

Home Sales Show A Clear Downward Trend

February 28, 2006

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

Asha Bangalore
agb3@ntrs.com

Sales of both new and existing homes dropped in January, clearly pointing to a noticeable correction in the housing markets (Chart 1). The adjustment in volume is more apparent than prices, for now. Prices of both existing and new homes show a deceleration, with prices of new homes showing a larger decline compared with that of existing homes (Chart 2).

Chart 1

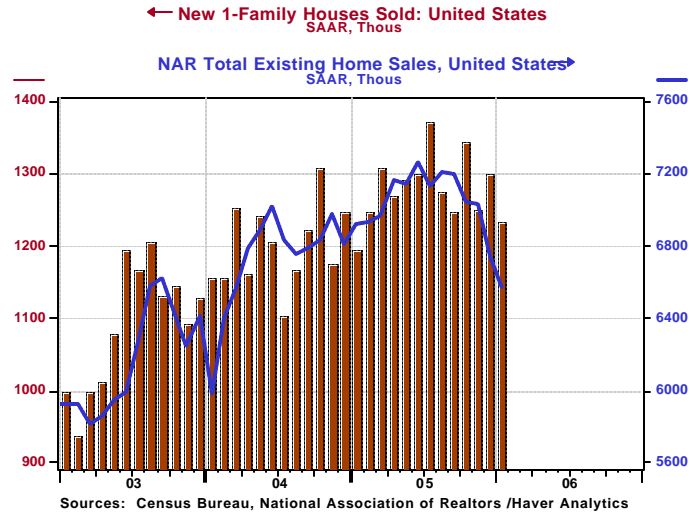
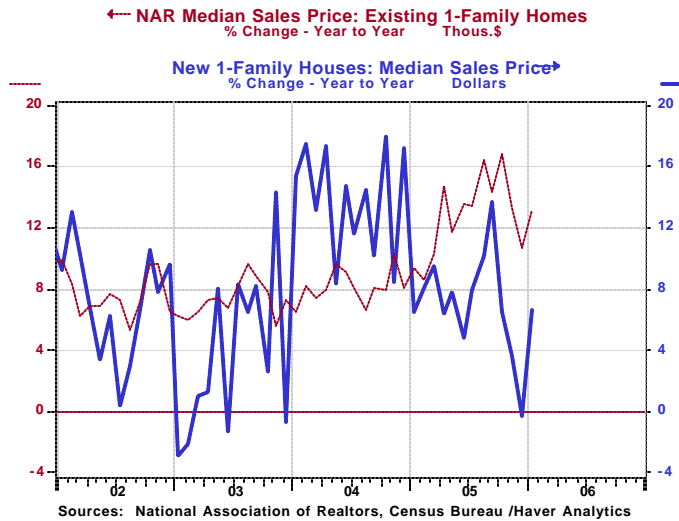
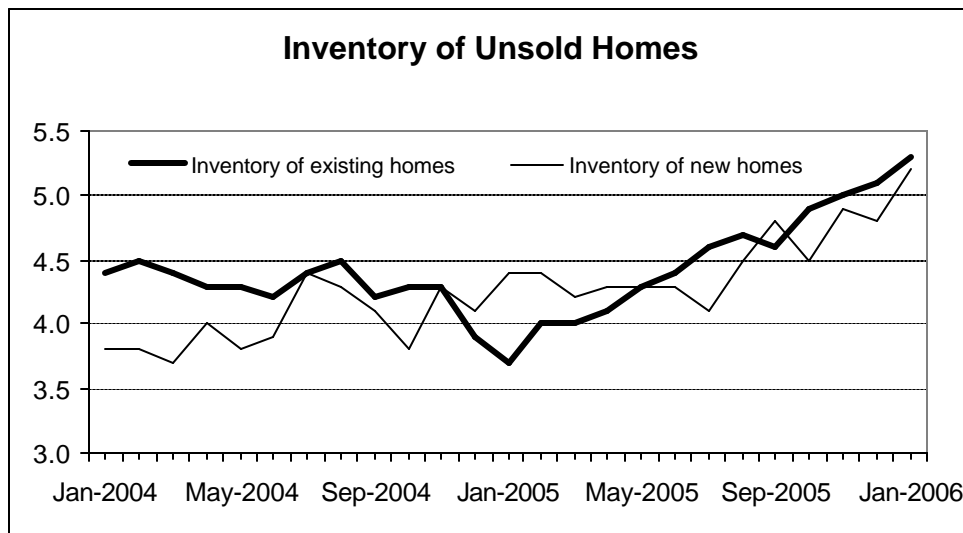


