

Weekly Economic Reports

May 18, 2005

Highlights

- **US:** Inflation receding from view?
- **Euro:** ECB claims its already doing enough
- **Japan:** GDP, confidence, and CGPI all higher-than-expected
- **UK:** Weaker housing and employment data
- **Australia:** RBA tightening back on track?
- **China:** Inflation continues to slow

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United States
Cesar Guerra
(340) 692-7710
cguerra@valance.us

Europe
Sean O'Reilly
(340) 692-7710
soreilly@valance.us

Japan & China
La-Toya Elizee
(340) 692-7710
lelizee@valance.us

United Kingdom
Gabe Webber
(340) 692-7710
gwebber@valance.us

*Canada, Australia &
New Zealand*
Davin Patton
(340) 692-7710
dpatton@valance.us

Switzerland
Milo Prochazka
(340) 692-7710
mprochazka@valance.us

Sweden
Evelyn Richards
(340) 692-7710
erichards@valance.us

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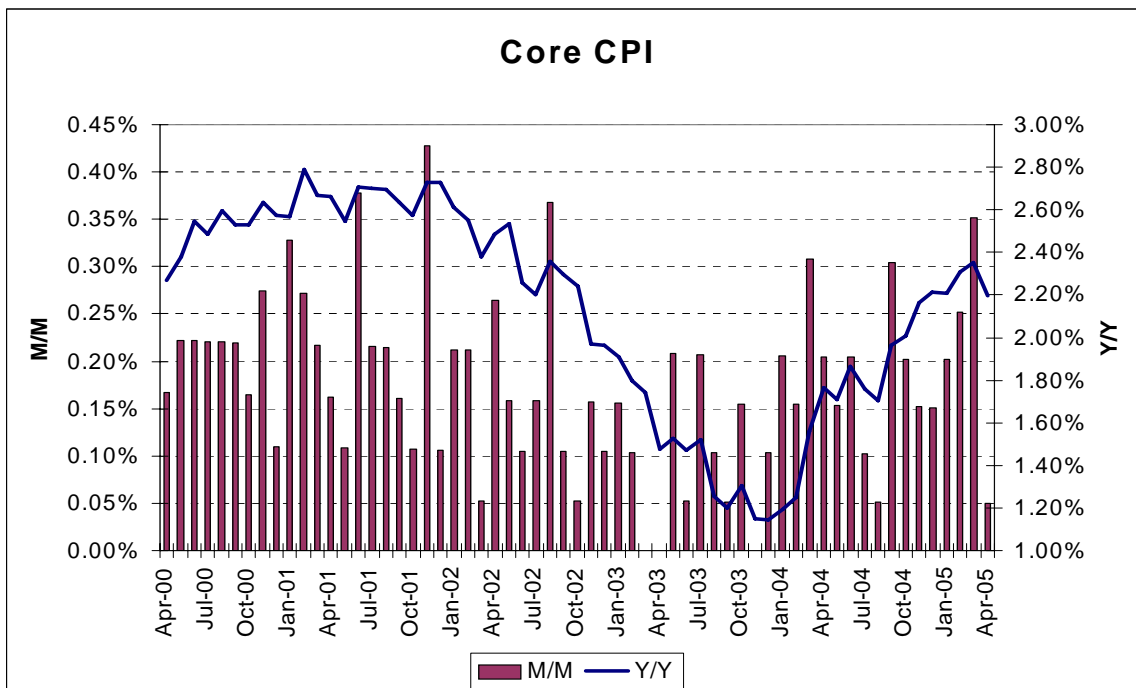
U.S.

This week's economic data was highlighted by restrained core inflation in CPI, PPI and import prices. The consensus from the Fed that inflation would remain contained has been confirmed thus far. However, this does not necessarily mean the Fed is going to pause. This week Kohn said, "My best guess is that inflation will remain contained provided we continue to tighten at a measured pace." It appears that some members of the Fed believe continued, measured hikes are a necessary condition to keep inflation under control.

Weekly Highlights

- **Core CPI-** flat M/M in April. (page 2)
- **Core PPI-** increased 0.3% M/M in April. (page 3)
- **Housing Starts-** snap back in April. (page 4)
- **Capacity Utilization-** dropped to 79.2% in April. (page 5)
- **Consumer Confidence-** weak in May. (page 6)

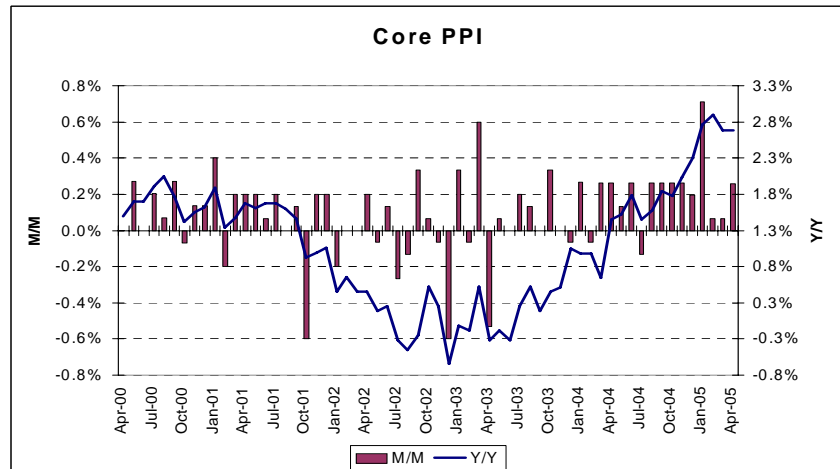
Chart of the Week



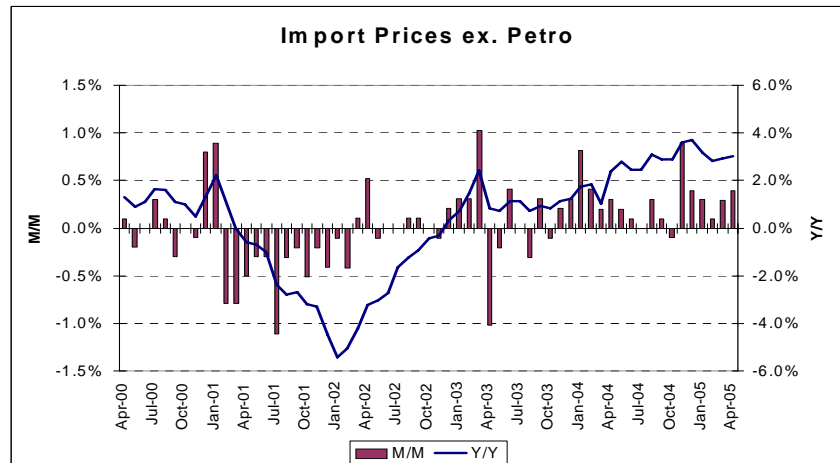
Core CPI was flat M/M and increased 2.2% Y/Y in April. The M/M increase, rounded down from 0.499%, was mostly driven by declines in the volatile lodging away from home and apparel components. April's tame core CPI added another arrow in the quiver of those calling for the Fed to pause early.

Core PPI, Import Prices & Mortgage Applications

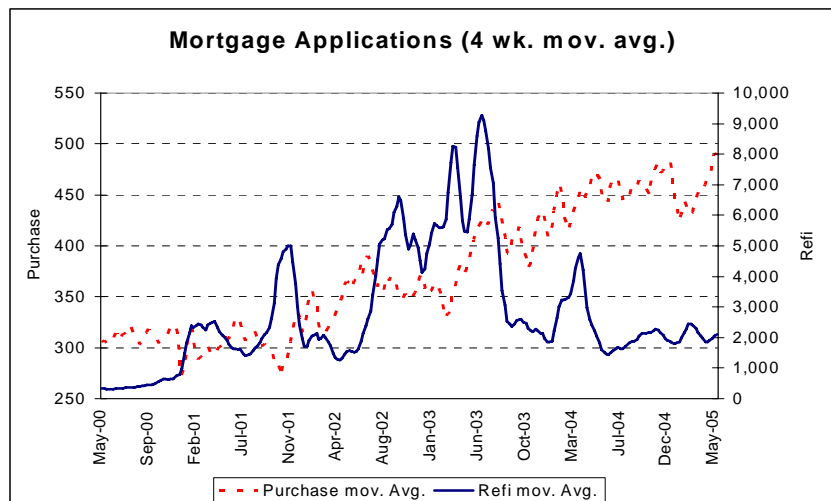
Core PPI increased 0.3% M/M and 2.6% Y/Y in April. Core crude goods prices increased 0.8% M/M, but core intermediate goods only increased 0.2% M/M. The recent decline in commodity prices should moderate inflationary pressures in PPI.



Import Prices, excluding petroleum, increased 0.4% M/M and 3.0% Y/Y in April. Import prices, excluding all fuel, were up only 0.1% M/M and 2.3% Y/Y. This series should further moderate in the months ahead in light of the recent strength in the US\$.

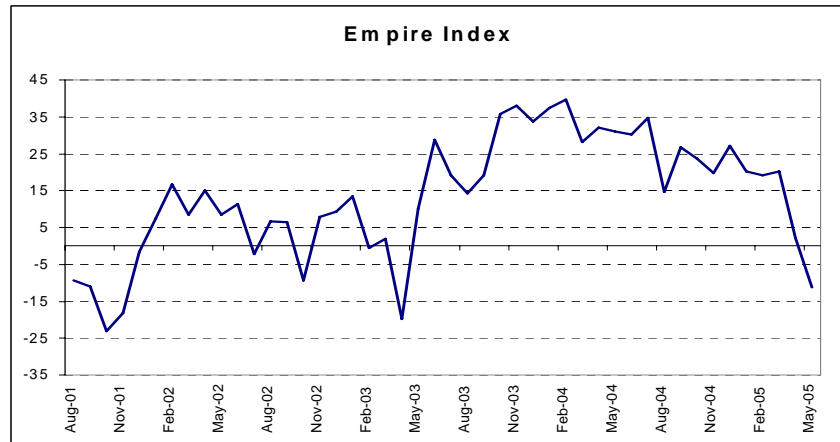


Purchase and refinancing mortgage applications decreased 10.8% and 10.0%, respectively this week, despite the drop in mortgage rates. Purchase applications' upward trend moderated with this week's decline.

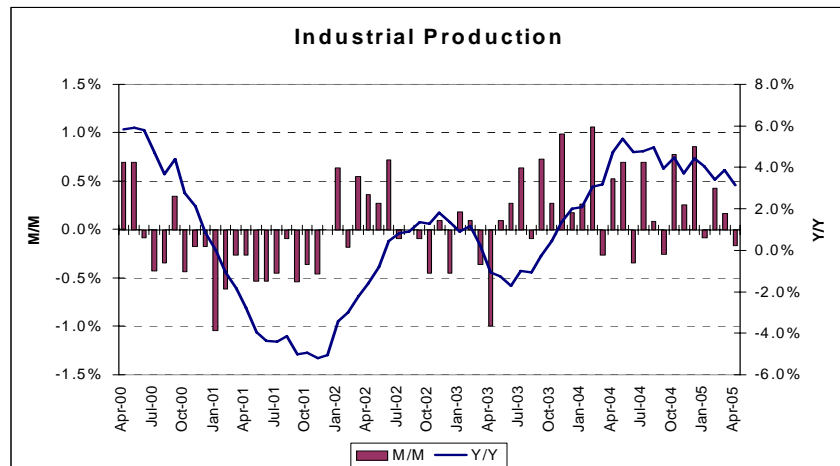


Empire Index, Industrial Production & Cap. Utilization

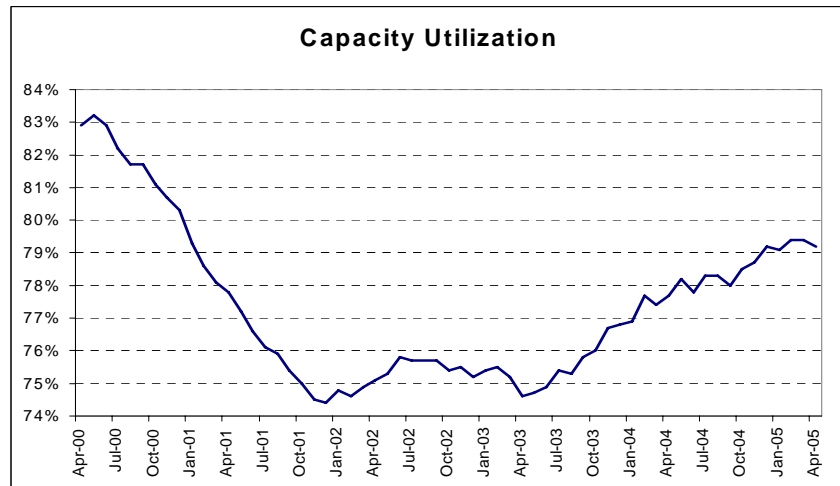
The Empire Manufacturing Index dropped from 2.03 to -11.11 in May. The employment component decreased from 8.5 to 0.16 and the price component also declined.



Industrial Production declined 0.2% M/M and 3.1% Y/Y in April. The cut in auto production was a significant contributor. Excluding autos, industrial production increased 0.4% M/M.

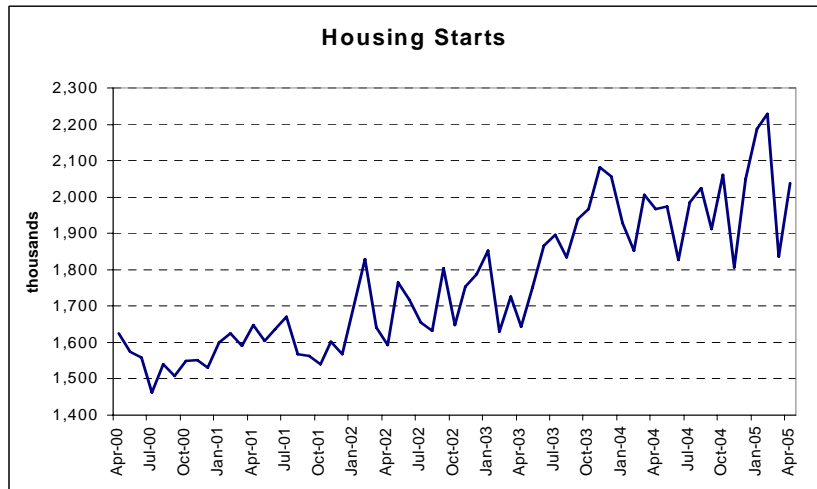


Capacity Utilization dropped to 79.2% in April. The Utilization rate continues to show that slack remains and has been flat since December of 2004.

