## Weekly Economic Reports

February 9, 2005

## **Highlights**

- US: Trend job growth continues
- **Euroland:** 4mth low in Eurozone inflation
- Japan: Improvement in Eco Watchers' Survey
- UK: Manufacturing rebounds from weak levels
- Canada: Employment data not as weak as it appears
- Australia: Housing turning around? Confidence strengthens

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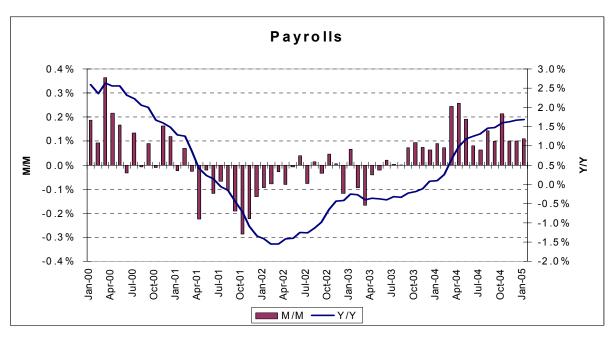
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## *U.S.*

This week's economic data was highlighted by the 146k payroll growth and the 5.2% unemployment rate in January. The payroll number represents trend growth, but if the low participation rate that drove the unemployment rate is not cyclical, the employment market has less slack than previously thought. Fed member, Gramlich, made comments this past week that the economy is "not too far from full employment". Other comments from the Fed included Greenspan saying that the current account deficit would eventually correct itself, and Guynn stating that "not too far down the road", "measured" would be removed because rates are less accommodative and data dependent.

### Weekly Highlights

- Employment- payrolls increased 146k in January, continuing trend growth. (page 2)
- Unemployment Rate- dropped to 5.2% in January. (page 3)
- ISM Non-Manufacturing- declined from 63.9 to 59.2 in January. (page 5)
- Earnings Calls- mostly positive views on the economy. (page 7)

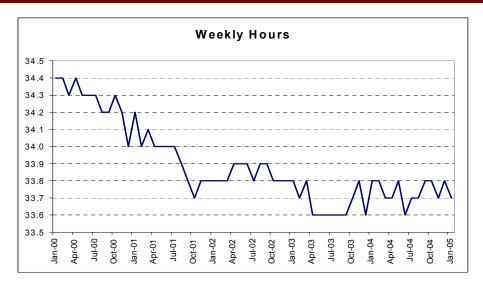


### **Chart of the Week**

Total Non-farm Payrolls increased 146k or 0.1% M/M and 1.7% Y/Y in January. January's increase was slightly below the 150k monthly increase the economy needs to keep up with trend growth in the labor force. Despite mediocre gains in payrolls, the unemployment rate has dropped from 6.3% in the summer of 2003 to 5.2% this January in large part because the labor participation rate has dropped from 66.5% to 65.8% over the same time period. If the Fed begins to interpret the decline in labor participation as a secular instead of a cyclical phenomena, they will be more likely to continue rate hike campaigns despite absence of strong inflationary pressures to date.

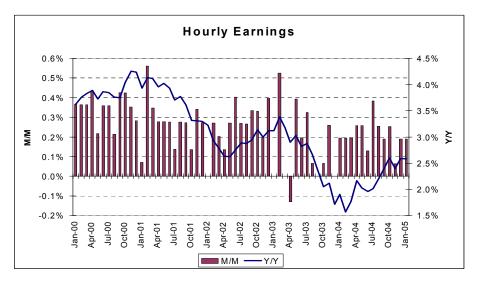
### **Employment**

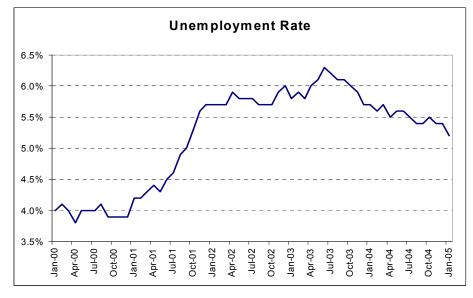
Average weekly hours declined from 33.8 to 33.7 in January. This series remains at low levels on an absolute basis, suggesting that slack does remain in the labor force.



Average hourly earnings increased 0.2% M/M and 2.6% Y/Y in January. Wage growth has accelerated in 2004, but still remains at a modest absolute level that should keep broader inflationary pressures at bay.

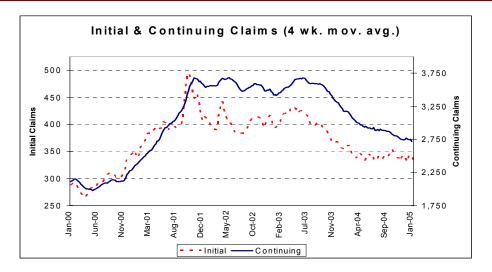
The Unemployment rate dropped to 5.2% in January, as discussed above, largely due to the decrease in the participation rate. If the decreasing participation rate is a new paradigm and not a cyclical artifact, there is less slack than previously thought.

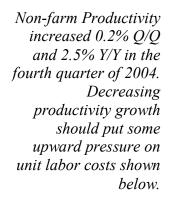


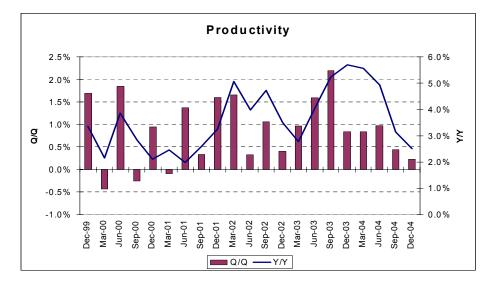


## Unemployment Claims, Productivity & Unit Labor Costs

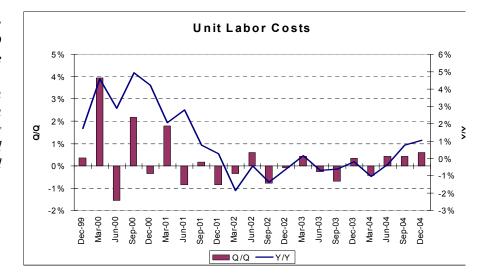
The four week moving average of initial claims decreased to 332k and continuing claims decreased to 2,713k. Both series have continued to stabilize at current levels after trending down since the summer of 2003.





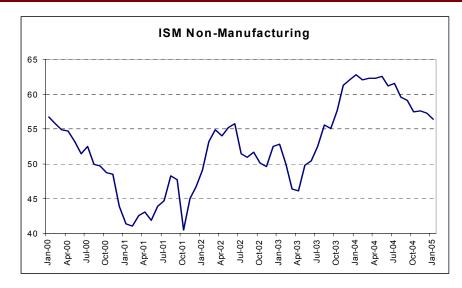


Unit labor costs increased 0.6% Q/Q and 1.0% Y/Y in the fourth quarter of 2004. The upward trend in unit labor costs is a result of slowing productivity gains and may put some upward pressure on prices.

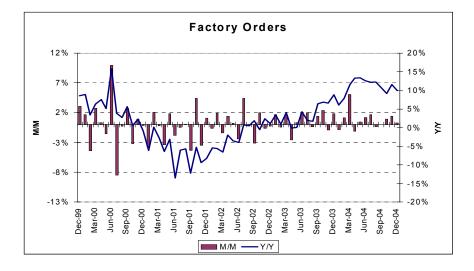


### ISM, Factory Orders & Inventories

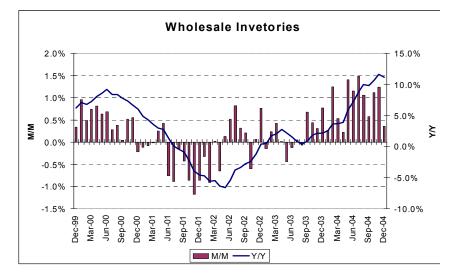
The ISM Non-Manufacturing Index declined from 63.9 to 59.2 in January. Although above fifty, this series continues to trend lower after peeking in the summer of 2003. The employment component decreased from 55.0 to 52.2 and the price component declined from 73.6 to 66.6.