Chart 2



The upward trend of the number of unsold homes, both new and existing, is another piece of compelling evidence that the housing market is cooling. The inventory of unsold existing homes rose to a 5.3-month supply in January, up from a 3.7-month mark in January 2005. The inventory of unsold new homes rose to a 5.2-month mark from a 4.4-month reading in January 2004.

Chart 3



Details about sales of new single-family homes were published yesterday. Here are the details of today's sales report of existing family homes. Sales of all existing homes – declined 2.8% to annual rate of 6.56 million units in January, marking the fifth consecutive monthly drop. Sales of existing single-family homes dropped 1.5% to an annual rate of 5.77 million units. On a regional basis, sales of all existing homes fell in the Northeast (-10.0%), Midwest (-7.7%), and West (-3.5%) but advanced 2.6% in the South.

The median price of an existing single-family home rose to \$210,500 in January vs. \$209,000 in the prior month. On a year-to-year basis, the median price rose 13.1% in January, a small improvement after a 10.6% increase in December. All said, the pickup in price in January is far from the pace seen a few months ago (see chart). Prices of existing homes are most likely to show a gradual deceleration because home owners can wait more patiently compared with builders of new homes who have funding costs of new homes.

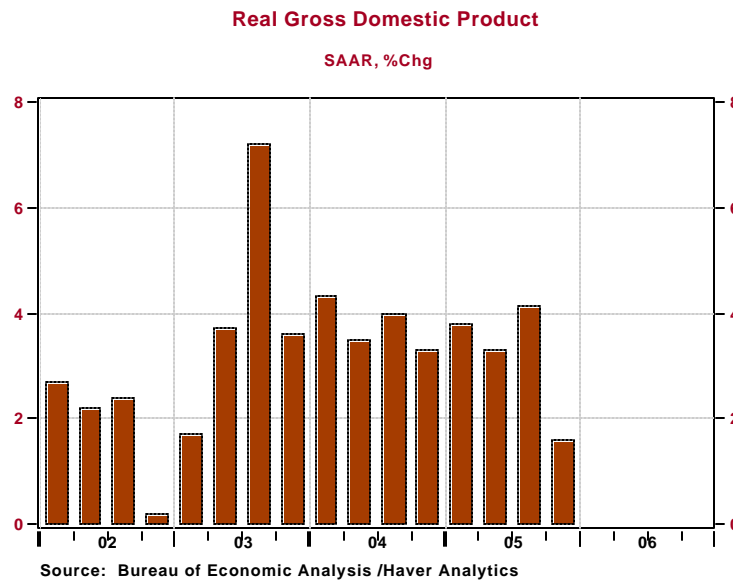
The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence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

Marginal Upward Revision of Q4 GDP

Real gross domestic product increased at an annual rate of 1.6% in the fourth quarter vs. the advance estimate of a 1.1% gain. On a Q4-to-Q4 basis, the economy has slowed to a 3.2% pace in 2005 from 3.8% in 2004 and 4.0% in 2003.

The upward revision of real GDP growth reflects upward revisions to consumer spending (the smallest upward revision), exports, government spending, equipment and software, and inventories. Exports and imports were both raised in the preliminary estimate. Given that the relative strength of imports, the trade gap is now wider than the reading reported in the advance estimate. There were marginal upward revisions to the inflation measures also.

