

Weekly Economic Reports

February 16, 2005

Highlights

- **US:** Strong retail data; mixed news on housing
- **Euroland:** Q4 GDP weaker than expected; but forward looking surveys improving
- **Japan:** Similar to Europe; Q4 data looks weak; but forward looking measures picking up
- **UK:** Housing slowdown continues-Relaxed MPC
- **Canada:** Job growth in manufacturing doesn't jibe with impact of a strong C\$
- **Australia:** RBA rate hike next month increasingly likely

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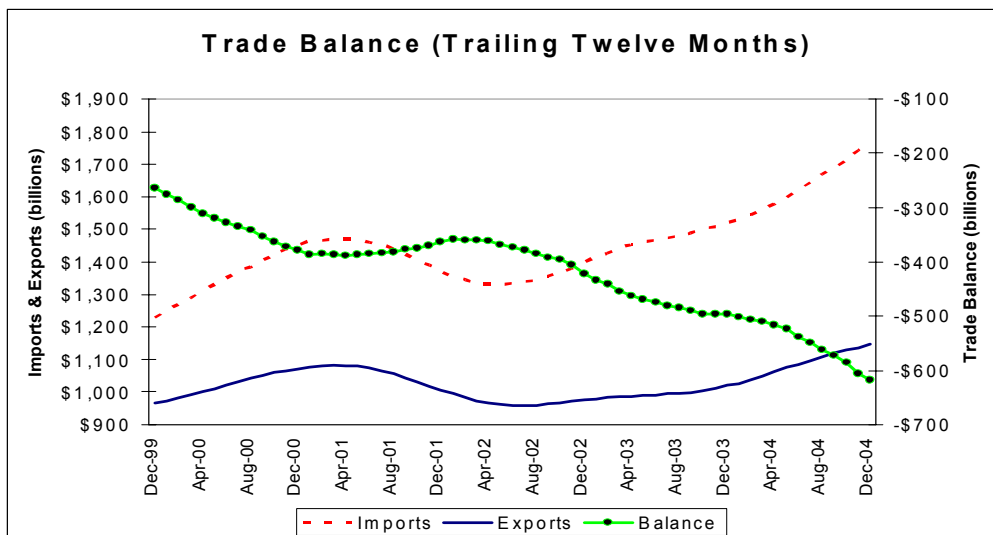
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This week's economic data showed strong retail sales (excluding autos), a jump in housing starts and permits, and a steady trade and budget deficit. The housing starts and permits data suggests a healthy expansion in the housing market, but purchase applications look flat over the past year and have been trending lower recently. Greenspan's comments to Congress are as expected: positive on growth and vigilant on inflation.

Weekly Highlights

- **Trade Balance-** narrowed slightly in December. (page 2)
- **Retail Sales ex. Autos-** increased 0.6% M/M in January. (page 3)
- **Housing-** starts and permits rose to 2.159 and 2.105 million, respectively. (page 4)
- **Capacity Utilization-** declined to 79% in January. (page 5)

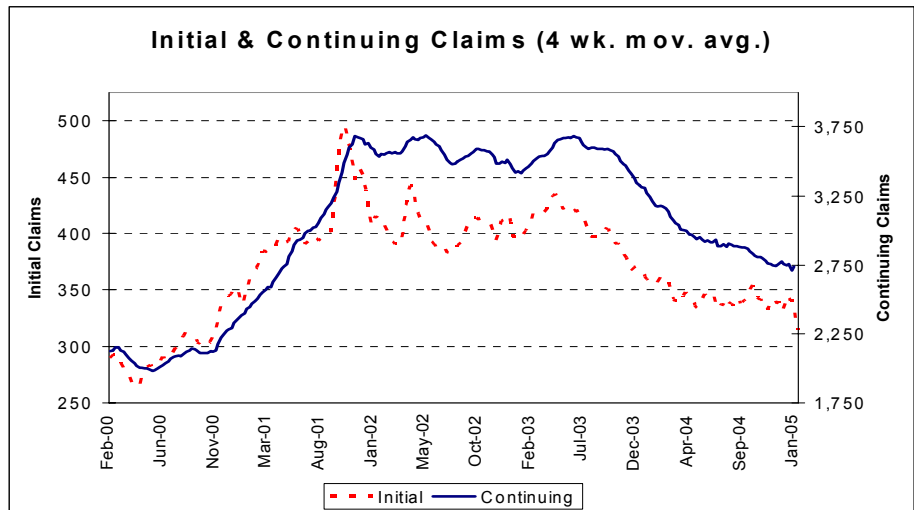
Chart of the Week



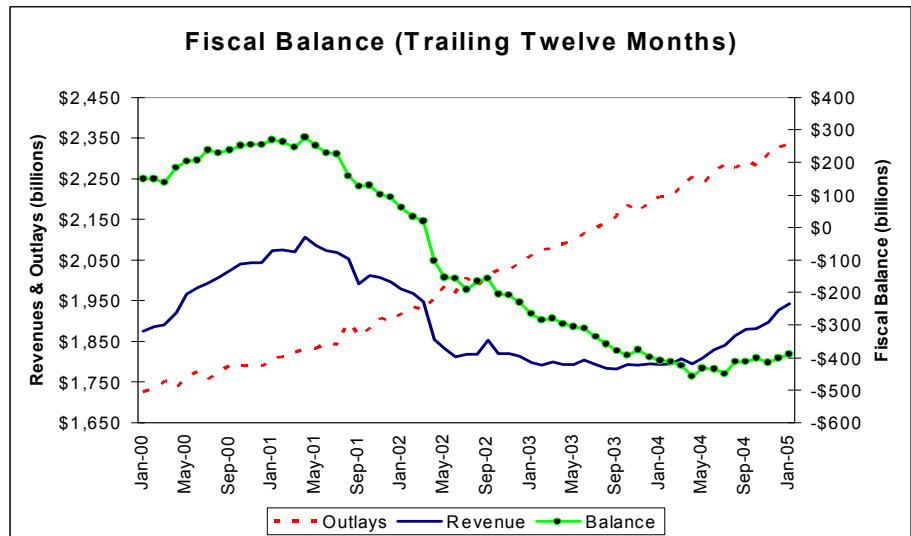
The trade deficit narrowed to \$56.4 billion after registering \$59.3 billion in November. On a trailing twelve month basis the trade deficit has not yet begun to narrow despite the weakness seen in the dollar over the past year. Any narrowing of the trade deficit, as Greenspan discussed, will likely be slow and without significant disruption to the market.

Initial & Continuing Claims, Budget Statement & Retail Sales

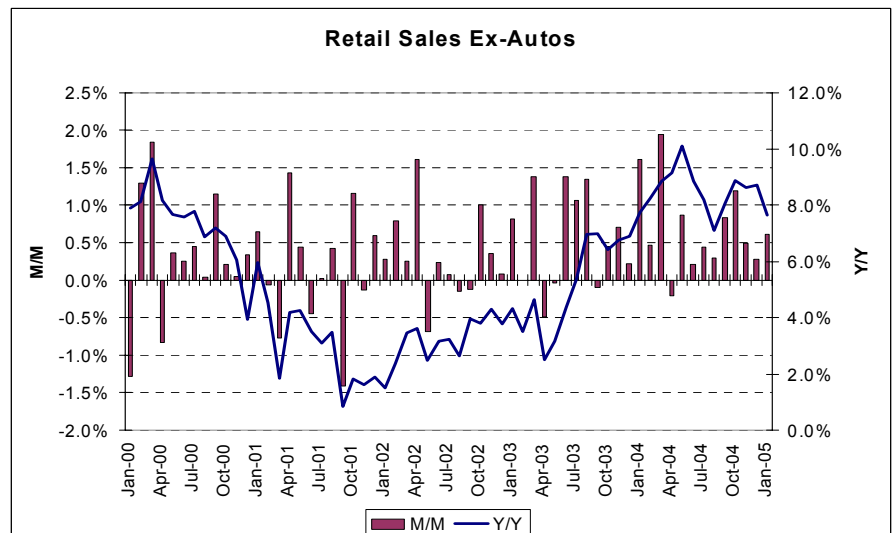
The four week moving average of initial claims decreased to 315k and continuing claims decreased to 2,734k. Initial claims have made a move lower while continuing claims appear stable at current levels.



The budget balance in January was a surplus of \$8.7 billion. On a trailing twelve month basis the budget deficit has started to decrease as revenues are starting to increase faster than outlays. However, given the likely military expenditures and tax cuts being made permanent, the budget deficit is not likely to decrease dramatically on an absolute basis.

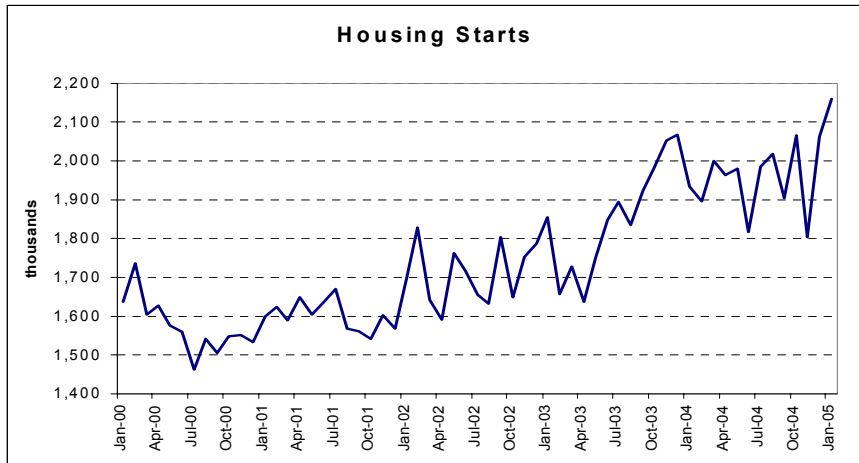


Retail sales, excluding autos, increased 0.6% M/M and increased 7.6% Y/Y in January. The consumer continues to show strength in this environment.

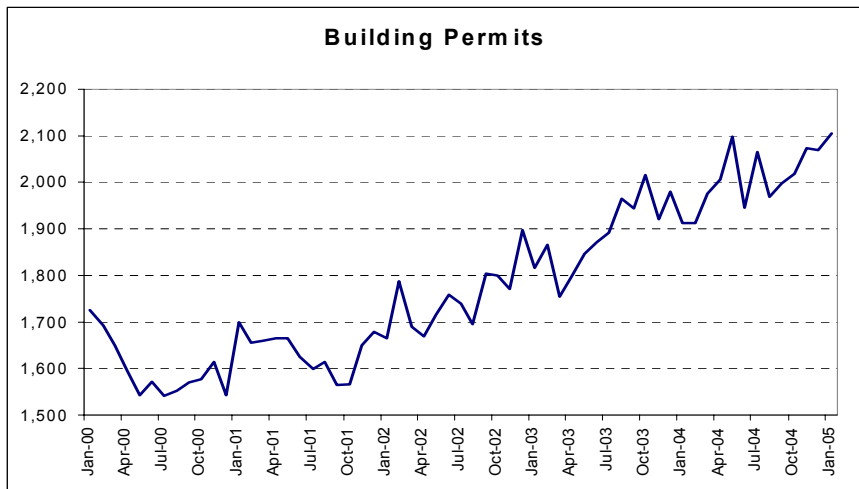


Housing

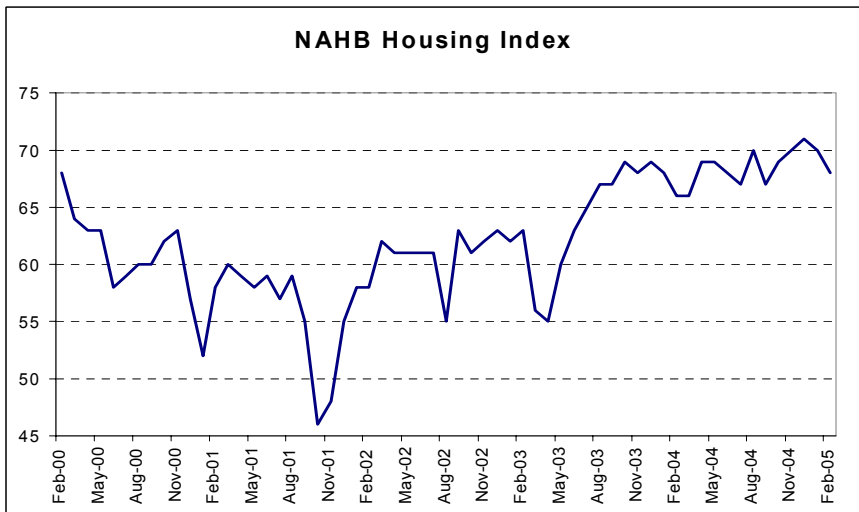
Housing Starts increased 4.7% M/M in January to a seasonally adjusted annual rate of 2.159 million. This series was also dampened by weather in the Northeast. January's strong data point broke the flat trend experienced in 2004.



Building Permits increased 1.7% M/M in January to a seasonally adjusted annual rate of 2.105 million. This recent jump in Building Permits suggests that housing could continue to grow briskly in months to come.

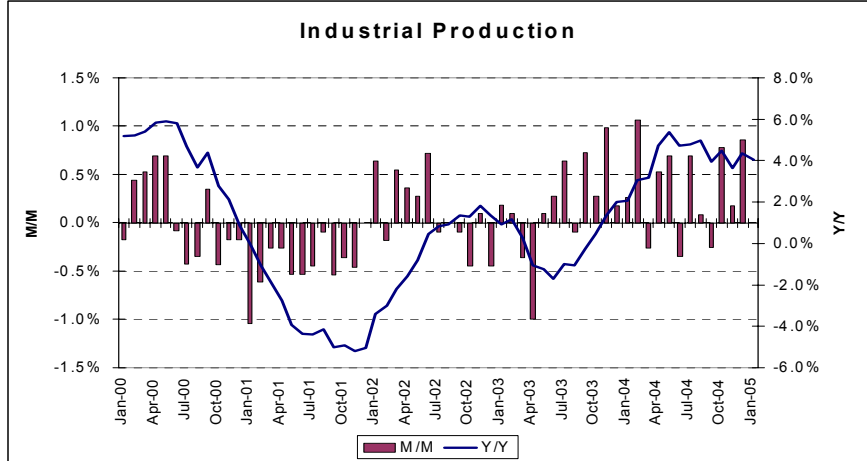


The NAHB Housing Index decreased from 70 to 68 in February. The present sales component declined while the future sales and traffic components remained flat.

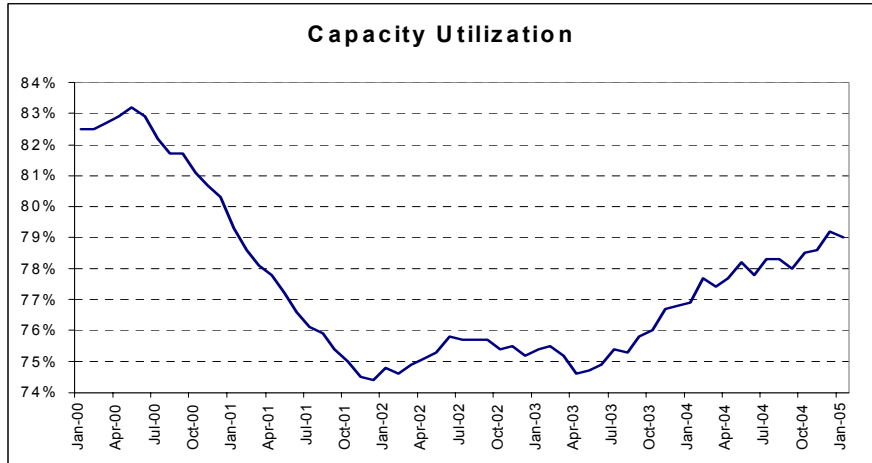


Industrial Production, Cap. U. & Empire Index

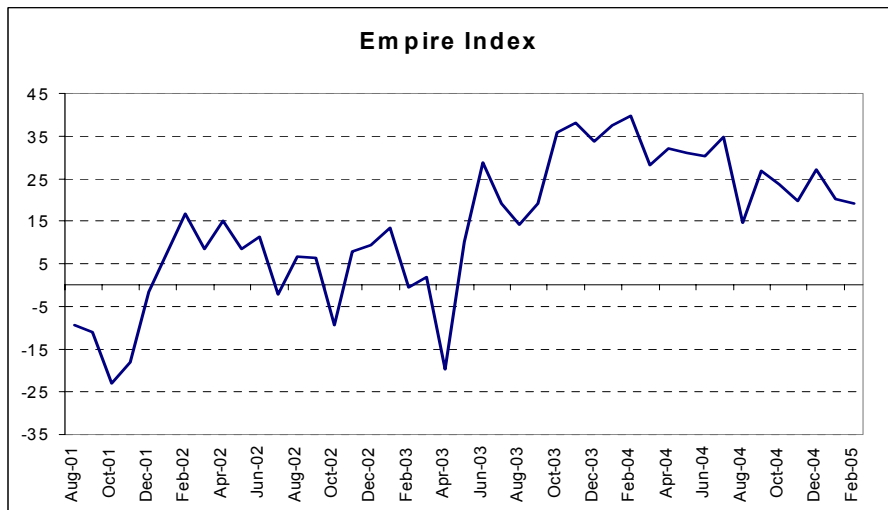
Industrial Production was flat M/M and grew 3.9% Y/Y in January. M/M growth slowed significantly after registering a large increase at year-end.



