

Weekly Economic Reports

January 19, 2005

Highlights

- **US:** Inflation anchored; housing slowing?
- **Euroland:** Q4 production data weak across-the-board
- **Japan:** Surprising rise in coincident indicator; consumer confidence falls
- **UK:** CPI surprises to the upside
- **Canada:** Strong C\$ remains a concern
- **Australia:** Housing showing signs of life?
- **Sweden:** Inflationary pressures non-existent

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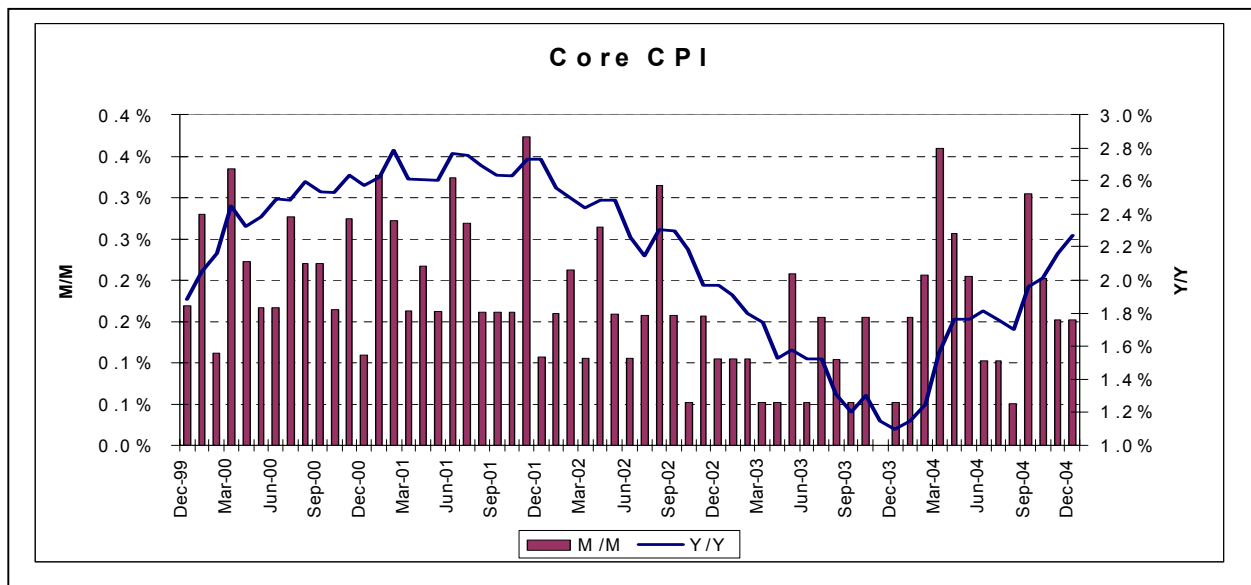
U.S.

This week's economic data showed a tame inflationary environment with core consumer and producer prices remaining well behaved. Retail sales and industrial production continued to show healthy growth, while housing looks flat in a series of indicators. Accelerating tax revenues will likely cause fiscal drag in 2005. The budget deficit remains too small, given the current account deficit, to support a robust and sustained economic expansion. Comments from a chorus of Fed speakers that include Bernanke, Stern Santomero, Bies & Pianalto emphasized two key themes: inflation is contained and the economy will experience healthy growth of 3.5% to 4% in 2005.

Weekly Highlights

- **Core CPI-** increased 0.2% M/M in December. (page 2)
- **Core PPI-** remained tame at 0.1% M/M in December. (page 3)
- **Trade Deficit-** increased in November to \$60 bn. (page 4)
- **Housing Market-** looks flat, according to starts, permits, NAHB Index and mortgage applications. (page 6 & 7)

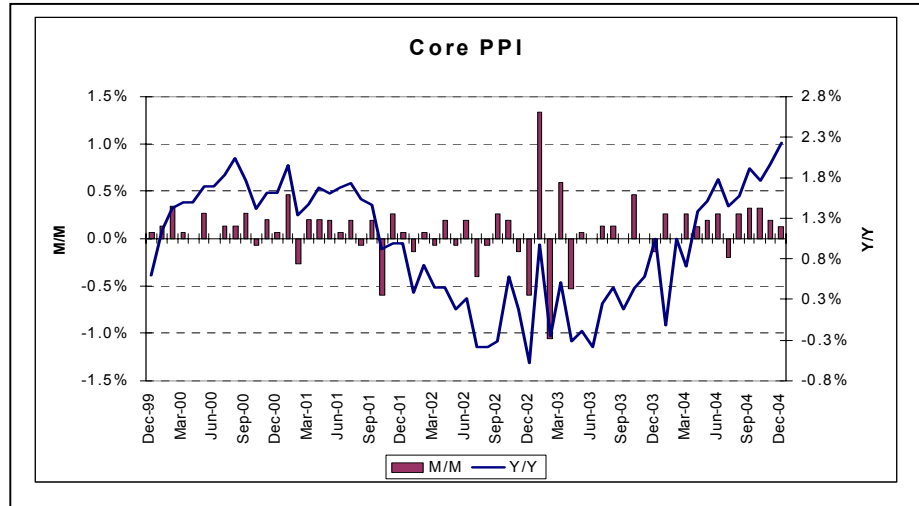
Chart of the Week



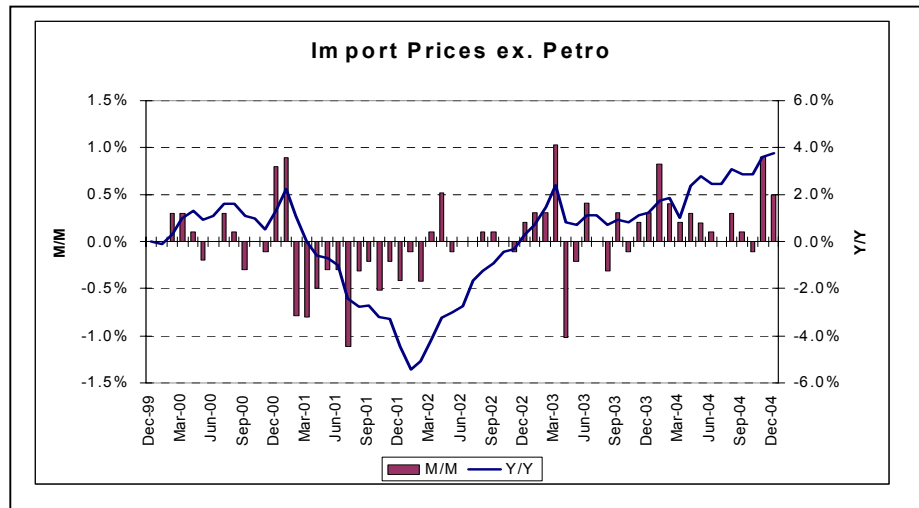
Core CPI increased 0.2% M/M and 2.3% Y/Y in December. Taken out to the thousandths, M/M growth was 0.151% increasing at a 1.8% annualized rate. The heightened inflation concerns that were mentioned in the Fed minutes have not materialized in core CPI or core PPI, thus far. Today, Bernanke mentioned that inflation risks were no higher today than six months ago in contrast to parts of the minutes a few weeks ago. If inflation remains tame as we expect it to, and payrolls soften significantly, the Fed's tightening campaign could be over.

Core PPI, Import Price & Retail Sales

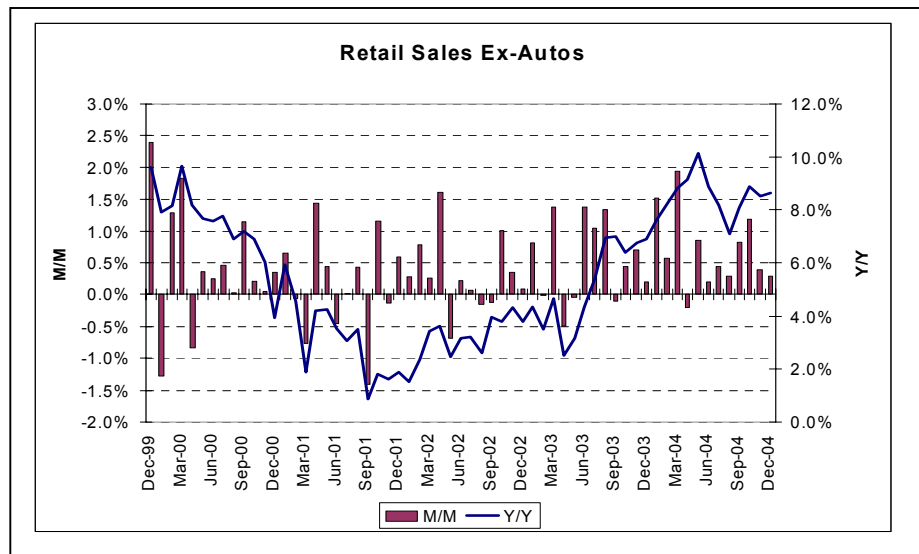
Core PPI increased 0.1% M/M and 2.2% Y/Y in December. The inflation seen in crude and intermediate goods over the past months has not yet been seen in final goods prices.



Import Prices, excluding petroleum, increased 0.5% M/M and 3.8% Y/Y in December. Most of the increase was concentrated in construction materials—a sign that a weakening dollar was not the main driver.

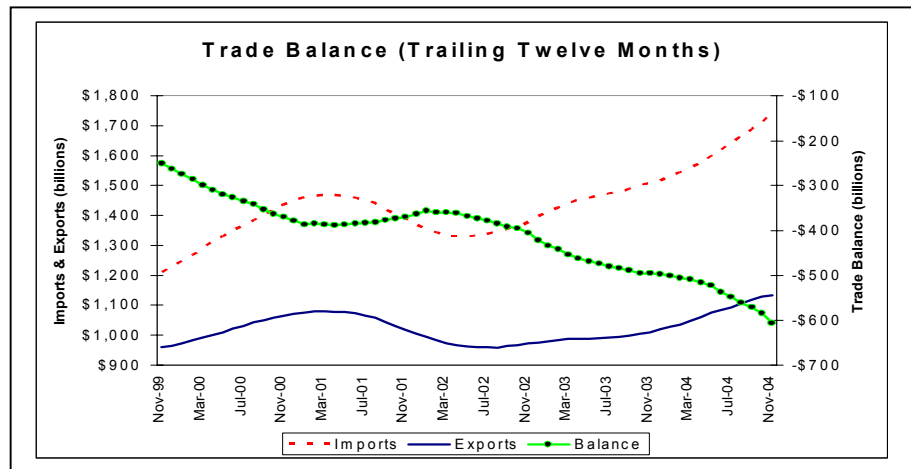


Retail sales, excluding autos, increased 0.3% M/M and increased 8.6% Y/Y in December. Wal-Mart continues to guide towards 2% to 4% same store sale growth for January.

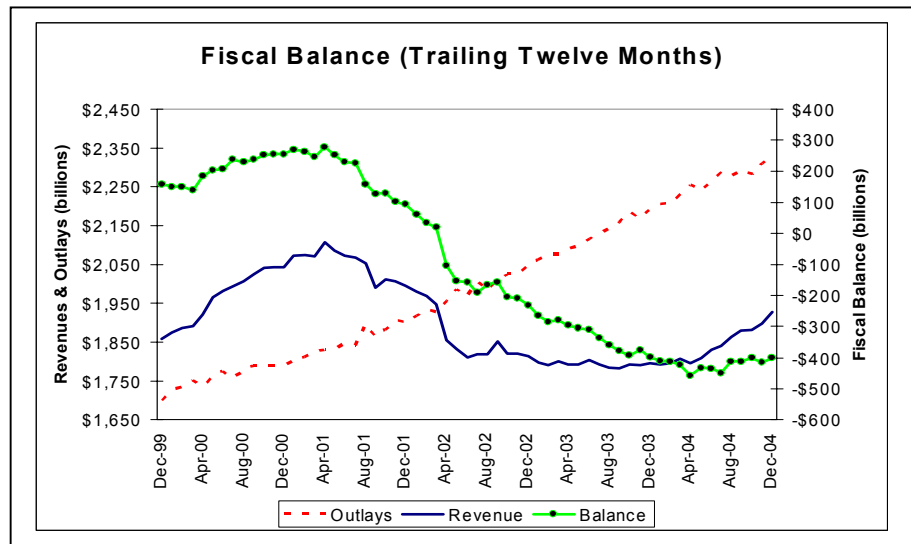


Trade Balance, Budget Balance & Employment Claims

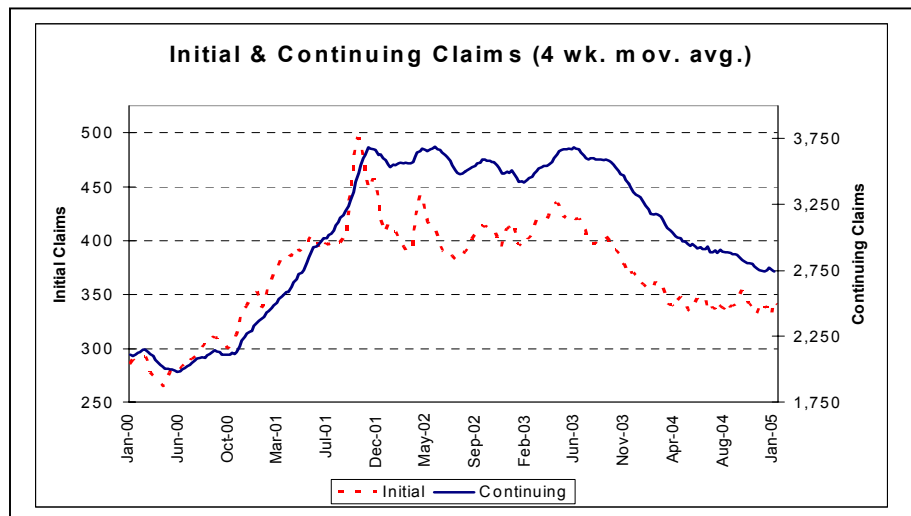
The Trade Balance widened to -\$60.3 billion in November. On a trailing twelve month basis the trade deficit with China reached \$158 billion compared to \$124 billion a year ago. China's holding of U.S. bonds has also grown by about \$ 34 billion over the same time period.



The budget deficit in January reached \$3.4 billion. On a trailing twelve month basis the budget deficit has started to stabilize as revenues are starting to increase along with outlays. If current projections for further acceleration in revenues occurs the fiscal drag could put a halt to the Fed's rate hikes- as payroll growth slows and deflationary pressures take hold.

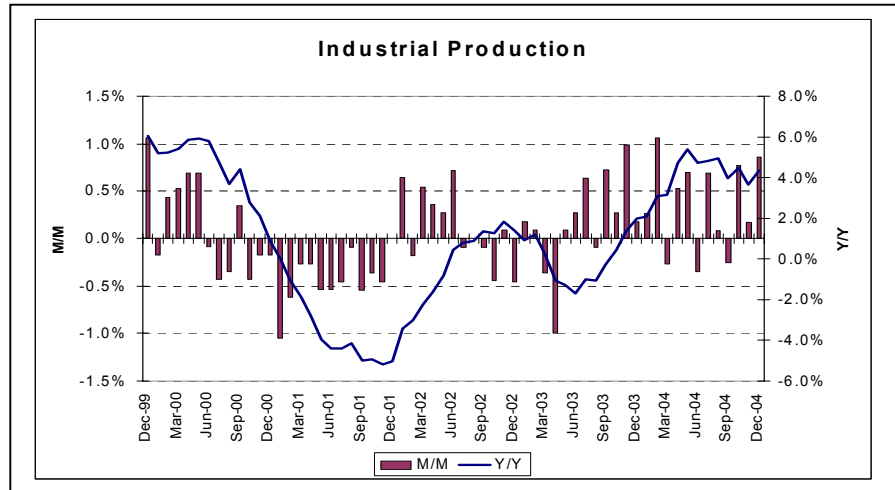


The four week moving average of initial claims decreased to 341k and continuing claims decreased to 2,744k. Both series have continued to stabilize at current levels that suggest trend growth in employment.

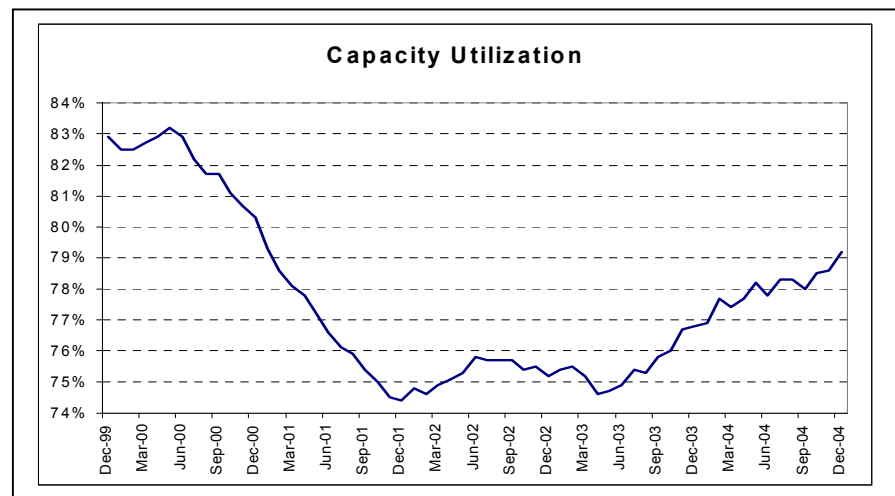


Industrial Production, Cap. Utilization & Empire Index

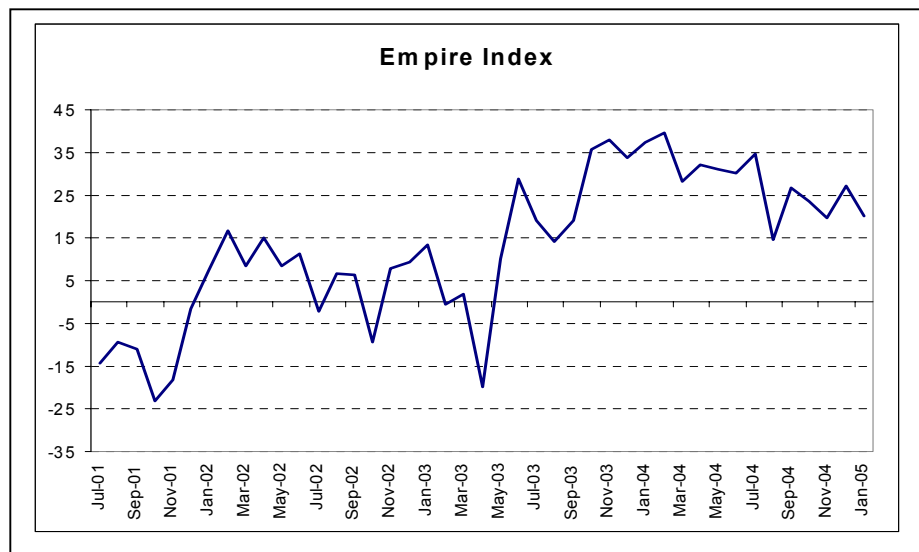
Industrial Production increased 0.9% M/M and 4.3% Y/Y in January. Y/Y growth seems to be stabilizing as comparisons get tougher, but the manufacturing sector continues to experience healthy output growth, though not necessarily employment growth.



Capacity Utilization increased from 78.6% to 79.2% in December. Although slack remains, the manufacturing sector has clearly improved significantly since the fall of 2003.

