

Weekly Economic Reports

February 2, 2005

Highlights

- **US:** Core PCE growth flat-lining
- **Euroland:** Sharp drop in German CPI in January
- **Japan:** Household spending weak; employment improves
- **UK:** Weak mortgage lending data
- **Canada:** Weak Q4 data

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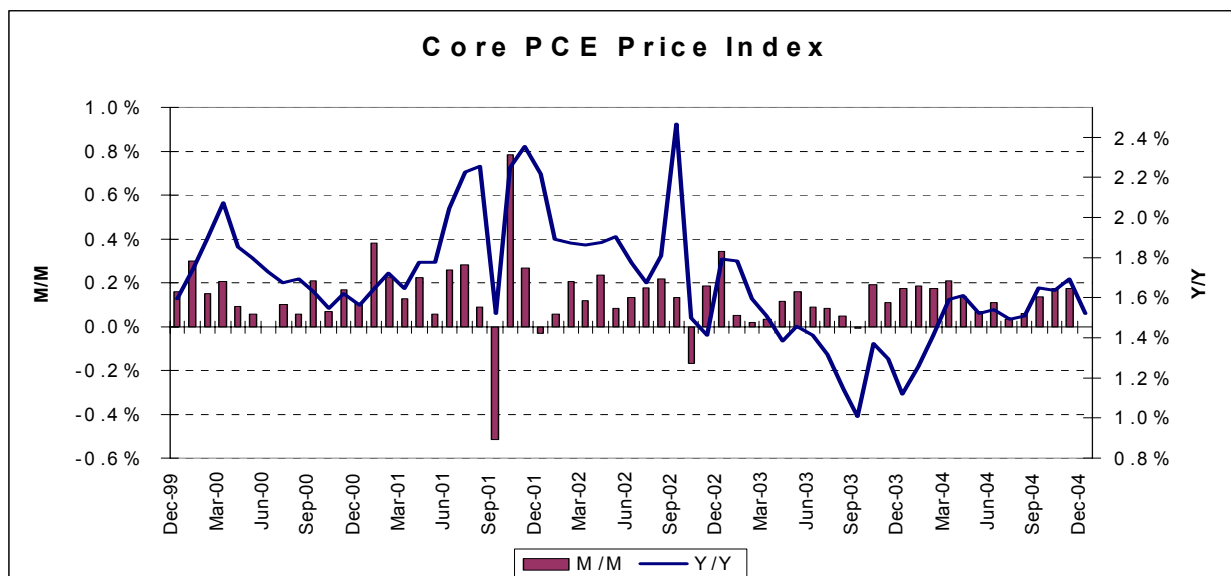
U.S.

This week's economic data showed a tame inflationary environment with core PCE flat M/M and a deceleration in the Employment Cost Index. Personal income, personal spending, durable goods orders and construction spending all showed strength. The employment indicators suggest trend payroll growth and purchase mortgage applications and new home sales seem to be showing some softness. Also, Douglas Holtz-Eakin, the director of the CBO, told the Senate the U.S. is unlikely to grow itself out of deficits because of the fast growth in entitlements like Medicare and Medicaid. Any attempt to sharply reduce the deficit will likely put an end to payroll growth and slow the economy.

Weekly Highlights

- **Inflation-** Core PCE was flat M/M and shows a tame inflationary environment. (page 2)
- **GDP-** increased 3.1%, but will likely be revised upwards. (page 3)
- **Unemployment claims-** suggest trend growth in payrolls. (page 5)
- **New Home Sales-** continued to be soft in December. (page 7)

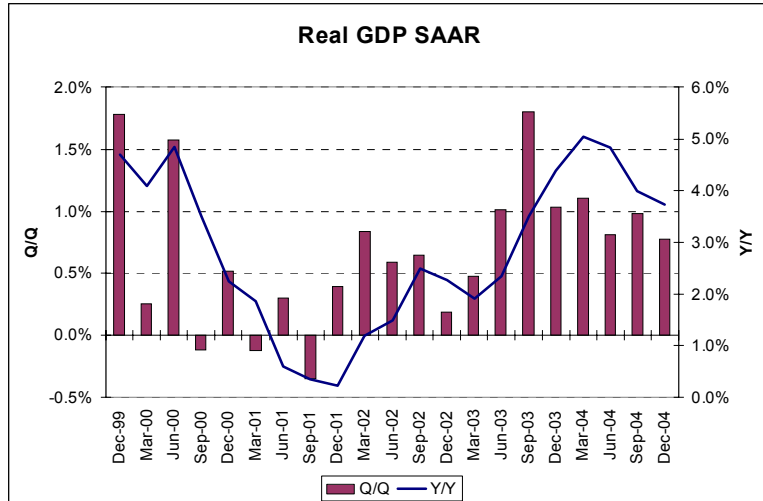
Chart of the Week



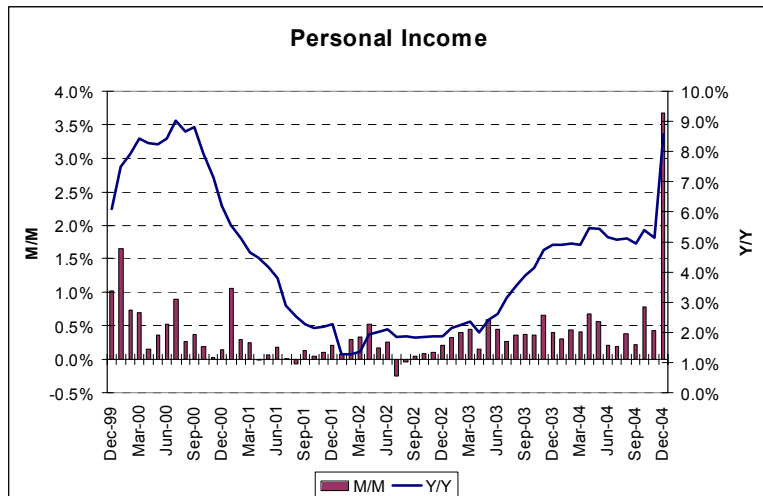
The Core PCE deflator was flat M/M and increased 1.5% Y/Y in December. The Fed's favorite measure of inflation has returned to the middle of the Fed's comfort zone of 1% to 2%. The inflation concerns mentioned in the Fed minutes have not been supported by the recent data. Despite the current tame inflationary environment the Fed views rates as accommodative and will likely continue to hike unless job creation begins to slip below trend growth.

GDP, Personal Income & Personal Spending

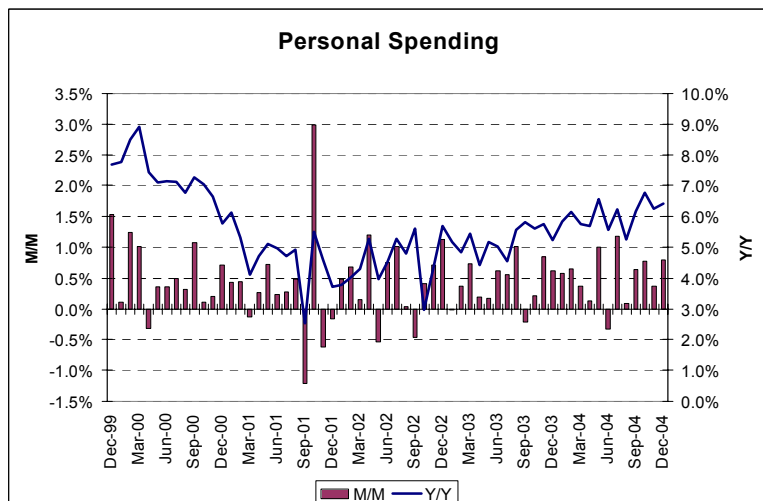
Real GDP increased 3.1% at an annualized rate in the fourth quarter of 2004. Details showed that underlying demand strength was offset by a large trade deficit. Some have reported that an error in the Canadian trade data will lead to a



Personal income increased 3.7% M/M and 8.6% Y/Y in December. The large gain was due to the distribution of Microsoft's dividend. Without the Microsoft dividend, personal income would have increased 0.6% M/M.

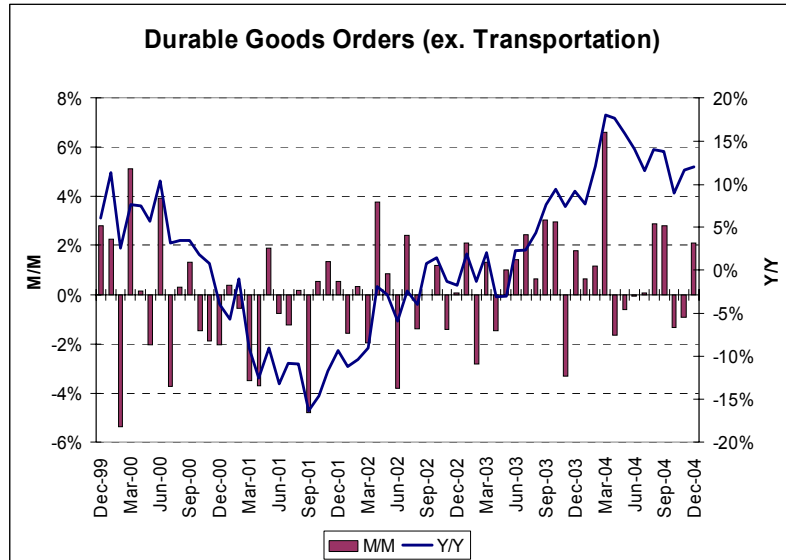


Personal Spending increased 0.8% M/M and increased 6.4% Y/Y in December. The strength in spending continues and is likely to support the case for higher rates despite a tame inflationary environment.

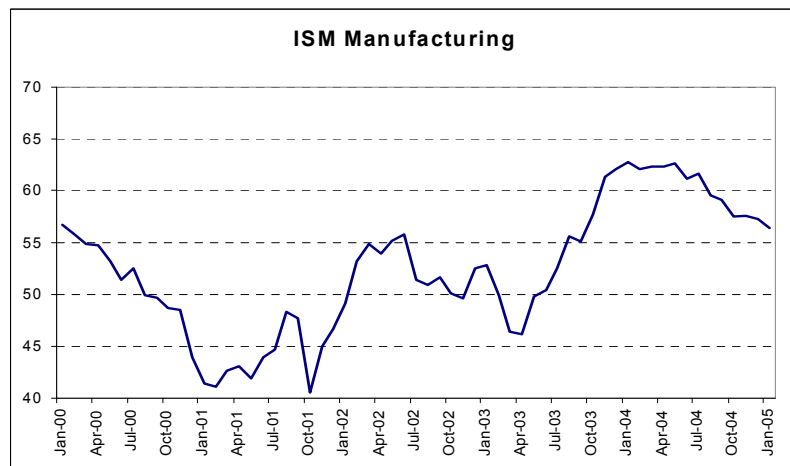


Durable Goods, ISM & Chicago PMI

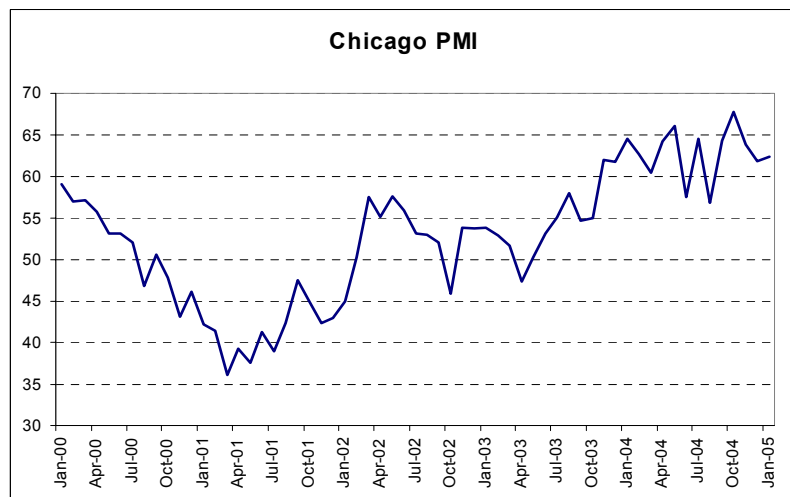
Durable goods orders, excluding transportation, increased 2.1% M/M and 11.9% Y/Y in December. The move in this volatile series could have been due to tax incentives expiring in 2004 or strength in investment spending to come; only more data will clarify.



The ISM Manufacturing Index decreased from 57.3 to 56.4 in January. The employment component improved from 53.3 to 58.1 and the price component declined from 72.0 to 69.0.

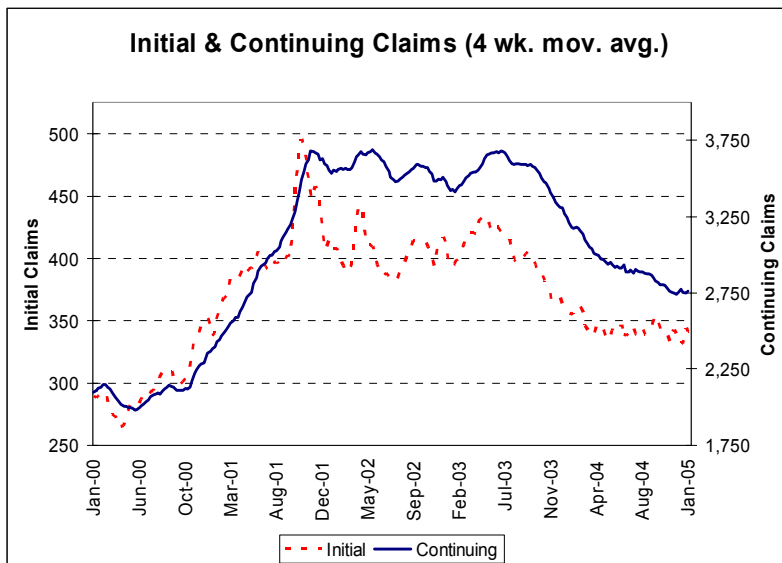


The Chicago PMI increased from 61.9 to 62.4 in January. The employment component improved from 51.1 to 52.8 and the price component declined from 84.5 to 76.5.



Employment

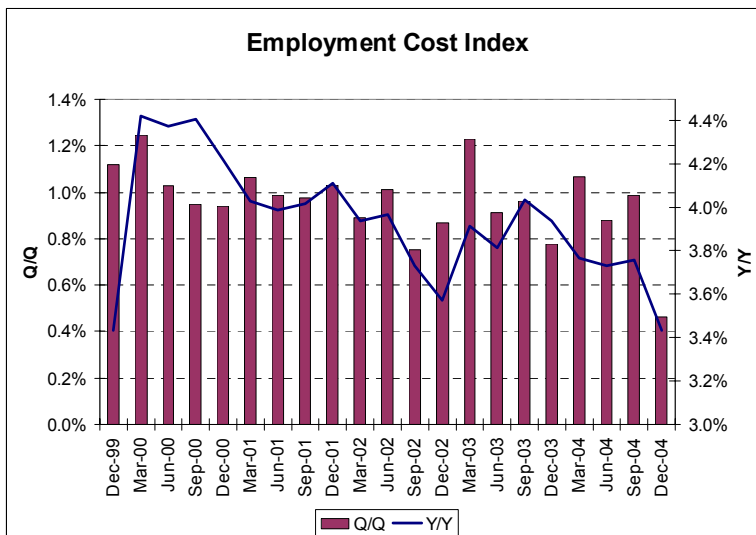
The four week moving average of initial and continuing claims remained relatively flat at 341k and 2,760k, respectively. The employment claims data suggest trend growth in payrolls.



The Help Wanted Index increased to 38 in December. This series continues to be consistently weak and suggests that employers are still hesitant to increase payrolls.

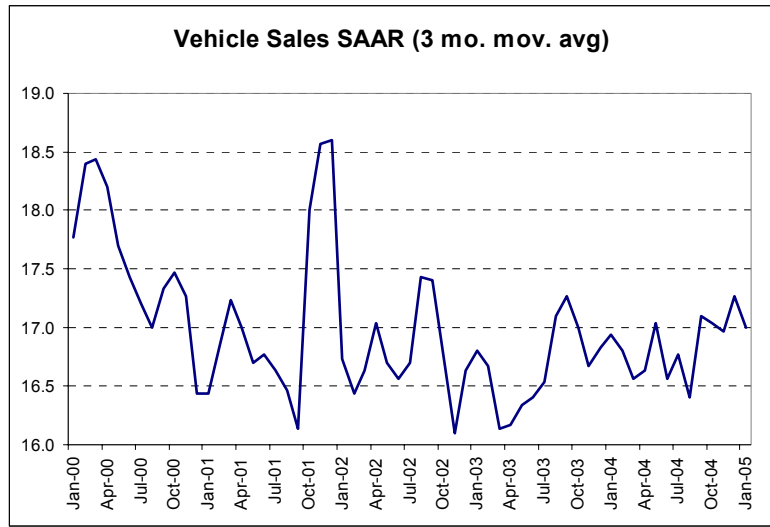


The Employment Cost Index increased 0.5% Q/Q and 3.4% Y/Y in the fourth quarter of 2004. At 0.4% Q/Q, the wage component grew at a 4yr low.

