

Weekly Economic Reports

May 4, 2005

Highlights

- **US:** Durables/inventory data signal weak Q2
- **Euroland:** Business surveys continue to drop
- **Japan:** Weak retail sales and industrial production
- **UK:** Sharp fall in retail trade and manufacturing PMI
- **China:** Some weakness in manufacturing PMI

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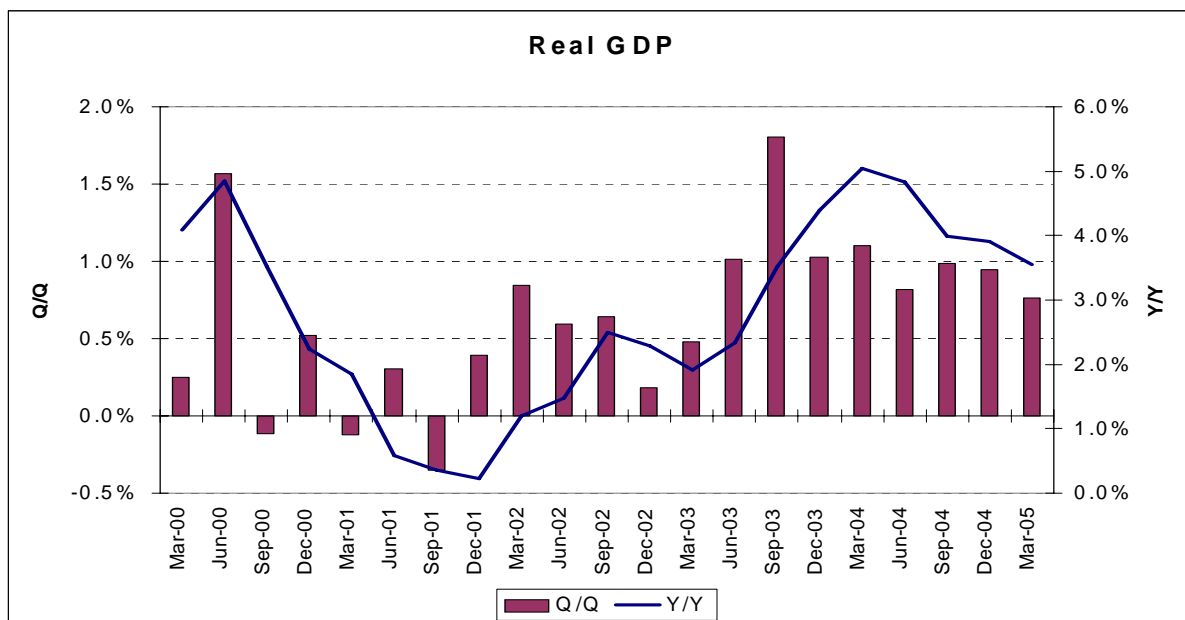
U.S.

This week's data was highlighted by soft GDP results and perky M/M growth for Core PCE. The Fed's rate hike and statement were non-events and the markets continue to debate if and when the Fed will pause. It appears that the Fed is going to look past some of the softness in the economy and focus on keeping inflation under control. Also, Redbook reports that retail sales increased only about 1.5% Y/Y for the month of April.

Weekly Highlights

- **GDP- Q1** growth was below expectations at 3.1%. (page 2)
- **Core PCE Deflator**- increased 0.3% M/M and 1.7% Y/Y in March. (page 3)
- **Personal Spending**- up 0.6% M/M and 6.1% Y/Y in March. (page 4)
- **Confidence**- weakened further according to ABC and U. of Michigan Survey. (page 5)
- **ISM Indices**- both declined in April. (page 6)

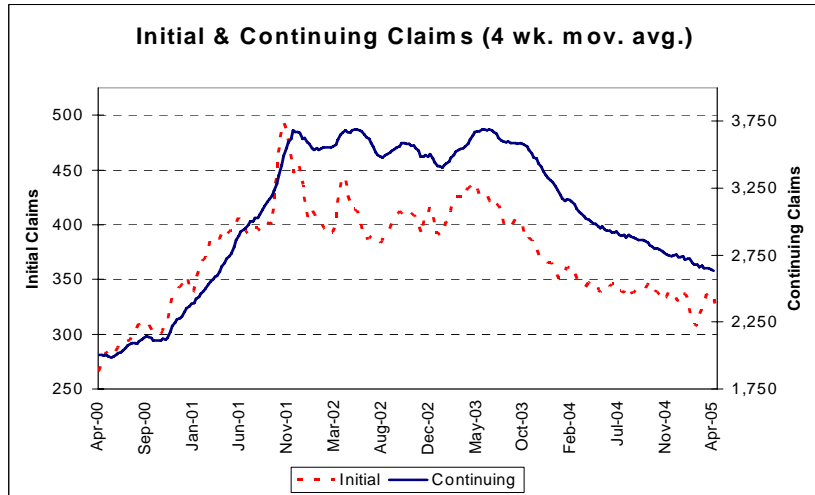
Chart of the Week



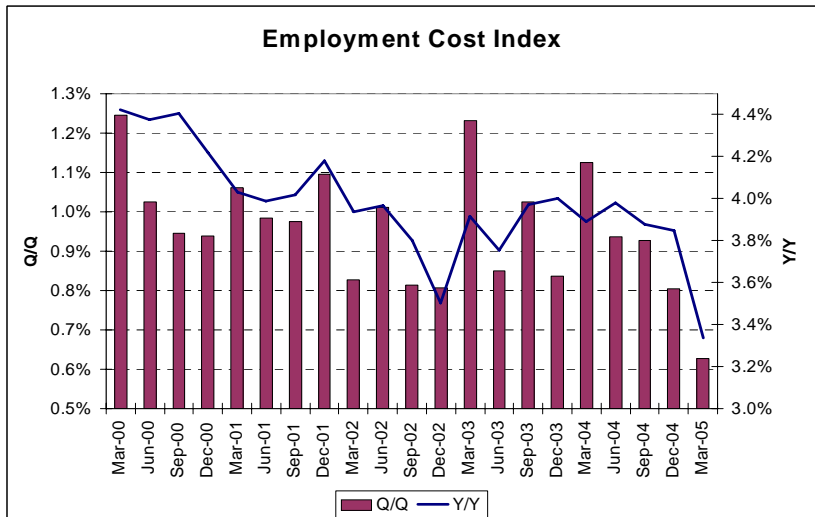
Q1 GDP expanded 3.1% on an annualized basis, below expectations. Interestingly, gross private investment grew at a strong annualized rate of about 12%, contributing about 2% to the headline number. However, durable goods data for March and February also tells us that investment spending lost momentum over the quarter as March declined 2.8%, after declining 0.2% in February. Also, changes in inventories, a subset of gross private investment, on its own, contributed 1.2% to overall GDP growth. Building inventories is not necessarily a sign of economic strength and have typically peaked at these levels. The Fed's thesis that investment spending will drive 2005 growth is looking questionable.

Weekly Claims, Employment Cost Index & Core PCE

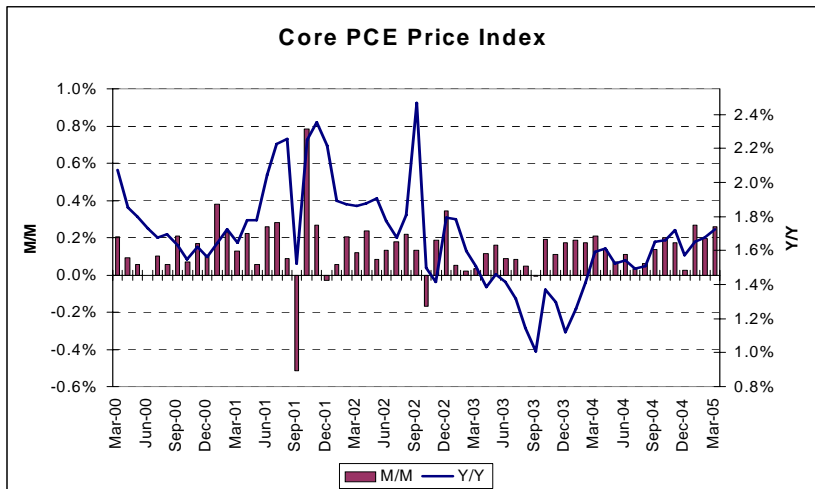
The four week moving average of initial claims and continuing claims increased to 320k and decreased to 2,555k, respectively. The level of continuing claims suggests healthy growth in payrolls.



The total Employment Cost Index increased 0.6% Q/Q and 3.3% Y/Y in the first quarter of 2005. Benefits grew 1.2% Q/Q and wages grew at half that rate. Y/Y growth has continued on a downward trend since 2000 and absolute levels reflect a tame inflationary environment.

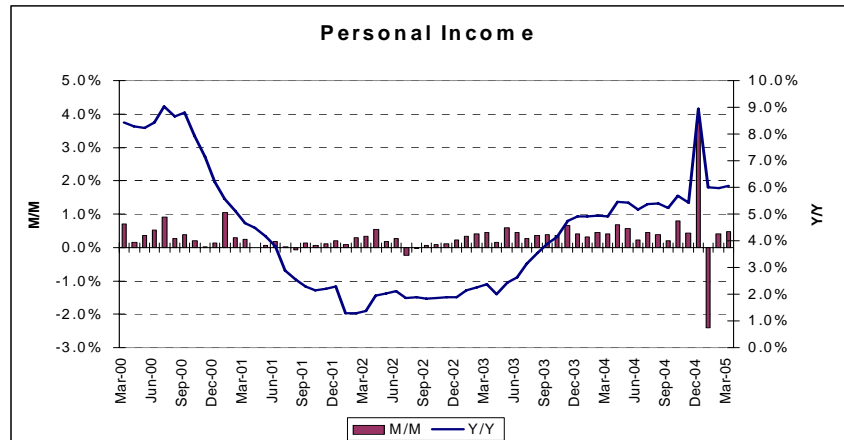


Core PCE increased 0.3% M/M and 1.7% Y/Y in March. The Fed's favorite measure of inflation has trended higher on a Y/Y basis, but still remains quite restrained.

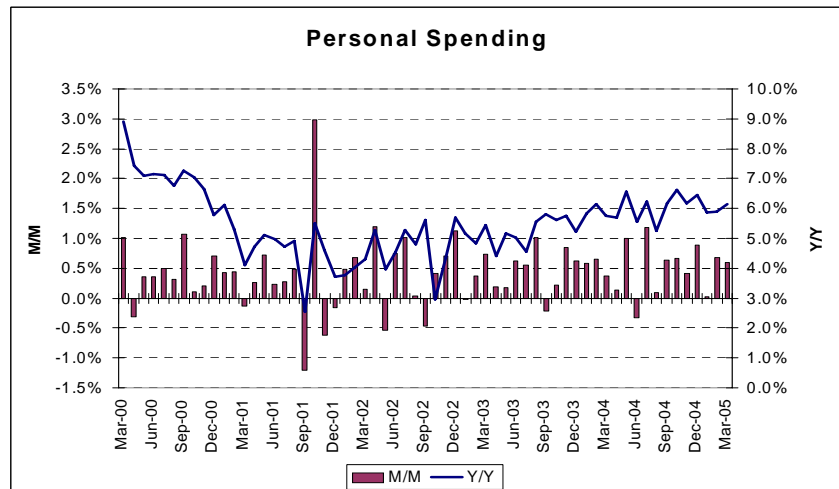


Personal Income, Personal Spending & Total Vehicle Sales

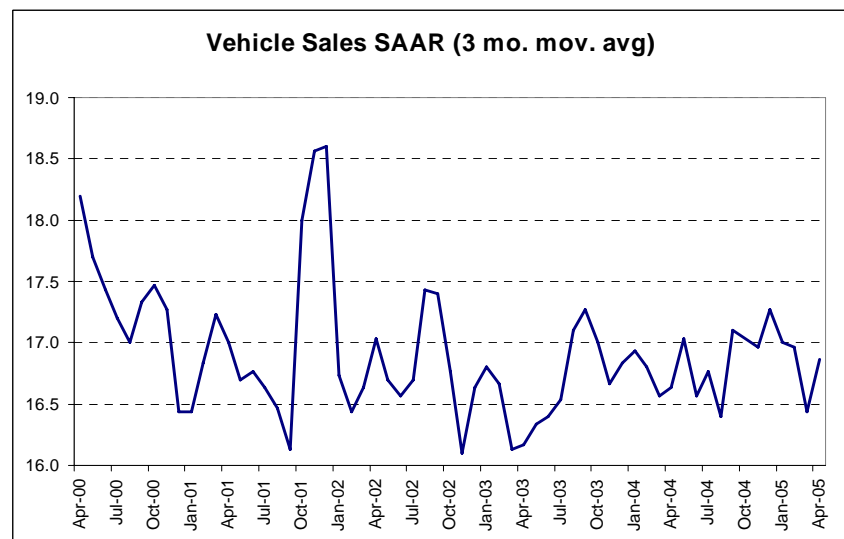
Personal Income increased 0.5% M/M and 6.0% Y/Y in March. Income growth continues to be healthy and should help buoy the consumer as debt service ratios increase.



Personal Spending increased 0.6% M/M and 6.1% Y/Y in March. Spending growth continues to remain firm, but is exposed to a softer employment market, higher debt burdens and waning confidence.

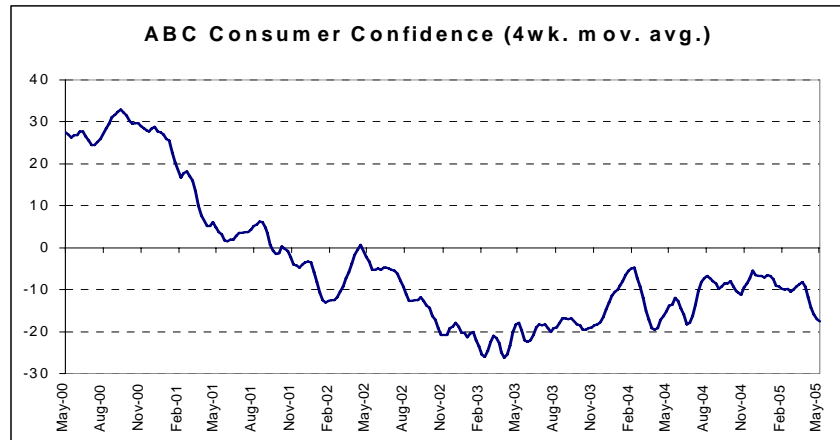


The seasonally adjusted annual rate of total vehicle sales increased from 16.8 million to 17.5 million in April. Domestic producers continue to lose shares to foreign manufacturers like Toyota.

