

Weekly Economic Reports

January 26, 2005

Highlights

- **US:** Mixed bag: Conference Board stronger; Philly Fed weaker
- **Euroland:** Output data out of line with survey data
- **Japan:** Bottom formation in several indicators
- **UK:** MPC settles into neutral
- **Canada:** Strong C\$ still a concern
- **Australia:** Rate hikes looming?
- **Sweden:** Growth picks up, inflation slows

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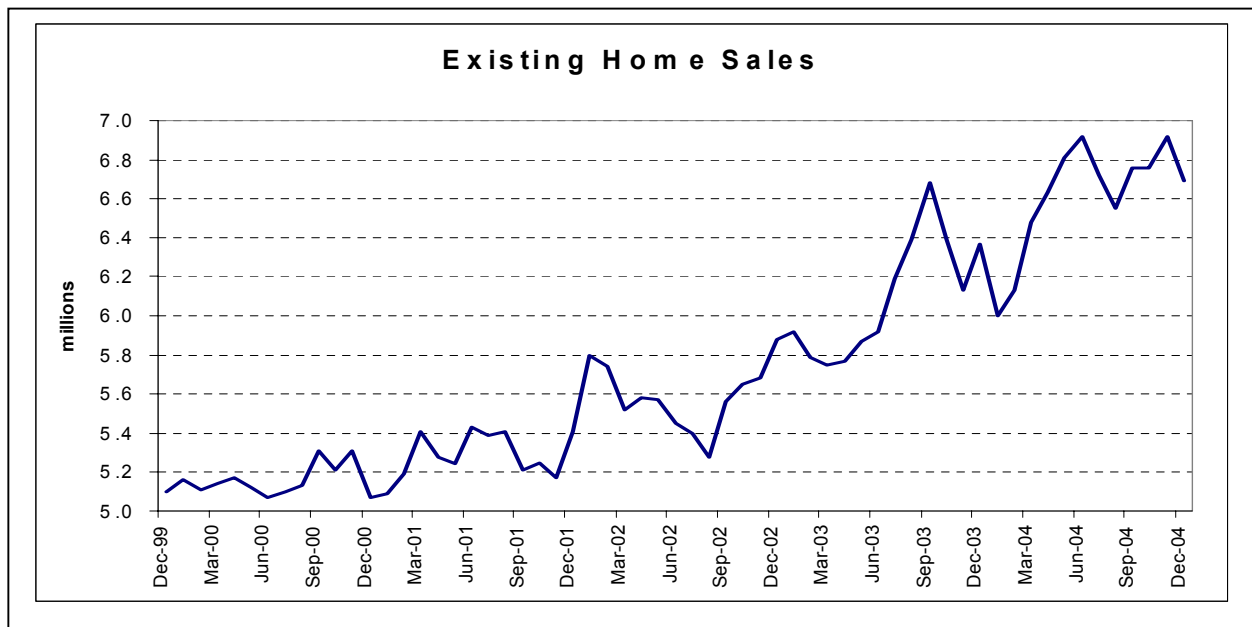
U.S.

This week's light economic data was mostly neutral with mixed consumer confidence and housing data, a fall in the Philly Fed Index and a small gain in Leading Indicators. The Redbook retail data showed that the first three weeks in January are up 3.1% Y/Y. Comments from Fed members continued to highlight that inflation was not an imminent threat and that the Fed can continue along its current path of rate adjustment. The CBO and Bush came out with deficit estimates for 2005 of \$368 and \$427 billion, respectively, after reaching \$412 billion in 2004. Bush's deficit estimate for 2005 represents about 3.5% of GDP and is still too small to drive a robust expansion given the size of the current account deficit.

Weekly Highlights

- **Existing Home Sales**- declined to 6.69 million in December. (page 2)
- **Consumer Confidence**- Michigan lower; Conference Board higher. (page 3)
- **Leading Indicators**- increased 0.2% M/M in December due to stronger consumer confidence and stock market. (page 4)
- **Philly Fed Index**- declined from 25.4 to 13.2 in January with new orders declining significantly. (page 4)

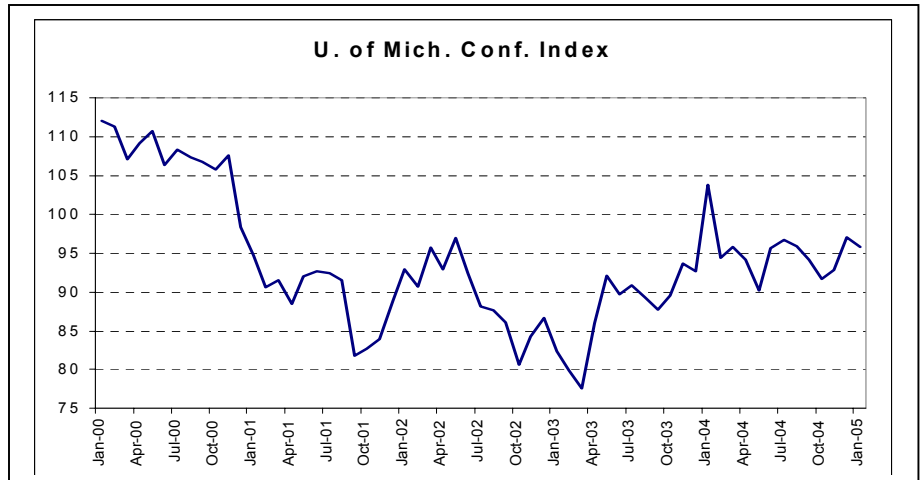
Chart of the Week



Existing home sales declined from 6.92 to 6.69 million units in December on a seasonally adjusted annualized basis. Median prices of existing home sales increased 0.4% M/M and 8.1% Y/Y. The growth in the housing market appears to be slowing and many housing indicators look rather flat over the past few months. The recent decline in the four week moving average of mortgage purchase applications may also be a sign of softness to come.

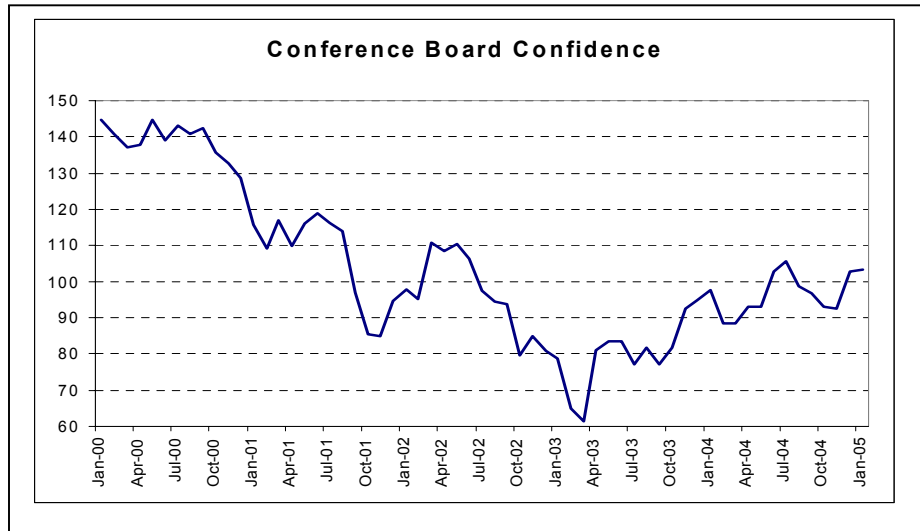
Consumer Confidence

The University of Michigan Confidence Index declined from 97.1 to 95.8. The current component increased from 106.7 to 110.4 while the expectations component declined from 90.9 to 86.4.

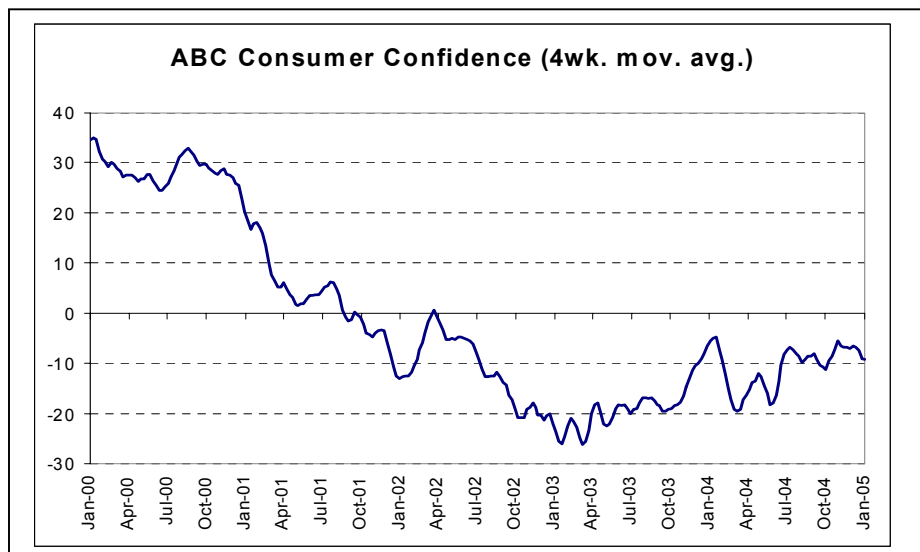


The Conference Board's Index of Consumer Confidence improved from 102.7 to 103.4 in January.

The present component improved from 105.7 to 110.9 while the expectations component declined from 100.7 to 98.4. The job components also showed a marginally better job market.

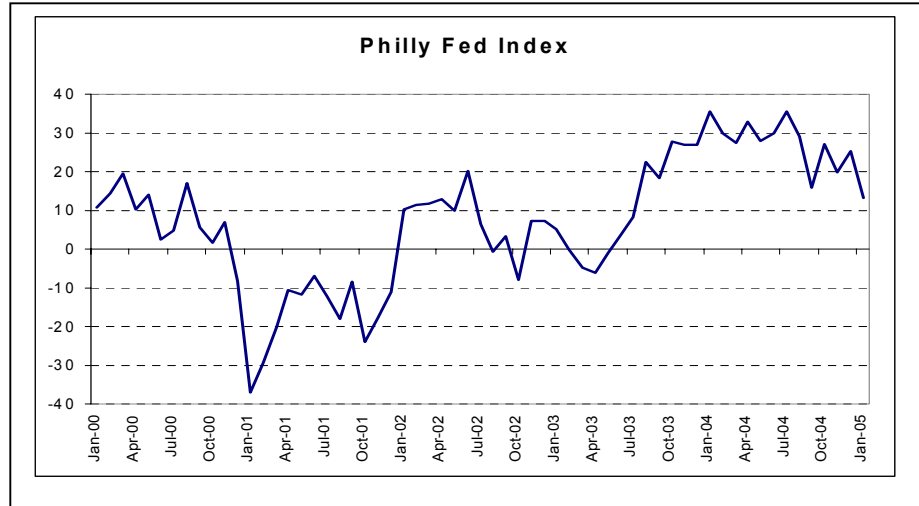


The ABC Consumer Confidence Index increased from -11 to -8 for the week of January 24th. The personal finance, buying climate and assessment of the economy components all improved.

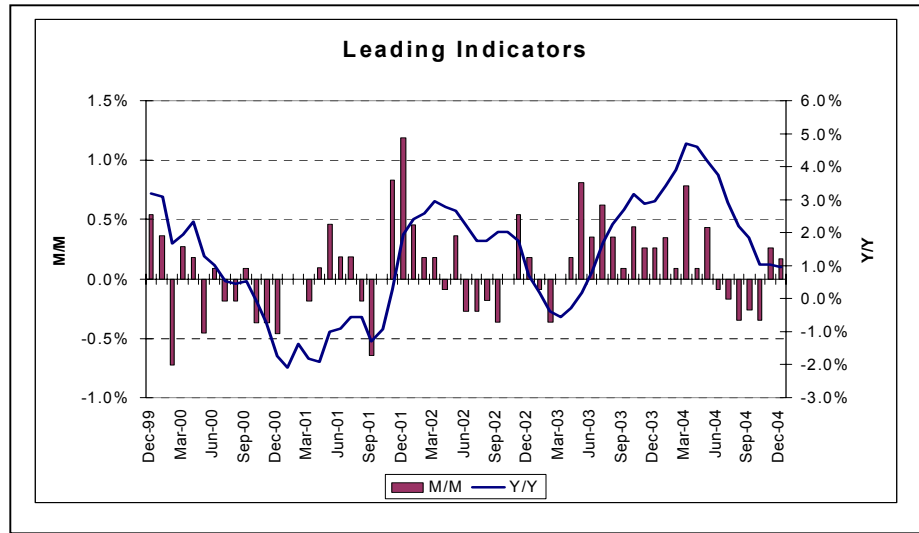


Philly Fed, Leading Indicators & Mortgage Applications

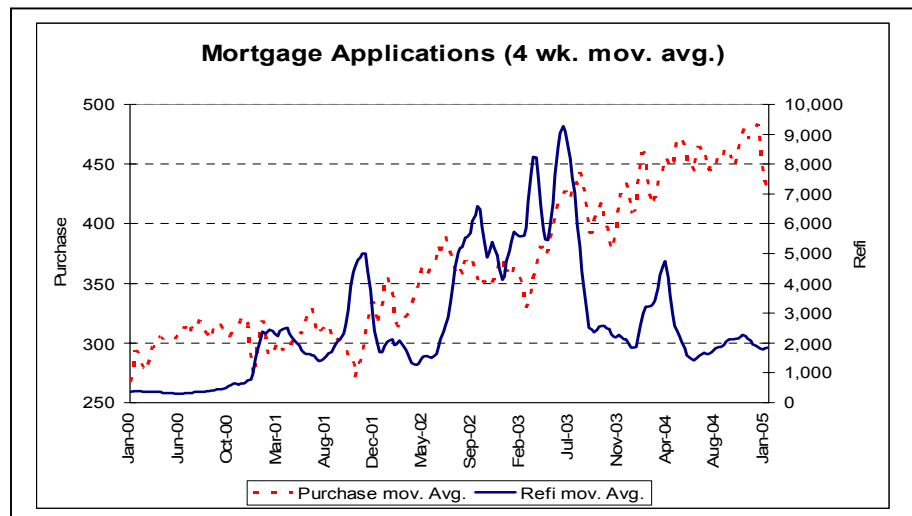
The Philly Fed Index declined from 25.4 in December to 13.2 in January. The employment component improved from 14 to 17 and the price components both moved up. However, the new orders component fell from 20.9 to 9.8.



