

Weekly Economic Reports

February 23, 2005

Highlights

- **US:** Faster goods prices + slower services prices = Unchanged price trend
- **Euroland:** German IFO falters in February
- **Japan:** Faster import growth lowers trade surplus
- **UK:** Uncertain MPC
- **Canada:** BoC on hold
- **Australia:** RBA to hike within 6 weeks?
- **Sweden:** Shockingly low inflation data

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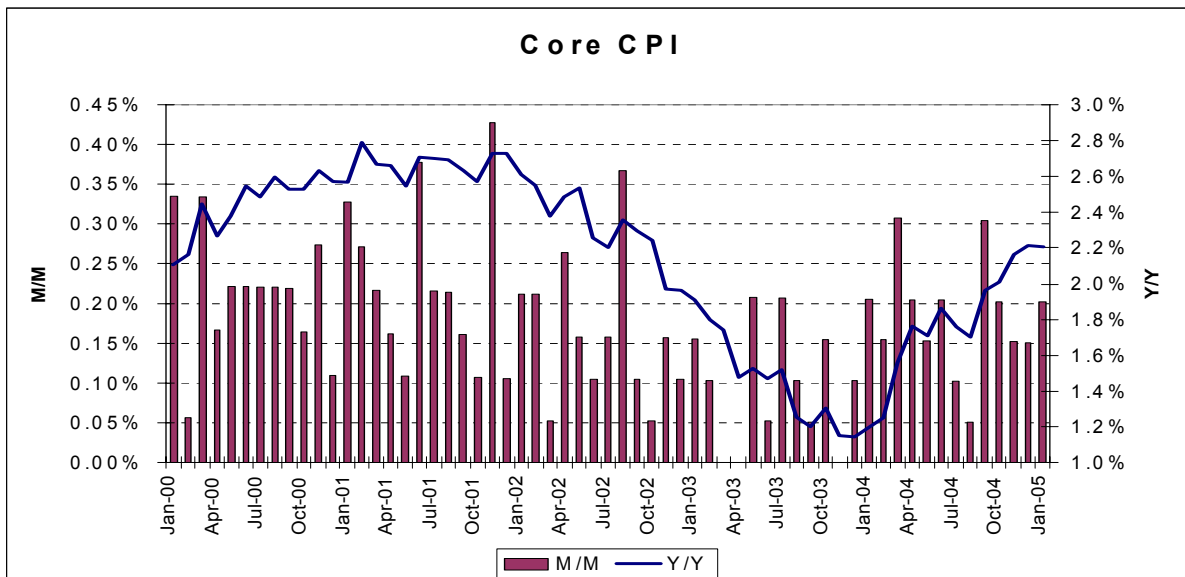
U.S.

This week's economic data showed that the large jump in core PPI in January did not reach overall core CPI in January. The data also showed declines in initial unemployment claims, purchase mortgage applications, confidence and leading indicators. Greenspan's testimony to Congress continued to focus on Social Security and did not offer much new insight in terms of the path of rates.

Weekly Highlights

- **Core CPI-** increased 0.2% M/M in January. (page 2)
- **Core PPI-** increased 0.8% M/M in January. (page 3)
- **Consumer Confidence-** three indicators showed a slight decline in February. (page 4)
- **Leading Indicators-** declined 0.3% M/M in January. (page 5)
- **Initial Unemployment Claims-** trend lower; the 4 week moving average reached 312k. (page 5)

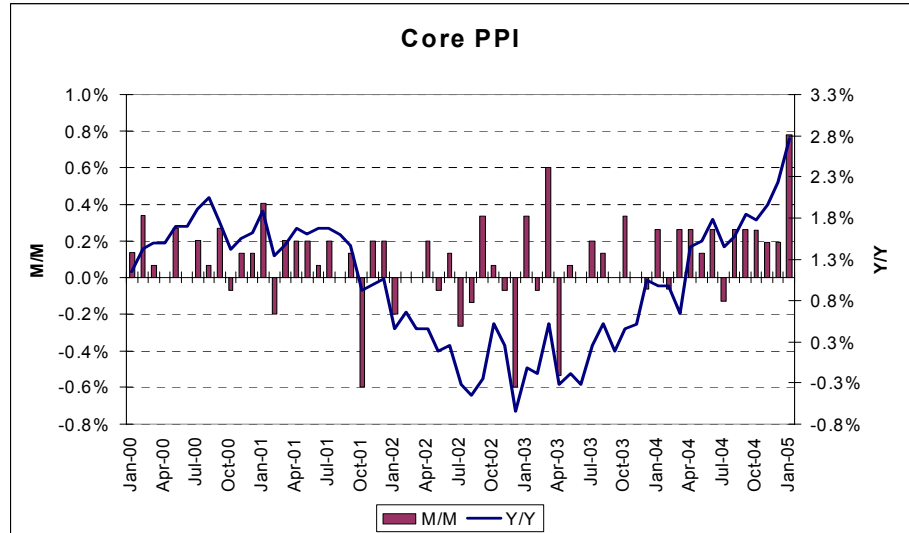
Chart of the Week



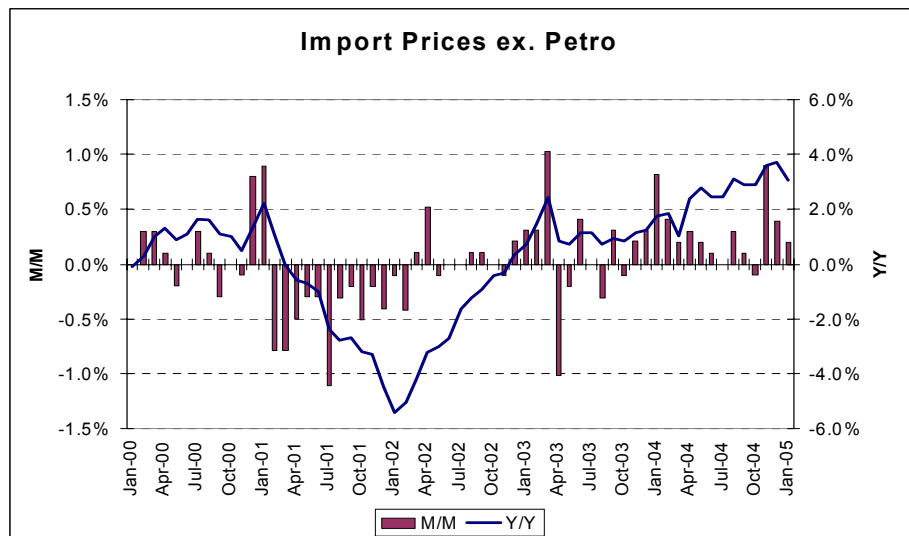
Core CPI increased 0.2% M/M and 2.2% Y/Y in January. The inflationary pressures that have been seen in PPI have not been passed along to consumers to date. As Greenspan mentioned last year, healthy corporate profit margins should allow higher input costs to be absorbed and not passed through. Despite Fed comments that inflationary risks to the upside and downside are balanced, the market is nervous about the threat of accelerating inflation.

Core PPI, Import Price & Philly Fed

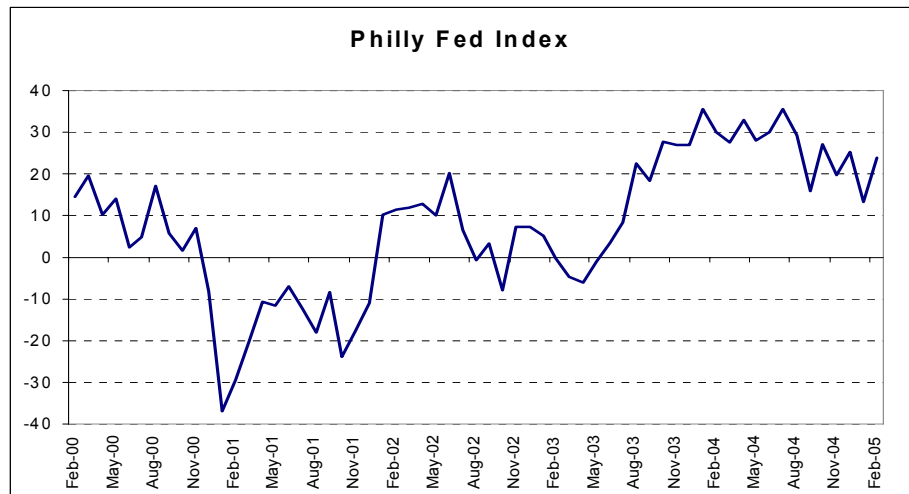
Core PPI increased 0.8% M/M and 2.7% Y/Y in January. The large jump in producer prices rattled the markets, but they do not appear to have been passed along to consumers.



Import Prices, excluding petroleum, increased 0.2% M/M and 3.0% Y/Y in January. The weakening of the dollar has not had a meaningful impact on import prices, a mechanism that would typically help narrow the trade deficit.

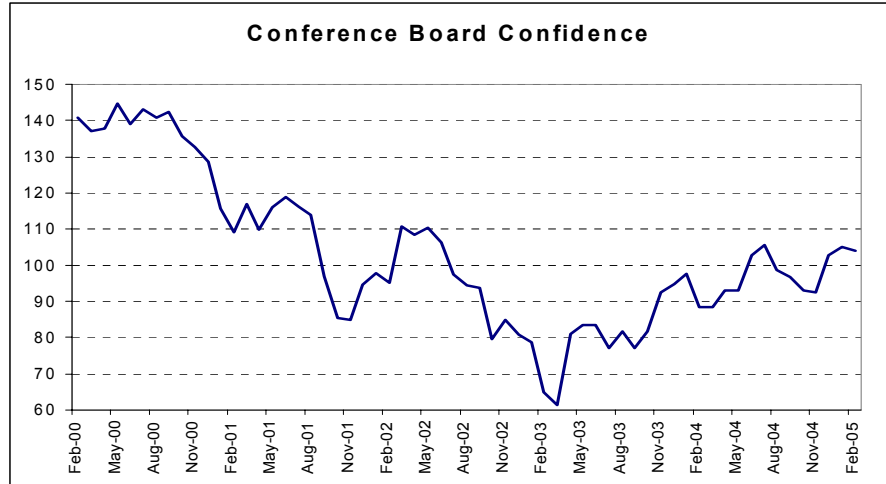


The Philly Fed Index increased from 13.2 to 23.9 in February. The employment component declined from 17.0 to 12.3. The prices received component remained relatively flat while the prices paid declined from 66.1 to 43.5.

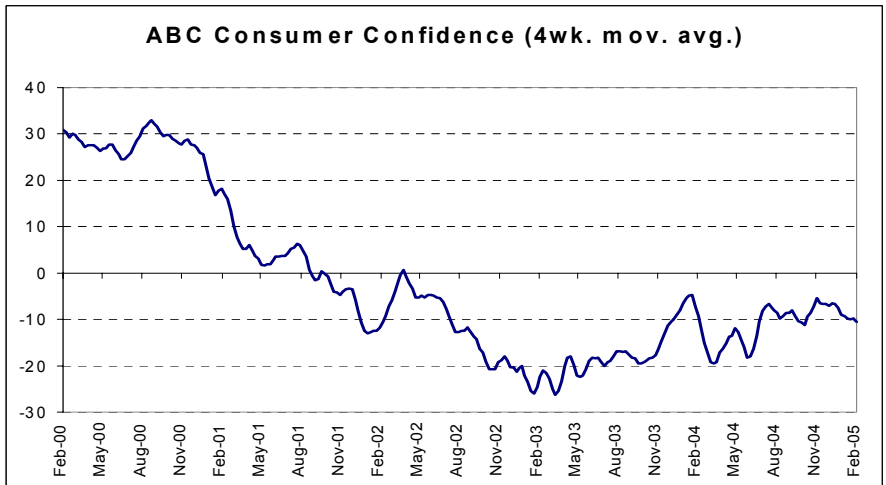


Confidence

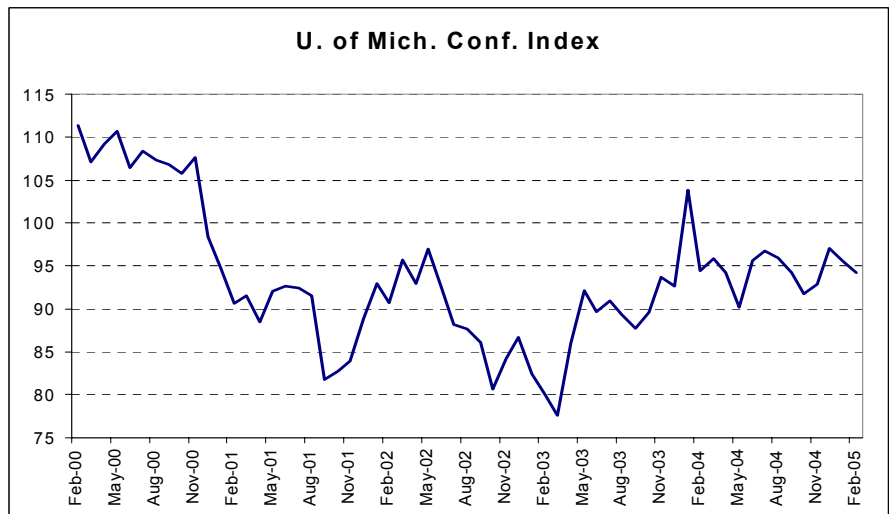
The Conference Board's Index of Consumer Confidence declined from 105.1 to 104.0 in February. Gains in sentiment about the current environment were more than offset by expectations about the future.



The ABC Consumer Confidence Index decreased from -10 to -11 for the week of February 21st. The buying climate series went from -26 to -28, the economy series improved from -22 to -20 and the finance series decreased from 16 to 14.