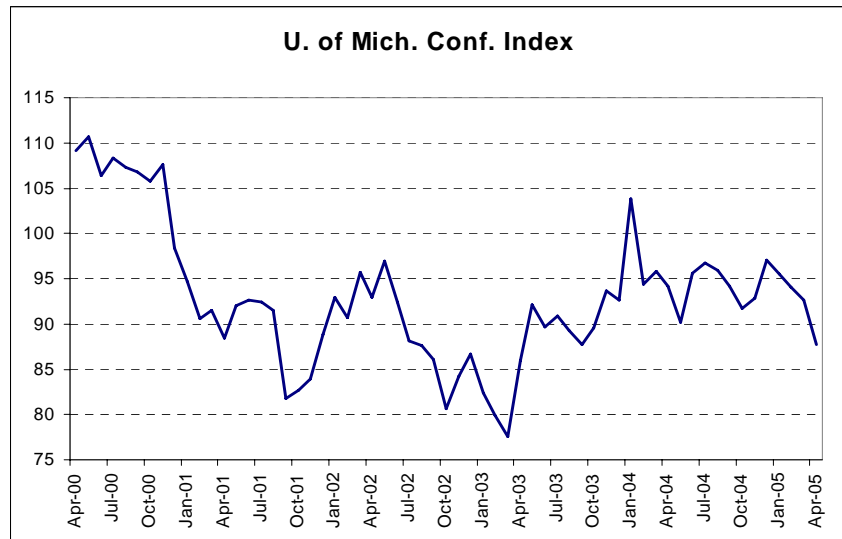


Consumer Confidence & Help Wanted Index

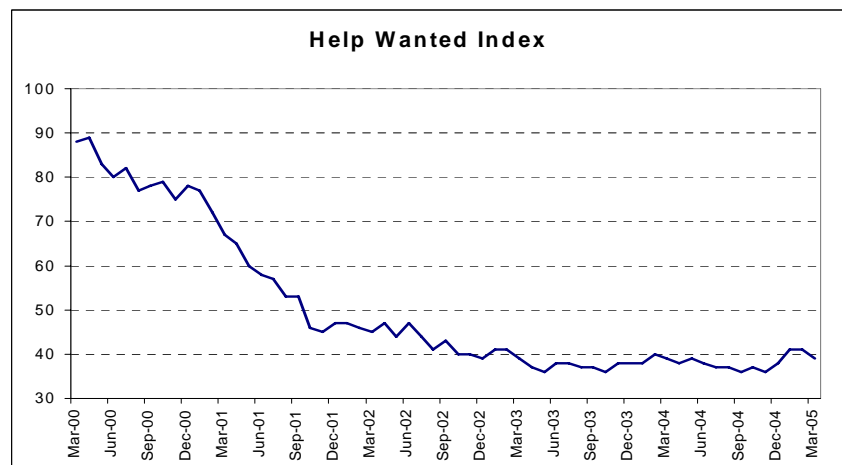
The ABC Consumer Confidence Index declined from -17 to -19 this week. Higher gas prices and turmoil in the equity markets will most likely help drive the economic, finance and buying component lower in the weeks ahead.



The University of Michigan Consumer Confidence Index decreased from 92.6 to 87.7 in April. Current and future expectations moved lower as gas prices continued to trend higher.

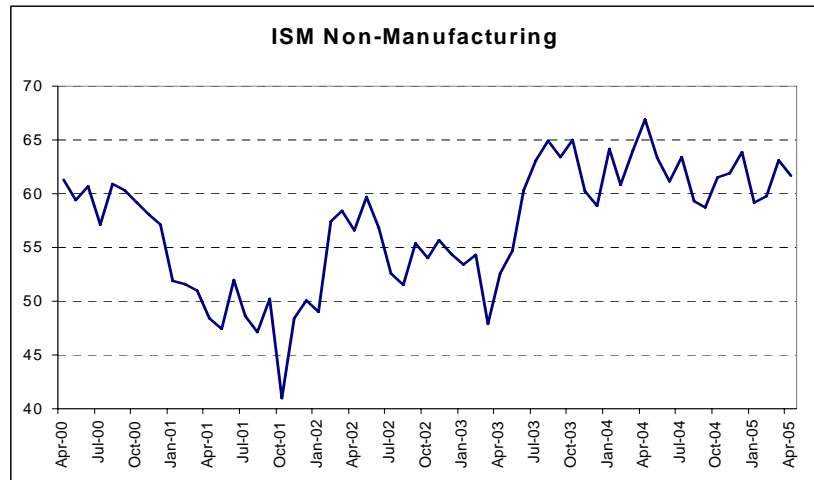


The Help Wanted Index slipped back to 39 in March after reaching 41 in February. This series has flat-lined for over two years now and suggests that demand for labor is still soft.

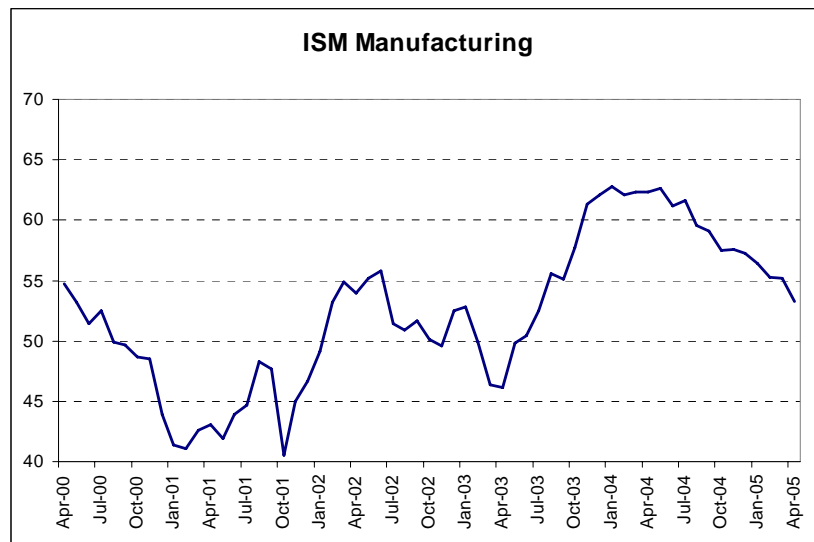


ISM & Chicago PMI

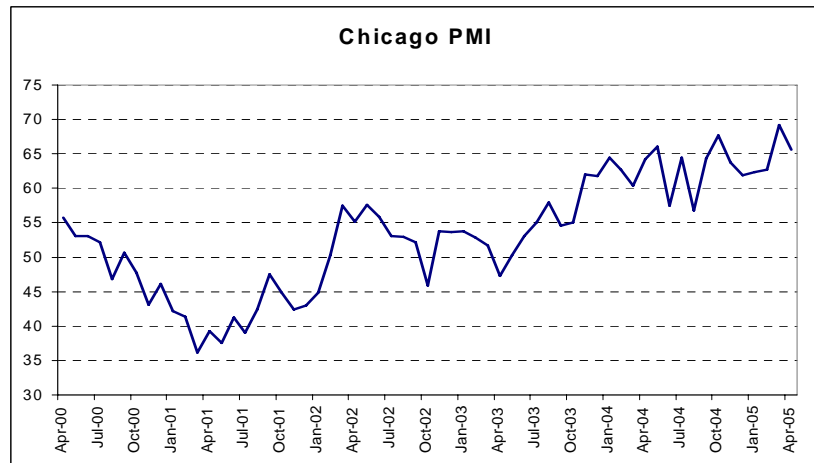
The ISM Non-Manufacturing Index decreased from 63.1 to 61.7 in April. The employment component slid from 57.1 to 53.3 and the price component declined from 65.6 to 61.9.



The ISM Manufacturing Index dropped from 55.2 to 53.3 in April. The employment series inched lower from 53.3 to 52.3. The pricing component declined from 73 to 71. The inventory component also appears to be showing a correction to the inventory expansion seen in Q1 GDP data.

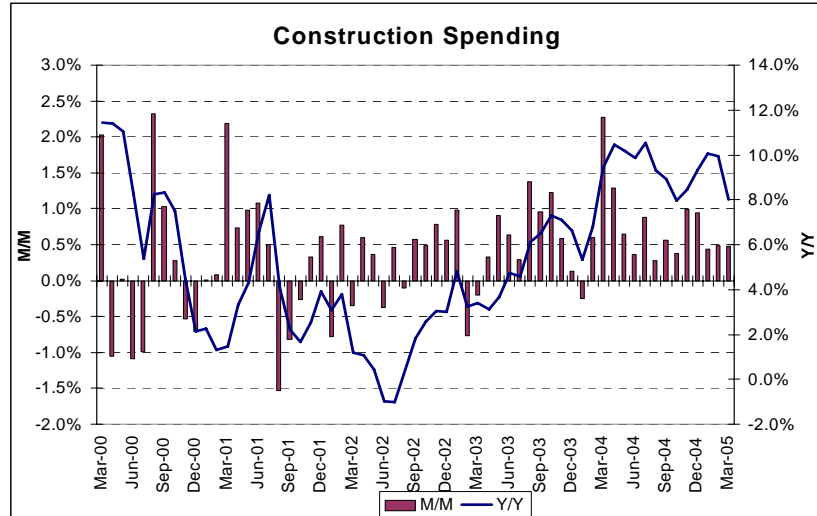


The Chicago PMI decreased from 69.2 to 65.6 in April. The employment component fell from 66 to 62.3 and the price component declined from 68.2 to 66.1.

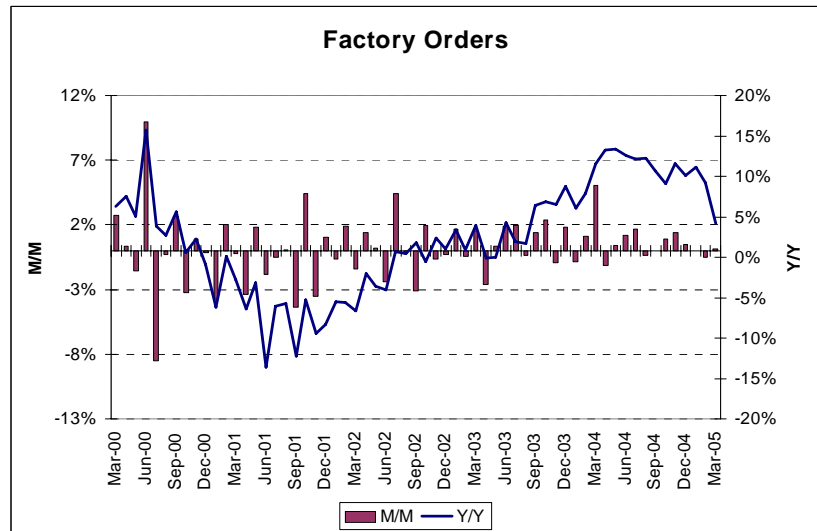


Construction Spending, Factory Orders & Mortgage Apps.

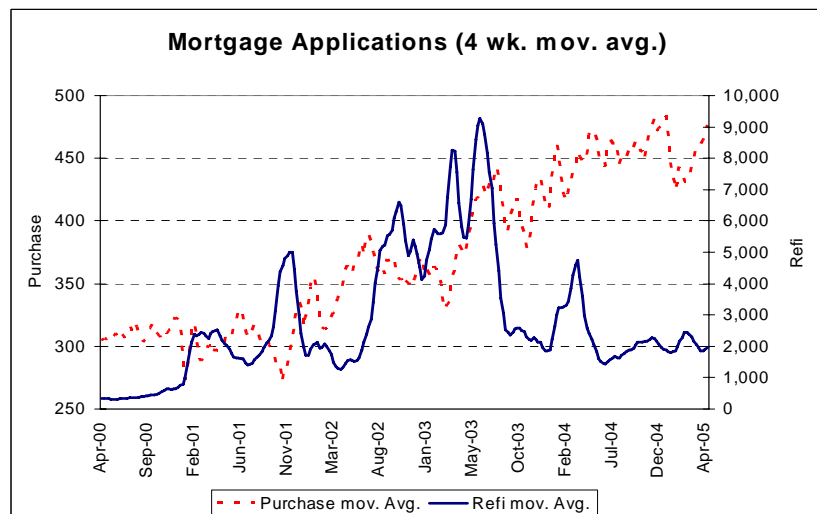
Construction Spending increased 0.5% M/M and 8.0% Y/Y in March. Construction Spending on a Y/Y basis should gap lower again due to base effects.



Factory Orders increased 0.1% M/M and 4.1% Y/Y in March. The increase came as a surprise given the weakness in other related indicators. However, Y/Y growth continues to slow.



Purchase and refinancing mortgage applications increased 0.1% and 0.4%, respectively this week. Purchase applications have been trending higher over the past month as mortgage rates have declined.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/05	Non-farm Productivity (1Q)	1.9%	2.1%
05/05	Unit Labor Costs (1Q)	2.0%	1.3%
05/05	Initial Jobless Claims (APR 30)	323K	320K
05/05	Continuing Claims (APR 23)	2595K	2555K
05/06	Unemployment Rate (APR)	5.2%	5.2%
05/06	Change in Non-farm Payrolls (APR)	172K	110K
05/06	Average Weekly Hours (APR)	33.7	33.7
05/06	Consumer Credit (MAR)	\$6.2B	\$5.6B
05/09	Wholesale Inventories (MAR)	0.8%	0.6%
05/10	ABC Consumer Confidence (MAY 8)	NA	-19
05/11	MBA Mortgage Applications (MAY 6)	2.0%	0.2%
05/11	Trade Balance (MAR)	-\$61.5B	-\$61.0B
05/11	Monthly Budget Statement (APR)	\$46.5B	\$17.6B

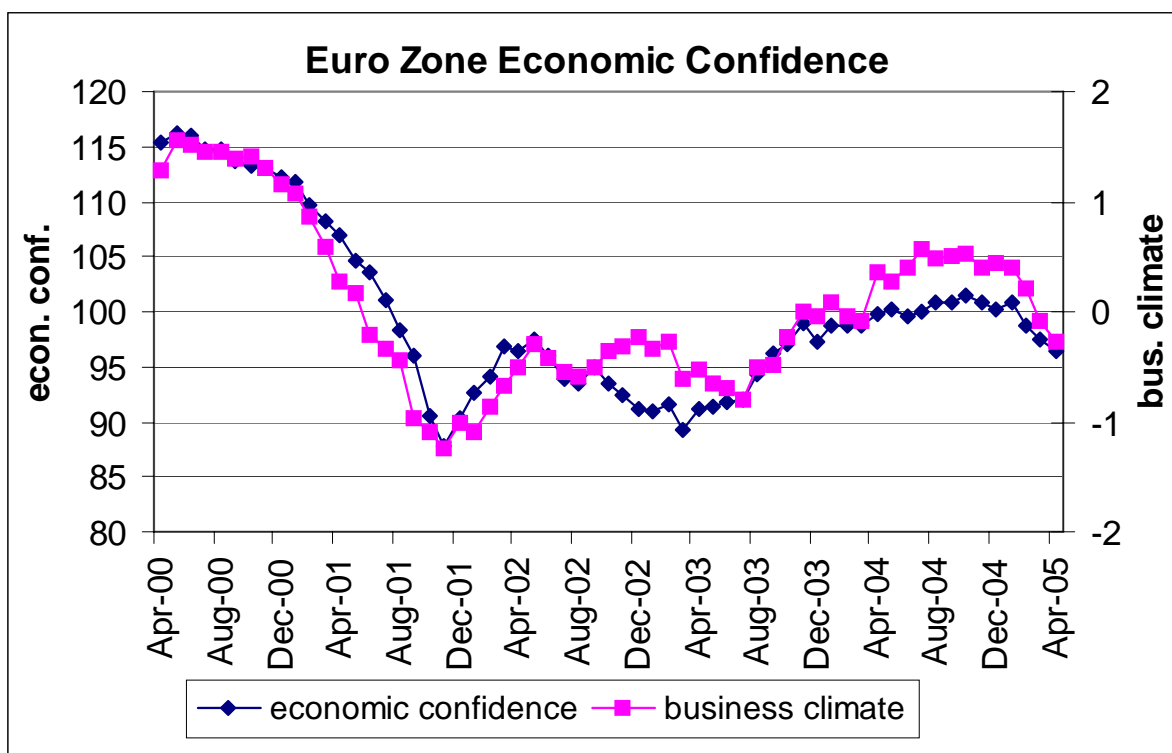
Euroland

The Euroland area exhibited more modest weakness this past week as most confidence indicators fell and unemployment increased. The Euro Zone's Business Climate and Italian Business Confidence Indices both reached new lows while Euro Zone unemployment hit 8.9% again. The one fragment of good news was a small decline in German unemployment, though this was countered by another pickup in French unemployment. Also, Eurozone retail sales rose for the third straight month in March, though this was largely due to an early Easter.

