

Valance Company, Inc.



Weekly

June 1, 2005

III

Highlights

US – Manufacturing surveys weaken; core PCE stays on trend (page 2)

Euroland – Confidence surveys weaken sharply despite weaker Euro (page 8)

Japan – Employment and income growth accelerate (page 16)

UK – Little rebound seen in consumer spending (page 24)

Australia– Across-the-board economic weakness (page 32)

United States
Cesar Guerra
CGuerra@Valance.US

Euroland
Sean O'Reilly
SOreilly@Valance.US

Japan
China
La-Toya Elizee
LElizee@Valance.US

United Kingdom
Gabe Webber
GWebber@Valance.US

Canada
Australia
New Zealand
Davin Patton
DPatton@Valance.US

Switzerland
Milo Prochazka
MProchazka@Valance.US

China
Sweden
Evelyn Richards
ERichards@Valance.US

May 26 - June 1 Short Term Interest Rates

Country	Change in BPs		(3Mth. Futures Contracts Yields)			
	Official Rate	3 Mth. LIBOR	Sep-05	Dec-05	Mar-06	Jun-06
US	0.00	0.04	-6.00	-12.50	-17.00	-20.50
US	3.00	3.35	3.68	3.77	3.81	3.85
EU	0.00	0.00	-7.00	-11.00	-13.50	-14.00
EU	2.00	2.12	2.04	2.03	2.06	2.14
JN	0.00	0.00	0.00	0.00	0.00	0.00
JN	0.00	0.05	0.08	0.10	0.13	0.17
UK	0.00	0.00	-3.00	-5.00	-7.00	-7.00
UK	4.75	4.87	4.67	4.51	4.40	4.35
CA	0.00	0.00	-14.00	-24.00	-28.00	-28.00
CA	2.50	2.62	2.64	2.76	2.91	3.05
AU	0.00	-0.02	-10.00	-9.00	-8.00	-9.00
AU	5.50	5.62	5.60	5.55	5.50	5.48
NZ	0.00	-0.06	-9.00	-9.00	-8.00	-12.00
NZ	6.75	6.93	6.95	6.83	6.61	6.41
SZ	0.00	0.00	0.00	-4.00	-7.00	-9.00
SZ	0.75	0.75	0.78	0.82	0.91	1.05

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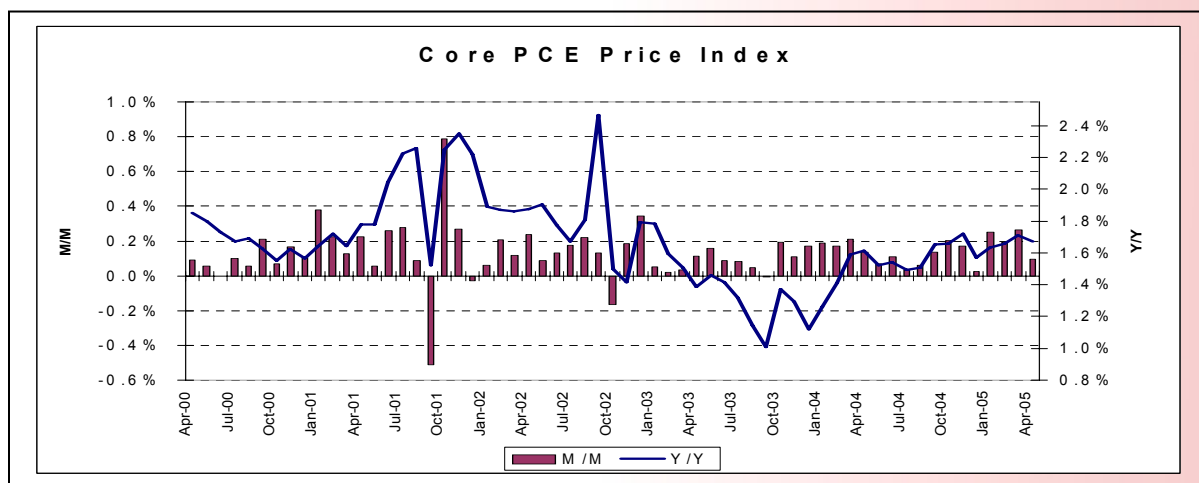
Valance
Economic
Reports

Valance Co., Inc.