The Conference Board's Index of Leading Indicators increased 0.2% M/M and increased 1.0% Y/Y in December. The largest contributors to the improvement were a stronger stock market and confidence.



Purchase and Refinancing Mortgage Indices decreased 2.0% and 5.6%, respectively this week. Purchase applications have been trending lower for the past month with the 4 week moving average, declining from 484 in December to 424 this past week.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
01/27	Durable Goods Orders Less Trans. (DEC)	1.3% M/M	-1.4% M/M
01/27	Initial Jobless Claims (JAN 22)	330k	319k
01/27	Continuing Claims (JAN 15)	2,692k	2,694k
01/27	Help Wanted Index (DEC)	37	36
01/28	GDP Annualized (Q4)	3.5%	4.0%
01/28	Employment Cost Index (Q4)	0.8% Q/Q	0.9% Q/Q
01/31	Personal Income (DEC)	0.5% M/M	0.3% M/M
01/31	Personal Spending (DEC)	0.8% M/M	0.2% M/M
01/31	New Home Sales (DEC)	1,200k	1,125k
01/31	Chicago PMI (JAN)	60.0	61.9
02/01	Construction Spending (DEC)	0.5% M/M	-0.4% M/M
02/01	ISM Manufacturing (JAN)	57.7	58.6
02/01	Total Vehicle Sales (JAN)	16.2M	18.4M
02/01	ABC Consumer Confidence (JAN 30)	NA	-8

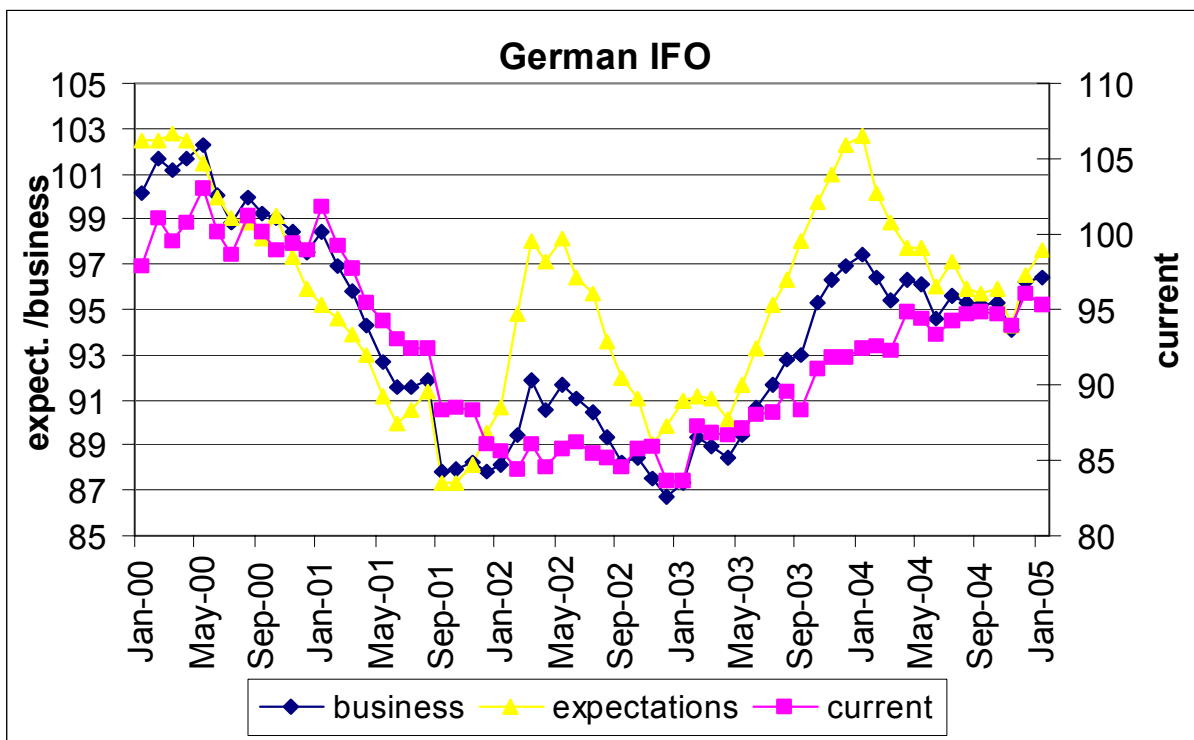
Euroland

Another lack-luster week in the Euroland as German Industrial Production, German Construction Orders and Italian Production all fell. Euro Zone CPI re-accelerated due to tax issues and the German government downgraded its 2005 growth forecast yet again. French Spending remained the one beacon of consistently positive data, while Germany's Business Confidence also increased. We continue to remain pessimistic on the Euro Zone's 2005 prospects.

Weekly Highlights

- **German Business Confidence**- rose to an 11 month high in January. (page 6)
- **German Production** – fell for the first time in 15 months in November (Y/Y). (page 7)
- **Euro Zone CPI**- re-accelerated to 2.4% in December. (page 10)

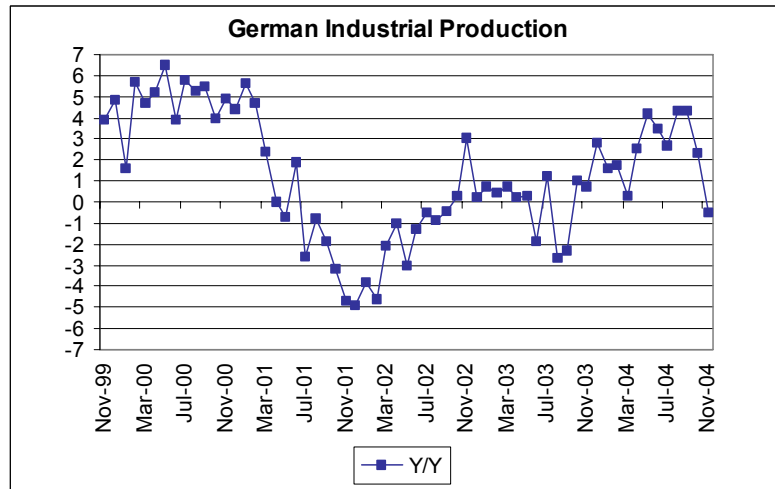
Chart of the Week



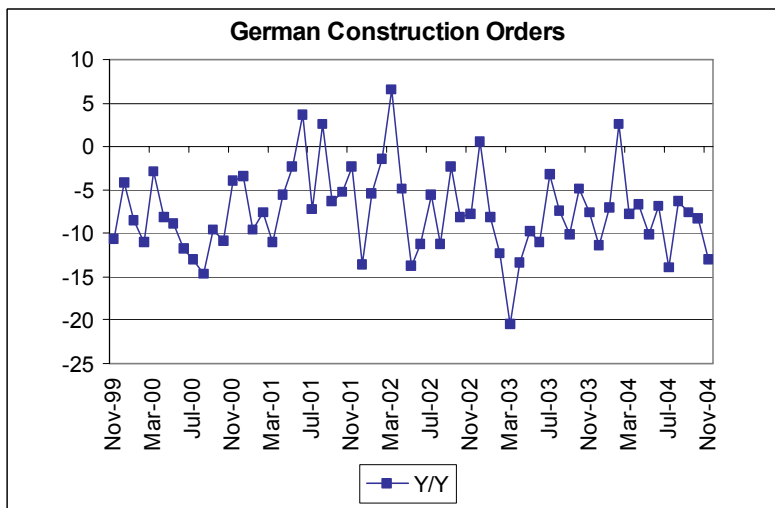
Germany's January Business Confidence rose to an 11 month high as shown by the German IFO Survey. The Business Climate Index rose from 96.2 in December to 96.4, the second consecutive increase. The Expectations Index increased from 96.4 to 97.6 while the Current Assessment Index fell from 96.0 to 95.3. The recent jump in confidence is curious when considering recent downgrades in 2005 growth forecasts and Germany's poor Q4 performance.

German Industrial Production, Construction Orders & French Consumer Spending

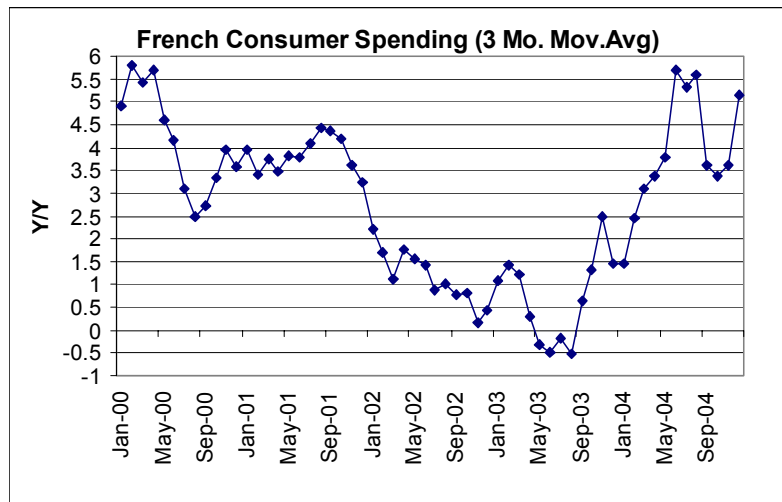
Germany's November Industrial Production fell the most in over a year as output fell 1.5% M/M and 0.5% Y/Y. The production numbers further confirm Germany's weak Q4 as Factory Orders and Export growth also slowed.



Germany's November New Construction Orders fell for the second month in three, falling 6.0% M/M and 13.1% Y/Y. Non-residential Orders fell 15% while Residential Orders declined 2%.



France's December Consumer Spending Index rose for the fifth consecutive month, increasing 0.2% M/M. Consumer Spending in France has remained above that of the other European countries as Q4 spending increased 2.1% Q/Q.

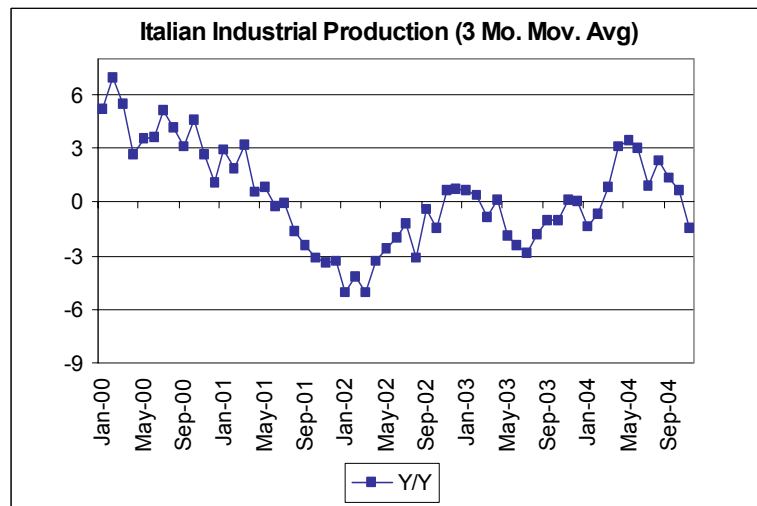


Italian Confidence, Industrial Production & Retail Sales

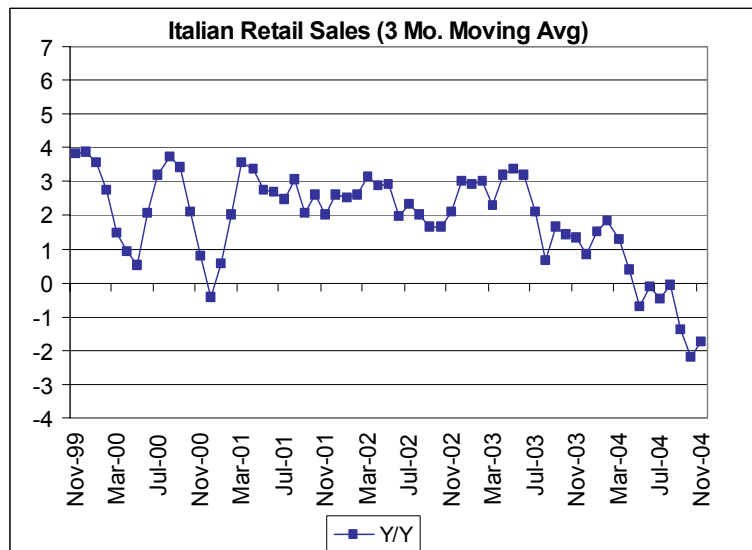
Italy's January Consumer Confidence fell for a third consecutive month despite income tax cuts designed to spur spending. January's confidence fell from 103.5 in December to 103.3.



Italy's November Industrial Production increased 0.6% M/M and 9.6% Y/Y, rebounding from October's poor performance. Despite the rebound, the 3 month moving average still shows a notable falling trend.

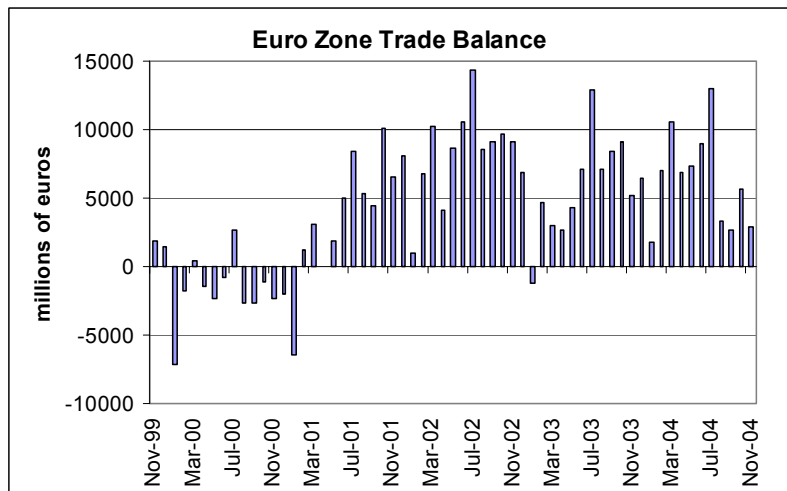


Italy's November Retail Sales increased 0.2% M/M while falling 0.4% Y/Y. It was the fifth consecutive month of Y/Y declines as Italian consumers remained pessimistic.