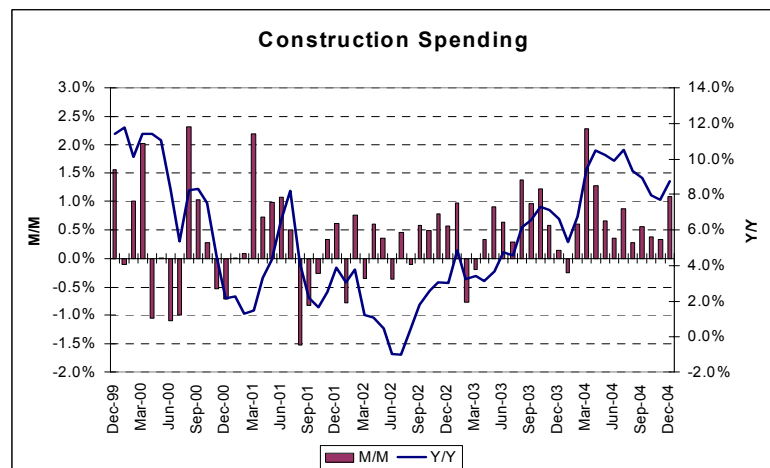


Vehicle Sales, Construction Spending & Consumer Confidence

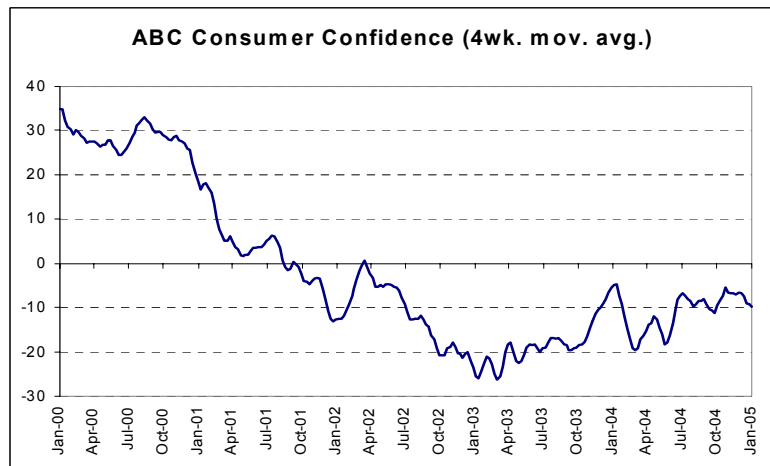
The seasonally adjusted annual rate of total vehicle sales decreased from 18.4 million to 16.2 million in January. The three month moving average continues to be about 17 million vehicles with domestic producers losing market share.



Construction spending increased 1.1% M/M and increased 8.7% Y/Y in December. The spike in December was caused by projects that were previously delayed due to weather.

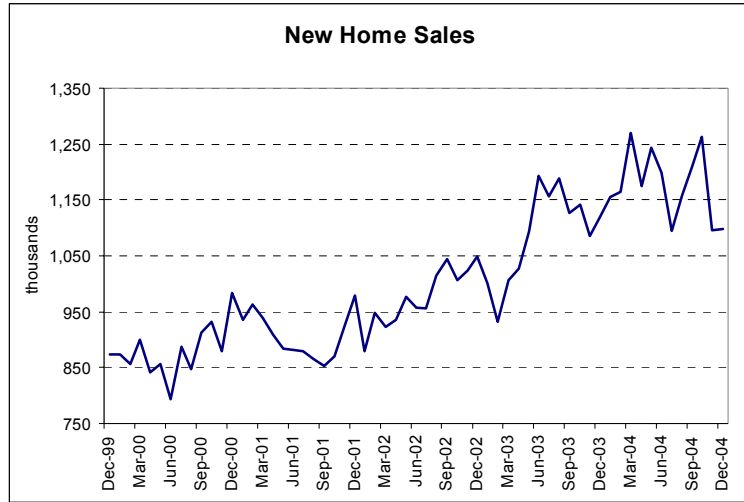


The ABC Consumer Confidence Index declined from -8 to -11. The economic, financial and buying climate components all declined last week.

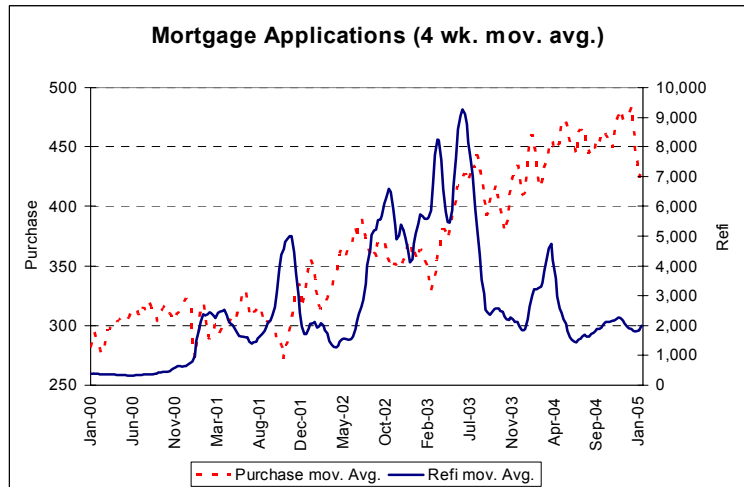


Housing Market

The seasonally adjusted annual rate of New Home Sales increased slightly from 1,097k to 1,098k. Leading indicators of new home sales like mortgage applications for purchases have been relatively flat for the past year and have looked particularly soft recently.



MBA mortgage applications for purchases and refinancing increased 0.3% and 16.6%, respectively. Purchase applications continue to look soft.



Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|-----------------------------------|--------------------|-----------------|
| 02/03 | Non-farm Productivity (Q4) | 1.5% | 1.8% |
| 02/03 | Unit Labor Costs (Q4) | 2.0% | 1.8% |
| 02/03 | Initial Job Claims (JAN 29) | 330K | 325k |
| 02/03 | Continuing Claims (JAN 22) | 2,765k | 2,840k |
| 02/03 | Factory Orders (DEC) | 0.6% M/M | 1.2% M/M |
| 02/03 | ISM Non-Manufacturing (JAN) | 61.0 | 63.9 |
| 02/04 | Unemployment Rate (JAN) | 5.4% | 5.4% |
| 02/04 | Average Hourly Earnings (JAN) | 0.2% M/M | 0.1% M/M |
| 02/04 | Change in Non-Farm Payrolls (JAN) | 200K | 157K |
| 02/04 | Average Weekly Hours (JAN) | 33.8 | 33.8 |
| 02/04 | U. of Michigan Confidence (JAN) | 96.0 | 95.8 |
| 02/08 | ABC Consumer Confidence (FEB 6) | NA | -11 |
| 02/09 | MBA Mortgage Applications (FEB 4) | NA | 7.3% |
| 02/09 | Wholesale Inventories (DEC) | 0.9% M/M | 1.1% M/M |

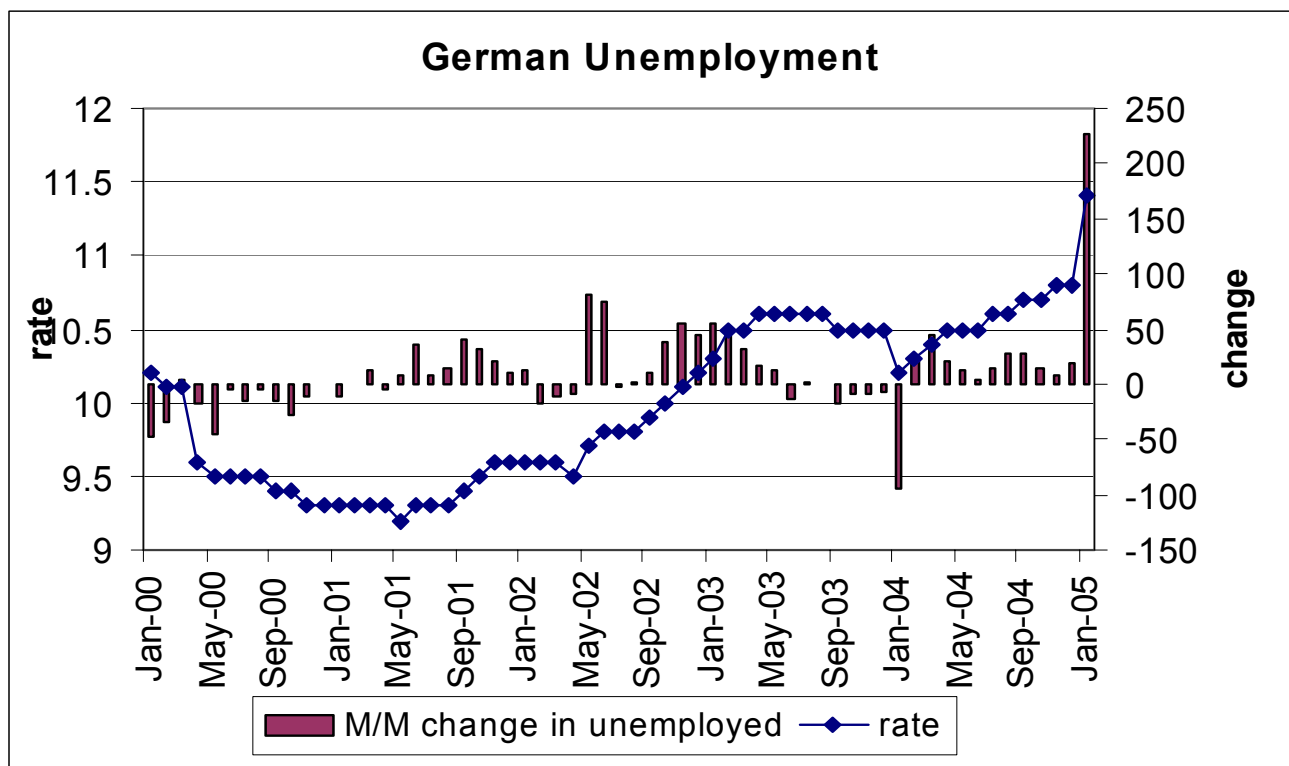
Euroland

Euroland data this week was mostly filled with price indices and stagnant confidence surveys. German Unemployment rose significantly due to a statistical change, German inflation eased considerably and Euro Zone Business Confidence fell.

Weekly Highlights

- **German Unemployment-** now including welfare recipients, increased to 4.71 million unemployed in January. (page 9)
- **Euro Zone Business Confidence-** fell in December. (page 11)
- **German CPI** – fell to a nine month low in January. (page 13)

Chart of the Week



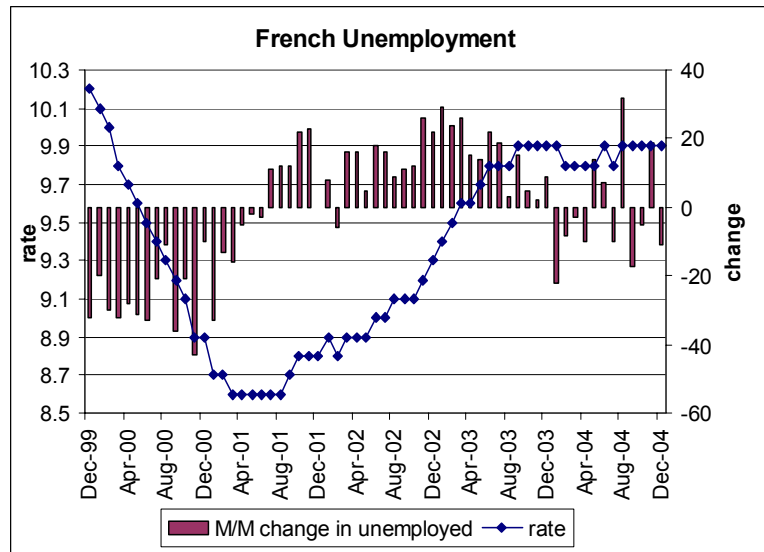
Germany's Unemployment Rate rose to its highest since World War II in January as new rules added welfare recipients to the jobless count. The total unemployed rose by 227,000 to 4.71 million as a result. The rule change notwithstanding, German unemployment has now increased for 12 consecutive months.

Euro Zone, French & Spanish Unemployment

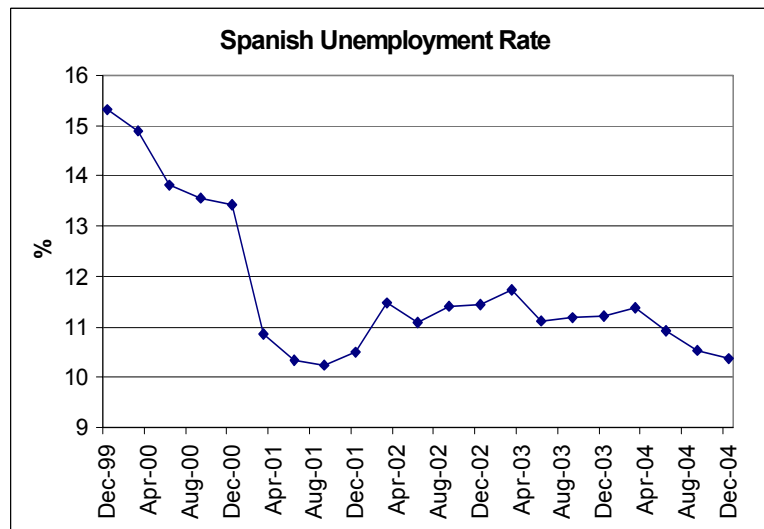
The Euro Zone's December Unemployment Rate rose from a revised 8.8% (from 8.9%) in November to 8.9%.



France's December Unemployment Rate remained at its five year high of 9.9%. However, the total unemployed fell by 11,000 after November's 19,000 increase.

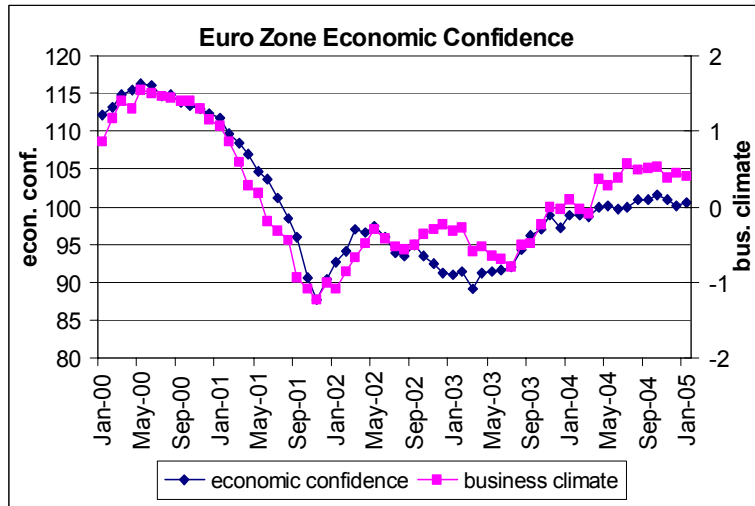


Spain's Q4 Unemployment Rate fell to its lowest in three years, decreasing from 10.54% in Q3 to 10.38%.

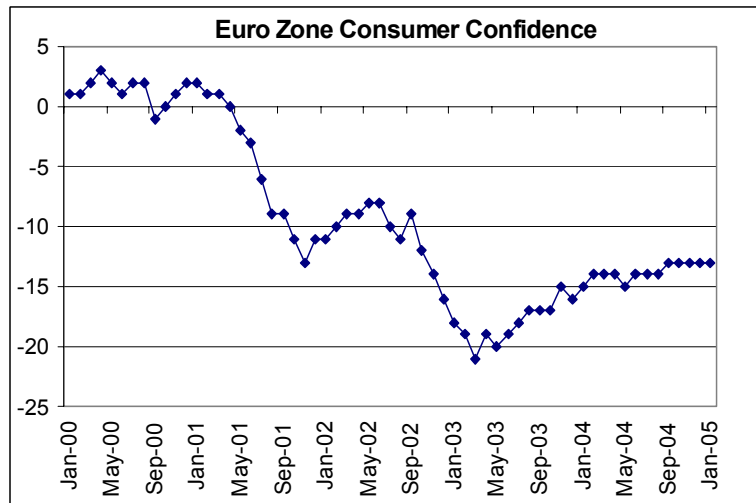


Euro Zone, French Business & Consumer Confidence

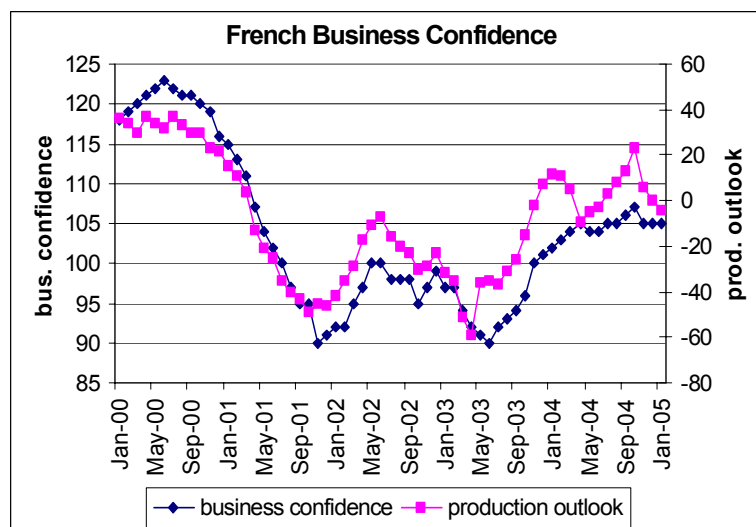
The Euro Zone's Business Climate Indicator fell from 0.43 in December to 0.40, a sharp contrast to the IFO's latest positive change in business confidence. Overall, economic confidence increased slightly, rising from 100.3 to 100.6.