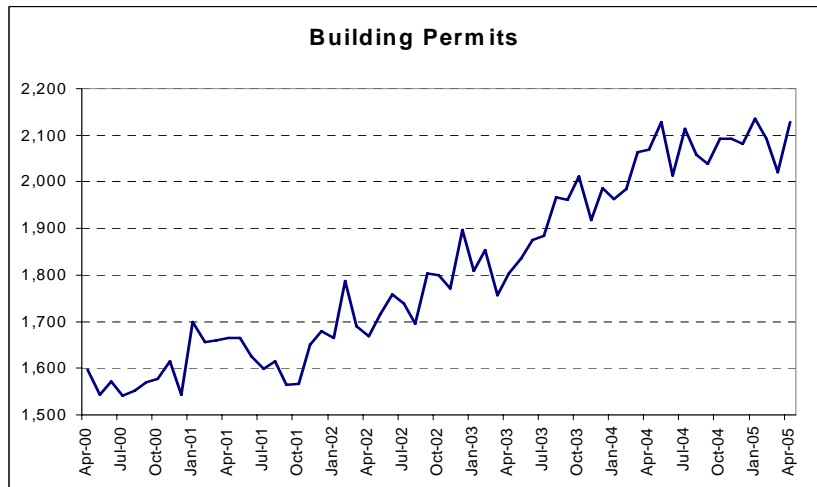


Housing

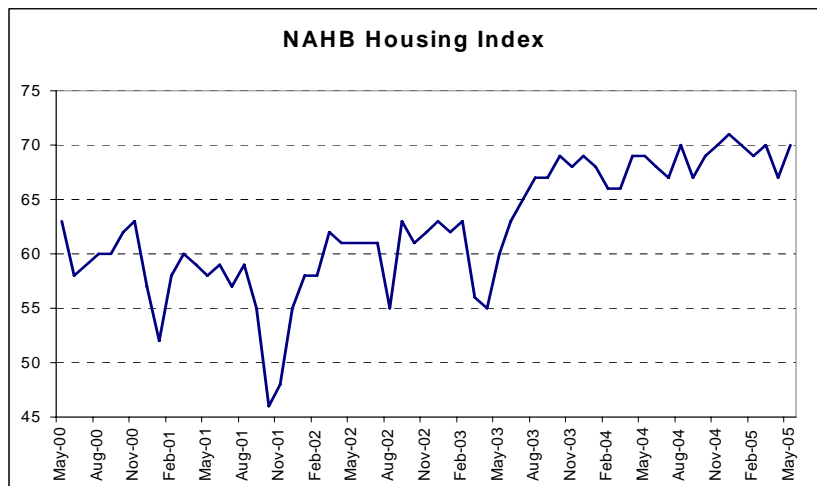
Housing starts rebounded from 1,836k to 2,038k in April. The trend in this series has been flat despite large swings on a month-to-month basis. The housing market is unlikely going to make large contribution to growth going forward.



Building permits grew from 2,021k to 2,129k in April. This series has stabilized around 2,100k units on an annualized basis, but does not show any significant growth.

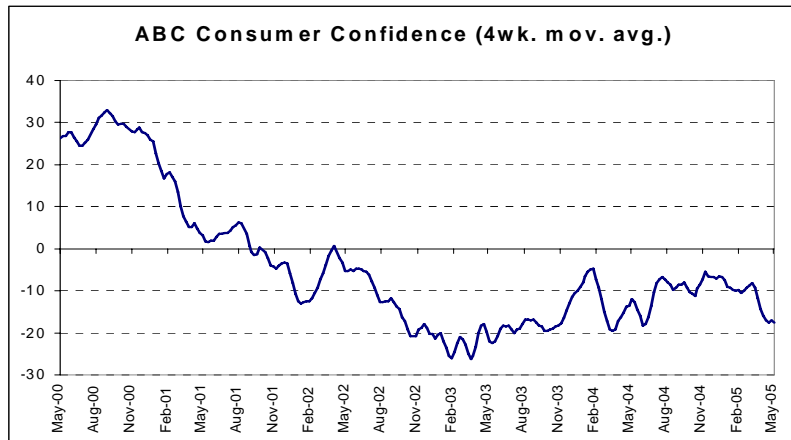


The NAHB Housing Market Index improved from 67 to 70 in May. This series also looks relatively flat over the past year. Present and future sales both improved.

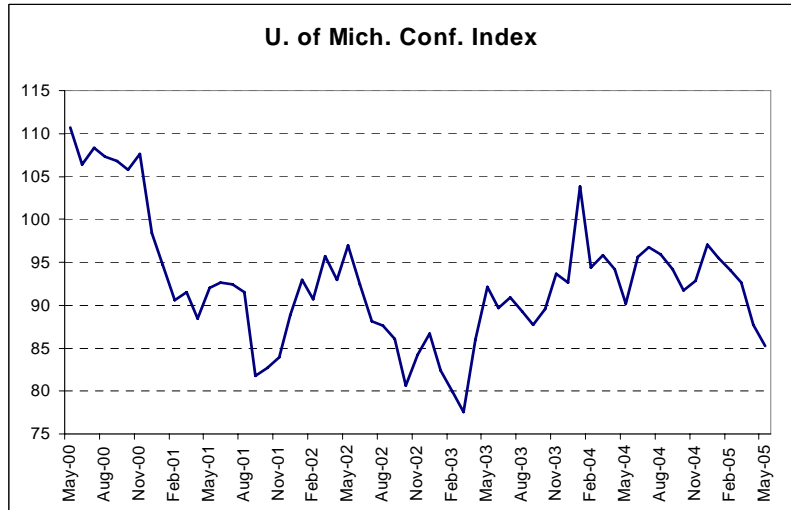


Confidence & Business Inventories

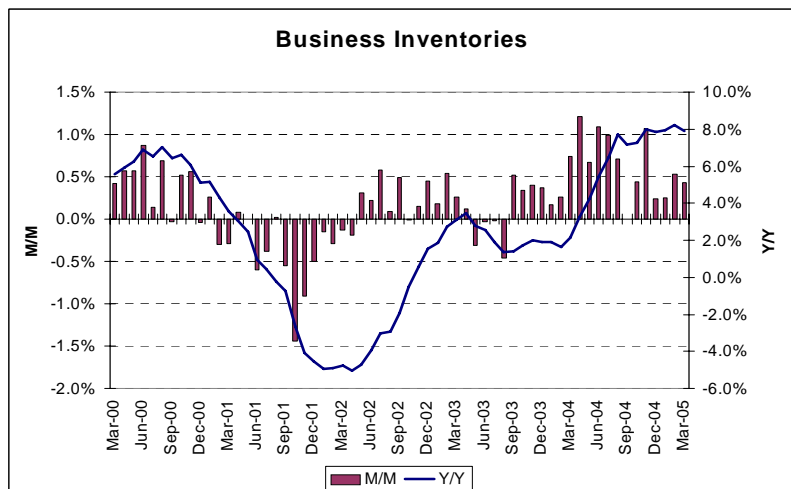
The ABC Consumer Confidence Index decreased from -16 to -18 this week. The buying climate series remained at -32, the economy series declined from -32 to -34, and the finance series dropped from 16 to 12.



The University of Michigan Confidence Index continued to trend lower and dropped from 87.7 to 85.2 in May. The current component declined from 104.4 to 103.3 while the expectations component declined from 77.0 to 73.7.



Business inventories increased 0.4% M/M and 7.9% Y/Y in March. Inventories grew at a slower pace than expected in March and should lead to a smaller contribution to Q1 GDP than initial estimates indicated.



Key Dates This Week

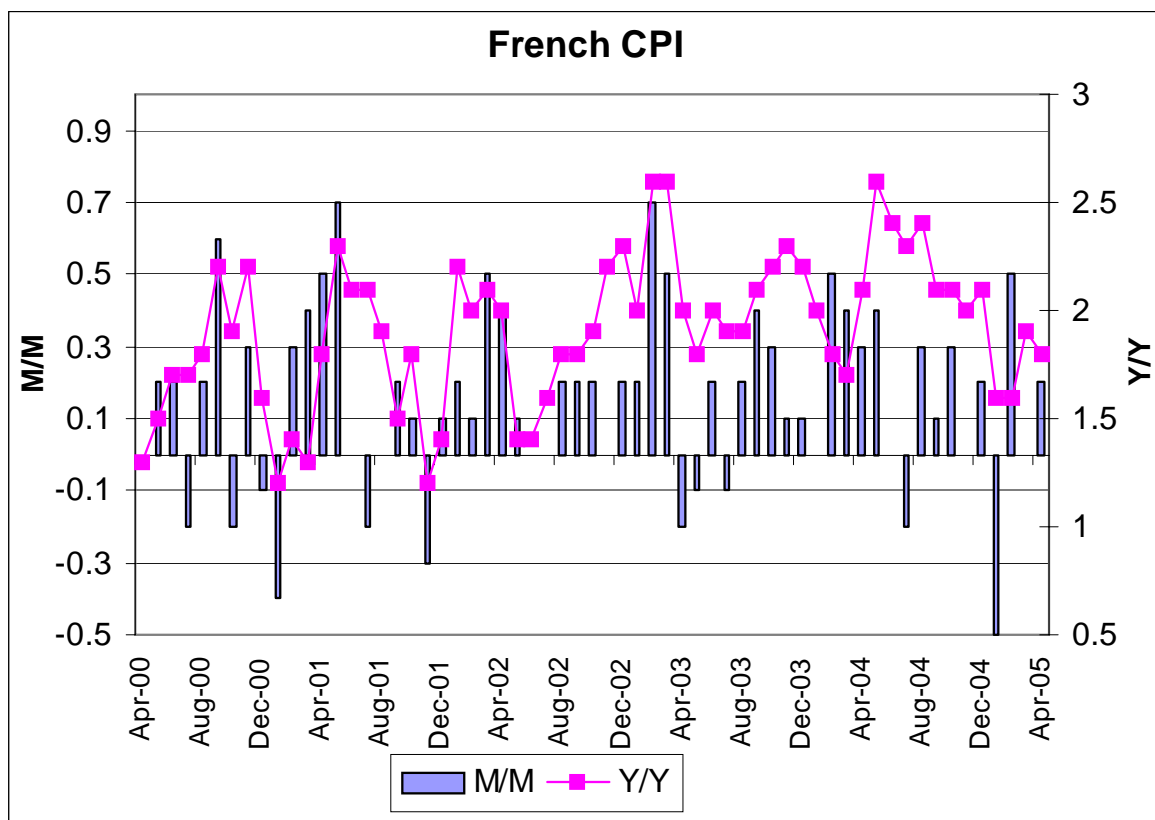
<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/19	Initial Jobless Claims (MAY14)	330K	340K
05/19	Continuing Claims (MAY 7)	2,583K	2,598K
05/19	Leading Indicators (APR)	-0.2%	-0.4%
05/19	Philadelphia Fed. (MAY)	17.3	25.3
05/24	Existing Home Sales (APR)	6.90M	6.89M
05/24	ABC Consumer Confidence (MAY 22)	NA	NA
05/25	MBA Mortgage Applications (MAY 20)	NA	NA
05/25	Durable Goods Ex. Transportation (APR)	1.1%	-1.0%
05/25	New Home Sales (APR)	1,305K	1,431K

Economic releases in the Euroland were rather sparse this week, with relatively tame numbers being seen. French inflation abated slightly, French Payrolls grew just enough to compensate for the growing labor force, Euro Zone car sales fell, and Italian imports were relatively strong. The next two weeks should be very interesting heading into the ECB's June 2nd meeting, as a slew of GDP, confidence and spending figures are released. Look for a less hawkish ECB on the back of weak growth figures.

Weekly Highlights

- **French CPI-** April's inflation slowed slightly as a result of falling food and energy costs. (page 8)
- **French Payrolls** – grew 0.1% Q/Q in Q1. (page 9)
- **Italian Trade Balance** – imports rose for the 2nd consecutive month in March. (page 10)

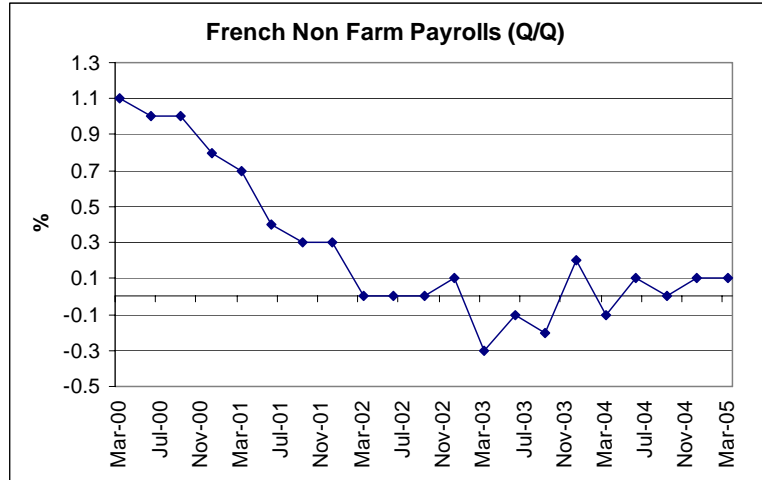
Chart of the Week



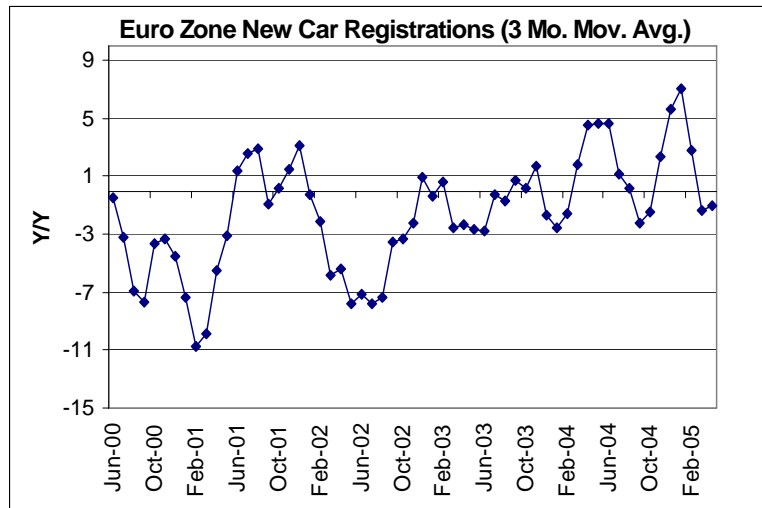
France's April Consumer Prices slowed to 0.2% M/M and 1.8% Y/Y, continuing the belief that little to no inflationary pressure exists. Energy costs increased 1.8% M/M in April after increasing 2.6% M/M in March.

French Payrolls, Euro Zone Car Reg's. & Spanish CPI

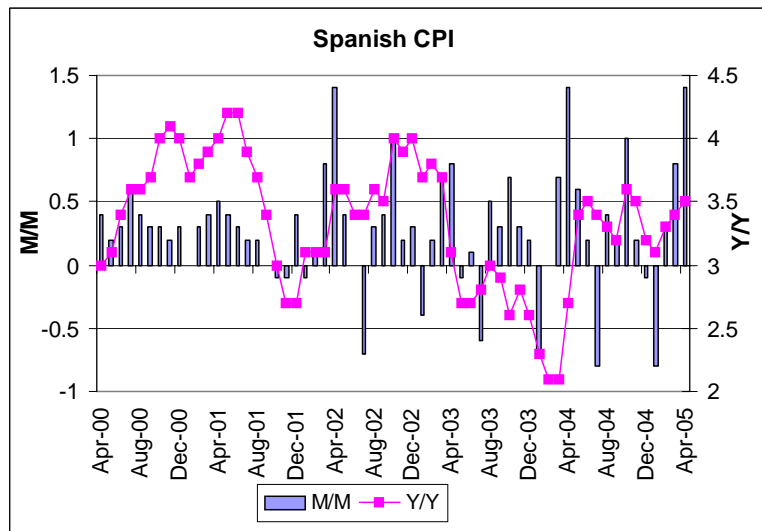
France's Q1 Non Farm Payrolls increased 0.1% Q/Q, as payrolls climbed by 11,400. The Insee Institute forecasts a pickup of 41,000 jobs during the first half of the year; about the same rate of expansion as the labor force. The French unemployment rate stands at 10.2%.



The Euro Zone's April New Car Registrations increased for the first time in 3 months, climbing 2.1% Y/Y. But car sales fell for the fourth consecutive month, declining 0.8% Y/Y.

