

Weekly Economic Reports

March 16, 2005

Highlights

- **US:** Housing/consumer off to the races
- **Euroland:** Confidence surveys weak despite firm start to the year
- **Japan:** Consumer confidence improves further, notably on employment prospects
- **UK:** Housing prices flatlining as supply of homes on market rises sharply
- **Canada:** Manufacturing surges despite firmer C\$
- **Australia:** Signs point to another RBA hike

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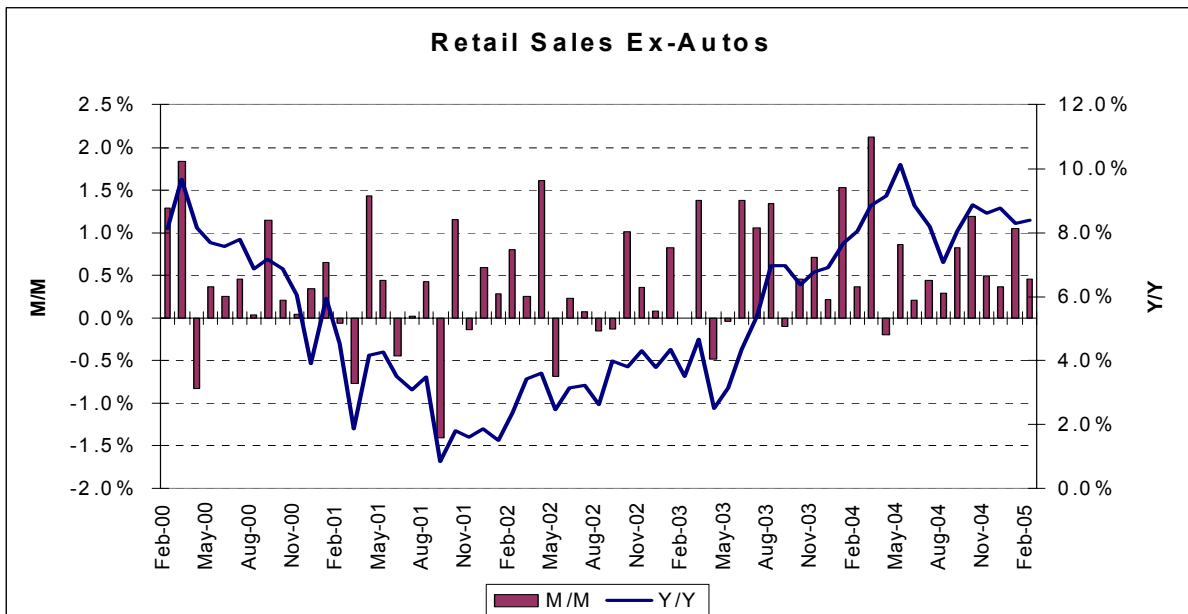
U.S.

This week's economic data were strong for the most part and combined with the firmness discussed in the Beige Book and comments from Fed members this week, makes a hike by the Fed a virtual certainty on March 22nd. The only debate is if "measured" will remain in the statement. Removing "measured" will likely pull forward the markets expectation of reaching a neutral rate and could lead to further flattening in the yield curve.

Weekly Highlights

- **Retail Sales ex. Autos-** grew 0.4% M/M in February. (Cover page)
- **Housing-** starts increased to 2.2 million and permits dropped to 2.1 million in February. (page 2)
- **Capacity Utilization-** increased to 79.4% as slack diminishes. (page 3)
- **Trade Deficit-** expands to \$58.3 billion in January. (page 4)

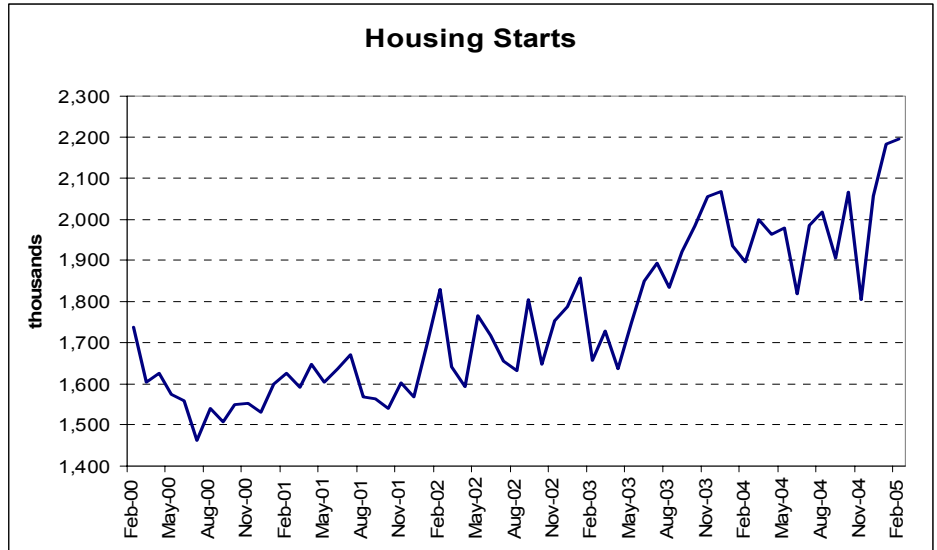
Chart of the Week



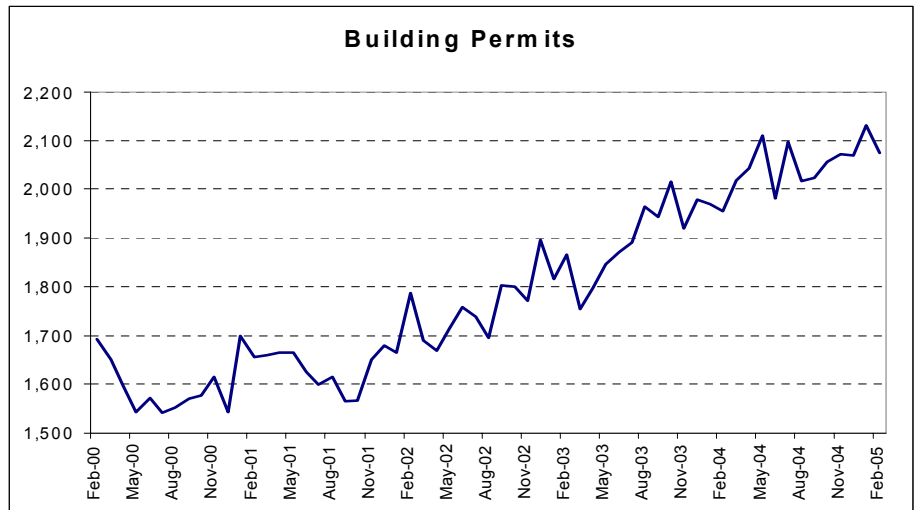
Retail sales, excluding autos, increased 0.4% M/M and increased 8.4% Y/Y in February. The results were below expectations, but included sharp upward revisions to the January data. This data still shows that the consumer is strong. However, the credit expansion fueling the consumer can not go on indefinitely. The Fed's financial obligation ratio, adjusted for the Microsoft dividend, increased once again and is likely to go higher as rates move higher. This dynamic is also magnified by the increasing amount of variable rate debt held by consumers.

Housing

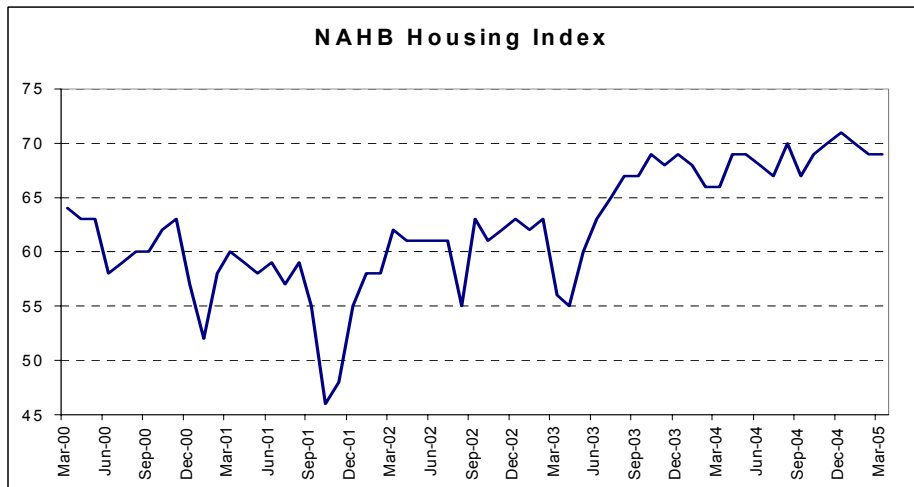
Housing Starts increased 0.5% M/M in February to a seasonally adjusted annual rate of 2.195 million. This series has rebounded significantly from the dip seen at the end of 2004 and suggests continued strength in the housing market.



Building Permits decreased 2.7% M/M in February to a seasonally adjusted annual rate of 2.074 million. This series toned down the strength seen in the housing starts data.

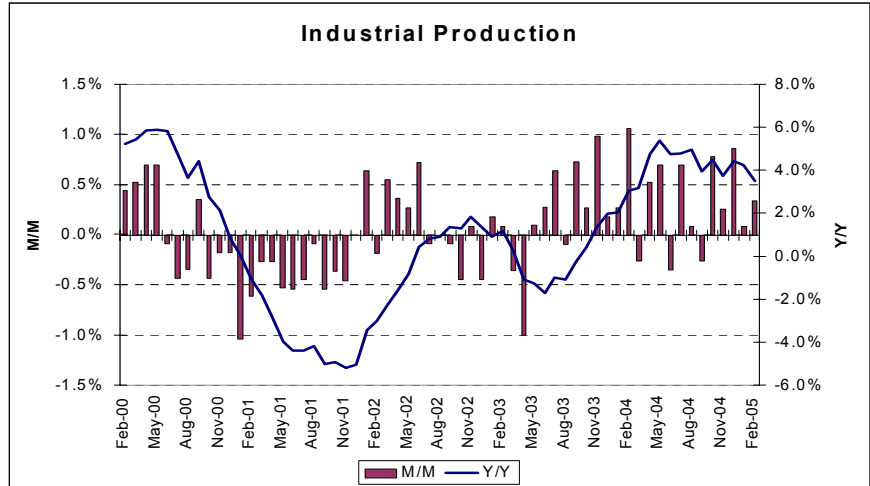


The NAHB Housing Index remained at 69 for the month of March. The present and future sale indices were also flat for the month.

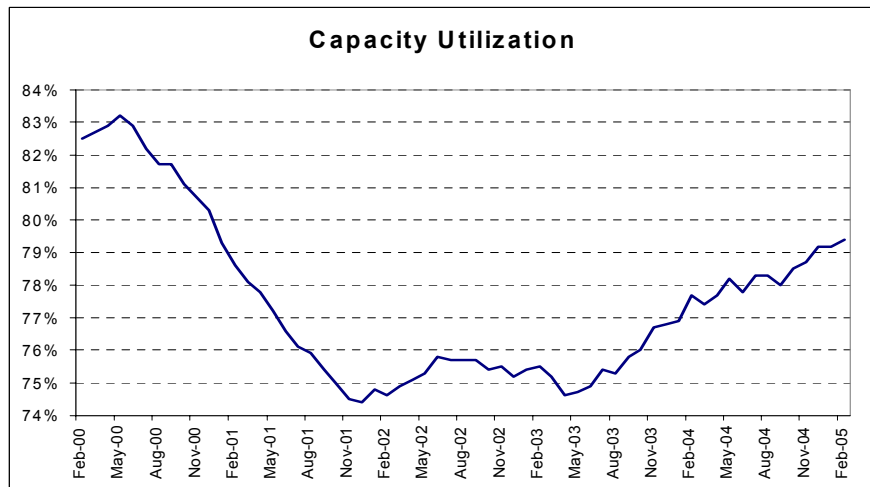


Industrial Production, Cap. U. & Empire Index

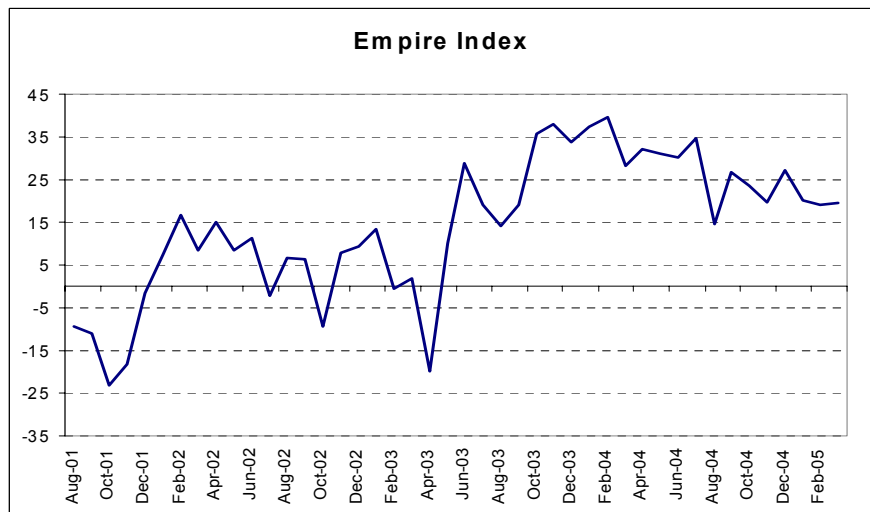
Industrial Production grew 0.3% M/M and 3.5% Y/Y in February. Growth in Industrial Production seems to be trending lower, but still shows strength in the manufacturing sector.



Capacity Utilization increased from 79.2% to 79.4% in February. This indicator continues to suggest that slack is diminishing and that the Fed will continue to hike rates.

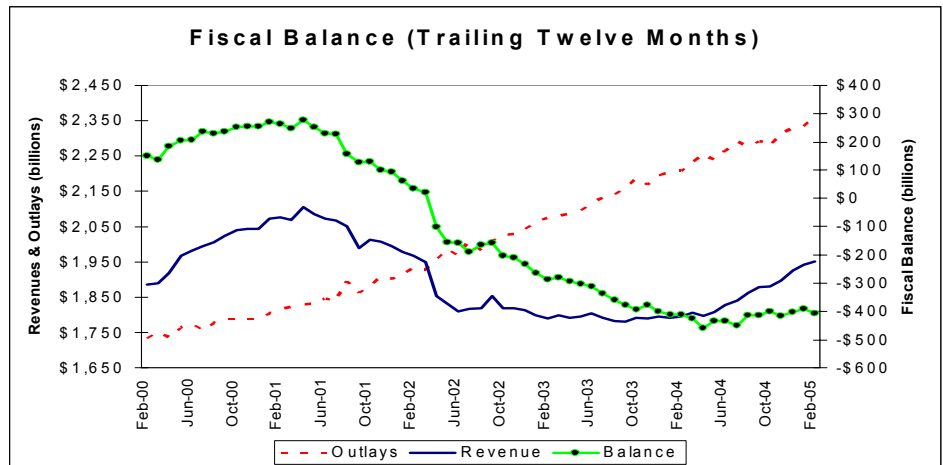


The Empire Manufacturing Index increased slightly from 19.19 to 19.61 in March. The price and employment components also improved.

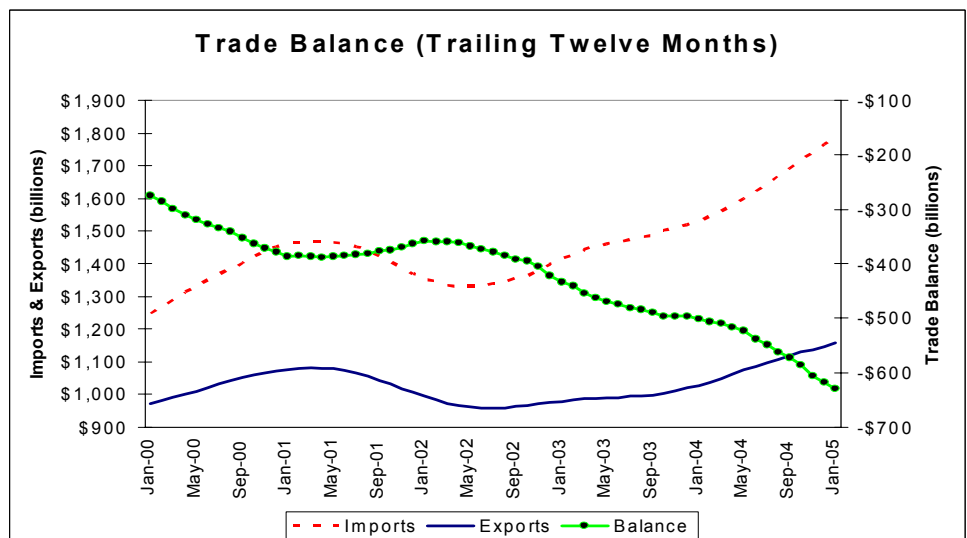


Trade Balance, Budget Balance & Current Account Balance

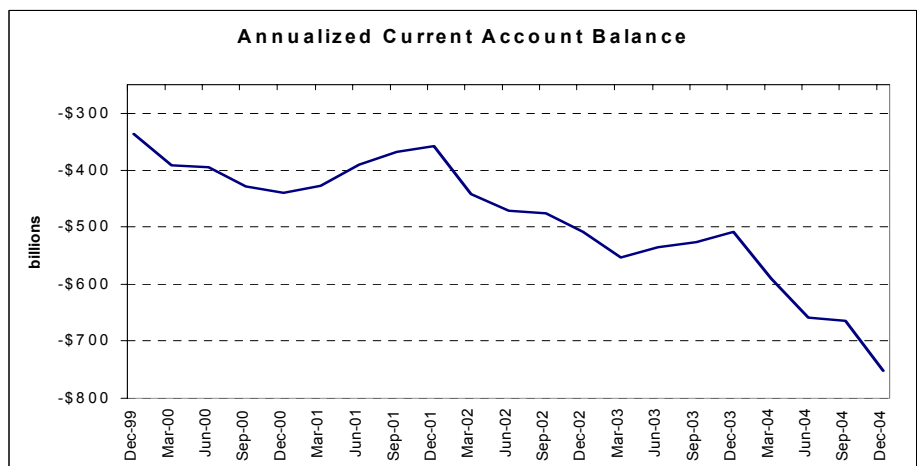
The budget balance in February was a deficit of \$113.9 billion. On a trailing twelve month basis the budget deficit has been stable at about \$400 billion. The budget deficit continues to be too small to support a sustained and robust expansion, given the large current account deficit.



The Trade Balance reached -\$58.3 billion in January. This brings the trailing twelve month total to -\$629.5 billion. The trade deficit with China has now reached \$165.8 billion on a trailing twelve month basis, over 25% of the total trade deficit.

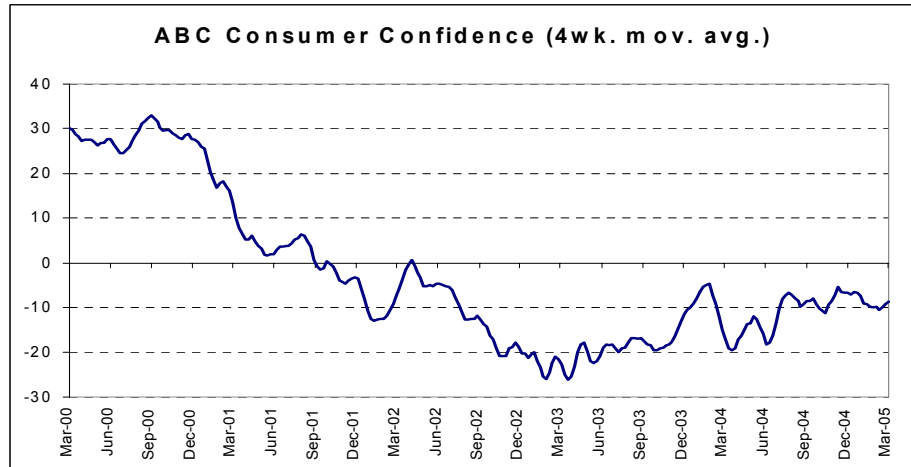


The Current Account deficit rose to \$ 187.9 billion in the fourth quarter of 2004 as import growth continues to outstrip export growth. The Current Account deficit is now over 6% of GDP.

