

# Weekly Economic Reports

March 2, 2005

## Highlights

- **US:** Labor market indicators firming
- **Euroland:** Unemployment increases in France and Germany
- **Japan:** Pick up in consumer spending data
- **UK:** BoE waiting for more signs on consumer
- **Australia:** RBA hikes despite soft data
- **Switzerland:** 2 key indicators weaken

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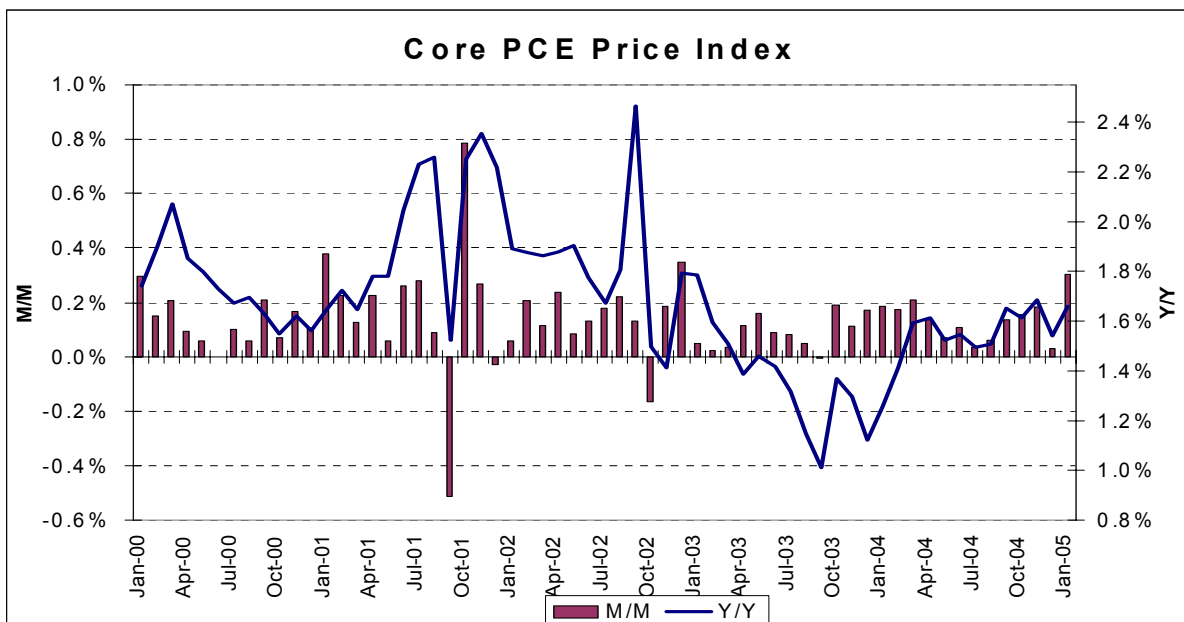
# U.S.

This week's economic data was mixed with softness in personal spending, vehicle sales and new home sales balanced by strength in the employment market and investment spending. Various comments from the Fed take different positions on inflation targeting, but all highlight vigilance on inflation, good growth prospects and that current rates are still accommodative.

## Weekly Highlights

- **Core PCE deflator-** increased 0.3% M/M in January. (page 2)
- **Personal Income-** increased 0.5% M/M adjusted for Microsoft dividend. (page 3)
- **GDP-** was revised up to 3.8% for Q4 2004 because of adjustments to net exports. (page 4)
- **New Home Sales-** dropped 9.2% M/M in January. (page 5)
- **Help Wanted Index-** increased from 38 to 41 in January. (page 6)

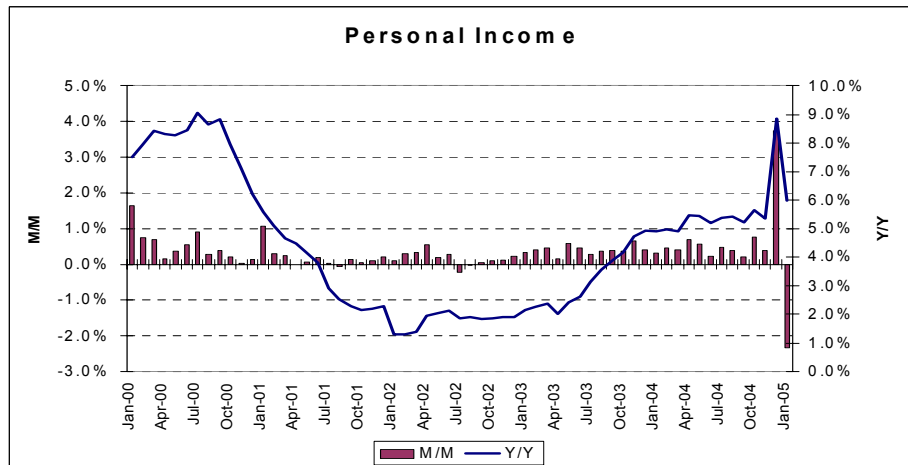
## Chart of the Week



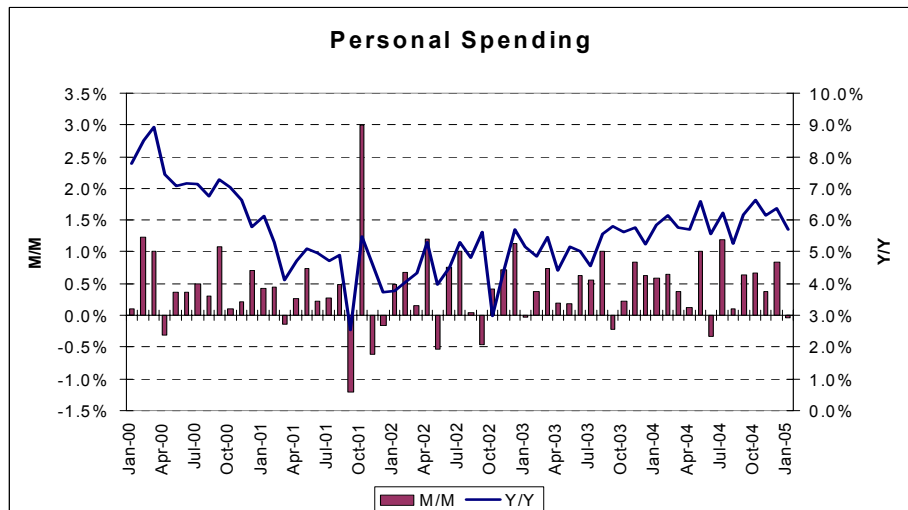
The Core PCE deflator increased 0.3% M/M and 1.6% Y/Y in January. The jump in this inflation gauge was partially driven by temporary gains in auto pricing that will likely be reversed in February. Despite the large jump in the Producer Price Index in January, both the Core CPI and Core PCE seem to indicate that inflation remains under control.

# Personal Income, Personal Spending & Total Vehicle Sales

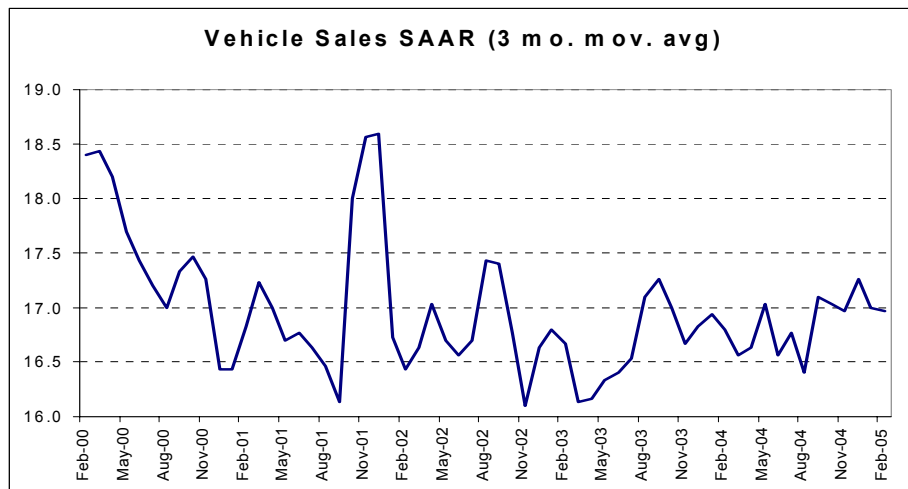
Personal income decreased 2.3% M/M and increased 6.0% Y/Y in January. Adjusted for the Microsoft dividend paid out in December, personal income increased 0.5% M/M.



Personal Spending was flat M/M and increased 5.7% Y/Y in January. The consumer apparently took a breather in January spending after large M/M gains in December.

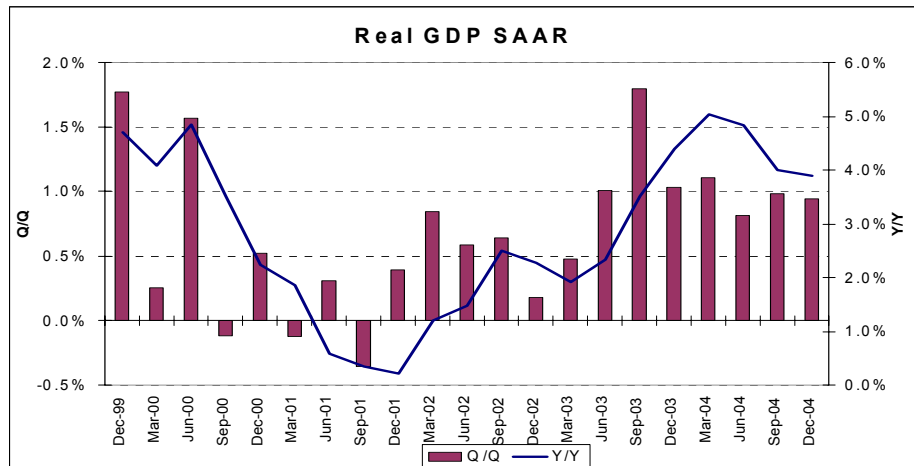


The seasonally adjusted annual rate of total vehicle sales increased slightly from 16.2 million to 16.3 million in February. Domestic producers continue to lose shares to foreign manufacturers like Toyota.

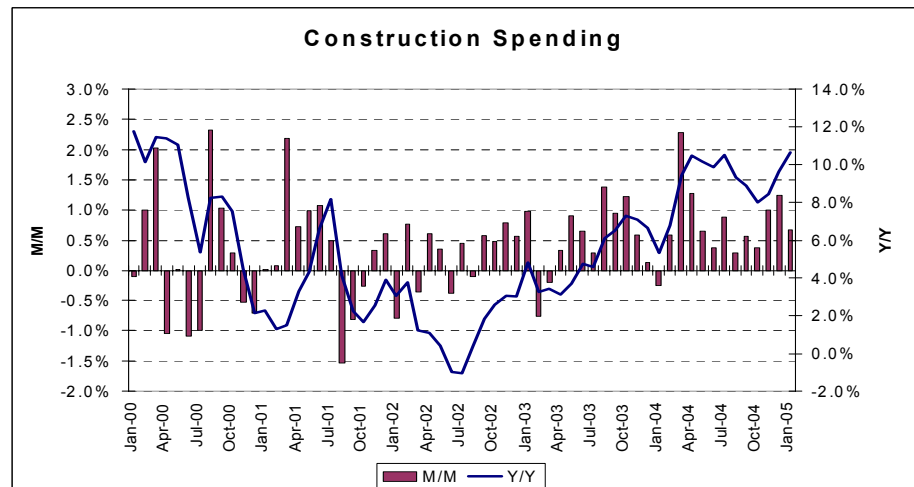


# GDP, Construction Spending & Durable Goods

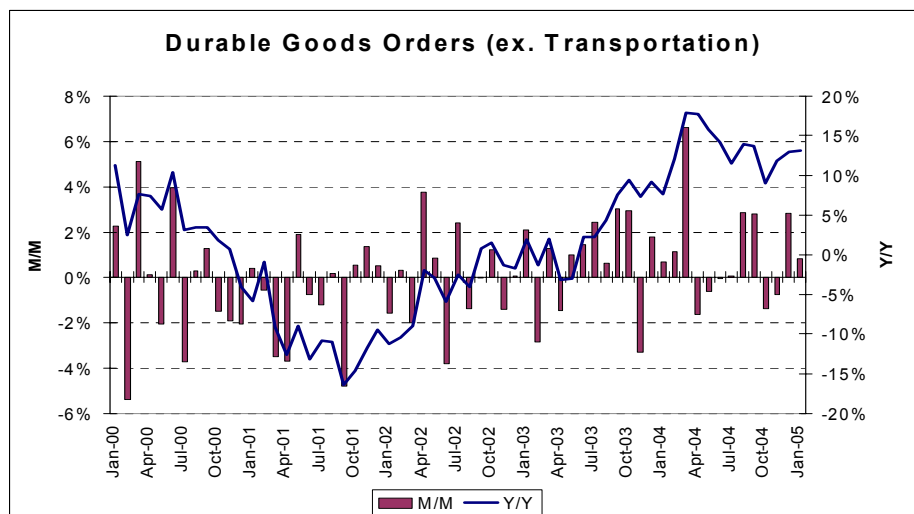
*Real GDP increased at a revised 3.8% annualized rate in the fourth quarter of 2004. The upward revision was primarily caused by corrections in the net export data.*



*Construction Spending increased 0.7% M/M and 10.6% Y/Y in January. This series continues to experience strong growth, but Y/Y comparisons start to get tougher in the months ahead.*



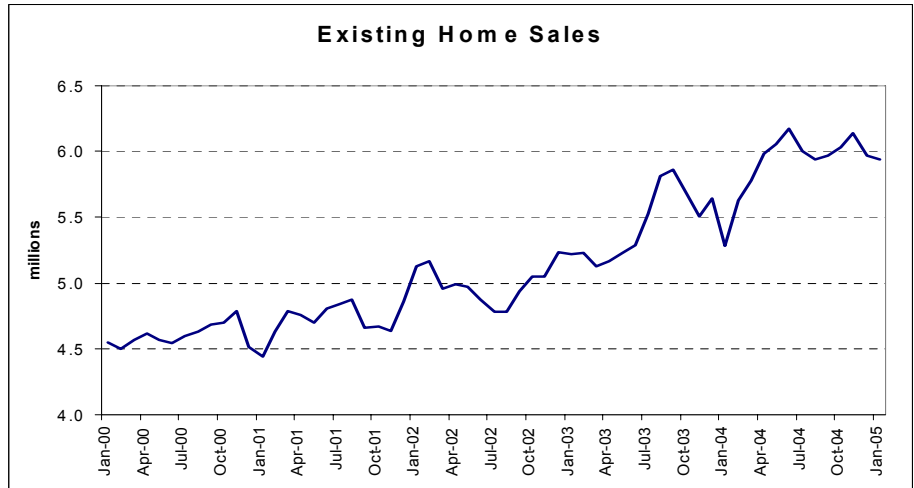
*Durable goods orders, excluding transportation, increased 0.8% M/M and 13.2% Y/Y in January. This series is extremely volatile, but seems to indicate that the strength in investment spending continues in 2005 despite the lack of accelerated depreciation tax benefits.*



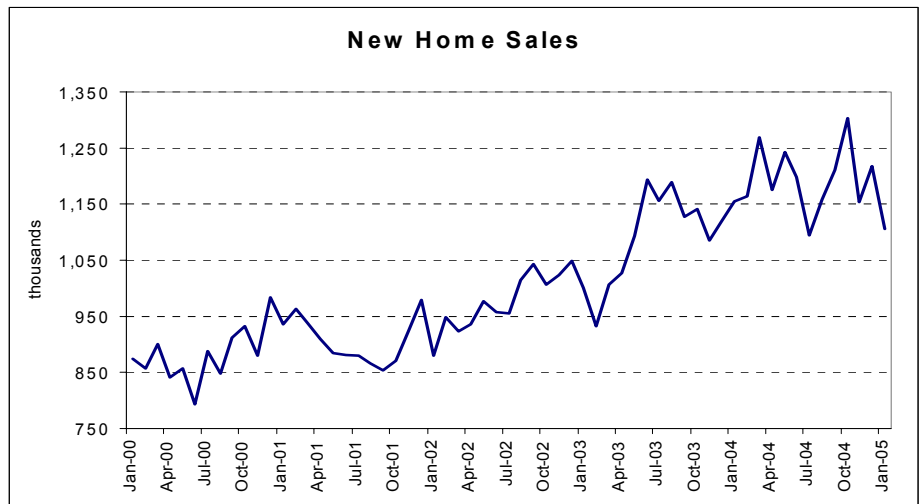
# Housing Market & Mortgage Applications

The seasonally adjusted annual rate of Existing Home Sales decreased slightly from 5.97 million to 5.94 million in January.

