

# Weekly Economic Reports

May 12, 2005

## Highlights

- **US:** Soft patch already over?
- **Euroland:** Production falling in France and Germany
- **Japan:** Leading and coincident indicators move higher
- **UK:** BoE turns dovish
- **Australia:** Large tax cuts announced

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# U.S.

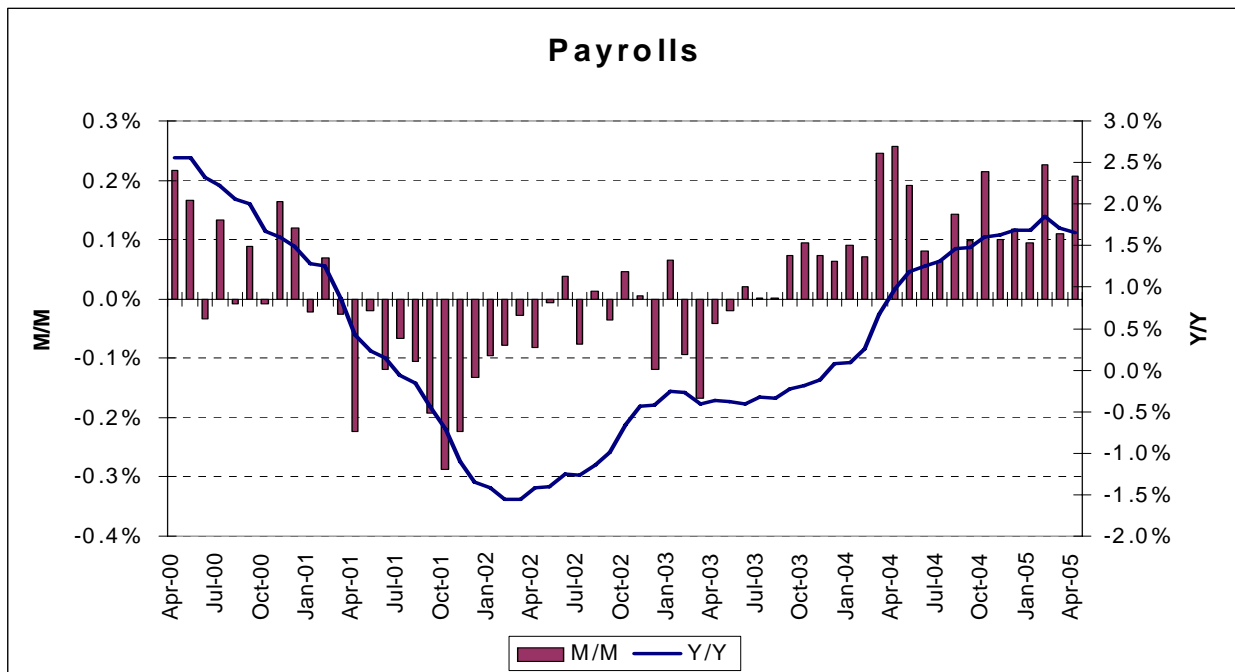
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This week's payroll and retail sales data argued for a short "soft patch" or maybe none at all, given that Q1 GDP will be revised up due to the narrowing trade balance in March. Recent comments from the Fed emphasized this view and they also highlight that inflation should remain contained. The Fed has stated that their decisions on overnight rates will be more data dependent at this stage in the tightening cycle, thus yielding more volatility in the markets if data continues to be "patchy".

## Weekly Highlights

- **Payrolls**- increased 274k in April. (page 2)
- **Employment**- claims weaken, but still suggest above trend payroll growth. (page 3)
- **Retail sales**- excluding autos, increased 1.1% M/M in April. (page 4)
- **Trade balance**- narrowed in March, helping Q1 GDP revision. (page5)

## Chart of the Week

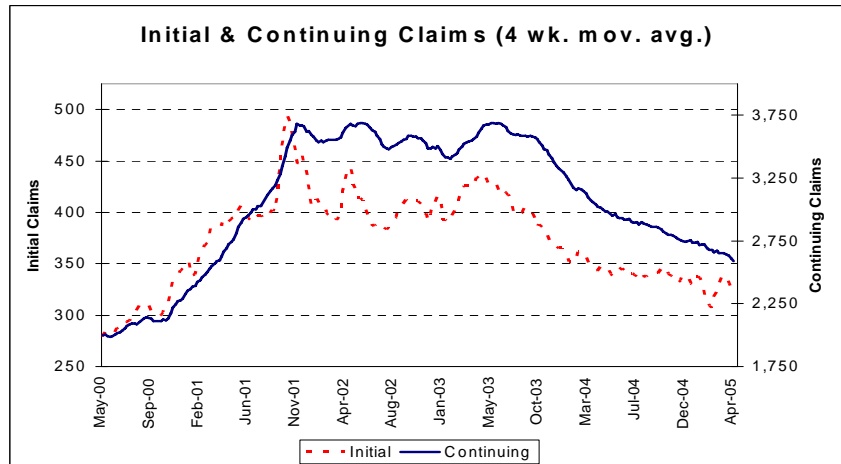


Non-farm Payrolls increased 274,000 in April, significantly above market expectations and above the 150,000 needed every month to keep up with the growth in the labor force. The healthy payroll gains are consistent with the Fed's view on the economy and the mostly positive comments from earnings reports, but are at odds with some of the soft data seen in March. The details of the report, including increases in total hours worked, average weekly hours and average hourly earnings, all suggested strength. The unemployment rate remained at 5.2% with the labor participation rate improving slightly. However, increasing debt service ratios and fuel costs could weaken consumer and investment spending, and does not appear robust enough to drive further growth.

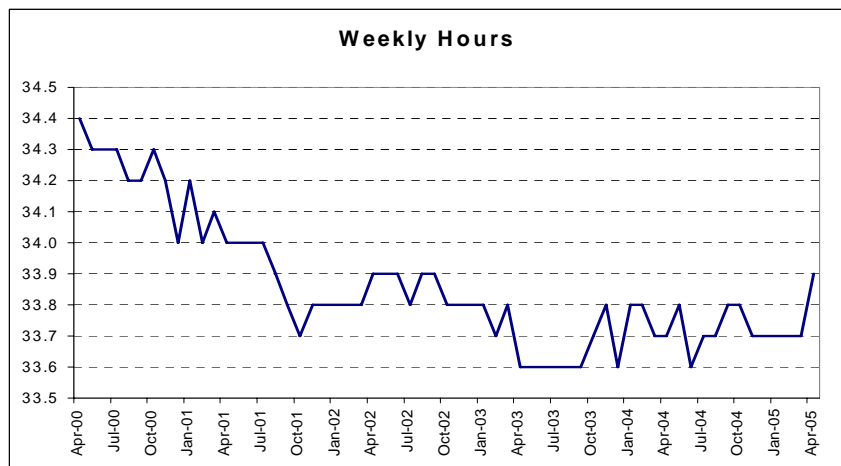
# Employment

The four week moving average of initial claims and continuing claims increased to 324k and decreased to 2,591k, respectively.

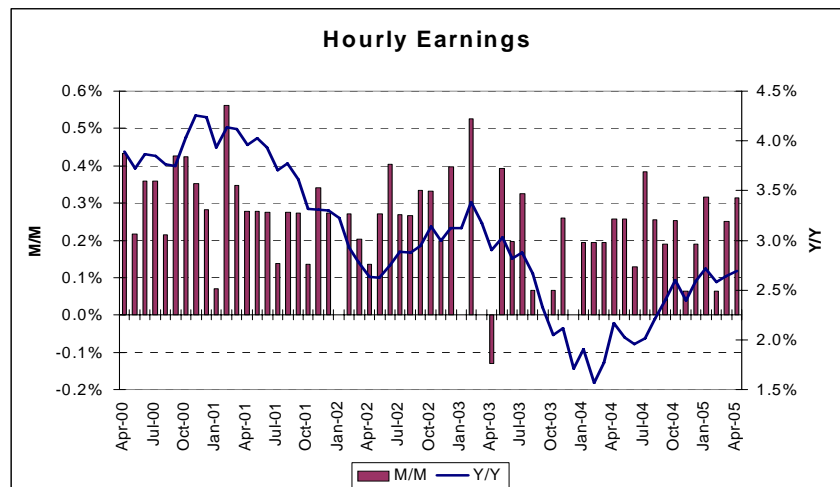
Claims data still suggests above trend payroll growth despite weakening a bit this week.



Average weekly hours increased to 33.9 in April. This series moved higher after being stagnant for months; confirming the strength in the headline payroll number.

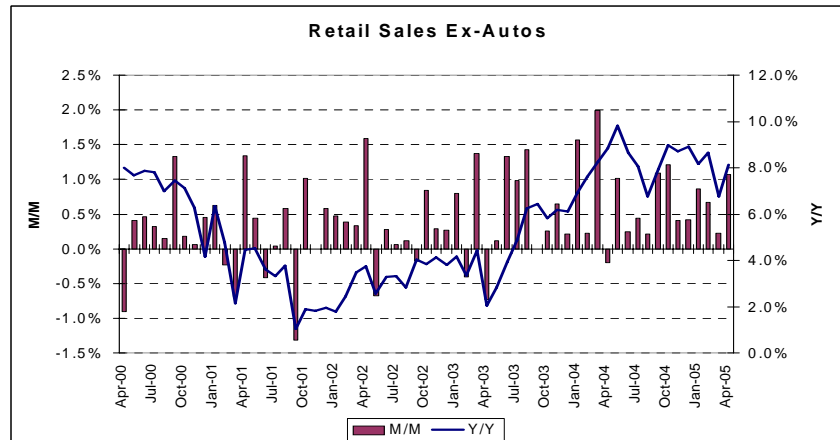


Average hourly earnings grew 0.3% M/M and 2.7% Y/Y in April. April's solid gains in hourly earnings should not put upward pressures on inflation given the recent gains in productivity.

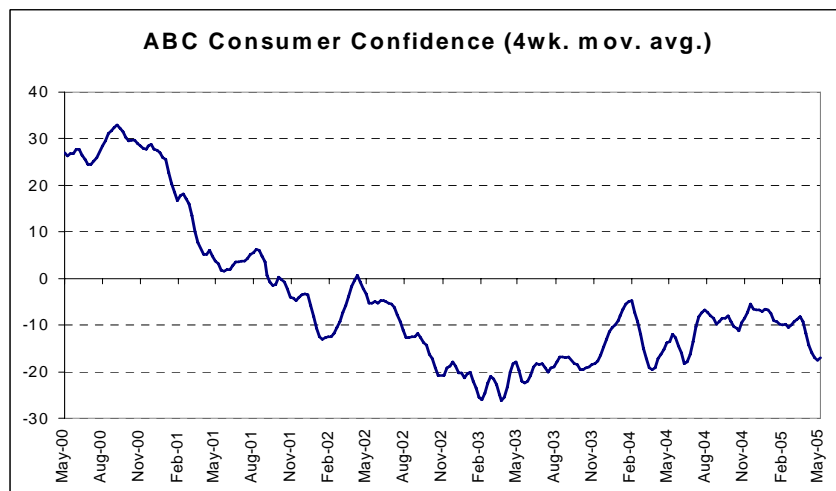


# Retail Sales, Confidence & Mortgage Applications

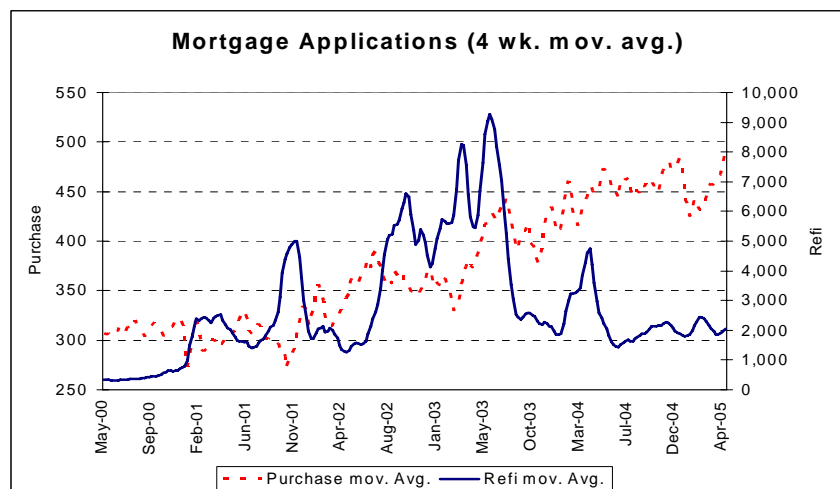
Retail sales, excluding autos, increased 1.1% M/M and increased 8.1% Y/Y in April. The consumer showed strength in April with retail sales, excluding autos and gas, increasing 1% in April after dropping in March.



