

DAILY GLOBAL COMMENTARY

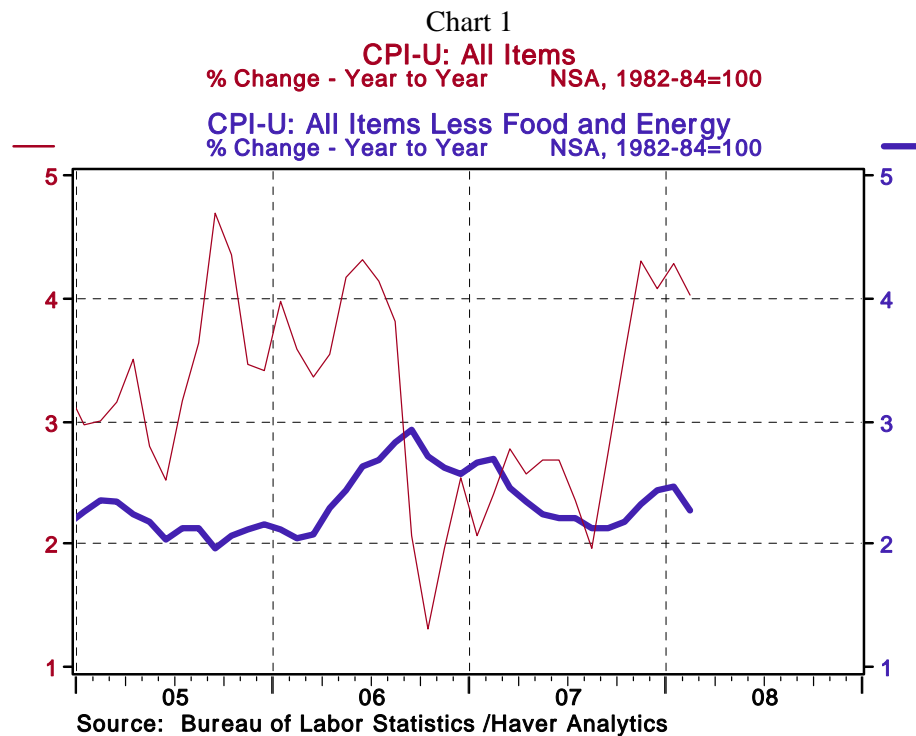
Northern Trust
Global Economic Research
50 South LaSalle
Chicago, Illinois 60603
northerntrust.com

Asha G. Bangalore
Hagb3@ntrs.com

Tame Consumer Prices Gives More Wiggle Room to the Fed

March 14, 2008

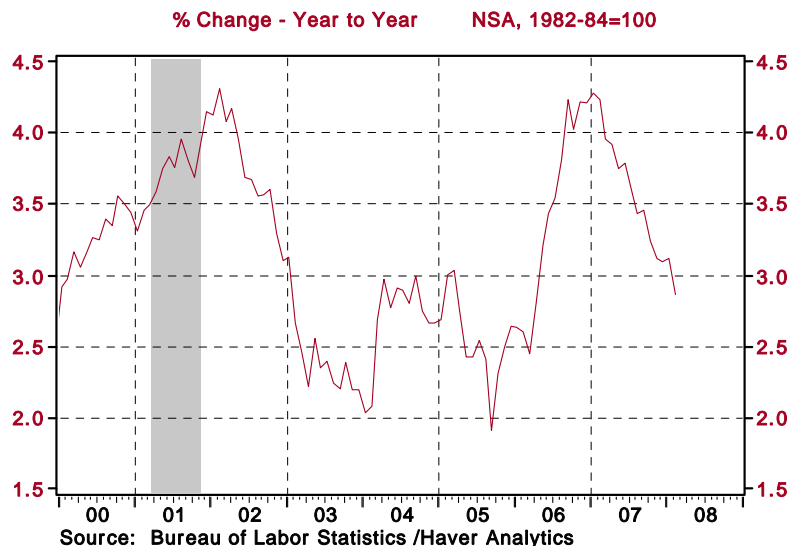
The Consumer Price Index (CPI) was unchanged in February after posting sharp gains of 0.4% in each of the prior two months. In February, the energy price index dropped 0.5% compared with significant advances in each of the months during September 2007 – January 2008 period. Lower prices for gasoline and heating oil more than offset a higher price for natural gas in February. The upward trend of gasoline prices in March should reverse a part of the decline (gasoline prices fell 2.0% in the CPI report) seen in February. The food price index moved up 0.4% in February following a 0.7% jump in the prior month. During the twelve months ended February, the overall CPI has risen 4.0%, a small deceleration from the 4.3% gain in January.