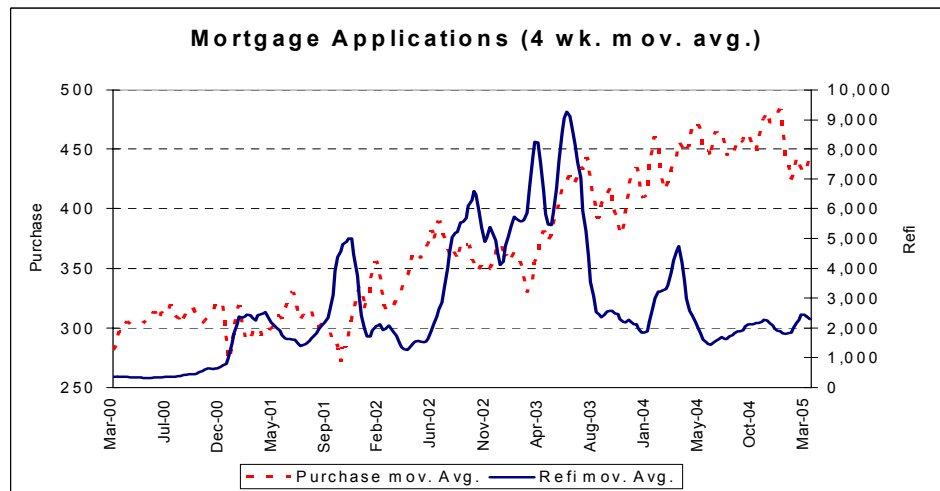


Confidence, Mortgage App. & Initial & Continuing Claims

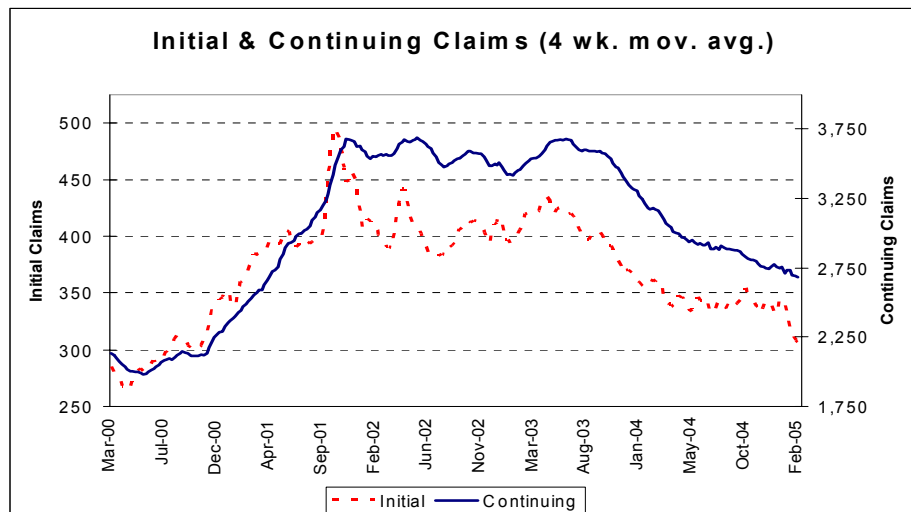
The ABC Consumer Confidence Index decreased from -7 to -8 for the week of March 14. The economy and finance components both declined, but the buying climate improved.



Purchase and refinancing mortgage indices increased 2.5% and 4.2%, respectively, this week. Mortgage applications for purchases continue to look flat.

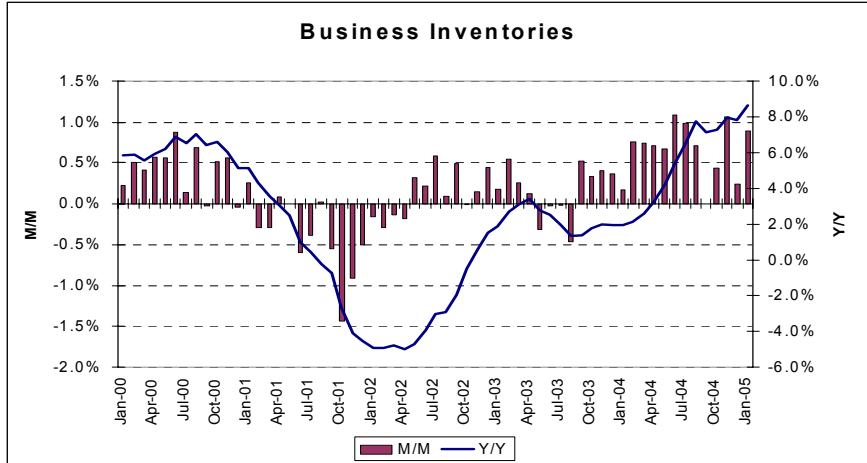


The four week moving average of initial claims increased to 313k and continuing claims decreased to 2,685k. Despite the uptick in initial claims, the absolute number still suggests a healthy expansion in payrolls.

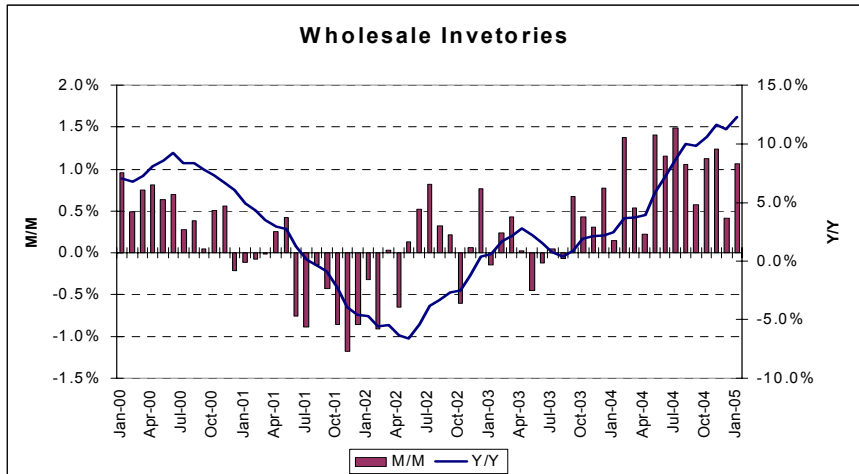


Inventories

Business inventories increased 0.9% M/M and 8.6% Y/Y in January.



Wholesale inventories increased 1.1% M/M and 12.3% Y/Y in January.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/17	Initial Jobless Claims (MAR 12)	315k	327k
03/17	Continuing Claims (MAR 5)	2,668k	2,703k
03/17	Leading Indicators (FEB)	0.1%	-0.3%
03/17	Philadelphia Fed. (MAR)	20.0	23.9
03/17	Import Price Index (MoM) (FEB)	0.6%	0.9%
03/18	U. of Michigan Confidence (MAR)	94.9	94.1
03/22	PPI Ex Food & Energy (MoM) (FEB)	0.1%	0.8%
03/22	ABC Consumer Confidence (MAR 20)	NA	-8
03/23	MBA Mortgage Applications (MAR 18)	NA	3.2%
03/23	CPI Ex Food & Energy (MoM) (FEB)	0.2%	0.2%
03/23	Existing Home Sales (FEB)	6.65M	6.80M

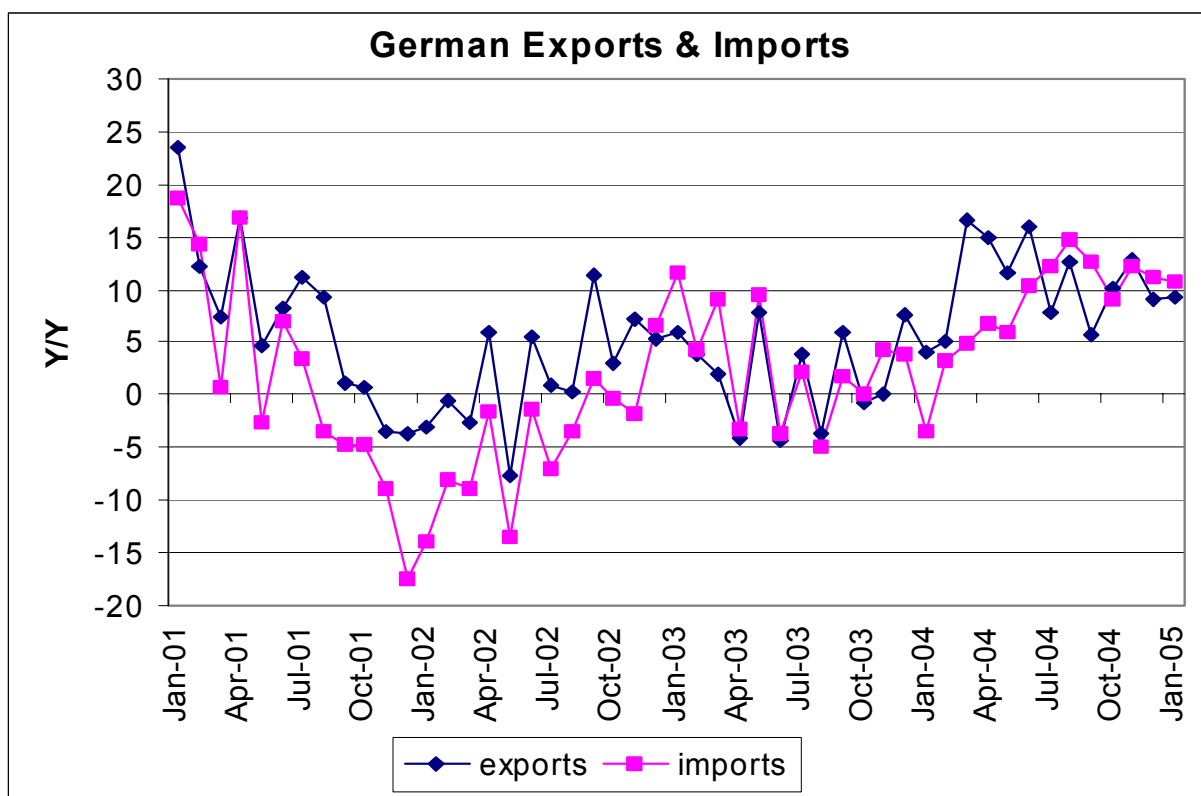
Euroland

This past week reconfirmed Germany's relatively upbeat January, but did not suggest continued above-trend growth. Germany's January Imports and Exports both outperformed expectations, however Euro Zone and German ZEW Confidence indicators fell after their brief pickups. French and Italian Production were stagnant and the Euro Zone OECD Leading Indicator Index fell for the second consecutive month after 19 months of increases.

Weekly Highlights

- **German Exports**- rebounded strongly in January. (page 9)
- **Euro Zone ZEW** – Current Assessment Index unexpectedly fell in March. (page 10)
- **French CPI** – remained below 2% for the 2nd consecutive month in February. (page 12)

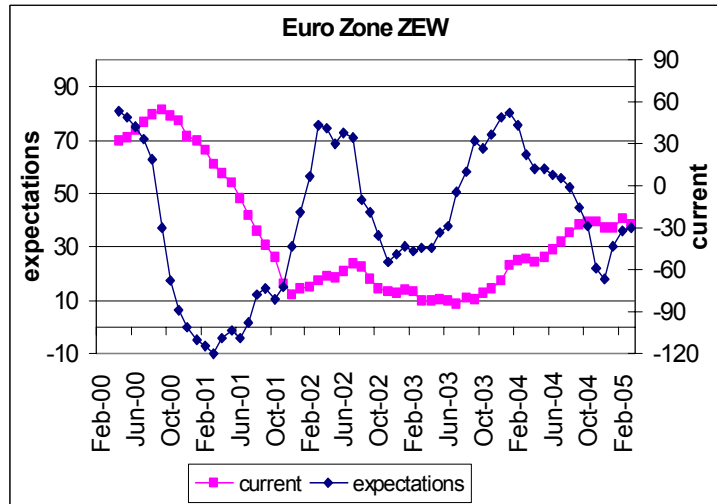
Chart of the Week



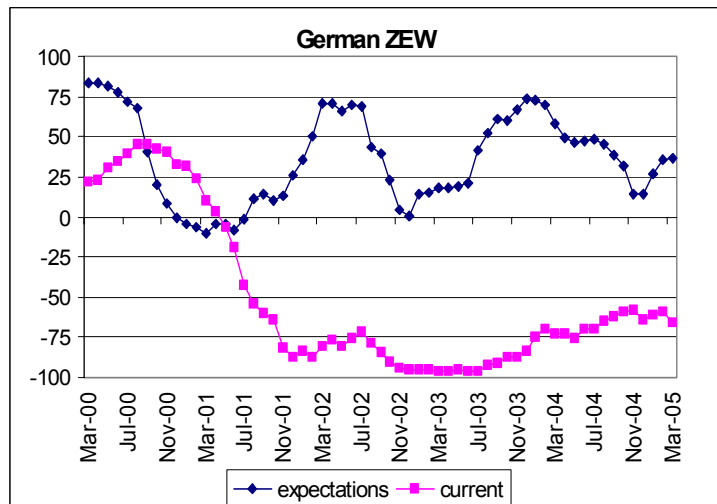
Germany's January Exports rose the most in more than two years, boosted by global expansion and the euro's decline from record highs. Exports gained 6.1% M/M and 9.4% Y/Y. Imports increased 6.6% M/M and 10.7% Y/Y, both above market expectations. The large M/M increases are also a reflection of December's poor performance. The Trade Balance widened from Eur10.7 billion in December to Eur13.2 billion.

Euro Zone & German ZEW, French Industrial Production

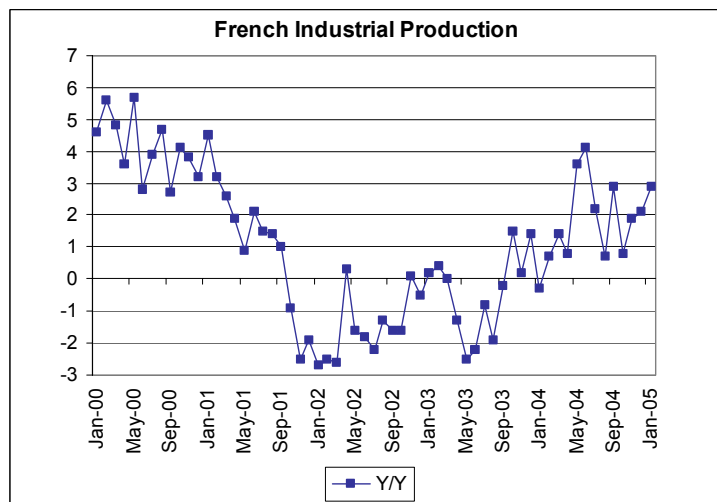
The Euro Zone's March ZEW Expectations Index increased from 36.0 in February to 37.3, while the Current Assessment Index fell from -23.7 in February to -27.8.



Germany's March ZEW Expectations Index increased from 35.9 in February to 36.3 while the Current Assessment Index fell from -58.7 to -66.0.

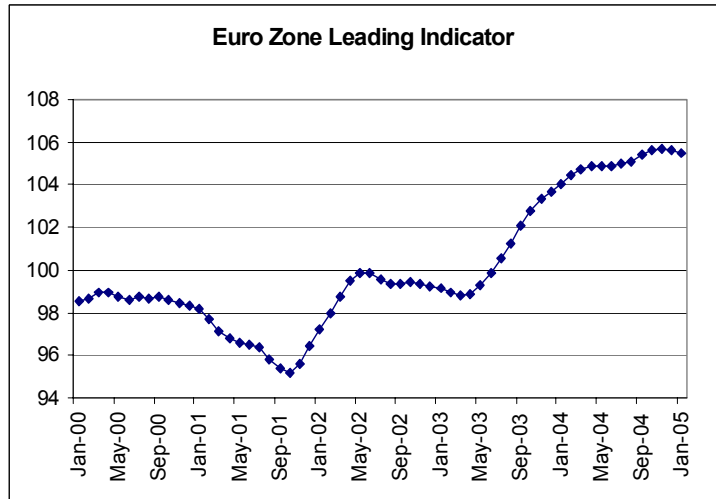


France's January Industrial Production rose 0.2% M/M and 2.9% Y/Y, the slowest M/M pace in 3 months. French production is expected to slow further, as their largest trading partner, Germany, contracted in the last quarter.

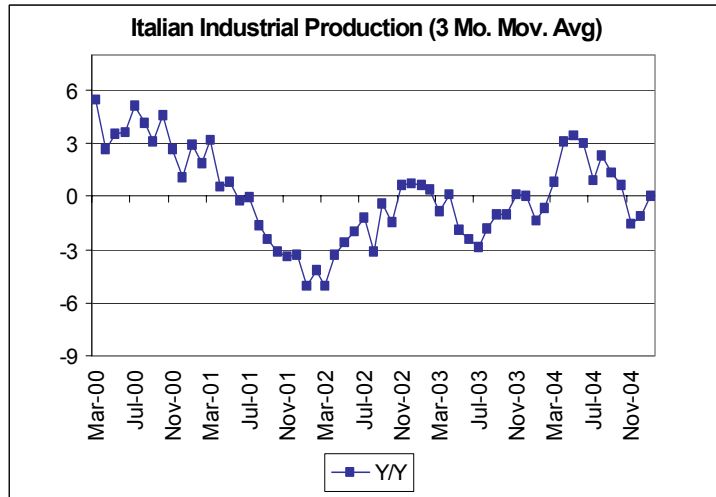


Euro Zone Leading Indicator, Italian Production & Spanish Retail Sales

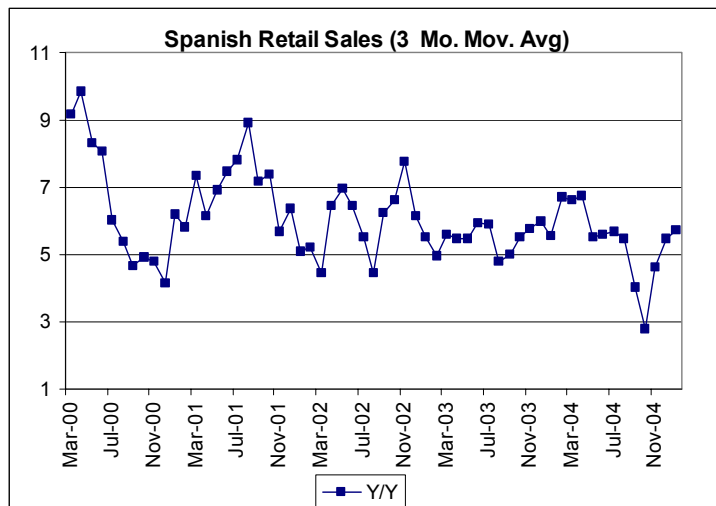
The Euro Zone's January OECD Leading Indicator unexpectedly fell, declining from 106.1 in December to 105.7.



Italy's January Industrial Production increased 0.1% M/M while falling 1.5% Y/Y. Italian manufacturers have also become more pessimistic concerning the future as the euro's gains have hurt exports.

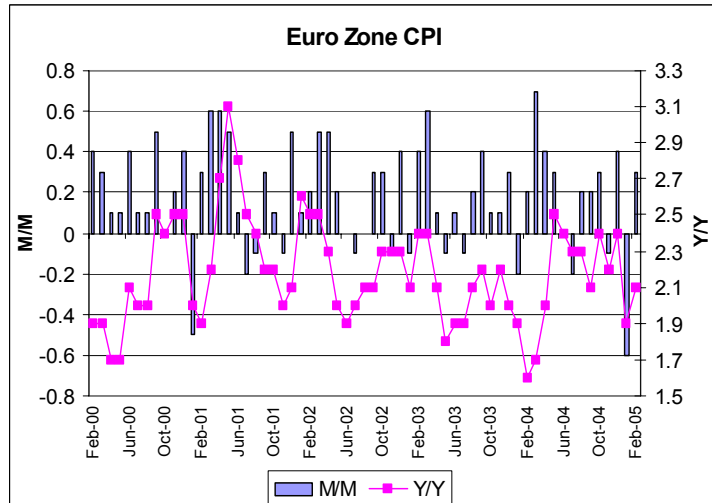


Spain's January Retail Sales fell 17% M/M while increasing 3.4% Y/Y.

