



Insights from Northern Trust

Commentary from Bob Browne, Chief Investment Officer

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The monthly U.S. employment data released last Friday once again disappointed the market. Expectations for a relatively strong number were raised earlier in the week after reasonably robust numbers from both the ADP National Employment Report and the employment component of the Institute for Supply Management (ISM) Non-Manufacturing Report. While U.S. job growth remains a critical building block to a sustained recovery, it is worth noting that the trend is still positive (we are creating jobs on a net basis, not losing them) in the United States. Perhaps even more importantly, job growth continues to be much more robust in many places outside the United States.

For example, the table below shows that Germany is now below its pre-crisis peak employment levels by only 25,000 jobs. While the United States will continue to struggle to re-create more than 7 million jobs in the years ahead, other countries are already beyond their pre-crisis employment peaks. China actually experienced no discernible drop in total employment at all during the crisis. Furthermore, the two countries – Brazil and Australia – perhaps most tied to the China story are already above their previous peak levels.

Country	# of Jobs from Peak ('000)	% from peak	Previous Peak	Last Data Point
US	-7464	-5.4%	Jun-07	Jul-10
Germany	-25	-0.1%	Oct-08	Jun-10
Japan	-2070	-3.2%	Jun-07	Jun-10
UK	-580	-2.0%	Apr-08	Apr-10
Canada	-24	-0.1%	Oct-08	Jul-10
Australia	276	2.5%	Oct-08	Jun-10
Brazil	317	1.5%	Oct-08	Jun-10
China	7186	6.5%	*	4Q2009
Russia	-900	-1.3%	May-08	Jun-10

* China data displayed no noticeable dip in employment. U.S. peak (June 2007) was used in calculation

Source: Haver Analytics

Investors need to remember that while the U.S. economy is still the largest and most important in the world, it is not as important as it used to be. The markets in Europe are off to a good start today because of the very strong export data coming out of Germany. Meanwhile, there will be a spate of



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important data to watch this week coming out of China: retail sales, industrial production and the Conference Board of China Leading Economic Index. As often noted in our previous commentaries, we are strong advocates of emerging market equities, due in no small part to our belief that China has been “unleashed” and will drive a disproportionate share of global economic growth for years to come. Retail sales data will also be released this week in the United States, and the markets will focus on that number to determine if the all-important U.S. consumer is opening the wallet again after two months of decline. While there are many pitfalls comparing these types of economic data series between countries, the magnitude of expectation is so great that it is at least worth noting. The market expects retail sales in the United States to have increased 0.5% month-on-month in July for a pretty good annualized growth rate of 6%, but the year-on-year number is about half that. In China, the expectation is that national retail sales increased 18.5% year-on-year.

Finally, I should also remind our clients that the U.S. Federal Reserve will be making a decision this Tuesday. Needless to say, we don’t expect them to raise interest rates. Sometimes you have to state the obvious to appreciate the context. In these times of uncertainty, where the economic signals are mixed and investors break into various camps of inflationists versus deflationists, and where there are bottoms-up earnings growth tailwinds versus top-down macroeconomic headwinds and cyclical recovery versus secular challenges, it is always comforting to me to think about what I know for sure: the Federal Reserve will not be raising interest rates anytime soon. While the U.S. housing market may need low interest rates and the banking sector needs a steep yield curve, we continue to think about the unintended beneficiaries of a low rate policy: large corporate America (exporters), emerging market equities (especially those countries tied to the U.S. dollar, and therefore U.S. interest rate policy) and high-yield bonds.

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