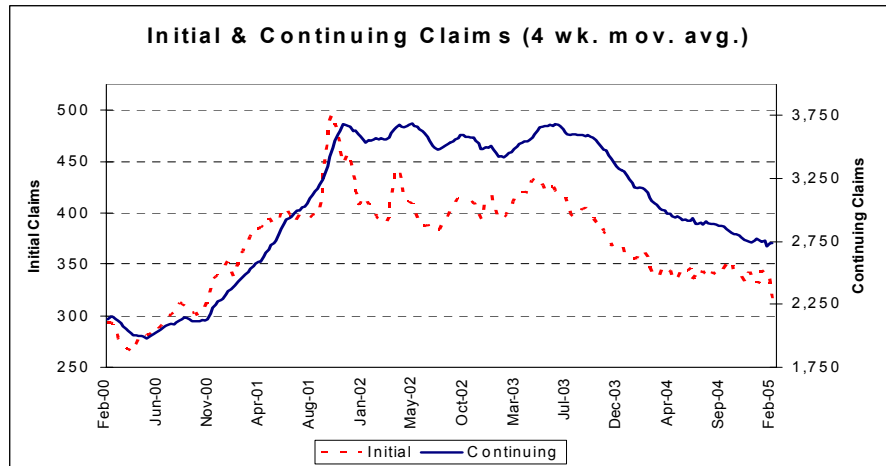
The University of Michigan Confidence Index declined a bit from 95.5 to 94.2 in February. Current expectations remained flat, but expectations declined from 85.7 to 83.4.



Initial & Continuing Claims, Leading Indicators & Mortgage Applications

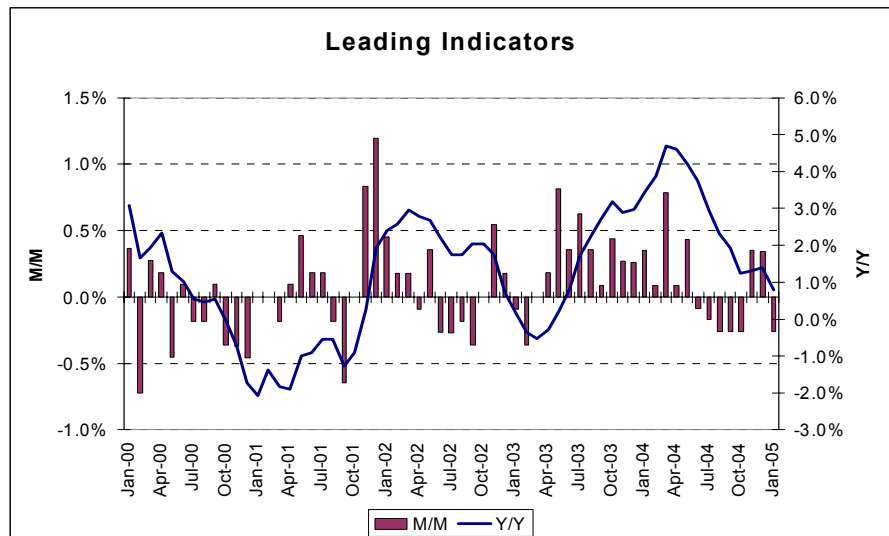
The four week moving average of initial claims declined to 312k and continuing claims increased to 2,738k.

Initial claims are starting to trend lower to levels that suggest a healthier expansion in payrolls after being relatively stable for months.



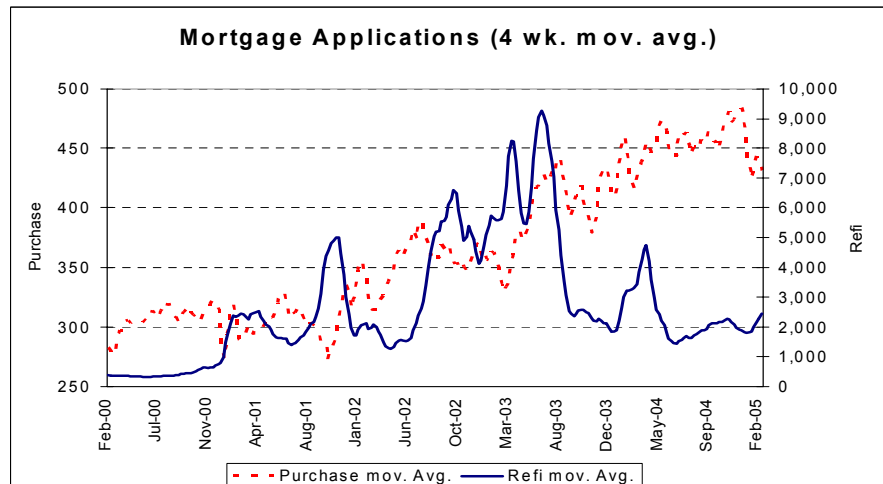
The Index of Leading Indicators declined 0.3% M/M and increased 0.8% Y/Y.

The flattening yield curve and weak equity prices led the Leading Indicators lower.



Purchase and refinancing mortgage indices declined 1.3% and increased 0.1%, respectively this week.

Applications for purchases continue to trend lower, a sign that housing could be softening.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
02/24	Durable Goods Orders Less Trans. (JAN)	0.3%	2.4%
02/24	Continuing Claims (FEB 19)	2,693K	2,717K
02/24	Help Wanted Index (JAN)	38	38
02/24	GDP Annualized	3.7%	3.1%
02/25	Personal Consumption	4.6%	4.6%
02/25	Existing Home Sales (JAN)	6.70M	6.69M
02/28	Personal Income (JAN)	-2.6%	3.7%
02/28	Personal Spending (JAN)	0.1%	0.8%
02/28	PCE Core (YoY) (JAN)	NA	1.5%
02/28	New Home Sales (JAN)	1,125K	1,098K
02/28	Chicago Purchasing Manager (FEB)	60.0	62.4
03/01	Construction Spending (MoM) (JAN)	0.6%	1.1%
03/01	ISM Manufacturing (FEB)	57.0	56.4
03/01	Total Vehicle Sales (FEB)	16.7M	16.2M
03/01	ABC Consumer Confidence (FEB 27)	NA	-11
03/02	MBA Mortgage Applications (FEB 25)	NA	-0.6%

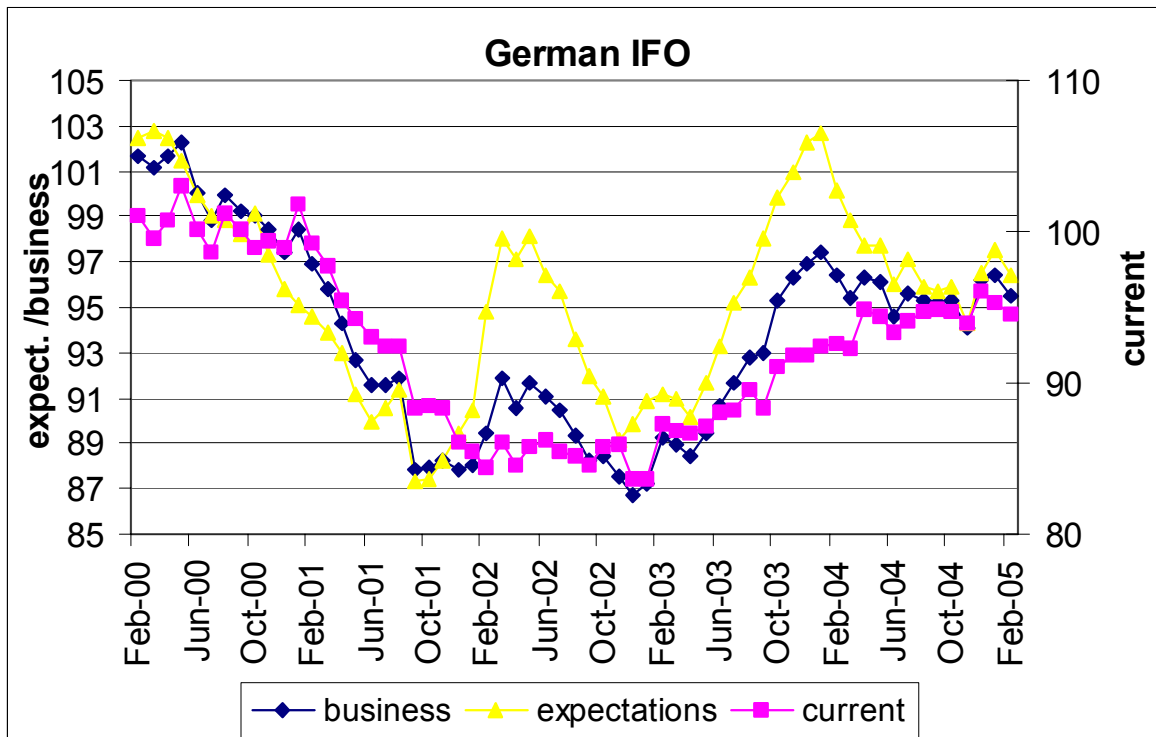
Euroland

The recent trend of German and Italian weakness vs. relative French strength continues: French Consumer Spending surprised on the upside this week while German Construction Orders and IFO February business confidence fell, suggesting that January's pickup in business confidence may have been an aberration.

Weekly Highlights

- **German IFO-** February's Business Climate Index fell once again. (page 7)
- **French Consumer Spending** – remained strong in January. (page 9)
- **Italian Business Confidence-** fell to a fourteen month low in February. (page 9)

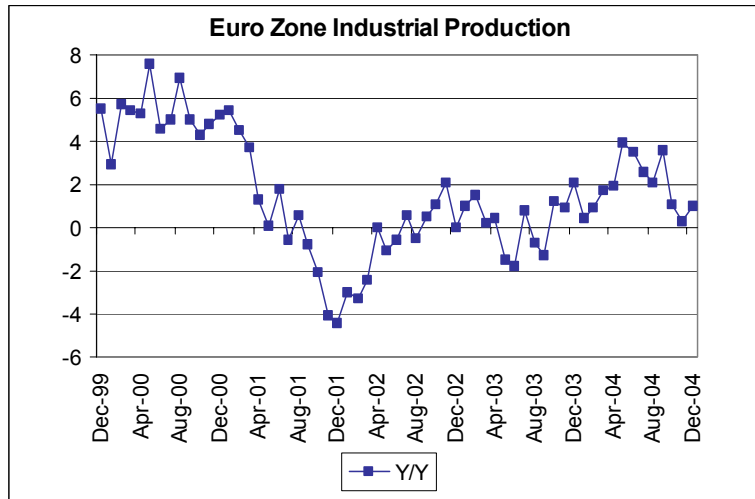
Chart of the Week



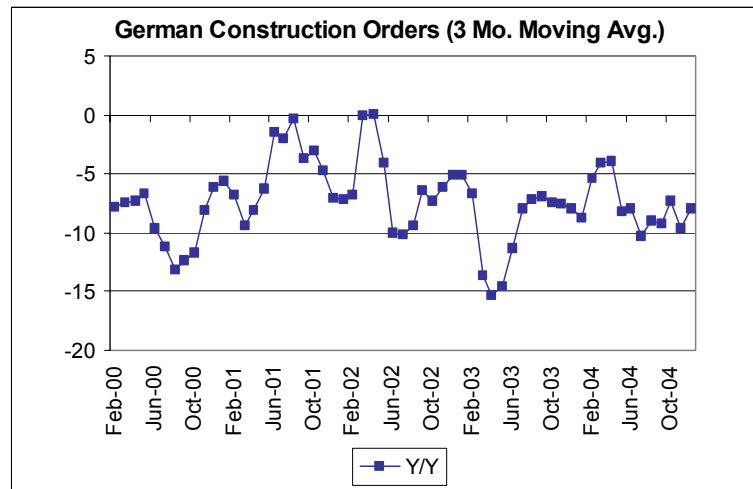
Germany's February IFO Business Climate Index fell from 96.4 in January to 95.5. Market expectations were for an increase to 96.7. The IFO Current Assessment Index fell from 95.3 to 94.5 while the Expectations Index fell the most, declining from 97.6 to 96.4. It was the fourth month in five that economic sentiment declined.

Euro Zone Industrial Production, German Construction Orders & Spanish Factory Orders

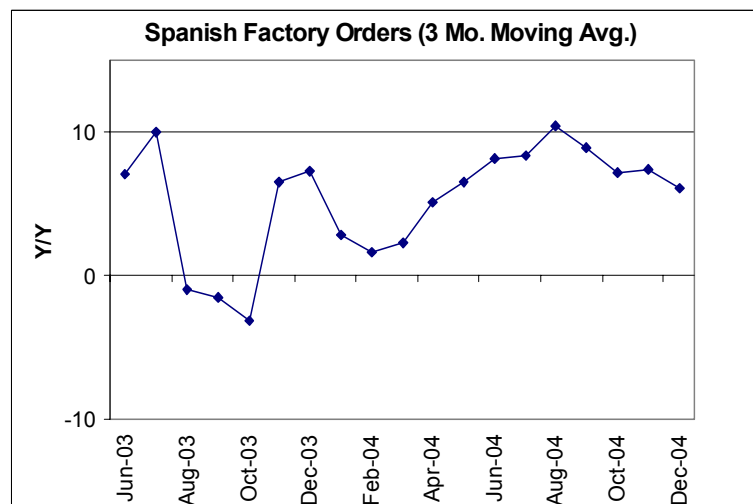
The Euro Zone's December Industrial Production increased 0.5% M/M and 1.0% Y/Y, rebounding from two consecutive months of M/M losses. The 3-month moving average still fell 0.4% M/M.



Germany's December Construction Orders rose 7.8% M/M while falling 2.3% Y/Y. Demand for non-residential buildings led the increase though much of the gain was just a reflection of November's very weak numbers.

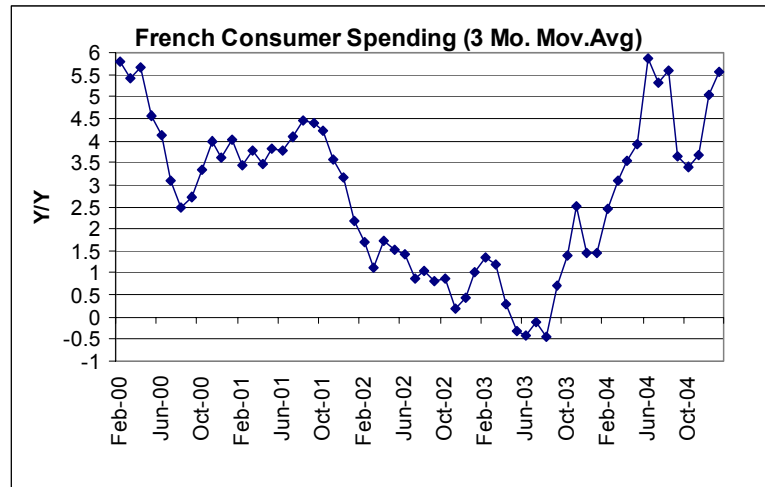


Spain's December Factory Orders rose 4.9% Y/Y. Increases in energy related orders were responsible for much of the gain.

