

Valance Company, Inc.



Weekly

May 25, 2005

III

Highlights

- US – Housing strength offset manufacturing weakness (page 2)
- Euroland – Confidence falls despite weaker Euro and oil (page 6)
- Japan – Upward revision to leading and coincident indicators (page 15)
- UK – Consumer spending continues to slow (page 20)
- \$ Bloc – Central Banks on hold with a tightening bias (page 25)

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May 18-25 Short Term Interest Rates

Country	Change in BPs		(3Mth. Futures Contracts Yields)			
	Official Rate	3 Mth. LIBOR	Jun-05	Sep-05	Dec-05	Mar-06
US	0.00	0.03	0.25	2.50	2.50	2.00
	3.00	3.31	3.42	3.74	3.89	3.97
EU	0.00	0.00	0.00	-1.00	-3.00	-5.00
	2.00	2.13	2.13	2.11	2.14	2.19
JN	0.00	0.00	-0.50	-0.50	-1.00	-2.50
	0.00	0.06	0.08	0.08	0.10	0.13
UK	0.00	0.00	0.00	1.00	-2.00	-4.00
	4.75	4.87	4.85	4.70	4.56	4.47
CA	0.00	0.00	1.00	1.00	0.00	0.00
	2.50	2.62	2.63	2.78	2.99	3.18
AU	0.00	0.02	1.00	3.00	2.00	0.00
	5.50	5.64	5.69	5.70	5.64	5.58
NZ	0.00	0.01	1.00	2.00	3.00	-1.00
	6.75	6.99	7.05	7.04	6.92	6.69
SZ	0.00	0.00	0.00	1.00	-1.00	-2.00
	0.75	0.75	0.76	0.78	0.86	0.98

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Valance Economic Report: United States

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May 25, 2005

This week's light economic data was highlighted by the Durable Goods Orders series that had both weak and strong elements. The rest of the data was mixed as well, with housing's vigor offsetting some of the softness seen in the Philly Fed Index and Leading Indicators. Greenspan expressed doubts about a national housing bubble last week. The Fed minutes were a non-event, but heightened the sense that the Fed's decision will be data dependent going forward. Moskow stated, this week, that the economy was on a solid growth path and that interest rates could be raised at a measured pace.

Weekly Highlights

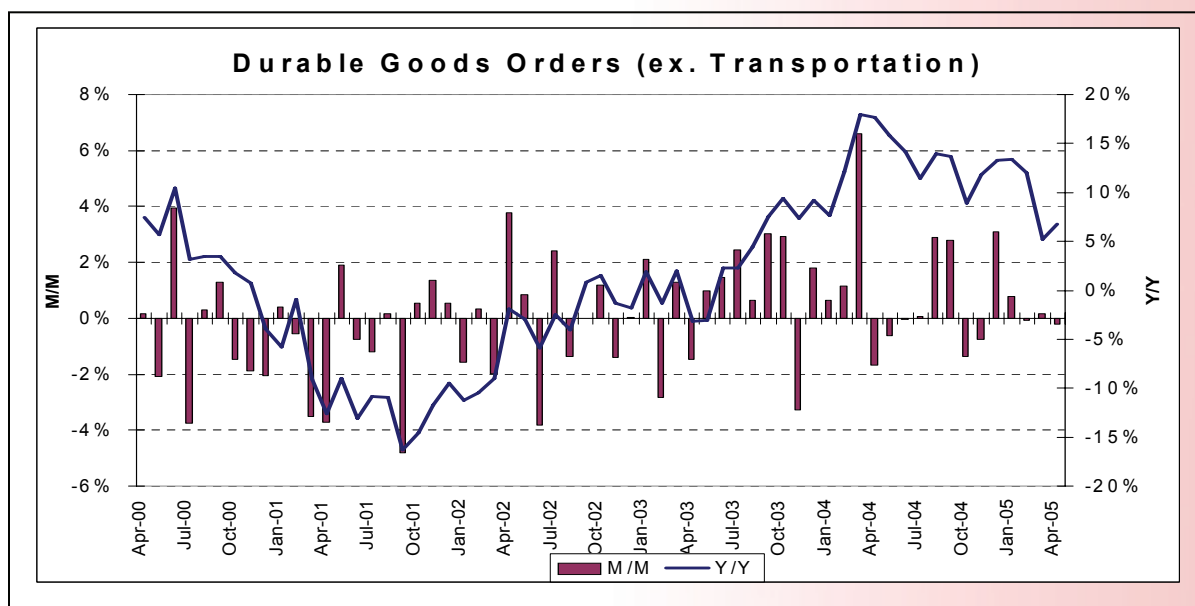
Durable Goods Orders – excluding transportation, decreased 0.2% M/M in April. (page 2)

Philly Fed Index– dropped dramatically in May. (page 3)

Housing– data appeared firm in April. (page 4)

Data Releases

Chart of the Week: Durable Goods ex. Transportation

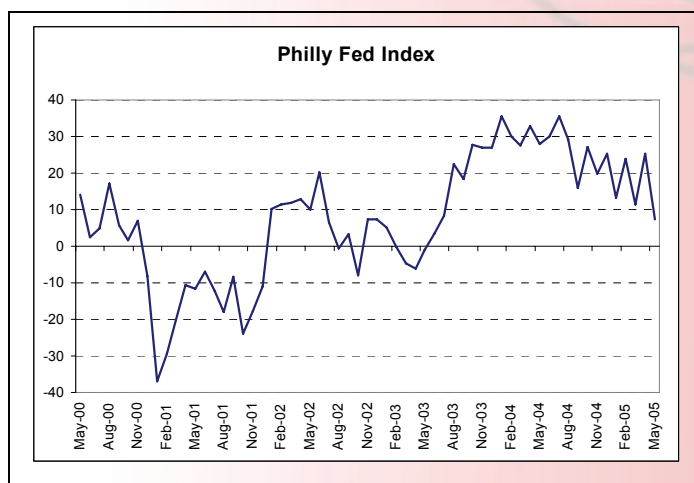


Durable goods orders, excluding transportation, declined 0.2% M/M and increased 6.8% Y/Y in April, below expectations. Despite the volatile nature of this series, the weakness seen over the past three months continues to challenge the Fed's view that investment will drive growth. However, non-defense capital goods orders ex-aircraft, what some consider core business capital expenditure, increased 1.6% M/M. On a 3mth annualized basis, this measure has slowed to the 5-6% range from 20-25% earlier this year.

Philly Fed., Leading Indicators & Unemployment Claims

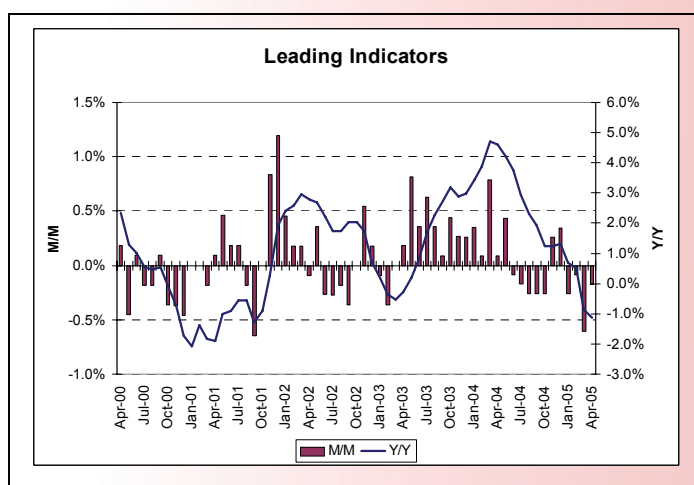
Philly Fed. Index

The Philly Fed Index dropped from 25.3 to 7.3 in May. This series along with the other manufacturing surveys suggests that some weakness has persisted past March. The employment component dropped from 16.8 to 5.4 and prices paid dropped from 50.5 to 30.9.



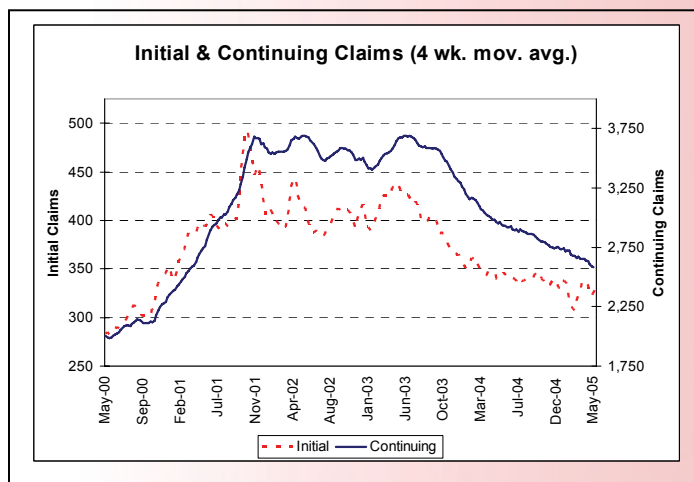
Leading Indicators

Leading indicators decreased 0.2% M/M and 1.1% Y/Y in April. This series continues to head lower mostly due to the flattening of the yield curve.



Unemployment Claims

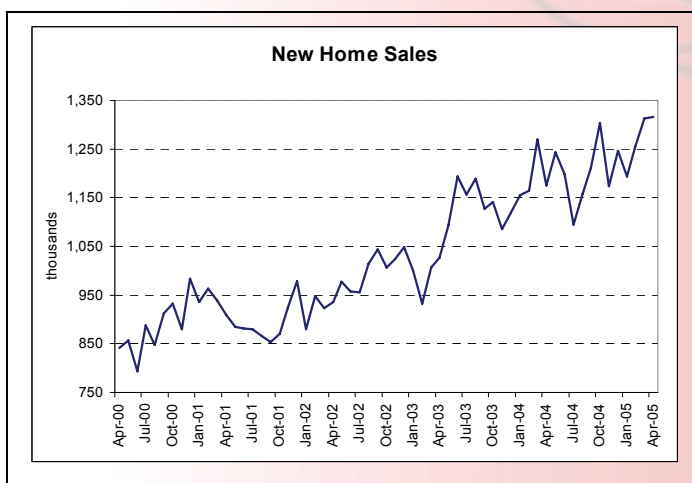
The four week moving average of initial claims increased to 330k and continuing claims decreased to 2,583k. The absolute level of claims data continues to suggest above trend payroll growth so far in May.



Housing

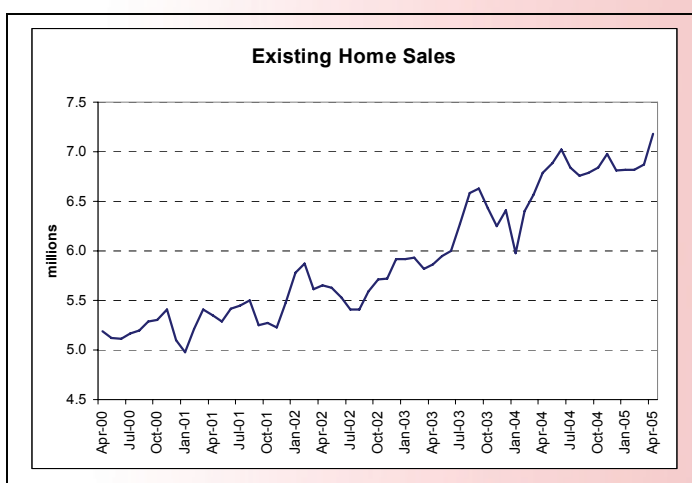
New Home Sales

New Home Sales increased 0.2% M/M to 1.316 million on a seasonally adjusted annual rate in April. Median prices also bounced back by climbing 6.1% M/M after dropping 7.8% M/M in March.