Valance Economic Report: United StatesCesar Guerra
(340) 692-7710cguerra@valance.us

June 1, 2005

This week's data shed some light on two key issues- inflation and output growth. One, the Core PCE Deflator confirmed that inflation remains well contained. Two, the manufacturing surveys showed some significant weakness in that sector in May. However, personal income and spending continued to grow at a brisk pace in April and consumer confidence is holding up so far in May. The recent "eighth inning" comments from Fisher rattled the markets and increased market expectations of an early Fed pause. Only time will tell if these comments are a function of a "rookie" stepping "out of bounds", a lone dove "calling'em as he sees 'em" or the Fed's "lead-off man" in resetting market expectations. It is, almost certainly, not the latter.

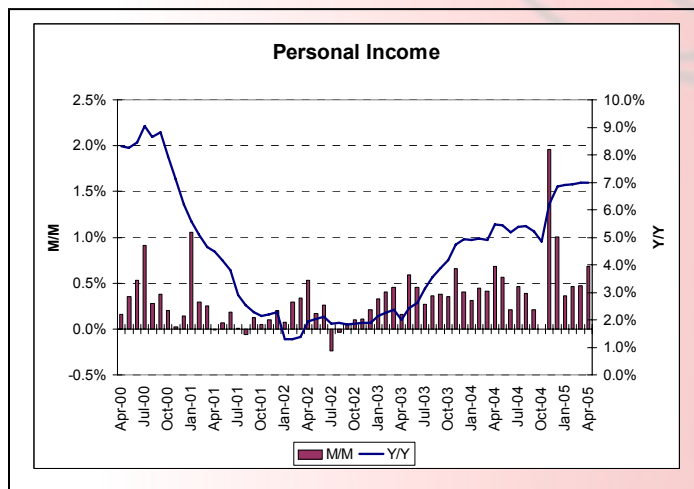
Weekly Highlights**Core PCE Deflator** – increased 0.1% M/M in April. (page 2)**Personal Income** – increased 0.7% M/M in April. (page 3)**ISM Manufacturing** – dropped to 51.4 in May. (page 4)**Consumer Confidence Indicators** – mostly showed gains in May. (page 6)**Weekly Releases****Chart of the Week: PCE Core**

The Core PCE deflator increased 0.1% M/M and 1.6% Y/Y in April. The Fed's favorite measure of inflation has remained in the middle of the Fed's comfort zone of 1% to 2%. However, the Y/Y number could drift higher as low M/M gains from last year roll out of the calculation. Inflation remains tame as the Fed expected, but an upwards revision in unit labor costs tomorrow could fuel more concerns of upward inflationary pressures.

Personal Income, Personal Spending & GDP

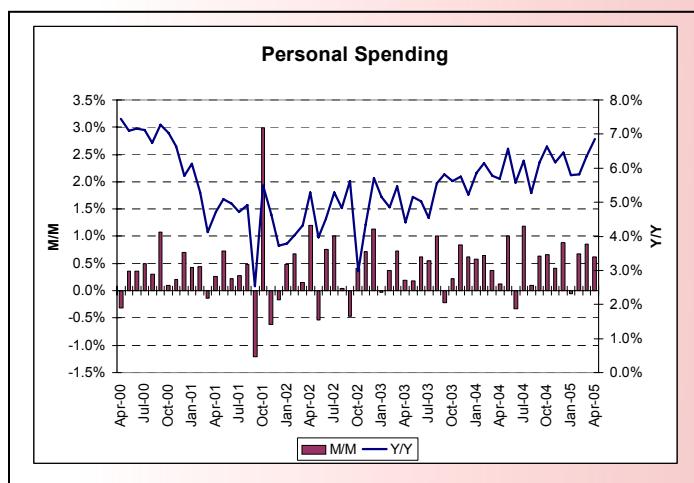
Personal Income

Personal Income increased 0.7% M/M and 7.0% Y/Y in April. Income growth continues to expand at a good clip with Y/Y growth stabilizing at around 7%.