Weekly Highlights

- **Euro Zone's Business Climate**- fell to a 19 month low in April. (page 9)
- **French Unemployment** – rose to a 5 year high in March. (page 11)
- **Italian Business Confidence**- fell to a 21 month low in April. (page 12)

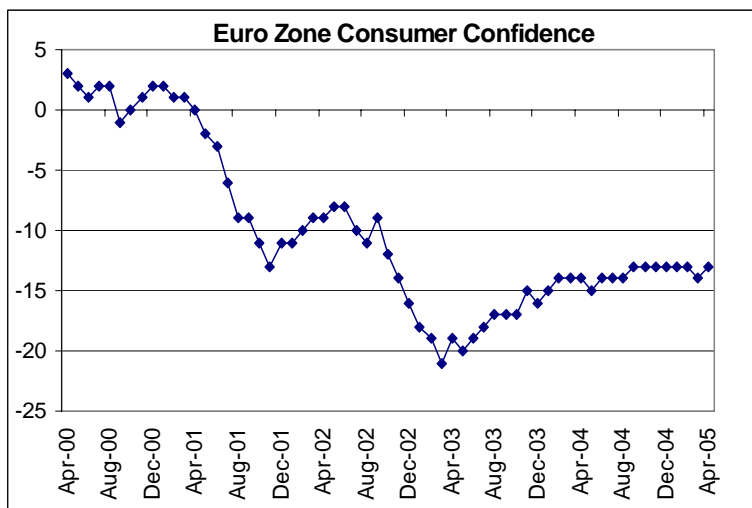
Chart of the Week



The Euro Zone's April Business Climate Index fell to a 19 month low, decreasing from -0.09 in March to -0.28. The Economic Confidence Index also fell, declining from 97.5 in March to 96.5. This was the fourth consecutive decline in the Business Index as high oil prices and a lack of domestic spending continue to weigh on growth prospects.

Euro Zone Confidence, Euro Zone & German Unemployment

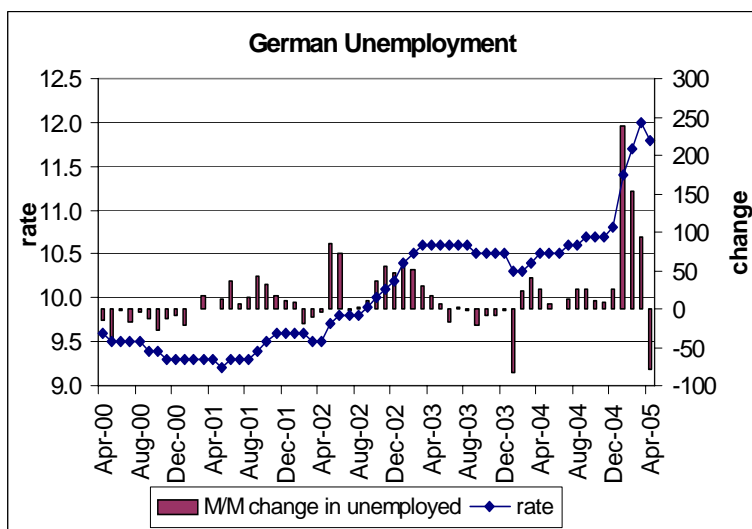
The Euro Zone's April Consumer Confidence Index unexpectedly increased to -13, up from -14 in March. Despite the modest pickup, weak confidence remains the Achilles' heel of the economy.



The Euro Zone's March Unemployment Rate rose from 8.8% in February to 8.9%, led by a pickup in German unemployment.

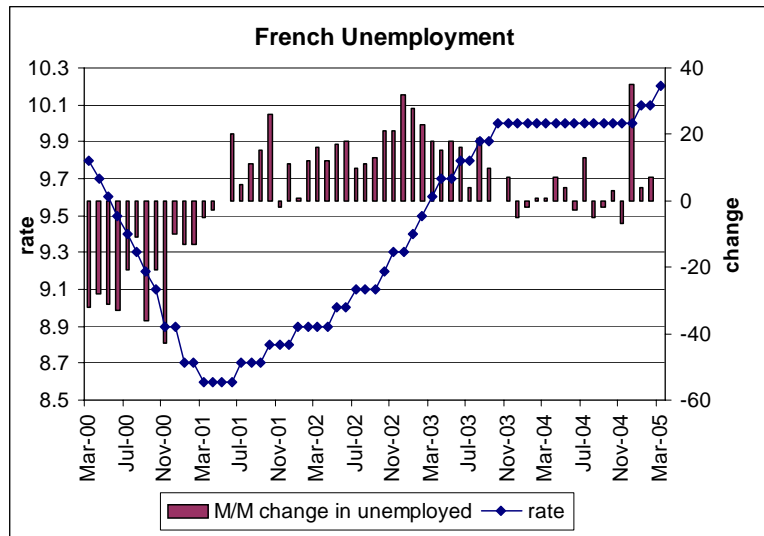


Germany's April Unemployment Rate fell for the first time in 15 months, declining from 12% to 11.8%. The total unemployed decreased by 79,000. The decline was likely due to claimants coming off their unemployment benefits than from actual increases in employment.

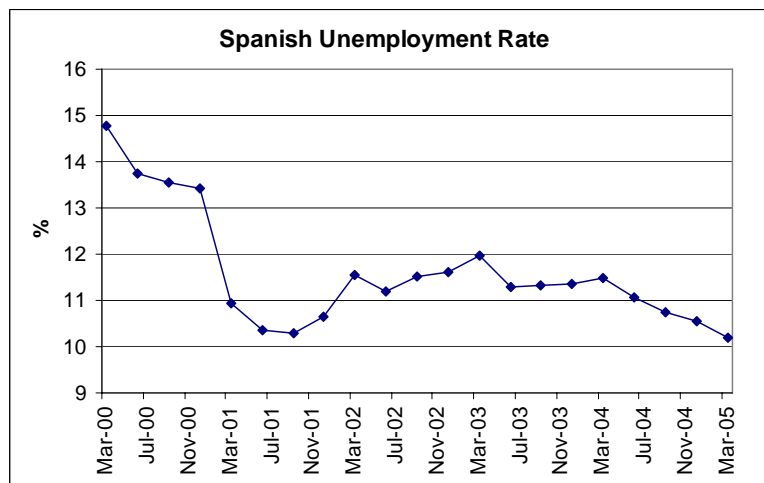


French & Spanish Unemployment, Euro Zone CPI

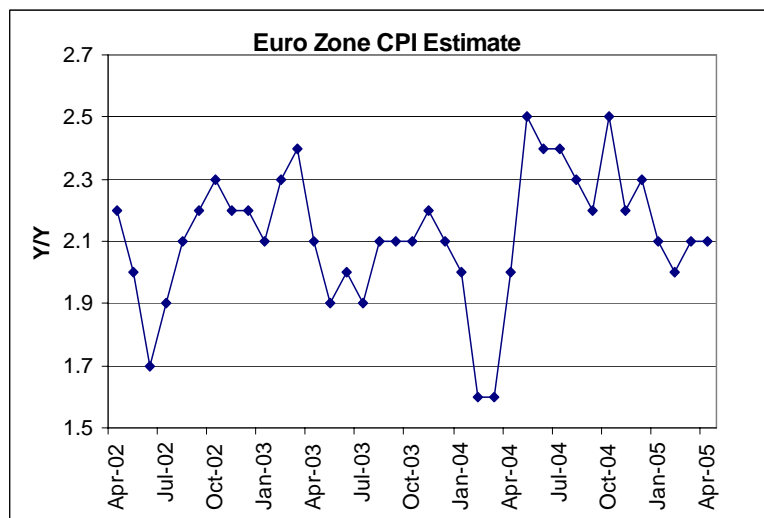
France's March Unemployment Rate rose to its highest in five years, increasing from 10.1% in February to 10.2%. It was the second increase in the past 3 months. The total unemployed increased by 7,000.



Spain's Q1 Unemployment Rate fell from 10.56% in Q4 to 10.2%. The total employed increased by 1.1% Q/Q

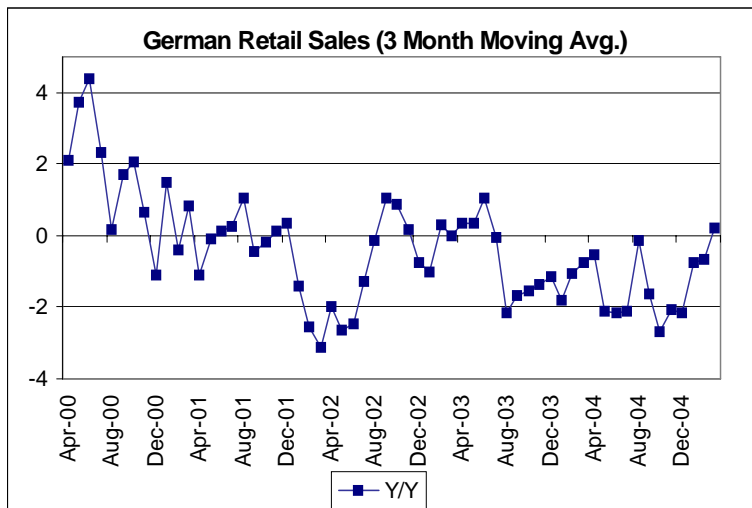


The Euro Zone's April CPI estimate, which attempts to forecast CPI one month in advance, remained unchanged at 2.1%.

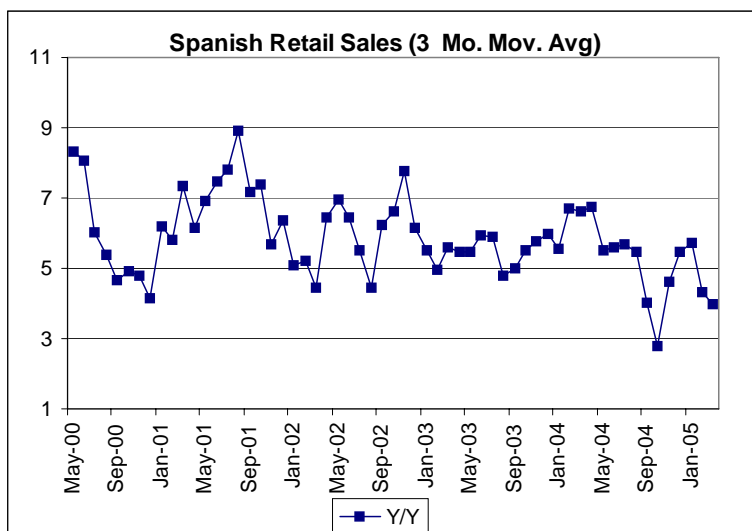


German & Spanish Retail Sales, Italian Business Confidence

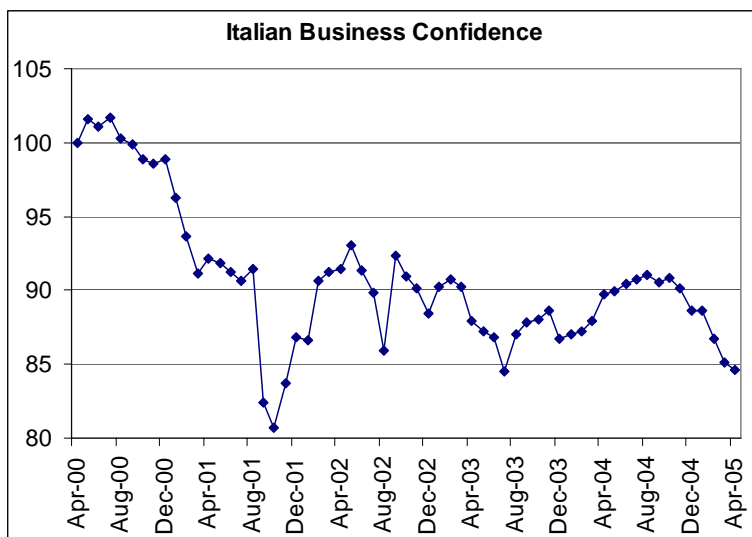
Germany's March Retail Sales remained unchanged both M/M and Y/Y. Expectations were for a 0.9% M/M decrease.



Spain's March Retail Sales increased 10% M/M and 4.6% Y/Y, rebounding from two consecutive months of large M/M declines.

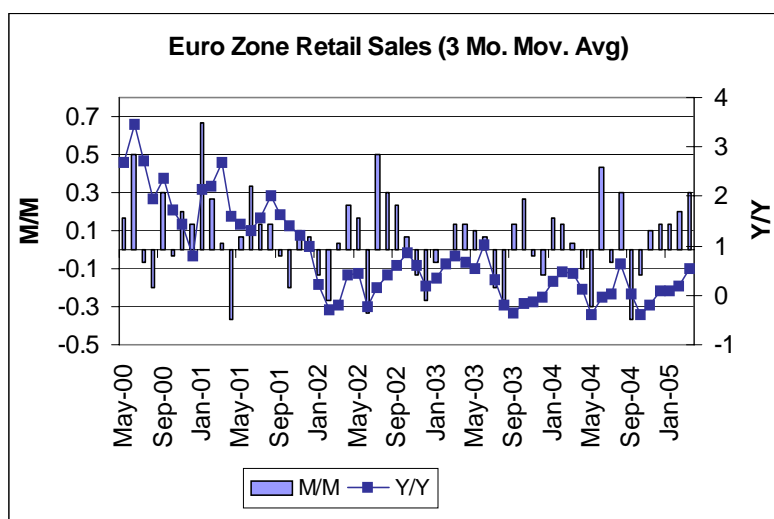


Italy's April Business Confidence fell to a 21 month low, decreasing from 85.1 in March to 84.6. A sub index, measuring future expectations, dropped from -19 to -25, a five year low.



Euro Zone Retail Sales & Euro Zone PMI

The Euro Zone's March Retail Sales increased 0.3% M/M and 1.4% Y/Y. An early Easter is thought to have boosted sales.



The **Euroland's April Manufacturing PMI Index** fell to 49.2 from 50.4 in March. The Output sub-index, so strong much of last year, also fell for the 2nd consecutive month. The **Euroland's April Services PMI Index** also fell, declining from 53.0 in March to 52.8. The Business Expectations index took a large hit, falling from 67.5 to 63.5.

Euro-12 Manufacturing PMI	Apr 2005	Mar	Feb	Jan	Dec	Nov	Oct	Sept	Aug	Jul	Jun
Overall Index	49.2	50.4	51.9	51.9	51.4	50.4	52.4	53.1	53.9	54.7	54.4
Output	50.3	51.6	53.4	53.3	52.3	50.4	54.0	54.8	55.7	57.1	56.0
Employment	47.6	48.8	49.3	48.1	48.3	48.0	49.0	49.5	49.4	49.7	49.4
Input Prices	57.2	57.2	64.8	69.1	69.9	72.1	76.4	71.3	66.6	70.2	70.3

Euro-12 Services PMI	Apr 2005	Mar	Feb	Jan	Dec	Nov	Oct	Sept	Aug	Jul	Jun
Overall Index	52.8	53.0	53.0	53.4	52.6	52.6	53.5	53.3	54.5	55.3	55.3
Employment	50.9	51.0	50.6	50.7	50.6	50.5	50.9	50.6	50.1	49.3	49.9
Input Prices	58.0	57.7	58.4	58.6	58.0	58.9	60.6	58.3	59.9	58.1	58.9
Business Expectations	63.5	67.5	64.3	66.3	63.2	61.4	62.2	63.6	64.6	65.2	64.7

On a country by country level, Germany's April Services PMI fell from 51.8 in March to 51.3 with the Business Expectations sub index falling significantly, France's Service PMI increased from 55.4 in March to 57.7, Spain's Services PMI increased from 50.7 in March to 52.9, and Italy's Service PMI fell the most, decreasing from 52.7 in March to 48.4. The New Business and Business Expectations sub-indices in Italy performed the poorest.

Italian Hourly Wages

*Italy's March
Hourly Wages
increased 0.2% M/M
and 3.5% Y/Y*



News

May 4th – **ECB President, Jean Claude Trichet**, commented on a number of issues after the Bank’s decision to keep rates at 2%:

“We continue to see no significant evidence of a build up of underlying domestic inflationary pressures in the euro area...At the same time, continued vigilance with regard to upside risks to price stability is warranted... recent data and survey indicators are, on balance, on the downside... at the same time, when looking beyond the short term, conditions remain in place for stronger real GDP growth.”

When asked if the bank considered a rate cut:

“I can confirm that there is not a change in this meeting from our previous analysis. We are in a ‘wait and see’ attitude. We are certainly not preparing for any rate cut...The risks to price stability are still there...We trust that our mandate calls for maintaining rates where they are. And if we go where some people are suggesting, we would not get a decrease of rates, we would get an increase. We would be considered as being less credible to deliver price stability over time.”