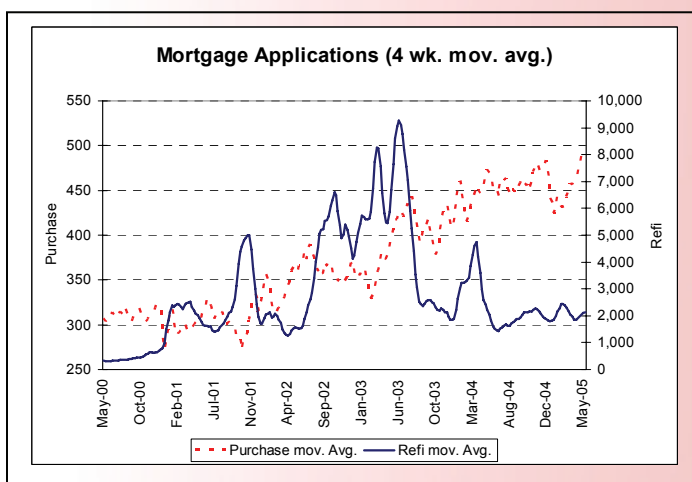
Existing Home Sales

Existing Home Sales increased to 7.18 million on a seasonally adjusted annual rate basis in April from 6.87 in March. The housing market continues to show strength despite constant discussion of a housing bubble. Median prices were up 15% Y/Y in April from 179k to 206k.



Mortgage Applications

Purchase and refinancing mortgage applications increased 2.8% and 6.4%, respectively this week. Lower mortgage rates continue to drive applications higher and purchase applications are now showing Y/Y growth again.



Key Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/26	GDP Annualized (Q1)	3.6%	3.1%
05/26	Initial Claims (MAY 21)	325k	321k
05/26	Continuing Claims (MAY 14)	2,583k	2,601k
05/26	Help Wanted Index (APR)	40	39
05/27	Personal Income (APR)	0.7% M/M	0.4% M/M
05/27	Personal Spending (APR)	0.8% M/M	0.6% M/M
05/27	Core PCE (APR)	NA	0.3% M/M
05/27	U. Mich. Confidence (MAY)	86.0	85.3
05/31	Chicago PMI (MAY)	62.0	65.6
05/31	Consumer Confidence (MAY)	96.0	97.7
05/31	ABC Consumer Confidence (MAY 29)	NA	-15
06/01	MBA Mortgage Applications (MAY 27)	NA	4.3%
06/01	Construction Spending (APR)	0.7% M/M	0.5% M/M
06/01	Pending Home Sales (APR)	NA	-0.3% M/M
06/01	ISM Manufacturing (APR)	52.0	53.3
06/01	Total Vehicle Sales SSAR (MAY)	16.8	17.5

Valance Co., Inc.

Valance Economic Report: Euro Zone

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May 25, 2005

This past week showed some positive Q1 GDP reports in the Euro Zone. The German economy expanded 1.0% Q/Q, however, the details gave little hope for continued growth. French Spending rebounded, though once again, 2 prior sub-par months boosted the April numbers. Spain managed to expand 0.9% Q/Q but Euro Zone and German confidence remained weak, and Euro Zone Core CPI continues to suggest little inflationary pressures.

Weekly Highlights

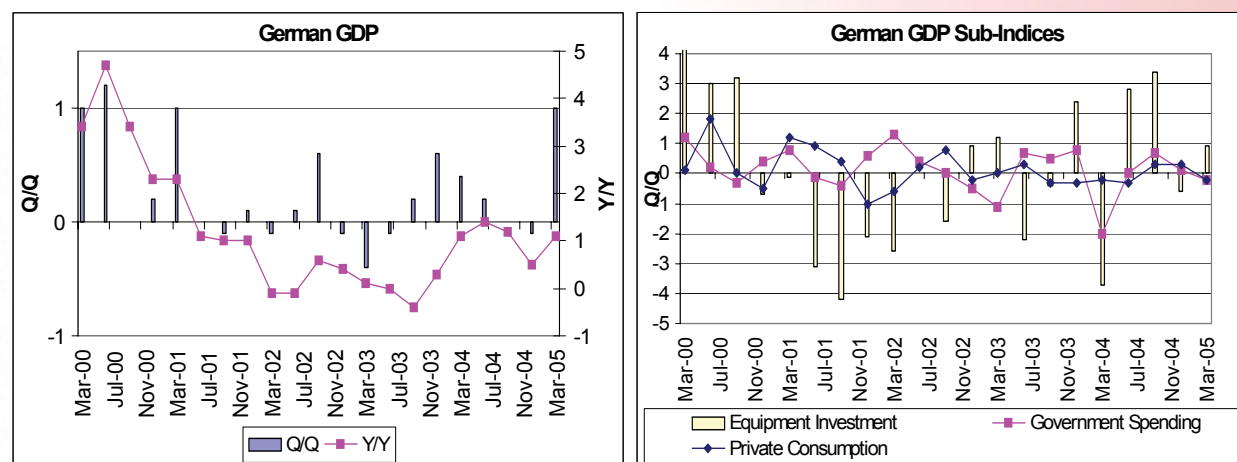
German GDP – rose 1.0% Q/Q in Q1. (page 6)

French GDP – continued to slow in Q1, expanding 0.2% Q/Q. (page 8)

Spanish GDP – strong domestic demand in Q1 led to a 0.9% expansion. (page 9)

Data Releases & News

German GDP

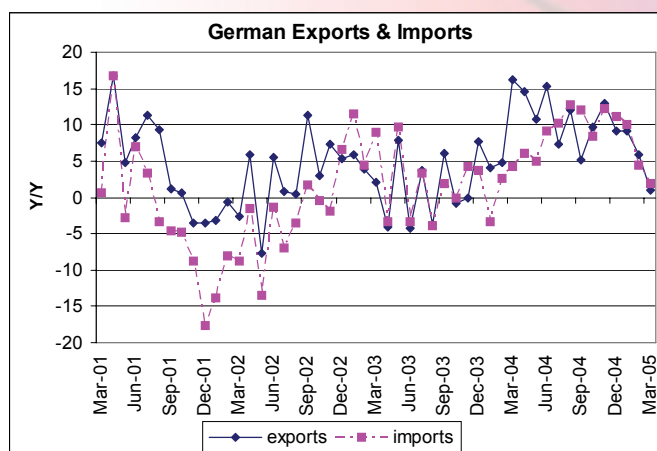


Germany's Q1 GDP increased 1.0% Q/Q and 1.1% Y/Y on the back of strong export growth. Despite the headline number, the situation still appears quite bleak. Much of the growth is simply a mirror image of Q4's contraction; in addition, the Bundesbank stated that the growth figure was distorted upward by excessive work-day adjustments. The sub-indices also hint at a slowing economy as private consumption contracted 0.2% Q/Q, government spending contracted 0.2%, and domestic demand contracted 0.6%. Equipment investment and exports were the drivers of growth, expanding 0.6% and 2.9% Q/Q, respectively.

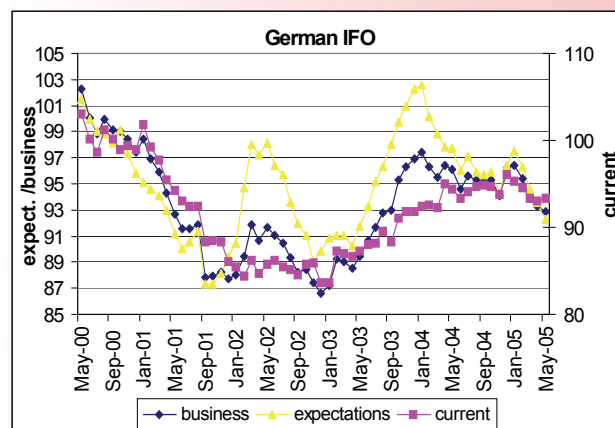
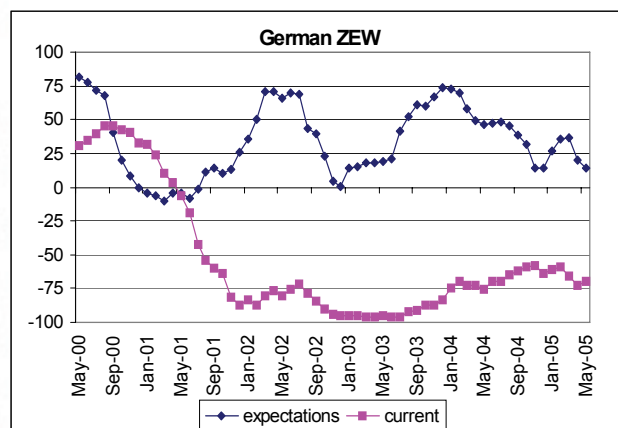
German Exports, ZEW & IFO Confidence

German Exports

Germany's March Exports slowed to 1.0% Y/Y while Imports slowed to 1.9% Y/Y. For the quarter, exports grew 2.9% Q/Q, while imports fell 1.4% from the previous quarter.



German ZEW & IFO Surveys

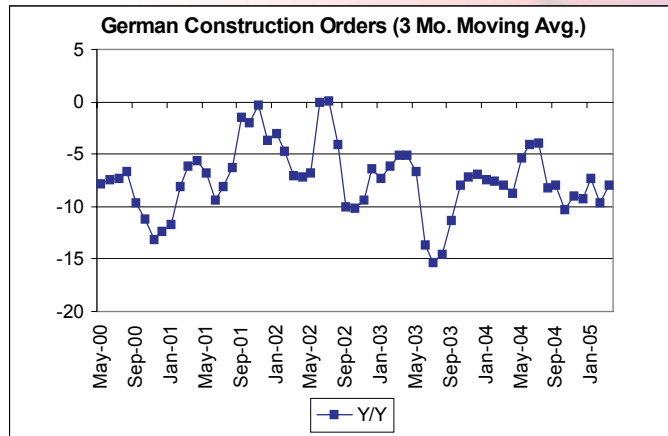


Despite the strong Q1 growth, a weaker Euro and lower oil prices, German confidence continued to decline in May. The German ZEW current assessment survey increased slightly from -73 in April to -69.3 while the expectations survey plummeted from 20.1 to 13.9. The German IFO echoed the same sentiment as the expectations index declined from 93.6 in March to 92.3, the current assessment index increased from 93.1 to 93.4 and the business climate index declined from 93.3 to 92.9.

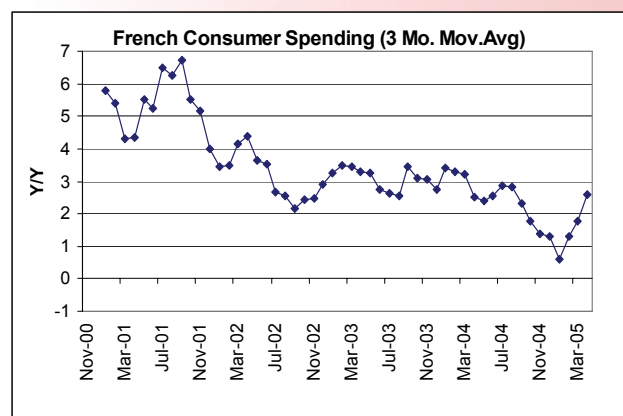
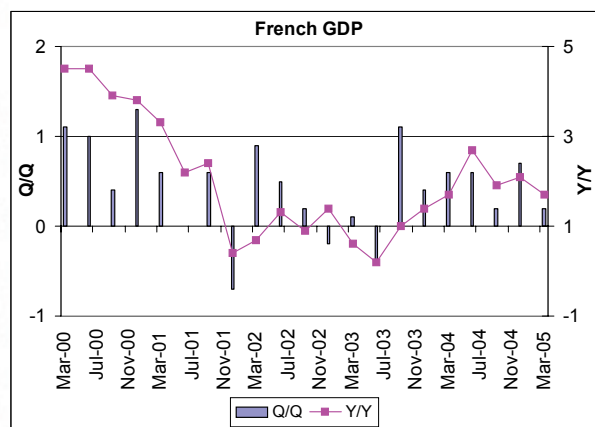
German Construction Orders, French GDP & Spending

German Construction Orders

Germany's March Construction Orders rose the most in a year, climbing 8.8% M/M while falling 5.4% Y/Y. The M/M rise is mostly a reflection of rather poor orders in February.