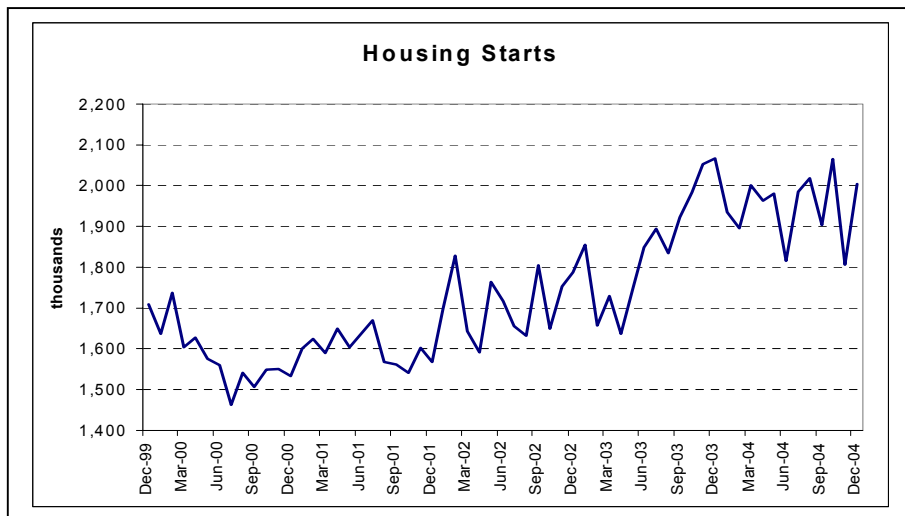


The Empire Manufacturing Index declined from 27.1 to 20.1 in January. The prices paid component declined from 57.7 to 50.4 and the prices received component increased from 15.4 to 27.7. The employment component decreased from 15.7 to 12.7.

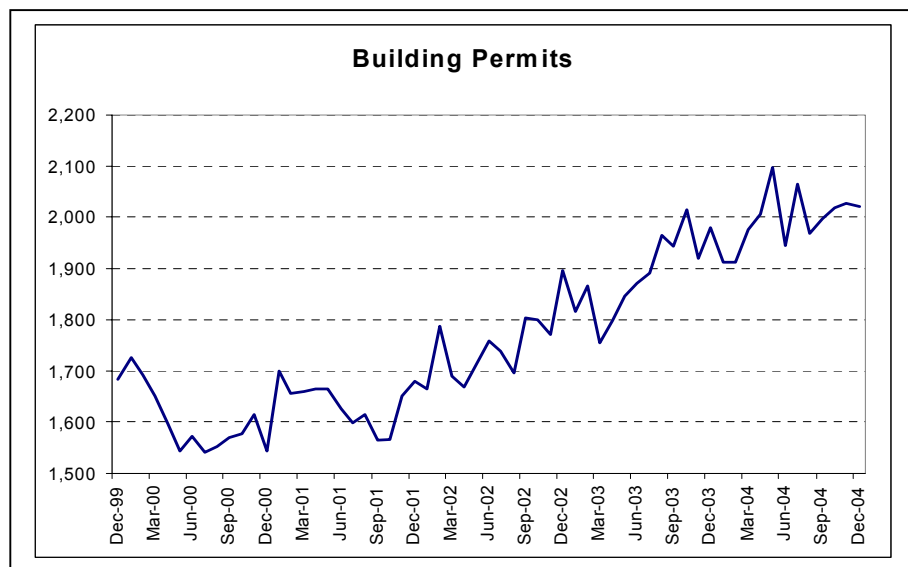


Housing

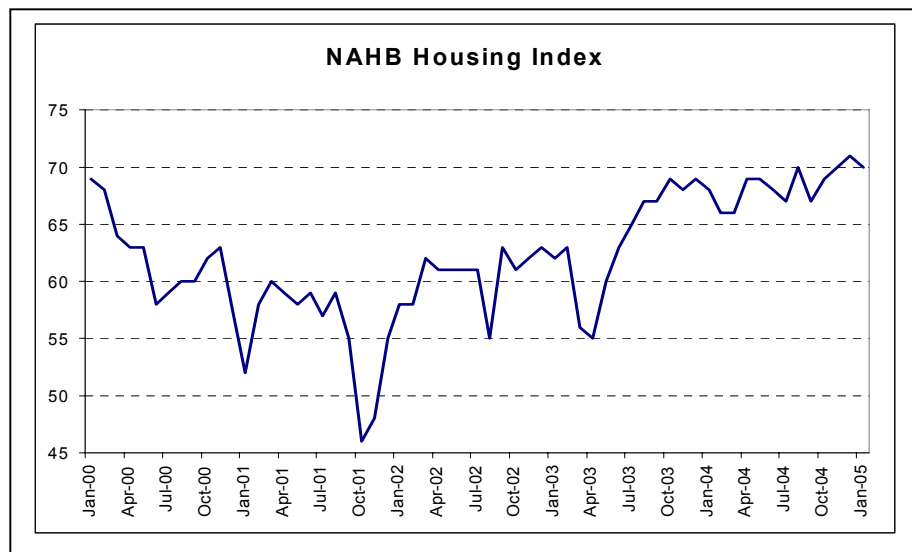
Housing Starts increased 10.9% M/M in December to a seasonally adjusted annual rate of 2.004 million. This series snapped back from November, but the trend continues to look flat.



Building Permits decreased 0.3% M/M in December to a seasonally adjusted annual rate of 2.021 million. Building Permits continue to suggest that the housing market is flattening out.



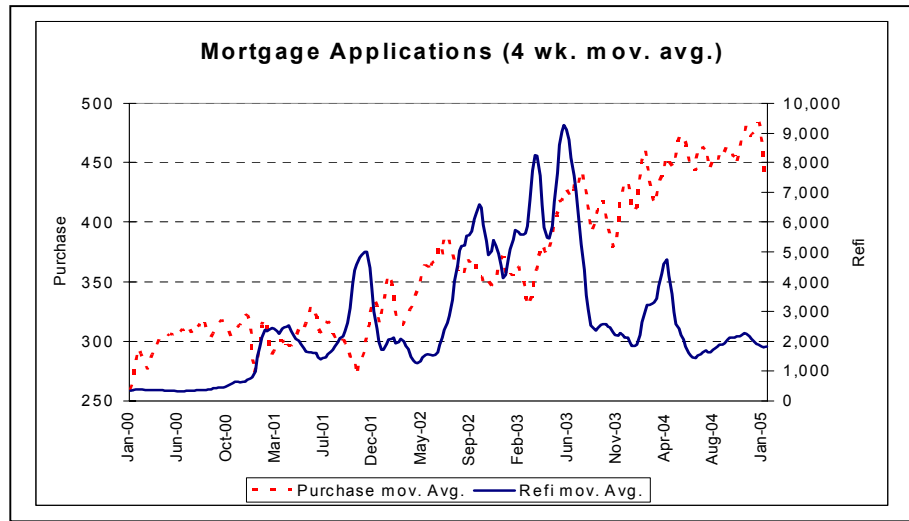
The NAHB Housing Index decreased from 71 to 70 in January. The present sales and future sales components both decreased slightly too.



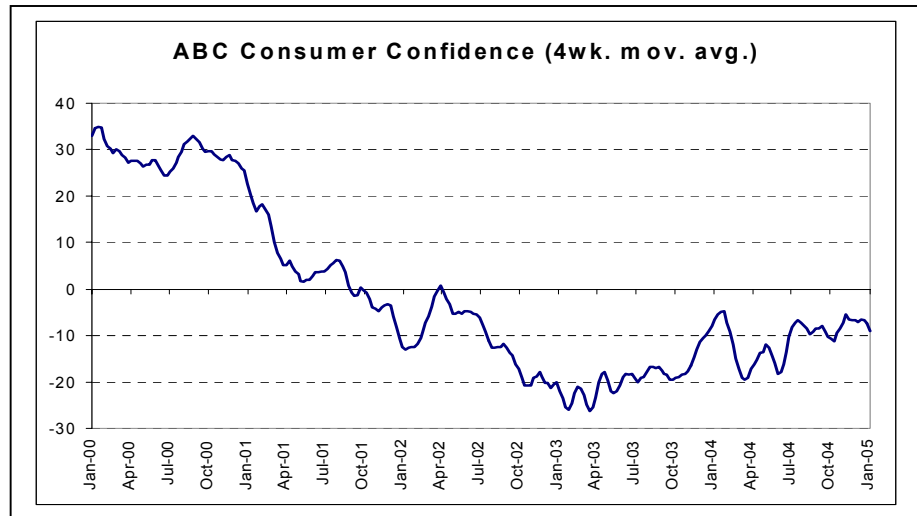
Mortgage Applications, Confidence & Inventories

Purchase and refinancing mortgage indices increased 14.0% and 19.1%, respectively this week.

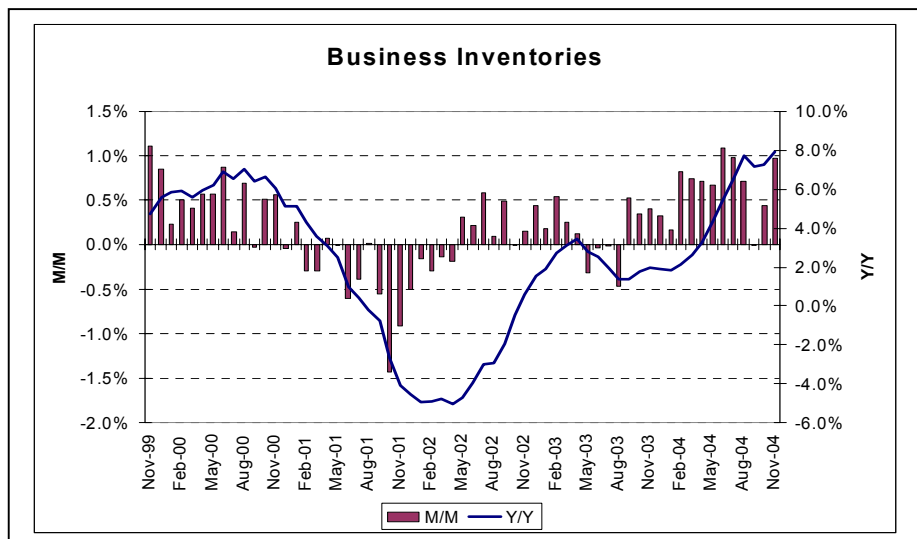
The recent dip in applications was reversed and mortgage applications are looking flat.



The ABC Consumer Confidence Index decreased from -9 to -11 for the week of January 16th. The economy series remained flat, but the personal finances and buying climate series both declined.



Business inventories increased 1.0% M/M and 7.9% Y/Y in November. This inventory index confirms the build in inventories seen in other indices. The process of reducing elevated inventories in the face of economic softness could further propagate weakness.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
1/20	Leading Indicators (DEC)	0.2% M/M	0.2% M/M
1/20	Philadelphia Fed. (JAN)	25.0	25.4
1/21	U. of Mich. Confidence (JAN)	97.5	97.1
1/25	Consumer Confidence (JAN)	101.6	102.3
1/25	Existing Home Sales (DEC)	6.80M	6.94M
1/25	ABC Consumer Confidence (JAN 23)	NA	-11
1/26	MBA Mortgage Applications (JAN 21)	NA	16.9%

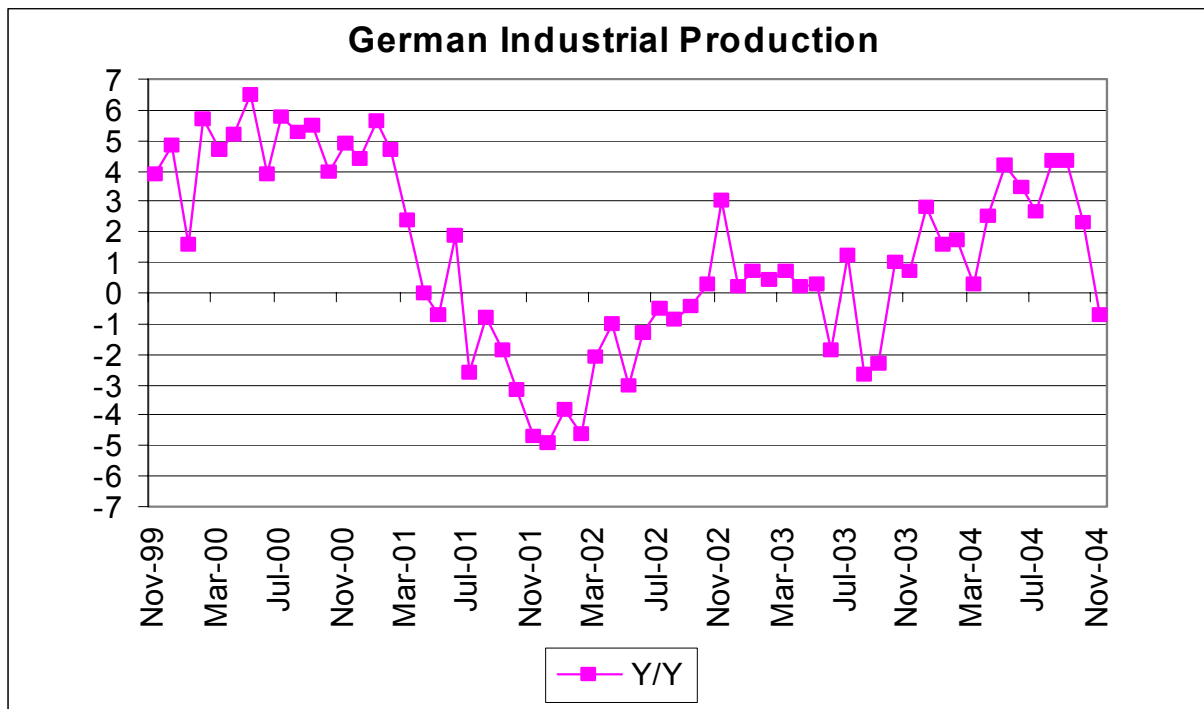
Euroland

This past week, Euroland displayed more economic weakness although there was an up tick in the ZEW sentiment indices. Production continues to fall or slow in the Euro Zone, Germany, Italy and France.

Weekly Highlights

- **German Production-** continued its falling trend in November. (page 9)
- **Euro Zone Labor Costs** – fell to their lowest point in 6 years in Q3. (page 10)
- **Euro Zone Industrial Production-** fell 0.3% M/M in November. (page 11)

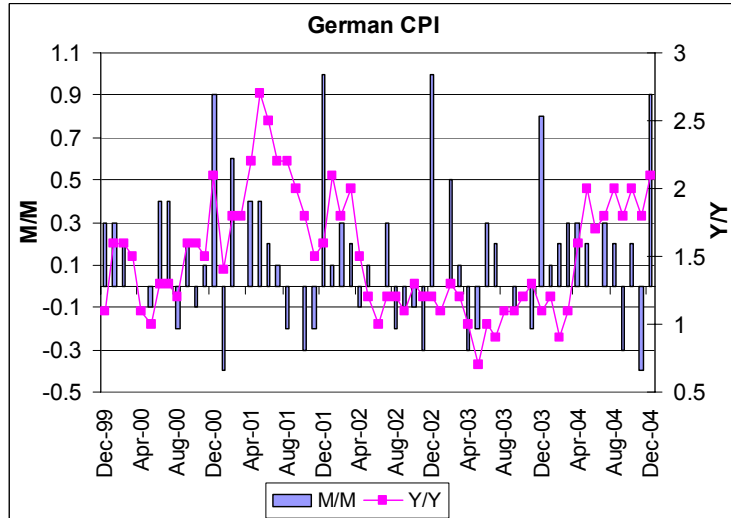
Chart of the Week



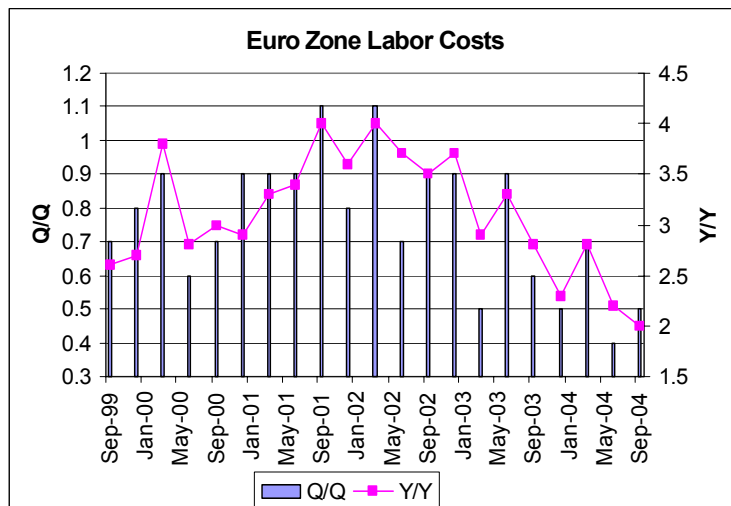
Germany's November Industrial Production declined the most in over a year as oil prices, the firm euro and falling demand continue to slow growth. Production fell 1.7% M/M and 0.7% Y/Y. It was the first Y/Y decline since December of 2003.

German CPI, Euro Zone Labor Costs & French CPI

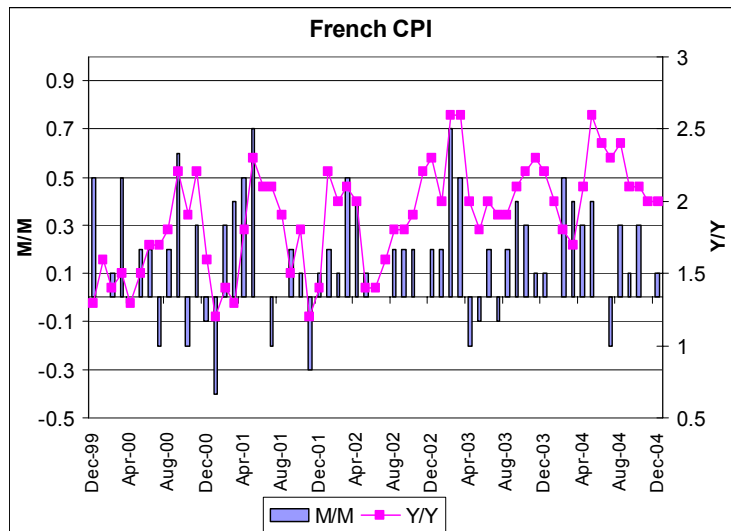
Germany's December CPI rose 1.0% M/M and 2.1% Y/Y, rebounding from November's M/M decrease. A cigarette tax, combined with higher vacation and accommodation prices, is credited for the price increase. For 2004, prices increased an average of 1.6% Y/Y.



The Euro Zone's Q3 labor costs grew at the slowest Y/Y pace in six years as wage accords continued to push down costs while increasing hours. Labor costs rose 0.5% Q/Q and 1.9% Y/Y.

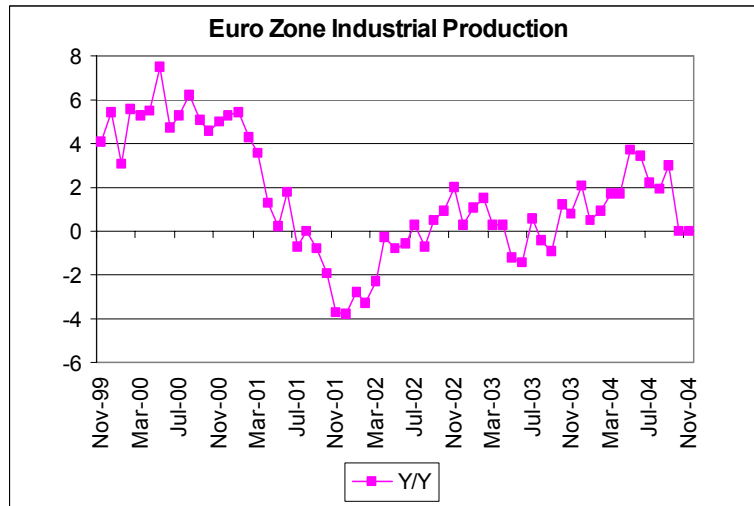


France's December CPI rose 0.1% M/M and 2.2% Y/Y, in line with market expectations, due to an increase in fresh food prices.