Factory Orders increased 0.3% M/M and 9.9% Y/Y in December. The manufacturing sector continued to show strength through December, but payroll and ISM data suggest that it softened a bit in January.

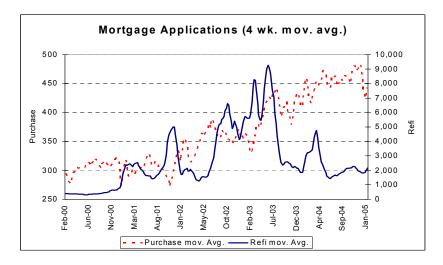


Wholesale inventories increased 0.4% M/M and 11.1% Y/Y in December.

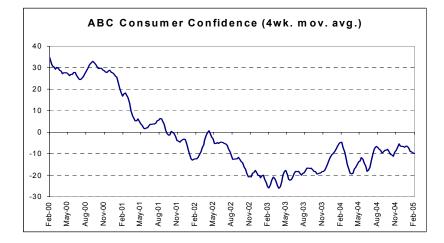


## Mortgage Apps. & Consumer Confidence

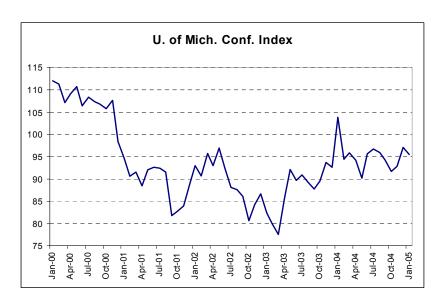
Purchase and refinancing mortgage applications increased 1.0% and 7.8%, respectively this week. Purchase applications still suggest some softness in housing.



The ABC Consumer Confidence Index increased from -11 to -10 for the week of February 7th. The buying climate and economic components remained flat and the financial component increased from 10 to 12.



The University of Michigan Consumer Confidence Index declined from 97.1 to 95.5 in January. Consumers' assessment of the future decreased from 90.9 to 85.7, but their assessment of the current situation increased from 106.7 to 110.9.



## **Economic Views from Earnings Calls**

**General Electric-** Positive environment with orders up 15%. Economically sensitive businesses also up. "The breadth and depth of momentum we see is very positive."

**Disney-** Solid attendance increases with bookings up low double digits. Also, seeing firm demand and higher ad pricing.

Hilton Hotels- Seeing more business travel allowing for higher room rates.

**Catepillar-** Input prices are increasing and are planning to raise prices as a result, but are seeing strong demand for their products.

Beazer Homes- New orders are up 7.3%, but varies by geography with Midwest and California markets weak.

IBM- Sees steadily improving IT environment. "Shifting from recovery to moderate expansion".

**3M-** Core volume growth up 5-7%. "Decent momentum in US, Europe never got off the ground and Asia slowing."

Alcoa- Experiencing higher input prices. Still see tight global market pushed by China and growing demand from India, Brazil and Russia.

Intel- Seeing pickup in spending on computers by businesses and expects it to continue.

Wal-Mart- Forecasting 2% to 4% Y/Y growth in February after growing 3.2% in January.

**General Motors-** "Pricing outlook not very good". Expect Q1 SAAR vehicle sales in the U.S. to be 16.8 versus 17 last year with a 7% reduction in production for GM.

American Airlines- Pricing getting worse in 2005. Company still planning on reducing headcount by 3,200.

**Cisco-** "There is slow but increasing willingness to take good business risk". Expect technology spending to continue to improve in 2005.

# Key Dates This Week

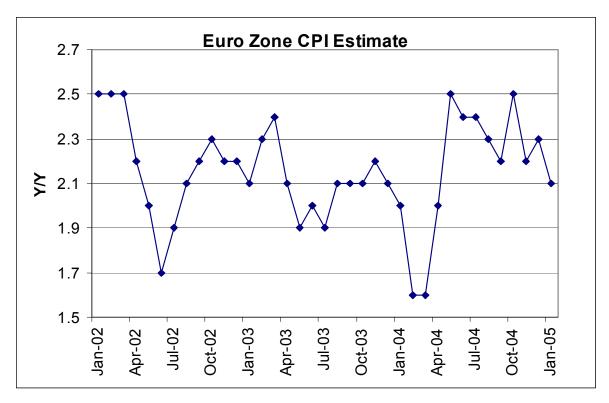
Date	Indicator	Expectation	Previous
02/10	Trade Balance (DEC)	-\$52.2B	1.1%
02/10	Initial Jobless Claims (FEB 5 <sup>th</sup> )	325K	316K
02/10	Continuing Claims (JAN 29th)	NA	2,696K
02/10	Monthly Budget Statement (JAN)	\$10.0	-\$1.4B
02/15	Empire Manufacturing (FEB)	20.0	20.08
02/15	Retail Sales Less Auto (JAN)	0.4% M/M	0.3% M/M
02/15	Business Inventories (DEC)	03% M/M	1.0% M/M
02/15	NAHB Housing Market Index (FEB)	69	70
02/15	ABC Consumer Confidence (FEB 13 <sup>th</sup> )	NA	-10
02/16	MBA Mortgage Applications	NA	4.2%
02/16	Housing Starts (JAN)	1,973K	2,004K
02/16	Building Permits (JAN)	1,995K	2,021K
02/16	Industrial Production (JAN)	0.4% M/M	0.8% M/M
02/16	Capacity Utilization (JAN)	79.4%	79.2%

## Euroland

The Euro Zone economy showed mild positive signs this week as German Factory Orders and Industrial Production both rebounded from weak November results. Euro Zone Retail Sales also had a modest pickup. On the inflation front, prices decelerated considerably in January resulting in some rather "non-hawkish" ECB comments.

### Weekly Highlights

- Euro Zone CPI- prices decelerated to 2.1% in January. (page 9)
- German Factory Orders rebounded in December, climbing 7.1% M/M. (page 10)
- Euro Zone Retail Sales- rebounded slightly in December. (page 11)

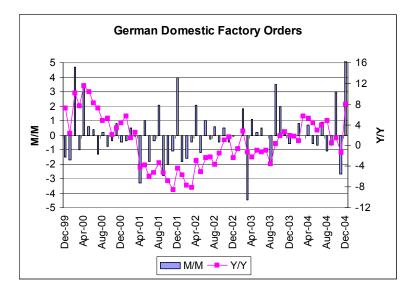


### **Chart of the Week**

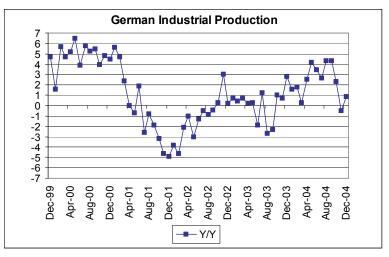
European inflation apparently slowed to a four month low in January as forecasted by the preliminary CPI Estimate Index. January's prices increased 2.1% Y/Y, decelerating from 2.4% in December. Falling oil prices and the lack of retail pricing power due to the poor labor market environment, both contributed to the fall. Going forward, companies such as Carrefour SA (Europe's largest retailer) have announced plans to cut prices in an effort to increase sales.

### German Factory Orders, German & Spanish Ind. Production

Germany's December Factory Orders jumped much more than expected, increasing 7.1% both M/M and Y/Y. Both November of 2004 and December of 2003 had very weak numbers; this could possibly explain some of the large increase.



Germany's December Industrial Production rebounded slightly after two consecutive weak months. Production increased 1.2% M/M and 0.9% Y/Y, in line with expectations.

