



**The Northern Trust Company**  
**Economic Research Department**  
**Daily Economic Comment**

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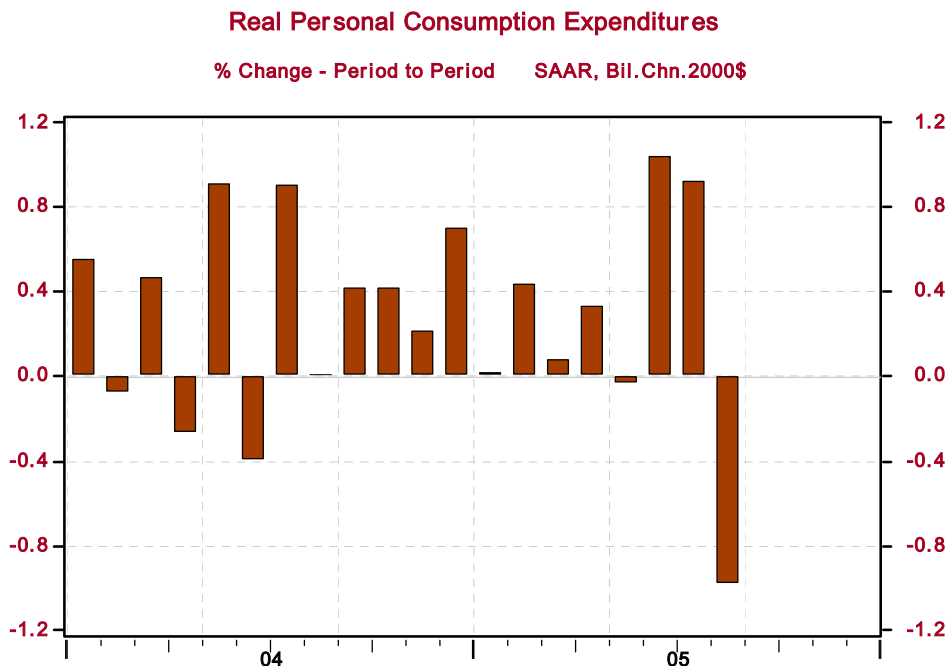
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September 30, 2005

**Watch Out For the Soft Trend In Consumer Spending**

Personal income dropped 0.1% in August after a 0.3% increase in the prior month. Although wages and salaries rose 0.2%, the reduction in rental income stemming from Katrina accounted for the drop in overall personal income. According to the BEA, "rental income of persons and proprietors' income were reduced by about \$100 billion primarily reflecting uninsured losses of residential and business property."

Nominal consumer spending fell 0.5% and inflation adjusted consumer spending dropped 1.0% in August. The large drop in auto purchases more than the offset expenditures on non-durables and services. The September chain store sales numbers are weak and point to another monthly decline of non-auto retail sales. Consumer spending grew at an annual rate of 3.4% in the second quarter after a 3.5% increase in the first quarter and a 4.4% gain in the second-half of 2004. Households are predicted to have spent at an annual rate of 3.5% in the third quarter.