French GDP & Spending

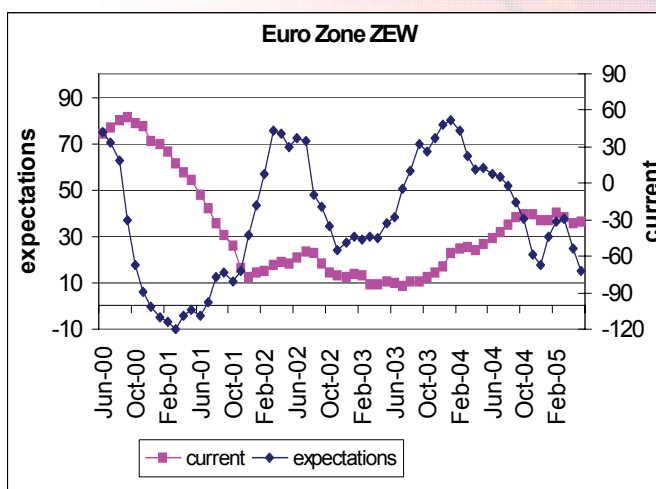


The French economy continued to slow in Q1, expanding 0.2% Q/Q and 1.7% Y/Y, about half the market's expectations. Slowing consumer demand was responsible for part of the decline as household spending contracted both in February and March (M/M). French consumer spending did rebound in April, however, expanding 1% M/M and 2.8% Y/Y. The future direction of consumer spending will most likely be the key factor in determining growth, and with 10.2% unemployment and attempts to shrink the budget deficit, we look for continued poor-to-moderate growth.

Euro Zone ZEW, Spanish GDP & Factory Orders

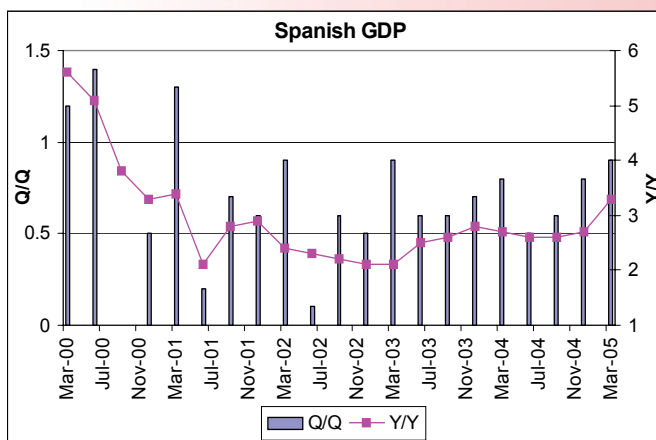
Euro Zone ZEW

The Euro Zone's March ZEW current assessment survey increased slightly from -32.8 in February to -31. The expectations survey fell from 24.6 in February to 14.8 as high unemployment continues to contribute to a pessimistic domestic sector.



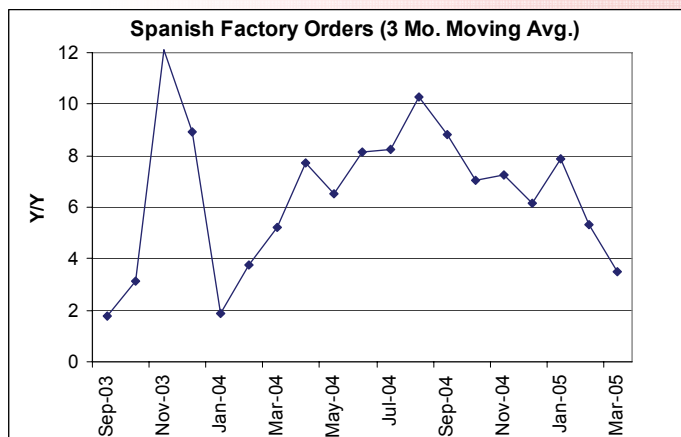
Spanish GDP

Spain's Q1 GDP grew at its fastest pace in 2 years, expanding 0.9% Q/Q and 3.3% Y/Y. Household spending led the way, increasing 0.6% Q/Q and 4.8% Y/Y.



Spanish Factory Orders

Spain's March Factory Orders declined 0.2% Y/Y as durable consumer goods declined for the first time since October of 2004. The 3-month moving average growth slowed to 3.5% Y/Y.



Italian Ind. Orders, Consumer Confidence & Retail Sales

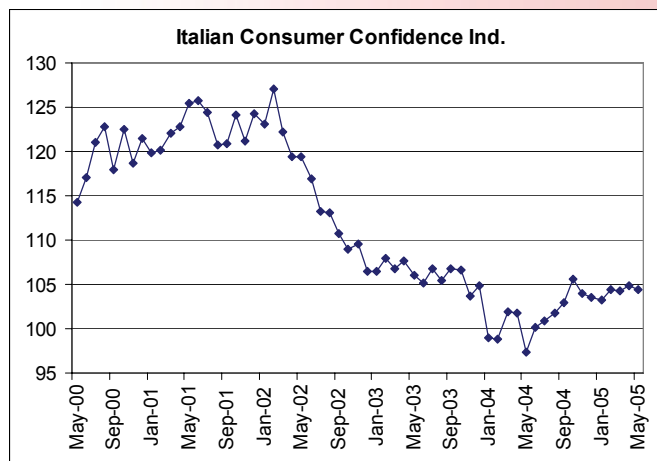
Italian Industrial Orders

Italy's March Industrial Orders fell sharply, declining 1.7% M/M and 3.6% Y/Y. Foreign orders, which had been driving orders for the past few quarters, declined for the second month in three, falling 2.8% M/M.



Italian Consumer Confidence

Italy's May Consumer Confidence fell for the fifth month in seven, declining from 104.8 in April to 104.4. The Italian economy unexpectedly contracted in Q1, sending a bad signal to both consumers and manufacturers.



Italian Retail Sales

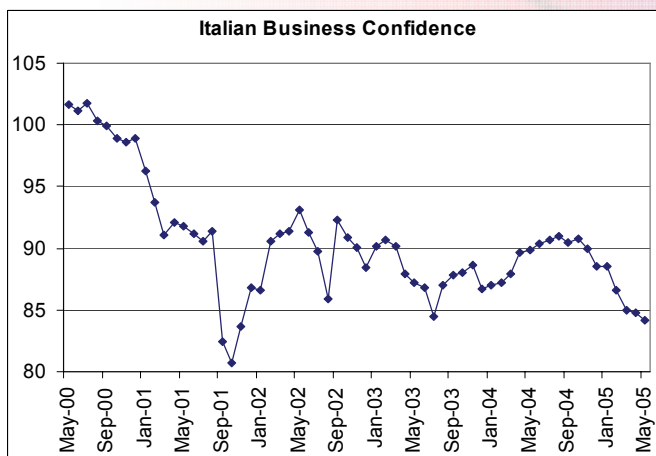
Italy's March Retail Sales increased 0.2% M/M and 2.2% Y/Y after contracting for most of Q4 and early Q1. A large pickup in food sales was responsible for the growth.



Italian Business Confidence, Euro Zone Trade & Ind. Prod.

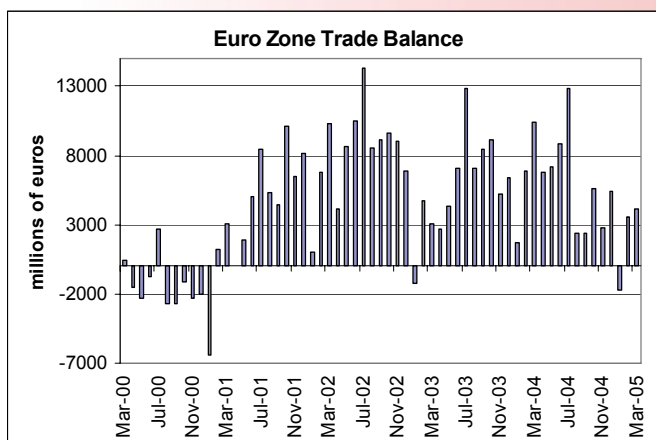
Italian Business Confidence

Italy's May Business Confidence continued its decline, falling to a 3 year low of 84.2. A sub index measuring future expectations also fell from -19 in April to -23 in May.



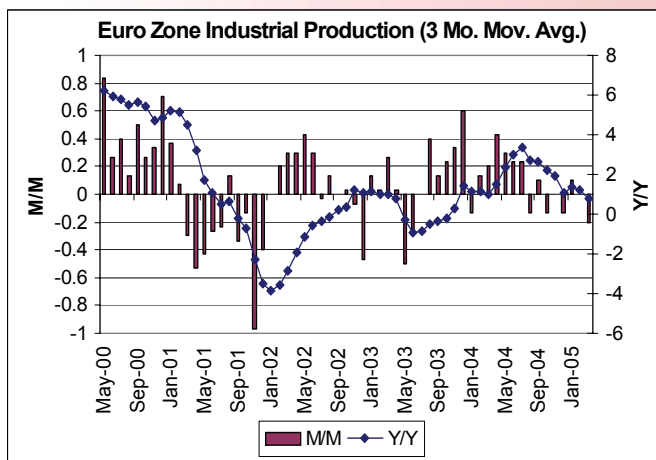
Euro Zone Trade Balance

The Euro Zone's March Trade surplus widened from 3.6 billion euros in February to 4.2 billion as exports rebounded after two lackluster months.



Euro Zone Industrial Production

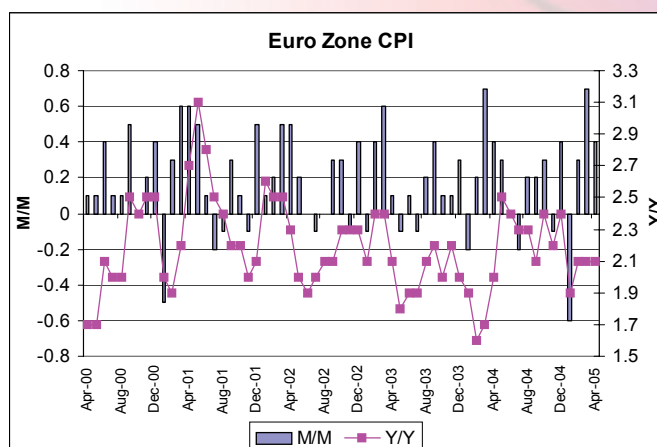
The Euro Zone's March Industrial Production fell for a second month, declining 0.2% M/M and 0.1% Y/Y. Intermediate and non-durable consumer goods led the decline.



Euro Zone CPI, German CPI & French Current Account

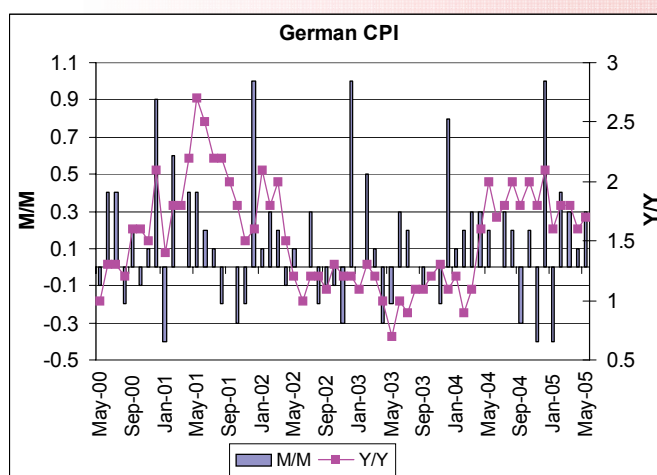
Euro Zone CPI

The Euro Zone's April consumer prices increased 2.1% Y/Y while rising 0.4% M/M. Core Prices decelerated from 1.6% Y/Y in March to 1.4% in April suggesting that little inflationary pressures currently exist.



