

Weekly Economic Reports

March 9, 2005

Highlights

- **US:** Upbeat corporate guidance
- **Euroland:** Stronger production data in Germany
- **Japan:** Data shifts upward
- **UK:** Uncertain verdict on housing/consumer
- **Australia:** Record fall in business confidence post-RBA hike
- **Sweden:** Weaker than expected GDP data

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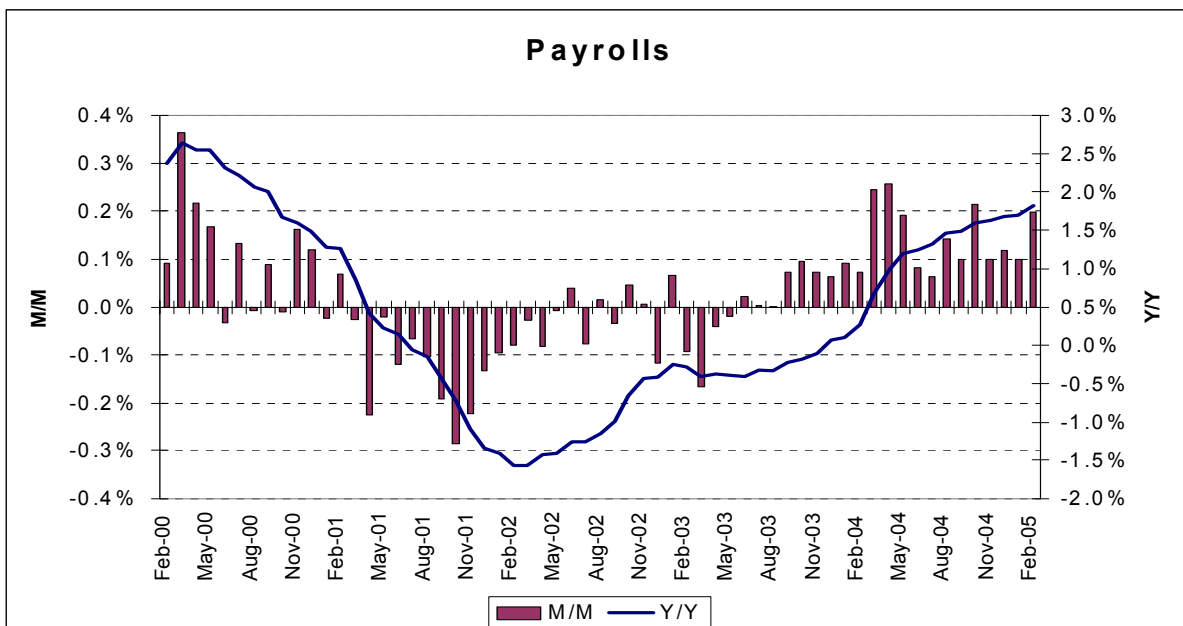
U.S.

This week's economic data was highlighted by the 262k payroll growth in February. Comments from Fed officials this week highlighted many of the same themes- contained inflation expectations, that the neutral rate may be lower this cycle and that the Fed is shifting to be more data dependent going forward. Poole also made comments that the current account deficit could unwind in an orderly fashion as demographics change in Europe and Japan. The IBD and NFIB surveys recently showed weakness in consumer's and small businesses' optimism and in their assessment of the economy.

Weekly Highlights

- **Employment-** payrolls increased 262k in February, details still show some slack. (pages 2 & 3)
- **Productivity-** for Q4 2004 was revised higher and unit labor costs were revised lower. (page 4)
- **ISM Non-Manufacturing-** increased slightly from 59.2 to 59.8 in February. (page 5)
- **Consumer Confidence-** ABC showed a slight improvement the past week and U. of Mich. showed a slight decline in February. (page 6)
- **Earnings Calls-** mostly positive views on the economy. (page 7)

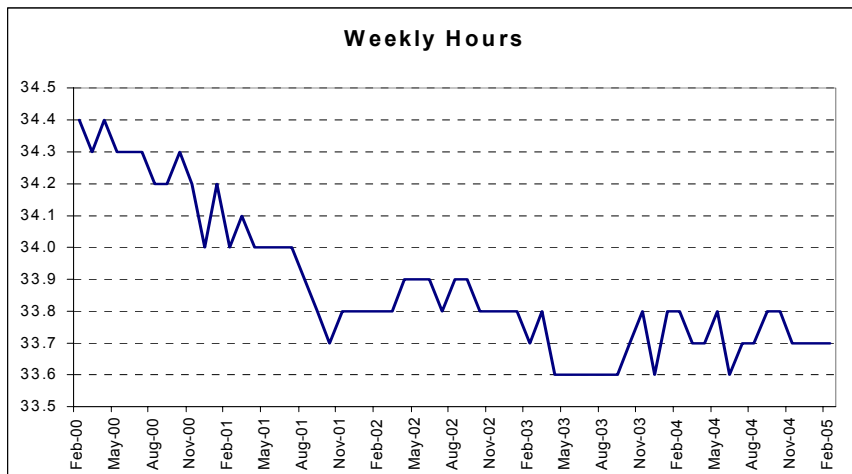
Chart of the Week



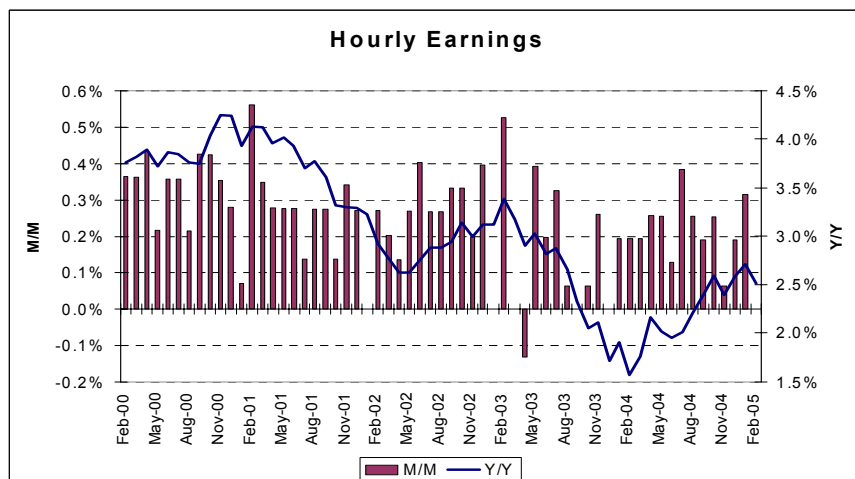
Total Non-farm Payrolls increased 262k or 0.2% M/M and 1.8% Y/Y in February. The healthy gain was consistent with the improvements seen in the weekly unemployment claims data and the rebound in the Help Wanted Index. However, some of the details of the report, shown on the following page, indicate that the employment market is not as strong as it appears from the headline number.

Employment

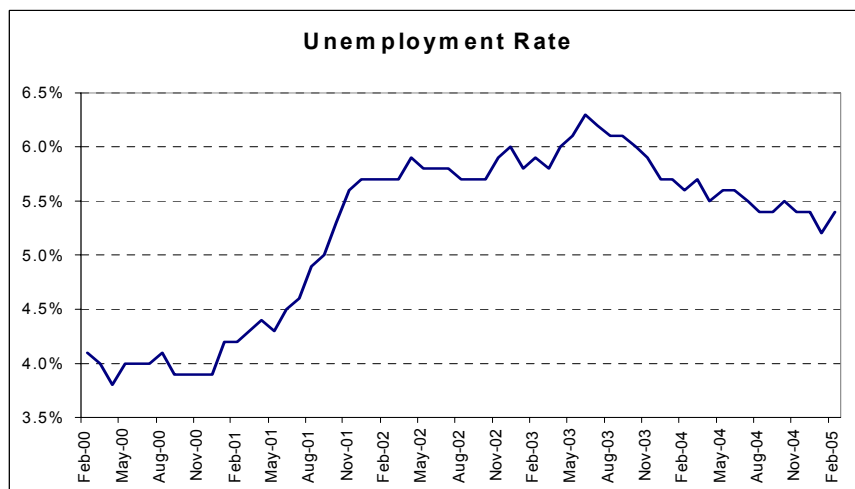
Average weekly hours were flat at 33.7 in February. This series remains at low levels on an absolute basis, suggesting that slack does remain in the labor force.



Average hourly earnings were unchanged M/M and rose 2.5% Y/Y in February. The softness seen in hourly earnings and weekly hours indicates that the employment market is not as robust as the headline payroll gain may have suggested.

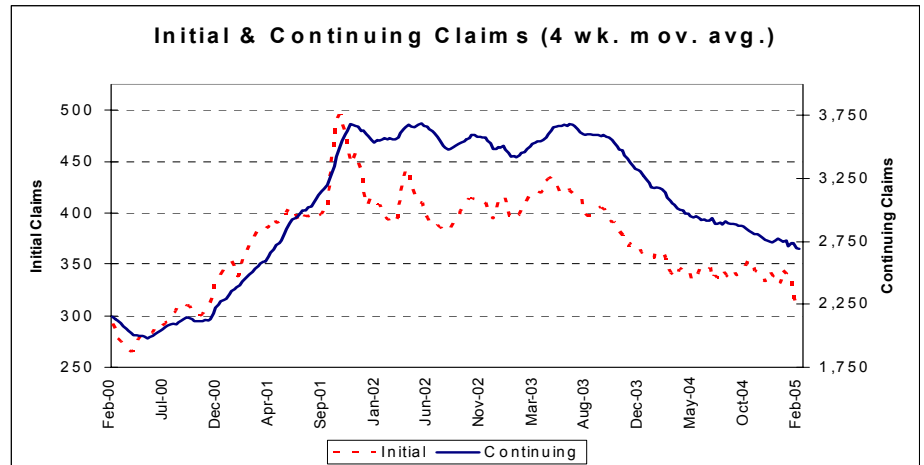


The Unemployment rate increased to 5.4% in February from 5.2% in January. The slight jump eases concerns that the low participation rate behind January's 5.2% unemployment reflected a new secular shift.

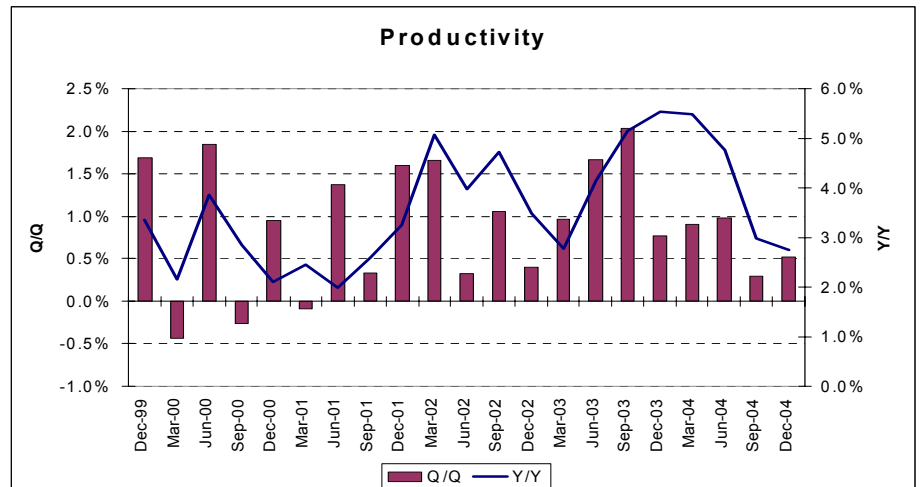


Unemployment Claims, Productivity & Unit Labor Costs

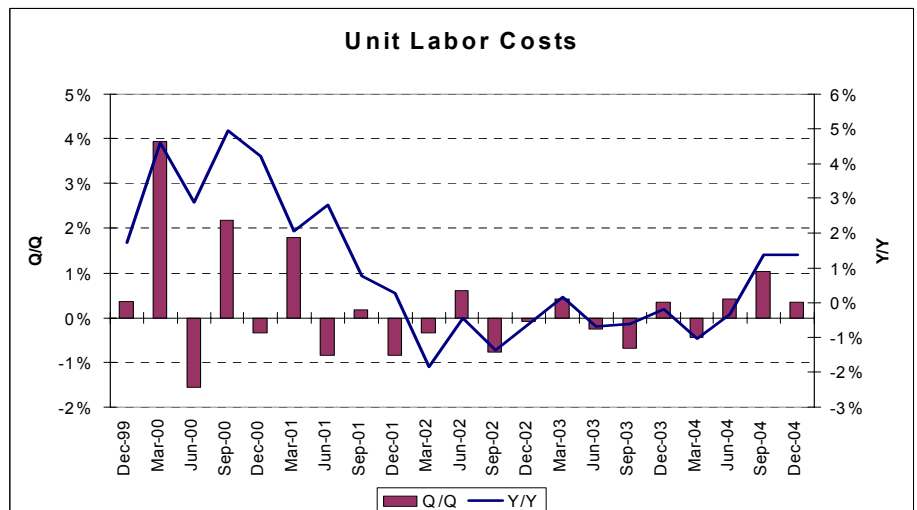
The four week moving average of initial claims decreased to 307k and continuing claims decreased to 2,694k. These series continue to suggest healthy payroll gains.