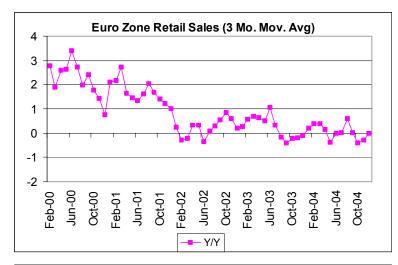


Spain's December Industrial Production rose much less than expected, climbing 1.3% Y/Y. Market expectations were for a 3.5% increase. The 3 month moving average fell 0.5% Y/Y.

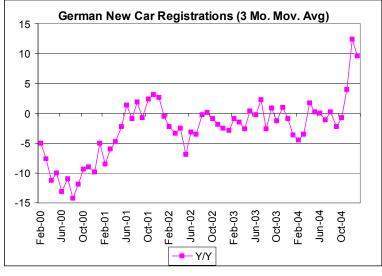


## Euro Zone Retail Trade & German New Car Registrations

The Euro Zone's December Retail Sales rose below expectations after falling in November. Sales increased 0.2% M/M and 0.5% Y/Y, about half of the market's expectations.



Germany's January New Car Registration fell 3.7% Y/Y. The 3month moving average decelerated from 12.4% in December to 9.6%.



## Euro Zone PMI

The Euroland Services Purchasing PMI Index increased from 52.6 in December to 53.4 in January, indicating continued modest growth. (Numbers above 50 indicate expansions while numbers below 50 indicate contraction)

Euro-12 Services PMI

	Jan 2005	Dec	Nov	<b>Oct</b>	Sept	Aug	Jul	Jun	May	Apr
Overall Index	53.4	52.6	52.6	53.5	53.3	54.5	55.3	55.3	55.8	54.5
Employment	50.7	50.6	50.5	50.9	50.6	50.1	<i>49.3</i>	49.9	50.0	49.5
Input Prices	58.6	58.0	58.9	60.6	58. <i>3</i>	59.9	58.1	58.9	58.6	55.2
Business Expectations	66.3	63.2	61.4	62.2	63.6	64.6	65.2	64.7	66.1	64.2

### ECB

Feb. 9<sup>th</sup> – ECB member, Klaus Liebscher, stated that he sees no need to raise interest rates as the weak labor market helps bring down inflation, blunting the effect of rising house prices. Liebscher stated, "There is currently no real inflation pressure building up in the euro area" and that "the rising unemployment doesn't hint at an acceleration of inflation even as economic growth remains robust". He also noted that they are still vigilant concerning strong M3 growth, but at this time it is not a real threat. Interestingly, Liebscher is regarded to be one of the more hawkish ECB members, according to Barclays Capital.

**Feb. 3<sup>rd</sup> – ECB President, Jean Claude Trichet**, commented after the ECB decided to maintain rates at 2% in their February meeting. Trichet stated, "While short term inflation rates remain subject to a certain volatility there is currently no significant evidence of underlying domestic inflationary pressure building up in the area... However, upside risks to price stability over the medium term remain". Concerning growth Trichet stated that moderate growth was evident and that "conditions are in place for growth to pick up". Finally, Trichet also emphasized that vigilance needed to be paid concerning money supply and the current excess liquidity.

**Feb. 3<sup>rd</sup>** – The **IMF** lowered its growth forecast for the Euro Zone from 2.2% (forecasted in Sept. of 2004) to 1.9%, citing oil prices as the main concern.

#### Germany

**Feb. 9<sup>th</sup> – Germany's government officials** reached an agreement with Ver Di. labor union, agreeing to give 2 million public sector workers one off payments of 300 euros/year for the next three years. In exchange, the work week was lengthened slightly from 38.5 hours/week to 39 and no other pay increases will be granted. The 300 euro payments represent a pay increase of approximately 1% a year.

**Feb. 9<sup>th</sup>** – The **German DIW** economic institute is forecasting that Germany will expand 0.5% in Q1 of 2005. They also forecasted that Germany grew 0.3% in Q4 of 2004. The German Bundesbank's President, Axel Weber, forecasted 0.2% Q4 growth. Weber also stated that he expects growth, adjusted for the number of working days, to accelerate from 1.1% in 2004 to 1.3% in 2005.

Feb.  $6^{th}$  – Germany's Economy and Labor Minister, Wolfgang Clement, stated that he expects the number of unemployed to rise once again in February. Clement also stated that employment would not increase until the second half of the year, and even then "there won't be a big bang".

Feb.  $4^{th}$  – The German Handlesblatt newspaper reported that 62% of German executive stated that domestic demand won't increase this year. The report also stated that 28% of companies plan to reduce their workforce this year while 20% plan to add jobs. The survey included 886 German managers.

#### France

**Feb. 8<sup>th</sup> – French Finance Minister, Herve Gaymard,** announced that the French economy expanded about 2.4% Y/Y in 2004, "an excellent result". France's 2.1% Y/Y increase in consumer spending allowed the economy to outpace most of its Euroland brethren whose domestic recoveries have not materialized. France is forecasting 2.5% growth in 2005.

# Key Dates This Week

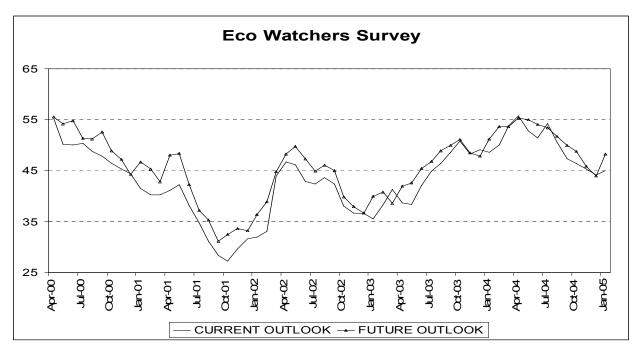
Date	Indicator	Expectation	Previous
02/10	German Trade Balance (DEC)	11.7B	11.9B
02/10	German Exports (DEC)	0.6% M/M	0.1% M/M
02/10	French Industrial Production (DEC)	0.3% M/M	0.1% M/M
02/11	French Trade Balance (DEC)	-900M	-1080M
02/11	French GDP (Q4)	0.7% Q/Q	0.0% Q/Q
02/11	Euro Zone OECD Leading Indicators (DEC)		106.4
02/15	German GDP n.s.a.(Q4)		1.3% Q/Q
02/15	Italian Industrial Production (DEC)		-0.7% M/M

## Japan

The light economic data released in Japan last week was generally in line with expectations. Notably though, Bank Lending growth posted its smallest decrease in over five years. Meanwhile, the Eco Watcher's survey, posted results above expectations. Furthermore, Miyaka Suda, BoJ member, stated that for core CPI "an increase of 0.1% would be acceptable" along with sustainable economic recovery to end the zero interest rate policy.

### Weekly Highlights

- The Eco Watcher's Survey Current and Future Outlook increased from 44.2 to 45 and from 44.0 to 48.3, respectively, in January, above expectations. (page 15)
- Household Spending decreased 2.5% M/M and 3.5% Y/Y in December. (page 16)
- Machine Tool Orders slowed from 50.9% Y/Y to 30.2% Y/Y in January, based on preliminary figures. (page 17)
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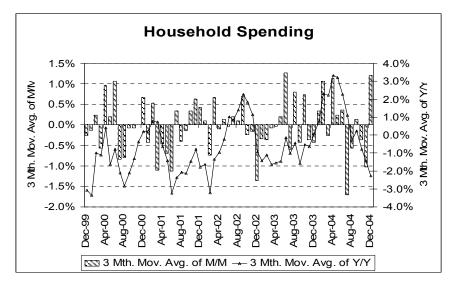


### **Chart of the Week**

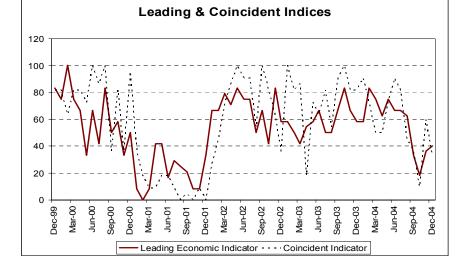
The Eco Watchers Survey Current Outlook increased 44.2 to 45 in January, above expectations. Expectations on Japan's Current Condition increased across the board with the Household, Business and Employment components increasing 0.9, 0.5 and 0.7, respectively. At the same time, the Future Outlook Survey increased from 44.0 to 48.3 with the Household, Business and Employment components increasing 4.7, 3.4 and 3.6, respectively. Basically, January's reading suggests that individuals are regaining optimism about Japan's economic prospects within the next two to three months.