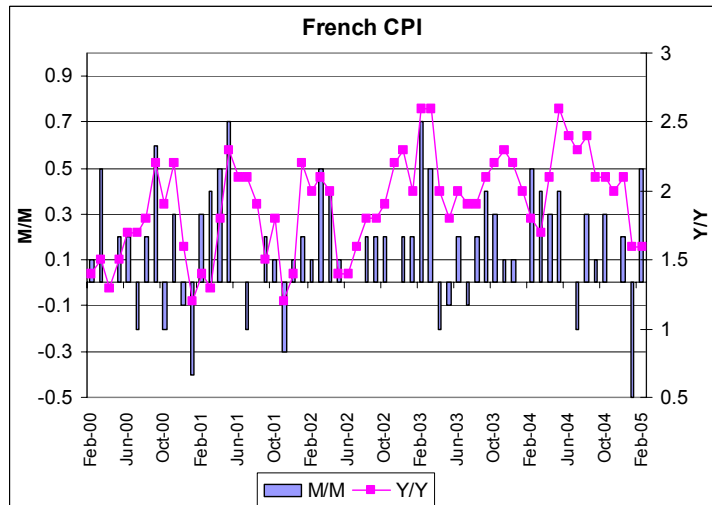


Euro Zone, French & Spanish CPI

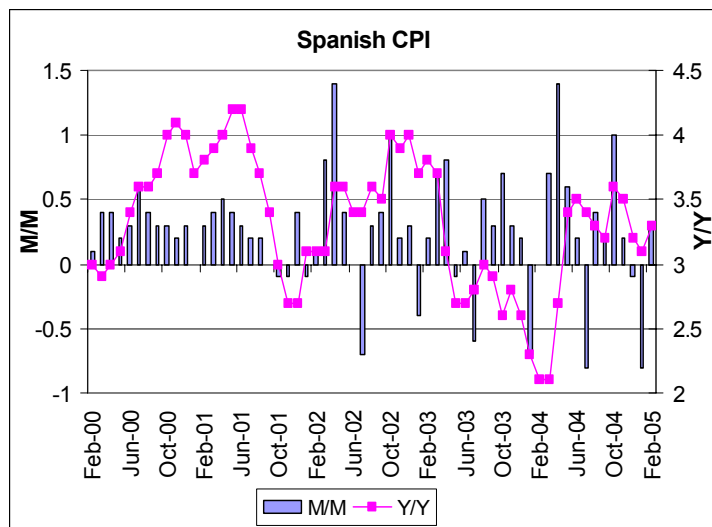
The Euro Zone's February CPI accelerated slightly to 0.3% M/M and 2.1% Y/Y. The increase was mainly due to oil prices and food costs increases due to freezing weather. Core CPI decelerated from 1.6% in January to 1.4%.



France's February CPI rose 0.5% M/M and 1.6% Y/Y. Core CPI rose 0.5% M/M and 1.1% Y/Y.

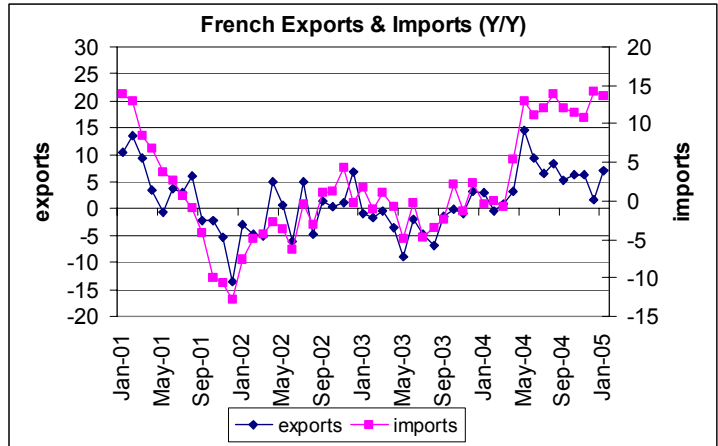


Spanish prices rose for the first time in 3 months in February, as prices gained 0.3% M/M and 3.3% Y/Y. The weather in Spain during January and February was unusually cold, which raised the prices of seasonal crops and increased the demand for heating oil.

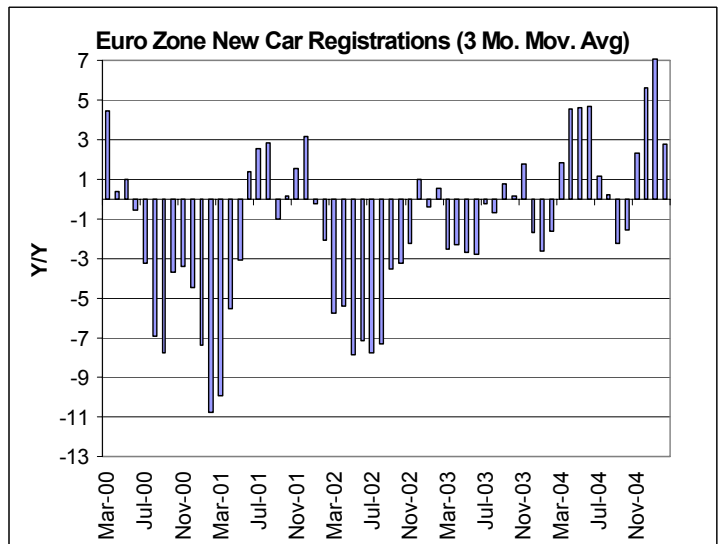


French Trade & Euro Zone New Car Registrations

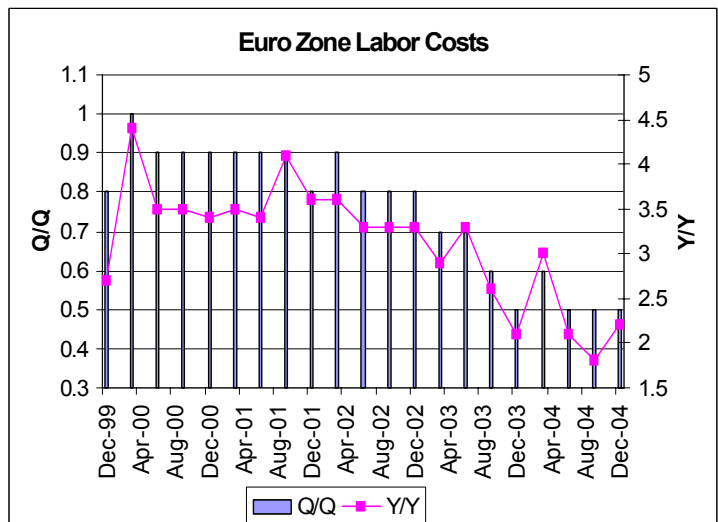
France's January Exports increased 5.5% M/M and 6.9% Y/Y. Imports fell 0.2% M/M while increasing 13.6% Y/Y. The Trade Deficit narrowed from Eur2.4 billion to Eur931 million



The Euro Zone's February New Car Registrations declined more than expected, falling 2.3% Y/Y. The 3 month moving average slowed to 2.8% Y/Y.



The Euro Zone's Q4 Labor Costs accelerated for just the second time in the past 6 quarters (on a y/y basis) as costs grew 0.5% Q/Q and 2.2% Y/Y.



ECB

March 16th – “**Well placed**” Sources reported that the ECB agreed at its March 3rd meeting that current Euro zone interest rates were “well below” any reasonable estimate of their neutral level and that this monetary stimulus will have to be “gradually” removed. “In mid-summer, circumstances permitting, the ECB will be able to go ahead and increase interest rates” the source said. The source also added, “The increase should not be expected to be more than 25bps or come before the summer”, giving the weak growth estimates and strong euro as the reasons preventing an earlier move. The source also noted that the ECB is not too concerned with the euro’s current strength, as it has remained somewhat stable and has been a gradual move. Rumors of denials and retractions later followed the release of this Market News story.

March 14th – **ECB President Jean Claude Trichet** commented on a number of Euroland issues:

On growth: “In coming quarters, consumption should benefit from growth in real disposable incomes, investment from financing conditions and greater business efficiency. We expect modest growth in 2005 and 2006 though the outlook is surrounded by uncertainty”.

On inflation: “In the coming months, annual inflation rates are likely to fluctuate around 2%. There is little evidence of domestic inflation pressures though the risks remain on the upside”.

On rates: “We judge the present level of rates is appropriate and in line with our definition of price stability”. Trichet also reiterated that there was an excess in liquidity and that low interest rates are stimulating private sector demand for credit.

March 10th – **The ECB** noted that euro-region households may be becoming more vulnerable to an increase in interest rates as a property market boom fuels consumer debt. Their monthly report stated, “The higher debt ratio would most likely amplify the impact of income or interest rate shocks on household balance sheets”.

Germany

March 15th – **Bundesbank President Axel Weber** stated that he expects the economy to grow 0.3% in Q1, a pace not fast enough to boost employment. He also noted that the German economy was exposed heavily to exchange rate developments and noted the possibility of a further dollar drop.

March 10th – **The German IWH institute** cut its 2005 GDP forecast from 1.3% to 1.1%. They are the third, of six, German institutes to cut forecasts this week.

France

March 16th – **French Finance Minister Thierry Breton** cut France’s 2005 GDP forecast, citing higher energy costs and the strengthening euro. The forecast was cut from 2.5% to 2%. Breton also introduced tax breaks to boost spending and research.

News

Italy

March 15th – **Italian Prime Minister Silvio Berlusconi** stated that the ECB should consider cutting rates to try to reverse the euro's gains against the dollar, rather than focusing on inflation. Berlusconi commented, "We should not forget the fact that we have the euro at \$1.35 against the dollar. No government can do anything about it. Only the ECB can intervene and we continue to urge them to do so". He also added that the ECB should be more concerned with the possibility of deflation than the non-existent inflation problem. Concerning Italy, Berlusconi pledged to eliminate the top income tax bracket next year. The cut will eliminate the 43% tax bracket, making the top bracket 39%.

March 10th – **The IMF** cut its 2005 GDP forecast for Italy from 1.9% to 1.2%.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/17	French Non Farm Payrolls (4Q)	0.1% Q/Q	0.2% Q/Q
03/17	French Current Account (JAN)	-900M	-1184M
03/17	Euro Zone Industrial Production (JAN)	1.2% M/M	0.5% M/M
03/18	Euro Zone Deficit/GDP ratio (Dec 31)	-2.9%	-2.7%
03/21	Spanish Factory Orders (JAN)		4.9% Y/Y

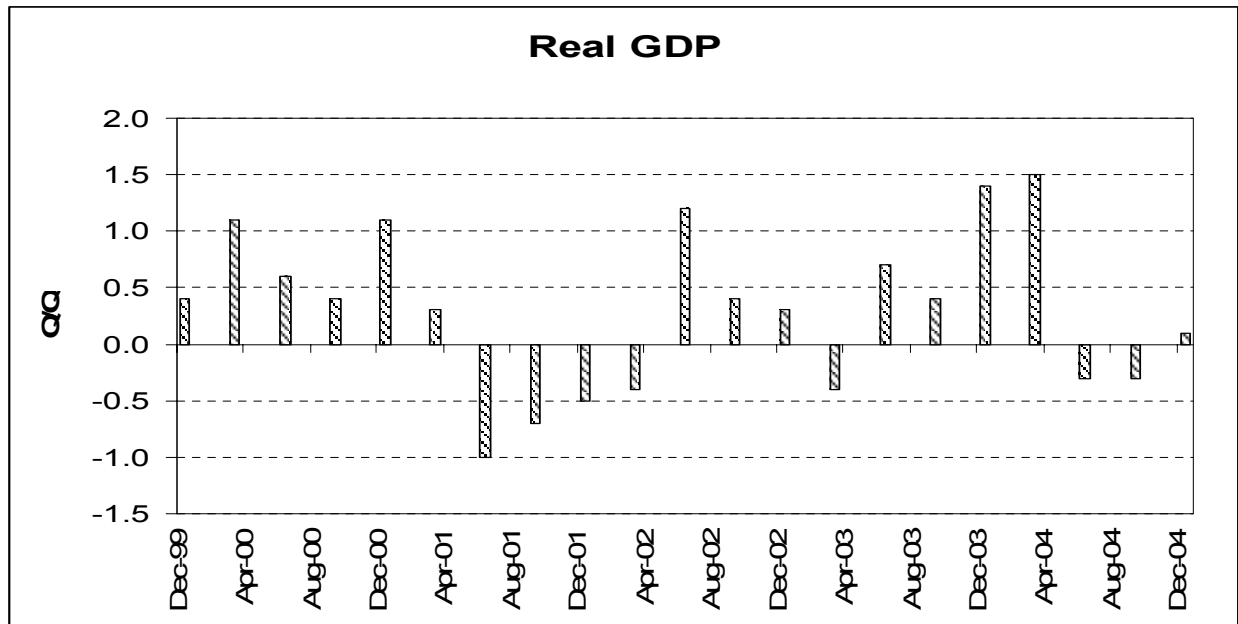
Japan

Recent economic data confirms that Japan's economy is not in recession as many have declared. GDP posted an upside surprise in its Q2 revisions and January Industrial Production was also revised up. Furthermore, Capacity Utilization reached its highest level since June 1997, the Corporate Goods Price Index increased above expectations, Consumer Confidence edged up and Bankruptcies have continued to decline. Meanwhile, the BOJ's March Monthly Report stated that Japan's economy is expected to continue to recover as exports and production increase.

Weekly Highlights

- **Real GDP Growth** - was unexpectedly revised up from -0.1% Q/Q to 0.1% Q/Q in Q4. (page 17)
- **Domestic CGPI** - increased 0.2% M/M and 1.3% Y/Y. (page 18)
- **Consumer Confidence** - increased from 47.4% in January to 47.6% in February. (page 19)
- **Industrial Production** - was revised up from 2.1% M/M to 2.5% M/M in January. (page 19)
- **Bankruptcies** - decreased 12.5% Y/Y in February. (page 21)

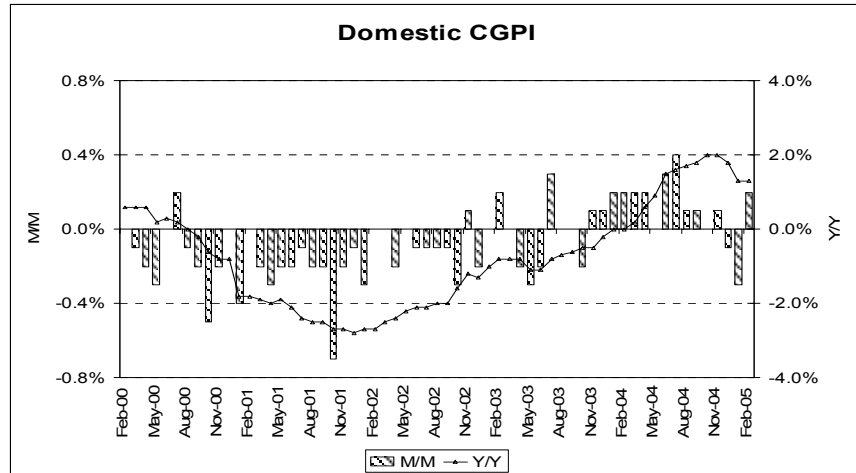
Chart of the Week



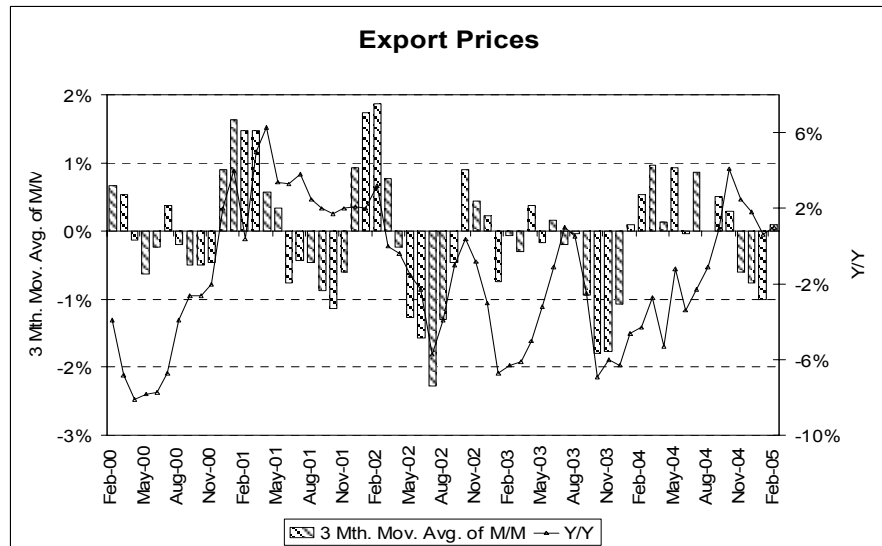
Japan's Real GDP increased 0.1% Q/Q and 0.5% Y/Y in Q4. Q4's revision was a result of a combination of stronger than expected government consumption (0.8% versus the estimate of 0.4%), a positive contribution from private inventories (0.2%) and lower import growth (2.4% versus the first estimate of 3.1%). Capital spending increased 0.1% versus the estimated 0.7%, and Private-sector spending remained unchanged at -0.3%.

Domestic Corporate Goods Prices, Export & Import Prices

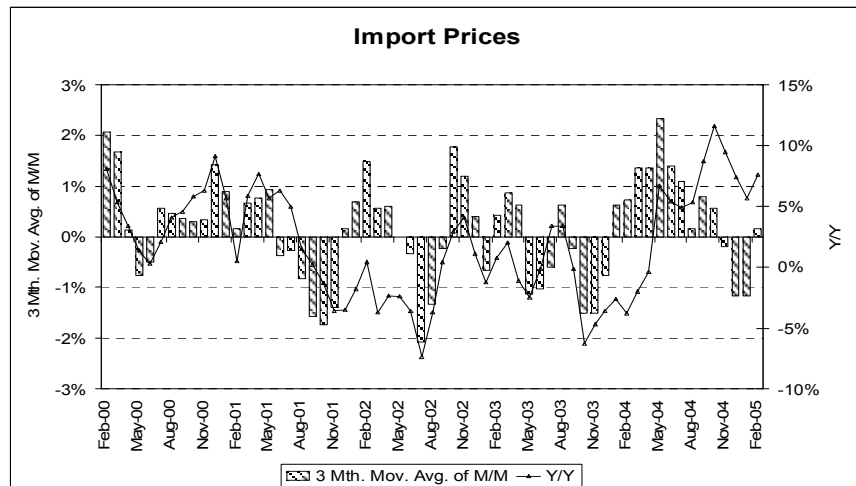
Domestic CGPI increased 0.2% M/M and 1.3% Y/Y in February. Raw materials, intermediate materials and final goods prices increased 4.9%, 0.2% and 0.2%, respectively.



Export Prices increased 1.5% M/M and 1.0% Y/Y in February.

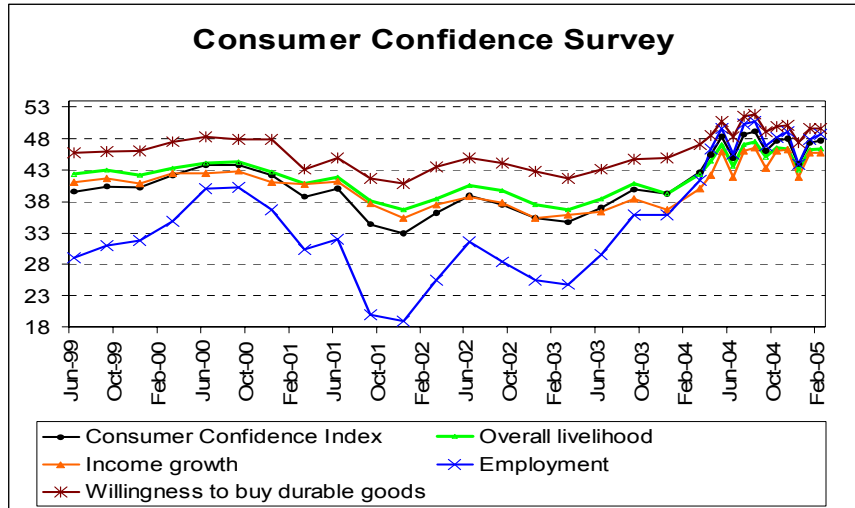


Import Prices increased 2.8% M/M and 7.6% Y/Y in February.