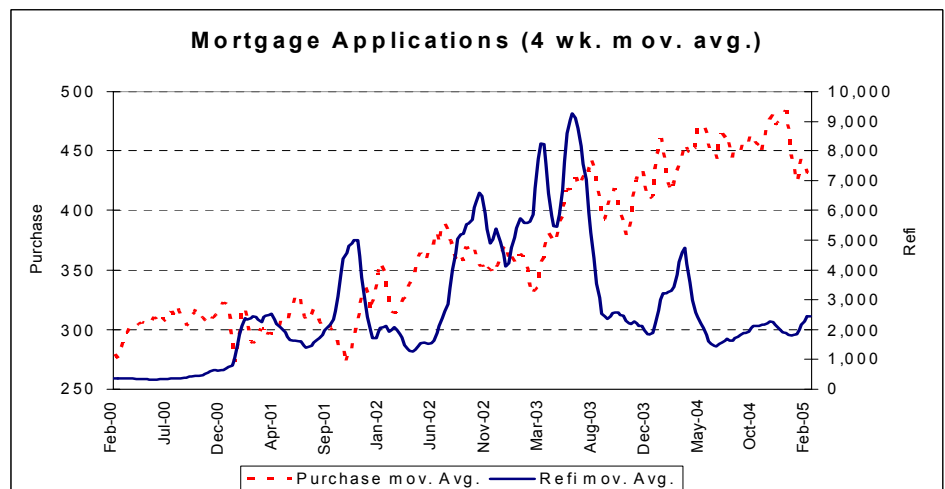
Prices and volumes have been relatively flat for the past six months. However, OFHEO showed housing prices increasing at an annualized rate of 6.8% in the fourth quarter of 2004.



The seasonally adjusted annual rate of New Home Sales declined from 1,218k to 1,106k in January. The 9.2% M/M decline in January confirms the view that housing is unlikely to be a driver of growth in 2005.

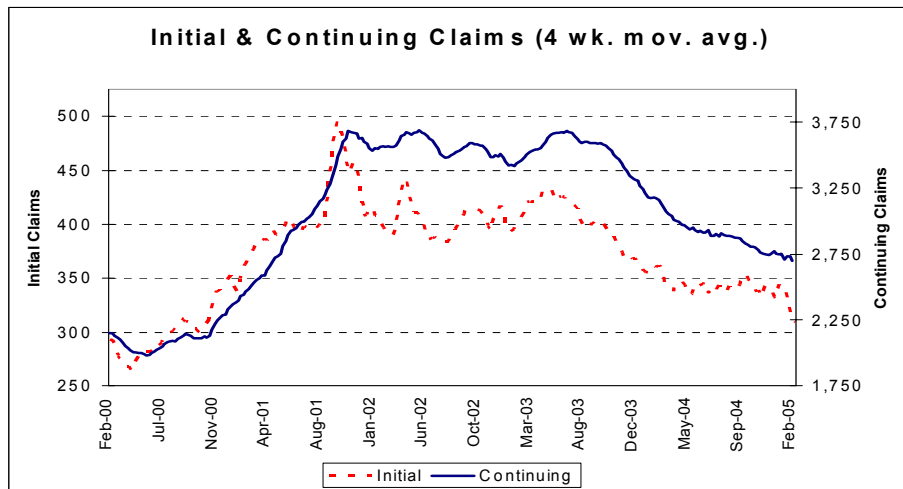


Purchase and Refinancing Mortgage Indices increased 5.3% and decreased 9.9%, respectively this week. Despite the increase in purchase applications this week the trend still looks soft.

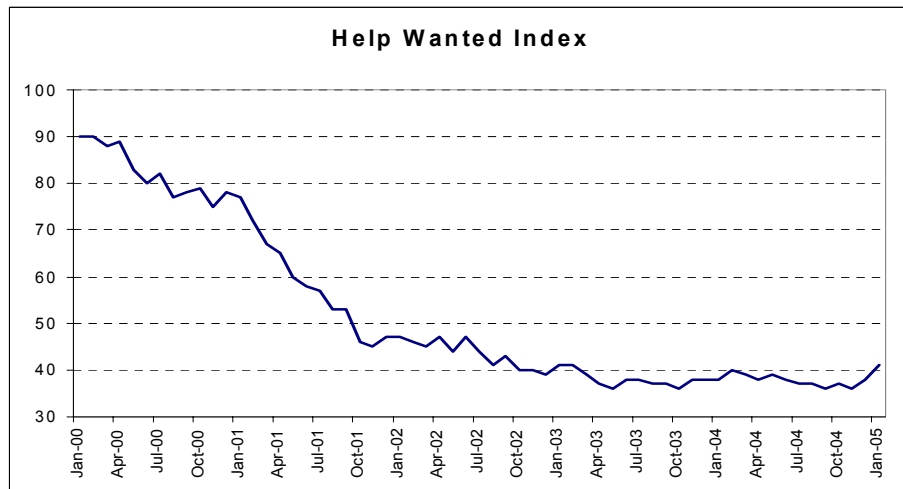


# Confidence & Employment

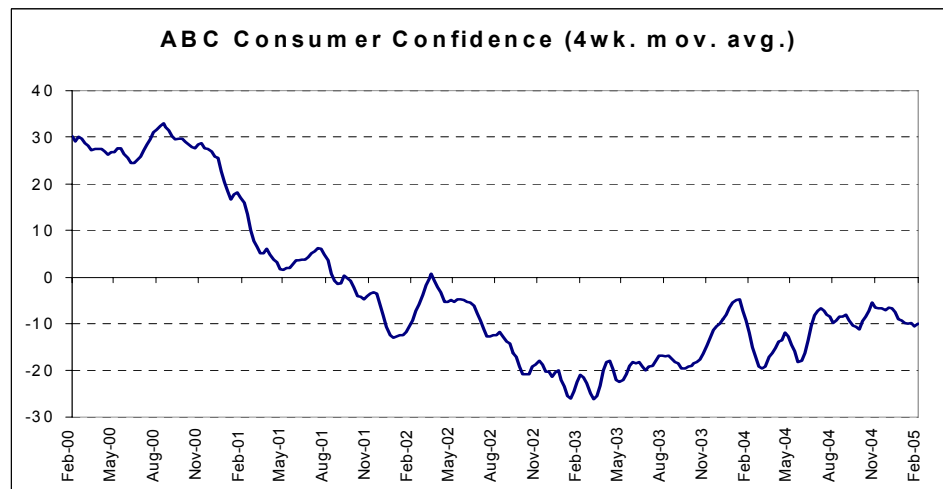
The four week moving average of initial and continuing claims dropped to 309k and 2,696k, respectively. The claims data suggest an above trend payroll number this Friday.



The Help Wanted Index increased from 38 to 41 in January. This series finally made a small jump higher after being relatively flat for over a year.

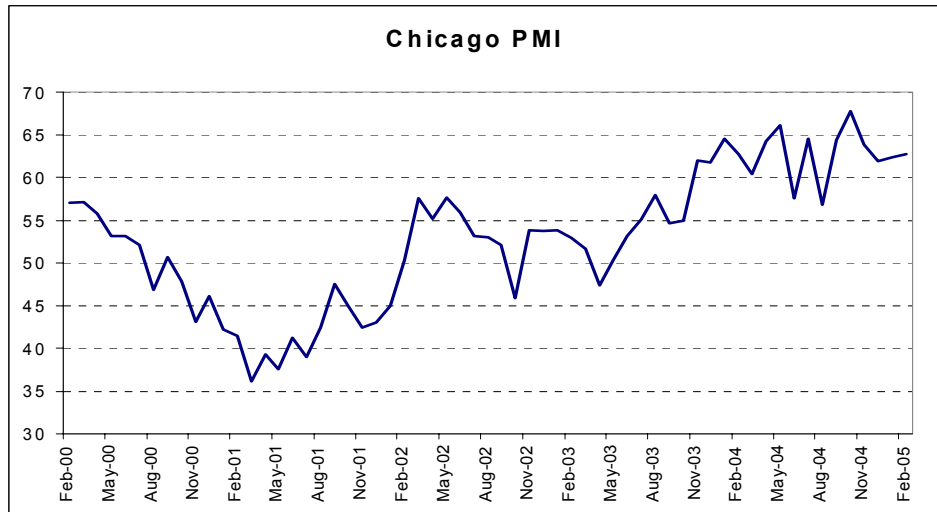


The ABC Consumer Confidence Index improved from -11 to -9 for the week of February 28th. The buying climate was flat, but the gain in finances component was larger than the decline in the economic conditions component.

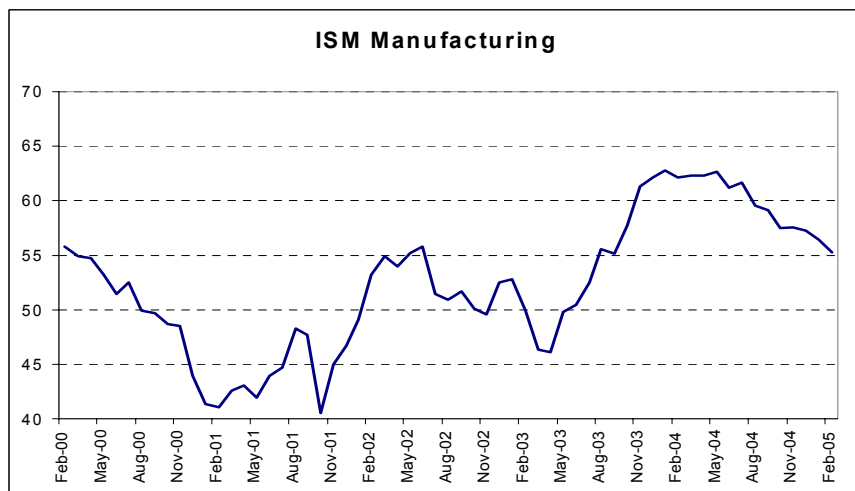


## Chicago PMI & Manufacturing ISM

*The Chicago PMI increased from 62.4 to 62.7 in February. The employment component improved from 52.8 to 57.7 and the price component decreased from 76.5 to 70.1.*



*The ISM Manufacturing Index decreased from 56.4 to 55.3 in February. The employment component declined from 58.1 to 57.4 and the price component declined from 69.0 to 65.5.*



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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/03	Non-farm Productivity (Q4 F)	1.5%	0.8%
03/03	Unit Labor Costs (Q4 F)	1.8%	2.3%
03/03	Initial Claims (FEB 26)	310k	312k
03/03	Continuing Claims (FEB 19)	2,658k	2,650k
03/03	ISM Non-Manufacturing (FEB)	60.0	59.2
03/04	Unemployment Rate (FEB)	5.2%	5.2%
03/04	Average Hourly Earnings (FEB)	0.2%	0.2%
03/04	Change in Non-farm Payrolls (FEB)	225K	146K
03/04	Average Weekly Hours (FEB)	33.8	33.7
03/04	U. of Michigan Confidence (FEB 7)	94.4	94.2
03/04	Factory Orders (JAN)	0.0%	0.3%
03/08	ABC Consumer Confidence (MAR 6)	NA	-9
03/09	MBA Mortgage Applications (MAR 4)	NA	-2.4%



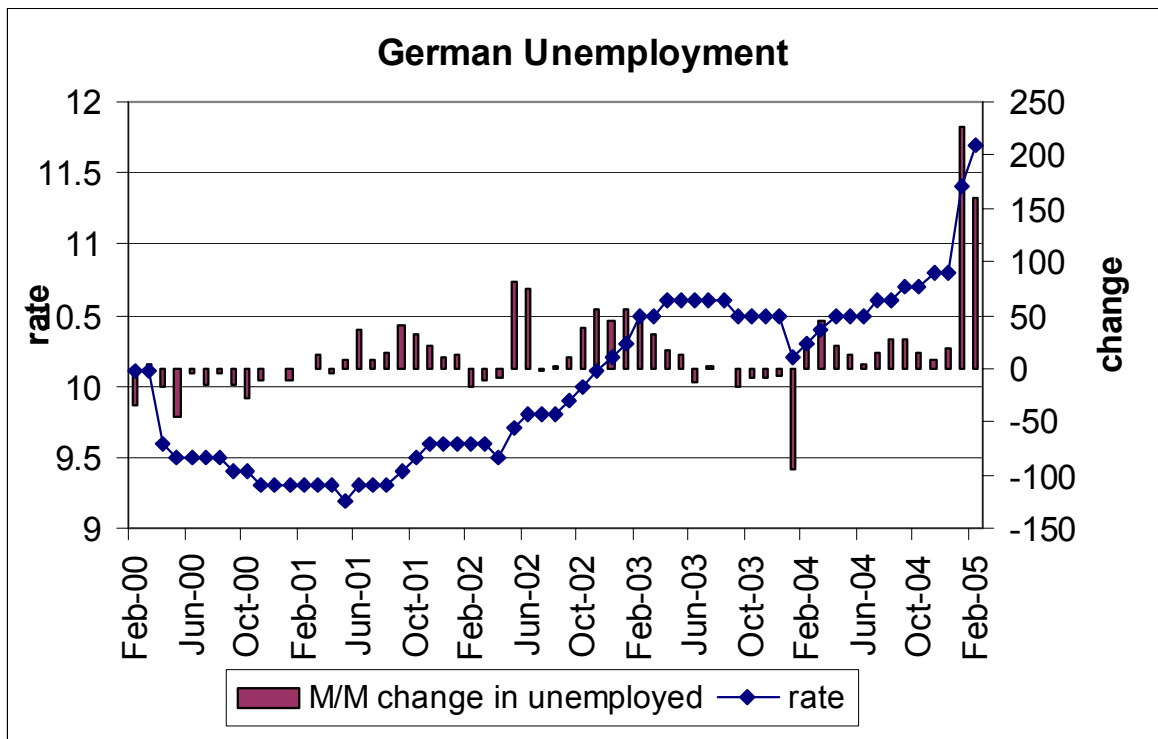
# Euroland

This past week continued to signal weakness in the Euroland as the Euro Zone's Q4 GDP slowed, unemployment increased in both Germany and France, and most confidence indicators echoed pessimism. Inflation pressures also seem to be abating, so Thursday's ECB meeting should clarify what the ECB is really focusing on, price stability or growth.

## Weekly Highlights

- **German Unemployment**- rose for the 13<sup>th</sup> consecutive month in February. (page 9)
- **Euro Zone GDP – growth** decelerated in Q4. (page 10)
- **Euro Zone Confidence**- February's business climate fell for the third month in four. (page 12)

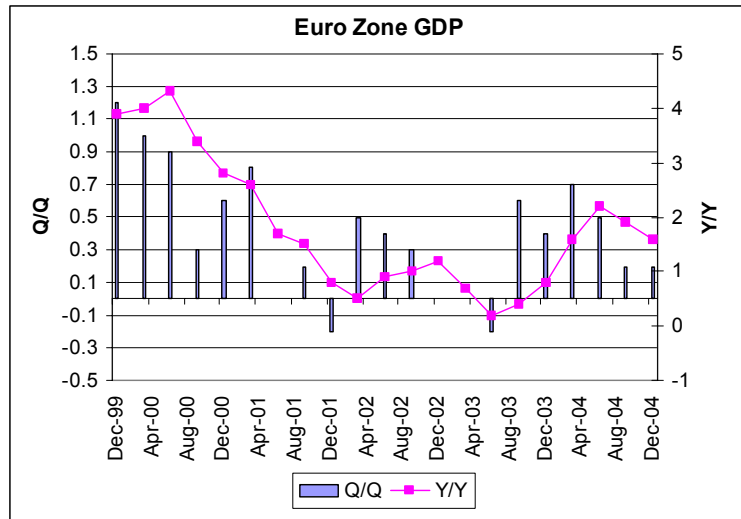
## Chart of the Week



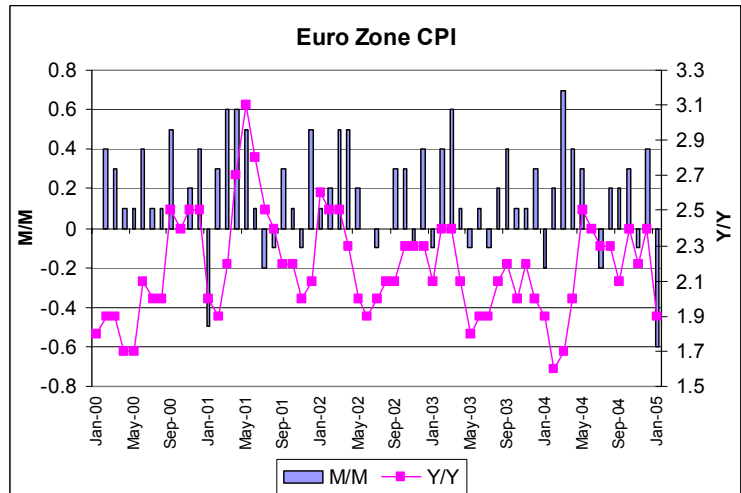
Germany's February Unemployment Rate rose to its highest since World War II as welfare changes caused more people to declare themselves unemployed. The total unemployed rose by 161,000 to 5.22 million as a result. The rate change notwithstanding, German unemployment has increased for 13 consecutive months.

