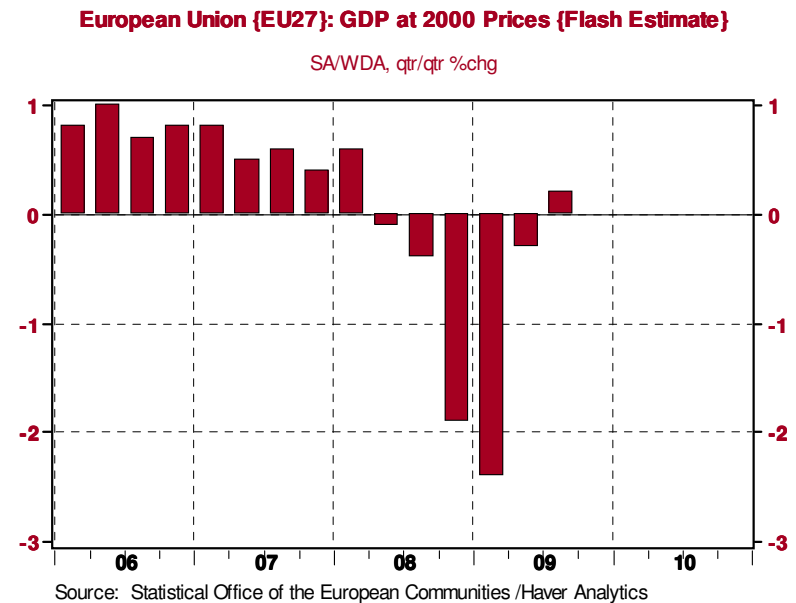
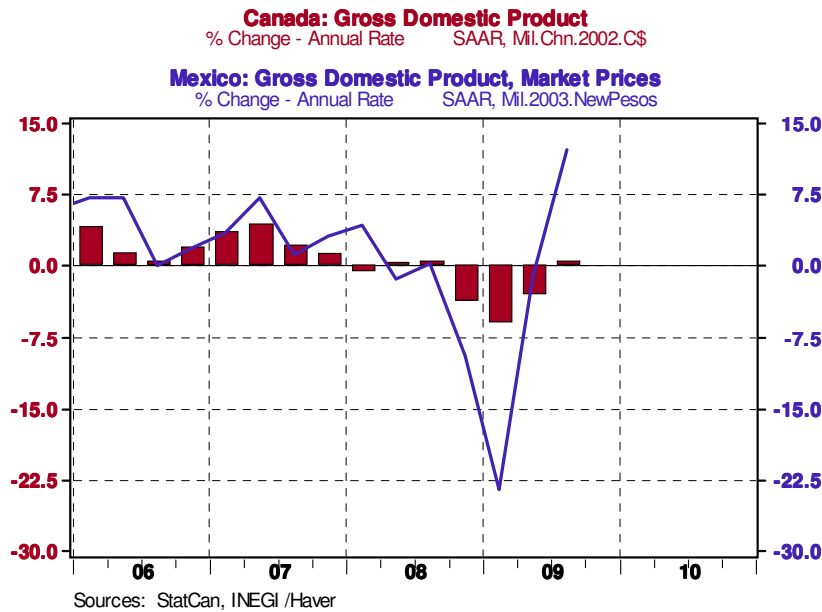


A rebound in exports has occurred as the rest of world has also recovered from a downswing in economic activity