The ABC Consumer Confidence Index improved from -19 to -16 this week. The economic, financial and buying components all experienced small gains this week.

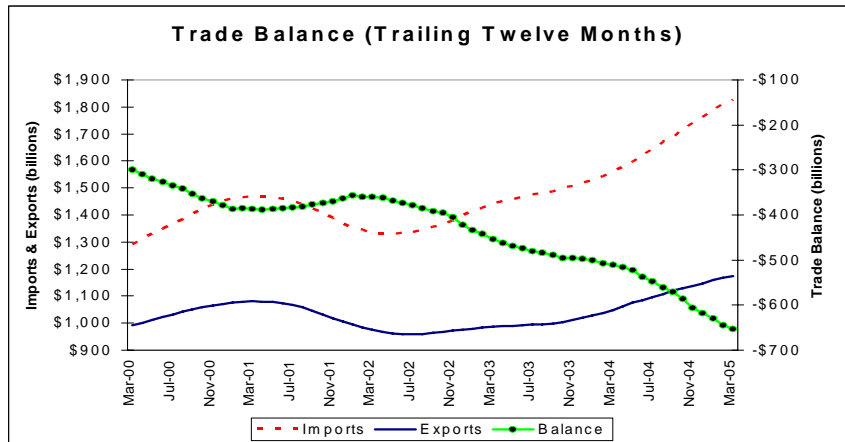


Purchase and refinancing mortgage applications increased 9.1% and 9.8%, respectively this week. Purchase applications continue to trend higher as mortgage rates have declined.

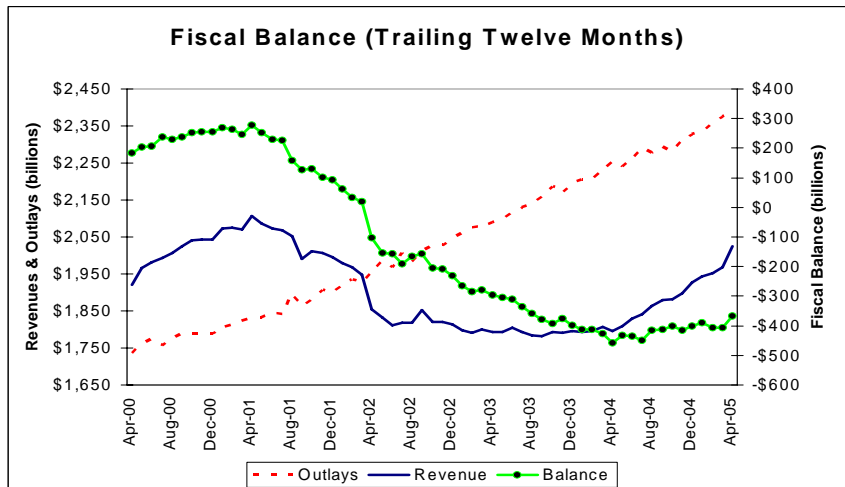


# Trade Balance, Budget Balance & Non-Farm Productivity

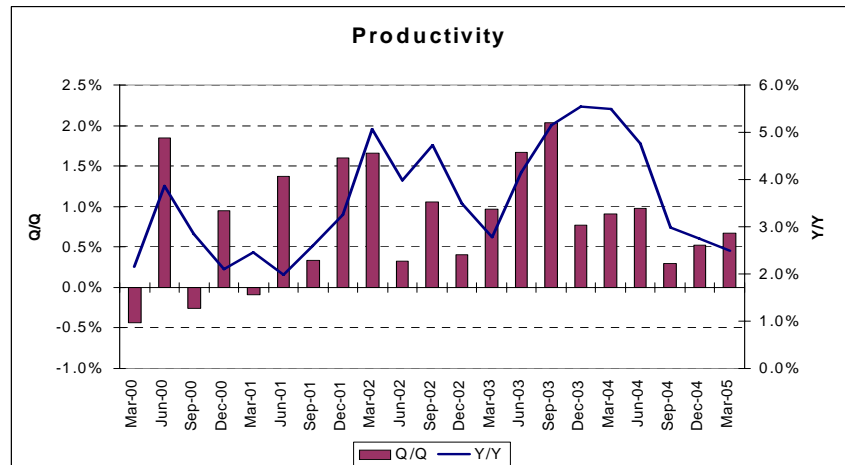
The trade balance narrowed to -\$55 billion in March, and on a trailing twelve month basis, expanded to -\$652 billion. Weak consumer imports and growth in exports were responsible for the results. A narrower than expected trade deficit in March will likely bring Q1 GDP over 3.5% from the initial reading of 3.1%.



The budget balance in April had a surplus of \$57.7 billion. On a trailing twelve month basis, the budget deficit has started to decrease along with FY 2005 estimates as tax collections have been higher than expected. The fiscal drag of a smaller deficit will eventually catch up with the economy.



Non-farm Productivity increased 0.7% Q/Q and 2.5% Y/Y in the first quarter of 2005. Productivity continues to experience healthy growth and should keep inflationary pressures from wages restrained.



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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
5/13	Import Price Index (MoM) (APR)	0.4%	1.8%
5/13	Business Inventories (MAR)	0.6%	0.7%
5/13	U. of Mich. Confidence (MAY)	88.3	87.7
5/16	Empire Manufacturing (MAY)	11.0	3.1
5/16	NAHB Housing Market Index (MAY)	68	67
5/17	PPI Ex Food & Energy (MoM) (APR)	0.2%	0.1%
5/17	Housing Starts (APR)	1,960k	1,837k
5/17	Building Permits (APR)	2,035k	2,023k
5/17	Industrial Production (APR)	0.2%	0.3%
5/17	ABC Consumer Confidence (MAY 15)	NA	NA
5/18	MBA Mortgage Applications (MAY 13)	NA	NA
5/18	CPI Ex Food & Energy (MoM) (APR)	0.2%	0.4%
5/19	Initial Jobless & Continuing Claims (MAY 14)	NA	NA
5/19	Leading Indicators (APR)	-0.2%	-0.4%
5/19	Philadelphia Fed. (MAY)	19.2	25.3

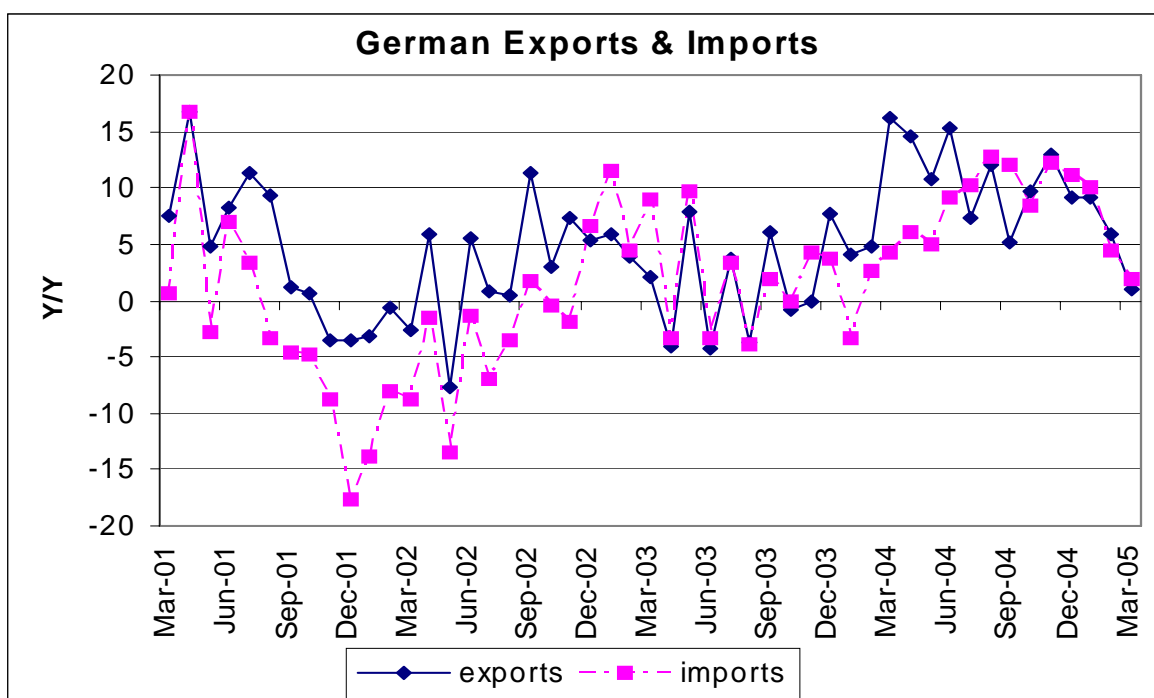
# Euroland

The Euroland economies have stalled. High oil prices and the Unemployment Rate near a four-year high of 8.9% have depressed business, consumer confidence and economic growth. The leading and coincident indicators of growth both suggest that the Euroland economies slowed further at the start of Q2. In the absence of a new positive demand shock (stronger global growth, a weaker currency, lower oil prices, or fiscal easing) euro area growth is unlikely to improve.

## Weekly Highlights

- **German Industrial Production** - fell in March, partially due to high oil prices. (page 8)
- **Spanish Industrial Production** – rose at the fastest pace in four months in March. (page 9)
- **German Trade Balance** – exceeded expectations. (page 10)

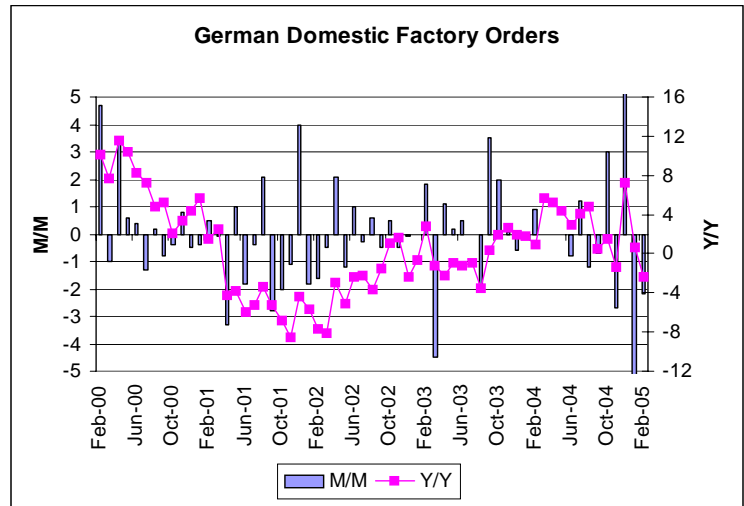
## Chart of the Week



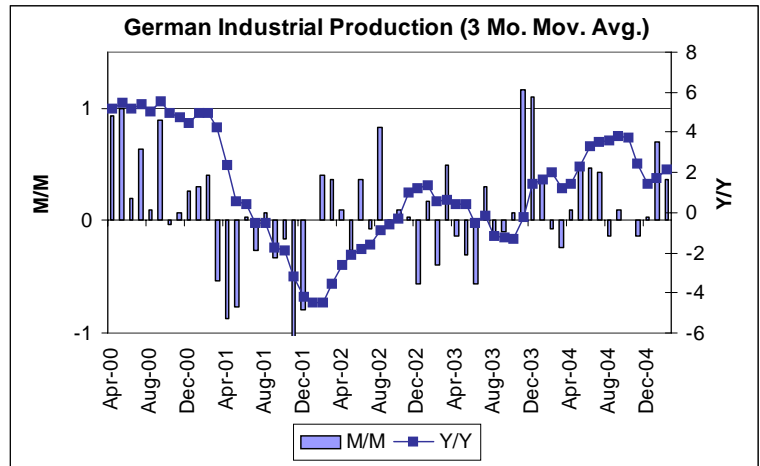
Germany's March Exports rebounded by 2.1% after falling 3% M/M in February while advancing 1.8% Y/Y. Imports fell 1.2% M/M while advancing 0.9% Y/Y. The trade surplus, adjusted for seasonal and work-day effects, widened to 16.3 billion euros (\$21 billion) in March from a revised 13.6 billion euros in February.