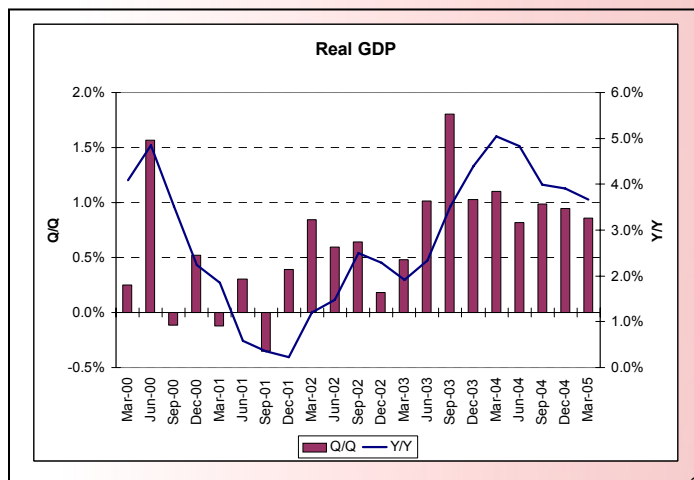
Personal Spending

Personal Spending increased 0.6% M/M and 6.9% Y/Y in April. Spending growth continues to remain firm, buoyed by healthy income growth.



GDP Annualized

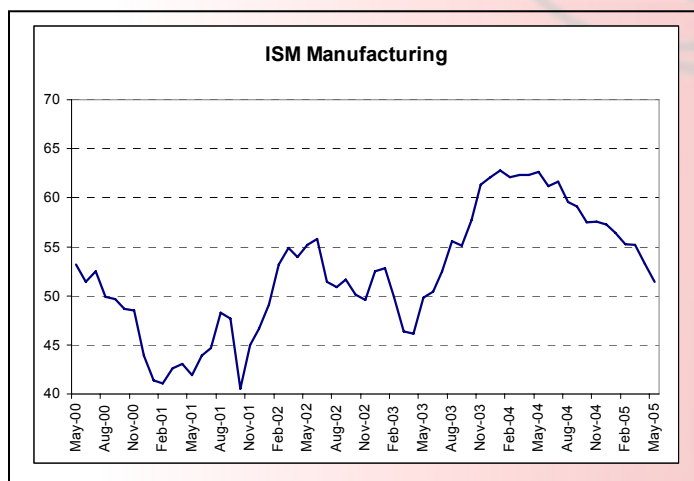
Real GDP increased at a revised 3.5% annualized rate in the first quarter of 2005 up from the initial reading of 3.1%. Consumption expenditures increased 3.6% and private domestic investment increased 10.0%.



ISM Manufacturing, Chicago PMI & Construction Spending

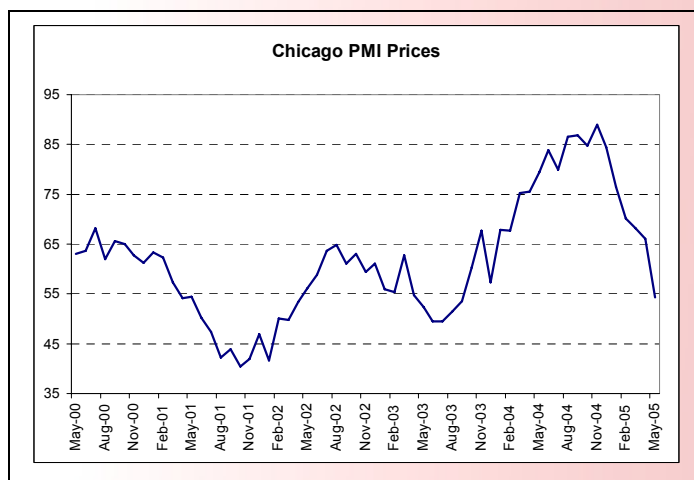
ISM Manufacturing

The ISM Manufacturing Index declined from 53.3 to 51.4 in May. The employment series dropped from 52.3 to 48.8, indicating a contraction in manufacturing jobs. The pricing component fell dramatically from 71.0 to 58.0.