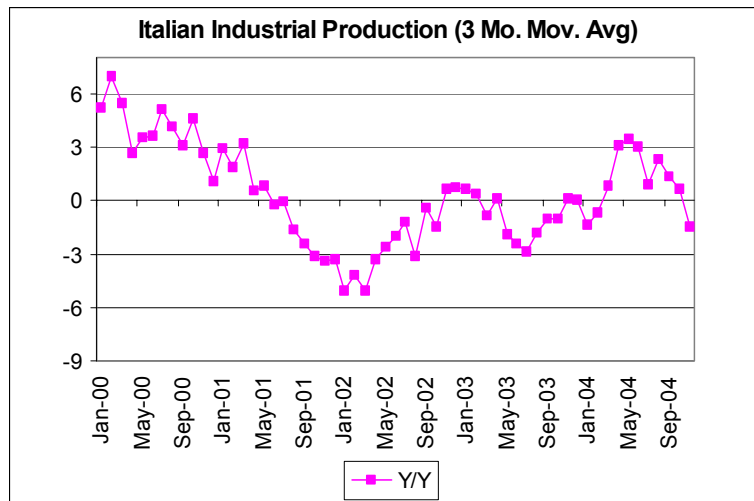


Euro Zone, Italian & French Industrial Production

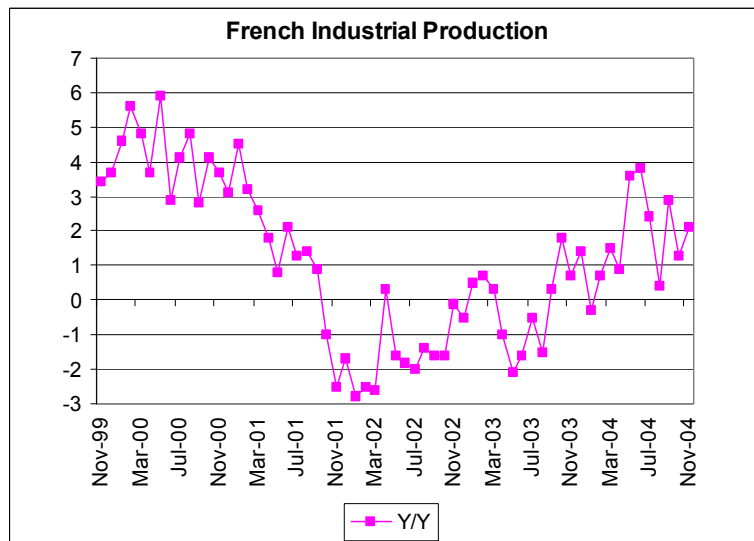
The Euro Zone's November Industrial Production remained stagnant, falling 0.3% M/M while increasing 0.5% Y/Y. It was the third month in the last four that production declined M/M.



Italy's November Industrial Production fell the most in five months as cars, trucks and textile production all declined. Output fell 0.7% M/M and 2.8% Y/Y, three times larger than the market's -0.2% expectation.

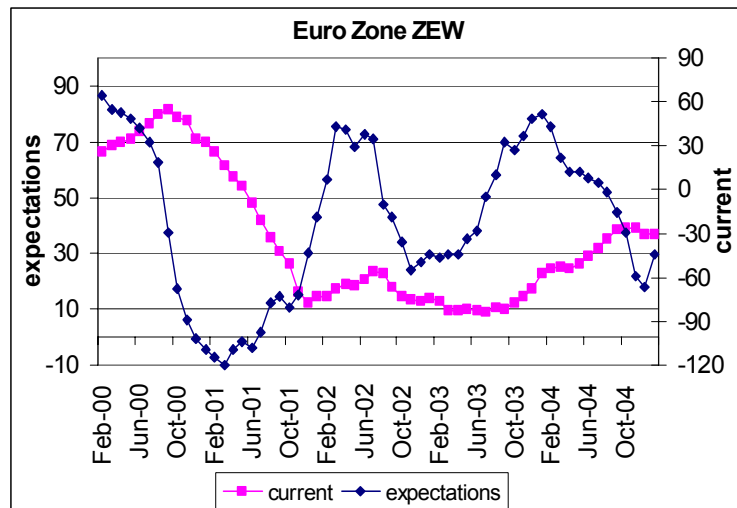


France's November Industrial Production rose 0.1% M/M and 2.1% Y/Y as oil prices and an appreciating euro continue to hurt exports. Market expectations were for a 0.2% M/M increase.

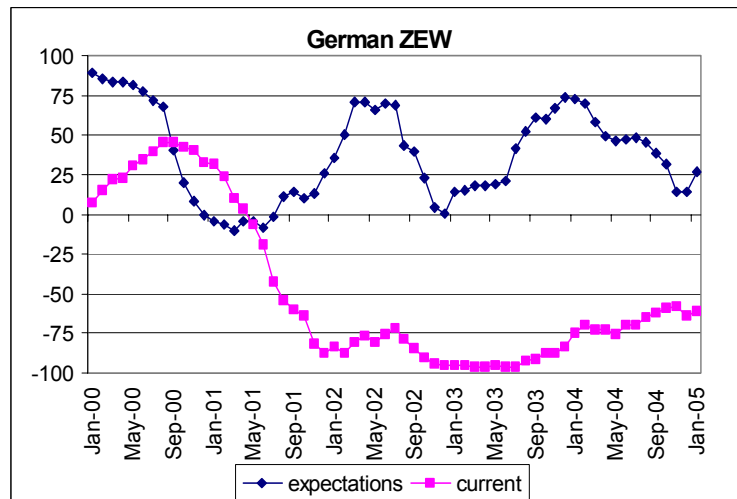


Euro Zone & German ZEW & Spanish Ind. Production

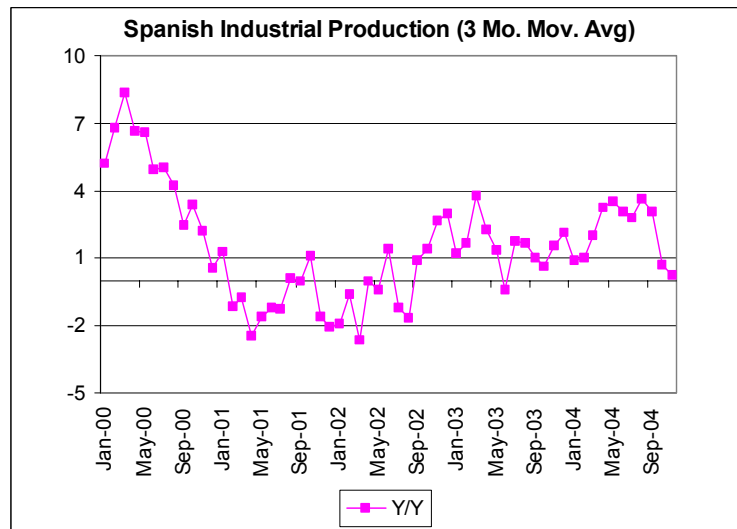
The Euro Zone's January ZEW Current Sentiment Index increased from -30.2 in December to -30.0, expectations increased for the first time in 13 months, increasing from 17.7 to 29.9 in December.



Germany's January ZEW Expectations Index increased as oil prices receded. Sentiment rose from 14.4 in December to 26.9 in January. Current Sentiment increased for the first month in 15 months, increasing from -64.2 to -61.2 in December.

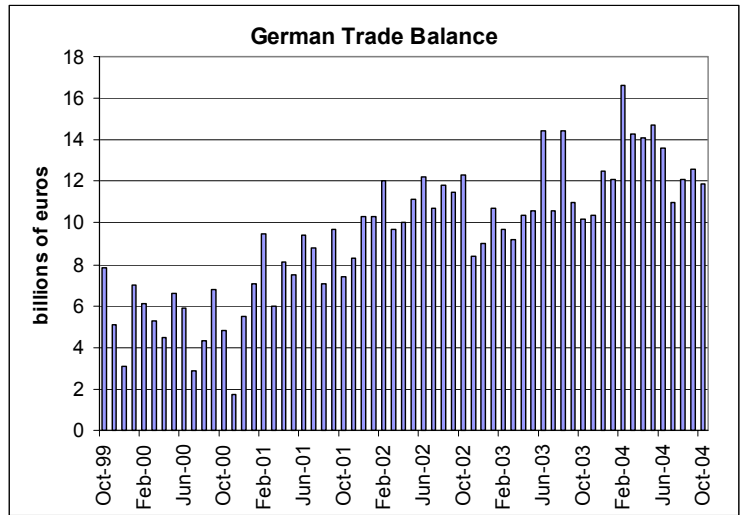


Spain's November Industrial Production rose at its fastest pace in four years, increasing 4.3% M/M and 3.9% Y/Y. Growth in the 3 month trend remains modest, however, increasing only 0.3% Y/Y.

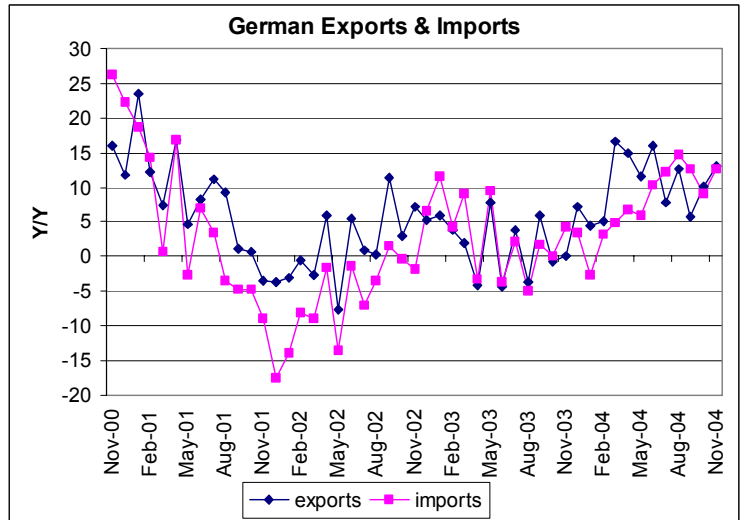


German Trade & Spanish Current Account

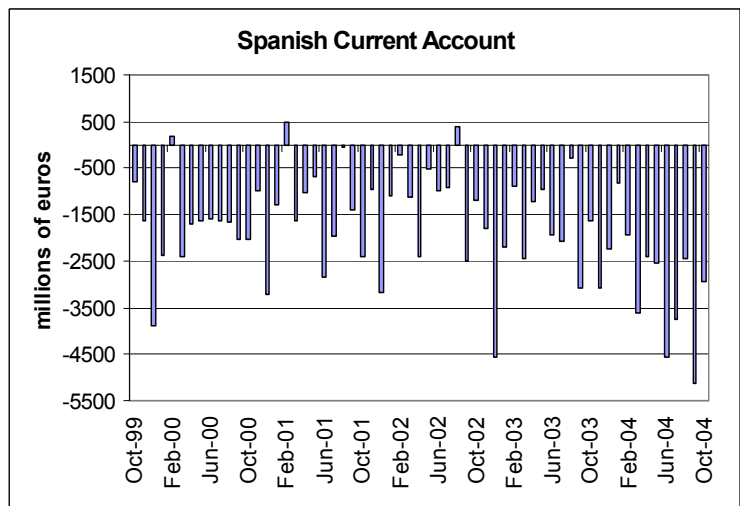
Germany's November Trade Surplus narrowed slightly, decreasing from 12.5 billion euros to 11.9 billion in October as imports outpaced exports for the month.



Germany's November Exports and Imports increased 13.1% and 12.5% Y/Y, respectively. Imports increased 1.8% M/M while exports increased 0.4% M/M. Market expectations were for both indices to fall 0.6% M/M, but recent declines in oil prices is believed to have bolstered demand.

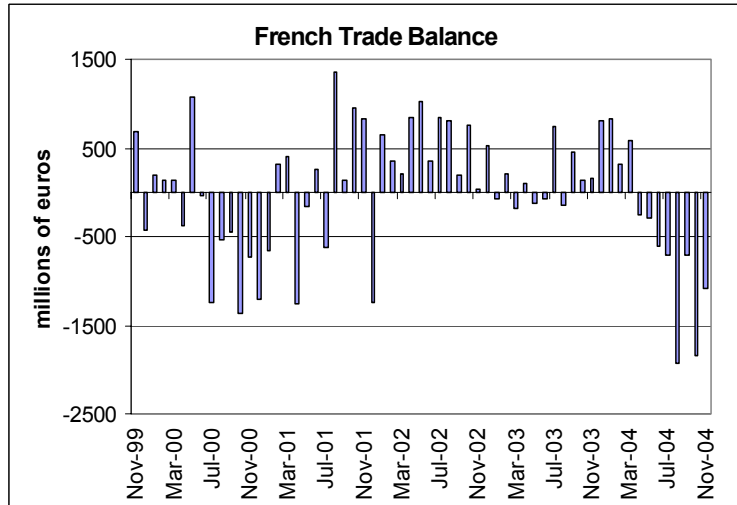


Spain's October Current Account deficit narrowed from 5.1 billion euros to 2.9 billion in September.

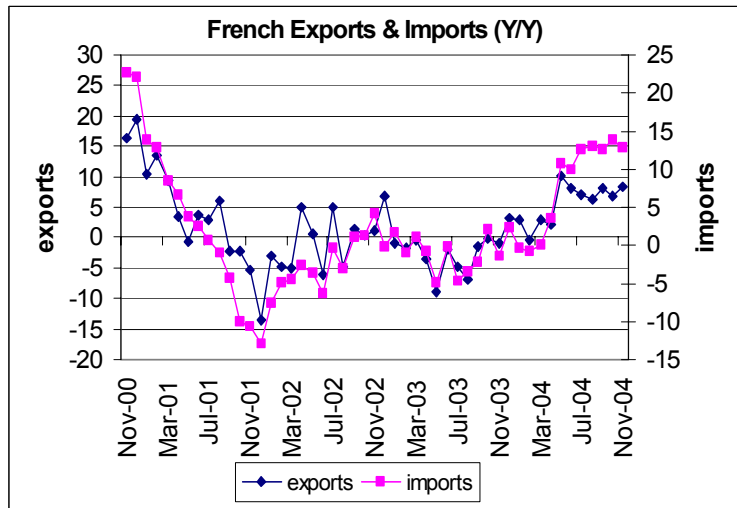


French Trade & Italian Current Account

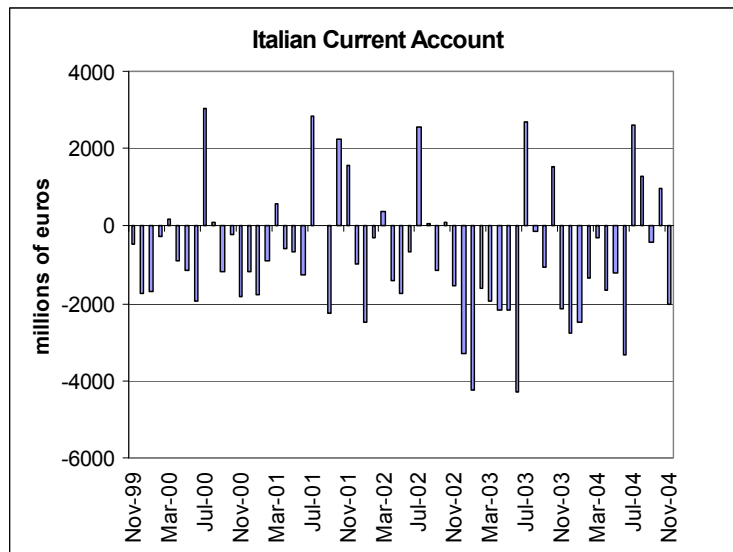
France's November Trade deficit narrowed from 1.8 billion euros to 1.1 billion in October as imports declined on a M/M basis for the first time in 8 months.



France's November Exports rose 8.2% Y/Y while Imports rose 12.9% Y/Y. On a M/M basis, exports increased 1.0% while imports fell 1.5%.

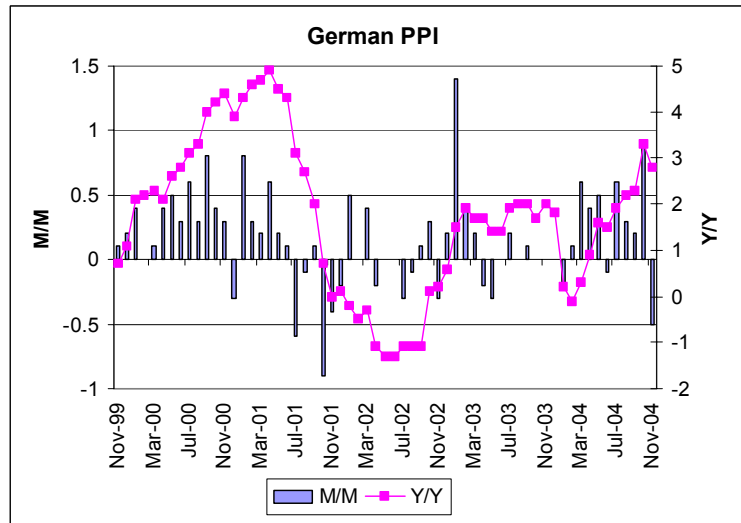


Italy's November Current Account Balance fell from 990 million euros to -2035 million in October.

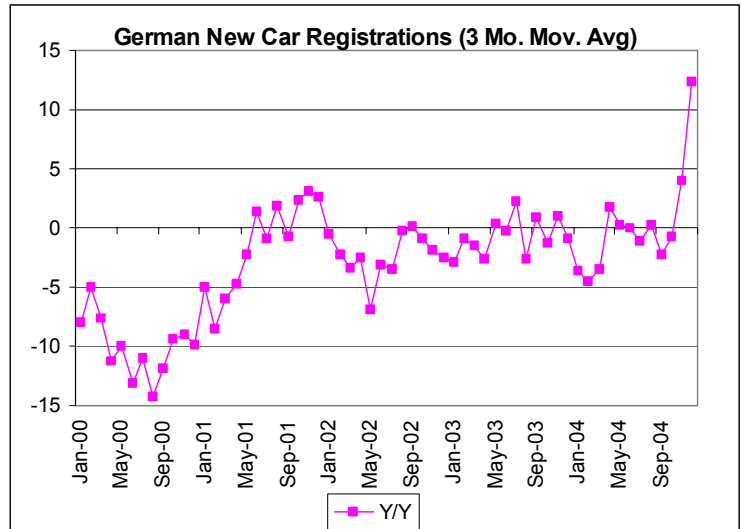


German PPI & Car Registrations & Spanish CPI

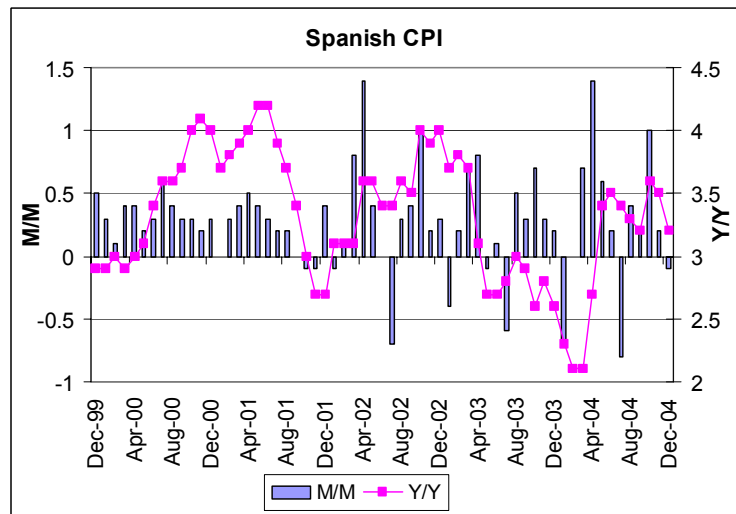
Germany's December PPI unexpectedly rose 0.1% M/M and 2.9% Y/Y. Market expectations were for prices to have fallen 0.1% M/M, but tax increases pushed up the cost of goods such as tobacco. For 2004, prices rose 1.6% Y/Y.