Chart 4



Going forward, a strong 4.5% growth in real GDP is predicted for the first quarter, partly due to the favorable effects of weather, arithmetic, and the spending spree of consumers in January. If the forecast is accurate, the economy would have grown at an average pace of 3.0% in the six months ended March 2006, which is below the potential capacity of the U.S. economy.

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.

REAL GROSS DOMESTIC PRODUCT – 2005:Q4

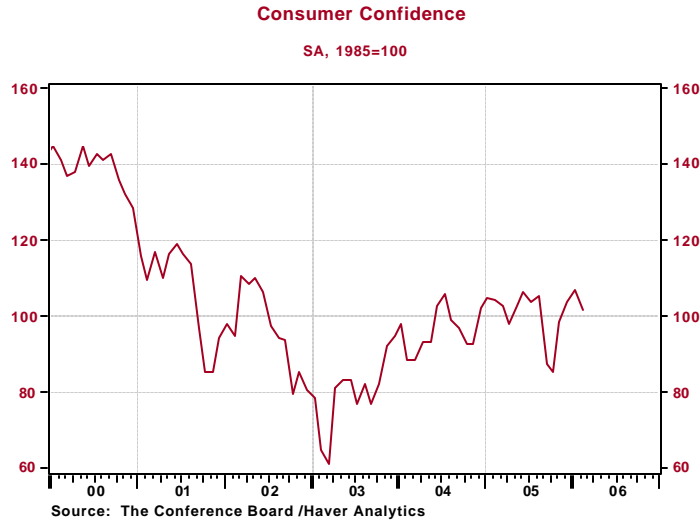
	(2000 chained dollars)				Percent Change (SAAR)			
	05:2 Final	05:3 Final	05:4 Advance	05:4 Preliminary	from prior quarter			
					05:2 Fin	05:3 Fin	05:4 Adv	05:4 Prel.
GDP	11089.2	11202.3	11233.5	11247.6	3.3	4.1	1.1	1.6
CONSUMPTION	7829.5	7907.9	7930.2	7930.6	3.4	4.1	1.1	1.2
DURABLE GOODS	1143.9	1169.7	1114.7	1117.8	7.9	9.3	-17.5	-16.6
NONDURABLE GOODS	2285.9	2305.8	2334.7	2334.8	3.6	3.5	5.1	5.1
SERVICES	4417.6	4453.5	4489.1	4487.0	2.3	3.3	3.2	3.0
INVESTMENT	1885.0	1909.4	1965.1	1976.3	-3.7	5.3	12.2	14.8
FIXED INVESTMENT	1884.7	1921.5	1935.9	1942.2	9.5	8.0	3.0	4.4
NONRESIDENTIAL	1279.0	1305.2	1314.2	1322.5	8.8	8.5	2.8	5.4
STRUCTURES	252.7	254.1	254.5	256.2	2.7	2.2	0.7	3.3
EQUIPM. & SOFTWARE	1040.9	1067.5	1076.8	1083.5	10.9	10.6	3.5	6.2
RESIDENTIAL	599.3	610.0	615.2	613.9	10.8	7.3	3.5	2.6
CHG. BUS. INVENT.	-1.7	-13.3	25.7	30.4				
NET EXPORTS	-614.2	-617.5	-650.3	-656.2				
EXPORTS	1195.4	1202.7	1209.8	1219.4	10.7	2.5	2.4	5.7
IMPORTS	1809.6	1820.2	1860.1	1875.7	-0.3	2.4	9.1	12.8
GOVERNMENT (C & I)	1984.1	1998.1	1986.2	1994.7	2.5	2.9	-2.4	-0.7
FEDERAL	736.1	749.5	736.1	744.6	2.4	7.4	-7.0	-2.6
DEFENSE	491.7	503.6	486.2	491.8	3.7	10.0	-13.1	-9.0
OTHER	244.2	245.6	249.7	252.6	-0.2	2.4	6.9	11.9
STATE AND LOCAL	1247.8	1248.5	1249.8	1249.8	2.6	0.2	0.4	0.4
DISP. PERS. INC.	8128.7	8060.8	8198.0	8213.6	1.5	-2.0	7.0	7.1
FINAL SALES	11089.2	11214.4	11205.0	11214.5	5.6	4.6	-0.3	0.0
GROSS DOMESTIC PURCHASES	11694.6	11823.0	11846.6	11862.1	4.2	4.5	0.8	1.3
PRICE DEFLATORS:								
GDP CHAIN TYPE	111.7	112.6	113.4	113.5	2.6	3.3	3.0	3.3
GDP EX. FOOD & ENERGY					2.4	2.8	3.1	3.3
PCE CHAIN TYPE	110.8	111.8	112.6	112.6	3.3	3.7	2.6	2.7
PCE EX. FOOD & ENERGY	109.1	109.5	110.0	110.0	1.7	1.4	2.2	2.1

