

DAILY GLOBAL
COMMENTARY

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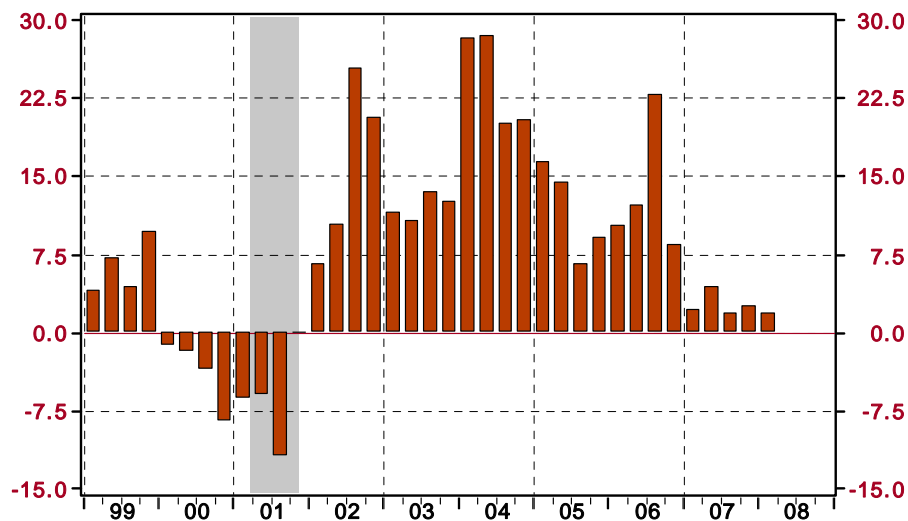
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Will Corporate Profits Deliver in 2008?

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Real gross domestic product of the U.S. economy grew at an annual rate of 0.9% in the first quarter of 2008, revised from the advance estimate of a 0.6% gain. In addition to revisions of several components, the main story is about corporate profits. Corporate profits increased 1.3% in the first quarter following substantial declines in the third and fourth quarters of 2007. On a year-to-year basis, corporate profits moved up 1.7%, the fifth consecutive gain that is below 5.0% (see chart 1). On an annual average basis, corporate profits increased 2.7% in 2007, following five consecutive annual gains ranging between 11.5% and 15.5%.

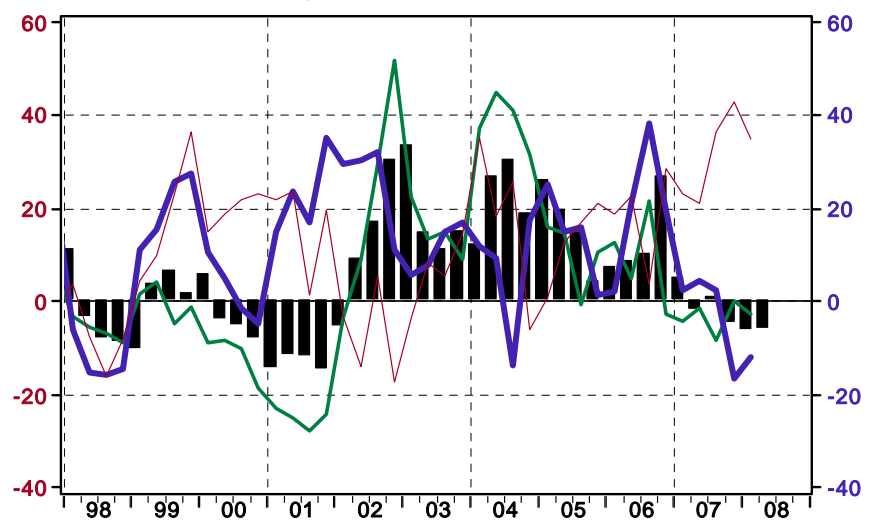
Chart 1
Corporate Profits with IVA and CCAAdj
% Change - Year to Year SAAR, Bil.\$



Source: Bureau of Economic Analysis /Haver Analytics

Of greater interest is the source of these profits. Corporate profits have advanced entirely due to earnings from abroad resulting from the weakness of the dollar (see chart 2). On a year-to-year basis, corporate profits from the rest of the world grew 34.9%, the sixth consecutive increase in double digits. At the same time, corporate profits from domestic industries fell 6.2%, marking the fourth decline in the past five quarters. Moreover, within the domestic sector, corporate profits of the financial sector declined 12.2% from a year ago and corporate profits from the non-financial sector fell 2.6%. The bottoms up First Call S&P 500 earnings forecast for 2008 is a 10.5% gain. In light of these details, is it not legitimate to question the validity of the strong corporate earnings forecasts for 2008? Will earnings from abroad continue to support growth of corporate profits? When will profits from domestic operations post gains? Given projections of a weak economy, might it be appropriate to say that profits from domestic industries are most likely to stay on the weak-side in the near term?

