



Insights from Northern Trust

Commentary from Katherine Ellis Nixon, Northeast Region Chief Investment Officer

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Markets around the world waited with seemingly bated breath for the July U.S. jobs report last Friday, seeking either verification that the job environment had stabilized or reinforcement that the economy was still deteriorating. Well, the optimists had their day. The non-farm payrolls report from the Labor Department showed the economy lost 247,000 jobs last month, a much better result than the 325,000 job loss Wall Street on average had expected and the smallest monthly decline since August 2008. The report confirmed that the jobs picture had, indeed, stabilized and even modestly improved in some areas. The unemployment rate slipped, surprisingly, to 9.4% from 9.5%, while the average workweek and average hourly earnings each showed gains.

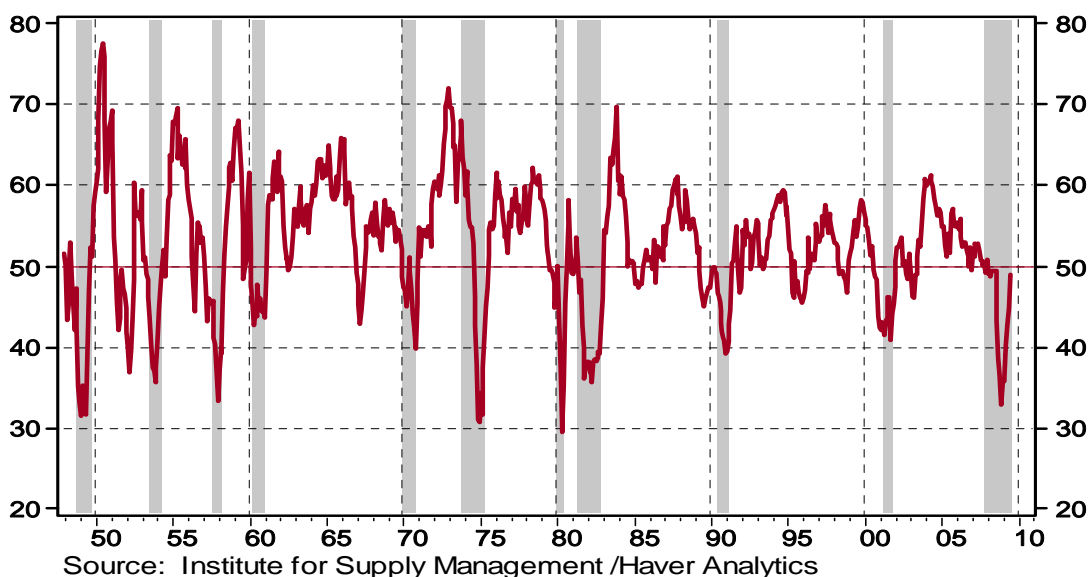
In addition to stabilization on the employment front, U.S. manufacturing activity showed improvement in some key areas. The Institute of Supply Management survey, an important guide to the health of the U.S. economy, provided some good news in the headline composite's improvement to 48.9 from June's 44.8 result, exceeding forecasts. (Figures less than 50 show contraction in activity; greater than 50 indicate expansion.) As with most of these economic indicators, the details below the headline number are critical, and in this case some of the underlying variables posted results that were also surprisingly strong, many exceeding that key 50 level. These included the indexes focused on production and new orders, which supported the growing consensus that the economic recovery is, indeed, here and that we may have positive gross domestic product growth as early as the third quarter.

Indeed, the fiscal and monetary stimulus focused on stabilizing the U.S. economy is showing meaningful signs of success. These "all-in" policies, when combined with the incredibly rapid response to the recession by U.S. corporations as they slimmed down by reducing activity and workforces, suggest we should prepare for potentially strong data in coming months. Wall Street looks to be playing catch up, with analysts and economists quickly changing forecasts to reflect a more optimistic view for the second half of 2009. Equity markets continue to welcome this increasingly good news, and stocks rose broadly last week to their highest levels since November 2008.



ISM Manufacturing: PMI Composite Index

SA, 50+=Increasing



We have been in the economic recovery camp since early 2009, believing that the stabilization and improvement would take place before year-end. The key, of course, will be sustainability. With the Federal Reserve contemplating its first move toward removing some of the monetary stimulus, it will be critical to see whether the recovery can continue its momentum. For instance, the “cash for clunkers” program may be sending false signs of a recovery in consumption but more likely is pulling in future demand and redirecting important consumption dollars right now.

We also must remain mindful of the challenges still posed by deterioration in the commercial real estate market, and the potential impact on regional and local banks. The FDIC closed two more banks last week, bringing 2009’s total bank failures to 71 thus far. Amid the recent market euphoria, that may have been a bit lost but not completely overlooked. We understand that the path to economic recovery will not be exactly smooth, and that informs our slightly defensive stance.

Katherine Ellis Nixon holds designations as a Chartered Financial Analyst and Certified Investment Management Analyst.

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