

DAILY GLOBAL COMMENTARY

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Favorable Impact of Fed's Attempt to Ease Credit Market Conditions Not Visible, As Yet

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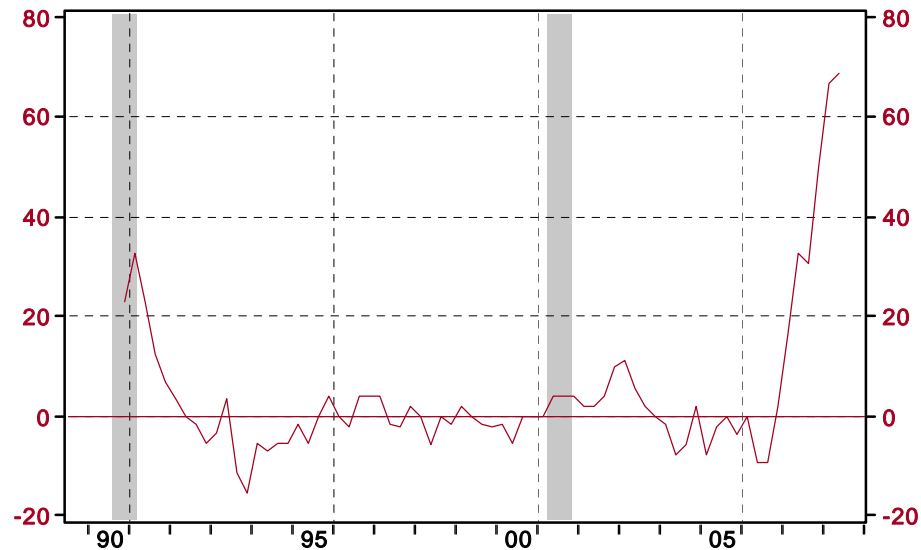
The Fed has lowered the federal funds rate 325 bps since September 18, 2007 to ease financial market conditions and prevent a significant contraction of economic activity. The availability of credit is crucial for the economy to hum along. However, the April 2008 Senior Loan Officer Opinion Survey shows that domestic and foreign institutions have further tightened their lending standards compared with the survey in January 2008.

Starting with residential mortgages, the majority of banks toughened lending standards for residential mortgages, with the percentage of institutions tightening underwriting standards now at 68.7%, up from 66.7% in January (see chart 1).