April 29th – **German and Italy both cut their 2005 economic growth forecasts** after attacking the ECB for not cutting rates. The German government lowered its forecast from 1.6% to 1% while the Italian government lowered its forecast from 2.1% to 1.2%. A day earlier Berlusconi had told the upper house of Parliament in Rome that the ECB’s policy of not cutting rates had been “destructive”. Germany’s Clement added, “The bank’s policy isn’t shaped in a way that would benefit Germany.” Apparently the ECB is the only entity involved that doesn’t desire lower rates.

April 29th – **ECB member, Axel Weber**, stated that the Bank is doing everything it can to boost growth in the euro area. Weber stated, “Monetary conditions are not standing in the way of recovery.” His comments, which reiterated the ECB’s ‘no-rate cuts’ stance, were believed to be in response to the attacks aimed at the ECB’s policy decisions that were made by German and Italian officials. Weber also stated that the responsibility for improving Europe’s long term growth potential rests with politicians, as he urged them to quicken the pace of structural reforms.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/04	Euro Zone Services PMI (APR)	52.6	53.0
05/04	Euro Zone Retail Trade (MAR)	-0.2% M/M	0.2% M/M
05/06	Spanish Industrial Output (MAR)	0.6% Y/Y	-0.5% Y/Y
05/06	German Factory Orders (MAR)	0.1% M/M	-2.1% M/M
05/09	German Industrial Production (MAR)		
05/10	German Exports (MAR)		-3.0% M/M

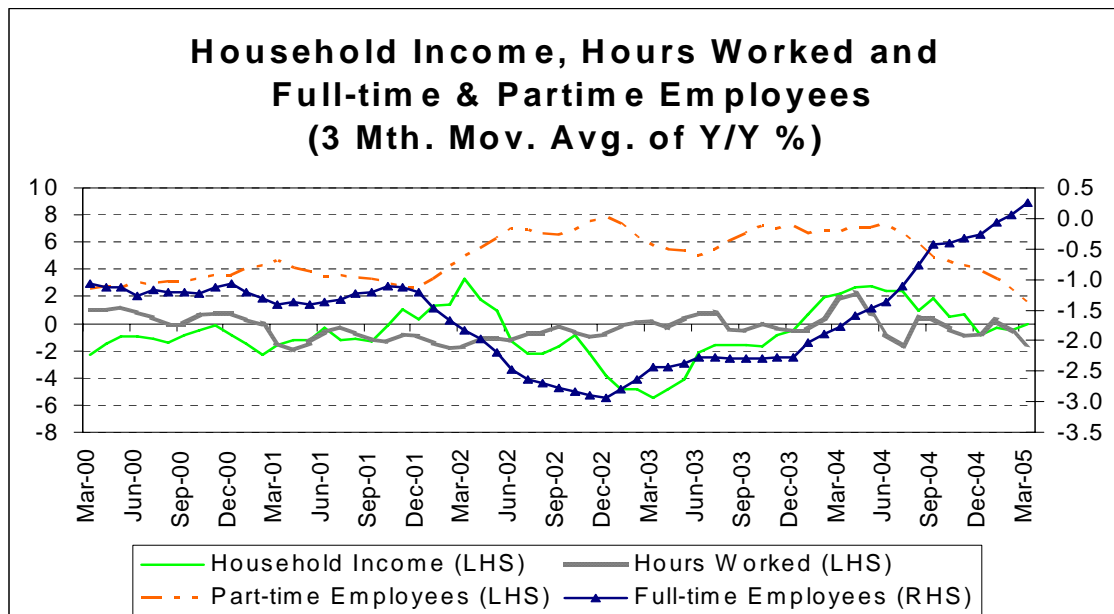
Japan

This week, economic releases in Japan were mixed but slightly more on the soft side. Retail Trade, Labor Cash and Overtime Earnings, Industrial Production and Housing Starts all declined. Meanwhile, we continue to see some signs of improvement in Japan's full-time employment data. Interestingly, instead of what had become the norm of unanimous votes since January 2004 at BoJ Board meetings, the BoJ's members voted by majority for the second consecutive time, to maintain its current monetary policy.

Weekly Highlights

- **Retail Trade** - decreased 0.9% M/M and increased 0.6% Y/Y in March. (page 17)
- **Labor Cash Earnings and Overtime earnings** - decreased 0.6% Y/Y and 0.7% Y/Y, respectively in March. (page 18)
- **Industrial Production** - decreased 0.3% M/M and increased 1.1% Y/Y in March, below expectations. (page 19)
- **Construction Orders** - increased 22.8% Y/Y in March, rebounding from the 14.8% Y/Y decrease in February. (page 19)

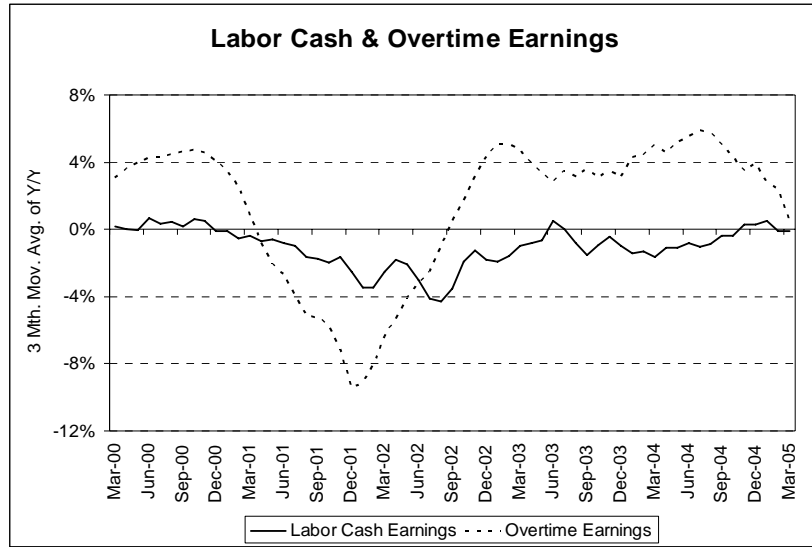
Chart of the Week



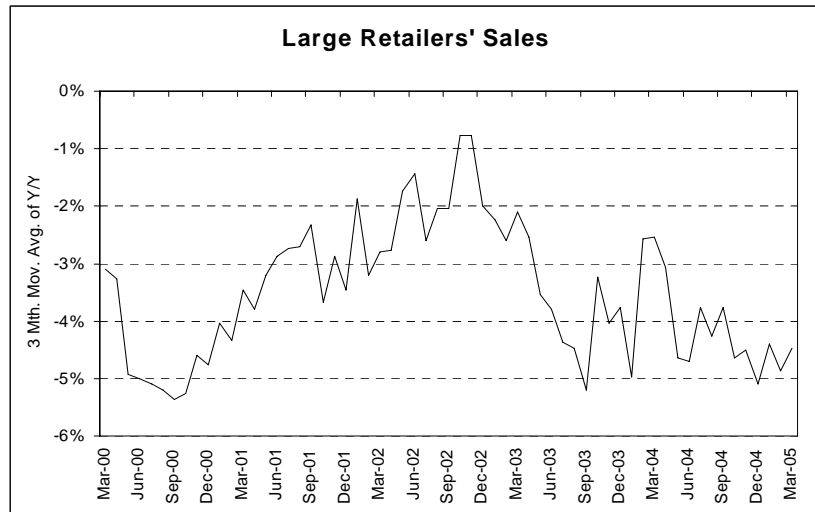
Employment data is firming as growth in full-time workers saw its third consecutive month of increases in March, after posting seven years of decreases. In March, full time employees increased 0.4% Y/Y maintaining its upward trend which started in January of 2003. At the same time, part time employees growth slowed to 0.9% Y/Y, remaining on a downward trend, perhaps as a result of improvements in full-time employees. Meanwhile, Household Income and Hours Worked decreased 1% Y/Y and 3% Y/Y, respectively.

Large Retailers' Sales, Labor Cash and Overtime Earnings & Industrial Production

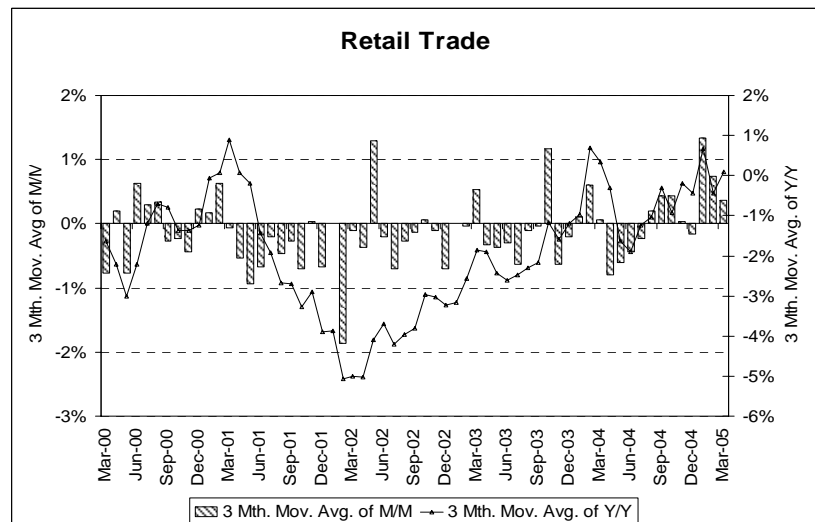
Labor Cash and Overtime Earnings decreased 0.6% Y/Y and 0.7% Y/Y, respectively in March. Increases in full-time versus part-time employment should improve earnings outlook.



Large Retailers' Sales decreased 4.1% Y/Y in March, weaker than expected.

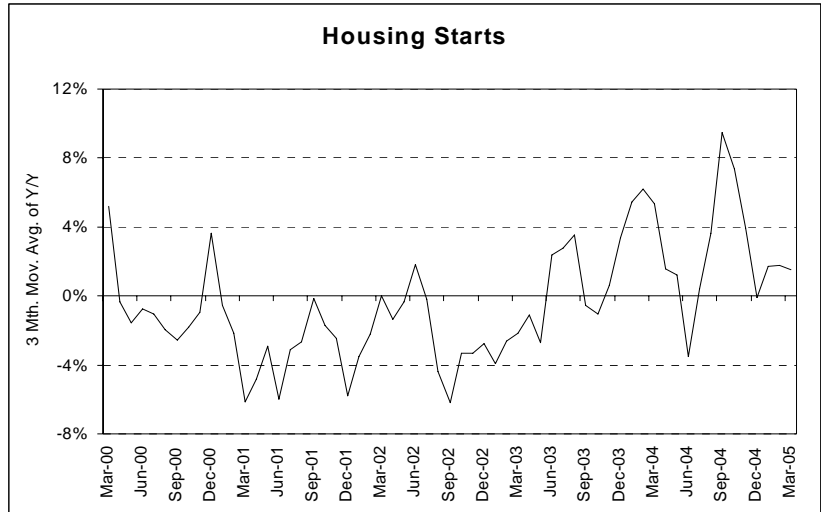


Retail Trade decreased 0.9% M/M and increased 0.6% Y/Y in March. Despite this month's decrease, retail sales have remained firm in trend terms.

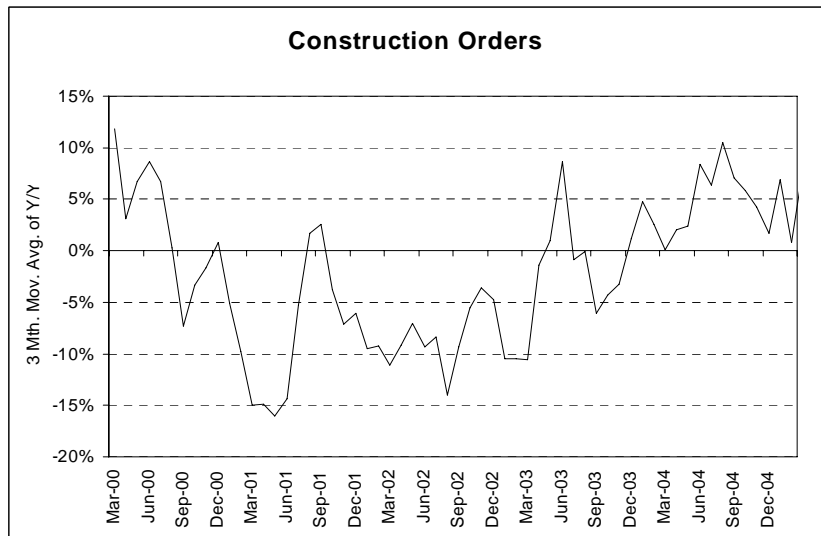


Housing Starts, Construction Orders & Vehicle Production

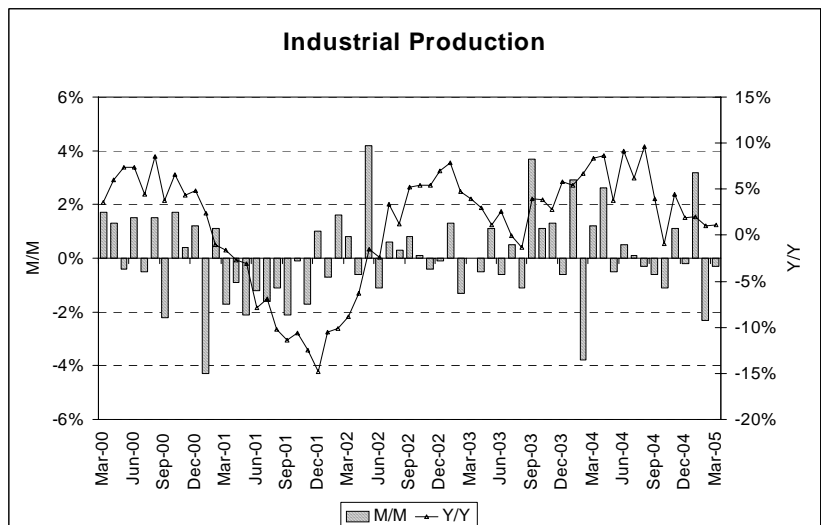
Housing Starts decreased 2.7% Y/Y in March.



Construction Orders increased 22.8% Y/Y in March, rebounding from the 14.8% Y/Y decrease in February. Increases in construction orders bode well for housing starts.

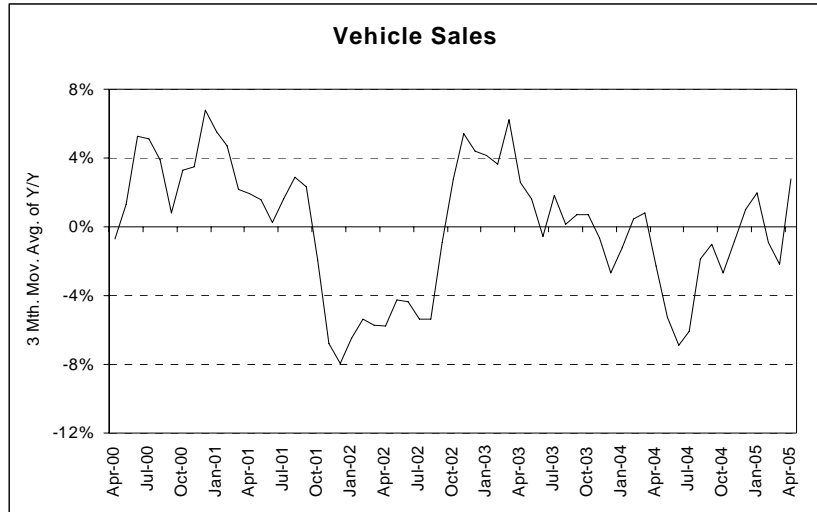


Based on Preliminary figures, Industrial Production decreased 0.3% M/M and increased 1.1% Y/Y in March, below expectations. Shipments increased 0.3% M/M and Inventories decreased 0.2% M/M. According to a government survey, manufacturers forecast that production will increase 3.5% in April and decrease 1.4% in May.