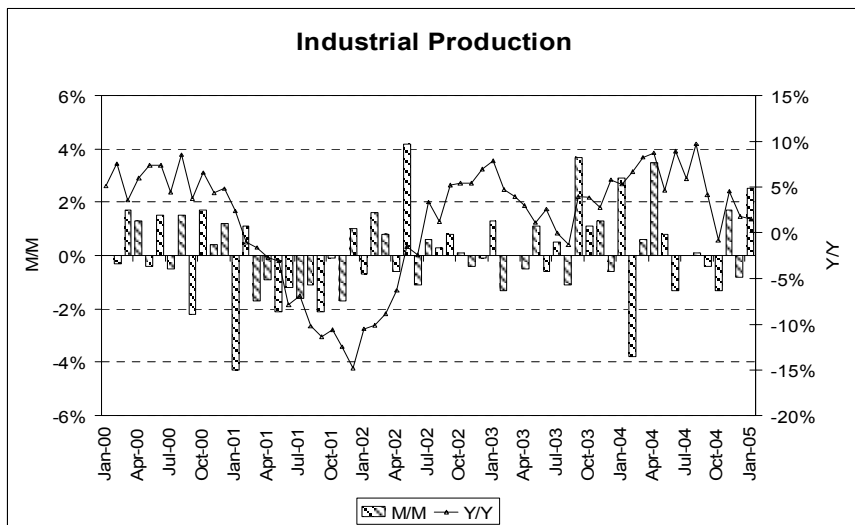


Consumer Confidence, Industrial Production & Capacity Utilization

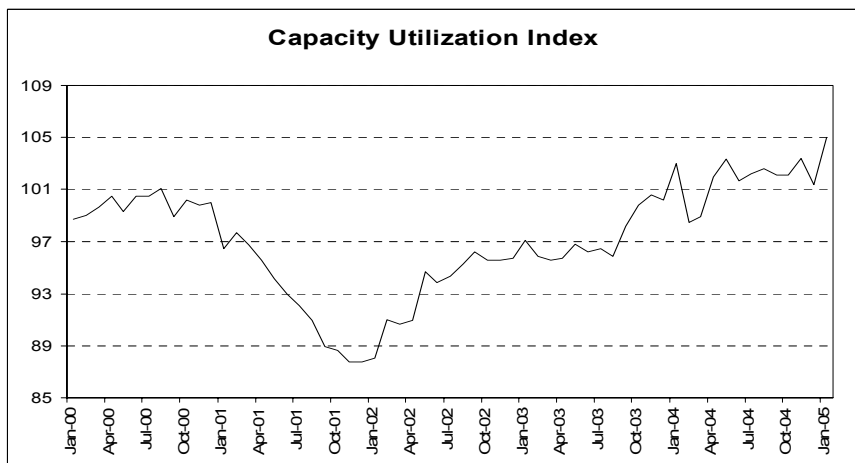
Consumer Confidence increased from 47.4% in January to 47.6% in February. Confidence in employment showed the largest improvement, increasing from 47.9 to 48.6.



The final figures for January's Industrial Production were revised up from 2.1% M/M and 1.1% Y/Y to 2.5% M/M and 1.5% Y/Y. Shipments were revised up from 1.8% M/M to 2.2% M/M and inventories were revised down from 2.0% M/M to 1.8%.

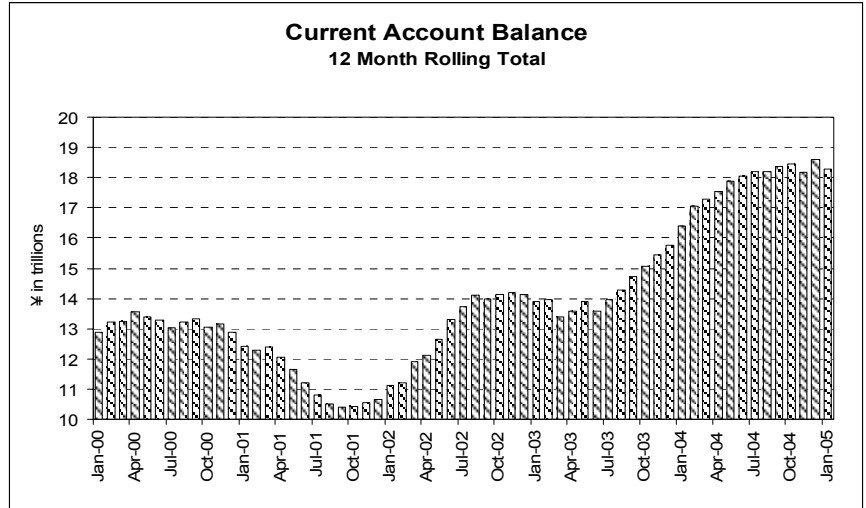


Capacity Utilization increased 3.6% M/M and 1.9 % Y/Y in January. Capacity Utilization has been on an upward trend since January of 2002 and now stands at 105.0, its highest level since June 1997.

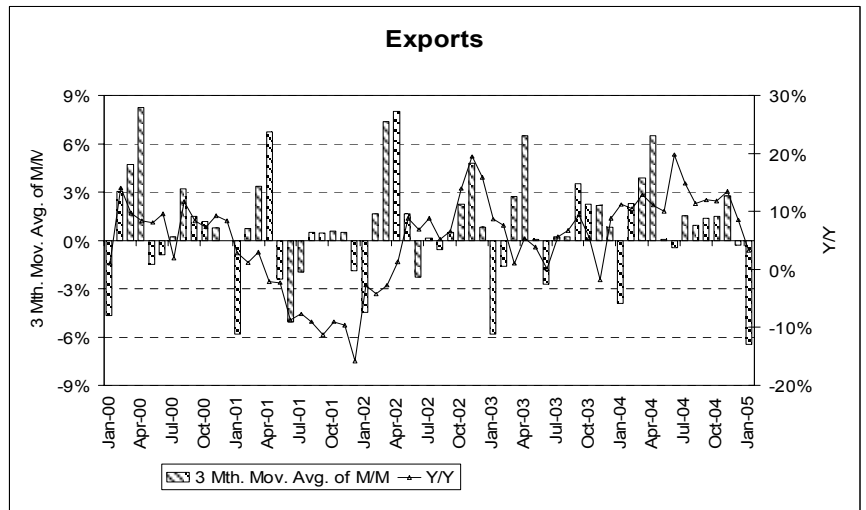


Trade Data

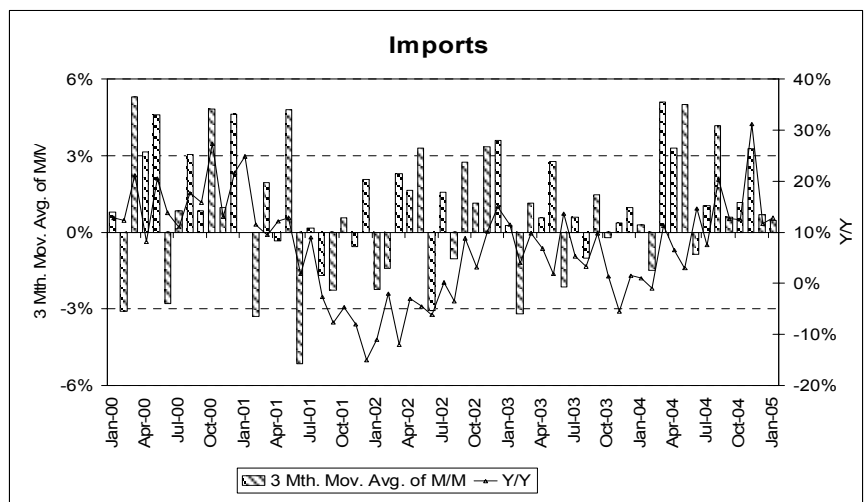
The Current Account Surplus narrowed from ¥1616 bn to ¥774 bn in January, below expectations of ¥828.0 bn.



Exports decreased 17.9% M/M and increased 3.3% Y/Y in January.

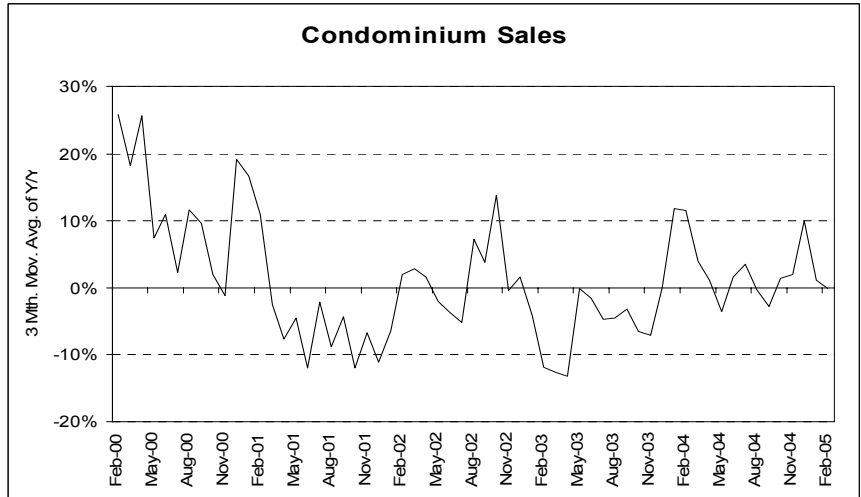


Imports increased 0.8% M/M and 12.9% Y/Y in January.

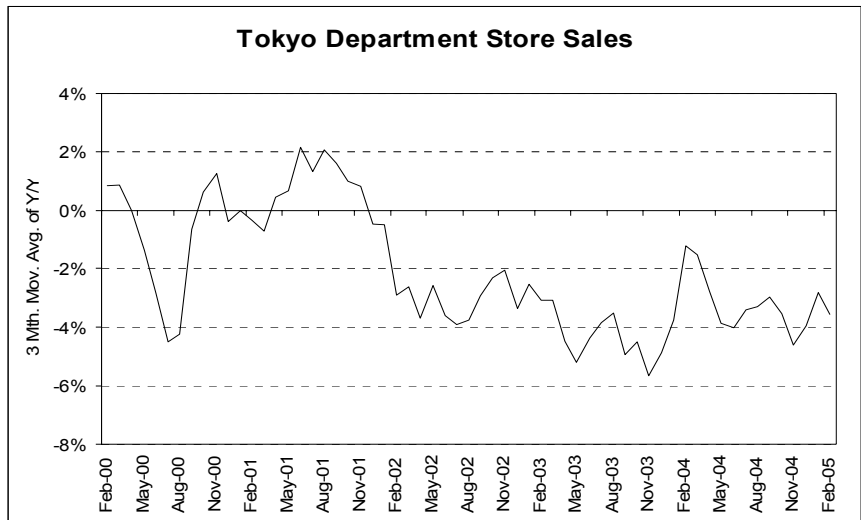


Condominium Sales, Tokyo Department Store Sales & Bankruptcies

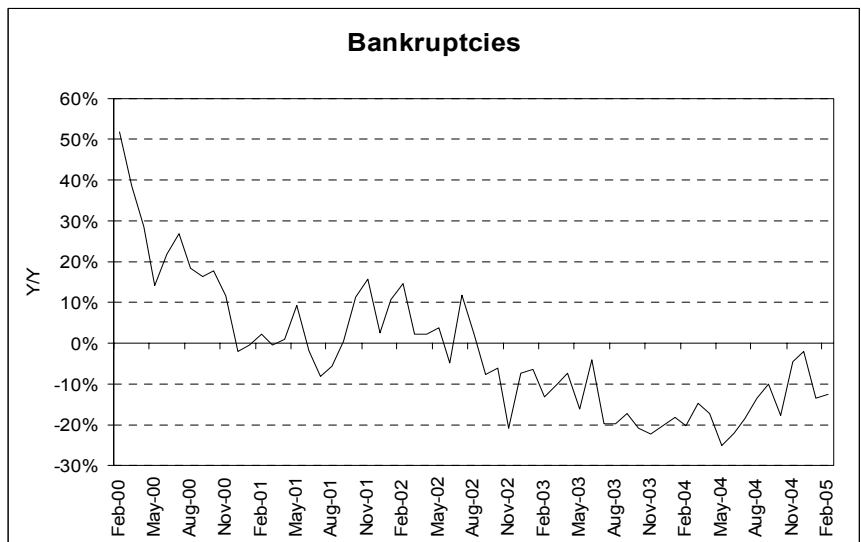
Tokyo's Condominium Sales decreased 13.0% Y/Y in February.



Tokyo's Department Store Sales decreased 8.2% Y/Y in February.



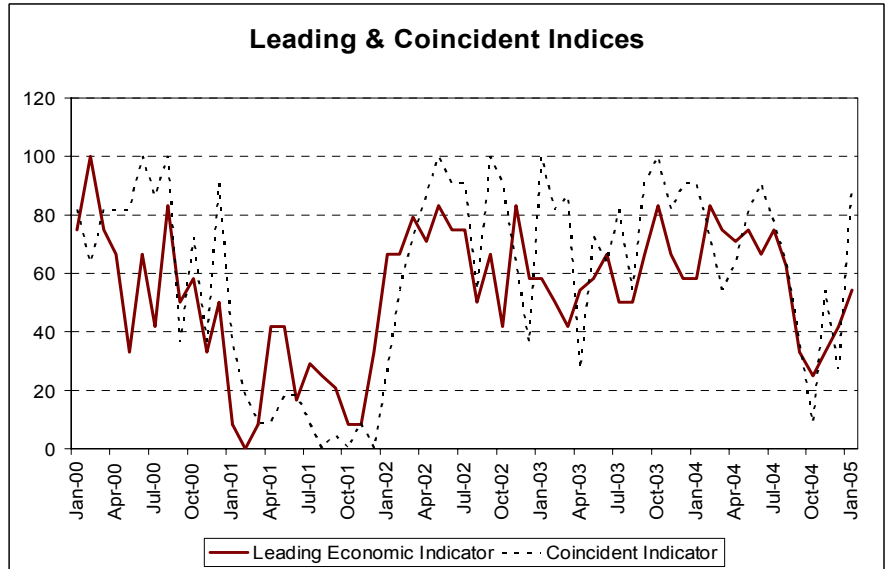
Bankruptcies decreased 12.5% Y/Y in February, its 30th consecutive month of decrease.



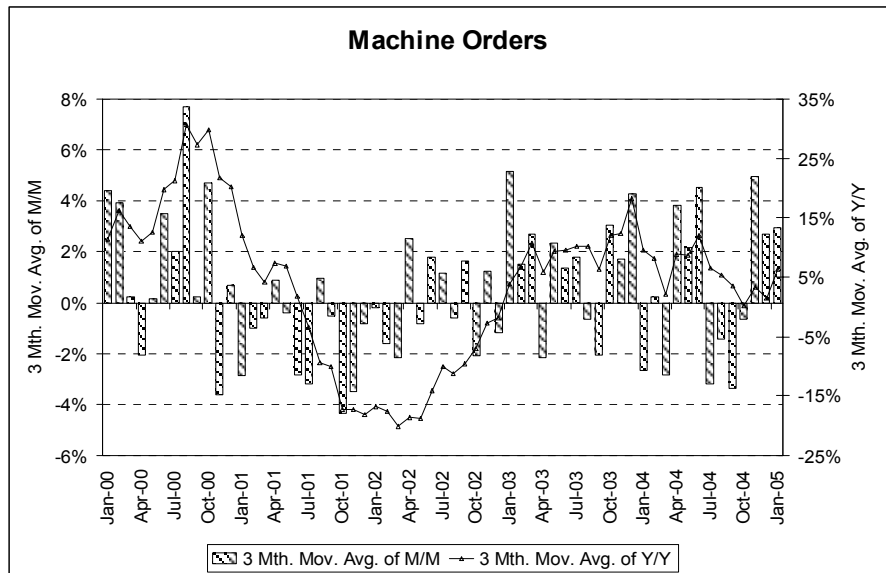
Leading & Coincident Indices

January's final figure for the Leading Economic Index, which measures job offers, consumer confidence and other indicators of future activity, was revised down slightly from 55.0 to 54.5.

The final figure for the Coincident Index was revised up from 88.9 to 90.0 in January.



Machine Orders decreased 2.2% M/M and increased 4.8% Y/Y in January, below expectations. Based on preliminary figures machinery tool orders increased 26.0% Y/Y.



News

March 16th – The Bank of Japan, in its **March Monthly Report of Recent Economic and Financial Developments**, stated that Japan's economy continues on a recovery trend, and is expected to continue to recover as exports and production pick up. The Bank's overview of the economy reads as follows: *“Although exports are starting to pick up, industrial production has been more or less flat due to the ongoing inventory adjustments in IT-related sectors. Business fixed investment has been on a rising trend, mainly in manufacturing, as corporate profits have been on an improving trend. The employment situation has also been on an improving trend and household income has clearly stopped declining. In this situation, private consumption has been steady. Meanwhile, housing investment has been nearly flat, and public investment has been basically on a downtrend.”*

March 16th – **The Bank of Japan left its rates unchanged** following its meeting, and voted unanimously to keep their target of current account deposits at 30-35 trillion JPY.

March 16th – As **Toshihiko Fukui** approaches his second anniversary as the Bank of Japan's Governor, he stated that “Since I became the governor, the Bank of Japan's policy goal has been very clear: to achieve a sustainable economic growth and overcome deflation.” He further stated that “We must boost our efforts toward the goal, because we haven't reached that point yet.” These comments were made at a press conference in Tokyo.

March 15th – **Minister Tanigaki** expressed his view that the Bank of Japan should take effective measures to end Japan's deflation. He also said that Japan will take “needed action in a timely manner” if foreign exchange rates do not move in a stable manner reflecting the fundamentals of economies. Tanigaki also mentioned that the foreign exchange market is less volatile now than it was a year ago. These comments were made at a press conference in Tokyo after the Cabinet met.

March 14th – **Chief Cabinet Secretary, Hiroyuki Hosoda**, is not optimistic about Japan's economy reaching the government's 2.1% growth target this fiscal year, due to lingering concerns of inventory adjustments and oil price gains. Hosoda comments were made at a regular press conference, after the upward revision for Q4 GDP data was released. The Cabinet Office noted that Japan would need to grow at an annual pace of 7.2% in the first three months of 2005 to reach the government's growth target for the year ending March 31st. On this note, Hosoda commented that “It's looking rather difficult at this stage for the economy to grow at that kind of pace” for those three months. “The economy is still at a plateau, but I get the impression it's probably bottomed out.”

March 10th – **Tokyo office vacancies** space declined to 5.8% from 6.0% in January, in Tokyo's five main business districts. January generated the seventh consecutive month of decline. Demand for business space in Japan should continue to increase as the economy strengthens.