Chart 1

FRB Sr Loan Survey: Res Mortgages: Net Share, Banks Tightening

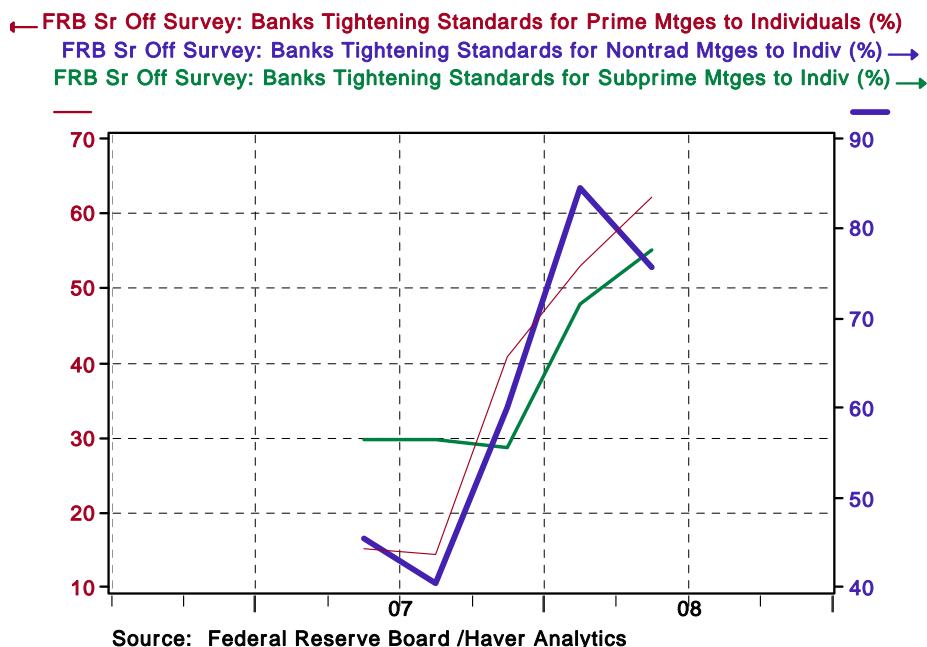
Haver Est, %



Source: Federal Reserve Board /Haver Analytics

Broken down into categories, a tightening of standards is seen for prime and subprime mortgages, with a small decline for non-traditional mortgages (see chart 2).

Chart 2



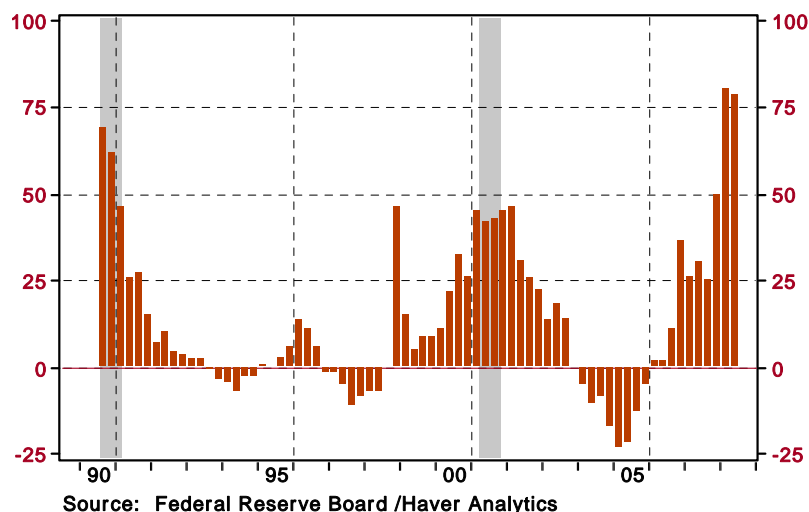
The main message is home sales are adversely affected by tightening standards. Stability in the housing market is important for overall economic conditions to improve.

Moving to the commercial real estate sector, 80% of U.S. banks and 55% of foreign banks reported tightening standards for commercial real estate loans, little changed from the January 2008 survey (see chart 3).