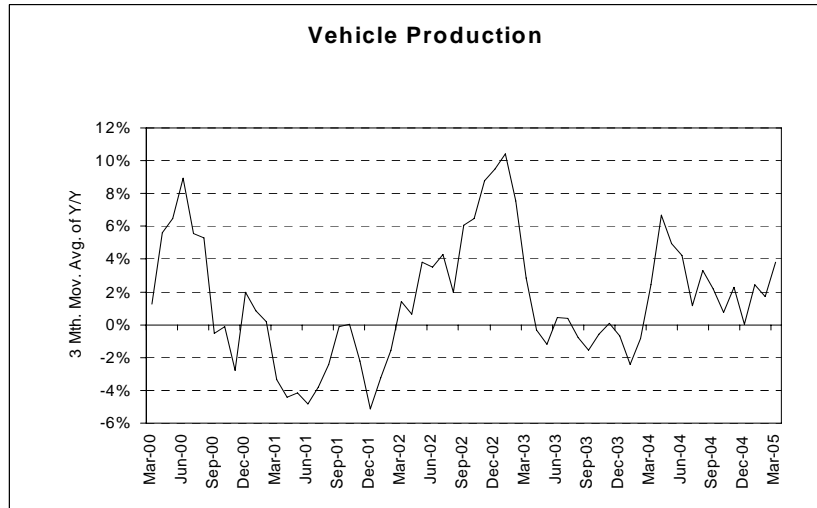


Vehicle Sales

Vehicle Sales increased 10.8% Y/Y in April, remaining on a firm upward trend.



Vehicle Production increased 3% Y/Y in March.



News Briefs

May 3rd- Comments from Finance Minister, Sadakazu Tanigaki :

Finance Minister, Sadakazu Tanigaki, remains optimistic in regards to Japan's economic recovery, commenting that "The recent issue in the Japanese economy was that personal consumption wasn't growing, but recently it's been getting better."

April 29th- Miscalculation in GDP:

According to the Nihon Newspaper, Japan's Cabinet Office announced that the Japanese government miscalculated the nation's gross domestic product since 1997, due to failure of not factoring in 1997's increase in sales taxes. The newspaper also stated that the Cabinet's Offices of Economic and Social Research Institute may have underestimated GDP since it did not factor in the consumption tax rate to 5 % from 3 % when calculating data on imports. Supposedly, the revision of past figures will be released in May, at the same time Q1's preliminary GDP numbers are released.

April 28th- Comments from Governor, Toshihiko Fukui:

In an attempt to explain the word "latitude", contained in its bi-annual price and economic growth outlook, Bank of Japan's Governor, Toshihiko Fukui, stated, "Basically central banks take action in advance, but we won't be wrong even if we act at a slower pace and take a patient stance." Basically, the Bank will like to remain proactive in its monetary decision; however, they do not anticipate hasty decisions.

April 28th-Results from Bank of Japan's Meeting:

The Bank of Japan's policy makers voted by majority (7 – 2) to maintain their current monetary policy to keep the current account between 30 trillion yen (\$283 bn) and 35 trillion yen. The minutes for this meeting will be released on June 30th, 2005.

April 28th – The BoJ's Outlook for Economic Activity and Prices (April 2005)

The Bank of Japan forecast real GDP growth of +1.3% in FY2005 revised downward from a previous forecast of +2.5% to accommodate the change in the change weighted GDP series. Real GDP is then expected to increase to 1.6% in FY2006. Core CPI is expected to decline 0.1% in FY2005 then increase to 0.2% in 2006. The BoJ also outlined three risk factors to their growth and inflation outlook: (1) raw material prices (2) development in the U.S. and Chinese economies and (3) development in domestic private demand.

April 28th - Japan's Exporters Can Remain Profitable with Stronger Yen:

Base on a government survey, Japan's exporters say they can remain profitable providing that the yen doesn't strengthen beyond 102.6 to the dollar, compared to 105.9 breakeven point reported last year. The exchange rate given by exporters this year is the strongest since the Cabinet Office began the survey in 1985. Companies also said that they plan to increase capital spending 4.7% over the next three years.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/09	BoJ Monetary Policy Meeting Minutes		
05/10	Household Spending (Y/Y) (MAR)	0.9%	-3.7%
05/10	Overall Household Spending (M/M) (MAR)		-1.8%
05/11	Leading Economic Index (MAR P)	30.0	18.2
05/11	Coincident Index (MAR P)	66.7	30.0

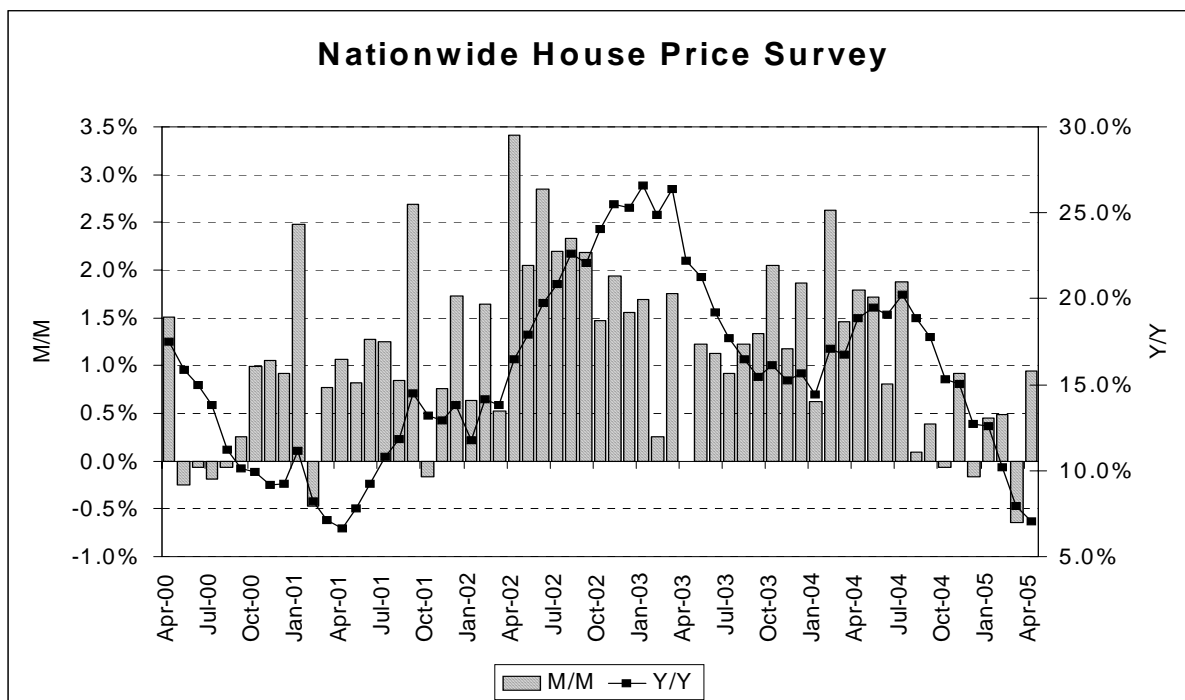
United Kingdom

The housing market continues its deceleration as Y/Y Nationwide House Prices slid for the ninth consecutive month, to 7.0% Y/Y. The sagging housing market and recent layoff announcements (such as at MG Rover) contributed to the weakness in the CBI Retail Sales data for April. In addition, the continued increase in oil prices caused Manufacturing PMI to come in significantly below expectations. This week's data reduces the chances of a near to mid-term rate hike.

Weekly Highlights

- **Nationwide House Prices**- increased 0.9% M/M and 7.0% Y/Y in April. (page 23)
- **CIPS Manufacturing PMI**- slid from 51.6 to 49.2 in April. (page 24)
- **The Confederation of British Industry**- reported that the volume of retail sales decreased from -9 to -14, the most significant fall since July 1992. (page 24)
- **The general election is on Thursday, May 5th** and a poll by the **Financial Times** gives **Labor** a 10-point lead among those certain to vote. (page 24)

Chart of the Week



Nationwide House Prices increased 0.9% M/M and 7.0% Y/Y in April. Y/Y growth has decelerated for nine consecutive months.

Data

PMI Manufacturing

CIPS Manufacturing PMI slid from 51.6 to 49.2 in April, with market expectations being 51.5. The fall below 50 signals contraction and is the weakest level since March 2003. The most significant contractions were in employment, which decreased from 51.6 to 47.3; this was partially attributed to the collapse of MG Rover and new orders, which decreased from 51.8 to 49.2 as the surge in oil prices has dampened global growth.

PMI Construction

CIPS Construction PMI increased from 54.7 to 54.8 in April, the 41st consecutive month of expansion. The construction industry has benefited from a £100 billion (\$190 billion), five-year program of improvements for hospitals, schools and transport systems started by the government in 2001.

CBI Distributive Trades Report

The Confederation of British Industry (CBI) reported that the volume of retail sales decreased from -9 to -14, the most significant fall since July of 1992. Retailers had expected sales to stabilize around +3. CBI is attributing this decline to the recent fall in real disposable incomes, higher fuel and utility bills, reduced activity in the housing market, higher mortgage rates than a year ago and recent lay offs of MG Rover's employees.

Mortgage Approvals

The Bank of England reported that Mortgage Approvals increased 5.8% M/M in March, the fastest pace in seventh months. Meanwhile, approvals for re-mortgages decreased 4.3% M/M.

Election Update

The general election will be held on Thursday, May 5th. A MORI poll by the Financial Times gives Labor a 10-point lead among those certain to vote, with the Conservatives' vote down 5 points from the previous week. Such an outcome would give Labor a 150+ seat majority, similar to what took place in 1997 and 2001. An ICM poll in the Guardian puts Labor 5% ahead in the key 108 Labor-held areas, a result that would give Labor a majority of 70-80 seats. The latest Times/ITV News daily tracker poll shows that Labor is holding on to its strong position, at 41% for a third day in a row. The Conservatives are up one point to 33%, with the Liberal Democrats slipping one point to 19%, and other parties at 7%.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
5/5	PMI Services	56.5	
5/6	MPC Meeting		
5/6	Company Insolvencies		-11.0% Y/Y
5/6	BRC Shop Price Index		
5/9	Producer Prices Input		1.8% M/M 11.4% Y/Y
5/9	Producer Prices Output		0.6% M/M 2.8% Y/Y
5/9	Industrial Production		-0.4% M/M -0.1% Y/Y
5/9	ODPM House Prices		10.5% Y/Y
5/9	MPC Announces Rates	4.75%	4.75%
5/9	NIESR GDP Estimate		0.5% Q/Q
5/9	BRC Retail Sales Monitor		
5/11	Trade Balance		-£2720M
5/11	BoE Quarterly Inflation Report		

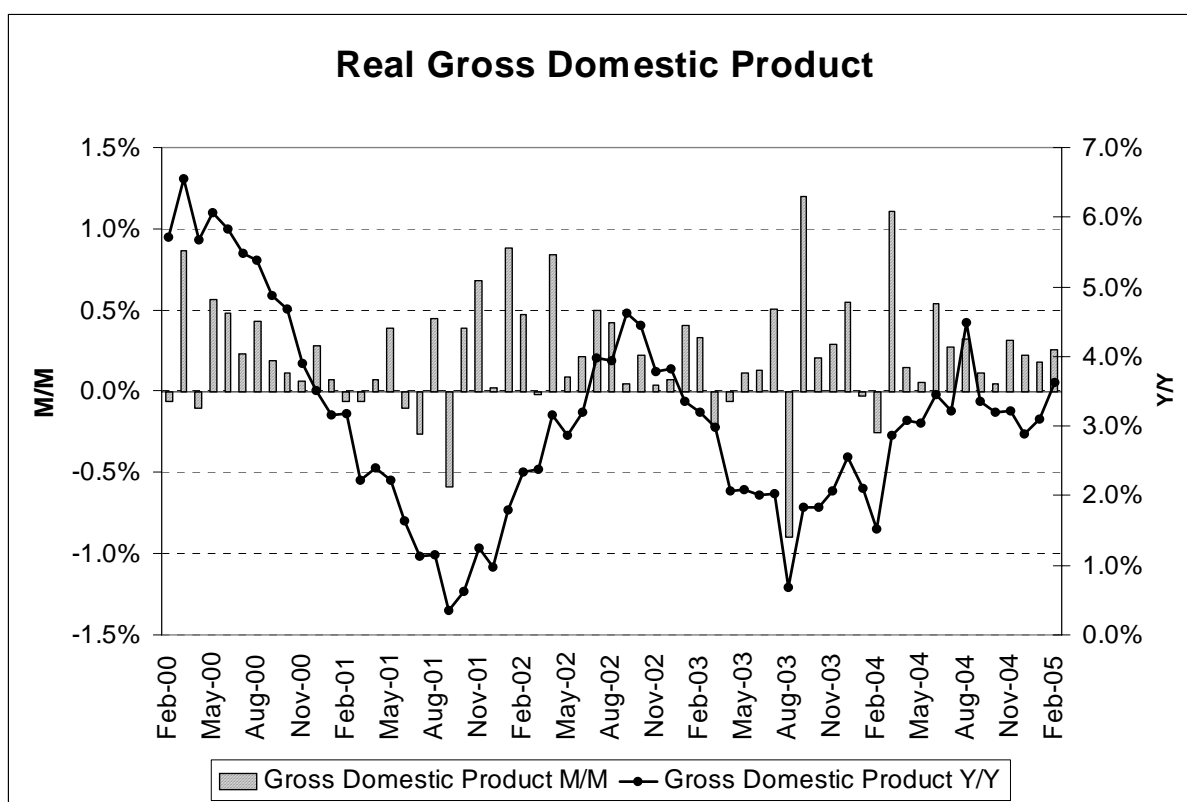
Canada

Recent data from Canada indicates that there's no pressing case for rate hikes from the BoC, although the next move remains higher. GDP growth for February was solid, but not overly strong. Home sales were little changed and continued firm on trend. According to surveys, industrial production is expected to be relatively unchanged in the upcoming months. The most recent election polls suggest that more Canadians are comfortable with a Liberal-NDP government. A call to the polling stations will appear most likely around June.

Weekly Highlights

- **Real GDP** – increased 0.3% M/M and 3.6% Y/Y in February. (page 26)
- **Industrial Product Prices** – increased 0.3% M/M and 2.1% Y/Y in March. (page 27)
- **Election Update** – Liberal Party rises in polls after alliance. (page 29)

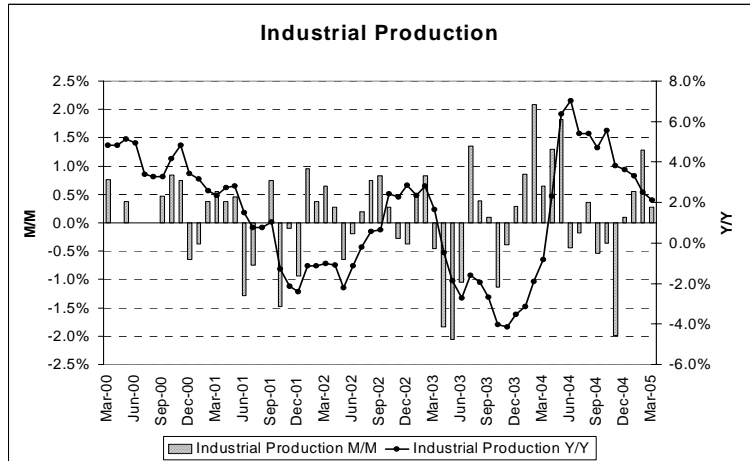
Chart of the Week



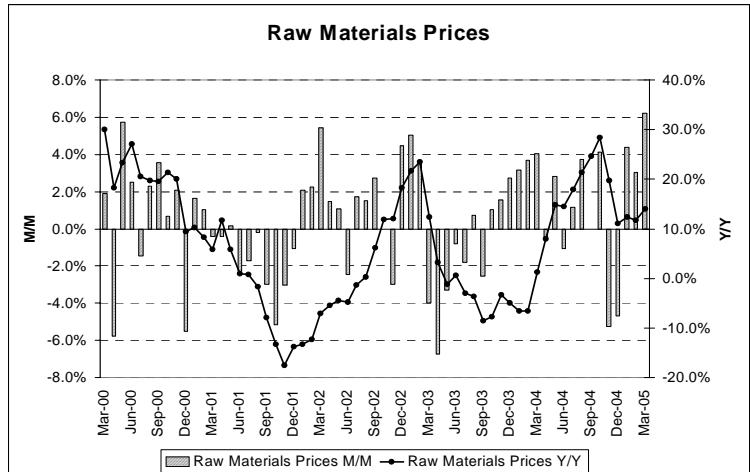
Canada's GDP increased 0.3% M/M and 3.6% Y/Y in February, meeting market expectations. Growth was driven by the retail and wholesale sectors, and was slowed by the mining and quarrying, as well as utility sectors. Retail trade increased 1.7% M/M and 6.2% Y/Y in February, lower than January's 2.3% M/M increase. Wholesale trade rebounded from January's 0.2% M/M decline with a 1.4% M/M increase in February. Construction accelerated from last month's 0.7% M/M decline to a 0.1% M/M and 2.3% Y/Y decline.