# German Factory Orders, Industrial Production & CPI

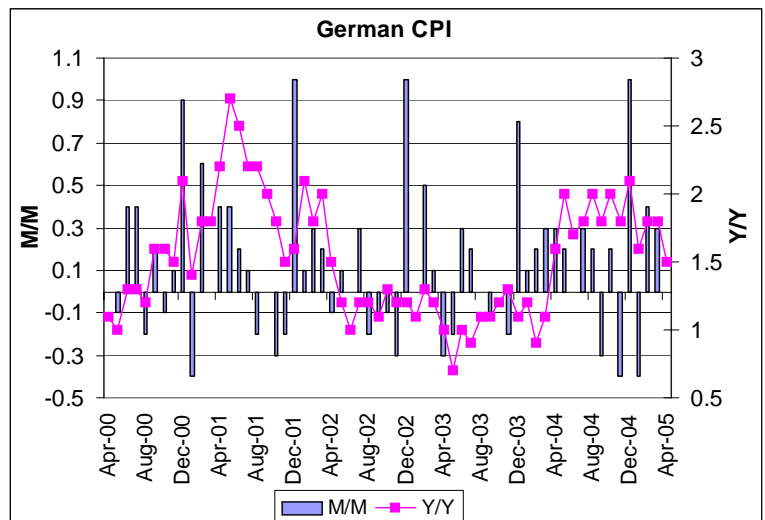
Germany's March Factory Orders increased after falling for two consecutive months. Orders grew 2.2% M/M while falling 3.1% Y/Y. The growth came from foreigners, as domestic orders fell 2.4% Y/Y.



Germany's March Industrial Production fell 0.8% M/M while rising 1.8% Y/Y. Clearly, the surge in oil prices is eroding growth as producers' costs are higher and consumers are forced to spend more on fuel.



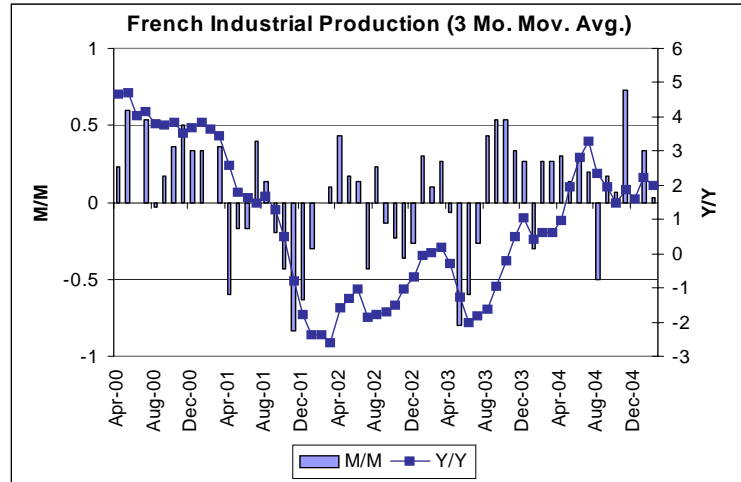
Germany's March CPI increased 0.1% M/M and 1.6% Y/Y despite oil-price gains in the past year.



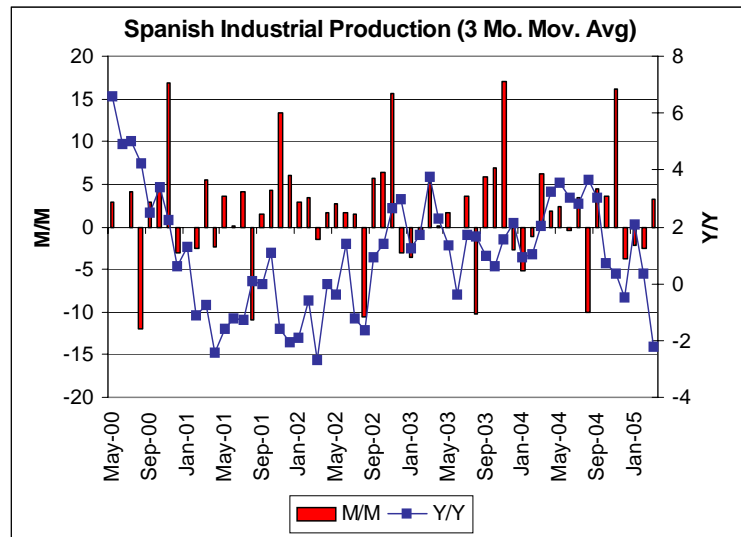


# French Spanish & Italian Industrial Production

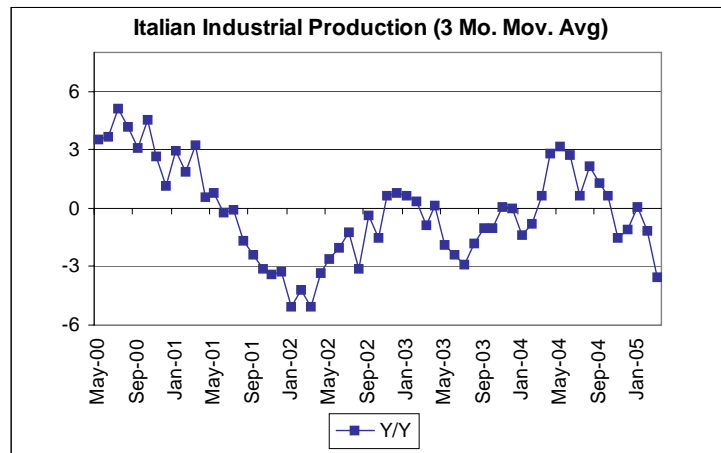
*French Industrial Production fell 0.5% M/M and 0.5% Y/Y, following the manufacturing decline in the euro region for the first time in two years in April.*



*Spain's March Industrial Production rose 3.3% M/M and 1.1% Y/Y as production of capital goods and energy-related products picked up.*

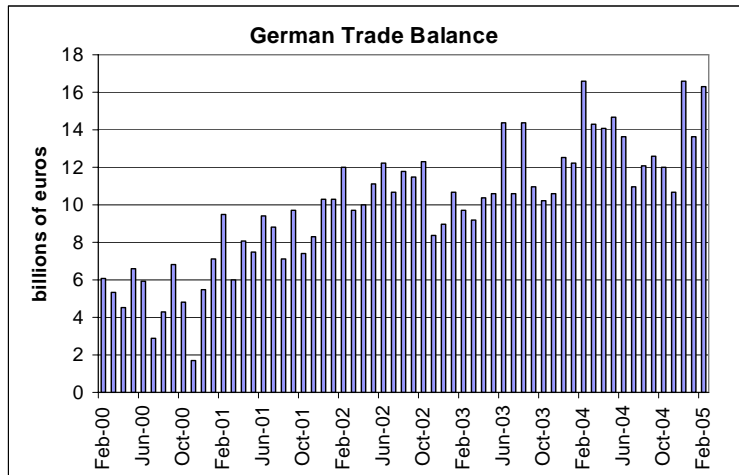


*Italian Industrial Production declined 0.6% from February and 2.9% Y/Y, the third consecutive quarterly decline. Oil prices above \$50 a barrel are posing the largest threat to growth due to eroding profit margins.*

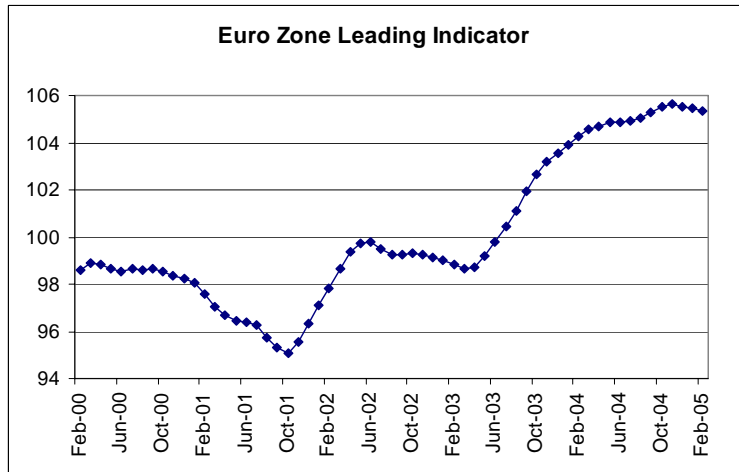


# German Trade Balance, Euro Zone Leading Indicator & Euro Zone GDP

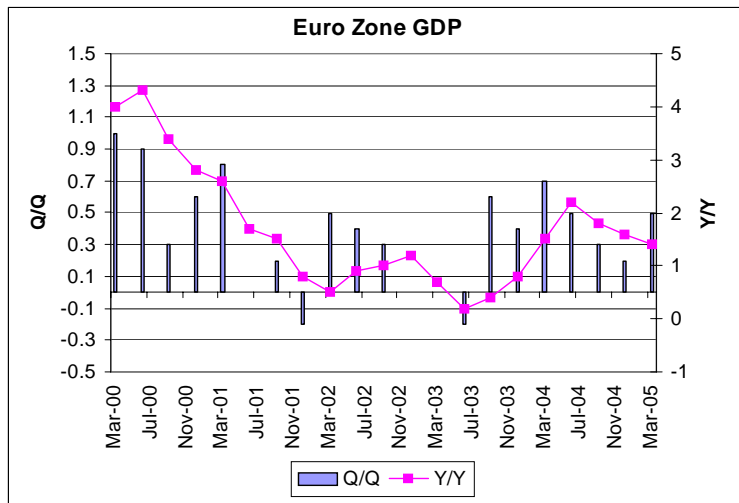
*Sales abroad are propping up growth in the German economy, as near-record unemployment and oil prices above \$50 a barrel have held back demand at home. These dynamics drove the Trade Surplus to near record high of 16.3 billion in 5 years.*



*The Euro Zone's OECD Leading Indicator, after showing continued growth for the past year, fell for the fourth month in a row, declining from 105.7 in February to 105.3 in March.*



*Euro Zone's Q1 GDP growth increased to 0.5% Q/Q and declined to 1.4% Y/Y growth. The German economy, rebounded from a fourth-quarter contraction, growing at its the fastest pace since 2001.*

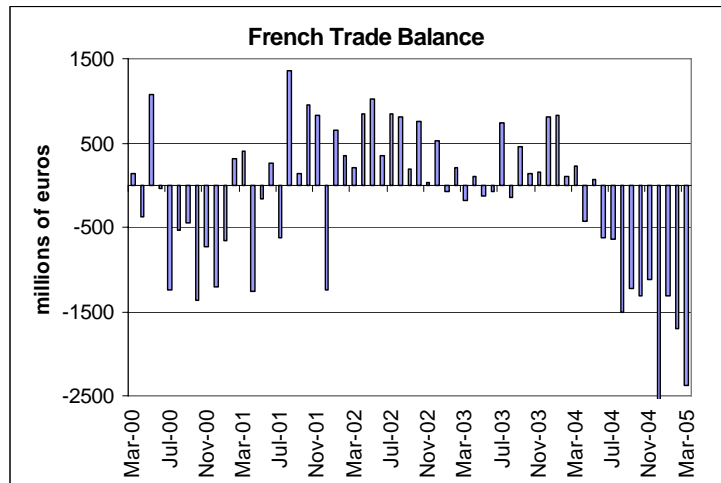


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## French Trade Balance

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*France's March Trade Deficit Widened to 2.38 billion euros as exports declined for a second month and imports rose to a record level. Exports declined 2.1% to 28.5 billion euros in March. Imports rose 0.2% to 30.9 billion euros. In the first quarter, the deficit reached 5.39 billion euros, compared with 7.76 billion euros for all of last year, the largest shortfall since 1992.*



### **ECB**

- ECB's President Jean-laude Trichet said that he and his Group of 10 counterparts still expect favorable economic growth this year even with oil prices clouding the global outlook. Trichet last week kept the ECB's benchmark rate at a six- decade low of 2% for a 24th month and said a rate cut isn't an option even with risks to growth tilted to the downside.