# Euro Zone GDP & Inflation

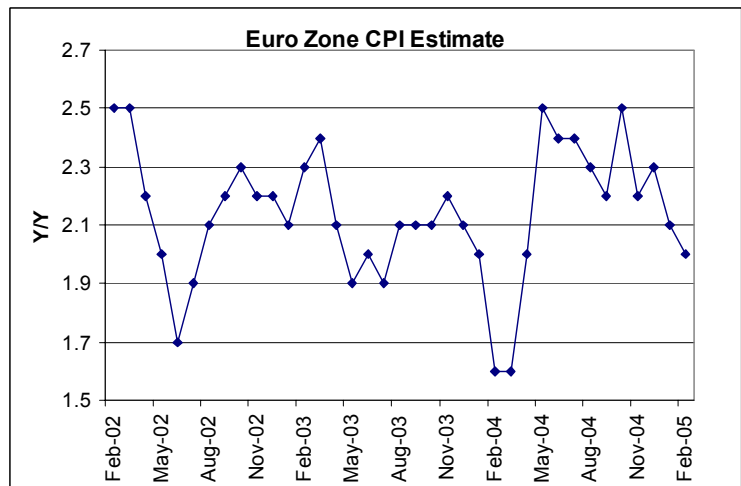
*The Euro Zone's Q4 GDP slowed from 1.9% Y/Y in Q3 to 1.6% as export growth slowed. The economy expanded 0.2% Q/Q for the second consecutive quarter. Q4's export growth was half of Q3's.*



*The Euro Zone's January final CPI fell 0.6% M/M while decelerating to 1.9% Y/Y. Falling clothing and energy prices are credited with the decrease.*

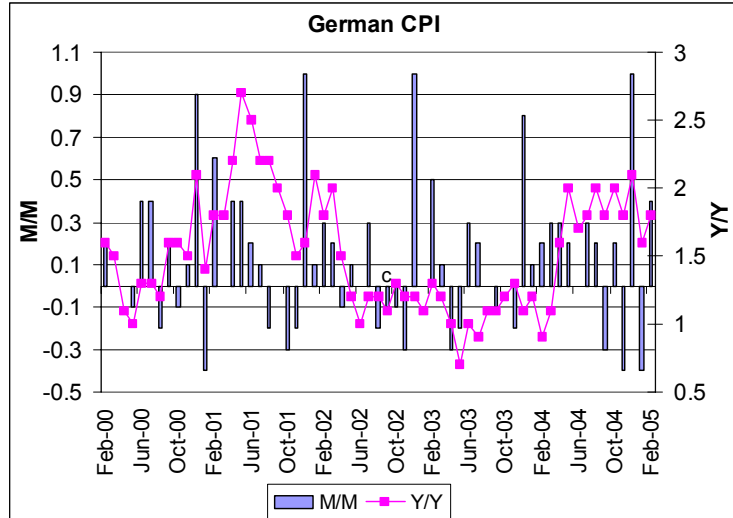


*The Euro Zone's February CPI is estimated to have accelerated from 1.9% in January to 2.0% due to increases in oil and food prices.*

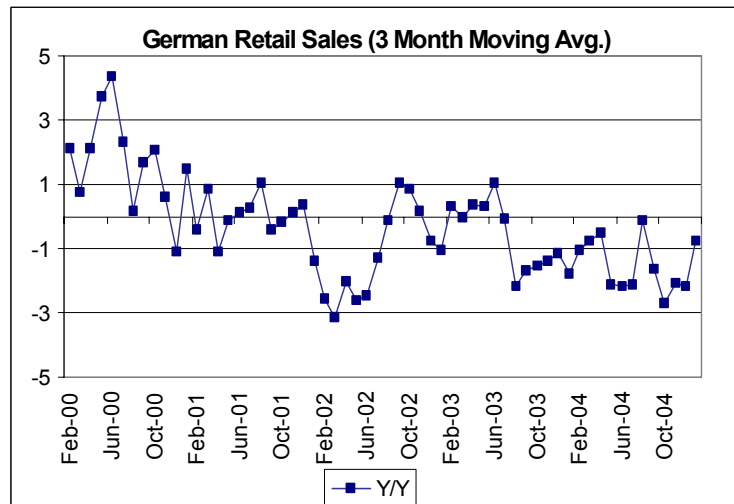


# German CPI & Retail Sales & French Unemployment

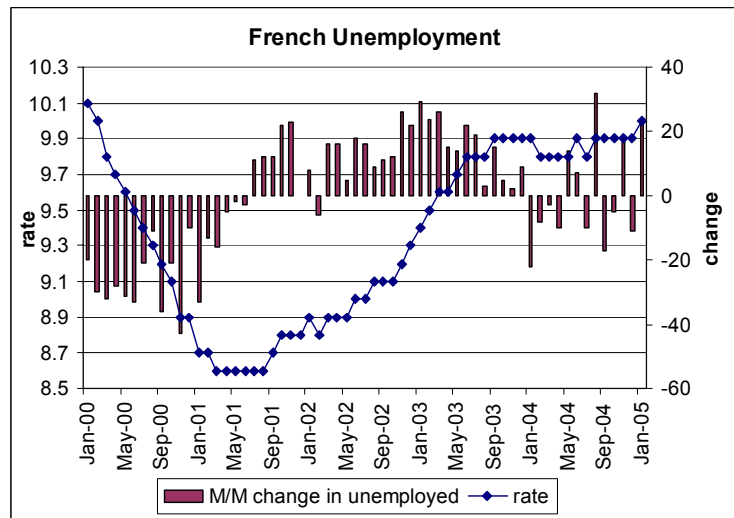
*Germany's February CPI accelerated from 1.6% Y/Y in January to 1.8% as the price of vegetables and heating oil increased amid freezing weather. Prices increased 0.4% M/M*



*Germany's January Retail Sales rose the most in seven months as tax cuts increased consumer incomes. Sales rose 2.1% M/M while falling 0.4% Y/Y.*

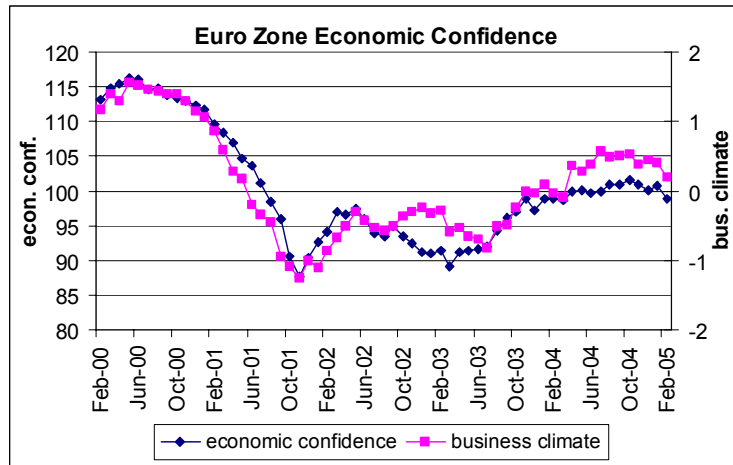


*France's January Unemployment rate rose to a five year high, increasing to 10%, as 24,000 jobs were lost. Market expectations were for a loss of 1,000 jobs.*

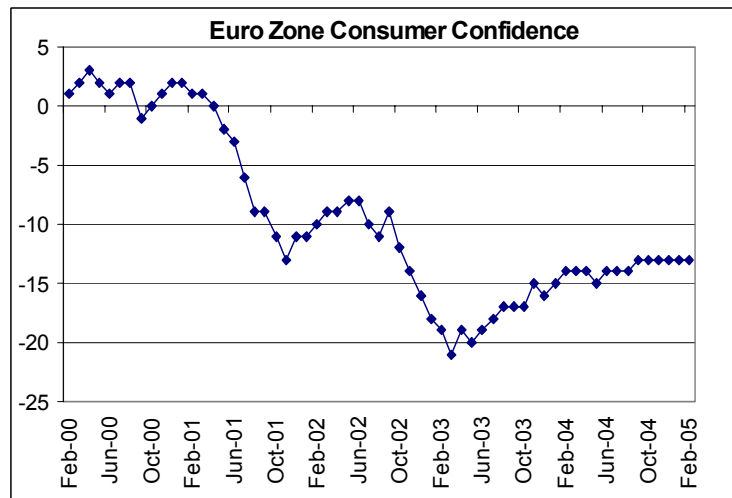


## Euro Zone & French Confidence

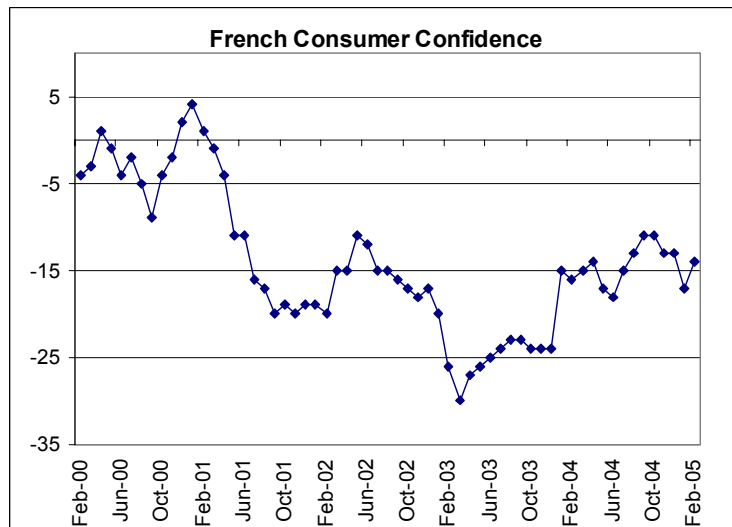
*The Euro Zone's February Business Climate indicator fell from 0.40 to 0.20 after rebounding in December. The Economic Confidence Index also fell, decreasing from 100.8 to 98.8.*



*The Euro Zone's February Consumer Confidence remained at -13 for the sixth consecutive month as high unemployment continues to weigh on the economy.*

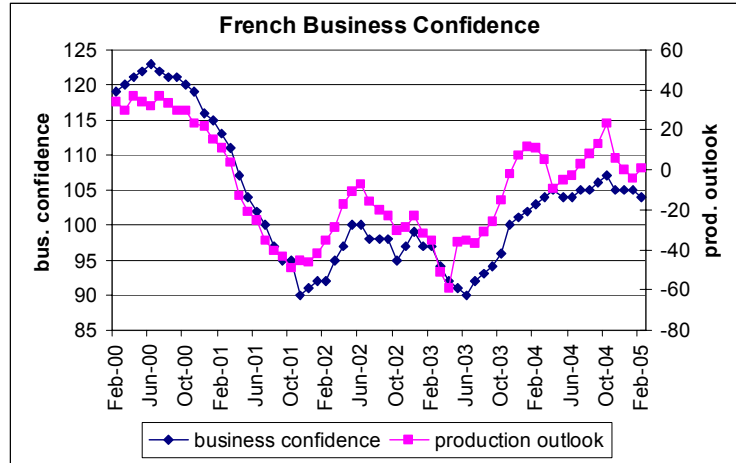


*France's February Consumer Confidence unexpectedly rose from -17 in January to -14. It was the first increase in five months.*



# French & Italian Confidence & Euro Zone PMI

*France's February Business Confidence fell from 105.0 in January to 104.0. Market expectations were for a slight increase. The Production Outlook increased from -4 to 1.*



*Italy's January Retailer's Confidence increased from 98.1 in December to 103.7.*



*The Euroland's February Manufacturing PMI Index remained unchanged at 51.9.*

<b>Euro-12 Manufacturing PMI</b>	<b>Feb 2005</b>	Jan	Dec	Nov	Oct	Sept	Aug	Jul	Jun	May
Overall Index	<b>51.9</b>	51.9	51.4	50.4	52.4	53.1	53.9	54.7	54.4	54.7
Output	<b>53.4</b>	53.3	52.3	50.4	54.0	54.8	55.7	57.1	56.0	56.5
Employment	<b>49.3</b>	48.1	48.3	48.0	49.0	49.5	49.4	49.7	49.4	48.7
Input Prices	<b>64.8</b>	69.1	69.9	72.1	76.4	71.3	66.6	70.2	70.3	72.3

### **ECB**

March 2<sup>nd</sup> – The **ECB** cut its 2005 economic growth forecast from 1.9% to 1.6% and reduced the 2006 forecast from 2.2% to 2.1%. They also reduced their inflation forecast for 2005 from 2.0% to 1.9%.

March 1<sup>st</sup> – **ECB member Nikos Garganas** may have started a trend of ‘less-hawkish’ rhetoric this week when he noted that economic growth in the Euroland may slow this year. Garganas also noted that, “The increase in interest rates will come, sooner or later. The ECB’s monetary policy is clear... As long as it (mid term price stability) is satisfied, it means that the ECB has no reason to increase rates”.

Feb. 25<sup>th</sup> – **ECB President Jean Claude Trichet** stated that inflation expectations are in line with the bank’s 2% limit, even as money supply grows faster than wanted. The ECB’s survey shows inflation expectations below 2% through 2009. Euroland money supply growth stands at 6.6% as of January.

### **Germany**

March 1<sup>st</sup> – **German Chancellor Gerhard Schroeder’s** government is said to be exploring ways to boost investment as a means to hopefully remedy the unemployment situation. Schroeder’s recent changes to welfare rules have already prompted more people to register as unemployed. Economy Minister Wolfgang Clement stated that, “Exports haven’t triggered a rebound in domestic growth the way it used to happen in the past. We must react to this.” Interestingly, last week, Clement was unable to convince Chancellor Schroeder to cut corporate taxes in the near future. Germany’s corporate tax rates are the highest of the Euroland countries.

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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/03	ECB Announces Interest Rates	2.0%	2.0%
03/04	Spanish Industrial Output (JAN)	3.1% Y/Y	0.9% Y/Y
03/04	Euro Zone Retail Trade (JAN)	0.7% M/M	0.2% M/M
03/04	Euro Zone Unemployment Rate (JAN)	8.9%	8.9%
03/04	German Factory Orders (JAN)	-4.5% M/M	8.2% M/M

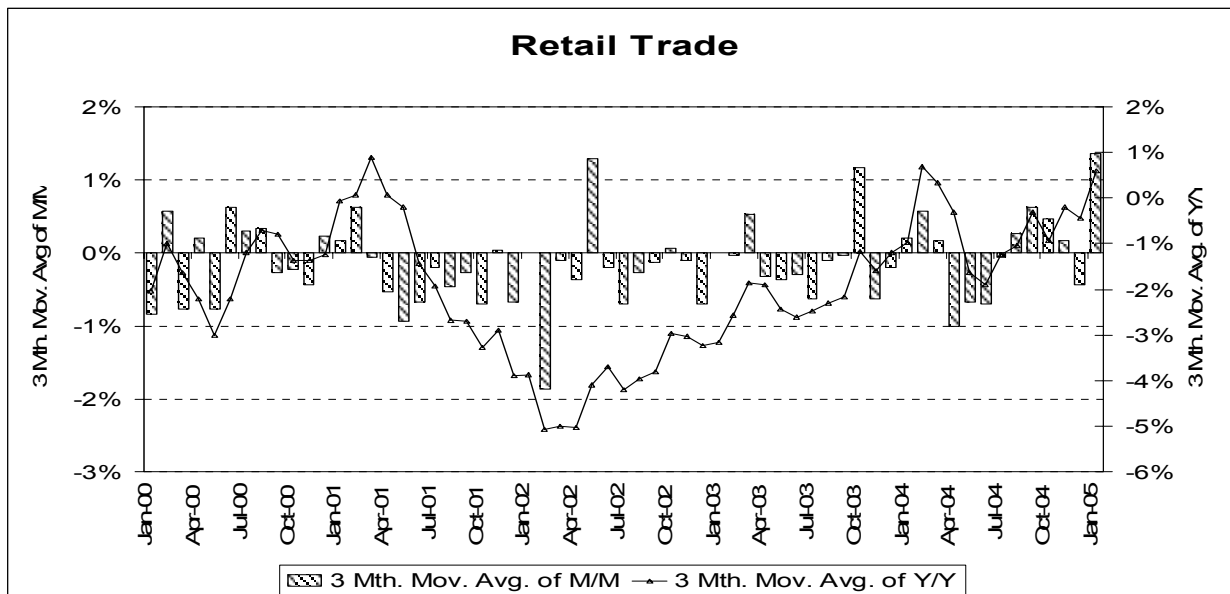
# Japan

Evidence has started to emerge that Japan's economic recovery is re-accelerating. Retail Trade, Large Retailer's Sales, Worker Household Spending, Industrial Production and Housing Starts all posted results well above expectations. Moreover, Tokyo Core CPI posted its first M/M increase in a year. On the Labor Market front, Japan's economy added 470,000 jobs, the highest increase since 1992, and the unemployment rate remained at a six year low at a 4.5% rate. We look for more positive data to emerge in Japan in the upcoming months.