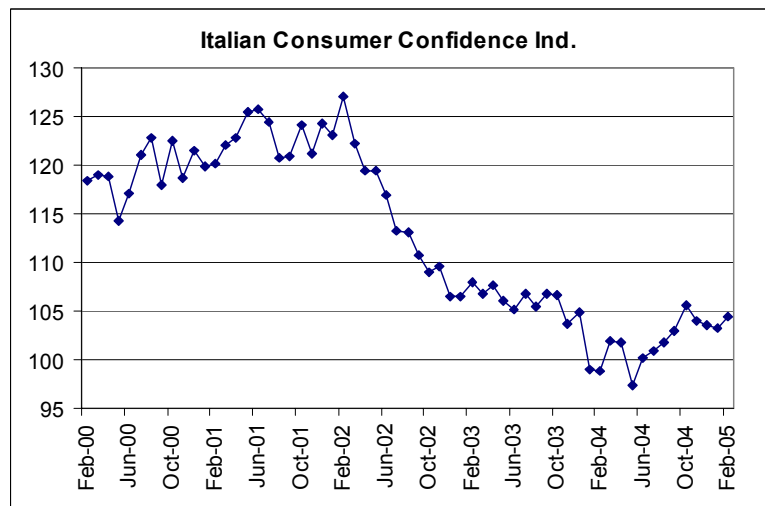


French Consumer Spending, Italian Consumer & Business Confidence

France's January Consumer Spending rebounded from December's M/M decline, rising 1.5% M/M and 3.8% Y/Y. It was the fifth month in six that spending has increased.



Italy's February Consumer Confidence rose to a four month high as inflation slowed and tax cuts boosted take-home pay. The index increased from 103.3 in January to 104.4. Market expectations were for a smaller increase to 103.5. A sub-index measuring expectations about the country's future prospects fell from -24 to -25.

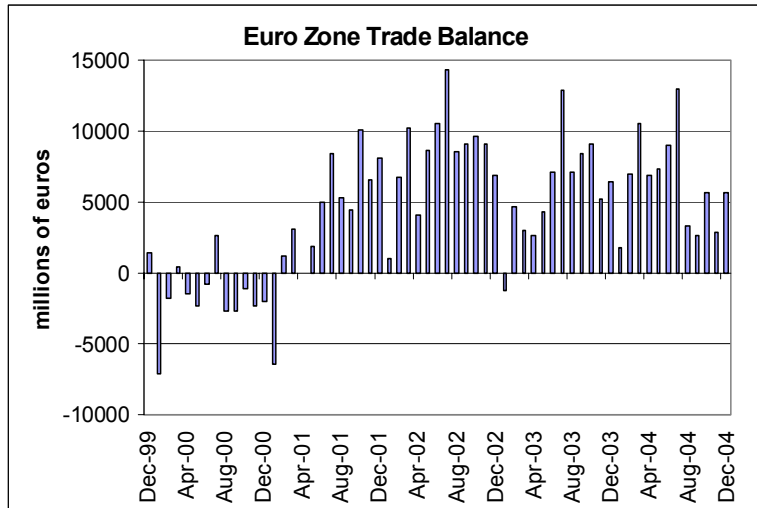


Italy's February Business Confidence fell to a 14 month low, decreasing from 88.7 in January to 86.8. Market expectations were for an increase to 89.5.

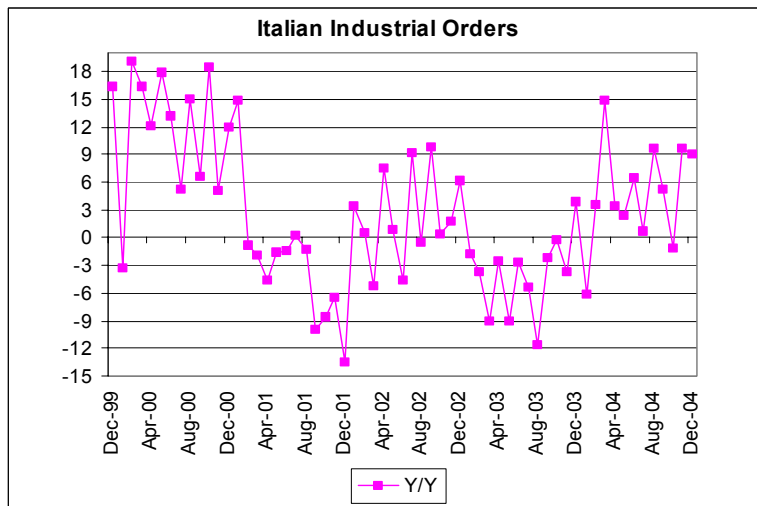


Euro Zone Trade, Italian Ind. Orders & German PPI

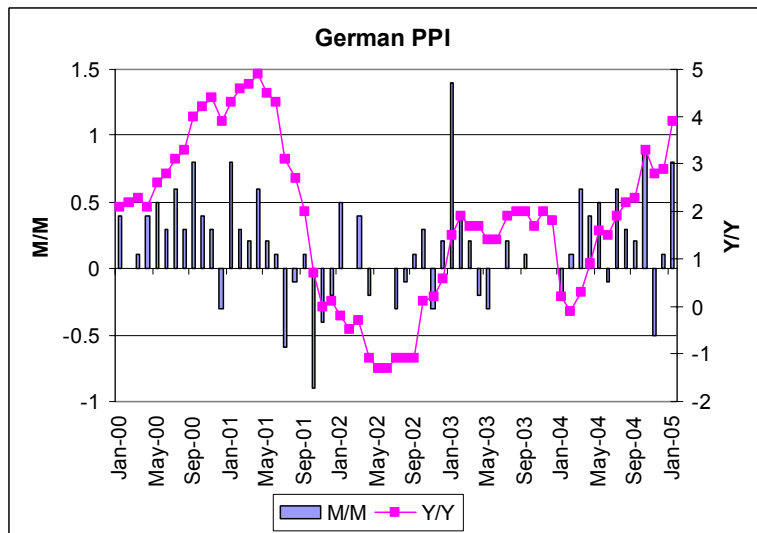
The Euro Zone's December Trade Surplus widened much more than expected, increasing from 2869 million euros in November to 5700 million.



Italy's December Industrial Orders increased 5.6% M/M and 9.1% Y/Y. Industrial Sales fell 0.6% M/M in the month while increasing 3.1% Y/Y. Most of the growth resulted from the foreign sector as domestic sales fell 1.2% M/M.



Germany's January Producer Prices accelerated at their fastest pace in 3 years as the cost of energy and raw materials increased. Prices rose 0.8% M/M and 3.9% Y/Y as a result.



ECB

Feb.23rd - **Market News International, citing an "unidentified ECB source"**, reported that a majority of ECB members say that interest rates should be raised as soon as possible though policy makers need a trigger to prompt such a move. The members said that the faster money supply and credit growth dont justify a rate increase and are waiting for evidence that the Euro Zone recovery is sustainable. The ECB wont raise rates before June, the source said.

Feb. 21st - **ECB members Nuot Wellink and Jose Gonzalez-Paramo** commented on the Euro Zone situation, both citing that inflation was under control. Paramo also stated that the conditions will be maintained for growth to continue its recovery and consolidate throughout the year.

Germany

Feb. 23rd - Amidst calls by German labor unions for government measures to revive the domestic economy, **Deputy Finance Minister Barbara Hendricks** stated that they are unrealistic and would put a burden on the budget. Hendricks stated, "I know of the wishes, but it's hardly possible to put added pressure on the budget in this way". The finance minister has also opposed recent calls for cuts to the corporate tax rate despite the fact that Germany has the highest nominal rate in the EU and one of the poorest performing economies.

Feb. 22nd - **Germany's 2004 budget deficit** was revised downward from 3.9% to 3.7% as local governments spent less money than thought in Q4. The total shortfall amounted to 80.3 billion euros. Germany is aiming to reduce the deficit to 2.9% in 2005.

Feb. 21st - The **German Bundesbank reported that**, "German companies scaled back investment last quarter, pushing the economy into contraction as exports stagnated and a slight increase in household spending failed to make up the difference". Private Consumption increased 0.2% Q/Q, Government Spending fell 0.7% Q/Q, Equipment Demand fell 0.7% Q/Q, and Domestic Demand fell 0.8% Q/Q.

Feb. 18th - **Bundesbank President Axel Weber** cut his forecast for German growth this year to 1%, according to a recent interview. The forecast would imply a workday adjusted growth rate of 0.8%. Concerning rates Weber is cited as saying, "Vigilance is required in this situation but that doesn't mean there's an acute need to act".

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
02/25	French Business Confidence (FEB)	105.1	105.0
02/25	French Production Outlook (FEB)	-2.0	-4.0
02/25	French Unemployment Change (JAN)	1,000	-11,000
02/25	Spanish Producer Prices (JAN)	0.4% M/M	-0.3% M/M

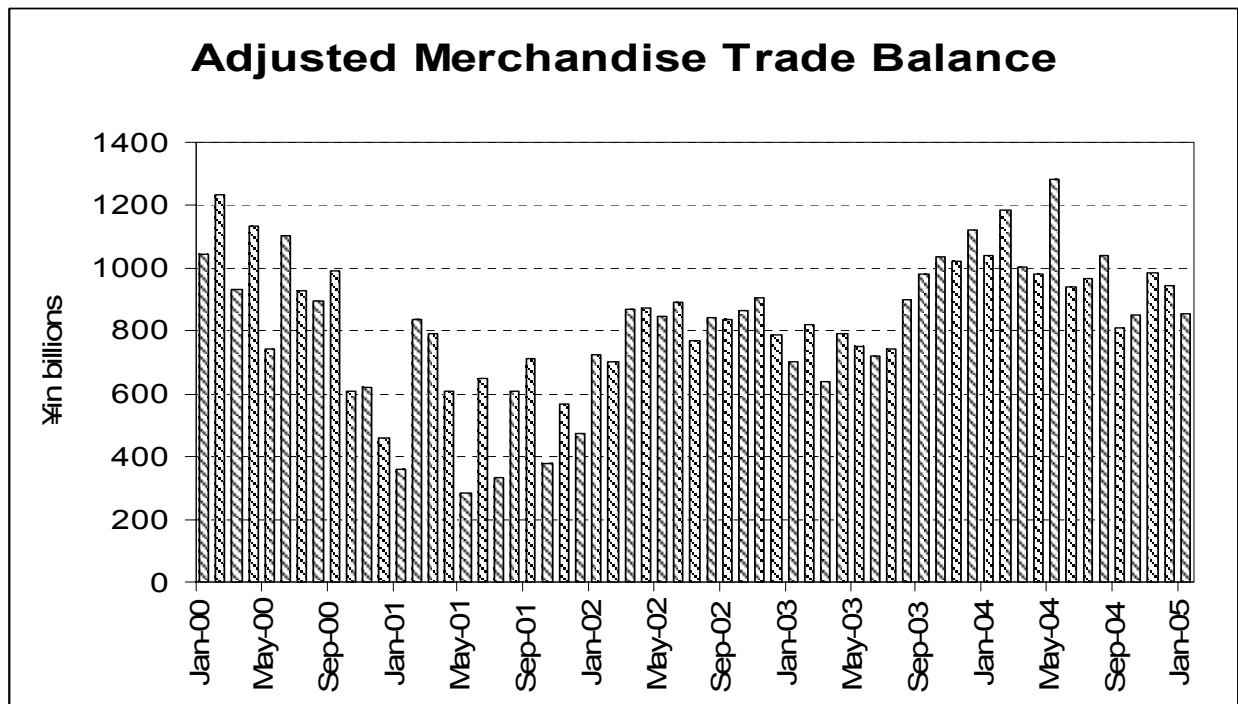
Japan

The few economic indicators released in Japan over the past week displayed mixed news. The Adjusted Merchandise Trade Surplus, highlighted on this page, narrowed due to a slowdown in exports. Meanwhile, the January 18th – 19th minutes of the Monetary Policy Committee and the February Monetary Policy Monthly Report acknowledged that some weak movements continue to be seen in Japan's economy, but also reported that Japan's economy is recovering at a moderate pace. We look forward to the wealth of economic indicators, including Industrial Production and Consumer Prices, to be released next week for a clearer picture of Japan's economic prospects.