Industrial Product Prices, Raw Material Prices & Business Conditions Orders

Industrial Product Prices increased 0.3% M/M and 2.1% Y/Y in March. The increase was driven largely by petroleum and coal. The increase was the fourth consecutive increase and was slower than February's 1.2% M/M increase.



Raw materials Prices increased 6.2% M/M and 14.0% Y/Y in March. The increase was driven by a 10.5% M/M and 31.5% Y/Y increase in mineral fuels.



Industrial Production, Home Sales, Automotive Sales & Budget Surplus

Production to Remain Unchanged

According to a survey conducted by the Canadian government, Canadian factories plan to keep production relatively unchanged for the second consecutive quarter as orders slow. The Business Conditions Index declined from -4.4 pts in Q1 to -6.3 pts in Q2, suggesting that more businesses were pessimistic than optimistic. Production increased from 0 pts in Q1 to 1pt in Q2. Orders declined from -1 to -5 in Q2, unfilled orders declined from -15 in Q1 to -22 in Q2, inventory expectations declined from -14 in Q1 to -23 in Q2, and employment prospects increased from -2 in Q1 to 3 in Q2.

Home Sales Little Changed in March

Canadian home sales experienced minimal changes in March as low mortgage rates and rising employment kept demand near a record high. Prices increased 2.1% M/M and 9.1% Y/Y, to the highest level on record. Sales increased 0.2% M/M, slowing from February's 3.3% M/M increase. Sales were categorized as being "remarkably strong" by Gregory Klump, Senior Economist of the CREA. He also commented that "Sales are returning to more normal levels," and that "For the next six months ...resale housing activity (will) remain very near current levels."

Automotive Manufacturer's Experience Second Best in April

Auto sales increased 4.0% M/M in April due to increased sales of cars and light trucks from manufacturers such as Toyota and Ford. The increase represented the second best performing April ever, according to DesRosiers Automotive Consultants Inc, which conducted the research.

Budget Surplus Widens in February

Canada's budget surplus widened from \$3.84 billion in February 2004 to \$5.82 billion in February 2005 as an expanding economy boosted tax revenue. Prime Minister, Paul Martin, stated last week that he expects balanced budgets over the next two years, even after adding \$4.6 billion in spending to maintain power.

TD Banks Housing Bubble & Election Update

TD Banks – Housing Bubble Myth

According to a TD Banks paper on the Housing Bubble Myth, fears of a housing bubble are overblown. According to the report, price increases are not being driven by speculative buying, and concerns are exaggerated about the weight of debt owed by homeowners, the rapidity of condominium construction, and the possibility of a future market crash as empty-nest baby boomers rush to sell their homes. “Canada’s red-hot housing market is on a solid foundation because there is very little evidence of speculative activity,” commented TD economist, Carl Gomez.

The study did foresee a modest cooling of the housing market, and notes that some of the bubble worry in Canada is an echo from the U.S., Britain and Australia, where bubbles are already deflating. The report also stated that most homeowners would not be badly hurt if interest rates increased, adding that a large increase in borrowing costs was not likely.

Election Update

According to a Conservative Party spokesman, Prime Minister, Paul Martin’s decision to increase spending to win the support of the socialist New Democratic Party may not prevent early elections. The new spending was also described as “irresponsible,” by Conservative Party leader Stephen Harper, who also promised to vote against the new budget. Conservatives would need the support of the BloC Quebecois party to change the government or prevent the new budget from passing.

Many economists believe that should a no-confidence vote be called, the C\$’s recent decline will continue. While votes of no confidence may be called for as soon as May 18th, the Liberal party is trying to delay the vote until at least June. Recent polls also suggest that Canadians are more comfortable with the Liberal-NDP alliance than the Conservative-Bloc Quebecois alliance.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/05	Building Permits (Mar)	-4.0%	13.5%
	Ivey PMI (Apr)	57.0	63.7
05/06	Unemployment Rate (Apr)	6.9%	6.9%
	Net Change in Employment (Apr)	17.0K	4.4K
05/09	Housing Starts (Apr)	225.0K	218.5K
05/10	New Housing Price Index (Mar)	0.3%	0.3%
05/11	Int'l Merchandise Trade (Mar)	\$5.0B	\$4.8B
05/12	New Motor Vehicle Sales (Mar)	-7.0%	12.8%

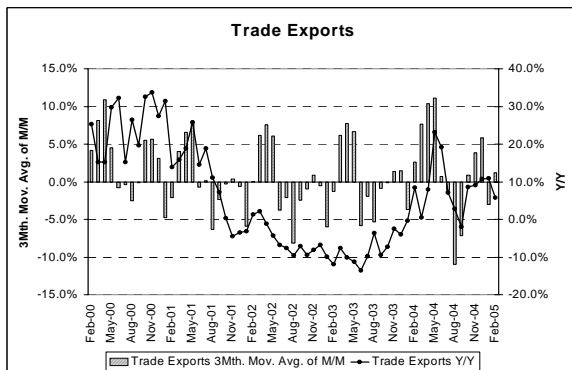
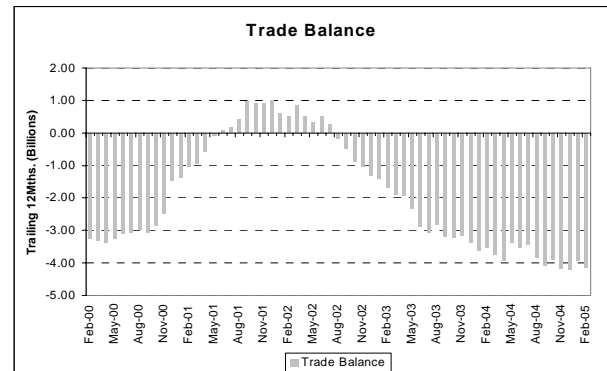
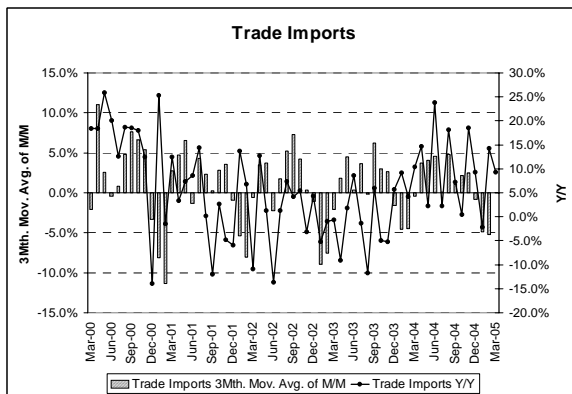
New Zealand

This week the RBNZ decided to leave its overnight rate unchanged at 6.75% and warned that future rate hikes could not be counted out. The Trade Balance widened more than economists anticipated while building permits increased above expectations as well; both suggest that domestic demand continues strong. It is likely that the RBNZ will be keeping its tightening bias through the year.

Weekly Highlights

- **Trade Balance** – widened from \$112.2 million to \$192.2 million in March. (page 31)
- **Building Permits** – increased 6.6% M/M and 0.5% Y/Y in March (page 32)
- **RBNZ** – left the official overnight rate unchanged at 6.75%. (page 32)

Chart of the Week

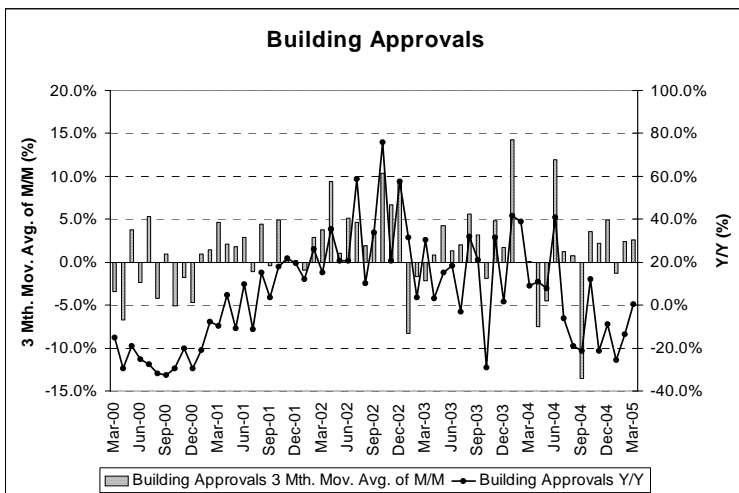


The New Zealand trade deficit widened from \$112.2 million in February to \$192.2 million in March, significantly below market forecasts for a \$50.0 million trade surplus. Exports increased 5.5% M/M and Imports increased 8.2% M/M. The imports data suggests that domestic demand remains robust and a solid driver of economic growth. Export data was on the softer side however, as the 0.5% Y/Y gain was the smallest in six months. The export

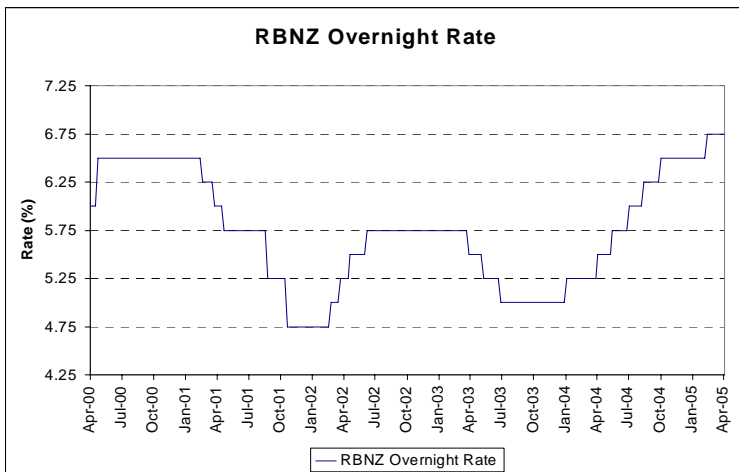
figure is only an estimate however, and will be updated on May 9th. As a whole, this data supports the RBNZ's view that rates are more likely to go up than down from here.

Building Approvals & RBNZ Comments

Building approvals in New Zealand increased 6.6% M/M and 0.5% Y/Y in March. The increase was largely due to apartments as ex-apartment building approvals declined 3.9% M/M and 13.8% Y/Y. The increase was the third in fourth months, however, and reinforces views that the RBNZ is likely to maintain its tightening bias through the year.



The RBNZ left its overnight rate unchanged at 6.75% on April 27th and commented that a rate increase in the future may be necessary. “Underlying demand and inflation pressures remain strong,” the RBNZ stated, also stating “In this environment, further policy tightening cannot be ruled out.”



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/05	Labor Cost (Private Sector) (Q1)	0.7%	0.7%
05/08	Revised Trade Balance (Mar)	N/A	-192.2 M

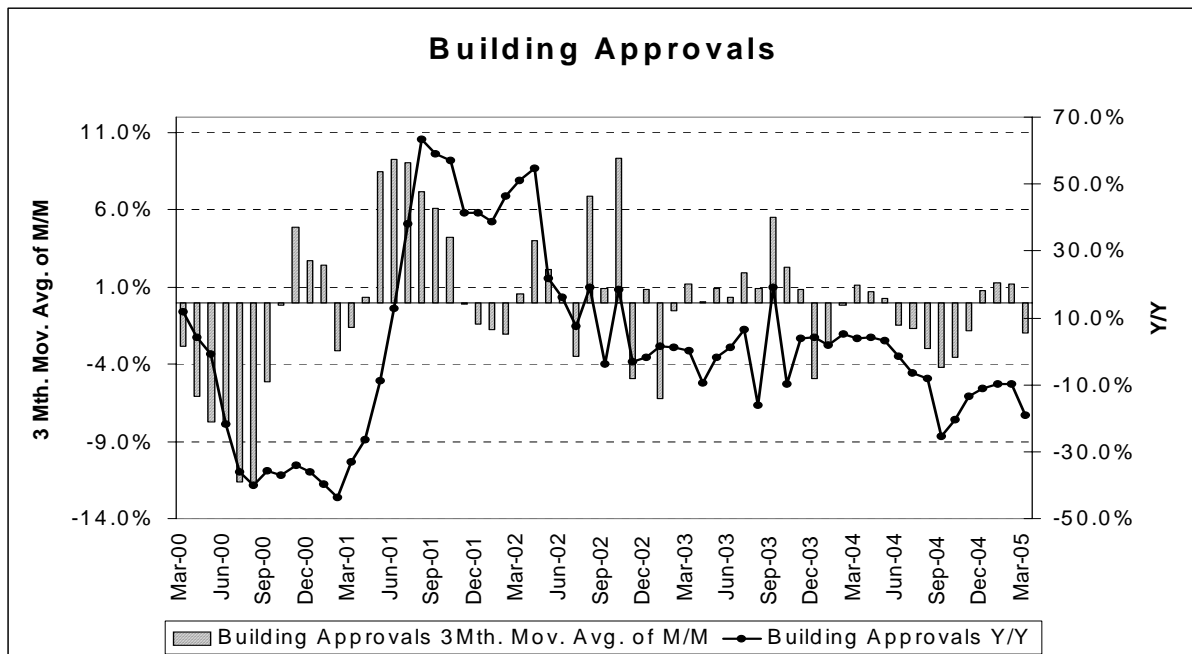
Australia

Recent data from Australia has further reduced the likelihood of another rate increase from the RBA this year. Building Approvals in March declined more than anticipated and Retail Sales growth stalled in the month, both suggesting that the domestic economy is cooling since the last rate increase in March.

Weekly Highlights

- **Building Approvals** – declined 6.8% M/M and 19.1% Y/Y in March. (page 34)
- **Retail Sales** – unchanged M/M and increased 1.5% Y/Y in March. (page 35)
- **RBA**– rates left unchanged. (page 35)

Chart of the Week

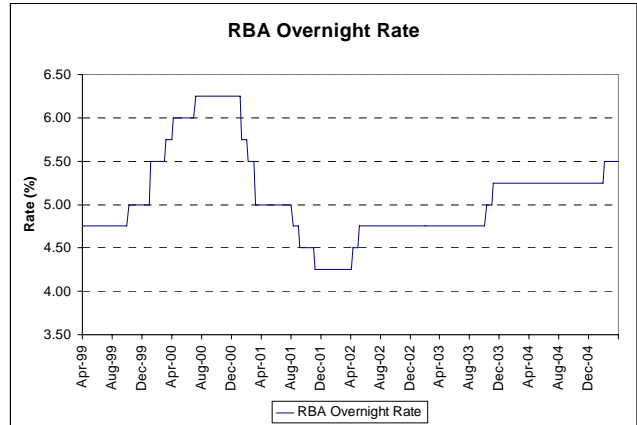


Building approvals declined 6.8% M/M and 19.1% Y/Y in March, below expectations of unchanged growth in the month. The decline came on an 8.7% M/M decline in Private Dwellings. The decline brings Building Approvals to the lowest level in almost four years and reinforces views that the RBA will refrain from increasing its overnight rate again this year.