Non-farm Productivity increased 0.5% Q/Q and 2.7% Y/Y in the fourth quarter of 2004. The upwardly revised data, from 0.8% to 2.1% on an annualized basis, should ease concerns about upward pressures on unit labor costs shown below.

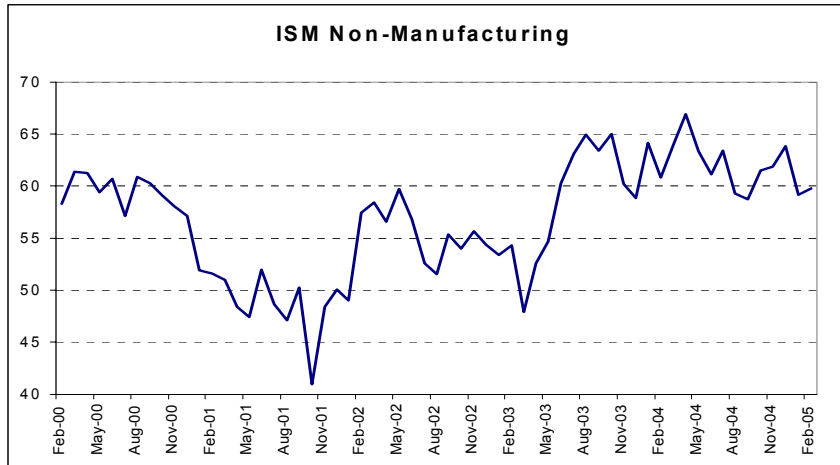


Unit labor costs increased 0.3% Q/Q and 1.4% Y/Y in the fourth quarter of 2004. Unit labor costs increased at a slower rate according to revised data- easing concerns of upward pressure on inflation.

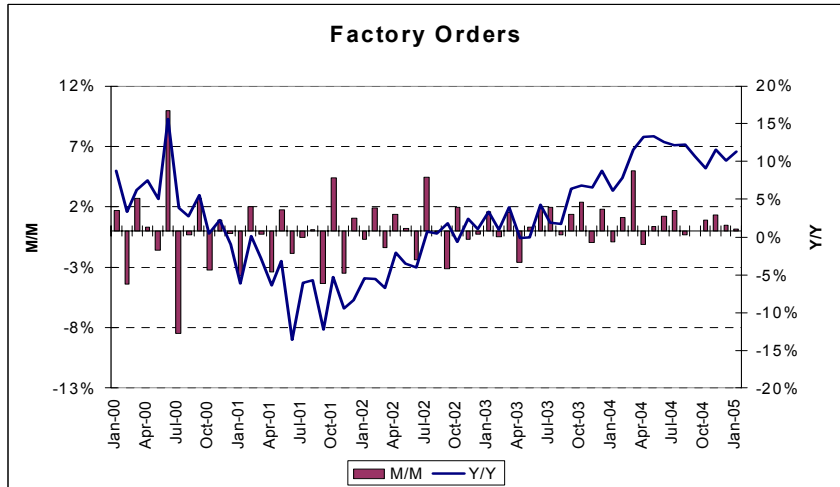


ISM, Factory Orders & Mortgage Applications

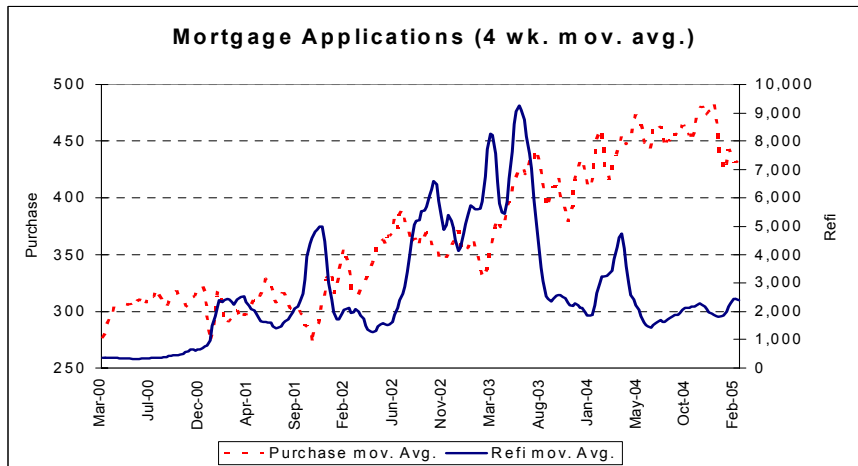
The ISM Non-Manufacturing Index increased from 59.2 to 59.8 in February. The employment component improved from 52.2 to 59.6 and the price component remained relatively flat.



Factory Orders increased 0.2% M/M and 11.3% Y/Y in January. Y/Y growth appears to have stabilized at strong levels.

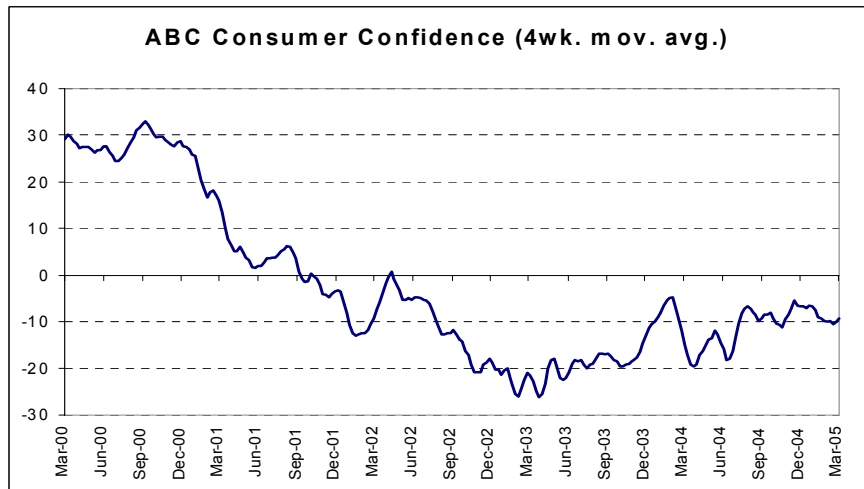


Purchase and refinancing mortgage applications increased 2.7% and decreased 4.6%, respectively this week. Purchase applications still suggest some softness in housing.

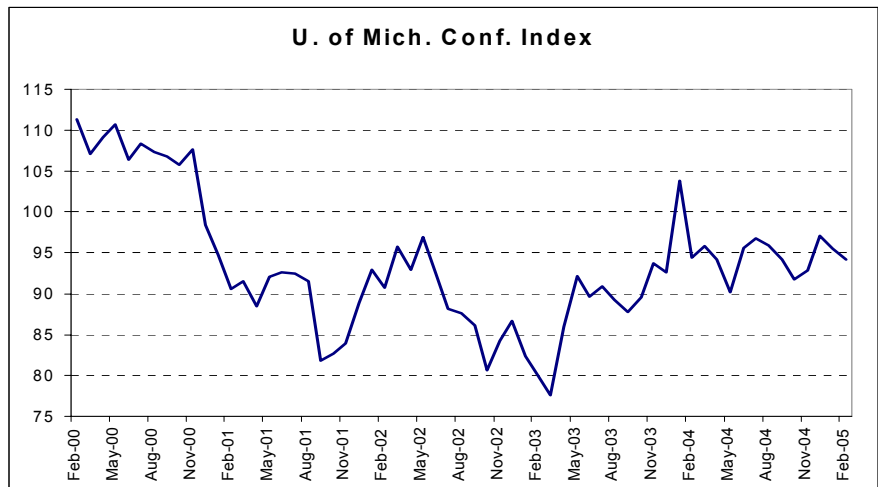


Consumer Confidence

The ABC Consumer Confidence Index improved from -9 to -7 for the week of March 7th. The buying climate and economic components improved and the financial component declined slightly.



The University of Michigan Consumer Confidence Index declined from 95.5 to 94.1 in February. Consumers' assessment of the future decreased from 85.7 to 84.4 and their assessment of the current situation decreased from 110.9 to 109.2.



Economic Information from Earnings Calls

Caesar's Entertainment- “Against the backdrop of our own internal initiatives, the current trends for 2005 are very encouraging. In Las Vegas, booking trends are ahead of last year.”

Dell- “I think that we went for a couple of years after the economy downturned, we were able to get by with kind of the same level of facilities and keeping down our headcounts, and you can see we're adding people and facilities and capabilities because we believe we're going to have strong growth throughout this year.”

“Now turning to our regional performance. In the Americas we saw healthy demand from corporate customers and we continued to invest in infrastructure to support our growth in the region.”

“Consistent with our previous comments, the U.S. consumer sector continued to be challenging. We maintained our strategy of balancing share gain with reasonable levels of profitability.”

Lincoln Electric- “First here in North America. During this past fourth quarter demand continued to be strong across our operations in both the United States and Canada. The industrial economy, as represented in key measures such as industrial production and capacity utilization across the factories in the United States and Canada, continued to be strong. For example, although on a month-to-month basis trends are more erratic, year-over-year trends in key industries served, such as construction machinery, heavy-duty truck manufacturing, agricultural machinery, as well as other industrial equipment sectors continued to contribute to an attractive business environment. In our primary distribution channels, industrial distribution and retail, we continue to see very strong results. Each of our product groups, consumables, machines, and robotic welding products, continue to see strong demand year-over-year. We continue to see investment patterns that would suggest that plant modernization and upgrading remains positive. The positive growth is despite a more challenging year-over-year comparison in this fourth quarter compared with the previous 3 quarters.”

Target- “Based on our annual analysis of retail price deflation, which was completed during the fourth quarter, we experienced deflation during 2004 of about 1 percent, considerably less than the 3 to 4 percent deflation rate we experienced in each of the past 2 years.”

“Our outlook for 2005 envisions another strong increase in same-store sales, likely in the range of 4 to 5 percent, reflecting the continuation of our current same-store sales momentum even as we cycle last year's significant growth.”

Wal-Mart- “We mentioned last quarter that we are pleased to see that the general improvement in the economy has been strong...”