Weekly Highlights

- **The Adjusted Merchandise Trade Balance** - decreased from ¥949.8bn in December to ¥854.5B in January. (page 13)
- **Japan's Tertiary & All Industry Activity Growth Index** – remained flat M/M and decreased 0.3%% M/M, respectively in December. (page 14)
- **Corporate Service Prices** - decreased 0.5% Y/Y in January, below expectations of -0.3%. (page 15)

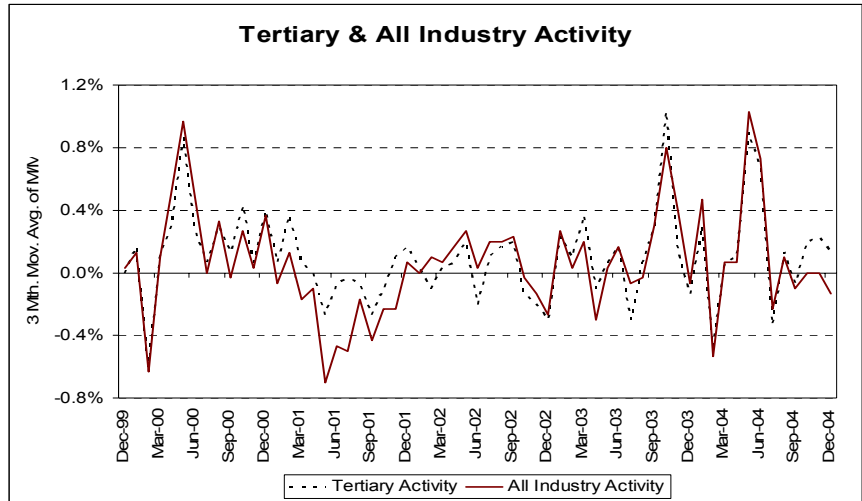
Chart of the Week



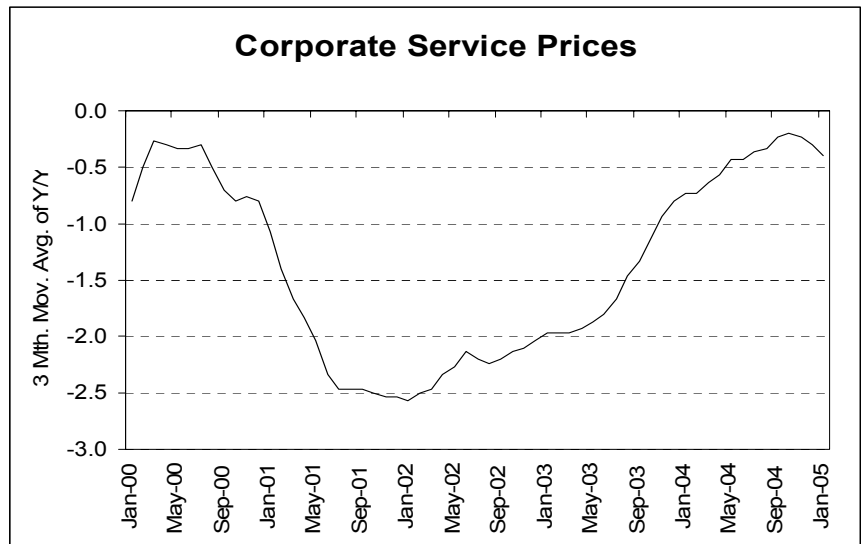
The Adjusted Merchandise Trade Balance decreased from ¥949.8bn in December to ¥854.5B in January. The shrinkage in the trade surplus occurred as a result of the 4.3% M/M increase in exports which was overshadowed by the 7.6% M/M gain in imports.

Tertiary & All Industry Activity Indices, Corporate Service Prices & Convenience Store Sales

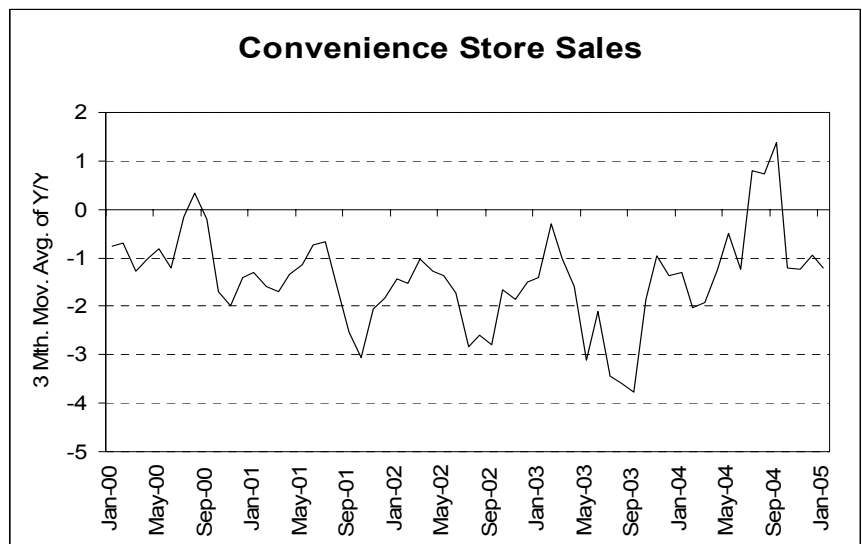
Japan's Tertiary Industry Index remained flat M/M, in December, compared to the -0.1% expected. The All Industry Activity Index decreased 0.3% in line with expectations.



Corporate Service Prices decreased 0.5% Y/Y in January, below expectations of -0.3%.



Convenience Store Sales decreased 1.7% Y/Y in January, on a same store basis. Total sales increased 1.7% Y/Y.



News Briefs

Comments from Atsushi Mizuno, BOJ member

“If things go well, the economy's soft patch will be over in a month or two and we can raise the assessment of the economy,” Mizuno said today in an interview with Nikkei CNBC in Tokyo. “With such expectations, I am watching economic indicators.” He also noted that the need for the central bank to maintain its current monetary policy “is receding.”

Comments from the BOJ's Minutes of the January 18th-19th Meeting

In its minutes of the January 18th-19th meeting the BoJ concluded that, “Japan's economy continued a recovery trend, although there seemed to be somewhat weak movements, mainly in production.” Meanwhile, members agreed to maintain the current guideline for money market operations with the target range of "around 30 to 35 trillion yen" for the outstanding balance of current accounts at the Bank.

Comments from the BOJ's Monetary Policy Monthly Report

The overall economic assessment in the BoJ's February report was unchanged from the previous month. It was noted that the economy is "recovering at a moderate pace, while some weak movements continue to be seen." One highlight in the report was the change from private consumption “decelerating recently” to now “almost flat.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
02/24	Nationwide Department Store Sales (Y/Y) (JAN)	-2.6%
02/24	Tokyo CPI sa (M/M) (FEB)	-0.1%	-0.5%
02/24	Tokyo CPI Ex Fresh Food sa (M/M) (FEB)	0.0%	-0.3%
02/24	Tokyo Consumer Prices (Y/Y) (FEB)	-0.4%	-0.3%
02/24	Tokyo CPI Ex Fresh Food (Y/Y) (FEB)	-0.5%	-0.5%
02/24	National CPI sa (M/M) (JAN)	-0.5%	-0.4%
02/24	National CPI Ex Fresh Food sa (M/M) (JAN)	-0.2%	0.0%
02/24	National CPI (Y/Y) (JAN)	-0.2%	0.2%
02/24	National CPI Ex Fresh Food (Y/Y) (JAN)	-0.3%	-0.2%
02/27	Industrial Production (M/M) (JAN P)	1.5%	-0.8%
02/27	Industrial Production (Y/Y) (JAN P)	0.2%	1.8%
02/27	Large Retailers' Sales (JAN P)		-4.2%
02/27	Retail Trade sa (M/M) (JAN P)		-0.5%
02/28	Jobless Rate (JAN)	4.4%	4.4%
02/28	Job-to-Applicant Ratio (JAN)	0.95	0.94
02/28	Workers' Household Spending (Y/Y) (JAN)	-1.2%	-3.8%
02/28	Workers' Household Spending (M/M) (JAN)		-3.8%

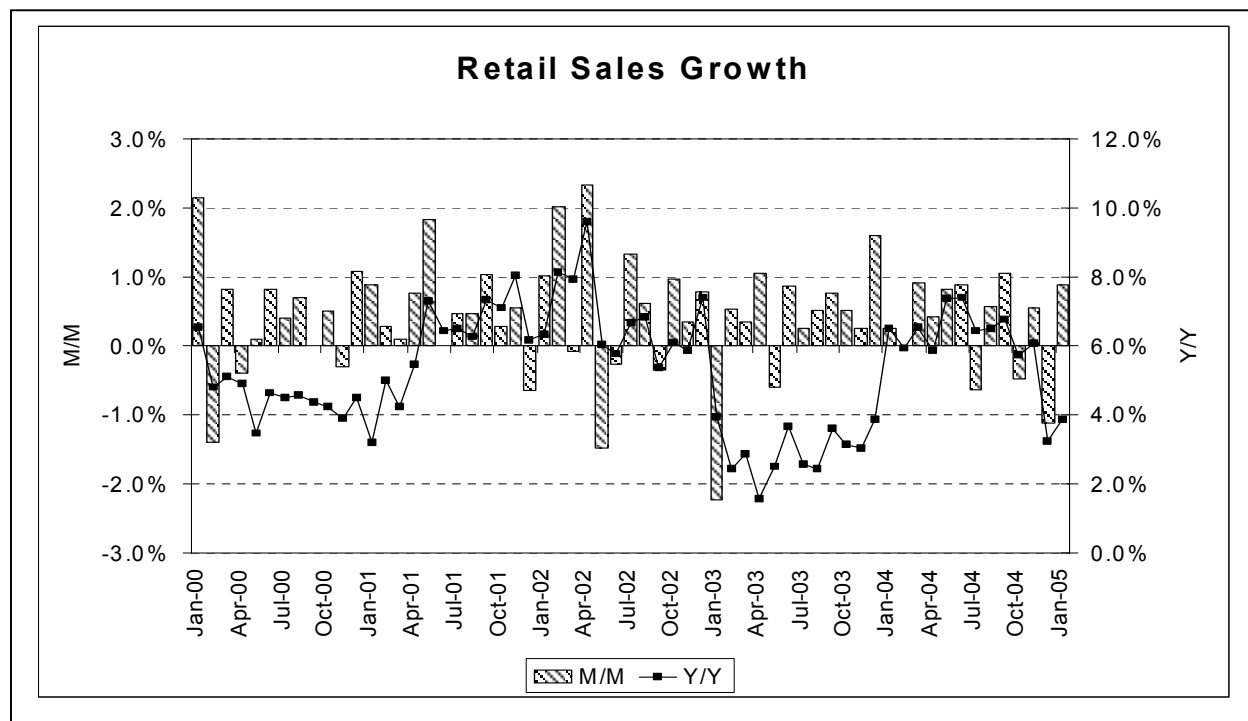
United Kingdom

The main highlight this week was the release of the MPC's minutes, where members voted 8-1 to leave rates unchanged at 4.75%. Most members judged the easing of inflation and consumer spending as a risk and as a result, have suggested borrowing costs should remain unchanged for now.

Weekly Highlights

- **Retail Sales-** increased 0.9% M/M and 3.9% Y/Y in January as retailers lured customers with deep discounts. (page 17)
- **MPC minutes-** voted 8-1 to leave rates unchanged at 4.75% in February. (page 20)
- **Kate Barker-** indicated that the strength of consumer spending may determine whether the Bank raises rates or not. (page 21)
- **Charles Bean-** stated the bank must act very "cautiously" when setting interest rates because of a lack of accurate information about the economy and its potential growth. (page 21)

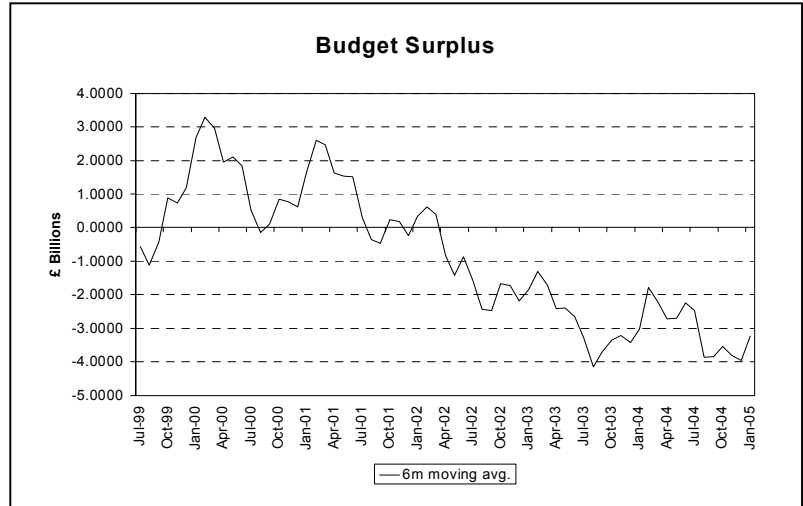
Chart of the Week



Retail Sales increased 0.9% M/M and 3.9% Y/Y in January. The rebound occurred as retailers lured customers with deep discounts. Department and food stores sales increased 2.1% M/M and 1.6% M/M, respectively.

Budget Surplus

The U.K.'s Budget Surplus increased from -£5.7 billion to £4.6 billion in January. This is the largest surplus in three years as corporate and income tax receipts soared. The Treasury is counting on an improvement in tax receipts and a slowdown in spending to enable Brown to meet his borrowing target this fiscal year and avoid raising taxes.



Data

British Bankers Association

The British Bankers Association (BBA) reported that net mortgage lending decreased 21.0% M/M in January, returning to the weaker pattern seen at the end of 2004.

Council of Mortgage Lenders

The Council of Mortgage Lenders (CML) reported that net home lending decreased 21.4% M/M and the number of loans for home purchases decreased 25.8% M/M in December.

CBI Industrial Trends

Factory Orders increased from -13 to -10 in February, above expectations, due to an increase in exports.

MPC Minutes

MPC minutes

The MPC voted 8-1 to leave rates unchanged at 4.75% in February- the minutes were more hawkish than the markets expected. **Most members judged the easing of inflation and consumer spending as a risk and as a result, have suggested borrowing costs should remain unchanged for now.** Paul Tucker voted to raise rates 25bp. Expectations were for a 9-0 vote for leaving rates unchanged. Some members of the committee backing no change this month “noted that an increase might be warranted in due course” if the economy expands in line with the Bank's projections. What kept the bank from moving rates higher at this month's meeting was “uncertainty” about the risks to its inflation and growth forecasts, the minutes showed. “Some recent data had been surprisingly weak, but it was always very difficult to interpret evidence from the Christmas period, and some of this uncertainty would be dispelled as more information became available,” the minutes stated.

MPC Members Comments

MPC member Kate Barker:

Kate Barker indicated that the strength of consumer spending may determine whether the bank raises rates or not. “The main reason why we didn't put rates up last time is uncertainty about short-term trends in the economy. We would like to see a bit more evidence out of the first quarter and particularly a better feel of what's happening with the consumer going into 2005. If you look at the forecast for inflation at face value you'd wonder why we hadn't thought about putting rates up, if you look at consumer spending, it's a much more mixed picture.” Barker stated in an interview with Irish News.