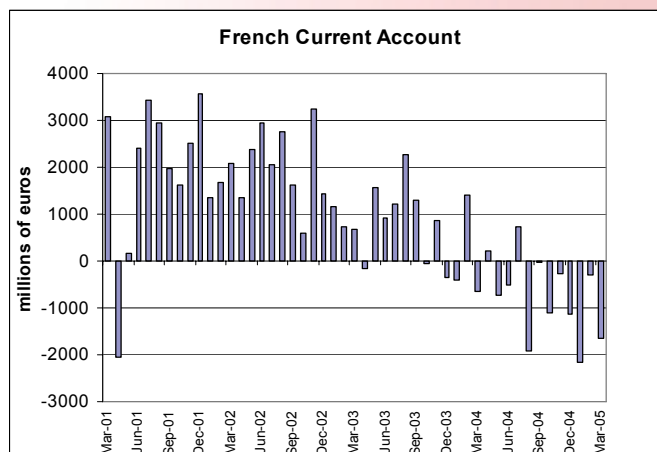
German CPI

Germany's May CPI accelerated to 0.3% M/M and 1.7% Y/Y, up from 1.6% Y/Y in April.



French Current Account

France's March Current Account deficit widened from 590 million in February to 1.6 billion.



News

May 25th – **ECB members, Erkki Liikanen and Tommaso Padoa-Schioppa**, both commented on rates, hinting at future hikes, though with no visible timeline. Padoa-Schioppa noted that the only change in interest rates the bank can “imagine” is an increase, stating, “The way it looks, the only direction we can imagine is a move toward neutral rates.” Liikanen also mentioned that interest rates will be raised “at some point in the future.”

May 24th – The **German IFO Institute** has joined the foray of banks, institutions and officials calling for the ECB to cut rates, stating, the 2% rate is “too high... What was appropriate during the world economic boom can’t also be appropriate during a lull”. A few days earlier the IMF also called for the ECB to cut rates if the economy weakened any further.

May 24th – **The OECD cut its 2005 Euro Zone** growth forecast from 1.9% to 1.2%. An OECD economist also stated, “A rate reduction by 50bp would be warranted sooner rather than later.” The OECD also cut their French forecast from 2% to 1.4% due to weakening domestic demand. Deutsche Bank also cut their 2005 Euro Zone growth forecast from 1.6% to 1.4% also predicting that Italy is heading for its deepest recession since 1993.

May 23rd – The **Italian Isae Institute** cut its 2005 growth forecast from 1.8% to 0.2% while increasing its government deficit forecast from 2.9% of GDP to 3.9%.

May 23rd – **ECB President Trichet** commented on rates and the economy, stating, “Recent data confirm that some of the downward risks to economic growth identified in the past have partially materialized.” He also noted that the “apparent improvement in Q1 largely reflects technical factors related to working-day adjustments of the data.” On inflation Trichet stated, “We continue to see no signs of underlying inflation building... however there continue to be upside risks over the medium term and they warrant vigilance.” On rates he stated, “The last time we met we were absolutely convinced that we would not improve the situation, but would hamper Europe if we would go in the direction suggested by some (lower rates).”

May 20th – **German Economy and Labor Minister, Wolfgang Clement**, stated that the ECB isn’t making an attempt to support growth in Germany stating, “Germany is being sacrificed for stability at a time when growth is already insufficient.” The ECB has been the brunt of numerous attacks as of late as Euro Zone growth continues to wane.

May 20th – **ECB member, Yves Mersch**, commented that oil prices would affect growth much more than inflation. Despite the lack of inflation Mersch also stated that, “One cant demand from a responsible central bank that it create negative real rates and thereby make life more difficult, more than anything for the small savers.”

May 20th – A **Market News Report** claims that the **ECB** may wait until October before discussing a possible rate increase due to the Euro Zone’s continued weakness. The unidentified source also stated that the ECB would make no decisions until the growth outlook becomes clearer.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/26	Italian Retailers' Confidence (APR)		95.1
05/27	French Business Confidence (MAY)	98.0	97.0
05/27	Euro Zone Current Account (MAR)	4.5B	5.1B
05/31	French Unemployment Rate (APR)		10.2%
05/31	German Unemployment Rate (MAY)		11.8%

Valance Co., Inc.

Valance Economic Report: Japan

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May 25, 2005

An adjustment in the Bank of Japan's (BoJ) policy target and some upward data revisions are the highlights of this week's report. The BoJ for the first time since March of 2001 stated that it would allow its reserves to fall below ¥ 30 trillion. However, Governor Fukui commented that this change occurred for technical reasons and should not be seen as a policy shift. Meanwhile, the Leading and Coincident Indices both showed some upward revisions.

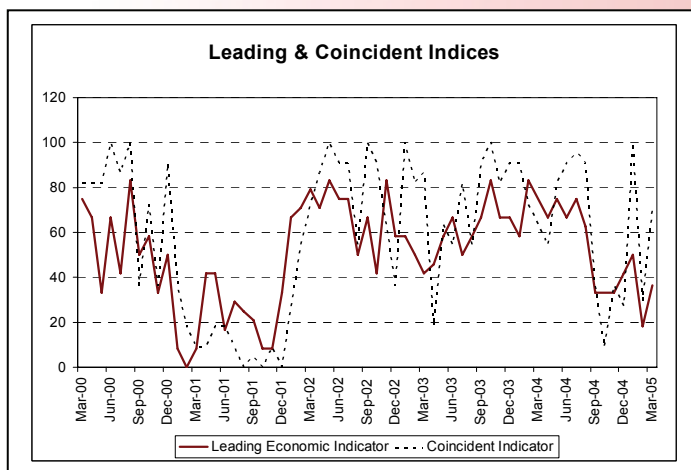
Weekly Highlights

- **The Leading and Coincident Indices** – were revised up from 30 to 36.4 and from 66.7 to 70, respectively. (page 15)
- **The Adjusted Merchandise Trade Balance** - narrowed from ¥895bn to ¥712.2bn in April. (page 16)

Weekly Releases & News

Leading & Coincident Indices

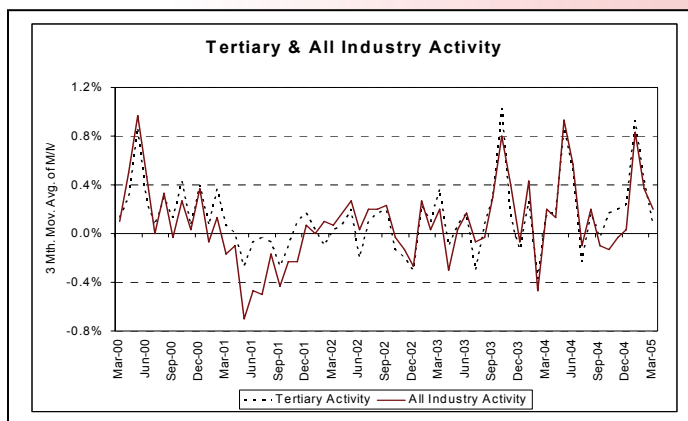
The Leading and Coincident Indices were revised up from 30 to 36.4 and from 66.7 to 70, respectively.



Tertiary & All Industry Activity, Convenience Store Sales & Trade Balance

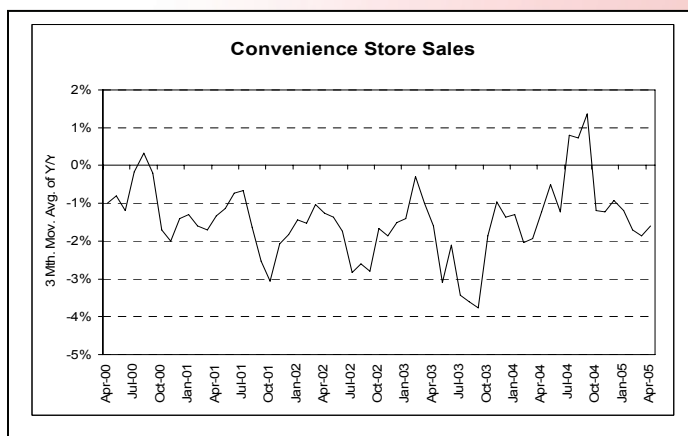
Tertiary & All Industry Activity

Tertiary & All Industry Activity Indices decreased 1.0% M/M and 0.5% M/M, weaker than expected.



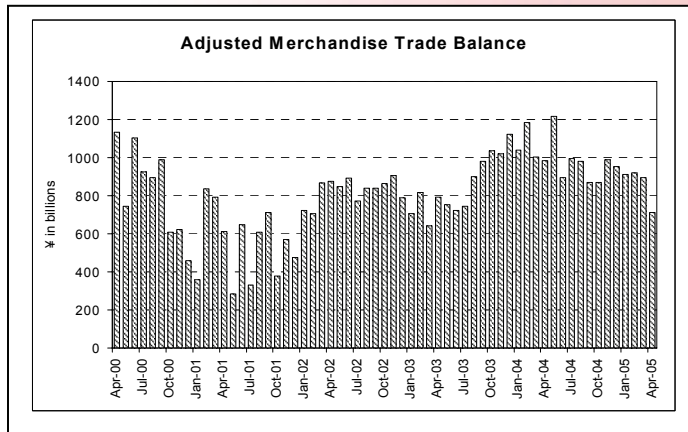
Convenience Store Sales

Convenience Store Sales decreased 0.9% Y/Y in April, which marked the lowest decrease in four months



Merchandise Trade Balance

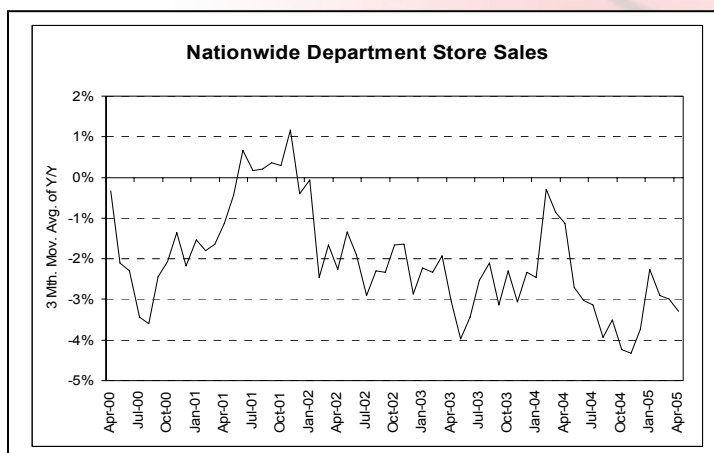
The Adjusted Merchandise Trade Balance narrowed from ¥895bn to ¥712.2bn in April. Exports increased 1.1% M/M while Imports increased 5.6% from the previous month.



Nationwide Department Store Sales & Comments

Nationwide Department Store Sales

Nationwide Department Store Sales remained flat M/M in April.



Comments

May 24th – Japan’s economy is expected to expand 1.5% in 2005 and 1.7% in 2006, according to the Organization for Economic Cooperation and Development. “The expansion is led by domestic demand, which is underpinned by strong corporate profits and a reversal of the declining trend in employment and wages,” the OECD stated. In January, the OECD forecasted that Japan’s economy would expand 1.4%. The OECD also expects prices to fall 0.9% this year and to be unchanged next year.

May 23rd – Commercial land prices in Japan’s six largest cities increased for the first time in more than 14 years, according to Japan’s Real Estate Institute. The commercial land price index for Tokyo, Yokohama, Nagoya, Kyoto, Osaka and Kobe increased 0.2% in the six months ending in March, marking the index’s first increase since September of 1990. In Tokyo alone, commercial land prices increased 0.5%.

May 20th – The BoJ in its Monthly Economic Report stated that “Japan’s economy continues on a recovery trend.” According to the report, “Exports are starting to pick up, and industrial production is increasing gradually.”

Comments in regards to the Central Bank’s decision to allow the amount of reserves it makes available to lenders to temporarily fall below its lower limit of 30 trillion yen:

Governor Toshihiko Fukui:

“I don’t think it’s correct to conclude that our decision today means a shift of policy.”