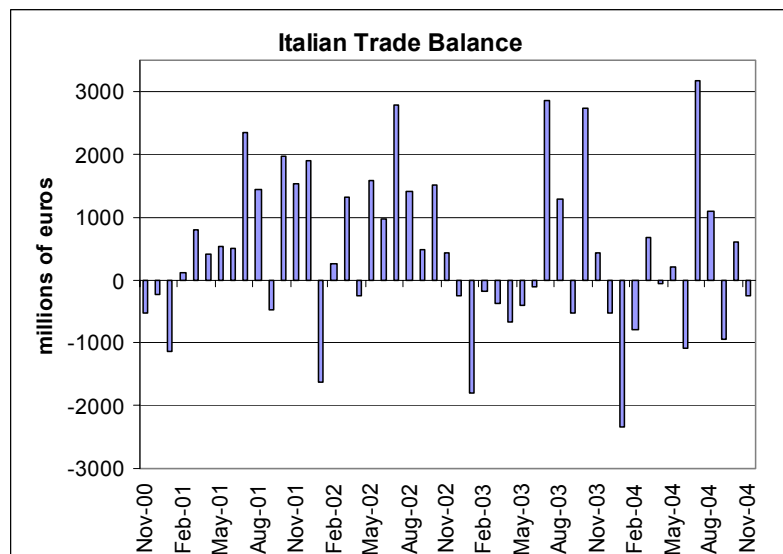


Euro Zone & Italian Trade Balances & Spanish Factory Orders

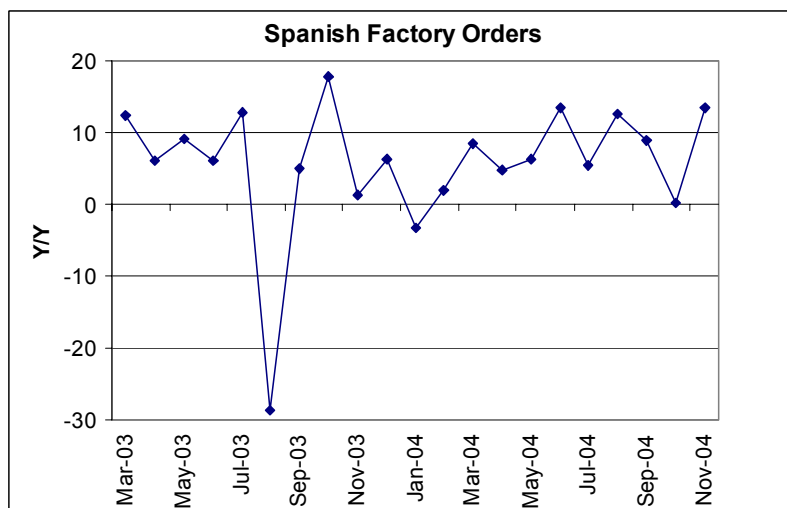
The Euro Zone's November Trade Balance narrowed from 5.47 billion euros in October to 2.87 billion as imports growth outpaced exports for the third month in four.



Italy's November Trade Balance narrowed from a surplus of 56 million euros in October to a deficit of 409 million. Both imports and exports fell in the month after two months of growth.

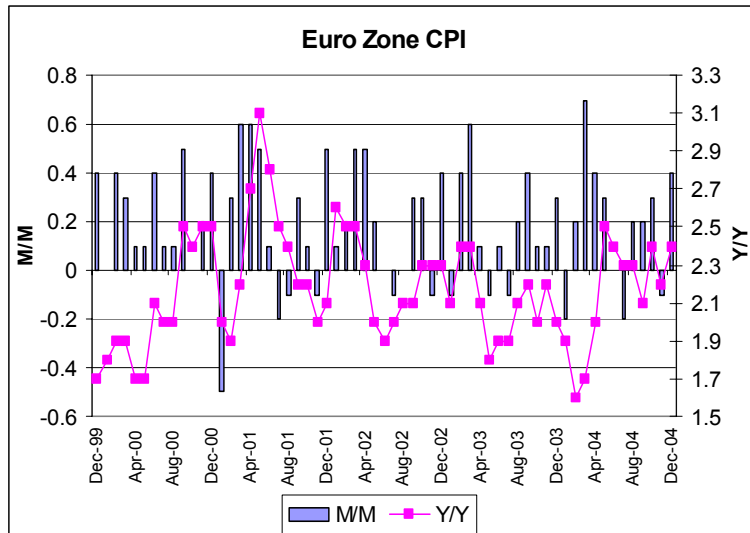


Spain's November Factory Orders increased 13.4% Y/Y as consumer and capital goods rebounded from October's declines. The index has been buoyed by sharp increases in the energy component, as the energy component increased 40.5% Y/Y for the month.

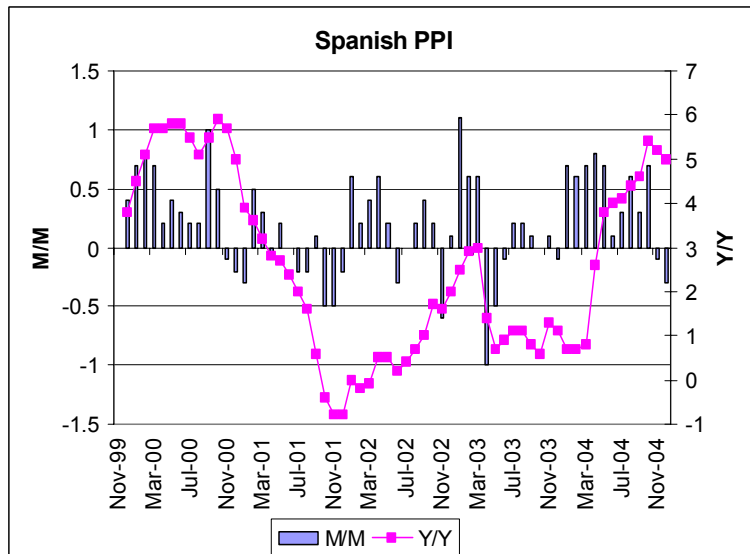


Euro Zone CPI, Spanish PPI & German Import Prices

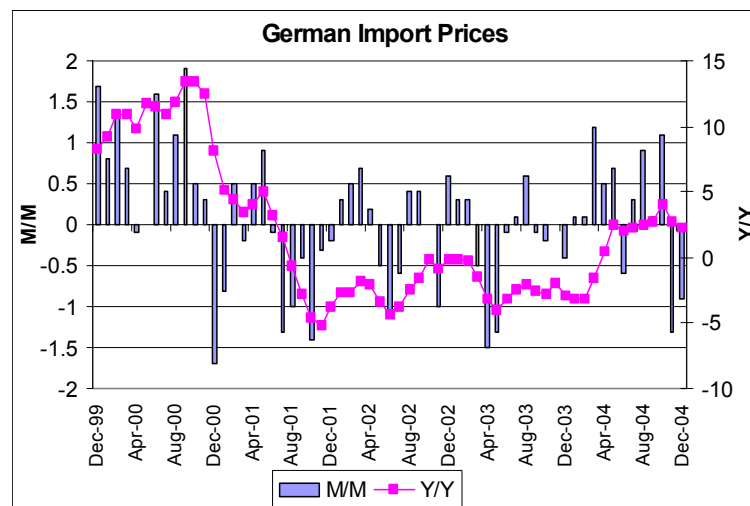
The Euro Zone's December CPI accelerated more than expected, increasing 0.4% M/M and 2.4% Y/Y. Tobacco tax increases in both Germany and Italy were responsible for much of the gain. Despite the acceleration, the ECB stated that "though short term inflationary pressure persist, they have recently diminished somewhat".



Spain's December Producer Prices fell for a second month in a row, falling 0.3% M/M while decelerating to 5.0% Y/Y. Energy prices fell 2.1% M/M in the month.



Germany's December Import Prices also fell for a second month in a row as oil prices retreated. Prices declined 0.9% M/M while increasing 2.2% Y/Y.



News

Germany

Jan. 26th – **German Economy and Labor Minister, Wolfgang Clement** commented on Germany's future outlook, stating, "Things are looking up in Germany. Germany has the potential for long lasting economic recovery and a substantial reduction of unemployment". He also noted the strength of today's IFO as evidence that the recovery is "increasingly getting help from the domestic recovery". With unemployment having risen for 11 consecutive months and a weak Q4, Clement's comments don't seem to adequately reflect Germany's dire situation.

Jan. 26th – A report by **Germany's main industry lobby group, BDI**, stated that the German economy is losing 1,200 jobs a day. The BDI represents 107,000 companies including Siemens AG and Daimler Chrysler. The report also called for tax cuts on retained profits in order to help boost investment and job creation. In related news, Infineon Technologies AG, Europe's second largest semi-conductor manufacturer announced that they will be shutting down factories in Berlin and Munich. In addition to companies moving jobs abroad, another 5,000 German companies are expected to file bankruptcy this year, further adding to the unemployment disaster.

Jan. 25th – The **German government** lowered its 2005 growth forecast for the third time in 9 months, cutting its expectation from 1.7% to 1.6%. The report stated that export growth would continue to fuel a recovery, albeit at a slower pace and that stronger domestic growth would be needed to turn the recovery into a lasting development. Germany's BDB Banking Federation released a more pessimistic forecast of 1.4% growth in 2005.

ECB

Jan. 24th – **ECB Chief Economist Otmar Issing** commented on inflation, noting that oil prices have not fed into higher wage demands (something the data has stated explicitly for some while). Issing also reaffirmed the ECB's belief that inflation will fall below 2.0% this year despite the fact that market inflation expectations seem to be above that, something the ECB would like to remedy. Given the recent tax hikes in Germany and Italy, it seems unlikely that inflation will cool considerably in early to mid 2005. ECB Vice President Lucas Papademos also made very similar statements this past week, noting that, "though some of the signals from a number of indicators remain mixed, on the whole I think they are encouraging". We do not echo his sentiments.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
01/27	Italian Business Confidence (JAN)	89.2	88.9
01/28	German CPI (JAN)	-0.2% M/M	1.0% M/M
01/28	French Business Confidence (JAN)	104	104
01/28	French Unemployment Rate (JAN)	9.9%	9.9%
01/31	Euro Zone Consumer Confidence (JAN)		-13.0

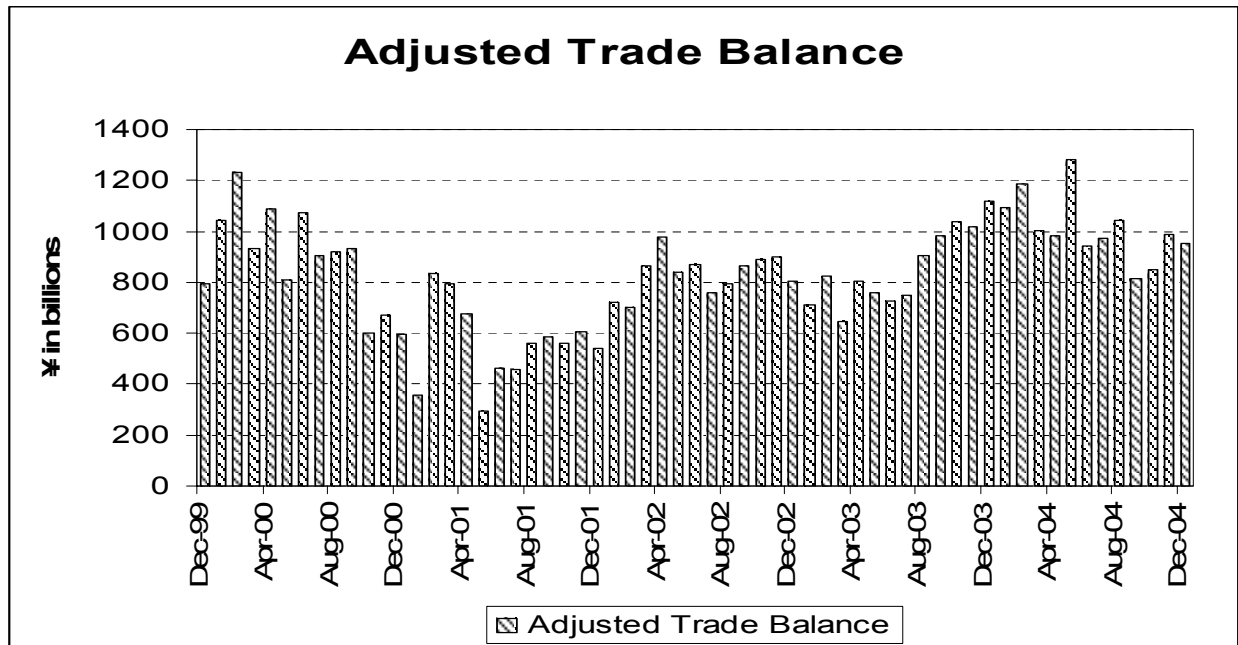
Japan

The trend continues in Japan with more mixed news. The Adjusted Merchandise Trade Balance, Small Business Confidence and Corporate Service Prices were all below expectations. In contrast, the Tertiary and All Industry Activity Index and Machine Tool Orders increased above expectations. Meanwhile, Bankruptcies declined for the 28th consecutive month. Elsewhere, a few BoJ officials stated that the Bank will probably lower its Consumer Prices forecast which had called for an increase in core CPI in fiscal year starting April 1st, 2005.