Germany's December New Car Registrations rose 22% Y/Y as consumers replaced aging vehicles with newer domestic models at year's end. For 2004, car sales rose 1% from 2003, the first Y/Y increase since 1999.



Spain's December CPI fell 0.1% M/M while slowing to 3.2% Y/Y. It was the first M/M decline in five months as oil prices declined.



Germany

Jan. 19th – The **German Finance Ministry** commented that an increase in German sales tax revenues in December has raised hopes that domestic demand will improve. Sales tax revenues increased 1.7% Y/Y in December, though they had fallen in both October and November.

Jan. 17th – **German Finance Minister Hans Eichel** commented on the revamping of the EU budget rules, stating, “What we will not change is the wording on the 3% of GDP on deficits and 60% of GDP on debt”. Germany and France had both hoped to loosen the budget rules but Eichel’s comments suggest that the deficit guidelines will remain fixed.

Jan. 14th – **German Bundesbank member Edgar Meister** predicted that Germany’s economy would grow fast enough in 2005 to cause a reduction in unemployment stating, “We’ll see growth in the second half of 2005 that we won’t be able to call booming, but it will be strong enough to bring down unemployment”. With slowing demand and companies preferring to move jobs elsewhere, it seems an unlikely scenario.

France

Jan. 19th – **France’s rail and electricity workers** went on a one day strike, joining other public service staff in a protest against government plans they believe will result in job losses and lower wages. Another 45,000 postal workers did not show up to work as pessimism remains concerning France Prime Minister Raffarin’s wage plans.

Jan. 17th – **The Bank of France** trimmed its estimate for Q4 2004 GDP growth and also predicted that Q1 2005 growth would be slower than previously expected. The bank lowered its Q4 GDP estimate from 0.8% (estimated on Dec. 14th) to 0.7% and estimated Q1 growth to be 0.6%.

ECB

Jan. 14th – **ECB President Trichet** commented after the bank kept its benchmark rates at 2%, giving relatively tame comments on inflation and rates. On rates Trichet stated, “No one can say that we’re not in an extremely favorable monetary environment. The level of real interest rates is very low.” Concerning inflation he commented, “We are just at our definition of price stability. European consumer should have confidence. I want to reassure them, price stability will be maintained. They can have confidence not to be inhibited in their purchasing.” The comments seem much less hawkish than recent ECB commentary, though it is still evident that they are very ‘vigilant’ concerning inflation.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
1/20	Spanish Factory Orders (NOV)		-0.9% Y/Y
1/20	Italian Trade Balance (NOV)	-436M	664M
1/20	Euro Zone CPI (DEC)	2.3% Y/Y	2.2% Y/Y
1/20	Italian Industrial Orders (NOV)	2.5% Y/Y	-1.1% Y/Y
1/21	French Consumer Spending (DEC)	-0.6% M/M	1.5% M/M

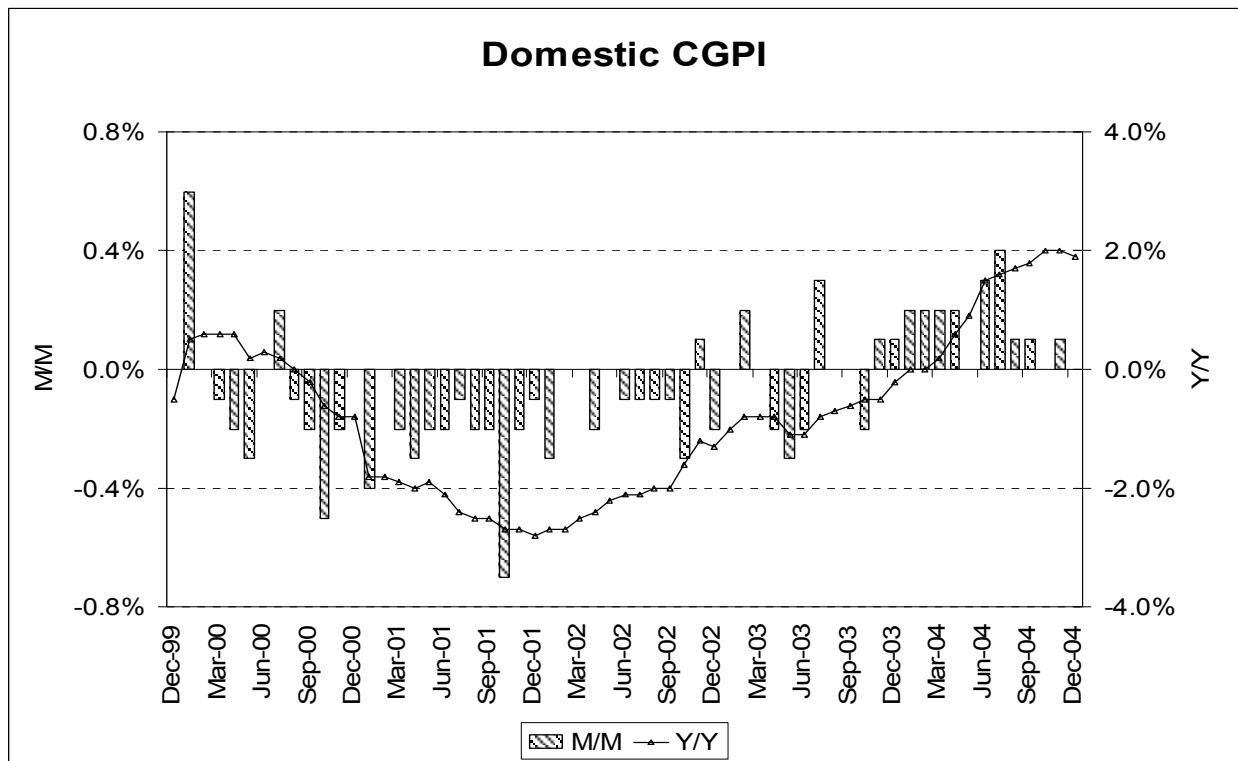
Japan

Last week's economic data continues to show more mixed signs for Japan. On the positive side, the Leading and Coincident Indices both bounced back with the Coincident Index surpassing the 50.0 expansion level. Meanwhile, Capacity Utilization reached its highest level since 1997, Machinery Orders increased and the Domestic CGPI posted results in line with expectations. On the softer side, the Eco Watchers Survey for both the Current and Future Outlook, and Consumer Confidence decreased.

Weekly Highlights

- **Domestic CGPI** – remained flat M/M and increased 1.9% Y/Y in December, in line with expectations. (page 18)
- **Japan's Consumer Confidence Index** - decreased from 47.9 in November to 44.3 in December. (page 19)
- **Industrial Production** - increased 1.7% M/M and 4.5% Y/Y in November, above expectations. (page 20)

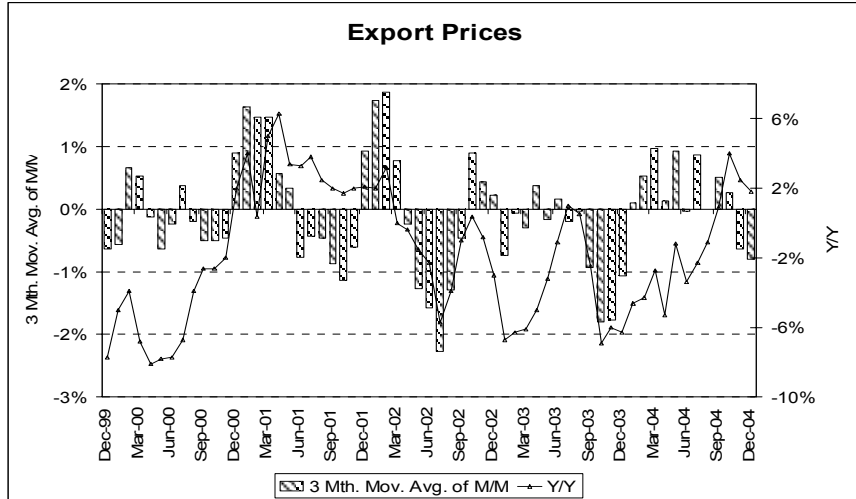
Chart of the Week



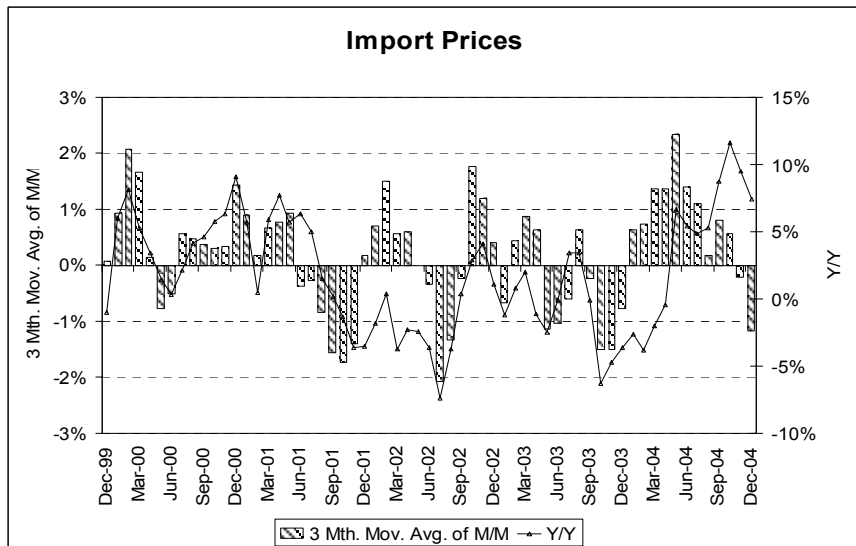
Domestic CGPI remained flat M/M and increased 1.9% in December, inline with expectations. Raw materials, intermediate materials and final goods prices decreased 2.3% M/M, 0.1% and 0.1% M/M, respectively.

Export & Import Prices and Consumer Confidence

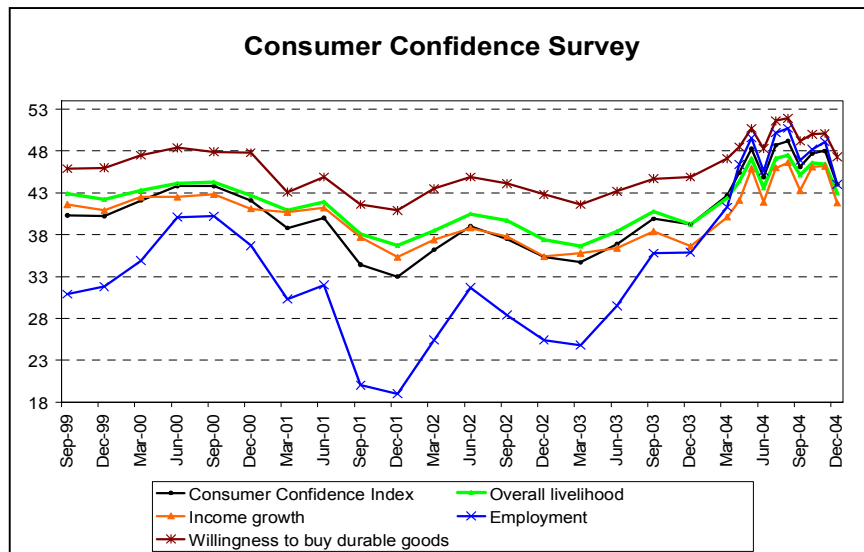
Total Export Prices decreased 0.6% M/M and increased 1.8% Y/Y in December.



Total Import Prices decreased 1.5% M/M and increased 7.4% Y/Y in December.

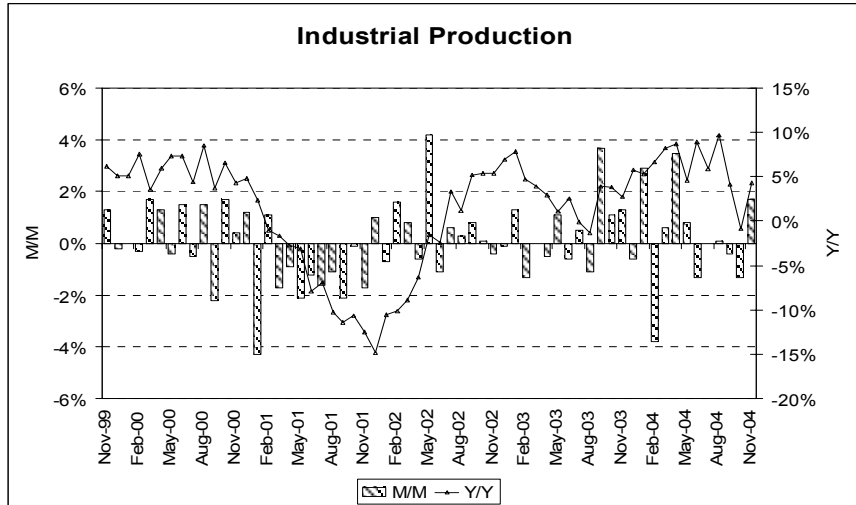


Japan Consumer Confidence Index decreased from 47.9 in November to 44.3 in December as confidence decreased across the board. Confidence regarding employment conditions decreased from 49.1 to 44.

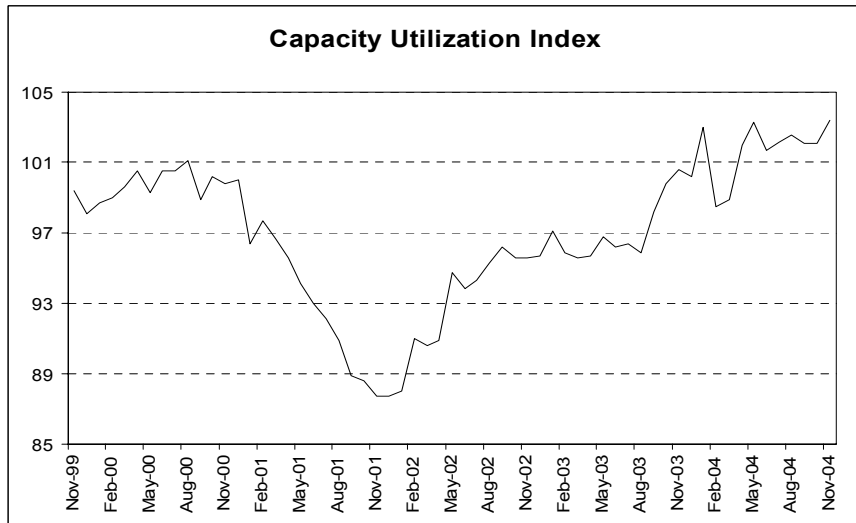


Industrial Production, Capacity Utilization and Leading & Coincident Indices

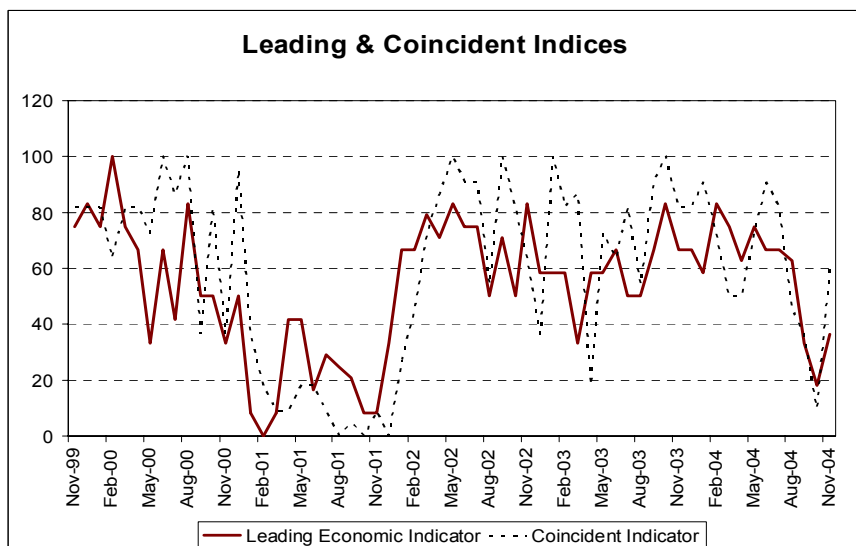
Industrial Production increased 1.7% M/M and 4.5% Y/Y in November, above expectations. Shipments and Inventories increased 1.3% M/M and 0.8% M/M, respectively.



Capacity Utilization increased 1.3% M/M and 2.8% Y/Y in November. Y/Y growth has been trending up since early 2002 and is now at its highest level since 1997.

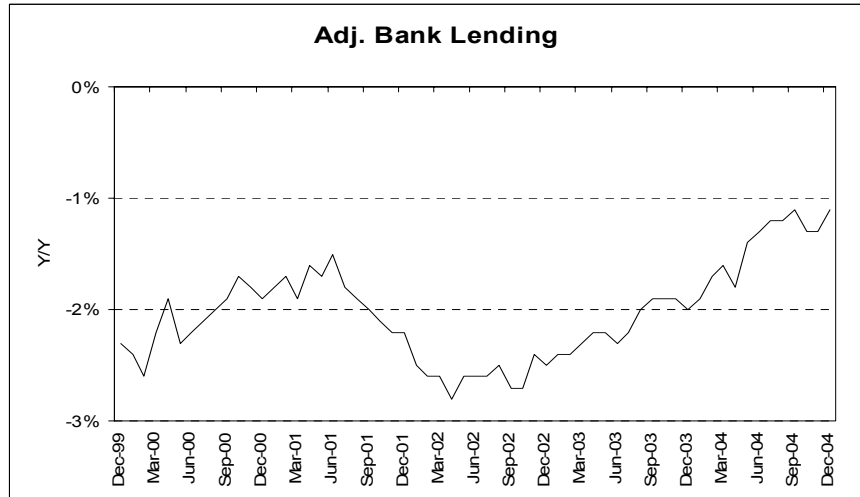


November's final figures illustrated that the Leading and Coincident Indices have both regained some upward momentum in November with the results of 36.4 and 60, respectively. A reading above 50 suggests economic expansion and a reading below 50 suggests contraction.