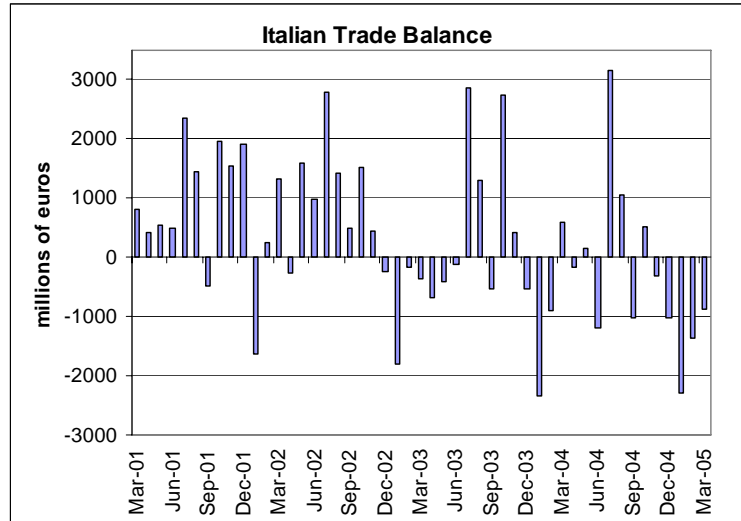


Spain's April CPI increased 1.4% M/M and 3.5% Y/Y, in line with market expectations. It was the largest Y/Y increase in a year as tobacco and clothing prices increased. Inflation in Spain remains above that of all its Euro Zone counterparts.

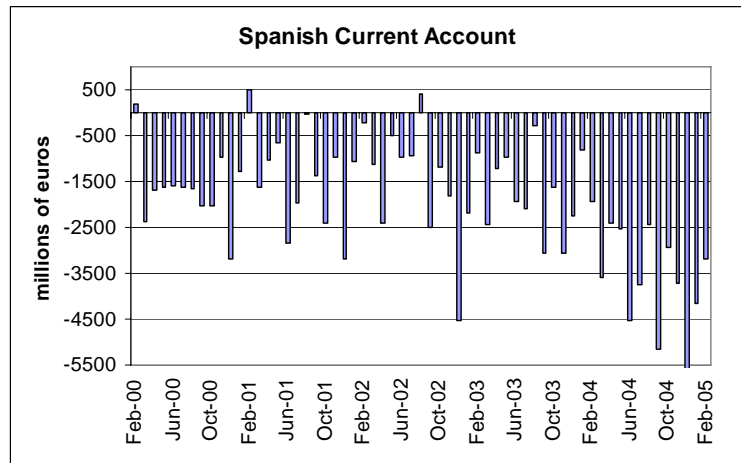


Italian Trade Balance & Spanish Current Account

Italy's March Trade deficit narrowed slightly from 1.3 billion euros in February to 0.8 billion as import growth slightly outpaced that of exports. March's exports expanded 5.1% Y/Y while imports grew 11.1%.



Spain's February Current Account deficit narrowed from 4.1 billion euros in January to 3.1 billion.



ECB:

May 18th – **EU Finance Ministers** agreed to simulate a European financial crisis to be certain that they would be prepared for any possible financial disasters. ECB President Trichet noted that if a crisis did take place the EU would be better able to exchange information as quickly as possible. The simulation just may be needed if the ECB does indeed hike rates.

May 14th – **ECB President, Jean Claude Trichet**, reiterated that lending rates are “appropriate” and dismissed the number of concerns expressed by finance ministers during the last few weeks. Concerning the differences between growth figures in Euro Zone economies Trichet stated, “We examine the whole of the euro region and we judge that our policy is appropriate.”

May 13th – **The EU voiced serious concerns** about economic growth in the Euro Zone after Italian growth contracted in Q1. Finance ministers voiced concerns over oil prices and fragile consumer confidence figures as downside risks to 2005 growth.

May 13th – **ECB board member, Jose Gonzalez-Paramo**, stated that inflation may fall below 2% within the next few months. Gonzalez-Paramo also stated that rates “are at the appropriate level to fulfill our inflation expectations, and keeping them there is making a great contribution to growth.” The question is whether or not the ECB would deem those rates appropriate amongst sub 2% inflation.

Germany

May 17th – The **German Bundesbank** stated that “State finances will this year once again not improve decisively” leading to another violation of the EU deficit rules. They also noted that the government’s plan to comply in 2006 is “under threat, especially if growth remains weak.” Higher than expected spending on unemployment and lower than expected Bundesbank profits are two large reasons for the expected risks.

May 17th – The **German Bundesbank** stated that Germany’s economy most likely grew at a slower pace than reported in Q1 due to a “somewhat exaggerated” adjustment to the number of work days. They did not comment on how much lower than the reported 1% Q/Q growth figure they expected GDP to be.

May 17th – **Germany will sell its first dollar bond** by the end of June in an attempt to help lower borrowing costs. It’s an interesting attempt at diversifying the country’s avenues of funding, though only time will tell of its success.

May 14th – **ECB member, Axel Weber**, commented on German growth emphasizing that exports were the only driver of growth at the moment. Weber also stated that “the low level of growth will remain. At the moment we have very mixed data. We expect lower growth rates for the rest of the year, and a clear weakening in Q2 after 1% growth in Q1. Annual growth can’t possibly be much lower than 1% we forecast.”

France

May 17th – **French President, Jacques Chirac**, stated that he has no back up plan if voters vote against the EU constitution on May 29th. Chirac stated, “I’d like to break this illusion that a renegotiation will be more favorable to French people. The only thing that will happen is that there will be more uncertainty.” A no-vote in France would kill the constitutional process before it even gets started as unanimous support is necessary. Current polls suggest a 52% vote against the constitution.

May 16th – **The Bank of France** expects economic growth to pick up this quarter due to a pick up in domestic demand. The Bank raised its Q2 forecast from 0.4% to 0.5%. Interestingly, recent consumer and business confidence numbers, coupled with oil prices, paint a slightly different picture.

Italy

May 17th – **Italian Finance Minister, Domencio Siniscalco**, stated that lower than expected growth will require a better budget plan that aims to reduce the budget deficit in the coming years. He also noted that a slower than expected expansion (the economy shrank in Q1) would push the deficit somewhere between 3.5 and 4% of GDP. “We will need to fix medium term deficit objectives and outline a credible path (of deficit goals). Budgets must be able to assure a re-entry (to within the EU limits) without suffocating growth prospects.” A day earlier Siniscalco stated that Italy would proceed with their tax cut plans for this and next year and that ruled out deficit cutting measures. Siniscalco is hoping that the EU allows Italy to exceed the deficit limit so the government can cut corporate taxes in 2006.

May 13th – **Italy’s largest retail trade association, Confcommercio**, severely cut their 2005 growth forecast from 1.6% to 0.3% after Italy contracted in Q1. Weak domestic and foreign demand were cited as the reasoning behind the drastic cut.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/19	German Producer Prices (APR)	4.0% Y/Y	4.2% Y/Y
05/19	Euro Zone CPI (APR)	0.4% M/M	0.7% Y/Y
05/19	Euro Zone Industrial Production (MAR)	-0.3% M/M	-0.5% M/M
05/20	French GDP (Q1)	0.5% Q/Q	0.9% Q/Q
05/20	Spanish Factory Orders (MAR)		5.6% Y/Y
05/24	French Consumer Spending (APR)		-0.8% M/M
05/24	German Exports (Q1)		0.2% Q/Q
05/24	Euro Zone ZEW survey (May)		24.6

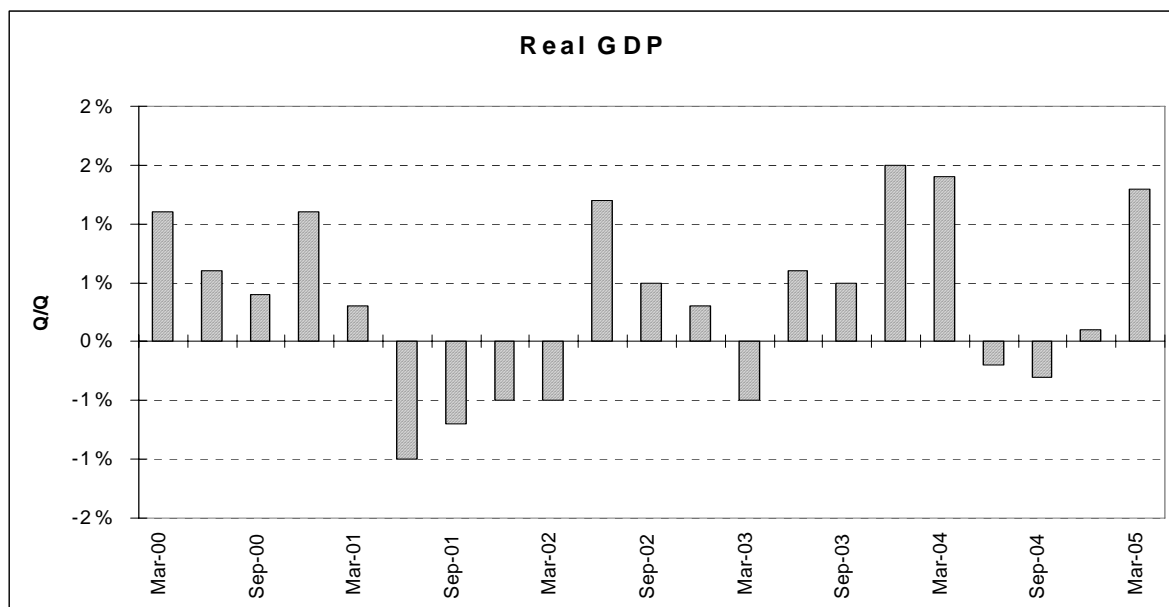
Japan

Some positive surprises were seen in Japan economic releases over the past week. Real GDP rebounded strongly at 1.3%, doubling expectations. Also, Domestic Corporate Goods Prices tripled expectations with its highest M/M growth since 1980. Furthermore, Consumer Confidence increased across the board, and Bankruptcies continues to decline. Upward revisions were also seen in Industrial Production and Machine Tool Orders.

Weekly Highlights

- **Real GDP** - increased 1.3% Q/Q and an annualized 5.3% in Q1. (page 14)
- **Domestic CGPI** - increased from 0.3% M/M and 1.4% Y/Y in March to 0.6% M/M and 1.8% Y/Y in April, well above expectations. (page 16)
- **Consumer Confidence** - increased from 45.3 to 47.4 in April, above expectations. (page 18)

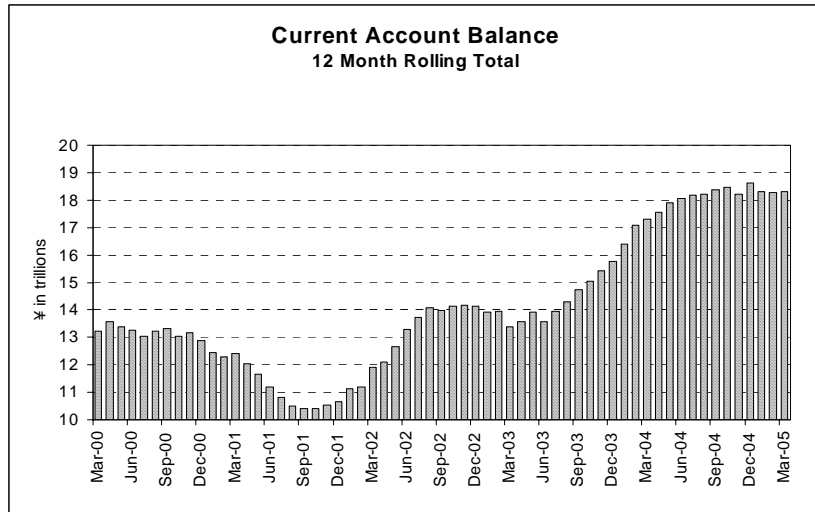
Chart of the Week



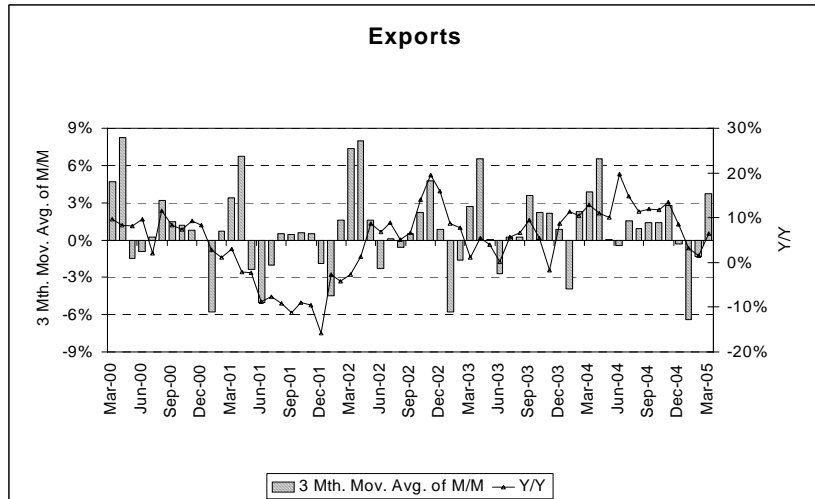
Real GDP increased 1.3% Q/Q and an annualized 5.3% in Q1. Positive contributors to the strong GDP results were personal consumption (1.2%) and capital investment (2.0%). Inventory investment contributed 0.4%. On the downside, we saw residential investments at (-1.4%), public investments (-1.7%) and net exports contributing -0.1%. Meanwhile, the GDP deflator decreased 1.2% Y/Y; however, this result is not as severe as it appears since it may have been pushed down by temporary factors. For example, the consumption deflator received negative pressure due to reductions in utility rates and the public demand deflator may have received some downward pressure due to revisions to public employee pay in October-December. All in all, GDP rebounded strongly in Q1.

Trade Data

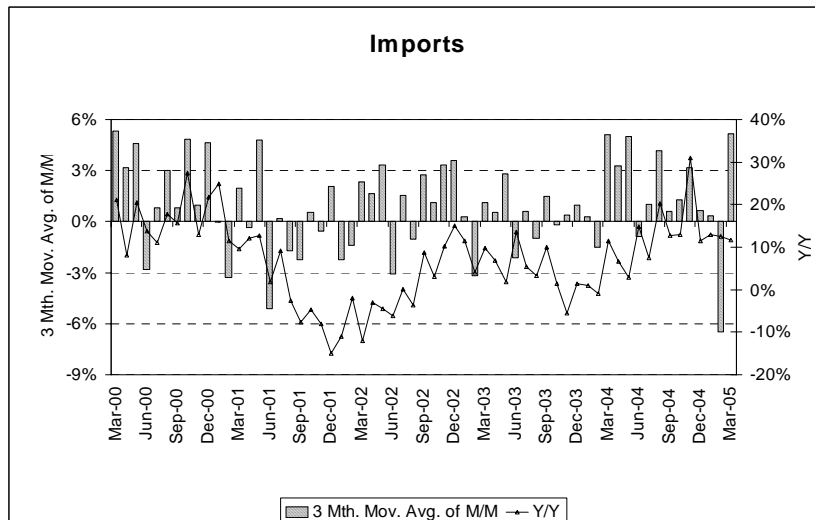
The Current Account Balance decreased from ¥2117.4 billion to ¥1851.1 billion in March. On a twelve month rolling basis, the Current Account Balance has been steady around ¥18 trillion (about 3.7% of GDP) for about one year.



Exports increased 19.4% M/M and 6.5% Y/Y in March. On trend terms, exports have begun to pick up after experiencing a sharp decline in January.