Toll Brothers- “We are enjoying strong pricing power and increasing profit margins as demand for luxury homes continues to outpace supply. Due to this demand, a recovering economy and our growing portfolio of well-positioned communities in affluent markets, we believe fiscal 2006 will be another record year. Increasing numbers of high-income households are competing for a constrained supply of homesites.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/10	Initial Jobless Claims (MAR 5 th)	310k	310k
03/10	Continuing Claims (FEB 26 th)	2,658k	2,672k
03/10	Wholesale Inventories (JAN)	0.6%	0.4%
03/10	Monthly Budget Statement (FEB)	-\$100.0B	-\$96.7B
03/11	Trade Balance (JAN)	-\$56.8B	-\$56.4B
03/15	Empire Manufacturing (MAR)	20.00	19.19
03/15	Retail Sales Less Auto (FEB)	0.8%	0.6%
03/15	Business Inventories (JAN)	0.6%	0.2%
03/15	NAHB Housing Market Index (MAR)	68	68
03/15	ABC Consumer Confidence (MAR 13 th)	NA	-7
03/16	MBA Mortgage Applications (MAR 11)	NA	-0.7%
03/16	Current Account Balance (4Q)	-\$182.5B	-\$164.7B
03/16	Housing Starts (FEB)	2,043k	2,159k
03/16	Building Permits (FEB)	2,067k	2,105k
03/16	Industrial Production (FEB)	0.7%	0.0%
03/16	Capacity Utilization (FEB)	79.2%	79.0%

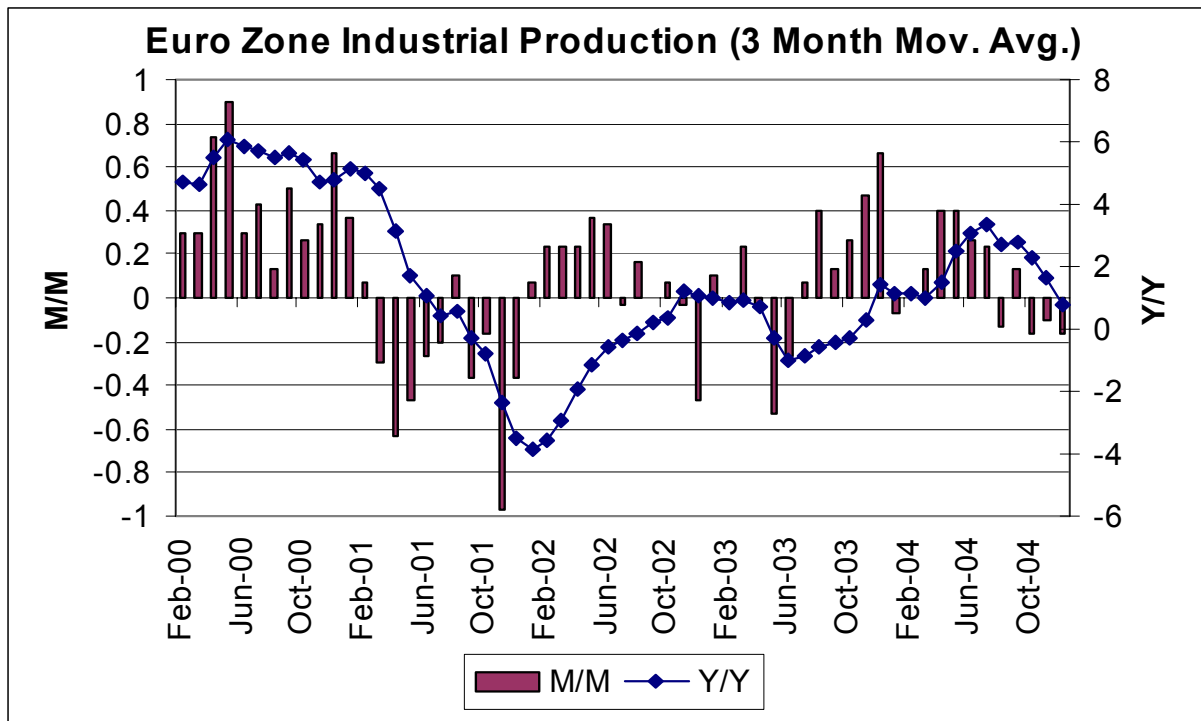
Euroland

There was very little Euroland data released this week. Some notable data that was released, German Factory Orders and Industrial Production, were both stronger than expected in January. Eurozone retail sales remained quite weak, however.

Weekly Highlights

- **German Factory Orders**- increased 4.9% Y/Y in January. (page 9)
- **Euro Zone Retail Sales** – fell more than expected in January on a Y/Y basis. (page 10)
- **German Industrial Production** - increased much more than expected in January. (page 10)

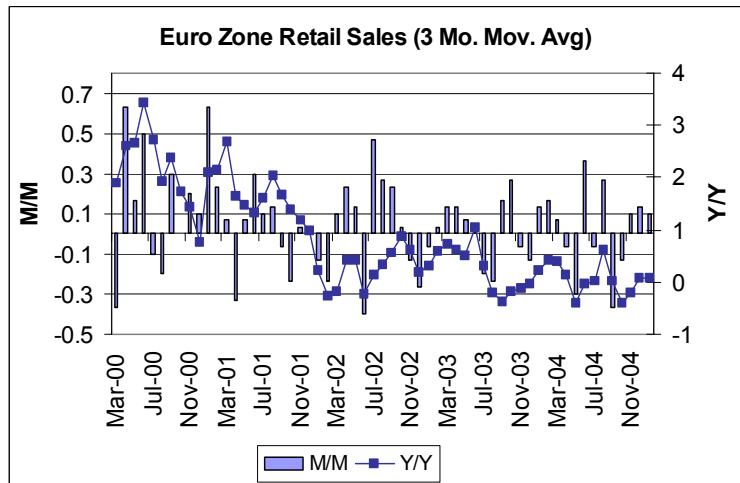
Chart of the Week



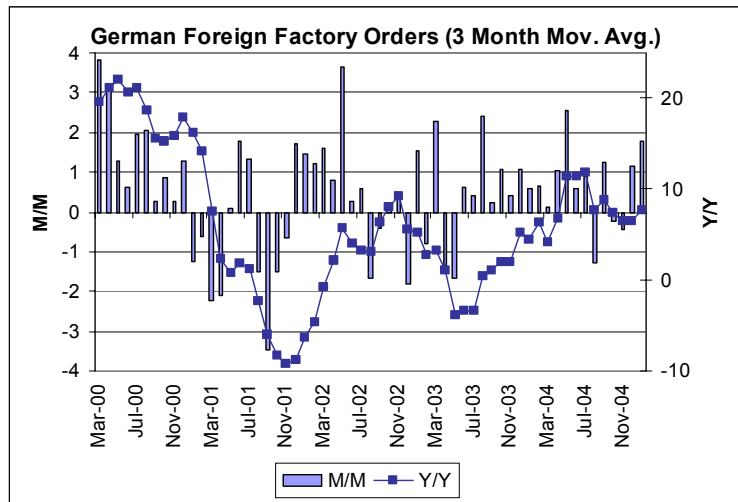
Germany's January Industrial Production increased more than expected, climbing 3.1% M/M and 3.5% Y/Y. It was the largest M/M gain in a decade.

Euro Zone Retail Sales, German & Spanish Production

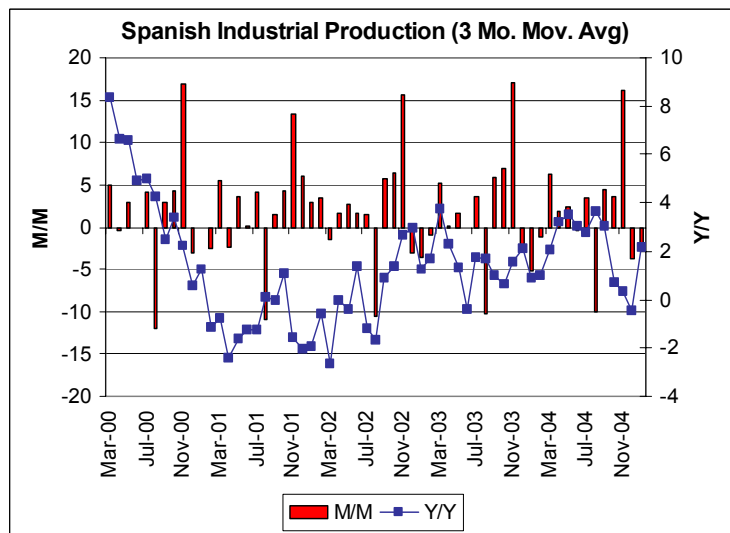
The Euro Zone's January Retail Sales increased, a less than expected, 0.3% M/M while falling 0.6% Y/Y.



Germany's January Factory Orders fell less than expected, falling 3.4% M/M while increasing 4.9% Y/Y. Market expectations were for a 4.5% fall due to December's strong numbers.



Spain's January Industrial Production rose a slower than expected 1.1% Y/Y as export growth slowed. Market expectations were for a 3.1% increase.



Euro Zone Unemployment Rate & Retail PMI

The Euro Zone's January Unemployment Rate remained unchanged at 8.8%, as December's rate was revised downward from the initial 8.9%. However a number of companies, including KPN and IBM stated plans to further cut another 6,000 jobs by 2007.



Euro-12 Services Purchasing PMI Index fell from 53.4 in January to 53 in February.

Euro-12 Services PMI	Feb 2005	Jan	Dec	Nov	Oct	Sept	Aug	Jul	Jun	May
Overall Index	53.0	53.4	52.6	52.6	53.5	53.3	54.5	55.3	55.3	55.8
Employment	50.6	50.7	50.6	50.5	50.9	50.6	50.1	49.3	49.9	50.0
Input Prices	58.4	58.6	58.0	58.9	60.6	58.3	59.9	58.1	58.9	58.6
Business Expectations	64.3	66.3	63.2	61.4	62.2	63.6	64.6	65.2	64.7	66.1

News

March 9th – **ECB President, Jean Claude Trichet**, stated that the bank would raise interest rates if inflation expectations increased. Trichet stated, “The fact that everyone knows that when action would be necessary we would embark on action is key”. The comments follow his statements made earlier in the week that the ECB “sees no significant evidence of underlying domestic inflationary pressure building up in the euro area”. Trichet also repeated his vigilance stance, noting that there were upside risks due to oil, house prices and indirect taxes. However, ECB member, Nout Wellink, stated earlier that house price growth would not likely be a reason for an increase in rates.

March 9th – The **German Kiel, RWI and BGA institutes** all cut their 2005 German GDP forecast. Kiel revised their growth forecast from 0.8% to 0.6%, BGA revised theirs from 1.25% to 1%, and RWI cut theirs from 1.3% to 1%. Pessimism concerning oil prices and consumer spending was the major concern.

March 8th – **EU finance ministers** failed to agree on a proposal to relax budget deficit rules as Germany demanded greater scope for higher spending or lower taxes to spur their faltering economy. The Netherlands, who had proposed the changes, in turn rejected the rule changes proposed by Germany. Belgian Finance Minister, Didier Reynders, said, “We cannot go any further...Going further would jeopardize the stability of the euro zone and of the euro”. According to Standard and Poor’s, easing the budget constraints will lead to wider deficits and lower credit ratings.

March 7th – The **IMF recently reported that the ECB** should refrain from raising interest rates due to fragile economic growth. The comments came in response to Trichet’s comments that it is “clear for the full body of observers that at a time we will have to raise rates”.

March 6th – The **IMF reported that they expect the U.S. dollar** to weaken further against the euro in the medium term, driven by the high current account deficit of the U.S.