“There is no change in our promise that we will maintain our policy framework” that is until core CPI stabilizes at or above zero.

Governor Toshihiko Fukui:

“It’s not time for us to take steps toward belt-tightening measures, which we usually do when facing the possibility of inflation. We’re confident that we shouldn’t stamp on the new sprouts and break our promise to keep the monetary easing policy. It’s quite difficult to strike a balance in such measures. However, it’s completely inaccurate for some people to say we intend to tighten monetary policy.”

Minister Koichi Hasokawa:

“An utmost effort to end deflation should be made when conducting monetary policy.”

Upcoming Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/26	Tokyo CPI (M/M) (APR)	0.0%	-0.1%
05/26	Tokyo CPI Ex Fresh Food (M/M sa) (May)	0.1%	0.0%
05/26	Tokyo CPI (Y/Y) (May)	-0.3%	-0.4%
05/26	Tokyo CPI Ex Fresh Food (Y/Y) (May)	-0.4%	-0.5%
05/26	National CPI (M/M sa) (APR)	-0.1%	0.1%
05/26	National CPI Ex Fresh Food (M/M sa) (APR)	0.0%	0.0%
05/26	National CPI (Y/Y) (APR)	-0.1%	-0.2%
05/26	National CPI Ex Fresh Food (Y/Y) (APR)	-0.3%	-0.3%
05/26	Large Retailers' Sales (APR P)	-2.0%	-4.1%
05/26	Retail Trade (Y/Y) (APR P)	1.4%	0.6%
05/26	Retail Trade (M/M) (APR)	0.5%	-0.9%
05/29	Industrial Production (M/M) ((APR P)		-0.2%
05/29	Industrial Production (Y/Y) (APR P)		1.2%
05/30	Jobless Rate (APR)		4.5%
05/30	Job-to-Applicant Ratio (APR)		0.91%
05/30	Workers' Household Spending (Y/Y) (APR)	-5.0%	1.7%
05/30	Workers' Household Spending (M/M) (APR)		1.1%

Valance Co., Inc.

Valance Economic Report: United Kingdom

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May 25, 2005

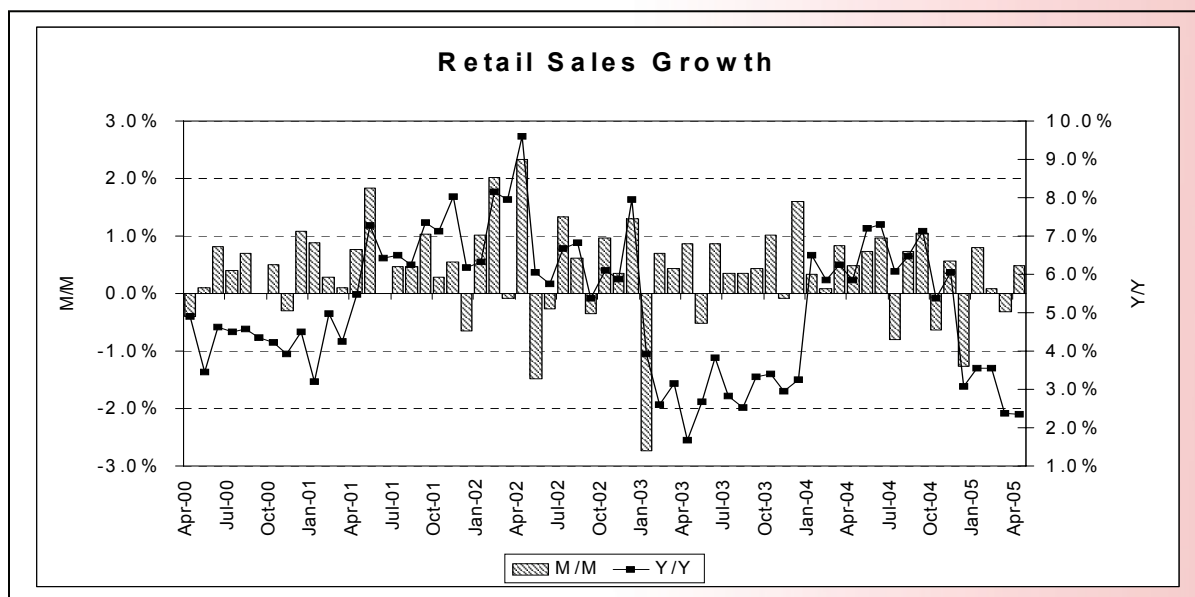
Expectations that official rates have peaked were further solidified as Y/Y Retail Sales were the lowest in two years and the second revision of Q1 GDP was revised down amid manufacturing weakness.

Weekly Highlights

Retail Sales- increased 0.5% M/M and 2.4% Y/Y in April. (page 20)

The second revision of Q1 GDP- revised down from 0.6% Q/Q to 0.5% Q/Q mainly due to weak manufacturing output. (page 21)

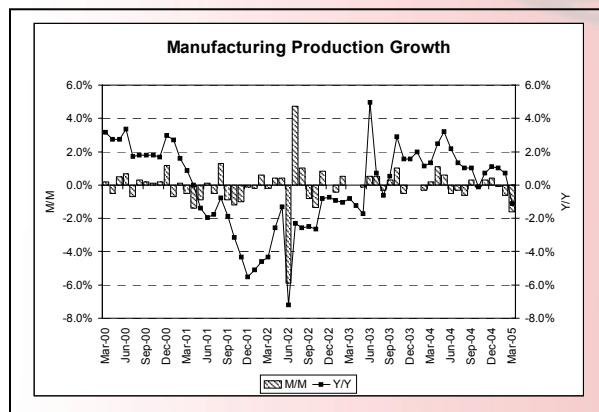
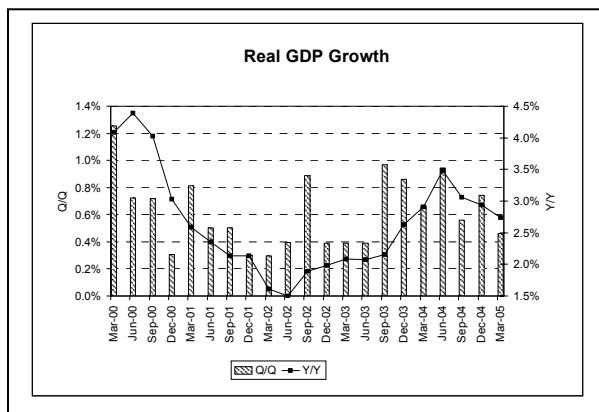
The Budget Balance- decreased from -£38.6 billion in March to +£1.6 billion in April, due to rising tax revenue. (page 22)

Weekly Releases & News**Chart of the Week**

Retail Sales increased 0.5% M/M and 2.4% Y/Y in April. Though the M/M rate was higher than expected, the Y/Y rate slipped to its lowest rate in two years. Meanwhile, March's data was revised from -0.1% M/M to -0.3% M/M. Much of this fluctuation has to do with the method by which the ONS calculated retail sales with this year's early Easter holiday.

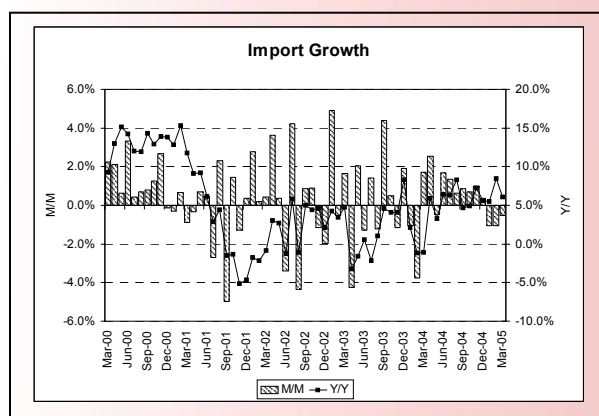
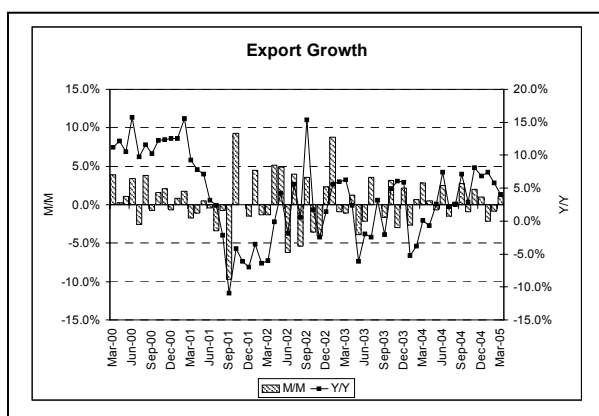
GDP, Exports & Imports

GDP



In its second revision, Q1 GDP growth was revised down from 0.6% Q/Q to 0.5% Q/Q mainly due to manufacturing output which was revised from +0.1% Q/Q to -0.7% Q/Q for Q1. Household spending has also led to weaker growth as it has slowed from 1.2% Q/Q in Q1 2004 to 0.3% Q/Q in Q1 2005. This downward revision to Q1 GDP makes it more difficult for Chancellor Brown to achieve his 3.0-3.5% growth target for the year.

Exports & Imports Growth

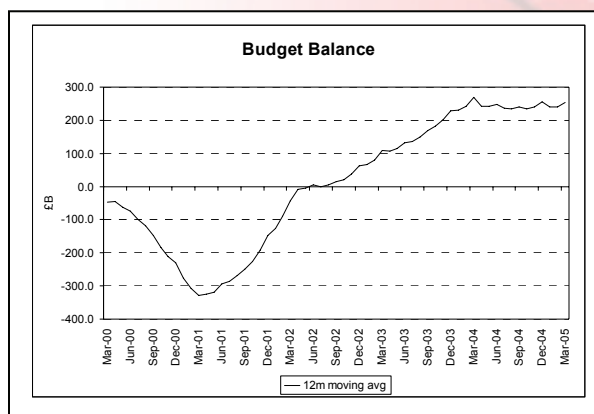


Exports decreased 1.0% Q/Q as exports of goods decreased 1.5% Q/Q and exports of services increased 0.2% Q/Q. Imports decreased 1.9% Q/Q as imports of goods decreased 2.7% Q/Q and imports of services increased 0.9% Q/Q.

Budget Balance

Budget Balance

The Budget Balance decreased from -£2.2 billion in April 2004 to -£1.6 billion in April 2005, due to rising tax revenue. Income and corporation tax revenues have increased, though tax revenues on the high street have been mild due to weak consumer spending.



Data & Comments

Data

CML Mortgage Lending

The Council of Mortgage Lenders (CML), which undertakes 98% of all mortgage lending in the UK, reported that mortgage lending increased 2.0% M/M and decreased 14.0% Y/Y in April.

OECD Growth Projection

The OECD has cut its 2005 economic forecast for the U.K. from 3.4% last June to 2.9% six months ago, to 2.6% in its latest forecast. The OECD cut its forecast mainly as a result of the manufacturing slump, where factories posted their largest decline in almost three years in March.

Comments

MPC member, Kate Barker, commented recently that the slowdown in home prices should prove moderate. "Clearly the housing market can't go on rising at 20% a year, but one would hope that we don't see a complete reversal of this."

MPC member, Richard Lambert, commented recently that looking at the behavior of financial markets suggests a "sideways" movement in interest rates. "If you extrapolate interest rates from financial markets they seem to be suggesting that interest rates will move broadly sideways." He continued to comment that lower house-price inflation, which the Bank has linked with the slowdown in consumption, may have started to pick up, with the market looking "relatively stable."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/26	CBI Industrial Trends Survey		
05/27	BBA Mortgage Lending figures		
05/31	GfK Consumer Confidence		0
06/01	Mortgage Approvals		91k
06/01	CIPS Manufacturing PMI		0

Valance Co., Inc.