## Weekly Highlights

- **Retail Trade** - increased 5.7% M/M and 2.2% Y/Y in January, above expectations. (page 16)
- **Nationwide Core CPI** - decreased 0.2% M/M and 0.3% Y/Y, in line with expectations. (page 17)
- **Employment** - increased 0.7% M/M (470,000 jobs) and 0.7% Y/Y in January. (page 18)
- **Industrial Production** – increased 2.1% M/M and 1.1% Y/Y in January, above expectations. (page 19)

## Chart of the Week

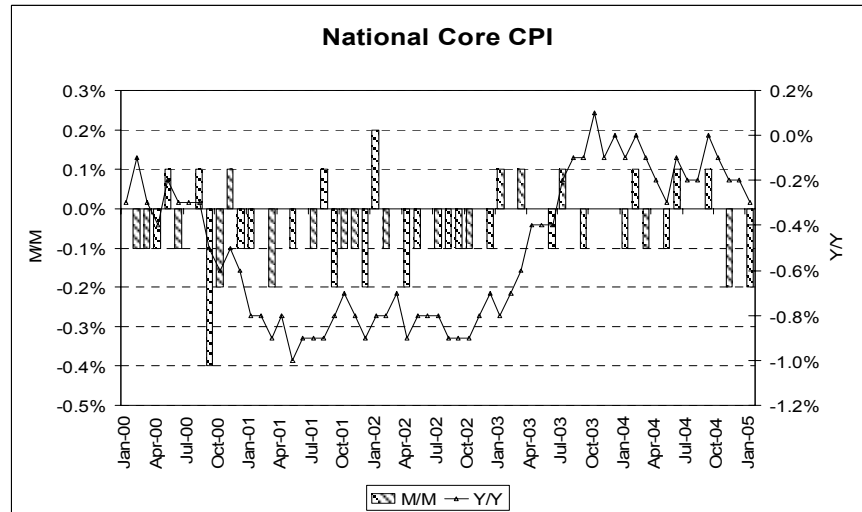


Retail Trade increased 5.7% M/M and 2.2% Y/Y in January, well above expectations, with its highest reading in more than six years. Retail trade increased across the board with increases in general merchandise (7.3% M/M), fabrics and apparel (10.3%) and food and beverages (6.8%). On trend terms, Retail Trade has been trending up since April of 2002.

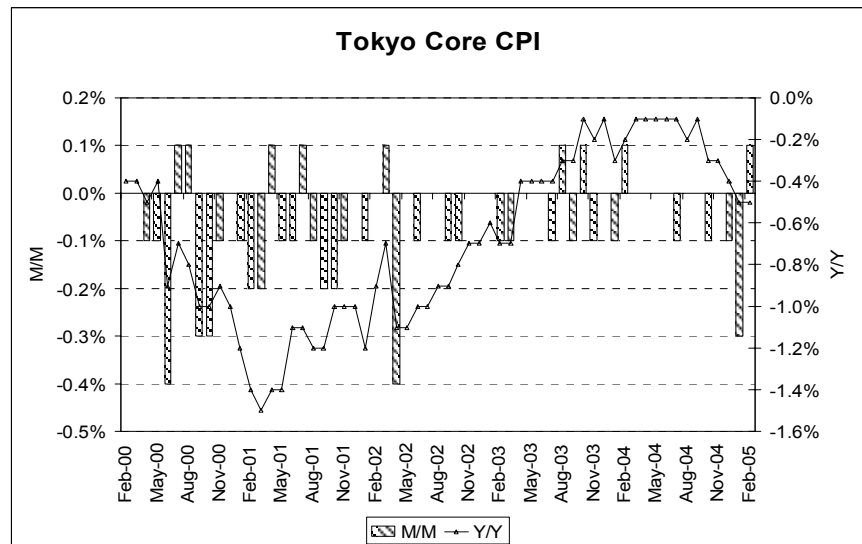


# National & Tokyo Core CPI and Large Retailers' Trade

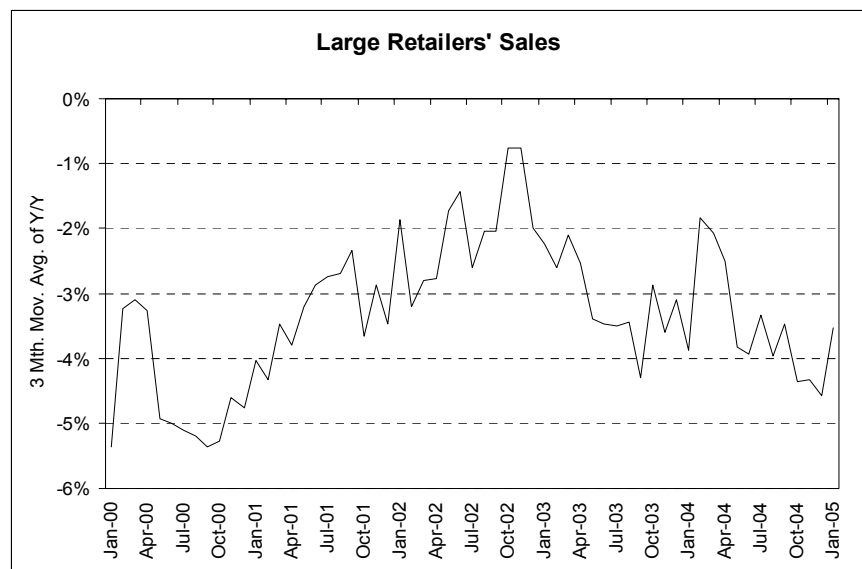
Nationwide Core Consumer Prices decreased 0.2% M/M and 0.3% Y/Y in January, in line with expectations. This decline was attributed to decreases in telephone and charges and rice costs. This series should be closely monitored, as an increase in Core CPI is one of the Bank's three main requirements to end the Zero Interest Rate Policy.



Tokyo Core CPI increased 0.1% M/M in February, above expectations of a flat M/M reading. On a Y/Y basis, Tokyo Core CPI decreased 0.5%.

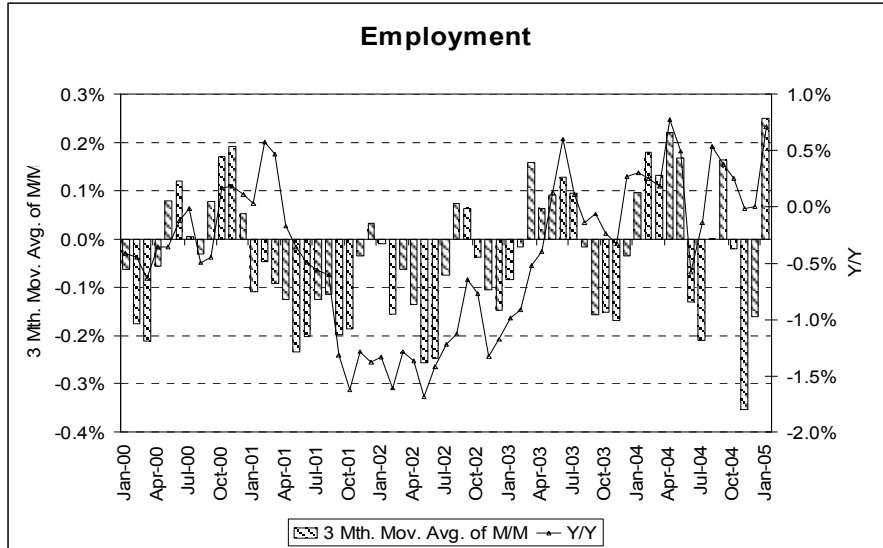


Large Retailers' Sales decreased 1.1% Y/Y in January, compared to expectations of -1.5% Y/Y. Sales in clothing and food and beverages increased 10.5% Y/Y and 12.1% Y/Y, respectively.

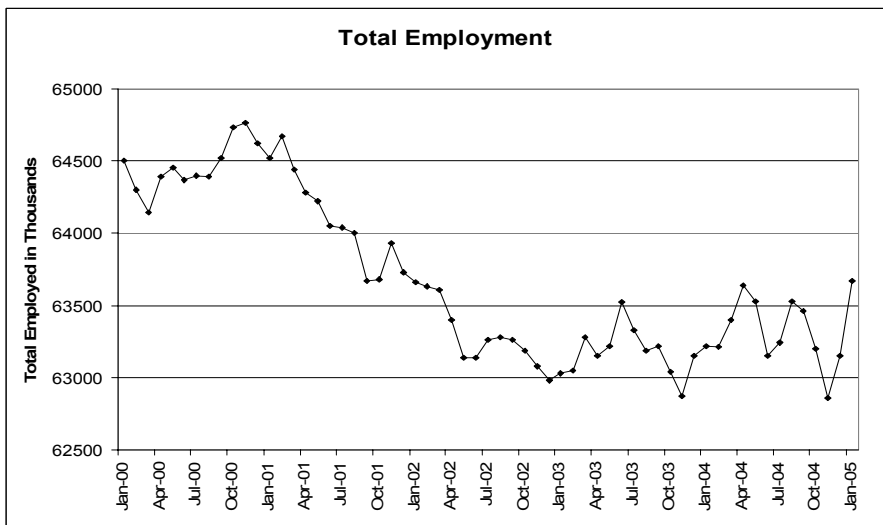


# Employment Data

*Employment increased 0.7% M/M (470,000 jobs) and 0.7% Y/Y in January.*

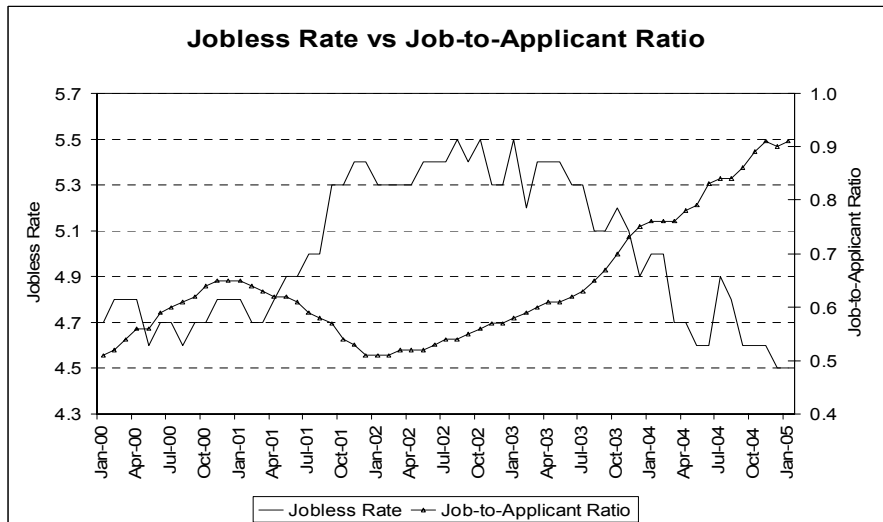


*Japan's economy added 470,000 jobs, the highest increase since 1992. At the same time 500,000 entered the labor force.*



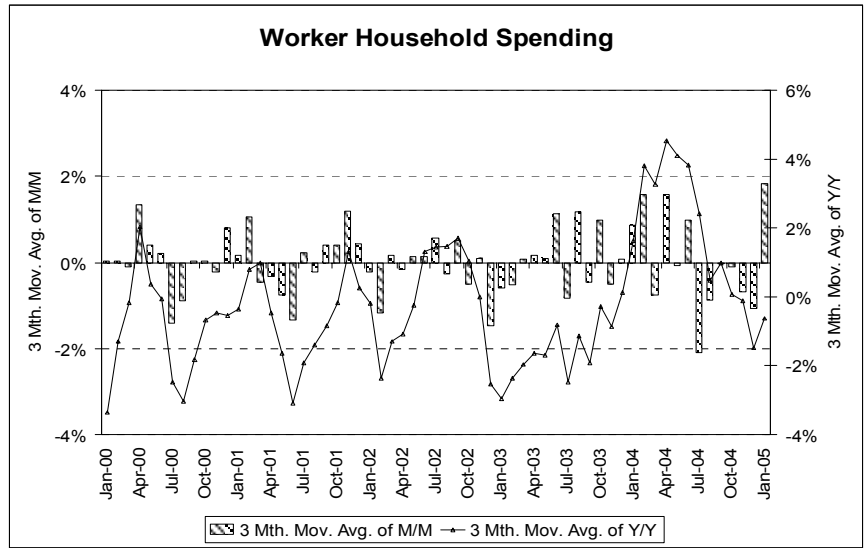
*In January, the Jobless Rate stood at 4.5%, remaining at a six year low. At the same time, the Job to Applicant Ratio increased from .90 in December to .91 in January.*

*Meanwhile, December's Jobless rate was revised from 4.4% to 4.5% and the Job-to-Application ratio from .94 to .90.*

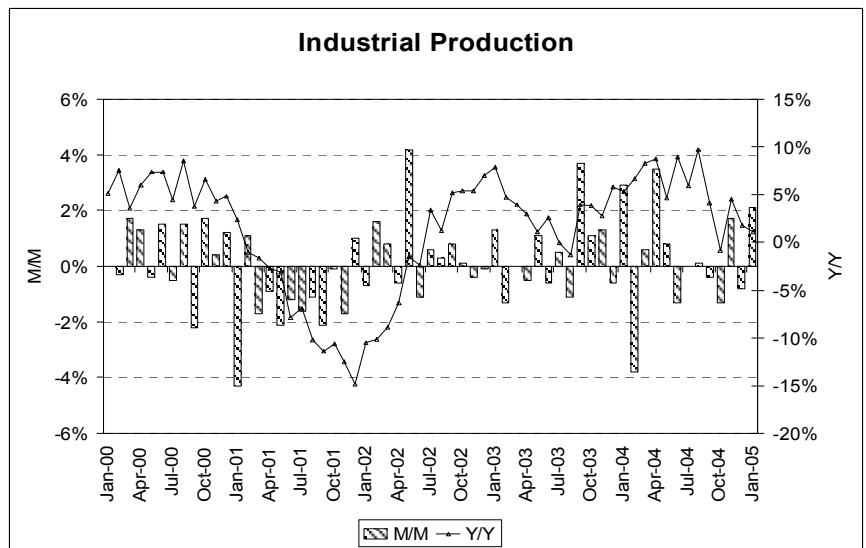


# Worker Household Spending and Industrial & Vehicle Production

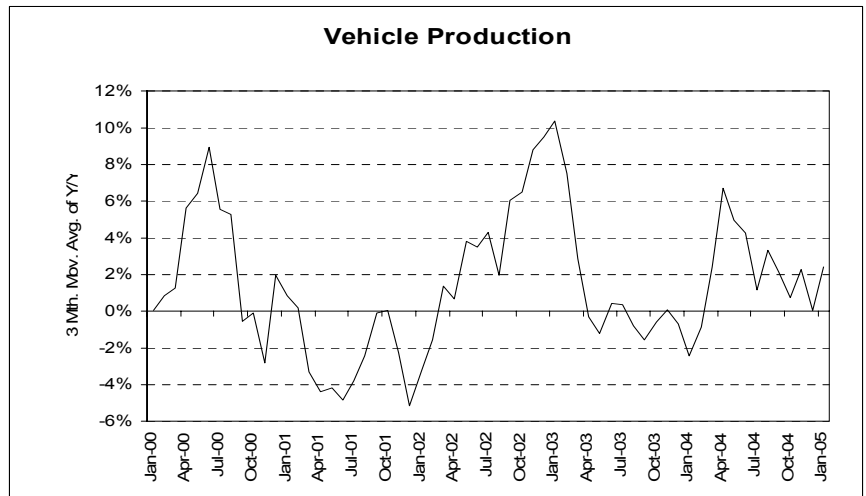
*Worker's Household Spending posted an upside surprise increasing 8.2% M/M and 2.6% Y/Y in January. This is reflective of strong Retail Sales in January.*



*Industrial Production increased 2.1% M/M and 1.1% Y/Y in January, above expectations of 1.5% M/M and 0.5% Y/Y. This increase was mainly led by increases in production of electronics parts, cars and telecommunications equipment. Inventory and Shipments increased 2.0% M/M and 1.8% M/M, respectively. According to a government survey, Industrial production is expected to decrease -0.5% M/M in February and -1% M/M in March.*

