



DAILY ECONOMIC COMMENTARY

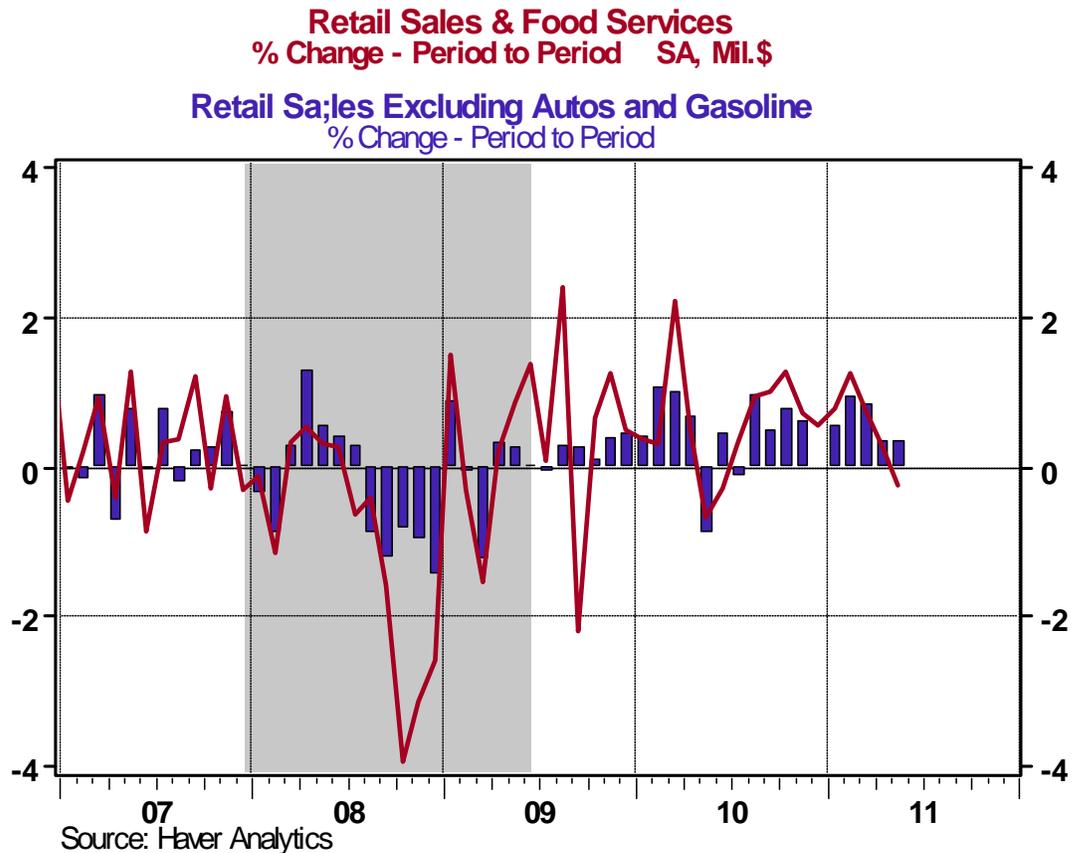
Weak Retail Sales in May Casts Shadow on Q2 Consumer Spending

June 14, 2011

Asha G. Bangalore
agb3@ntrs.com

Retail sales fell 0.1% in May, after a revised 0.3% increase in the prior month. Retail sales last declined in June 2010 led by lower gasoline prices. Auto sales dropped in May, which is consistent with the unit auto sales numbers published earlier in the month. The decline in auto sales was partly related to the disruption of supply after the natural disaster in Japan and partly due to weakness in demand. Among the other major components of retails, sales of gasoline (+0.3%), apparel (+0.2%) and building materials (+1.2%) moved up in May, while all other major components of retail sales fell. Excluding autos and gasoline, retail sales in May increased 0.3%, matching the increase seen in April. The April-May average of retail sales points to a noticeable slowing of consumer spending in the second quarter (+ 4.4% vs. +10.5% in 2011:Q1).

