Northern Trust

DAILY GLOBAL
COMMENTARY

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The Bell Curve of Doom? – The Case-Shiller Home Price Index

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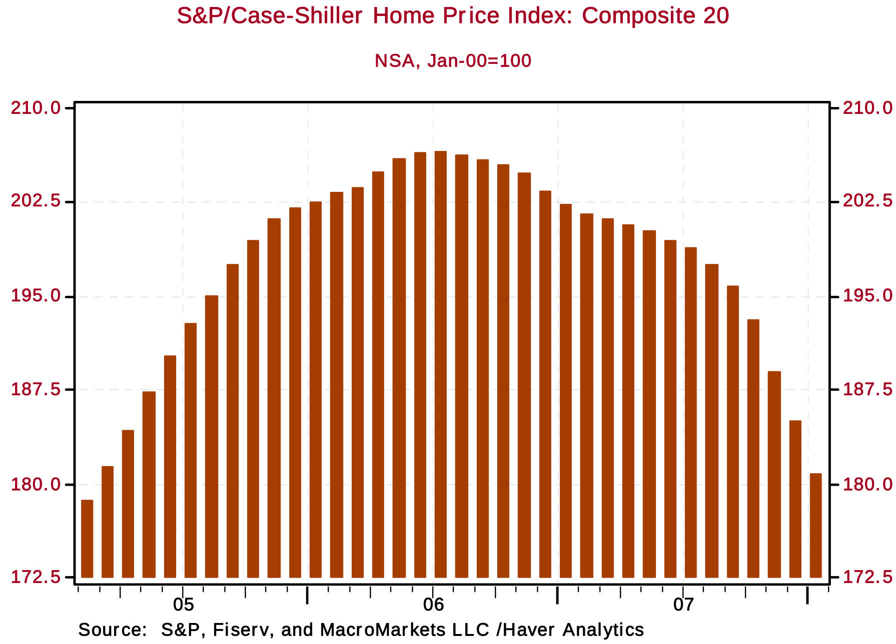

According to the Case-Shiller Composite 20 (metro areas) index, the price of an existing home peaked in July 2006. From the July 2006 peak through January 2008, the price of a representative home has fallen 12.5%. To put this in perspective, if someone had purchased an existing home in July 2006 for $1 million with a downpayment of $125 thousand (12.5% of the purchase price), that someone's equity in the house as of January 2008 would be approximately *zero*. Unless there was a radical reversal in the direction of home price changes in February, that July 2006 home purchaser was upside down – i.e., had negative equity in his or her home. The Case-Shiller home price index represents a bell curve of doom for recent home purchasers and home lenders.

Note: This commentary was inspired by conversations I have had with Michael Nicoletti, one of the foremost authorities of the current housing crisis and its negative implications for the financial system.

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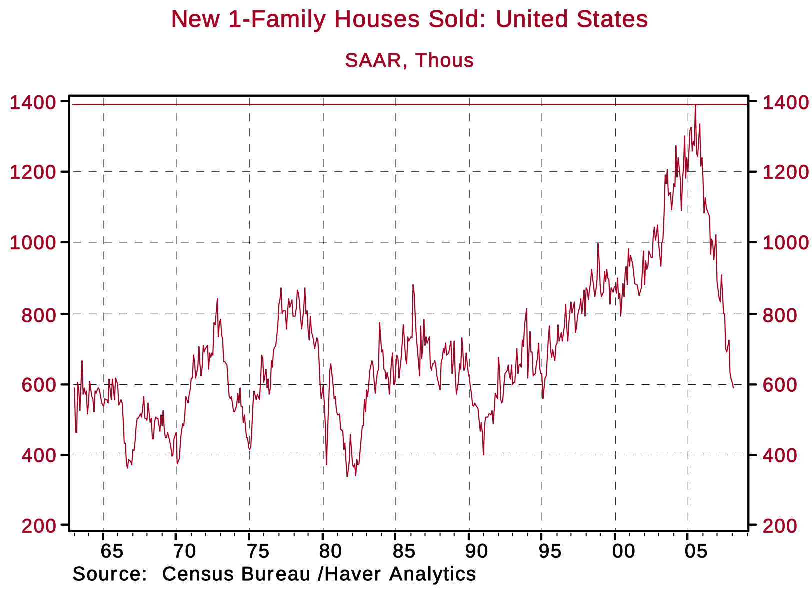
New Home Sales and Prices Fall, Inventories Were Steady