Capacity Utilization decreased from 79.1% to 79.0% in January. Although slack remains, the manufacturing sector has clearly improved significantly since the fall of 2003.

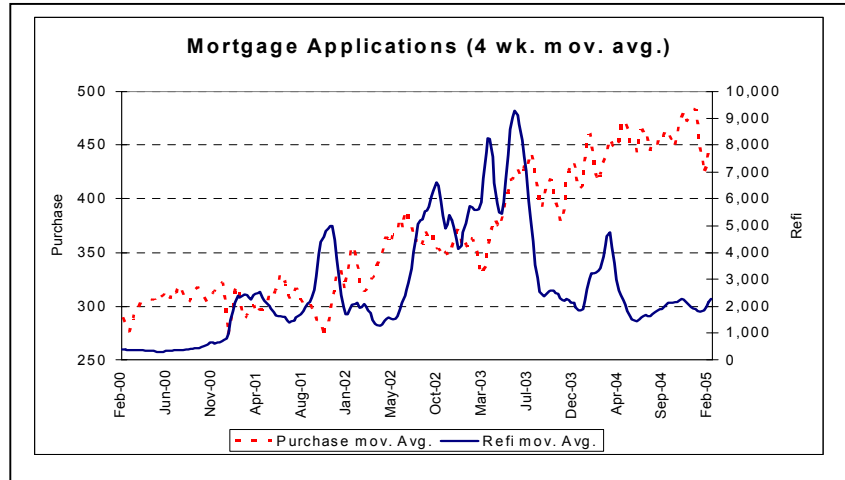


The Empire Manufacturing Index declined slightly from 20.08 to 19.19 in February. The price and employment components also declined.

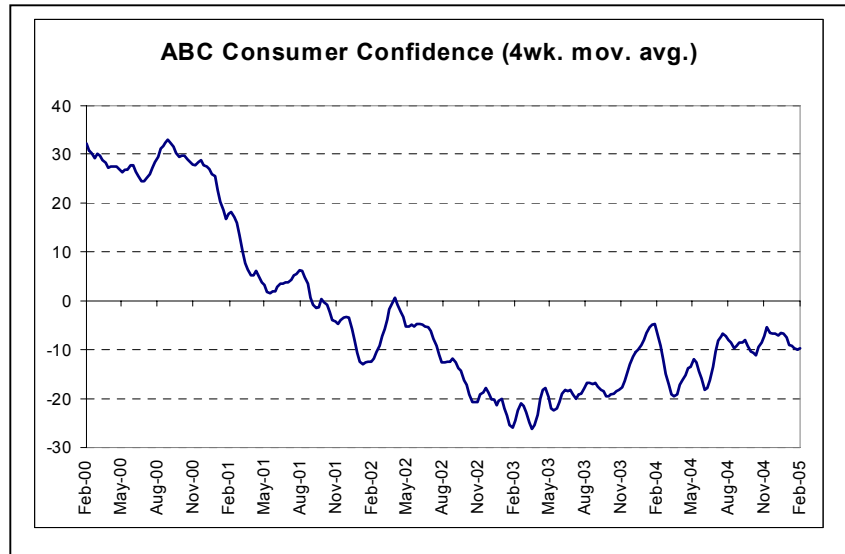


Mortgage Applications, Confidence & Inventories

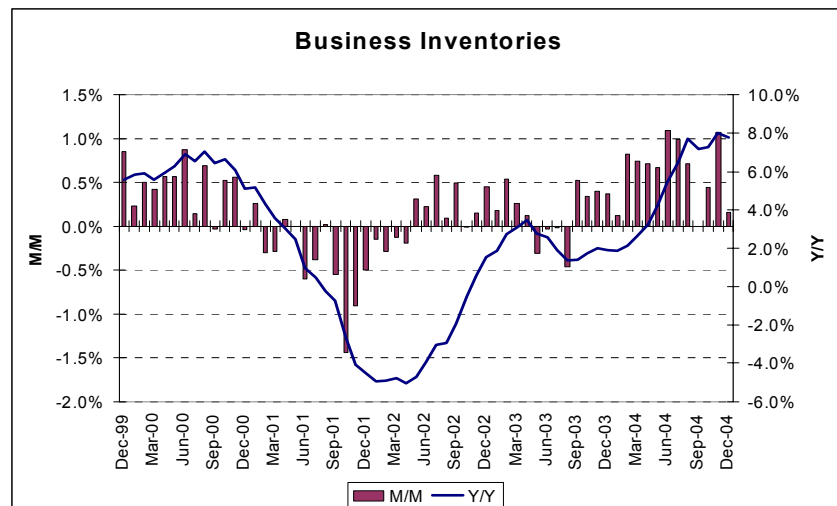
Purchase and refinancing mortgage indices decrease 4.8% and increase 4.1%, respectively, this week. Mortgage applications for purchases continue to look soft.



The ABC Consumer Confidence Index remained at -10 for the week ending February 14th. The economy and buying climate components declined and the personal finances component jumped from 12 to 18.



Business inventories increased 0.2% M/M and 7.8% Y/Y in December. Y/Y growth stabilized at high levels due to the deceleration in M/M growth.



Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|------------------------------------|--------------------|-----------------|
| 02/17 | Import Price Index (MoM) (JAN) | 0.6% | -1.3% |
| 02/17 | Initial Jobless Claims (FEB 12) | 315k | 303k |
| 02/17 | Continuing Claims (FEB 5) | 2,726k | 2,737k |
| 02/17 | Leading Indicators (JAN) | -0.2% | 0.2% |
| 02/17 | Philadelphia Fed. (FEB) | 17.5 | 13.2 |
| 02/18 | PPI Ex Food & Energy (MoM) (JAN) | 0.2% | 0.1% |
| 02/18 | U. of Michigan Confidence (FEB) | 95.5 | 95.5 |
| 02/22 | Consumer Confidence (FEB) | 103.0 | 103.4 |
| 02/22 | ABC Consumer Confidence (FEB 20) | NA | -10 |
| 02/23 | MBA Mortgage Applications (FEB 18) | NA | -0.5% |
| 02/23 | CPI Ex Food & Energy (MoM) (JAN) | 0.2% | 0.2% |

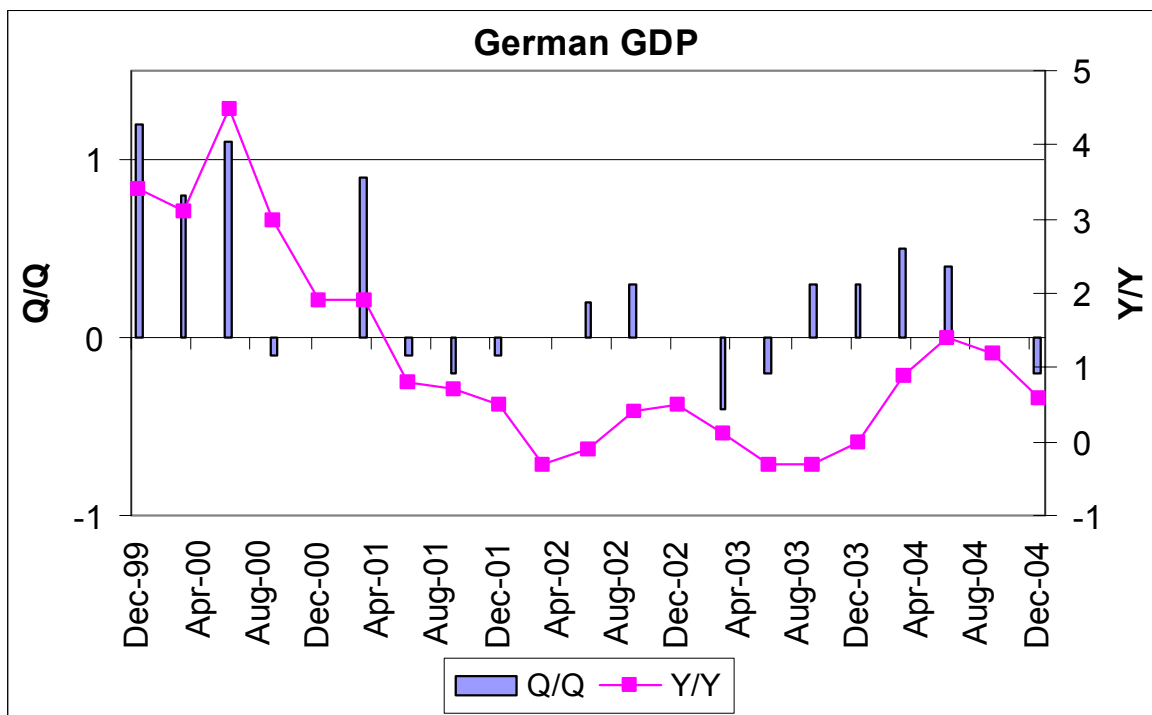
Euroland

This past week in Euroland confirmed that Euro Zone economies, particularly Germany, continued to struggle in Q4. Coming off of 0% Q/Q growth in Q3, the German economy contracted 0.2%. The Italian economy followed suit, contracting 0.3%. The French and Spanish economies both showed signs of strength, expanding approximately 0.8% each as consumer spending rebounded in the quarter. On another positive note, German and Euro Zone's ZEW expectations continue to suggest increasing optimism, though its unclear why.

Weekly Highlights

- **German GDP**- economy contracted in Q4. (page 8)
- **Euro Zone GDP** – economy expanded 0.2% Q/Q in Q4; half of market expectations. (page 9)
- **German ZEW**- February's expectations continued their recent positive trend. (page 11)

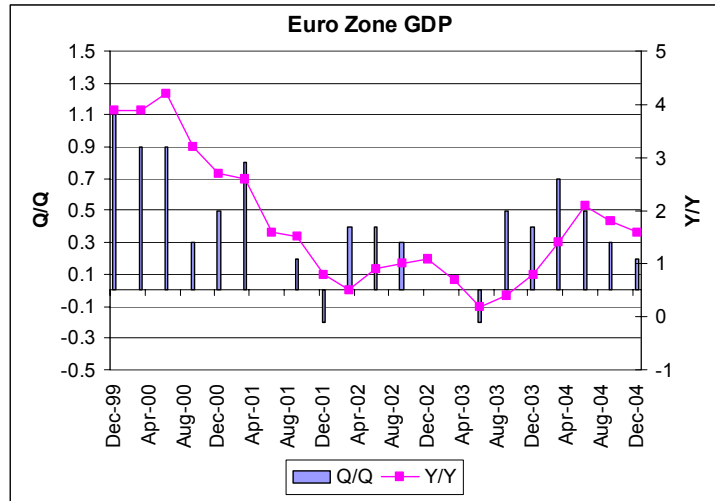
Chart of the Week



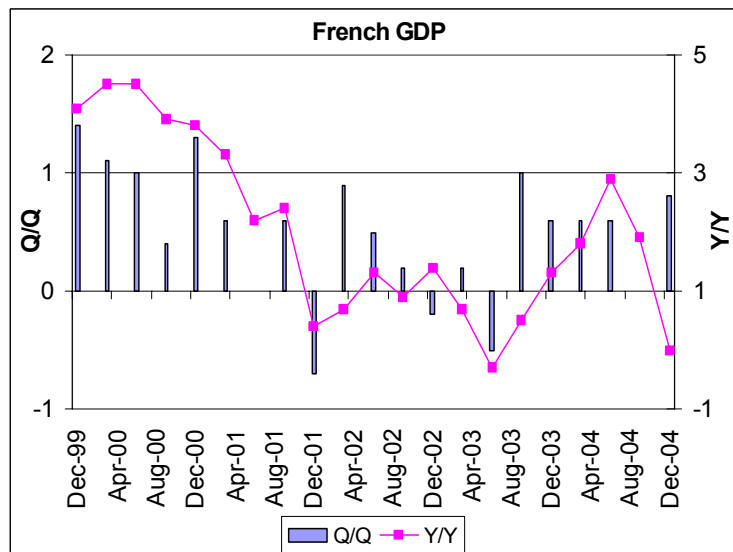
Germany's economy unexpectedly (to some at least) shrank in the fourth quarter, falling 0.2% Q/Q and 0.6% Y/Y (s.a.). Market expectations were for 0.2% Q/Q growth, but slumping retail sales, high oil prices and a strong euro prevented the economy from expanding. For 2004, the German economy expanded 1.6%. The economy is forecasted by the EU to expand 1.5% in 2005.

Euro Zone, French & Italian GDP

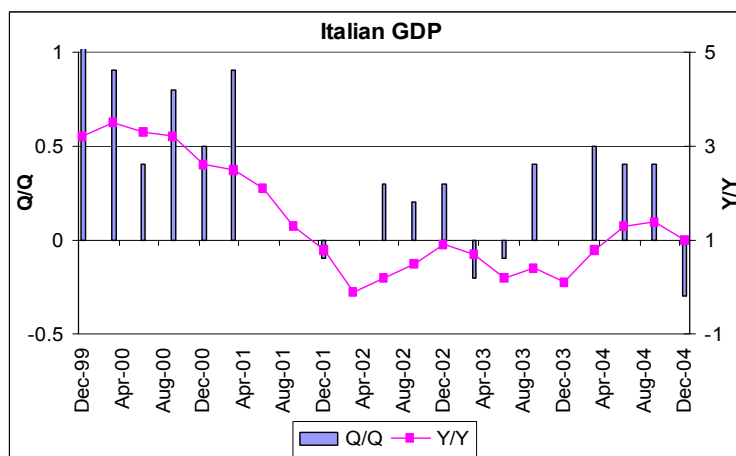
The Euro Zone's Q4 GDP growth slowed to 0.2% Q/Q and 1.6% Y/Y, as Germany and Italy both contracted in the quarter. Market expectations were for 0.4% Q/Q growth, twice the actual growth.



France's Q4 GDP is estimated to have increased 0.8% Q/Q, rebounding from Q3's flat growth. However, the economy was unchanged Y/Y. Growing domestic spending led to much of the Q4 gains.

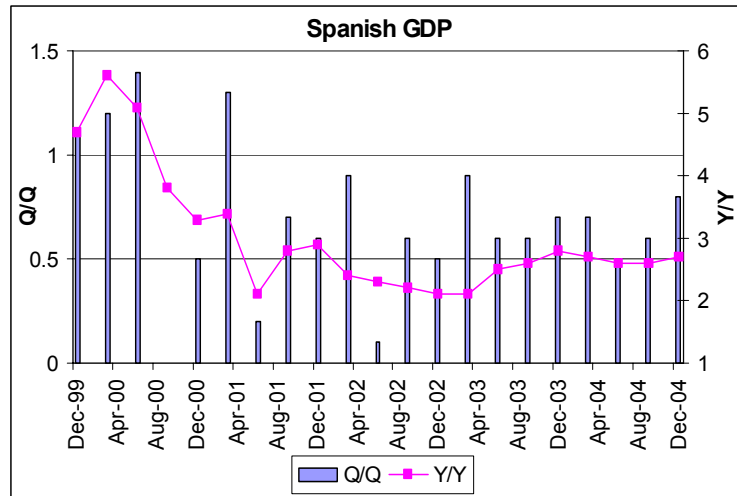


Italy's economy contracted in the fourth quarter, as GDP fell 0.3% Q/Q while increasing 1.0% Y/Y.