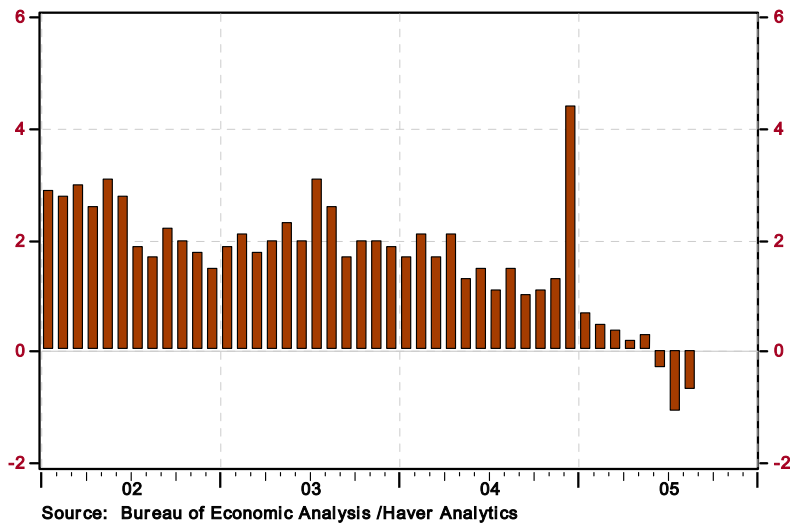


Source: Bureau of Economic Analysis /Haver Analytics

Saving as a percentage of disposable income dropped 0.7% in August, the third consecutive monthly decline. In other words, for three straight months expenditures of consumers has exceeded disposable income. This is clearly unsustainable.

### Personal Saving Rate

SAAR, %

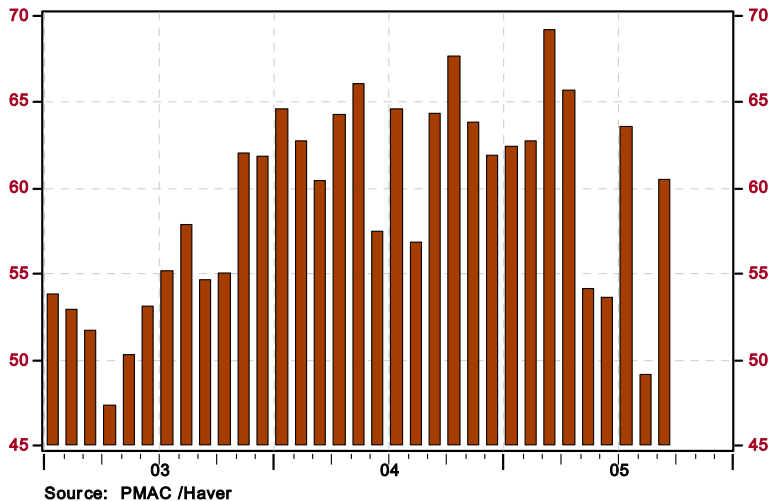


### Chicago PMI Retraces Most of the August Decline

The Chicago Purchasing Manager’s Survey shows a rebound in manufacturing activity with the business activity index increasing 11.3 points to 60.5 in September. Indexes tracking new orders, production, and supplier deliveries advanced in September, while the employment index fell below 50.0. Does the Chicago region depict the national trend or is the Federal Reserve Bank of Philadelphia’s factory survey closer to the national factory pulse? In contrast to the Chicago survey, the Philadelphia factory survey reported a 13.3 drop in the business outlook index in September. Reports of frantic activity at factories building trailers for FEMA to accommodate families displaced by the hurricanes are believed to be a large part of the reason for the turnaround in the Chicago factory index.

### Chicago Purchasing Mgrs Assn: Index, Business Barometer

SA, 50+ = Econ Growth



**Chicago Purchasing Managers' Survey – September 2005**

	<b>Apr-2005</b>	<b>May-2005</b>	<b>Jun-2005</b>	<b>Jul-2005</b>	<b>Aug-2005</b>	<b>Sep-2005</b>
<b>Business Index</b>	65.6	54.1	53.6	63.5	49.2	60.5
<b>Production</b>	68.9	56.0	57.8	70.5	56.2	62.4
<b>New Orders</b>	71.0	57.9	56.5	69.6	46.5	63.4
<b>Backlogs</b>	52.4	44.4	45.3	56.1	45.7	54.3
<b>Inventories</b>	53.6	51.2	50.9	56.4	60.3	52.3
<b>Employment</b>	62.3	54.7	48.9	56.1	51.7	48.4
<b>Vendor Deliveries</b>	59.5	51.7	48.5	49.6	48.7	57.4
<b>Prices Paid</b>	66.1	54.3	59.7	61.3	62.9	76.3

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