Chart 1



Retail Sales – May 2011

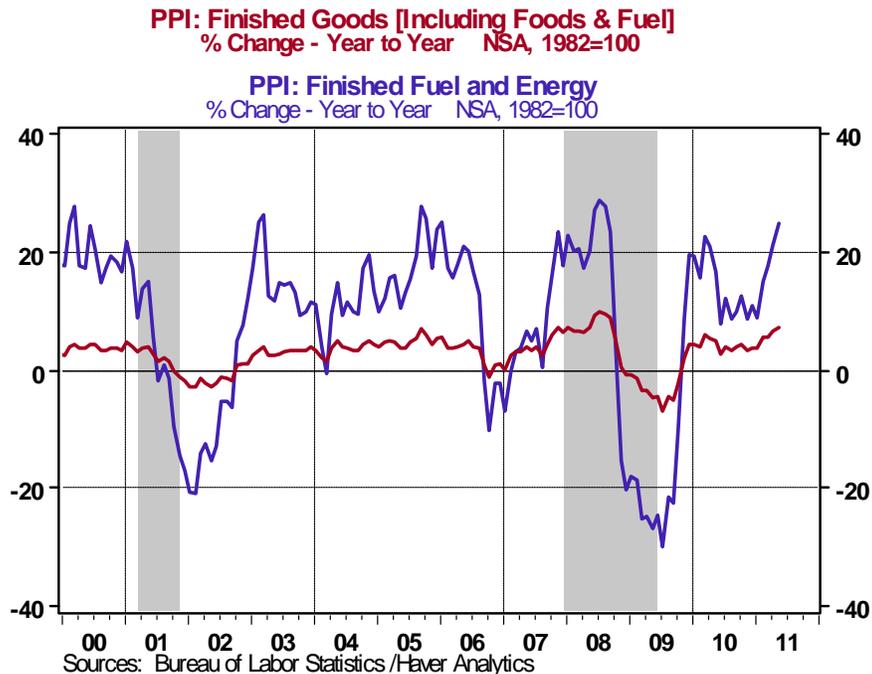
	<u>March</u>	<u>April</u>	<u>May</u>	<u>11:Q1</u> quarterly change SAAR	<u>11:Q2*</u>
Total Retail Sales & Food Service, % m-o-m	0.8	0.3	-0.2	10.5	4.4
% change y-o-y	9.2	8.0	7.5		
Ex-auto, % m-o-m	1.2	0.5	0.3	10.1	7.7
% change y-o-y	6.7	7.1	7.3		
Ex-gas, % m-o-m	0.4	0.1	-0.3	7.9	2.4
% change y-o-y	8.5	6.8	6.1		
Ex- autos and gas % m-o-m	0.8	0.3	0.3	6.7	5.6
% change y-o-y	5.6	5.4	5.4		
Exc. Bldg. mat., auto, gas, % m-o-m	0.6	0.3	0.2	7.8	5.0
% change y-o-y	5.5	5.3	6.8		

* -annualized change based on April and May data

Complete Pass-Through of Core Wholesale Prices to Consumer Prices is Not Here Yet

The Producer Price Index (PPI) of Finished Goods increased 0.2% in May, following larger gains in each of the past five months. A 1.5% jump in energy prices was offset partly by a 1.4% drop in food prices during May. The BLS indicated that energy prices accounted for a large part of the increase in the wholesale price index. Energy prices have risen for eight straight months.

Chart 2



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 core PPI, which excludes food and energy, rose 0.2% in May after a 0.3% increase in the prior month. A 1.2% gain in the price of plastics explains part of the increase in the core PPI of finished goods. Women's clothing costs rose 0.3% in May, while house furnishings posted a 3.5% jump, the largest since 1981 and appears to be a one-off event.

Producer Price Index – May 2011

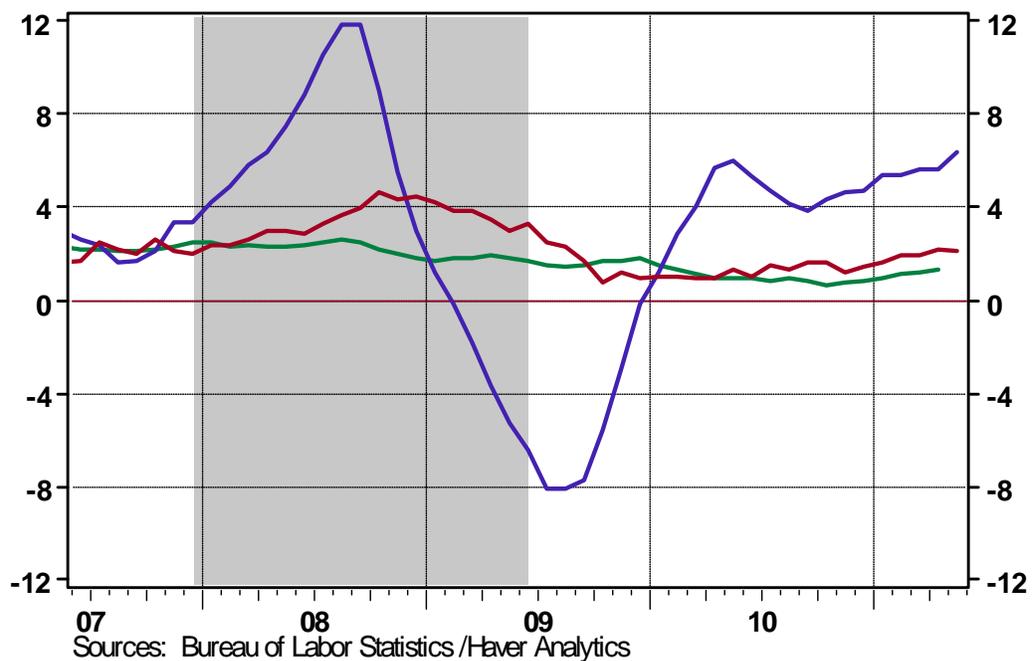
	% change prior month	annualized % change		% change	
		3 mo. ago	6 mo. ago	May-11 yoy	Dec-10 yoy
PPI - FINISHED GOODS					
ALL ITEMS	0.2	7.0	10.8	7.3	3.7
CORE - ALL ITEMS LESS FOOD & ENERGY	0.2	3.0	3.5	2.1	1.4
FOOD	-1.4	-5.2	7.4	3.9	3.4
ENERGY	1.5	29.6	34.9	24.7	10.8
CAPITAL EQUIPMENT	0.2	3.1	2.8	1.3	0.4
PPI - INTERMEDIATE GOODS					
ALL ITEMS	0.9	15.9	17.3	10.3	6.3
CORE	0.9	12.0	11.6	6.3	4.7
PPI - CRUDE GOODS					
ALL ITEMS	-4.1	-3.0	27.0	22.8	16.1
CORE	-0.9	-2.6	19.5	19.2	27.6