March 4th – **Italian Prime Minister, Silvio Berlusconi**, reiterated his pledge to reduce taxes next year by 12 billion euros, stating, “The next step is already confirmed because we’ve already found the sources of savings worth 1% of GDP, which is 12 billion euros”. Berlusconi has already cut 2005 taxes by 6 billion euros in hopes of spurring the slow economy.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/10	German Exports (JAN)	3.8% M/M	-4.0% M/M
03/10	French Industrial Production (JAN)	0% M/M	0.7% M/M
03/10	ECB March Monthly Report		
03/11	French Trade Balance (JAN)	-1300M	-1892M
03/11	Spanish CPI (FEB)	0.3% M/M	

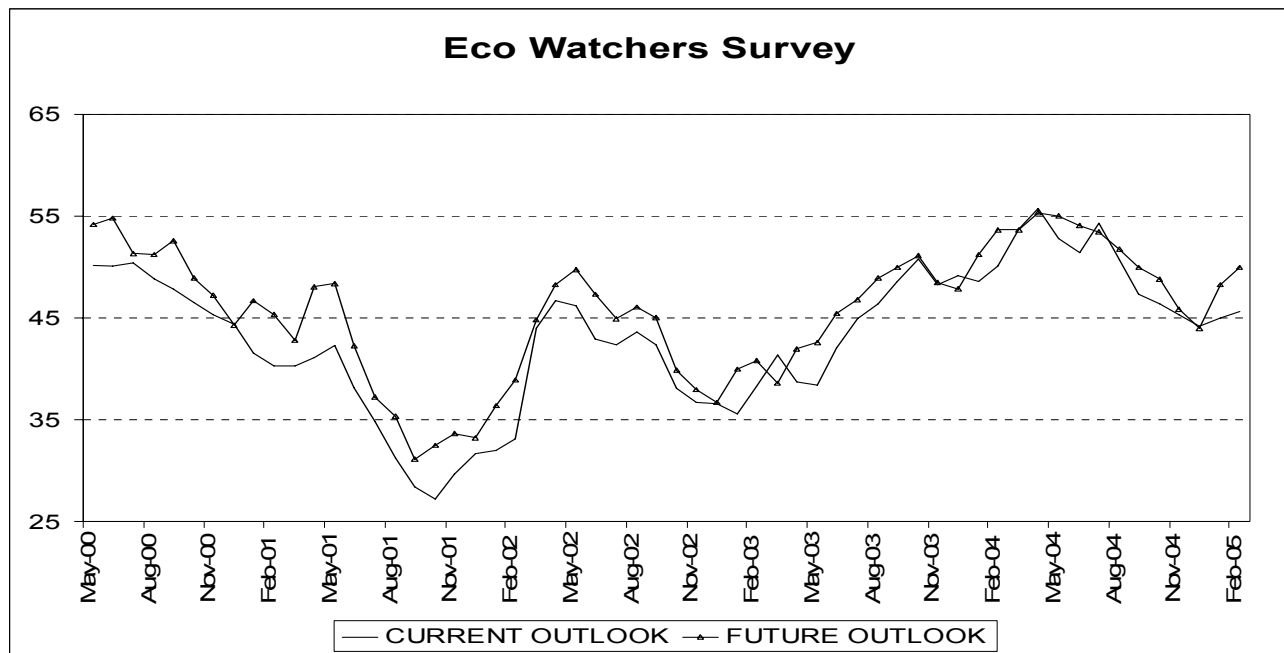
Japan

Recent economic data in Japan continues to show marked improvements. The Eco Watchers' Survey increased, Household Spending posted its highest M/M increase since 2003, and the labor market appears to be firming with full-time workers increasing for the first time in seven years on a Y/Y basis. In addition, both household incomes and hours worked also increased. Moreover, the Leading and the Coincident indices have both bounced back above the expansion level, and adjusted bank lending posted its smallest decrease in almost six years. On the softer side, Q4 Capex increased below expectations. All in all, January and February's data have been relatively strong suggesting that Japan's economy is still in a recovery mode and not a recession.

Weekly Highlights

- **The Eco Watchers' Survey Current and Future Outlook** - increased from 45 to 45.6 and from 48.3 to 49.9, respectively, from January to February. (page 14)
- **Household Spending** - increased 4.3% M/M and 0.5% Y/Y in January. (page 15)
- **Machine Tool Orders** - slowed from 30.4% Y/Y to 26.0% Y/Y in February, based on preliminary figures. (page 16)

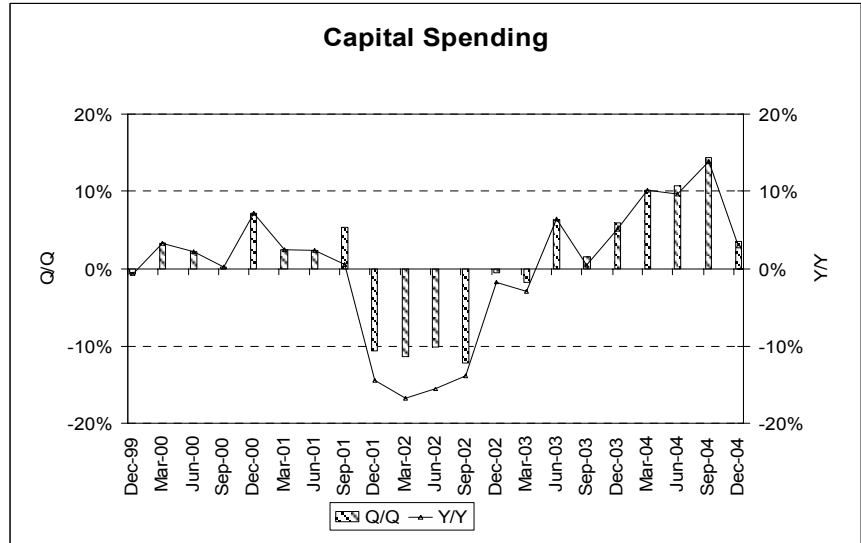
Chart of the Week



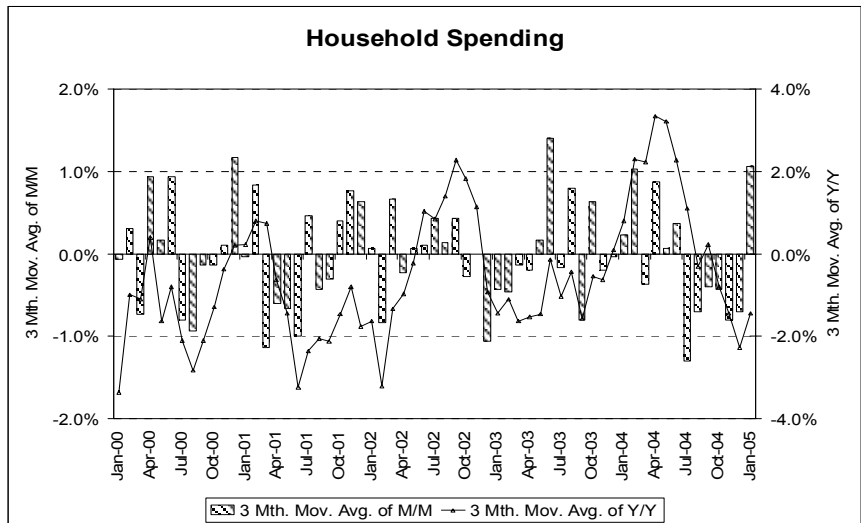
The Eco Watchers' Survey Current Outlook increased from 45 in January to 45.6 in February. Expectations for Japan's Current Condition posted an increase of 6.7% M/M and 0.9% M/M, in the business and the employment sectors, respectively, while the Household sector decreased 0.5% M/M. At the same time, the Future Outlook Survey increased from 48.3 to 49.9, with the Household and Business outlook sectors increasing 4.1% M/M and 3.4% M/M, respectively. Future Outlook on Employment decreased 1.3% M/M. All in all, February's readings suggest that individuals are regaining optimism about Japan's economic prospects.

Capital Spending, Household Spending and Employment Data

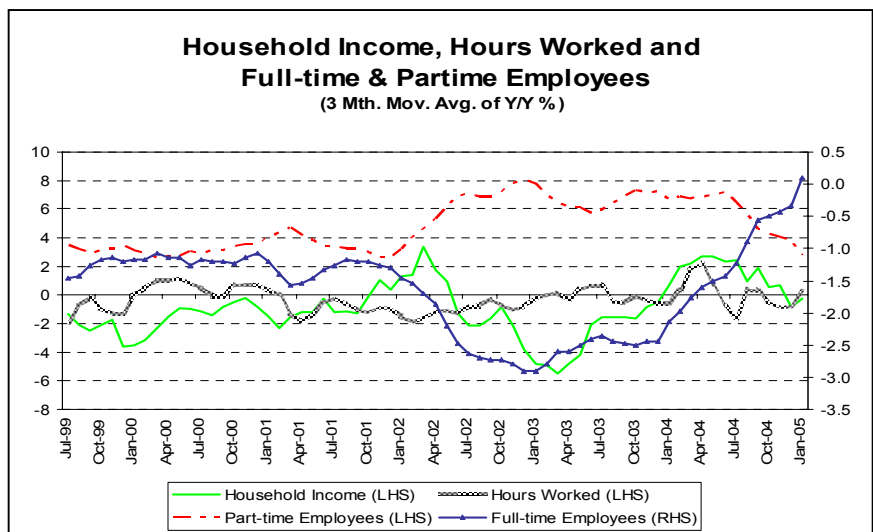
Capital Spending, including software, increased 3.5% Y/Y in Q4, below expectations of 10.8% Y/Y. Capex by non-manufacturers, increased just 0.3% Y/Y, following 13.1% Y/Y growth in Q3. The growth rate of Capex by manufacturers also slowed to 8.4% Y/Y from 14.8% Y/Y.



Household Spending increased 4.3% M/M and 0.5% Y/Y in January; increases were seen across the board with household goods in the lead. January's M/M increase was the highest since 2003.

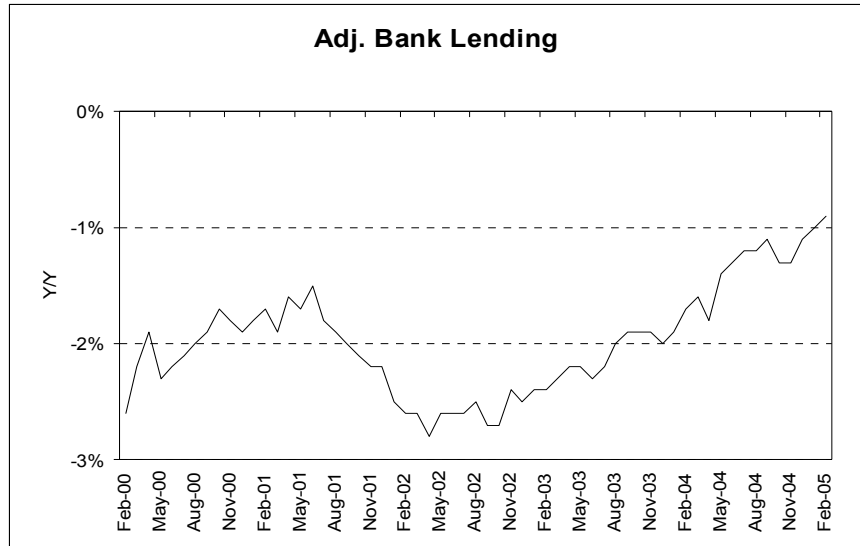


Employment data is firming as growth in full-time workers saw its first increase (0.8% Y/Y) in seven years in January, after trending up since January of 2003. Household Income and Hours Worked increased 1.3% Y/Y and 0.1% Y/Y, respectively. Meanwhile, part time employees increased 0.8% Y/Y, remaining on a downward trend, perhaps as a result of improvements in full-time employees.

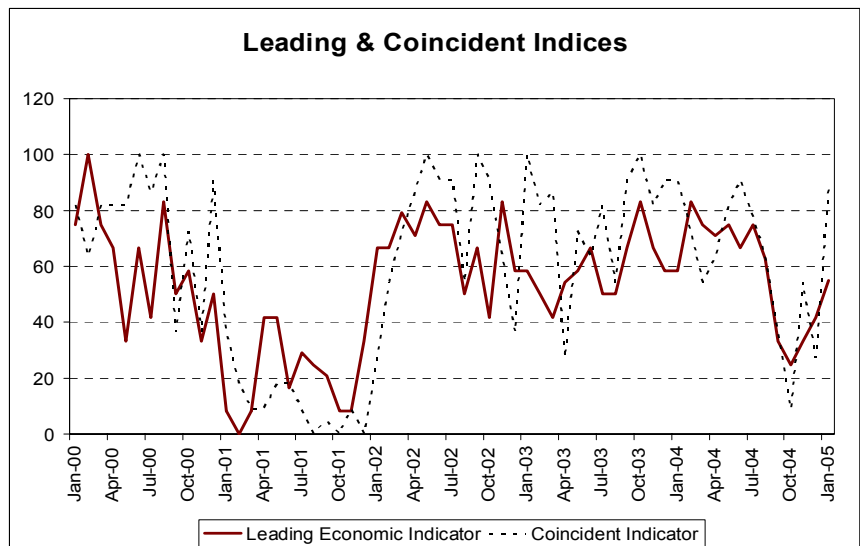


Adj. Bank Lending, Leading & Coincident Indices and Machine Tool Orders

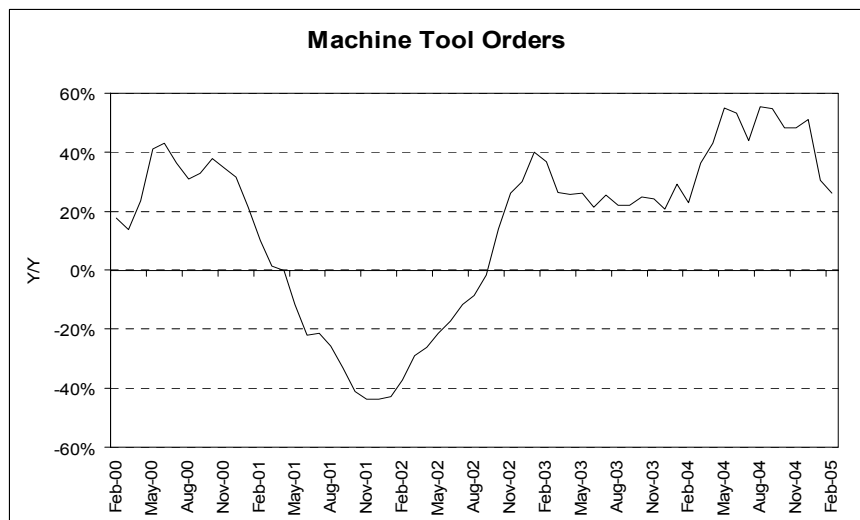
Japan's Adjusted Bank Lending decreased 0.9% Y/Y in February, posting its smallest decrease since April of 1999.