March 10th – **Vice Finance Minister, Koichi Hosokawa**, stated that Japan has no plans to change the currency composition of its foreign reserves. “We won't comment on concrete investment details because that would have an impact on markets,” Hosokawa stated. “At the moment, we have no plans to change the currency composition of foreign reserves.” These comments were made at a twice-weekly conference in Tokyo.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/17	BOJ Monetary Policy Monthly Report		
03/22	BOJ Monetary Policy Meeting Minutes		
03/22	Convenience Store Sales		-1.7%
03/22	Merchandise Trade Balance Total (FEB)		¥200.8 bn
03/22	Adjusted Merchandise Trade Balance (FEB)		¥854.5 bn

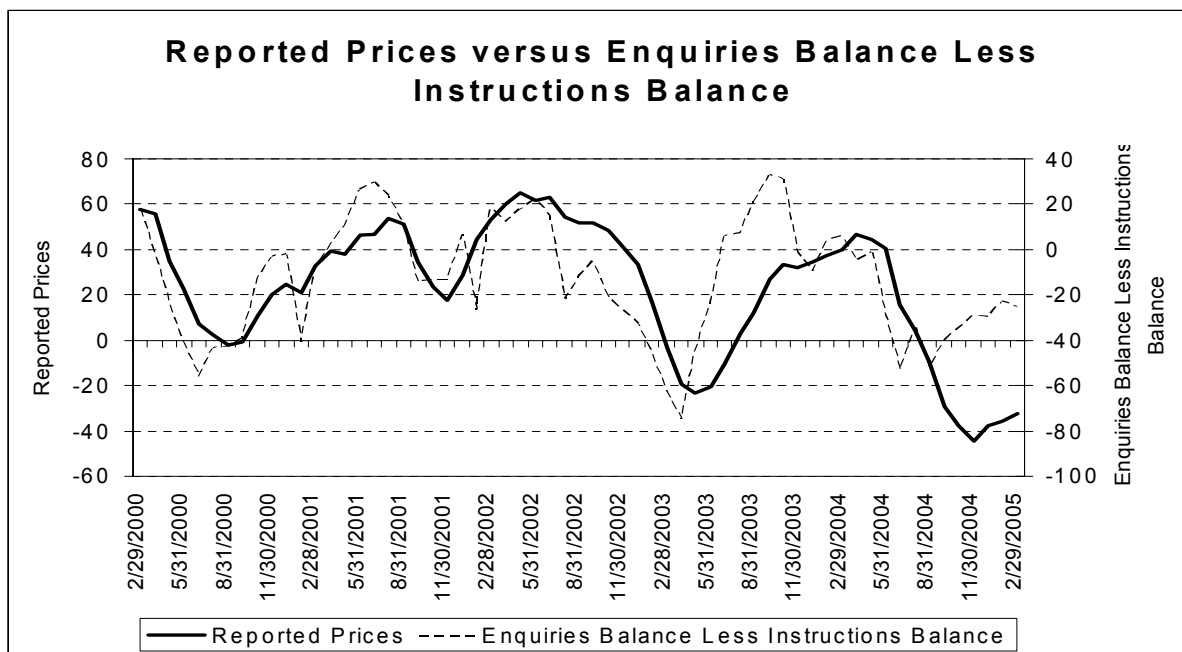
United Kingdom

Gordon Brown released his pre-election Budget Report this week where he targeted pensioners, parents and first-time buyers; he also stressed fiscal prudence by “shunning” large-scale giveaways in favor of targeted measures. Meanwhile, RICS Reported Prices increased slightly from -36 to -32 as the stock of properties has surged 13.0% in the last three months.

Weekly Highlights

- **RICS Reported Prices-** increased slightly from -36 to -32 in February, the seventh consecutive month below zero. (page 25)
- **Input Producer Prices-** increased 0.1% M/M and 10.5% Y/Y in February due to increases in crude oil. (page 27)
- **The Unemployment Rate-** remained at 2.6% for the second consecutive month in February. (page 27)
- **Gordon Brown-** released his pre-election Budget Report. (page 30)

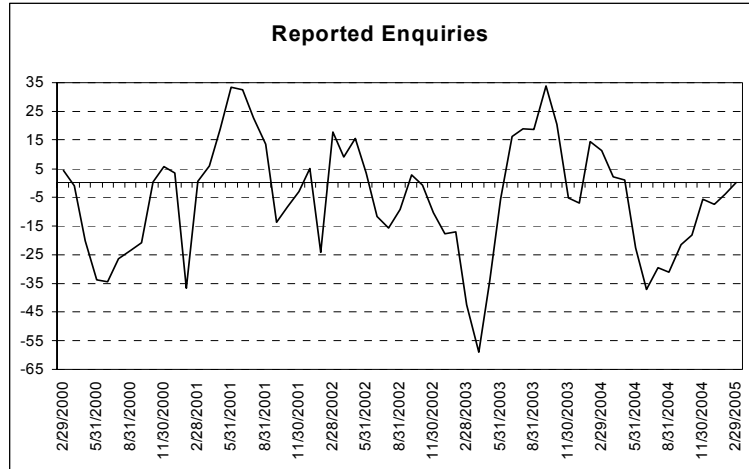
Chart of the Week



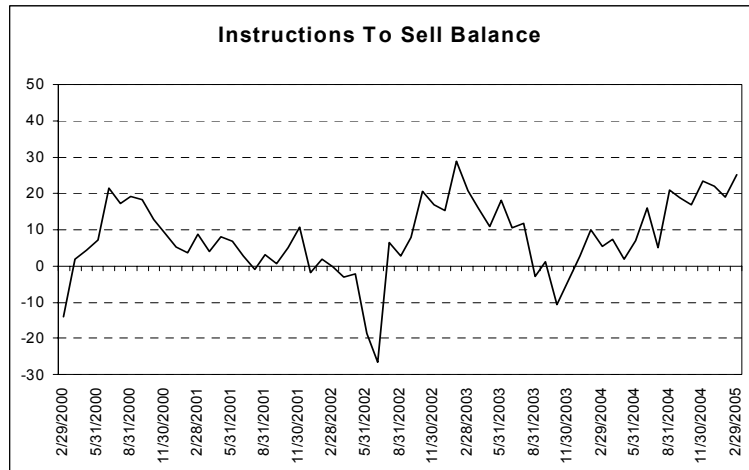
RICS Reported Prices increased slightly from -36 to -32 in February, the seventh consecutive month below zero. Expected prices also increased slightly from -26 to -24. Meanwhile, the sales-to-stock ratio fell 27.0% due to stocks of property surging 13.0% over the past three months.

RICS & ODPM Housing Data

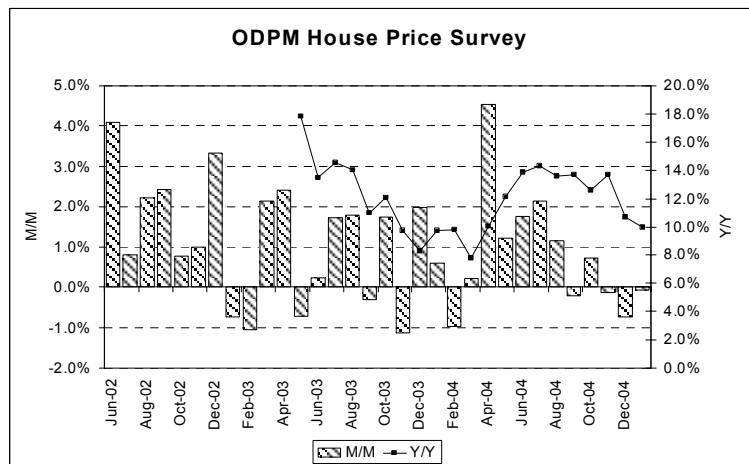
RICS Reported Enquiries increased from -4 to 0 in February.



RICS Instructions-To-Sell Balance increased from +19 to +25 in February. The trend has been clearly heading upwards since the latter half of 2004.

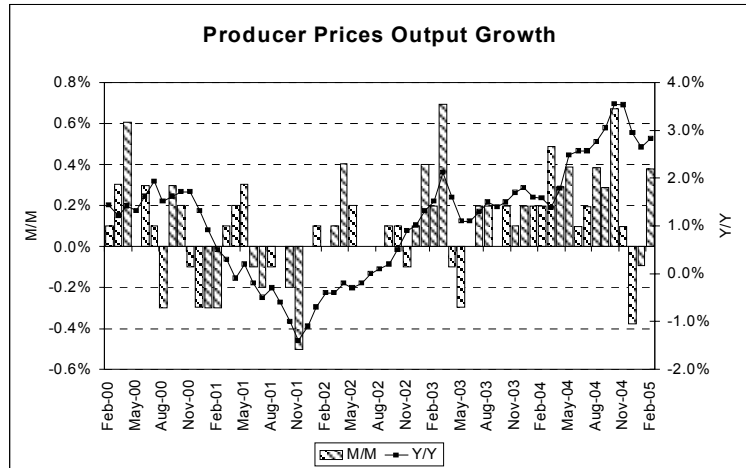


ODPM House Prices decreased 0.1% M/M and increased 10.0% Y/Y in January.

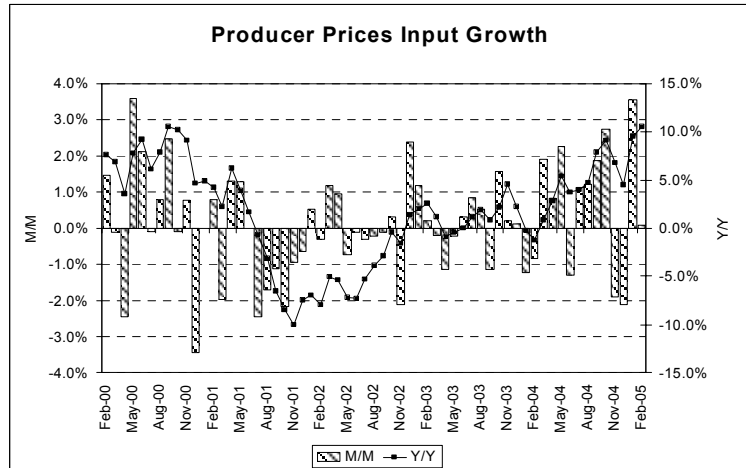


Producer Prices & Unemployment Data

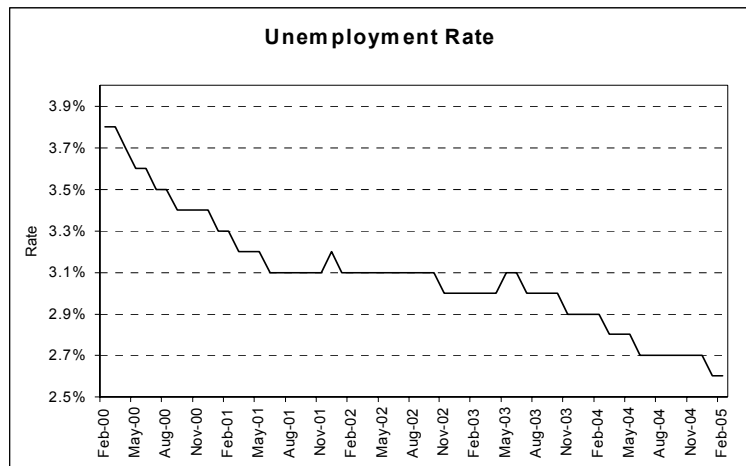
Output Producer Prices increased 0.4% M/M and 2.8% Y/Y in February due to increases in the prices of alcohol and petroleum products. Core output prices increased 0.3% M/M and 2.7% Y/Y.



Input Producer Prices increased 0.1% M/M and 10.5% Y/Y in February due to increases in crude oil and imported material prices.

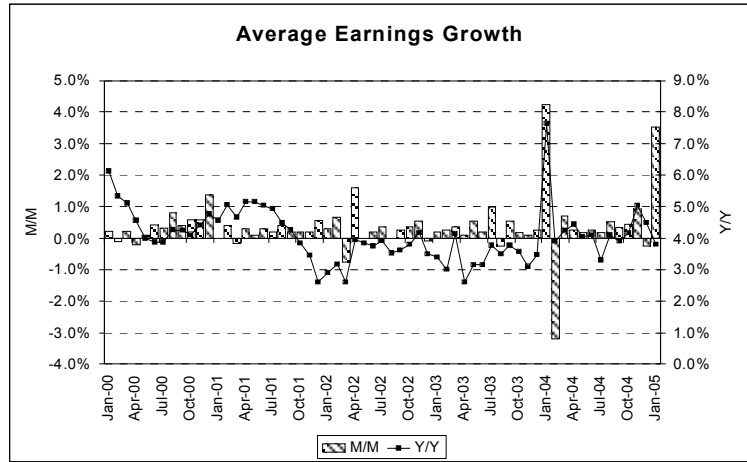


The Unemployment rate remained at 2.6% for the second consecutive month in February. Jobless benefit claims fell by 700 in February, the smallest drop in four months. The number of employed individuals rose 127,000 3M/3M to 28.57 million.

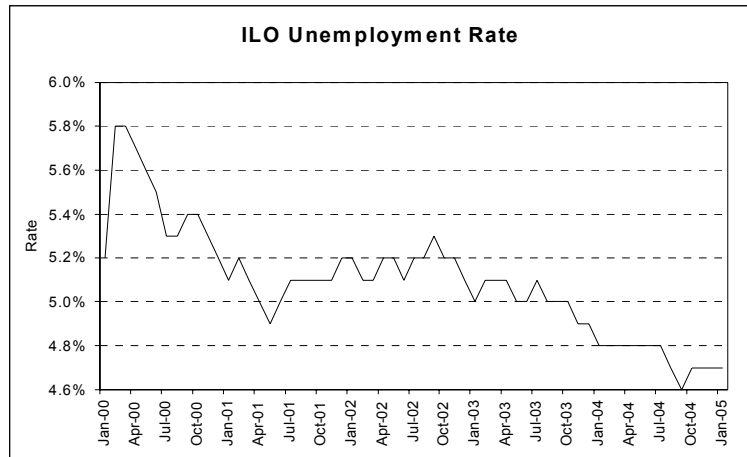


Average Earnings, ILO Unemployment & Leading Indicator

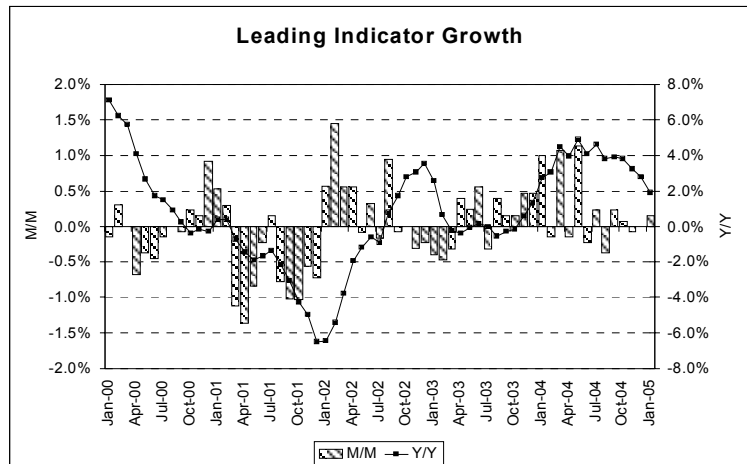
Average Earnings increased 3.5% M/M and 3.8% Y/Y in January. Private Earnings increased 4.4% M/M and 3.6% Y/Y. Public Earnings increased 0.4% M/M and 4.8% Y/Y.



The ILO Unemployment rate remained at 4.7% for a fourth consecutive month in January.

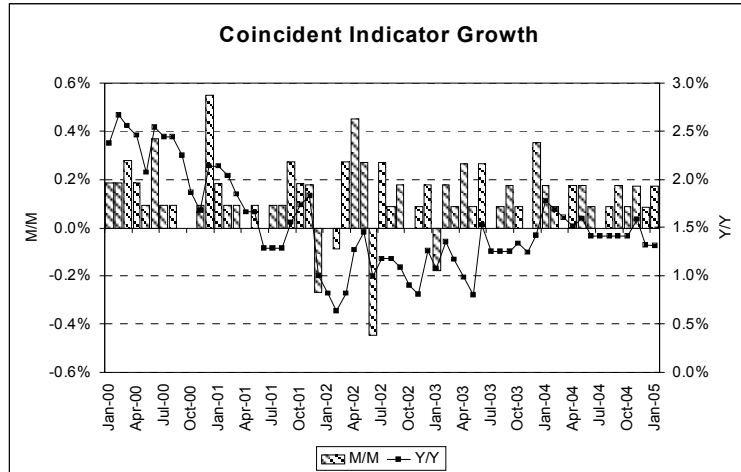


The Leading Indicator increased 0.1% M/M and 1.9% Y/Y in January. The leading contributions came from consumer confidence and the FTSE, both increased 0.1% M/M.



Coincident Indicator

The Coincident Indicator increased 0.2% M/M and 1.3% Y/Y in January. The leading contributions came from retail sales and employment, both increased 0.1% M/M.



Data & Budget Report

BRC Shop Price Index

The BRC Shop Price Index increased 0.6% M/M and decreased 0.1% Y/Y in February as the prices of clothing and footwear increased following January's heavy discounting.

Budget Report Summary:

Gordon Brown targeted pensioners, parents and first-time buyers in his pre-election Budget Report where he stressed his fiscal prudence by "shunning" large-scale giveaways in favor of targeted measures for voter groups identified as key for the general election. Brown stated the U.K. economy would grow by 3-3.5% this year and 2.5-3% next year, unchanged from his prediction in the pre-Budget Report in November. Brown cut his forecast for the fiscal deficit in the fiscal year 2005/06 from £33bn to £32bn, leaving the forecast for the deficit in 2004/05 almost unchanged at £34.4bn. He now expects current expenditure to rise by 5.7% in 2005/06 which is below the 6.1% in the current fiscal year and the 6.6% projected for 2005/06 in November 2004. The PSNB forecasts were more or less unchanged from the Pre-Budget Report figures: £34bn in 2004/05, £32bn in 2005/06, and £29bn, £27bn, £24bn, £22bn in the following fiscal years. The surplus on current budget was revised down, from a £13bn deficit to a £16bn deficit, in 2004/05 but revised up, from a £7bn deficit to a £6bn deficit, in 2005/06. As a result, the margin of error in meeting the golden rule has fallen from £8bn to £6bn.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
3/17	Retail Sales	0.1% M/M 4.0% Y/Y	0.9% M/M 3.9% Y/Y
3/18	Public Finances	-£1.0B	-£6.6B
3/18	Mortgage Lending Figures		
3/22	CPI		-0.5% M/M 1.6% Y/Y
3/23	GDP		0.5% Q/Q 3.1% Y/Y
3/23	Current Account		£-8.8B
3/23	CBI Industrial Trends Survey		
3/23	MPC Minutes		

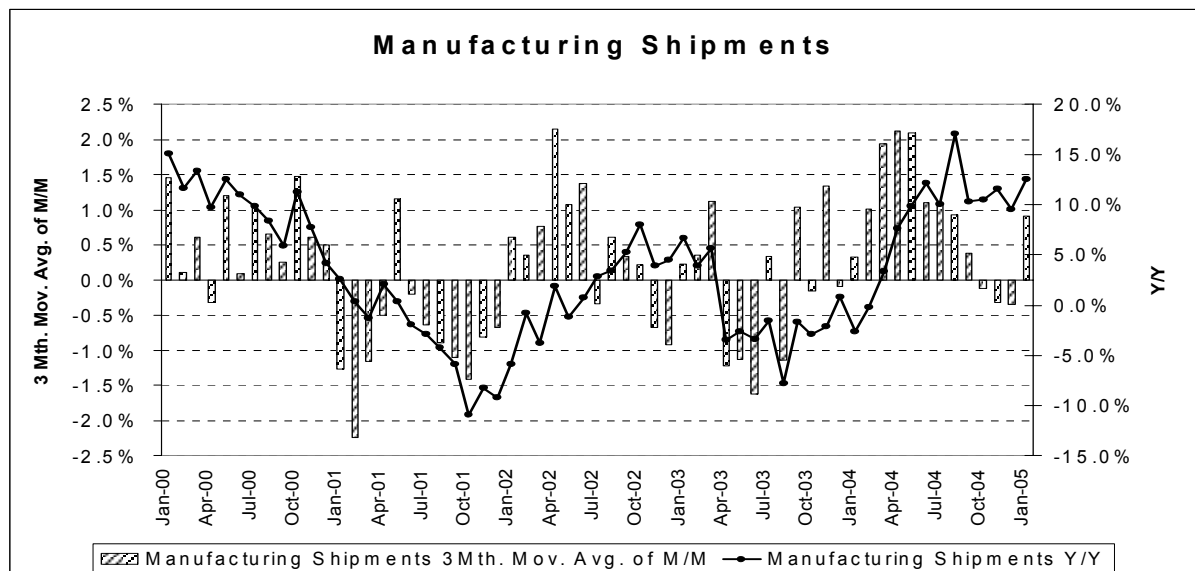
Canada

Recent data from Canada has suggested that the manufacturing sector is beginning to make a recovery from Q4's 2004 slowdown. Although the trade surplus narrowed in January, manufacturing shipments increased and employment increased as well. It will take additional data to determine if this means that the Canadian economy is returning to its Q3 2004 trend of strong growth. If these trends do continue, the BoC can be expected to begin increasing its overnight rate by 25bps at a time, starting in early Q3.