At the earlier stages of production, the intermediate goods price index and core intermediate goods price measure advanced 0.9% in May. The latter has risen for ten consecutive months and the increase in May is traced to higher prices of industrial chemicals. Despite the sustained upward of core intermediate goods prices and the core finished goods prices, core consumer prices show a mild upward trend, implying that a complete pass-through of higher wholesale prices to consumer prices is not visible, as yet.

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 3

PPI: Core Finished Goods, yoy percent change
PPI: Core Intermediate Goods, yoy percent change
CPI: Core CPI, yoy percent change



Small Businesses Remain Pessimistic About the Near Term

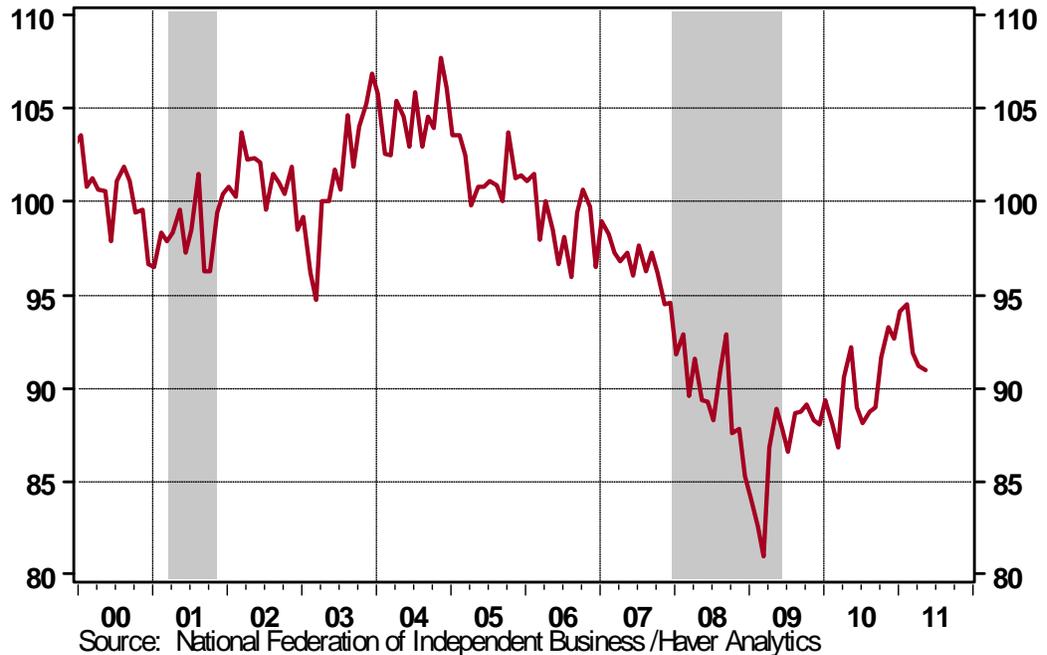
The survey of the National Federation of Independent Business continues to show a pessimistic outlook about business conditions in the near term. The Small Business Optimism Index fell to 90.9 in May from 91.2 in the prior month. It is important to note that the index has fallen for three straight months and the level of the index has failed to move up to levels seen during an expansionary phase of a business cycle.