Based on Preliminary figures, the Leading Economic Index increased from 41.7 to 55.0 in January, in line with expectations. This series increased above the 50 mark for the first time in five months. Meanwhile, the Coincident Index posted a sharp increase from 27.3 to 88.9 reverting back to the expansion level.



Machine Tool Orders slowed from 30.4% Y/Y to 26.0% Y/Y in February, based on preliminary figures.



News Briefs

Comments from Sadakazu Tanigaki, Finance Minister

March 9th - Sadakazu Tanigaki, Finance Minister, commented that Japan is ready to take “appropriate action” against “excessive” moves in foreign exchange rates. He said that, “We will continue to closely monitor the currency market and take appropriate actions if foreign exchange rates fail to reflect fundamentals of economies and show excessive moves.” These comments came at the upper house of the Japanese parliament in Tokyo. Tanigaki also said the government's yen sales are aimed at “preventing speculative and disorderly moves of foreign exchange rates and curbing their drastic swings.”

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Comments from Hiroshi Watanabe, Japan’s Top Currency Official

March 8th - Hiroshi Watanabe commented that Japan is prepared to take action in case of abrupt moves in the yen. He stated that, “If there are some abrupt moves, we are very much ready” to act. He also mentioned that “I hope the foreign exchange market won't force me to do that.” His comments were made at a speech to the Foreign Correspondents' Club of Japan in Tokyo.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/10	Machine Orders (M/M) (JAN)	2.5%	-8.8%
03/10	Machine Orders (Y/Y) (JAN)	9.9%	-0.9%
03/11	Consumer Confidence (FEB)	48.0	47.4
03/11	Consumer Confidence Household (FEB)		47.4
03/13	Gross Domestic Product (Q/Q) 4QF		-0.1%
03/13	GDP Annualized 4Q F		-0.5%
03/13	GDP Deflator (Y/Y) 4Q F		-0.3%
03/13	Current Account Total (JAN)		¥1616.0B
03/13	Adjusted Current Account Total (JAN)		¥1776.9B
03/13	Trade Balance – BOP Basis (JAN)		¥1304.6B
03/13	Int'l Securities Invest (JAN)		-¥59.4B
03/13	Industrial Production (M/M) (JAN F)		2.1%
03/13	Industrial Production (Y/Y) (JAN F)		1.1%
03/13	Capacity Utilization JAN F		101.4
03/13	Bankruptcies (Y/Y) (FEB)		-13.5%
03/13- 03/14	BoJ Monetary Policy Meeting		
03/15	Machine Tool Orders (Y/Y) (FEB F)		

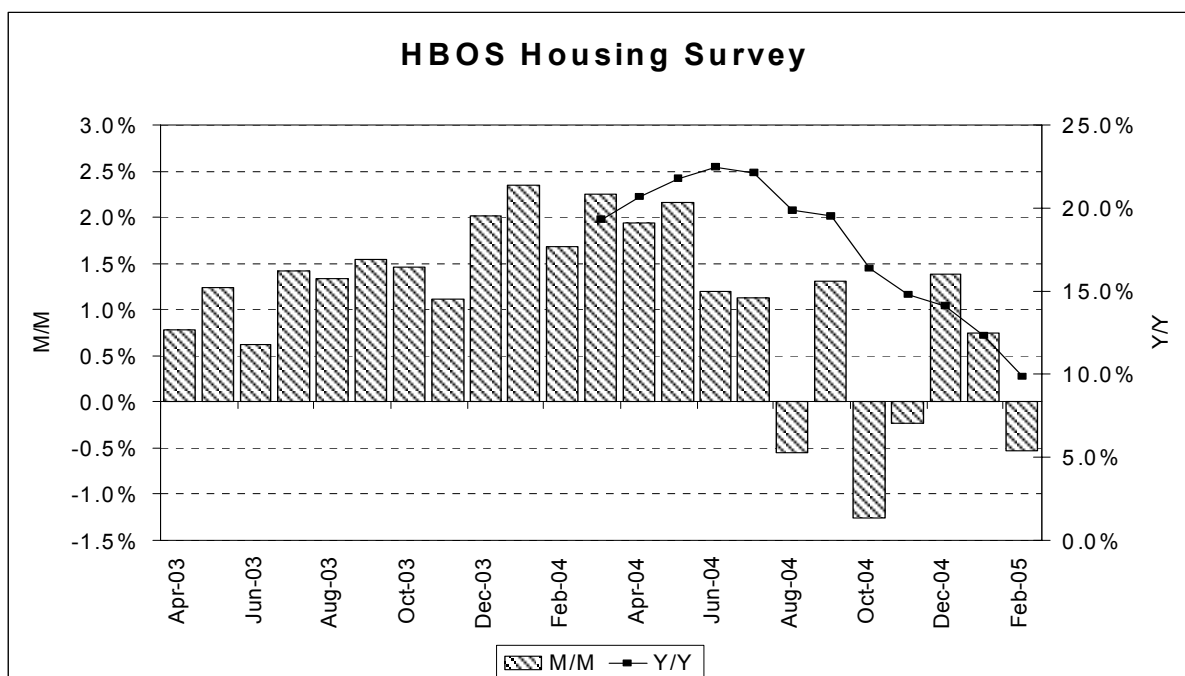
United Kingdom

The unclear direction of the housing market continued as HBOS reported that house prices decreased in February. The uncertain direction of the housing market and consumer activity are likely to be the main reasons the MPC keeps rates unchanged at 4.75% at its meeting this week.

Weekly Highlights

- **HBOS House Price Survey** - decreased 0.5% M/M and increased 12.1% Y/Y in February. (page 19)
- **Industrial Production** - decreased 0.1% M/M and increased 0.3% Y/Y in January. (page 20)
- **The Trade Deficit** - increased from £3.5bn to £3.7bn in January. (page 20)
- **MPC Member Marian Bell** - suggested that the level of real interest rates required to ensure stable inflation and economic growth at potential appeared to be lower now that it has been in the past. (page 21)

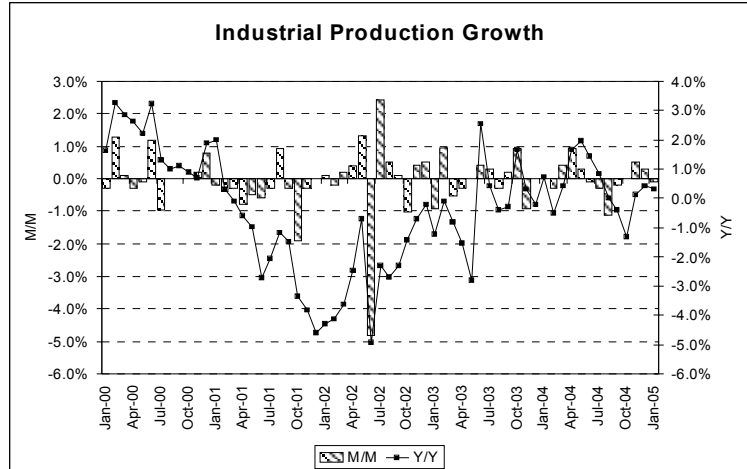
Chart of the Week



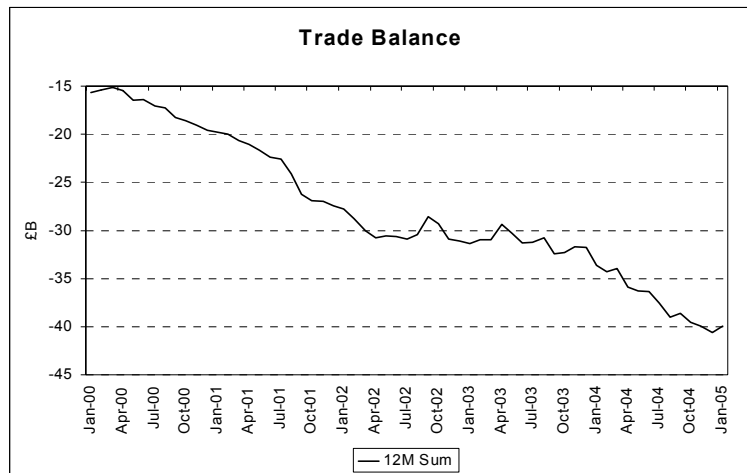
HBOS House Price Survey decreased 0.5% M/M and increased 12.1% Y/Y in February, the first M/M decline in three months. Halifax estate agents are reporting stabilization in housing activity.

Industrial Growth and Trade Deficit

Industrial Production decreased 0.1% M/M and increased 0.3% Y/Y in January. Mining and quarrying output decreased by 1.4% M/M, which was partly weather induced. In addition, demand for both electricity and gas was reduced this month because of the milder average temperature.



The Trade Deficit increased from £3.5bn to £3.7bn in January. Exports increased 2.0% M/M and imports increased 1.9% M/M. Exports of oil, chemicals and cars increased as imports of chemicals and intermediate goods slowed.



Data & Comments

NIESR GDP Estimate

The NIESR reported that GDP slowed from 0.8% to 0.6% in the three months through February.

BRC Retail Sales Monitor

The British Retail Consortium (BRC) reported that sales decreased 0.3% M/M in February as price cuts ended and cold weather kept shoppers at home.

FT House Prices

The Financial Times House Price Survey reported that prices increased 0.5% M/M and 10.2% Y/Y in February.

PMI Services

CIPS Services PMI decreased from 55.9 to 55.1 in February, below expectations. New Business decreased from 56.6 to 55.5. Employment decreased from 51.6 to 50.5.

Nationwide Building Society

The Nationwide Building Society reported that consumer optimism about buying a house increased from 34% to 35% in February as rates remain on hold. Nationwide is of the viewpoint that the housing market will continue to expand.

MPC Member Marian Bell

MPC Member, Marian Bell, suggested that the level of real interest rates required to ensure stable inflation and economic growth at potential appeared to be lower now than it has been in the past. However, she warned against policy makers taking this for granted and called for a pragmatic approach to monetary policy. Bell said that monetary policy must be “neither too hot nor too cold” suggesting the Bank may not raise borrowing costs much in coming months.