The Euro Zone's January Consumer Confidence Index remained unchanged at -13. Market expectations were for an increase to -12.



France's January Business Confidence increased from 104 in December to 105. The Production Outlook Index fell however, decreasing from -1.0 in December to -4.0 in January.

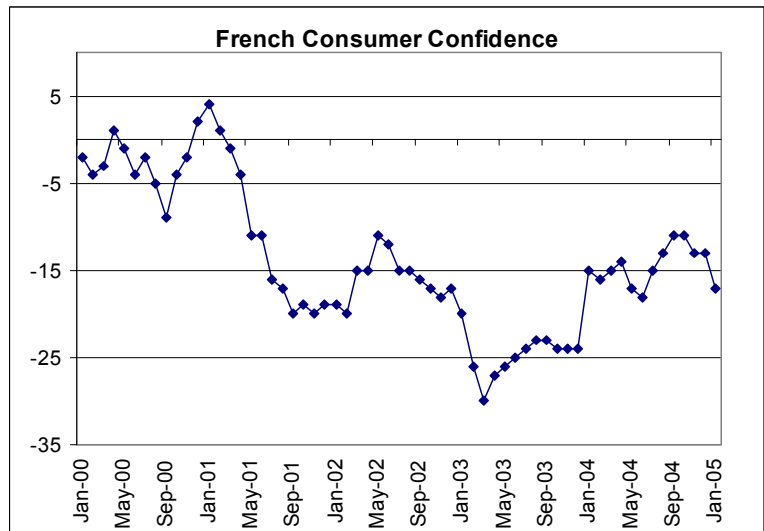


Italian, French Confidence & Spanish Retail Sales

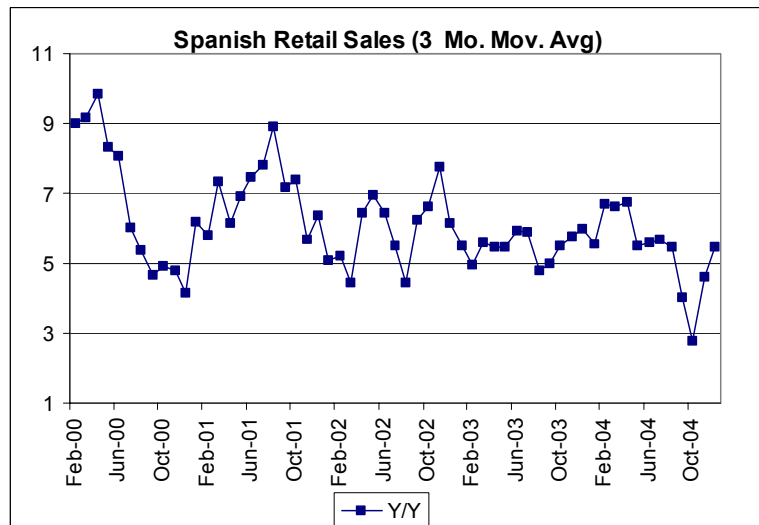
Italy's January Business Confidence increased from 88.9 in December to 89.2. The Current Assessment Sub Index increased from -14 to -13 while the production outlook remained unchanged.



France's January Consumer Confidence Indicator fell from -13 in December to -17. It was the second decline in the past three months.

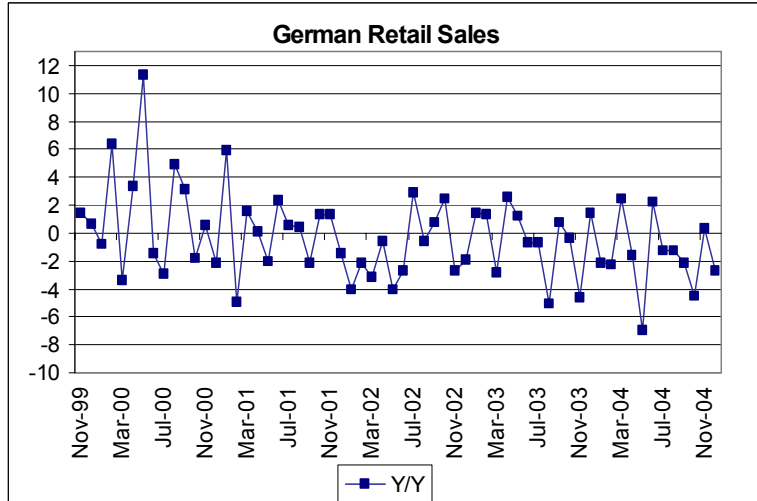


Spain's December Retail Sales rebounded by 26.7% M/M and 5.6% Y/Y following November's M/M decline.

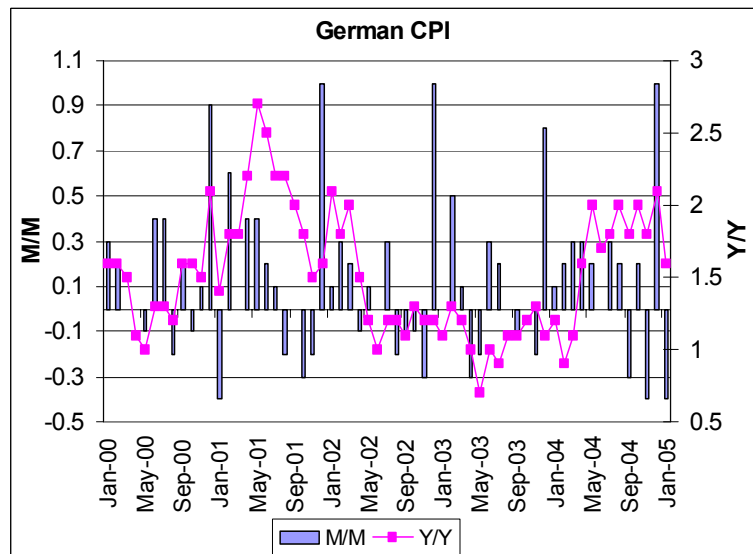


German Retail Sales, German CPI & French PPI

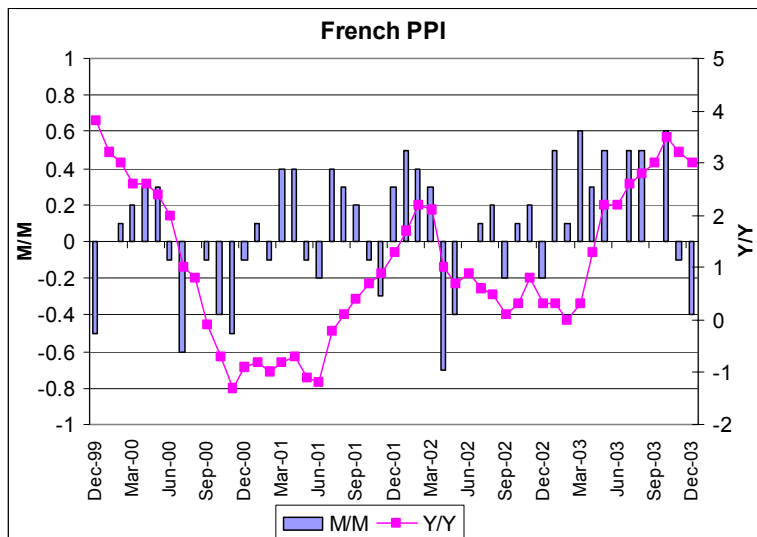
Germany's December Retail Sales fell for the third month in four, declining 0.3% M/M and 2.7% Y/Y. A number of companies stated that Christmas sales were "significantly below expectations".



Germany's January CPI fell 0.4% M/M while decelerating to 1.6% Y/Y. Prices are at a nine month low as vacations and clothing became cheaper after the Christmas holidays.

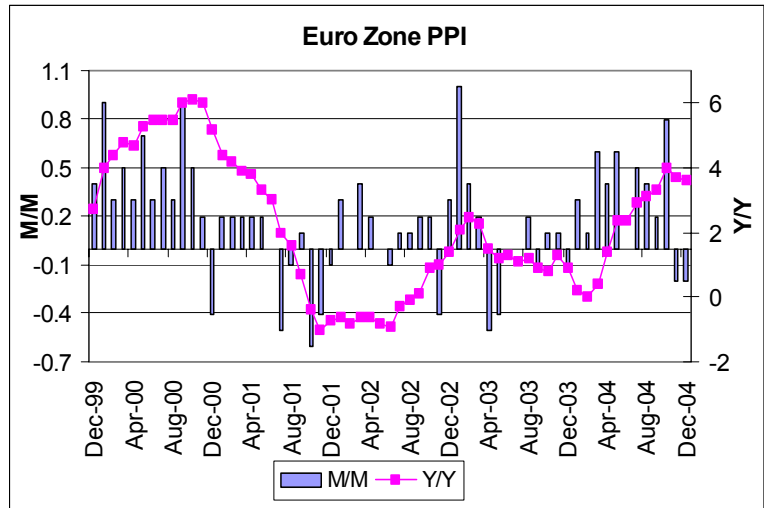


France's December Producer Prices fell 0.4% M/M while decelerating to 3.0% Y/Y. It was the second consecutive month of decline and was fueled by falling energy costs.

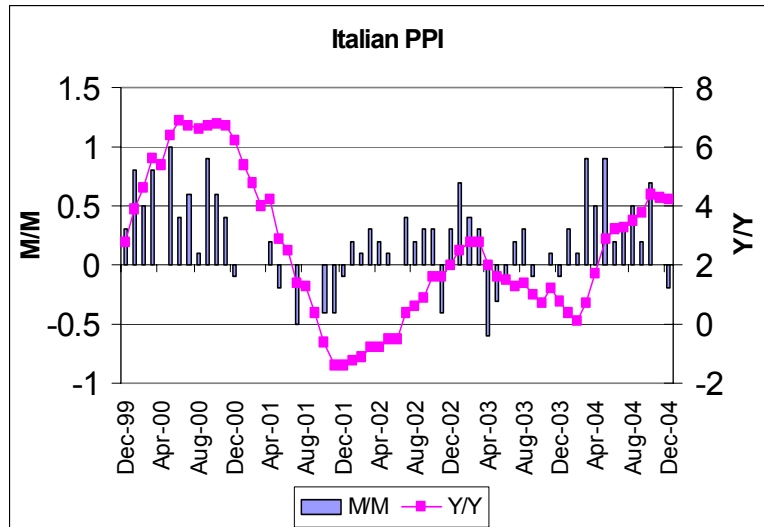


Euro Zone PPI, Italian PPI & Hourly Wages

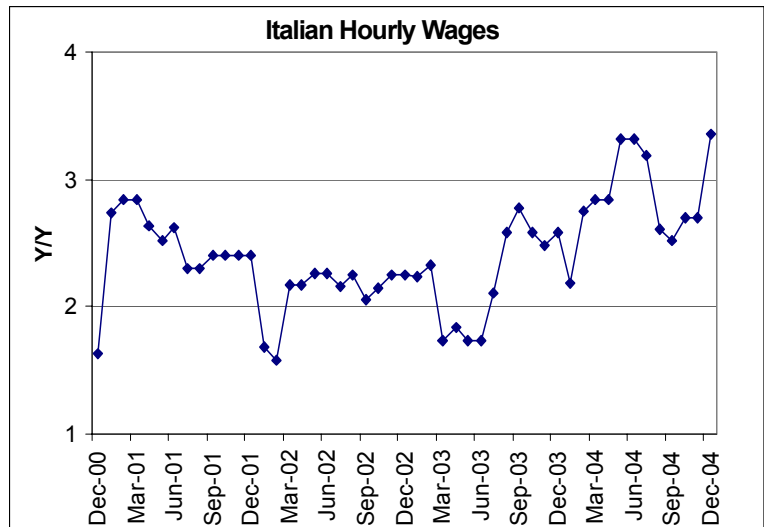
The Euro Zone's December Producer Prices fell 0.2% M/M while increasing 3.6% Y/Y. Falling energy prices were responsible for the consecutive months of M/M declines.



Italy's December Producer Prices fell 0.2% M/M while decelerating to 4.2% Y/Y. The energy component was most responsible for the decline, falling 1.2% M/M.



Italy's December Hourly Wages increased 0.7% M/M and 3.3% Y/Y.



Italian Retailer's Confidence

Italy's December Retailer's Confidence Index increased from 95.1 in November to 97.9. It was the second consecutive increase, though levels still remain at historical lows.



ECB

Feb. 2nd – The **EU Commission** urged Germany, Italy and France to make larger cuts in their deficits, claiming that the countries are relying too much on economic expansion to balance the budget. The commission cited the budgets in Germany and France as being ‘vulnerable’. A final deficit cutting recommendation will be issued on February 17th.

Jan. 29th – **ECB member Axel Weber** commented on a number of issues: on growth: “In Germany we assume that the recovery will continue but at a moderate pace”. On inflation: “The oil scenario is very important for us in the monetary policy field as it leads to inflation...The theme of higher oil prices and the potential downside risks for the economy and the upward inflation risks will remain with us through 2005”. On unemployment: “We think that when you look at the development of unemployment over the course of the year we will see a slight improvement, though nothing dynamic. The average for this year will be worse than last year but in the course of the year we will see an improvement.” He also stated that “we view with concern the possibility that we could see a departure from the trend of relatively moderate wage demands”.

Jan. 31st – **Market News International**, citing unidentified ‘sources’ stated that the ECB will probably raise rates sometime later this year. Raising the lending rate is a “target” and has been discussed in council meetings, the source is quoted as saying. The “source” went as far as saying that higher interest rates in the 1st half of 2005 cannot be ruled out and that policy makers are not that concerned about inflation.

France

Feb. 1st – **France’s Parliament** is likely to pass a law that rescinds the country’s 35 hour work week rule. It will allow employees to swap time off for more pay, effectively bypassing the 35 hour rule. While some companies praise the impending change, some labor unions have called for protest demonstrations as they expect the rule to cause an increase in unemployment.

Jan. 27th – **French Budget Minister Jean-Francois Cope** said that the government plans to limit spending increases at the 2006 inflation rate. Cope stated that public spending increases “must remain at zero” in order to meet the EU deficit rules.

Germany

Jan. 27th – Europe’s largest labor union, **Germany’s Ver. Di public services union** seems to be bucking the trend of labor hours/pay compromises, saying that they will reject any government calls to extend weekly hours beyond the agreed 38.5. The union is also seeking inflation-linked pay increases for its 1.6 million civil servants. The wage negotiations will begin in mid February and with EU pressure to reduce spending, it is hard to predict the results.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|-------------------------------------|--------------------|-----------------|
| 02/04 | Spanish Industrial Production (DEC) | 3.5% Y/Y | |
| 02/04 | Euro Zone CPI Estimate (JAN) | 2.2% Y/Y | 2.4% Y/Y |
| 02/04 | Euro Zone Retail Trade (DEC) | 0.5% M/M | 0.0% M/M |
| 02/04 | German Factory Orders (DEC) | 1.5% Y/Y | |

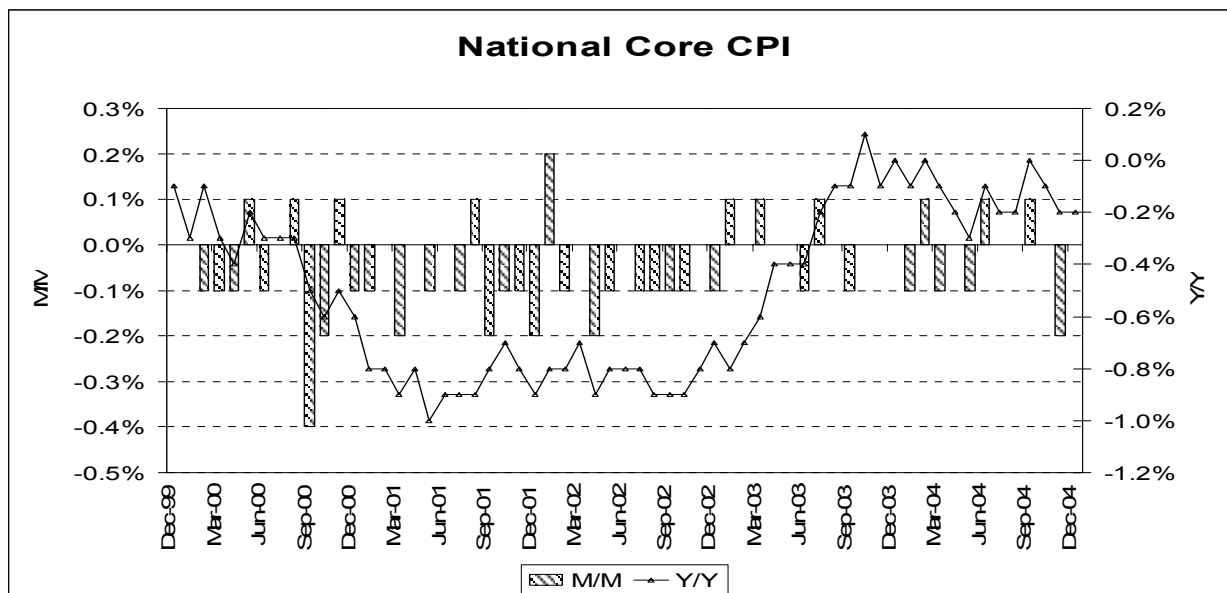
Japan

This past week, the data released in Japan was generally soft with the exception of the Labor Market data. Worker Household Spending, Tokyo Core CPI, Large Retailers' Sales and Retail Trade posted results below expectations. Meanwhile, the National Core CPI was slightly stronger than expected and inventories fell sharply. On the Labor Market front, employment increased 0.5% M/M. At the same time, the Job Offer to Application Ratio reached its highest level since 1992 and the Jobless rate recorded its lowest level since December of 1998. We look to further strength in employment for a rebound in consumer spending.