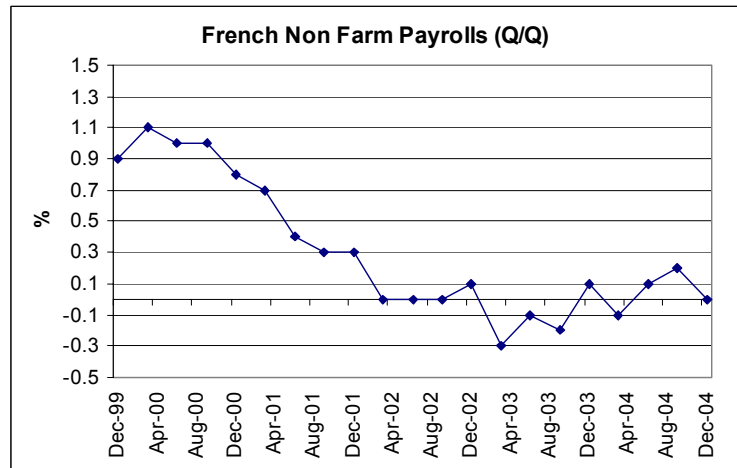


Spanish GDP, French Payrolls & German Trade

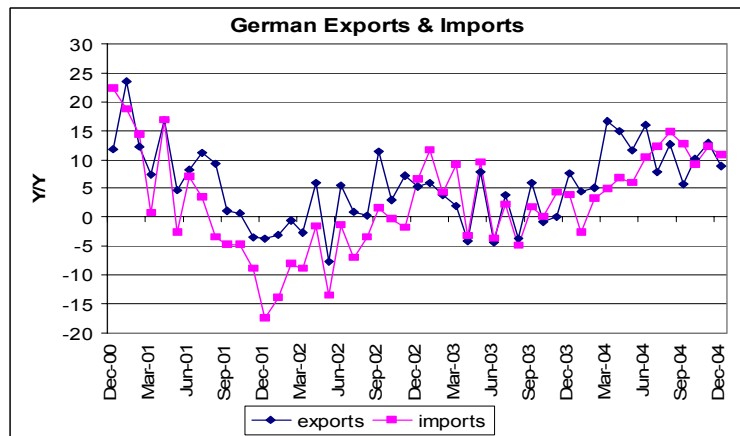
Spain's Q4 GDP expanded 0.8% Q/Q and 2.7% Y/Y, significantly outpacing many of its European counterparts. Construction and consumer spending gains led to much of the gains.



France's Q4 Non Farm Payrolls were unchanged Q/Q. However, Total employment did increase 0.3% Y/Y as the jobs lost in the manufacturing sector were replaced with job growth in the services and construction sectors.

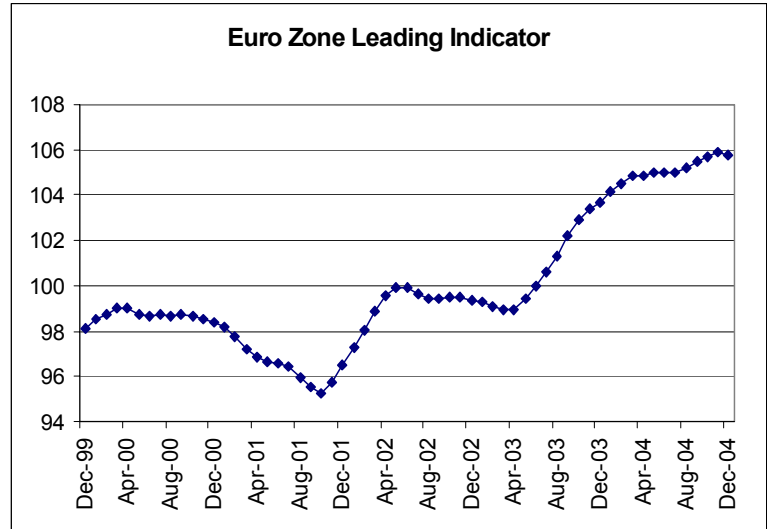


Germany's December Trade surplus narrowed from 12 billion in November to 10.7 billion as exports fell for the first month in four. December's exports fell 4.0% M/M while increasing 8.7% Y/Y. December's imports fell 6.4% M/M while increasing 10.6% Y/Y.

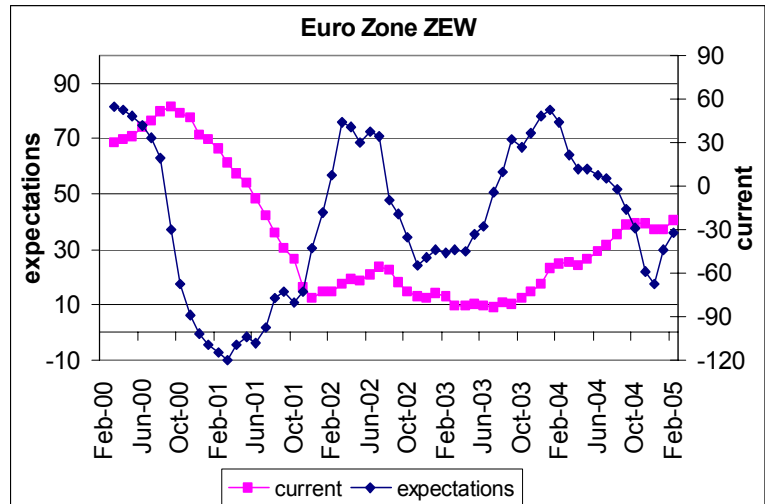


Euro Zone Leading Indicator, Euro Zone & German ZEW

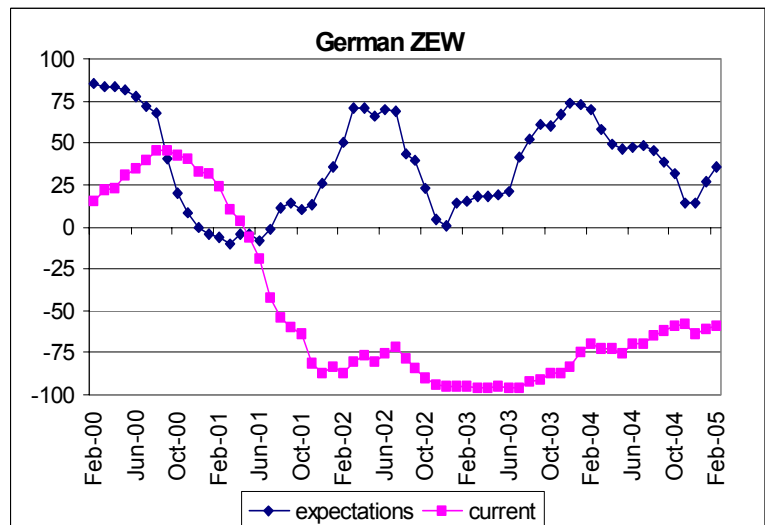
The Euro Zone's December OECD Leading Indicator (EU15) fell slightly, decreasing from 105.9 in November to 105.8.



The Euro Zone's February ZEW continued on its recent rebound. Expectations increased from 29.9 in January to 36.0 while the Current Assessment Index increased from -30 to -23.7.

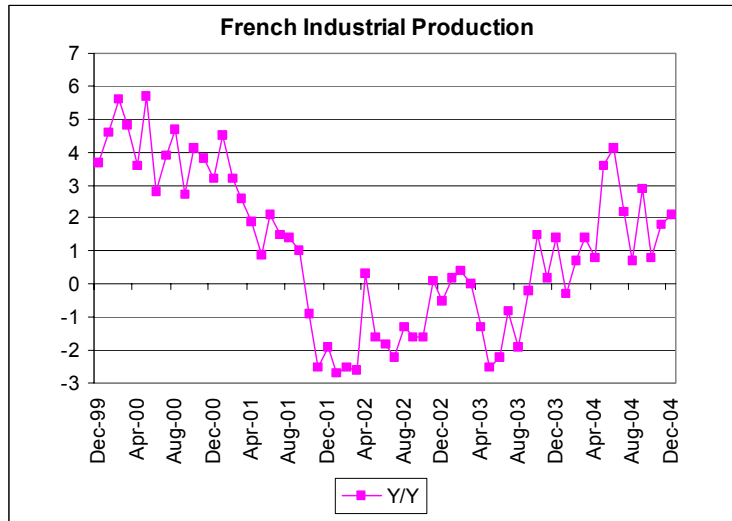


Germany's February ZEW continued its recent positive climb as the Expectations Index jumped from 26.9 in January to 35.9. The Current Assessment Index increased from -61.2 to -58.7. The positive sentiment is believed to be a response to the recently weakening euro.

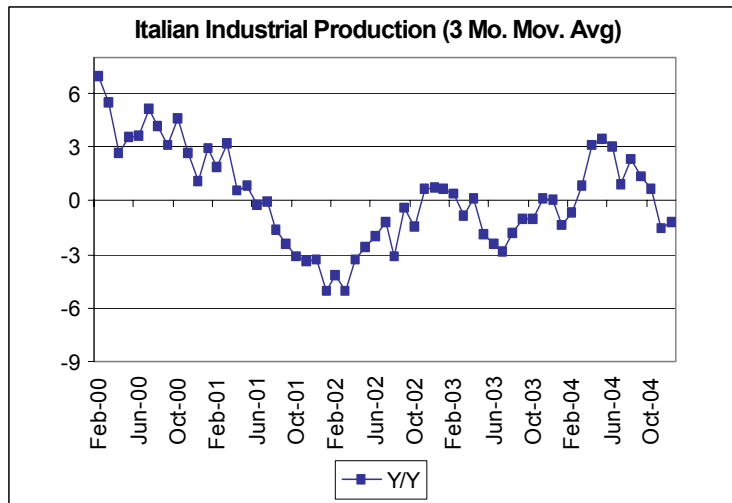


French & Italian Ind. Production & Spanish CPI

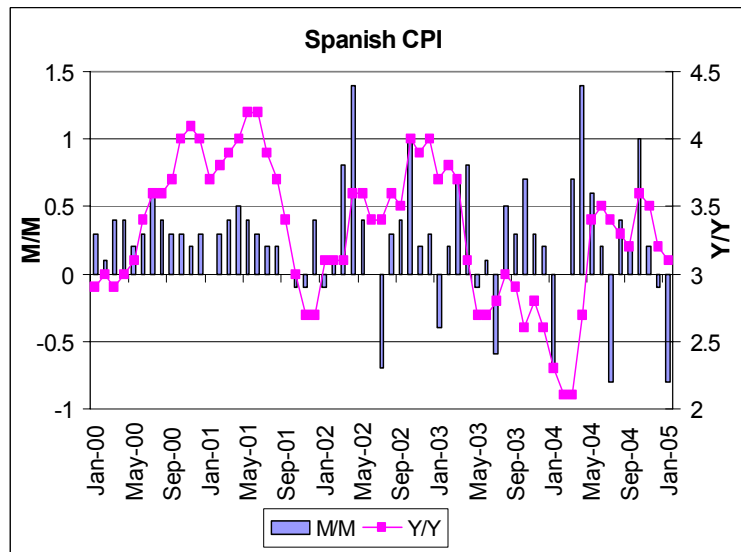
France's December Industrial Production increased 0.7% M/M and 2.1% Y/Y. Market expectations were for a 0.3% M/M increase.



Italy's December Industrial Production unexpectedly fell for a third month. Production fell 0.6% M/M after falling 1.0% M/M in November. Production fell 3.1% Y/Y.

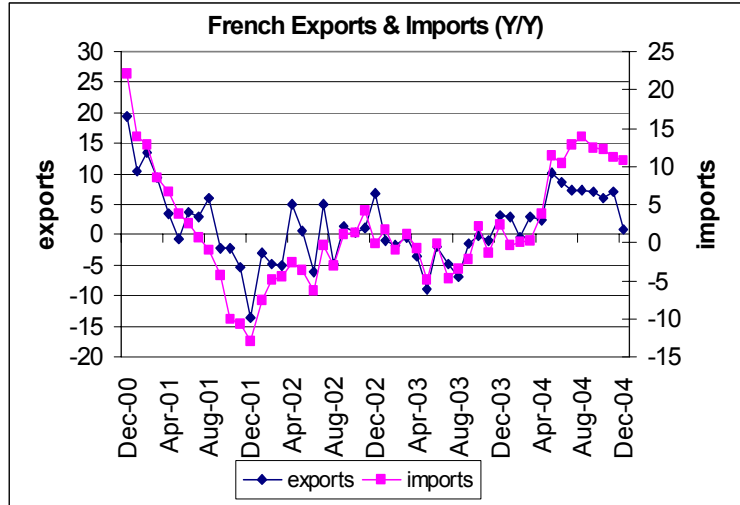


Spain's January CPI unexpectedly fell as prices increased 3.1% Y/Y, down from December's 3.3% rate. January's prices fell 0.8% on a M/M basis.

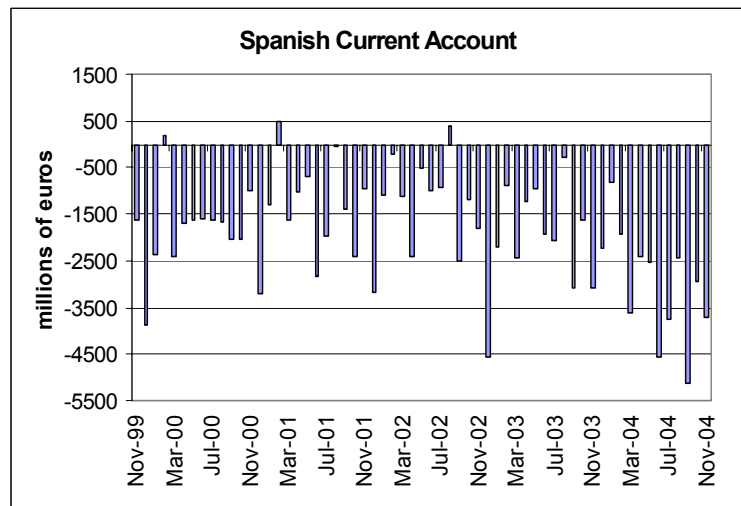


French Trade & Spanish Current Account

France's December Trade deficit rose from 941 million in November to 1.8 billion as export growth slowed. December's exports fell 4% M/M while increasing 0.8% Y/Y. December's imports fell 0.7% M/M while increasing 10.8% Y/Y.



Spain's November Current Account Deficit widened from 2.9 billion in October to 3.7 billion.



News

Feb. 15th – **ECB Chief Economist, Otmar Issing**, stated that last year's appreciation in oil prices and the euro's rally would weigh on growth in 2005. "It will take a while before this has been digested... The stronger currency and higher energy prices contributed to an absolutely disappointing 4th quarter", Issing said. Issing also noted that the ECB's "experts" were possibly looking into revising the ECB's 2005 growth forecast. Four days earlier, Issing had commented that, "The driving forces of growth should change to the domestic side this year". Issing added, "For some skeptics, this might come as a surprise" (and it does).

Feb. 15th – **ECB member Christian Noyer** commented that interest rates are still very "accommodative" and a "more neutral stance "will be required eventually". Noyer further stated that monetary policies around the world would need to be adjusted to avoid inflationary pressure. Noyer's hawkish comments came on the heels of those of ECB vice president Lucas Papademos' who earlier noted that the risks to price stability in the medium term had increased. Papademos stated, "We are vigilant and ready to act should the likelihood of accelerating inflation increase". The comments definitely suggest that a rate hike is on the ECB's mind though the comments were made prior to the release of Germany's dismal Q4 economic growth data.

Germany

Feb. 16th – **The DIHK** stated that German executives are less confident about the economy this year and outlooks for business and exports have been deteriorating since October. The share of managers expecting business to improve fell from 27% four months ago, to 24%. The DIHK, which represents over 3 million small and medium sized companies stated, "The pace of economic growth in 2005 will drag and exports will continue to carrying the torch for economic growth".