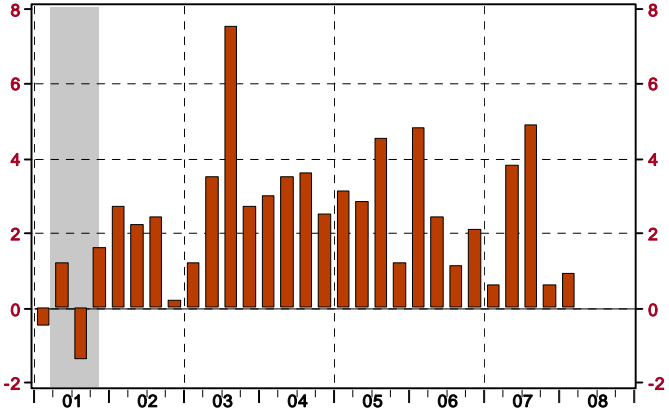
Chart 2
 Yr/Yr % Change Corporate Profits: Rest of the World
 Yr/Yr % Change Corporate Profits: Domestic Financial
 Yr/Yr % Change Corporate Profits: Domestic Non-financial
 Yr/Yr % Change Corporate Profits: Total Domestic



Source: BEA /Haver

Moving on to the details of revisions, they paint a slightly different picture of the economy than estimated a month ago. Inventories subtracted from real GDP for the second quarter in a row (-\$14.4 billion vs. +\$1.8 billion in the advance estimate). The trade gap (-\$480.2 billion vs. -\$495.9 billion in the advance estimate) is narrower than the advance estimate not because exports were stronger but due to a drop in imports (-2.6% vs. +2.5% in the advance estimate). Business capital spending is weaker (-0.9% vs. -0.7% in the advance estimate), but outlays on structures rose (+1.1% vs. -6.2% in the advance report) compared with the first estimate. Consumer spending was left unchanged at a 1.0% annualized increase.

Chart 3
 Real Gross Domestic Product
 SAAR, %Chg

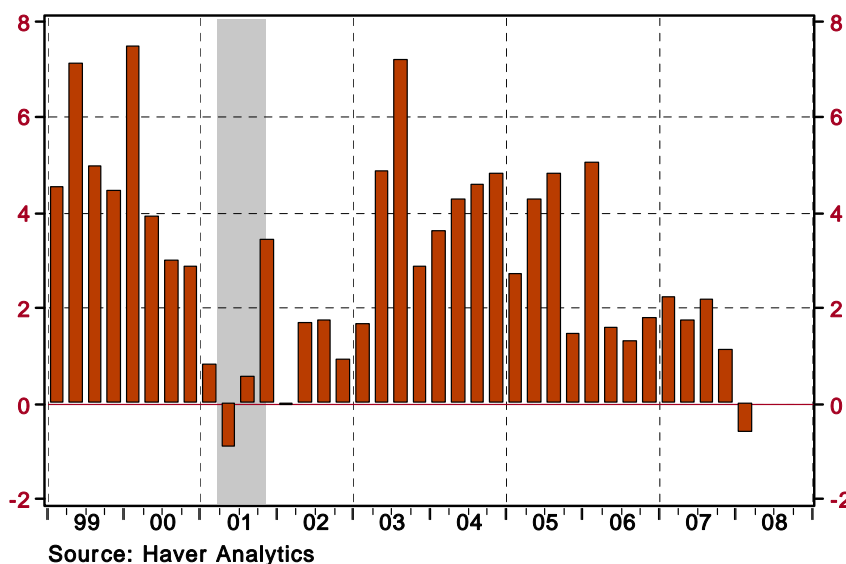


Source: Bureau of Economic Analysis /Haver Analytics

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Private sector demand -- the sum of consumer spending and fixed investment (structures, equipment and software spending, and residential investment expenditures) declined at an annual rate of 0.6% in the first quarter (see chart 4). Essentially, after revisions, demand still remains significantly weak.

Chart 4
Consumer Spending + Fixed Investment
 % Change - Annual Rate



The FOMC is most likely to stay hold for the rest of the year assuming financial markets remain relatively calm. The odds for a lower federal funds rate are greater than the odds for a higher federal funds rate given the risk of weaker economic conditions and/or financial market disruptions.