Weekly Highlights

- **Nationwide Core CPI** - remained flat M/M and decreased 0.2% Y/Y, in December, slightly above expectations. (page 18)
- **Retail Trade** - decreased 0.5% M/M and 0.7% Y/Y in December. (page 19)
- **Industrial Production** – decreased 1.2% M/M and increased 1.4% Y/Y in December, in line with expectations. (page 21)

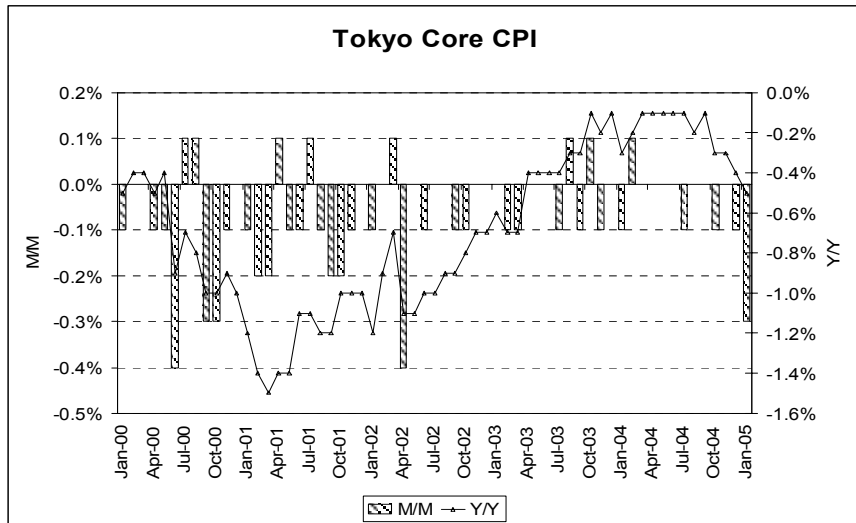
Chart of the Week



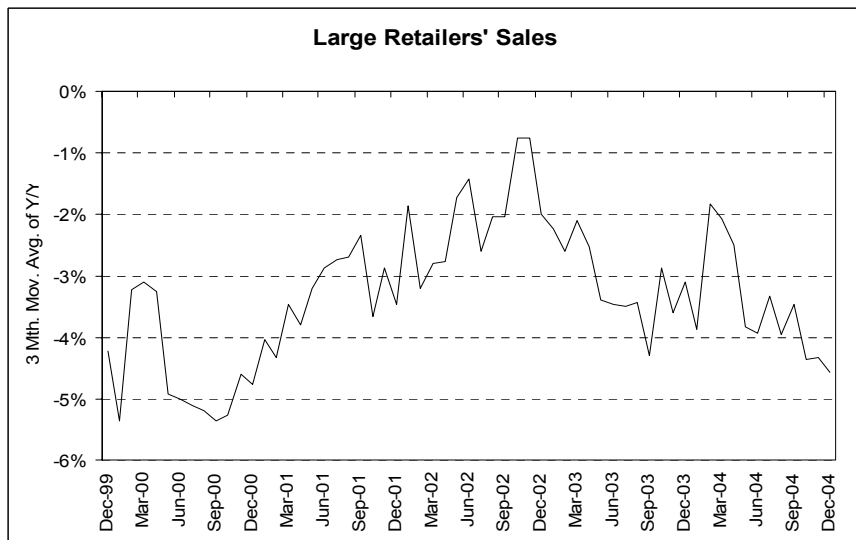
Nationwide Core Consumer Prices remained flat M/M and decreased 0.2% Y/Y, in December, slightly above expectations. This decline was attributed to decreases in telephone and electricity charges which have partly led the Bank of Japan to announce a change in its Core CPI forecast. According to the BoJ, Core CPI is expected to show results slightly below the 0.1% Y/Y increase forecasted for the 2005 fiscal year which starts on April 1st. This series should be closely monitored, as an increase in Core CPI is one of the Bank's three main requirements to end the Zero Interest Rate Policy.

Tokyo Core CPI, Large Retail Trade & Retail Trade

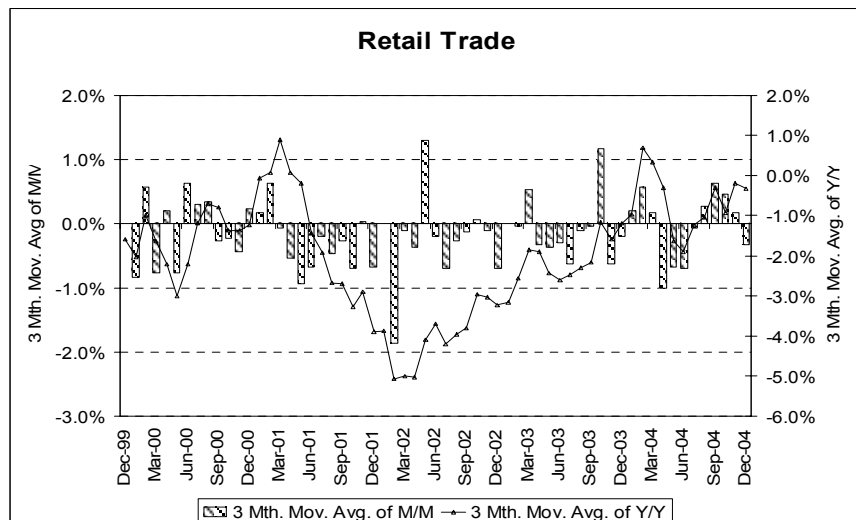
Tokyo Core CPI decreased 0.3% M/M and 0.5% Y/Y in January, below expectations.



Large Retailers' Sales decreased 4.2% Y/Y in December, below expectations, and maintaining a downward trend.

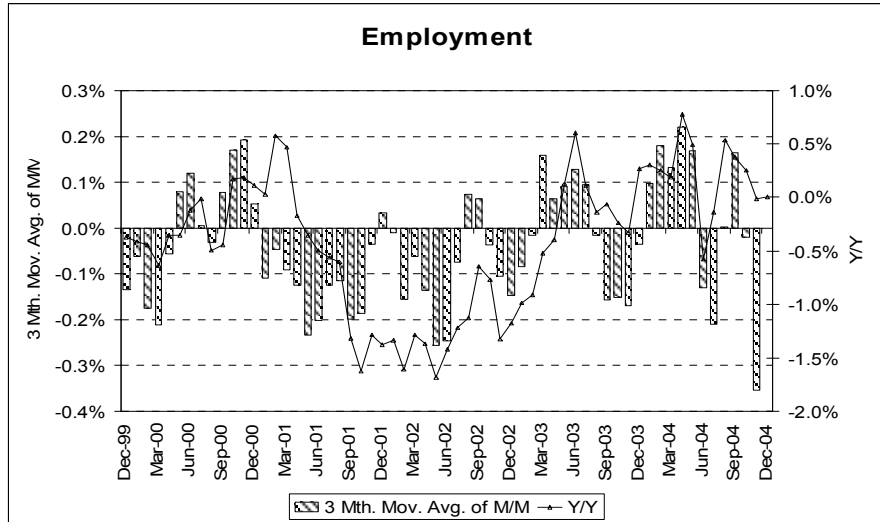


Retail Trade posted downside surprises decreasing 0.5% M/M and 0.7% Y/Y in December. This decline was driven primarily by the decrease in sales of food and sporting goods.

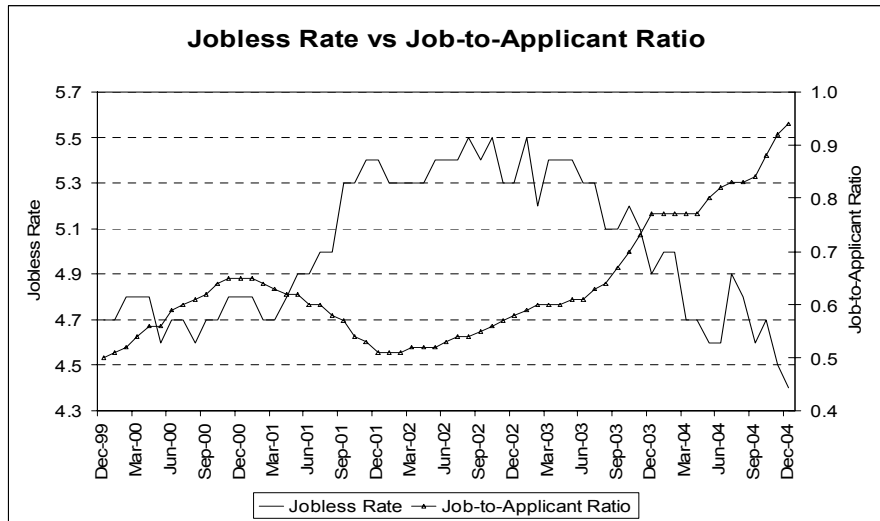


Employment, Jobless Rate vs. Job-to-Applicant Ratio & Labor Cash & Overtime Earnings

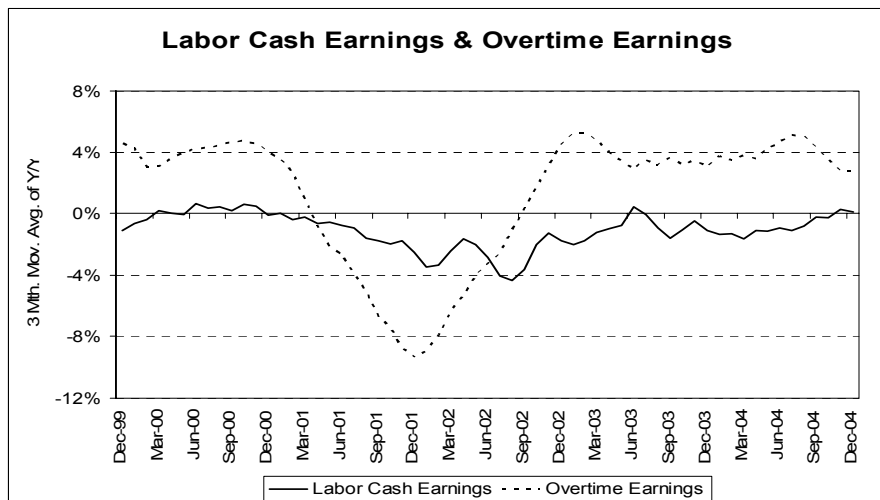
Employment increased 0.5% M/M (290,000 jobs) and remained flat Y/Y in December. Additionally, there were a total of 260,000 workers who joined the labor force.



The jobless rate decreased from 4.7% in November to 4.4% in December, the lowest since December of 1998. At the same time, the Job to Applicant Ratio increased from .92 in November to .94 in December, its highest level since November of 1992.

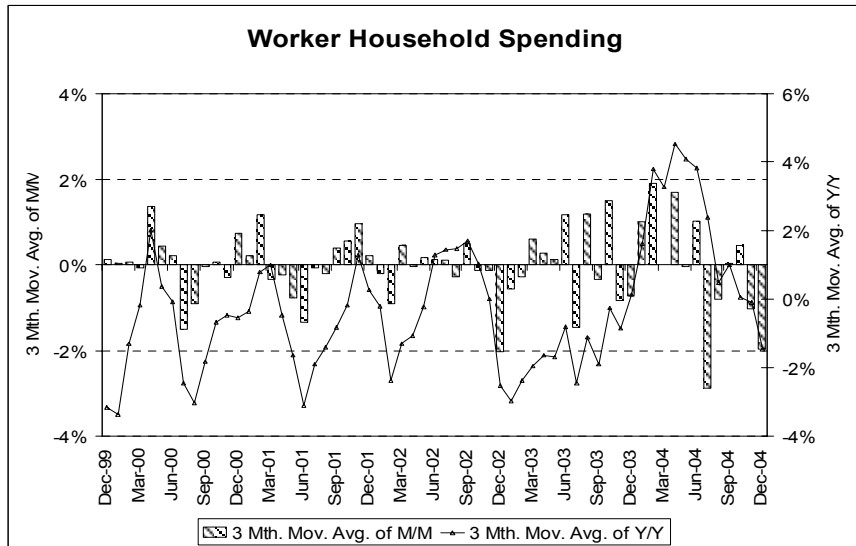


Labor cash earnings decreased 1% Y/Y and overtime earnings increased 2.8% Y/Y in December.

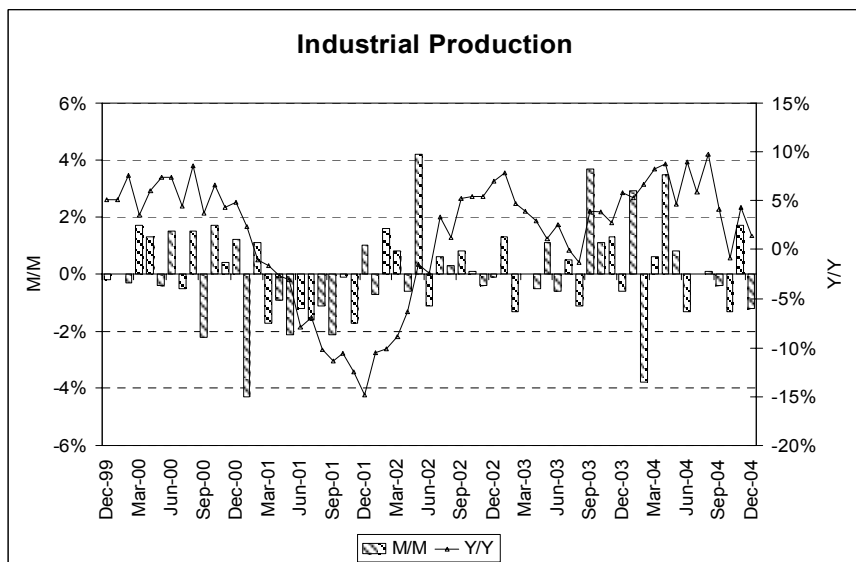


Worker Household Spending, Industrial Production & Vehicle Sales

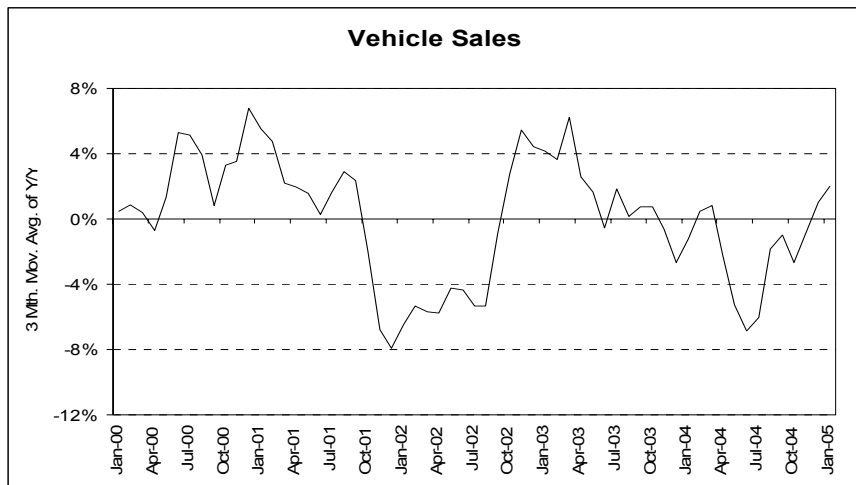
Worker's Household Spending declined 3.8% M/M and 3.8% Y/Y in December, below expectations. Growth in Worker's Household Spending continues to trend down as growth in labor cash earnings remains stagnant.



Industrial Production decreased 1.2% M/M and increased 1.4% Y/Y in December, in line with expectations. Inventories decreased 2.3% M/M while shipments increased 0.7% M/M. Leaner inventories bodes well for production in the months ahead.