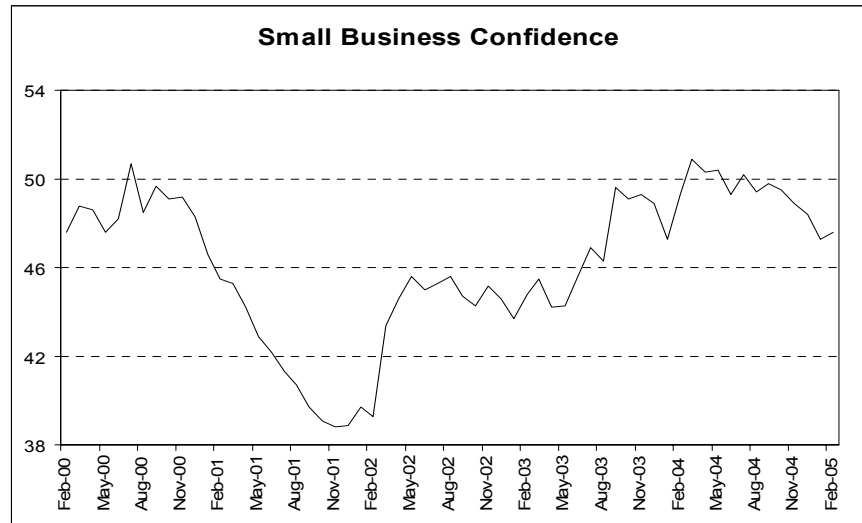


*Vehicle Production increased 3.5% Y/Y in January.*

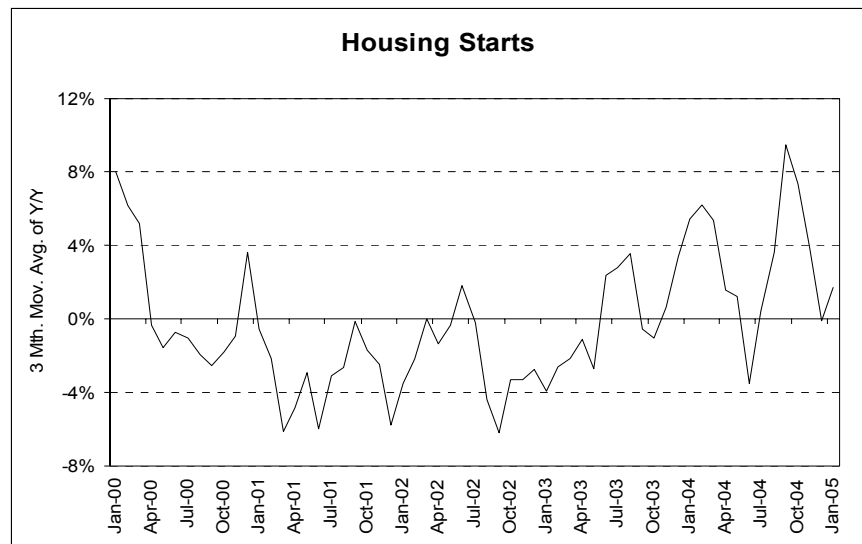


## *Small Business Confidence, Housing Starts & Construction Orders*

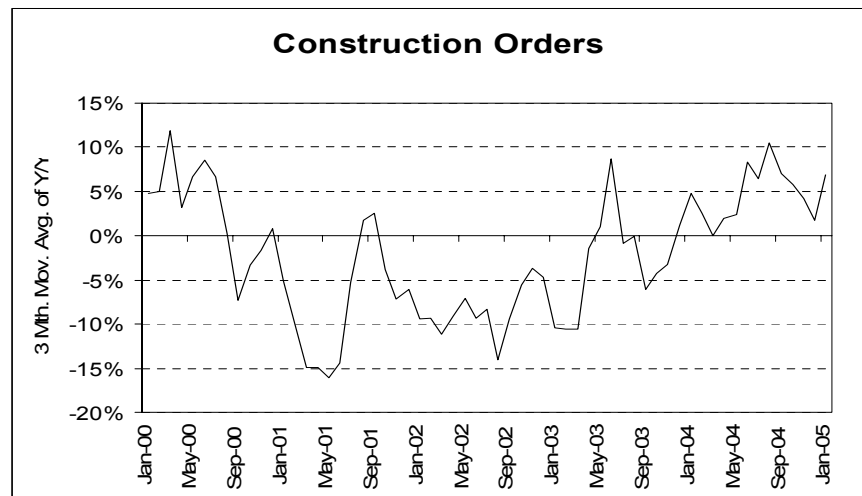
*Small Business Confidence increased from 47.3 in January to 47.6 in February. Sentiment among small manufacturers increased from 46.9 to 49.0, while confidence among retailers, construction companies and other non-manufacturers fell from 47.6 to 46.5*



*Housing Starts posted an upside surprise, increasing 6.9% Y/Y in January, compared to expectations of -2.7%.*

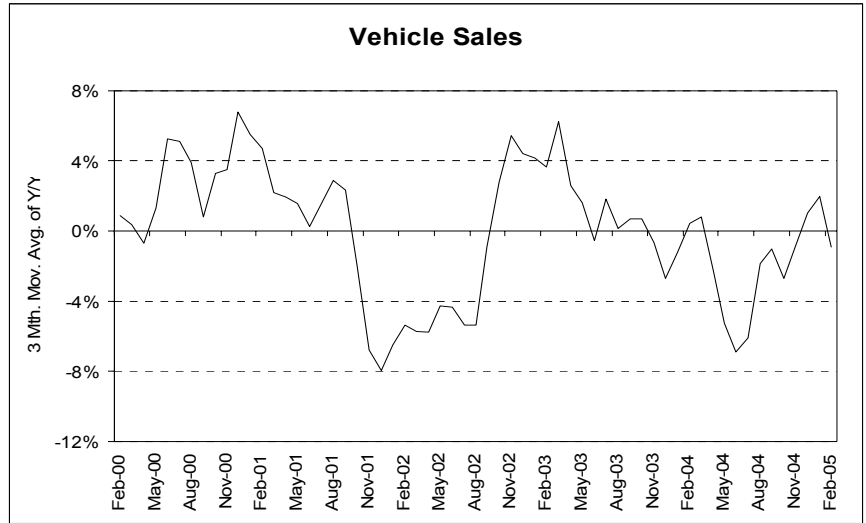


*Construction Orders increased from 1.4% Y/Y to 15.8% Y/Y in January, posting its eighth consecutive month of gains.*



# Vehicle Sales

*Vehicle Sales  
decreased 1.2% Y/Y  
in February.*



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## *Comments*

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### **Toshihiko Fukui, Bank of Japan Governor**

**March 2<sup>nd</sup>** According to Bloomberg news today, Governor Fukui commented to lawmakers in Tokyo that Japan's economic recovery is not strong enough at this point to resist shocks and the Bank will maintain its current monetary policy until the economy is able to withstand these shocks. However, Fukui mentioned that it's possible that households could be negatively affected should the Central Bank maintain its zero interest rate policy for a prolonged period of time. "We want to ask for the patience of the household sector for a little longer, as we want to use persistent monetary easing" to help end deflation, the Governor commented.

**February 28<sup>th</sup>** – "Regarding the flattening of the bond yield curve, we should always check if financial markets are excessively factoring in expectations that policy may be maintained for a long time," Fukui commented at a meeting with business executives and economist in Tokyo. He reiterated that the Bank will consider after April 1<sup>st</sup> whether it's appropriate to maintain the current target of between 30 trillion yen and 35 trillion yen. The Governor also mentioned that the Bank has no intention of changing its policy stance. In regards to prices, Fukui stated that "Looking closely, we can say the trend of Japan's price movements is changing."

### **Sadakazu Tanigaki, Finance Minister**

**March 1<sup>st</sup>** - "Deflation isn't over, as consumer prices are falling at a moderate pace as a trend," Tanigaki commented at a committee of parliament's lower house.

### **Junichiro Koizumi, Prime Minister**

**March 1<sup>st</sup>** – "The labor market continues to improve, and employees' compensation also rose in the fourth quarter," Koizumi commented in parliament in Tokyo. "The economic recovery is starting to show signs of spreading to households."

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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/06	Capital Spending 4Q		13.9%
03/06	Capital Spending Incl. Software 4Q		14.4%
03/07	Bank Lending (Y/Y) (FEB)		-2.7%
03/07	Labor Cash Earnings (Y/Y) (JAN P)		-1.0%
03/07	Overtime Earnings (Y/Y) (JAN P)		-0.5%
03/08	Household Spending (Y/Y) (JAN)		-3.5%
03/08	Overall Household Spending (M/M) (JAN)		-2.5%
03/08	Eco Watchers Survey: Current (FEB)		45
03/08	Eco Watchers Survey: Outlook (FEB)		48.3
03/09	Leading Economic Index (JAN P)		45.5
03/09	Coincident Index (JAN P)		30
03/09	Machine Tool Orders (Y/Y) (FEB P)		30.4%

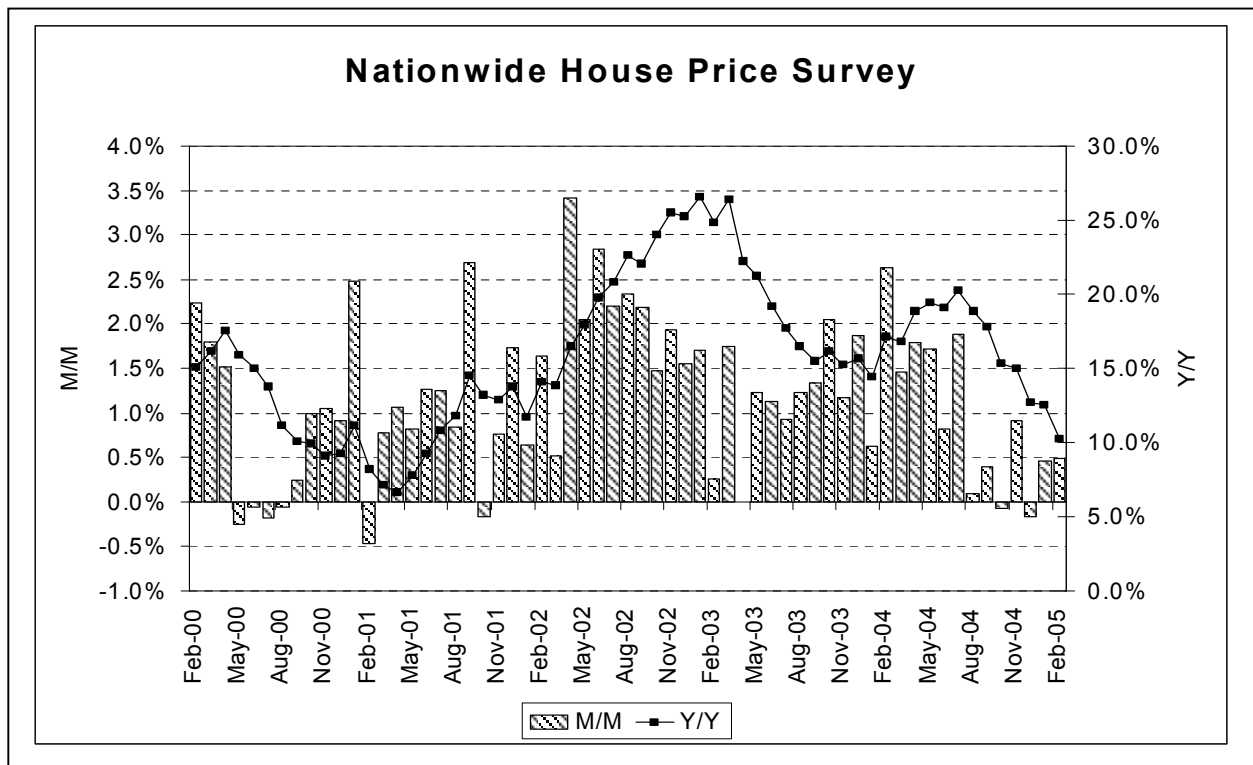
# United Kingdom

The Nationwide House Price survey increased at its fastest monthly pace in three months, while the BBA reported that mortgage approvals decreased in January. Three MPC members commented on their viewpoint of why the MPC should or should not continue to hike rates.

## Weekly Highlights

- **Nationwide House Prices**- increased 0.5% M/M and 10.2% Y/Y in February, the fastest monthly pace in three months. (page 24)
- **GfK Consumer Confidence**- decreased from +1 to 0 in February, slipping for the first time in five months. (page 25)
- **The British Bankers Association**- reported that mortgage approvals decreased 6.2% M/M and 28.0% Y/Y in January. (page 25)

## Chart of the Week



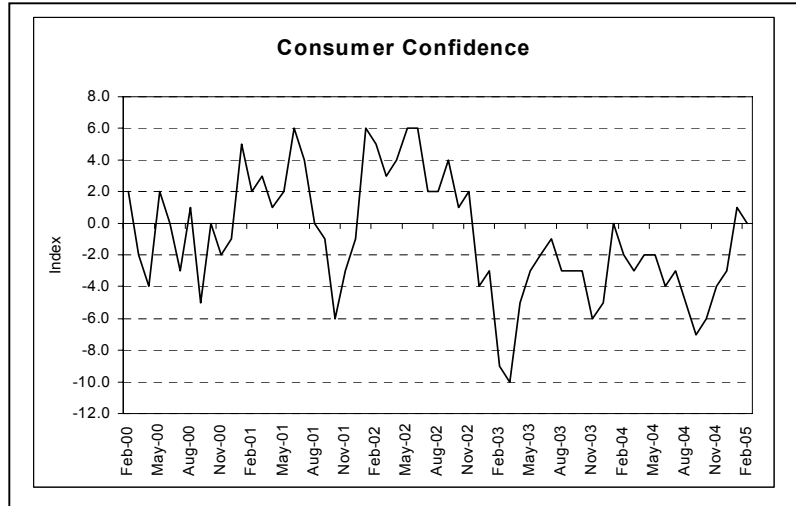
Nationwide House Prices increased 0.5% M/M and 10.2% Y/Y in February, the fastest monthly pace in three months.



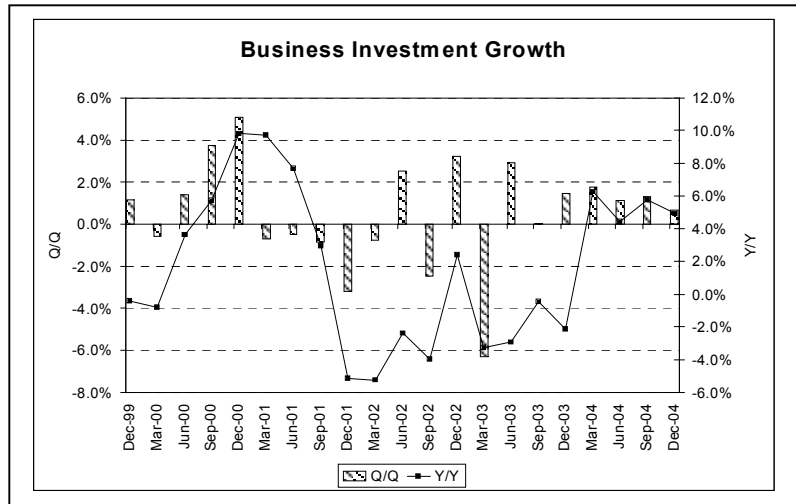
# Consumer Confidence, Business Investment & GDP

GfK Consumer Confidence decreased from +1 to 0 in February, slipping for the first time in five months.

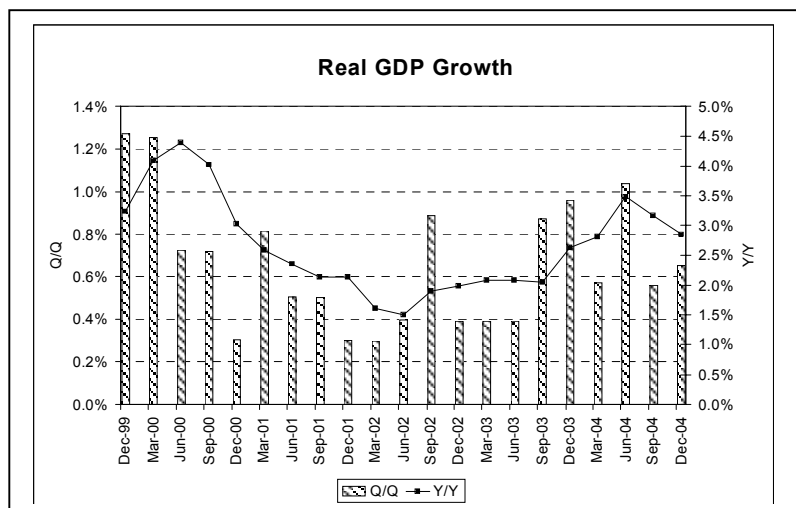
Expectations about the general economic situation over the coming 12 months improved from -10 to -6, the highest level since June of 2002.