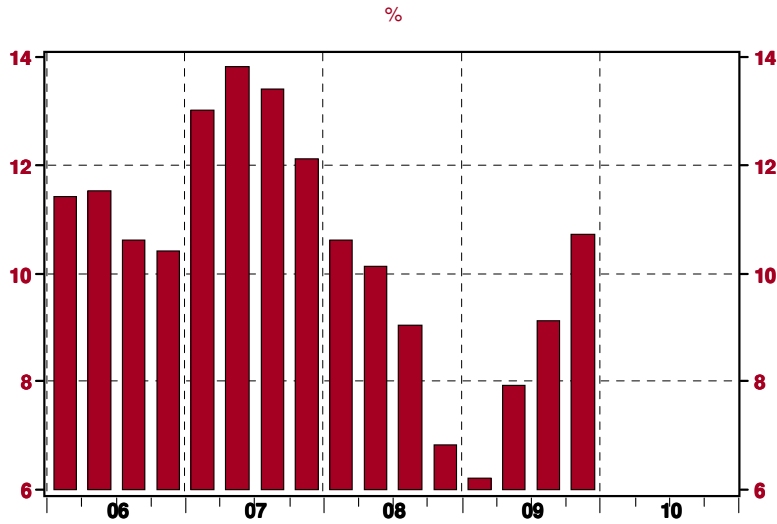
Economic conditions show improving signs among the major trading neighbors of the U.S. in North America and Europe.





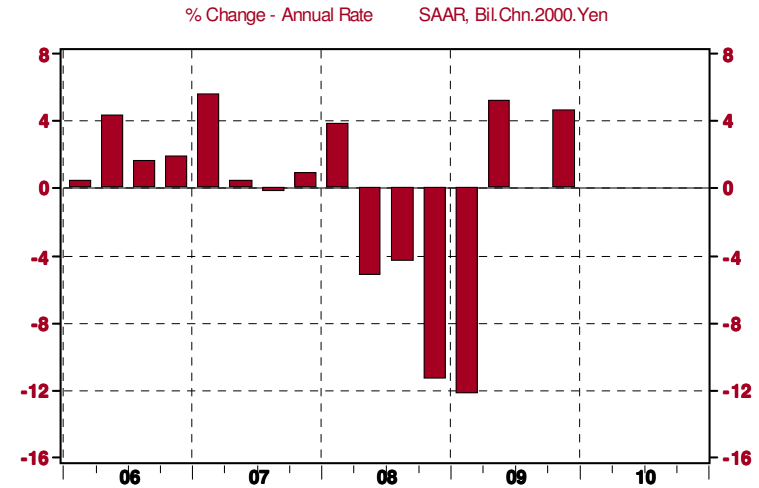
Economic news is more upbeat in Asia, with all major importers of U.S. goods and services posting solid gains in real GDP.

China: Real GDP: Year-to-Year Percent Change



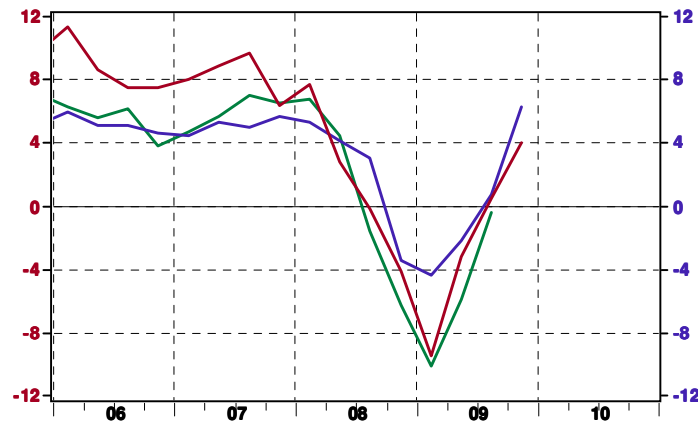
Source: China National Bureau of Statistics /Haver Analytics

Japan: Gross Domestic Product



Source: Cabinet Office /Haver Analytics

Singapore: Change in real GDP, yoy
South Korea: Change in real GDP, yoy
Taiwan: Change in real GDP, yoy