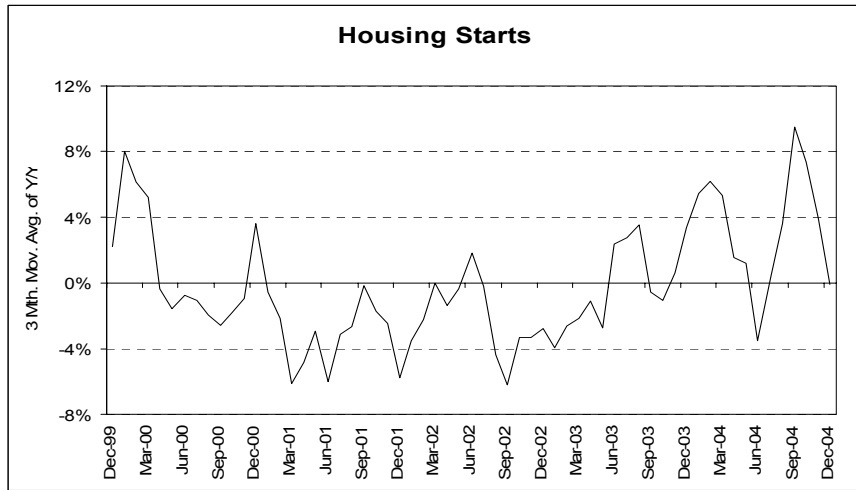


Vehicle Sales increased 4.1% Y/Y in January. The growth in Vehicle Sales has been on a sharp upward trend since July of 2004.

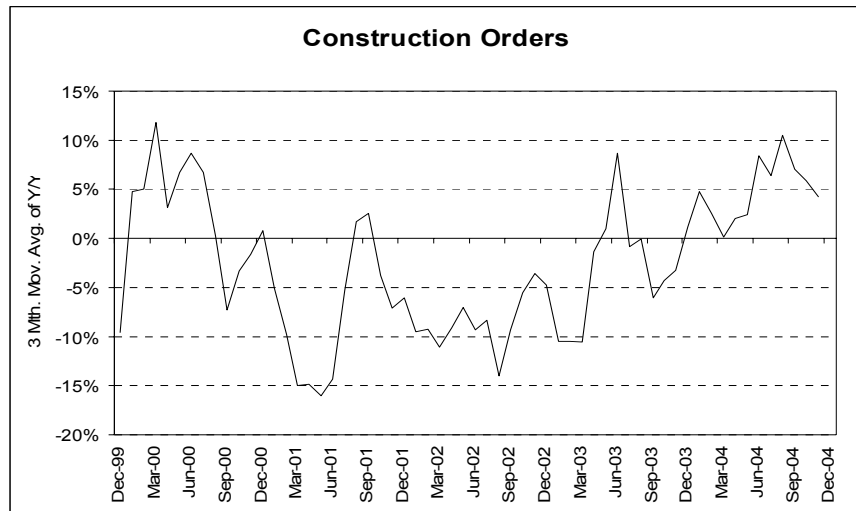


Housing Starts, Construction Orders & Japan's Purchasing Managers Index

Housing Starts decreased 2% Y/Y in December, below expectations. This series posted its first Y/Y decrease in six months. The 17.7% decline in condominium construction starts contributed 3.6pp to the overall Y/Y decline in housing starts.



Construction Orders increased 1.4% Y/Y in December, posting its seventh consecutive month of gains.



Japan's Purchasing Manager's Index

| | Jan. 2005 | Dec. 2004 | Nov. 2004 | Oct. 2004 | Sept. 2004 | Aug. 2004 | July 2004 | June 2004 |
|-----------------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|
| Manufacturing index | 50.9 | 50.6 | 51.3 | 52.9 | 53.6 | 54.8 | 55.2 | 54.3 |
| Production | 50.6 | 49.4 | 51.3 | 53.9 | 55.0 | 56.2 | 56.9 | 55.4 |
| New orders | 50.3 | 49.4 | 48.6 | 52.8 | 54.2 | 55.8 | 56.7 | 55.1 |
| Export | 50.5 | 49.0 | 49.5 | 50.8 | 51.7 | 54.3 | 54.8 | 54.5 |
| Supplier deliveries | 45.3 | 44.0 | 42.9 | 42.4 | 42.7 | 41.5 | 41.9 | 40.9 |
| Inventories | 48.5 | 49.3 | 50.2 | 50.5 | 51.2 | 50.7 | 50.7 | 50.0 |
| Finished goods stocks | 48.1 | 47.2 | 47.0 | 47.5 | 48.9 | 48.5 | 49.0 | 48.2 |
| Employment | 50.5 | 50.6 | 51.4 | 49.4 | 49.5 | 50.8 | 51.0 | 50.2 |
| | | | | | | | | |
| Prices paid | 63.2 | 64.3 | 71.4 | 71.0 | 67.8 | 66.9 | 67.2 | 64.6 |
| Output price | 50.8 | 51.8 | 51.4 | 50.9 | 48.9 | 50.5 | 49.7 | 49.5 |

News Briefs

Japan's Tax Revenue Increased 4.7% in December

Feb. 1st - According to Japan's Ministry of Finance, Japan's tax revenue rose 4.7% Y/Y to 2.4 trillion (\$23.1 billion) in December.

Japanese Regular Workforce Increased for the First Time in Seven Years

Feb. 1st - The number of regular workers in Japan (part-time and full-time workers) whose contracts are longer than one month increased 0.4% to 42.8 million, its first increase in seven years.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|------------------------------------|--------------------|-----------------|
| 02/04 | Leading Economic Index (DEC P) | 40 | 36.4 |
| 02/04 | Coincident Index (DEC P) | 33.3 | 60 |
| 02/07 | Bank Lending (Y/Y) (JAN) | | -2.8% |
| 02/08 | Household Spending (Y/Y) (DEC) | | -1.3% |
| 02/08 | Household Spending (M/M) (DEC) | | 0.8% |
| 02/08 | Eco Watchers Survey: Current (JAN) | | 44.2 |
| 02/08 | Eco Watchers Survey: Outlook (JAN) | | 44 |
| 02/09 | Machine Tool Orders (JAN P) | | |

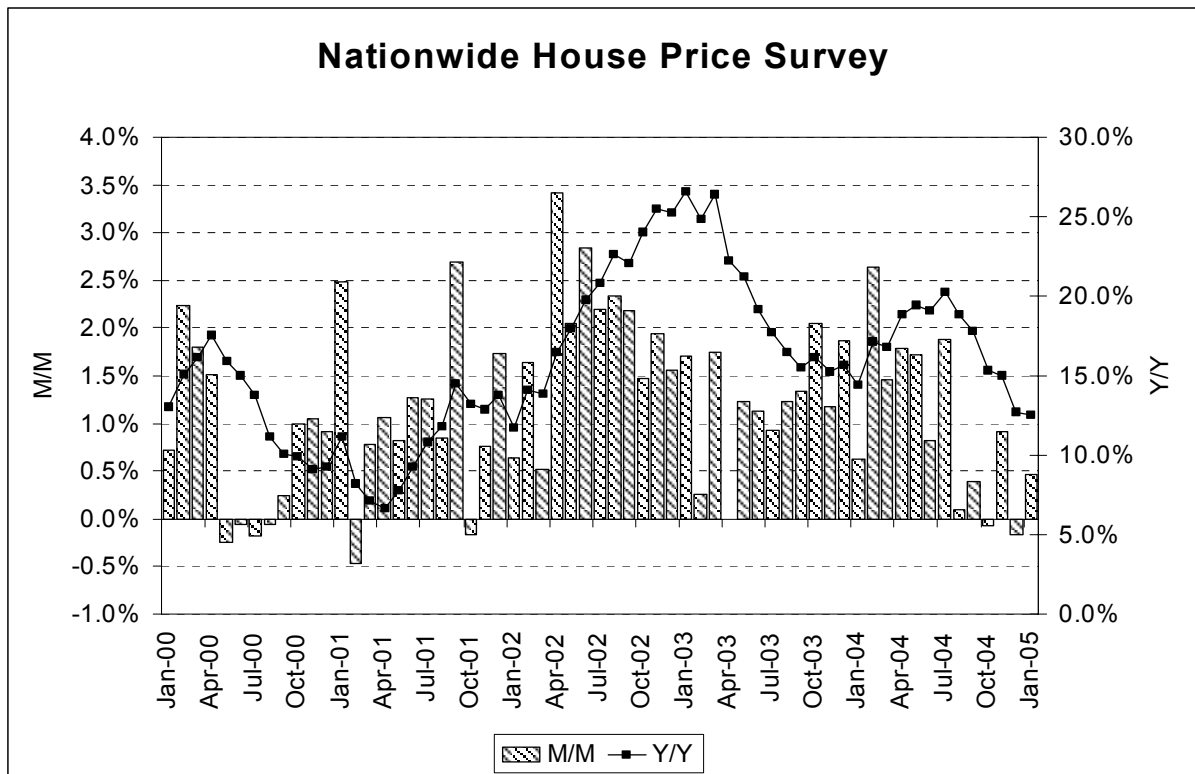
United Kingdom

Nationwide House Prices and BOE Mortgage Approvals increased 0.5% M/M in January and 7.7% M/M in December, respectively, while BBA Mortgage Approvals decreased 16.3% M/M in December. House Prices have stabilized in the last couple months, but this trend isn't expected to continue as the government attempts to meet its so called "Golden Rule" later this year by raising taxes and/or cutting spending.

Weekly Highlights

- **Nationwide House prices**- increased 0.5% M/M and 12.6% Y/Y in January, the lowest Y/Y increase in three years. (page 25)
- **GfK Consumer Confidence**- increased from -3 to +1 in January. (page 26)
- **The British Bankers Association (BBA)** - reports that the number of approved mortgages slipped 37.7% Y/Y in December. (page 27)

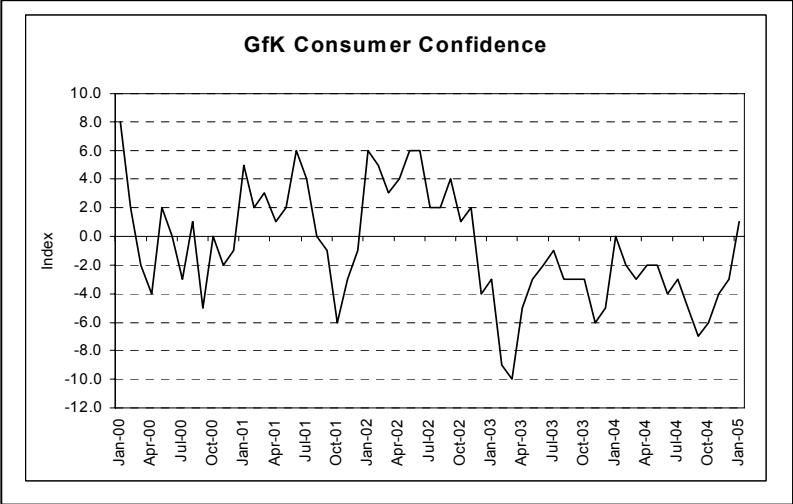
Chart of the Week



Nationwide House prices increased 0.5% M/M and 12.6% Y/Y in January, the lowest Y/Y increase in three years.

GfK Consumer Confidence

GfK Consumer Confidence increased from -3 to +1 in January. This increase was driven primarily by the change in the climate for major purchases measure, from +8 to +18.



Data

BBA Mortgage Lending data

The British Bankers Association (BBA) reported that the number of approved mortgages slipped 16.3% M/M and 31.4% Y/Y in December. It is important to note that the volume of sales transactions and equity withdrawal transactions are both declining.

BOE Mortgage Approvals

The BOE reported that Mortgage Approvals increased 7.7% M/M in December, the first increase since May.

CBI Quarterly Trends Survey

The Confederation of British Industry (CBI) reported that retail sales decreased from +33 to -3 in January, the lowest level since September. The data illustrates the ongoing slowdown in the growth of consumer spending as retailers expect a more modest pace of sales in the short and medium term.

PMI Manufacturing

CIPS Manufacturing PMI slipped from 53.3 to 51.8 in December, the lowest level since July of 2003 and reinforcing evidence that factory output is entering a recession.

PMI Construction

CIPS Construction PMI decreased from 57.2 to 55.5 in January, the 8th consecutive month of decline as building activity slowed. New Orders decreased from 57.0 to 55.6, a 30 month low.

U.K. consumer demand for loans

HSBC Holdings Plc, the U.K.'s biggest bank reported that consumer demand for loans, mortgages and mortgage equity withdrawals decreased 3.1% 3M/3M and increased 1.8% Y/Y in January.

BOE policy maker Stephen Nickell on inflation:

Stephen Nickell mentioned that the strength of the world economy will boost goods prices and push up the U.K.'s annual inflation rate "close" to the central bank's 2% target in a "couple of years." Nickell commented that higher wage growth risks are pushing up inflation faster than the central bank expects; although companies may manage to cut goods prices by sourcing products from cheaper locations, creating a risk of weaker than predicted price growth. He said rising goods prices are likely to feed through to consumer prices because there is little evidence that retailers and wholesalers will crimp margins further. He continued to make clear that at the beginning of the decade it was the willingness of these companies to absorb higher costs that prevented price growth from picking up.

Tony Blair speaking about unemployment

The U.K.'s Prime Minister, Tony Blair, said his government will trim benefits to people who claim incapacity benefits in an effort to spur those without jobs to return to work if they are able. The government is looking for ways to expand the economy's capacity to supply workers and keep a lid on wages and inflation.

Mortgage slump surprises bank chief

By Mike Verdin, Times Online

Lenders have been warned to prepare for further weakness in the mortgage market after data showed a 38 per cent fall in the number of loans approved for house purchases. The number of mortgages agreed with homebuyers slumped to 40,201 last month from 64,563 a year earlier, the British Bankers' Association said. By value, the decline was 31 per cent.

Other areas of the market were also weak, with the number of equity withdrawal deals slumping by 34 per cent. "The [overall] weakness in December was particularly noticeable this year," the BBA said. David Dooks, the BBA director of statistics, said: "This time of year sees a seasonal weakness in loan demand. But with approval volumes remaining well below those in the same month a year earlier, mortgage lending is expected to remain relatively subdued in the near-term. "The warning comes the day after Nationwide, the building society, revived market hopes by reporting a 0.4% rise in house prices this month and attributing a slump in lending in November to a regulatory shake-up.

Today's data signaled that a house market slump could not be ruled out, Howard Archer, the Global Insight economist, said. "The further sharp fall in the number of loan approvals for home purchases clearly points to further weak activity in the housing market in the early months of 2005," he said. "Latest data suggest overall that house prices are softening relatively slowly, indicating that the pressure on the sector...is manifesting itself more in fewer transactions than in sharply falling prices. However, it is questionable whether this can remain the case."

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|--------------------------|--------------------|--------------------|
| 2/3 | PMI Services | 55.5 | |
| 2/5 | BRC Shop Price Index | | |
| 2/9 | MPC Meeting | 4.75% | 4.75% |
| 2/9 | Industrial Production | | 0.2% M/M -0.9% Y/Y |
| 2/9 | Manufacturing Production | | -0.1% M/M 0.0% Y/Y |
| 2/9 | Trade Balance | | -4.6Bn |
| 2/9 | NIESR: GDP Estimate | | 0.4% |

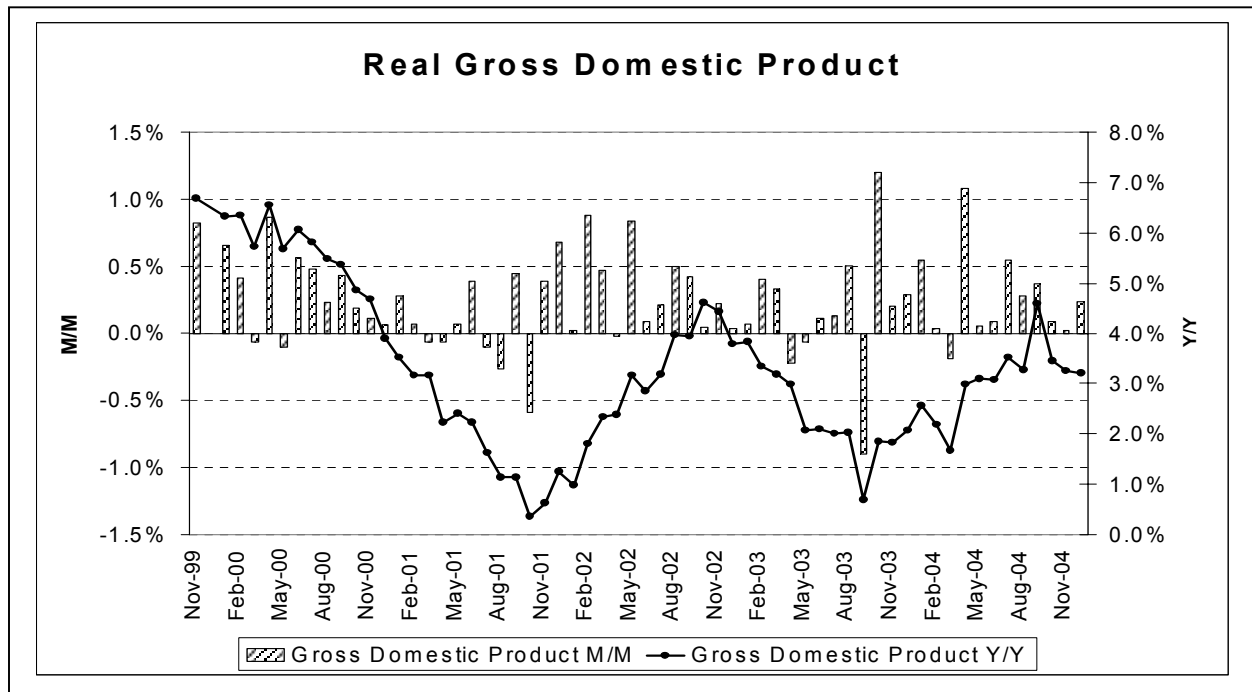
Canada

November's soft GDP data from Canada reflected the CS's affects on the economy. Following the BoC's Jan. 25th decision to keep its overnight rate on hold, they revised their expectations of 2005 growth downward and 2006 growth upward.. The Bank of Canada is expected to remain on hold through their next meeting on March 1st.