The BOE's Chief Economist, Charles Bean, on interest rates:

Charles Bean said the bank must act very “cautiously” when setting interest rates because of a lack of accurate information about the economy and its potential growth. “Data subject to revision and uncertainty about the extent of the underlying pressures on inflation and about the impact of changes in interest rates on inflation and activity mean the Bank of England needs to act cautiously when deciding what borrowing costs should be.” Bean stated in a speech at the Oxford Institute for Economic Policy.

The BOE's Chief Economist, Charles Bean, on unemployment:

Charles Bean commented that allowing the unemployment rate to fall further would raise an unacceptable risk of inflation. Since unemployment was low, there is likely to be a trade off between inflation and jobs. “It is possible that the sustainable level of unemployment could be even lower than its current level. But equally, if that were not the case, then continued attempts to push activity higher would at some stage be likely to generate noticeable upward pressure on inflation as supply bottlenecks become more prevalent.” Given this uncertainty, policy should, he said, be set “very cautiously.”

The U.K.'s Chancellor of the Exchequer, Gordon Brown:

Gordon Brown said China must realize its policies have a direct impact on the world economy and that excessive delay in implementing change may hurt global stability and growth. He urged the Chinese government to help growth by relaxing trade restrictions and allowing the yuan to trade freely. “China must make its decisions recognizing that it's a very important part of the global economy. It has made a huge contribution in recent years to the world economy. We need policies, therefore, to help the world economy that are for stability, that open up trade, that ensure structural economic reform actually takes place,” Brown stated in Beijing.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
2/24	Total Business Investment		5.3% Y/Y
2/25	GDP		0.5% Q/Q 3.1% Y/Y
2/25	BBA Mortgage Lending		-1.0% Y/Y
2/25	Private Consumption		0.3% M/M 2.8% Y/Y
2/25	Government Spending	-0.1% Q/Q	0.2% Q/Q
2/25	Exports	1.7% Q/Q	0.7% Q/Q
2/25	Imports	1.6% Q/Q	1.3% Q/Q
2/28	GfK Consumer Confidence		1
3/1	Nationwide House Prices	0.2% M/M 10.0% Y/Y	0.4% M/M 12.6% Y/Y
3/2	PMI Construction		

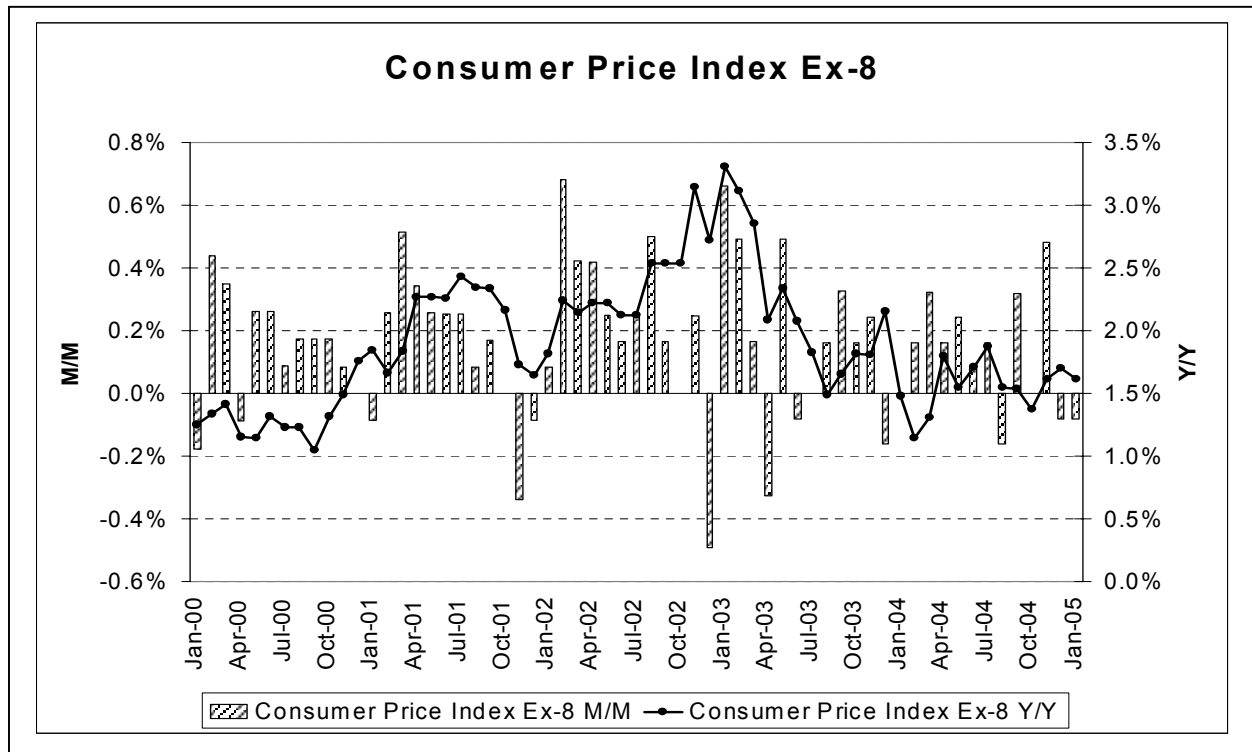
Canada

Recent data from Canada suggests the BoC will likely leave its overnight rate unchanged through Q2. Both CPI and retail sales declined. Meanwhile the BoC's Gov. Dodge suggested that the BoC may slow the pace of rate increases.

Weekly Highlights

- **CPI x8** – decreased 0.1% M/M and increased 1.6% Y/Y in January. (page 23)
- **Retail Sales** – decreased 1.4% M/M and increased 6.6% Y/Y in December. (page 24)
- **Wholesale Sales** – increased 1.1% M/M and 7.1% Y/Y in December. (page 24)
- **Gov. Dodge's Comments** – BoC to slow pace of rate increases. (page 25)

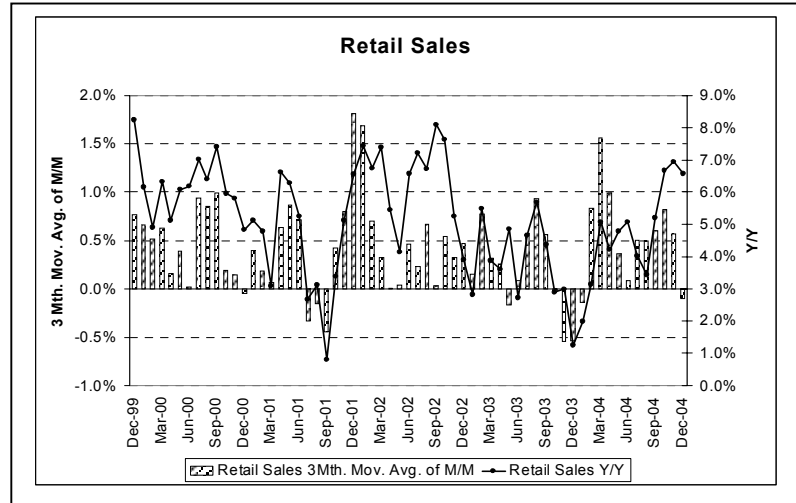
Chart of the Week



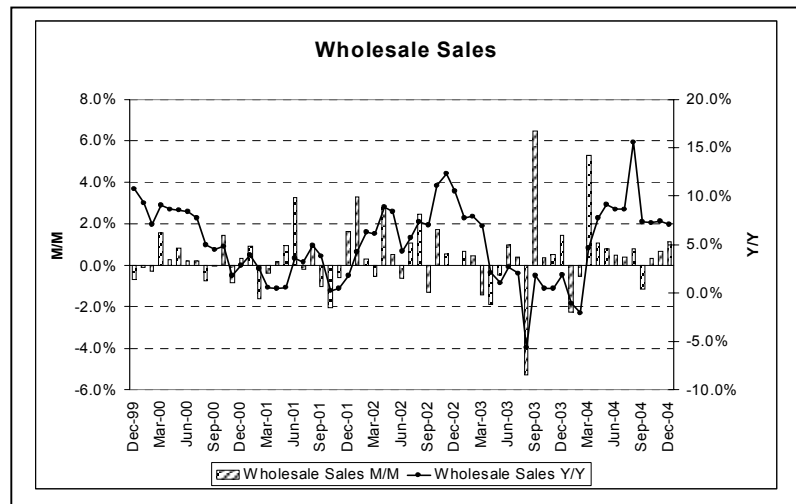
Prices of Canadian goods and services, excluding the eight most volatile items, decreased 0.1% M/M and increased 1.6% Y/Y in January. This decline resulted from lower prices of clothes and electronics, and was lower than economists' expectations for a 0.1% M/M increase. The decline also suggests that the BoC may leave its overnight rate unchanged until Q3 or Q4 as inflationary pressures remain low.

Retail Sales, Wholesale Sales & Leading Index

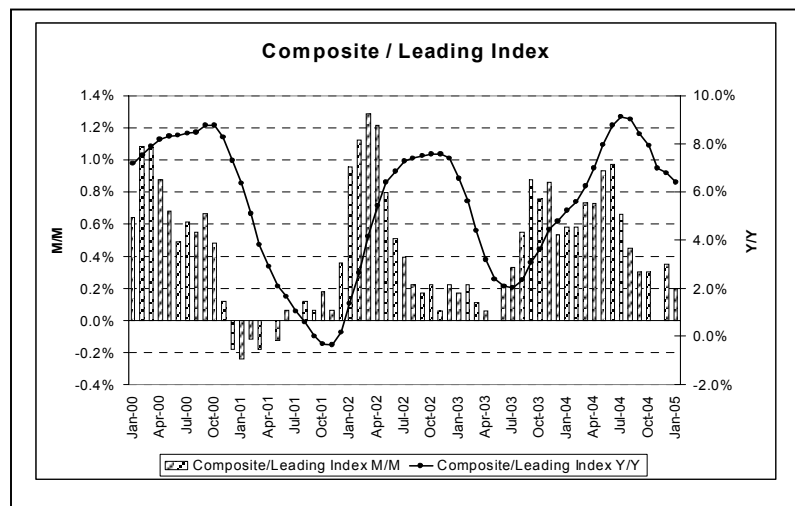
Retail sales declined 1.4% M/M and increased 6.6% Y/Y in December as consumers purchased less alcohol (due in part to the NHL lockout) and cars. The decline was the fastest since 1998 and supports views that the Bank will be on hold over the next few months.



Wholesale sales increased 1.1% M/M and 7.1% Y/Y in December due to increased motor vehicle sales. The increase was more than economists anticipated and was due largely to rebuilding auto inventories.



Canada's Leading Index increased 0.2% in January, the second consecutive increase as consumers increased their spending on durable goods while manufacturers received more new orders.



Dodge & Goodale Comments

BoC Gov. Dodge - BoC to Slow the Pace of Rate Increases

The Bank of Canada's Governor, David Dodge, said that the BoC will slow the pace at which it increases interest rates to help the economy weather a currency driven slowdown. "By slowing the pace at which we will reduce monetary stimulus, we will continue to provide support for domestic demand," Dodge stated. "At some point, interest rates will have to rise," he also commented. Most economists do not anticipate a rate hike until the second half of this year. Dodge also said that he did not have a target for the C\$, only that he had the goal of keeping inflation at 2%.

Goodale to Increase Spending in Budget

Finance Minister Ralph Goodale, is expected to increase spending on health care, defense and the environment in the upcoming budget behind the country's ninth consecutive surplus. Goodale plans on narrowing the budget surplus to \$4.5 billion, the lowest since 1999.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
02/25	Current Account (Q4)	2.0%	3.2%
02/28	GDP (Dec.)	0.2%	0.2%
03/01	Industrial Product Prices (Jan.)	0.4%	0.3%
	Raw Materials Prices (Jan.)	2.0%	-4.3%
	BoC Rate	2.50%	2.50%

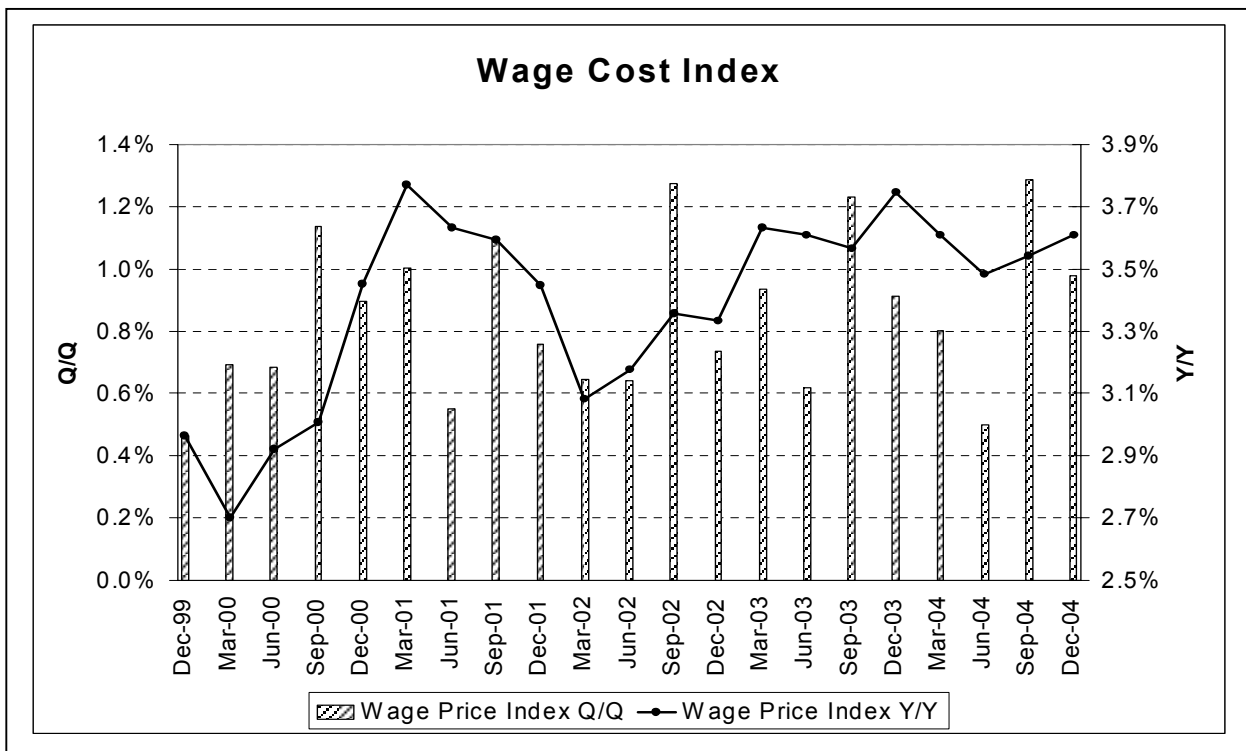
Australia

Recent data from Australia suggests a rate hike in the next six weeks is very likely. The hawkish RBA bulletin suggested that the RBA may decide to hike rates at its next meeting on March 1st. Gov. Macfarlane's testimony was less hawkish however, and along with soft wage prices pressure, the RBA may decide to wait through the March meeting before the increase rates.