The core CPI, which excludes food and energy, was also unchanged (0.04%) in February. The last time we saw a nearly similar reading was in March 2007 when the CPI rose 0.07%. A confluence of several modest gains and declines among several categories of the core CPI occurred in the same month. First, shelter costs held steady in February. The shelter component makes up 42.6% of the core CPI. Rent of primary residence rose 0.2% in February and owners' equivalent rent moved up only 0.1%, while hotel prices fell 1.2%. These three components are the major categories of shelter. The rising number of vacant homes and condos has reduced pressure on rents. On a year-to-year basis, shelter prices rose 2.86% in February, down 142 bps from a high of 4.28% in January 2007.

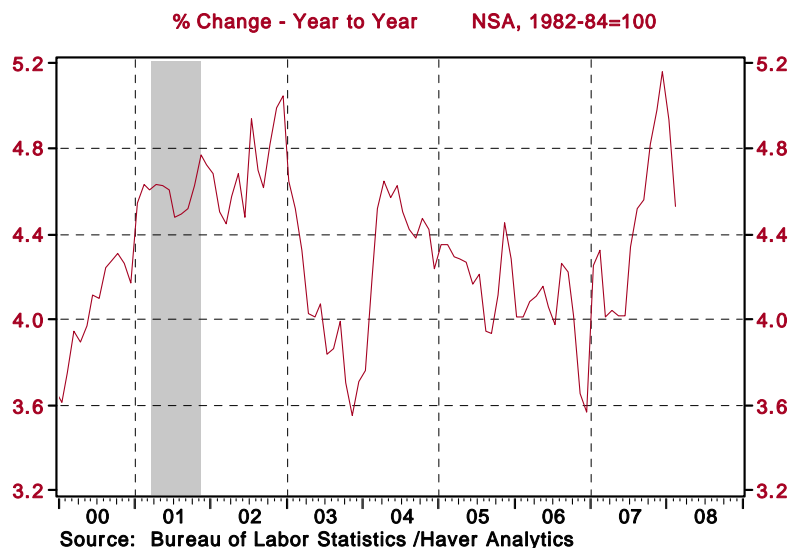
The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence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

Chart 2
CPI-U: Shelter



Second, apparel prices fell 0.3% in February, which is the first monthly decline since August 2007. Third, medical care costs edged up only 0.1% in February, the first benign gain since March 2007. The medical care price index has posted year-to-year gains upwards of 4.0% since January 2007, with a peak reading of 5.2% in December 2007 (see chart 3). The 4.6% year-to-year increase in February could be temporary moderation in medical care prices. It is premature to view this as an enduring trend. Fourth, price of new cars (-0.3%) and airfares (-0.3%) also declined in February. The upward trend of energy prices leads us to view the drop in airfares as a temporary price cut.

Chart 3
CPI-U: Medical Care



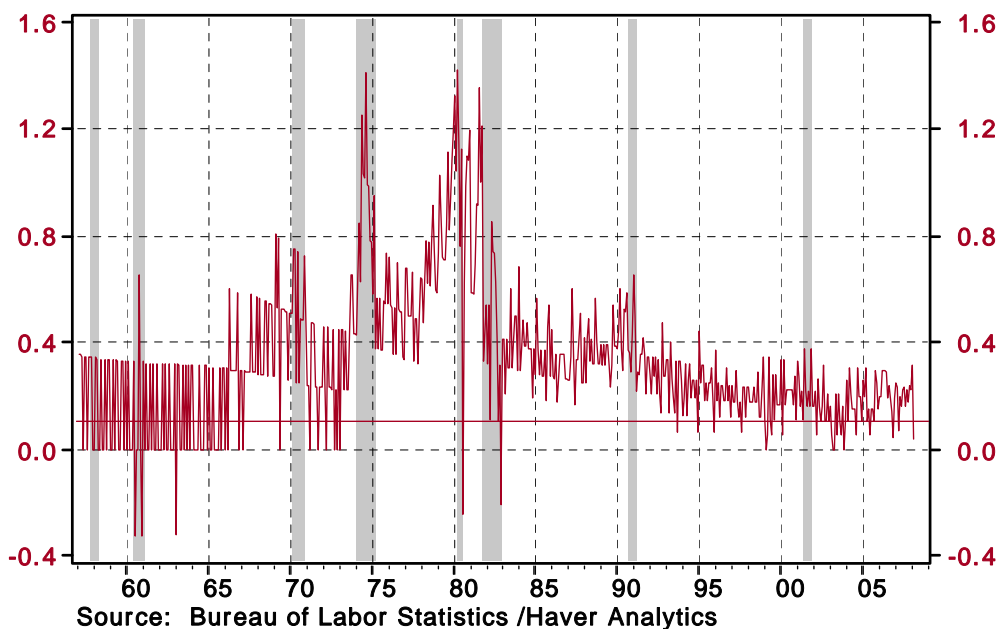
The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence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