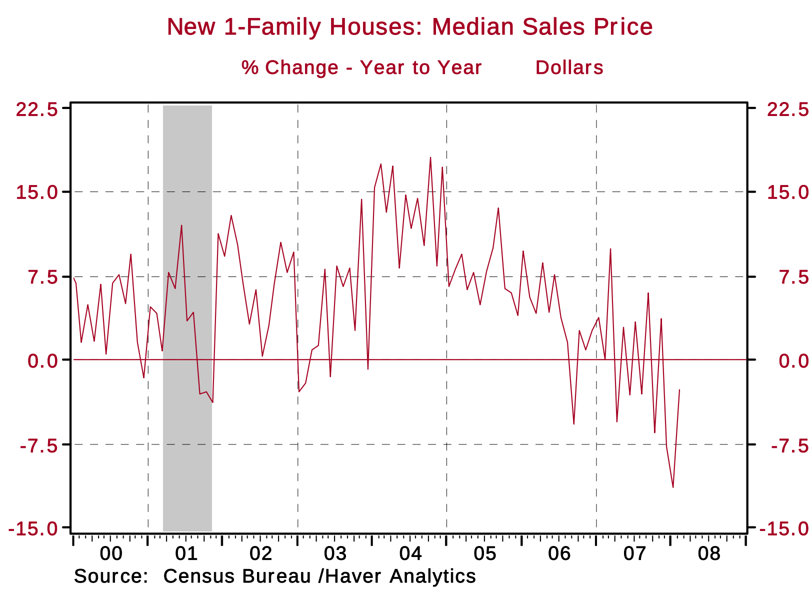
Sales of new single-family homes fell 1.8% to an annual rate of 590,000 after an upwardly revised 601,000 sales pace in January. Purchases of new single-family homes fell in the Northeast (-40.3%) and Midwest (-6.4%) but advanced in the South (+5.7%) and West (+0.7%). Sales of new single family homes are down 57.5% from the peak pace of 1.389 million homes in July 2005.

Chart 1



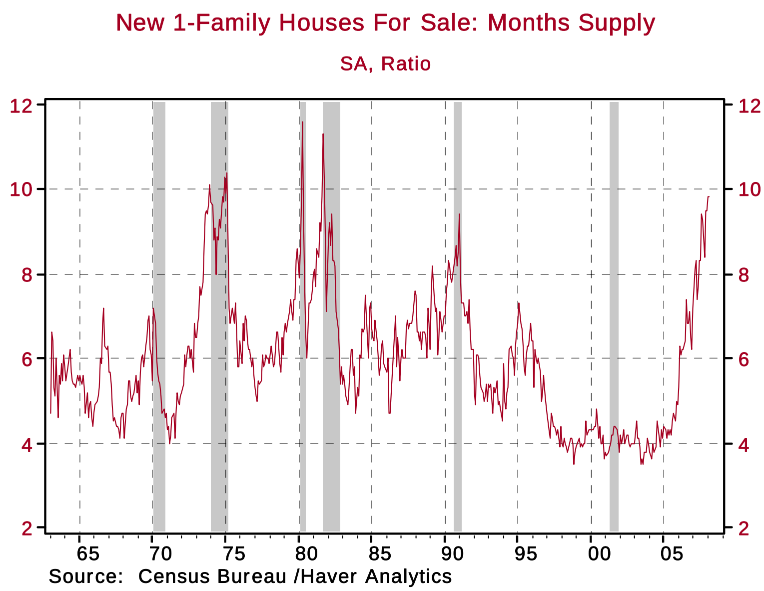
The median price of a new single-family home declined 2.7% to $244,100 from a year ago. The January year-to-year drop in the median price (-11.3%) of a new single-family home was the largest on record. Therefore, by comparison, the price decline in February is an encouraging sign.

Chart 2



The inventory of unsold new homes held steady at 9.8-month mark, but did not shrink. The large inventory of unsold homes bodes poorly for home builders but favors buyers in the near term. Given the large inventory in the market place, it should not be surprising to see additional price declines. The housing market will stabilize only after inventories show a significant decline (see chart 3).

Chart 3



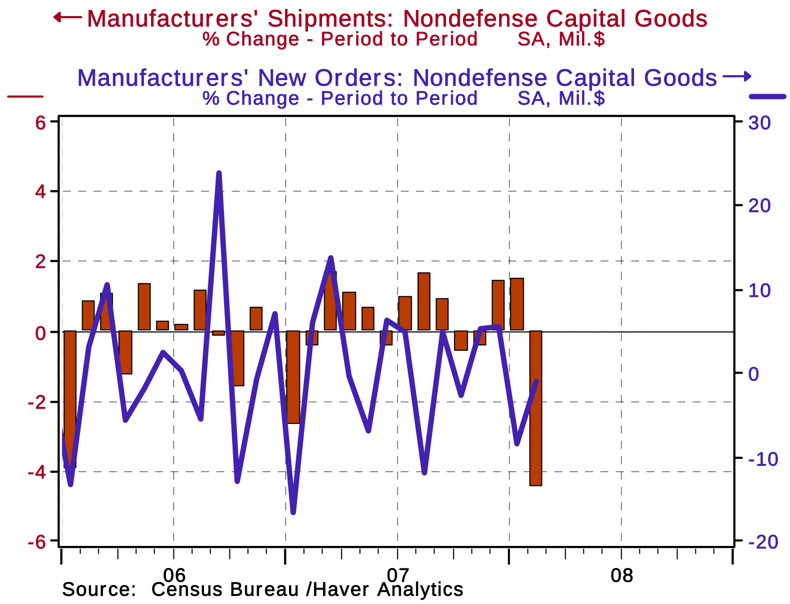
Durable Goods: Inventories/Sales Ratios Show a Noticeable Advancing Trend