### Household Spending, Leading & Coincident Indices and Adjusted Bank Lending

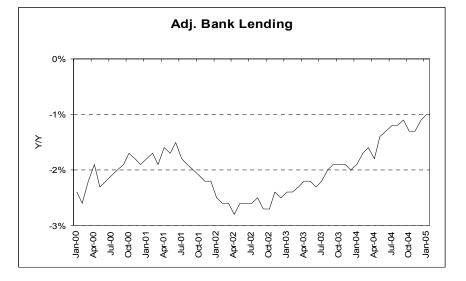
Household Spending decreased 2.5% M/M and 3.5% Y/Y in December, keeping in line with the recent soft wage growth.



Based on Preliminary figures, the Leading Economic Index increased from 36.4 to 40 in December. Meanwhile, the Coincident Index posted a sharp decrease from 60 to 33.3, reverting back to the contraction level.

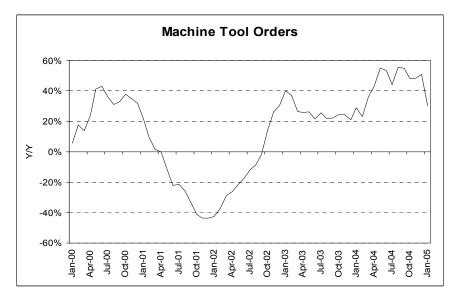


Japan's Adjusted Bank Lending decreased 1% in January, its smallest decrease since May of 1999.



## Machine Tool Orders

Machine Tool Orders slowed from 50.9% Y/Y to 30.2% Y/Y in January, based on preliminary figures. Domestic and foreign orders increased 34.8% Y/Y and 24.7% Y/Y, respectively.



## News Briefs

### Comments from Prime Minister Junichiro Koizumi

**February 9<sup>th</sup>** - According to Bloomberg News the Japanese Prime Minister, Junichiro Koizumi, mentioned in an interview in Tokyo that he would consider failure of legislation to sell the nation's postal service as a vote of no confidence in his cabinet. "I am making efforts to pass the bill in the current diet session," which ends June 19<sup>th</sup>, Koizumi stated. He also said that he has "no intention to carry it over to the next session. Not passing would be an annulment, and that would mean my cabinet should be dissolved."

#### Comments from Miyaka Suda, BoJ member

**Febraury 9<sup>th</sup>** – Miyako Suda, policy marker, commented at a news conference in Hadodate, Northern Japan, that for core CPI "an increase of 0.1% would be acceptable" along with sustainable economic recovery to end the zero interest rate policy. "We want to continue to stand by this policy to ensure that we have an accountable monetary policy," Suda stated. Suda also mentioned that bank reserves may also fall below the 30 trillion – 35 trillion range if demand for funds remains low. Optimism in Japan's economic prospects was also displayed by Suda as she stated that she expects Japan's economy to extend its recovery as companies end efforts to reduce inventory.

#### **Comments from Governor Fukui**

**February 3^{rd}** – "The Japanese economy is gradually gathering latent strength but there's still a little distance to go before the economy can be said to be on a sustainable recovery path and to ensure an end to deflation," Fukui stated to lawmakers in Tokyo. Fukui also noted that wages have stopped falling and that there is a great possibility that they may increase.

## Key Dates This Week

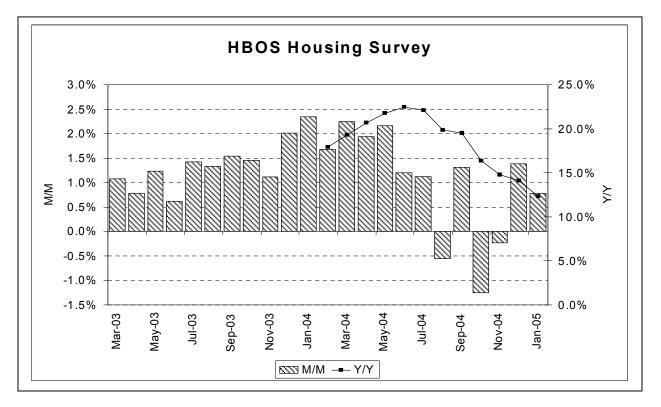
Date	Indicator	Expectation	Previous
2/10	Machine Orders (M/M) (DEC)	-10.0%	19.9%
2/10	Machine Orders (Y/Y) (DEC)	-2.5%	15.1%
2/13	Current Account Total	¥1293.6B	¥1203.8B
2/13	Adjusted Current Account Total (DEC)	¥1378.5B	¥1385.9B
2/13	Trade Balance – BOP Basis (DEC)		¥753.2B
2/13	Industrial Production (M/M) (DEC F)		-1.2%
2/13	Industrial Production (Y/Y) (DEC F)		1.4%
2/13	Capacity Utilization (DEC F)		103.4
2/14	Consumer Confidence (JAN)		44.3
2/14	Consumer Confidence Households (JAN)		44.0
2/15	Tokyo Department Store Sales (Y/Y) (JAN)		-3.2%
2/15	Machine Tool Orders (Y/Y) (JAN F)		30.2%
2/15 - 2/16	BOJ Monetary Policy Meeting		
2/15	Gross Domestic Product (Q/Q) (4Q P)	0.1%	0.1%
2/15	GDP Annualized (4Q P)	0.5%	0.2%
2/15	GDP Deflator (Y/Y) (4Q P)	-1.1%	-1.3%
2/16	Leading Economic Index (DEC F)		
2/16	Coincident Index (DEC F)		

# **United Kingdom**

There have been some improvements in the economic data recently, including housing data. However, consumer spending and the housing market both remain too fragile for rate hikes that have started to be priced in by the market. These sectors are likely to experience significant weakness as the government attempts to meet its "Golden Rule", perhaps causing the MPC to cut rates later in the year.

### Weekly Highlights

- HBOS House Prices- increased 0.8% M/M and 12.4% Y/Y in January. (page 20)
- **Manufacturing Production** increased 0.5% M/M and 1.0% Y/Y in December, exceeding expectations of a 0.2% M/M increase. (page 21)
- The Trade deficit- decreased from £3.3 billion to £3.0 billion in December. (page 21)
- The British Retail Consortium (BRC)- reported that retail sales increased 0.5% Y/Y in January. (page 23)

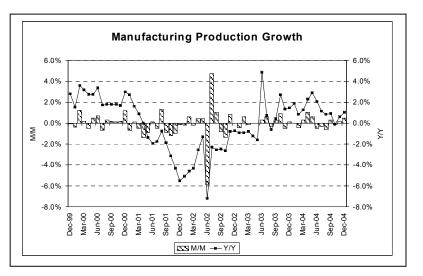


### Chart of the Week

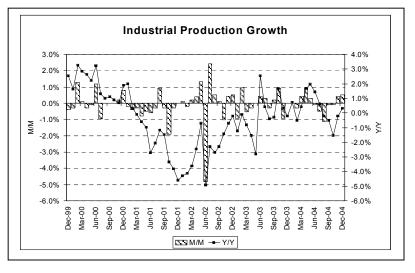
HBOS House Prices increased 0.8% M/M and 12.4% Y/Y in January. As the slowdown in the housing market continues, HBOS reported that house prices have only increased 1.4% over the last six months.