Conclusion - The FOMC's forecast includes a moderation in inflation in 2008 and it is monitoring inflation and inflation expectations closely. To this extent, the February readings of the core CPI are supportive of monetary policy easing on March 18. However, given the fact that several price declines were recorded in February, we are skeptical about a repetition of a similar significant containment of core consumer prices in the near term. At the same time, it is important to note that against the backdrop of weakening economic conditions, inflation should show a gradual decelerating trend in the months ahead. On a month-to-month basis (see chart 4), the core CPI has seldom posted readings that are consistently between 0.0 and 0.1. Also, historically, the year-to-year change in the core CPI has held below 2.0% during few periods in time (see chart 5).

Chart 4

CPI-U: All Items Less Food and Energy

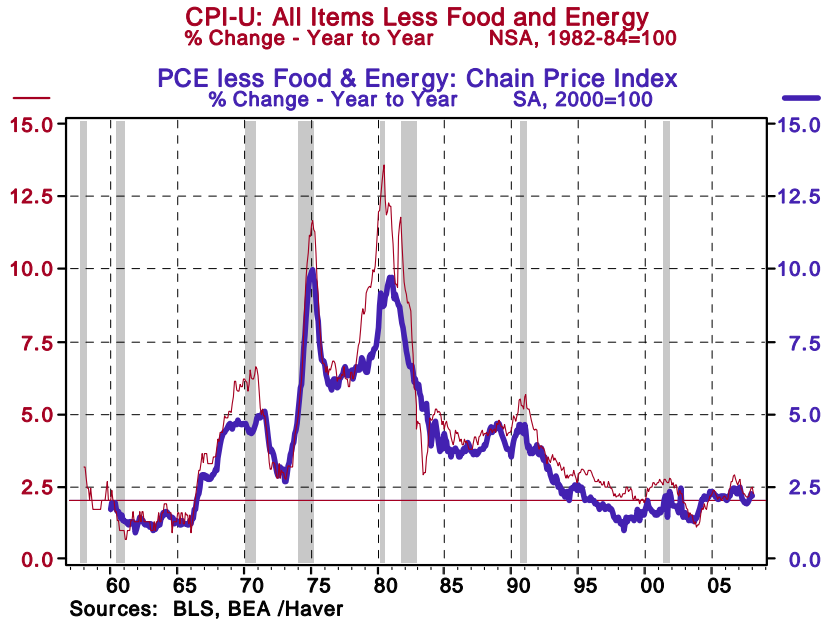
% Change - Period to Period SA, 1982-84=100



This observation also applies to the core personal consumption expenditure price index, the FOMC's preferred measure of core inflation. 2.0% is the upper bound of the Fed's preferred threshold of core inflation.

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.

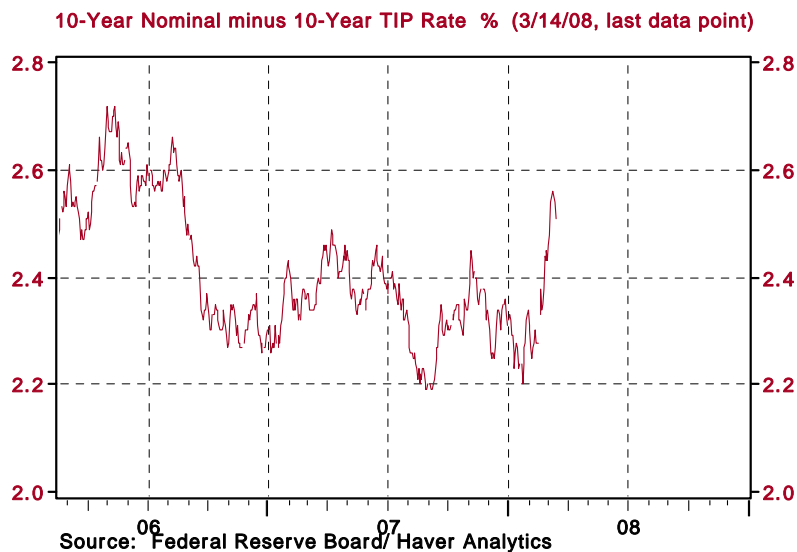
Chart 5



Inflation expectations, as measured by the difference between the nominal 10-year U.S. Treasury note yield and the yield on the inflation-protected 10-year Treasury security, rose sharply to 2.56% (see chart 6) on March 10 from a low 2.20% on January 23, raising some concern. As of this writing, inflation expectations show an improvement and are below the March 13 reading of 2.51%. Therefore, the small decline in inflation expectations is also a vote in favor of the Fed's emphasis on economic growth and offers room for considerations of a lower federal funds rate on March 18.