Weekly Highlights

- **Manufacturing Shipments** – increased 3.0% M/M and 12.5% Y/Y in January. (page 32)
- **Employment** – increased by 26.6k new jobs; the unemployment rate was unchanged at 7% in February. (page 33)
- **Trade Surplus** – narrowed from \$5.2B to \$4.0B in January. (page 33)

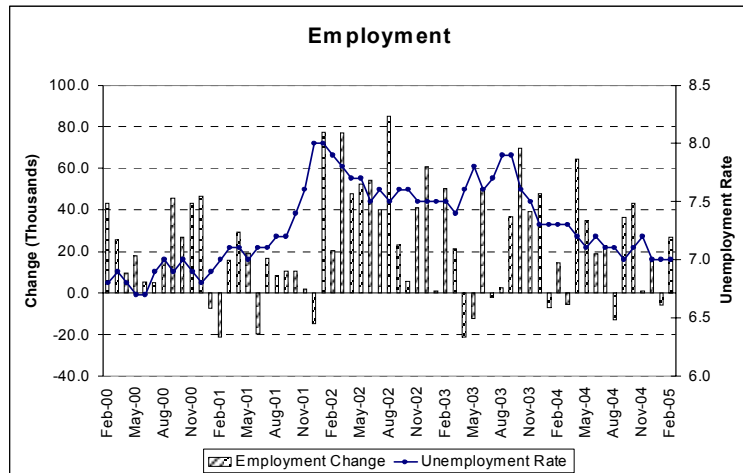
Chart of the Week



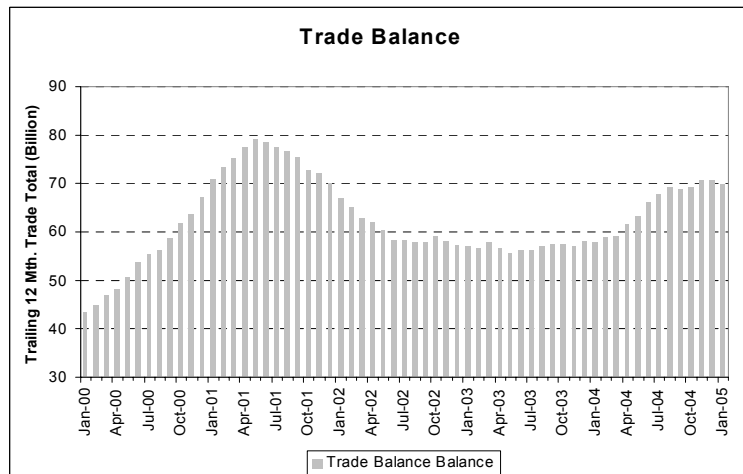
Manufacturing shipments in Canada increased 3.0% M/M and 12.5% Y/Y in January. Details were equally strong. Orders increased 7.1% M/M and 14.4% Y/Y, inventories increased 1.2% M/M and 8.8% Y/Y. Unfilled orders increased 5.2% M/M and 7.2% Y/Y. The numbers were significantly higher than economists anticipated, as most expected a 0.5% M/M increase in shipments in January. This increase, combined with the BoC's statements, reminding economists that they continue to feel that rates would need to increase, suggest that the Bank may find the need to begin increasing its overnight rate by 25bps in the next three months. February's data will still be important in this regard as it will suggest whether or not this recovery in manufacturing is real.

Employment, Trade Balance & Labor Productivity

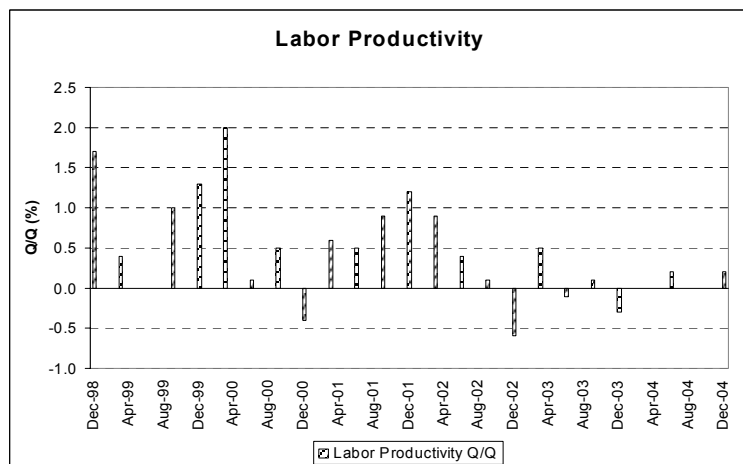
Canada added 26,600 new jobs in February and the Unemployment rate remained unchanged at 7.0%. Full time positions increased 0.2% M/M and 1.7% Y/Y and part time positions increased 0.2% M/M and 0.9% Y/Y. The increase was more than the 15.0k increase economists anticipated. The resilient employment numbers further supports views that the BoC may find the need to increase rates before Q3.



The Trade balance in January narrowed from \$5.2bln to \$4.0bln. Exports declined 1.6% M/M on a drop in energy product prices. Imports increased 1.9% as shipments from the EU grew 16% M/M in part due to the Quebec liquor authority restocking its inventories of alcohol following a strike.

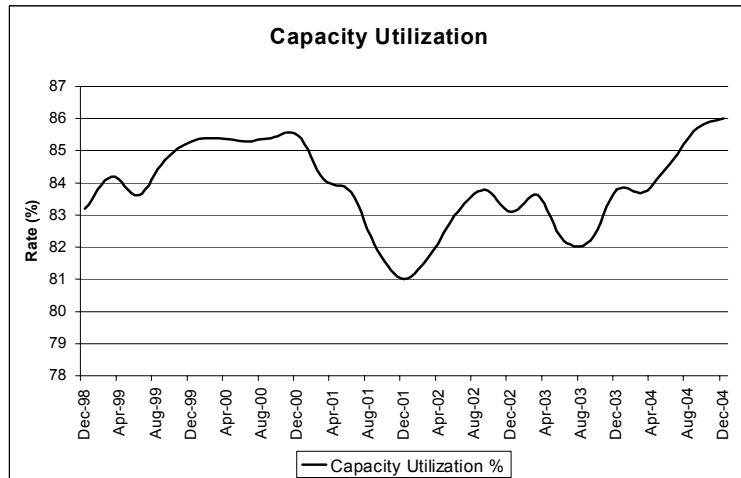


Labor productivity in Canada increased 0.2% Q/Q in Q4.

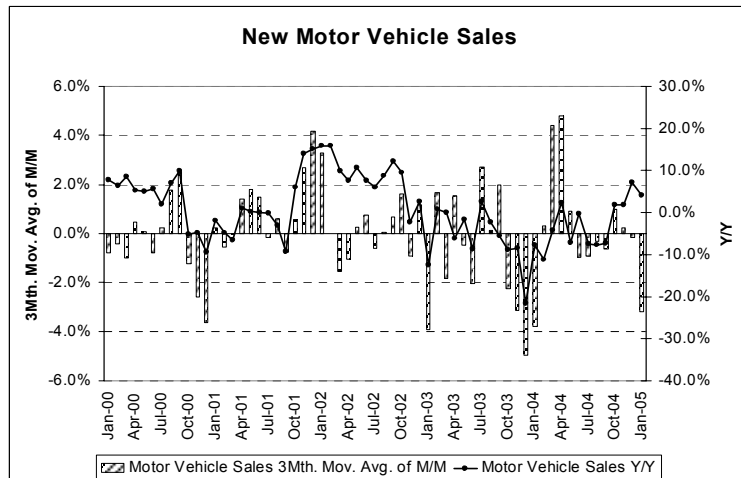


Capacity Utilization & New Motor Vehicle Sales

Capacity utilization increased from 85.7% in Q3 to 86% in Q4. The increases in utilization and productivity suggest that Canadian companies tried to fill orders by adding employees rather than new equipment.



New motor vehicle sales declined 1.5% M/M and increased 4.0% Y/Y in January.



Ralph, Dodge & Emerson's Comments

BoC's Gov. David Dodge – Comments on Rates, Employment, and Trade

The BoC's Governor, David Dodge, commented on his plans to increase interest rates saying that "At some point in time, interest rates are going to go up." He did add however, that "That doesn't lock us into any sort of time path."

Dodge also commented on the country's labor productivity, saying that "When we look at the numbers going back well into 2002, certainly the second half of 2002, productivity performance as measured by StatsCan in this country really has been very poor, and certainly poor relative to the years that precede that."

Regarding trade numbers and job reports, he commented that one must "Be very careful on any one month's numbers. These numbers do fluctuate a lot." "On the employment side, all I could say I we really haven't seen anything since October that seems to be surprising." "On the trade front, as we said in our monetary policy report update, net exports are coming weaker than we had looked for in our last full monetary policy report, and we will clearly have to take that into account as we write our next one."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/17	Int'l Securities Transactions (Jan.)	C\$5.5	C\$4.0
03/21	Wholesale Sales (Jan.)	0.4%	1.1%
03/22	Retail Sales (Jan.)	0.5%	-1.4%
03/23	CPI x8 (Feb.)	0.2%	-0.1%
	Leading Indicators (Feb.)	0.2%	0.2%

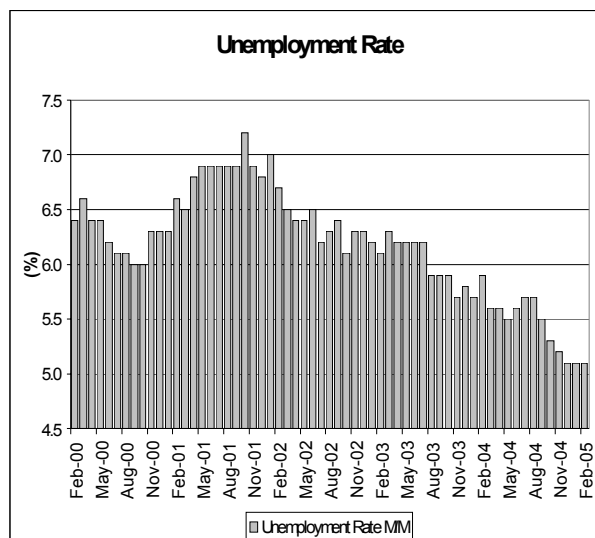
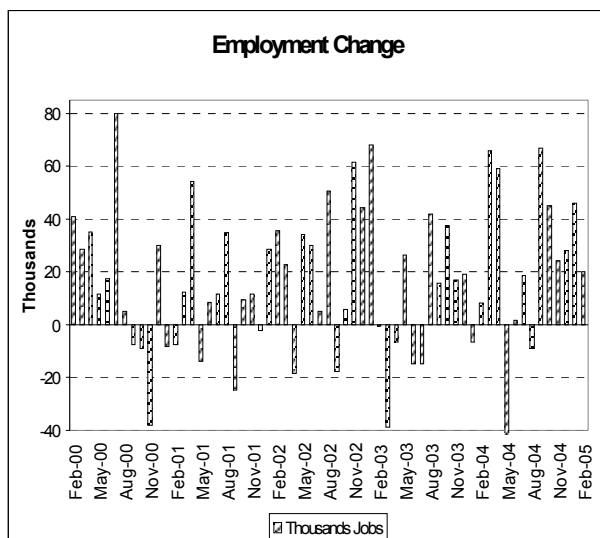
Australia

Recent data from Australia has been mixed. Home loans and employment increased more than economists anticipated while the Leading Index declined to a four month low. Accordingly, the domestic signs that provide justification for the RBA to increase its overnight rate continue, and another 25bps in April or May appears likely.

Weekly Highlights

- **Employment** – increased by 20.0K jobs in February; Unemployment rate unchanged at 5.1%. (page 37)
- **Home Loans** – increased 0.5% M/M and 0.1% Y/Y in Jan. (page 38)
- **Leading Index** – declined 0.3% M/M to 211.1 in Jan. (page 38)

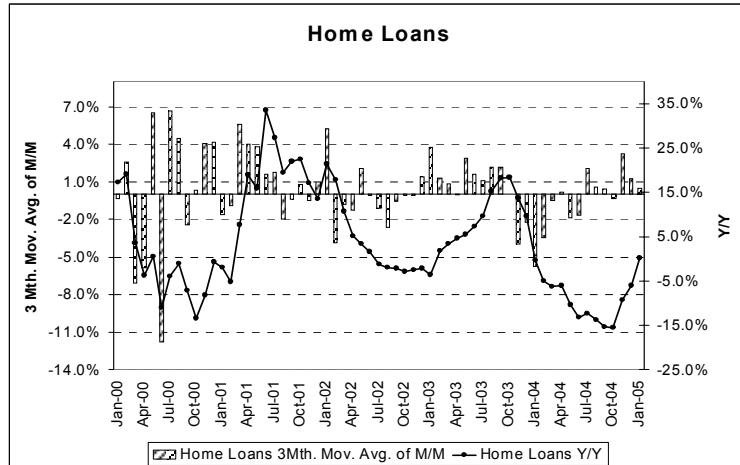
Chart of the Week



Australia added 20.0k jobs in February as the Unemployment rate remained unchanged at 5.1%. Full time jobs increased 0.5% M/M and 3.5% Y/Y. The increase was ahead of economists' expectations for no change in employment and suggests that growth in the domestic side of the economy may not be slowing as much as the RBA would like. The data lends support to the RBA's view that additional rate increases may be necessary.

Home Loans

Home loans increased 0.5% M/M and 0.1% Y/Y in January. The increase was above economists' expectations of a 1.0% M/M decline and suggests the housing sector is not slowing as much as the RBA would like.



WP-MI Leading Index, Costello & Howard Comments

WP-MI Leading Index – Declines to Four month low

The Westpac-Melbourne Institute Leading Economic Index declined 0.3% to 211.1, the lowest level since September. The index's decline suggests that the economy may under-perform in the second half of 2005 and prompt the RBA to leave interest rates on hold. The annualized growth rate of the index was 2.2%, lower than its long-term trend of 3.5%, suggesting that economic growth will cool.

Howard Comments – Case for Tax Cuts

Australia's Prime Minister, John Howard, commented on tax cuts, stating that "There is a further case for reductions in tax." "I am not saying the Australian system is perfect, there's always a case for reducing tax." Howard also commented on the budget surplus for the year ending June 30, 2005. He stated that it would "certainly be" what was predicted in the mid year economic and fiscal outlook, \$6.2billion.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/16	RBA Monthly Bulletin	N/A	N/A
03/21	Dwelling Starts (Q4)	N/A	-5.8%
	New Motor Vehicle Sales (Feb.)	N/A	8.9%
03/22	RBA's Macfarlane Speaks at Banking Forum	N/A	N/A
	Skilled Vacancy Report	N/A	N/A

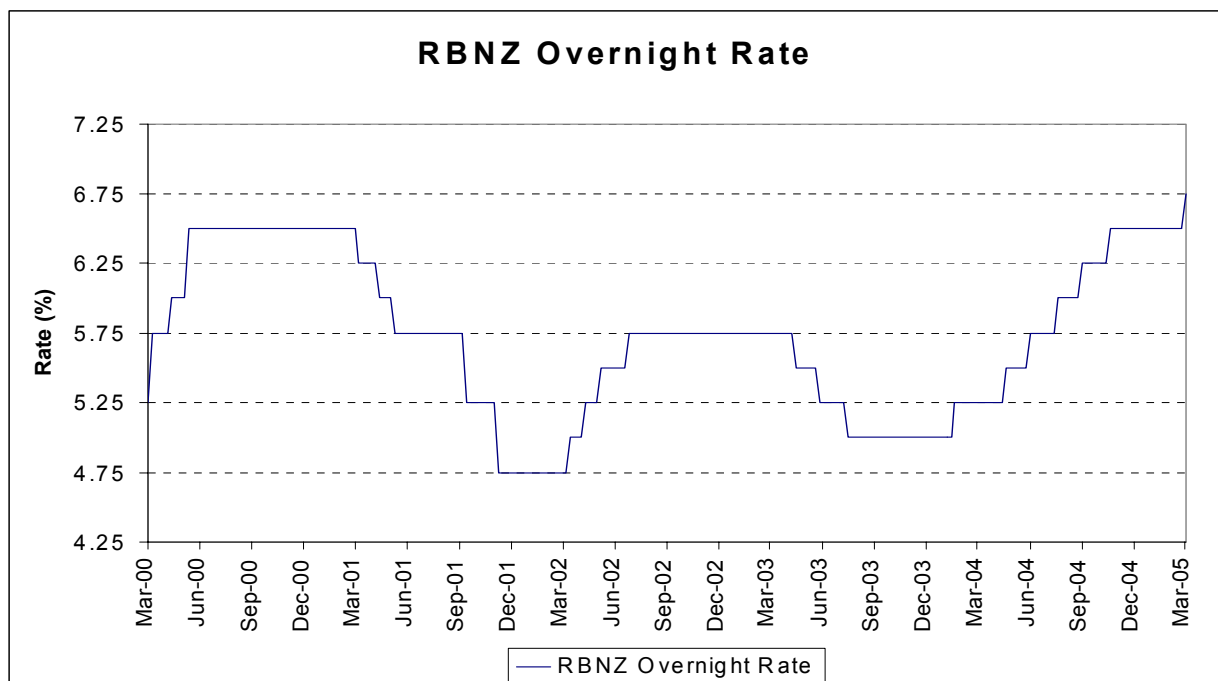
New Zealand

The RBNZ increased its overnight rate last week and suggested that additional increases may follow. Domestic data in the form of retail sales and house prices support this view, although manufacturing data combined with the firm NZ\$ suggest that international trade and manufacturing may not be as strong in the coming months.

Weekly Highlights

- **RBNZ Overnight Rate** – increased from 6.50 to 6.75% in March. (page 41)
- **Retail Sales** – increased 1.3% M/M and 6.0% Y/Y in January. (page 42)
- **Manufacturing Sales** – decreased 1.1% Q/Q and increased 2.8% Y/Y in Q4. (page 42)

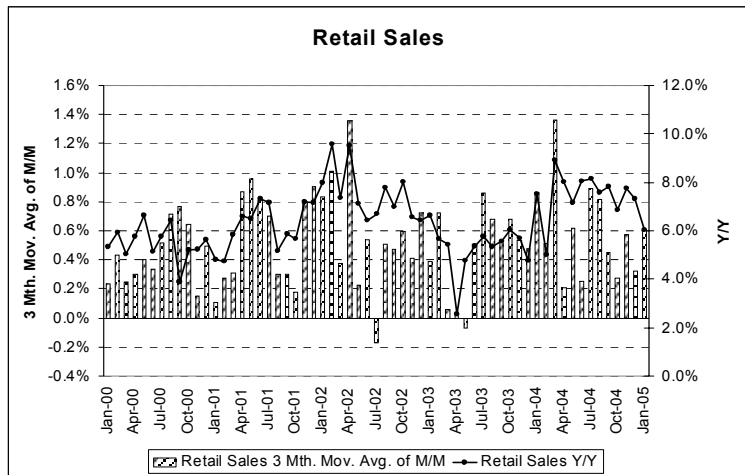
Chart of the Week



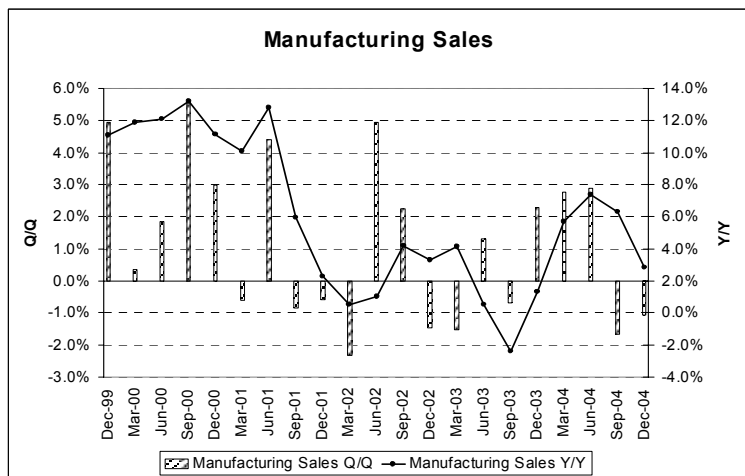
At its March 9 meeting, the RBNZ increased its overnight rate 25bps from 6.50% to a record high 6.75%, against economists' expectations for no change. The increase came on the low level of unemployment, which has been boosting wages and fueling domestic demand, housing prices, and inflation. "It would be imprudent to rule out further tightening," RBNZ Gov. Bollard stated. Bollard added that "The greater momentum in the economy implies stronger underlying inflation pressures than we expected." Going forward, another 25bps increase may come in the next three months. Following that, most economists expect the RBNZ to remain on hold through 2005. By late 2005 or 2006 however, the RBNZ may begin easing as a slowdown in domestic demand combines with soft manufacturing data and a high NZ\$.