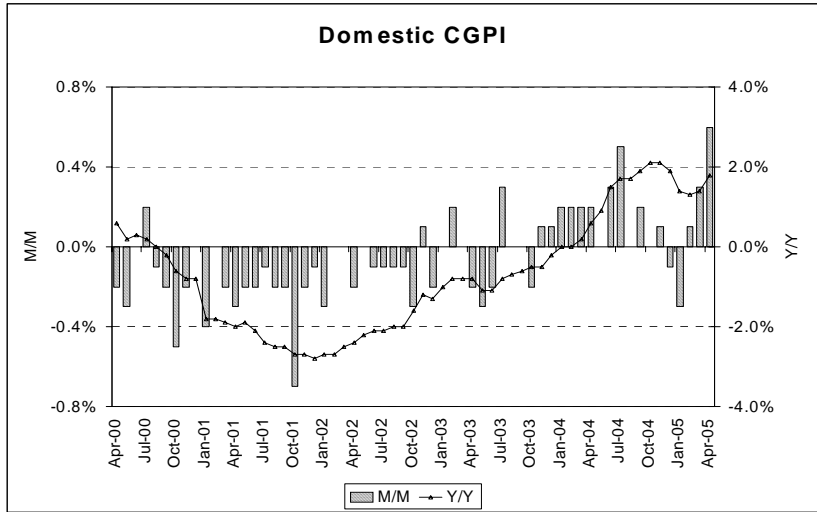


Imports increased 26.8% M/M and 11.8% Y/Y in March.

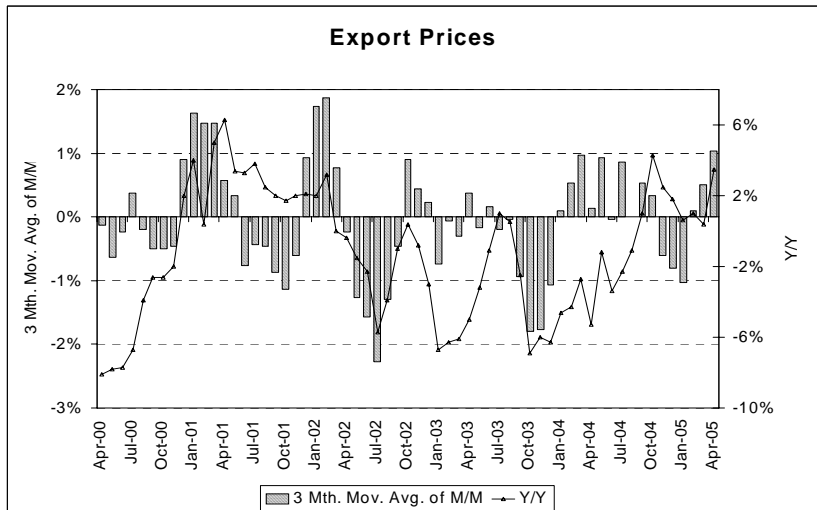


Price Data

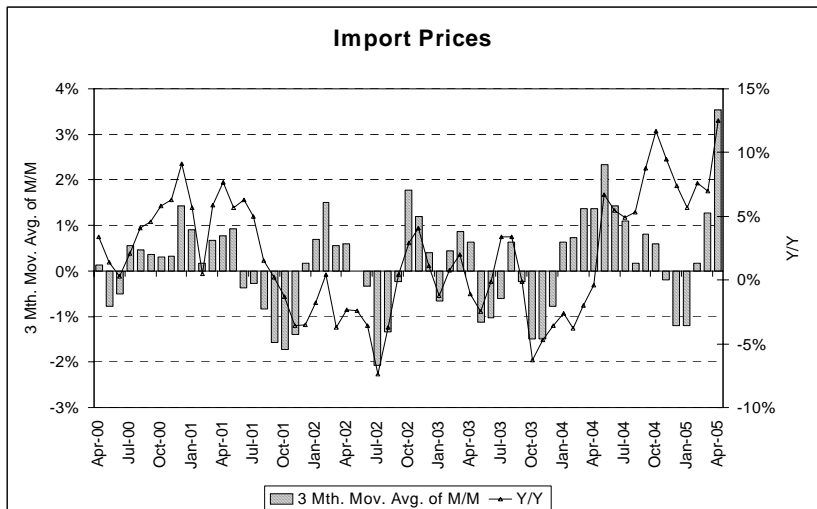
Domestic CGPI increased from 0.3% M/M and 1.4% Y/Y in March to 0.6% M/M and 1.8% Y/Y in April, well above expectations and fuelled by higher fuel prices. The M/M growth was the fastest since 1980. Also, final goods prices posted their third consecutive M/M increase.



Export Prices increased 1.0% M/M and 3.5% Y/Y in April.

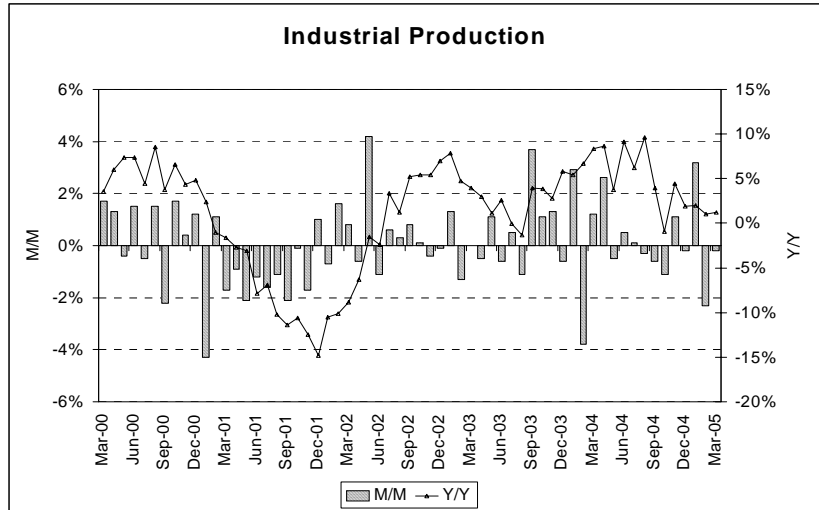


Import Prices increased 6.0% M/M and 12.5% Y/Y in April.

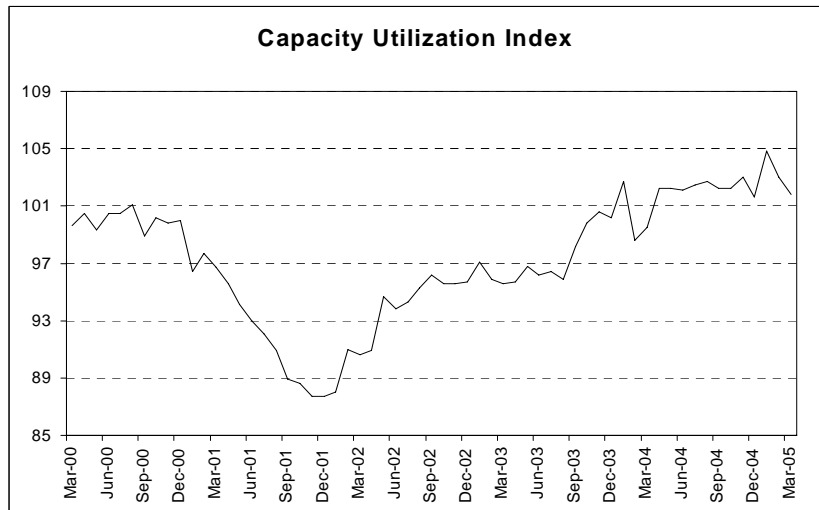


Industrial Production, Capacity Utilization & Machine Tool Orders

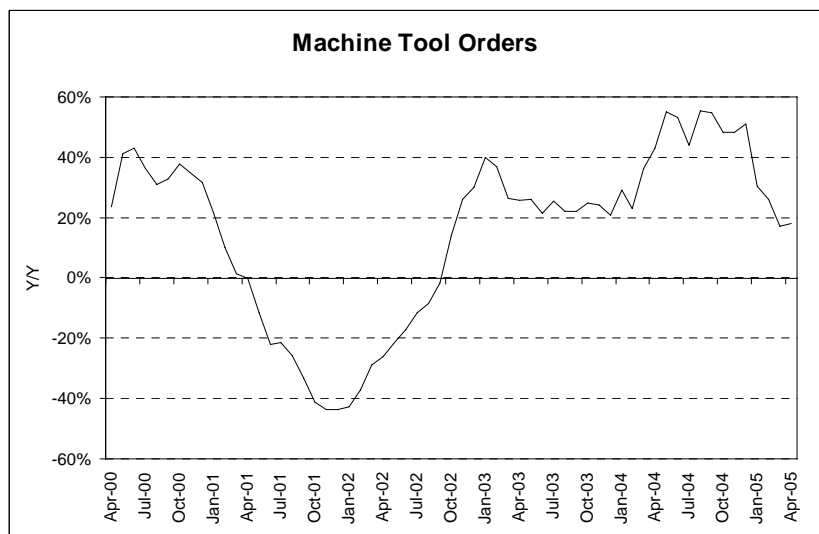
The final figures for March's Industrial Production were revised up from -0.3% M/M and 1.1% Y/Y to -0.2% M/M and 1.2% Y/Y. Shipments were revised up from 0.3% to 0.7% and inventories were revised down slightly from -0.2% M/M to -0.3% M/M in March. At the time of the preliminary results, a government survey, showed manufacturers forecast that production will increase 3.5% in April and decrease 1.4% in May.



Final figures showed that Capacity Utilization was revised down from 103.0 to 101.8 in March.



Based on final figures, machinery tool orders were revised up from 17.4% Y/Y to 18.2% Y/Y in April.

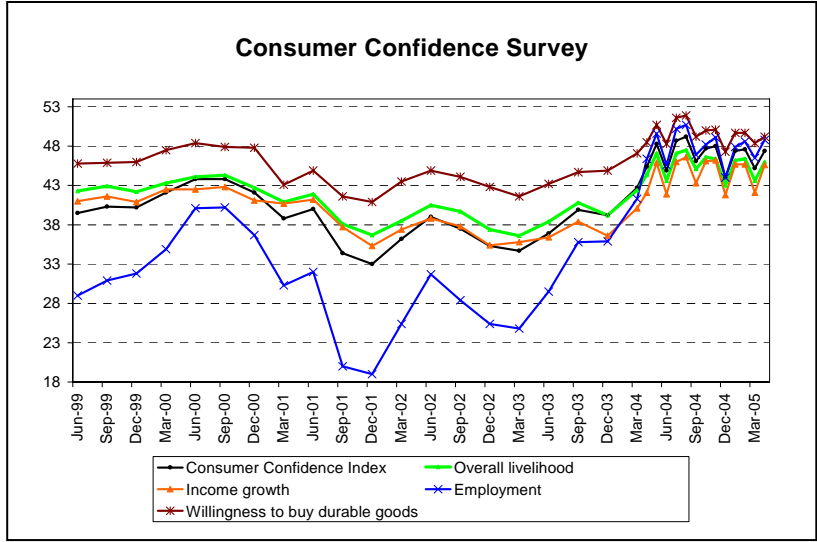


Consumer Confidence, Tokyo's Condominium Sales & Bankruptcies

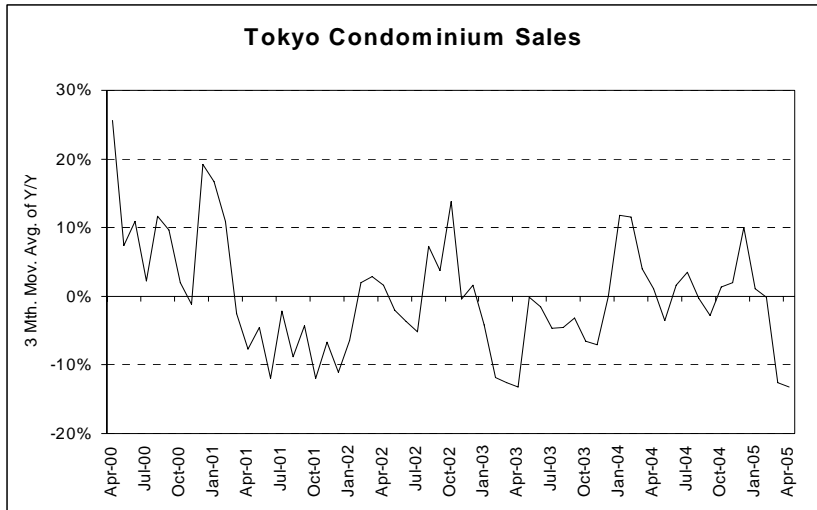
Consumer Confidence increased from 45.3 to 47.4 in April, above expectations.

Confidence increased across the board with the income growth component showing the greatest improvement with an increase of 3.5 points.

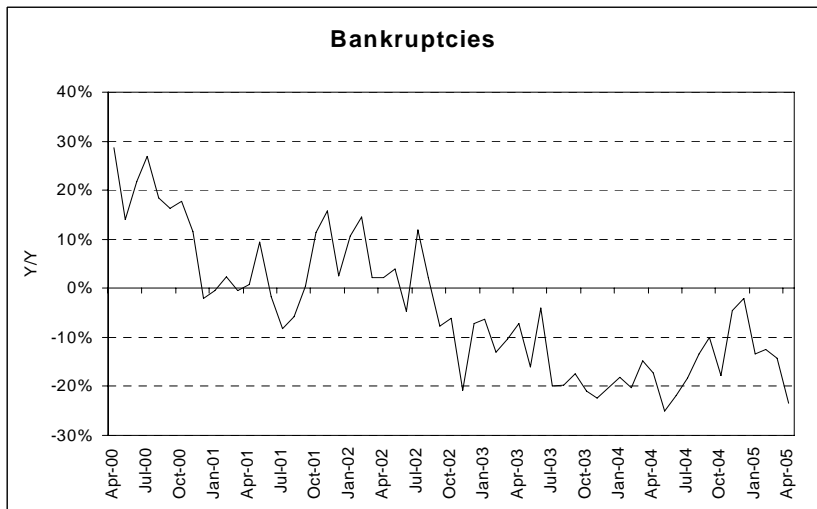
Confidence in employment and overall likelihood increased 2.3 and 2.4 points, respectively.



Tokyo's Condominium Sales decreased 7.5% Y/Y in April, continuing on a sharp downward trend since January of this year.



Bankruptcies decreased 23.5% Y/Y in April, resulting in 32 consecutive months of Y/Y decline.



News Briefs

May 18th – In response to rumors of a change in the BoJ overnight reserve target: “It wouldn’t be appropriate for the Bank to take actions that financial markets may consider to indicate the Bank’s view is changing,” **Finance Minister Sadakazu** stated. “The Bank of Japan has been strongly committed to its quantitative easing policy to overcome deflation,” the Finance Minister also mentioned. In other words, Sadakazu is not in favor of the Bank of Japan making any policy changes that would allow the financial markets to think that the Bank is changing its view.

May 17th - **Toshiro Muto, Bank of Japan’s Deputy Governor**, stated that “There is no change at all in the bank’s stance that it will maintain the policy” until CPI stabilizes at or above zero. However, Muto also commented that “It’s getting difficult for the central bank to provide cash in terms of maintaining the policy.” His comments have helped to spark speculation that the BoJ might allow its Current Account Deposits to fall below its target range this week.