RBA Leaves Rates Unchanged & Retail Sales

RBA Leaves Overnight Rate Unchanged

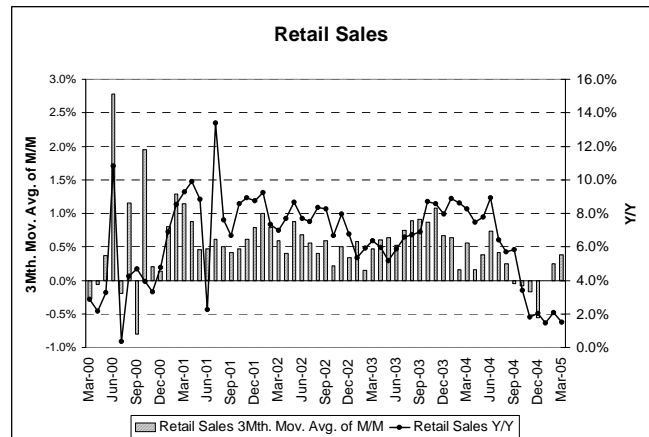
The RBA at its May 3rd meeting decided to leave its overnight rate unchanged at 5.50%. Most economists expected this decision as consumer confidence and domestic demand slowed since the RBA's 25bp increase on March 2nd.



Retail Sales Stall in March

Australian retail sales unexpectedly stalled in March, increasing 1.5% Y/Y. The lack of growth followed a 0.6% M/M increase in February and was below market expectations for a 0.3% M/M increase. Details were mixed as department stores and clothing and recreational goods saw solid gains while hospitality services and recreational goods saw declines.

Overall, this data suggests domestic demand is slowing following March's rate increase and supports views that the RBA can afford to remain on hold for some time before raising rates again.



RBA Credit to Consumers Decelerates in March

Credit given to business and consumers slowed in March according to data released by the Reserve Bank of Australia. Total credit increased 0.8% M/M and 12.9% Y/Y, lower than the 1.0% M/M increase in February. The increase was largely driven by a 1.0% increase in housing, which was as much as it was in February, but a little less than the 1.1% increases in January and December. Business credit increased 0.4% M/M in March, less than the 1.0% M/M increase in February and the 1.1% M/M increase in January. This data suggests domestic demand has not been stronger in recent months and lends credence to views that additional rate increases from the RBA may be unnecessary.

Manufacturing Remained Near A 3Yr Low in March

The AIG Performance of Manufacturing Index, which measures Australian manufacturing and production, remained near its lowest level of activity in three years in April. The Manufacturing Index increased from 52.6 points in March to 52.9 points in April. The data marks a decline from 58.5 points last April to the current 52.9 points. The Survey's Job Index declined from 51.5 points in March to 51.2 points in April as clothing and footwear manufacturers fired workers.

Services Industries Performance Unchanged in April

The AIG Performance of Services Index, which measures sales, inventories and hiring in Australian service industries, was unchanged in April as a decline in jobs offset a rise in sales. The Overall Services Index remained at 51.4 while the Sales Index increased from 49.3 to 50.6 in April and the Jobs Index declined from 53.0 to 52.0.

The Chief Executive of AIG, the group that conducted the survey, commented "While the services sector growth appears to have steadied in the past two months, it remains significantly weaker than in the second half of 2004."

TD Securities Survey - April CPI Increases, but Contained

According to the TD Securities Experimental Inflation Index, the inflation gauge increased 0.2% M/M and 2.5% Y/Y in April due to an increase in the costs of health services and gasoline. The index, which excludes gasoline, fruits and vegetables in an effort to measure core inflation, was unchanged from March, but increased 2.3% Y/Y. The Y/Y increases suggest that inflation is well contained and in the heart of the RBA's 2-3% target range. The data, particularly core inflation data, supports views that the RBA will leave rates unchanged through the year.

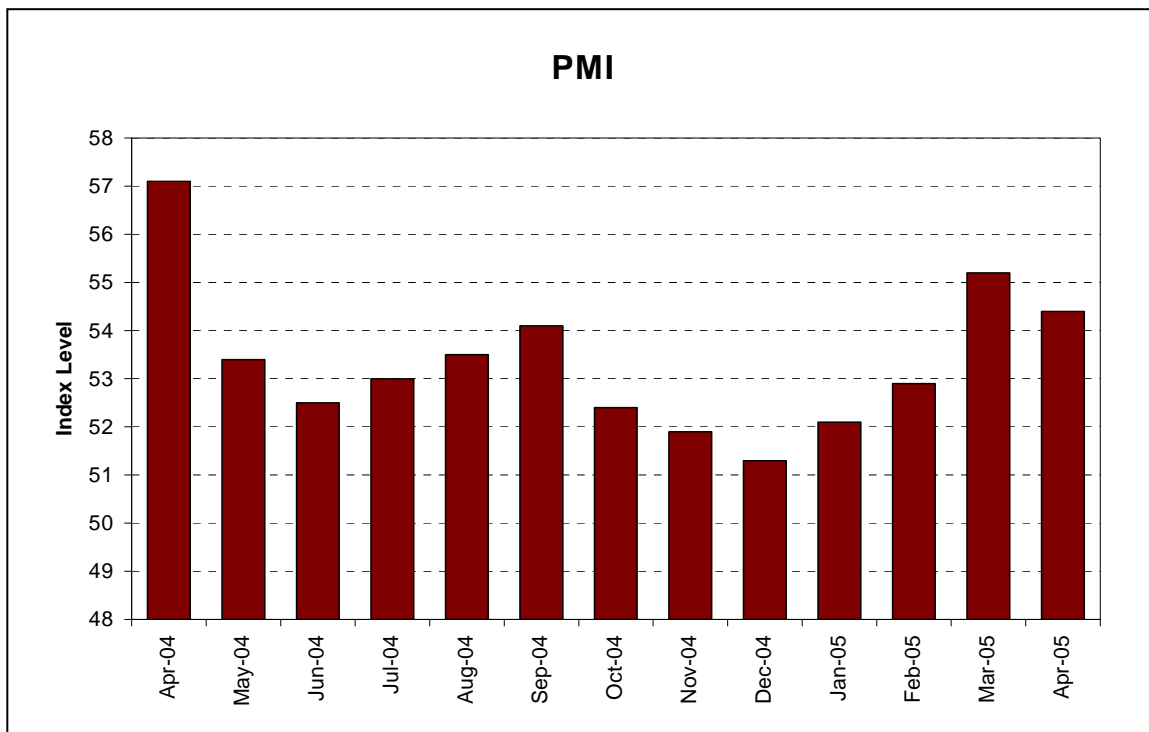
Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/04	Cash card April Index	N/A	N/A
05/05	RBA Monetary Policy Statement	N/A	N/A
05/08	ANZ Job Advertisements (APR)	N/A	-4.6%
05/10	Federal Government Budget	N/A	N/A
	Home Loans (MAR)	N/A	3.7%

China

China's Manufacturing PMI decreased from 55.2 in March to 54.4 in April. Meanwhile, China continues to face pressure from the U.S. and other countries to float its currency. However, the People's Bank of China has held firm that they are not ready to move on the currency. "As far as we know, there's no adjustment expected in the yuan exchange rate," Bai Li, Spokesman for the PBoC recently commented.

Chart of the Week



The Manufacturing PMI decreased from 55.2 in March to 54.4 in April. The index decreased in nine out of the eleven components as supply deliveries and stocks of purchases were the only two components that posted increases. The following page has a breakdown of the PMI Survey.

PMI Survey Results

Manufacturing PMI employment fell by one point, while new orders fell but remain notably higher than H2 2004 levels, and finished goods decreased by a narrow margin from 47.8 to 47.5. Meanwhile, input prices decreased by 2 points. Additionally, supplier deliveries and stocks of purchases both increased. All in all, the results of the PMI survey were softer but the absolute level remains firm.

	Apr 2005	Mar 2005	Feb 2005	Jan 2005	Dec 2004	Nov 2004	Oct 2004	Sept 2004	Aug 2004	July 2004	June 2004
Seasonally Adjusted Index											
PMI	54.4	55.2	52.9	52.1	51.3	51.9	52.4	54.1	53.5	53.0	52.5
Output	56.1	56.6	54.6	53.9	53.2	54.5	55.1	56.4	55.6	55.5	55.1
New orders	58.0	59.4	55.5	54.9	53.0	53.7	54.1	56.9	55.3	54.6	54.5
New export orders	57.1	58.6	54.8	55.6	55.1	56.0	54.1	56.6	59.4	59.9	57.0
Backlog of work	59.2	61.6	56.8	56.9	54.0	55.9	55.3	56.9	56.2	54.0	55.1
Finished goods	47.5	47.8	49.4	49.0	46.9	48.9	48.3	46.6	48.2	49.8	48.7
Employment	50.4	51.5	50.2	49.5	49.2	49.8	49.9	50.7	51.0	51.2	50.4
Output prices	54.1	56.0	51.7	49.5	50.1	54.2	55.0	57.9	56.2	51.8	50.3
Input prices	69.2	71.3	59.6	56.0	59.1	64.0	71.8	74.0	71.7	62.4	56.2
Supplier deliveries	48.2	47.3	48.8	49.0	48.8	48.7	46.9	46.5	45.1	47.1	46.6
Quan. of purchases	56.9	57.4	55.0	54.6	52.5	53.8	54.7	58.1	57.3	55.6	55.1
Stocks of purchases	50.8	50.4	48.4	46.6	45.1	45.8	44.9	47.2	46.0	45.6	43.2

News/Data/Commentary

April 30th – No Yuan Revaluation Planned – The Central Bank says that China has no intention of revaluing its currency -- at least not yet. The Dow Jones Newswires cited Bai Li, Spokesman for the PBoC, as saying that “As far as we know, there's no adjustment expected in the yuan exchange rate.” This announcement was made after rumors of the bank's intention to revalue the yuan, during the upcoming Labor Day holiday, were circulated. The Chinese have continued to stand firm on their position and have declined to set a timeframe, even after on-going pressure from U.S. Treasury Secretary, John Snow, who insists that “they're ready” and “now is the time for them to move.”

April 28th - Trade Surplus May Drop in 2005 – China's Trade Ministry forecasts that its surplus may decline from \$32 bln in 2004 to \$31 bln this year. The Ministry attributes the decrease to rising energy costs and restrictions placed on trade from the U.S. and Europe. Exports and imports are also expected to increase a combined 15.0%; with exports outweighing imports by \$31 bln.

April 28th - China Is Ready for More Flexible Exchange Rate – The China Securities Journal reported, citing unidentified experts, that China has come up with measures to undertake a more flexible rate and may allow the rate to swing “several percentage points.” The Journal added that China is making strides toward this change by “strengthening its banks,” speeding up the development of its foreign exchange market and “liberalizing” rates.

Key Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/08-14	Ttl Export (Ind) – Y/Y – Apr	--	--
05/08-14	Ttl Import (Ind) – Y/Y – Apr	--	--
05/08-14	Trade Surplus in US\$ Billion - Apr	--	--
05/10-16	Money Supply – M1 (Y/Y) - Apr	--	--
05/10-16	Money Supply – M2 (Y/Y) - Apr	--	--
05/10-15	Retail Sales Value Accumu (Y/Y) - Apr	--	--
05/10-15	Retail Sales Value Indiv (Y/Y) - Apr	--	--
05/10-16	Money Supply – M0 (Y/Y) - Apr	--	--

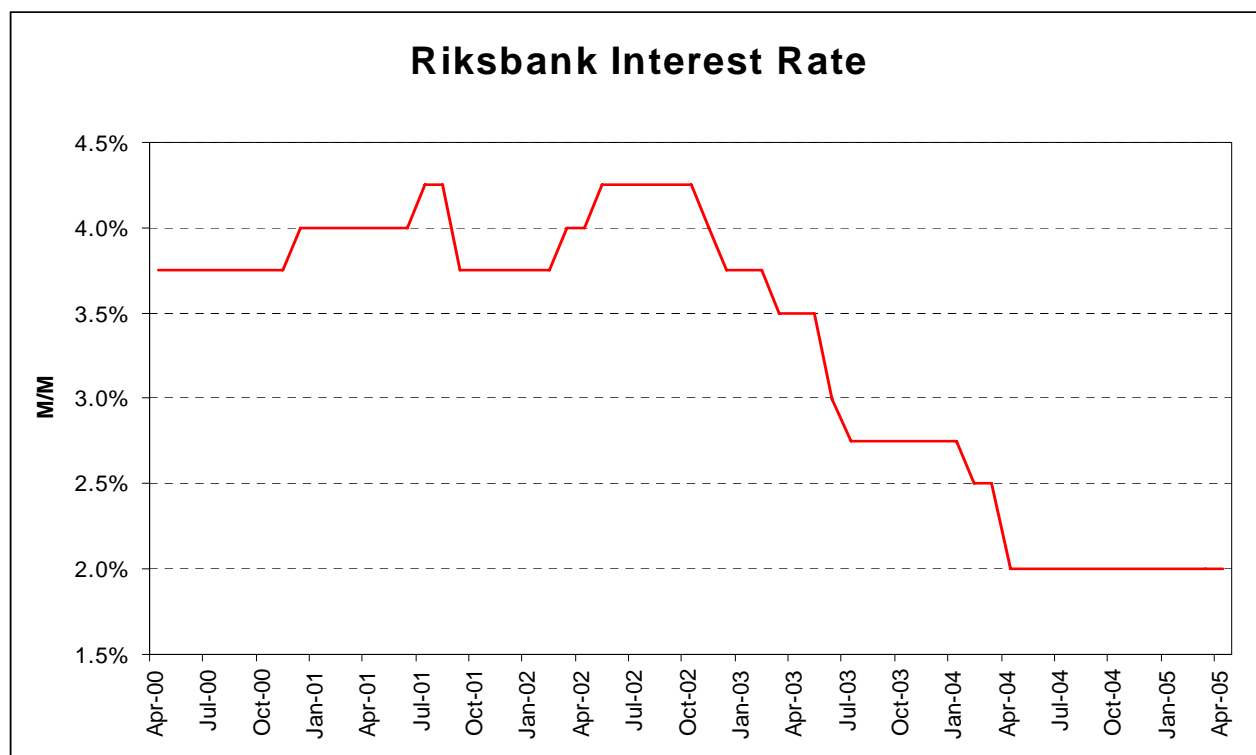
Sweden

Recent economic data continues to show signs of weakness in Sweden's economy. However, the Central Bank stood firm on its decision to leave its rates unchanged for a 9th consecutive meeting, discounting pressures to ease. Additionally, to reflect the sluggish economy, the Bank stated it would likely reduce its growth forecast of 3.2% for 2005 and 2006.