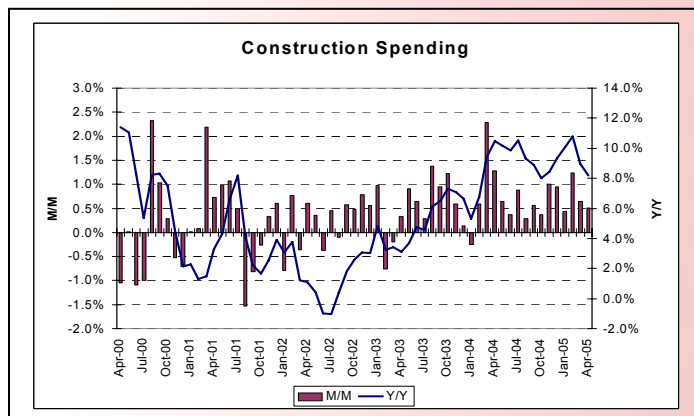
Chicago Purchasing Manager

The Chicago PMI dropped from 65.6 to 54.1 in May. The employment component decreased from 62.3 to 54.7 and the price component declined from 66.1 to 54.3.



Construction Spending

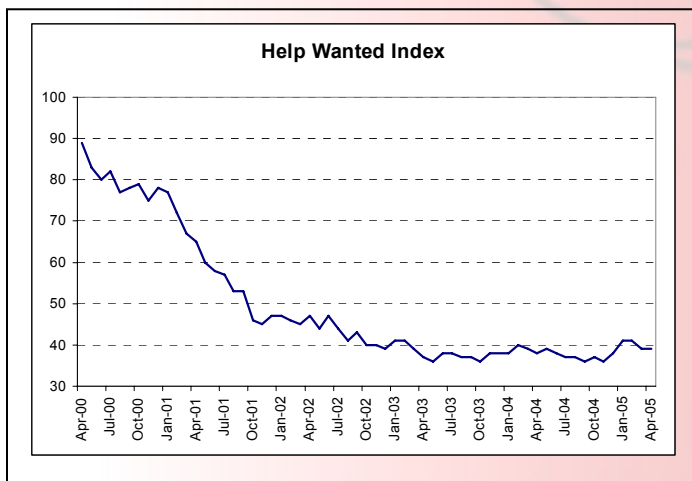
Construction Spending increased 0.5% M/M and 8.2% Y/Y in April. This series continues to experience healthy growth, but Y/Y growth is starting to trend lower.



Help Wanted Index, Unemployment Claims & Mortgage Apps.

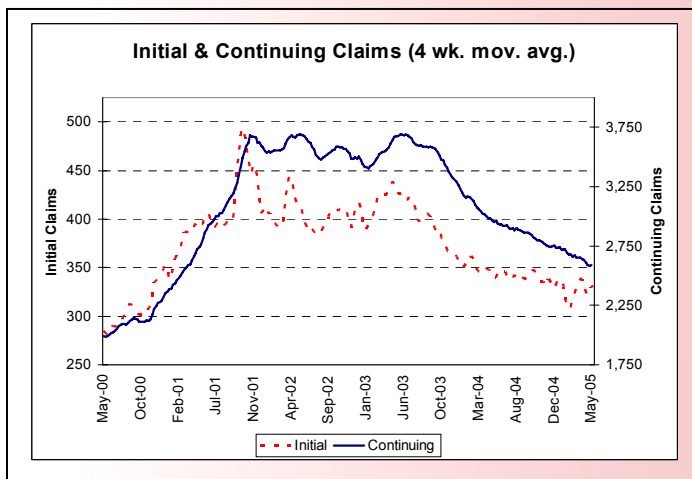
Help Wanted Index

The Help Wanted Index remained at 39 in April despite the large gain in payrolls. This indicator continues to highlight a lack of demand for labor.



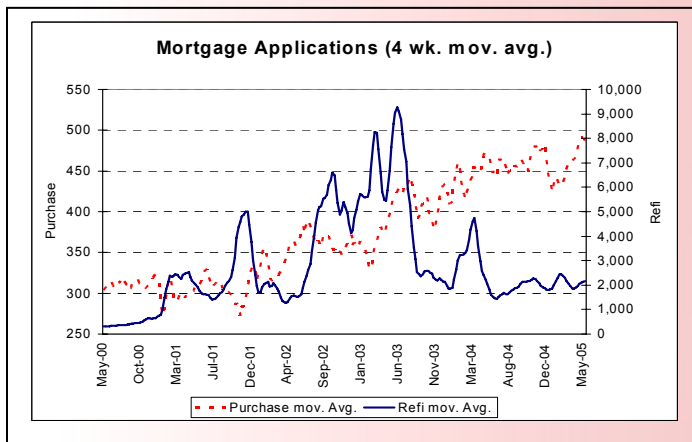
Initial & Continuing Claims

The four week moving average of initial claims and continuing claims increased to 331k and 2,587k, respectively. The level of continuing claims continue to suggest that payrolls should expand above trend.