Weekly Highlights

- **The Adjusted Merchandise Trade Balance** - decreased from ¥990.5bn to ¥949.8bn in December. (page 12)
- **Japan's Tertiary & All Industry Activity Growth Index** - increased 0.4% M/M and 0.3% M/M, respectively in November. (page 13)
- **Corporate Service Prices** - decreased 0.4% Y/Y in December, below expectations. (page 14)

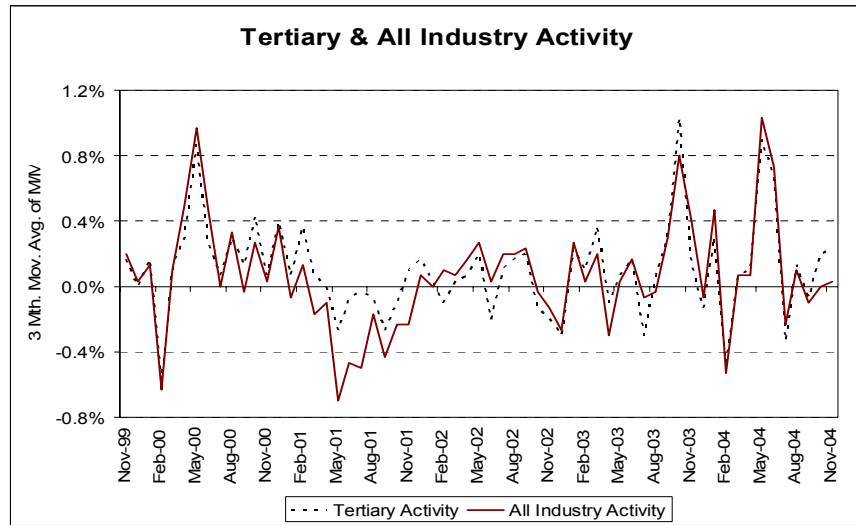
Chart of the Week



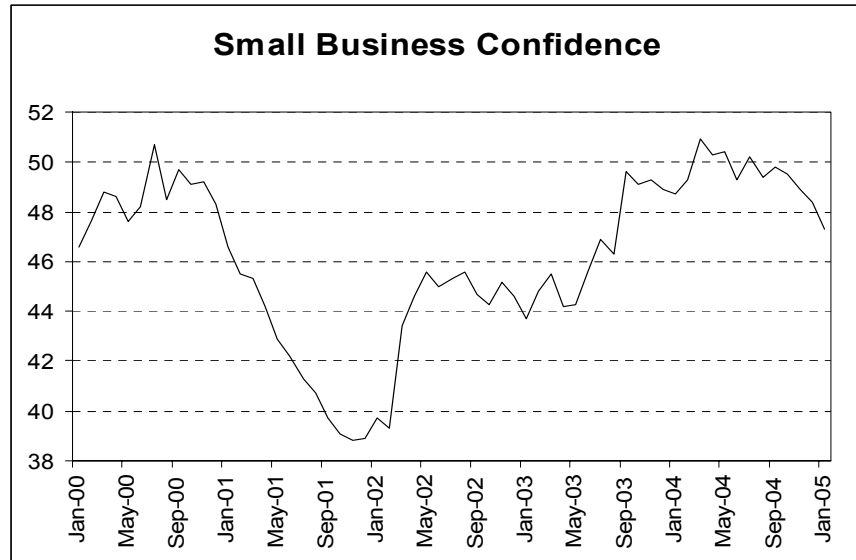
The Adjusted Merchandise Trade Balance decreased from ¥990.5bn to ¥949.8bn, in December. This decline occurred as export demand cooled in the U.S. and China. Exports and Imports decreased 5.6% M/M and 6% M/M, respectively in December. Recent strong data out of China suggests improved exports in the period ahead.

Tertiary & All Industry Activity Indices, Small Business Confidence & Bankruptcies

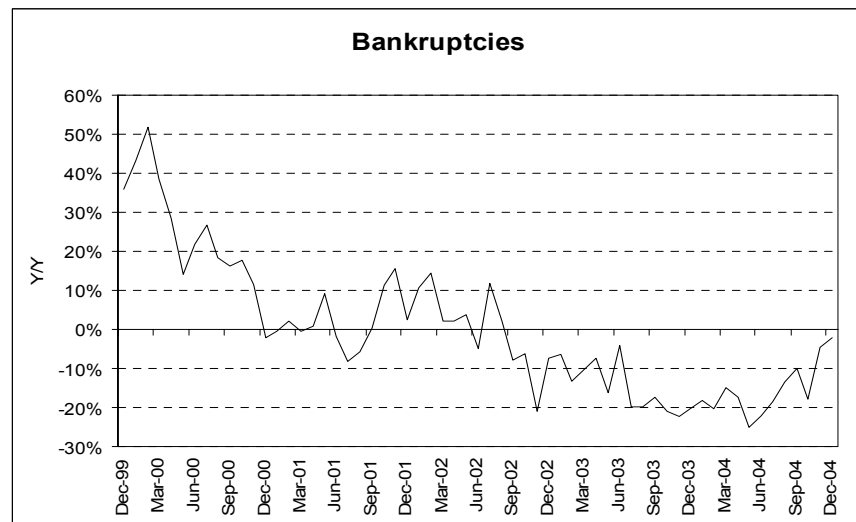
Japan's Tertiary & All Industry Activity Growth Index increased 0.4% M/M and 0.3% M/M, respectively, in November, above expectations.



Small Business Confidence decreased from 48.4 in December to 47.3 in January, slightly below expectations.

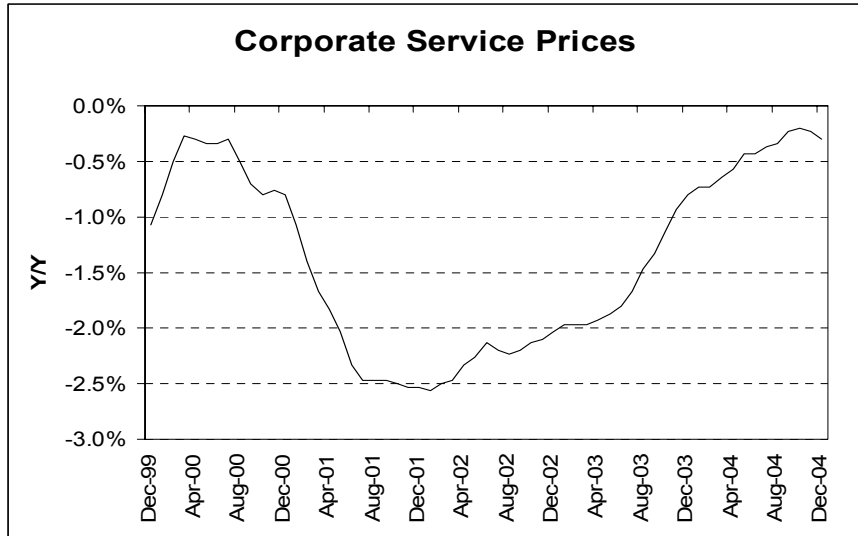


Bankruptcies decreased 2% Y/Y in December, posting the 28th consecutive month of Y/Y decline. The trend in bankruptcies' growth, however, has been trending upward and may soon be cause for concern.

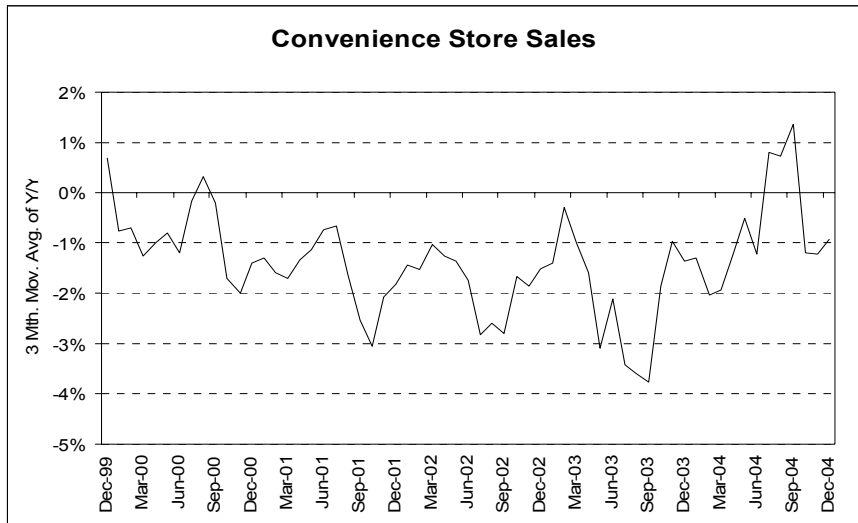


Corporate Service Prices, Convenience Store Sales & Nationwide Department Store Sales

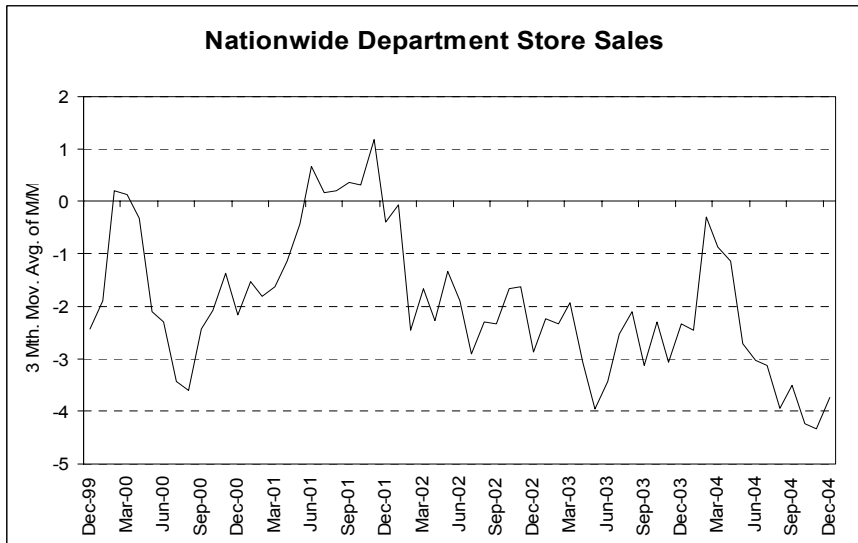
Corporate Service Prices decreased 0.4% Y/Y in December, below expectations. Despite December's reading, this series remains near cyclical highs.



Convenience Store Sales fell 0.9% Y/Y in December. Despite this month's decrease, the trend has regained some upward momentum.

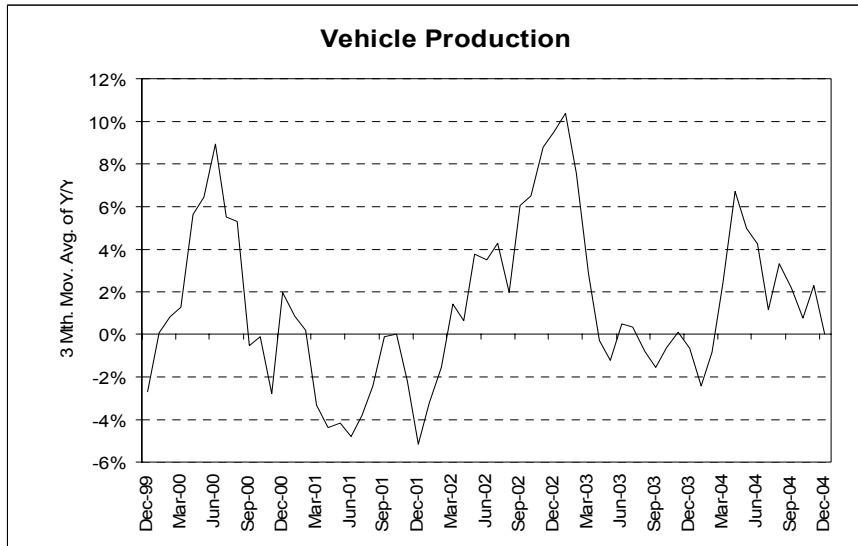


Nationwide Department Store Sales decreased 2.6% Y/Y in December. The growth trend in this series appears to have bottomed out.

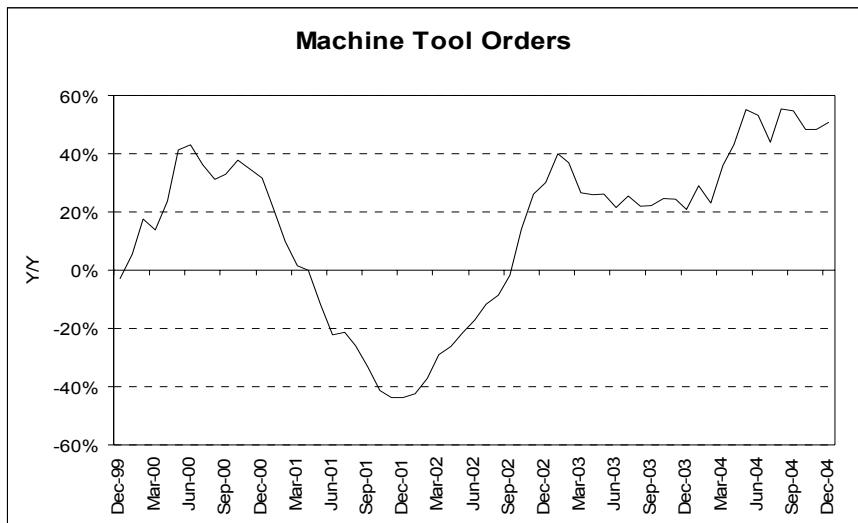


Vehicle Production & Machine Tool Orders

Vehicle Production decreased 3.3% Y/Y in December.



December's final figures for Machine Tool Orders showed an upward revision from 49.1% Y/Y to 50.9% Y/Y. The growth in Machine Tool Orders appears to be stabilizing at cyclically high levels.



News Briefs

The BoJ's January Monthly Report of Recent Economic and Financial Developments

January 19th -In its January report the Bank of Japan (BOJ) maintained its upbeat scenario that the Japanese economy will move to a sustainable growth path, noting that adjustments of production and inventories in the information technology-related sector will be completed near spring or thereafter. The Bank also mentioned that business fixed investment has been on a rising trend, with corporate profits improving. However, as regards to economic conditions, the BOJ stated, "Japan's economy has deviated slightly below" the outlook report presented in October, acknowledging that recovery has been slower than expected.

Possible decrease in the Bank of Japan's forecast according to Atushi Mizuno

January 25th – Atsushi Mizuno, the Bank of Japan's (BOJ) newest member, said that the Bank will probably decrease its Consumer Prices forecast which called for an increase in core CPI, Bloomberg news reported. "We must assume the forecast will be lowered. We are seeing unexpected special factors for consumer prices," Mizuno stated in an interview in Tokyo. Mizuno has recently been very hawkish, but declined to give his own forecast for consumer prices in the fiscal year starting April 1st, 2005. "Having become a BOJ policy board member, I support the central bank's position of implementing policy by following its conditions," Mizuno stated. Needless to say, he commented that "Personally, I think the best option is to end the policy if core consumer prices achieve some gains" bearing in mind that the Central Bank is confident about Japan's economic recovery.

Comments from Toshiro Muto, BOJ's Deputy Governor

January 24th – Toshiro Muto mentioned that Japan's battle with deflation will prove longer than anticipated according to the Kyodo News. Muto expects the Japanese economy to resume recovery "not long after spring."

Comments from Heizo Takenaka, Economic and Fiscal Policy Minister

January 23rd – According to Bloomberg news, Heizo Takenaka, Economic and Fiscal Policy Minister, commented that Japan's economy will rise from its current "plateau" as increased wages boost household income. "Worker compensation is about to start rising ... Income is gradually shifting to households from enterprises. I think the economy is able to rise from the current plateau," Taneka mentioned.