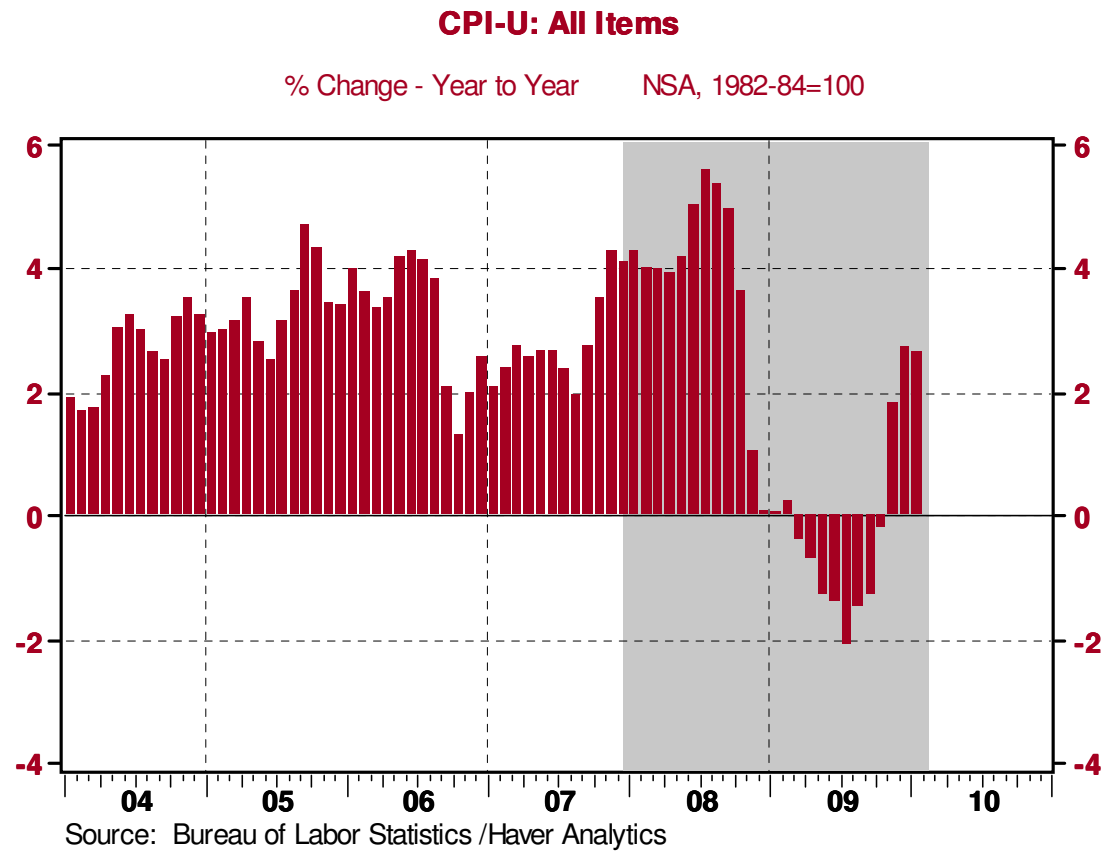


Sources: DoS, BOK, DGBASY /Haver



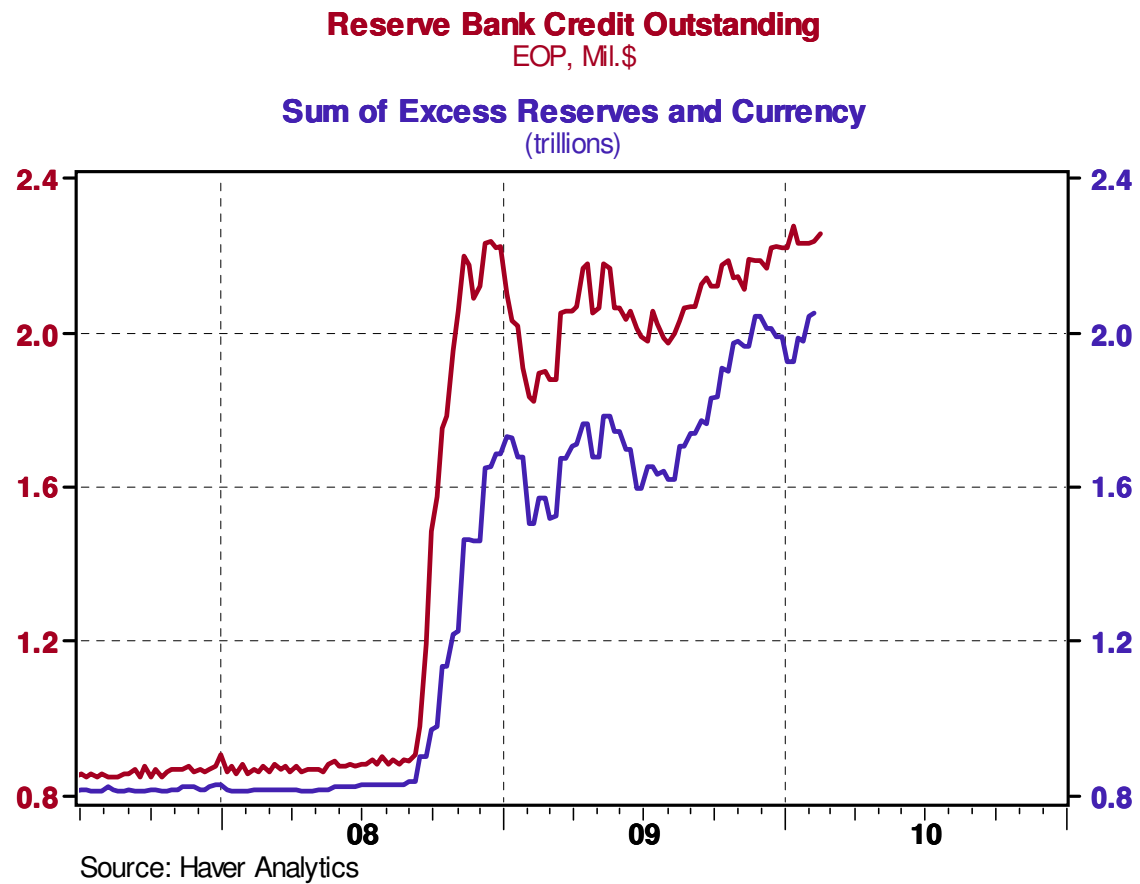


Inflation is not a concern, for now, despite the extraordinary easing of monetary policy.





Aggressive Fed action has led to an enormous increase of its balance sheet, with a large percentage being held as currency and excess reserves.