Weekly Highlights

- **Wage Cost Index** – increased 1.0% Q/Q and 3.6% Y/Y in Q4. (page 27)
- **Motor Vehicle Sales** – increased 8.9% M/M and 9.3% Y/Y in January. (page 28)
- **Macfarlane's Testimony** – Board's move not simple; rates likely to increase. (page 29)

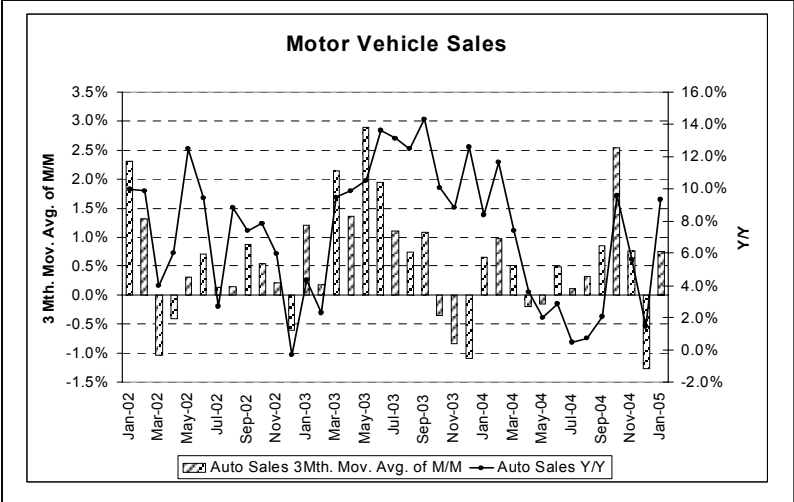
Chart of the Week



Wage prices increased 1.0% Q/Q and 3.6% Y/Y in Q4, below economists' expectations for a 1.1% Q/Q increase. While the increase allows the RBA to wait past their March meeting to increase its overnight rate, it is probably enough for them to increase by May.

Motor Vehicle Sales

*Motor vehicle sales increased
8.9% M/M and 9.3% Y/Y in
January.*



Macfarlane Testimony

Macfarlane - Rates Likely to Increase, Country will Need to Adjust

RBA Gov., Ian Macfarlane commented on his view of the economy in his testimony to Parliament's economics committee. His testimony wasn't quite as hawkish as most economists had anticipated, following the Feb 7th quarterly policy statement from the RBA . He said that while the board's next move would not be simple, rates are more likely to increase than decrease, and that the country would have to adjust to them.

Macfarlane reiterated the view given in the last monetary policy report that growth was slowing to annual rates below 3%, but that bottlenecks could threaten the bank's 2-3% inflation target.

On housing, Macfarlane commented that borrowing was continuing at a fast rate and that owner-occupier borrowing has not really slowed. He said that borrowing had not slowed to where the RBA would like it to be and that debt-to-income ratios were still high.

Macfarlane also mentioned in his testimony that "I would like to see first of all the capacity constraints lifted and our exports start to speed up again, and I would like to see domestic demand slow a little so our imports don't grow as fast," and " I would like to see the world economy continue to grow at a fair clip, which I think it will."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
02/23	Average Weekly Wages (Q4)	N/A	1.3%
	Private Capital Expenditure (Q4)	3.0%	1.3%
02/27	Housing Industry Association New Home Sales	N/A	N/A
	TD Securities Inflation Index (Feb.)	N/A	N/A
	Company Operating Profit (Q4)	4.00%	3.55%
	Trade Balance (Jan.)	N/A	-2374M
02/28	AIG Performance of Manufacturing Index	N/A	N/A
	Current Account Deficit (Q4)	N/A	-13685M

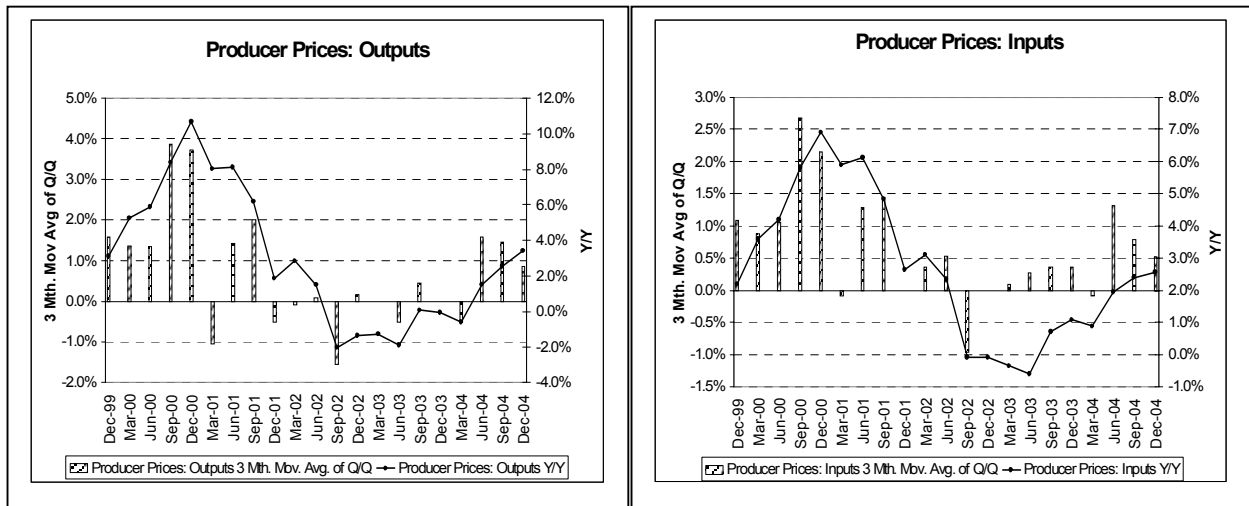
New Zealand

Recent data from New Zealand was on the softer side. Job advertisements and housing data suggest that the housing and labor markets may be slowing in the coming months. Finance Minister Michael Cullen voiced concerns on the rising NZ\$ as well. If these data become trends, the RBNZ may not find the need to increase its overnight rate during 2005.

Weekly Highlights

- **Producer Prices – Inputs** – increased 0.5% Q/Q and 2.6% Y/Y in Q4. (page 31)
- **Producer Prices – Outputs** – increased 0.9% Q/Q and 3.4% Y/Y in Q4. (page 31)
- **ANZ Job Ads** – decreased 6.1% M/M and 0.5% Y/Y in January. (page 32)
- **Cullen Comments** – Rising Currency a concern. (page 32)

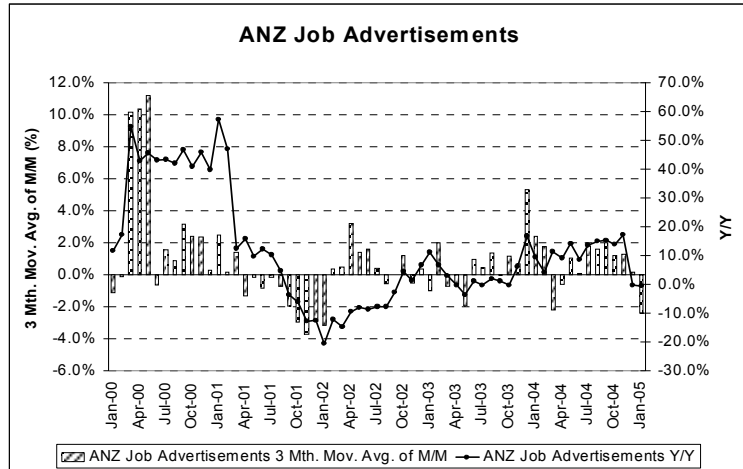
Chart of the Week



Prices paid by NZ factories, farms, and other producers for commodities increased due to higher fuel prices and costs of construction. Producer output prices increased 0.9% Q/Q and 3.4% Y/Y while input prices increased 0.5% Q/Q and 2.6% Y/Y in Q4.

ANZ Job Ads

Job advertisements declined 6.1% M/M and 0.5% Y/Y in January. The decline suggests that the positive trend of employment in New Zealand may slow in the coming months.



Cullen Comments, House Sales, Budget Surplus

Cullen – NZ Economy Constrained by Labor, Investment. Currency a Concern.

Finance Minister Michael Cullen commented that the increasing NZ\$ was a “major concern” and will probably curb export growth. “The exchange rate remains a major concern, driven mainly by weakness in the US economy,” Cullen stated. “The lagged effect of the high exchange rate is still expected to affect export growth in the future.”

“House sales data and building consents data for December suggest that the recent signs of a slowdown in the housing sector may be on hold,” he also stated. In addition, Cullen had commented that the economy was being constrained by a lack of skilled labor and investment. “Capacity pressures are becoming a bottleneck to growth, and largely for that reason monetary conditions have tightened in an effort to ward off inflation pressure,” Cullen stated.

House Sales Slowed In January

House sales declined 16% Y/Y in January as houses took six days longer to sell than they did a year ago, and nine days longer than they did in December. The data suggests that the housing market may be slowly softening as borrowing costs increased from the RBNZ’s six rate increases during 2004.

Budget Surplus \$38 Million More than Anticipated

The NZ budget surplus was \$38 million more than economists anticipated in the second half of 2004 due to better than expected investment income and lower government expenses.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
02/24	Trade Balance (Jan.)	-\$525.0M	-\$499.0M
02/27	Building Permits (Jan.)	N/A	6.2%

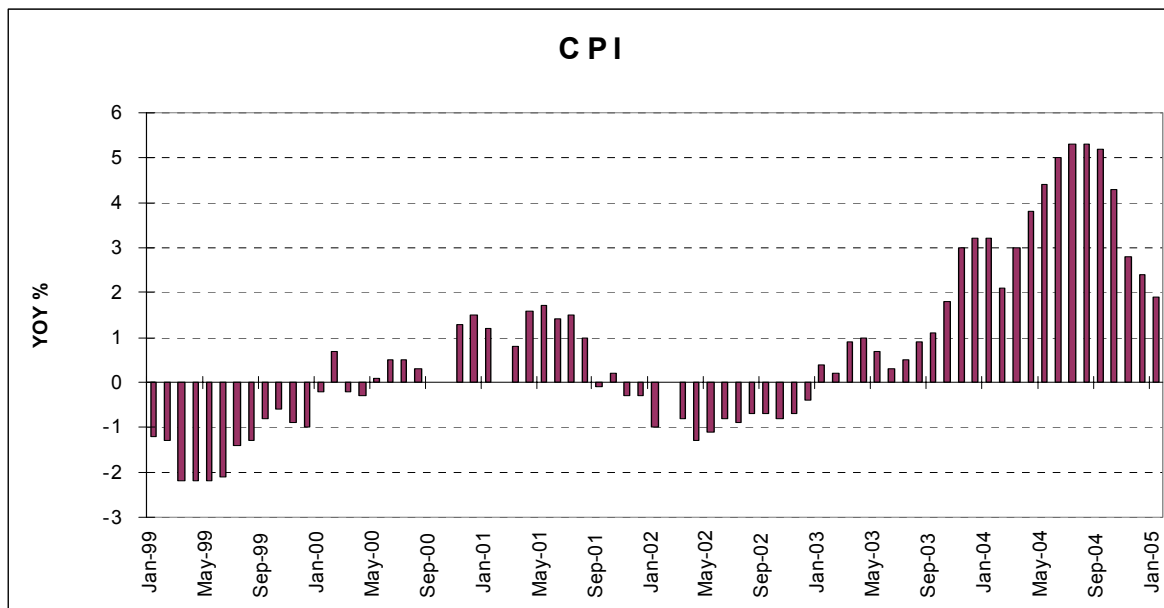
China

CPI posted its lowest reading in a year in January while the Producer Price Index also trended down. Despite the slowdown in prices, the Chinese government is likely to continue to restrict lending and investment to maintain the economy from “overheating.”