May 17th - As regards to the GDP results, Heizo Tekenaka, Minister for Economic and Fiscal Policy, commented that “the economy is on a broad recovery path.” He also stated that “Our view that the economy will emerge from its plateau this year is unchanged.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/19	Leading Economic Indec (MAR F)	36.4	30.0
05/19	Coincident Index (MAR F)	70.0%	66.7%
05/20	BoJ Monetary Policy Monthly Report	36.4	30.0
05/20	Convenience Store Sales (Y/Y) (APR)	.....	-1.4%
05/23	Average Lending Rate (MAR)	.....	1.32%
05/23	Tertiary Industry Index (M/M) (MAR)	.....	-1.0%
05/23	All Industry Activity Index (M/M) (MAR)	.....	-1.1%
05/24	Merchandise Trade Balance Total (APR)	....	¥1116.4B
05/24	Adjusted Merchandise Trade Balance (APR)	.....	¥1043.6B
05/25	Corporate Service Price (Y/Y) (APR)	.....	-0.8%

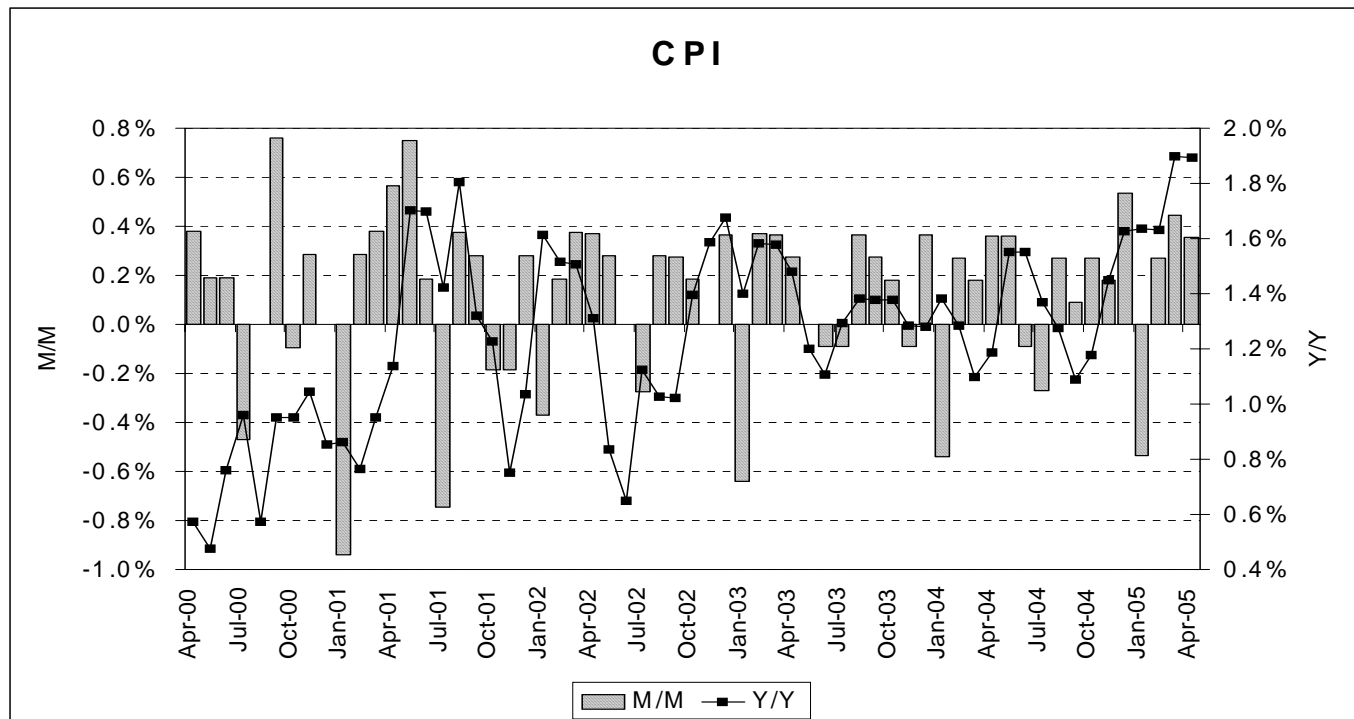
United Kingdom

The MPC minutes showed an 8-1 vote to leave rates on hold citing, “there was little sign that inflation expectations were in danger of moving significantly away from the target in either direction.” Meanwhile, CPI was reported to be 1.9% Y/Y for a second month, just under the Bank’s 2.0% target. As a result of the minutes and a speech by Gov. Mervyn King, there has been selling in the front end of the yield curve. Other recent data was weak, including unemployment and home prices.

\Weekly Highlights

- **CPI**- increased 0.4% M/M and remained at 1.9% Y/Y in April. (page 21)
- **Average Earnings**- increased 4.6% 3M/3M and 4.0% Y/Y in March. (page 22)
- **The Claimant Count Unemployment Rate**- remained at 2.7% for a second consecutive month in April. (page 22)
- **RICS**- House Price balance increased from -39 to -40 in April. (page 22)

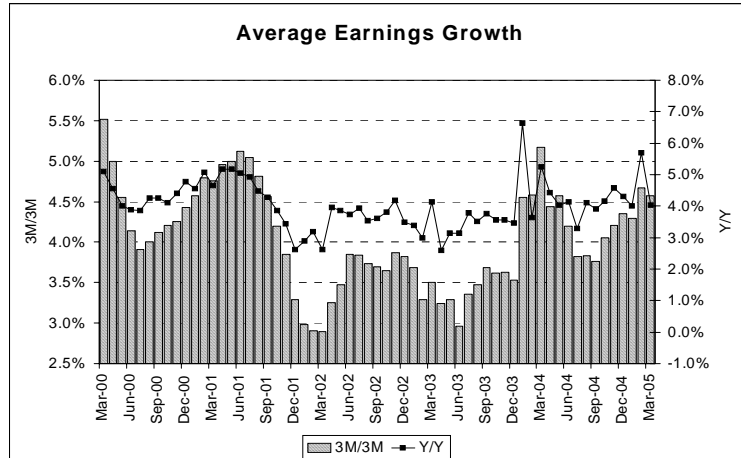
Chart of the Week



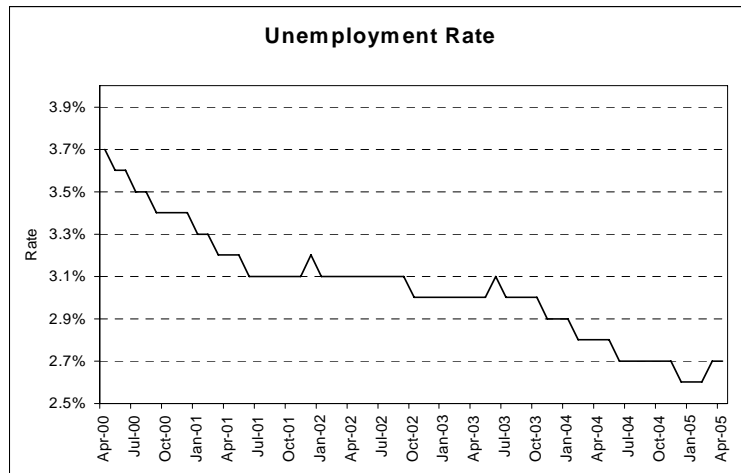
CPI increased 0.4% M/M and remained at 1.9% Y/Y in April. The largest upward effects resulted from administered prices (announced in the March budget) where water and sewer charges increased 13.5% Y/Y and 9.3% Y/Y respectively. This was offset by food prices; after bad weather earlier this year, fresh vegetable prices decreased as supplies improved.

Average Earnings, Unemployment & RICS

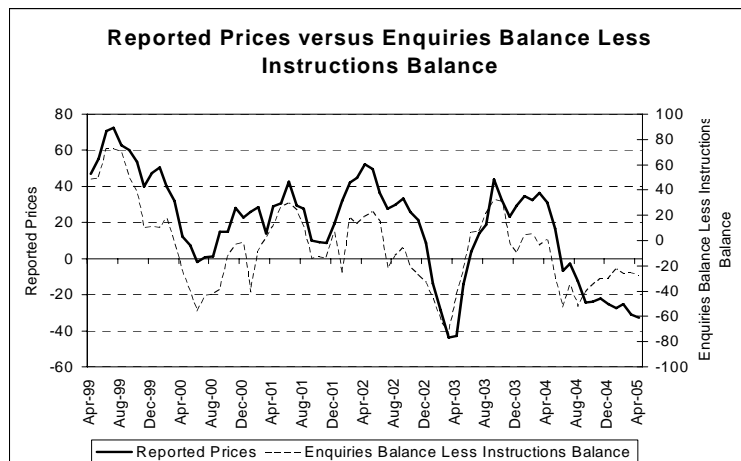
Average Earnings increased 4.6% 3M/3M and 4.0% Y/Y in March, though the pace slowed from February. Average earnings slowed due to some bonuses that were paid in March in 2004 being paid in February in 2005 most notably in the financial intermediation sector.



The Claimant Count remained at 2.7% for a second consecutive month in April as the number of people claiming unemployment increased by 8,100 after an upwardly-revised increase of 13,600 in March, nearly double the 4,500 rise economists had expected. Job cuts were led by MG Rover and Marconi, which cut 5,000 and 800 jobs respectively.

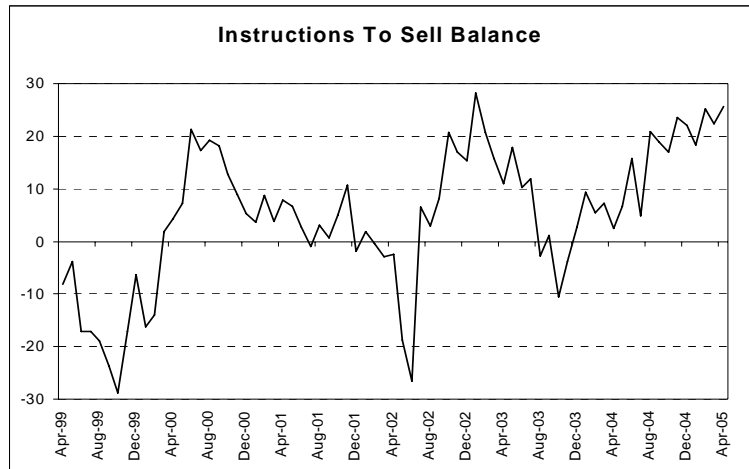


RICS House Price balance decreased from -39 to -40 in April, continuing the stagnant trend of the last three months.

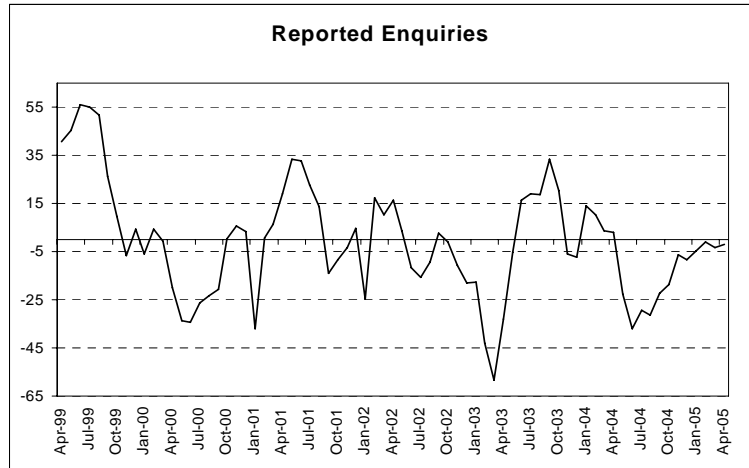


RICS & Leading Indicator

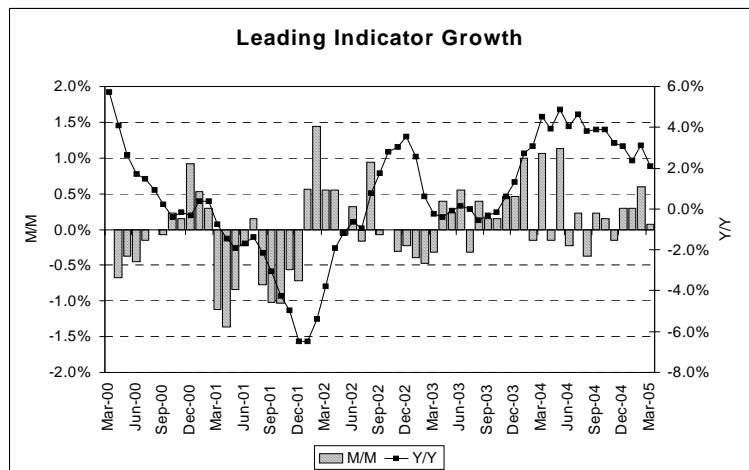
RICS Instructions-to-Sell increased from 22 to 26 in April. This is the fastest pace since January of 2003.



RICS Buyers Enquiries decreased slightly from -3 to -2 in April, the fourth month of minimal change.

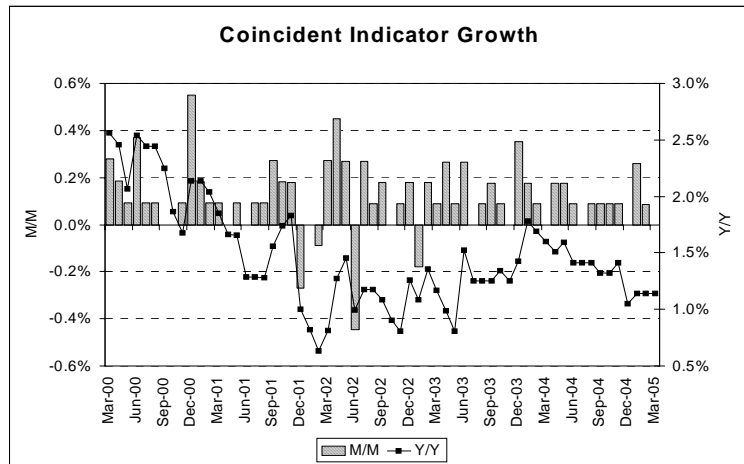


The Leading Indicator increased 0.1% M/M and 2.1% Y/Y in March, staying on its decelerating course.



Coincident Indicator

The Coincident Indicator remained flat and increased 1.1% Y/Y in March.



Data

Rightmove House Price Survey:

Rightmove reported that house prices increased 0.3% M/M and 4.9% Y/Y in April, as 106,000 sellers increased their average asking price of 1.3% M/M and 7.0% Y/Y. This is the first time this year that demand has exceeded supply. However, Rightmove feels that the “growing mismatch between sellers pricing aspirations and buyers willingness to pay may lead to stagnation of the housing market.” Rightmove predicts zero property price inflation by July and the slowest year for housing market turnover in a decade.

MPC Minutes and Speeches

MPC's Minutes:

The MPC released their minutes from the May 6th/9th meeting which showed they voted 8-1 for unchanged rates (from 7-2 at the prior meeting), with Deputy Governor, Andrew Large, again voting for a 25bp rate hike. The majority of the MPC felt that “there was little sign that inflation expectations were in danger of moving significantly away from the target in either direction.” They continued to say that “if the first-round price effects of the adverse supply shock from oil were followed by second-round wage and price increases, the Committee could then adjust the policy stance accordingly.” Members commented that in the near term there were downside risks to output growth. Despite the weak data, the Minutes showed a central bank still more concerned with inflation.

Mervyn King's Speech:

King gave a speech in which he argued that inflation targeting is the natural way to conduct monetary policy, especially since there is a great deal about its effects that are not understood and at the same time, since monetary theory continues to evolve. He felt the “experience of inflation targeting suggests that a managed monetary standard can lead to stability, of both inflation and the economy as a whole, without the straitjacket of a gold standard, currency board or rigid fixed exchange rate target. Inflation targeting anchors inflation expectations, yet allows a flexible response to economic shocks.”

Deputy Governor, Andrew Large's comments on risks to financial market stability:

“It is clear that rapid growth in size, complexity, and diversity of global financial markets has added new dimensions and challenges to the process of maintaining financial stability. Traditional concerns remain that unwise credit exposure can result in insolvency, and systemic instability. But today there are a new series of hazards. Credit risk transfer has introduced new holders of credit risk, such as hedge funds and insurance companies, at a time when market depth is untested. Systemically significant issues could increasingly arise from market related risks, or from a single point of failure risks in the market infrastructure as ever greater volumes of transactions pass through. Equally, the growth of derivative instruments and advent of a range of new asset classes, despite added dispersion and better risk management, have added to the risk of instability arising through leverage, volatility and opacity.”