Orders of durable goods dropped for the second straight month. The 1.7% decline in orders of durable goods during February reflects weakness in bookings of several categories of durable goods – defense goods (-10.1%), non-defense capital goods (-1.0%), machinery (-13.3%), and autos (-2.7%). Bookings of computers and electronic products (+2.3%), primary metals (+1.0%), and civilian aircraft (+5.3%) increased but they were only partial offsets to the sum of declining components.

DURABLE GOODS ORDERS - % CHANGE M-M

DATE	TOTAL	DEFENSE	NON-DEFENSE CAPITAL GOODS	NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT	COMPUTERS AND ELECTRONIC PRODUCTS
Sep-07	-1.4	-26.8	4.9	1.4	5.5
Oct-07	-0.5	5.9	-2.6	-3.0	-8.2
Nov-07	0.5	-25.2	5.4	-0.1	-0.2
Dec-07	4.4	83.1	5.4	5.2	3.7
Jan-08	-4.7	-15.8	-8.4	-1.8	-2.9
Feb-08	-1.7	-10.1	-1.0	-2.6	2.3

Chart 4



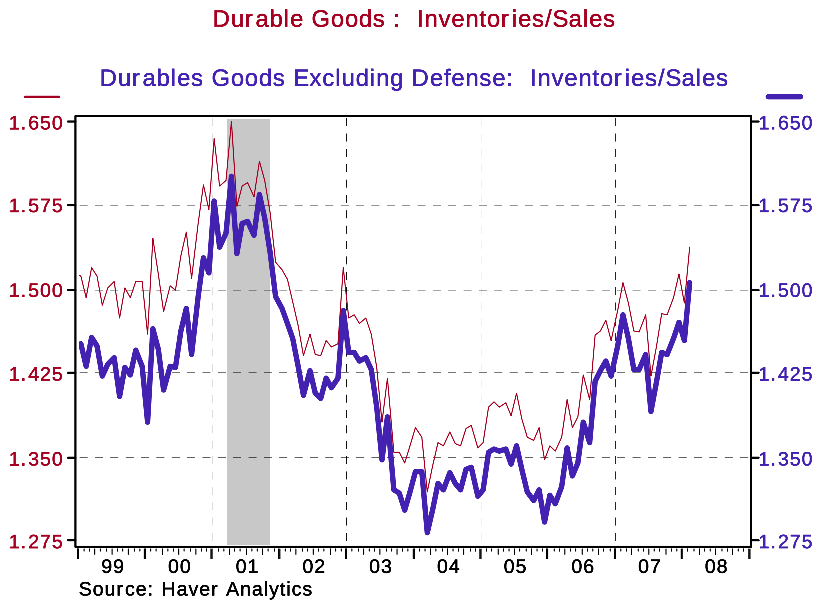
Shipments of durable goods fell 2.8% in February vs. a 2.3% increase in the prior month. Shipments of non-defense capital goods (-4.5%) and shipments of non-defense capital excluding aircraft (-2.1%, a proxy for equipment and software spending in the GDP report) declined in February ; the inflation adjusted average of both these categories fell at annual rates of 4.6% and 1.3%, respectively, in the January-February period compared with the fourth quarter of 2007. The weakness in shipments of non-defense capital goods excluding aircraft suggests that capital spending most likely declined in the first quarter of 2008.

DURABLE GOODS SHIPMENTS- % CHANGE M-M

DATE	TOTAL	NON-DEFENSE CAPITAL CAPITAL GOODS	NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT	COMPUTERS AND ELECTRONIC PRODUCTS
Sep-07	-1.8	0.9	1.8	-0.6
Oct-07	0.5	-0.6	-1.2	2.2
Nov-07	-0.4	-0.5	0.1	-0.1
Dec-07	-0.3	1.4	1.6	0.8
Jan-08	2.3	1.5	-0.4	8.3
Feb-08	-2.8	-4.5	-2.1	-10.3

Inventories of durable goods increased 0.5% in February following a 0.6% gain in January. The drop in shipments has resulted in a larger inventories/sales ratio in February (1.54) compared with January (1.49). A similar upward trend is visible even after excluding defense items. The upward trend of these inventories/sales ratios are consistent with signals of weakness from other parts of the economy.

Chart 5



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