Total Business Investment increased 0.7% Q/Q and 4.9% Y/Y in Q4. The increase was due to increased capital spending from the distribution services industries. This growth was slightly offset by declines in investment from manufacturing, construction and non-manufacturing public corporations.

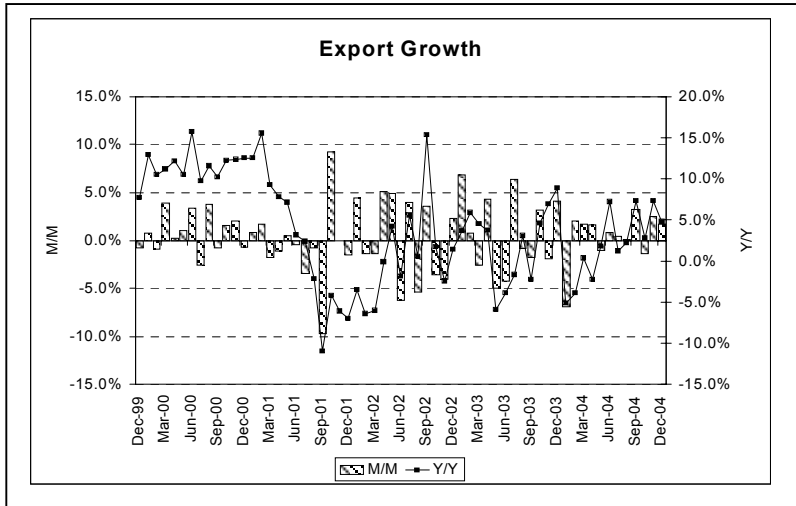


The second release of GDP in Q4 was 0.7% Q/Q and 2.9% Y/Y, unrevised from the first release. Growth in Q4 was driven by a rise of 0.9% Q/Q in the service sector with strength across the transport, storage & communication and financial & business services.

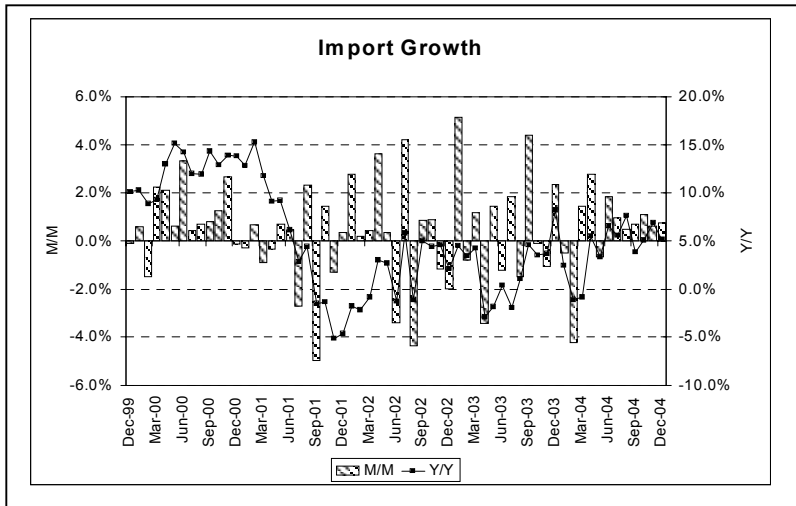


# Exports & Imports

Exports increased 1.8% M/M and 4.8% Y/Y in December.



Imports increased 0.8% M/M and 5.2% Y/Y in December.



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## *Data*

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### **BBA Mortgage Approvals**

The British Bankers Association reported that mortgage approvals decreased 6.2% M/M and 28.0% Y/Y in January. The BBA also reported that net lending for house purchases decreased 17.0% M/M.

### **BOE Mortgage Lending**

The Bank of England reported that mortgage lending increased 4.3% M/M in January, slightly higher than expectations.

### **CBI Distributive Trades**

The Confederation of British Industry (CBI) Distributive Trades Retail Store Index increased from -3 to +2 in February, slightly lower than expected. Business optimism increased from 0 to +8 in the three months through February.

### **CIPS Construction PMI**

CIPS Construction PMI decreased from 55.5 to 54.2 in February, the slowest pace in more than four years. Housing activity construction dropped from 54.9 to 52.7. New orders rose from 55.6 to 56.9.

### **HSBS Holdings Plc**

HSBS Holdings Plc reported that consumer demands for loans increased from -3.1% 3M/3M to 1.3% 3M/3M in the three months through February. This is one of the first reports to show a re-acceleration in the willingness of consumers to borrow more. HSBS also reported that mortgage enquiries in the three months through February increased 13.0% Y/Y.

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## *MPC Member's Comments*

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### **MPC Member Paul Tucker**

MPC Member, Paul Tucker, who was the only member to vote for a rate hike at the last meeting, said inflation is more likely to exceed the Bank's target and that the current level of interest rates is stimulating growth even after five rate increases since 2003. Tucker mentioned in a speech there's an "upside risk" to wages and that the "downside" risks to the bank's inflation forecast have diminished since November. "Conditions of excess demand, combined with the likelihood of stronger import prices, point to inflation gradually rising back towards and through the 2 percent target over the next two years or so. There are many risks around that central outlook, but, taken together, compared with November I judge them to be slightly less to the downside over the medium term."

### **MPC Member Rachel Lomax**

MPC Member, Rachel Lomax, stated that while there is "almost always" a case for waiting, "we need to be pre-emptive" and "any weakness in consumer spending is likely to be temporary." She also commented that the weakness of the euro region, which purchases about half of British exports, is likely to prove temporary.

### **MPC Member Stephen Nickell**

MPC Member, Stephen Nickell, said that it might be dangerous to increase the U.K.'s Central Bank interest rates. This statement is at odds with the comments made by Tucker and Lomax: "The danger is in putting rates up and then discovering that household consumption growth is really seriously slowing and then having to put rates down again. There is a genuine uncertainty that the current slowdown in U.K. retail spending is temporary. My feeling is that this uncertainty will be resolved relatively quickly, within three or four months." Nickell also mentioned that "the labor market is quite tight, but the question is how tight it can go."

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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
3/3	PMI Services	56.0	
3/7	BRC Retail Sales Monitor		
3/9	Industrial Production		0.5% M/M 0.3% Y/Y
3/9	Manufacturing Production		0.6% M/M 1.1% Y/Y
3/9	Trade Balance		-£4428B

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# Canada

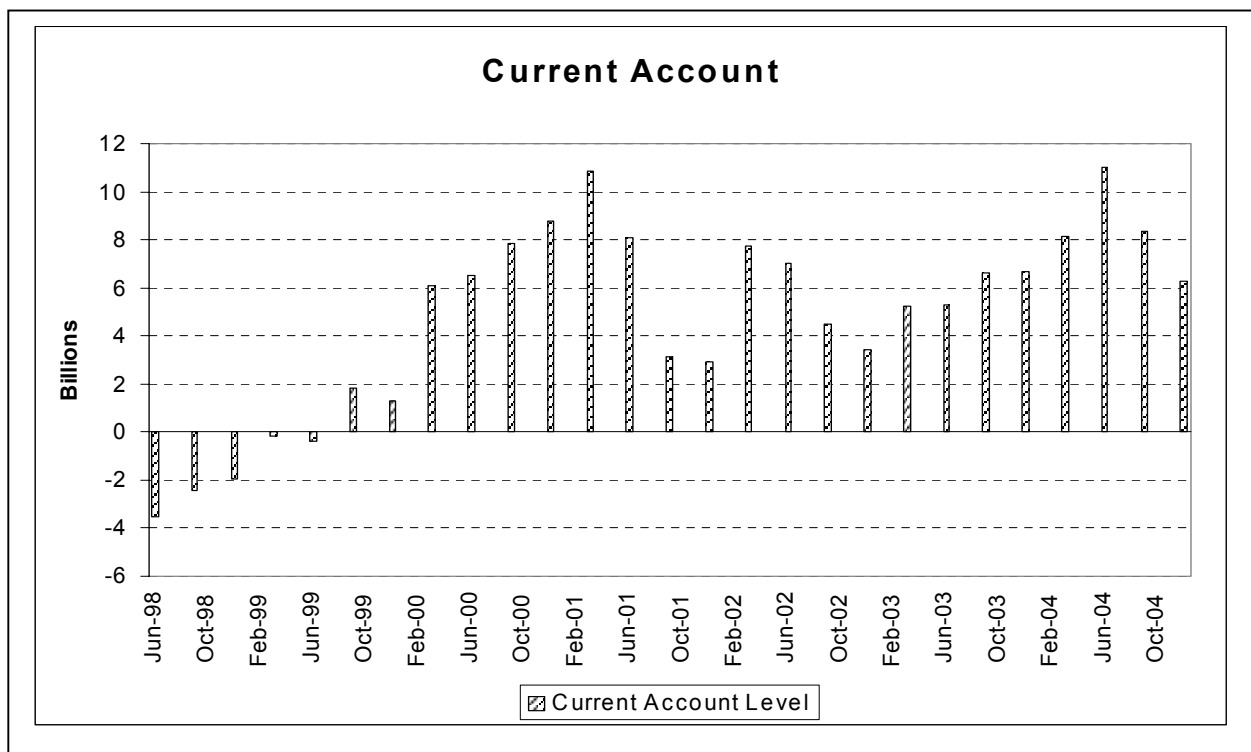
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The BoC decided to leave its overnight rate unchanged this week. Recent numbers support their decision that rates need to be left unchanged to continue to support growth. The current account narrowed more than anticipated while the economy grew in Q4 as economists anticipated. Most economists do not expect the BoC to find the need for another rate hike until Q3 2005 at the earliest.

## Weekly Highlights

- **Current Account** – narrowed from \$9.4B to \$6.3B in Q4. (page 30)
- **GDP** – increased 0.3% M/M and 2.9% Y/Y in December. (page 31)
- **Industrial Product Prices** – increased 0.5% M/M and 3.2% Y/Y in January. (page 31)
- **Raw Materials Prices** – increased 4.5% M/M and 12.6% Y/Y in January. (page 31)
- **BoC Rate** – was left unchanged at 2.50% on March 1<sup>st</sup>. (page 32)

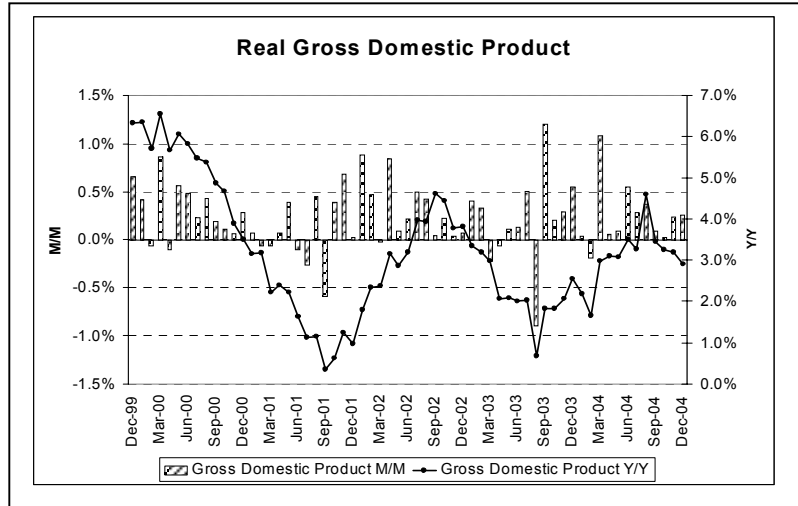
## Chart of the Week



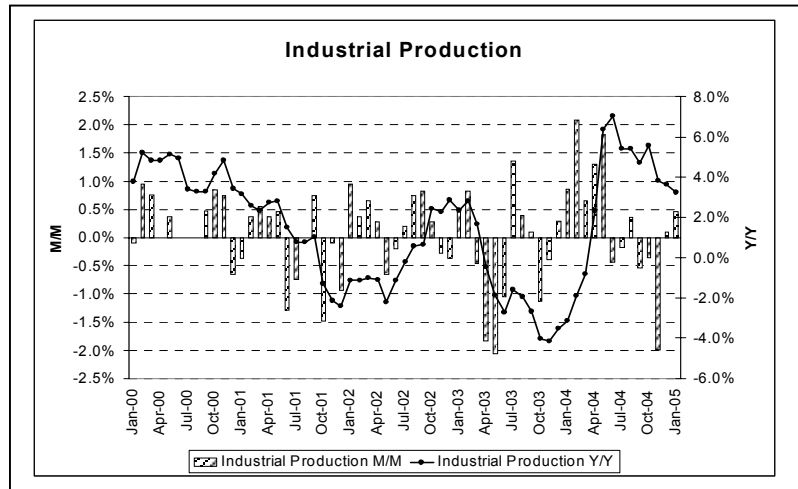
The current account surplus in Canada narrowed from \$9.4B to \$6.3B in Q4, the lowest in more than one year as corporate profits declined. The decline suggests that it may take a few more months before the manufacturing sector fully recovers from the slow down in late 2004, supporting views that the BoC is not likely to find the need to increase its overnight rate until Q3 of this year.

# GDP, Industrial Product Prices & Raw Material Prices

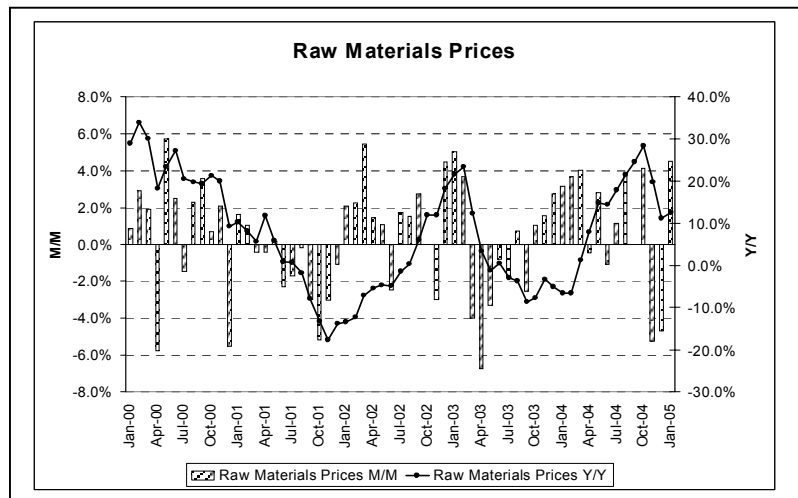
The Canadian economy expanded 0.3% M/M and 2.9% Y/Y in December. The increase slowed growth to a 1.7% annual rate of growth in Q4, the slowest in over a year and supports views that the BoC will remain on hold until late in 2005.



Canadian factories received 0.5% M/M and 3.2% Y/Y more for their goods in January. This increase was the largest since May.



Manufacturers paid 4.5% M/M and 12.6% Y/Y more for raw materials in January.



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## ***BoC Rate Decision***

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### **BoC Leaves Overnight Rate Unchanged at 2.50%**

The Bank of Canada left its overnight rate unchanged at 2.50% on March 1<sup>st</sup> to help bolster domestic spending as a strong currency had been slowing economic growth. “The outlook for the Canadian economy and inflation, the analysis of the factors at play, and the implications for the pace of reduction in monetary stimulus are essentially unchanged (from January),” the Bank stated in its statement. The phrase “reduction in monetary stimulus” was absent from the previous statement, so the press release was modestly more hawkish.