Improvements seen in land prices

January 21st – Tokyo residential land prices increased in 2004 for the first time in 17 years, the Nikkei newspaper reported. Residential prices have increased on an average of 0.1%.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/26	Large Retailers' Sales (DEC P)	-3.5%	-5.3%
12/26	Retail Trade (Y/Y) (DEC P)	0.0%	0.7%
12/26	Retail Trade sa (M/M) (DEC P)	0.4%	-0.6%
01/27	Jobless Rate (DEC)	4.5%	4.5%
01/27	Job-to-Applicant Ratio (DEC)	0.92	0.92
01/27	Workers' Household Spending (Y/Y) (DEC)	0.2%	-0.7%
01/27	Workers' Household Spending (M/M) (DEC)	-0.5%	-0.9%
01/27	Tokyo CPI sa (M/M) (JAN)	-0.3%	-0.5%
01/27	Tokyo CPI Ex Fresh Food sa (M/M) (JAN)	-0.1%	-0.1%
01/27	Tokyo Consumer Prices (Y/Y) (JAN)	-0.1%	0.0%
01/27	Tokyo CPI Ex Fresh Food (Y/Y) (JAN)	-0.3%	-0.4%
01/27	National CPI sa (M/M) (DEC)	-0.5%	0.2%
01/27	National CPI Ex Fresh Food sa (M/M) (DEC)	-0.1	-0.3%
01/27	National CPI (Y/Y) (DEC)	0.2%	0.8%
01/27	National CPI Ex Fresh Food (Y/Y) (DEC)	-0.3%	-0.2%
01/29	Industrial Production (M/M) (DEC P)	-1.2%	1.7%
01/29	Industrial Production (Y/Y) (DEC P)	1.4%	4.5%
01/30	Labor Cash Earnings (Y/Y) (DEC P)	.....	0.4%
01/30	Overtime Earnings (Y/Y) (DEC P)	.....	0.1%

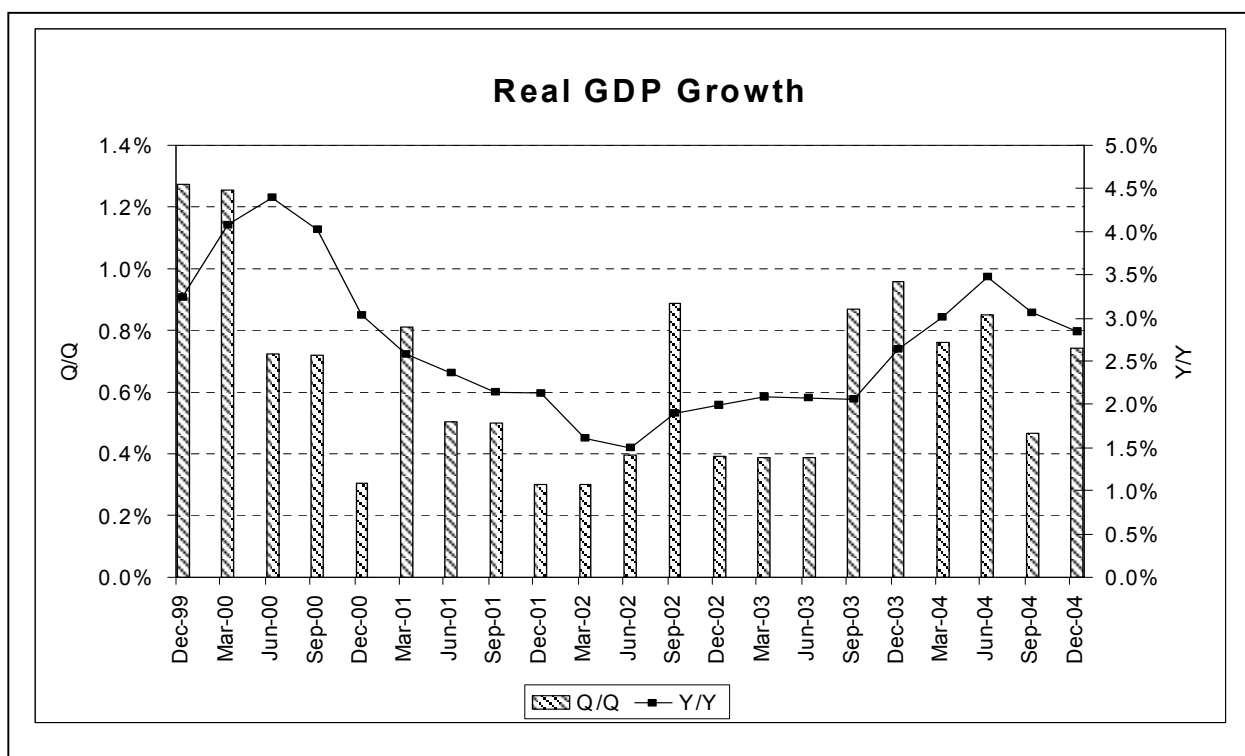
United Kingdom

GDP growth surprised to the upside in its first release for Q4 while Retail Sales turned in the worst holiday season in 25 years. As a result, the MPC kept rates on hold with no comments given about a rate hike or decrease in their minutes as the committee felt there had been no significant changes to the forecasts since December.

Weekly Highlights

- **GDP in Q4-** increased 0.7% Q/Q and 2.8% Y/Y. (page 19)
- **Retail Sales-** decreased 1.0% M/M and increased 3.2% Y/Y in December, the worst holiday season in 25 years. (page 20)
- **The MPC Committee-** voted 9-0 to leave rates unchanged, with no discussion of an increase or decrease. (page 21)

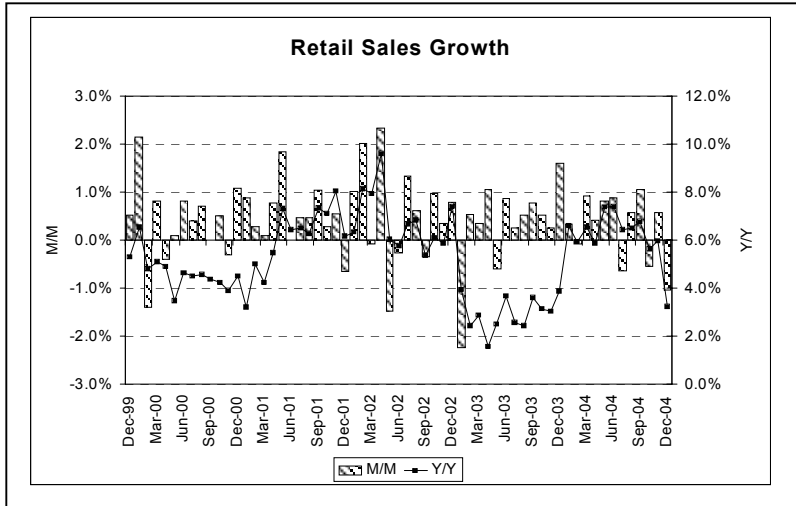
Chart of the Week



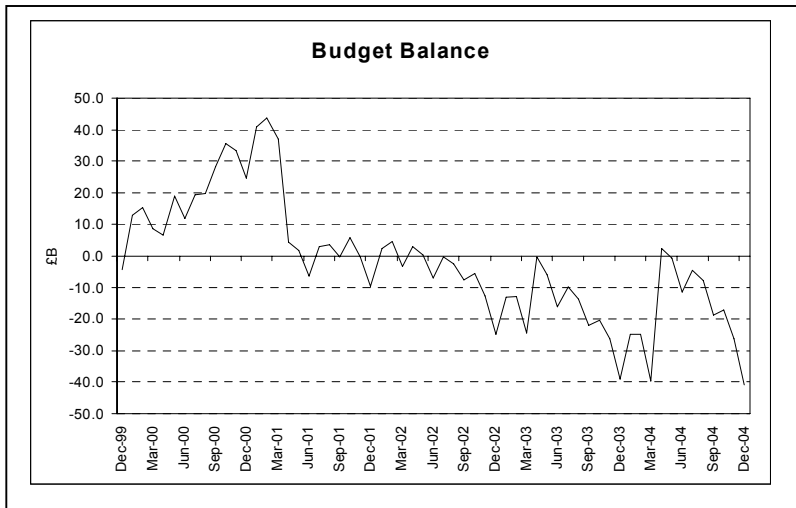
The first release of GDP in Q4 showed an increase of 0.7% Q/Q and 2.8% Y/Y. Business services and finance rose by 1.5% Q/Q, transport and communication increased by 1.4% Q/Q, services increased by 1.0% Q/Q, while government and other services increased by 0.6% Q/Q. In addition, output from the production industries decreased by 0.5% Q/Q and mining decreased by 3.3% Q/Q.

Retail Sales

Retail Sales decreased 1.0% M/M and increased 3.2% Y/Y in December, resulting from decreases across all sectors. Retailers are calling it the worst Christmas season in 25 years.



The Budget Deficit increased from -£26.1Bn to -£40.8Bn in December.



Data & Comments

MPC Minutes:

The MPC voted unanimously to leave its benchmark interest rate unchanged at 4.75% this month amid signs that both economic growth and inflation are remaining within the Bank's November estimates. The MPC commented in the minutes from their January 12th-13th meeting, that it saw no evidence of a significant change in consumption growth and that house price indicators were stronger than expected in its November Inflation Report. There was no mention of a discussion of a rate increase or cut. The committee said that the latest economic indicators point to growth "close to trend" during the fourth quarter and broadly in line with its November forecast.

Bank of England policy maker Kate Barker:

Kate Barker commented that U.K. house prices are likely to continue falling, though the effect on consumer spending won't be as big as in the past. "Past experience suggests that house-price movements in one direction over a quarter are more often than not followed by a further change in the same direction. There is however a plausible case to be made that this will be associated with less downward pressure on consumption than appeared have been the case in previous cycles," she added.

CML Mortgage Lending:

U.K. gross mortgage lending fell last month to the lowest since February, adding to evidence of a slowdown in the property market, said the Council of Mortgage Lenders. "We expect the slowdown to continue into the spring. While 2004 as a whole showed an increase in year-on-year lending, the figures were indisputably weakening by the end of the year," stated Michael Coogan.

BBA Mortgage Lending:

The British Bankers' Association reported a gain in net mortgage lending during December, which the group ascribed in part to increased demand from customers after the introduction of new mortgage regulations led to a drop in November. Net mortgage lending increased by £5.7 billion, including £0.5 billion of internal group transactions, the BBA said. This followed an increase of £4.2 billion in (put the month). Loans and overdrafts rose £416 million in December, down from £788 million in November, while credit card borrowing gained £335 million.

U.K.'s Brown Set to Break Borrowing Rule

U.K. Chancellor Gordon Brown will probably break a rule he made to control government borrowing and may have to raise taxes by £11 billion (\$21 billion), the Institute for Fiscal Studies said. Brown said as recently as December 3 that he will fulfill a pledge to borrow only for investment over the course of the economic cycle, known as the golden rule. The Treasury says the cycle will end in 2005-2006. The Treasury will "narrowly miss its golden rule," according to the London-based research group's report, published today. "Government borrowing will be higher over the next few years than the Treasury thinks, in large part because tax revenues are not expected to grow as quickly as it hopes."

British Chambers of Commerce Survey

The BCC Survey shows that home sales decreased from 20% to 16% in Q4. And employment decreased from 19% to 3% in Q4.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
01/27	Nationwide House Prices		12.7% Y/Y
01/27	BBA Mortgage Lending Figures		
01/28	GfK Consumer Confidence		-3
02/01	Mortgage Approvals		77k
02/01	PMI Manufacturing		
02/01	PMI Construction		
02/03	PMI Services		

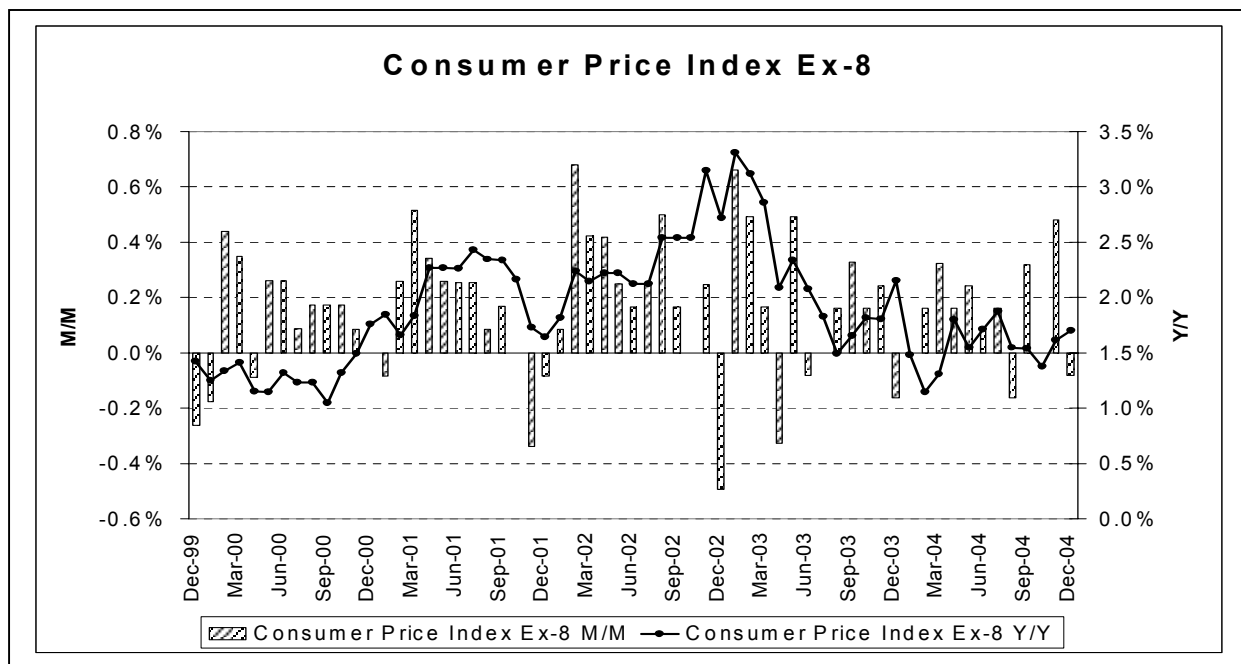
Canada

The Bank of Canada left its overnight rate unchanged at 2.50% at its January 25th meeting. Inflationary pressures were low in December and retail sales were soft. However, manufacturing shipments and wholesale sales increased more than anticipated. The BoC is likely to leave its overnight rate unchanged until June, and most economists expect the next hike to happen by September.