The EU and IMF criticize Gordon Brown

The European Union and International Monetary Fund criticized U.K. Chancellor of the Exchequer, Gordon Brown, and his handling of the public finances a week ahead of his next budget statement which is aimed at kicking off an election campaign. The IMF in Washington urged the British government to curb its spending over the next five years and to keep the deficit in check. EU finance ministers meeting in Brussels cited a “clear risk” that Brown's deficit will be wider than he forecasted, raising the chances to breach EU rules. The comments were an embarrassment to Brown and Prime Minister Tony Blair's Labour government, which are putting their handling of the economy at the center of a campaign for a third term in office. The IMF urged Brown to curb spending on public services and said if forecasts for tax revenue growth were “optimistic” Brown should also move “expeditiously” to adjust the fiscal position.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
3/10	New Construction Orders		2412.0
3/10	BRC Shop Price Index		
3/10	BOE Announces Rates	4.75%	4.75%
3/14	PPI Input		3.4% M/M 9.4% Y/Y
3/14	PPI Output		-0.1% M/M 2.6% Y/Y
3/14	Leading Indicator		
3/14	Coincident Indicator		
3/14	ODPM UK House Prices		10.7% Y/Y
3/16	Unemployment Rate		2.6%
3/16	Average Earnings		4.3% 3M/3M

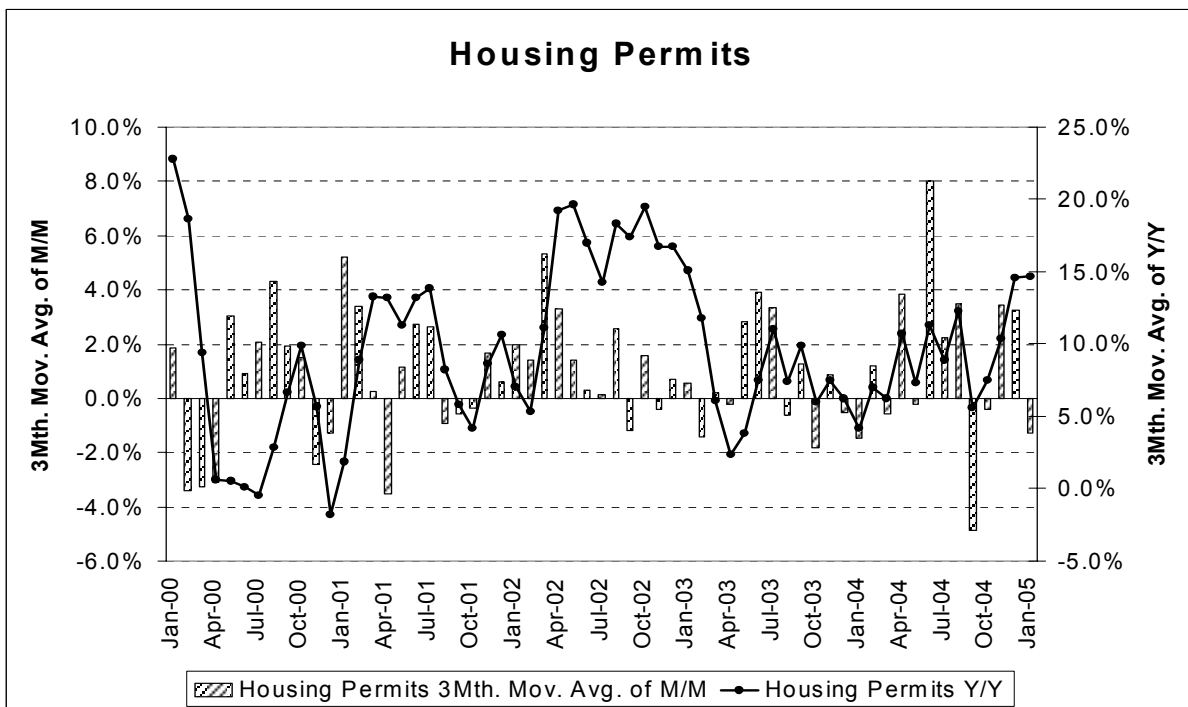
Canada

Recent data from Canada suggests that the BoC may be on hold until Q4. Housing data for January and February in the forms of building permits and housing starts were weaker than anticipated, although the February PMI beat expectations.

Weekly Highlights

- **Building Permits** – declined 11.0% M/M and increased 8.8% Y/Y in January. (page 23)
- **Housing Starts** – increased from 204k to 214.9k in February. (page 24)
- **New House Price Index** – increased 0.2% M/M and 5.2% Y/Y in January. (page 24)
- **IVEY PMI** – increased from 50 to 63.4 points in February. (page 24)

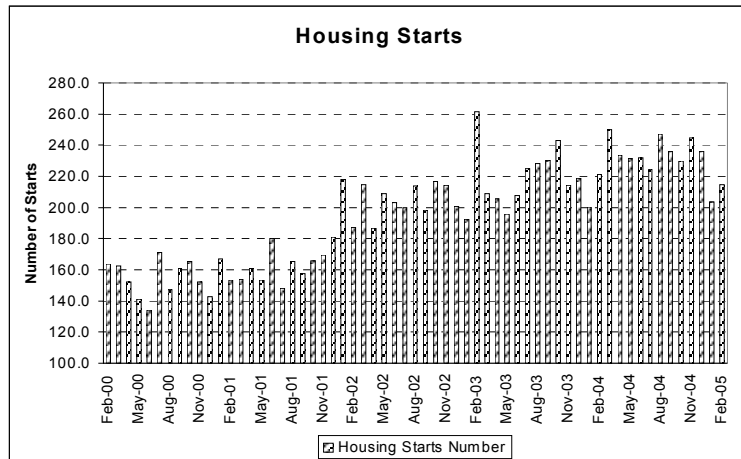
Chart of the Week



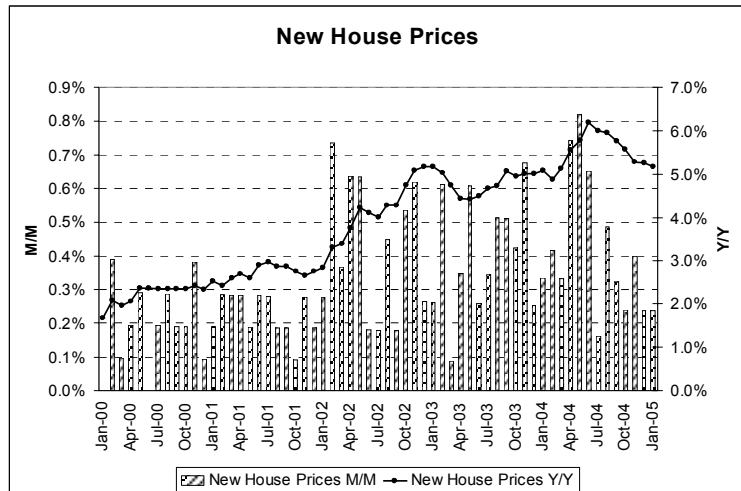
Housing permits in Canada declined 11.0% M/M and increased 8.8% Y/Y in January. The decline was more than the 2.0% M/M decline that economists anticipated and suggests that the BoC can afford to be patient on increasing its overnight rate. With the housing market continuing to cool, the BoC may remain on hold until Q4.

Housing Starts, New House Price Index & IVEY PMI

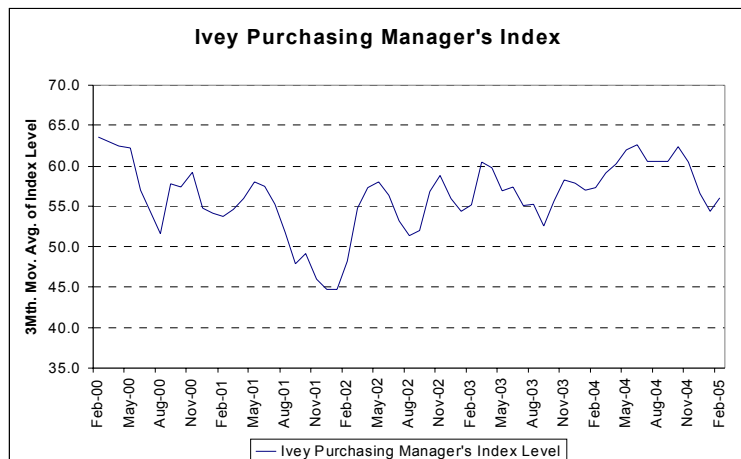
Housing starts increased from 204k to 214.9k in February, but missed economists' expectations of 225.0K.



The New House Price Index increased 0.2% M/M and 5.2% Y/Y in January, slightly below economists' expectations for a 0.3% M/M increase.



The Ivey Purchasing Manager's Index increased from 50 to 63.4 points in February.



Consumer Confidence & Goodale Comments

Consumer Confidence – Declines in February

The Canadian Consumer Confidence Index declined in February from 124.2 to 121.4 as the share of people expecting the job market to improve fell from 23.1% to 20.3%.

Goodale Comments on New Budget

Finance Minister, Ralph Goodale, commented on the C\$'s rise and the budget unveiled last week, saying that the expensive currency led the government to lower corporate taxes and offer companies incentives to invest.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/10	Capacity Utilization Rate (Q4)	85.6%	85.7%
03/11	Unemployment Rate (Feb.)	7.0%	7.0%
	Employment Change (Feb.)	15.0K	-5.7K
	Int'l Merchandise Trade (Jan.)	\$5.5B	\$5.2B
03/14	New Motor Vehicle Sales (Jan.)	-1.0%	-3.1%
03/15	Manufacturing Shipments (Jan.)	0.5%	-0.2%

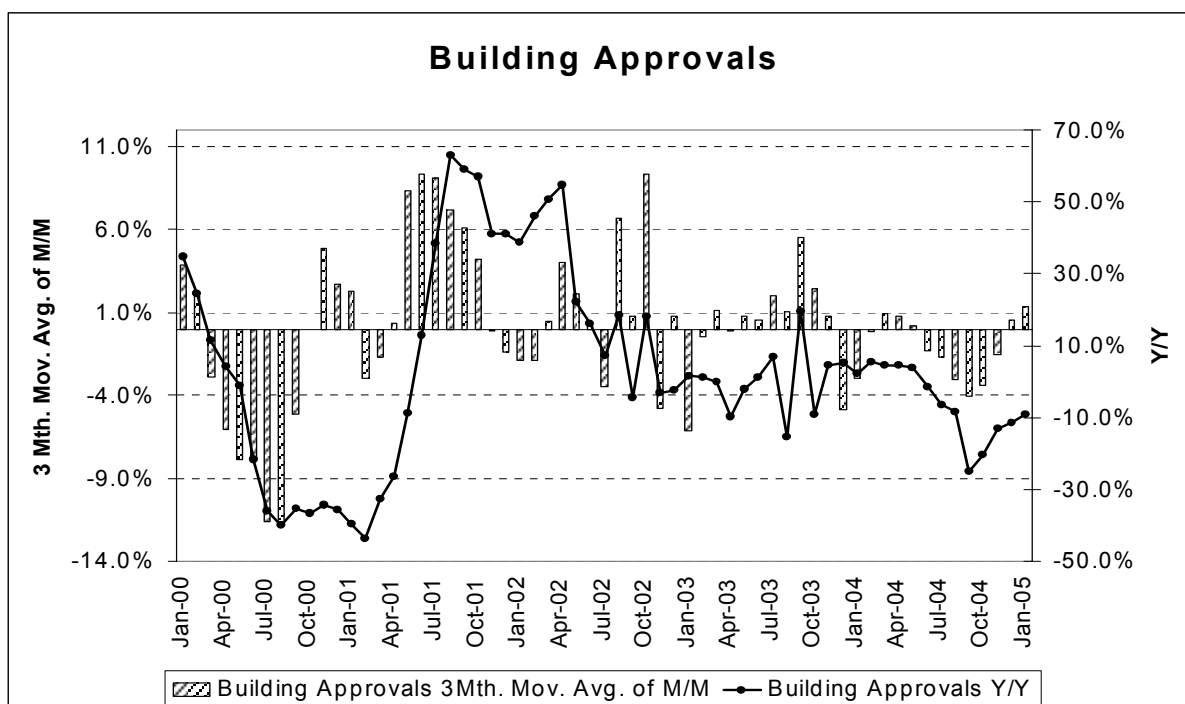
Australia

Recent data from Australia was mixed. Retail sales increased less than anticipated and job advertisements declined, while building approvals increased more than anticipated. Many economists are questioning the need for additional rate hikes although most do not doubt that RBA is likely to hike by another 25bps in April. This is supported by domestic demand numbers, which as building approvals have suggested, has not slowed as much as the RBA would like.