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 4

NFIB: Small Business Optimism Index

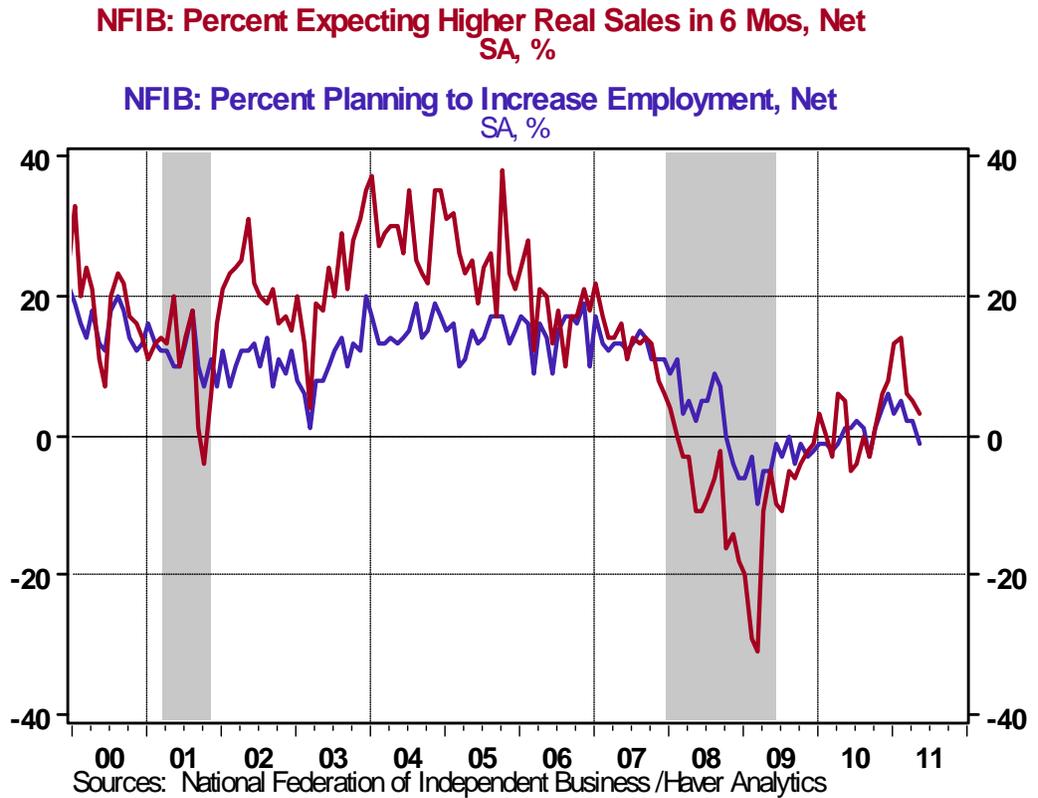
SA, 1986=100



Responses to a few questions reveal a continued gloomy assessment of business conditions. Only 3.0% of respondents expect sales to increase in the next six months, the lowest since October 2010. At the same time, the number of respondents planning to increase employment turned negative, the first such indication since April 2011 (see Chart 5). The number of respondents reporting inflation as problematic rose to 10%, the highest since October 2008.

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.

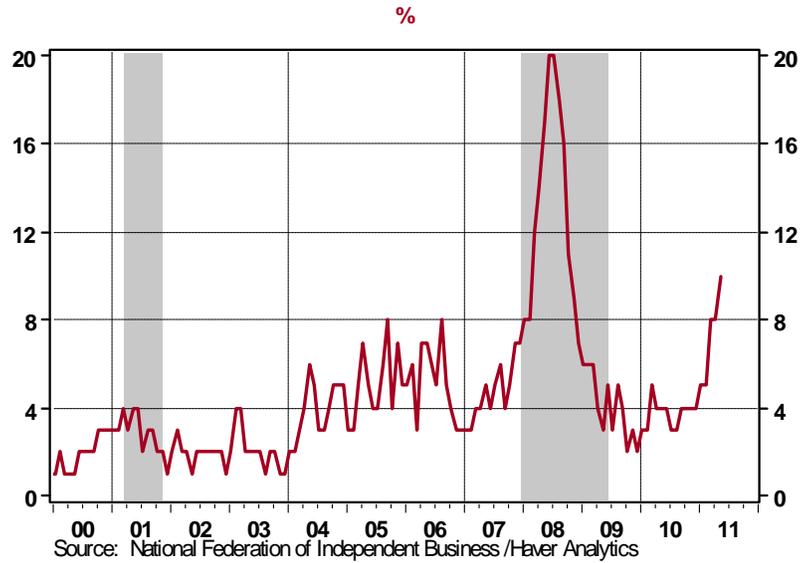
Chart 5



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 6

NFIB: Single Most Important Problem: Percent Reporting 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.