Gordon Brown comments on Britain's resistance to the European Parliament's effort to cap the U.K. workweek at 48 hours:

“Because 50 percent of our trade is with Europe, and because, through increased trade, an extra one percent of growth in the Eurozone can give an extra fifth of a percent of growth in Britain, and because economic reform matters, I have to tell you that we will resist the opt-out being removed to the 48 hour week. But I can say also that we will demand access for British firms to contracts and markets across all key sectors of the European economy so that British workers and industry secure a fair deal.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
5/19	Retail Sales	0.0% M/M 2.1% Y/Y	-0.1% M/M 2.7% Y/Y
5/20	Public Net Borrowing	2.3B	3.8B
5/20	CML, BBA & BSA Mortgage Lending		
5/24	Total Business Investment		0.2% Q/Q 4.4% Y/Y
5/25	GDP 1Q2		0.7% Q/Q 2.9% Y/Y
5/25	Gov't Spending		0.9%
5/25	Exports		1.6% Q/Q
5/25	Imports		2.2% Q/Q

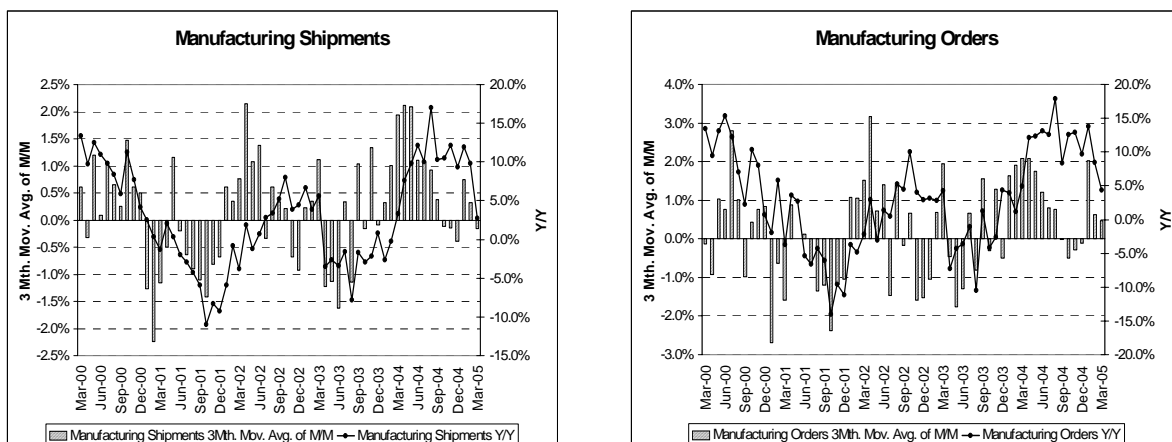
Canada

Recent data from Canada was soft – in particular, manufacturing shipments were lower than the market anticipated. The key news for the week was in the political arena, where a “no confidence” vote will coincide with a vote on new budget on May 19th. On the rates side, we believe the BoC will keep its overnight rate unchanged at 2.50% at its next meeting on May 25th.

Weekly Highlights

- **Manufacturing Shipments** – declined 2.4% M/M and increased 2.7% Y/Y in March. (page 28)
- **Wholesale Sales** – increased 0.5% M/M and 5.5% Y/Y in March. (page 29)
- **Election Update** – a “no confidence” vote to coincide with the Federal Budget vote. (page 31)

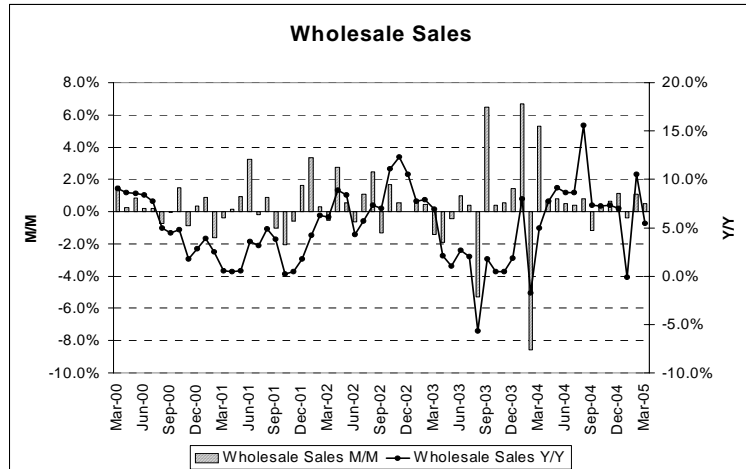
Chart of the Week



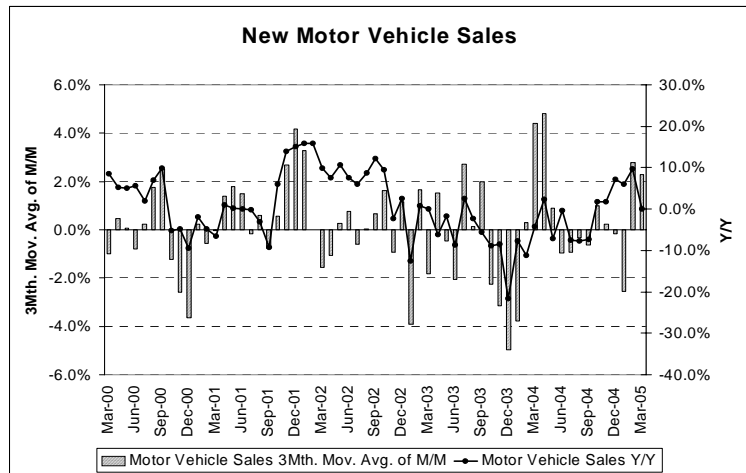
Manufacturing shipments decreased 2.4% M/M and increased 2.7% Y/Y in March. Orders declined 0.5% M/M and increased 4.3% Y/Y in March. The decline in shipments was due largely to a slowdown in the transportation equipment sector and marked the second consecutive decline for manufacturing shipments. The weakness was widespread however, as 16 of 21 industries reported declines. Despite the slowdown in shipments, the backlog of unfilled orders increased 2.1% M/M to a two year high. All told, the data suggests that the BoC can afford to wait through the resolution of the upcoming budget/“no confidence” vote before needing to increase its overnight rate.

Wholesale Sales & Motor Vehicle Sales

Wholesale sales increased 0.5% M/M and 5.5% Y/Y in March.



New motor vehicle sales declined 5.9% M/M and remained unchanged Y/Y in March.



Home Sales

Housing Market to Slow in 2005:

Home sales in Canada are expected to decline in 2005 due to higher rates according to the Canadian Real Estate Association. They forecast a decline of 3.2% and a rise in prices of 8.2%. “Further price increases combined with an expected rise in mortgage interest rates will dampen activity toward the end of the year,” stated Gregory Klump, chief economist with the real estate group.

Expectations for a slowdown in housing were echoed by the federal housing agency, CHMC. They look for a 7.5% decline in housing starts as well. “A slight rise in mortgage rates, eroding pent-up demand, slower employment growth, and waning spillover of buyers from the existing home market are some of the factors that point to a gradual slowing in the pace of new home construction,” stated Bob Dugan, the agency’s chief economist.

Election Update

May 11th - Prime Minister, Paul Martin, called for a “no confidence” vote to coincide with the Federal Budget Vote on May 19th. “The question (of confidence) must be settled soon, clearly and definitively,” Martin stated. Martin agreed to dissolve parliament if he loses the budget vote. Stephen Harper, leader of the opposition Conservative Party, stated that he will not cooperate with the government until a vote of “no confidence” is held.

May 13th – Leading into the Budget/No Confidence Vote, Paul Martin’s government has announced \$9.1 billion in new spending since the February budget, in an attempt to win support ahead of the elections. The spending would take place primarily in the next two years and would extend out to five years.

May 16th – Support for toppling the liberal government is evenly split. Chuck Cadman and David Kilgour are the only undecided lawmakers as the vote of “no confidence” nears. Kilgour, an Alberta representative, stated last week that his support for the government is contingent on more aid to Darfur. After Martin said he would send 100 troops and \$170 million in aid to the region, Kilgour said he would wait to see whether the government would commit more to Sudan this week before deciding how he would vote. Cadman stated that “I’ll take as much information from the constituents as I can, but obviously if it’s that close just on the phone, I’ll have to rely on my own judgment,” Cadman stated.

Also on the 16th, the opposition Conservative party stated that it would respect the budget vote if it lost, and that the party would not take “further action” before parliament closes for its summer recess next month.

May 17th – Canadian Prime Minister was able to lure Belinda Stronach to the Liberal camp just two days before the Budget vote. Stronach stated that Canadians did not want an election and that she switched sides because she did not want the separatist Bloc Quebecois to defeat Martin’s minority government, fearing that the alliance would hurt Canadian unity. “I have been uncomfortable for some time with the direction the leader of the Conservative party has been taking,” Stronach said.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/20	CPIx8 (Apr)	0.2%	0.4%
05/20	Retail Sales (Mar)	-0.4%	1.7%
05/24	Leading Indicators (Apr)	0.2%	0.2%
05/25	BoC Rate	2.50%	2.50%

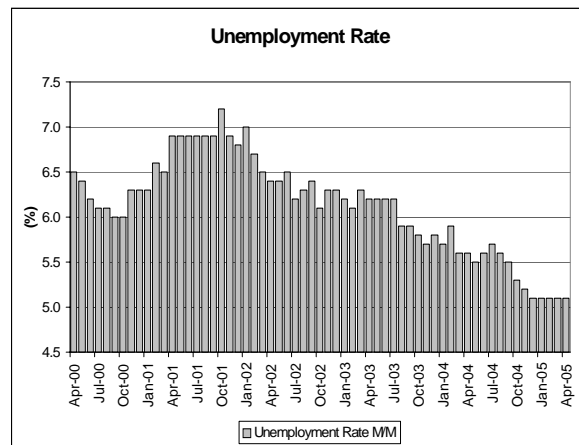
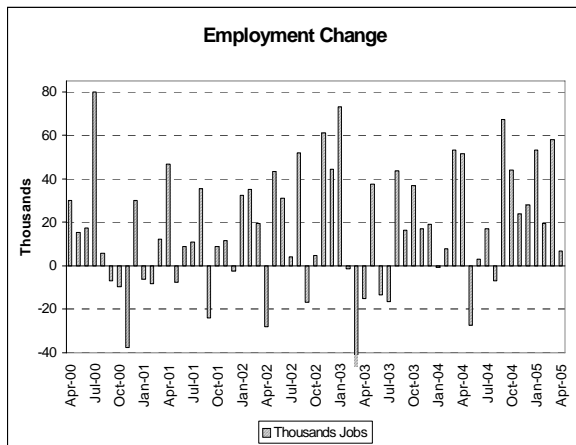
Australia

Last week's data from Australia was stronger than the market expected. Retail sales, employment and wages were all above expectations; consumer confidence rebounded as well. The data may bring forward another rate hike from the already hawkish RBA.

Weekly Highlights

- **Employment** – 6.9k new jobs added, unemployment rate unchanged at 5.1% in April. (page 33)
- **Retail Sales** – increased 0.1% M/M and 3.5% Y/Y in March. (page 34)
- **Wage Cost Index** – increased 1.1% Q/Q and 3.9% Y/Y in Q1. (page 34)

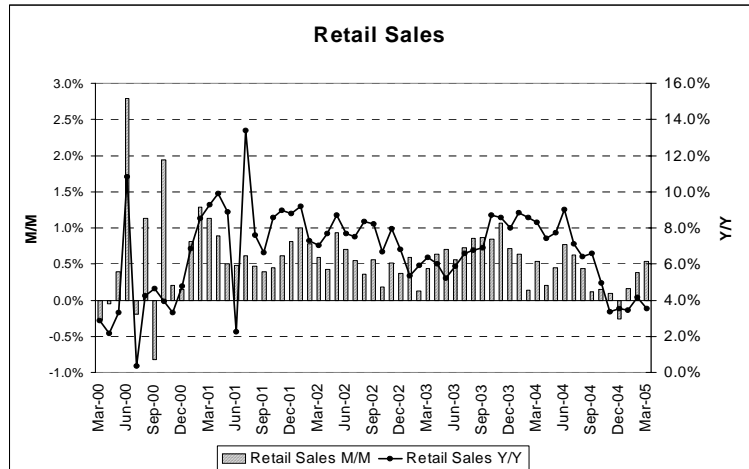
Chart of the Week



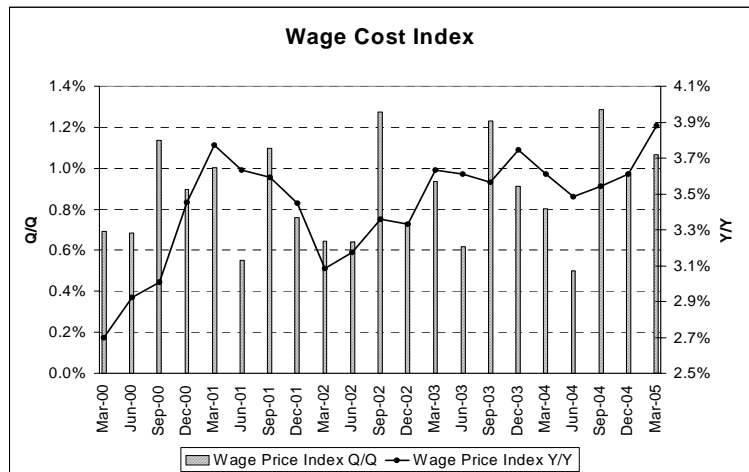
Australia added 6.9k new jobs and the unemployment rate remained unchanged at 5.1% in April as the labor market outperformed market expectations for a loss of 10k jobs. The increase in jobs consisted of an increase of 39k full time jobs and a loss of 32k part time jobs. The increase in employment and the \$21.7b of income tax cuts announced last week are expected to boost consumer spending. The RBA is expected to remain very hawkish in light of the possible wage pressures that may result.

Retail Sales & Wage Price Index

Retail sales data was revised upward from 0.0% M/M, and now indicates a 0.1% M/M and 1.2% Q/Q increase in March and Q1, respectively. Y/Y Retail sales gained 3.5% in March. These increases resulted as consumer confidence rose and suggest that the RBA may find the need to increase its overnight rate for the second time this year.



Wages increased 1.1% Q/Q and 3.9% Y/Y in Q1. The Y/Y gain was the largest in over six years. The increase suggests that employment sector gains are flowing through to wages and justifies the RBA's concern of inflationary pressures coming from rising wage growth.



Retail Sales Data Revision, Costello's & Henry's Comments

Retail Sales Data Revised:

Australian Retail Sales were revised because the estimates of spending used to calculate the figures were wrong, stated the Australian Bureau of Statistics. The mostly upward revision affects data from July of 2004 through March of 2005.

Costello's Comments on Current Account, Commodities:

Australian Treasurer, Peter Costello, stated that the nation's current account deficit will narrow as mineral exports increase, although it had widened to a record in Q4. The deficit is "too high in Australia," Costello told the Australian Broadcasting Corp. radio, continuing "That will change as mineral exports continue to increase in volume over the years to come." Demand for the minerals in China is expected to continue. Commodity prices are likely to fall as countries such as Brazil and Indonesia develop their resources, Costello also added.