Weekly Highlights

- **Building Approvals** – increased 1.7% M/M and declined 9.0% Y/Y in January. (page 27)
- **Retail Sales** – increased 0.6% M/M and 1.4% Y/Y in January. (page 28)
- **House Prices** – increased 0.6% Q/Q and 2.7% Y/Y in Q4. (page 29)

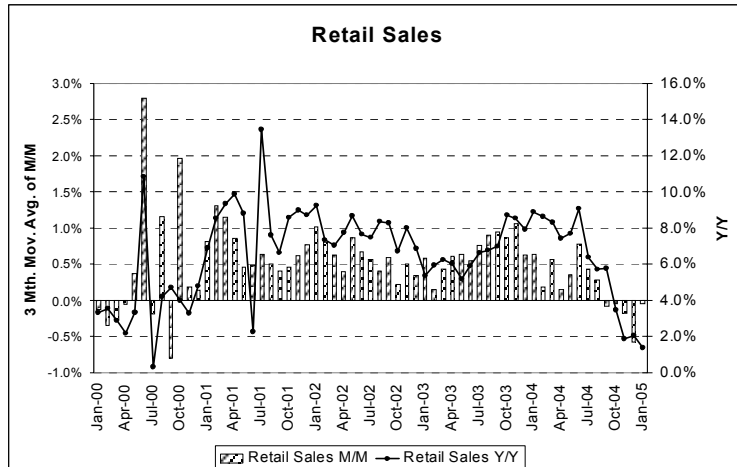
Chart of the Week



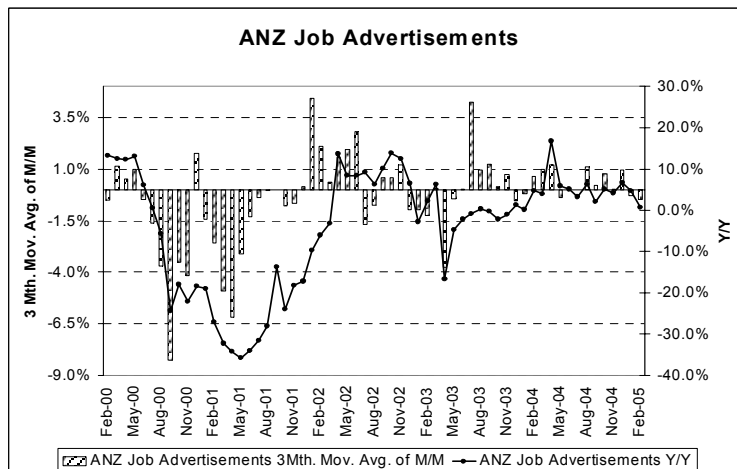
Building approvals in January increased 1.7% M/M and 9.0% Y/Y, above expectations for a 2.0% M/M decline. The increase reinforced expectations of an additional hike from the RBA in April. This is likely as the RBA has given no hint of a pause after increasing the overnight rate 25bps in March to 5.50%.

Retail Sales & ANZ Job Advertisements

Australian retail sales increased 0.6% M/M and 1.4% Y/Y in January. The increase was not as much as the 0.8% M/M economists had anticipated, although it was the first increase in four months.



The number of jobs advertised in Australian newspapers declined 0.6% M/M and increased 0.7% Y/Y in February.



House Prices, Howard Comments, Consumer Confidence, Business Confidence & Cashcard Retail Index

House Prices – Increased in Q4

Prices paid for new houses in Australia increased 0.6% Q/Q and 2.7% Y/Y in Q4. Although the increase may support the RBA's case for increasing its overnight rate, domestic demand has recently begun to show signs of cooling.

Howard Comments – Against Rate Increase

Australian Prime Minister, John Howard, commented that “Inflation is low, there are no signs wages are breaking out and there are signs the rate of growth in the economy has moderated,” in expressing his view that the RBA should leave its overnight rate unchanged at 5.50%. He also mentioned that “There is a dispute between the bank and the statisticians, who collect those statistics, about the relative strength of the economy, to put it bluntly.” He did, however, add that “We should remember we have very low levels of unemployment, we have low levels of inflation, we have a budget that is strongly in surplus, we have by historic standards still very low interest rates and we have very strong business investment”.

Consumer Confidence – Experiences Record Decline

Australian consumer confidence declined 16.6% to 102.4 in March. The decline was the largest on record and supports views that additional rate hikes by the RBA are not needed. Woolworth's CEO commented that “We're not seeing boom retail conditions,” and that “The Australian community has become very susceptible to movements in interest rates and would be particularly sensitive to too much movement in rates.”

Business Confidence Declined in February

Australian business confidence declined in February as new orders fell. The Business Confidence Index declined from 20.5 to 4.5. An index reading above zero indicates companies expecting their industry to improve in the coming month outnumbered those forecasting deterioration.

Cashcard Retail Index Increases in February

Australia's largest independent provider of ATM's, said that its Retail Activity Index increased 1.5% M/M in February. The increase follows a 1.2% decline in January. The index is seasonally adjusted.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/09	Consumer Inflation Expectations	N/A	N/A
	Employment Change (Feb.)	0.00	44.50
	Unemployment Rate (Feb.)	5.2%	5.2%
	Participation Rate (Feb.)	64.0%	64.1%
03/10	Home Loans (Jan.)	-1.0%	1.2%
03/15	Westpac January Leading Economic Index	N/A	N/A

New Zealand

The Treasury recently warned that wages may increase due to strong employment, while Finance Minister Cullen commented that the economy was being constrained by a lack of skilled labor and investment. Economists are split on the path of the overnight rate over the next month, although a narrow majority expects rates to remain unchanged.

Weekly Highlights

- **Cullen's Comments** – NZ Economy constrained by Labor and Investment. (page 31)
- **Residential Building** – declined 3.9% M/M in Q4. (page 31)
- **Treasury Comments** – wages may accelerate on unemployment rate. (page 31)
- **New Car Registrations** – increased 11% Y/Y in February. (page 31)

Cullen's Comments – NZ Economy Constrained by Labor and Investment

According to Finance Minister, Michael Cullen, the New Zealand economy is currently being constrained by a lack of skilled labor and investment, fueling inflation and supporting a possible decision by the RBNZ to increase its overnight rate to a four year high. "Capacity utilization in the economy remains relatively tight," Cullen stated, commenting further that "We face severe labor shortages in some of our key industries."

Residential Building – Declines for Second Quarter in Three

The value of residential construction in New Zealand declined 3.9% Q/Q in Q4 2004, after falling 4.1% Q/Q decline in Q3 2004. The decline supports views that the RBNZ may leave its overnight rate unchanged in the upcoming months, as most economists expect.

Treasury Comments – Wages to Accelerate

The New Zealand Treasury warned that a low unemployment rate may cause wages to accelerate this year as employers pay more to attract and retain workers. "With the continued difficulty finding labor and strong labor demand, wage growth is expected to increase further in the coming quarters," the department stated, also saying that "wage growth is rising due to increasing pressure of strong employment demand."

New Car Registrations – Increase for First Month in Three

New Zealand new car registrations increased 11% Y/Y in February as a lower jobless rate and increasing house prices supported spending on automobiles.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/10	Terms of Trade Index (Q4)	0.1%	-0.2%
02/13	Retail Sales (Jan)	N/A	-0.4%
03/15	Non-Resident Bond Holdings (Feb.)	N/A	62.9%

China

No economic data was released this week

News/Data/Commentary

March 9 (Bloomberg) - China May Use Tax Breaks, Reserves to Help Banks

Finance Minister, Jin Renqing, stated at a press conference that "China may offer tax breaks and use money from its foreign reserves to help state-owned banks write down bad loans and prepare for initial public offerings". He further stated that "China's economy and fiscal income have grown to such a scale that we are capable of supporting the reform of state banks".

March 9 (Bloomberg) - China's Finance Minister Defends Yuan Peg, Pledges Stability

"China's Finance Minister Jin Renqing rejected claims that the yuan is undervalued and said the government will keep the currency's value stable as it pushes forward with reform of the exchange-rate system." Jin also stated that the "yuan is trading at a level that's in line with our nation's economic and trade conditions".

March 9 (Bloomberg) - China Determined to Introduce Fuel Tax, Finance Minister Says

Finance Minister, Jin Renqing, stated in a press conference that "China is determined to introduce a fuel tax eventually after delaying the plan because of concern about the effect of higher oil prices on the economy".

March 7 (Bloomberg) - China Says Speculative Capital Inflows Aren't Big

Governor Zhou Xiaochuan said at a press conference in Beijing that "the nation's capital controls have prevented a big inflow of speculative funds betting on a revaluation of the yuan". "I cannot say there are no speculative capital inflows but it's not a big amount," Zhou said. He further stated that "China has strict controls over the capital account. China's foreign-exchange reserves climbed to a record \$609.9 billion last year, driven by surging exports and foreign direct investment". "The nation's economic growth accelerated to an eight-year high of 9.5 percent in 2004."

March 7 (Bloomberg) - China to Tighten Land, Power Curbs to Limit Inflation

"China said it will tighten rules on land use and power plant construction to prevent a rebound in inflation as Premier Wen Jiabao tries to slow growth in the world's fastest-expanding major economy." Chairman of the National Reform and Development Commission, Ma Kai, stated in a press conference in Beijing that "China's success in macroeconomic controls isn't permanent" and "the foundation is still weak."

March 5 (Bloomberg)

"China's Premier Wen Jiabao announced plans to slow growth in the world's fastest-growing major economy to 8 percent this year by clamping down on urban infrastructure projects and spending more on lagging rural areas. The government will maintain curbs on investment in industries including steel and property and cut taxes on farmers, Wen said in his annual work report to China's parliament. The 2005 budget forecast slower growth in government spending and fewer sales of bonds for infrastructure. Economic controls "cannot be loosened," Wen said. "Maintaining stable economic development will be a key job for the government."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/8-17	Retail Sales Value Accumu (Y/Y) - January		
03/8-17	Foreign Exchange Reserves – January		609.93B
03/8-14	Ttl Export (Individual) Y/Y% - Feb		42.2%
03/8-14	Ttl Import (Individual) Y/Y% - Feb		24.0%
03/8-14	Trade Surplus in US\$ Billion –Feb		6.50B
03/8-17	Retail Sales Value Indiv (Y/Y) - Jan		14.5%
03/8-17	Unemployment Rate – 4Q		4.2%
03/13-17	Fixed Assets Inv Urban Cum (Y/Y) - Feb		
03/13-17	Retail Sales Value Accumu (Y/Y) – Feb		
03/13-17	Retail Sales Value Indiv (Y/Y) – Feb		
03/13-18	Money Supply – M2 (Y/Y) – Feb		14.10%
03/13-18	Money Supply – M1 (Y/Y) – Feb		15.30%
03/13-18	Value Added Industry Current – Feb		484.40B
03/13-17	Value Added Industry (Y/Y) – Feb		8.9%
03/13-17	Producer Price Index (Y/Y) – Feb		5.8%
03/13-17	Actual FDI Cumulative (Y/Y) – Feb		10.72%
03/13-17	Contract FDI Cumulative (Y/Y) - Feb		27.69%
03/13-17	Actual FDI (Y/Y) – Feb		10.72%
03/13-17	Contract FDI (Y/Y) – Feb		27.69%

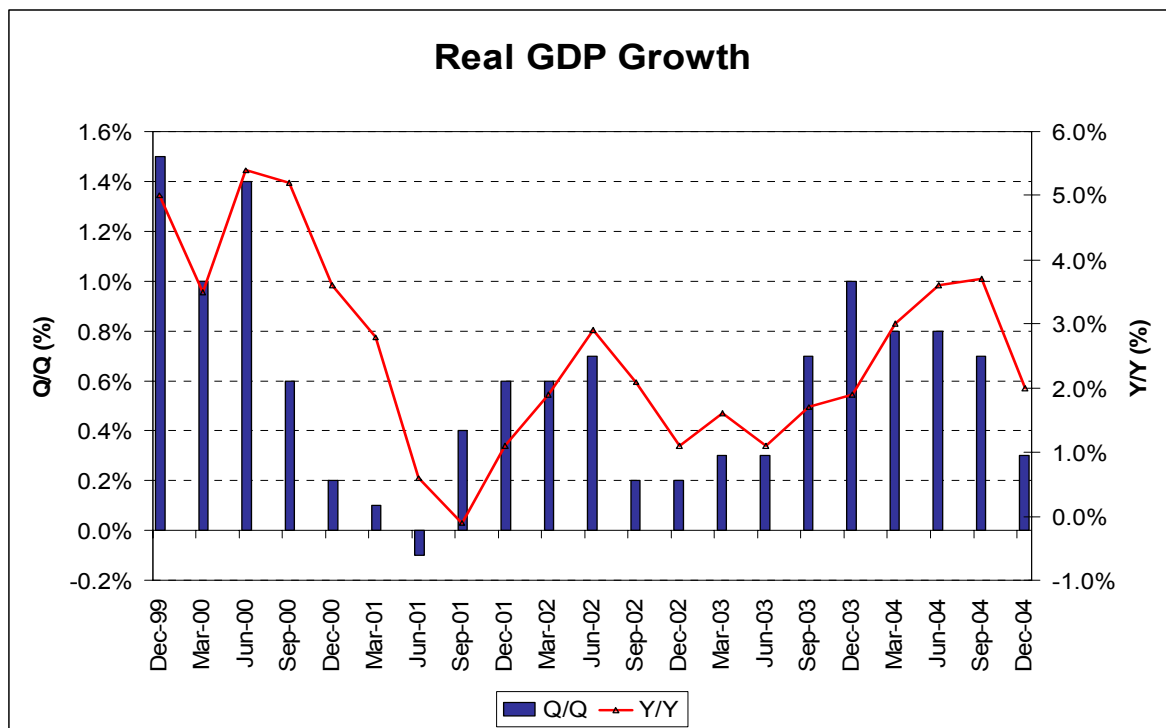
Sweden

GDP posted a lower than expected gain in Q4. The Riksbank is expected to keep its rates at 2.0% when they meet again next week. Deputy Governor Kristina Persson, expects that “only slowing growth would prompt the bank to cut rates”.