Feb. 11th – **IMF's managing director, Rodrigo de Rato** said that German growth would slow to between 1% and 1.5% this year. The official IMF forecast is 1.5% but it seems that de Rato is considering this the upside scenario, acknowledging that growth could be much less.

France

Feb. 16th – **France's government** said that it will lower taxes and increase tax breaks for domestic services in a 400 million euro tax-break package. The plan will lower payroll costs and increase other tax breaks for employers and is hoped to create 500,000 jobs. France's economy expanded 0.8% Q/Q in Q4, outpacing most of the Euroland and they continue their efforts to boost consumer spending which has led to their recent economic expansion.

Feb. 14th – **The Bank of France** cut its Q1 economic growth forecast from 0.6% to 0.5%, citing a slowing expansion in manufacturing and the flow of new orders.

Italy

Feb. 14th – **Italy's government** plans 12.4 billion in tax cuts next year to revive the stagnating economy. "We are getting ready to lower taxes further", an Italian news agency cited Berlusconi as saying. Taxes have already been cut by 6 billion for this year, creating concerns over Italy's budget deficit situation.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|---------------------------------------|--------------------|-----------------|
| 02/17 | Euro Zone Industrial Production (DEC) | 0.6% M/M | -0.3% M/M |
| 02/18 | German Producer Prices (JAN) | 0.3% M/M | -0.5% M/M |
| 02/18 | Spanish Factory Orders (DEC) | | 13.4% Y/Y |
| 02/18 | Italian Industrial Orders (DEC) | -0.4% M/M | 0.6% M/M |
| 02/18 | Italian Industrial Sales (DEC) | 1.0% M/M | -3.2% M/M |

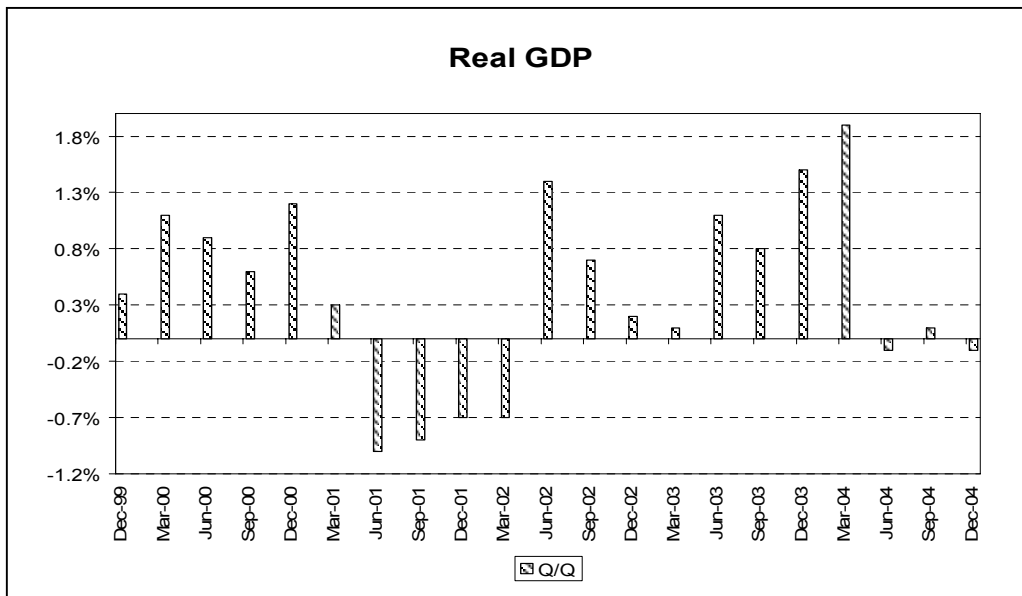
Japan

The economic jigsaw puzzle continues in Japan. Real GDP posted a downside surprise decreasing 0.1% Q/Q in Q4, resulting in an “official text book” recession as a result of the three consecutive quarters of declines. Meanwhile, Machine Orders declined, but were stronger than expected and Industrial Production was revised up. Also, Consumer Confidence increased across the board, above expectations. Moreover, many BoJ and Government officials continue to echo the same tune, saying that the economy is basically in a moderate recovery phase and it has not changed.

Weekly Highlights

- **Real GDP** - decreased 0.1% Q/Q and 0.5% on an annualized basis in Q4. (page 16)
- **Domestic CGPI** - decreased 0.3% M/M and increased 1.3% Y/Y in January, below expectations. (page 17)
- **Consumer Confidence** - increased across the board with the main index increasing from 44.0 in December to 48.7 in January. (page 18)
- **Bankruptcies** - decreased 13.5% Y/Y in January. (page 20)

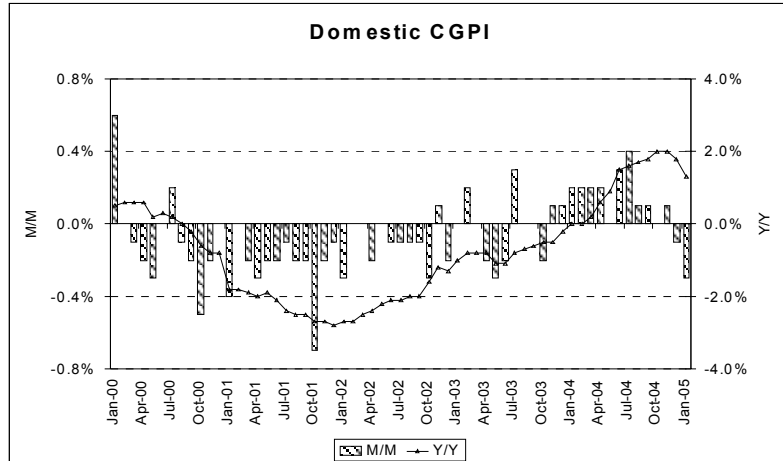
Chart of the Week



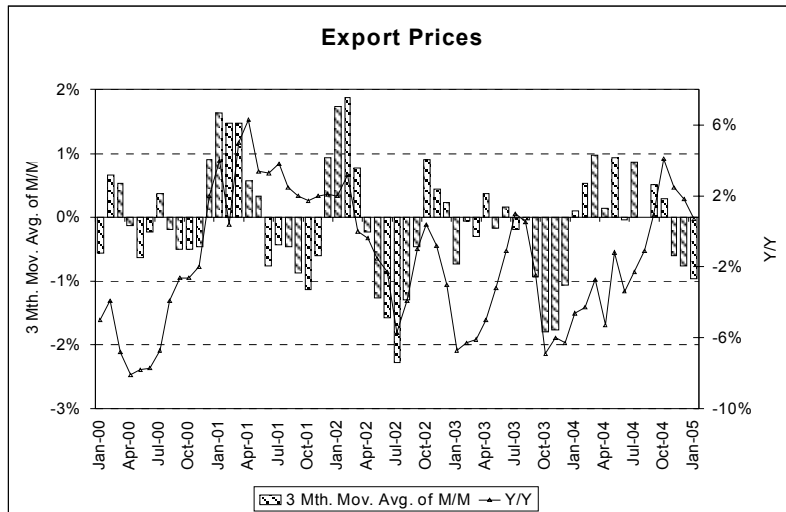
Real GDP decreased 0.1% Q/Q and 0.5% on an annualized basis in Q4. The Deflator, however, posted results of -0.3% Y/Y compared to expectations of -1.3% Y/Y. External demand contributed -0.2%, its first decline for more than one quarter since 2001. Private Consumption decreased 0.3%, while residential and capital investment both increased 0.9% Q/Q and 0.7% Q/Q in Q4. Overall, domestic demand increased 0.1% Q/Q. The slowdown in Japan may be attributed to “a combination of domestic restructuring, rising oil prices, and slowdowns in China and the U.S. in H2 2004,” according to Karim Basta, Director of Research here at Valance.

CGPI, Export & Import Prices

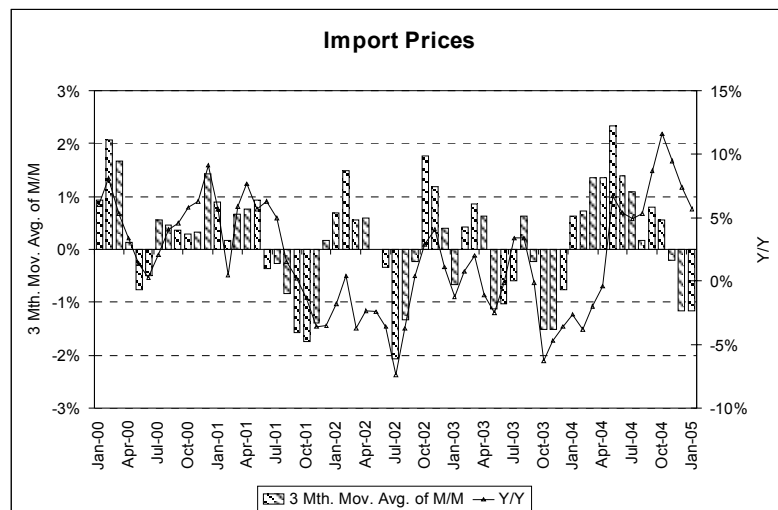
Domestic CGPI decreased 0.3% M/M and increased 1.3% Y/Y in January, below expectations.



Export Prices decreased 0.5% M/M and increased 0.7% Y/Y in January.

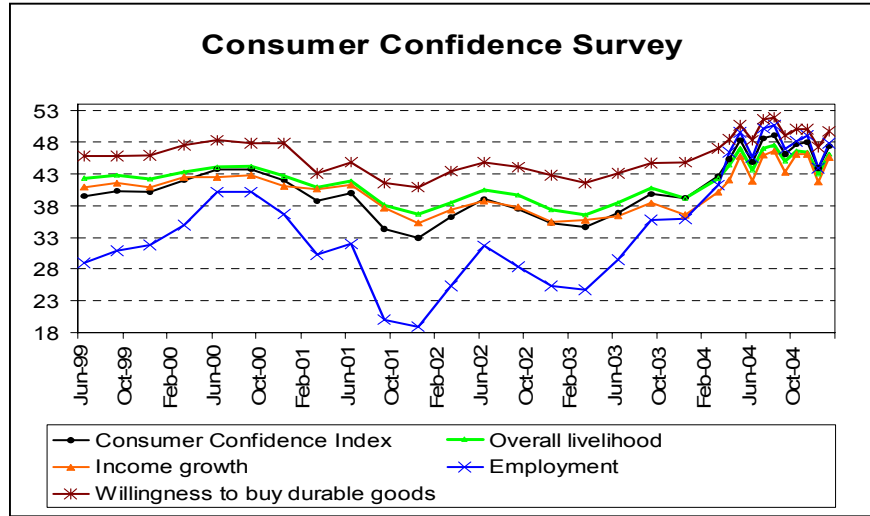


Import Prices decreased 0.8% M/M and increased 5.7% Y/Y.

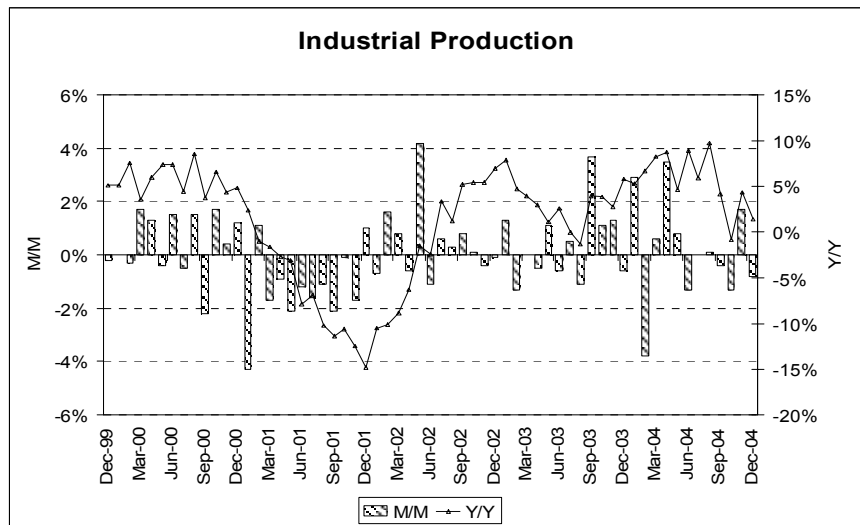


Consumer Confidence, Industrial Production & Capacity Utilization

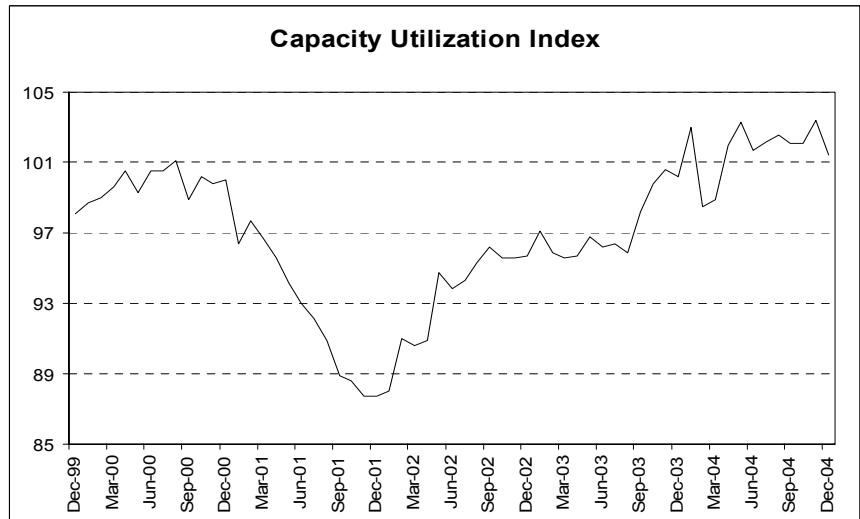
Consumer Confidence increased across the board with the main index increasing from 44.0 in December to 48.7 in January, remaining at cyclical highs. Consumer confidence on income growth and employment increased the most, by 3.9 points. This suggests that consumers are becoming a little more optimistic regarding Japan's economic prospects.



The final figures for December's Industrial Production was revised up from -1.2% M/M to -0.8% M/M and from 1.4% Y/Y to 1.8% Y/Y.

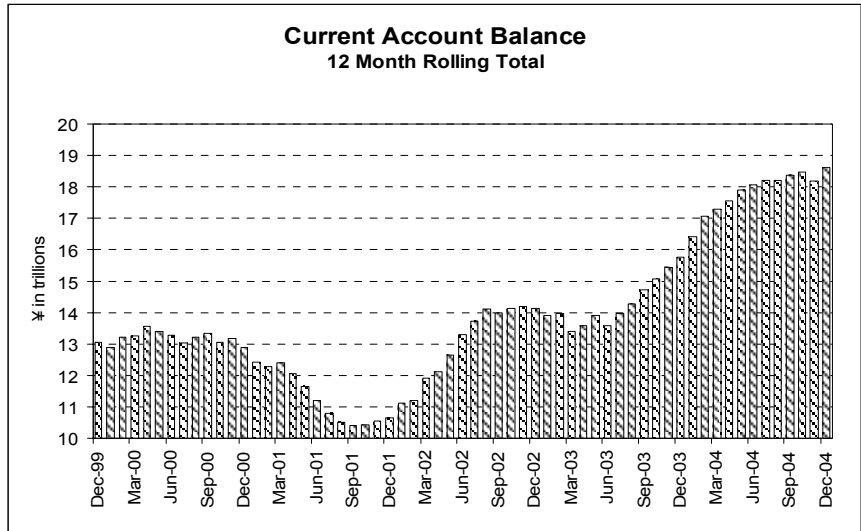


Capacity Utilization was revised down from 103.4 to 101.4 in December.