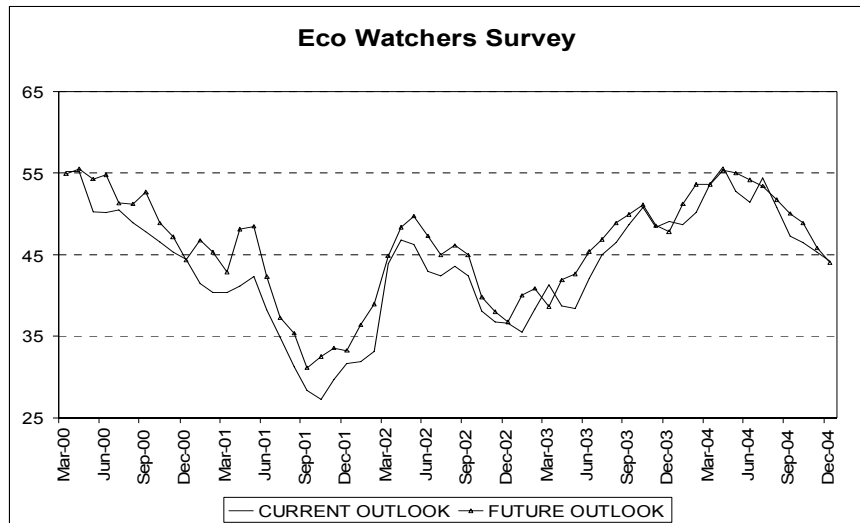


Adjusted Bank Lending, Eco Watchers Survey & Machine Orders

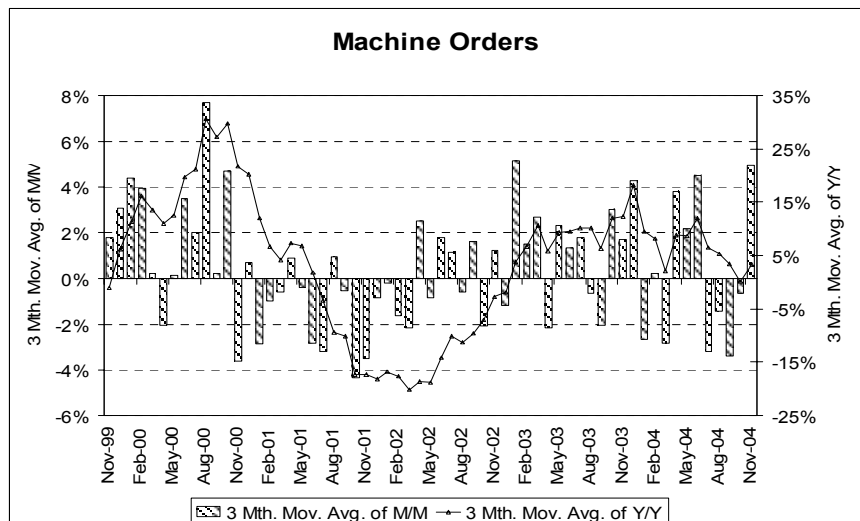
The Adjusted Bank Lending decreased 1.2% Y/Y in December.



The Eco Watchers Survey for the Current Outlook decreased from 45.3 in November to 44.2 in December. The Eco Watchers Survey for the Future Outlook also posted a decrease from 45.8 to 44.

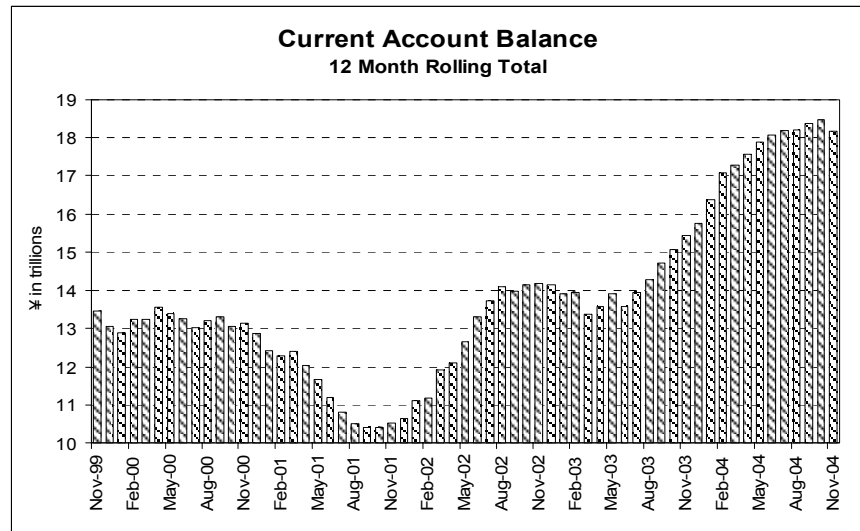


Machine Orders, a leading indicator of business fixed investments, posted large increases of 19.9% M/M and 15.1% Y/Y in November. Meanwhile the preliminary figures show that Machinery Tool Orders increased from 48.4% Y/Y in November to 49.1% Y/Y in December.

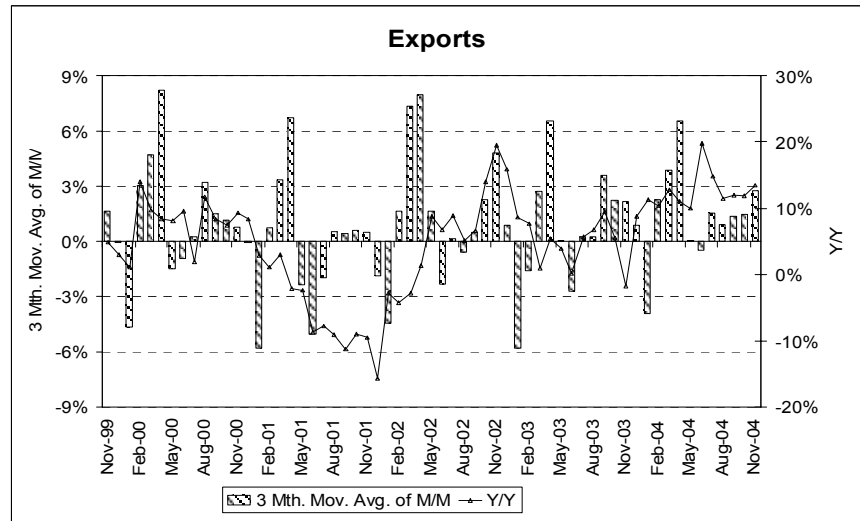


Current Account Balance, Exports & Imports

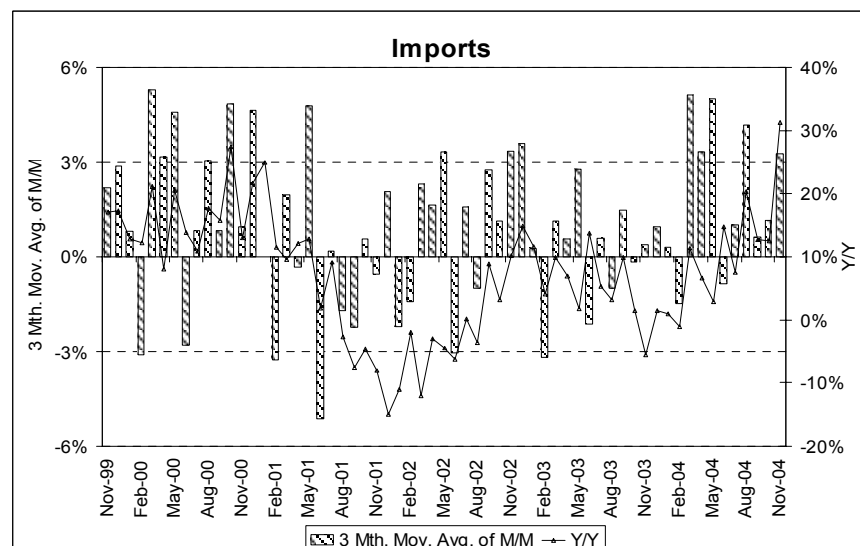
The Current Account surplus decreased from ¥1336.7 bn in October to ¥1203.8bn in November. The surplus decreased largely as a result of rising oil prices boosting imports.



Exports decreased 5.8% M/M and increased 13.4% Y/Y in November as the strong yen against the dollar helped to slow overseas sales.

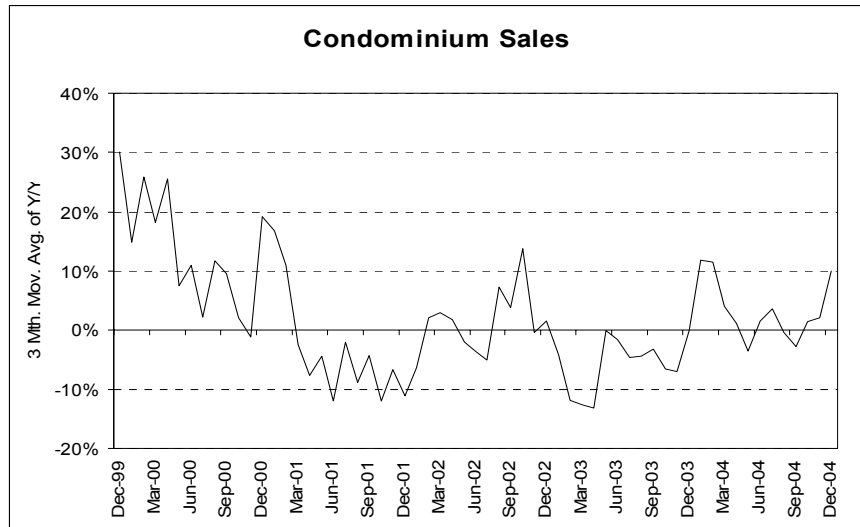


Imports increased 8.8% M/M and 31.2% Y/Y in November as a result of rising oil prices.

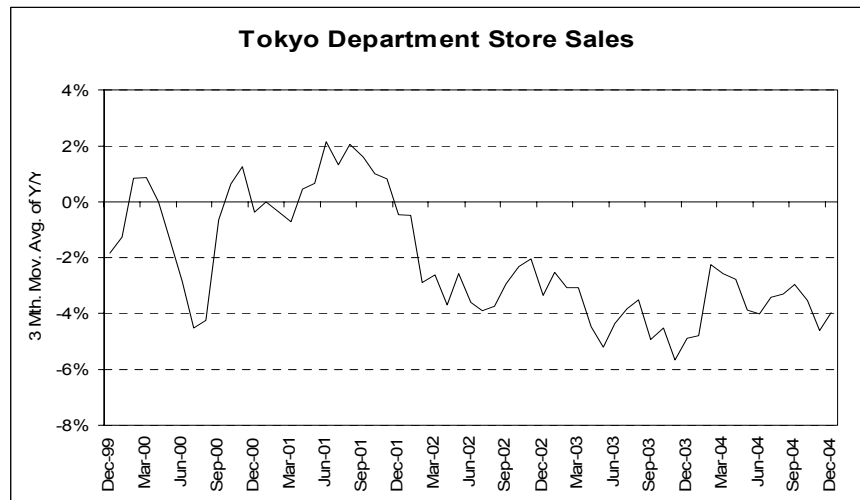


Condominium Sales & Tokyo Department Store Sales

In December, condominium sales increased 18.5% Y/Y and the average unit price increased 0.6% Y/Y, posting its third straight month of increases.



Tokyo Department Store Sales decreased 3.2% Y/Y in December.



News Briefs

January 18th – Governor Fukui commented at a press conference in Tokyo that currencies are moving in a “somewhat unstable manner” and that the Central Bank will keep a close eye in observing any adverse effect that these movements might have on sentiment and Japan’s economy.

January 17th – Finance Minister, Sadakazu Tanigaki, commented that foreign exchange rates should move in a stable manner and reflect fundamentals of economies. The Minister of Finance also commented that Japan’s ministry “will take decisive action if foreign exchange rates fail to move in such a way.” Tanigaki made these comments at a press conference in Tokyo after a cabinet meeting.

January 13th – Tokyo Office Vacancies decreased from 6.4% M/M in November to 6.1% in December, reaching its fifth consecutive month of decline. December’s reading showed the lowest rate of decline in 28 months. Average rent increased from ¥17,553 per tsubo to ¥17,577 in December. There was an 8.1% Y/Y decrease in office vacancy rate.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
1/20	Convenience Store Sales (DEC)	.....	-1.0%
1/20	Tertiary Industry Index (M/M) (NOV)	0.0%	-0.1%
1/20	All Industry Activity Index (M/M) (NOV)	0.3%	-0.4%
1/21	Machine Tool Orders (Y/Y) (DEC F)	.....	49.1%
1/24	BOJ Monetary Policy Meeting Minutes		
1/25	Small Business Confidence (JAN)	.....	48.4
1/25	Corporate Service Prices (Y/Y) (DEC)	.....	-0.3%
1/26	Large Retailers' Sales (DEC P)	.....	-5.3
1/26	Retail Trade (Y/Y) (DEC P)	.....	0.7%
1/26	Retail Trade (M/M SA) (DEC P)	.....	-0.6%

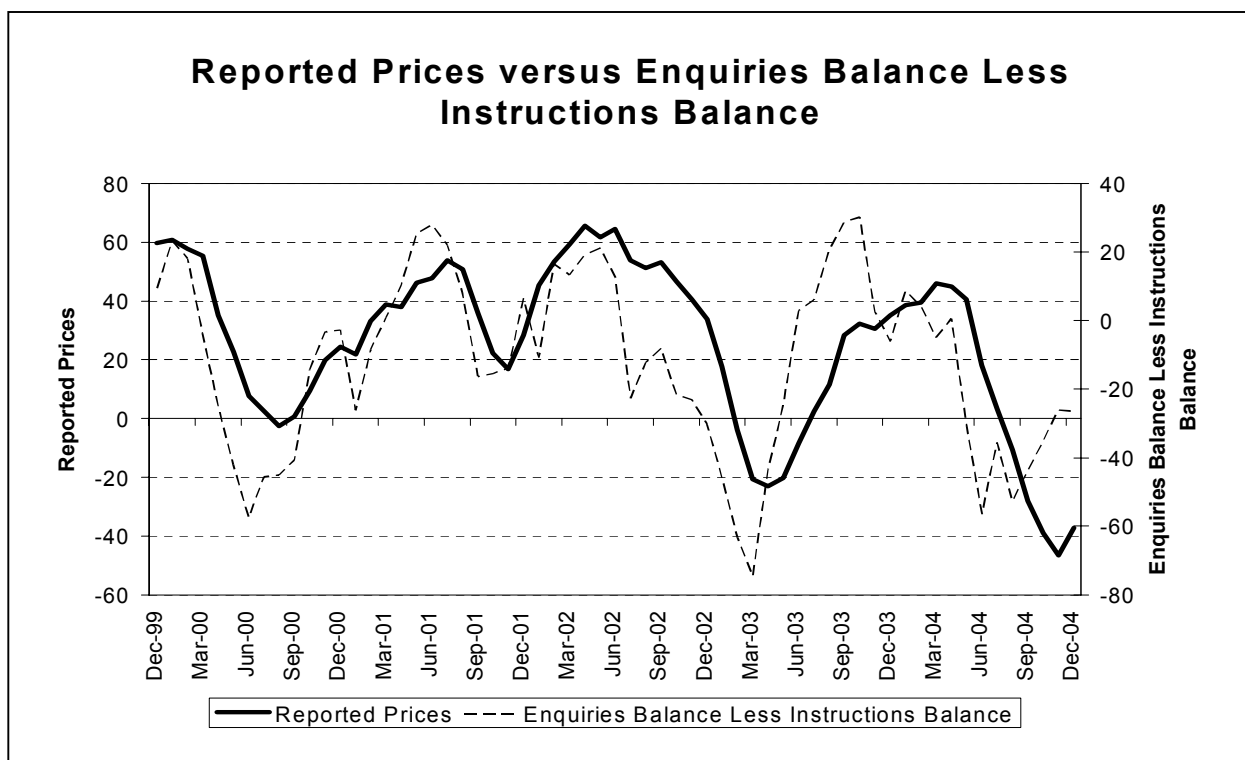
United Kingdom

The RICS House Price Balance increased from -46 to -37 in December. Meanwhile, both CPI and Average Earnings surprised to the upside.

Weekly Highlights

- **RICS House Price Balance**- increased from -46 to -37 in December, the first reversal in eight months. (page 26)
- **CPI**- increased 0.5% M/M and 1.6% Y/Y in December, the third consecutive monthly of increase in the M/M pace. (page 27)
- **Average Earnings**- increased 0.3% M/M and 4.4% Y/Y in November as the number of people claiming jobless benefits fell sharply. (page 28)
- **Unemployment Rate**- remained at 2.7% for a sixth consecutive month in December. (page 28)

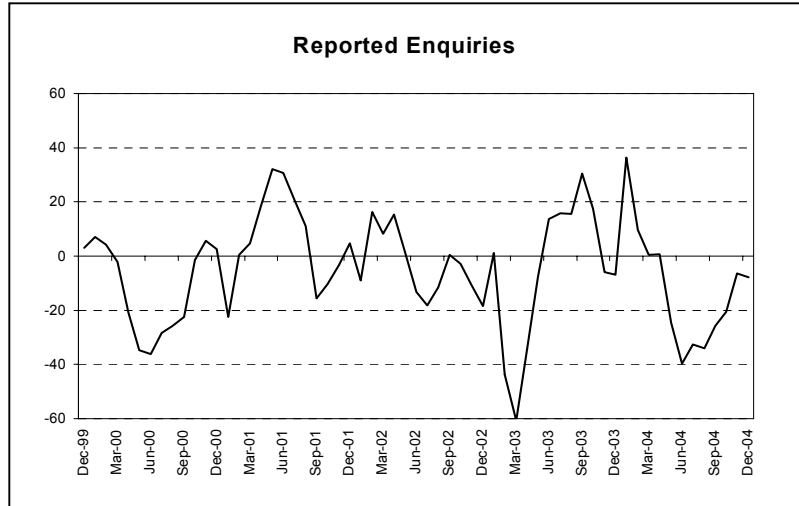
Chart of the Week



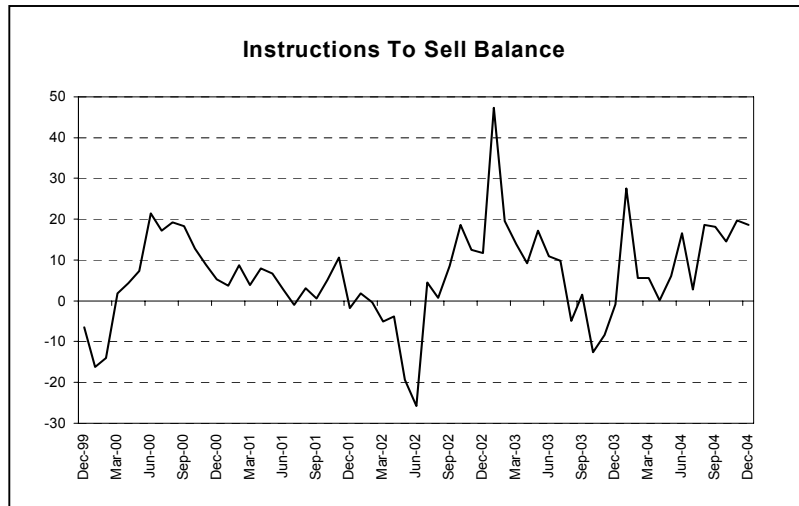
RICS House Price Balance increased from -46 to -37 in December. Expectations that rate increases have peaked have contributed in the stabilizing of property sales, though the stock of unsold properties has it reached its highest level in over a year and a half.

RICS Reported Enquiries, Instructions to Sell & CPI

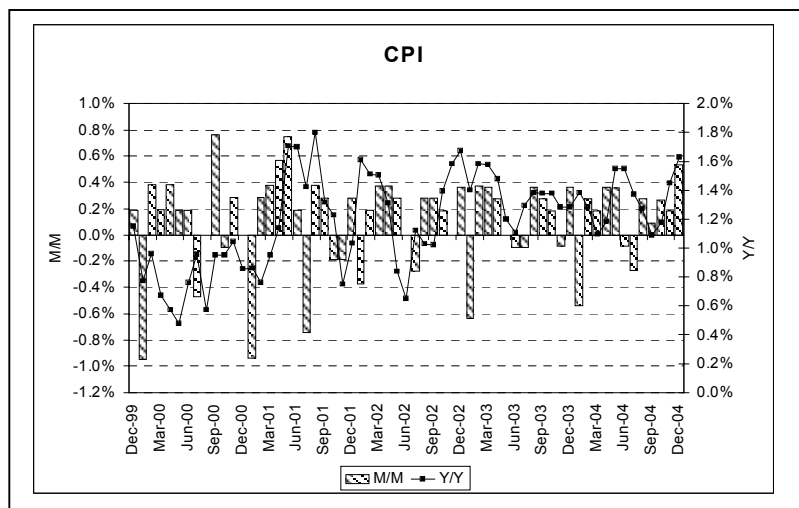
RICS Reported Enquiries decreased slightly from -6 to -8 in December.