### **Germany**

- The increase in oil prices creates additional costs for companies and has contributed to the slowdown in growth. Economy and Labor Minister Wolfgang Clement said that the jump in oil prices to more than \$50 a barrel alone took away a quarter point from his January prediction of 1.6% expansion this year.

### **Spain**

- Spain's economic growth is accelerating from the current pace of about 2.8% a year, boosted by businesses investing in new equipment to expand production, according to Economy Minister Pedro Solbes.

### **Italy**

- Italian research institute Ref cut its prediction for economic growth this year for Europe's fourth-biggest economy to 0.5%, from 1.2% forecast in February.
- Gross domestic product shrank 0.5% in the first quarter, the steepest drop in six years, after a contraction of 0.4% in the previous three months.

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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/13	Euro Zone New Car Registrations (APR)	2.0% Y/Y	-3.0% Y/Y
05/13	French CPI (APR)	1.9% Y/Y	1.9% Y/Y
05/13	Spanish CPI (APR)	3.5% Y/Y	3.4% Y/Y

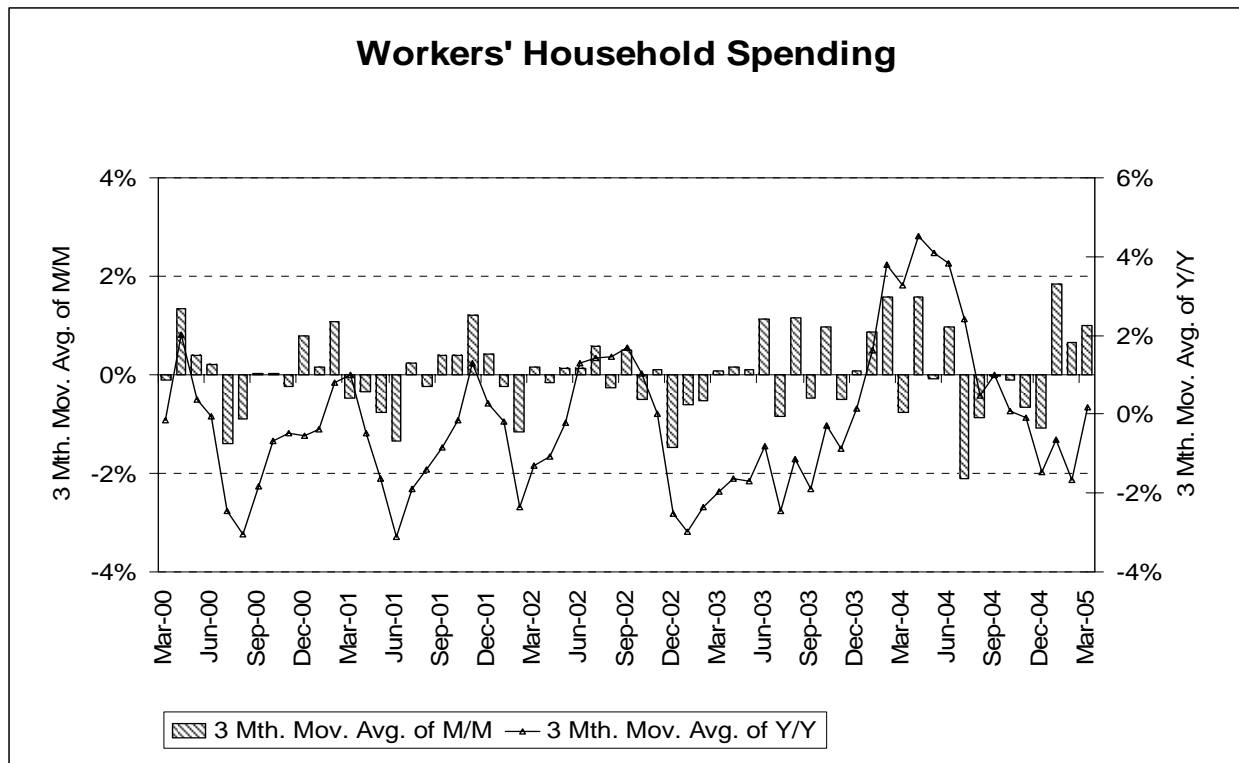
# Japan

This past week was quiet in Japan. The light data consisted of the Workers' Household Spending which remained flat M/M instead of an expected decrease, and the Leading and Coincident Indices which both increased in line with expectations. More importantly, Fitch Ratings raised Japan's credit rating outlook from negative to stable. At the same time, the World Competitive Year Book of 2005 revealed that Japan edged up two notches in ranking from 23<sup>rd</sup> to 21<sup>st</sup> in economic competitiveness.

## Weekly Highlights

- **Workers' Household Spending** - remained flat M/M and Y/Y in March. (page 14)
- **The Leading and Coincident Indices** – increased inline with expectations. (page 15)

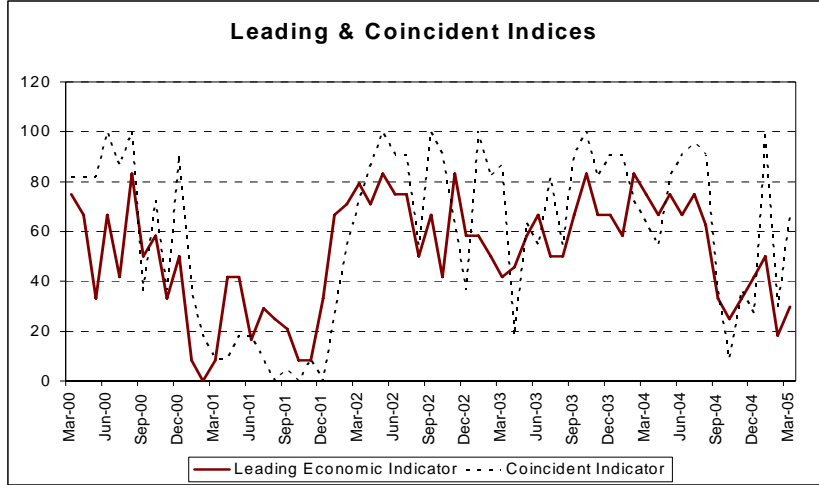
## Chart of the Week



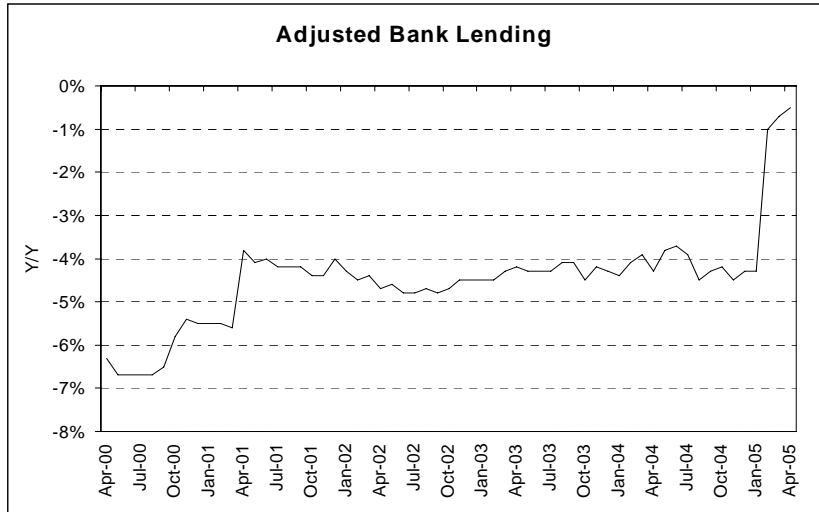
Workers' Household Spending remained flat M/M and Y/Y in March. On trend terms, Workers' Household Spending has begun to show signs of improvement.

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

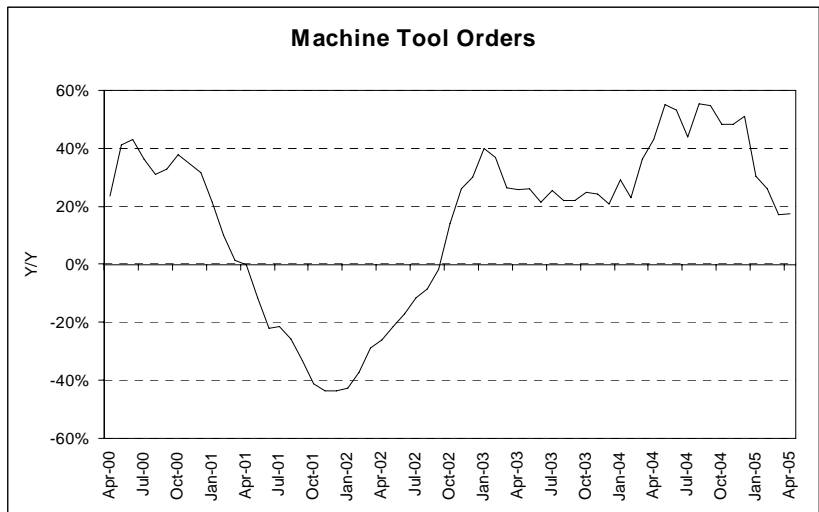
March's preliminary figure for the Leading Economic Index, which measures job offers, consumer confidence and other indicators of future activity, increased from 18.2 to 30. The preliminary figure for the Coincident Index increased from 30 to 66.7, in line with expectations.



Adjusted Bank Lending decreased 0.5% Y/Y in April, its smallest decline since records began in 1998.



Based on preliminary figures, machinery tool orders increased 17.4% Y/Y in April.



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## News Briefs

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**May 12<sup>th</sup>** - Japan is currently ranked 21<sup>st</sup> in economic competitiveness in the world according to the World Competitiveness Yearbook 2005, released this week by Swiss-based business training center IMD. The result is two places up from last year's 23<sup>rd</sup> position and the best level since 2000. The annual study measures competitiveness trends in 60 countries and is based on 314 criteria. The economies are ranked based on their economic performance, government and business efficiency and infrastructure. "Japan is back" and the improvements are expected to continue in the years to come, commented Suzanne Rosselet, senior economist at the World Competitiveness Center at IMD, which publishes the report.

**May 11<sup>th</sup>** - The Teikoku Databank Business Confidence increased from 43.1 in March to 43.3 in April. Business Confidence in large firms increased from 45.8 to 46.4 and small firms increased from 42.2 to 42.3.

**May 10<sup>th</sup>** - Japan's Finance Minister, Heizo Takenaka, commented that Japan's economy will hopefully emerge from a plateau by the end of this year. This comment was addressed to reporters in Tokyo after a regular Cabinet meeting.

**May 9<sup>th</sup>** - The Minutes of the Monetary Policy Meeting on March 15<sup>th</sup> and 16<sup>th</sup> showed that members concurred that Japan's economy was still at a pause and the recovery mechanism continues to be visible. Reference was made to the improvements in production as adjustments in IT-related sectors have been making gradual progress. In regards to Economic and Financial Developments in Japan, the minutes outlined:

*"Exports were starting to pick up because supply-demand adjustments in IT-related sectors had been making gradual progress and overseas economies had been on an expanding trend."*

*"Business fixed investment had been on a rising trend, particularly in manufacturing industries."*

*"Private consumption had been steady."*

*"Production had been more or less flat, as inventory adjustments continued in IT-related sectors."*

*"As for the employment and income situation, job offers and the unemployment rate had been improving, and the number of employees was on an uptrend. Wages were still on a modest downtrend in terms of the average per person, but special payments had been increasing recently."*

*"On the price front, international commodity prices, particularly those of crude oil and nonferrous metals, were rising."*

**May 9<sup>th</sup>** - Japan's credit rating outlook was raised to stable from negative by Fitch Ratings. Moody's and S&P both have stable outlooks for Japan's rating. "Japan's medium-term prospects are better now than they have been for a decade and, if realized, will allow a gradual stabilization of public finances, which remain amongst the weakest of any advanced country," Brian Coulton, Fitch's head of Asian sovereign ratings, stated in the report.