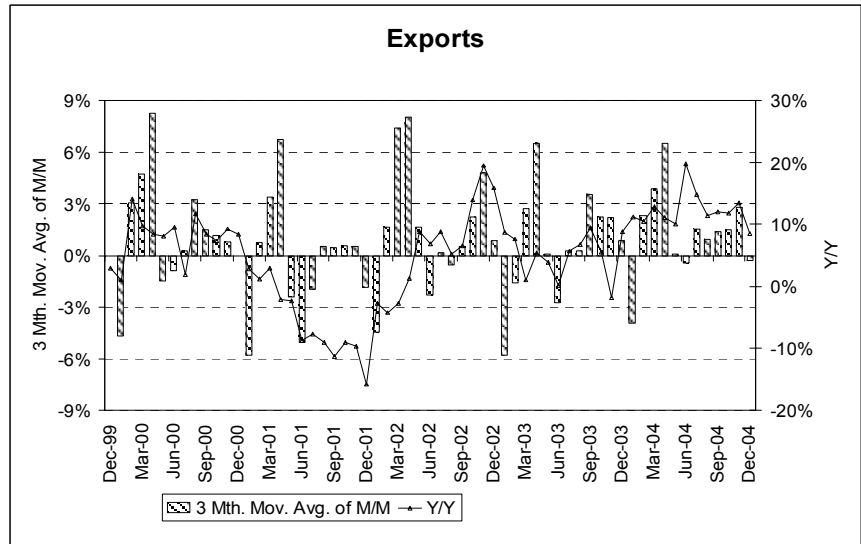


Trade Data

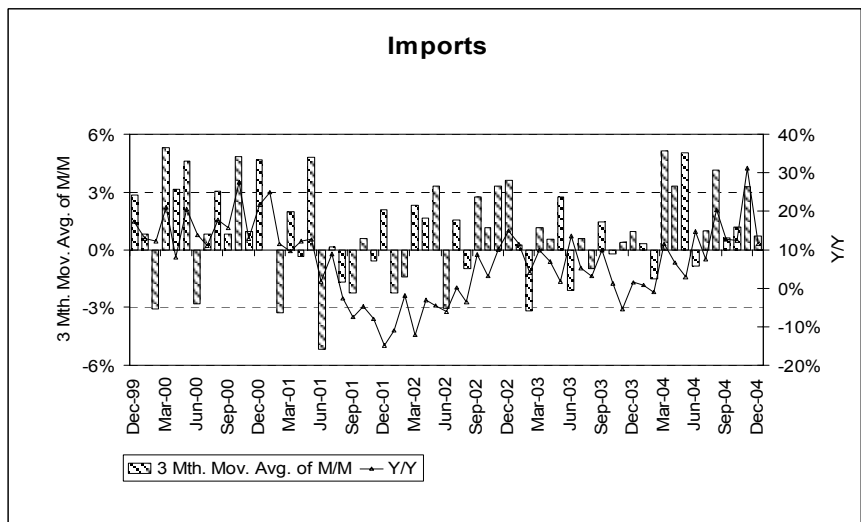
The Current Account Surplus widened from ¥1203.8 bn to ¥1616.0 bn in December, above expectations of ¥1293.6 bn.



Exports increased 4.2% M/M and 8.5% Y/Y in December.

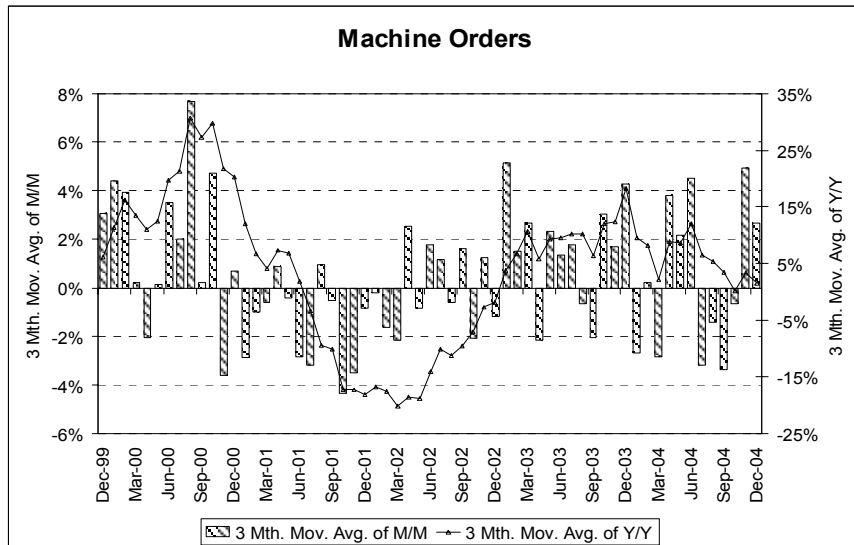


Imports decreased 8.2% M/M and increased 11.6% Y/Y in December.

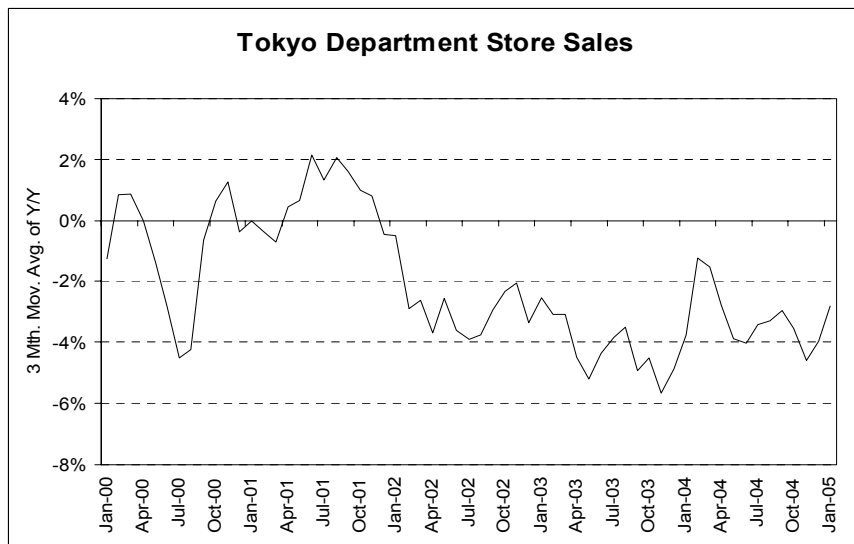


Machinery Orders, Tokyo Department Store Sales & Bankruptcies

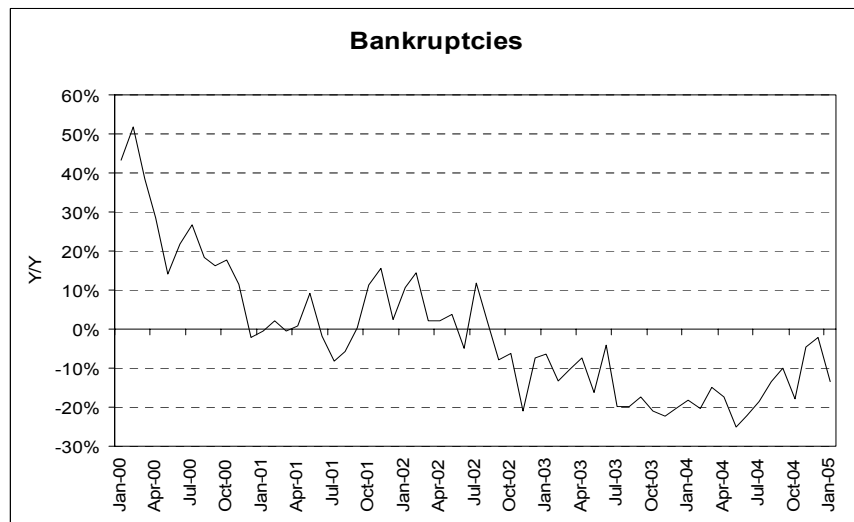
Machine Orders decreased 8.8% M/M and increased 0.9% Y/Y in December, below expectations. Meanwhile, Machine Tool Orders were revised up from 30.2% Y/Y to 30.4% Y/Y in December.



Tokyo Department Store Sales increased 0.7% Y/Y in January; it's first increase in eleven months.

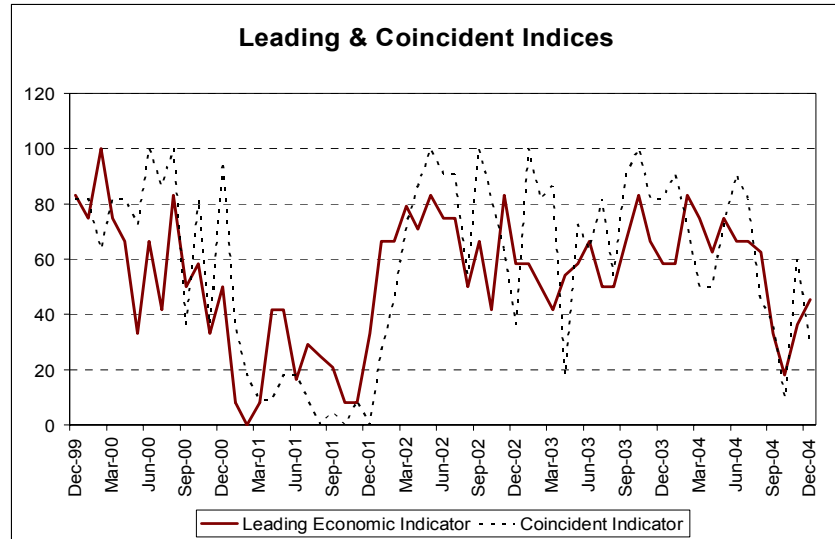


Bankruptcies decreased 13.5% Y/Y in January, reaching almost 2 1/2 years of consecutive declines.



Leading & Coincident Indices

The final figure for the Leading Economic Index was revised up from 40.0 to 45.5 in December. At the same time the Coincident Index was revised down from 33.3 to 30.



Comments from Government officials after the release of Q4 GDP

Prime Minister Junichiro Koizumi

"Our view that the economy is basically in a moderate recovery phase has not changed. The state of leveling off is continuing."

Chief Cabinet Secretary Hiroyuki Hosoda

"It is true that conditions are continuing in a plateau form. But there is also no change in that the trend is for a moderate recovery."

Economics Minister Takenaka

"There is no change to our basic view on the economy, which is that overall, it continues to recover," "Judgment of the economy should be conducted comprehensively, and cannot be made by GDP alone." "It can be said we are in a somewhat long adjustment phase."

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|---|--------------------|-----------------|
| 02/18 | BoJ Monetary Policy Monthly Report | | |
| 02/21 | Convenience Store Sales (Y/Y) (JAN) | | -0.9% |
| 02/22 | BoJ Monetary Policy Meeting Minutes | | |
| 02/22 | Tertiary Industry Index (M/M) (DEC) | 0.0% | 0.4% |
| 02/22 | All Industry Activity Index (M/M) (DEC) | -0.3% | 0.3% |
| 02/22 | Corporate Service Price (Y/Y) (JAN) | | -0.4% |

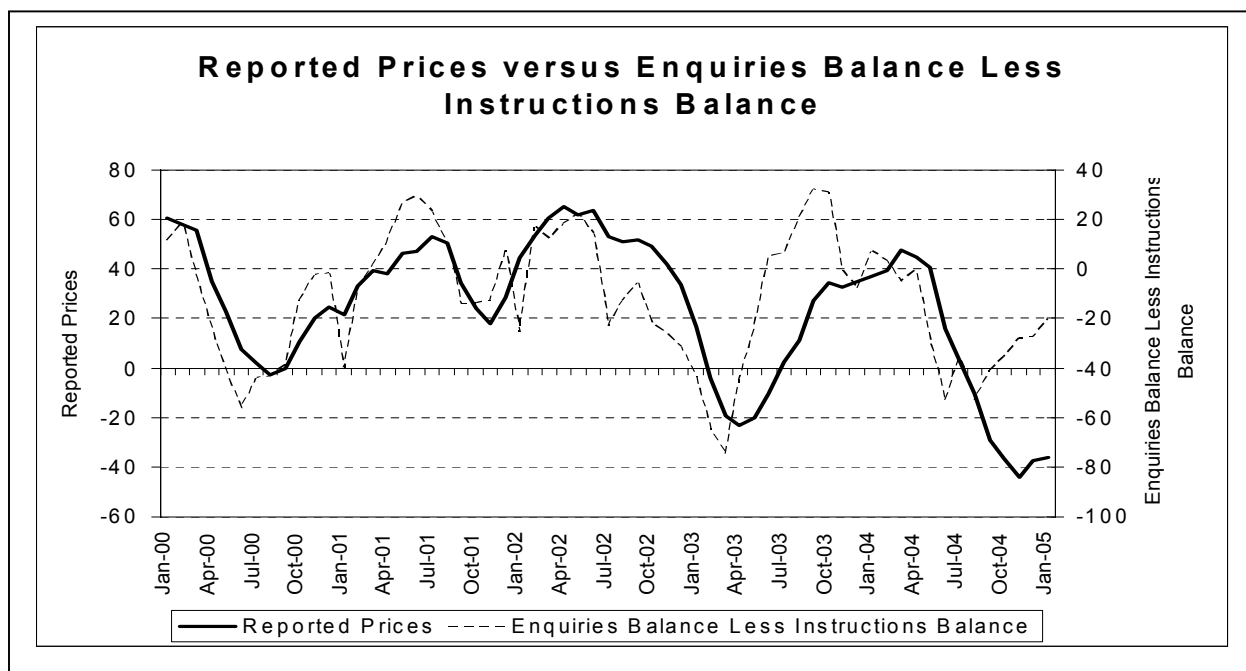
United Kingdom

The BOE released its *Inflation Report*, which was not as hawkish as feared; however, the BOE did raise its projection slightly for inflation over the next two years. It also cautioned that sluggish consumer spending remains the main risk to economic growth. Meanwhile, RICS reported house prices increased slightly from -38 to -36 in January. The RICS says the housing market may be stabilizing, but fears of higher borrowing costs remain.

Weekly Highlights

- **RICS Reported House Prices**- increased slightly from -38 to -36 in January, the sixth consecutive month below zero. (page 24)
- **CPI**- decreased 0.5% M/M and 1.6% Y/Y in January as transportation costs fell sharply. (page 25)
- **Average Earnings**- increased 0.3% M/M and 4.3% Y/Y in December. (page 26)
- **Unemployment**- decreased from 2.7% to 2.6% in January. (page 27)
- **The BOE**- released its February *Inflation Report*. (page 30)

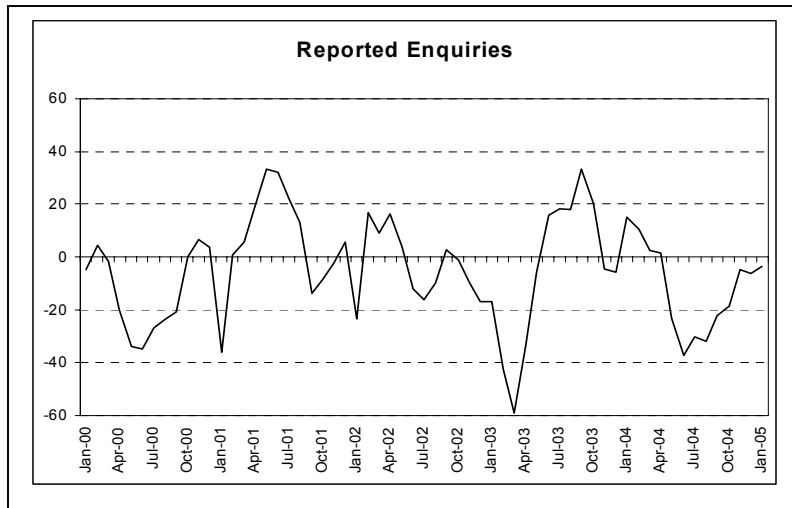
Chart of the Week



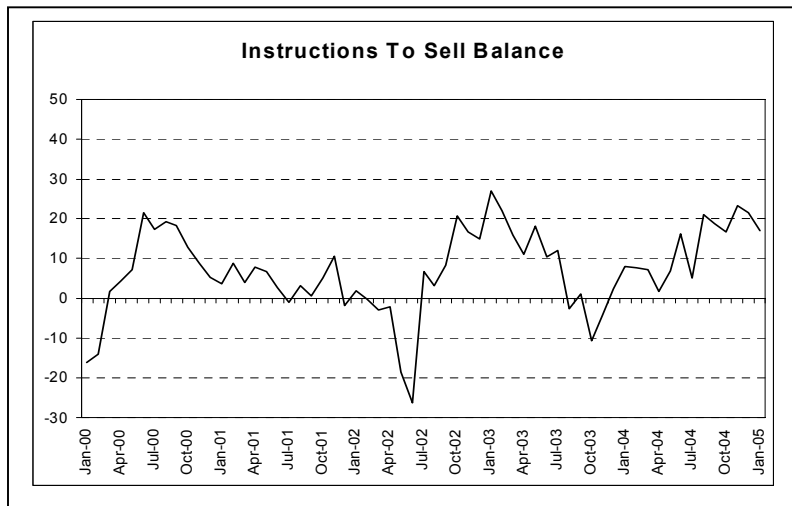
RICS Reported House Prices increased slightly from -38 to -36 in January, the sixth consecutive month below zero. Expected prices decreased from -25 to -26 and the sales-to-stock ratio remained at 31.0%. RICS says the housing market may be stabilizing as many of the sub-components showed a slight rebound; however, there are fears of higher borrowing costs.