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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/04	Ivey PMI (Feb)	54.3	50.0
03/07	Building Permits (Jan)	-2.0%	1.6%
03/08	Housing Starts (Feb)	222.5K	203.7K
03/09	New House Price Index (Jan)	0.3%	0.2%

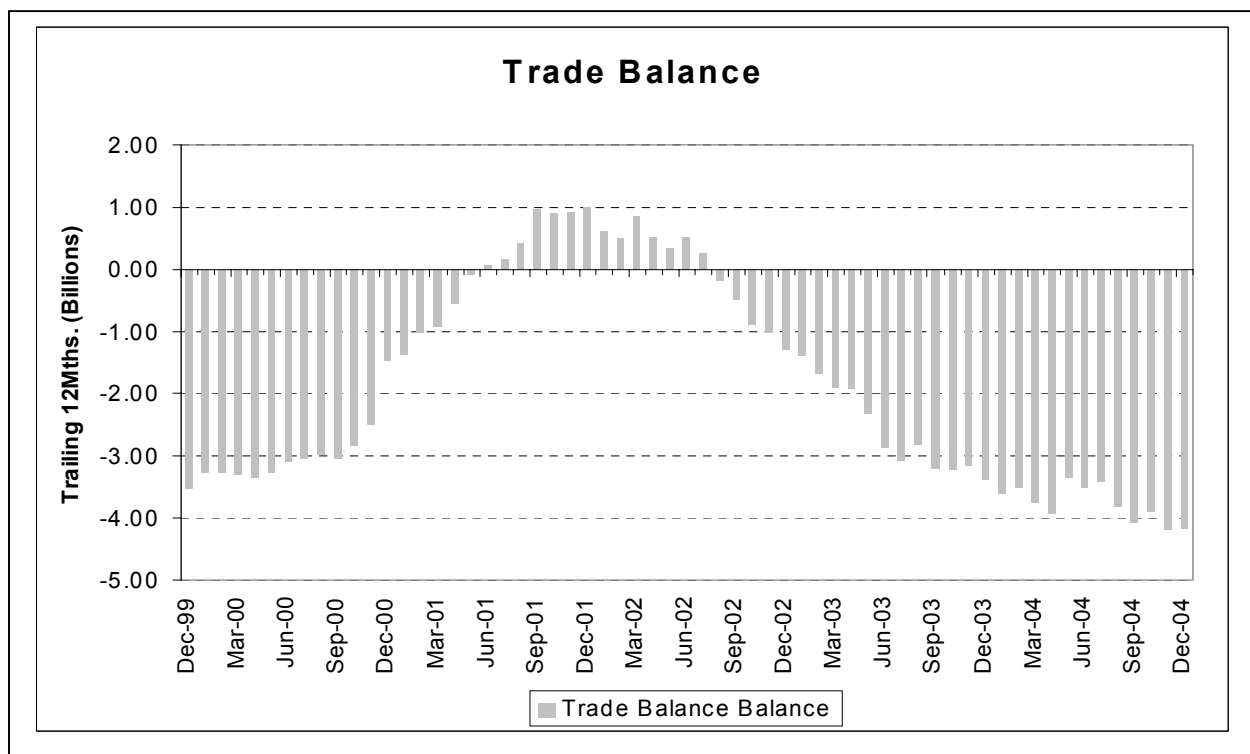
# New Zealand

Recent data from New Zealand was mixed. The Trade Deficit narrowed on a decline of imports and reduced domestic demand, and Building Permits declined. Business Confidence improved however, and the Benchmark Stock Index reached a record high; all suggesting that while the RBNZ is likely to leave rates unchanged, they do have room for an additional increase this year.

## Weekly Highlights

- **Trade Balance** – narrowed from \$4.19 billion in the year to Dec. to \$3.93 billion in the year to Jan. (page 34)
- **Building Permits** – decreased 7.2% M/M and 29.8% Y/Y in January. (page 35)
- **Business Confidence** – increased in February, from 39% to 41% of the companies surveyed expecting improved sales through the coming year. (page 36)

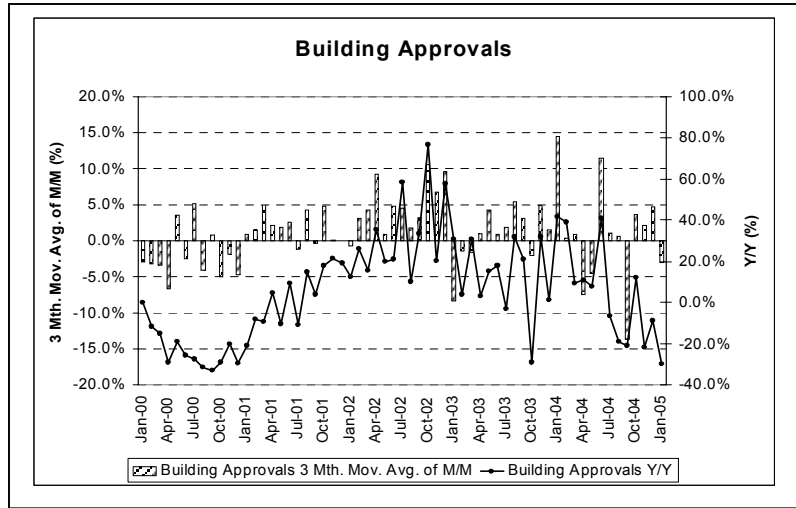
## Chart of the Week



The trade deficit in New Zealand narrowed from \$4.19 billion in the year to Dec. to \$3.93 billion in the year to Jan. The narrowing trade deficit resulted as imports declined 1.5% Y/Y, suggesting also that the nation's current account deficit may narrow in the coming months as well. Exports increased 11% Y/Y in January. The narrowing came as a surprise however, and supports views that the RBNZ may remain on hold through the upcoming months. Most economists expect the RBNZ to leave its overnight cash rate at 6.50% at its March 9<sup>th</sup> meeting.

# Building Permits, Business Confidence & Visitor Arrivals

*Building permits declined 7.2% M/M and 29.8% Y/Y in January, suggesting the housing boom from 2004 will slow this year.*



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## ***Union Wages & Business Conditions Index***

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### **Union Wages**

New Zealand's largest trade union, the Engineering, Printing and Manufacturing Union has stated that it will not accept any less than a 5% wage increase for its 50,000 members, claiming that companies can afford to pay as the economy booms. The unions had previously asked for 8% before lowering it to 5%, while employers offered 3.2%. Such an increase in wages may raise concerns about inflation

### **Business Conditions Index**

New Zealand's Business Confidence Index increased to its highest level in one year in February. Of the companies surveyed, 41% stated that they expected an increase in sales in the upcoming year, as opposed to 39% in December.

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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/06	Trade Balance (revised)	N/A	-\$499M
03/09	RBNZ Official Cash Rate	6.50%	6.50%

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# Australia

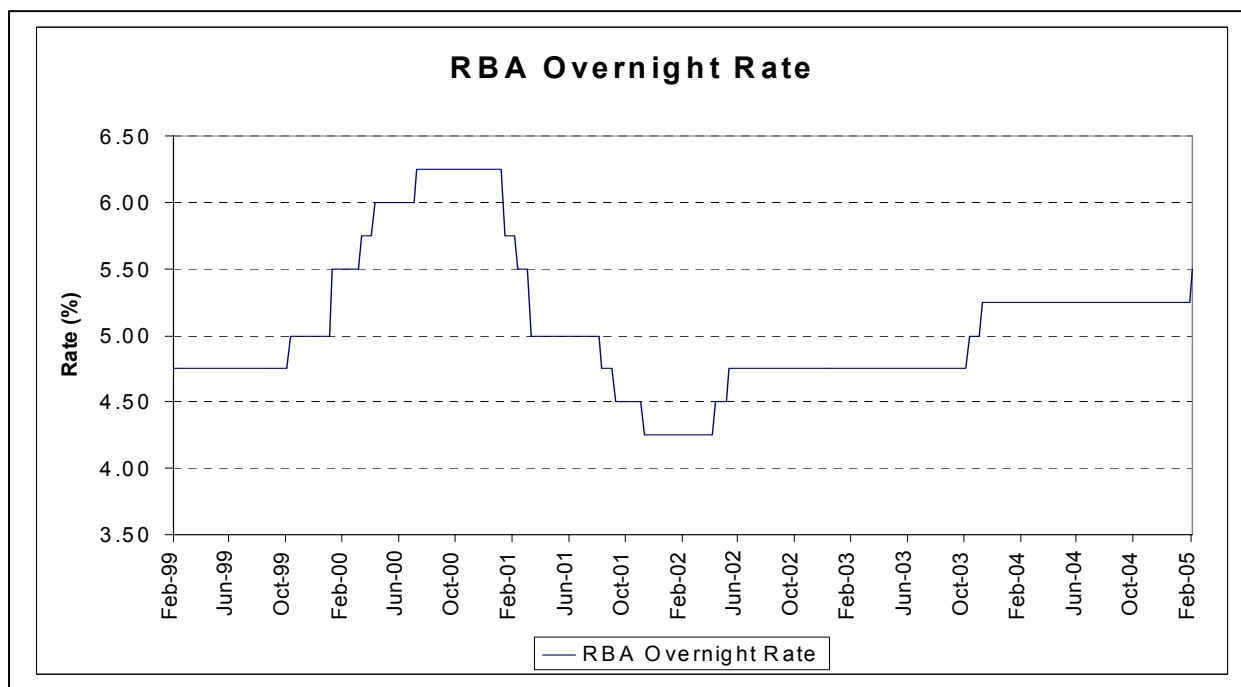
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Recent data from Australia was on the softer side as the economy stalled in December, the current account and trade deficits widened, wages increased per expectations and house sales declined more than anticipated. Despite the data, the RBA increased its overnight rate in an attempt to slow domestic demand and consumer spending. Based on their statements, it is likely that the RBA will increase its overnight rate again this year as well.

## Weekly Highlights

- **Overnight Rate** – increased from 5.25% to 5.50% on March 1. (page 38)
- **Real GDP** – increased 0.1% Q/Q and 1.50% Y/Y in Q4. (page 39)
- **Current Account Deficit** – widened from -\$14.3bn to -\$15.2bn in Q4. (page 39)
- **Trade Deficit** – widened from -\$2.4bn to -\$2.7bn in January. (page 39)

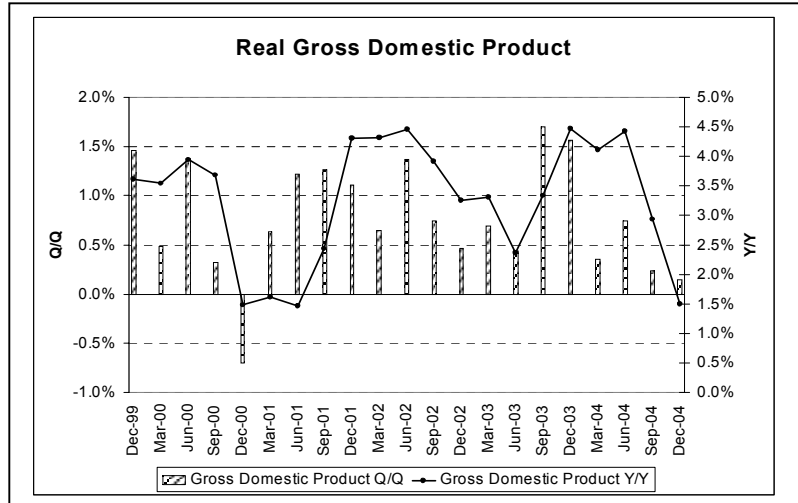
## Chart of the Week



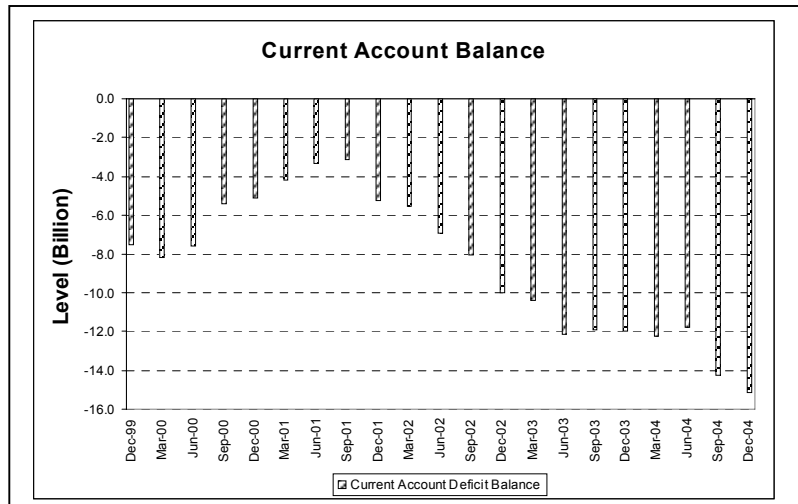
Despite a broad set of soft data over the previous week, the RBA decided to increase its overnight rate from 5.25% to 5.50% on March 1<sup>st</sup> to slow domestic spending. The hawkish statement accompanying the decision implied that the RBA is likely to increase its overnight rate again in the upcoming months as well. With the economy beginning to slow in most sectors except consumer spending, the RBA may only need to increase rates once more at its next meeting on April 5<sup>th</sup> to achieve their goal of slowing domestic demand.

# GDP, Current Account & Trade Balance

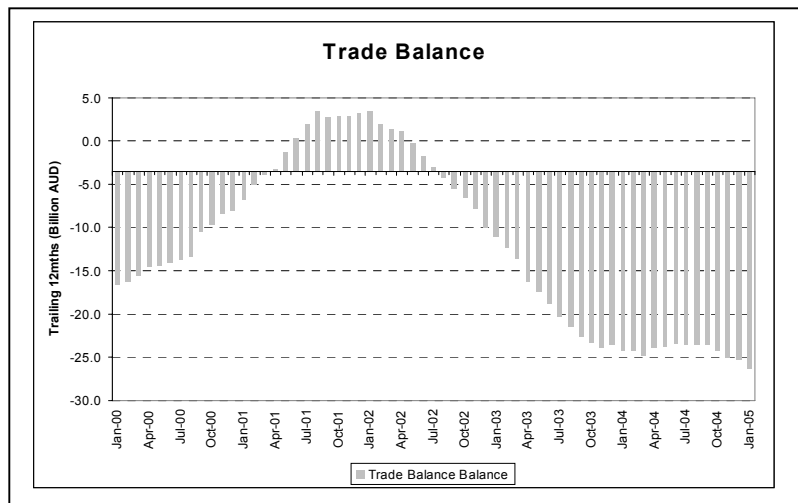
The economy nearly stalled in Q4, growing 0.1% Q/Q and 1.5% Y/Y. Consumption increased 0.5% Q/Q, Goods and Services Exports increased 0.2% Q/Q, and Domestic Demand increased 1.1% Q/Q. The weakness did not change the RBA's decision to increase rates however; as the RBA stated that they were focusing on slowing domestic demand.



Australia's Current Account Deficit widened from \$14.3bn to \$15.2bn in Q4 as imports increased and farm exports declined.

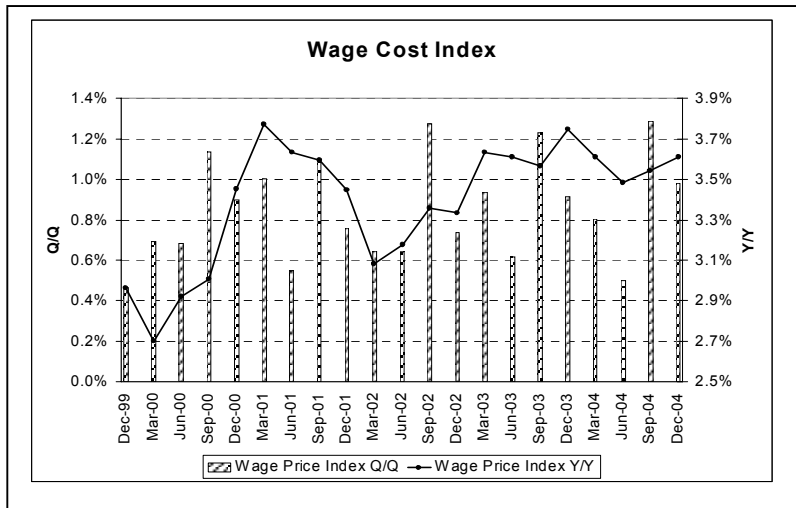


The trade deficit widened from \$2.4b to \$2.7b in January, the second widest deficit on record. The widening resulted from flat export performance and an increase in imports, highlighting the imbalances that helped lead the RBA to increase its overnight rate to slow domestic spending.