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## *News Briefs*

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**May 9<sup>th</sup>** – “Japan is ready to act decisively on disorderly currency moves,” Vice Finance Minister, Koichi Hosokawa, commented in Tokyo. He further stated that, “Foreign exchange rates should reflect fundamentals of economies, and excessive moves are undesirable.” In regards to China’s currency, Hosokawa stated that “It’s favorable that China will provide more flexibility to its currency.”

**May 9<sup>th</sup>** - Finance Minister, Sadakazu Tanigaki, stated that corporate profits are increasing and cautioned, “Japan has to be attractive to corporate investors.” In regards to oil prices, Tanigaki commented, “Oil prices are rising and there are a number of problems, but overall, although growth is a little bit slower, the global economy is extremely sound.”

## *Key Dates This Week*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/13	Machine Orders (M/M) (MAR)	-1.5%	4.9%
05/13	Machine Orders (Y/Y) (MAR)	8.8%	7.2%
05/13	Eco Watchers Survey: Current (APR)		45.6
05/13	Eco Watchers Survey: Outlook (APR)		49.8
05/15	Domestic CGPI (M/M) (APR)		0.3%
05/15	Domestic CGPI (Y/Y) (APR)		1.4%
05/15	Export Price Index (M/M) (APR)		0.7%
05/15	Export Price Index (Y/Y) (APR)		0.5%
05/15	Import Price Index (M/M) (APR)		1.8%
05/15	Import Price Index (Y/Y) (APR)		7.0%
05/15	Current Account Account Total (MAR)		¥2117.4B
05/15	Adjusted Current Account Total (MAR)		¥1661.3B
05/15	Trade Balance – BOP Basis (MAR)		¥1661.3B
05/16	Consumer Confidence (APR)		45.3
05/16	Consumer Confidence Household (APR)		45.2
05/16	GDP Annualized (1QP)	2.5%	0.5%
05/16	GDP (Q/Q)	0.6%	0.1%
05/16	GDP Deflator (Y/Y) (1QP)	-0.7%	-0.4%
05/17	Industrial Production (M/M) (MAR F)		-0.3%
05/17	Industrial Production (Y/Y) (MAR F)		1.1%
05/17	Capacity Utilization (MAR F)		103.0
05/18	Bankruptcies (Y/Y) (APR)		-14.2
05/18	Machine Tool Orders (Y/Y) (APR F)		
05/18- 05/19	BoJ Monetary Policy Meeting		

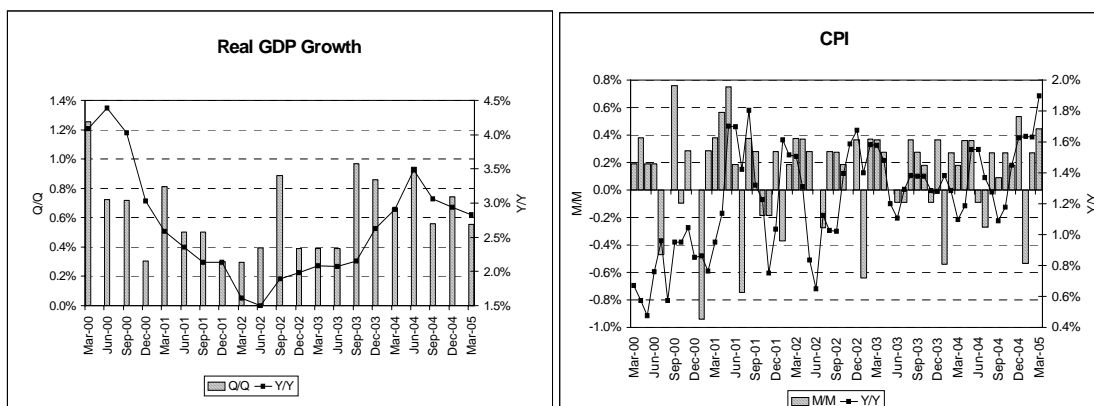
# United Kingdom

The Bank of England changed its tone with the release of its *Quarterly Inflation Report*, in which it trimmed its forecast for economic growth this year while stating that a slowdown in consumer spending has become “more marked”. In addition, the Labor Party was re-elected for a third term, but with a reduced majority. This will make it more difficult for Tony Blair to pass his initiatives, possibly leading the way for Gordon Brown to take over as Prime Minister. Brown’s “style” of leading the country could have negative consequences for both bond yields.

## Weekly Highlights

- **The Bank of England-** released its *Quarterly Inflation Report*. (page 19)
- **ODPM House Price Survey-** increased 2.2% M/M and 12.6% Y/Y in March. (page 20)
- **Manufacturing Production-** decreased 1.6% M/M and 1.1% Y/Y in March. (page 21)
- **Trade Deficit-** decreased from £5.0 billion to £4.4 billion in March. (page 22)
- **Tony Blair-** won re-election, but the Labor Party’s seat majority was reduced by 65 seats. (page 24)

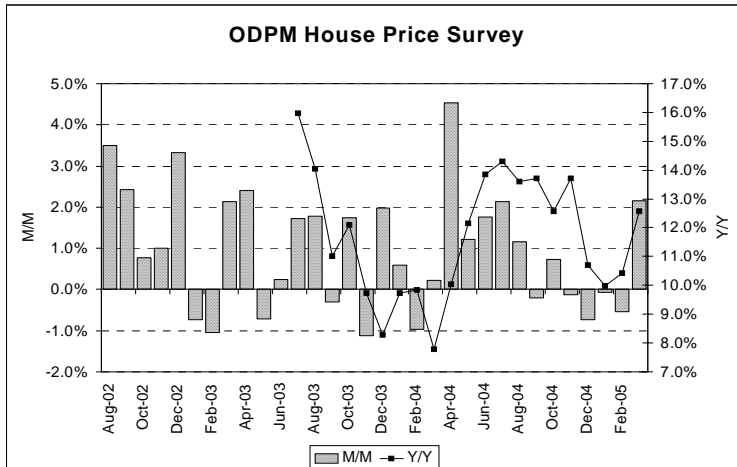
## Chart of the Week



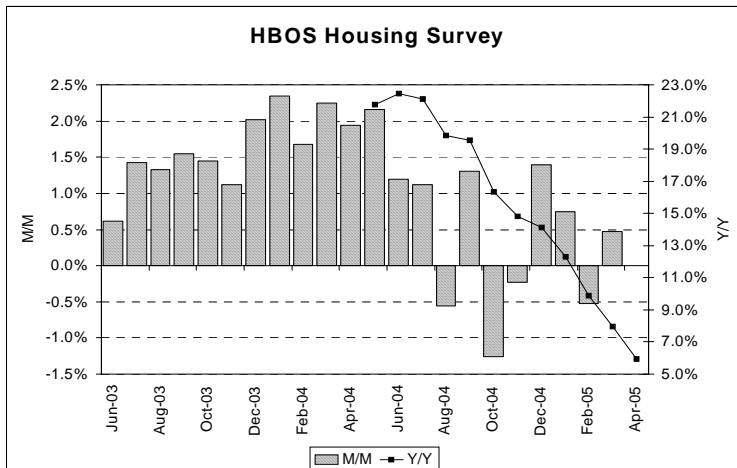
The Bank of England released its *Quarterly Inflation Report* which was overall dovish in tone as the Bank trimmed its forecast for economic growth this year and stated a slowdown in consumer spending has become “more marked”. The growth forecast for 2005 was revised down from 2.7% to 2.6%. The Bank forecasts inflation to move above the 2% target in the near term, reflecting in part the impact of prices increasing 11.8% for water and sewerage services. Two years forward, inflation is forecasted to drop back before settling around the 2% target as the impact of higher oil prices and other transient factors on the inflation rate decreases. Previously, the two-year inflation forecast was above 2%. However, Mervyn King said “the chances of the economy evolving exactly in line with our central projection are very small.” In addition, he said the “real issue is the uncertainty about the outlook for inflation, where there are risks in both directions.”

# House Price Surveys

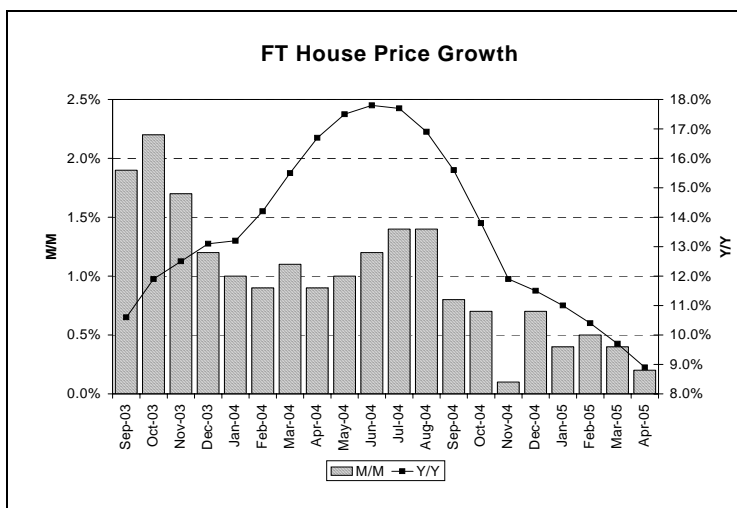
*The ODPM House Price Survey increased 2.2% M/M and 12.6% Y/Y in March after six months of near stagnant growth.*



*The HBOS House Price Survey remained flat M/M and increased 5.9% Y/Y in April.*

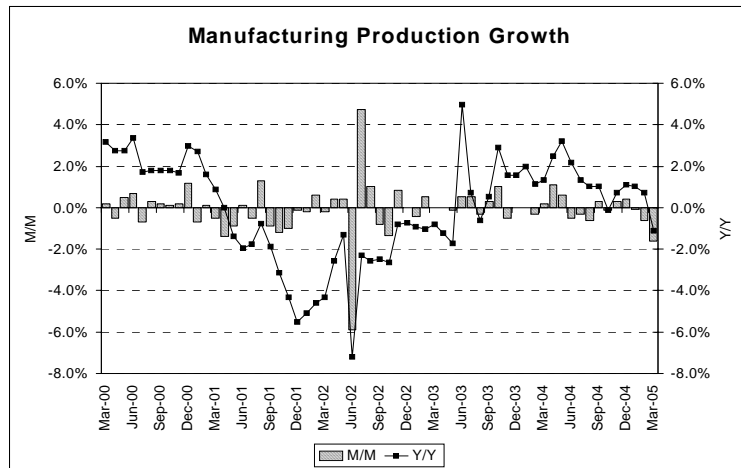


*The Financial Times House Price Survey increased 0.2% M/M and 8.9% Y/Y in April.*

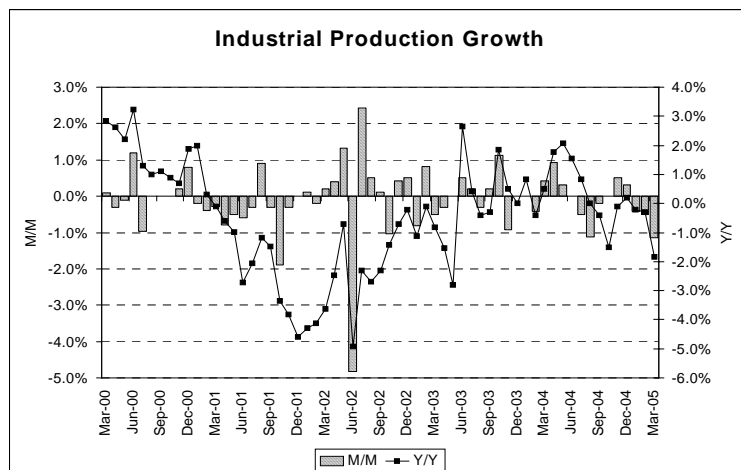


# Production & Producer Prices

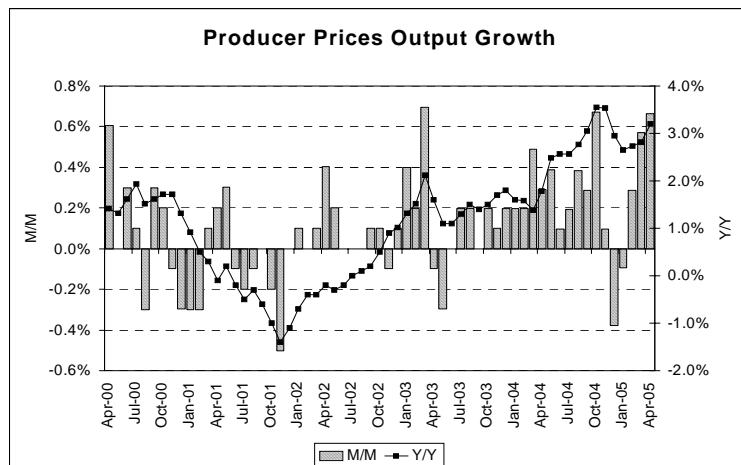
Manufacturing Production decreased 1.6% M/M and 1.1% Y/Y in March. This unexpected slump was the third consecutive Y/Y decrease and the largest in almost three years. Manufacturing output fell in twelve of the thirteen sub-sectors. The M/M drop was led by a 2.7% decline in production of chemicals and man-made fibers, while output from the pulp, paper, printing and publishing industries decreased 2.2%.