RICS Instructions to Sell decreased slightly from +20 to +19 in December.

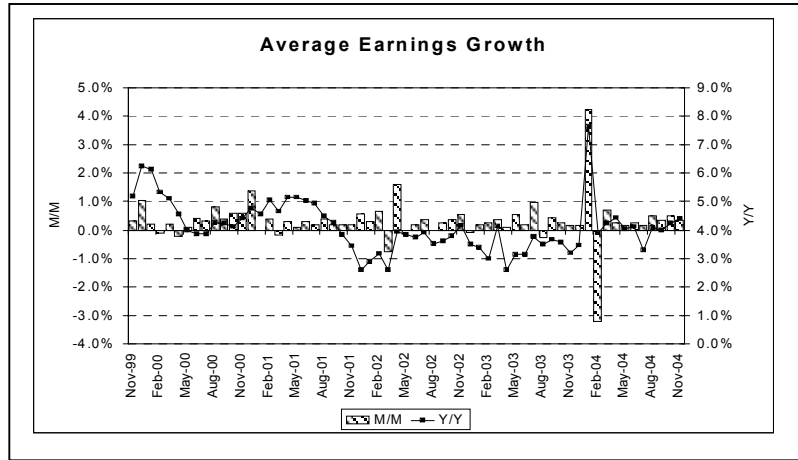


CPI increased 0.5% M/M and 1.6% Y/Y in December. The largest upward effects were from increases in the prices of food, furniture and household goods, followed by higher costs of recreation and cultural products. One time utility surcharges also contributed to the outcome.

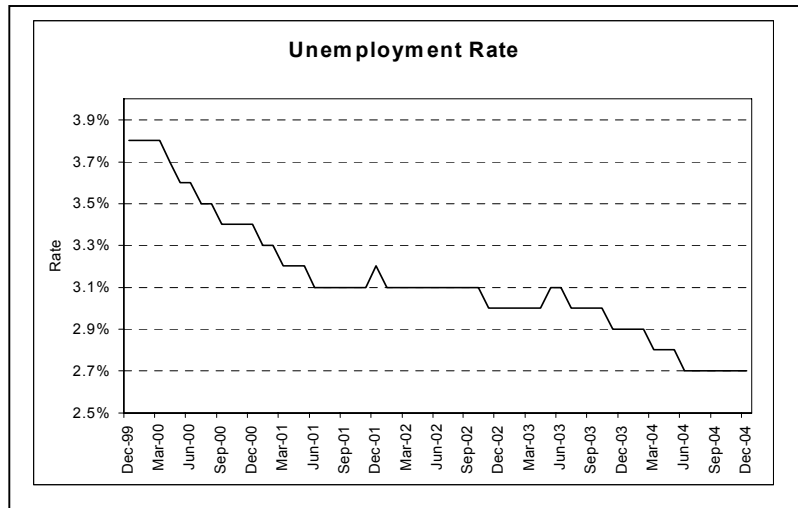


Average Earnings Growth, Unemployment Rate & ILO Unemployment

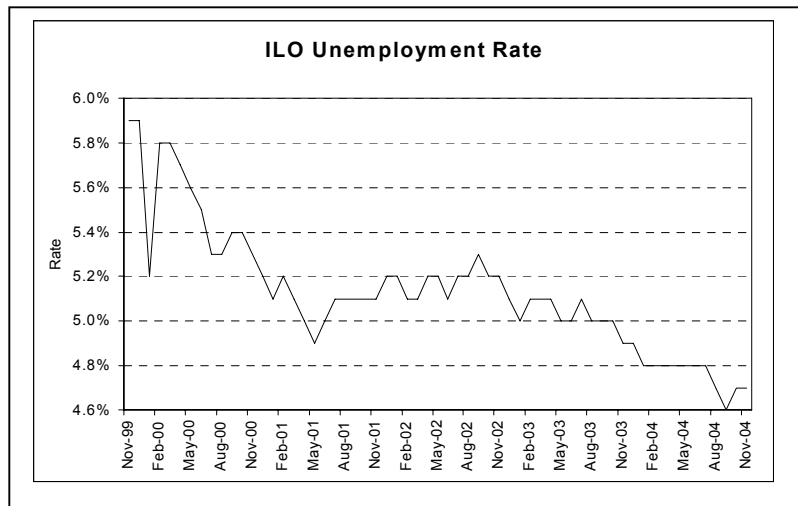
Average Earnings increased 0.3% M/M and 4.4% Y/Y in November as the number of people claiming jobless benefits fell sharply. Private Earnings increased 0.3% M/M and 4.3% Y/Y while Public Earnings increased 0.3% M/M and 4.9% Y/Y in November.



The Unemployment Rate remained at 2.7% for the sixth consecutive month in December while the number of people on jobless benefits decreased by 6,200.



The ILO reports that its definition of the unemployment rate held steady at 4.7% for the second consecutive month in December.



Data

The NIESR states that UK GDP increased 0.4% in the three months thru November, suggesting there was little sign of a pickup in growth during the final months of last year.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
1/21	Retail Sales	0.3% M/M 5.5% Y/Y	0.6% M/M 6.1% Y/Y
1/26	GDP		0.5% Q/Q 3.1% Y/Y
1/26	Index of Distribution		
1/26	BOE Minutes		

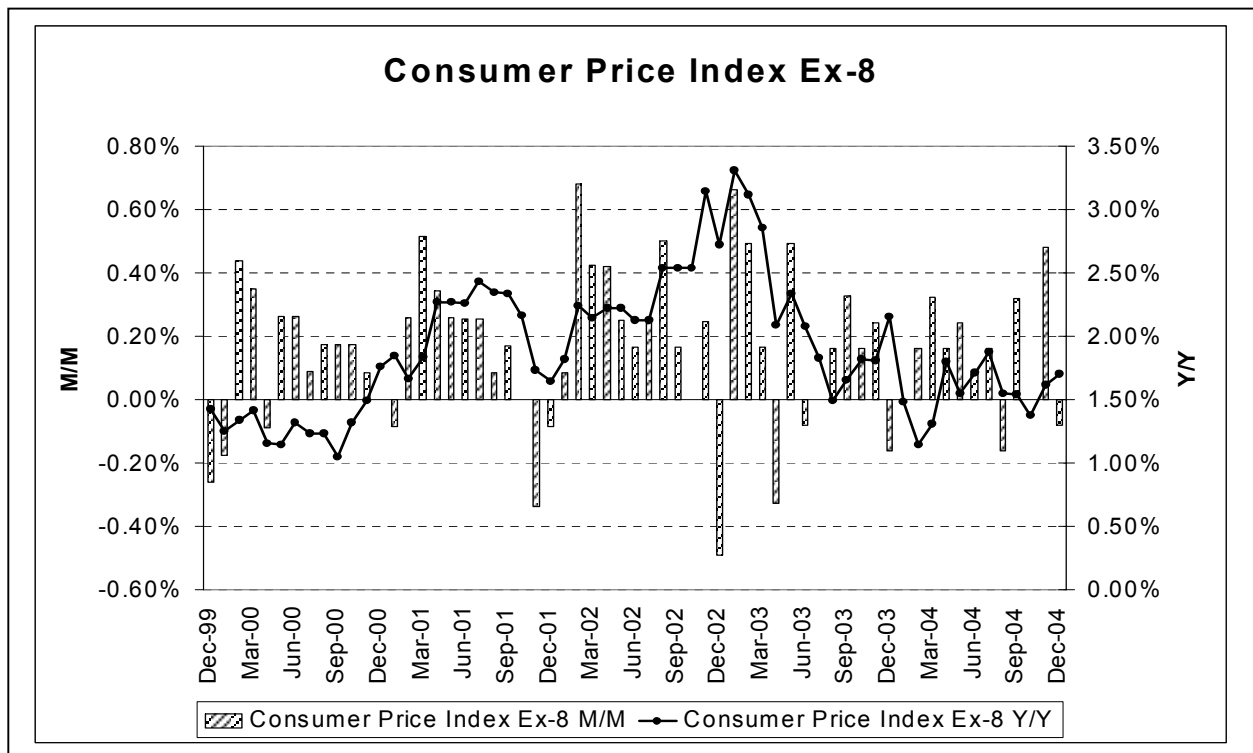
Canada

Recent data from Canada has been mixed. Prices eased slightly in December while the November trade balance widened beyond expectations. Housing starts remained firm while the BoC commented that continuing volatility in the C\$ and commodity prices remain a risk to the economy. The BoC is expected to keep its overnight rate at 2.50% at its next meeting on January 25th.

Weekly Highlights

- **CPI Ex-8** – declined 0.1% M/M and increased 1.7% Y/Y in December. (page 31)
- **Trade Balance** – widened from \$5.2 billion to \$7.3 billion in November. (page 32)
- **Housing Starts** - increased from 238.2K to 234.4K in December. (page 32)
- **Building Permits** – increased 9.3% M/M and 20.2% Y/Y in November. (page 33)
- **BoC Comments** – currency still a risk. (page 34)

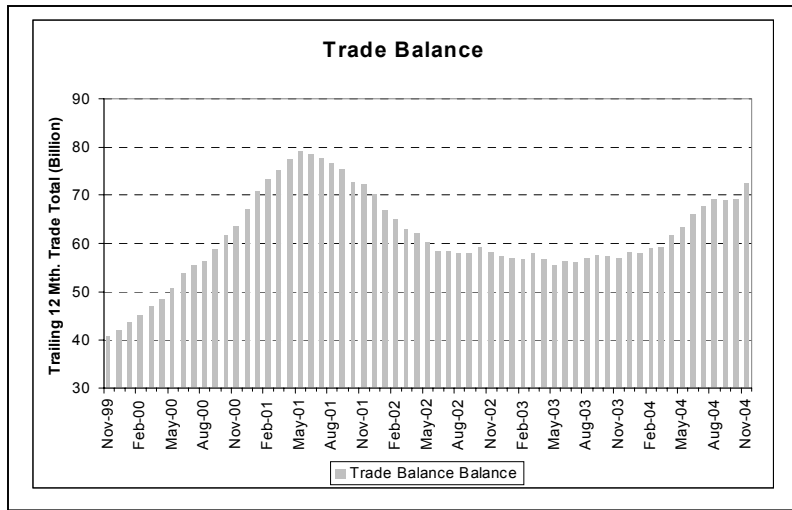
Chart of the Week



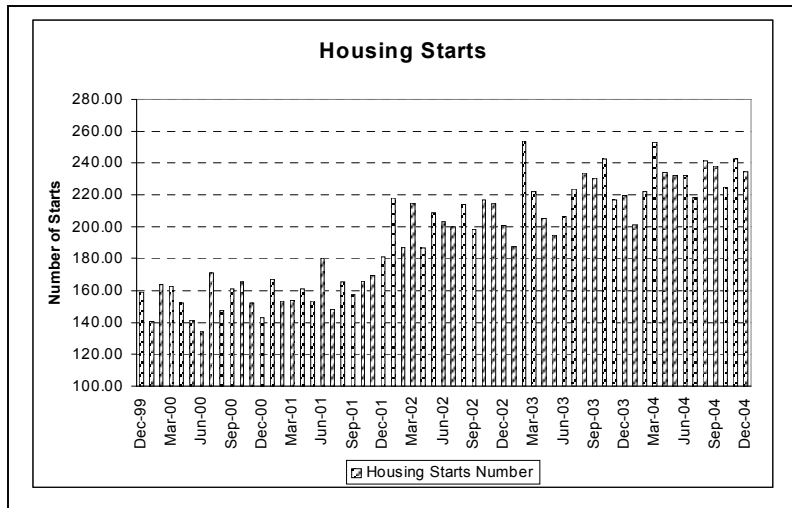
Consumer prices in Canada for goods and services, excluding the 8 most volatile components, eased 0.1% M/M and increased 1.7% Y/Y, due to lower prices of computer equipment and supplies, automotive insurance premiums and women's and men's clothing. With low inflationary pressures, the Bank of Canada is expected to leave its overnight rate unchanged at its next meeting on Jan. 25th.

Trade Balance, Housing Starts & New House Prices

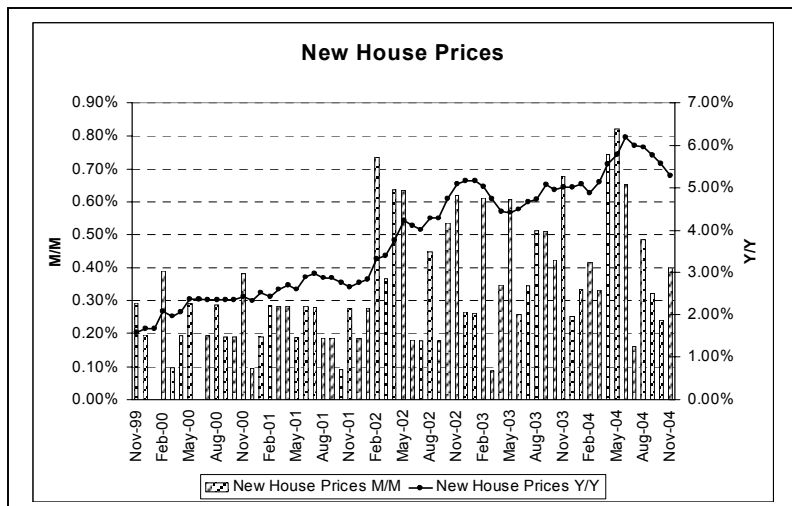
Canada's trade surplus widened from \$5.2 billion to \$7.3 billion in November. The increase was above expectations and is the third highest level in 7 years. The increase resulted as the value of imports declined 10.2% M/M and exports declined 2.9% M/M.



Housing starts in December decreased, from 242.6k units to 234.4k new units at an annual rate in December.

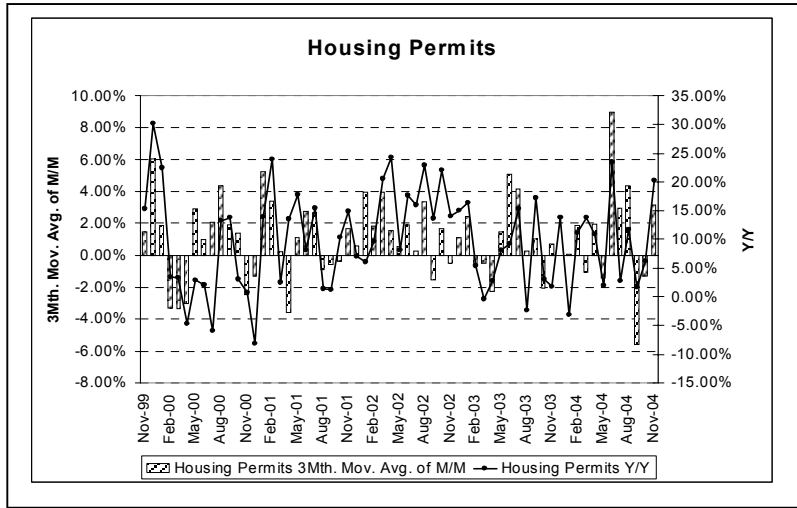


New home prices increased 0.4% M/M and 5.3% Y/Y in November due to higher costs for lumber and other building materials.

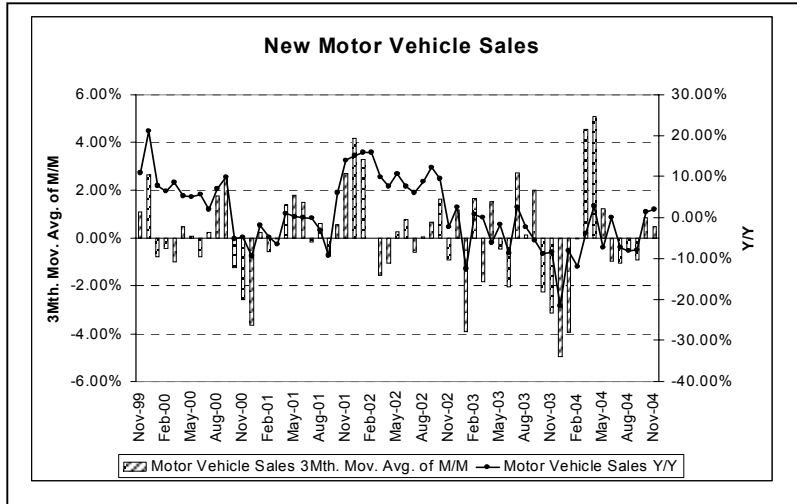


Housing Permits & New Motor Vehicle Sales

Housing permits increased 9.3% M/M and 20.2% Y/Y in November.



Motor vehicle sales decreased by 3.1% M/M and increased by 2.0% Y/Y in November. The decrease was driven largely by passenger car sales. Preliminary data for December suggests that the number of vehicles sold will decline by 2.0% M/M.



BoC Comments, Goodale Comments, Leading Index & Business Confidence

Currency Still A Risk – BoC

The BoC Senior Deputy Gov., Paul Jenkins, made clear that a strong C\$ and swings in oil and other commodity prices remain a risk to the country's economy, echoing a similar assessment made in October. "All of these risks and uncertainties remain relevant," stated Jenkins. The comment affirmed economists' expectations that the Bank will leave its overnight rate unchanged at 2.50% at its next meeting on January 25th.

Finance Minister Goodale Comments on C\$

Finance Minister, Ralph Goodale, commented on the C\$'s rise and data that showed the decline in imports in November, stating:

"We may be seeing really solid, tangible evidence of the materialization of some element of that downside risk. We flagged this downside risk very clearly in the fiscal update. It reinforces the point about prudence in the budget. We need to make our future investments and commitments in a way that keeps the budget solid without any risk of deficit over the next five years. I'm very confident about the prospects for the economy and fiscal position of the government."

Canadian Leading Index Increases in December

The Canadian Index of Leading Economic Indicators increased 0.2% in December after slowing in November. The increase was driven by new factory orders and furniture as well as appliance sales.