Retail Sales & Terms of Trade Index

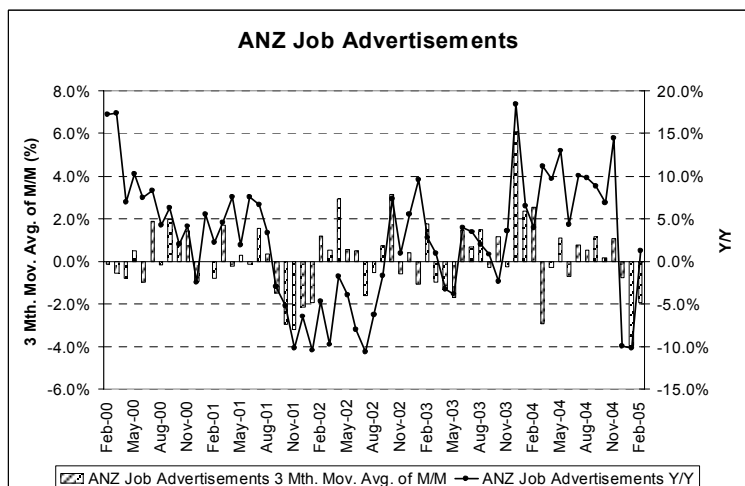
Retail sales increased 1.3% M/M and 6.0% Y/Y in January. The increase was more than economists anticipated and contributes to expectations of a second rate increase from the RBNZ this year, in an effort to slow domestic inflationary pressures.



Manufacturing sales decreased 1.1% Q/Q and increased 2.8% Y/Y in Q4.



ANZ job advertisements increased 9.1% M/M and 1.3% Y/Y in February.



House Prices & Bollard Comments

House Prices Increase in February

New Zealand house prices increased 13.5% Y/Y in February, matching its pace in January. Prices paid for houses in larger cities increased at a slower pace while prices paid in provincial areas accelerated at a higher pace.

Bollard - Exports to Bolster Economy

RBNZ Governor Alan Bollard commented that increasing prices for commodities should ensure that the economy will not face a “hard landing” over the next year, saying that “There is a possibility of a harder landing than we forecast” but that “I don’t expect that to happen.” He added that the risk of the economy slowing more than the 2% he had previously forecasted are reduced by the “extremely strong” prices the country’s exporters are getting for their products. He also said that “Commodity prices don’t show any signs of coming off.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/22	Current Account Balance (Q4)	-\$2.385B	-\$4.224B
03/23	GDP (Q4)	0.6%	0.6%

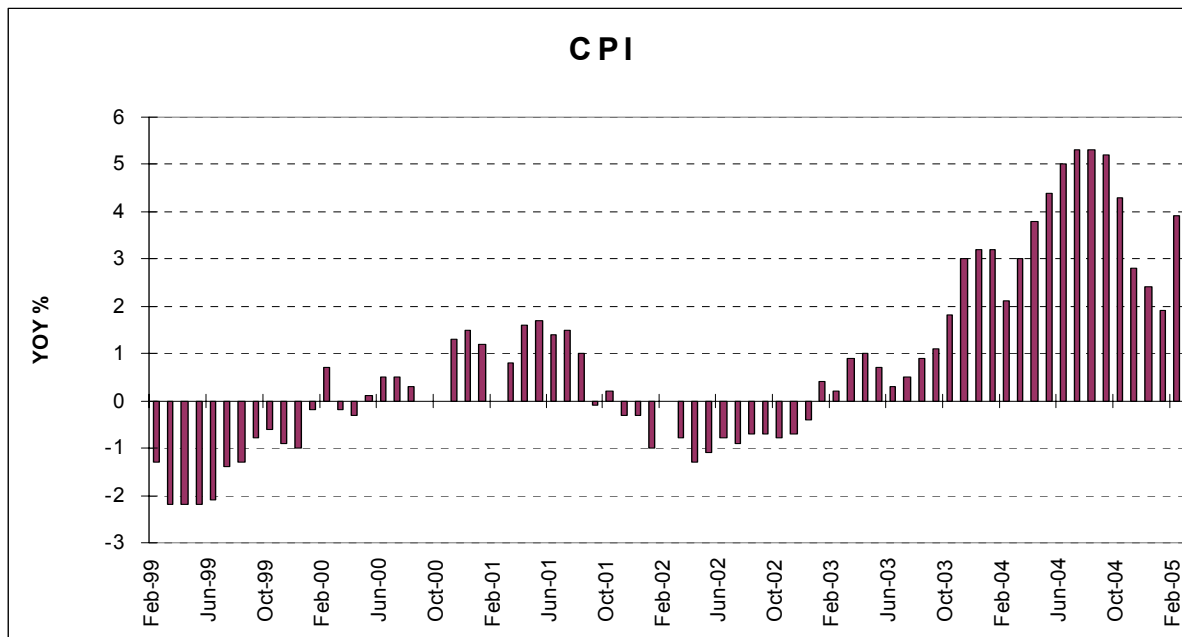
China

Inflation data released in China over the past week showed some divergence as consumer prices posted their highest reading in five months and the Producer Price Index posted its lowest reading in ten months. At the same time, Retail Sales and Household Savings increased and M2 steadied at the 14% range, slightly below the 15% -17% range enforced by the government to help control the “over heated economy.”

Weekly Highlights

- **Consumer Prices** - increased from 1.9% Y/Y in January to 3.9% Y/Y in February. (page 45)
- **Retail Sales** - increased 15.8% Y/Y in February, its highest reading in nine months. (page 46)
- **Producer Prices** - increased 5.4% Y/Y in February, the slowest pace in ten months. (page 46)

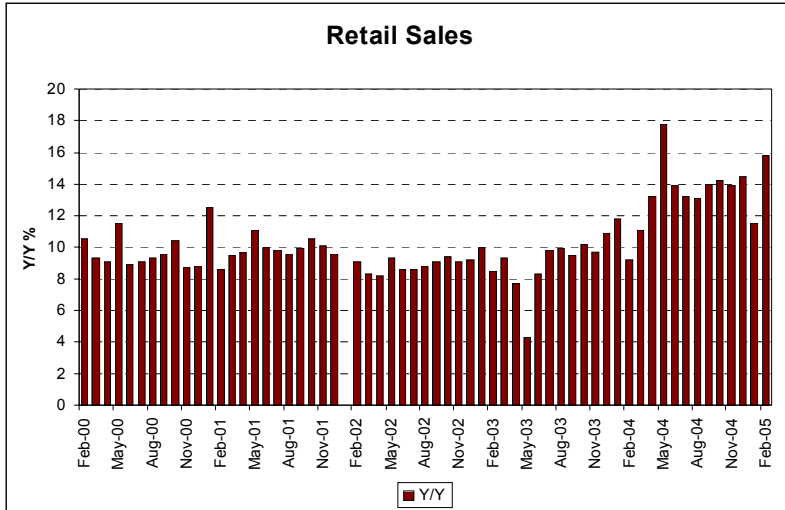
Chart of the Week



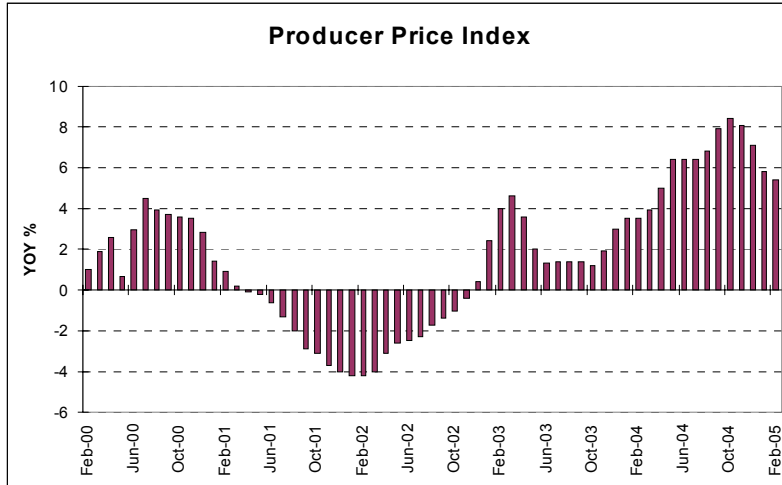
Consumer Price growth rebounded strongly increasing from 1.9% Y/Y in January to 3.9% Y/Y in February as prices of food and fuel increased. Additionally, Premier Wen Jiabao has set an inflation target of 4% Y/Y growth for CPI.

Retail Sales, PPI & Household Savings

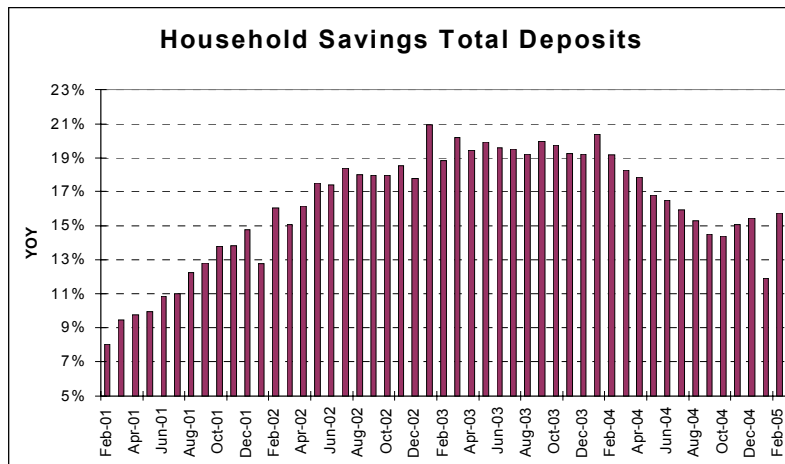
Retail Sales increased 15.8% Y/Y in February, its highest reading in nine months as an increase in income encouraged spending.



The Producer Price Index increased 5.4% Y/Y in February, the slowest pace in ten months.

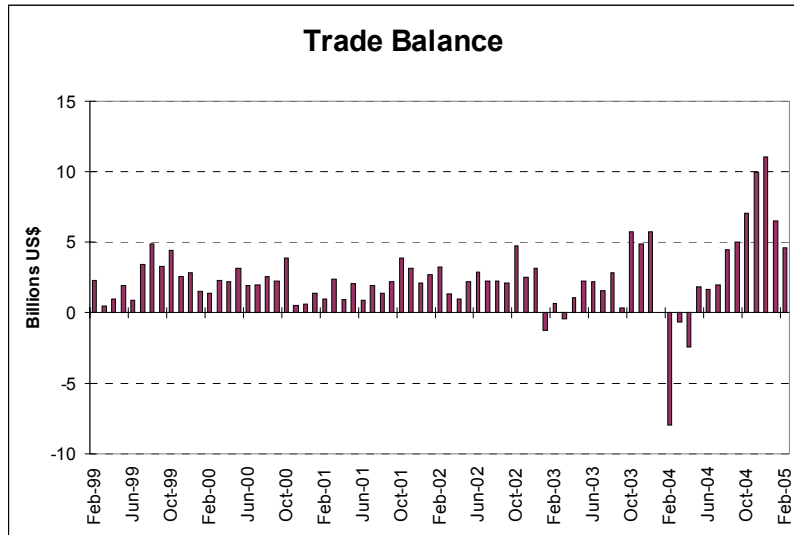


Household Savings increased 12.8T in February growing at its fastest rate in eight months.

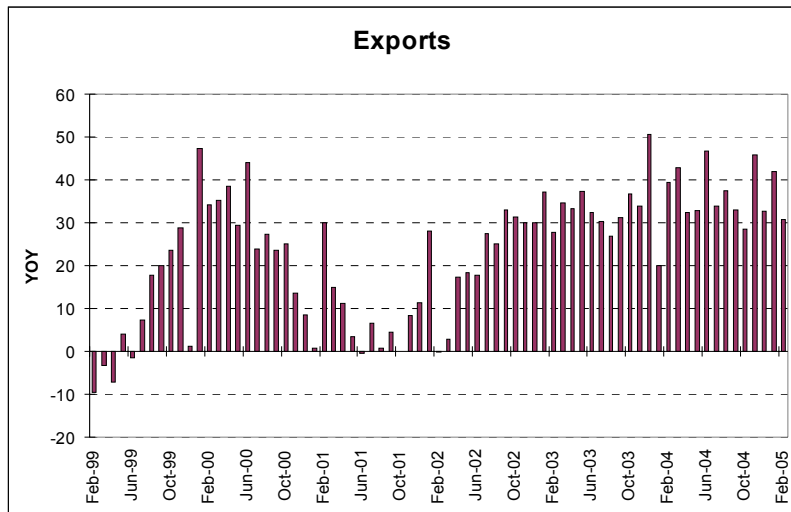


Trade Balance, Total Exports & Imports

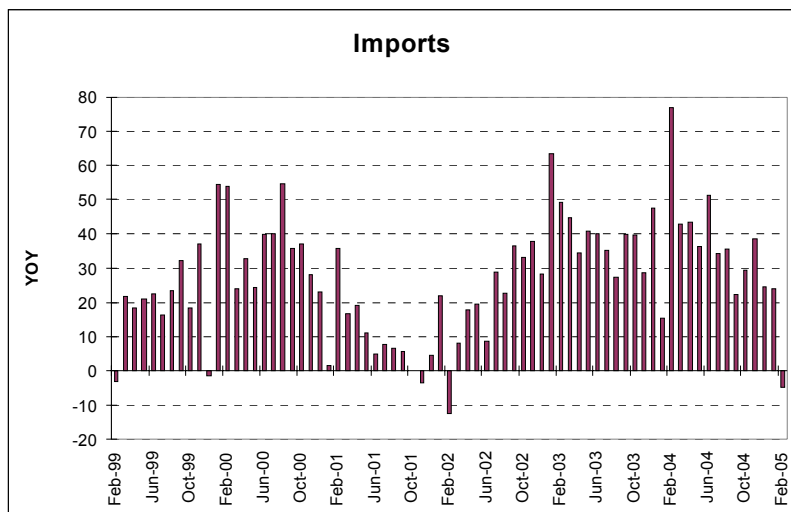
China's Trade Surplus narrowed from \$6.5 billion in January to \$4.6 billion in February.



Total Exports growth slowed from 42.2% Y/Y in January to 30.8% Y/Y in February.

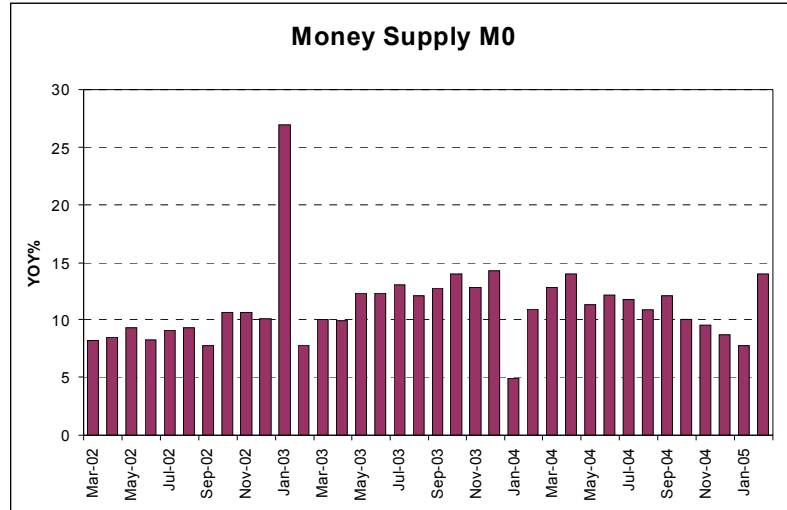


Total Imports posted its first decline since February of 2002, decreasing 5.0% Y/Y.

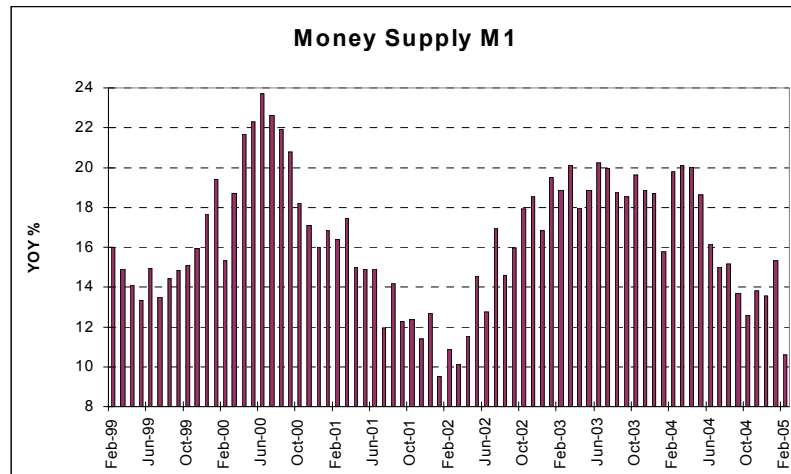


Money Supply M0, M1 & M2

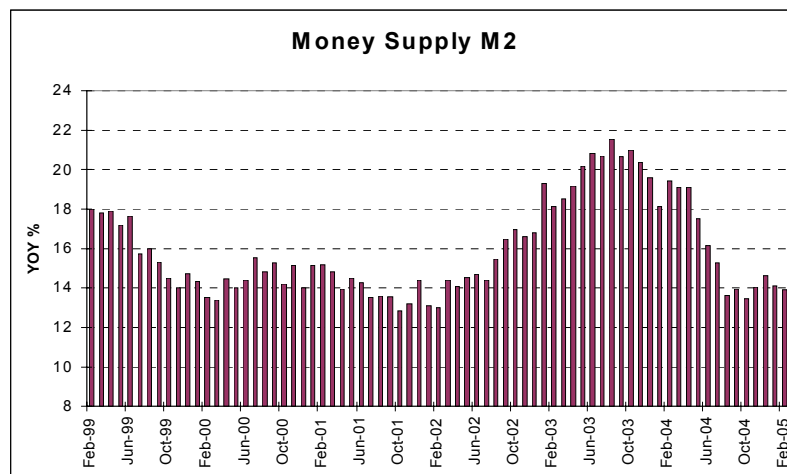
Money Supply M0 increased from 7.8% Y/Y to 14.0% Y/Y in February.



Money Supply M1, which includes cash, increased 10.6% in February; its slowest reading since March of 2002.