Weekly Highlights

- **GDP** – increased 0.2% M/M and 3.2% Y/Y in November. (page 30)
- **Industrial Product Prices** – increased 0.3% M/M and 3.8% Y/Y in December. (page 31)
- **Business Conditions Orders** – declined from 151.4 to 139.8 in Q4 2004. (page 31)
- **BoC's Comments** – Currency to slow rate increases. (page 32)

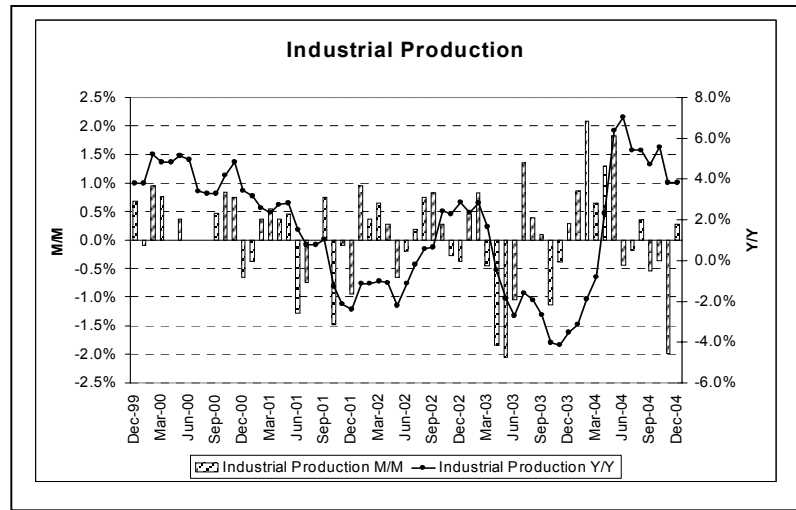
Chart of the Week



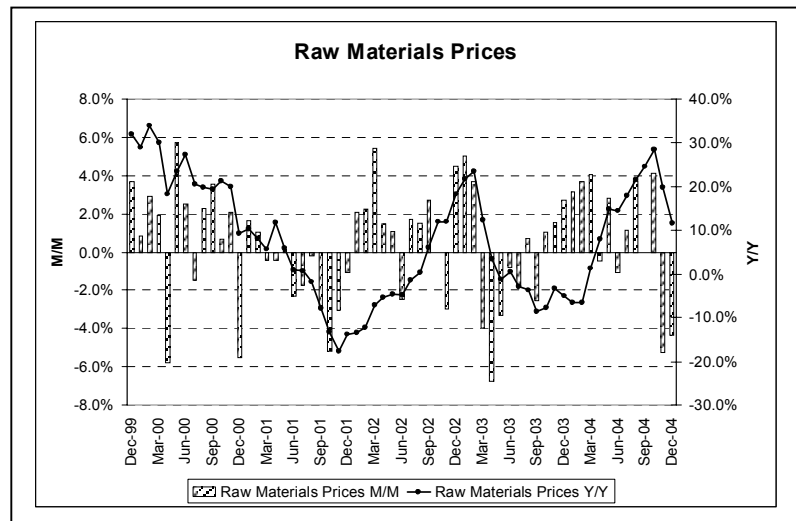
The Canadian economy grew 0.2% M/M and 3.2% Y/Y, as anticipated in November. . Growth for Q4 2004 is expected to not exceed 2% at an annualized rate.

Industrial Product Prices & Raw Materials Prices

Industrial product prices increased 0.3% M/M and 3.8% Y/Y in December. This represents the first increase since August, and may suggest improved industrial growth if the C\$ remains at or below October levels.



Raw materials prices decreased 4.3% M/M and increased 11.6% Y/Y in December. The decline resulted as prices for crude oil fell.



BoC Comments, Home Sales, Business Conditions Survey, Finance Minister Comments & Motor Vehicle Sales

Bank of Canada - Currency to Slow Rate Increases

The BoC stated that it will slow the pace of interest rate increases due to the high C\$ crimping exporter's profits and slowing economic development. The economy is expected to expand 2.8% in 2005, down from the previous forecast of 2.9%. Growth is expected to reach 3.3% in 2006. The core inflation rate is expected to accelerate to the BoC's 2% target by the end of 2006, a year later than originally forecasted.

Home Sales Increase to Record in 2004

Existing Home Sales in Canada increased to its 4th consecutive record in 2004 as low mortgage rates and rising employment increased sales. Sales increased 4.8% Y/Y and the average selling price increased 9.7% Y/Y.

Business Confidence Declined in the 4th Quarter

The Canadian Business Confidence declined from 151.4 to 139.8 in Q4 2004. The decline resulted as currency and labor cost increases caused executives to be less willing to invest. The share of executives that believe that now is a good time to invest in equipment declined 9.2% Q/Q.

Finance Minister Goodale – Canadian Economy Softening

Finance Minister, Ralph Goodale, stated that Canada will be close to meeting its budget surplus target of \$5.9 billion. Goodale also echoed concern on the C\$, saying that the economy is softening as a higher dollar hurts the country's economy. "These early signs concern me," he stated "This is no time to get careless with the fiscal framework." The weakening economy bolsters the case for an eighth consecutive budget surplus he said.

Motor Vehicle Sales Decline in January

Canadian sales of cars and light trucks declined 4.3% M/M in January to the lowest level in 7 years. The decline was largest among vehicles manufactured by Toyota and General Motors, which saw 20% and 2.3% drops, respectively. The decline may also lower retail sales figures for January.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|---------------------------------|--------------------|-----------------|
| 02/04 | Net Change in Employment (Jan.) | 15.0K | 33.5K |
| | Unemployment Rate (Jan.) | 7.0% | 7.0% |
| | Ivey PMI (Jan.) | 55.0 | 54.6 |
| 02/07 | Building Permits (Dec.) | -2.2% M/M | 9.3% M/M |
| 02/08 | Housing Starts (Jan.) | 230.0K | 234.4K |

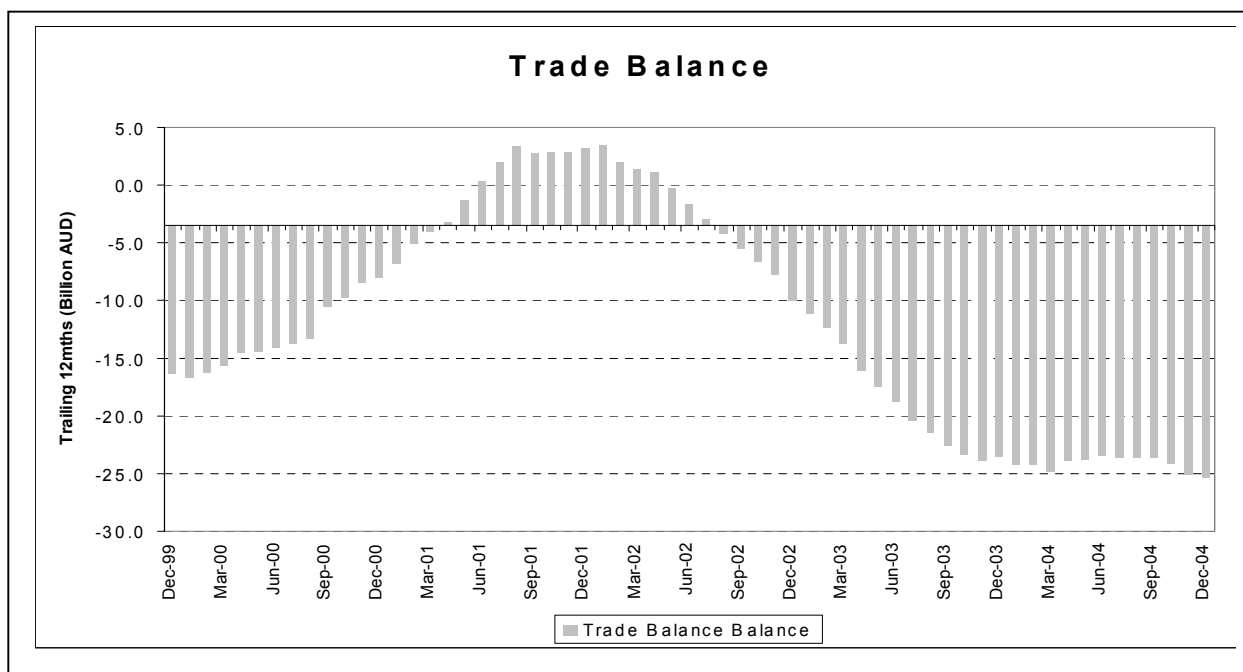
Australia

The Reserve Bank of Australia left its overnight rate unchanged as exports slowed and low wage pressures have contained inflation. With a record low level of unemployment, wage pressures may build however. Although recent housing sales were weak, the housing industry has been trending stronger. If exports recover and wage pressures build, the RBA may find the need to increase its overnight rate by 25bps before the end of H1 2005.

Weekly Highlights

- **Trade Balance** – narrowed from 2.55 billion to 2.37 billion in December. (page 34)
- **TD Securities Inflation Index** – core prices increased 0.7%M/M and 2.0% Y/Y in January. (page 35)
- **New Home Sales** –declined 17.3% M/M in December. (page 35)
- **AIG PMI** – declined from 60.8pts to 54.9pts in January. (page 35)
- **RBA Overnight Rate** – left unchanged at 5.25% on the Feb. 1st meeting. (page 35)

Chart of the Week



The trade deficit in Australia narrowed in December from \$2.55 billion to \$2.37 billion as exports of coal, metals and machinery increased while imports declined. The recent lackluster performance of exports has contributed in keeping the RBA from increasing its overnight rate from 5.25%. Some economists believe that export performance will also contribute to a current account deficit as high as 7% (of GDP). If the China and U.S. economies strengthen however, exports may pick up by mid year.

RBA Overnight Rate, TD Securities Inflation Index, New Home Sales & AIG PMI

RBA Leaves Overnight Rate Unchanged at 5.25%

The Reserve Bank of Australia left its overnight rate unchanged at 5.25% on its Feb. 1st meeting. The decision resulted as exports slowed and wage pressures remain low. While most economists expect a rate increase late in 2005, it may come before that as unemployment remains low and the housing market firm.

TD Securities Inflation Index – Inflationary Pressures may be Picking Up

According to the TD Securities Inflation Index, prices of Australian consumer goods and services increased 0.7% M/M and 2.3% Y/Y in January. The increase suggests that inflation may be picking up in Australia, supporting views that the RBA may increase its overnight rate before the end of 2005.

Australia Housing Industry - New Home Sales Declined

New Home Sales declined 17.3% M/M in December due to fewer sales of detached houses.

AIG Performance of Manufacturing Index – Declined on Lower Output

The AIG PMI declined from 60.8 points to 54.9 points in January. The decline suggests a slowdown in manufacturing, and resulted as factories lowered their output of textiles, transport equipment and construction materials.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|--|--------------------|-----------------|
| 02/02 | OECD Economic Survey of Australia | N/A | N/A |
| | AIG Performance of Services Index | N/A | N/A |
| | Building Approvals (Dec.) | 0.4% M/M | -0.3% M/M |
| | NAB Business Survey (Q4) | N/A | N/A |
| 02/03 | Retail Sales (Dec.) | 0.8% M/M | 0.1% M/M |
| 02/06 | ANZ Job Ads | N/A | -3.4% M/M |
| | Reserve Bank Monetary Policy Statement | N/A | N/A |
| 02/07 | NAB Business Survey (Jan) | N/A | N/A |

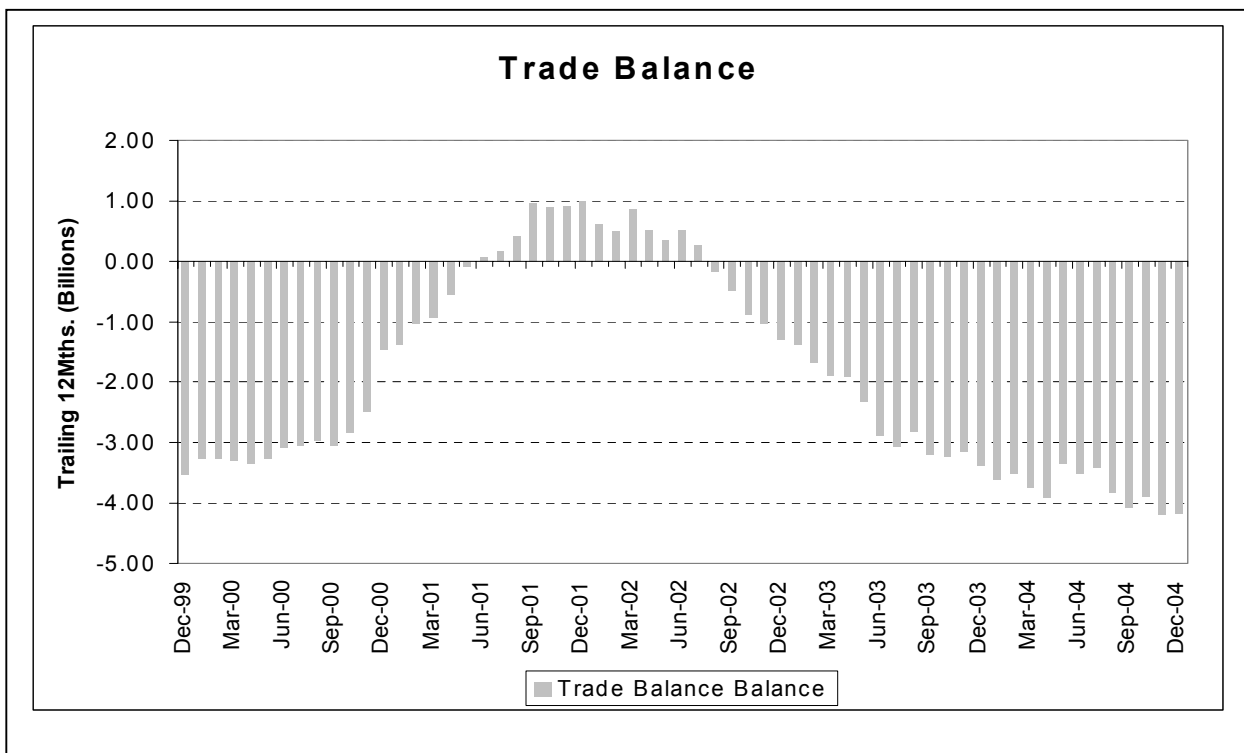
New Zealand

Recent data from New Zealand suggests strong growth may continue, although a Government Economic Development Report suggested that the currency and rates were straining the economy.

Weekly Highlights

- **Trade Deficit** – narrowed from a revised \$681 million to 493.1 million. (page 37)
- **Building Permits** – increased 6.2% M/M and decreased 8.7% Y/Y in December. (page 38)
- **Prime Minister Clark** – home ownership should be boosted. (page 39)
- **Government Economic Development Report** – currency, rates straining economy. (page 39)

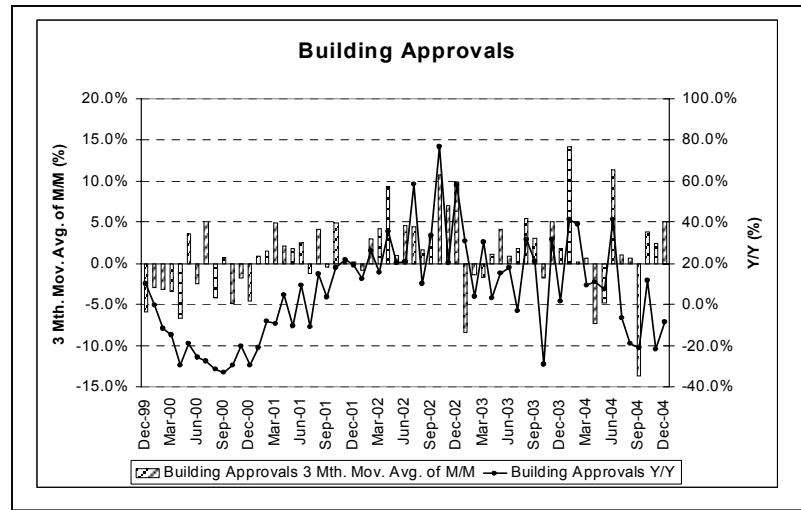
Chart of the Week



The trade deficit narrowed in December, from a revised \$681 million to \$493.1 million. The narrowing came as the pace of consumer and business spending on imported cars, machinery and equipment slowed. Exports increased 11% Y/Y while imports increased 8.6% Y/Y. Domestic demand is expected to slow through the coming months, supporting views that the RBNZ may not increase its overnight rate through 2005.

