



Let The Facts Speak For Themselves, Mr. Kudlow

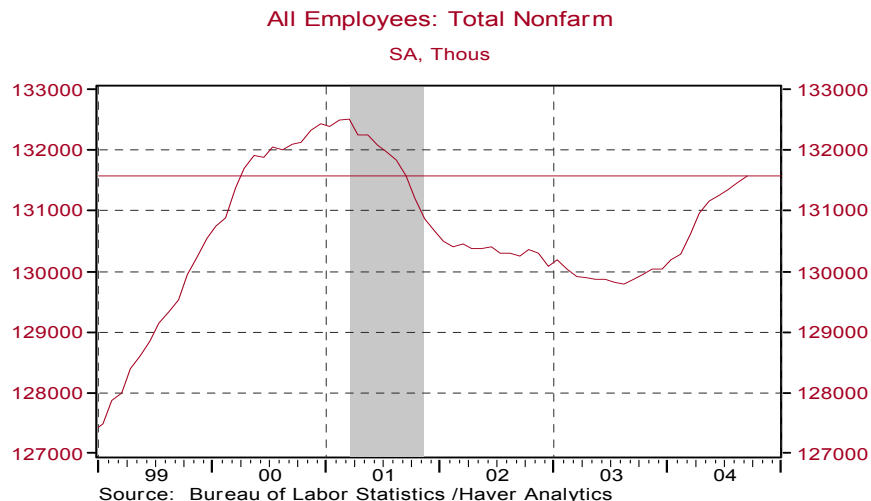
Today's Wall Street Journal published an interesting *opinion* piece "It's the Economy, Smarty Pants," by Mr. Kudlow. The main conclusion is that the economy is in "remarkable" shape. I have no political axe to grind. I will let economic data do the talking and readers can conclude if the economy is in a truly "remarkable" state.

Mr. Kudlow About Jobs– "Team Kerry has flogged George W. Bush with the fact that payrolls have fallen (by 585,000) since the beginning of the president's term. Kerryites talk of a "Hoover" economy, even though two million payroll jobs have been recovered in the past 13 months."

"In his own defense, Mr. Bush should highlight the household survey (the number of people actually working), which shows that 1.69 million more are employed today than when he took office. An additional 3.4 million have gone to work since the end of the recession, with 140 million Americans currently employed -- a new record. With all these new job entrants, the unemployment rate has dropped to 5.4%. This is no Hoover economy."

Facts About Jobs – The recent recession commenced in March 2001 and ended in November 2001. The level of nonfarm payroll employment was 131.567 million in September 2004, representing an addition of 696,000 new jobs since November 2001. 821,000 payroll jobs have been lost during President's Bush's term (January 2001 – September 2004). After nearly three years of economic recovery/expansion nonfarm payroll employment is 0.5% higher than the employment level reported for the trough of the current business cycle.