Mortgage Applications

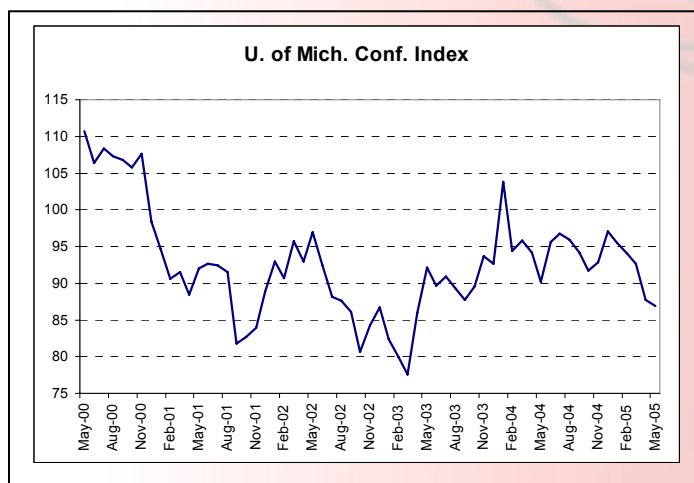
Purchase and refinancing mortgage applications decreased 4.1% and 1.2%, respectively this week. The mortgage index looked soft given the lower mortgage rates in the market.



Consumer Confidence

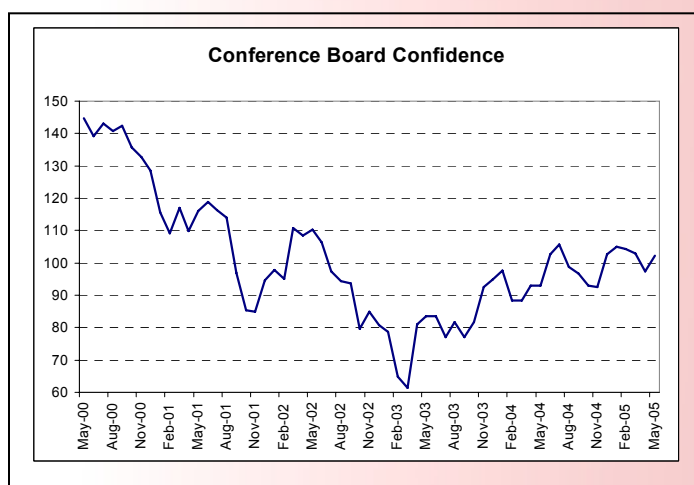
University of Michigan Confidence

The University of Michigan Confidence Index showed a decline from 87.7 to 86.9 in May. The current component increased from 104.4 to 104.9 and expectations moved from 77.0 to 75.3.



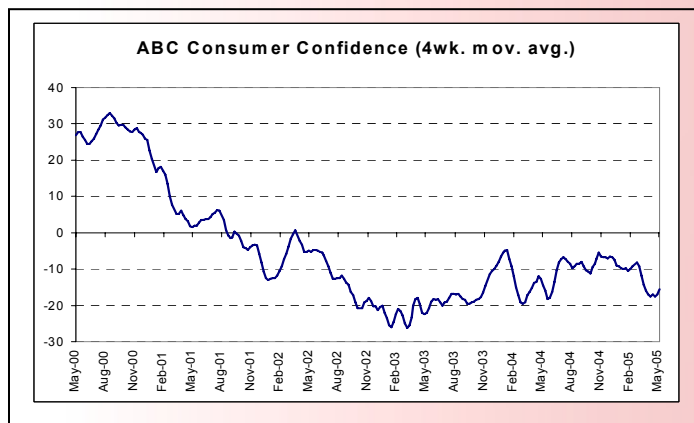
Consumer Confidence

The Conference Board's Index of Consumer Confidence increased from 97.5 to 102.2 in May. Expectations and people's assessment of current conditions gained from 86.7 to 92.5 and from 113.8 to 116.7, respectively. The job components were mixed.