Weekly Highlights

- **CPI** – increased 1.9% Y/Y in January, below expectations of 2.3%. (page 35)
- **Producer Price Index** - increased 5.8% Y/Y in January. (page 37)

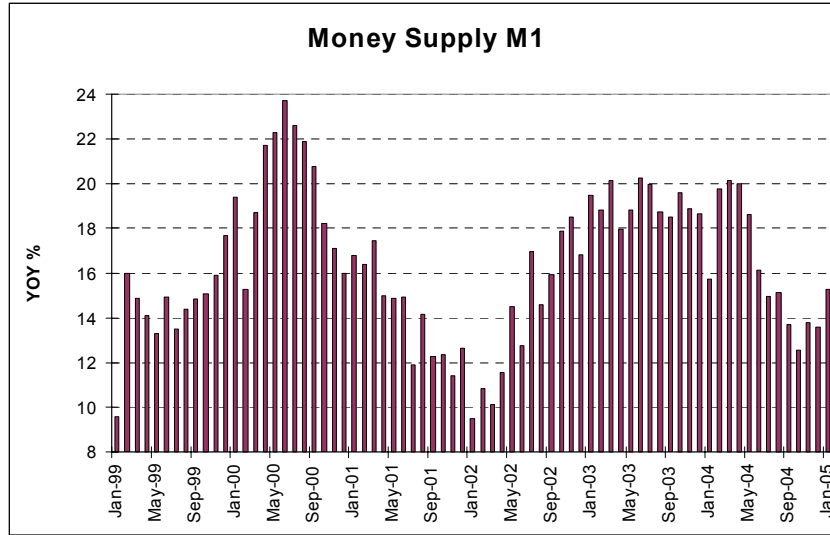
Chart of the Week



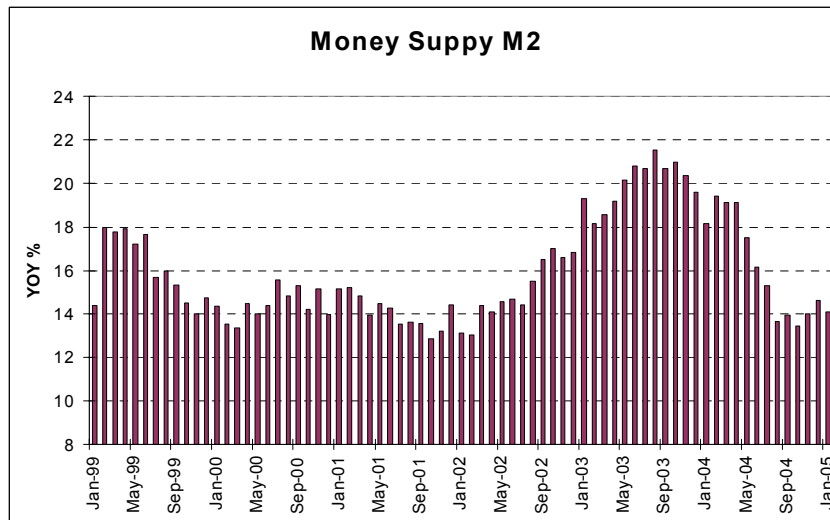
The Consumer Price Index increased 1.9% Y/Y in January, below expectations of 2.3%. CPI growth has been trending down for the past five months, moving from a high of 5.3% in August to its lowest reading in over a year. The Central Bank had recently predicted the average to be 3.3% in 2005 compared to the 3.9% averaged in 2004.

Money Supply 1 & 2, Household Savings

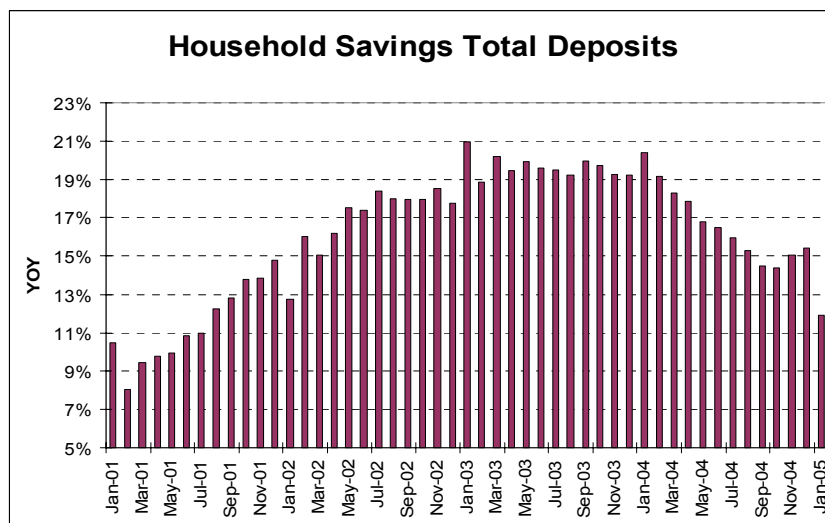
Money Supply M1, which includes cash, increased 15.3% Y/Y in January, its highest reading in seven months.



Money Supply M2, which includes cash and all deposits, increased 14.1% Y/Y. Money supply has steadied at the 14% level, slightly below the target range of 15% - 17%, enforced to help control the "over heated"



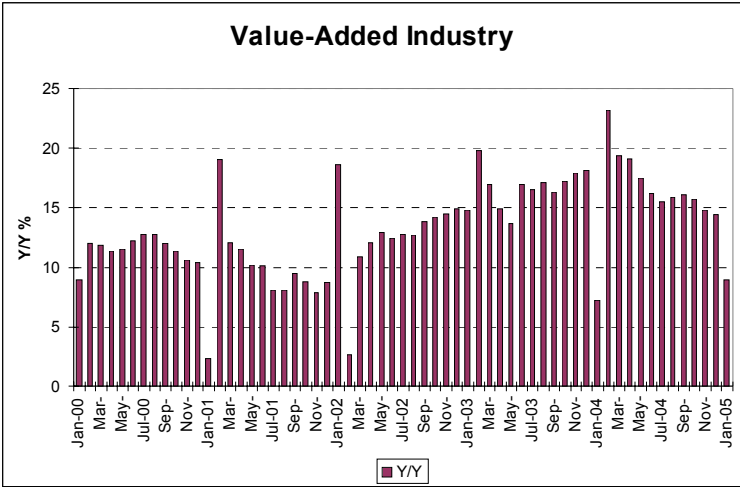
Household Savings increased 12.2% Y/Y in January.



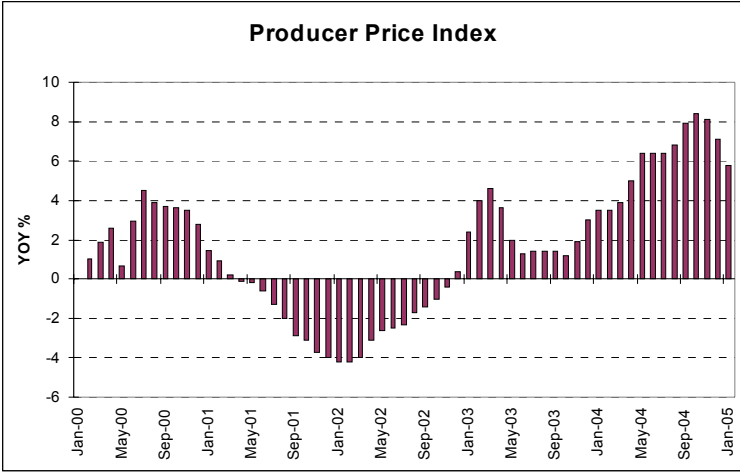
Value Added Industry & PPI

The Value Added Industry increased 8.9% Y/Y in January.

This figure was adjusted to allow for changes in the number of working days resulted by the Lunar New Year weeklong holiday falling in different months.



The Producer Price Index increased 5.8% Y/Y in January, the slowest pace in nine months as government lending restrictions helped rein in industrial expansion.



Feb. 22nd (Bloomberg) - China Central Bank Pledges Vigilance on Inflation, Stable Yuan

“China's central bank pledged to maintain its vigilance on inflation and reiterated a policy of keeping the yuan's value stable, seeking to sustain growth and prevent financial volatility in an economy that expanded 9.5 percent last year.” Governor Zhou Xiaochuan told members of the ruling Communist Party in Beijing that the PBC “will continue to scrutinize various inflation indexes and will monitor changes in asset prices”.

Feb. 22nd (Bloomberg) - China's January Crude Oil Output Rises 4.2 Percent

The National Bureau of Statistics reported that “China produced 15.3 million metric tons of crude oil in January, an increase of 4.2 percent from a year earlier”. “China's coal output last month rose 27 percent to 128.8 million tons, the Statistics Bureau stated on its Web site. Power companies' electricity output gained 27%; Gasoline output in January rose 5.0% percent and diesel output gained 12.7%; and Kerosene output rose 5.3%.”

Feb. 20th (Bloomberg) - China Central Banker Says Lending Restrictions May Be Too Tight

Central Bank's Deputy Governor, Wu Xiaoling, stated that “China's restrictions on bank lending should be eased to foster economic growth”. Wu further stated in a speech on the PBC website that “bank deposits totaling 24.5 trillion yuan (\$2.96 trillion) at the end of last year haven't stopped companies from complaining that commercial lenders aren't meeting their needs. Easier credit is needed, she said.”

Feb. 19th (Bloomberg) - Foreign Investment in China Rose 10.7% in January

China's Commerce Ministry reported that “Foreign direct investment in China rose 10.7 percent last month to \$4.1 billion”. The Ministry further stated that “contracted foreign investment, or investment pledged but not yet delivered, increased 27.7 percent in January to \$12.8 billion, the ministry said. Contracted investment is an indicator of actual investment in the future”. “China, the world's seventh-largest economy, attracted \$60.6 billion in foreign investment in 2004, a record high. Contracted investment jumped to \$153.5 billion”, the Ministry reported on its website.

Key Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
02/21-27	Fixed Assets Inv Urban Cum (Y/Y) - December	--	28.9%
02/21-27	Retail Sales Value Accumu (Y/Y) - January	--	--
02/21-27	Foreign Exchange Reserves - January	--	609.93B
02/21-27	Retail Sales Value Indiv (Y/Y) - January	--	14.5%
02/15-27	Unemployment Rate – 4Q	--	4.2%

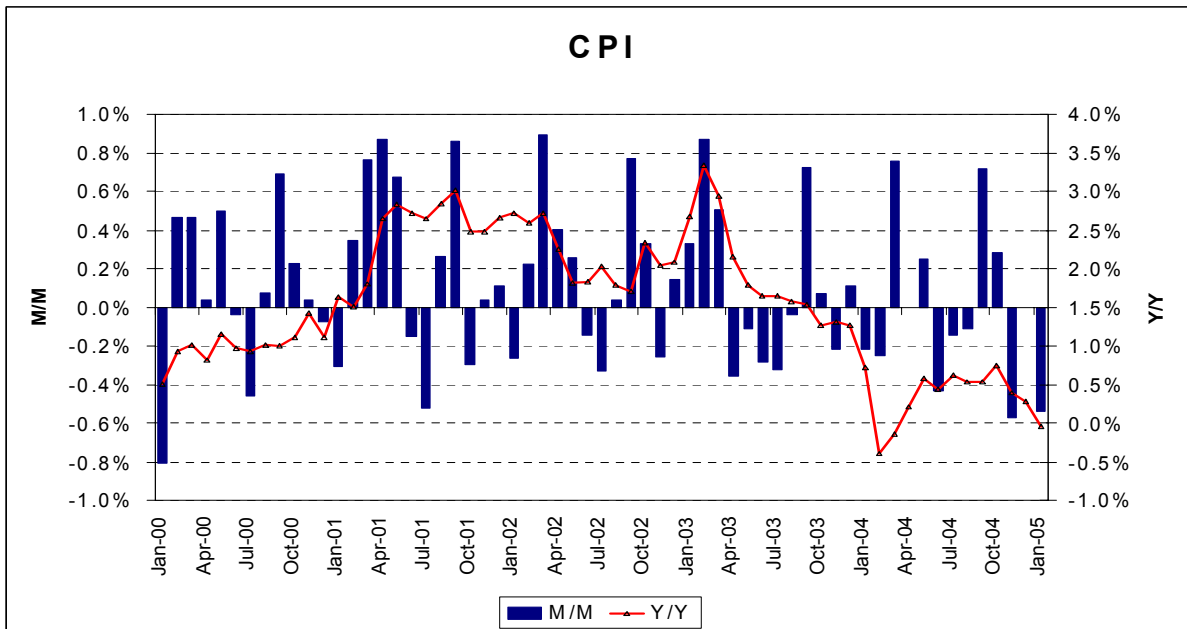
Sweden

Recent data from Sweden posted mainly downward surprises. Consumer Prices, Current Account Balance, Manufacturing and Consumer Confidences all declined, while Unemployment rose. Current trends suggest the Central Bank will leave rates unchanged.

Weekly Highlights

- **CPI** – decreased 0.5% M/M and was unchanged Y/Y in January, below expectations. (page 40)
- **Unemployment Rate** – rose from 5.3 in December to 5.5% in January. (page 41)
- **Manufacturing Confidence** – fell from 5.0 in January to 1.0 in February. (page 41)
- **Consumer Confidence** – fell from 12.2 in January to 11.6 in February. (page 42)

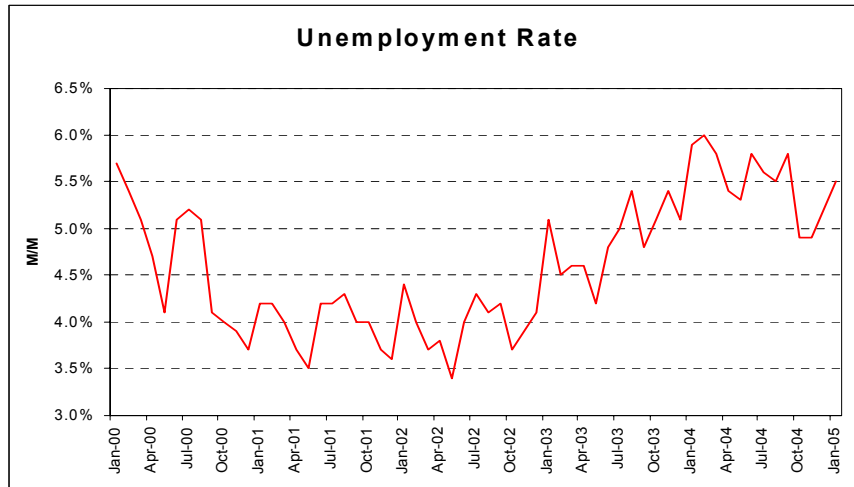
Chart(s) of the Week



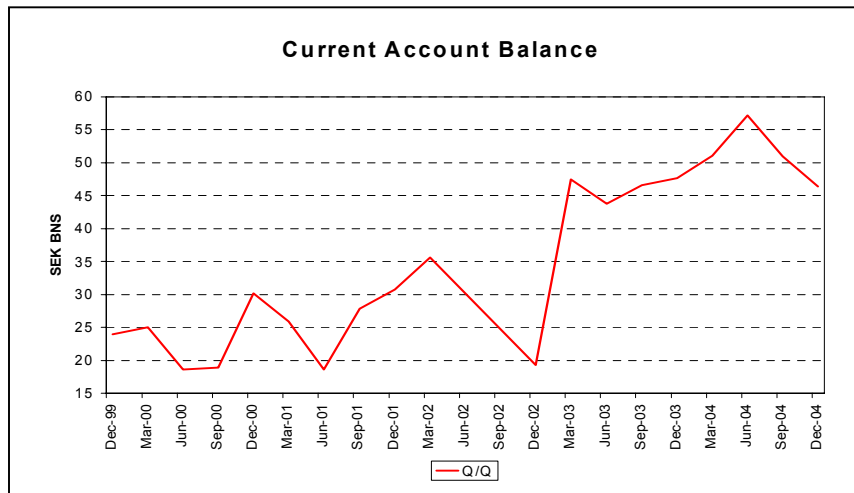
Swedish Consumer Prices decreased 0.5% M/M and remained unchanged Y/Y in January, staying below the bank's 2.0% target rate for the 16th consecutive month. Underlying inflation also showed a decrease of 0.7% M/M, rising 0.4% Y/Y.