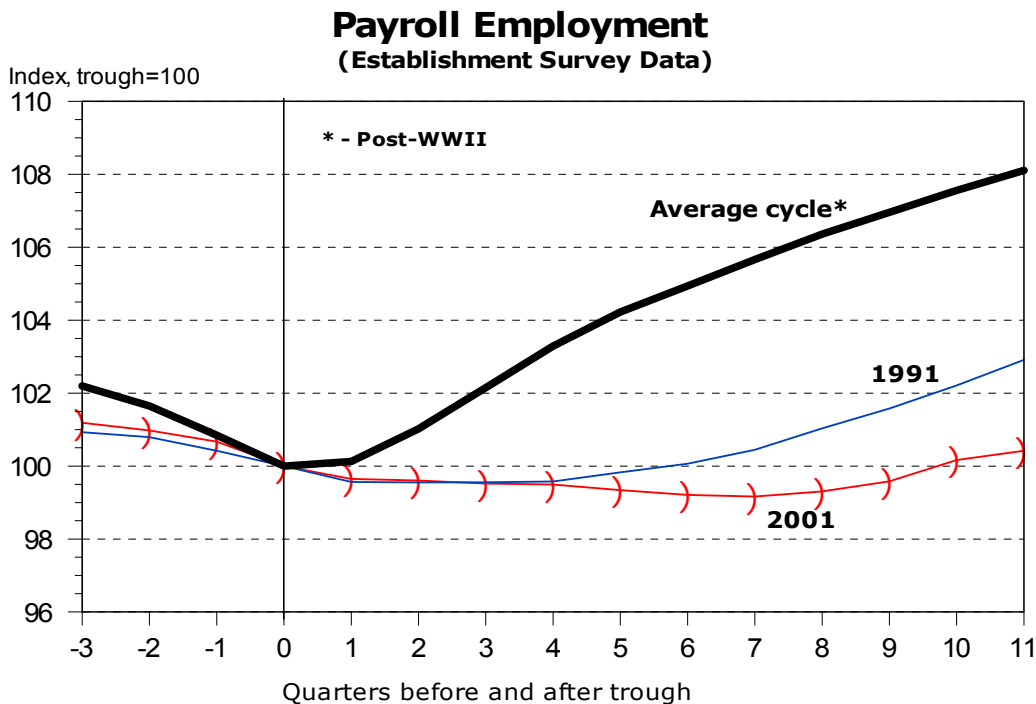
Chart 1



Shaded region denotes recession

If this employment growth was "impressive" it would, at the least, be comparable to the average performance recorded during each business cycle in the post-war period. Look at Chart 2, it is an index chart (Note: Data and explanation of index charts available by request. In short, payroll employment at the trough of each business cycle is set to 100 and subsequent payroll readings are computed. For example, a reading of 104 implies that payrolls increased 4.0% from the trough. Similar calculations for the unemployment rate and GDP were used to create the respective charts.) used to rank the behavior of economic variables through each business cycle. Needless to say, payroll employment ranks at the bottom of the class. Payrolls of the third quarter have barely surpassed the trough readings of the current business cycle. On average, payroll employment has recorded a 8.0% gain from the trough after 11 quarters of economic growth.

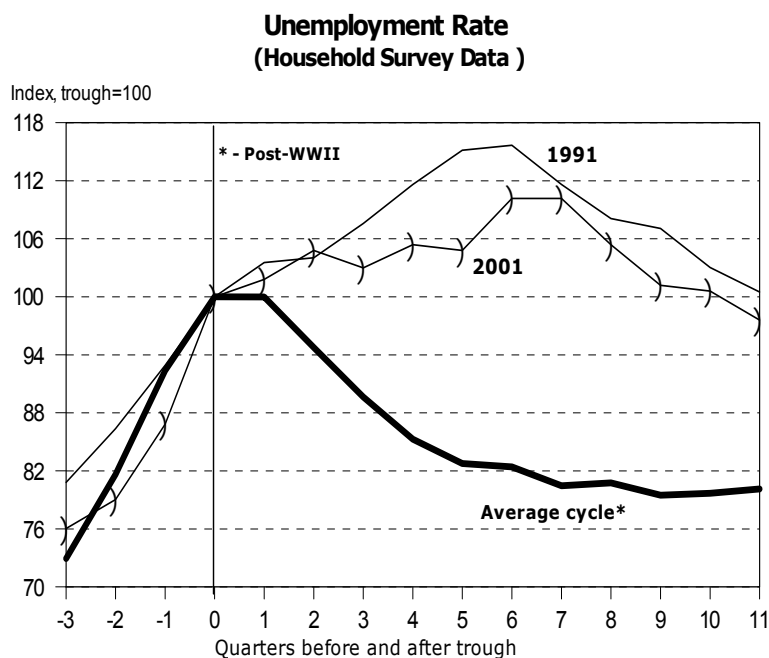
Chart 2



Let us look at the record of Mr. Kudlow's choice of defense – the unemployment rate. The unemployment rate (see chart 3) was 5.4% in the third quarter of 2004, which is 0.3 percentage points below the unemployment rate at the trough (5.7% in the fourth quarter of 2001). In terms of the index chart, it is 2.4% lower than the unemployment rate recorded at the trough. By comparison, on average, in the post-war period, the unemployment rate has declined 19.8% after 11 quarters of economic recovery/expansion. The unemployment rate in the first quarter of 2001 (when Bush took over) was 4.2% vs. 5.4% as of September 2004.