Valance Economic Report: Canada

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May 25, 2005

Recent data from Canada was mixed. Core CPI was unchanged in April while March's Retail Sales increased more than the market anticipated. The data continues to support the trend of domestic demand supporting the economy, despite a softer manufacturing sector. Accordingly, if manufacturing and export demand pick up in the coming months, a rate hike is likely to follow.

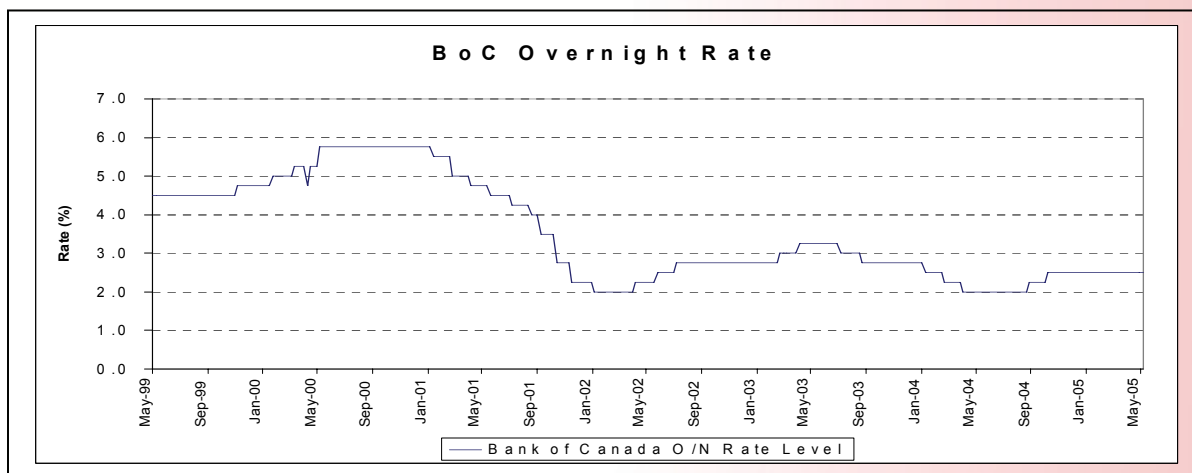
Weekly Highlights

BoC Rate – remained unchanged at 2.50% on May 24th. (page 25)

CPIx8 – unchanged M/M and increased 1.7% Y/Y in April. (page 26)

Retail Sales (Ex-Autos) – increased 0.9% M/M and 7.4% Y/Y in March. (page 26)

Leading Indicators – increased 0.4% M/M and 5.3% Y/Y in April. (page 27)

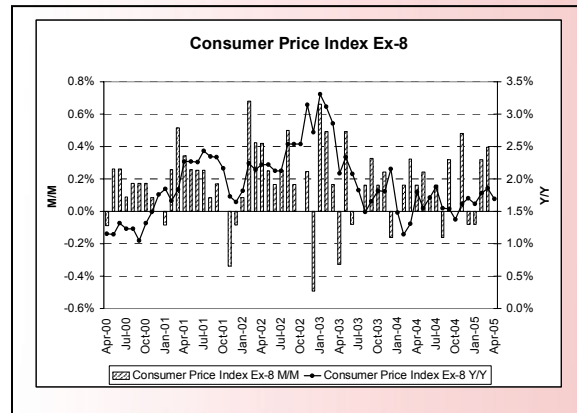
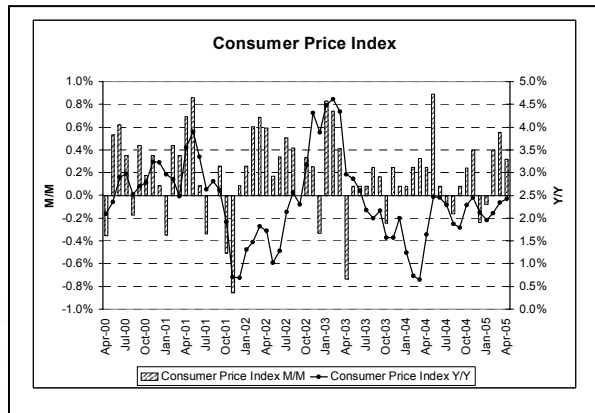
Data Releases & News**BoC Overnight Rate**

As the market expected, the BoC left its overnight rate unchanged on May 24th, stating that recent data had been in line with the Bank's expectations and that the Bank's view going forward is relatively unchanged. The BoC also commented that the "economy is expected to move back to its production capacity in the second half of 2006, with core inflation projected to return to 2% around the end of next year." It maintained that "A reduction of monetary stimulus will be required over time."

As a result, although domestic demand has been firm in recent months, it is likely that the BoC will remain on hold until growth in the manufacturing sector picks up.

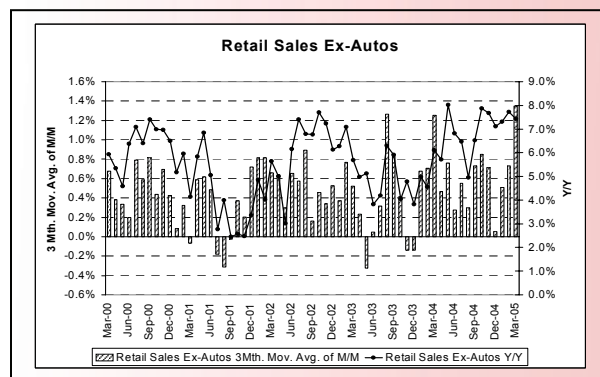
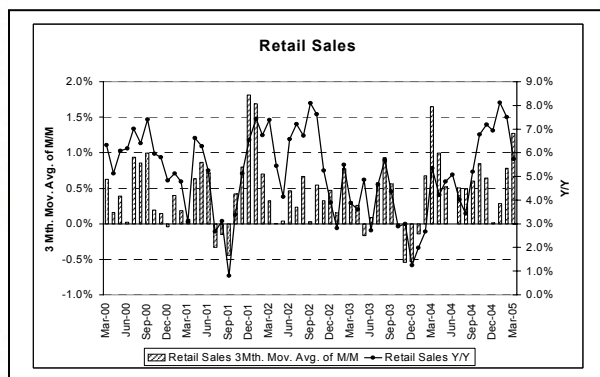
Consumer Prices & Retail Sales

Consumer Prices



Consumer prices increased 0.3% M/M and 2.4% Y/Y in April. Core prices, which exclude the eight most volatile items, stalled in April and increased 1.7% Y/Y. Increases in gasoline and house repair costs for the month were offset by declines in computer prices, clothing prices and traveling costs. April's M/M increase in headline prices was less than half of what was experienced in March and supports the views that the BoC will leave rates on hold through the next quarter.

Retail Sales

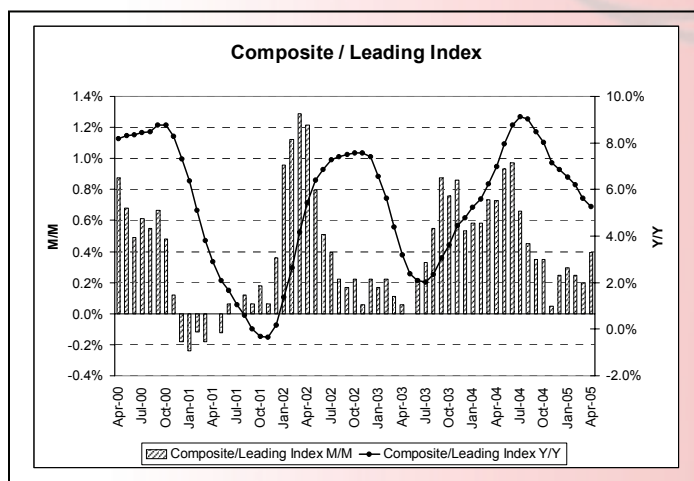


Retail sales in Canada increased 0.2% M/M and 5.7% Y/Y in March. Excluding autos, retail sales increased 0.9% M/M and 7.4% Y/Y. Beer and wine sales, as well as sales at gasoline stations, lead the advance while computer store sales were weak. The increase in core retail sales went against expectations for a 0.4% M/M decline and continues to suggest that domestic demand is driving growth, despite a soft manufacturing sector.

Leading Indicators, Election Update & Upcoming Dates

Leading Indicators

Canada's index of Leading Economic Indicators increased 0.4% M/M and 5.3% Y/Y in April, outpacing the 0.2% M/M gain the market anticipated. The index rose at its fastest pace since September due to furniture and durable goods sales, as well as new manufacturing orders.



Election Update

May 19th – Canadian Prime Minister, Paul Martin, was able to pass his budget bills with votes of 153-152 and 250-54 in the House of Commons in Ottawa. Martin had stated that he would step down, dissolve his government and call for another election if his Liberal Party had lost either vote. This victory will keep Martin in power for at least another six months, before the next election is to be called. The passage paves the way for spending increases of 1% of GDP for this year and next.

Key Dates This Week

Date	Indicator	Expectation	Previous
05/30	Raw Materials Index (Apr)	1.0%	6.2%
05/30	Current Account (Q1)	\$3.2 bln	\$6.3 bln
05/31	GDP (Mar)	0.1%	0.3%

Valance Co., Inc.

Valance Economic Report: Australia

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May 25, 2005

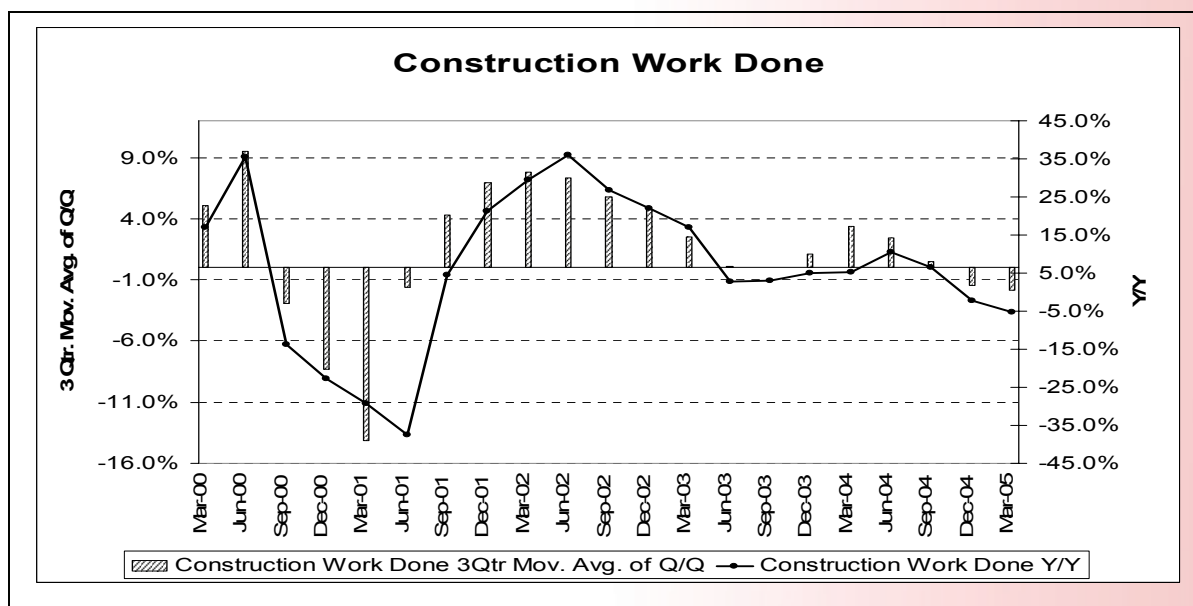
This week's data was mixed in Australia as residential construction work was softer than expected while weekly earnings were stronger than anticipated. The mix of data continues to present a significant upside risk to the country: if the increase in wages flows into other sectors, the RBA may be prompted to act on its tightening bias.