## Manufacturing & Industrial Production & Trade Balance

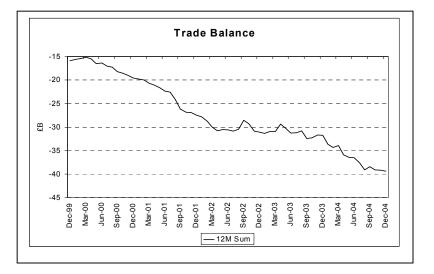
Manufacturing Production increased 0.5% M/M and 1.0% Y/Y in December, exceeding expectations of a 0.2% M/M increase. This increase resulted from a strong performance by food and drink factories leading up to the Christmas season and an increase in exports to the global market.



Industrial Production increased 0.5% M/M and 0.3% Y/Y in December. The statistics office said this increase is expected to add 0.1% to Q4 GDP.

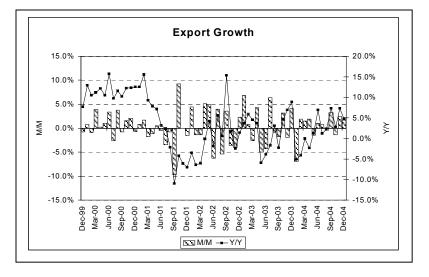


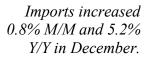
The Trade deficit improved from £3.3 billion to £3.0 billion in December, helped by a 4.5% M/M jump in oil exports.

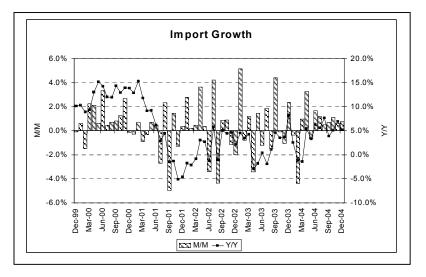


## **Exports & Imports Growth**

Exports increased 1.8% M/M and 4.8% Y/Y in December, mainly due to a surge in oil exports.







### Data & Comments

#### **BRC** Sales monitor

The British Retail Consortium (BRC) reported that retail sales increased 0.5% Y/Y in January as shoppers were lured back to shopping due to large discounts after the dismal holiday shopping season.

#### **PMI Services**

CIPS Services PMI increased from 54.9 to 55.9 in January as business expectations after the strong forth quarter surged from 73.1 to 77.1.

#### NIESR GDP

The NIESR stated that GDP increased from 0.7% to 0.8% in the three months through January, pulled up by the increase in industrial production.

#### Comments by the BOE's Governor, Mervyn King:

King commented that the trade and budget deficits and the purchase of large U.S. dollar reserves by Asian countries were combining to cause "global imbalances." He warned that the situation would improve only when governments agree on the "nature of the risks inherent in current international monetary arrangements....There is likely to be a limit to the amount of debt that one country can issue as a result of persistent deficits before investors start to worry about its ability or willingness to repay." Asia's accumulation of dollar reserves "contributes to the potential instability of the international monetary system." This rapid buildup of assets held in the dollar may result in "nominal exchange rate movements that are far larger than those needed for an orderly rebalancing of asset positions."

# Key Dates This Week

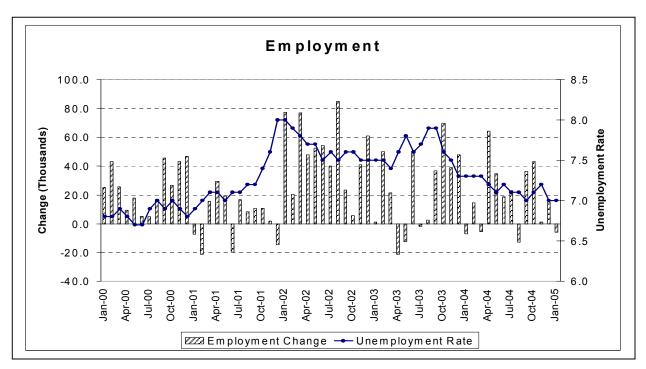
Date	Indicator	Expectation	Previous
2/10	Total New Construction Orders		2474
2/10	BRC Shop Price Index		
2/10	MPC Announces Rates	4.75%	4.75%
2/14	PPI Input		-2.3% M/M 3.4% Y/Y
2/14	PPI Output		-0.4% M/M 2.9% Y/Y
2/14	ODPM House Prices		13.8% Y/Y
2/14	RICS House Prices	-40	-37
2/15	СРІ		0.5% M/M 1.6% Y/Y
2/16	Unemployment Rate	2.7%	2.7%
2/16	Average Earnings		4.2% 3M/3M

## Canada

Recent data from Canada on employment and housing was on the weak side, but details indicate that momentum still remains in both sectors. While the BoC will likely leave rates unchanged at 2.50% at the next meeting in March, rate increases later in Q2 and Q3 cannot be ruled out as the economy remains near capacity and the C\$ stabilizes or weakness from current levels.

### Weekly Highlights

- Employment 5,700 jobs were lost and the unemployment rate remained unchanged at 7.0% in January. (page 25)
- **Building Permits** –increased 1.6% M/M and 14.3% Y/Y in December. (page 26)
- Housing Starts decreased from 236.3k to 203.7k in January. (page 26)



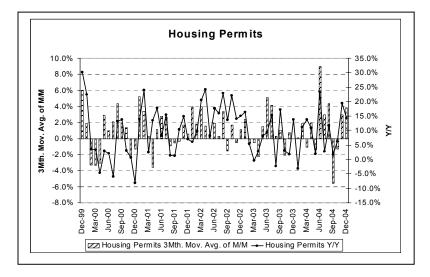
## Chart of the Week

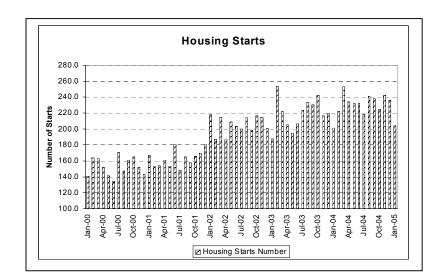
Employers in Canada shed 5,700 employees in January- economists had anticipated 15,000 new jobs would be created. The loss of jobs was led by a decline in government hiring. On the surface this supports views that the Canadian economy has lost momentum. The details of the report indicate that youth employment also contributed to the decline as 21,000 part time jobs were lost. Manufacturing employment increased 14,000 for the month while retail and wholesale jobs increased by 18,000 new positions. Both suggest that while the Canadian economy may be cooling due to the higher C\$, the economy has not yet lost full momentum and may still strengthen in the coming months.

### **Building Permits & Housing Starts**

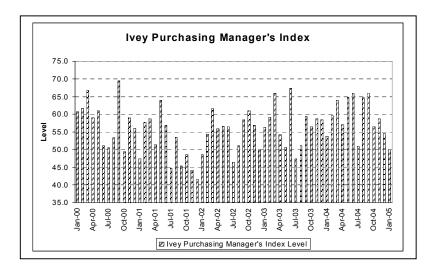
Housing permits increased 1.6% M/M and 14.3% Y/Y in December. The gain was unexpected as economists had anticipated a decline of 4.5% M/M. The report indicates that the housing sector has not weakened as much as economists had forecast and will likely maintain its momentum moving into 2005.

Housing starts in Canada declined 13.8% M/M from 236,300 to 203,700 in January. The decline was led by fewer apartments and condominiums being constructed. However, on a seasonally adjusted basis, the housing economy remains strong, and Dec. building permits suggest that construction may continue to bolster the economy.





The Ivey Purchasing Manager's Index declined from 54.6 to 50.0 in January, the lowest level since July of 2003. Economists had forecast an increase to 55. The decline resulted as the employment index fell slightly while supplier deliveries remain near 4 year lows.



## Goodale Comments, Emerson Comments, Consumer Confidence & Canadian Housing Agency Comments

### Finance Minister Ralph Goodale – Decline in C\$ May Lower Risks to Economic Growth

Canadian Finance Minister, Ralph Goodale, said that the decline in the C\$ to below \$0.80 U.S. may lower risks to economic growth. "The fact that it's down a bit now may take some little bit of heat out of the equation," he stated, "But I encourage people not to jump to conclusions on the basis of one day's trading." Goodale is expected to present his budget on Feb. 23<sup>rd</sup> and has said that social program spending and tax cuts were limited by the C\$'s strength.

