

DAILY GLOBAL COMMENTARY

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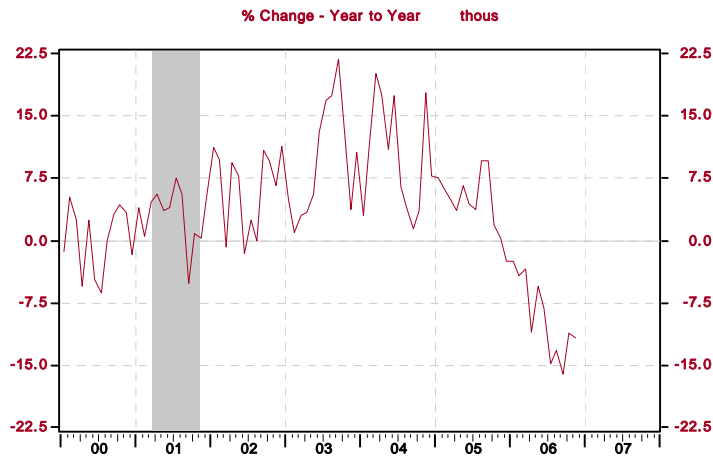
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Impact of Housing Market Downturn Visible Beyond Housing Market Per Se

January 22, 2007

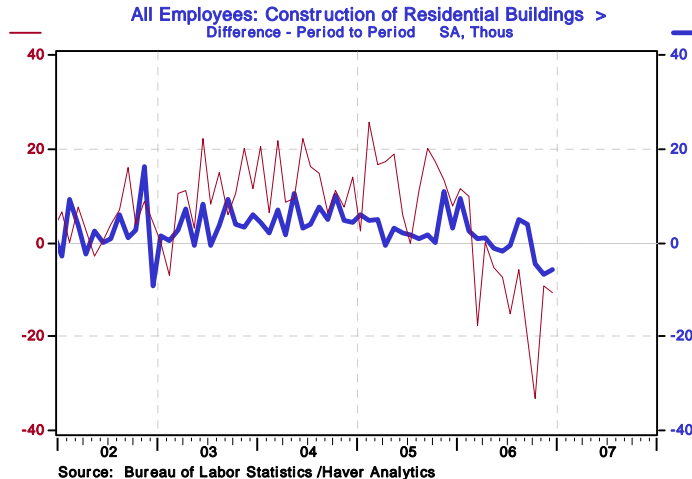
The housing market downturn is being watched carefully to assess the ripple effects. The jury is still out on the impact of the housing market's weakness outside of the housing market. Combined sales of new and existing homes have dropped 11.8% from a year ago in November, following a 16.1% drop in September. There is a small moderation; but for all intents and purposes, the housing market's doldrums will continue to play a significant part in the near term outlook of monetary policy.

Chart 1
Combined sales of new and existing homes



The reduction in construction employment reflects the direct impact of the housing market weakness. Payrolls of residential specialty contractors have shrunk by 100,000 during the past year and employment hiring under the category residential construction employment has posted declines for three straight months.

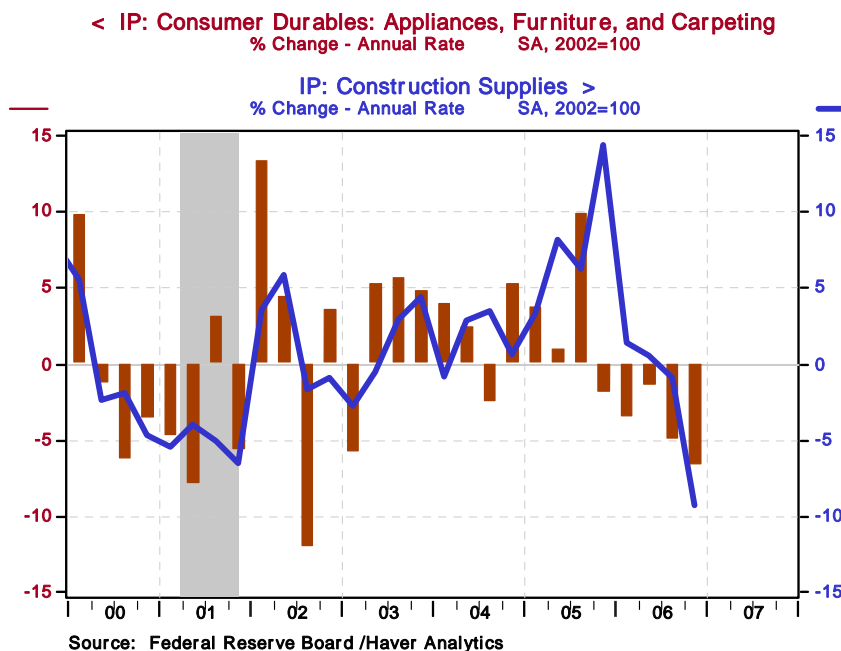
Chart 2
< All Employees: Specialty Trade Contractors: Residential Construction
Difference - Period to Period SA, Thous
All Employees: Construction of Residential Buildings >
Difference - Period to Period SA, Thous



Source: Bureau of Labor Statistics /Haver Analytics

The ripple effects are less well known and less visible than the employment effect. The industrial production report contains information about a few of these ripple effects. Production of appliances, furniture and carpeting has dropped for five straight quarters (see chart 3). Construction supplies dropped at an annual rate of 9.3% in the fourth quarter of 2006 vs. a 14.4% increase a year ago. The message here is that the ripple effects are deep, with the details emerging as employment and consumer spending take hits from the second and third round effects of the setback in the housing market.

Chart 3



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