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Real Gross Domestic Product – 2008:Q1 Preliminary Estimate

	(2000 chained dollars)				Percent Change (SAAR) from prior quarter			
	07:3 Final	07:4 Final	08:1 Advance	08:1 Preliminary	07:3 Fin	07:4 Fin	08:1 Adv	08:1 Prel.
GDP	11658.9	11675.7	11693.1	11701.9	4.9	0.6	0.6	0.9
CONSUMPTION	8302.2	8349.1	8369.1	8369.7	2.8	2.3	1.0	1.0
DURABLE GOODS	1241.9	1248.1	1228.7	1228.2	4.5	2.0	-6.1	-6.2
NONDURABLE GOODS	2396.8	2404.2	2396.3	2402.2	2.2	1.2	-1.3	-0.3
SERVICES	4689.5	4722.4	4762.2	4757.4	2.8	2.8	3.4	3.0
INVESTMENT	1859.9	1787.7	1766.6	1757.9	5.0	-14.6	-4.7	-6.5
FIXED INVESTMENT	1826.0	1807.5	1761.9	1771.2	-0.7	-4.0	-9.7	-7.8
NONRESIDENTIAL	1387.3	1407.8	1398.8	1406.9	9.3	6.0	-2.5	-0.2
STRUCTURES	311.1	320.3	315.2	321.2	16.4	12.4	-6.2	1.1
EQUIPM. & SOFTWARE	1073.5	1081.7	1079.8	1079.3	6.2	3.1	-0.7	-0.9
RESIDENTIAL	463.3	430.9	398.8	400.3	-20.5	-25.2	-26.7	-25.5
CHG. BUS. INVENT.	30.6	-18.3	1.8	-14.4				
NET EXPORTS	-533.1	-503.2	-495.9	-480.2				
EXPORTS	1441.2	1464.1	1483.8	1474.1	19.1	6.5	5.5	2.8
IMPORTS	1974.3	1967.3	1979.7	1954.3	4.4	-1.4	2.5	-2.6
GOVERNMENT (C & I)	2033.6	2043.4	2053.5	2053.3	3.8	2.0	2.0	2.0
FEDERAL	764.0	765.0	773.7	773.2	7.1	0.5	4.6	4.4
DEFENSE	513.9	513.2	520.7	520.3	10.1	-0.5	6.0	5.6
OTHER	249.6	251.4	252.5	252.5	1.1	2.8	1.8	1.8
STATE AND LOCAL	1269.6	1278.3	1280.1	1280.2	1.9	2.8	0.5	0.6
DISP. PERS. INC.	8702.6	8695.2	8726.4	8749.7	4.5	0.1	1.4	1.8
FINAL SALES	11626.4	11695.2	11689.1	11715.3	4.0	2.4	-0.2	0.7
GROSS DOMESTIC PURCHASES	12155.6	12194.6	12182.0	12191.3	2.5	1.3	-0.4	-0.1
PRICE DEFLATORS:								
GDP CHAIN TYPE	119.8	120.6	121.3	121.3	1.0	2.4	2.6	2.6
GDP EX. FOOD & ENERGY					1.7	2.1	2.0	2.0
PCE CHAIN TYPE	117.9	119.0	120.1	120.0	1.8	3.9	3.5	3.5
PCE EX. FOOD & ENERGY	114.7	115.4	116.0	116.0	2.0	2.5	2.2	2.1

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Jobless Claims – Severely Weak Labor Market Conditions Persist

Initial jobless claims rose 4,000 to 372,000 during the week ended May 24. Continuing claims, which lag initial claims by one week, rose 36,000 to 3.104 million, the largest number since February 2004 (see chart 5). The sharp upward trend of continuing claims in 2008 is supportive of the position the doves in the FOMC are holding. On a year-to-year basis, continuing claims rose 25.6%, the highest since May 2002 (see chart 6). The insured unemployment rate held steady at 2.3%.

Chart 5
Continuing Claims
SA, Thous

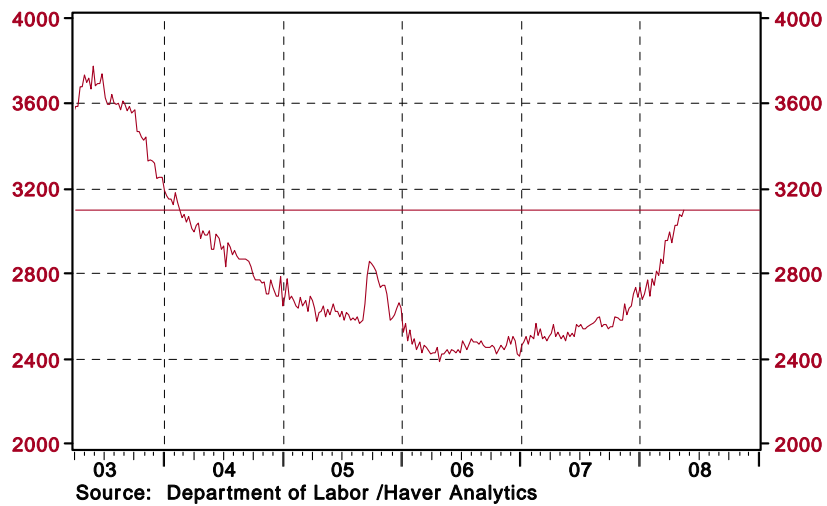


Chart 6
Continuing Claims
% Change - Year to Year NSA, Thous



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