### Industry Minister David Emerson – Government to Consider Business Tax Cuts

The Canadian government will consider cutting business taxes in the federal budget to be presented on Feb. 23<sup>rd</sup>, Emerson stated. "I think Mr. Goodale continues to look at corporate taxes," he commented, continuing "We're absolutely committed to a competitiveness agenda and of course taxation is part of that."

#### **Canadian Companies Expect C\$ to Drop According to Survey**

Some Canadian companies indicated that they expect the C\$ to decline in 2005 as fewer futures contracts were purchased than anticipated. The contracts were dollar hedges that would have protected them from a higher C\$. Many companies indicated in the survey that they anticipate the C\$ to end 2005 at a lower level.

#### **Consumer Confidence Increased in January**

Canadian consumer confidence increased from 121.9 to 124.2 in January according to a survey conducted by the Conference Board of Canada. Many consumers expressed confidence about the job market.

### **High Prices to Cut House Sales**

Canadian home sales and construction may cool through 2006 as higher mortgage rates and prices deter buyers, the Canadian Housing Agency stated. Interest rates are expected to increase in 2005 and 2006 and house prices are expected to rise, their chief economist commented. "As a result, mortgage carrying costs will rise which will temper demand for home ownership." Housing starts in 2006 are expected to decline 7% Y/Y to 210,100 units while existing home sales are expected to decline 4% Y/Y to 427,300 according to the forecast.

# Key Dates This Week

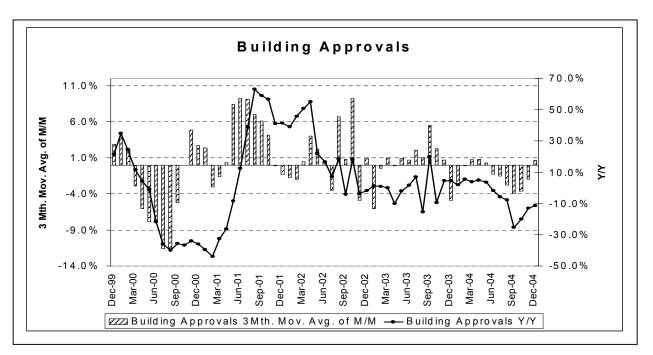
Date	Indicator	Expectation	Previous
02/10	New Housing Price Index (Dec)	0.3% M/M	0.4% M/M
	Int'l Merchandise Trade (Dec)	\$5.2 billion	\$7.3 billion
02/14	New Motor Vehicle Sales (Dec)	-2.0% M/M	-3.1% M/M
	Manufacturing Shipments (Dec)	0.4% M/M	0.2% M/M

## Australia

Recent data from Australia indicates that the housing market remains firm and confidence levels remain high. The RBA stated that they are more likely to increase rates in the coming months than they had been before. If the data continues on its current trend, the RBA may find the need to increase its overnight rate during Q2.

### Weekly Highlights

- Building Approvals increased 2.7% M/M and decreased 11.3% Y/Y in December. (page 29)
- **Retail Sales** decreased 0.3% M/M and increased 2.1% Y/Y in December. (page 30)
- ANZ Job Advertisements decreased 1.9% M/M and increased 6.9% Y/Y in January. (page 30)

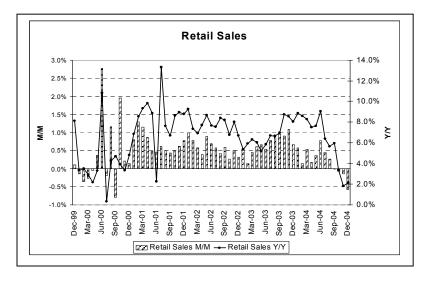


### Chart of the Week

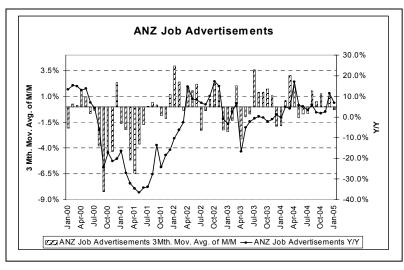
Australian business approvals increased 2.7% M/M and 11.3% Y/Y in December. The increase was more than anticipated and was spurred by apartment construction and renovations. However, housing sales this month were on the weaker side, declining 17.3% M/M. The numbers suggest that the housing market is continuing strong, however, it may take additional months of strength before the RBA will be convinced to increase its overnight rate.

## Retail Sales & ANZ Job Advertisements

Retail sales in December unexpectedly declined 0.3% M/M and increased 2.1% Y/Y. Economists anticipated a 0.8% M/M increase.



The number of jobs advertised in major newspapers declined 1.9% M/M and increased 6.9% Y/Y in January. The decline was on the soft side of economists' expectations; however, the outlook for the trend in job growth is expected to remain positive.



## Costello comments, Leading Indicators, AIG Performance of Services Index, NAB Business Survey, WP Consumer Confidence

### Australian Performance of Services Index Declines from 2 Yr High

The AIG Performance of Services Index, which measures activity in Australian service industries, declined from 60.1 to 53.5 in January. The decline, if it continues, suggests that the broad based growth that Australia has been experiencing may be beginning to cool. The Job's Index declined from 53.9 points to 52.6 points.

#### **Business Conditions Rise in Q4**

The Business Conditions Index, which measures sales, earnings and employment increased from 19 to 23 according to the NAB Business Survey. Any reading above zero indicates that more businesses foresee better conditions. The increased sales and profits signal that the economy may be expanding faster than most economists expect. The data also suggests that the domestic demand has been strong due to higher levels of capacity utilization, a tight labor supply and increasing wages and prices pressures.

#### **RBA - Rate Increase More Likely**

The RBA said that the likelihood of a rate increase in the months ahead has increased after the inflation rate doubled in Q4 2004. The RBA said that inflation may increase to 3% by Q4 2006, at the top of its target range for annual price increases. There is a risk that the forecast may be too low according to the bank.

#### **Costello - Unemployment Rate May Decline**

According to Australia's Treasurer, Peter Costello, the unemployment rate may decline from its 28 year low of 5.1% as the economy will likely add 17,000 jobs in each of the next six months. He also said warned that any increase in wages that aren't matched by an increase in productivity may spark inflation. "We can have wage increases, as long as they are based on productivity improvements." "If we have wage increases that are not based on productivity improvements, then we run the risk that inflation will increase."

### Prime Minister Howard – Tax Cuts Preferred

Australian Prime Minister, John Howard, stated that he would like to see additional tax cuts, although he would not allow the budget to go into deficit to pay for them. "I would like to see a situation where the point at which the top rate of tax comes in continues to be lifted," he stated, also commenting that "I think by world standards that (it) is still too low. It's a question of how much and how you pay for it. Now we're not going into deficit."

## Business Confidence, Consumer Confidence, Leading Index

#### **Business Confidence Increases to 15 Month High**

Australian business confidence increased to a 15 month high as the Business Confidence Index increased from 11 points to 21 points in January. The increase came as builders and manufacturers reported that they expect sales to improve. The increase adds to evidence that economic growth may prompt the RBA to increase its overnight rate during the middle of 2005.

### **Consumer Confidence Continues Near 11 Year High**

Australian consumer confidence in February remained near its highest level in 11years due to increased employment and an improving stock market according to the WP-MI Consumer Confidence Index. The Consumer Confidence Index declined 0.6% from January to 122.8. The confidence may spur strengthening in retail sales. The Sentiment Index had increased 4.2% in January to its highest since June of 1994.

Three of the five components of the index declined in February. The index measuring the state of family finances compared with a year earlier, declined 3.8%. The index measuring whether or not now is a good time to buy major household goods, decreased 2.8%, and the index measuring the outlook of family finances over the next 12 months, increased 3.3%. The forecast for the economy over the next five years increased 1.5% and the forecast for the economy over the next five years increased 1.5% and the forecast for the economy over the next 12 months increased 3.3%.