Weekly Highlights

Residential Construction Work Done – declined 1.0% Q/Q and 5.3% Y/Y in Q1. (page 28)

Avg. Weekly Wages – increased 1.8% Q/Q and 4.8% Y/Y in Q1. (page 29)

Consumer Inflation Expectations – declined slightly in May. (page 29)

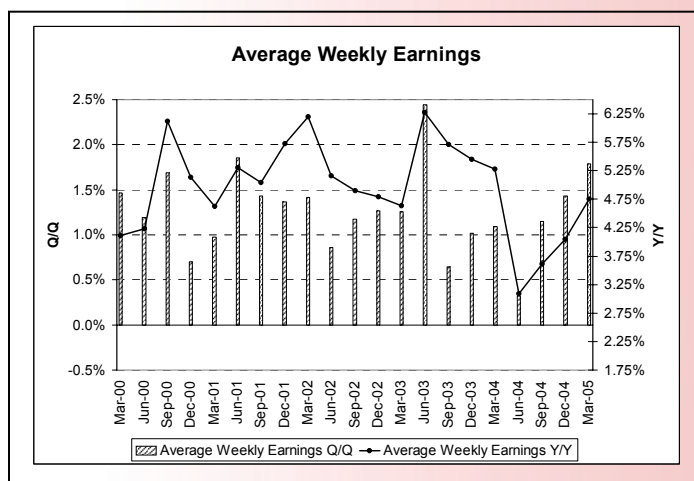
Weekly Releases & News**Construction Work Done**

Construction work on residential property in Australia declined 1.0% Q/Q and 5.3% Y/Y in Q1, weaker than the headline 1.9% Q/Q gain suggested by total construction, which includes public and non residential construction. The soft data contrasts with other stronger data for the month, including earnings and labor shortages. All of these factors combined present an upside risk to rates as the already hawkish RBA may decide to act on evidence of inflationary pressures building over the upcoming months.

Average Weekly Earnings, New Motor Vehicle Sales & Consumer Inflation Expectations

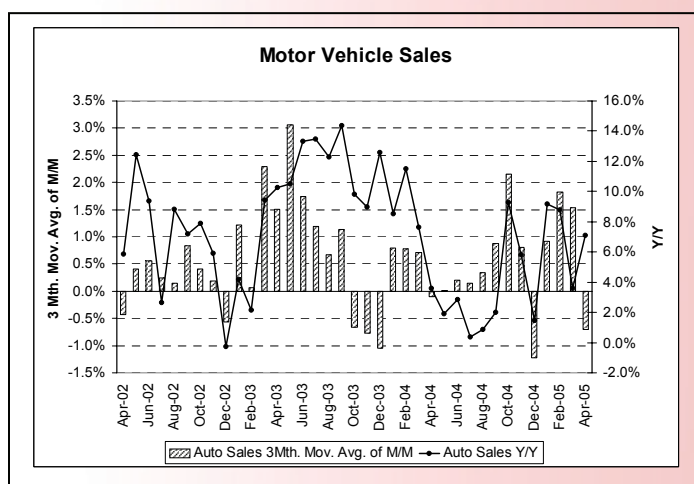
Average Weekly Earnings

Average weekly earnings in Australia increased 1.8% Q/Q and 4.8% Y/Y in Q1. In the private sector, earnings increased 2.3% Q/Q and 4.9% Y/Y. In the public sector, earnings increased 0.3% Q/Q and 4.0% Y/Y. Despite this increase, neither consumers nor a majority of economists think that the wage increases will flow into prices. There remains a high risk of the RBA thinking otherwise however, as another hike this year cannot be ruled out.



New Motor Vehicle Sales

New Motor Vehicle Sales increased 2.0% M/M and 7.1% Y/Y in April.



Consumer Inflation Expectations

Australian consumers' expectations of inflation declined in May as they expected prices to rise 4.5% in the next 12 months, down from the 4.6% increase anticipated in April. Wage expectations also declined, as hourly wages are expected to increase 2.3% in the year ahead, below the 3.1% increase forecasted in April.

Magazine Publishers' Expectations, Labor Shortages, OECD Comments, & Leading Economic Index

Magazine Publishers Expect Slower Growth

In what may be a sign of slowing domestic growth, Australian magazine publishers acknowledged that advertising revenue may decline in the near future as retail sales have declined and revenue growth has slowed. However, advertising revenue growth is still expected to remain positive in the up coming months.

Labor Shortages for Export Companies

Straits Resources Ltd, a copper mining company, stated that they have had to shut down construction for weeks due to labor shortages. The delay suggests that the labor sector may be showing no signs of slowing in the near future as the manufacturing and export sectors continue to experience firm growth. The delay is also in line with rising labor costs, a trend that may lead to inflation and action from an already hawkish Reserve Bank.

OECD Forecast Revision

The Organization for Economic Cooperation and Development stated that it expects the Australian economy to grow 2.5% in 2005 from 3.5% in 2004. They believe that the economy will slow as consumer spending and home building cool while exports pickup in 2006. They also expect the economy to grow 3.4% in 2006 and the RBA to leave rates unchanged at 5.50%. On the trade front, the OECD expects exports to rise 8.1% in 2006, nearly double the expected 4.6% increase for this year. The OECD also stated that "Because of tighter monetary conditions and slowing growth this year, inflation is expected to stay below 3 percent."

Leading Economic Index

The index of leading economic indicators for Australia declined 0.2% M/M in March to 211.1, the lowest since August, suggesting that growth is slowing. The decline suggests that growth will be sub par in 2005. The annualized rate of the index was zero in March, below its long term trend of 3.4%. On the flip side, the coincident index, which measures the current conditions of the economy, increased 0.4% in March. The annual growth rate of the coincident index was 4.8%, above its long term trend of 4%.

Upcoming Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/25	Conference Board Leading Index (Mar)	N/A	N/A
05/25	Private Capital Expenditure (Q1)	1.3%	5.7%
05/29	Housing Industry Association New Home Sales (Apr)	N/A	N/A
05/29	Inventories	N/A	-0.3%
05/30	Current Account Deficit (Q1)	N/A	-15.1 bln
05/30	Retail Sales (Apr)	N/A	0.1%
05/31	AIG PMI	N/A	N/A
05/31	GDP (Q1)	0.8%	0.1%

Valance Co., Inc.

Valance Economic Report: New Zealand

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May 25, 2005

This week was relatively quiet in New Zealand. Producer Prices increased at a firm pace and Finance Minister, Michael Cullen, unveiled his government budget, which forecasts a deficit in 2007. Looking forward, we expect the RBNZ to remain on hold, albeit with a tightening bias, through the remainder of the year.

Weekly Highlights

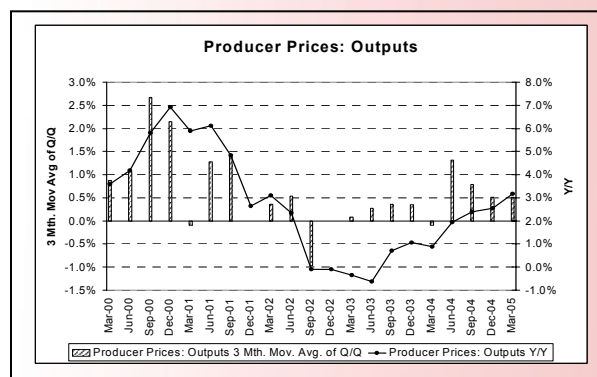
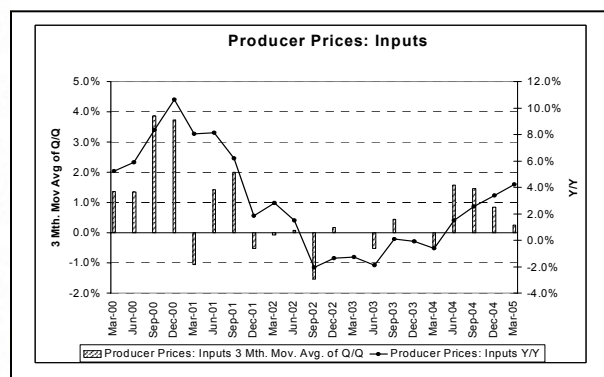
Producer Prices - Outputs – increased 0.5% Q/Q and 3.2% Y/Y in Q1. (page 32)

Producer Prices – Inputs - increased 0.3% Q/Q and 4.2% Y/Y in Q1. (page 32)

NZ Budget – forecasted to go into deficit by 2007. (page 33)

Weekly Releases & News

Producer Prices



Producer input prices increased 0.3% Q/Q and 4.2% Y/Y in Q1. Output prices increased 0.5% Q/Q and 3.2% Y/Y in Q1. The Y/Y input and output price increases were the largest since Q3 2001. Higher prices received for steel and meat exports were the biggest influence on output prices. Generators also received higher prices for electricity.

NZ Budget, Cullen's Comments & Credit Card Spending

New Zealand Budget

The New Zealand government budget will turn to a cash deficit in 2007 after Finance Minister, Michael Cullen, announced a four year program to spend \$10.6 billion on health, business tax cuts and topping up workers' savings. The budget is Cullen's sixth and comes as the labor party led government seeks a third term in office at the Sept. 24th elections. The budget also promises cuts in income tax, and increasing the threshold at which higher rates apply from 2008.

In the budget, economic growth is forecast to decline by half to 2.3% this year, from 4.8% in 2004. According to Cullen, this leaves little room for broader tax cuts. For this year, the New Zealand Treasury Department forecasts a budget cash surplus of \$2.4 billion, shrinking to \$30 million in 2006. Increased spending will bring the budget to \$1.6 billion deficit in 2007, rising to \$2.78 billion the following year. The budget papers confirmed that the government expects the RBNZ to keep rates relatively unchanged this year as the economy slows. It expects inflation to be unchanged at 2.8% by March of 2006.

In terms of the GDP, the government debt is forecasted to decline from 25.3% in June of 2004 to 21.3% by June of 2006.

Cullen Comments on Currency

New Zealand Finance Minister, Michael Cullen, stated that he is "uncomfortable" with the high value of the NZ\$, which has increased in value by 17% over the last year against the US\$. The government is "still uncomfortable because we are forecasting quite a strong current account deficit over then next three or four years," Cullen stated. Cullen did acknowledge that the NZ\$ was dampening inflationary pressures as it slowed exports, however, he also noted that "The Reserve Bank would be somewhat concerned perhaps if the exchange rate came down too quickly."

Credit Card Spending

New Zealand credit card spending increased a seasonally adjusted 2.2% M/M and 10.9% Y/Y in April.

Migrants & Upcoming Dates

Fewer Migrants Added in April

New Zealand gained 64% fewer permanent migrants in the year to April, suggesting that home buying and consumer spending, which drove economic growth to its fastest pace in four years in 2004, will slow. Short term visitor arrivals declined as well, falling 6.9% M/M in April.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/25	Trade Balance (Apr)	-310.0 mil	-194.4 mil
05/25	Exports (Apr)	2.77 bln	2.80 bln
05/25	Imports (Apr)	3.06 bln	2.99 bln
05/30	NBNZ Business Confidence (May)	N/A	-48.0%
05/30	Building Permits (Apr)	N/A	6.6%

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Valance Economic Report: China

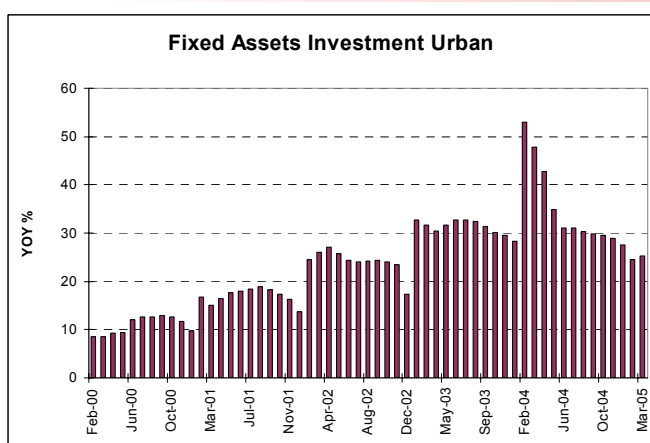
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May 25, 2005

Fixed Assets Investments, the only economic data released over the past week, increased **25.7% Y/Y in March**, well above the government's **16% Y/Y growth target**. Meanwhile, China threatens to drop export taxes on textiles if the U.S. government and the European Union enforce quotas on Chinese-made goods.