Reported Enquiries, Instructions to Sell & CPI

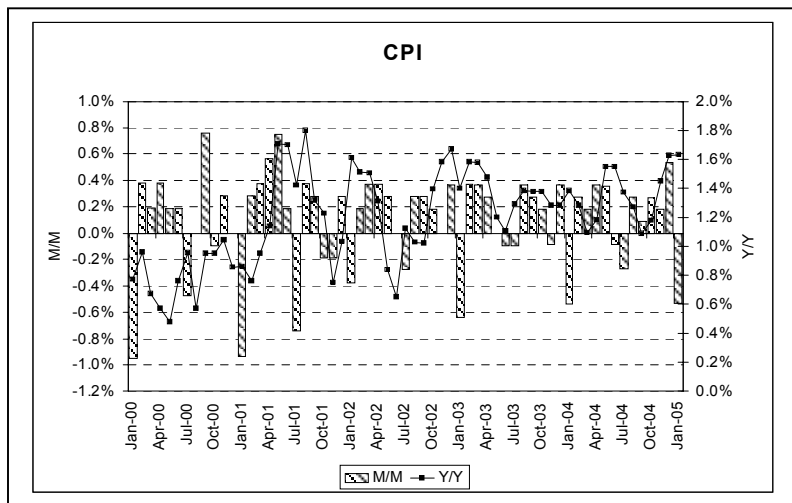
Reported Enquiries increased slightly from -6 to -3 in January as the data has held steady for the last three months.



Instructions to Sell Balance decreased slightly from 22 to 17 in January.

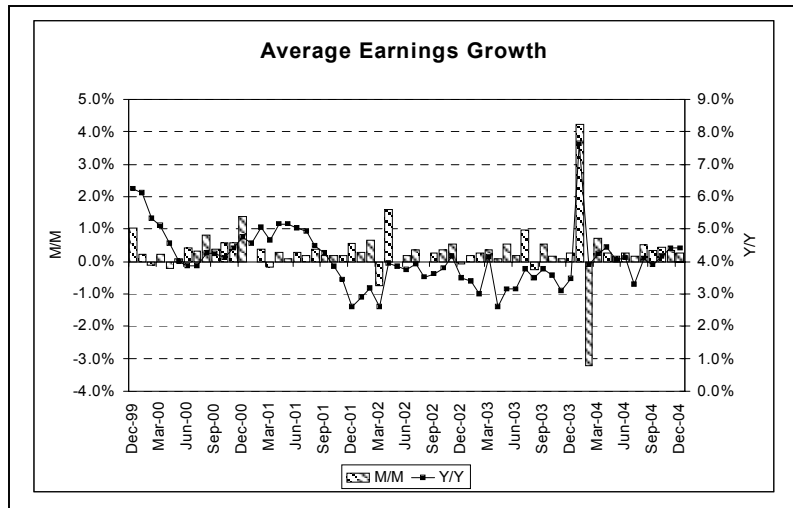


CPI decreased 0.5% M/M and 1.6% Y/Y in January. The largest downward effects resulted from transportation which decreased 18.0% M/M due to decreasing petroleum prices, followed by a 5.0% M/M decrease in furniture and household goods. Inflation continues to remain below the BOE's 2.0% target.

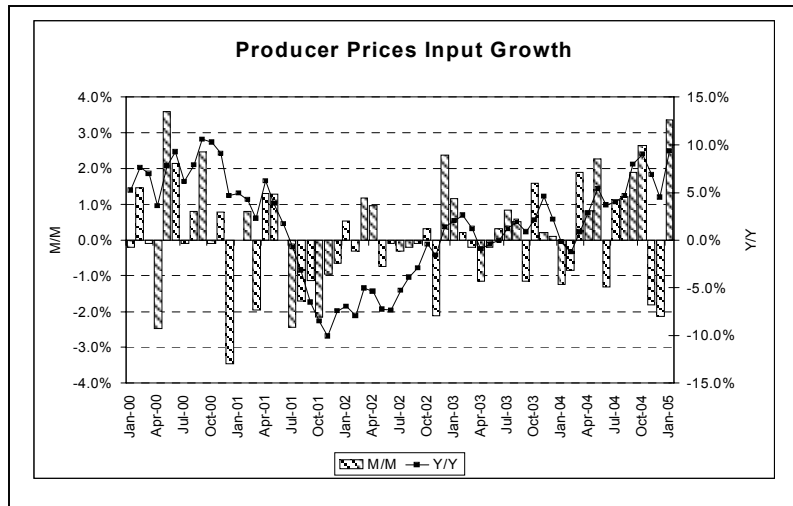


Average Earnings & Producer Prices

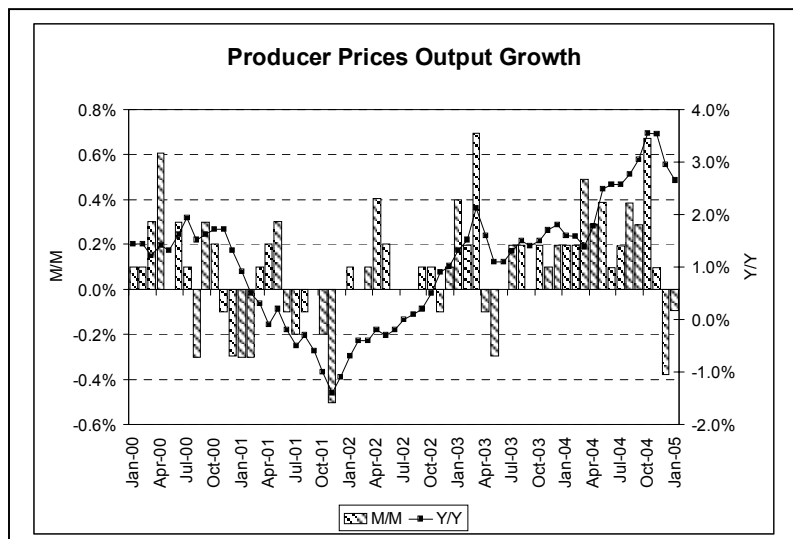
Average Earnings increased 0.3% M/M and 4.4% Y/Y in December. Average earnings have been steadily rising, adding concerns to inflationary pressures. Earnings increased due to overtime in the real estate, renting and business services.



Input Producer Prices surged 3.4% M/M and 9.5% Y/Y in January, significantly higher than the 1.5% M/M expectation. Raw material prices increased 3.4% M/M and crude petroleum product prices increased 14.8% M/M.

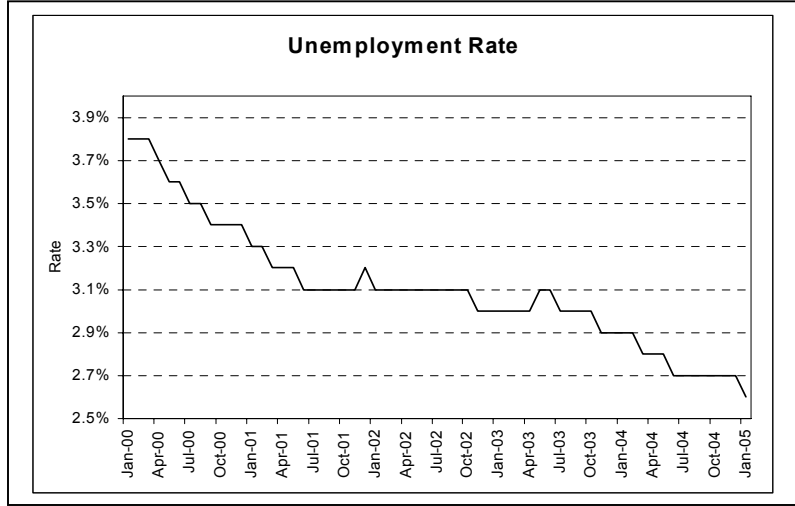


Output Producer Prices decreased 0.1% M/M and increased 2.6% Y/Y in January.

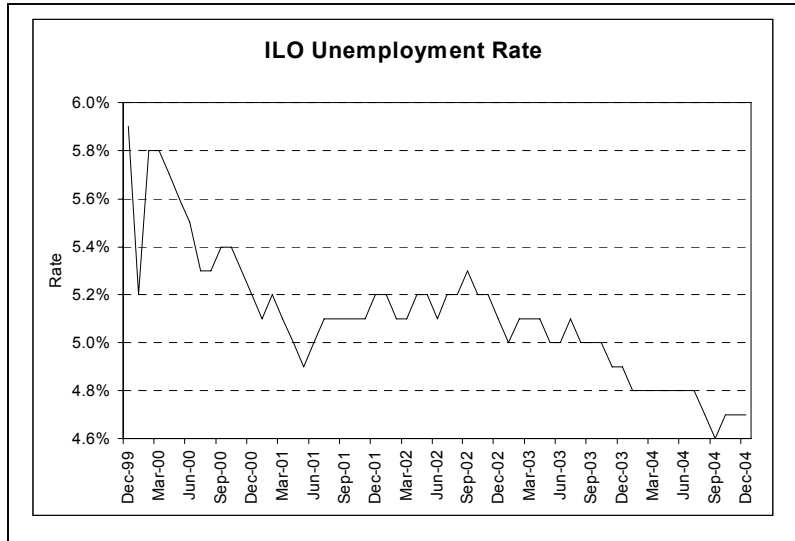


Unemployment Data & ODPM House Price Survey

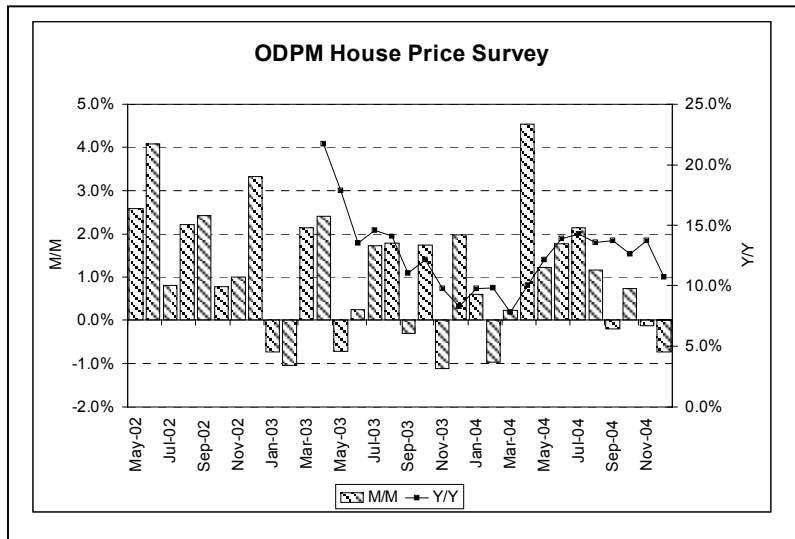
Unemployment decreased from 2.7% to 2.6% in January.



ILO Unemployment remained at 4.7% in the three months through December. This is second lowest rate in G-7 Nations.

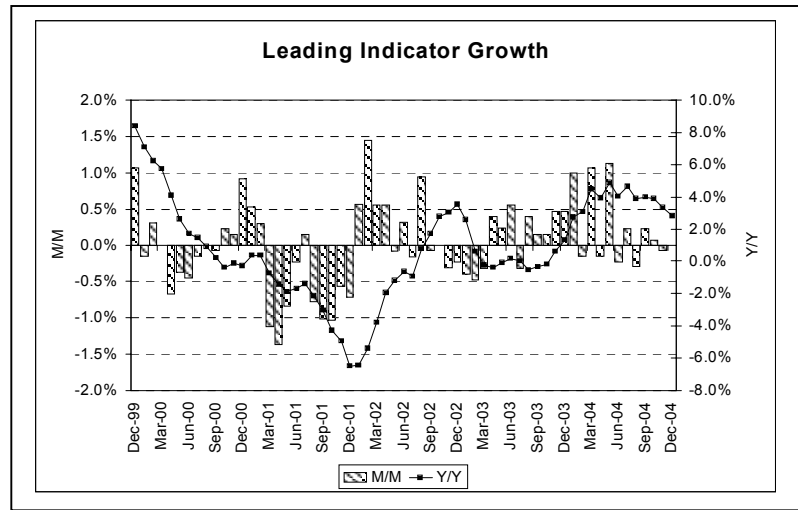


ODPM House Prices decreased 0.7% M/M and increased 10.7% Y/Y in December.

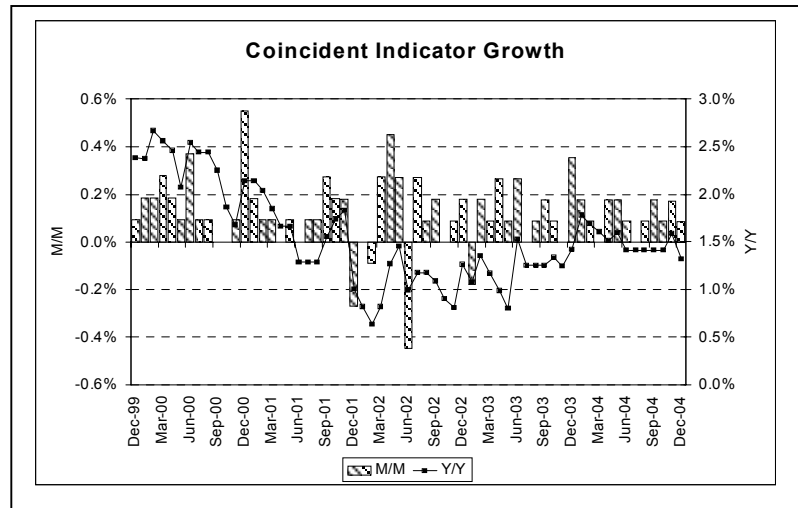


Leading & Coincident Indicators

The Leading Indicator remained flat M/M and 2.8% Y/Y in December.



The Coincident Indicator increased 0.1% M/M and 1.3% Y/Y in December.



Data

The British Retail Consortium (BRC) reported that shop prices decreased 1.5% Y/Y in January, the fourth consecutive month of decline. Retailers were forced to attract consumers with extra discounts during the disappointing holiday season.

Inflation Report Data & Comments

BOE Inflation Report:

The BOE released its February *Inflation Report* which was not as hawkish as feared; however, it raised its projection slightly for inflation over the next two years, and cautioned that sluggish consumer spending remains the main risk to economic growth. Members raised their estimates for economic expansion, while at the same time said “the balance of risks was somewhat to the downside.” The largest risks include prospects for near-term consumption and the outlook for the export market which was a little weaker than the November report. The report also mentioned that inflation will exceed the 2% target in two years while economic growth won't fall below 2.7% any quarter this year. The bank added that “considerable uncertainties” surround today's forecasts, but relative to significantly stronger forecasts.

Bank of England Governor Mervyn King comments:

His comments were made after the BOE's Inflation Report and were more dovish than expected.

On output growth:

“Output growth recovered towards the end of last year after a soft patch in the third quarter. Inflation has picked up since November. The Monetary Policy Committee's new central projection is for continuing growth with low inflation. The provisional estimate of output growth in the fourth quarter of last year is 0.7 percent, higher than the upwardly revised estimate of 0.5 percent in the third quarter and close to the rate of expansion for much of the previous year. Business surveys suggest that there is more momentum in output growth than the committee had expected in November, especially in services. Manufacturing output is estimated to have risen at the end of 2004 and the figures for earlier months were revised up, reducing the discrepancy between the official estimates of output and the picture painted by business surveys and reports from the bank's agents.”