Chart 3

FRB Sr Loan Off Survey: Tightening Standards for Commercial Real Estate

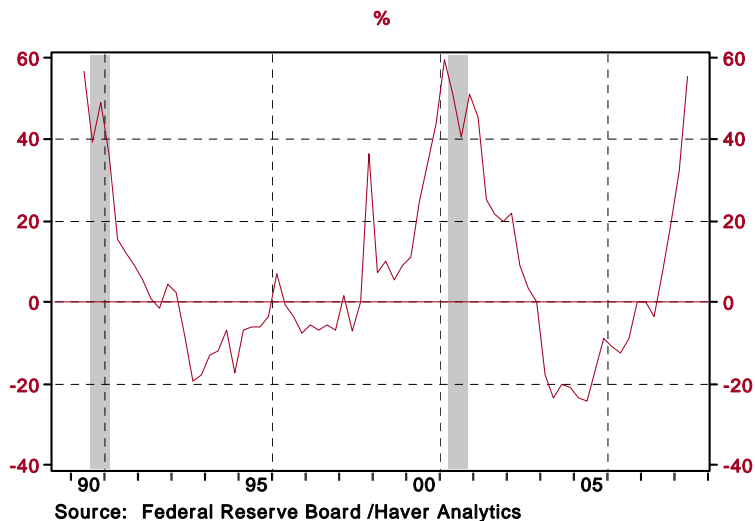
%



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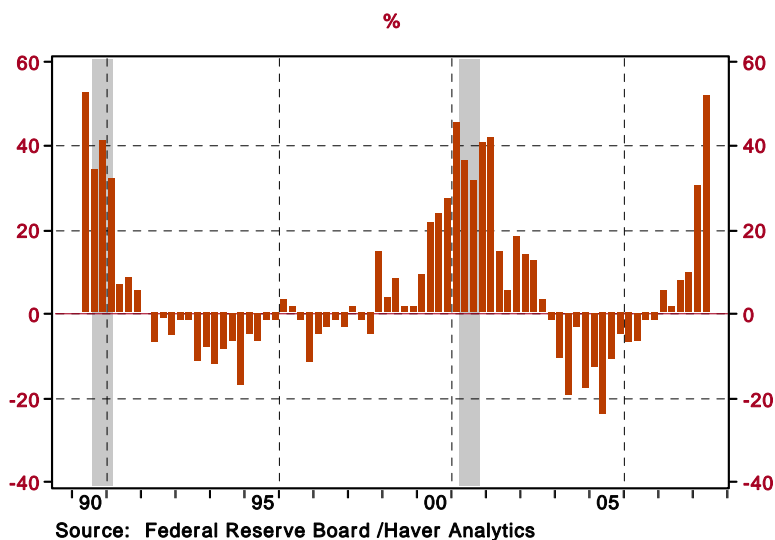
News about the business sector is also not encouraging. The percentage of respondents tightening lending standards for commercial and industrial loans, with respect to large and medium firms, rose to 55.4% in April, up from 32.2% in January. The high was 59.7% in the first quarter of 2001, just prior to the onset of the 2001 recession in March of that year (see chart 4).

Chart 4
FRB Sr Officers Survey: Banks Tightening C&I Loans to Large Firms



With regard to small firms, 51.8% respondents indicate that loan underwriting standards were tighter compared with 30.4% in January. The current level is close to the 52.6% record high seen in the second quarter of 1990. The 1990 recession commenced in July 1990 and ended in March 1991 (see chart 5)

Chart 5
FRB Sr Officers Survey: Banks Tightening C&I Loans to Small Firms

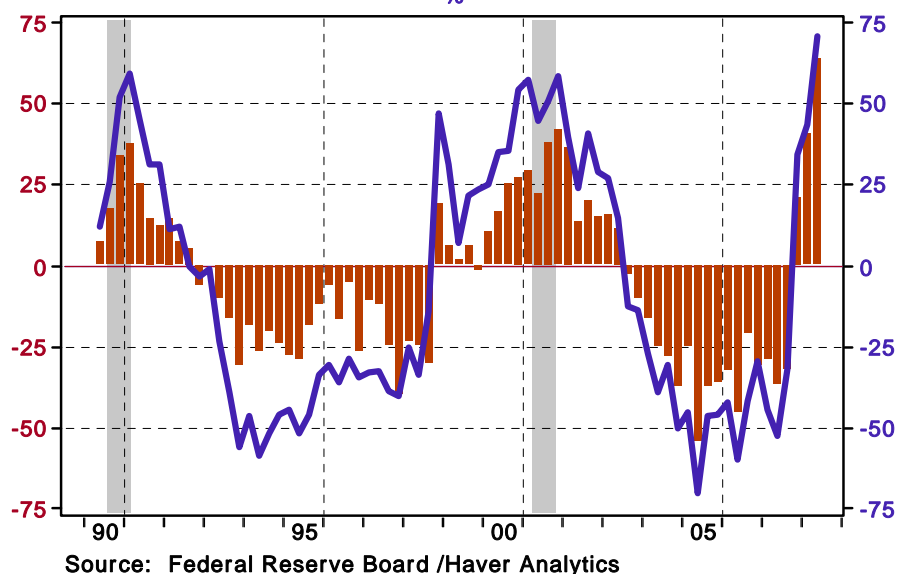


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Not only were loan underwriting standards lower but the spread between loan rates and costs of funds to institutions was larger in April compared with survey results in January. The percentage of respondents indicating increasing spreads between loan rates and cost of funds is the highest on record for large and small firms (see chart 6).