Unemployment Rate, Current Account & Manufacturing Confidence

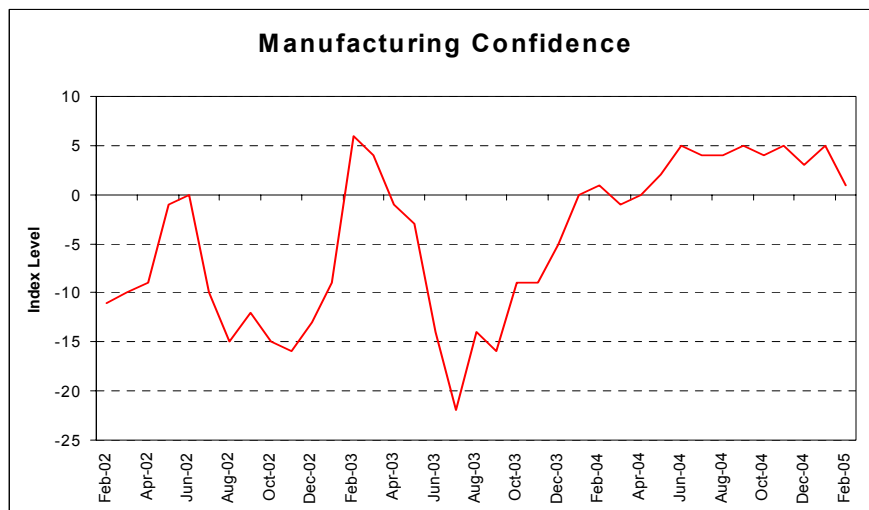
The Unemployment Rate rose from 5.3% in December to 5.5% in January. This increase was partially attributed to retailers releasing employees hired during the Christmas rush.



Sweden's Current Account surplus decreased from a revised SEK 50.9 bln (down from 53.8 bln) in Q3 to SEK 46.4 bln in Q4, the lowest in six quarters. The slowdown was attributed to a government payment to the European Union that was to be made in 2003 but was postponed until 2004.

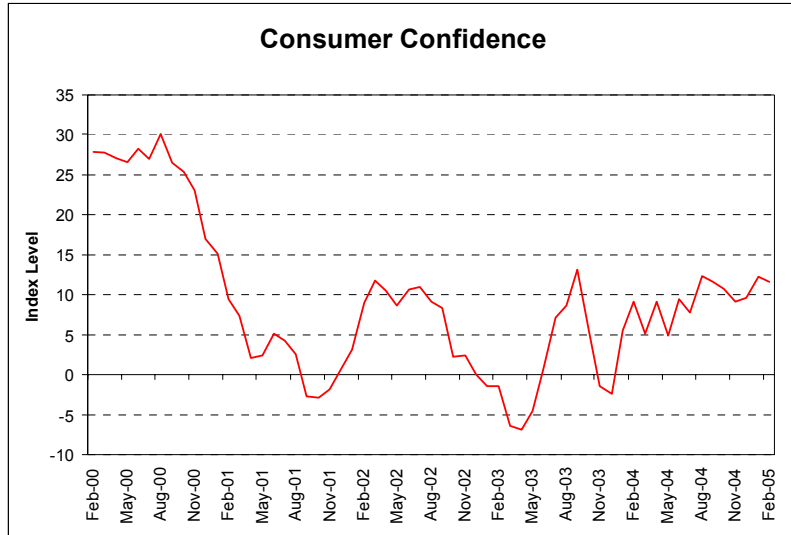


Manufacturing Confidence fell from 5.0 in January to 1.0 in February.



Consumer Confidence

Consumer Confidence fell from 12.2 in January to 11.6 in February, slightly above expectations.



Feb. 23rd (Bloomberg) – Swedish Debt Office Cuts Budget Deficit Forecast for This Year

Sweden's National Debt Office stated the country "will have a 38 billion-krona (\$5.5 billion) budget deficit in 2005, cutting an October forecast of 46 billion kronor. According to the Debt Office, "the central government's shortfall will drop 15 billion kronor from last year".

Feb. 22nd (Bloomberg) – Swedish Riksbank Governor Says Bank to Use New Forecast Methods

Lars Heikensten, Swedish Central Bank Governor stated the Riksbank will begin presenting forecasts based on different interest rate scenarios, altering its current method of forecasting on the basis of an unchanged rate". In an upcoming speech, Heikensten states "the new analysis and forecasting methods do not change the framework for our monetary policy". The new method will go into effect in March

Feb. 18th (Bloomberg) - Swedish Central Banker Sees 'Property Bubble' Risk

In a speech published on the central bank's website Deputy Governor Kristina Persson stated that "lowering interest rates may fuel a "property bubble" amid "firm" economic growth, reinforcing expectations the bank won't cut interest rates anytime soon." She further commented that "the demand for labor is expected to begin to rise during 2005-2006, Swedish monetary policy is already loose, real interest rates are low, household borrowing is increasing quickly and house prices are rising -- and have been for a long time." "If monetary policy is to try to fully offset the low import prices by driving up domestic prices, for example in the service sector, this could lead to a domestic inflation rate that would be difficult to stop if economic activity were to continue to develop strongly," Persson, said.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
02/25	Trade Balance – January	13.3B	13.4B
02/28	Retail Sales s.a. (M/M) – January	--	-1.4%
02/28	Retail Sales n.s.a. (Y/Y) – January	--	4.8%
02/28	PPI (M/M) – January	--	-1.1%
02/28	PPI (Y/Y) – January	--	2.0%
03/01	Swedbank PMI Survey	--	56.7

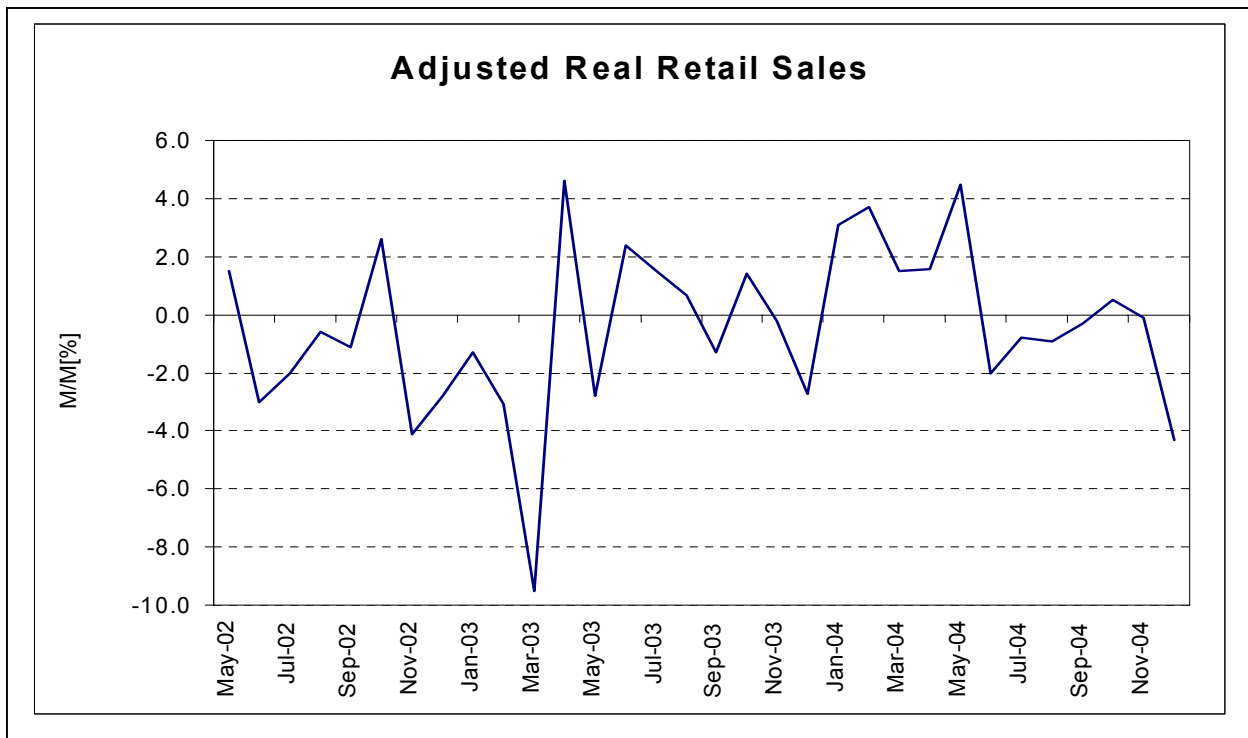
Switzerland

Swiss consumer confidence unexpectedly rose in January to the highest in almost three years, reflecting optimism about economic growth over the next 12 months. Rising global demand has helped fuel the Swiss economy's recovery from a three-year slump ending in 2004 and boosted earnings at exporters. But this has not yet translated into actual spending as retail sales activity remains dismal.

Weekly Highlights

- **Adjusted Real Retail Sales** - declined 4.3 % Y/Y. (page 45)
- **Producer and Import prices** – declined 0.2 % from December, increased by 1.3 % Y/Y. (page 46)
- **Trade Balance** – widened to 1.18 billion (\$1B) from December. (page 46)

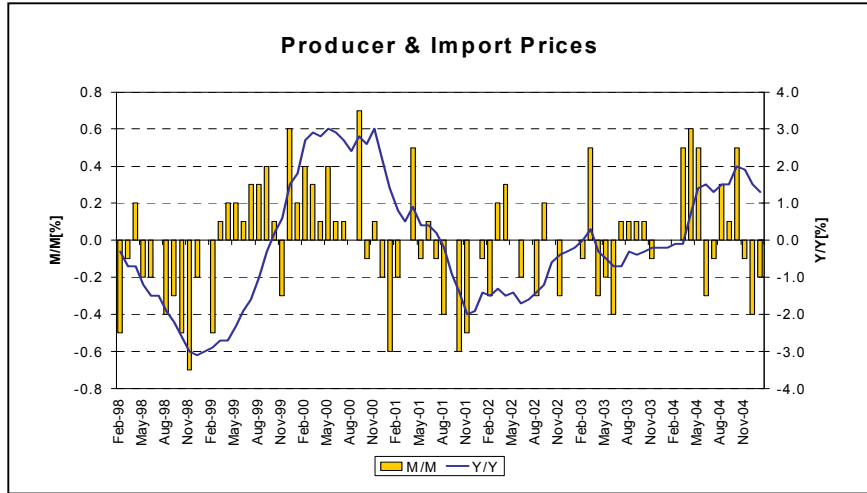
Chart of the Week



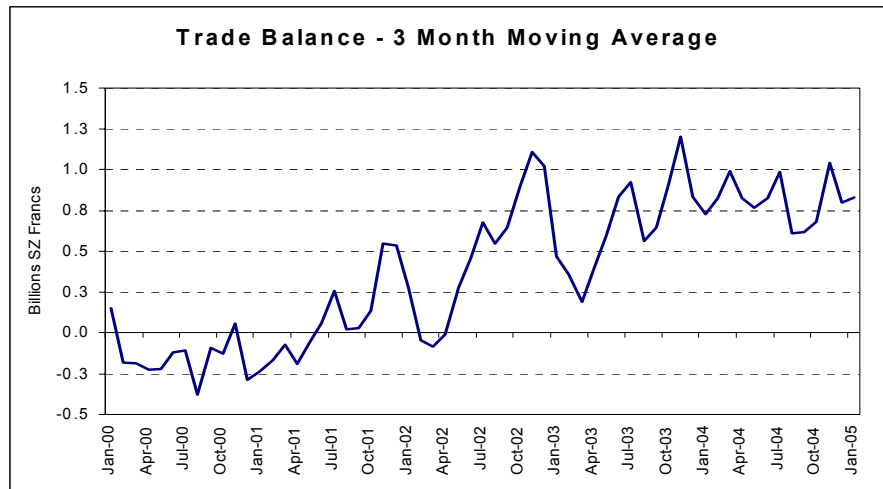
Retail Sales declined 4.3 % from a year earlier (adjusted for inflation and shopping days); the most significant drop since March of 2003 and the largest decline in almost 2 years.

Producer & Import Prices, Trade Balance

Producer and import prices unexpectedly declined for a third month in January



The surplus widened to 1.18 billion Swiss francs (\$1 billion) from 121.5 million francs in December, following higher demand for exports.



Commentaries

Reto Huenerwadel, an economist at UBS AG in Zurich:

“Oil prices are still the driving force behind inflation in Switzerland. We can expect the decline in the index only to be temporary. However, we don't expect oil to be as big a story this year as it was in 2004.”

Thorsten Hock, an economist at Zuercher Kantonalbank:

“The question is: how will it continue from here?” said who yesterday cut 2005 growth estimates to 1.7 percent from 2.1 percent. “We don't see a big dynamism from exports.”

SNB President Jean-Pierre Roth:

“The bank doesn't expect a significant decline in unemployment this year.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
02/25	KOF Swiss Leading Indicator	---	0.42
03/01	SVME-Purchasing Managers Index	---	51.7