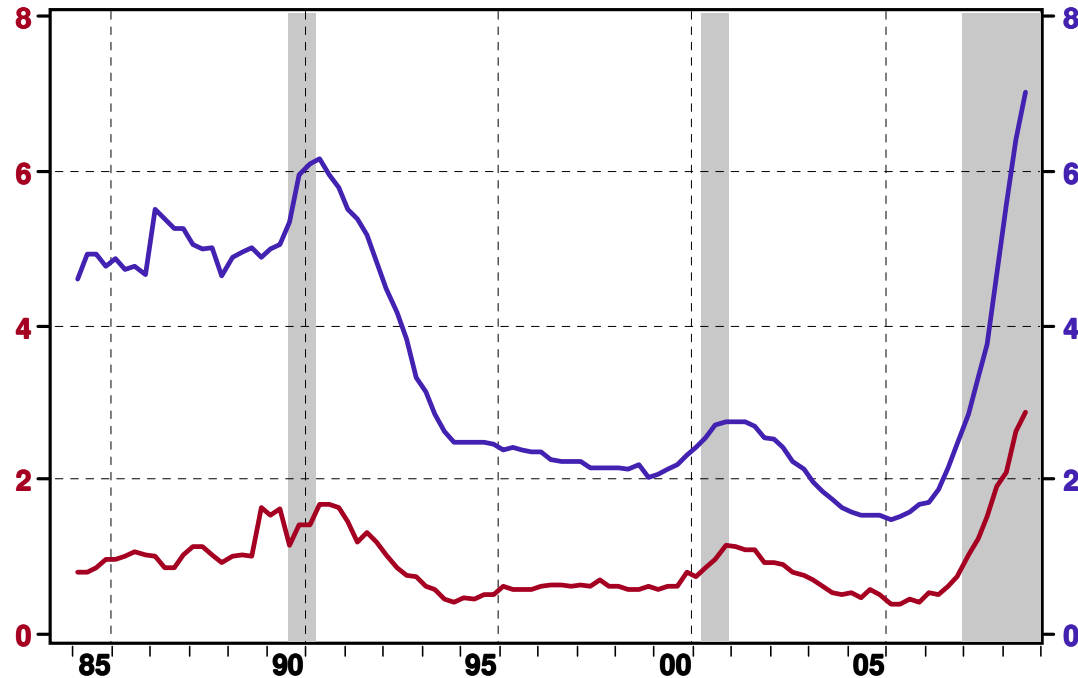




Banks are facing historically high charge-off and delinquency rates and will continue to face these challenges.

Loan Charge-Off Rate: All Insured Commercial Banks
SAAR, %

Loan Delinquency Rate: All Insured Commercial Banks
SA, %



Sources: Federal Reserve Board /Haver Analytics



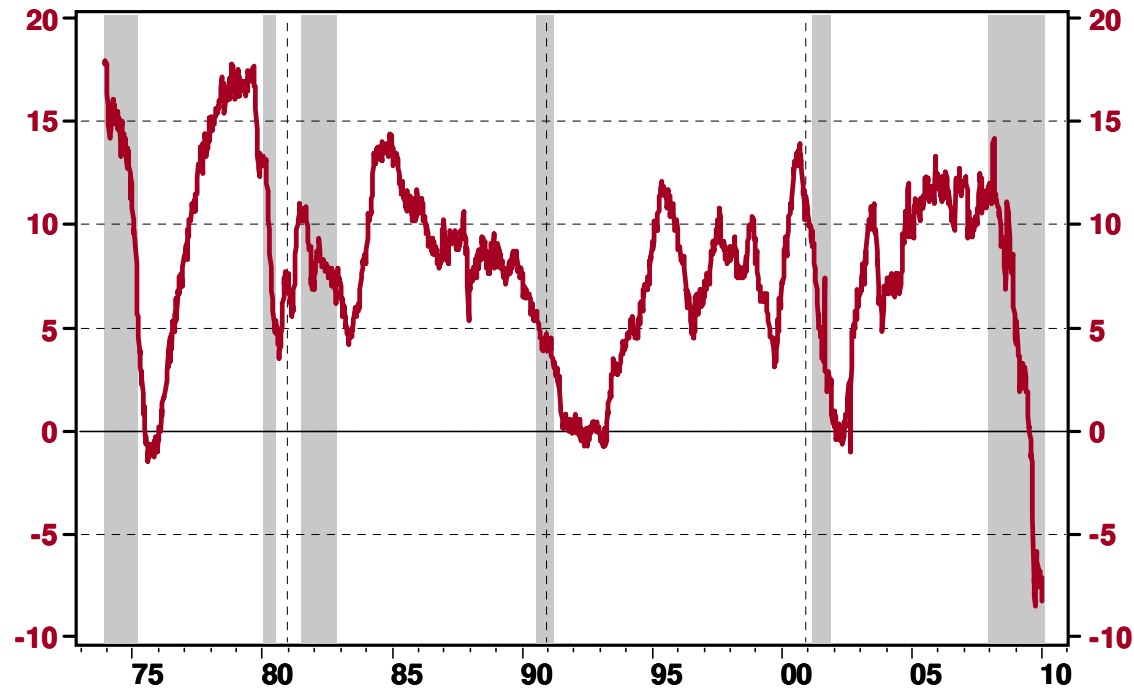
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A serious credit crunch is the major challenge for the Fed in the months ahead.