Weekly Highlights

- **Riksbank Interest Rate** – left unchanged at 2.0%. (page 42)

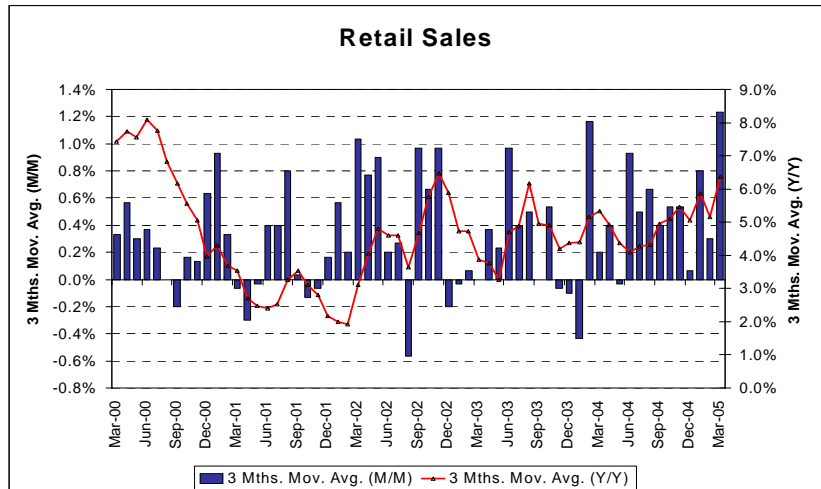
Chart of the Week



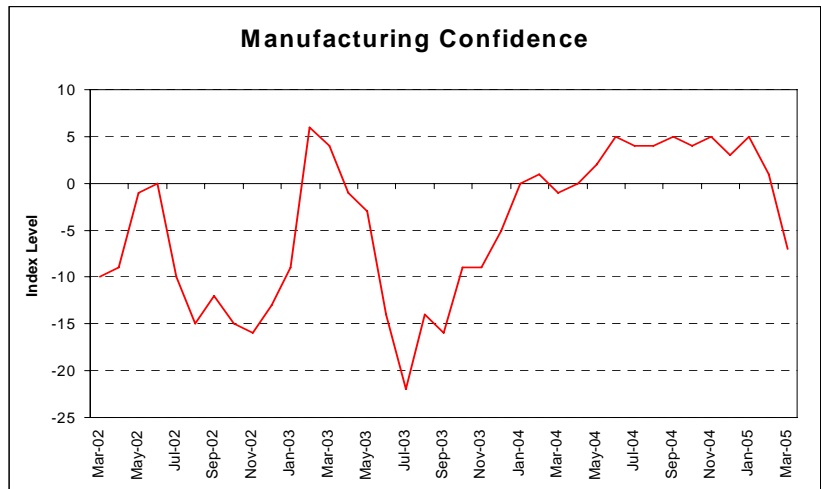
The Riksbank left its overnight rate unchanged at a cycle low of 2.0% for the ninth consecutive month, despite repeated appeals from Prime Minister, Goeran Persson, and other political heads to lower borrowing costs to generate employment. Central Bank Governor, Lars Heikensten, however, maintains that reducing borrowing costs may stimulate borrowing and set off a house price bubble. According to Finance Minister, Paer Nuder, inflation is expected to be 0.7 % this year and 1.5% in 2006.

Retail Sales, Manufacturing Confidence & Consumer Confidence

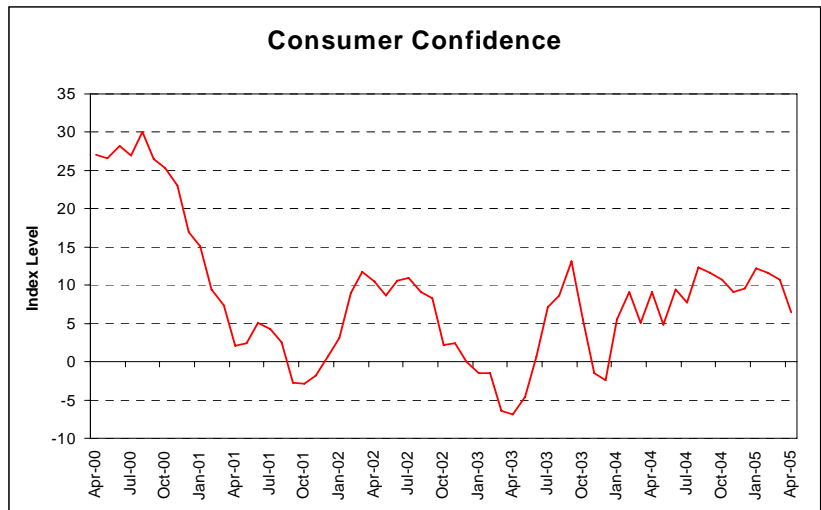
Retail Sales surged 1.6% M/M and 8.0% Y/Y in March, as record-low interest rates bolstered consumer spending. This increase was above expectations of a 0.3% M/M and 5.0 Y/Y gain.



Manufacturing Confidence fell considerably from 3.0 in Q4 of 2004 to -9.0 in Q1 of 2005.

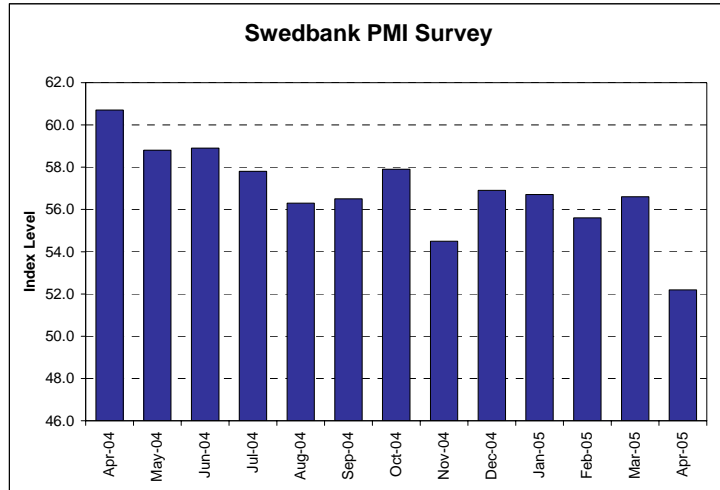


Consumer Confidence dropped from 10.7 in March to 6.5 in April, its lowest level since May of 2004.



Swedbank PMI Survey

Sweden's PMI fell from 56.6 in March to 52.2 in April, lower than expected. The decline was partly a result of falling export orders, while domestic market orders remained at a stand still. The New Order and Employment indices also attributed to the PMI's overall decline by falling to 50.7 and 50.1, respectively.



Key Dates This Week

April 29th - Growth Forecast May Be Cut for 2005 and 2006 – The Riksbank is said to be considering a cut in its growth forecast since the Swedish economy is progressing at a lower-than-expected pace. At its recent meeting on April 28th, the Central Bank maintained its record-low 2.0% interest rate for the ninth straight month and said it expects to make a “marginal” cut in its economic growth forecast of 3.2% for 2005 and 2006. The Bank added that exports and industrial production are increasing slower than normal and the activity should be closely monitored to determine whether it will be “temporary or more persistent.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/09	Swedish Budget Deficit – Apr	--	19.6B
05/10	Industrial Production s.a. (M/M) - Mar	--	1.6%
05/10	Industrial Production n.s.a. (Y/Y) - Mar	--	2.9%
05/10	Industrial Orders s.a. (M/M) - Mar	--	1.8%
05/10	Industrial Orders n.s.a. (Y/Y) - Mar	--	5.6%
05/10	Activity Index Level – Mar	--	109.2
05/11	AMS Unemployment Rate – Apr	--	5.3%

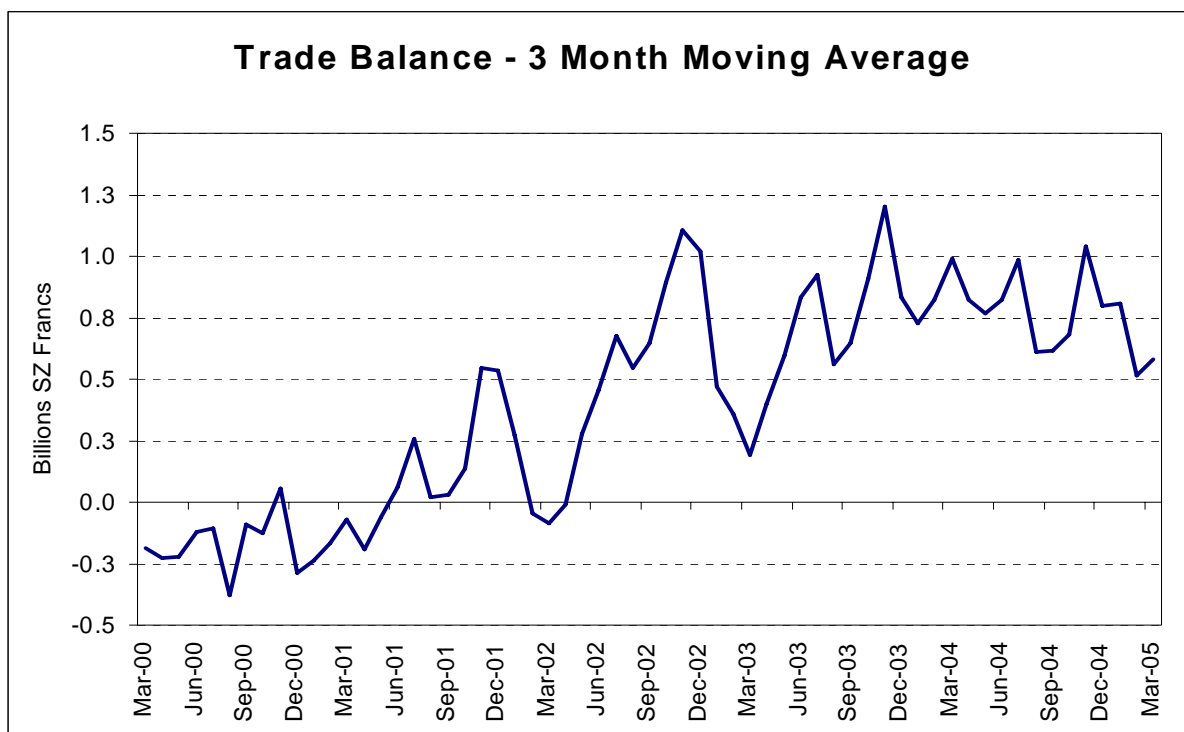
Switzerland

The economic recovery continues to show signs of losing momentum with this year's more than 30% surge in oil prices crimping corporate profits and leaving consumers with less money to spend. Since core inflation has remained low, investors expect the Central Bank to keep its key rate at 0.75 % at least until the end of the third quarter.

Weekly Highlights

- **Trade Balance** – the surplus rose to 324.6 million Swiss francs from 304.1 million in February. (page 47)
- **KOF Leading Indicator** - fell to 0.52 from a revised 0.53 in March. (Page 48)
- **SVME Purchasing Managers Index** - unchanged from a revised 52.8 in March. (Page 48)
- **CPI** – rose 0.8% from March and 1.4% Y/Y. (Page 48)

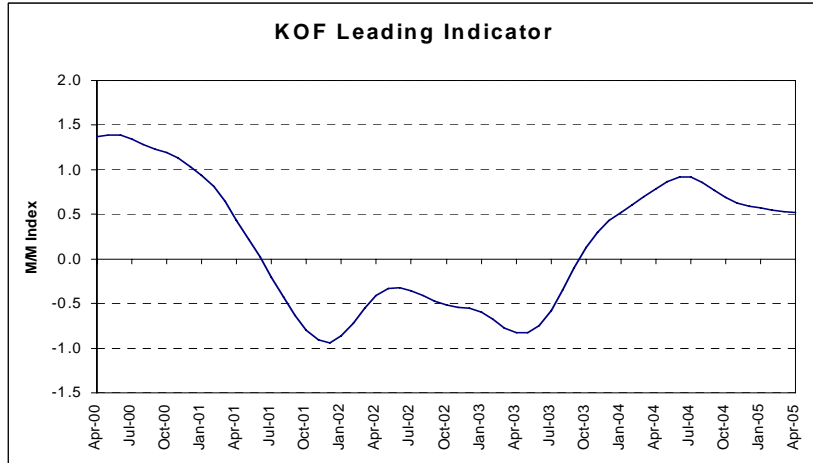
Chart of the Week



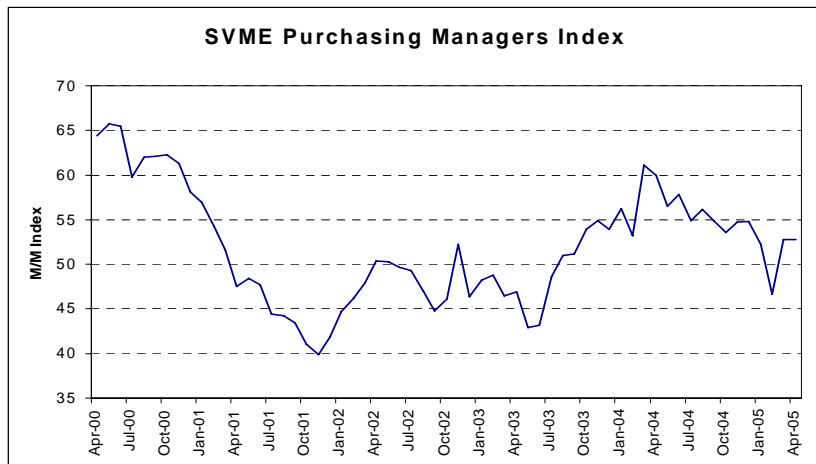
Switzerland's trade surplus widened in March for the second month in three as imports of chemicals, textiles and aircraft fell. The surplus rose to 324.6 million Swiss francs (\$276 million) from 304.1 million in February. March imports declined 5.4% and exports fell 2.4 % from a year earlier.

KOF Leading Indicator, SVME & CPI

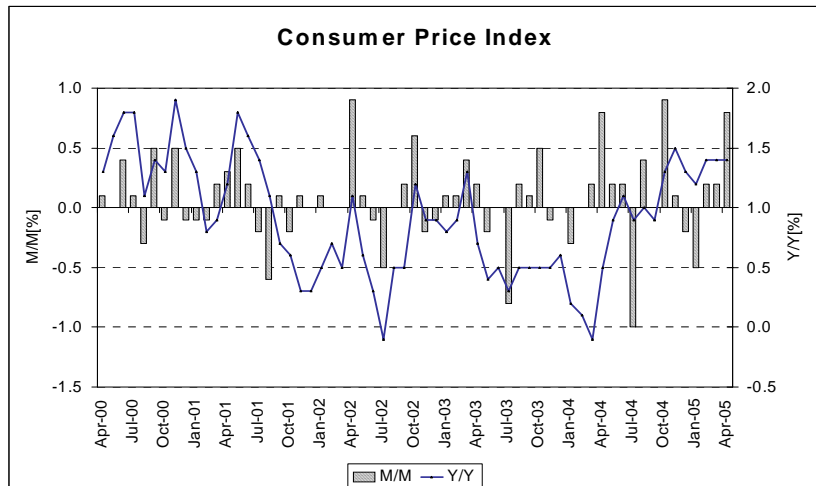
The monthly aggregate of indicators fell to 0.52 from a revised 0.53 (previously 0.50) in March, the lowest since January.



The SVME index, which measures executives' perceptions of manufacturing, was unchanged from a revised 52.8 (previously reported 52.1) in March.



Swiss Consumer Prices rose 0.8%, the most in six months led by higher costs for clothes and shoes after retailers ended seasonal discounting. The annual rate of growth was 1.4%. Core Inflation rose 0.9% m/m and 0.7% y/y.



Comments

Swiss National Bank President Jean-Pierre Roth (April 29):

“The country's economy is well placed to profit from a global recovery. Business activity has fallen off slightly since the autumn, but should slowly gain momentum again in the next few months. Normalization of the monetary situation should go hand-in-hand with an economic normalization to ensure that price stability is maintained. The current benchmark rate reflects the fact we are still pursuing an expansionary monetary policy' and that our rates are relatively low.”

SNB's Chief Economist Mr.Hildebrand:

“The market expects that there will be practically no relief with oil prices in the next five, six years.”

Daniel Bloesch, an economist at KOF economic research institute:

On KOF's latest indicators:

“We've been observing a weakening in the economic barometer. This weakening has now slowed and we interpret that to mean that the slowdown in economic growth in Switzerland should come to a stop at the end of summer or in August.”

On prospects for Swiss exports:

“When we consider exports, we saw a weakening at the beginning of the year. In March and onwards that's picked up speed. This is difficult to make a prediction as we don't ask every sector in the economy. Among certain industrial sectors, though, were seeing a weakening in the export outlook.”

On the Swiss National Bank's monetary policy:

“Our barometer doesn't look beyond six months. In our April 6 macroeconomic outlook for the year we sketched an economic scenario in which we can expect an improvement in the second half. This improvement is not that strong, however, and along with the low risk of inflation, means the SNB doesn't have much room to shift rates. Looking at European indicators, there is hardly any evidence that there will be any significant acceleration.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/09	Unemployment Rate	---	3.8%
05/08-13	Adjusted Real Retail Sales Y/Y	---	-3.0%