#### Leading Employment Indicator Declines For Seventh Consecutive Month

The Department of Employment and Workplace Relations' leading indicator of employment declined from a revised 0.308 in January to 0.245 in February. The decline suggests that the growth rate of cyclical employment may drop below its current long term trend in the coming months.

# Key Dates This Week

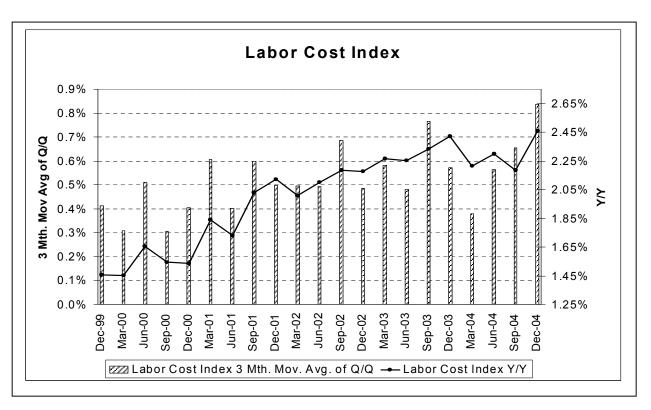
Date	Indicator	Expectation	Previous
02/09	Consumer Inflation Expectations	N/A	N/A
	Unemployment Rate (Jan.)	5.1%	5.1%
	Employment Change	5.00	29.00
02/10	Home Loans (Dec.)	0.0% M/M	2.7% M/M
02/15	Westpac December Leading Economic Index	N/A	N/A

## New Zealand

Recent data from New Zealand indicates that the labor market remains firm, although migration is dropping. The RBNZ may move through most, if not all, of 2005 without raising rates, although they are likely to maintain their tightening bias.

### Weekly Highlights

- Labor Cost increased 0.8% Q/Q and 2.5% Y/Y in Q4 2004. (page 34)
- Net Migration decreased from 1572 to 325 in December. (page 35)

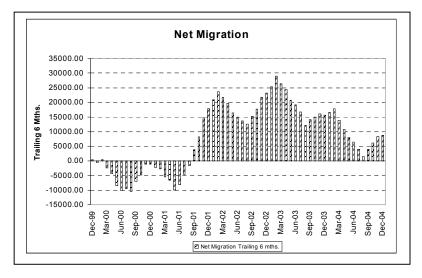


### **Chart of the Week**

New Zealand wages increased 0.8% Q/Q and 2.5% Y/Y, the fastest increase on record in Q4 2004. With the jobless rate at a 19 year low, wages are being pressured which supports views that the RBNZ may need to increase its overnight rate in 2005. However, unless pressures continue to increase, it is likely that the RBNZ will maintain current policy and leave rates unchanged through 2005.

## Net Migration

New Zealand gained fewer migrants for the fourth consecutive month, as net migration decreased from 1572 to 325, suggesting that home buying and consumer spending may slow.



## Cullen Comments, Consumer Sentiment, & Treasury Comments

### Finance Minister Cullen – Budget Surplus Will Not Force Up Rates

New Zealand's budget surplus and level of spending will not pressure interest rates, Finance Minister, Michael Cullen said. In December he forecasted a surplus of \$5.6 billion in the year ending June 30<sup>th</sup>. He rejected criticism that he is boosting spending, which would fuel inflation and prompt the RBNZ to raise rates. "The government is running a level of operating balance to ensure the government is not putting pressure on interest rates," he stated, also saying "What will put pressure on to make interest rates go up is a policy of massive tax cuts across the board."

#### Consumers Indicate That Now is a Good Time to Buy a House

More New Zealand consumers stated that now is a good time to buy a house in a ASB Bank Ltd. Survey. A net 5% of 600 people surveyed last month said it was a good time to buy a house compared with 7% saying that it was a bad time in October. A net 9% of those surveyed say that they expect prices to increase further. While Bollard stated last month that he could not rule out additional rate increases, he may elect to keep them on hold as houses have taken longer to sell in December, suggesting that the housing boom may in fact be slowing.

#### **Treasury - Exports Rebound, Housing Stronger**

New Zealand's exports rebounded in Q4 2004 while the housing market was stronger than expected, suggesting the economy remains robust, the Treasury department commented. Economic growth is expected to remain buoyant before slowing later in 2005, mentioned the Treasury. Consumer spending and the housing market have matched or exceeded expectations. The Treasury also commented that "the momentum in private consumption looks likely to be maintained (in Q4)," and that "house sales and building consents data imply that the recent signs of a slowdown in the housing sector may be on hold." They added however, that eventually consumer spending will slow due to lower net migration and slowing income growth.

# Key Dates This Week

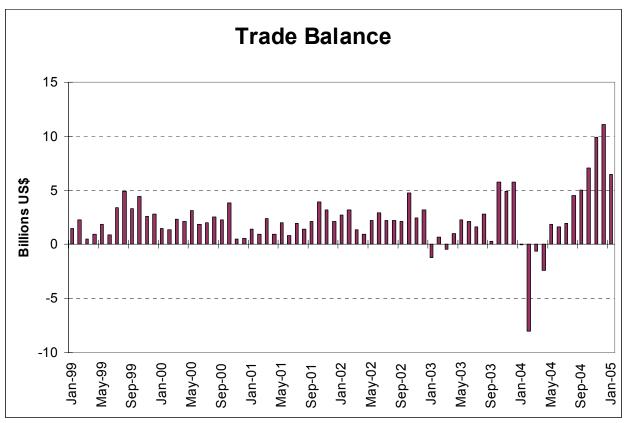
Date	Indicator	Expectation	Previous
02/10	Unemployment Rate (Q4)	3.7%	3.8%
02/13	Retail Sales (Dec)	0.2%	0.7%

## China

This week's economic data was highlighted by January's record high growth in China's trade balance. In addition, Governor Zhou Xiaochuan stated he's "comfortable" with the nation's interest rates, which increased in October for the first time in a decade. He also mentioned that China is making preparations to loosen its currency peg. Overall, economic news remains positive in China.

## Weekly Highlights

- **Trade Surplus** narrowed from an \$11.1 billion in December to a record \$6.5 billion for January. (page 38)
- **Exports** increased from 32.7% Y/Y in December to 42.0% Y/Y in January. (page 39)
- Imports decreased from 24.6% Y/Y in December to 24.0% Y/Y in January. (page 39)

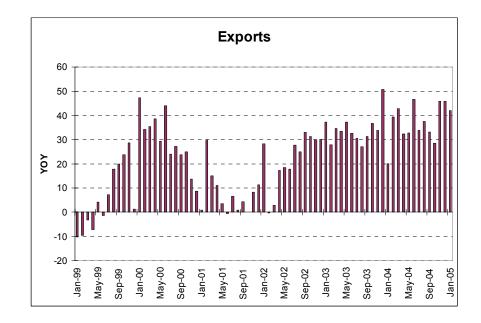


### Chart of the Week

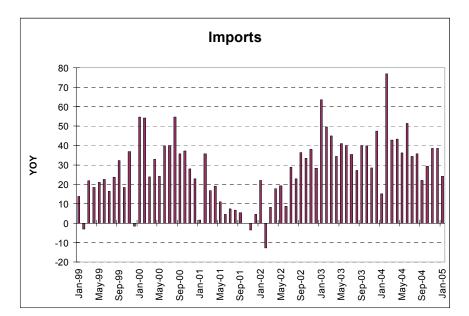
China's trade surplus narrowed from \$11.1 billion in December to \$6.5 billion in January. Despite the decline, January's reading posted a record high for that particular month.

## Total Exports & Imports

Total Exports increased from 32.7% Y/Y in December to 42.0% Y/Y in January.



Total Imports decreased from 24.6% Y/Yin December to 24.0% Y/Y in January.