Chart 6

← FRB Sr Off Survey: Banks Incr Spreads of Loan Rates to Small Firms %
 FRB Sr Off Survey: Banks Incr Spreads of Loan Rates to Large Firms % →

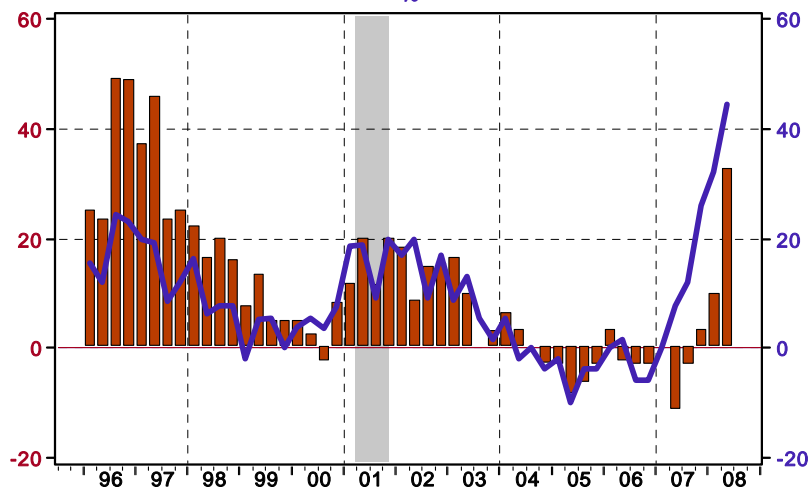


Respondents indicated that their current and expected capital positions accounted for stringent policies. Also, several institutions noted that their “reduced tolerance of risk and decreased liquidity in the secondary market for these loans contributed to the tightening of lending standards. In addition, a “substantial majority of domestic and foreign respondents pointed to a less favorable or uncertain economic outlook and to a worsening of industry-specific problems as reasons for tightening their lending standards and terms on commercial and industrial loans in the past three months.”

The household sector is taking hit from tightening of lending standards for credit card and other consumer loans. 32.7% of banks, up from 9.7% in January, said they had tightened their lending standards for credit card loans over the past three months (see chart 7).

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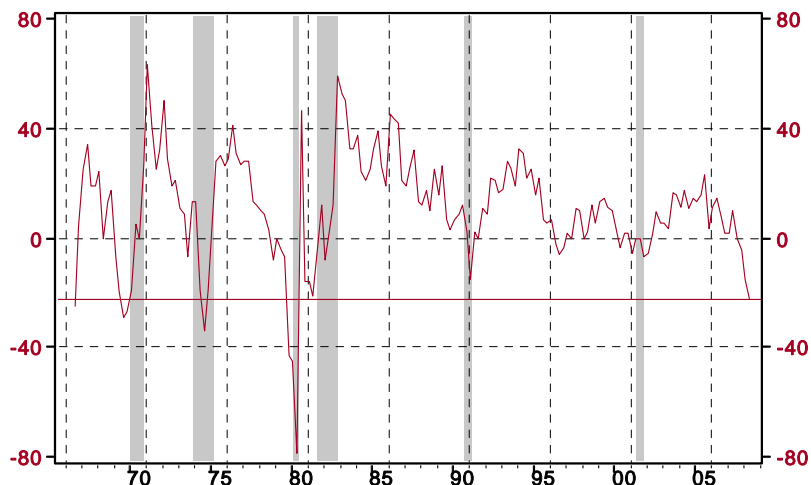
Chart 7
FRB Sr Off Survey: Banks Tightening Standards: Consumer Credit Cards
 %
FRB Sr Off Survey: Banks Tightening Standards: Other Consumer Loans
 %



Source: Federal Reserve Board /Haver Analytics

Also 22.7% percent of banks expressed unwillingness to make consumer loans, up from 15% in January (see chart 8). This is the largest number of banks unwilling to make consumer loans since the second quarter of 1980 (see chart 8). Special questions about home equity loans indicated that 50% had tightened standards and “nearly all respondents pointed to declines in values of collateral significantly below the appraised value” as the reason for tightening standards.

Chart 8
FRB Sr Officers Survey: Banks Willingness to Lend to Consumers
 %



Source: Federal Reserve Board /Haver Analytics

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