Weekly Highlights

- **Core CPI** – decreased 0.1% M/M and increased 1.7% Y/Y in December. (page 23)
- **Manufacturing Shipments** –increased 0.2% M/M and 11.1% Y/Y in November. (page 24)
- **Retail Sales** – declined 0.1% M/M and increased 6.7% Y/Y in November. (page 24)

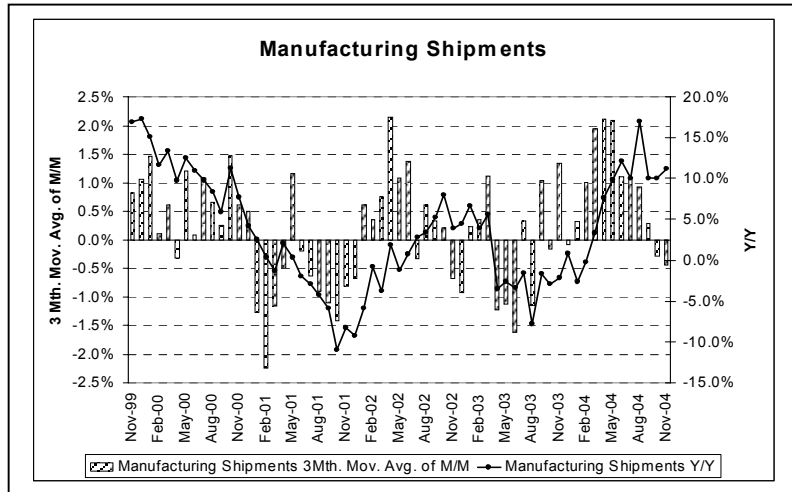
Chart of the Week



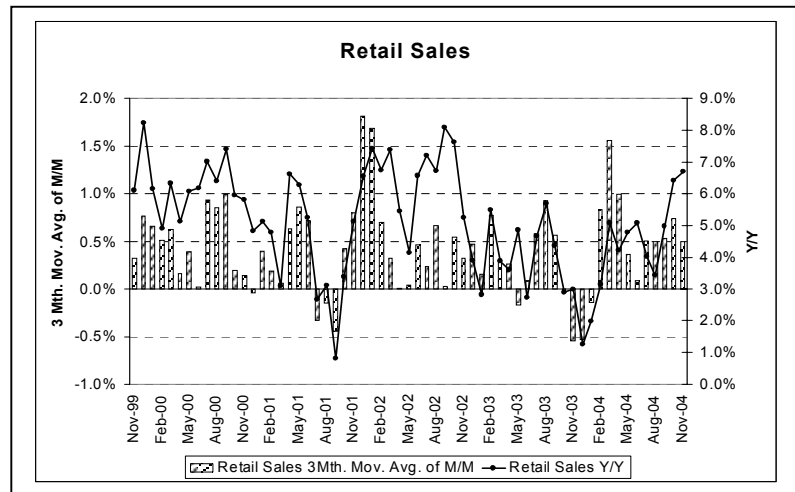
Core inflation in Canada slowed to -0.1% M/M and 1.7% Y/Y in December. The slowing resulted as stores offered holiday discounts. All items inflation also slowed as gasoline prices fell. The cooling in prices suggests that the BoC may decide to wait until H2 2005 before increasing its overnight rate from the current 2.50%.

Manufacturing Shipments, Retail Sales & Wholesale Sales

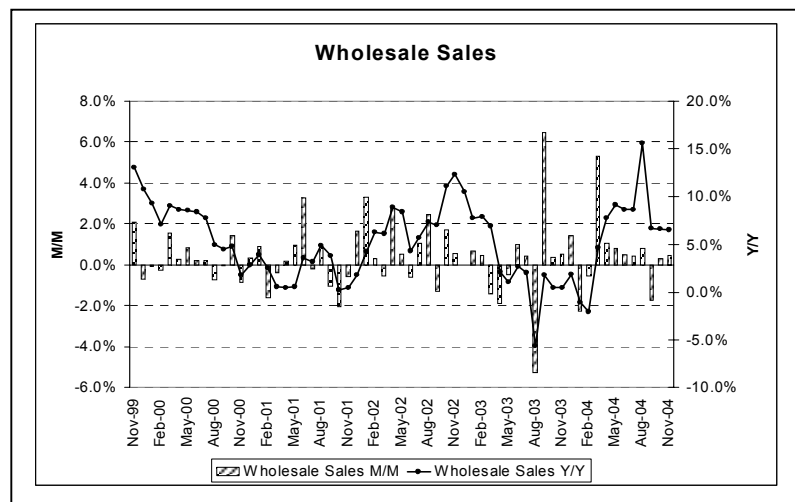
Manufacturing shipments increased 0.2% M/M and 11.1% Y/Y in November. The increase was more than economists anticipated and was due to increases in computer and electronic products. New orders declined for the fourth consecutive month, declining 0.5% M/M while unfilled orders declined 1.2% M/M and inventories were unchanged.



Retail sales declined 0.1% M/M and increased 6.7% Y/Y in November. The M/M decline was the first since April of 2004, and was primarily due to declines at furniture and department stores.



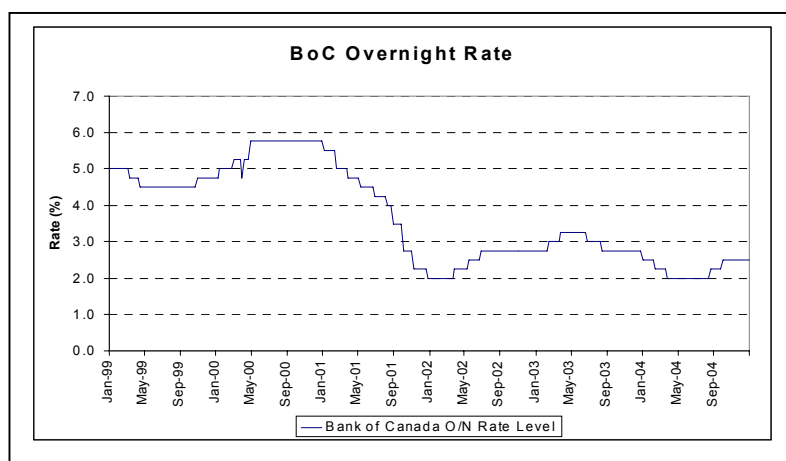
Wholesale sales increased 0.5% M/M and 6.5% Y/Y in November. The increase was more than economists anticipated and was led by household and personal products.



BoC's Comments & Budget Surplus

Bank of Canada Leaves Overnight Rate Unchanged

The BoC left its overnight rate unchanged at 2.50% at its January 25th meeting, citing the C\$'s continued effect on manufacturer's profits. "The Bank now expects the Canadian economy to operate a little further below its full production capacity in 2005 than was anticipated." mainly because of the strong dollar, the BoC stated. Most economists now expect the Bank to leave its overnight rate unchanged through H1 2005. Some believe that the next move from the Bank will be a rate cut, however, this may not be likely as the C\$ may decline and the housing market remains firm.



Budget Surplus Increased in November, Goodale Comments

The budget surplus of Canada increased to \$1.74 billion in November as economic growth increased revenue from taxes on consumption and business profits. The government tax on goods and services of 7% generated \$3.33 billion in revenue, a 56% Y/Y increase. Corporate tax revenue increased 28% to \$2.09 billion.

Prime Minister, Ralph Goodale, stated that economic indicators suggested that the Canadian economy is "softening", supporting the government's case for running a budget surplus.

"When you look at the most recent export numbers and some of the other financial indicators they show softening," he stated. He also reiterated his stance that the high C\$ remains a "downside risk" for Canada's economy.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
01/27	Business Conditions Orders (Jan)	5.5	14.0
01/28	Industrial Product Price (Dec)	0.2%	-1.7%
	Raw Materials Price (Dec)	-0.1%	-5.3%
01/31	GDP (Nov)	0.2	0.0

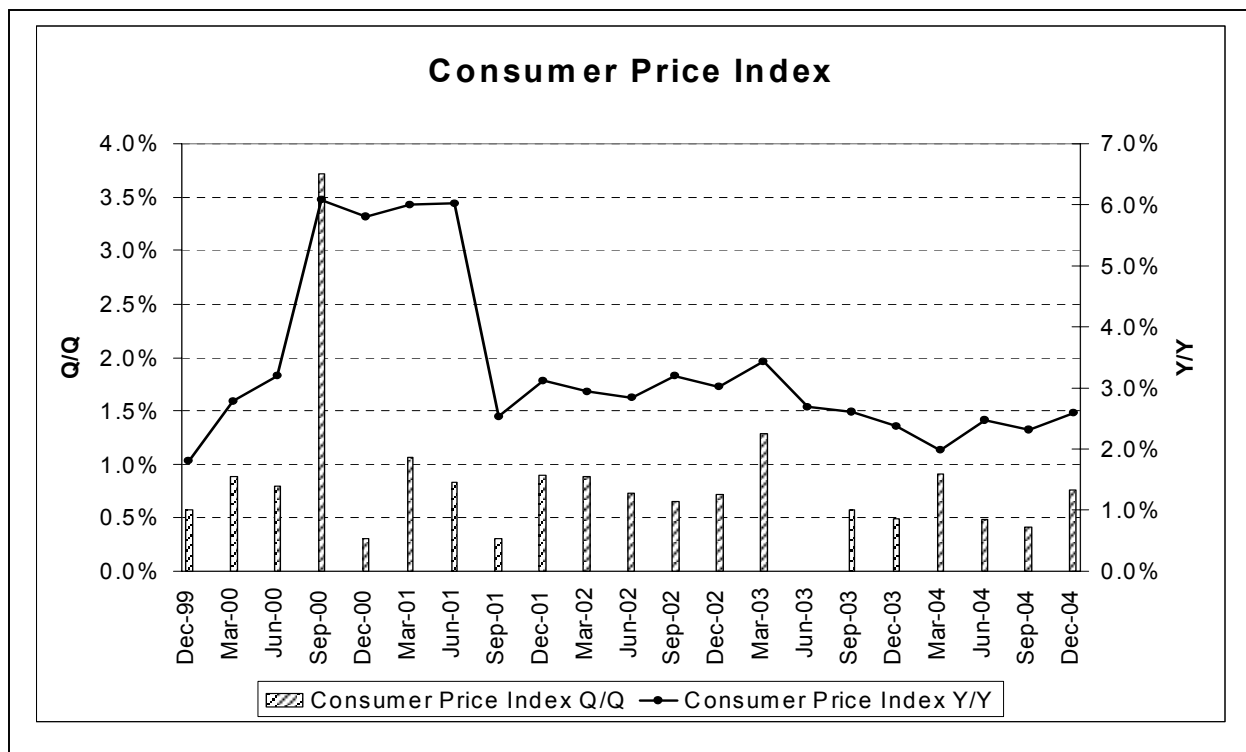
Australia

Recent data from Australia suggests that while the RBA may hold its overnight rate at 5.25% at its next meeting on February 1st, a strong labor market, increasing consumer prices and a resilient housing market may convince it to increase its overnight rate by at least 50bps during Q2 and Q3 2005.

Weekly Highlights

- **Consumer Price Index** – increased 0.8% Q/Q and 2.6% Y/Y in Q4 2004. (page 27)
- **Producer Price Index** – increased 1.1% Q/Q and 4.3% Y.Y in Q4 2004. (page 28)
- **Import Prices**- decreased 1.9% Q/Q and increased 0.4% in Q4 2004. (page 28)
- **Export Prices** – decreased 1.6% and increased 14.1% in Q4 2004. (page 28)

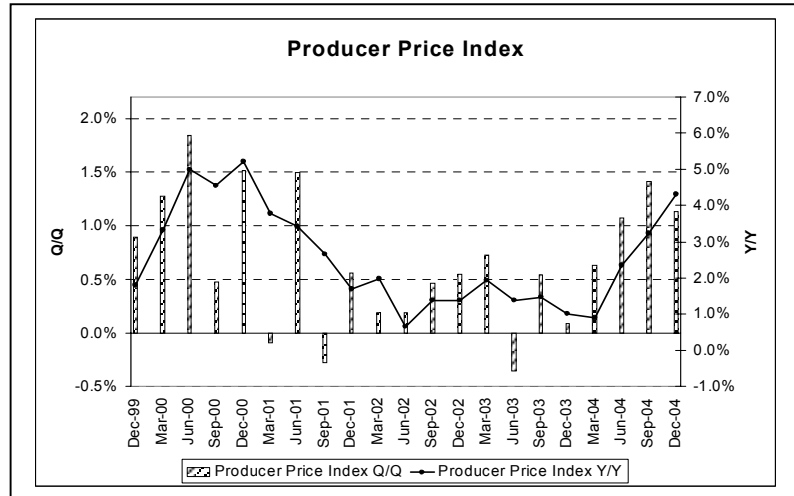
Chart of the Week



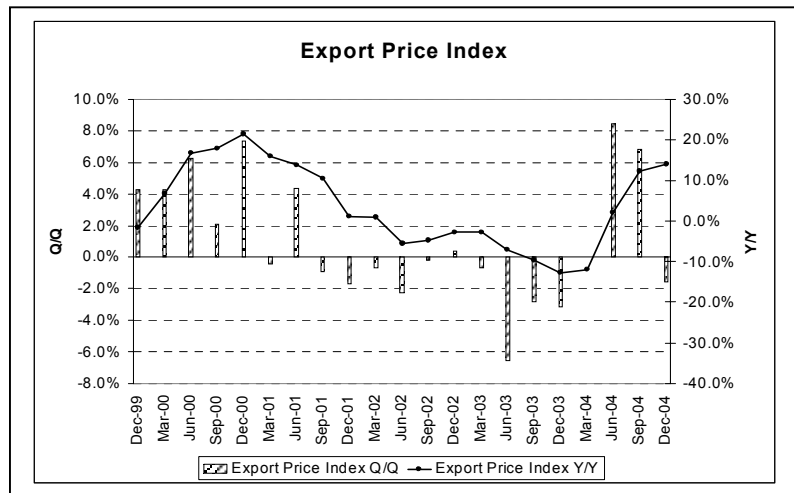
The Consumer Price Index in Australia increased 0.8% Q/Q and 2.6% Y/Y, above economists' expectations for Q4 2004. The increase, combined with a strong labor market and a housing market that has not cooled to RBA expectations, suggests that the RBA may find the need to continue increasing its overnight rate in Q2 or Q3 2005.