Henry's Comments on Inflation:

Ken Henry, Secretary to the Treasury in Australia, stated that Australian skills shortages and production constraints won't necessarily lead to a surge in inflation. "The more plausible near to medium-term scenario is for growth at or slightly below trend and continuing moderate inflation," Henry stated. "Economy-wide measures of labor utilization do not tell a story of an economy crashing into capacity constraints even given the recent run of strong employment figures," Henry also mentioned.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/18	Consumer Inflation Expectations	N/A	N/A
05/18	Average Weekly Wages (Q1)	1.2%	1.5%
05/19	RBA Monthly Bulletin	N/A	N/A
05/19	New Motor Vehicle Sales	0.4%	-3.7%
05/24	Westpac March Leading Economic Index	N/A	N/A
05/24	Construction Work Done (Q1)	N/A	-0.7%

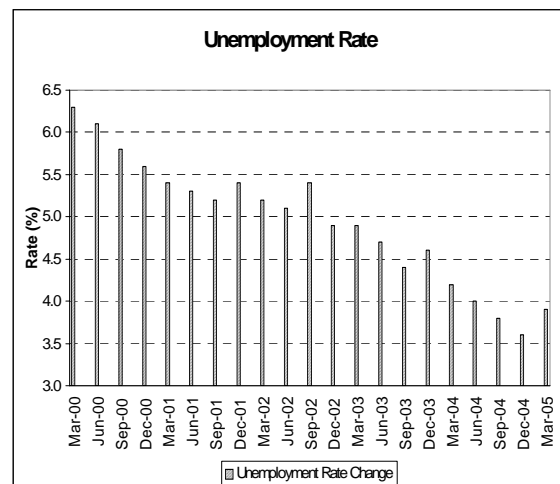
New Zealand

Data released from New Zealand this week was softer than the previous trend. Fewer new jobs than expected were added in Q1 and the unemployment rate increased. In addition, retail sales declined in March. Despite this, the RBNZ has maintained their hawkish stance: they do not see weakness in the economy and another rate hike cannot be ruled out. It is likely that they will maintain this stance through much of the year. It is our view that the next move from the RBNZ will be a rate cut in 2006.

Weekly Highlights

- **Employment** – 1k new jobs added, unemployment rate increased from 3.6% to 3.9% in Q1. (page 37)
- **Retail Sales** – decreased 0.5% M/M and increased 6.3% Y/Y in March. (page 38)
- **Bollard's Comments** – home owners may face financial stress. (page 39)

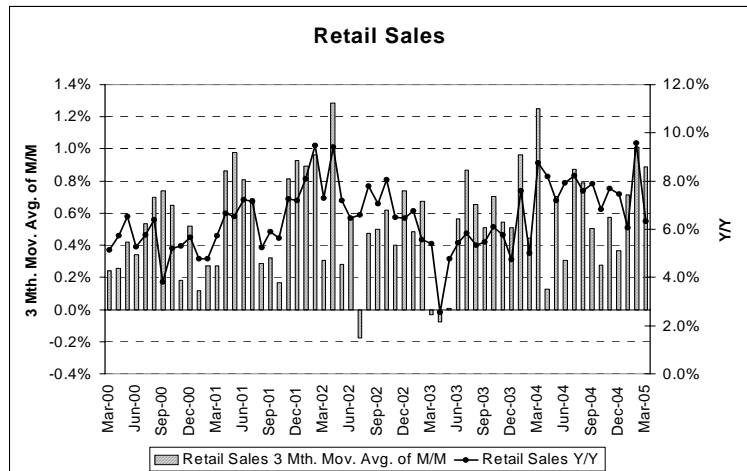
Chart of the Week



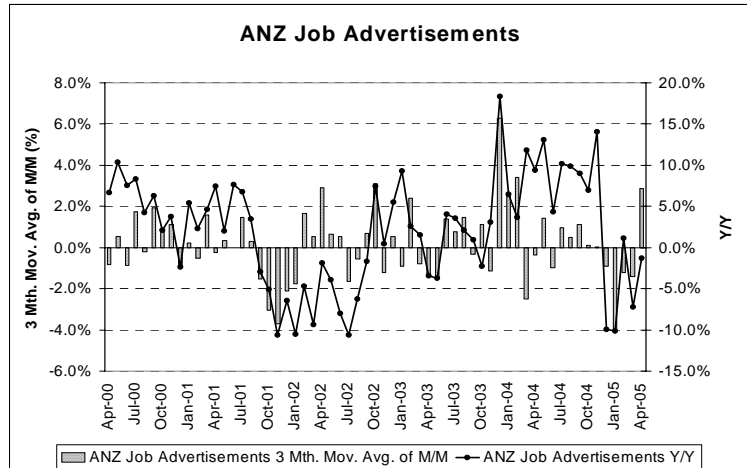
One thousand new jobs were added in New Zealand as the unemployment rate increased from 3.6% to 3.9% in Q1. The increase in jobs was fewer than the four thousand economists expected. The increase in the unemployment rate was also against expectations for a decline from 3.6% to 3.5%. The number of full time jobs increased by 14k while the number of part time jobs declined by 13k. The mix in the details, with a solid gain in full time jobs, means that it will probably take additional data releases to confirm an economic slowdown.

Retail Sales & Job Ads

Retail sales declined 0.5% M/M and 6.3% Y/Y in March. The decline was nearly in line with market expectations for a 0.7% M/M drop and may reflect a lower level of consumer confidence under the threat of additional rate hikes from the RBNZ.



Job advertisements in major New Zealand newspapers increased 3.9% M/M and declined 1.3% Y/Y in April.



Bollard's Comments, House Sales, Economic Indicators Report & Cullen's Comments

Bollard's Comments:

In a statement on housing, the RBNZ Governor Alan Bollard commented that, "The household sector may be more vulnerable to adverse shocks than previously" as economic growth slows from its fast pace of 2004. He also commented that, "We do see the possibility that the more heavily indebted households will experience some financial stress" and that "Growth may have peaked...the New Zealand financial system faces a more uncertain economic environment in the near term, albeit from a strong starting point."

In a separate comment however, Bollard stated that recent reports on New Zealand's economy are consistent with the view of the economy expressed in the RBNZ's March policy statement. "We don't see the weakness in the data that some see," he stated.

House Sales Decline:

House sales and median house prices in New Zealand declined in April according to the Real Estate Institute of New Zealand Inc.'s monthly report. Sales declined 14.6% M/M and 7.5% Y/Y as the median house price declined 2.9% M/M and increased 12.4% Y/Y. The value in sales declined 18.5% M/M and increased 2.1% Y/Y. The median number of days needed to sell a house remained unchanged at 28 days.

Report Suggests Consumer Spending Buoying Economy:

The National Bank of New Zealand's Index of Regional Economic Indicators increased 1.1% in Q1, matching the pace in the 4th quarter of 2004, suggesting that consumer spending is buoying the economy. The index measures construction, new vehicle registrations, employment, retail sales, and consumer and business confidence.

Finance Minister Cullen Aims to Minimize Economic Stimulus:

New Zealand's Finance Minister, Michael Cullen, commented that he intends on keeping fiscal stimulus at a minimum in his new budget. He commented at a business meeting in Christchurch that there was little room in his budget for large new spending plans or tax cuts as the economy slows. In March, he had stated that the government may delay some capital spending to avoid putting pressure on the construction market. The new budget is expected to be released on May 19th. The last budget surplus, from 2003-2004, ended at \$520 million or 1.4% of the GDP.

Cullen's Comments & Carter Holt

Finance Minister Cullen Comments on Currency

The New Zealand dollar, the second best performer of 16 major currencies in the last year, may take “some time” to decline to its historical average according to Finance Minister, Michael Cullen. “There will be an eventual return of the kiwi to something close to its historical post-float average,” he stated in a speech given in Christchurch. “The difficulty is ‘eventual’ may be some time arriving.” “The exchange rate push has been longer and stronger,” he stated, continuing, “So we are entering a period of economic slowdown that looks set to continue for 2005 and into 2006.”

Carter Holt Hurt by NZ\$

Carter Holt Harvey Ltd., the largest lumber maker in Australia and New Zealand, may miss its earnings forecast due to a record high New Zealand dollar and lower levels of construction in Australia. Carter Holt Harvey's difficulties may suggest that manufacturing companies are finding the current economic climate difficult, with higher rates and a high NZ\$.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/22	Producer Prices – Inputs (Q1)	N/A	0.9%
05/22	Producer Prices – Outputs (Q1)	N/A	0.5%

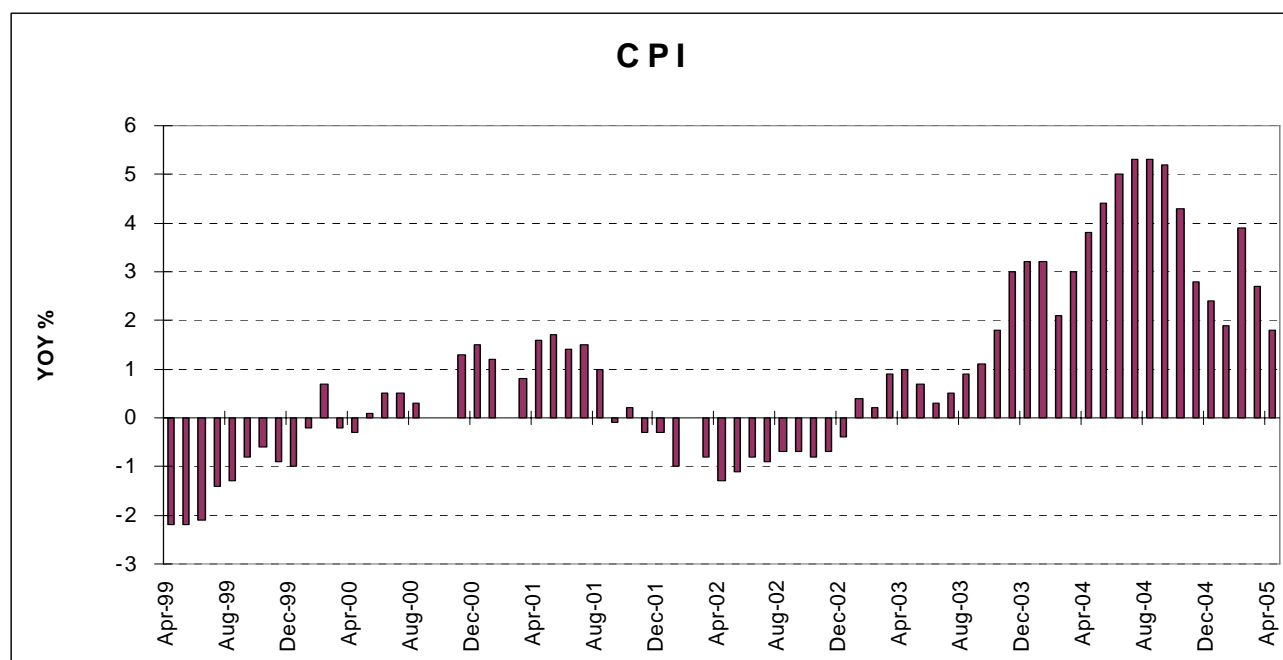
China

Inflation data released in China over the past week showed some divergence as Consumer Price growth continues to slow and the Producer Price Index (PPI) maintains its uptrend. At the same time, Y/Y Retail Sales growth decreased for the second consecutive month. Meanwhile, monetary growth remains subdued with M2 steady at the 14% range, slightly below the 15% -17% range enforced by the government to help control the “over heated economy.” Elsewhere, the U.S. has re-imposed quotas on some of China’s textile items, while the European Commission has increased pressure on China to curb its surging textile exports. Furthermore, China continues to resist pressures to revalue the yuan.

Weekly Highlights

- **Consumer Prices** - decreased from 2.7% Y/Y to 1.8% Y/Y in April. (page 42)
- **Producer Prices** - increased from 5.6% to 5.8% Y/Y in April. (page 43)
- **China’s Trade Surplus** - narrowed from US\$5.7 billion in March to US\$4.6 billion in April. (page 44)

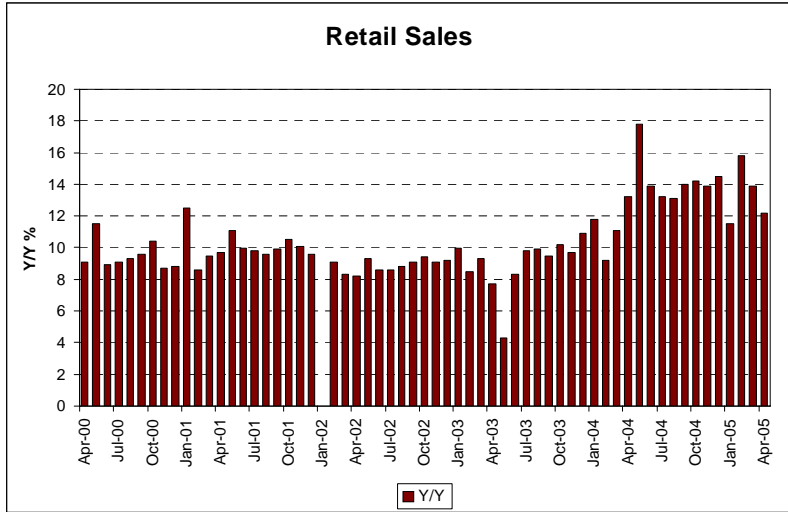
Chart of the Week



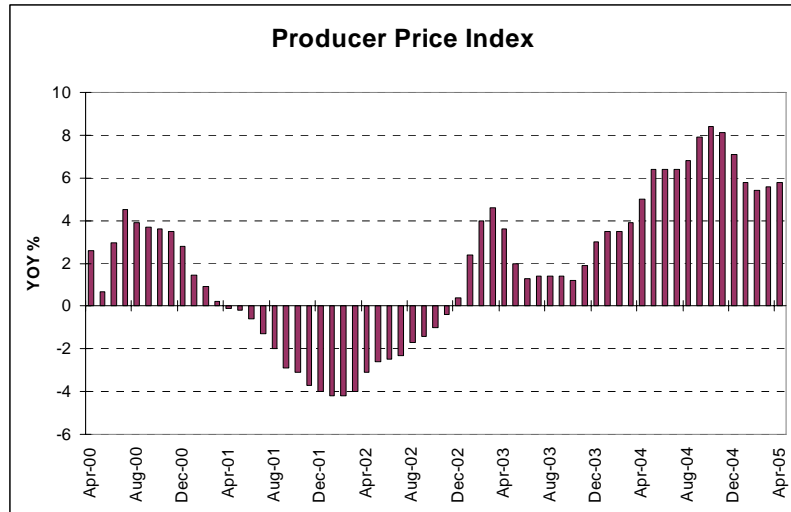
Consumer Price growth slowed from 2.7% Y/Y to 1.8% Y/Y in April. The decline was mainly attributed to lower grain price inflation and last year’s high base effect. This level is way below the 4.0% inflation target. However, it remains to be seen if this slowdown in CPI is enough to put the PBoC, along with the Chinese Government, on hold for the time being with their “over heating” control measures.

Retail Sales, PPI & Value Added Industry

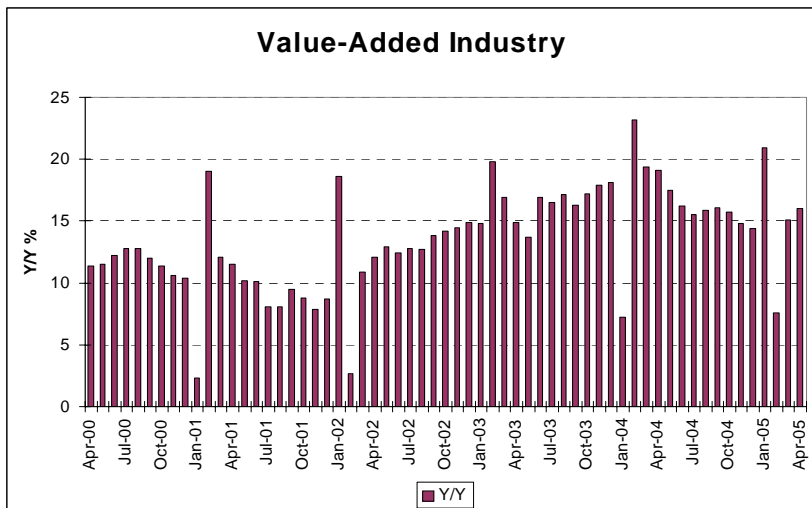
Retail Sales growth slowed from 13.9% Y/Y in March to 12.2% Y/Y in April.