On inflation:

“Over the next two years inflation is expected to rise gradually, to slightly above the target of 2 percent. But the balance of risks to that central projection is judged to be a little to the downside. Since the future is highly unlikely to turn out exactly as in the central projection and the risks. As in November, the impact of demand pressures on inflation over the next two years is difficult to judge. Unemployment is stable at its lowest level for thirty years and all indications point to a tight labor market with potential upward pressure on earnings. But the growth of both employment and regular pay in the private sector has been subdued of late. Whether labor costs remain subdued is another key risk to the forecast. The central projection is for demand pressure and higher import prices to push up inflation to slightly above the 2% target two years ahead rising modestly thereafter. That projection is a little higher than in November. As ever, the risks are at least as important as the central projection itself. The main downside risk to inflation stems from uncertainty about near-term momentum to consumer spending. The principal upside risk to inflation is uncertainty about earnings growth in such a tight labor market. Import prices imply risks in both directions.”

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|------------------------------|--------------------|--------------------|
| 2/17 | Retail Sales | | -1.0% M/M 3.2% Y/Y |
| 2/18 | Public Sector Net Borrowing | -£4.6B | £5.2 |
| 2/23 | MPC Minutes | | |
| 2/23 | CBI Industrial Trends Survey | | |

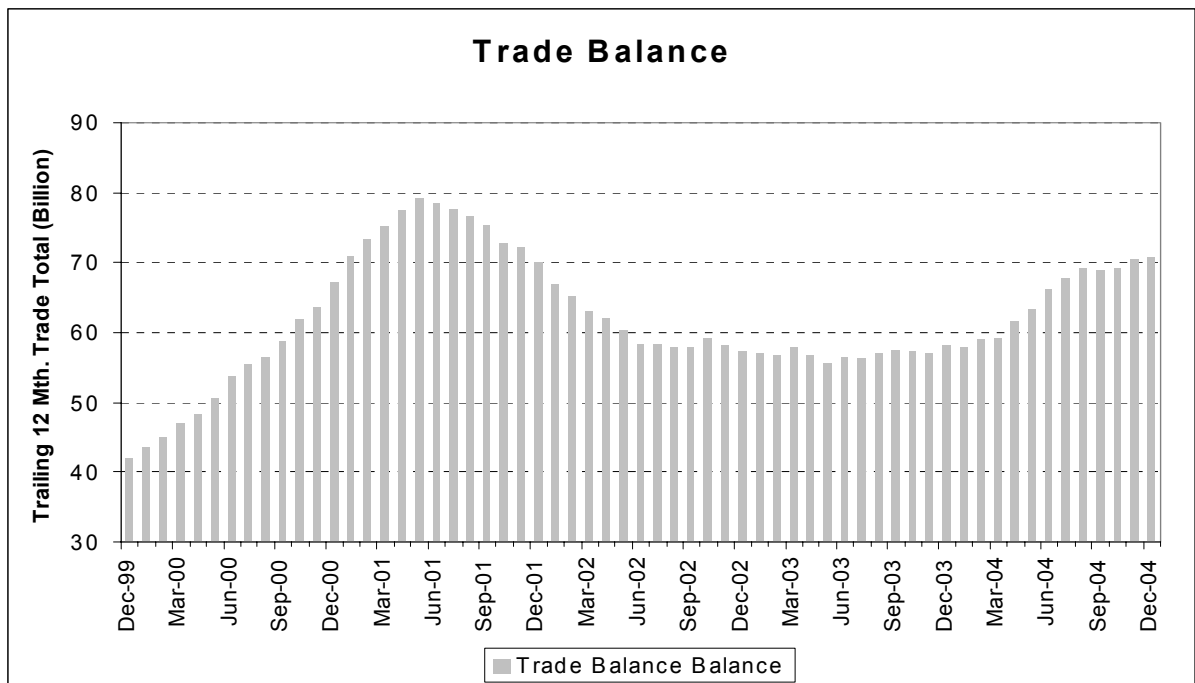
Canada

Recent data from Canada has been mixed. The trade surplus and shipments declined in December, but both new orders and new house prices increased. Current trends suggest a recovery in shipments starting around February, suggesting the BoC may be in a position to increase rates around mid-year.

Weekly Highlights

- **Int'l Merchandise Trade** – surplus decreased from \$5.5b to \$5.2b in December. (page 32)
- **Manufacturing Shipments** – declined 0.2% M/M and increased 9.6% Y/Y in December. (page 33)
- **New House Price Index** – increased 0.2% M/M and 5.3% Y/Y in December. (page 33)

Chart of the Week

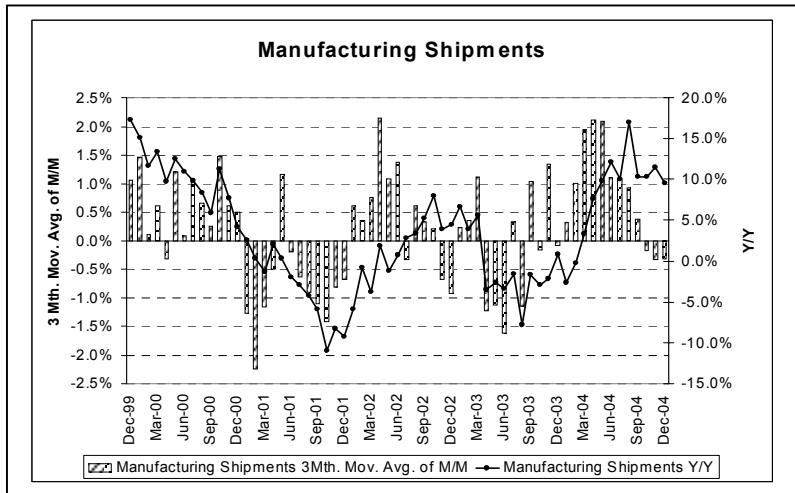


The trade surplus declined from \$5.488 billion to \$5.209 billion in December. The decline resulted as imports advanced 4% M/M and exports increased 2.6% M/M. The increase in imports indicates that domestic demand is still solid, with Canada increasing the import of cars and machinery for the first time in four months. The increase in exports suggests that U.S. demand has partially offset the higher C\$. A declining C\$ and the Jan. hiring of 14,000 employees in the manufacturing sector both suggest trade numbers may improve going forward; supporting views that the BoC may resume tightening in May.

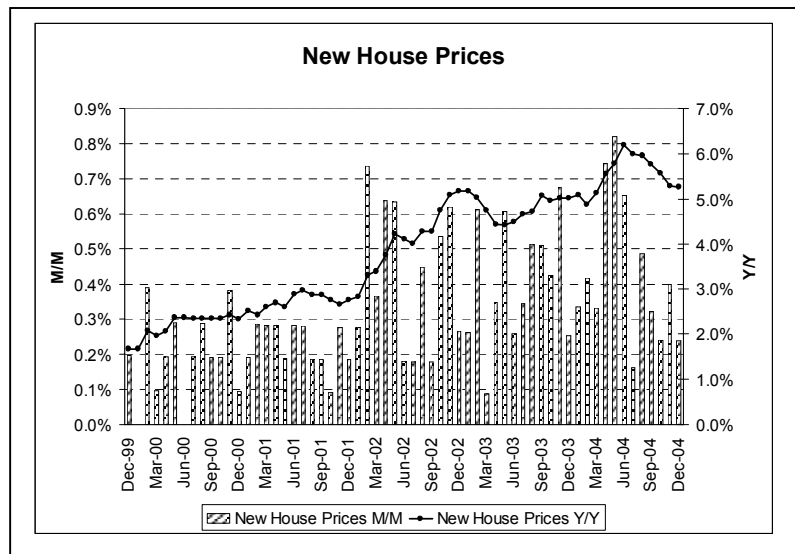
Manufacturing Shipments, New House Prices & Motor Vehicle Sales

Factory shipments unexpectedly declined 0.2% M/M in December.

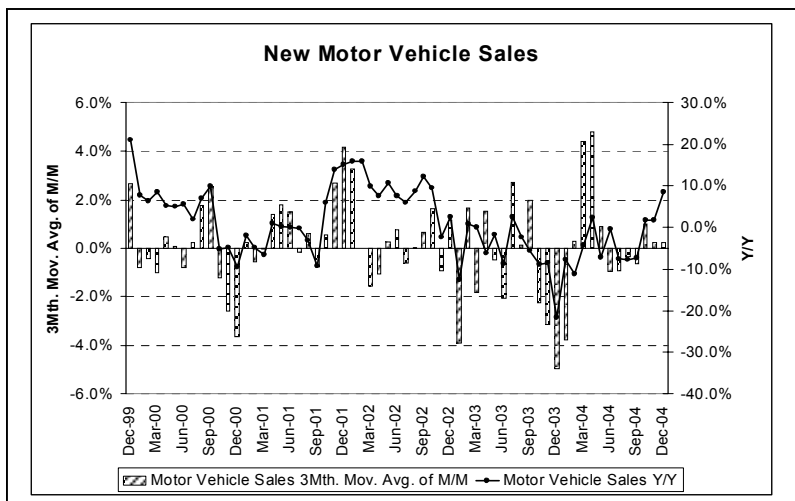
The decline was the third in four months, and was widely attributed to volatility in the CS. New orders increased 0.4% M/M, the first increase since July, while inventories increased 0.4% M/M and unfilled orders declined 0.4% M/M.



New house prices increased 0.2% M/M and 5.3% Y/Y in December due to higher costs for materials and land.



New motor vehicle sales declined 3.1% M/M and increased 8.5% Y/Y.



Kennedy Comments

Kennedy – Canadians Will Have to Adjust to Higher Rates

The BoC Deputy Governor, Sheryl Kennedy, said that Canadian consumers would have to be able to adjust to rate increases on mortgages and other loans. She noted that almost 80% of Canadian household debt is backed by real estate. She also commented that the Canadian economy will probably grow at about 3% this year and next. “With monetary policy remaining committed to low inflation, current prospects for employment growth, and economic condition in general, remain favorable,” Kennedy stated.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|---------------------------|--------------------|-----------------|
| 02/18 | Wholesale Sales (Dec.) | 0.4% | 0.5% |
| 02/21 | Retail Sales (Dec.) | 0.1% | -0.1% |
| 02/22 | CPI (Jan.) | 0.1% | -0.2% |
| | Leading Indicators (Jan.) | 0.2% | 0.2% |

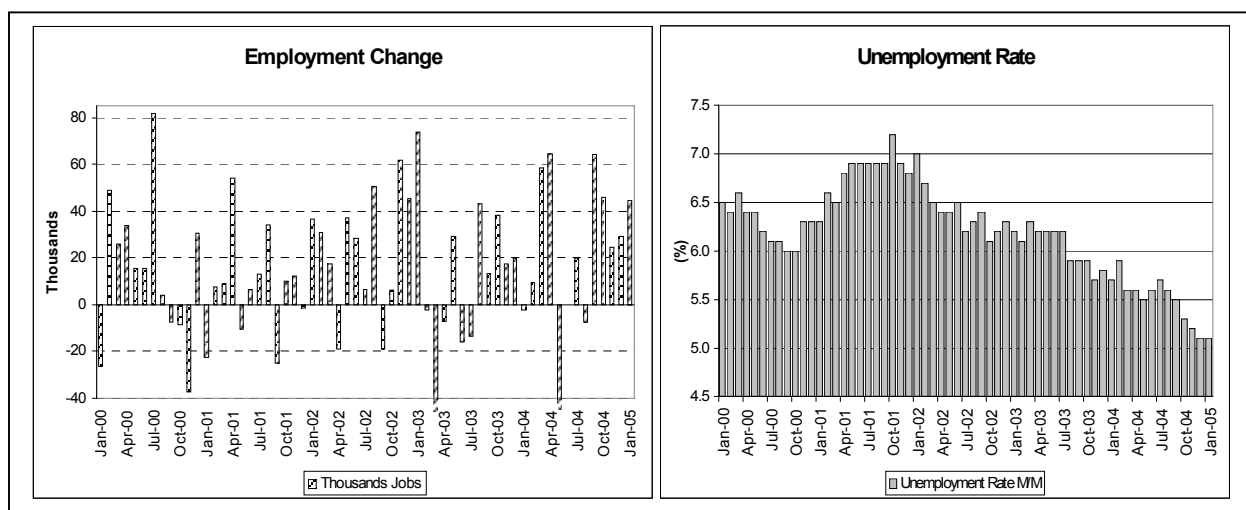
Australia

This week's data from Australia was very strong with Employment and Home Loans both exceeding market expectations. Economists are now looking for the RBA to increase its overnight rate at its March meeting. This is entirely plausible as the RBA itself has commented that a rate increase in the near future is most likely.

Weekly Highlights

- **Employment Change** – 44.5k new jobs added; unemployment rate unchanged at 5.1% in January. (page 36)
- **Home Loans** – increased 1.2% M/M and decreased 6.5% Y/Y in December. (page 37)
- **WP-MI Leading Economic Index** – declined from 5.8% in November to 4.8% in December. (page 37)

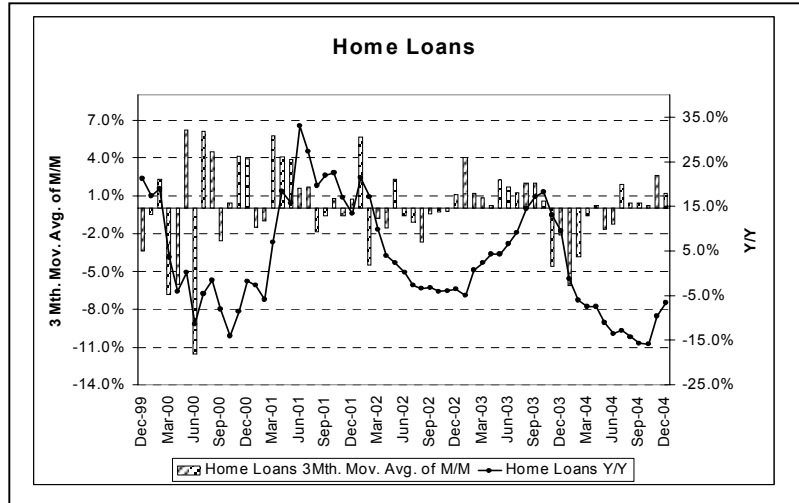
Chart of the Week



Employment increased for the fifth consecutive month in January, with 44,500 new jobs added, while the unemployment rate remained unchanged at 5.1%. This increase exceeds economists' highest expectations and leads most to believe that the RBA will begin increasing its overnight rate as soon as March. The coming wage price data, if strong, will likely support this.

Home Loans

Home loans increased 1.2% M/M and decreased 6.5% Y/Y, the sixth consecutive increase, further supporting views that the RBA may increase its overnight rate in March.



Costello Comments, Howard Comments & WP-MI leading Economic Index

Howard – Wage Increases May Fuel Inflation

“We are getting into a period now where there is a danger that wage claims and increases will run ahead of productivity...it will damage the economy” Prime Minister, John Howard, stated, while commenting that wage increases may fuel inflation. He also commented that the 2005-2006 budget needs to be tightened, so as not to put pressure on inflation. “It needs to be a budget that doesn’t add to any inflationary pressures,” he stated. However, he declined to answer a question on whether any tax cuts would be added.

Costello Comments on Economy, Wages

In a statement to parliament regarding the economy and wages, Costello was asked a question about the economy and employment:

“I’ve been dwelling on the fact that housing finance had turned down and that’s something the government welcomed during the course of the year...however, personal finance is down 5.3% over the year...households are consolidating their balance sheets and saving more than in the past and if so, that’s a very welcome thing.” he stated.

He also stated that “2005 is expected to be buoyant and importantly expectations for wages growth over the next year have moderated. We have historically low, for the last 30 years, unemployment...If that should work its way into wage claims which are not based on productivity—that would be a key risk for the Australian economy.”