Weekly Releases & News**Fixed Assets Investment**

Fixed Assets Investment increased from 25.3% Y/Y in February to 25.7% Y/Y in March, well above the 16.0% investment growth target the government has set for this year.

**News**

May 24th – China's 2005 GDP Forecast Revised – The OECD raised China's 2005 GDP growth forecast to 9.0%, up from 8.0% in its November forecast. The increase is being largely attributed to strong exports.

May 24th – Inflation Pressures – The Director of the National Bureau of Statistics, Li Deshui, stated China still faces inflation pressure due to increasing costs of raw materials and oil. Deshui commented "You can't say inflation pressure is easing." "Raw material and oil prices are still high," Deshui added. CPI increased 1.8% Y/Y in April, at its slowest pace in 18 months. The slowdown was a result of lower grain prices. Conversely, April PPI rose 5.8% Y/Y, its fastest pace in 3 months, on increased crude oil and coal prices.

May 23rd & 24th – China/Japan Ties Worst in 30 Years – China's Vice Premier, Wu Yi, stated that relations between Japan and China are the worst in three decades. Yi commented that the two countries are "faced with some great difficulties, something not experienced in 30 years." The feud stems from Japan's Prime Minister, Junichiro Koizumi's annual visit to a shrine in Tokyo. The shrine is said to glorify dead, convicted war criminals and include textbooks that embrace Japan's wartime history. Chinese Foreign Ministry Spokesman, Kong Quan, stated that millions of Chinese people lost their lives in addition to billions of dollars "at the hands of Japanese aggressors." Koizumi insists his reason for visiting the shrine has nothing to do with idolizing its contents. He last visited the shrine on New Year's Day -- his 4th visit as Premier. As a result, China's Yi canceled a scheduled meeting with Koizumi aimed at improving ties between the two countries and cited Koizumi's lack of consideration "for the feelings of people in China and Asia."

May 23rd – Q1 GDP Growth Revised – The National Bureau of Statistics announced China's Q1 GDP growth was changed from 9.5% to 9.4%. The revision was made based on slower-than-expected Industrial Output which rose 11.1% Y/Y in Q1 – revised down from 11.3%Y/Y.

May 23rd - Still No Timetable Set – China's Vice Premier, Wu Yi, stated China will revalue its currency when the time is right and will not be pressured into doing so. Yi added, at a conference in Beijing, "As for when to reform the yuan, there is no timetable yet." Yi maintained that economic conditions should be right in order for reform to take place.

May 20th and 21st – China May Drop Export Taxes on Textiles - The Commerce Ministry announced that it would drop export taxes on textiles if the U.S. government and the European Union (E.U.) place limits on shipments with quotas.

Key Dates This Week

Date	Indicator	Expectation	Previous
06/19-30	Foreign Exchange Reserves - Apr	--	659.14B
06/19-30	Household Savings – TrinYuan – Apr	--	12.93T
06/01	CLSA May Manufacturing PMI	--	--

Valance Co., Inc.

Valance Economic Report: Sweden

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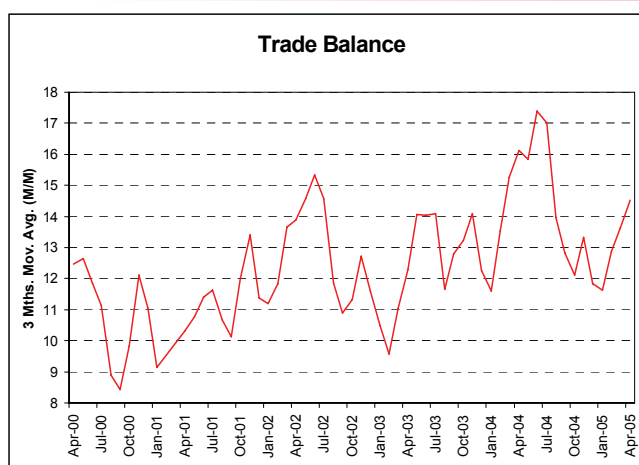
May 25, 2005

The Trade Surplus narrowed from March to April on weakening demand for exports while the PPI showed a surprising increase. Meanwhile, the Central Bank has not come to a consensus on a decision to cut rates, but agree that economic conditions are “slackening”.

Weekly Releases & News

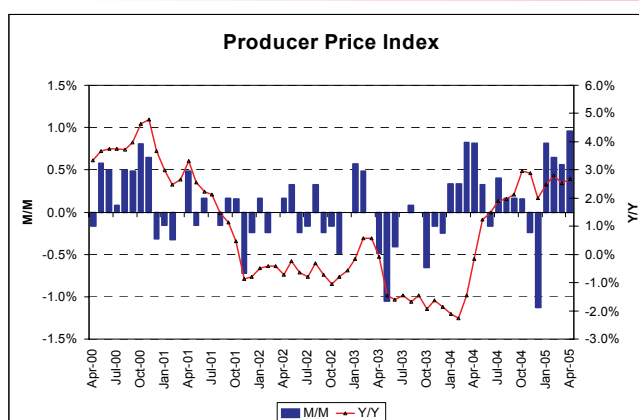
Trade Balance

The Trade Surplus narrowed from SEK 15.7 bln in March to SEK 14.1 bln in April, slightly above the expected 14.0 bln that was forecast. The decrease was attributed to slow growth in the euro area which weakened demand for exports. Imports and exports rose 10.0% Y/Y and 7.0% Y/Y, respectively.



PPI

The Producer Price Index rose 1.0% M/M and 2.7% Y/Y in April, against expectations of 0.4% M/M and 2.1% Y/Y. The growth was partially attributed to the increase in prices of metals and oil products.



Riksbank's Comments

Central Bank policy makers don't seem to have come to a complete agreement yet on whether or not interest rates should be lowered. This was evidenced in recent speeches made by Governor, Lars Heikensten, First Deputy Governor, Eva Srejber, Deputy Governor, Kristina Persson, and Deputy Governor, Lars Nyberg. Some remarks were as follows:

- May 24th – "...a risk that rising interest rates and falling house prices could lead to unnecessary strains in the real economy in the long run...", said **Deputy Governor, Persson** in her speech. Persson added that with a weakening economy "it may prove necessary to conduct monetary policy in a more expansionary direction." Furthermore, echoing the sentiments of other policy makers, Persson maintained the economy was weaker than "previously expected" and should the trend continue "there is a risk of economic downturn, with a softer inflation outlook as a consequence."
- May 24th – In reference to the longevity of the economy's "slackening" growth, **First Deputy Governor, Srejber**, commented that "It is still too early to completely reconsider the economic outlook." Srejber added that she feels "more open-minded" than some regarding the upcoming monetary policy discussions, despite the "light" data received.
- May 19th – **Deputy Governor, Nyberg**, stated that next month's decision to cut rates is an "open question." Nyberg added that the "slackening" economy is being closely monitored to determine whether "the arguments in favor of cutting interest rates...take on greater substance."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/26	Manufacturing Confidence - May	--	--
05/26	Consumer Confidence – May	--	6.5
05/26	Retail Sales s.a. (M/M) – Apr	--	1.6%
05/26	Retail Sales n.s.a. (Y/Y) – Apr	--	8.0%
05/27	Current Account – 1Q	--	46.4B
06/01	Swedbank PMI Survey - May	--	52.2

Valance Co., Inc.

Valance Economic Report: Switzerland

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May 25, 2005

The economy is showing signs of recovery from a Q4 contraction. The surprising surge in Retail Sales, which had been predicted by leading economists at the end of April, was due to household optimism about the current economic situation, offset by fading confidence regarding the future. Risks remain from a slowdown in Europe amid high oil and energy prices.

Weekly Highlights

Adjusted Real Retail Sales – the largest increase in three years in March. (page 39)

Unemployment Rate – steady at 3.8% in April. (page 40)

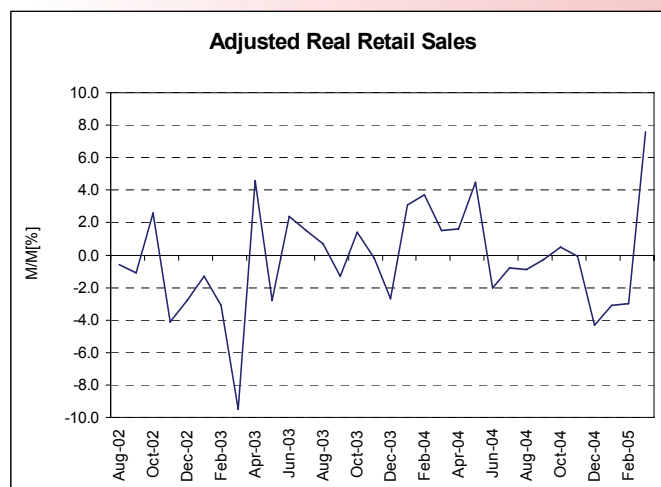
Producer & Import Prices – rose for a third month in April. (page 40)

Trade Balance – exports have held up well, considering the global background. (page 40)

Data Releases

Chart of the Week: Retail Sales

March Retail Sales rose 9.3% m/m and 7.6% y/y when adjusted for inflation and shopping days. This is the largest increase since March of 2002 as rising consumer spending has added to signs that a slowdown in Swiss economic growth may be easing.



Unemployment, Producer & Import Prices, Trade Balance

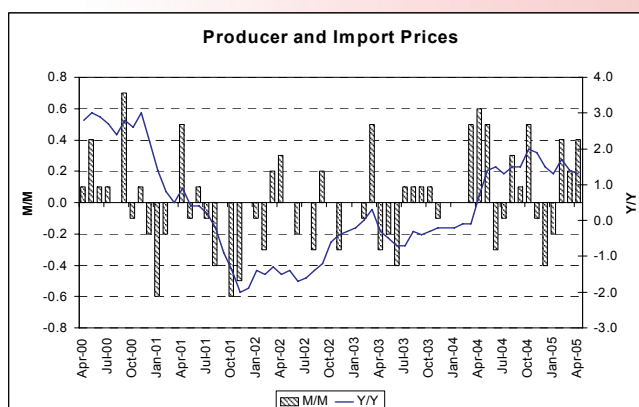
Unemployment

The jobless rate held at 3.8% in April when adjusted for seasonal swings. The unadjusted jobless rate fell to 3.8% from 3.9%.



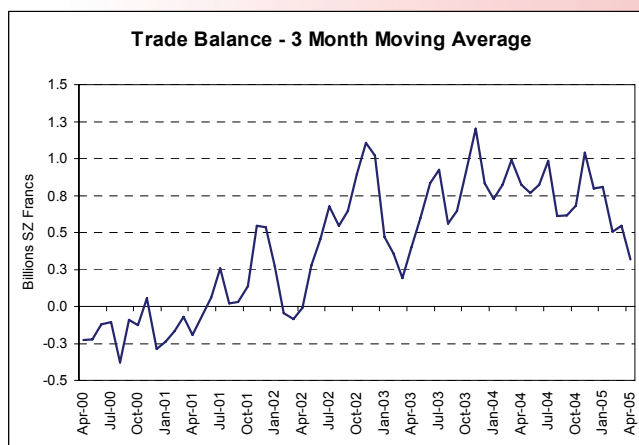
Producer & Import Prices

The Producer and Import Price Index in April rose 0.4% M/M and 1.3% Y/Y. It appears that companies have begun passing on higher oil costs which wasn't the case in February and March.



Trade Balance

The April Surplus rose to SF 441.9 million from SF232.9 million in March. Exports rose 8.3% y/y while imports rose 9.4% y/y. On a trend basis, the surplus continues to narrow, however.



Key Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/27	May KOF Swiss Leading Indicator	0.52	0.52
05/31	May CPI - M/M & Y/Y	---	0.8% & 1.4%
06/01	May SVME – Purchasing Managers Index	---	52.8