Industrial Production decreased 1.1% M/M and 1.8% Y/Y in March.

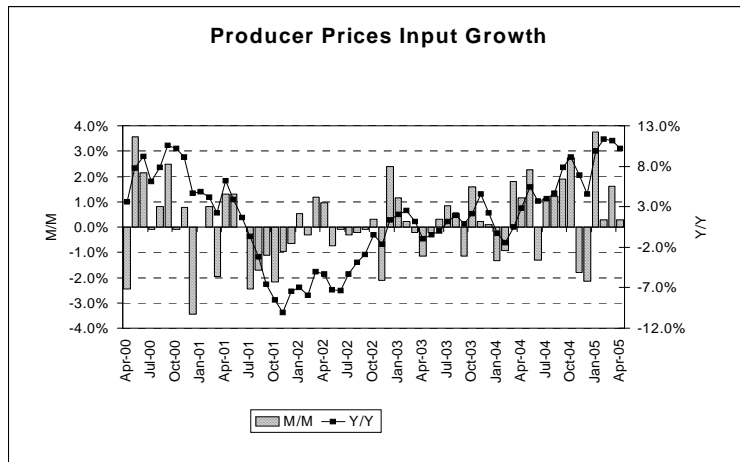


Output Producer Prices increased 0.7% M/M and 3.2% Y/Y in April, mainly reflecting the rising costs of petroleum, alcohol and tobacco products. The rising costs of alcohol and tobacco products were partly attributed to budget increases.

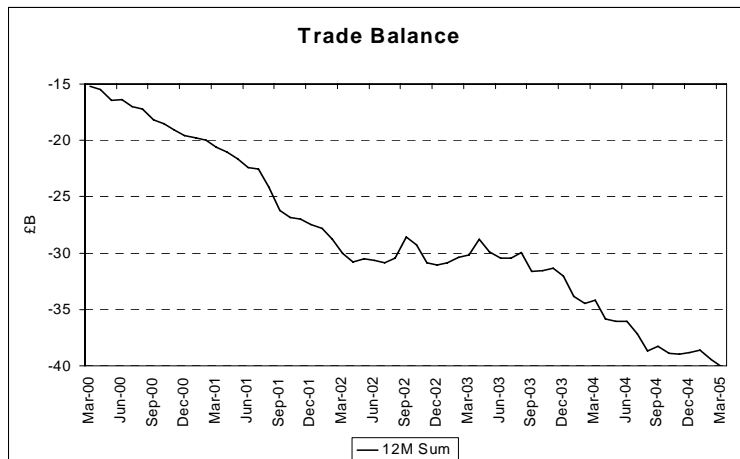


## Producer Prices & Trade Balance

*Input Producer Prices increased 0.3% M/M and 10.2% Y/Y in April. This slowing growth is due to price decreases in fuels and imported chemicals. Prices of imported materials, including crude oil, decreased 0.7%*



*The Trade Deficit decreased from £5.0 billion to £4.4 billion in March, the lowest in a year as exports surged 3.4% M/M from booming demand in Hong Kong and South Korea. Imports decreased 0.4% M/M.*



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## *Data*

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### **BRC Retail Sales Monitor**

The British Retail Consortium (BRC) reported that retail sales decreased 4.7% Y/Y in April, the largest decline in 10 years. The large slump has been attributed to the slowdown in the housing market and at the same time, uncertainty with the election results and interest rates.

### **BRC Shop Price Index**

The British Retail Consortium (BRC) reported that shop prices decreased 0.02% M/M and 0.5% Y/Y in April, led by a decline of 0.6% M/M of non-food items.

### **NIESR GDP Estimate**

NIESR estimates that GDP decelerated from 0.6% to 0.4% in the three months through April due to shrinking consumer spending and sluggish manufacturing production.

### **PMI Services**

CIPS Services PMI decreased from 57.0 to 56.5 in April. New business decreased as employment increased, while future business expectations plunged from 75.5 to 71.8.

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## *Election Update*

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### **Election News and Seats update**

Tony Blair won re-election for a record setting third term by winning 36.2% of the vote. Tougher times seem to be ahead for Blair as the sharply reduced Labor majority in parliament could weaken his position within his own party at the same time as economic growth looks set to slow. The Labor party had their seat majority reduced by 65 seats, now making 355 seats in total; this is very much on the low end of market expectations. As a result, this reduction will force Blair to drop some of his more controversial proposals, such as cuts to the civil service and a plan to allow patients to shop around for hospital treatment. The sharply reduced Labor majority might fuel speculation that Blair may not serve a full third term, and may have to hand over power earlier than expected to Gordon Brown.

Within the Labor Party, Blair seems to be more inclined to improve public services through a number of market-oriented reforms, whereas Brown seems less eager to accept reforms that would upset public sector unions and seems more willing to throw extra cash at public services instead. The stronger Brown's influence becomes, the more likely it is that his view of more money for public services, without serious reforms, will dominate Labor policy after the election. As a result, the state of Britain's public finances could become even more precarious than it looks at the moment, with negative consequences for long-term bond yields.



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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
5/16	Leading Indicator		0.7% M/M
5/16	Coincident Indicator		0.1% M/M
5/16	RICS House Price Balance	-35	-37
5/17	CPI	0.4% M/M 1.9% Y/Y	0.4% M/M 1.9% Y/Y
5/18	Unemployment Rate	2.7%	2.7%
5/18	Average Earnings		
5/18	ILO Unemployment Rate		-0.7%
5/18	MPC Minutes		

# Australia

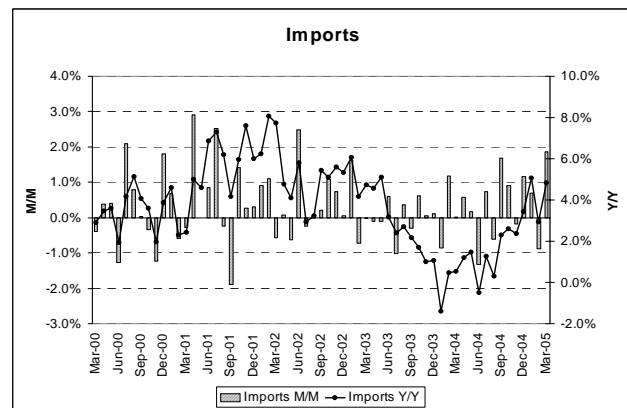
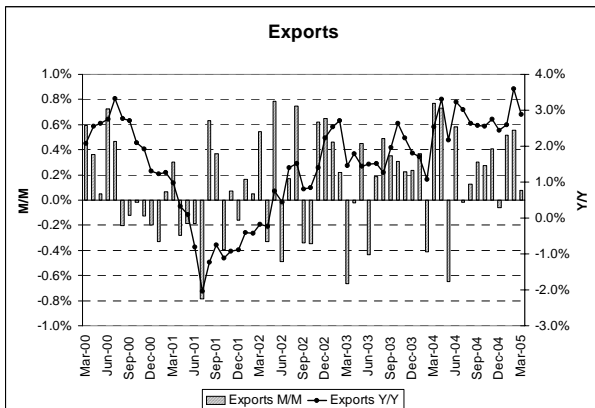
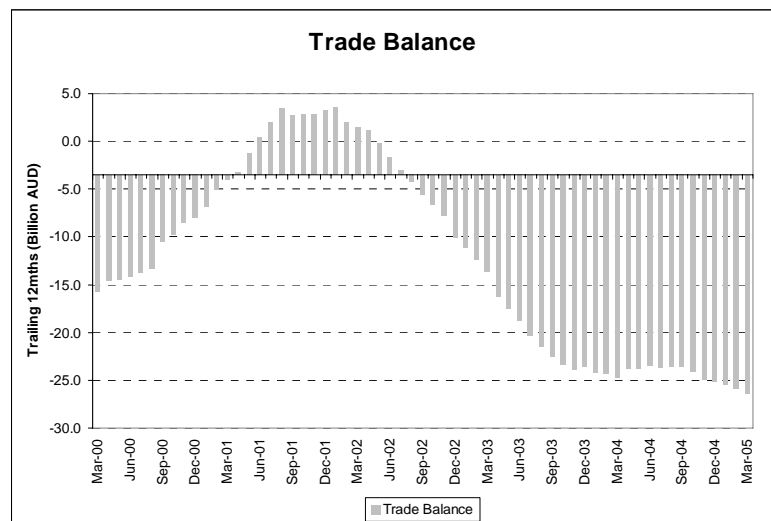
This week's data highlight in Australia was the March Trade Deficit, which widened more than economists anticipated and job creation that was higher than expected, but not impressive. The planned income tax cuts to stimulate the economy and the RBA signaling to the market that they were on hold for a few months were also important developments. The fiscal drain caused by running budget surpluses has once again proven to be unsustainable.

## Weekly Highlights

- **Trade Deficit** – widened from \$2.2 billion to \$2.7 billion in March. (page 26)
- **Unemployment Rate**- remained at 5.1% in April and job advertisements jumped. (page 27)
- **Home Loans**- continued to trend higher in March. (page 27)

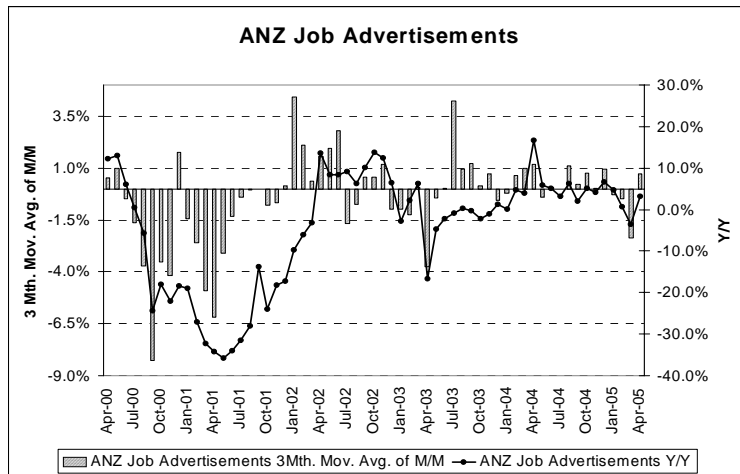
## Chart of the Week

The Trade Deficit in Australia increased in March, rising from an upwardly revised \$2.238 bln to \$2.672 bln, above expectations. Exports fell 2% and imports rose 0.9%.