Producer Price Index, Export & Import Prices

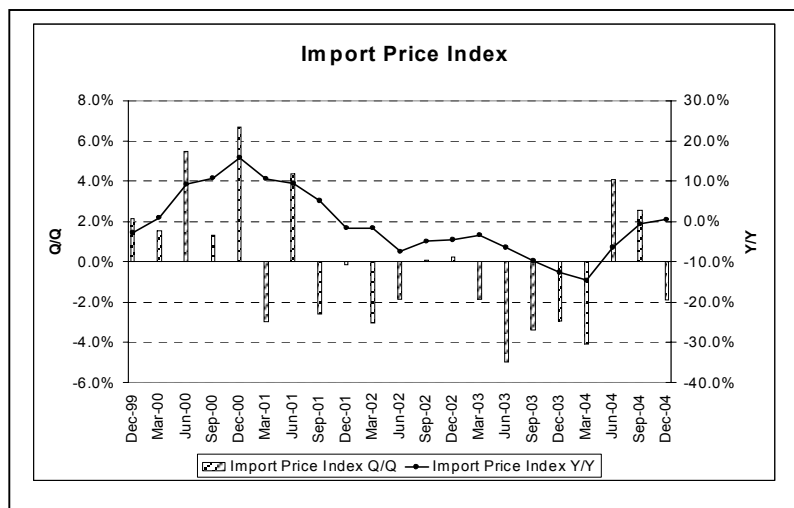
The Producer Price Index increased 1.1% Q/Q and 4.3% Y/Y in Q4 2004.



The Export Price Index decreased 1.56% and increased 14.06% in Q4 2004.

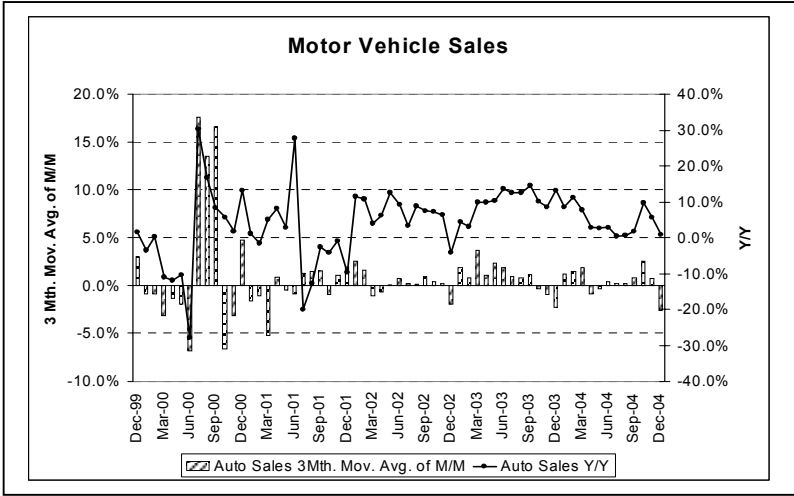


The Import Price Index decreased 1.91% Q/Q and increased 0.44% in Q4 2004.



New Motor Vehicle Sales

New motor vehicle sales declined 6.4% M/M and increased 0.8% Y/Y in December due to declines in passenger vehicle sales.



Conference Board of Australia Leading Index

Conference Board of Australia Leading Index Increases on Building Approvals

The Conference Board of Australia's Leading Economic Index increased 0.5% while the Coincident Index increased 0.3% in November. The Leading Index's increase was the third consecutive, resulting in a growth rate of the index increasing to an annual rate of approximately 3.5%. The annual rate is above the 0.0 to 1.0% rate in Q3 2004, but below the 5.0% to 6.0% rate in the first half of 2004. The Coincident Index has been slowly increasing since H2 2003, although GDP growth has slowed from an annual rate of 2.5% in H1 2004 to a 1.2% in Q3 2004. The parts of the index that caused the increase in the Coincident Index were employed individuals, unemployment rate, retail trade and household disposable income. The increases suggest that economic growth should pick up in the near term, although not to the pace from H2 2003.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
01/26	Vacancy Skilled Report (Jan)	N/A	N/A
01/30	TD Securities Inflation Index	N/A	N/A
01/31	RBA Policy Setting Meeting	N/A	N/A
	Housing Industry Association New Home Sales (Dec)	N/A	0.8%
	AIG Performance of Manufacturing Index	N/A	N/A
	NAB Business Survey (Jan)	N/A	N/A
	Trade Balance (Dec)	N/A	-2661M
02/01	RBA Cash Target (Feb)	5.25%	5.25%

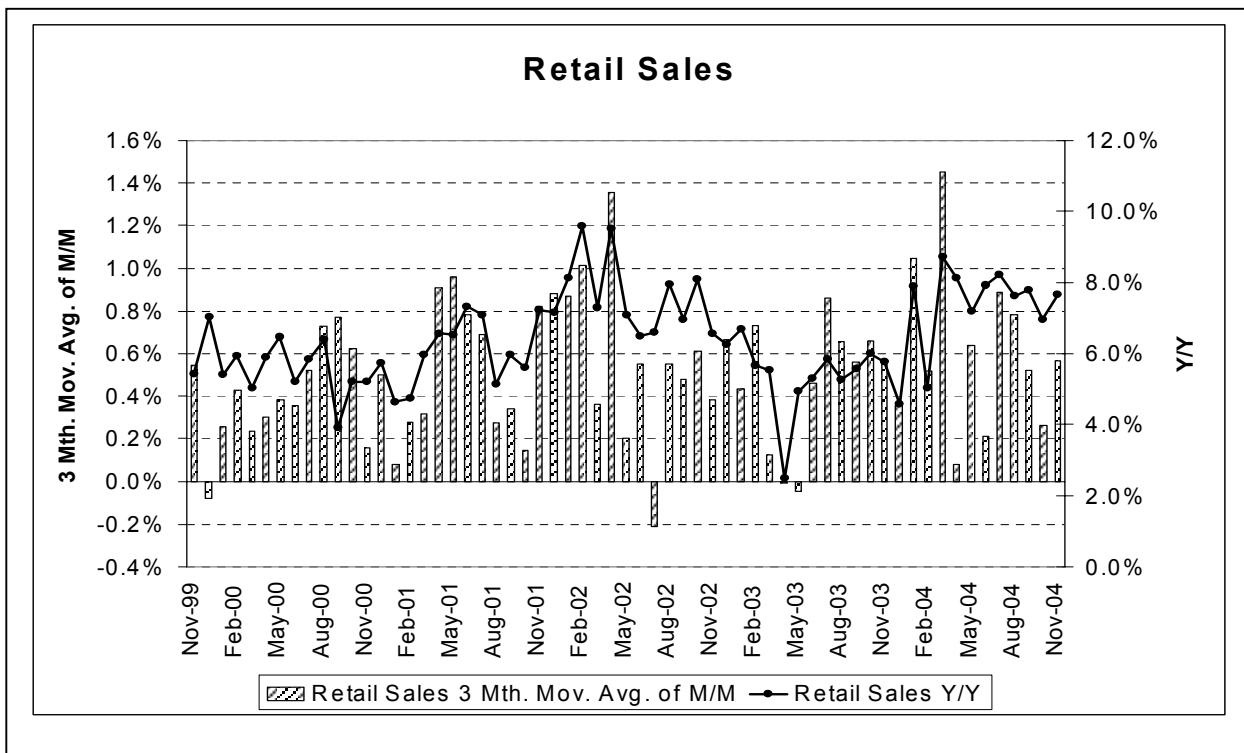
New Zealand

Recent data from New Zealand suggests that the retail sector remains strong while housing data stays soft. Most economists now expect the RBNZ to either remain on hold or increase its overnight rate in 2005.

Weekly Highlights

- **Retail Sales** - increased 0.7% M/M and 7.7% Y/Y in November. (page 32)
- **House Sales** –declined 11.8% M/M and 3.7% Y/Y in December. (page 33)

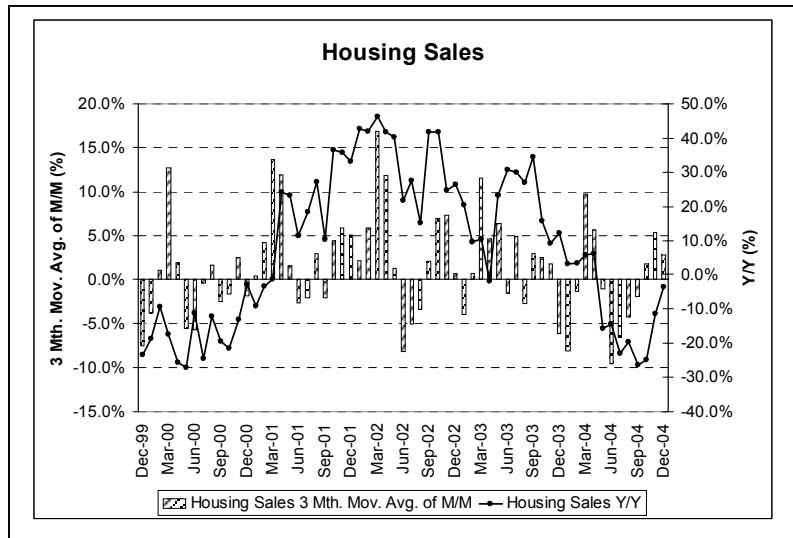
Chart of the Week



Retail sales in New Zealand increased 0.7% M/M and 7.7% Y/Y in November. The increase was more than economists anticipated, lowering expectations of a rate cut and increasing expectations of another rate increase during 2005.

House Sales

House sales in New Zealand declined 11.8% M/M and 3.7% Y/Y in December as banks raised mortgage interest rates. Houses took 29 days to sell on average, one day less than in November, and six days more than in December of 2003. Sales are expected to rebound in January following the seasonal decline associated with the summer holiday break.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
01/26	RBNZ Cash Rate	6.50%	6.50%
01/30	Imports (Dec)	N/A	N/A
	Exports (Dec)	N/A	N/A
	Trade Balance (Dec)	N/A	N/A

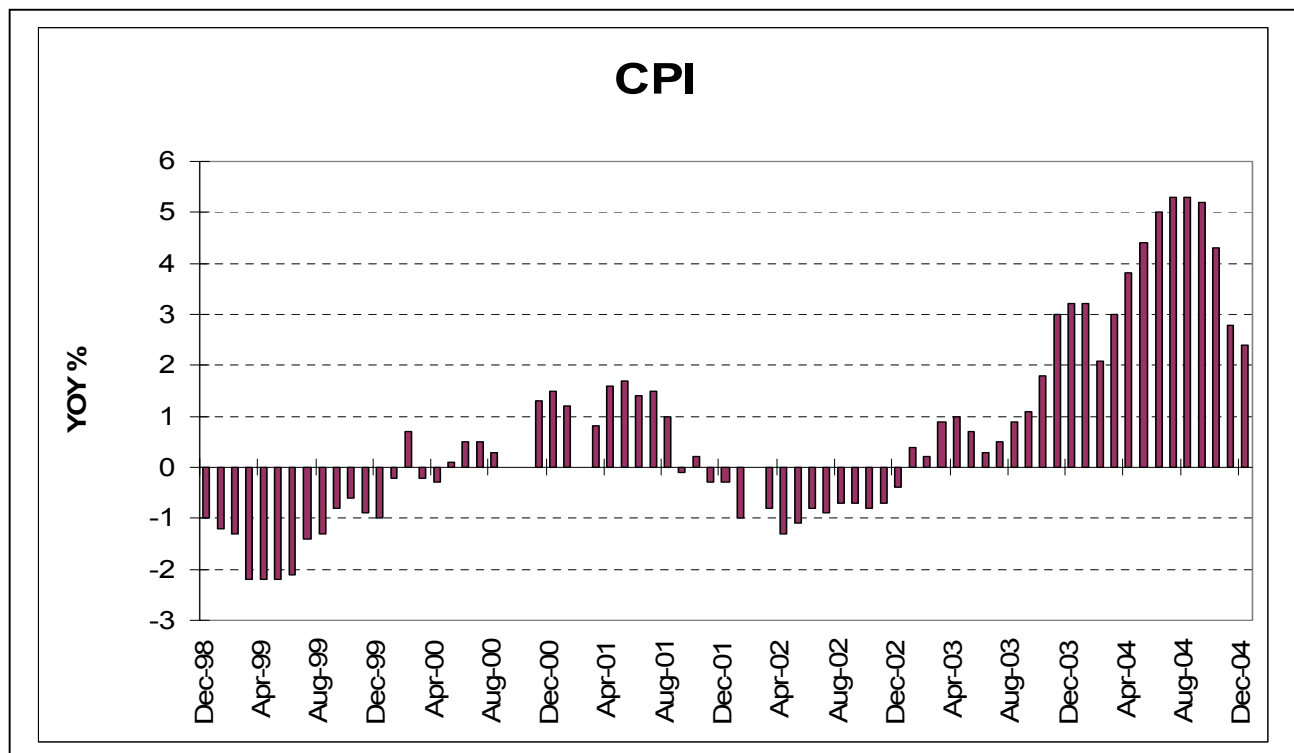
China

The Chinese economy continues to remain strong as it recorded its highest GDP results in eight years in 2004. Retail sales also recorded strong results, however, CPI posted its lowest reading in ten months and the Producer Price Index growth slowed. Despite the slowdown in prices, the Chinese government is likely to continue to restrict lending and investment to prevent the economy from “overheating.”