Loans & Leases in Bank Credit: All Commercial Banks

% Change - Year to Year SA, Bil.\$



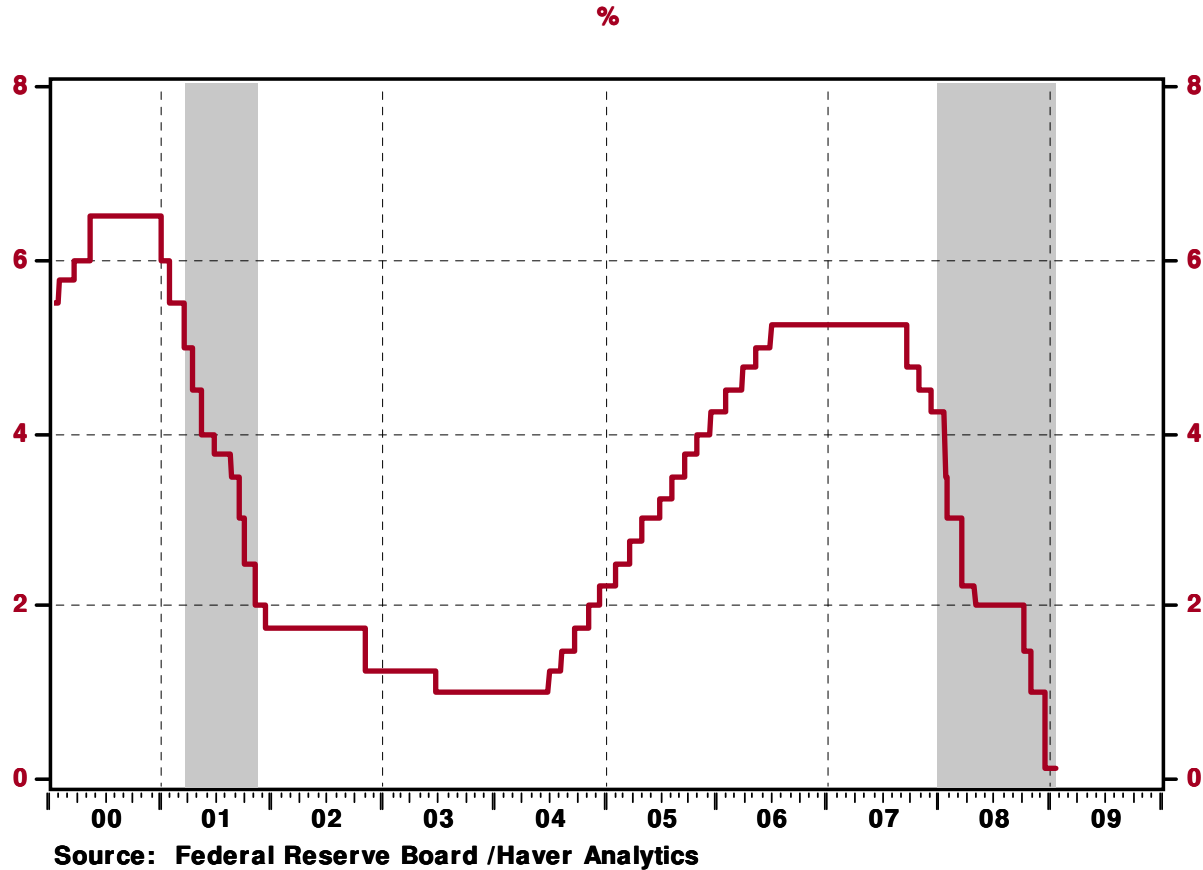
Source: Federal Reserve Board /Haver Analytics





There is a strong likelihood of monetary policy tightening in the second-half of 2010.