Business Confidence Declines According to BoC

Canadian business optimism about sales growth in the upcoming 12 months is at its lowest in three years due to a stronger currency damping foreign demand, a quarterly BoC survey found. The share of executives predicting slower sales growth increased from 26% in the Q3 2004 survey to 34% in the Q4 2004 survey. "The appreciation of the C\$ between the survey periods has heightened uncertainty among businesses and dampened the expectations of those adversely affected by the rising dollar," the BoC commented. The 6.8% increase in the C\$ between surveys made Canadian goods more expensive to foreign buyers in November. While the report supports expectations for the BoC to keep its overnight rate at 2.50% at its Jan. 25th meeting, the data is quarterly, and since November, the C\$ has declined to October levels, with 1 C\$ trading under 82 U.S. cents.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
1/20	Manufacturing Shipments (Nov)	-0.6%	-1.3%
1/21	Wholesale Sales (Nov)	0.3%	0.2%
1/24	Retail Sales (Nov)	-0.2%	1.4%
	Retail Sales (Ex-Autos) (Nov)	0.2%	0.9%
1/25	BoC Rate	2.50%	2.50%

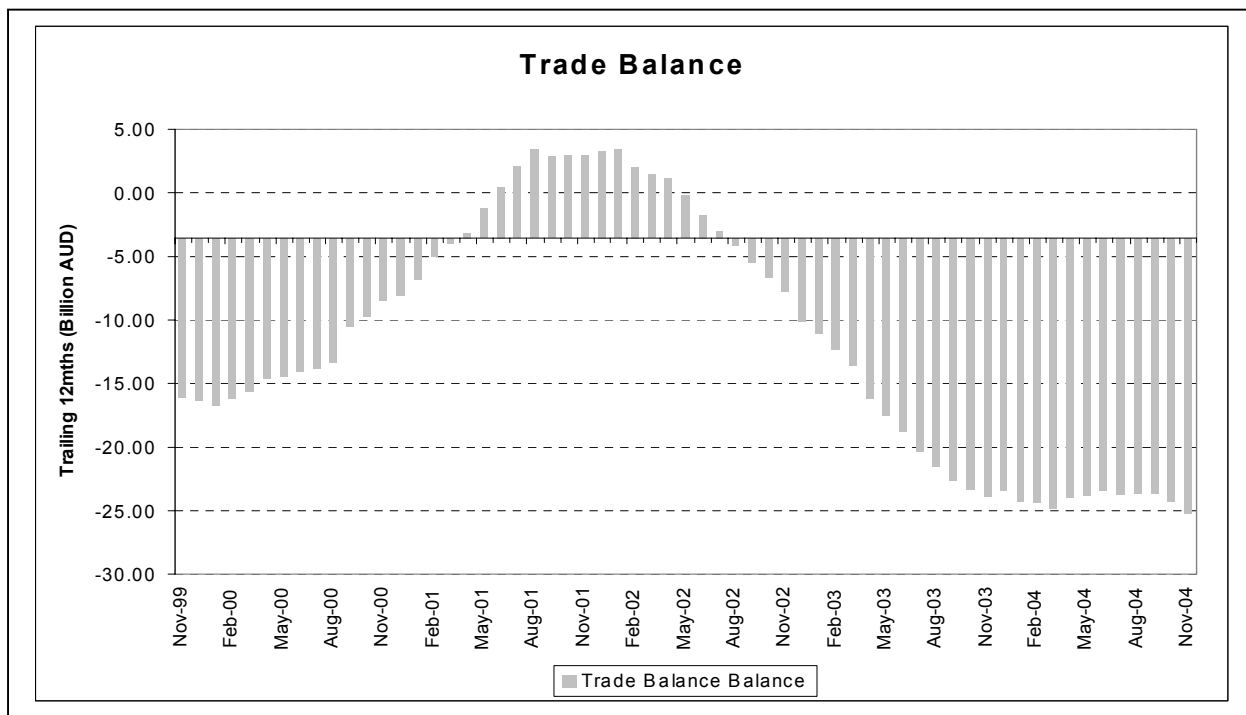
Australia

This week's data was mixed, but suggests that the Australian economy may strengthen in the upcoming quarters. Employment was stronger than expected, and along with home loans and consumer confidence, suggests that the RBA may find the need to increase its overnight rate by Q3 2005.

Weekly Highlights

- **Trade Deficit** – widened from \$2.37 billion to \$2.66 billion in November. (page 36)
- **Employment Change** – 29k new jobs added; unemployment rate declined from 5.2% to 5.1% in November. (page 37)
- **Home Loans** – increased 2.7% M/M and decreased 9.7% Y/Y in November. (page 37)
- **Inflation Expectations** – consumers expect prices to increase 3.5% in 2005. (page 37)
- **WP-MI Leading Economic Index** – increased by 0.9% in November. (page 38)
- **Consumer Confidence** – increased 4.2% M/M in January. (page 38)

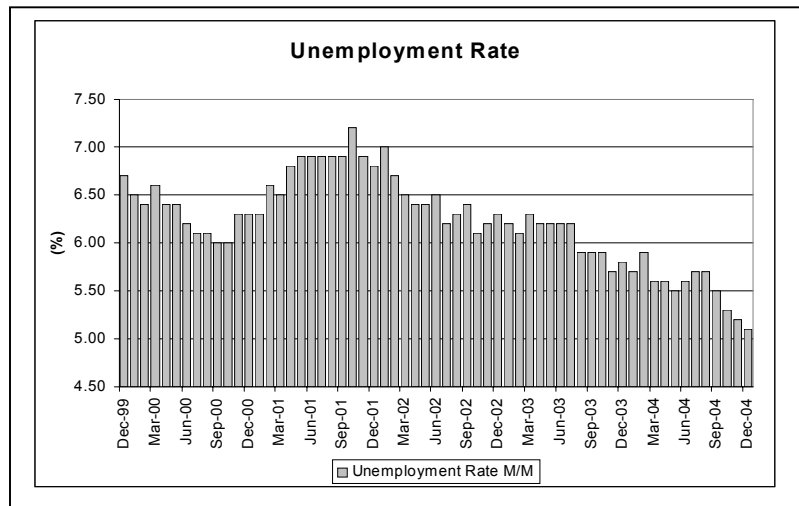
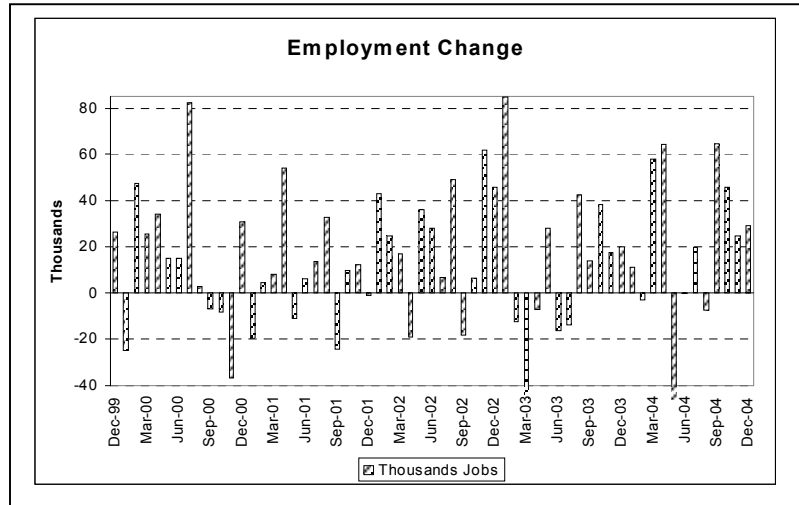
Chart of the Week



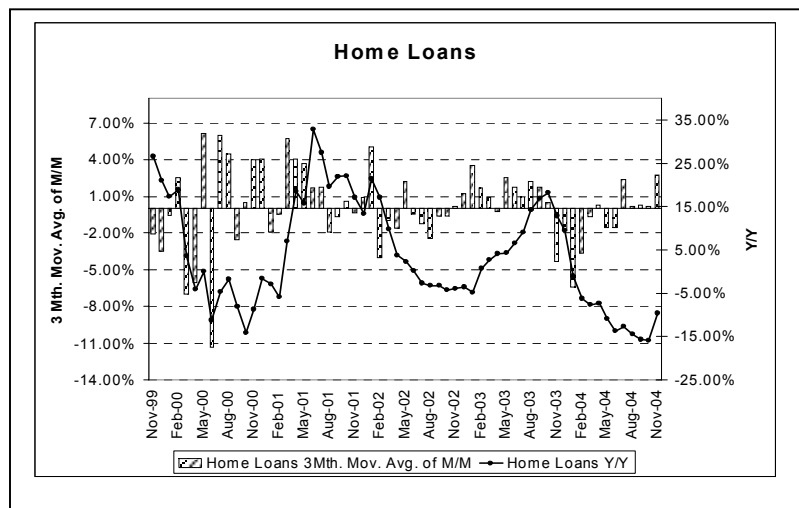
Australia's trade deficit widened from \$2.37 billion to \$2.66 billion in November as exports declined 0.4% to the lowest since May and imports increased 2% to a record high. The second consecutive drop in exports, as well as weaker than expected retail spending and building, all suggest that the growth in Australia may be slowing and most economists are expecting the RBA to remain on hold until 2006. Employment and consumer confidence data indicate the economy may strengthen later this year, however, suggesting that the RBA may move to hike rates before year-end.

Employment, Unemployment & Home Loans

29,000 new jobs were added in Australia in December as the unemployment rate declined from 5.2% to 5.1%. The increase in jobs was more than economists expected, bringing the unemployment rate to a 28 year low.



Australia building approvals increased 2.7% M/M and declined 9.7% Y/Y in November, the largest increase in two years. The increase suggests that the housing market may be strengthening as the job market continues strong.



Inflation Expectations, WP-MI Leading Economic Index & Consumer Confidence

Consumers Expect Prices Will Increase 3.5% in 2005

Australian consumers expect prices to increase 3.5% in 2005, an expectation that remains at the lowest level in about a year as lower oil prices and a rising Australian currency lowered import prices.

Westpac-MI Leading Economic Index Increases 0.9% in November

The WP-MI Leading Economic Index increased 0.9% in November, suggesting that economic growth will strengthen up later in 2005. The annualized growth rate of the index was 5.8%, higher than its long-term trend of 4%. The increase adds to expectations that some have that the RBA will increase its overnight rate before Q3. The annualized growth rate of the Coincident Index was 5.1% in November, also above its long term trend of 4%.

Australian Consumer Confidence Increased to 11 Year High

The Australian Consumer Confidence Index increased 4.2% from December to 123.5 in January. The increase is the highest in 11 years and in combination with a strong labor market, may lead to a recovery in retail sales, supporting growth in mid 2005 and increasing the probability of the RBA deciding to increase its overnight rate around Q3, 2005.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
1/19	RBA Monthly Bulletin	N/A	N/A
1/20	Conference Board of Australia Leading Economic Index	N/A	N/A
	Import Price Index (Q4)	-2.5%	2.6%
	Export Price Index (Q4)	-2.0%	6.9%
1/23	Producer Price Index (Q4)	N/A	1.4%
1/24	Consumer Prices (Q4)	N/A	2.3%

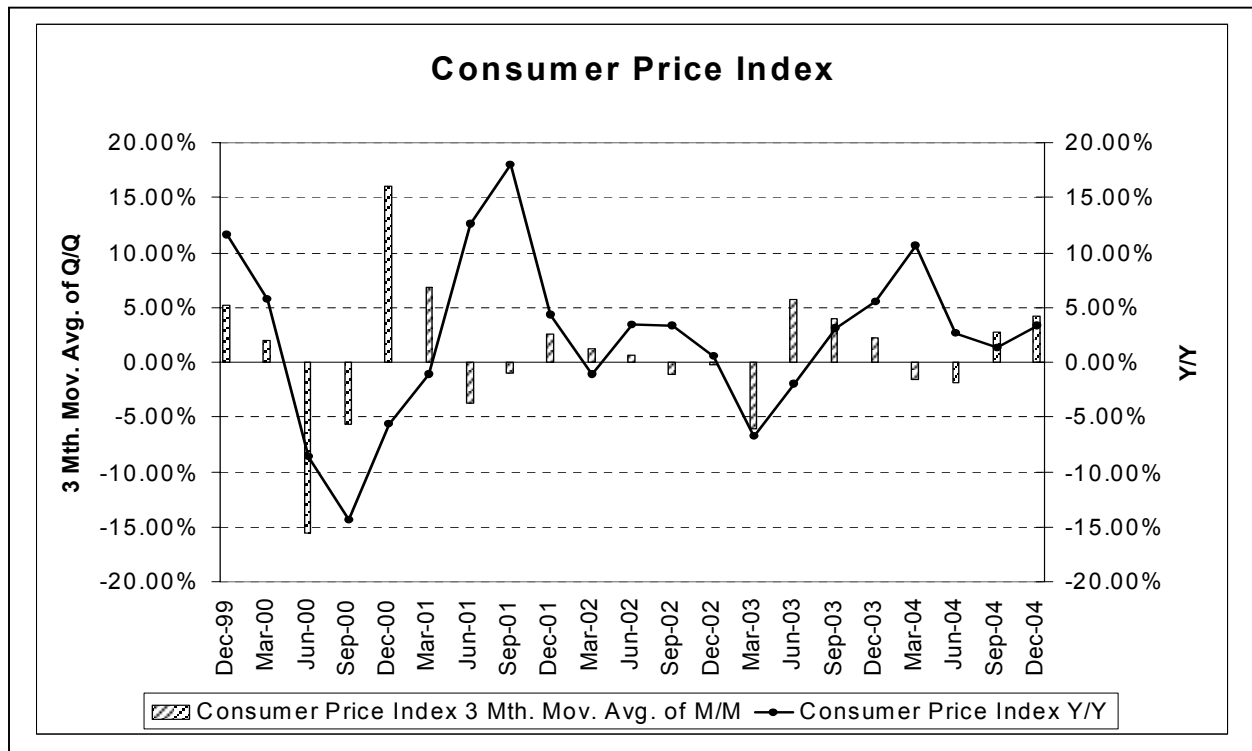
New Zealand

Recent data from New Zealand suggests that while the housing market has cooled somewhat, and that inflation persists near the limit of the RBNZ's comfort zone. With a firm job market, the RBNZ may decide to increase its overnight rate once more at its next meeting on January 27th or at its meeting after that on April 28th.

Weekly Highlights

- **CPI** – increased 0.9% Q/Q and 2.7% Y/Y in Q4. (page 40)
- **Building Permits** – declined 5.7% M/M and 21.2% Y/Y in November. (page 41)
- **New Zealand Institute of Economics Research**- companies have little room to expand. (page 42)

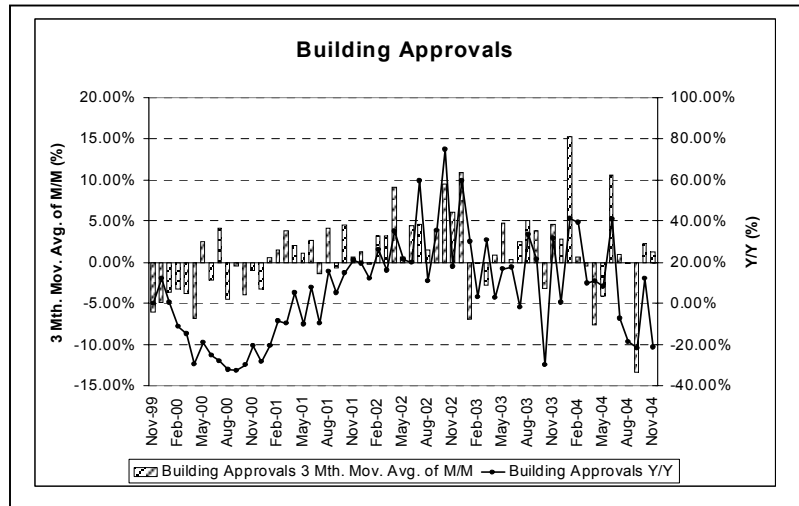
Chart of the Week



Prices consumers paid for goods and services increased 0.9% Q/Q and 2.7% Y/Y, above the expectations of both economists and the RBNZ, and also at the high end of the RBNZ's target range of 1-3%. The increase in prices combined with the strong employment market support views that the RBNZ will increase its overnight rate once more in the first half of 2005.

Building Permits

New Zealand's home building approvals declined 5.7% M/M and 21.2% Y/Y, the fourth decline in five months. However, the decline may not be enough to slow the economy as employment and prices remain strong.



ANZ Job Ads, NZ Employment Index

ANZ Job Advertisements Decrease in November

The number of New Zealand job openings advertised in newspapers and on the internet declined for the first month in six in December, decreasing 2.2% M/M and 0.3% Y/Y. The decrease came largely due to Christmas falling on a Saturday, disturbing the usual pattern of newspaper publishing.

New Zealanders Finding It Easier to Get Jobs

According to the Westpac-McDermott Miller Employment Confidence Index, New Zealander's found it easier to find jobs and earned more in Q4 2004 than they did in previous quarters. The index increased 3.2 points to 133.8 in Q4. A reading above 100 indicates that most are optimistic about their employment prospects. The jobless rate declined to an 18yr low of 3.8% in Q3 2004, boosting wages and encouraging consumers to spend. 66% of consumers said jobs are plentiful now in comparison with 59% saying the same in Q3 2004.

RBNZ Governor Allan Bollard commented last month that he could not rule out raising borrowing costs again to ensure spending and inflation don't accelerate.

New Zealand Companies Have Little Room to Expand According to New Zealand Institute of Economic Research Survey

According to a survey done by the New Zealand Institute of Economic Research, New Zealand based companies have little room to expand upward without increasing costs and fueling inflation. This may lead the Central Bank to increase its overnight rate according to the institute.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
1/20	Retail Sales (Nov)	0.5%	0.4%
1/26	RBNZ Official Cash Rate	6.50%	6.50%

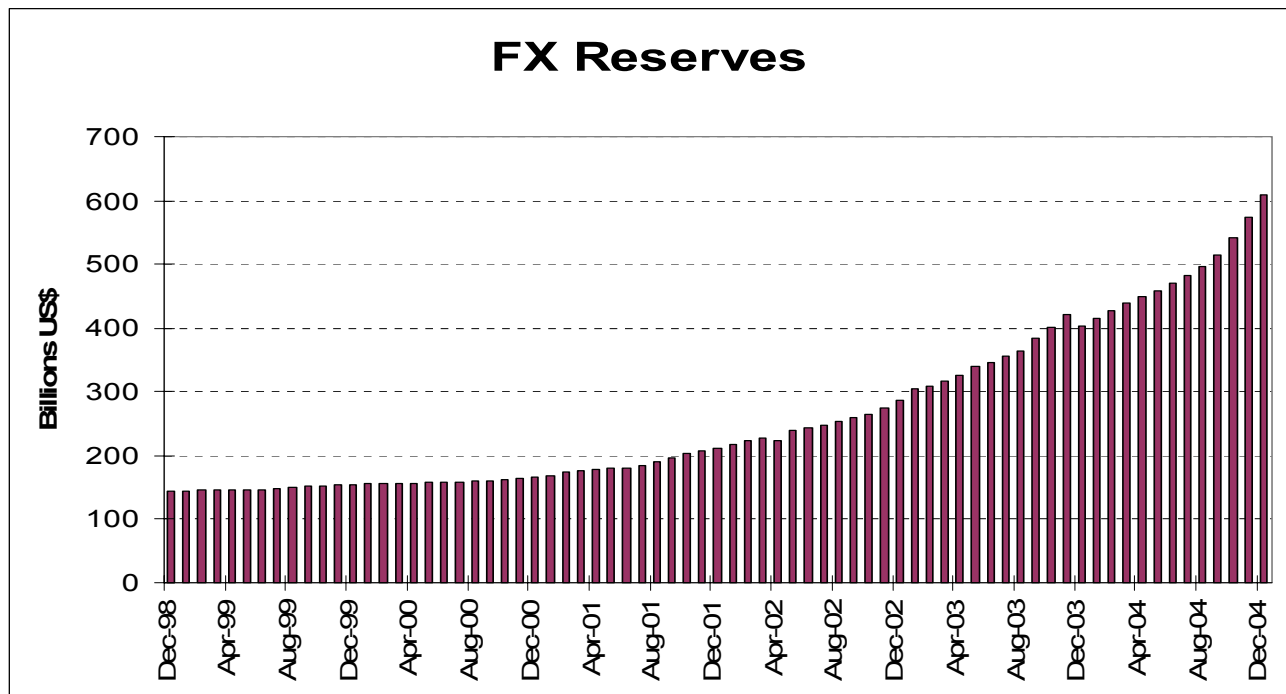
China

There was minimal economic data released for China last week. Foreign Exchange Reserves growth increased, maintaining its upward trend for almost four years while the growth rate for contract FDI decreased; it has remained on a steady decreasing path since May of 2003. In addition, the National Development and Reform Commission stated that the Chinese government needs to set up efforts to cool expansion and damp inflation due to accelerating growth in investment in factories, homes and other fixed assets.