### *Commentary/Data/News*

### Feb. 8<sup>th</sup> (China Daily Website) – China poised to overtake US in 2020s – scholar

"China's unprecedented rise, fueled by foreign investment and technology, has put the Asian giant on a path to surpass the United States economically by 2025", said Oded Shenkar, author of *The Chinese Century*. He also stated that "U.S. pressure on Chinese authorities to revalue the yuan currency will bring only a brief respite from the fusion of cheap-but-skilled labor, imported technology and economies of scale that make China so competitive".

### Feb. 8<sup>th</sup> (China Daily Website) - China invests US\$37b overseas

The Ministry of Commerce reported that "Chinese companies invested US\$3.62 billion in non-financial sectors overseas in 2004, an increase of 27 percent year-on-year". "Nearly half of Chinese investment went to Latin America and some 40 percent to the other parts of Asia, the Ministry stated. In addition, the Ministry also noted that investments were seen mainly in areas such as "mining, commercial service, manufacturing, wholesale and retail sales".

### Feb. 8<sup>th</sup> (China Daily Website) - Chain-stores score fast growth

The Ministry of Commerce "showed that the country's 30 largest chain-store enterprises did 384.56 billion yuan (US\$46.56 billion) in sales in 2004, increasing 32.9 percent from the previous year". It also reported that "China now has 13,801 chain stores, up 23.8 percent of that of 2003".

### Feb. 8<sup>th</sup> (China Daily Website) - Farmers' per capita income stands at 2,936 yuan

The State Statistical Bureau reported that "in 2004 Chinese peasants' per capita net income was 2,936 yuan, an increase of 314 yuan or 12% over 2003". This information was gathered from a "sampling survey of 68,000 rural households in 31 provinces (districts and cities) of China". The Bureau further stated that after "adjusting for inflation, the increase of the peasants' per capita net income was 6.8%, the most rapid growth since 1997".

### Feb. 7<sup>th</sup> (Bloomberg) – China's Central Bank Chief `Comfortable' With Rates

"China's central banker said he's "comfortable" with the nation's interest rates, which were raised for the first time in a decade in October. He also said China is doing the preparation to loosen its currency peg."

### Feb. 7<sup>th</sup> (Bloomberg) – G-7 Truce on Debt Relief Eclipses Currencies, China

"The Group of Seven industrial nations hailed progress on debt relief for the world's poorest countries at a meeting in London, masking its failure to persuade China to drop its fixed-exchange rate system. Described by U.K. Chancellor of the Exchequer Gordon Brown as the "100 percent debt relief summit," finance ministers and central bank governors barely mentioned currencies after Chinese officials, invited to some of the meetings, said before the gathering they're not ready to change a decade-old currency peg."

## Commentary/Data/News, cont'd.

### Feb. 6<sup>th</sup> (China Daily Website) – Land Price up 6.08% in major cities

The Ministry of Land and Resources stated that "the overall land prices in China grew 6.08 percent in 2004 to 1,198 yuan (US\$145) per square meter". "In a report on price changes in 51 medium and large Chinese cities, the ministry said that the overall land prices in southeast China were the highest at 1,621 yuan per square meter while the prices in northwest China were the lowest at 777 yuan per square meter. However, land prices in central, southwestern and northeastern regions registered higher growths than the nation's average, standing at 9.24 percent, 10.56 percent and 7.25 percent, respectively."

## Key Dates

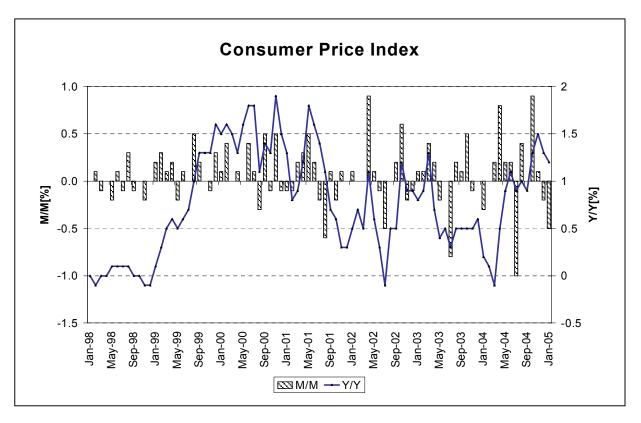
Date	Indicator	Expectation	Previous
02/13	Actual FDI Cumulative (Y/Y) – January		13.32%
02/13	Contract FDI Cumulative (Y/Y) – January		33.38%
02/15-28	Value Added Industry Current – January		548.80B
02/15-27	Value Added Industry (Y/Y) – January		14.4%
02/15-27	Producer Price Index (Y/Y) – January		7.1%
02/15-27	Fixed Assets Inv Urban Cum (Y/Y) - December		28.9%
02/15-28	Money Supply – M1 (Y/Y) – January		13.60%
02/15-28	Money Supply – M2 (Y/Y) – January		14.60%
02/15-27	Retail Sales Value Indiv (Y/Y) - January		14.5%
02/15-27	Retail Sales Value Accumu (Y/Y) - January		
02/15-27	Unemployment Rate – 4Q		4.2%

## Switzerland

Swiss economic growth will probably slow in the current quarter as demand for exports wanes. Swiss leading indicators, which help predict the direction of the economy in about six months, fell to their lowest in more than a year. The Swiss government is scheduled to report fourth-quarter gross domestic product on March 3<sup>rd</sup>.

### Weekly Highlights

- **Consumer prices** declined 0.5% M/M from December. (page 43)
- Trade Balance declined from 1.3B to 0.12B in November. (page 44)
- Unemployment Rate remained at 3.8% while, the unadjusted jobless rate declined to 0.1%. (page 44)

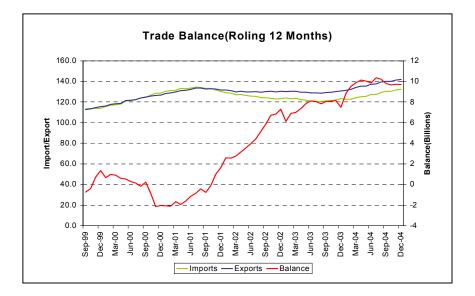


### **Chart of the Week**

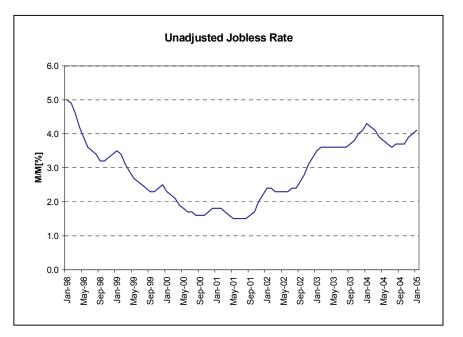
Consumer prices fell for a second month in January, giving the Swiss National Bank room to keep interest rates unchanged until the economy gathers pace. Economists had predicted prices would drop by 0.3%, according to the median of 11 estimates. Prices have risen by 1.2% from a year earlier.

### Trade Balance and Unemployment

The surplus fell to 121.5 million Swiss francs (\$102 million) from 1.2 billion francs in November. In 2004, the surplus rose to 9.3 billion francs from 6.9 billion.



Unemployment displayed minimal changes in January staying at 3.8 %. The seasonally unadjusted Jobless rate rose for a third month in January, increasing from 4.0% to 4.1%. This is the largest increase since last March.



## SNB Rate and Growth Outlook

The government has lowered its inflation forecast for 2005, predicting consumer prices will rise 0.9%, down from a 1.3% forecasted in October, and 1.1% next year. The economy will probably expand 1.5% this year instead of the 2% predicted three months earlier as a rising Swiss franc threatens to erode exports. A surge by the franc is the main risk to the Swiss economy this year.

# Key Dates This Week

Date	Indicator	Expectation	Previous
02/11	Adjusted Real Retail Sales		-0.1%
02/15- 23/05	Producer & Import Prices (M/M, Y/Y)		-0.4%, 1.5%