Weekly Highlights

- **Consumer Price Index** - increased 2.4% Y/Y in December. (page 35)
- **China Annual GDP** - increased 9.5% Y/Y in December (page 36)
- **Fixed Assets Investment Urban**- increased 21.3% Y/Y in December. (page 37)

Chart of the Week



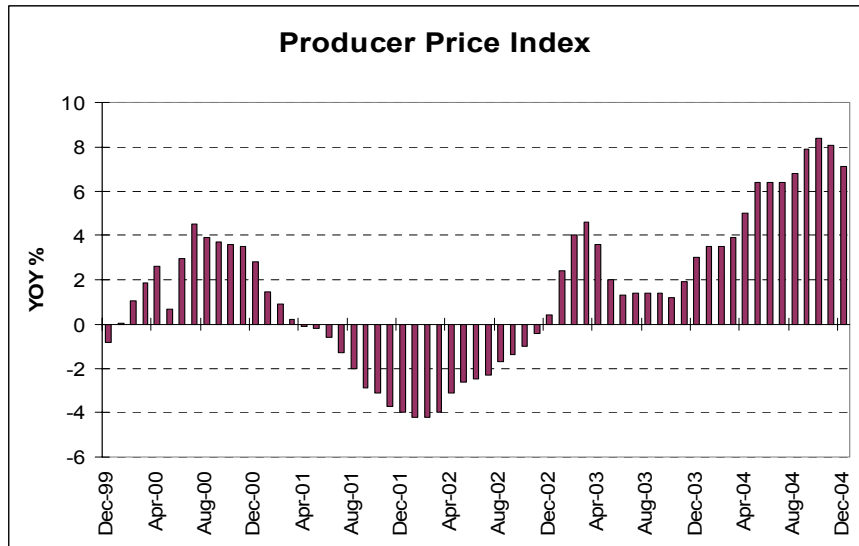
The Consumer Price Index increased 2.4% Y/Y in December, below expectations. CPI growth has been trending down for the past four months, moving from a high of 5.3% in August to its lowest reading in 10 months. The Central Bank predicts the average to be 3.3% in 2005 compared to the 3.9% averaged in 2004.

China Annual GDP, PPI & Retail Sales

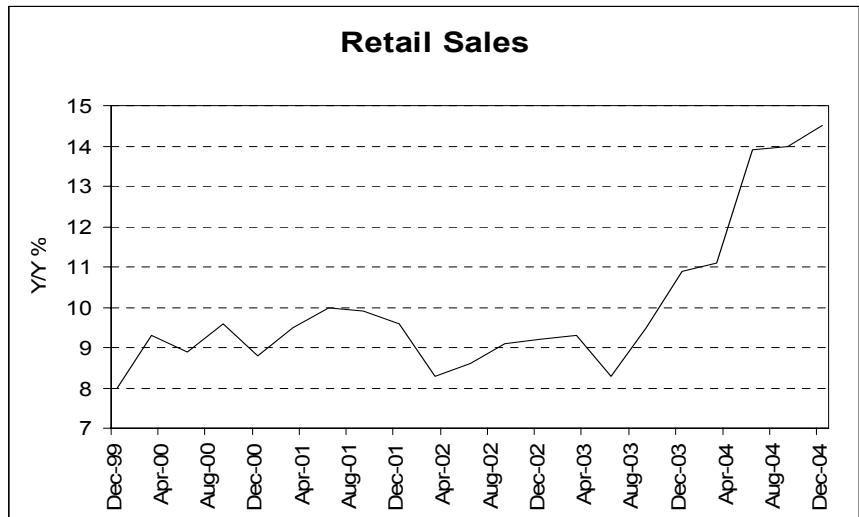
China's Real GDP increased 9.5% Y/Y in December of 2004, its fastest pace in eight years. There was a 33% increase in exports in 2004.



Producer Price Index increased 7.1% Y/Y in December. This increase occurred as a result of an increase in the cost of crude oil, steel and other raw materials.

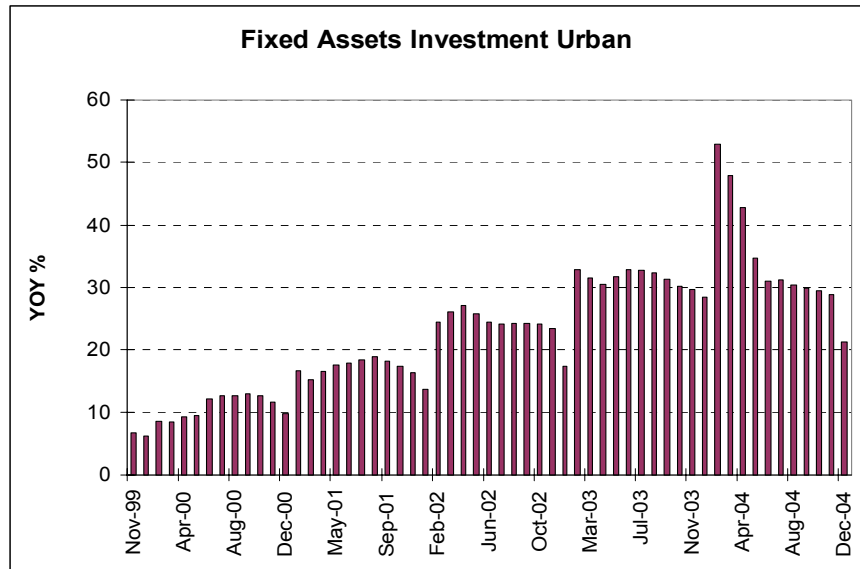


Retail Sales increased 14.5% Y/Y in December, above expectations, as increasing income growth is boosting household spending.

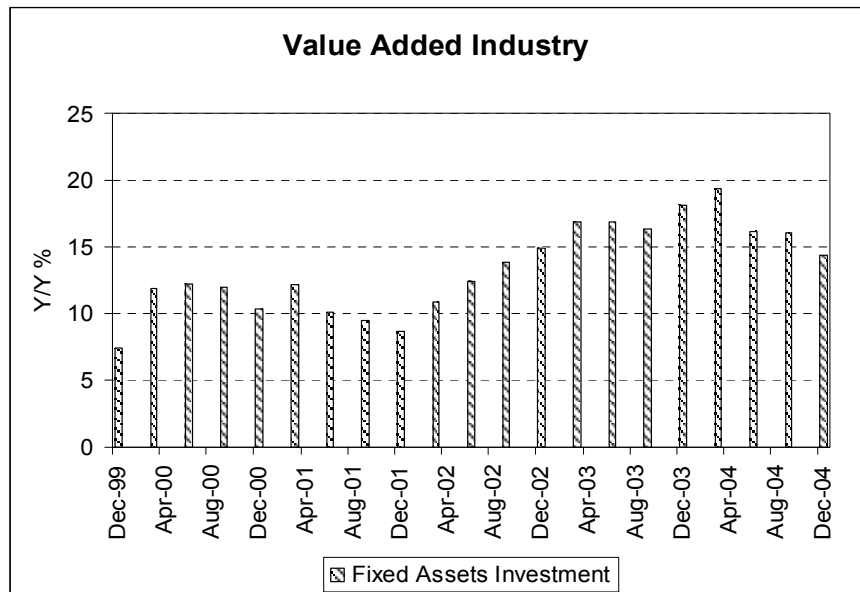


Fixed Assets Investment Urban & Value Added Industry

Fixed Assets Investment Urban increased 21.3% Y/Y in December. This series has been trending down since June of 2003 reverting back to average levels.



China's Value Added Industry increased 14.5% Y/Y in December, in line with expectations.



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	.....	.....

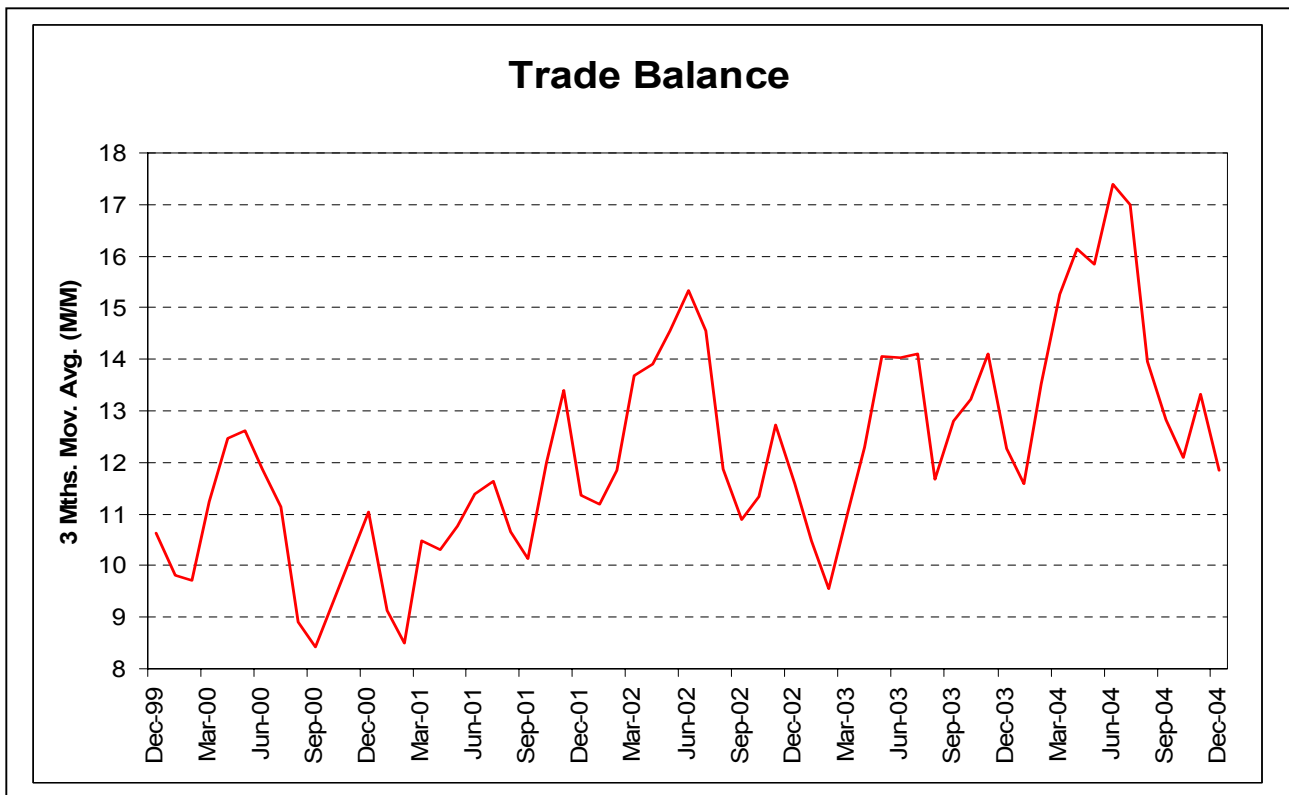
Sweden

Sweden's economic data this week continues to support the expectations that the Riksbank is likely to keep its interest rate at a record-low 2.0% to support consumer spending until the economy is strong enough for companies to increase hiring.

Weekly Highlights

- **Trade Balance** - widened from SEK 10.1 bln in November to SEK 13.4 bln December. (page 39)
- **Unemployment Rate** – rose from 4.9% in November to 5.3% in December. (page 40)

Chart of the Week

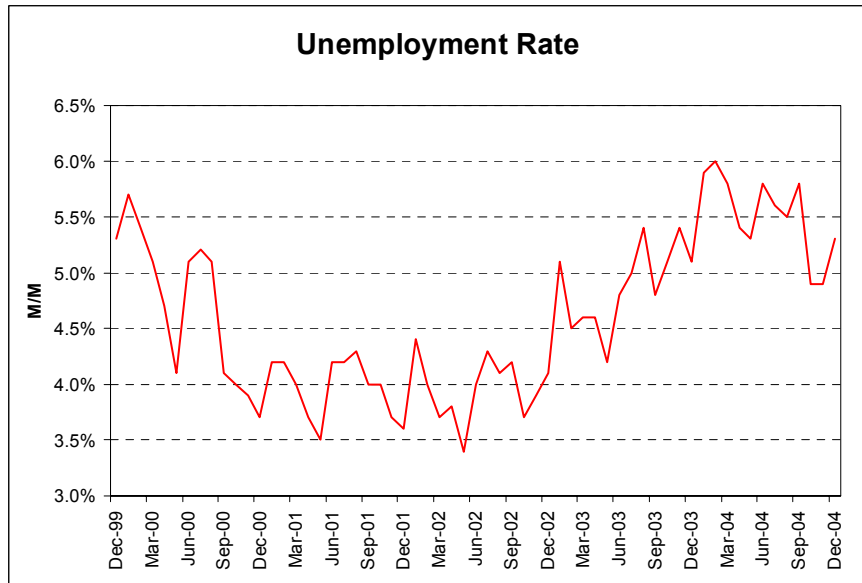


The Trade Surplus widened from SEK 10.1 bln in November to a record SEK 13.4 bln in December. This increase was attributed to imports (-9.8% m/m) falling more than exports (-5.3% m/m).

Unemployment Rate

The Unemployment Rate unexpectedly rose from 4.9% in November to 5.3% in December. This increase was due to persons leaving government re-training programs.

The number of permanent employed decreased by xx thousand 3,204 in December



Jan. 24th - Swedish Central Bank May Leave Benchmark Rate at 2%

A survey of 17 economists by Bloomberg showed the Riksbank is expected to leave its interest rate at a record low 2.0% “to underpin economic recovery as inflation stays below target”. The bank will leave the repurchase rate unchanged for a seventh consecutive meeting on Jan. 28” according to the economists surveyed. Paer Magnusson, an economist at Danske Bank A/S, stated “the bank isn’t going to move in 2005”. He further commented that “inflation is no threat” and he doesn’t “believe in any dramatic fall in unemployment this year”. In line with his belief, Prime Minister, Goeran Persson, also does not expect unemployment to fall any time soon, indicating that “it would be 18 months before unemployment rate fell to the government's target of 4 percent”.

Jan. 21st - Swedish Riksbank Governor Sees Inflation on Target

The Riksbank’s Governor, Lars Heikensten, stated in a speech published on the website, “the country’s inflation will be in line with the bank's target two years ahead, signaling the Riksbank is in no hurry to raise interest rates from a record low 2 percent”. Prices (excluding interest rates, subsidies and indirect taxes) rose 0.8 Y/Y in December resulting in the inflation rate being “lower than assumed”, Heikensten stated. He further commented “that there was no ‘reason for any major change’ in the bank’s economic growth forecast”. The economy is expected to grow about 3.0 % in 2005 compared with the 3.2% October forecast.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
1/27	Consumer Confidence – January	9.6	9.6
1/27	Manufacturing Confidence – 4Q	2.0	2.0
1/27	Retail Sales s.a. (M/M) – December	-0.4%	1.7%
1/27	Retail Sales n.s.a. (Y/Y) – December	6.2%	7.7%
1/27	PPI (M/M) – December	-0.2%	-0.2%
1/27	PPI (Y/Y) – December	2.9%	2.9%
1/28	Riksbank Interest Rate (Jan 28)	2.0%	2.0%