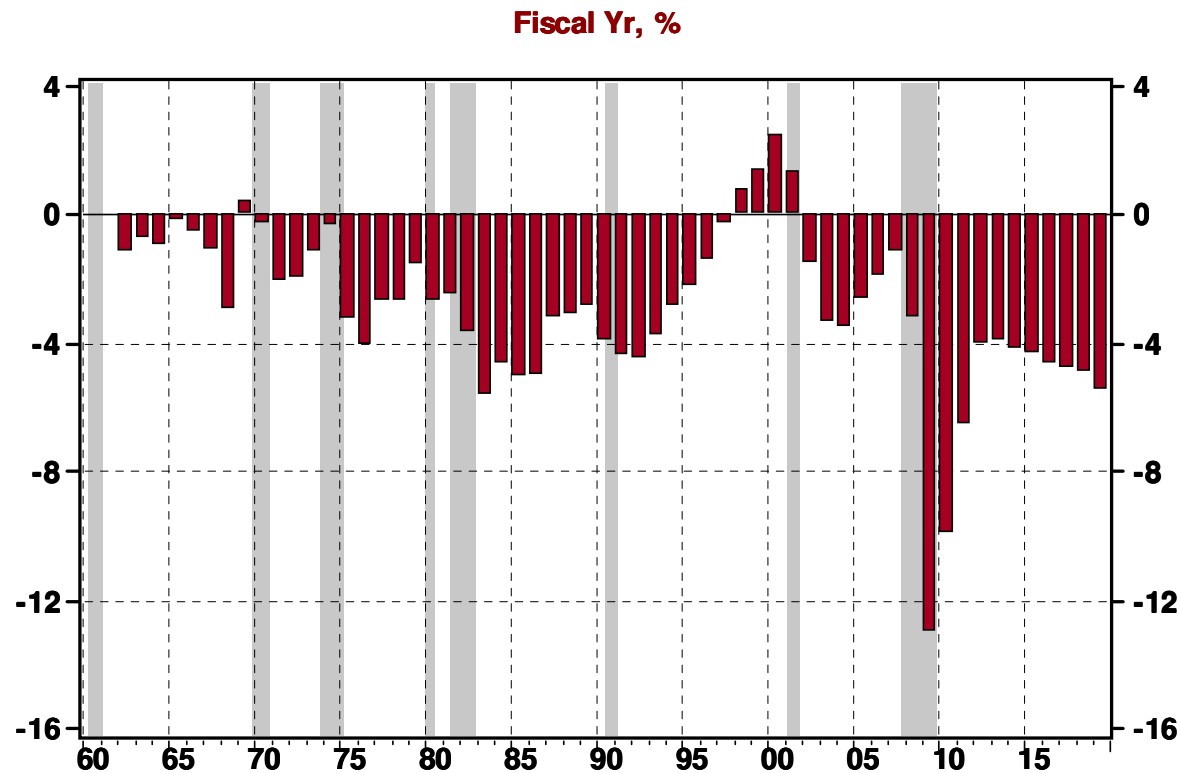
Federal Open Market Committee: Fed Funds Target Rate





Budget Deficit : Temporary offset to weakness in private sector spending was necessary but long-term deficits are problematic

Fed Surplus/Deficit (-) % of Potential GDP: CBO Est of the President's Budget



Source: Congressional Budget Office /Haver Analytics



In a nutshell:

- **An economic recovery is underway.**
- **The unemployment rate will continue to advance until the middle of 2010.**
- **Consumer spending is most likely to post tepid growth as households focus on repairing balance sheets.**
- **Although financial institutions are adequately capitalized now, some of them are likely to face challenges as additional defaults on residential mortgages, commercial mortgages, auto loans, and credit cards are likely to emerge in the months ahead.**
- **Inflation is a non-issue, for now. Inflation will be contained only if the Fed is successful in managing the timing and pace of withdrawal of the monetary accommodation in place.**



Thank You



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