Weekly Highlights

- **GDP** – slowed from 0.7% in Q3 to 0.3% in Q4. (page 35)

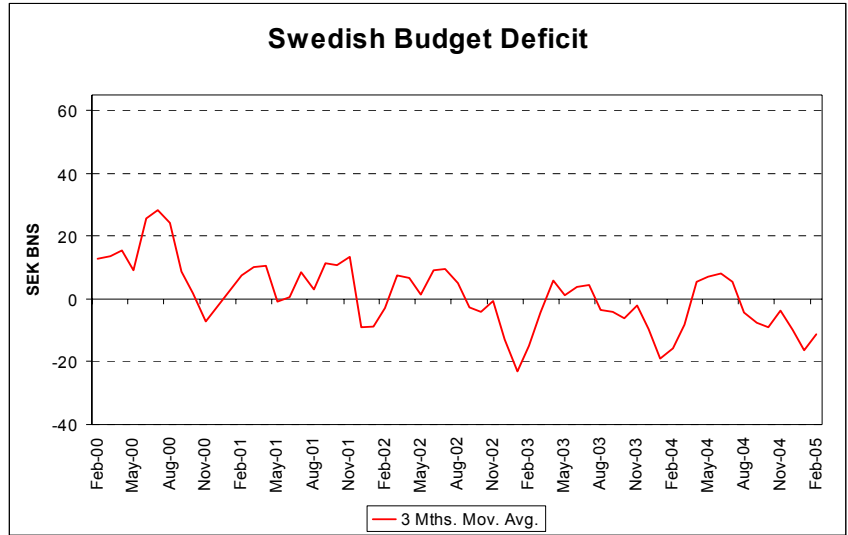
Chart of the Week



GDP slowed from a revised 0.7% in Q3 (down from 0.9%) to 0.3% in Q4. Y/Y growth also slowed, from a revised 3.7% in Q3 (down from 3.8%) to 2.0% in Q4. Exports and imports both grew 2.7% in Q4; household consumption climbed from 0.3% in Q3 to 0.5% in Q4; and Sweden’s economy increased from 1.5% growth a year earlier to 3.5% in 2004.

Swedish Budget Deficit

As a result of delayed payments in the banking system, Sweden experienced a smaller-than-expected surplus of SEK 15.4 bln in February. The surplus was SEK 13 bln less than forecasted.



Mar. 9 - Swedish Feb. Jobless Rate Falls to 5.5% From 5.7% in January

Sweden's Unemployment Rate declined from 5.7% in January to 5.5% in February, lower than the expected 5.6%. This translated into 241,000 Swedes being unemployed at the end of the month. The number of Swedes taking part in retraining programs increased by 4,000 (from 128K in Jan. to 132K in Feb.). "The Labor Market Board's jobless figure is based on the number of people collecting unemployment benefits at the end of the month and doesn't represent the country's official rate, which is provided by Statistics Sweden."

Mar. 9 - Swedish Government Set to Raise 2005 Growth Forecast, Ekot Says

Swedish radio program Ekot announced on its website that "Sweden's Finance Ministry is set to raise its forecast for the country's economic growth this year to 3.2 percent". The ministry forecasted in September that the economy would expand 3 percent this year and 2.5 percent in 2006.

Mar. 9 - Sweden's Goeran Persson Sees Room for Riksbank Cut, Direkt Says

New agency Direkt reported that "Swedish Prime Minister Goeran Persson said the Riksbank can cut interest rates further as inflation wanes because of the strong krona, increasing productivity and lower food costs". Persson further stated to reporters: "I don't want to mention deflation, but it's clear that some month will we be in that situation". According to Direkt, Person also stated, "it's clear there's room to lower rates" .

Mar. 8 - Swedish Central Bank's Deputy Governor Kristina Persson Speech

The following are excerpts from a speech given by the Riksbank's Deputy Governor Kristina Persson on Globalization and Sweden's Low Inflation published on the Riksbank's website:

"Over the last decade or so inflation has gradually fallen, both in Sweden and globally. The main reason for this is a shift in monetary policy regime in an increasing number of countries, with independent central banks aiming to meet a price stability target. But the decline in inflation has also been facilitated by globalisation, which has resulted in increased competition from low-wage countries and put pressure on the old industrialized nations to increase productivity. This trend is being reinforced by the opportunities created by new information technology."

Ms. Persson further stated that the "low inflation in Sweden today has surprised many forecasters, including the Riksbank". She explained that it is attributed to "higher than expected productivity and unexpectedly low imported inflation". "So the low inflation is due to positive supply shocks and not to the Riksbank tightening monetary policy and dampening demand."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/10	Industrial Production s.a. (M/M) – January	2.0%	-3.2%
03/10	Industrial Production n.s.a. (Y/Y) – January	-2.4%	-3.7%
03/10	Industrial Orders s.a. (M/M) – January	-0.3%	-0.8%
03/10	Industrial Orders n.s.a. (Y/Y) – January	8.9%	13.7%
03/10	Activity Index Level - January	--	109.6
03/11	CPI Headline Rate (M/M) - February	0.1%	-0.5%
03/11	CPI Headline Rate (Y/Y) - February	0.3%	0.0%
03/11	CPI Underlying Inflation (M/M) - February	0.2%	-0.7%
03/11	CPI Underlying Inflation (Y/Y) - February	0.7%	0.4%
03/15	Riksbank Interest Rate	2.0%	2.0%

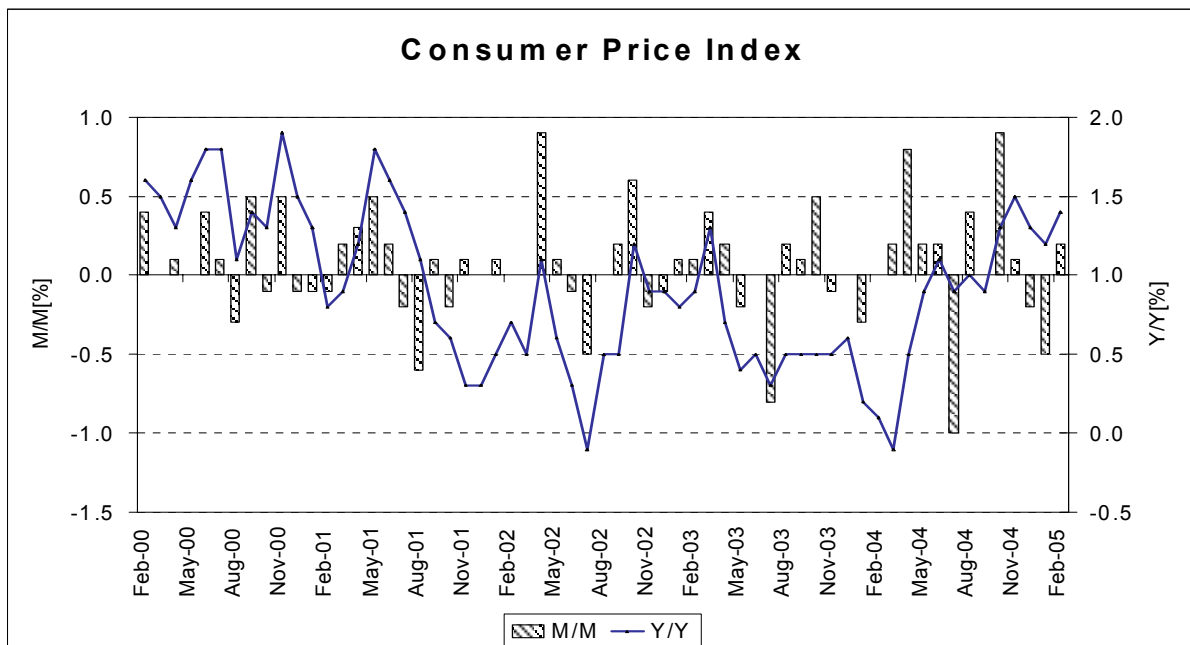
Switzerland

The International Monetary Fund (IMF) cut its forecast of Swiss growth this year because of the dollar's decline and a slowdown in demand from Europe. The IMF now estimates that Swiss gross domestic product will expand from 1% to 1.5% this year. The IMF in September expected growth of 2.2% this year. The Swiss government said it may not reach its budget target in 2006 or its projected surpluses in the following two years because of slowing economic growth.

Weekly Highlights

- **CPI** – gained 0.2% M/M and 1.4% Y/Y.(page 39)
- **Unemployment** – rose 0.1% in February, keeping the jobless rate and unadjusted jobless rate at 3.8 % and 4.1% respectively.(page 40)

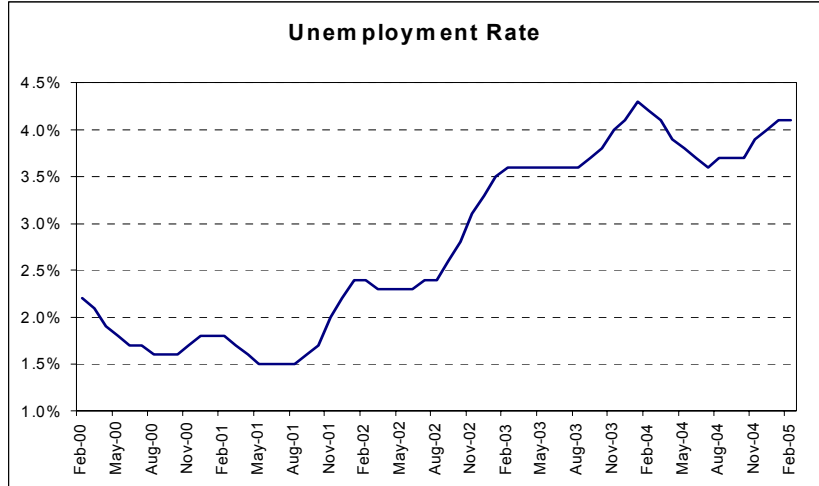
Chart of the Week



Swiss consumer prices in February increased for the first month in three, led by higher oil prices. Consumer prices gained 0.2% M/M from January. The figure was in line with economists' expectations. From a year earlier, prices rose 1.4 %, the largest gain since November.

Unemployment Rate

The number of unemployed increased 0.1% to 149,406 from January when adjusted for seasonal swings.



Estimate Cut

Faltering growth in the economy of the dozen nations sharing the euro and a stalling labor market were among the reasons the Swiss government in January cut its growth estimates for this Year after a slower-than-expected 1.7 % in 2004 (2.0% estimate).

Swiss companies will probably keep a rein on hiring until they see more signs of stronger growth in Europe's eighth-largest economy. SNB President, Jean-Pierre Roth said on Feb. 22 that there won't be big improvements in the labor market this year, while productivity will see little progress.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
3/10 -	Adjusted Real Retail Sales	---	-4.3%
3/16 3/13 -	Producer & Import Prices M/M and Y/Y	---	-0.2% and 1.3%
3/18			