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Chart 3

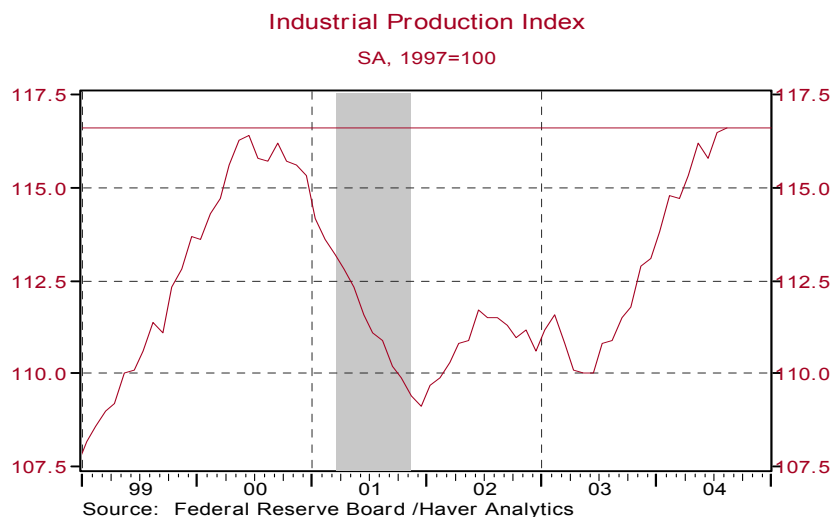


Essentially, the unemployment rate has declined because the participation rate has dropped in the current expansion. By contrast, in every business cycle in the post-war period, the participation rate has increased. Let these facts about jobs speak for themselves.

Mr. Kudlow About Industrial Production– “Industrial Production is Up 5.2%” over the past year.

Facts About Industrial Production – There is no dispute about the 5.2% increase in industrial production during the past year. Is this pace of growth outstanding? Look at chart 4, the level of industrial production is *only marginally* above the peak of the last business cycle after 11 quarters of business expansion. By historical standards, this is the weakest performance on record. We don't have to remind readers that there has also been a significant number of manufacturing jobs lost in the current business cycle.

Chart 4



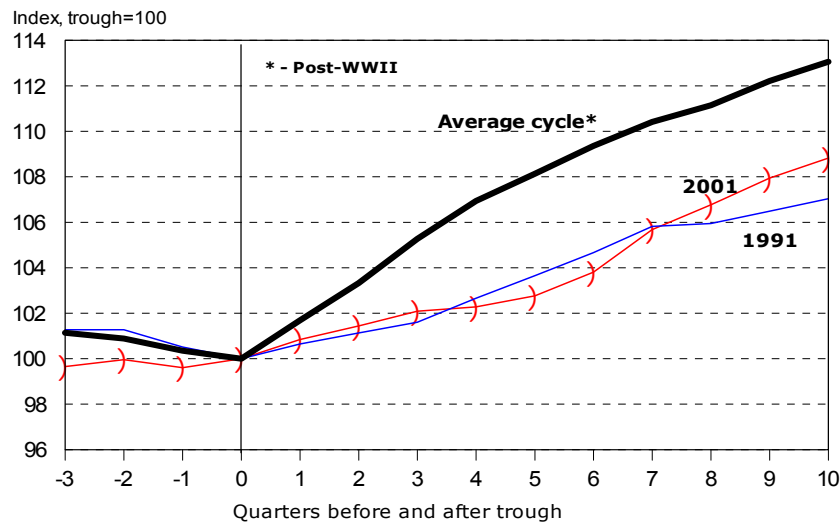
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Mr. Kudlow About GDP Growth – “After all, during the 10 recovery quarters since the end of the 2001 recession, real GDP -- the most comprehensive measure of the economy -- has averaged 3.4% growth, in line with the average post-World War II expansion rate.”

Facts About GDP Growth – Real GDP has certainly risen 3.4%, on average, in the current business cycle. No arguments here. However, Mr. Kudlow may want to recheck his calculation regarding the claim that it is line with average growth rate posted in the post-war period. In fact, the average growth rate of real GDP after 10 quarters of recovery/expansion is 5.0% in the post-war period. Here is an index chart for readers interested in details. Chart 5 indicates that the growth of GDP in the current business cycle is notably below par.

Chart 5

Real Gross Domestic Product



We do not have to elaborate further to make the case that facts about jobs, GDP, and industrial production tell a different tale from Mr. Kudlow’s perception.

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