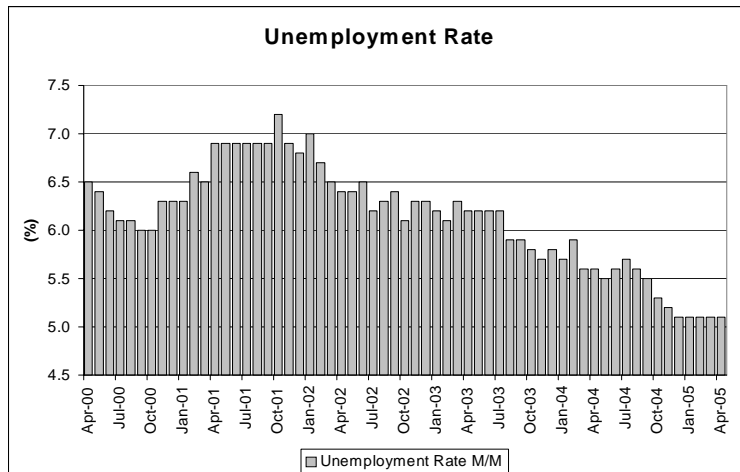


# ANZ Job Advertisements, Unemployment Rate & Home Loans

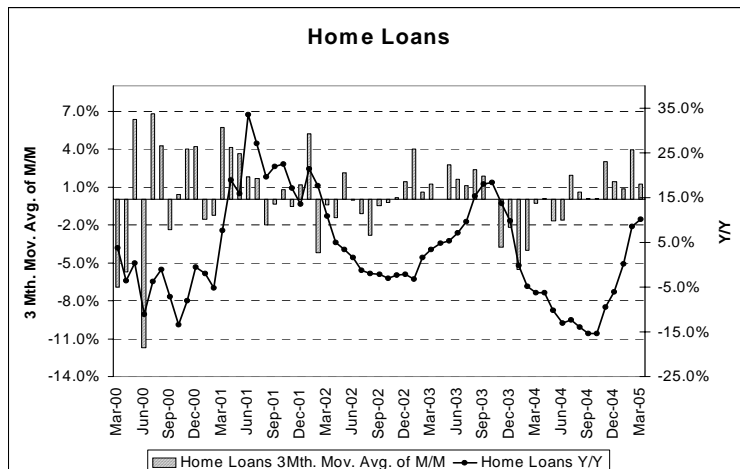
*Job Advertisements in major Australian newspapers increased 7.3% M/M and 3.1% Y/Y in April. The three month moving average moved into positive territory, a sign that demand for labor is picking up.*



*The Unemployment Rate remained at 5.1% in April for the fifth consecutive month. Approximately seven thousand jobs were created and labor participation remained flat. A decline of 10,000 jobs was expected.*



*Home Loans increased 1.2% M/M and 10.2% Y/Y in March. Home loans have been trending higher over the past 6 months after dropping dramatically in early 2004.*



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## *News Releases*

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*May 6<sup>th</sup>*

- Australia's Central Bank said inflation pressures have receded and March's interest-rate increase has damped consumer demand, signaling it won't raise borrowing costs in coming months.
- The Central Bank said that based on previous cyclical experience, it would be surprising if interest rates did not have to increase further at some stage of the current expansion.

*May 10<sup>th</sup>*

- Australia's government handed workers A\$21.7 billion (\$16.8 billion) of tax cuts to bolster an economy growing at its slowest pace since emerging from recession 14 years ago. The cuts amount to 2.5% of GDP and come on top of last year's A\$14.7 billion of income tax relief.
- The Government's economic growth forecast is for a pickup to 3% in the fiscal year starting July 1 from 2% this year, the slowest pace since 1991-92.

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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/11	Unemployment Rate (Apr)	5.1%	5.1%
	Employment Change (Apr)	-10.0K	57.80K
05/17	Westpac Consumer Confidence (May)	N/A	N/A
	Wage Price Index (Q1)	N/A	1.0%

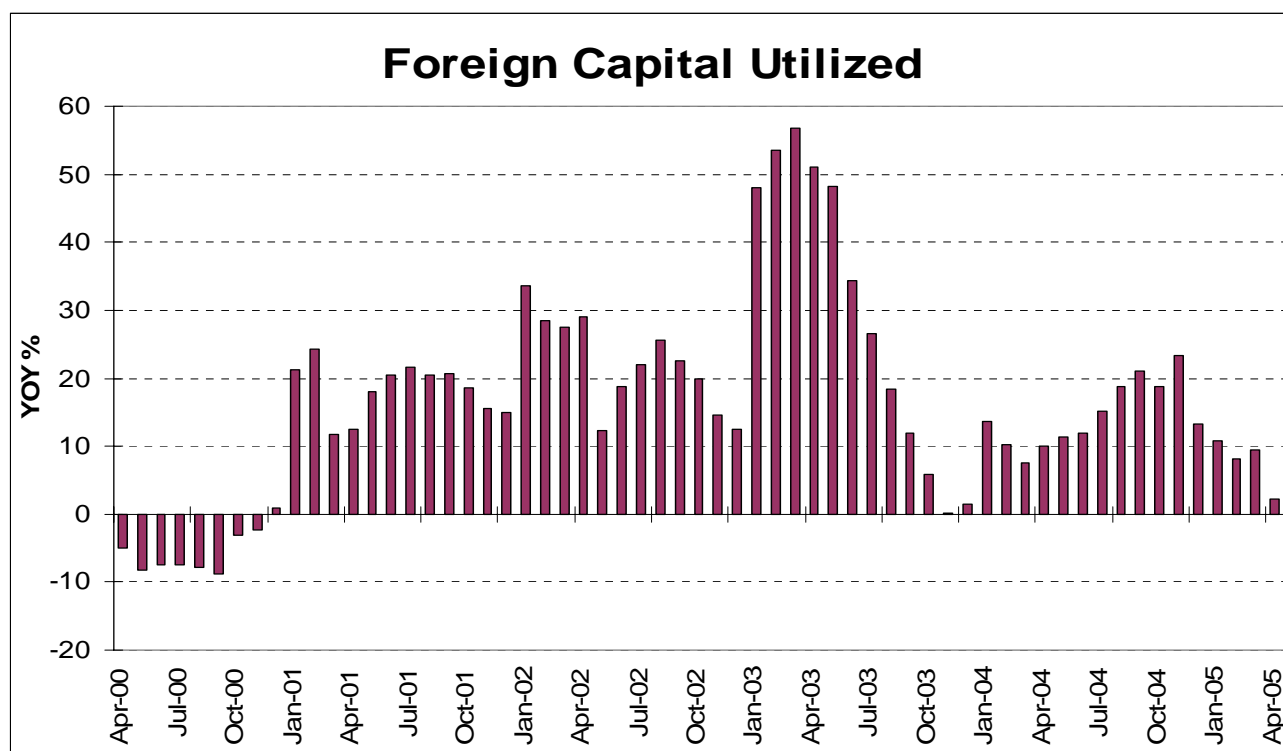
# China

Recent data in China revealed that Foreign Capital Utilized reached its lowest reading since December of 2004 while Foreign Capital Via Signed Agreements growth rebounded slightly. In the media, the issue of China's currency remains heated as China continues to receive pressure from the U.S. and other countries to revalue. However, China has maintained that they should be free to make this decision in their own time.

## Weekly Highlights

- **Foreign Capital Utilized** - decreased from 9.5% Y/Y in March to 2.2% Y/Y in April. (page 30)
- **Foreign Capital Via Signed Agreements** - increased from 4.2% to 8% in April. (page 31)

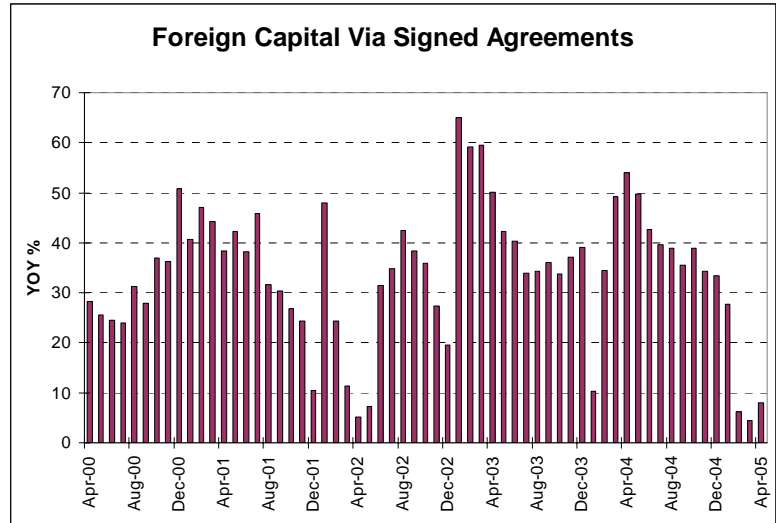
## Chart of the Week



Foreign Capital Utilized decreased from 9.5% Y/Y in March to 2.2% Y/Y in April. Growth in this series has been slowing since January of 2004

## Foreign Capital Via Signed Agreements

*Foreign Capital Via Signed Agreements growth increased from 4.2% to 8% in April, improving from a three year low recorded in March.*



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## *News/Data/Commentary*

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**May 12<sup>th</sup> - New Restrictions on Real Estate Sales** - China is imposing stricter rules and taxes on transactions involving real estate to control speculation that a property price bubble has been created. The official Xinhua News Agency reported that homebuyers will be subjected to taxes being placed on their sales price should they decide to sell their house within the first two years after purchase starting June 1<sup>st</sup>. Another rule imposed by the government, limits stockpiling by speculators, by revoking rights to use the land after it's been kept idle in excess of two years.

**May 12<sup>th</sup> - Inflation May Have Reached 1.8%** - The Shanghai Morning Post reported that China's CPI may have risen 1.8% in April – slower than the 2.7% in March of this year. Official inflation figures will be released by China's Statistics Bureau on May 16<sup>th</sup>.

**May 11<sup>th</sup> – Revaluation Could Hurt Exports** – A government report written by Zhai Zhihong of the Trade Department of the National Bureau of Statistics stated that revaluing the yuan may hurt exports. According to the report, “Revaluing the yuan by 3 to 5 percent against dollar this year could slow China's annual export growth to less than 10 percent from last year's 35 percent.” Zhai also stated in the report that “hot money speculation on a yuan revaluation may flee China if the yuan rose in value, alleviating pressure on the currency.” Zhai predicts that the trade surplus may double in 2005 if the currency is not revalued.

**May 11<sup>th</sup> – When Will the Yuan Reform Take Place?** - Deputy Central Bank Governor, Wu Xiaoling, stated that China is ready for yuan reform; however, it won't be forced into it by the U.S. According to Japan's Nihon Keizai newspaper, Wu commented that China wants to make its own decision as to when it should revalue the yuan. Additionally, Wu condemned the U.S. for trying to impose taxes on Chinese-made goods unless China revalued its currency. He further added that “If the United States had not created this environment, the reforms would probably have happened more quickly than people predicted.”

Other comments on yuan reform:

- May 11<sup>th</sup> – **BoJ Governor, Toshihiko Fukui**, said he doesn't “have such a perception” that China is ready to revalue its currency.
- May 9<sup>th</sup> – **Henry Tang, Hong Kong's Financial Secretary**, said China will make changes to its currency “when the Americans stop being so noisy about it.” He added “the surprise will be the timing.”
- May 6<sup>th</sup> – **Li Yong, China's Deputy Finance Minister**, charges that China is working “very hard” on its exchange rate reform.
- May 5<sup>th</sup> – **Bobby Pittman, Deputy Assistant Secretary of the U.S. Treasury**, stated China “is ready” to relax the yuan against the dollar and “should move to a more flexible regime now.”

**May 9<sup>th</sup> – Large Retail Stores Grew 20%** - According to China's General Chamber of Commerce, statistics showed that sales at China's top 100 retail stores grew 20.9% Y/Y in Q1. The growth was primarily attributed to increased sales of timber, chemicals and electronic publications. The sales of garments, food products, home electronic appliances and mobile phones also added to the increase.

**May 8<sup>th</sup> - Exports Likely Rose 33% in April** – Chinese exports probably rose by 33.0% Y/Y in April, for the sixth consecutive month. The increase was a result of a surge in textile shipments to the U.S. and Europe as well as a curb in demand for foreign goods due to imposed lending restrictions.