Building Approvals

December building approvals increased 6.2% M/M and decreased 8.7% Y/Y. At current levels, the RBNZ is being patient about raising rates, suggesting that if building approvals begin to cool, the RBNZ may not increase its overnight rate for some time.



Prime Minister Clark's Comments, Economic Development Gov. Report

Prime Minister Clark – “Government is concerned at falling rates of home ownership”

Prime Minister, Helen Clark, stated in a parliament speech that “Our government is concerned at falling rates of home ownership,” and that “How to encourage savings which could lead to home ownership is under consideration now.” The home ownership rate declined from 74% in 1991 to 68% in 2001 as the number of single income families increased and prices increased. Clark also mentioned that the government wants to encourage savings for education, training and retirement and that the government “is looking how to encourage more migration back” by skilled expatriates living overseas.

Economic Development Government Report – High Currency, Rates Constraining Economy

According to a government report on the economic development of New Zealand, the country's strong currency and higher interest rates relative to other nations are constraining the economy. The country's long term rates are higher than the median of members of the OECD, according to the report, reflecting volatility of the local dollar and a high level of foreign debt. The report also stated that a sustained rise in the real exchange rate is considered unfavorable. “Persistent current account deficits and higher external debt levels may indicate a vulnerability to external shocks and an increased risk of correction in the exchange rate.”

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|--------------------------------|--------------------|-----------------|
| 02/03 | Visitor Arrivals (Dec.) | | -2.2% M/M |
| 02/07 | Labor Cost Private Sector (Q4) | N/A | 0.7% Q/Q |

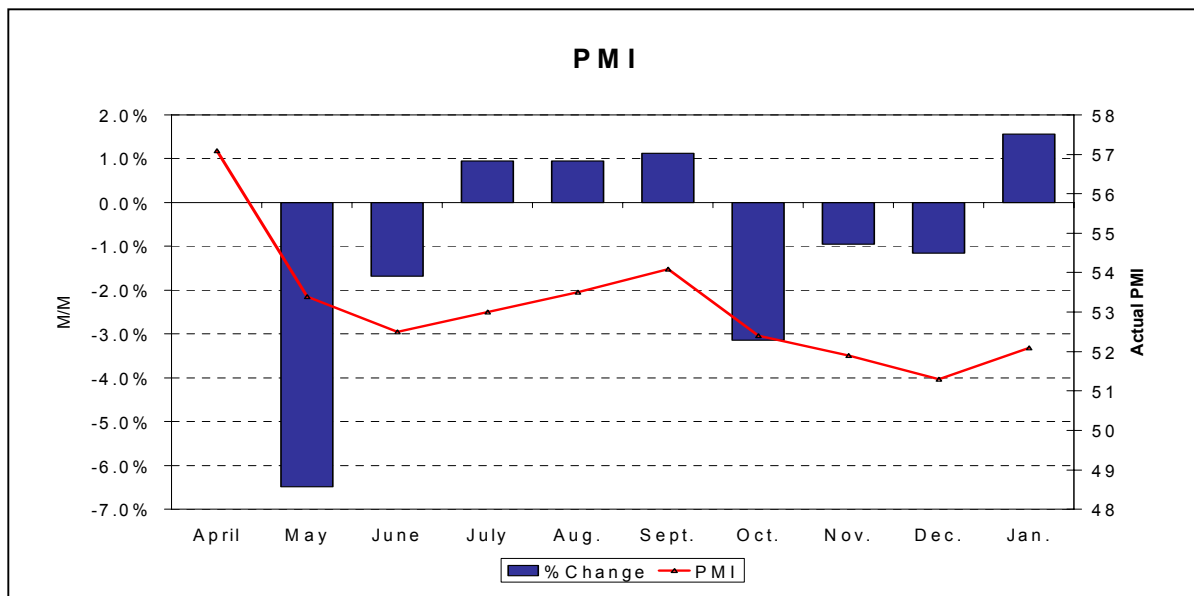
China

Over the past week in China there were only two economic releases: the CLSA's November Manufacturing PMI and the Value Added Industry data. After previously indicating an expected slowdown, the CLSA's January Manufacturing PMI bounced back from three months of decreases with a 1.6% M/M increase. Meanwhile, the Value Added Industry continues on a sharp upward trend.

Weekly Highlights

- **CLSA January Manufacturing PMI** – increased from 51.3 in December to 52.1 in January. (page 41)
- **Value-Added Industry Current** – increased from 508.4 bln Yuan in November to 548.8 bln Yuan in December, a rise of 7.9% M/M. (page 42)

Chart of the Week

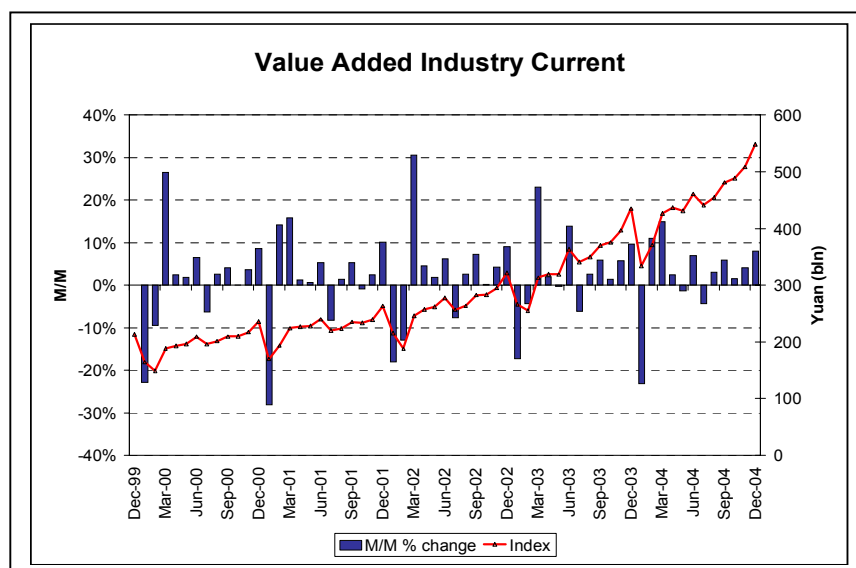


The CLSA's January Manufacturing PMI increased from 51.3 in December to 52.1 in January. The index increased across the board with the exception of output and input prices. After displaying a gradual slowdown that the Chinese government has been working hard to engineer, the PMI bounced back with its strongest M/M increase (7.9%) since the survey started in April of 2004. Notably though, the increase in the M/M reading should not be alarming since the index remains at a low level.

Results from PMI Survey & Value-Added Industry Current

| | Jan 2005 | Dec 2004 | Nov 2004 | Oct 2004 | Sept 2004 | Aug 2004 | July 2004 | June 2004 |
|----------------------------------|-------------|-------------|-------------|-------------|--------------|-------------|--------------|--------------|
| Seasonally Adjusted Index | | | | | | | | |
| PMI | 52.1 | 51.3 | 51.9 | 52.4 | 54.1 | 53.5 | 53.0 | 52.5 |
| Output | 53.9 | 53.2 | 54.5 | 55.1 | 56.4 | 55.6 | 55.5 | 55.1 |
| New orders | 54.9 | 53.0 | 53.7 | 54.1 | 56.9 | 55.3 | 54.6 | 54.5 |
| New export orders | 55.6 | 55.1 | 56.0 | 54.1 | 56.6 | 59.4 | 59.9 | 57.0 |
| Backlog of work | 56.9 | 54.0 | 55.9 | 55.3 | 56.9 | 56.2 | 54.0 | 55.1 |
| Finished goods | 49.0 | 46.9 | 48.9 | 48.3 | 46.6 | 48.2 | 49.8 | 48.7 |
| Employment | 49.5 | 49.2 | 49.8 | 49.9 | 50.7 | 51.0 | 51.2 | 50.4 |
| Output prices | 49.5 | 50.1 | 54.2 | 55.0 | 57.9 | 56.2 | 51.8 | 50.3 |
| Input prices | 56.0 | 59.1 | 64.0 | 71.8 | 74.0 | 71.7 | 62.4 | 56.2 |
| Supplier deliveries | 49.0 | 48.8 | 48.7 | 46.9 | 46.5 | 45.1 | 47.1 | 46.6 |
| Quantity of purchases | 54.6 | 52.5 | 53.8 | 54.7 | 58.1 | 57.3 | 55.6 | 55.1 |
| Stocks of purchases | 46.6 | 45.1 | 45.8 | 44.9 | 47.2 | 46.0 | 45.6 | 43.2 |

Value-Added Industry increased from 508.4 bln Yuan in November to 548.8 bln Yuan in December, continuing its sharp upward trend. On a M/M basis there was an increase of 7.9%.



Feb. 1st (Bloomberg) - China Targets Lower Budget Deficit for 2005, Caijing Says

“China's finance ministry aims to trim this year's budget deficit by about 6 percent to 300 billion yuan (\$36.2 billion), Caijing Magazine said”. The magazine also stated that the “ministry wants to reduce the deficit ‘appropriately’ to curb inflation, and at the same time prevent deflation from emerging”. “China's budget deficit last year was 319.8 billion yuan, equal to about 2 percent of the nation's gross domestic product, the magazine said.”

Jan. 31st (Bloomberg) - China to Take ‘Stable Steps’ on Market Interest Rates

The People’s Bank of China announced on their website that “China will continue to take ‘stable steps’ this year toward a market-oriented interest rate system”. They further stated that “the bank has been exploring plans for a market-oriented interest rate since the proposal was raised by the Central Party Committee in 1993”. “The central bank plans to introduce a uniform floating lending rate policy for all financial institutions, including rural credit cooperatives, the monetary policy committee at the central bank said”. “The central bank will allow rural credit cooperatives to have a flexible ceiling for lending rates, the statement said.”

Jan. 31st (Bloomberg) – China Economy May Grow 8.5% in 2005, State Research Agency Says

“China's economy may grow 8.5 percent this year, slowing from expansion of 9.5 percent in 2004”, reported the State Information Center’s economic forecasting department. The department also noted that fixed-asset investment will decline “18 percent this year from 26 percent in 2004”. Retail sales will rise about 12.2%. Exports and imports will increase about 21% and 24% respectively (down from 35% and 36% in 2004). “Inflation, which was 3.9 percent last year, will be little changed this year at 3.8 percent, the department estimated.”

Jan. 28th (Bloomberg) - China Has No Plans to Revalue Yuan, Central Bank Says

“There are no plans to revalue the yuan and comments by a central bank adviser” aren’t official policy, stated a central bank official anonymously. “China has been under pressure from the U.S. and Europe to change its decade-old peg to the dollar. The country has said it will move toward a freer policy, without giving a timetable.”

Jan. 27th (Bloomberg) - China Should Drop Yuan's Dollar Peg, Economist Says

Fan Gang, Director of National Economic Research Institute, commented that “China should switch the yuan's peg to the dollar to a basket of currencies including the euro and yen because of instability in the U.S. currency”. He further stated via e-mail, the “U.S. dollar, in our opinion, is no longer seen as a stable currency and is devaluating all the time, and that's causing troubles all the time,”

Key Dates

Nothing to report.

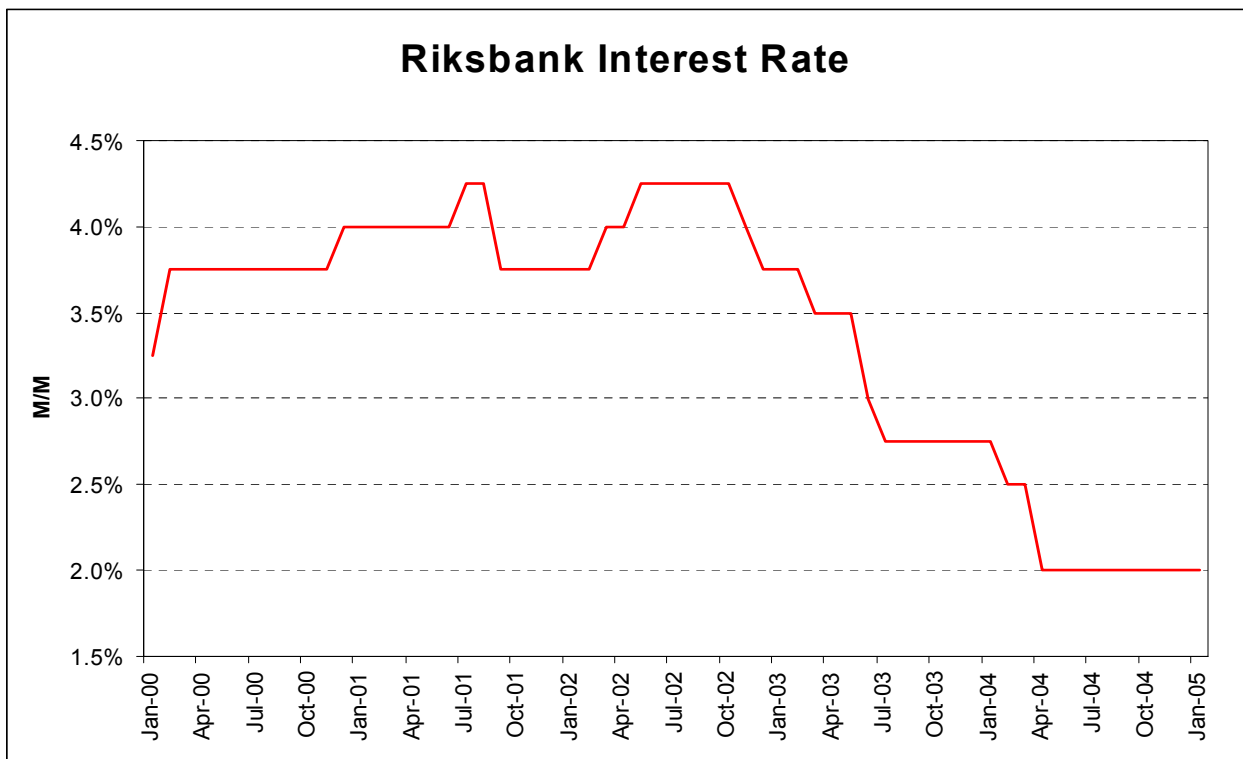
Sweden

The Riksbank, as expected, left its overnight rate unchanged at 2.0% this week. It also slightly upgraded its economic growth forecast from 3.0% to 3.1% for 2005, contingent on export growth.

Weekly Highlights

- **Riksbank Interest Rate** - remained unchanged at 2.0%. (page 45)
- **Manufacturing Confidence** - climbed from 2.0 in Q3 to 3.0 in Q4. (page 46)
- **Consumer Confidence** – rose from 9.6 in December to 12.2 in January. (page 46)

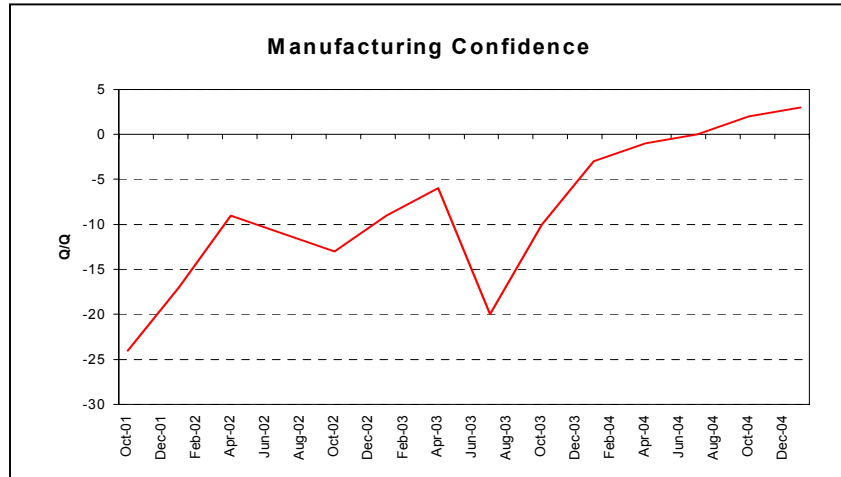
Chart of the Week



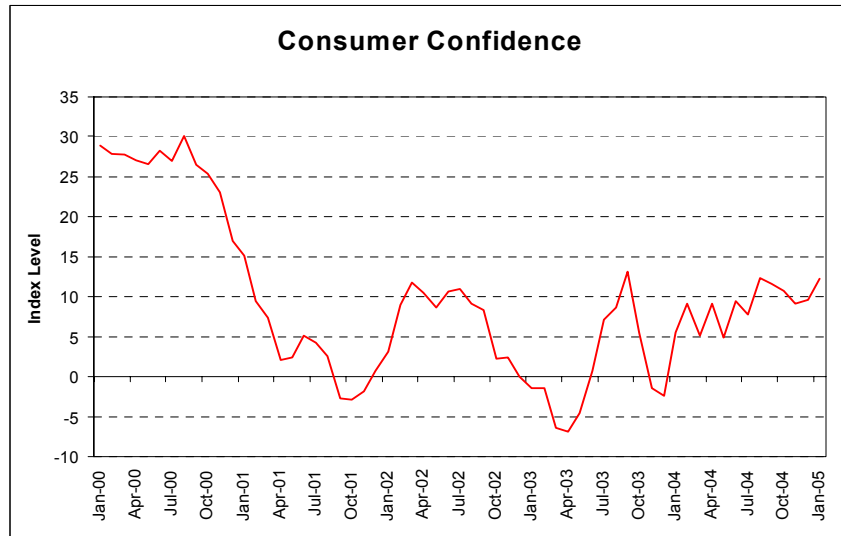
The Riksbank left its overnight rate unchanged at a cycle low of 2.0% for the seventh consecutive month, as expected. Economic growth is expected to expand around 3.1% in 2005 sustained by export growth.