Weekly Highlights

- **China's Foreign Exchange Reserves** - increased from \$573.9 U.S. in November to \$609.9 U.S. in December. (page 44)
- **Foreign Capital Utilized** - decreased from 22.1% Y/Y in November to 13.3% Y/Y in December. (page 45)
- **Foreign Capital Via Signed Agreements** - decreased from 34.4% Y/Y to 33.4% Y/Y in December. (page 45)

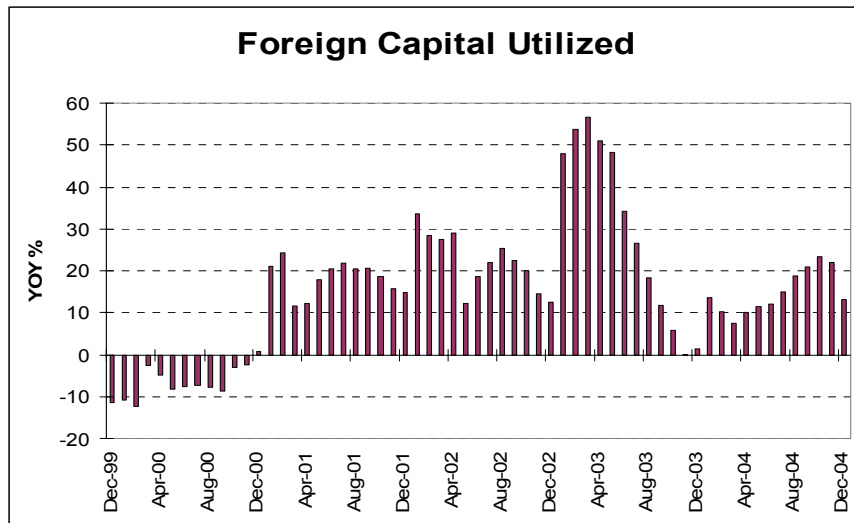
Chart of the Week



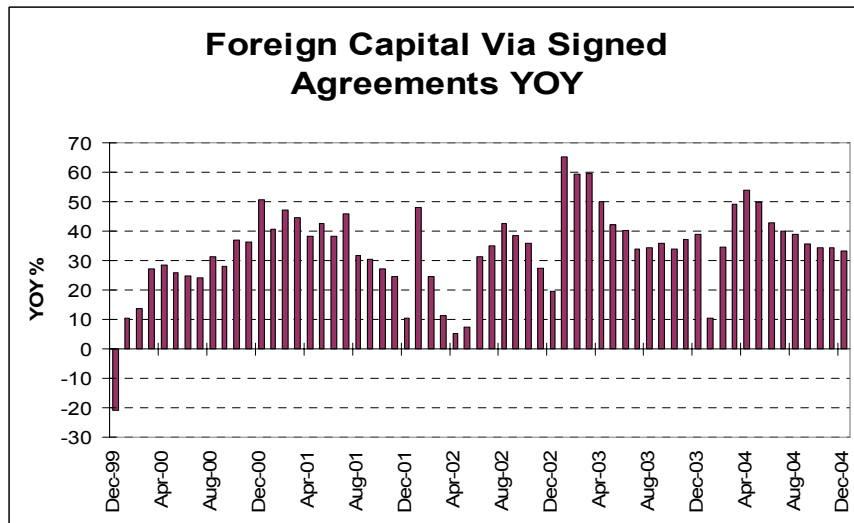
China's Foreign Exchange Reserves increased from \$573.9 U.S. in November to \$609.9 U.S. in December. The Foreign Exchange Reserves growth has been on an upward trend for almost four years and is now at cyclical highs.

Foreign Capital Utilized & Via Signed Agreements and Money Supply M1

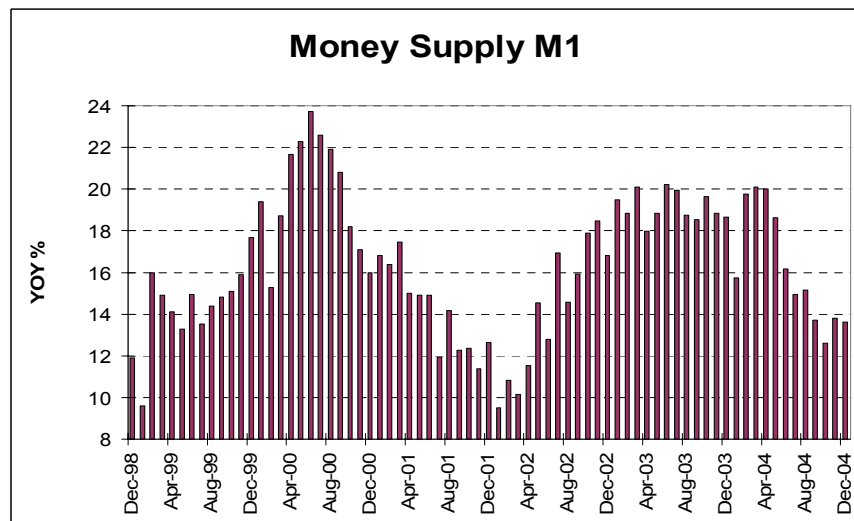
China's Foreign Capital Utilized decreased from 22.1% Y/Y in November to 13.3% Y/Y in December.



Foreign Capital Via Signed Agreements decreased from 34.4% Y/Y to 33.4% Y/Y in December. The rate of growth in contract FDI has been steadily decreasing since May of 2003.

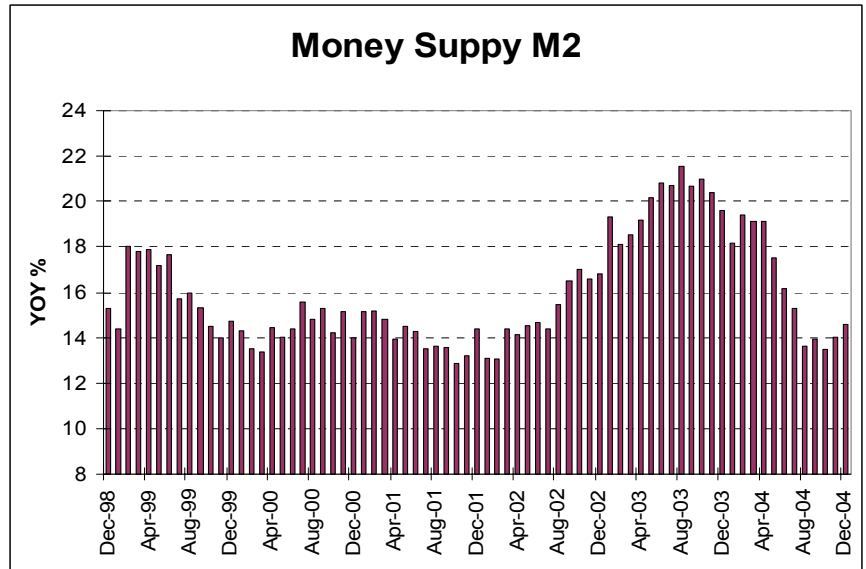


M1 decreased slightly from 13.8% Y/Y in November to 13.6% Y/Y in December.



Money Supply M2

M2 increased from 14% Y/Y in November to 14.6% Y/Y in December.



Money Supply M2

“China’s Central Bank Chief Pledges Convertible Yuan” Bloomberg Jan. 18th

“China reaffirmed its commitment to allowing free movement of the yuan on the capital account, promising further steps this year. The currency should be gradually moved toward full convertibility. This year there will be further steps in this aspect, but generally speaking the progress will be steady.” stated Central Bank’s Chief, Zhou Xiaochuan, in his most recent speech.

“China’s Investment is Still Growing Too Fast, Official Says” Bloomberg Jan 17th

“China’s investment in factories, homes and other fixed assets is growing too fast and the government needs to step up efforts to cool expansion and damp inflation,” according to the nation’s top planning body. “We still need to enhance and improve the country’s macroeconomic controls,” stated Cao Yushu, spokesman for the National Development and Reform Commission, in his speech to the China Economic Forum yesterday...he further commented that, “The growth rate of investment is still too high and the structure of the investment is clearly still not rational.”

Key Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
1/31 – 2/27	GDP Accumulative (Y/Y) (4Q)	.....	9.5%
1/31- 2/27	Unemployment Rate (Y/Y)	.....	4.2%
1/31 – 2/20	GDP Constant Price (Y/Y) (4Q)	8.8%	9.1%
1/31	CLSA January Manufacturing PMI	.....	.....

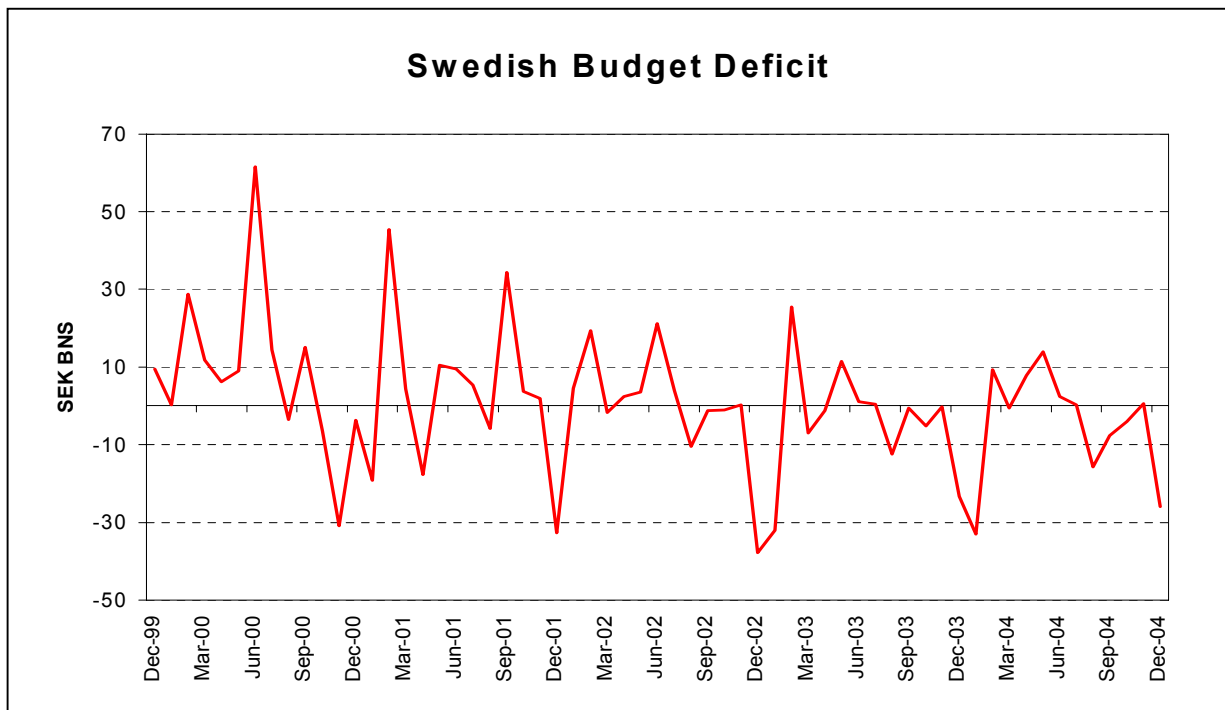
Sweden

Sweden's economic data over the past week posted mainly downward surprises. The Riksbank will most likely keep its interest rate at a record-low 2.0% through Q1.

Weekly Highlights

- **CPI** - was unchanged M/M and increased 0.3% Y/Y in December. (page 50)
- **Industrial Production** - fell 2.2% M/M and rose 2.5% Y/Y in November. (page 50)
- **Industrial Orders** – fell 1.9% M/M and rose 8.2% Y/Y in November. (page 50)
- **Activity Index Level** – increased from 109.3 in October to 109.7 in November (page 51)

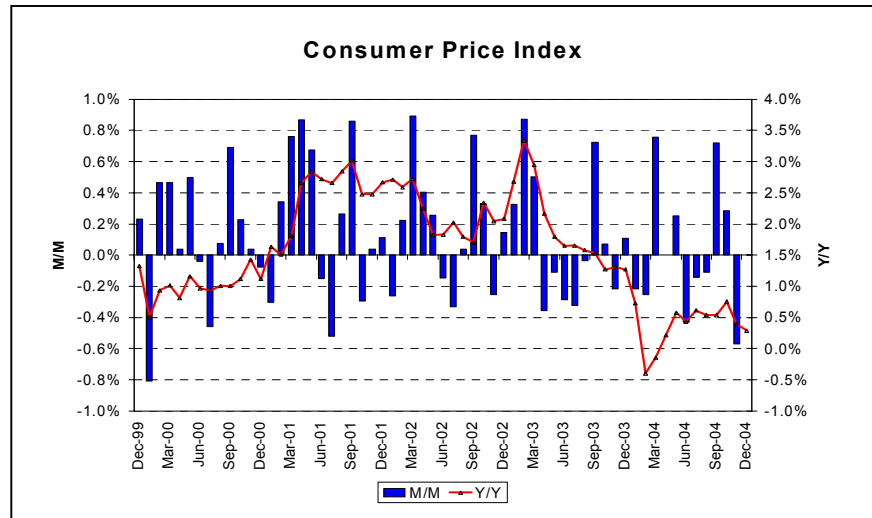
Chart of the Week



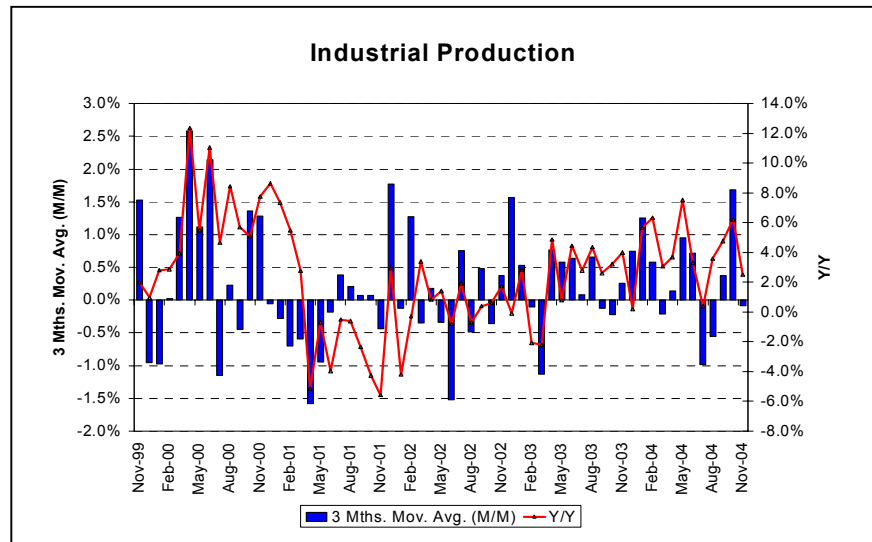
The Swedish Budget Deficit decreased from SEK 0.5 bln in November to SEK -25.9B bln in December.

CPI, Industrial Production & Industrial Orders

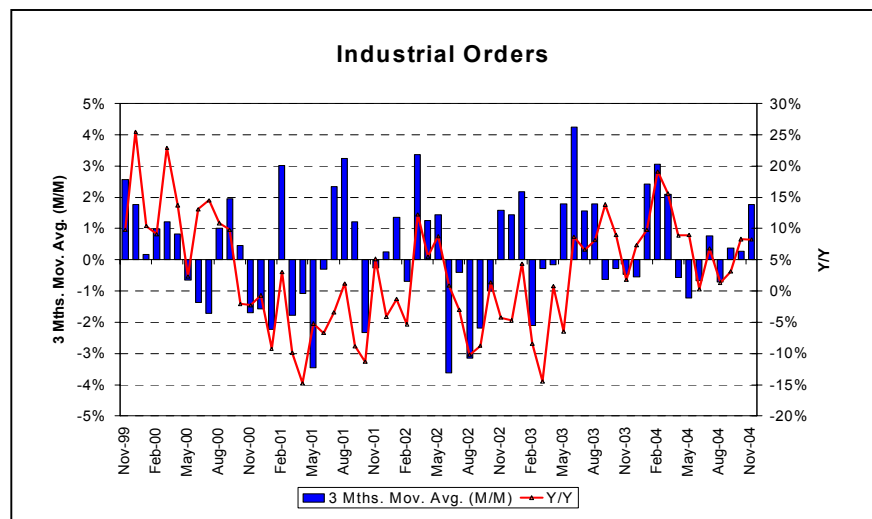
Swedish Consumer Prices were unchanged M/M and increased 0.3% Y/Y in December, staying below the bank's 2.0% target rate for the 15th consecutive month. Underlying inflation was also unchanged M/M and increased 0.8% Y/Y.



Industrial Production fell 2.2% M/M and rose 2.5% Y/Y in November, below expectations. The decrease was attributed to a decline in export orders.



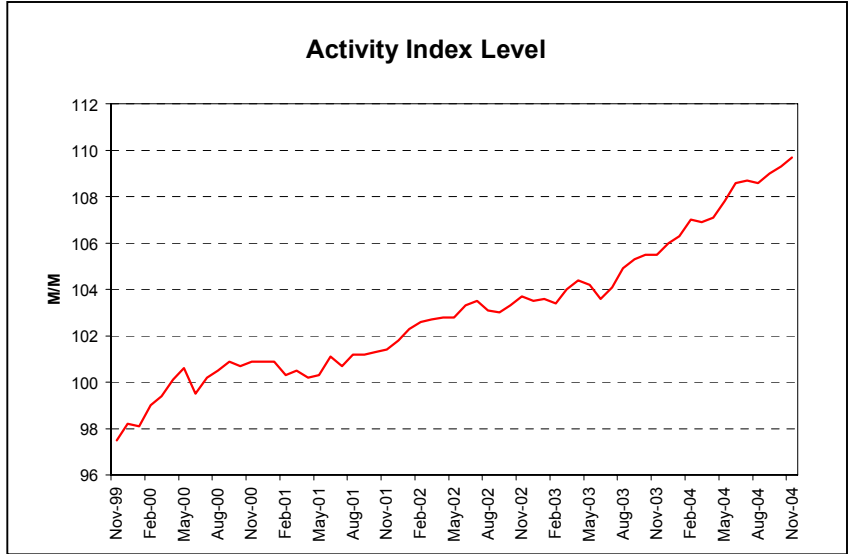
Industrial Orders fell 1.9% M/M and rose 8.2% Y/Y in November. The decrease was a result of a 1.5% and 2.1% decrease in the domestic and export orders, respectively. Orders in the capital goods industry increased 1.2% M/M while intermediate goods decreased 4.7%.



Activity Index Level

The Activity Index Level increased from a revised 109.3 (down from 109.2) in October to 109.7 in November.

The growth was attributed to increases in retail trade.



Commentary

Jan. 18 - Swedish House Price Growth Slows in 4th-Qtr, Government Says

“Swedish house-price inflation slowed in the fourth quarter, reinforcing expectations that the central bank won't raise interest rates from a record-low any time soon”, stated Statistics Sweden. House prices increased 1.0% in December rising to an average of SEK 1.53 mln. The Central Bank will meet on January 27th.

Jan. 14 - Swedish Economy May Outpace Forecasts, Nuder Says

Finance Minister, Paer Nuder, commented that “Sweden’s economy is expanding more quickly than the government forecast, spurred by surging demand for exports”. He further stated that “growth last year was probably ‘closer’ to 4 percent, the highest in four years, than the 3.5 percent predicted four months ago”. Nuder also mentioned that the jobless rate is expected to fall due to rising demand for goods, high consumer spending and record-low interest rates. He surmised that the “Swedish export industry isn’t that dependent on the strength of the dollar”.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
1/25	Trade Balance – December	--	10.1B
1/26	Unemployment Rate – December	--	4.9%
1/26	PPI (Y/Y) – December	--	2.9%
1/26	PPI (M/M) – December	--	-0.2%