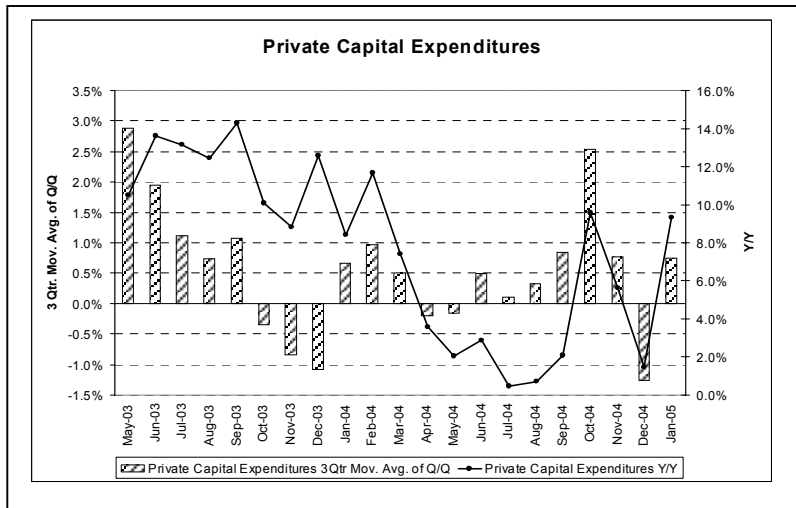


# Wages, PCE & Company Operating Profits

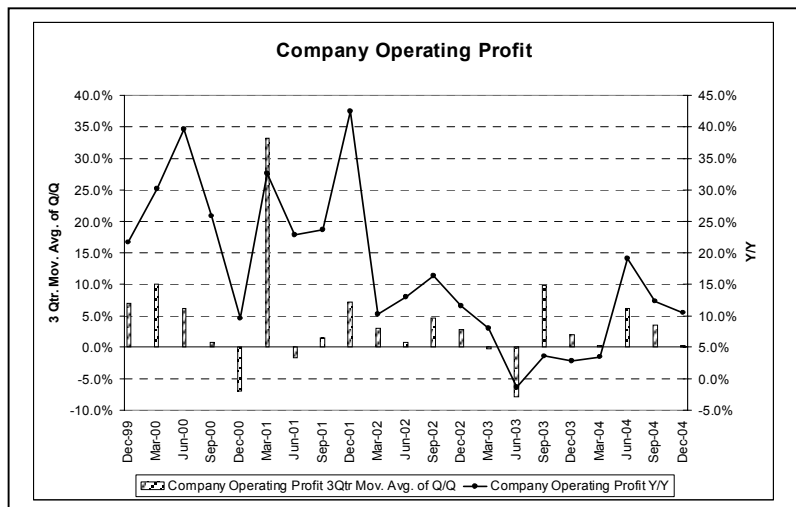
*Wages increased 1% Q/Q and 3.6% Y/Y in Q4, in line with economists' expectations.*



*PCE increased 1.6% Q/Q and 0.8% Y/Y in Q4.*



*Companies' operating profits increased 0.3% Q/Q and 10.5% Y/Y in Q4.*





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## ***PMI, New Home Sales, Inflation, Consumer Credit & Costello Comments***

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### **AIG PMI Falls to 21 Month Low**

The AIG Performance of Manufacturing Index declined from 54.9pts to 50.8pts in February. The decline brought the index to its lowest level in 21 months and highlights the case that many manufacturers and even retailers are making for unchanged rates due to a weakening economy.

### **New Home Sales Decline**

Australian new home sales declined 4.5% M/M in January to the lowest level in more than four years, according to the Housing Industry Association.

### **TD Securities – Inflation Index**

Prices for Australian goods and services, excluding gasoline, fruit and vegetables increased 0.1% M/M and 2.2% Y/Y in February, according to TD Securities. The report suggests that although the RBA has resumed increasing rates, price pressures for the first two months of 2005 remain low.

### **Credit to Consumers, Businesses Increases in January**

Credit provided to Australian businesses and consumers increased 1.1% M/M and 12.3% Y/Y in January. The increase supports the RBA's view that increased lending is driving domestic demand.

### **Costello Comments**

Australian Treasurer, Peter Costello, commented in Sydney that a higher A\$ was hurting exporters. Earlier, he had also commented that Australia "(has) low inflation and that's consistent with low interest rates." He had described the Q4 wage increases as moderate but that "Keeping our eye on the ball and keeping inflation contained is the most important thing to keep this low interest rate regime in place."

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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/02	AIG Performance of Services Index	N/A	N/A
	RBA's Edey Speaks	N/A	N/A
	House Prices (Q4)	N/A	-0.7%
	Retail Sales (Jan.)	0.8%	-0.3%
03/03	Building Approvals (Jan.)	-2.0%	2.7%
03/06	ANZ Job Ads (Feb.)	N/A	-1.9%
03/07	NAB Business Survey (Feb.)	N/A	N/A
03/08	WP Consumer Confidence Index (March)	N/A	N/A

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# Sweden

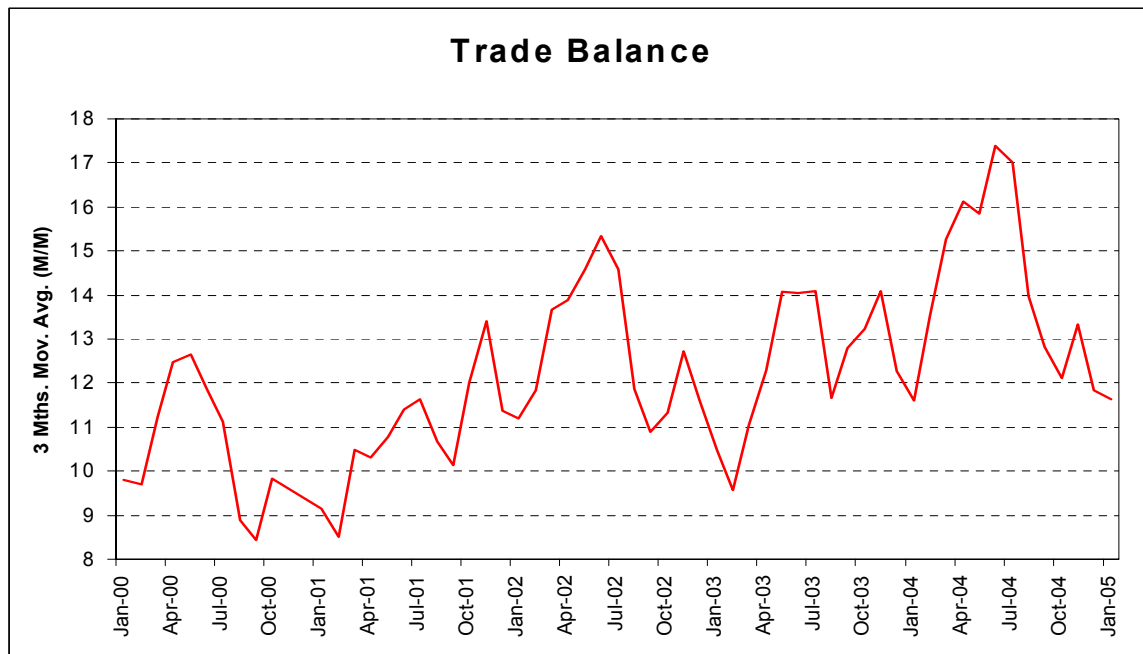
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Sweden's economic data over the past week was mixed. Retail Sales and PPI produced upside surprises while the Trade Balance and PMI fell. The Riksbank commented on interest rates.

## Weekly Highlights

- **Trade Balance** - decreased from SEK 13.4 bln in December to SEK 11.4 bln in January. (page 43)
- **Retail Sales** - rose 2.3% M/M and 6.9% Y/Y in January. (page 44)
- **PPI** – rose 0.8% M/M and 2.5% Y/Y in January. (page 44)

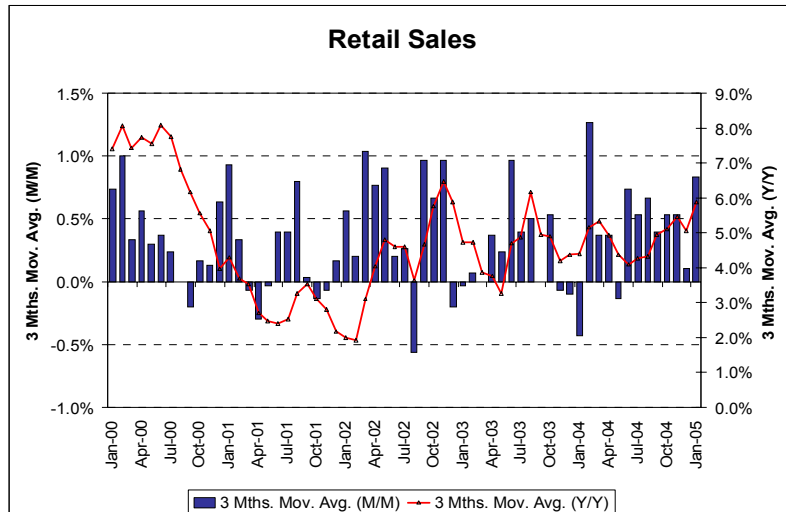
## Chart of the Week



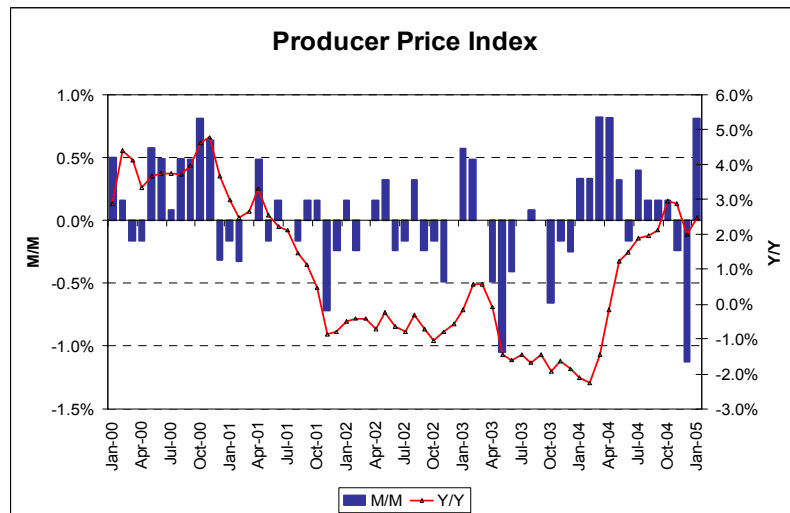
The Trade Surplus decreased from SEK 13.4 bln in December to SEK 11.4 bln in January, as imports outweighed exports. Bloomberg reported “the krona's appreciation against the dollar is fueling demand for imports, including cars and electronic goods, and hurting demand for Swedish exports, which amount to about half the \$310 billion economy”. Imports rose 11.0% Y/Y, while exports increased 6.0% Y/Y.

## *Retail Sales, Producer Price Index & PMI*

*Retail Sales rose 2.3% M/M and 6.9% Y/Y in January, the most in 11 months.*



*The Producer Price Index rose 0.8% M/M and 2.5% Y/Y in January. The increase was partially attributed to increased costs of crude and petroleum products at 0.8%.*



### **Mar. 1<sup>st</sup> (Bloomberg) – Swedish February Purchasing Managers' Index Falls to 55.6**

Sweden's Purchasing Manager's Index fell, unexpectedly lower, from 56.7 in January to 55.6 in February, "as the pace of new orders declined to the slowest since October 2003", reported Bloomberg. A reading higher than 50 signals expansion and one lower than 50 indicates contraction. Export and domestic orders fell to 58.4 and 51.1, respectively.

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## *News/Data/Commentary*

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### **Mar. 2 (Bloomberg) - Swedish Central Bank to Raise Rates, Prospera Survey Shows**

A survey of financial institutions commissioned by the Riksbank revealed that “Sweden's central bank will raise its benchmark repurchase rate to 2.4 percent from a record-low 2 percent within a year as inflation gains pace”. It further showed “the rate will be 2.9 percent two years ahead”. Another poll of executives and unions showed “annual consumer price inflation, which was 0.0 percent in January, will be 1.6 percent a year ahead and 1.9 percent in two years”.

### **Feb. 24 (Bloomberg) - Swedish Riksbank's Rosenberg Says Rate Cuts Unneeded (Update1)**

The Riksbank’s Deputy Governor, Irma Rosenberg, stated that interest rate reductions aren't needed to boost demand, reinforcing expectations that the Riksbank won't cut interest rates anytime soon. In a speech posted on the Central Bank’s website, Rosenberg further stated that her “assessment has been and remains that demand does not require further stimulation from monetary policy" and that the bank may make ‘a slight upward revision’ to the bank's ‘short term' economic growth forecasts”.

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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/07	Swedish Budget Deficit – February	--	-23.6B
03/08	GDP s.a. (Q/Q) – 4Q	--	0.9%
03/08	GDP w.d.a. (Y/Y) – 4Q	--	3.8%
03/09	AMS Unemployment Rate – January	--	5.6%

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# Switzerland

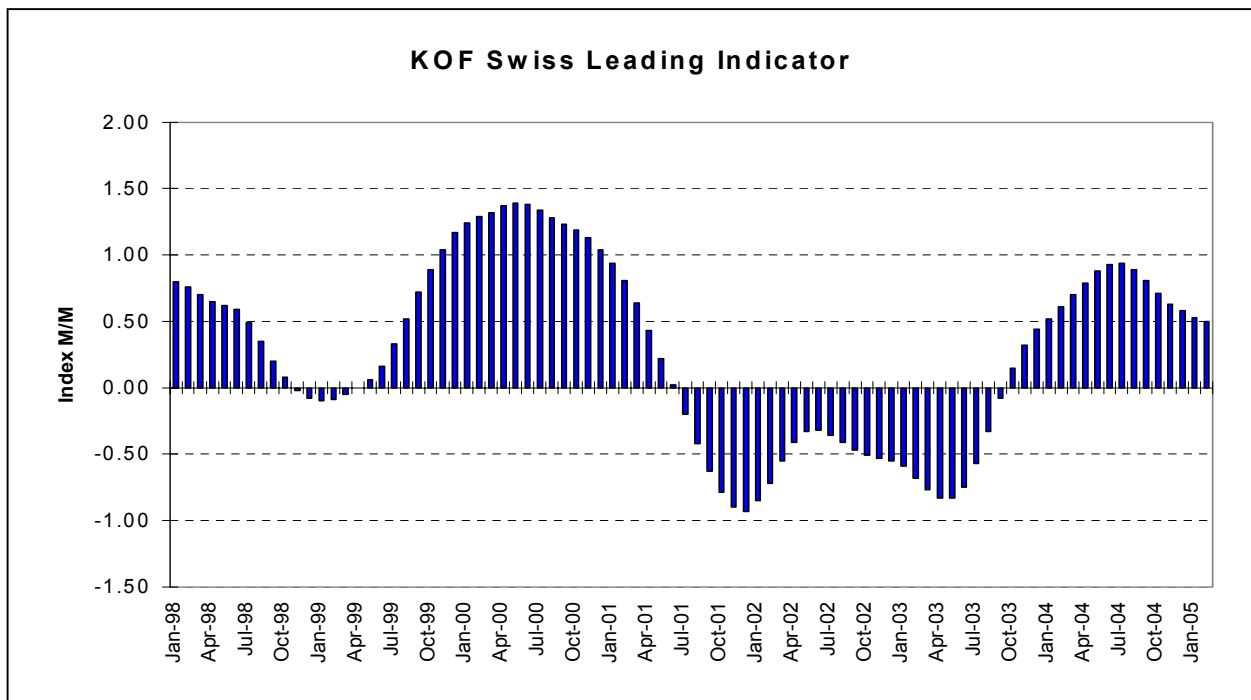
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Signs of economic weakness in Switzerland suggest that 2005 won't see an acceleration in growth overall, with the first half considerably less favorable than the second. The government cut its growth forecast for 2005 for the second time in three months. Growth in the dozen nations sharing the Euro, which buy about two thirds of Swiss exports, unexpectedly slowed down in the fourth quarter, with Germany, Italy and the Netherlands contracting.

## Weekly Highlights

- **KOF Leading Indicator**- decreased to 0.50 from a revised 0.53 in January. (page 47)
- **SVME Purchasing Manager Index**- fell from a revised 52.2 to 47.9. (page 48)

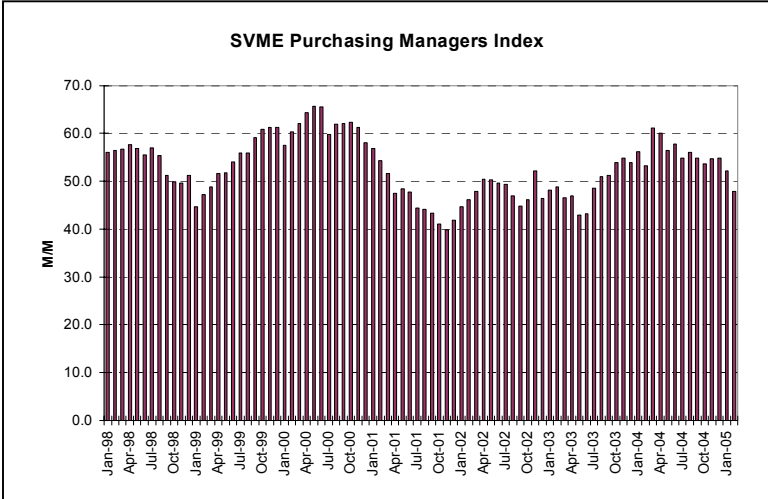
## Chart of the Week



The monthly aggregate of indicators, which helps predict the direction of the economy in about six months, fell to a 12-month low in February.

# SVME Purchasing Managers' Index

The SVME Index, which measures executives' perceptions of industrial activity, fell to 47.9, the lowest since June of 2003.





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## *Commentaries by leading Swiss Economists*

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*“Swiss companies have remained reluctant to hire more workers amid a global slowdown and rising franc. Switzerland's recovery last year from the first annual contraction in a decade in 2003 is suffering temporarily because of weak demand from Europe”,* stated the Swiss National Bank's President, Jean-Pierre Roth, on Feb. 22<sup>nd</sup>.

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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/03	CPI (M/M, Y/Y)	---	(-0.5, 1.2)
03/07	Unemployment Rate	---	3.8%