Chart 6

Inflation Expectations



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.

CONSUMER PRICE INDEX – FEBRUARY 2008

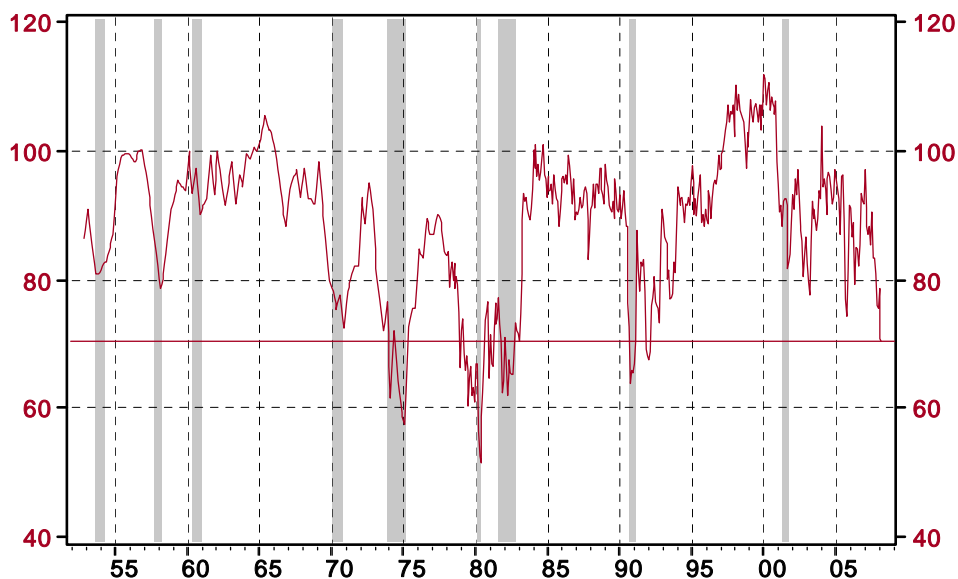
	% change	annualized % change			% change		
	prior month	year-to-date	3 mo. ago	6 mo. ago	Feb-08 yoy	Feb-07 yoy	Dec-07 yoy
CPI - ALL ITEMS	0.0	2.6	3.1	4.7	4.0	2.4	4.1
CORE - ALL ITEMS LESS FOOD & ENERGY (76.47)*	0.0	2.1	2.3	2.5	2.3	2.7	2.4
CPI ALL ITEMS LESS ENERGY (91.3)	0.1	2.8	2.7	2.8	2.6	2.7	2.8
FOOD (13.83)	0.4	6.5	4.7	4.5	4.6	3.1	4.9
ENERGY (9.69)	-0.5	0.8	7.6	24.3	18.9	-1.0	17.4
SHELTER (32.6)	0.0	2.1	2.6	2.8	2.9	4.2	3.1
COMMODITIES (41.27)	-0.2	1.9	3.1	6.6	5.3	0.9	5.2
COMMODITIES LESS FOOD & ENERGY (21.6)	-0.1	0.5	0.4	0.5	0.0	0.0	0.1
SERVICES (58.7)	0.2	3.1	3.2	3.4	3.2	3.4	3.3
SERVICES LESS ENERGY SERVICES (54.87)	0.1	2.8	3.1	3.2	3.2	3.8	3.3
FRB CLEVELAND MEDIAN CPI	0.1	2.8	3.0	3.2	3.0	3.3	3.1

In other related news, the University of Michigan Consumer Sentiment Index dropped to 70.5 in the early-March survey from 70.8 in February. The March level is consistent with readings seen in earlier recessions (see chart 7). The Current Economics Conditions Index rose to 84.6 from 83.8 in February, but the Expectations Index fell to 61.4, the lowest since January 1992.

Chart 7

University of Michigan: Consumer Sentiment

NSA, Q1-66=100



Source: University of Michigan /Haver Analytics

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.