Manufacturing Confidence, Consumer Confidence & Producer Price Index

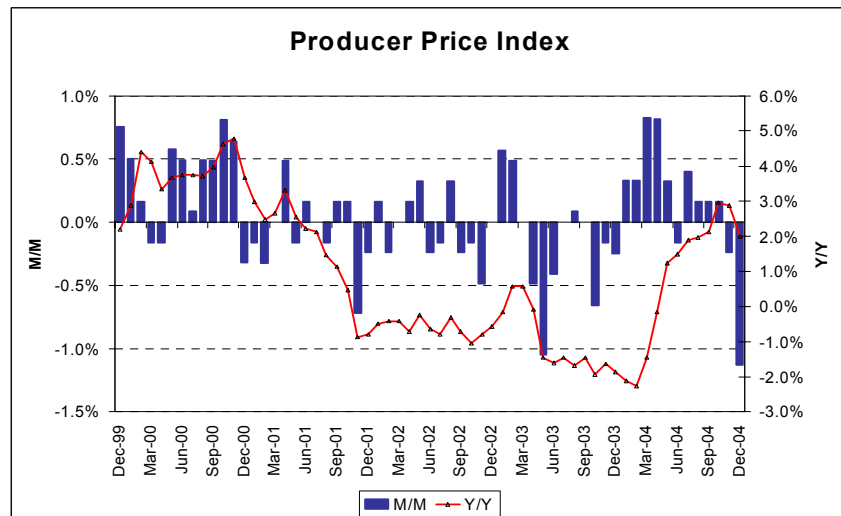
Manufacturing Confidence climbed from 2.0 in Q3 to 3.0 in Q4.



Consumer Confidence rose from 9.6 in December to 12.2 in January. The increase was fueled by optimism that the job market will improve.

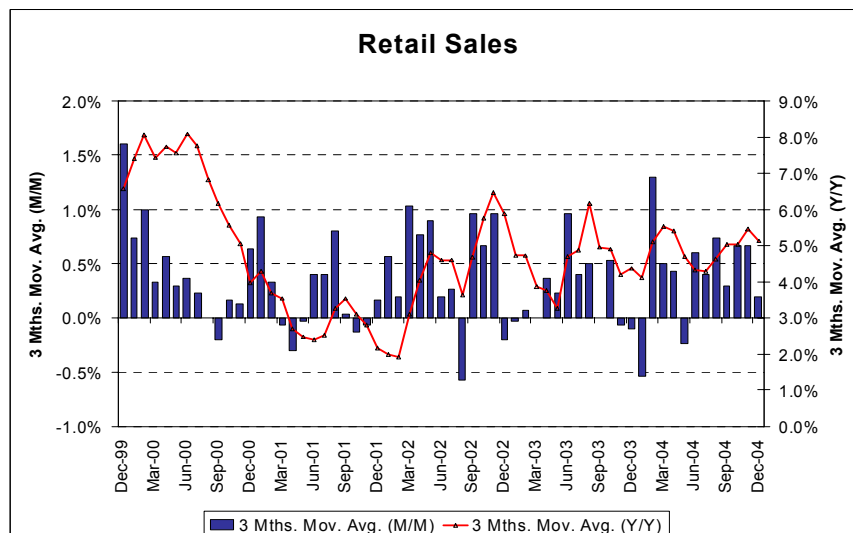


The Producer Price Index fell 1.1% M/M and rose 2.0% Y/Y in December, below expectations. The decrease was attributed to lower costs of petrol-based goods.



Retail Sales, PMI & Budget Deficit

Retail Sales fell 1.6% M/M and rose 4.4% Y/Y in December, below expectations. The decrease signaled the largest Christmas decline in almost 14 years.



Feb. 1st – Swedish January Purchasing Managers’ Index Falls to 56.7

Sweden’s January PMI fell from 56.9 in December to 56.7 in January, lower than expected. The decrease was attributed to a slowdown of Planned Production growth (from 73.6 in December to 70.6 in January) and a decline in the New Order Index (from 59.4 in December to 57.4 in January).

Jan. 31st – Sweden Has 2004 Budget Deficit of SK53.3 Bln, Audit Office Says

Sweden’s government had a deficit of SEK 53.3 bln in 2004, wider than expected. The National Financial Management Authority/Audit Office expected to see a deficit of SEK 53.0 bln. “The government had a shortfall of 25.9 billion kronor in December”, the Office stated.

Commentary

Jan. 28th - Swedish Central Bank May Cut Inflation Forecast on Krona Gains

“Sweden's central bank indicated it may delay raising interest rates from an all-time low as the krona's appreciation crimps import prices and inflation.” The Bank also stated that developments “in imported inflation warrant a slight downward revision of the inflation forecast, particularly in the short term, compared with the most recent assessment”. It continues to maintain that “inflation will be ‘roughly’ in line with its 2 percent target two years ahead”. On December 9, 2004, the Bank predicted underlying inflation to be at 1.5% in December 2005 and 2.0% in December 2006. “Rising productivity, competition among retailers and the krona's appreciation against the dollar has helped keep inflation below target for 15 months”.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|----------------------------------|--------------------|-----------------|
| 2/07 | Swedish Budget Deficit – January | -- | -25.9B |
| 2/09 | AMS Unemployment Rate – January | -- | 5.6% |

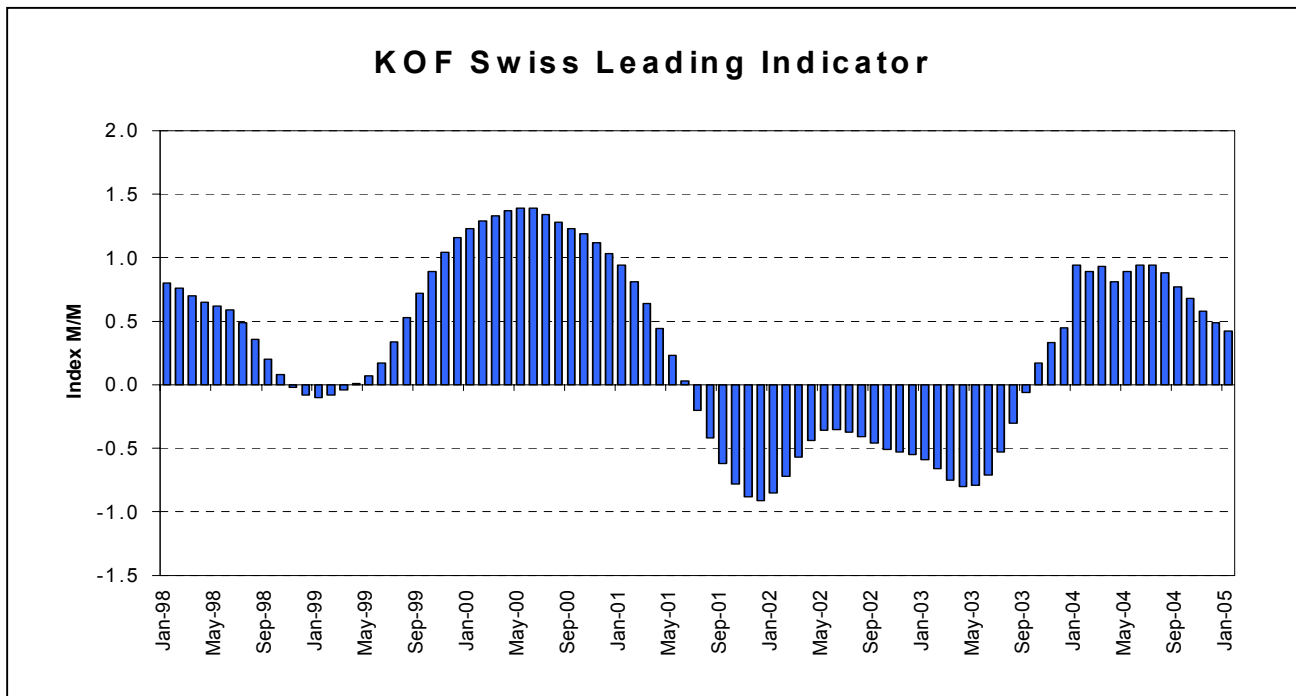
Weekly Economic Report: *Switzerland*

Last week, the Swiss government lowered its forecast for 2005 growth for the second time in three months as a slowdown in Europe threatens to erode exports. The franc's 9.2 % gain against the dollar last year is expected to hurt exports that account for almost half of Gross Domestic Product.

Weekly Highlights

- **KOF Swiss Leading Economic Indicators**- fell to 0.42 from a revised 0.49. (page50)
- **Swiss Producer Import Prices**- declined significantly to -0.4% M/M and 1.5% Y/Y. (page 51)
- **Swiss Retail Sales**- declined for the fifth month in six to -0.1 % M/M. (page 51)
- **Swiss Purchasing Managers Index** - fell to 51.7 from a revised 54.8 in December. (page.51)
- **January's 2005 Economic Forecast**- SNB's Jean-Pierre Roth's comments. (page 52)

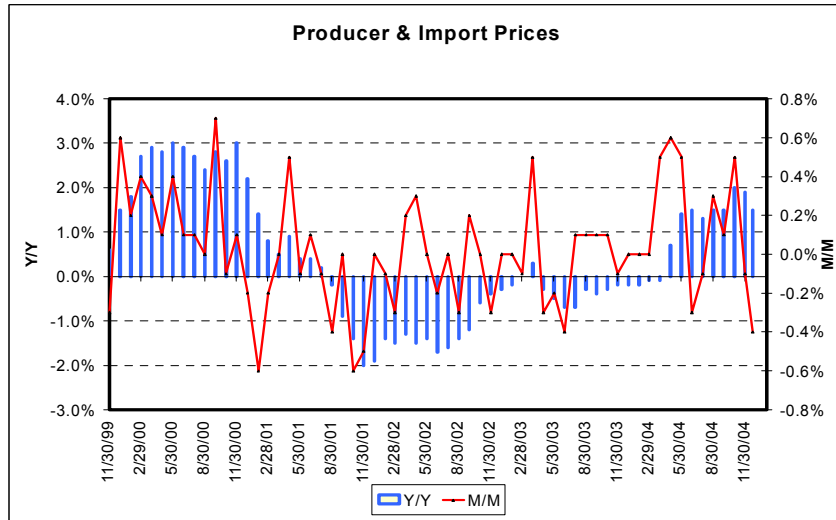
Chart of the Week



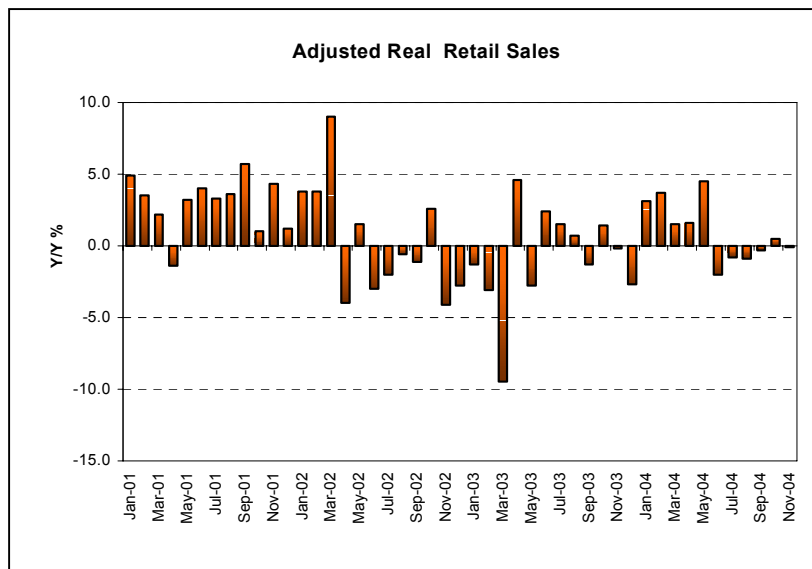
The monthly aggregate of indicators, which helps predict the direction of the economy in about six months, recorded its lowest results in more than a year in January. The Swiss government lowered its 2005 growth forecast for a second time within three months as a slowdown in Europe and a rising franc threatened to erode exports.

Producer & Import Prices, Retail Sales & Swiss Purchasing Manager's Index

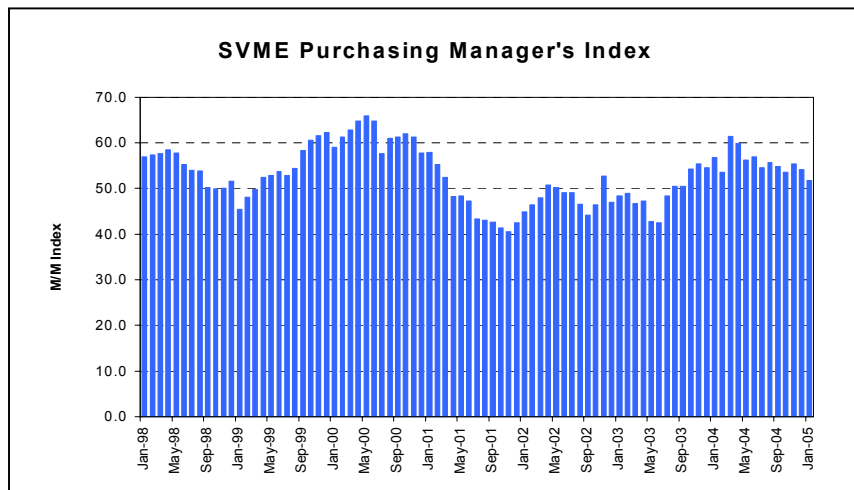
Producer prices fell 0.4 % in November and gained 1.3 % from a year earlier. Import prices slipped 0.4 % from November while increasing 2 % in the year. This index measures prices for factory and farm goods, as well as for imports.



Sales declined 0.1% from a year earlier as adjusted inflation and shopping days. Consumer spending accounts for about two-thirds of Swiss GDP.



The Swiss Purchasing Managers Index unexpectedly fell to its lowest in 16 months in January. This index which measures executives' perception of industrial activity, fell to 51.7 from a revised-54.8 in December.



Projections for 2005 – Jean-Pierre Roth

The following are comments made by the Swiss National Bank's, President Jean- Pierre Roth, on economic growth, the Swiss franc, interest rates and risks of recovery:

On the government's 2005 growth reduction to 1.5 percent:

"For us, the news didn't come as a surprise. The last estimate they gave was in October. We've already said in December that growth has weakened. We have a good global economy, but less strong than in 2004. The weakness in Europe and Germany is clearly a problem for us."

"Overall, the conditions are not as strong as six months ago. We don't know how the second half will be. We can't rule out that there's going to be stronger growth after a phase of weakness."

On the SNB's growth projection for this year:

"1.5 percent to 2 percent is still our estimate."

On interest rates:

"We have our next assessment in March. We'll carefully assess all indicators of course."

"We clearly have an expansionary monetary policy, real short- term interest rates are still negative. This monetary policy can't be sustained in the long term. There needs to be a correction at some point. The problem is the timeframe of this correction."

"A lot will hinge on the inflation estimate. We know that when there's growth, when the output gap closes, that increases the likelihood of higher prices, then we'll have to act."

On inflation:

"Inflation expectations are very calm and low. We won't see a change in this situation. It's very calm from this side. We're watching what expectations are, but expectations in Switzerland are for price stability."

On the Franc:

"Of course, for us and for certain industries, the dollar correction was a problem. It was a massive correction. The franc exchange rate against the euro is in a very stable situation and relation, which is very productive for us."

"We're always concerned about the foreign exchange rate. We're a small country and very export dependent. But we shouldn't panic."

On China:

"The Chinese will decide in the interest in China, and their aim is to grow as quickly as possibly. There is a distortion of competition. The Chinese are basically subsidizing their exports. We buy their products much too cheaply in Europe. That's not a sustainable situation. There is a lot of politics behind that."

Projections for 2005 – Jean-Pierre Roth (continued)

On a revaluation of the Yuan:

"We assume that they will continue as now."

On oil:

"It's certainly a burden. We don't have the same extreme prices of last year. We're slightly above \$40 a barrel. We hope that it will remain stable. We know we can't expect a return to \$25."

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|-------------------|--------------------|-----------------|
| 02/03 | CPI – M/M | -- | -0.2% |
| 02/03 | CPI –Y/Y | -- | 1.3 % |
| 02/03 | Trade Balance | -- | 1.30 |
| 02/07 | Unemployment Rate | -- | 4.0% |