Consumer Confidence Dips In February

The Conference Board's Consumer Confidence Index dipped to 101.7 in February from 106.8 in January. The Present Situation Index edged up 0.5 points to 129.3 in February. The 8.8 point decline of the Expectations Index was the reason for the decline of the overall consumer confidence index. The less optimistic outlook of consumers during February compared with their view in January was evident in the University of Michigan Consumer Index of February (minus 4.5 points to 74.4). These consumer outlook reports are among the list of bearish economic reports of recent pointing to a moderation in the pace of economic growth.

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.

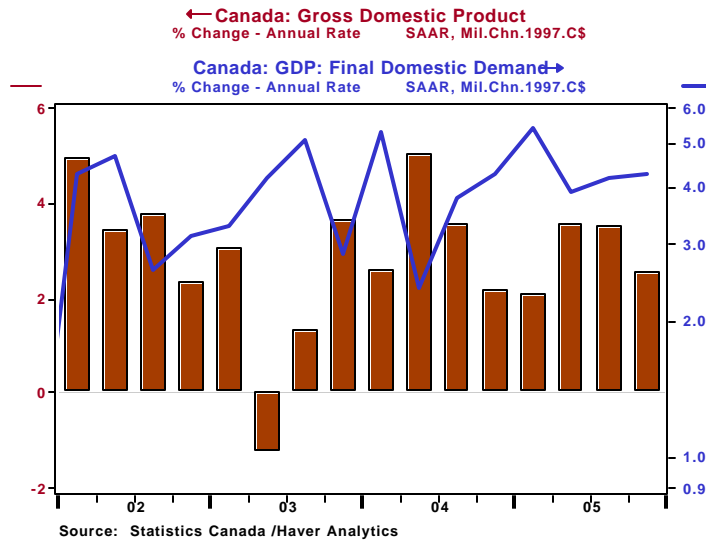
Chart 5



Amanda Mason
am90@ntrs.com

Canada: Just Enough Growth For a Rate Hike

The Canadian economy grew at an annualized rate of 2.5% in the fourth quarter, down from the 3.6% and 3.5% pace in the second and third quarters, respectively. For the whole of 2005, the economy grew 2.9%, slightly above the central bank's estimate of a 'full capacity' growth rate of 2.8%.



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.

The consumer seemed to drive growth in 2005, as the housing market cooled (residential investment slowed to an annual rate of 3.3% from 8.3%) and manufacturing output was halved. Final domestic demand rose 4.3% in 2005, and personal expenditure hit a five-year high with an annual increase of 4.0%. The sustained strength of the Canadian dollar, however, has driven import prices down and resulted in a greater share of domestic demand that is being satisfied through imports rather than domestic production. Subsequently, manufacturing output rose only 2.4% in 2005, compared to 4.6% in 2004 as both domestic demand and export growth slowed.

With economic activity pushing the limits of capacity and no signs of relief in a tight labor market, we expect the Bank of Canada to raise interest rates another 25bps to 3.75% on March 7th.

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.