WP-MI Leading Economic Index Still Above Trend Despite Decline

The WP-MI Leading Economic Index declined from 5.8% in November to 4.8% in December, suggesting solid growth in the calendar year. The change was above the long term trend of 4%. Economists expect the RBA to increase its overnight rate later this year, however, suggesting that the growth will begin to slow late in 2005.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|--|--------------------|-----------------|
| 02/16 | RBA Monthly Bulletin | N/A | N/A |
| 02/17 | RBA Macfarlane Testimony to Parliament Committee | N/A | N/A |
| 02/20 | New Motor Vehicle Sales (Jan) | N/A | N/A |
| 02/22 | Wage Price Index (Q4) | N/A | 0.9% |
| | Construction Work Done (Q4) | N/A | -1.7% |

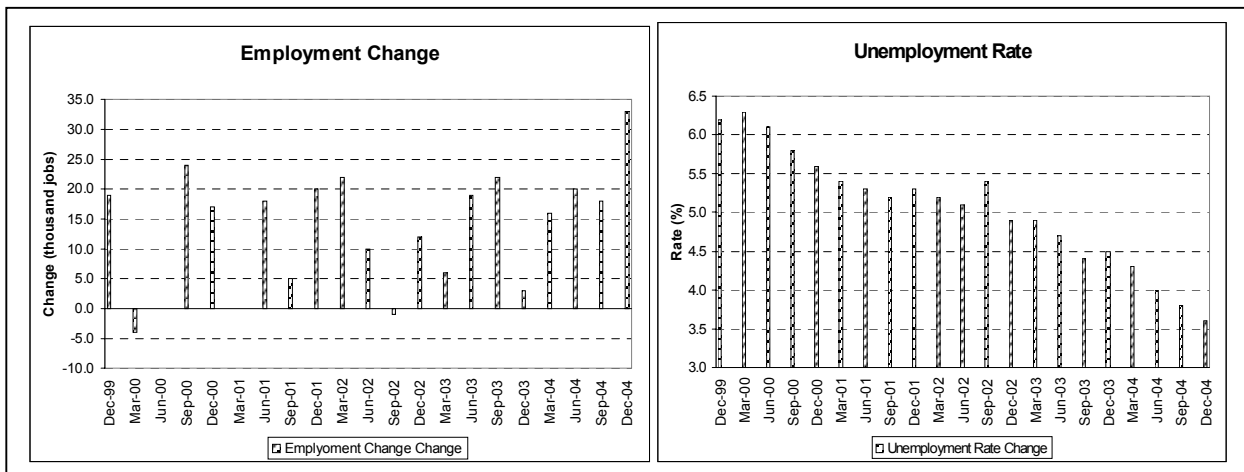
New Zealand

Recent data from New Zealand was mixed: employment was strong, but retail sales and home prices were both weaker than expected.

Weekly Highlights

- **Employment** – 33,000 jobs added, reducing the unemployment rate from 3.8% to 3.6% in Q4. (page 40)
- **Retail Sales** – declined 0.4% M/M and increased 7.3% Y/Y in December. (page 41)
- **House Prices** – unchanged M/M and increased 13.5% Y/Y in December. (page 41)

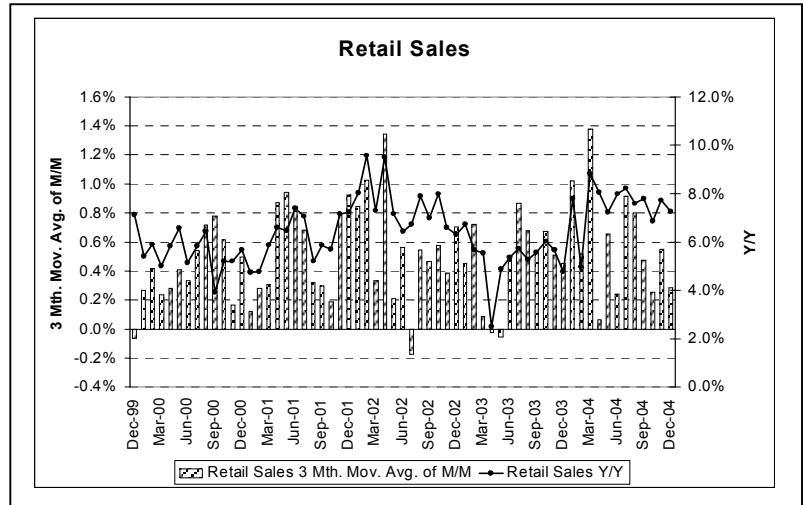
Chart of the Week



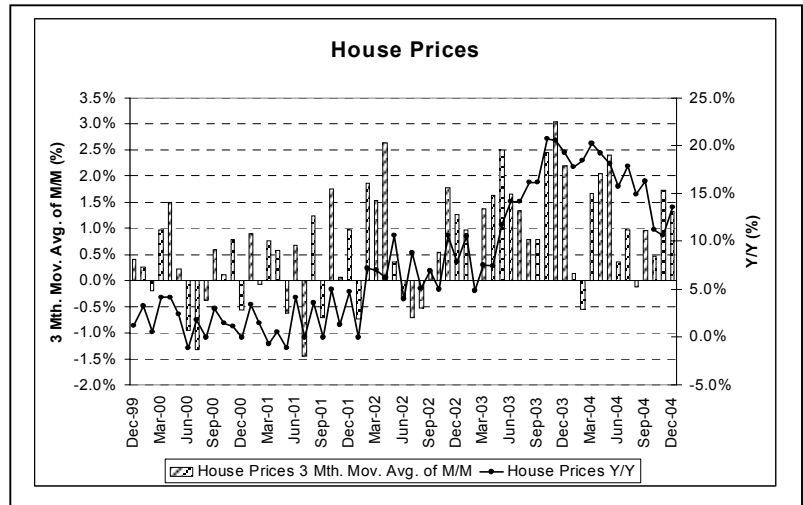
New Zealand added 33,000 jobs in December, decreasing the unemployment rate from 3.8% to 3.6%. The increase was more than the highest of expectations from economists. It supports views that the RBNZ may decide to increase rates in the upcoming months. It also confirms that the RBNZ will remain in tightening mode for some time, even if it does not increase its overnight rate.

Retail Sales & House Prices

Retail sales declined 0.4% M/M and increased 7.3% Y/Y in December. The decline came as wet weather slowed spending on summer apparel and sports goods.



House prices in New Zealand increased 13.5% Y/Y and were unchanged M/M in December. House sales fell 12% M/M and 3.7% Y/Y in December. It took 29 days to sell a house, one day less than in November and six days more than December of 2003.



Cullen Comments

Cullen – Economy Expanding More than Anticipated

According to Finance Minister, Michael Cullen, the NZ economy is expanding faster than anticipated, buoyed by domestic spending. “Strength in the economy has remained greater for longer,” Cullen stated. “The economy is operating close to capacity, fed by domestic demand” he commented, continuing “For the government to feed demand further would translate into further pressure on monetary policy.” Cullen also mentioned that economic growth would be 3.3% in Q1 2005 from the year before, slowing to 2.2% the following year. The local dollar he said was “uncomfortably high for some parts of the export sector that are not compensated by rising commodity prices.”

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|--------------------------------|--------------------|-----------------|
| 02/22 | Producer Prices (Outputs) (Q4) | N/A | 0.8% |
| | Producer Prices (Inputs) (Q4) | N/A | 1.5% |

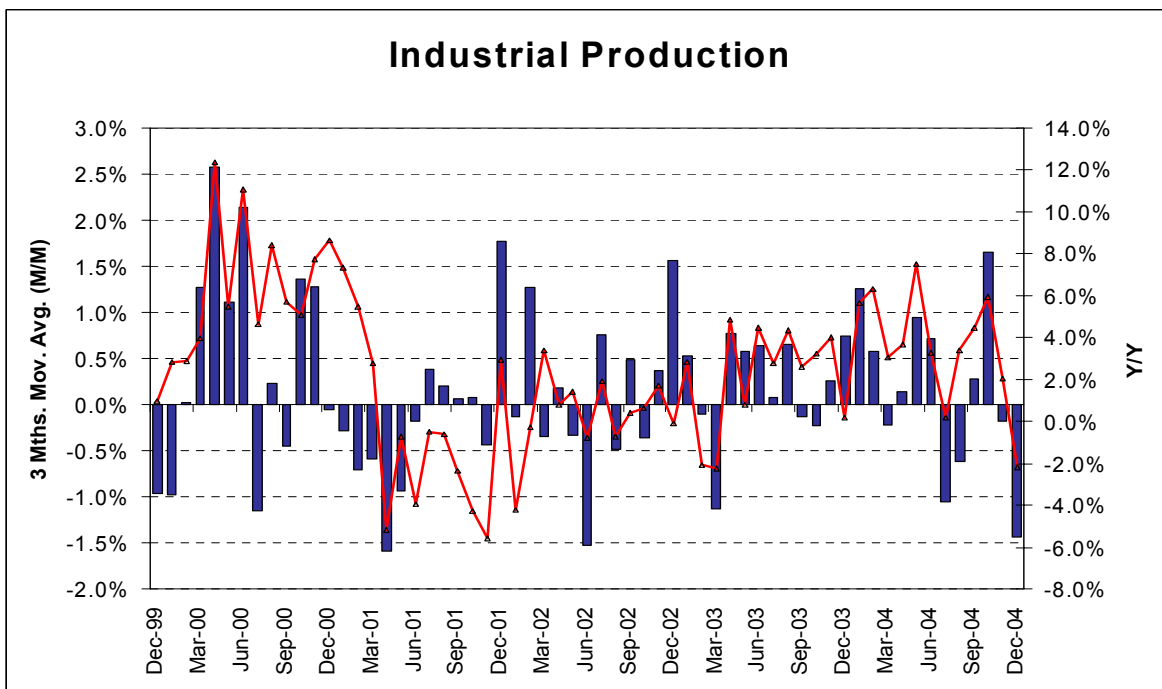
Sweden

Sweden's economic data over the past week was mixed. Industrial Production and Orders produced downward surprises while the Activity Index Level strengthened.

Weekly Highlights

- **Industrial Production** - fell 3.2% M/M and 3.7% Y/Y in December. (page 44)
- **Industrial Orders** – fell 0.8% M/M and rose 13.7% Y/Y in December. (page 45)
- **Activity Index Level** – increased to 109.6 in December. (page 45)

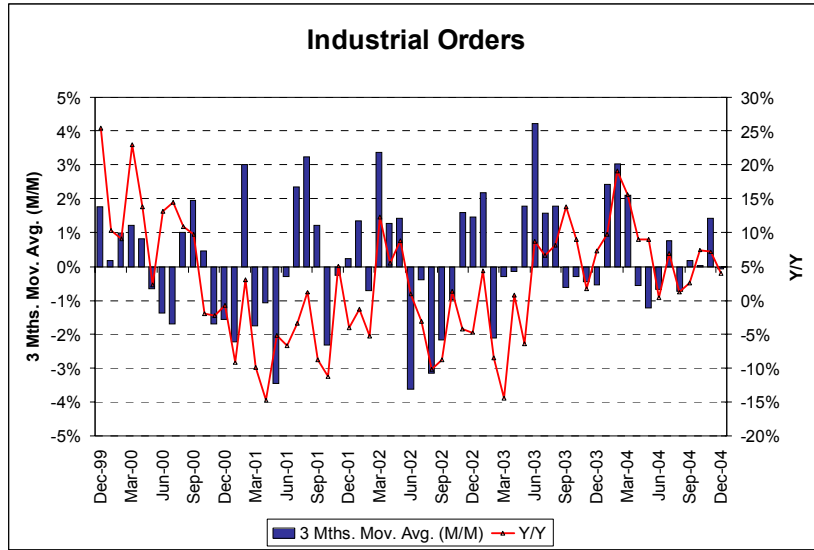
Chart of the Week



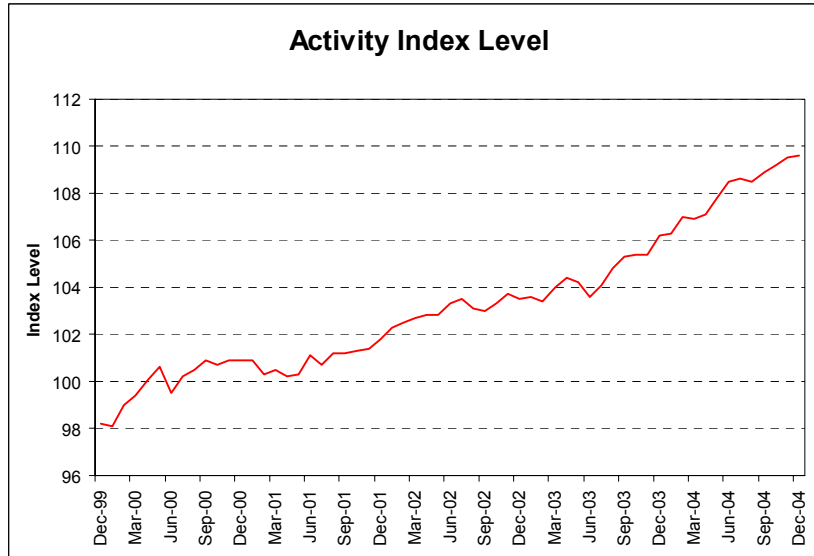
Industrial Production fell 3.2% M/M and 3.7% Y/Y in December, way below expectations. The decrease was attributed to a decline in export orders partially due to the krona's 5.5% appreciation against the dollar in the last six months. Rising unemployment is also hindering domestic demand.

Industrial Orders & Activity Index Level

Industrial Orders fell 0.8% M/M and rose 13.7% Y/Y in December. The decrease was reflective of intermediate goods falling 3.6% M/M.



The Activity Index Level increased from a revised 109.5 (down from 109.7) in November to 109.6 in December. The growth was attributed to an increase in retail trade and an increased net trade surplus.



Feb. 15th - Sweden's Oestros Wants Central Bank to Keep Rate at 2 Percent (Bloomberg)

“Sweden's Industry Minister Thomas Oestros called on the country's central bank to keep the benchmark interest rate at a record low of 2 percent as inflation remained below the Riksbank's 2 percent target.” Oestros further stated “there are no inflationary pressures in the Swedish economy”. “Productivity gains, mounting competition and the krona's appreciation are holding inflation in check in the largest Nordic economy.” According to a Bloomberg survey, “the annual underlying inflation rate held at 0.8 percent in January”. “Prices probably dropped 0.3 percent in the month.”

Feb. 10th - Sweden's Riksbank Unanimous About 2% Rate on Jan. 27 (Bloomberg)

“Swedish central bank policy makers voted unanimously on Jan. 27 to keep the country's benchmark interest rate at a record low, as inflation is expected to stay in line with the bank's 2 percent target. In the statement announcing last month's decision, the Riksbank dropped the phrase that “interest rates will need to be raised” for the first time since February. That reinforced investors' expectations the bank will stand pat for at least the first half of the year.”

At the same time, “the krona's appreciation has helped keep inflation in the largest Nordic economy below the bank's target for 15 months even as the economy outpaces average European Union growth.”

The National Labor Market Board reported that “demand for exports isn't translating into new jobs so far, as some companies move production out of Sweden to cut costs and others defer hiring amid productivity gains. The country's unemployment rate rose to 5.7 percent in January from 5.6 percent in December”. Deputy Governor Irma Rosenberg also stated that “demand was expected to remain strong and to contribute to an increase in resource utilization over the coming years”.

The bank's policy makers will meet again on March 14th.

Feb. 10th - Ericsson CEO Sees Job Threat by Sweden Tax Hike (Bloomberg)

“Ericsson Chief Executive Officer Carl-Henric Svanberg said potential tax increases in the company's home country of Sweden threaten jobs. Swedish Prime Minister Goeran Persson stated the “ruling Social Democrats are mulling raising taxes to expand the country's cradle-to-grave welfare system should the party win a fourth straight term in the 2006 election”. “One in five companies is considering moving production out of Sweden, jeopardizing as many as 200,000 jobs, employers' federation Svenskt Naeringsliv said on Tuesday.”

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|--|--------------------|-----------------|
| 02/17 | CPI – Headline Rate (M/M) - Jan | -- | 0.0% |
| 02/17 | CPI – Headline Rate (Y/Y) –Jan | -- | 0.4% |
| 02/17 | CPI – Underlying Inflation (M/M) - Jan | -- | 0.0% |
| 02/17 | CPI – Underlying Inflation (Y/Y) - Jan | -- | 0.8% |
| 02/17 | Unemployment Rate – Jan | -- | 5.3% |
| 02/21 | Current Account – 4Q | -- | 53.8B |
| 02/23 | Manufacturing Confidence – Feb | -- | -- |
| 02/23 | Consumer Confidence - Feb | -- | 12.2 |