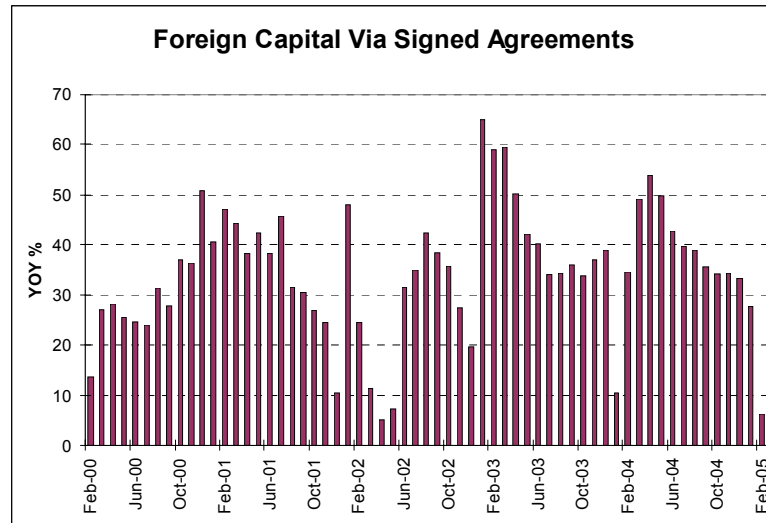


Money Supply M2, which includes cash and all deposits, increased 13.9% Y/Y in February. Money supply has steadied at the 14% level, slightly below the target range of 15% - 17%, enforced to help control the “over heated economy”.

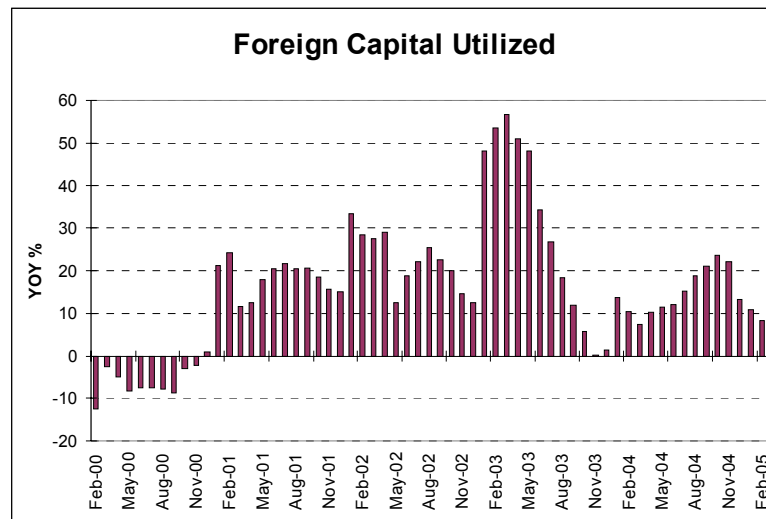


Foreign Capital

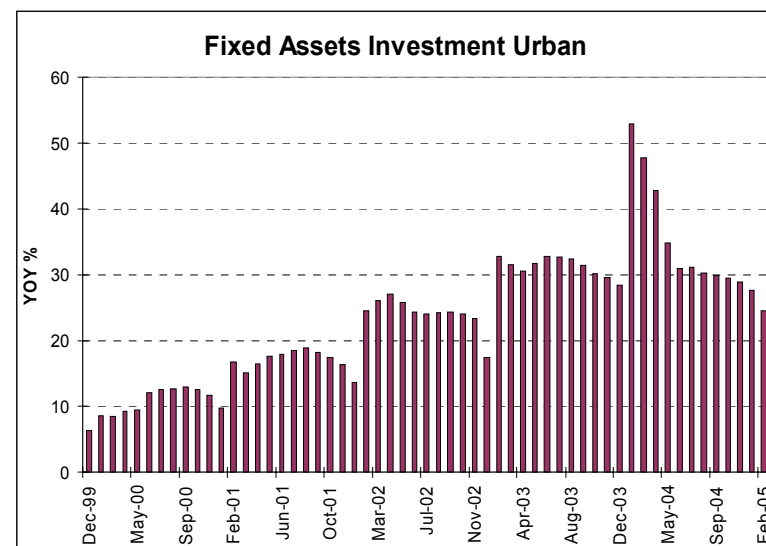
Foreign Capital Via Signed Agreements growth slowed from 27.7% to 6.2% in February, its lowest reading in three years.



Foreign Capital Utilized increased 8.2% Y/Y in February. Growth in this series has been slowing since October of 2004.



Fixed Assets Investment increased 24.5% Y/Y in February. The government has set a 16% investment growth target for this year.



News/Data Commentary

March 16 - Jan-Feb industry output climbs by 16.9%

The National Bureau of Statistics announced that “industrial output showed a strong growth of nearly 17 per cent year-on-year during the first two months of this year”. The bureau added that “the growth was 7.6 per cent in February but 20.9 per cent in January”, with industrial output at “903.4 billion yuan (US\$108.8 billion) during the two months”.

March 16 - China Tightens Property Lending Rules to Cool Prices

The People’s Bank of China announced on its website that “it will let lenders demand higher down payments from home buyers and boosted the minimum interest rate they can charge on mortgages, seeking to rein in property price increases and prevent financial risks”. The Bank also stated that “commercial banks may raise the down-payment ratio to 30 percent of a property's value, from 20 percent, in areas where price growth has been “excessive”. The bank lifted the minimum rate for a loan in excess of five years from 5.31% to 5.51%.

March 16 - China's Central Bank Cuts Rate on Excess Reserves

The People's Bank of China stated on its website that it “lowered the rate it pays commercial lenders on excess reserves they keep at the central bank, reducing government costs and encouraging banks to seek other uses for their funds”. The rate was cut from 1.62% to 0.99%. “The central bank is reducing the return it pays on excess reserves for the second time in 16 months, after cutting the rate from 1.89 percent on Dec. 21, 2003”, the bank said.

March 14 - China May Be Understating GDP Growth, Statistics Chief Says

Head of the National Bureau of Statistics, Li Deshui, stated on the agency’s website that “China may be understating the pace of its economic growth because the contribution of new service industries isn't properly reflected in gross domestic product calculations.” Li added that “a nationwide economic census now under way focusing on the tertiary industry including small private companies should solve the problem because it will give the bureau a more accurate foundation for its calculations”.

March 13 - China Must Keep Up Controls to Curb Inflation, Premier Wen Says

Chinese Premier Wen Jiabao stated at a press conference in Beijing that “China must maintain lending and other restrictions to prevent a rebound in inflation and fixed-asset investment”. He further stated: “we achieved remarkable results with our macroeconomic measures last year,” but “China's economic foundations are still not solid”.

March 13 - China Economy Will Grow 8-9% in 2005, Xinhua News Says

The official Xinhua News Agency reported that “China's economy will grow between 8 percent and 9 percent this year, citing a study from the government's China Center for National Accounting and Economic Growth”.

Key Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/13-17	Foreign Exchange Reserves – January		609.93B
03/13-17	Unemployment Rate (Y/Y) – 4Q		4.2
03/16	Actual FDI (Y/Y) – Feb		10.72
03/16	Contract FDI (Y/Y) - Feb		27.69
03/20-30	Foreign Exchange Reserves - Feb		

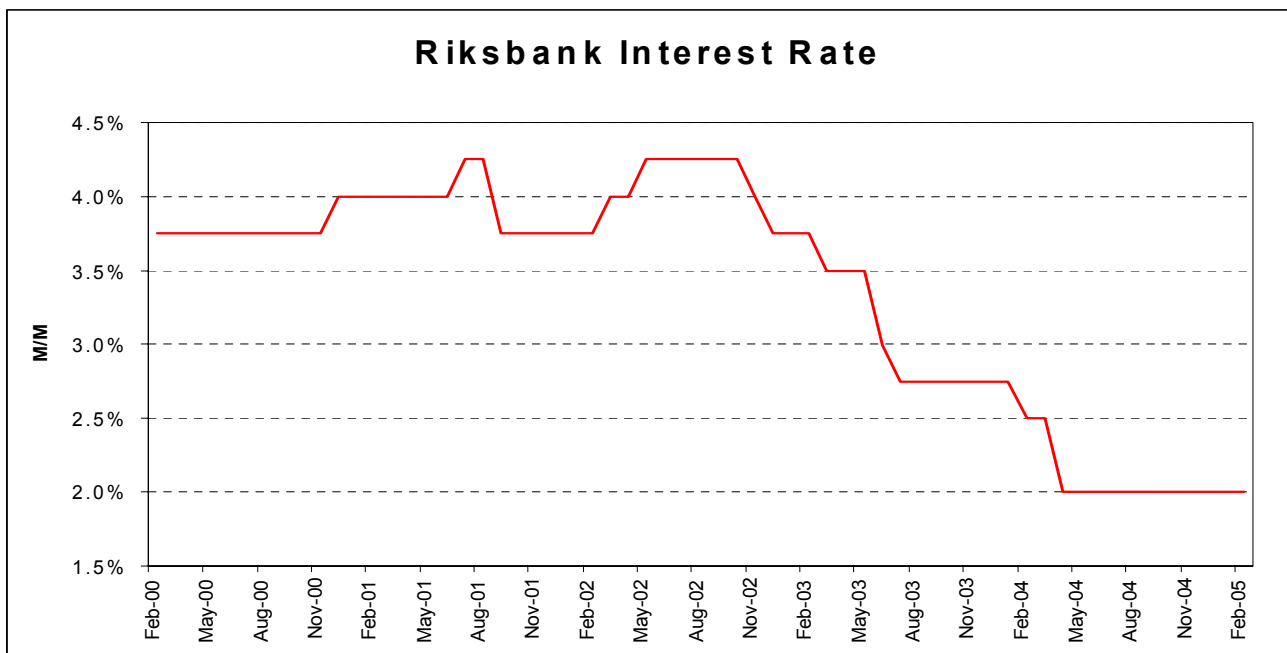
Sweden

This week's economic data was highlighted by the Riksbank's decision to leave its overnight rate unchanged at 2.0%. The government's economic growth forecast has been slightly upgraded from 3.0% to 3.2% for 2005.

Weekly Highlights

- **Riksbank Interest Rate** - left its overnight rate unchanged at a cycle low of 2.0%. (page 52)
- **CPI** - increased 0.5% M/M and 0.7% Y/Y in February. (page 53)

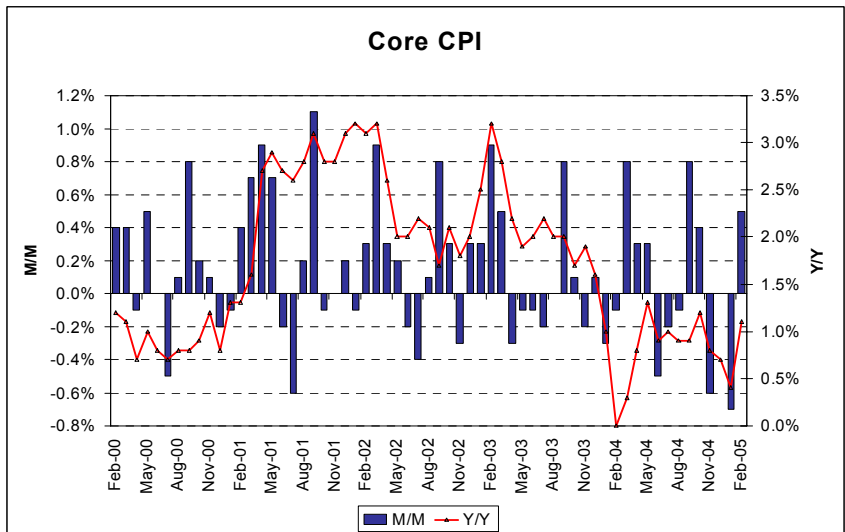
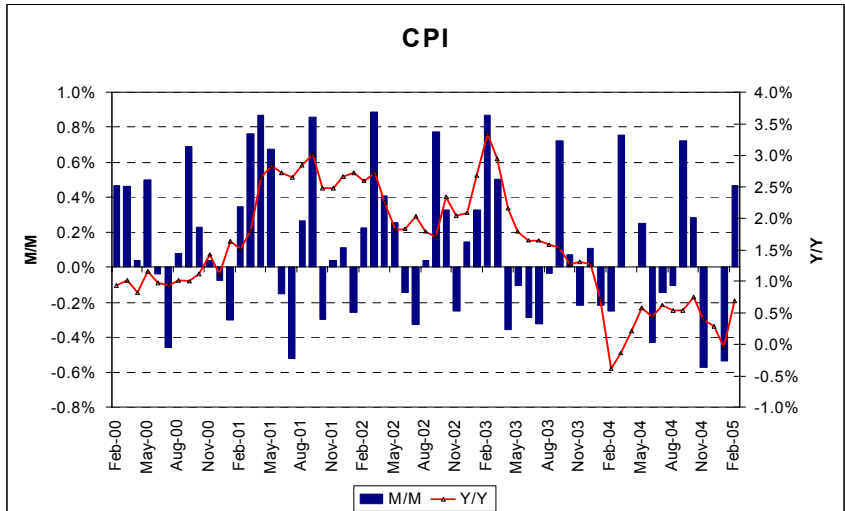
Chart of the Week



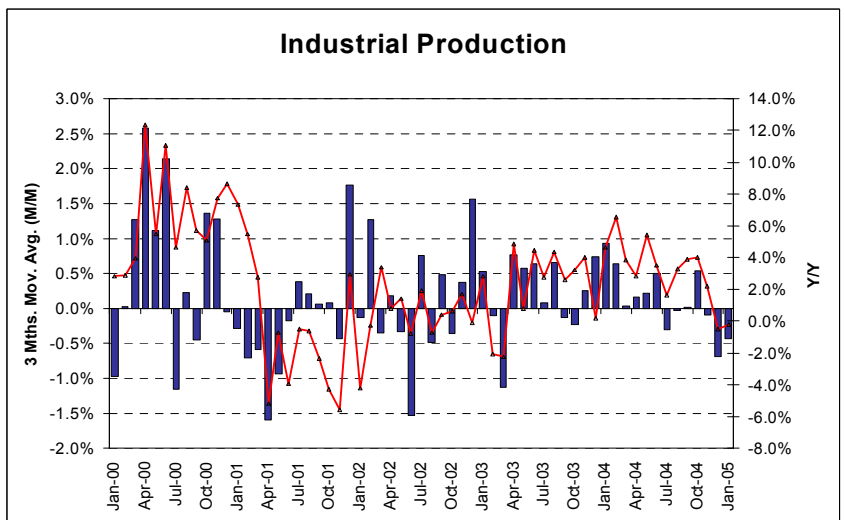
The Riksbank left its overnight rate unchanged at a cycle low of 2.0% for the eighth consecutive meeting, as expected. Economic growth is also expected to expand around 3.2 % this year.

CPI & Industrial Production

Swedish Consumer Prices increased 0.5% M/M and 0.7% Y/Y in February, staying below the bank's 2.0% target rate for the 17th consecutive month. Underlying inflation also showed an increase of 0.5% M/M and 1.1% Y/Y, above expectations.

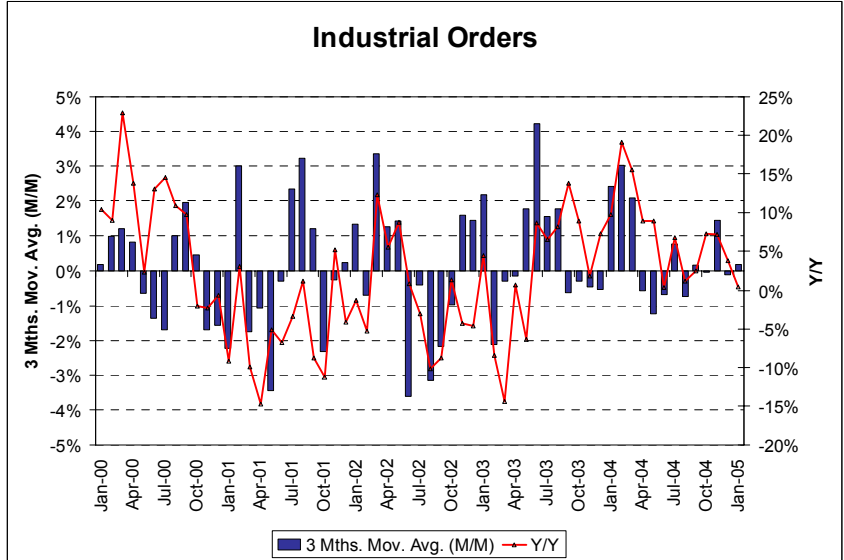


Industrial Production increased 0.8% M/M and fell 0.5% Y/Y in January. But production in the capital and intermediate goods industries declined 1.0% and 0.3%, respectively.

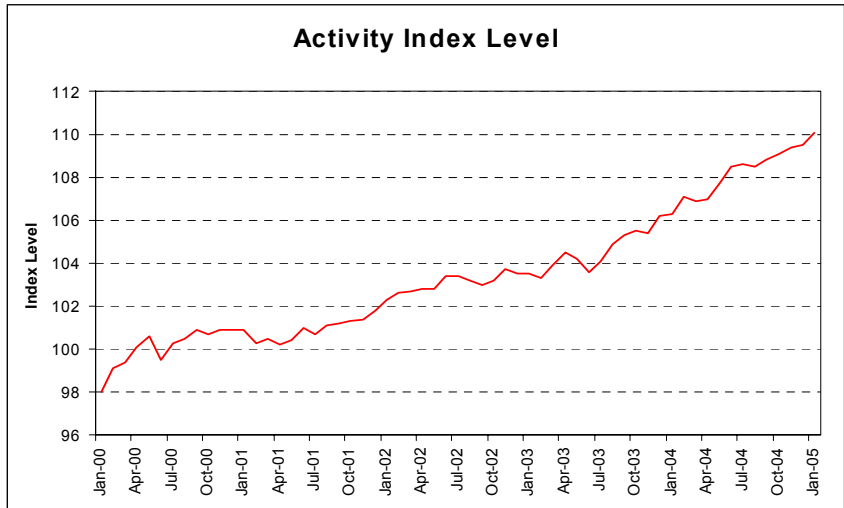


Industrial Orders & Activity Index Level

Industrial Orders rose 3.5% M/M and rose 2.2% Y/Y in January. This reflected increases in both the domestic and export markets by 4.6% and 2.8% respectively.



The Activity Index Level increased from a revised 109.5 (down from 109.6) in December to 110.1 in January. The growth was attributed to an increase of sales in retail trade and an increased net trade surplus in January.



News/Data/Commentary

March 15 - Sweden's Riksbank Comments on Decision to Leave Repo Rate at 2%

The Riksbank commented at its March 14th Executive Board meeting that it “decided to hold the repo rate unchanged at 2 percent”. The bank added that “inflation, measured in terms of UNDI_X, is expected to be in line with the Riksbank's target a couple of years from now. However, it is expected to remain low for a large part of the coming two-year period, partly due to increased competition pressing prices downwards in several markets.” “As economic growth is expected to be robust, inflation will gradually increase”, the bank said.

March 15 - Swedish Central Bank Lifts 2005 GDP Growth Forecast

The Riksbank raised its economic growth forecast for 2005 and stated that inflation will reach its 2% percent target, “indicating the bank will fend off demands for lower interest rates.” The bank added that “the economy will expand 3.2 percent this year, raising a December forecast of 3 percent.” “Underlying annual inflation will quicken to 2 percent in two years from 0.3 percent this month”, the bank reported.

March 15 - Swedish Central Bank Lowers Inflation Forecast for Year Ahead

The Riksbank “lowered its inflation forecast for the year ahead as rising competition, an appreciating krona and higher productivity keep a lid on prices.” The bank also “predicted the underlying inflation rate, including all risks, would be 1.1 percent in March 2006, cutting a December forecast of 1.8 percent.”

March 15 - Sweden's Heikensten Says Inflation in line with Riksbank Target

Governor Lars Heikensten commented, in a speech on monetary policy, that low inflation in 2004 could be attributed to a number of factors. He remarked that “in order to get a better picture of one of the causes we need to go back to the turn of the year 2002-2003.” He added that “at that time inflation was pushed up unusually high after electricity prices rose to record levels. The Riksbank's view then was that it was a temporary effect; that electricity prices would fall back and that the inflation rate would therefore come down again during the year, which it did”. “So the drop in inflation at the start of 2004 was partly an expected recoil of the temporary increase a year before”, Heikensten said. He further attributed low inflation to low import prices and productivity “which grew stronger than expected by the Riksbank and other forecasters”.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
03/17	Unemployment Rate – February		5.5%
03/23	PPI (M/M) – February		0.8%
03/23	PPI (Y/Y) – February		2.5%