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## *News/Data/Commentary, cont'd.*

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**May 6<sup>th</sup> – China's Economic Growth High** – Li Yong, China's Deputy Finance Minister, was reported as saying China's economic growth is "still too high". Growth was expected to be about 8.9% to 9.0%, however, it expanded to 9.5% in Q1 from a year earlier.

**May 6<sup>th</sup> – Plans to Cut Budget Deficit** – China's Finance Minister, Jin Renqing, was cited as saying, by the Zinhua News Agency, that the government plans to revise its 2005 budget deficit down to 300 bln yuan; a cut of 19.8 bln yuan from 2004. Its deficit as a % of GDP will decrease from 2.5% in 2004 to 2.0%.

**May 5<sup>th</sup> – The IIF Says China May Sustain 9.5% Growth** – The Institute of International Finance reported that China May retain 9.5% growth in 2005. The growth is a result of foreign investments' effects on industrial expansion. Managing Director of the IIF, Charles Dallara, told reporters that "China and India are becoming remarkable stories of economic growth and there does not appear much immediate prospect that that will change."

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## *Key Dates*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/14	CPI (Y/Y) – Apr	--	--
05/17	Value Added Industry Current - Apr	--	--
05/17	Value Added Industry (Y/Y) - Apr	--	--
05/18	Fixed Assets Inv Urban Cum (Y/Y) - Apr	--	--
05/18	Contract FDI Cumulative (Y/Y) - Apr	--	--
05/18	Actual FDI (Y/Y) – Apr	--	--

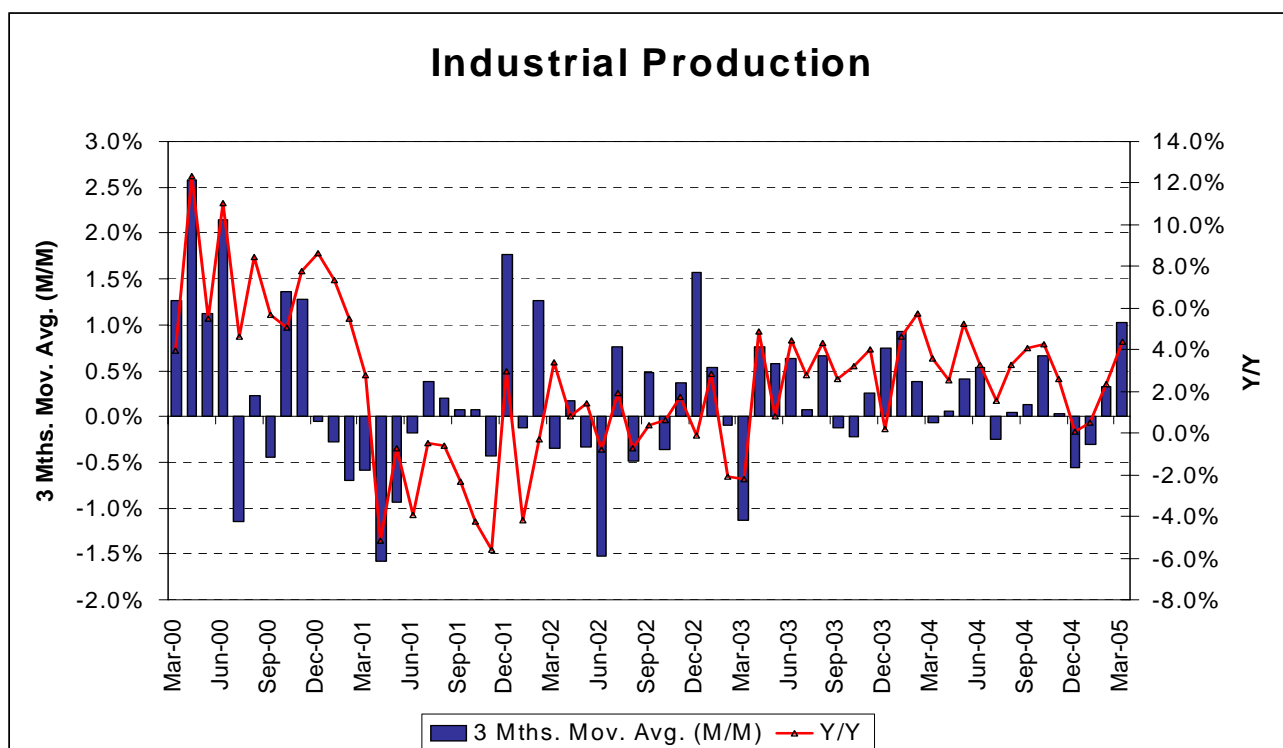
# Sweden

Sweden's economy this week was highlighted by increases in its Industrial Production and Activity Index Level. Industrial Orders fell way below expectations, signaling weakness in both the export and domestic markets. The government estimates the Swedish economy will probably grow 3.2 this year to 2.7% in 2006.

## Weekly Highlights

- **Industrial Production** – increased 0.6% M/M and 4.4% Y/Y in March. (page 35)
- **Budget Balance** - surplus of SEK 12.9 bln in April, above expectations. (page 36)

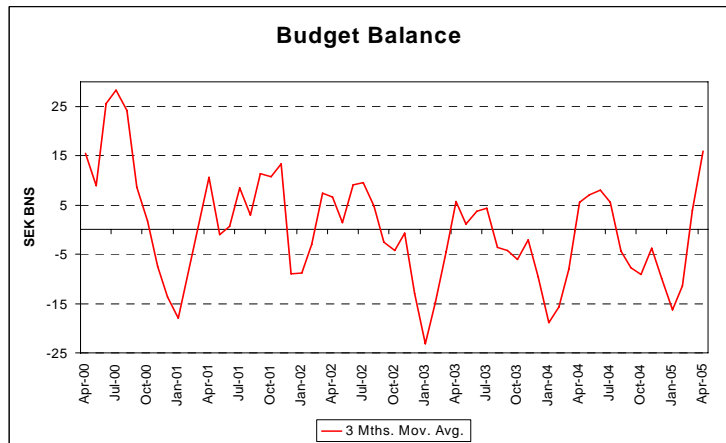
## Chart of the Week



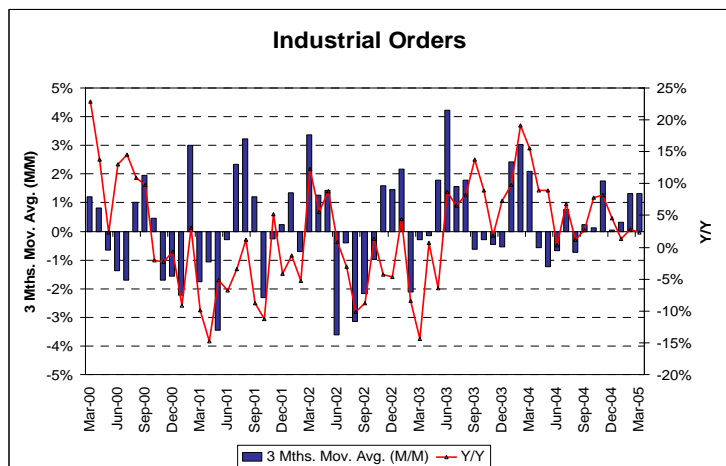
Industrial Production rose 0.6% M/M and 4.4% Y/Y in March, above expectations, posting its largest gain since December 2003. The growth was attributed to an increase in manufacturing of cars and telecommunications equipment.

## Budget Balance, Industrial Orders & Activity Index Level

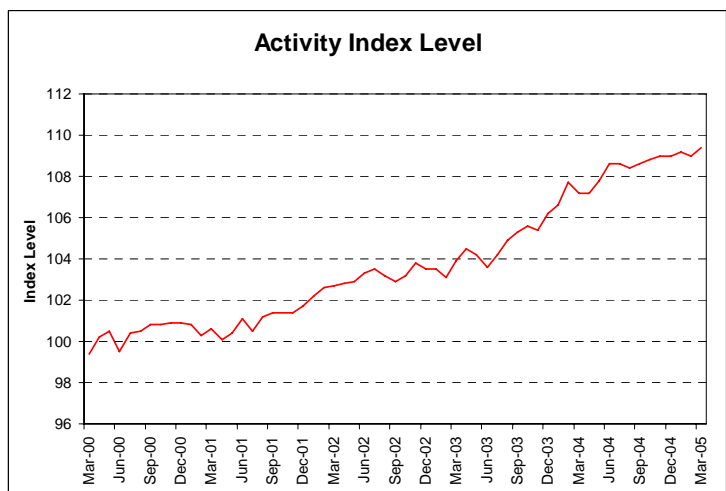
Sweden experienced a wider-than-expected surplus of SEK 12.9 bln in April – down from SEK 19.6 bln in March. The surplus was partially a result of Vattenfall AB's (a state-owned energy company) unexpected payment of 2.5 bln more in dividend.



Industrial Orders fell 1.2% M/M and 5.0% Y/Y in March. This was reflective of M/M decreases in the export and domestic markets of 1.7% and 0.5%, respectively. New orders in the capital goods and intermediate goods industries also saw declines of 2.0% M/M and 0.3% M/M, respectively.



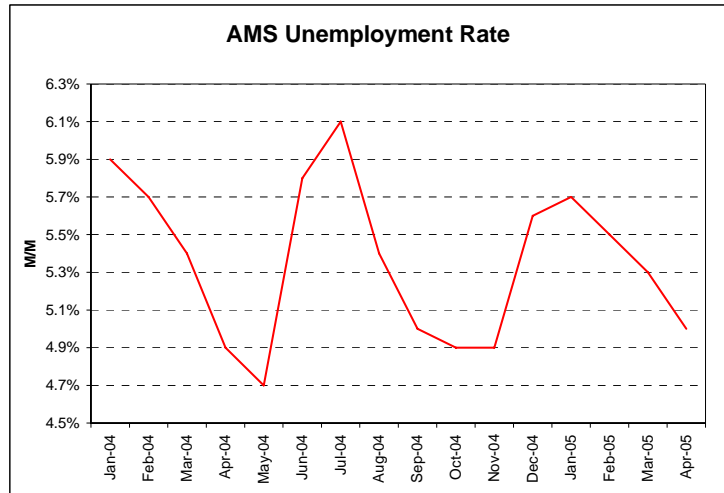
The Activity Index Level increased from a revised 109.0 in February (down from 109.2) to 109.4 in March. The growth was attributed to increased retail sales and industrial production.



## AMS Unemployment Rate

*The labor board's unofficial Unemployment Rate declined from 5.3% in March to 5.0% in April. The decrease was a result of more individuals being hired and less being fired.*

*A total of 221K Swedes were unemployed – a drop of 10K from the month before. Some 4.4K individuals lost their jobs in April, down from 9.3K the previous month. This data is based on the number of people collecting unemployment benefits at the end of the month.*



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## *News*

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**May 12<sup>th</sup> – Bank Policies Cost Jobs** – Anders L. Johansson, Head of the Swedish Employment Service, is blaming Sweden's Central Bank for the country's unemployment problems. Johansson cites high productivity and an ineffective interest rate policy as being the cause of the problems. He reportedly stated "There is no strict scientific evidence but in our view about 50,000 jobs have been lost because of erroneous interest rate policy in Sweden." Johansson further predicted a 4.0% unemployment rate in 2006. "The goal of 4% open-unemployment is realistic seeing that we can offer employers support with recruitment as well as financial assistance for employing new people - which in turn will encourage employment," Johansson added.

**May 11<sup>th</sup> – Analysts Expect A Rate Cut** - Analysts predict that Sweden's Central Bank will cut rates in June. A survey conducted by Dagens Industri shows that due to a sluggish economy and following weak economic data, analysts expect the Bank to cut its repo rate by 50 basis points to 1.5%

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## *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/13	CPI – Headline Rate (M/M) – Apr	0.2%	0.2%
05/13	CPI – Headline Rate (Y/Y) – Apr	0.3%	0.1%
05/13	CPI – Underlying Infl. (M/M) - Apr	0.2%	0.2%
05/13	CPI – Underlying Infl. (Y/Y) - Apr	0.5%	0.5%