The Producer Price Index increased from 5.6% to 5.8% Y/Y in April. This increase was mainly attributed to the rise in prices for raw materials and fuel.

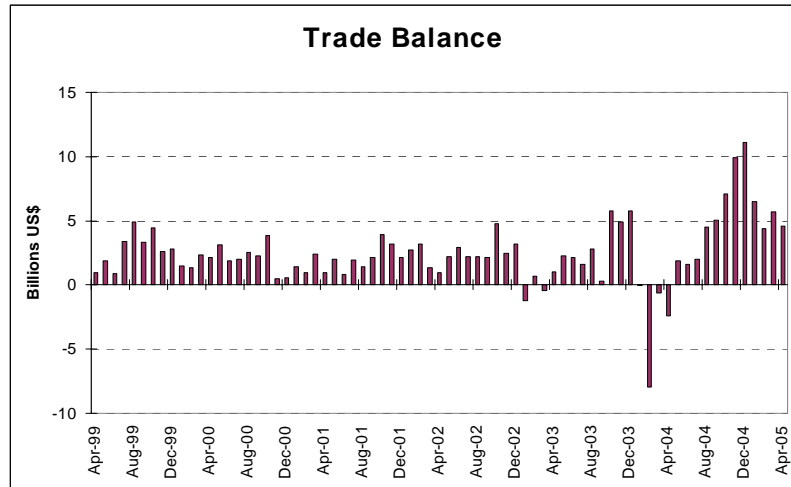


The Value Added Industry increased from 15.1% to 16.0% in April, above expectations.

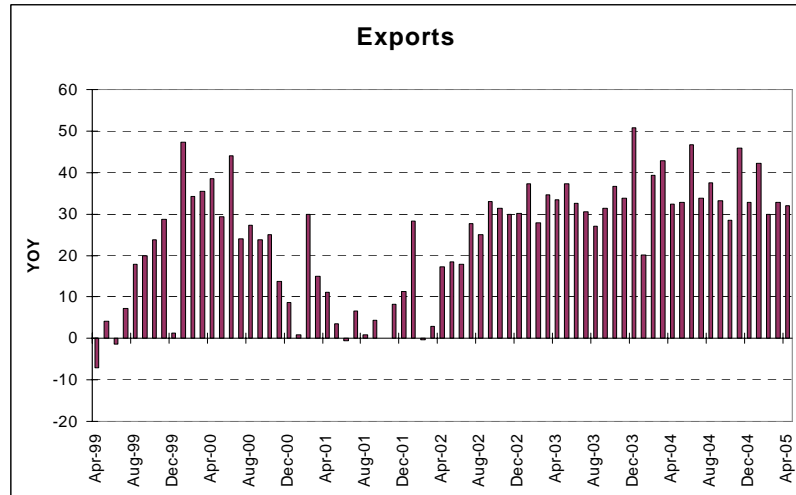


Trade Balance, Total Exports & Imports

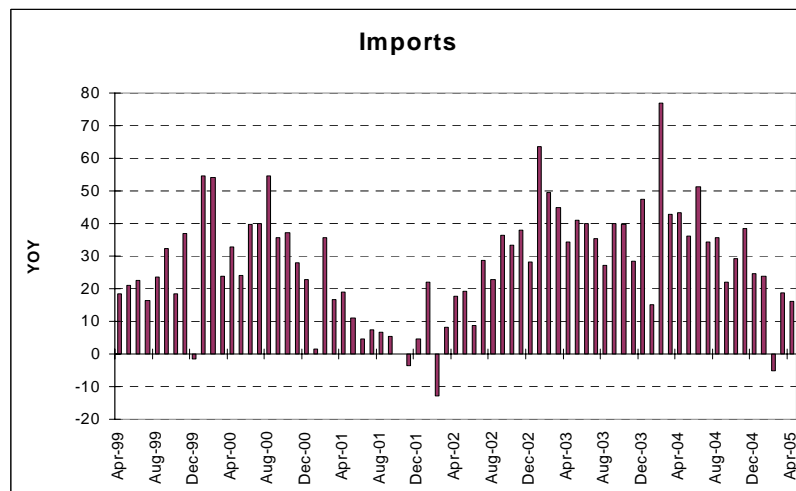
China's trade surplus narrowed from US\$5.7 billion in March to US\$4.6 billion in April.



Total Export growth slowed from 32.8% Y/Y in March to 31.9% Y/Y in April.

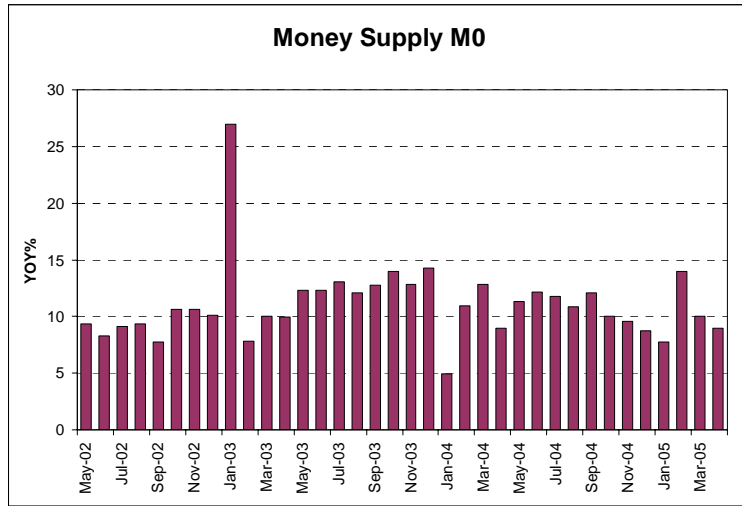


Total Import growth slowed from 18.6% Y/Y in March to 16.2% Y/Y in April.

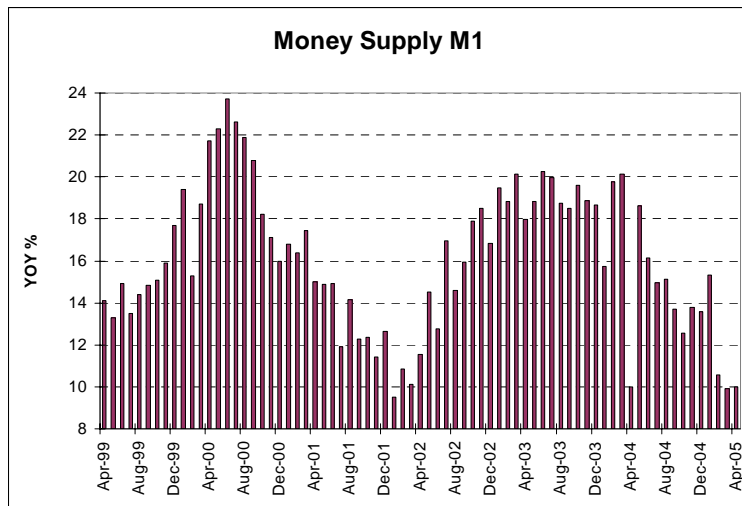


Money Supply M0, M1 & M2

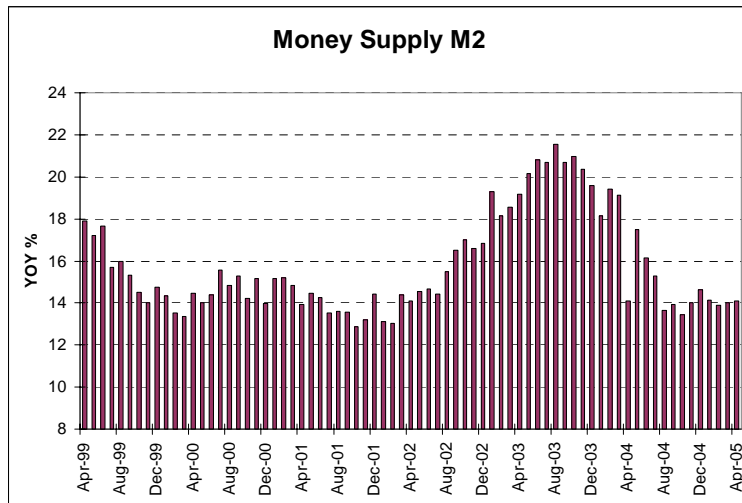
Money Supply M0 decreased from 10.1% Y/Y to 9.0% Y/Y in April.



Money Supply M1, which includes cash, increased from 9.9%Y/Y to 10.0% Y/Y in April.



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



News/Data Commentary

Comments on Yuan Reform:

- **May 17th** - The Chinese government does not want to be forced into making a decision and is standing firm due in part to excess speculation. **Chinese Premier, Wen Jiabao**, echoed these sentiments and said, “If conditions are not available, the Chinese government will never hastily take any action, regardless of how great the pressure from outside is.” Wen was also quoted as saying that yuan reform “is the sovereign right of China” and “While we respect market forces, we won’t bow to foreign pressure.”
- **May 17th** – **Vice Premier, Zeng Peiyan**, announced at a speech in Beijing that China is ready to reform the yuan. Zeng stated, “We will steadily push forward reform of the renminbi exchange rate formation mechanism.” However, a timetable is yet to be set.
- **May 16th** – **Former U.S. Secretary of State, Henry Kissinger**, was cited as saying, “If the question of the trade surplus can be dealt with in a calmer atmosphere it is a better way to deal with the revaluation issue.”

May 16th and 17th – ***Trade Disputes*** – On May 13th, the U.S. announced that a task force was set up to place restrictions on imports such as cotton trousers, knit shirts and man-made fiber underwear as a result of the comparative disadvantage the U.S. farmers are experiencing due to alleged unfair currency manipulation by China. U.S. imports from China were 54.0% Y/Y in 2004. U.S Trade Representative, Rob Portman, reportedly stated, “The numbers speak for themselves” and “Friday’s decision was not a particularly difficult one.” In response, China’s Ministry of Commerce Spokesperson, Chong Quan, remarked that the U.S. is setting “a very bad precedent.” “The Chinese government reserves the right to take further action within the World Trade Organization framework,” Chong added. He stated “the reason why this happened is that too much protection was given by the United States and the European Union and other developed countries to their own textile industries.”

May 14th – ***China May Not Tie Yuan to Basket of Currencies*** – Outlook Weekly, a publication of the Xinhua News Agency, cited an official of the State Administration of Foreign Exchange, as saying in a report, that China may not link its yuan to a group of currencies as it is moving to a floating currency system. The unidentified official reportedly said that tying the yuan to other currencies is “beautiful” but “hard to fulfill” and the best option is to make a “soft” tie to the dollar in an effort to maintain stability.

Key Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/19-30	Foreign Exchange Reserves - Apr	--	659.14
05/19-30	Household Savings – Trin Yuan	--	12.93T

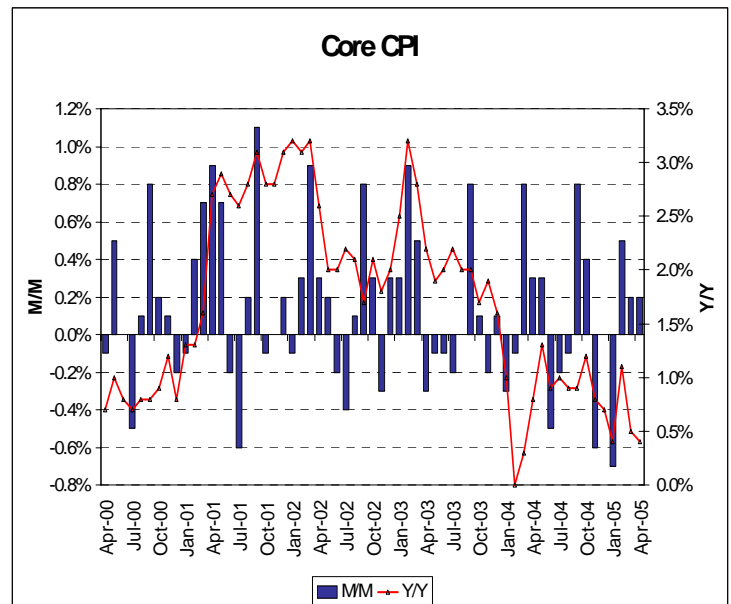
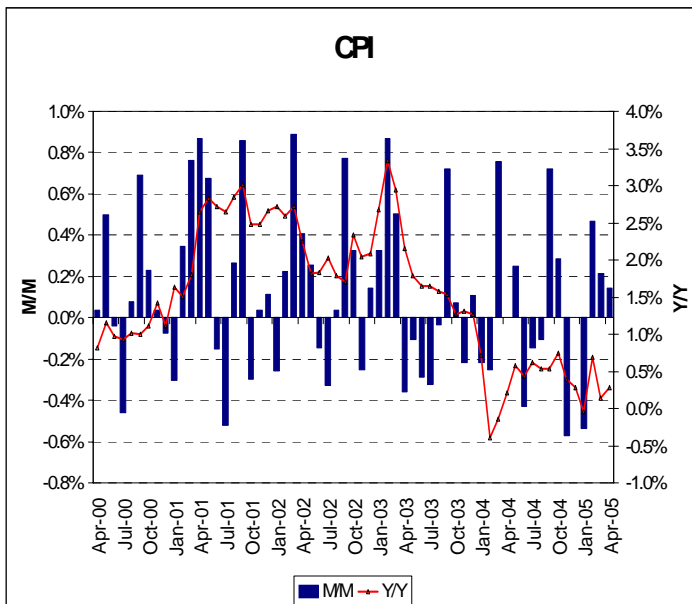
Sweden

Headline Inflation data released in Sweden over the past week showed Y/Y Consumer Price growth easing to a 3-month low. Meanwhile, the Central Bank kept its benchmark interest rate unchanged for a ninth consecutive meeting, citing the slow-moving economy and diminishing export growth.

Weekly Highlights

- **CPI** – eased from 0.2% M/M in March to 0.1% M/M in April. (page 48)

Chart of the Week



Swedish Consumer Prices eased from 0.2% M/M in March to 0.1% M/M in April. Conversely, the Y/Y growth increased from 0.1% in March to 0.3% in April. The M/M slowdown was partially attributed to lower vegetable prices and travel costs. Underlying inflation remained unchanged at 0.2% M/M and increased 0.4% Y/Y, staying below the Bank's 2.0% target rate for the 19th consecutive month. This data is placing pressure on the Central Bank to reduce rates. Meanwhile, the Bank has so far resisted calls to do so in view of boosting growth and bringing inflation toward its 2.0% target. The Bank expects inflation to hit its target in two years.

News

May 17th – Central Bank Policy Makers Kept Rates Unchanged – On April 28th, the Central Bank’s policymakers agreed to keep its benchmark interest rate unchanged. The decision to maintain the country’s record-low 2.0% rate was attributed to the weak economy as well as poor export growth prospects. The Bank said, in its minutes, that the decision was somewhat in line with that of the previous meeting’s. “Growth was still expected to be firm, although a little lower than anticipated in March,” the Bank added. Furthermore, they mentioned that “Demand was continuing to strengthen.” The next meeting to discuss rates will be held on June 21st.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/25	Trade Balance - Apr		15.7B
05/25	PPI (M/M) - Apr		0.6%
05/25	PPI (Y/Y) - Apr		2.5%