ABC Consumer Confidence

The ABC Consumer Confidence Index increased from -15 to -13 this week. The buying and economic climate series improved from -32 to -30 and from -30 to -26, respectively. The financial component remained flat at 18.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/02	Nonfarm Productivity 1QF	3.0%	2.6%
06/02	Unit Labor Costs 1QF	2.1%	2.2%
06/02	Initial Jobless Claim (MAY 28)	325K	323K
06/02	Continuing Claims (MAY 21)	2581K	2574K
06/02	Factory Orders (APR)	1.1%	0.1%
06/03	Unemployment Rate (MAY)	5.2%	5.2%
06/03	Average Hourly Earnings MoM (MAY)	0.2%	0.3%
06/03	Change in Nonfarm Payrolls (MAY)	182K	274K
06/03	Average Weekly Hours (MAY)	33.8	33.9
06/03	ISM Non-Manufacturing (MAY)	60.0	61.7
06/07	Consumer Credit (APR)	\$6.8B	\$5.5B
06/07	ABC Consumer Confidence (JUN 5)	NA	-13
06/08	MBA Mortgage Applications (JUN 3)	NA	-2.8%
06/08	Wholesale Inventories (APR)	0.4%	0.4%

Valance Co., Inc.

Valance Economic Report: Euro Zone

Sean O'Reilly

(340) 692-7710

soreilly@valance.us

June 1, 2005

Not much changed in the Euro Zone this week, and with 8.9% unemployment and 1.3% Y/Y growth in Q1, that's a bad thing. Unemployment in Germany, France and the Euro Zone all remained unchanged, French and Euro Zone Confidence continued their gradual declines, and inflationary pressures remained subdued. We expect further economic deceleration and a slightly less hawkish ECB this week.

Weekly Highlights

French Confidence – Business Confidence fell to an 18 month low in May. (page 9)

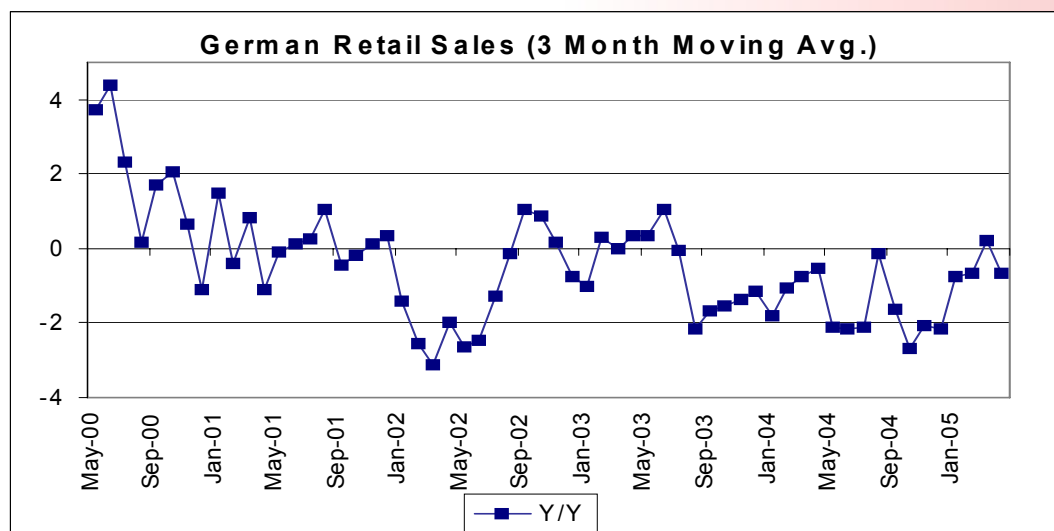
Euro Zone M3 – M3 growth reaccelerated to 6.7% in April. (page 9)

Euro Zone Unemployment – remained unchanged at 8.9% in April. (page 10)

Euro Zone GDP – increased 0.5% Q/Q in Q1, in line with preliminary estimates. (page 11)

Weekly Releases & News

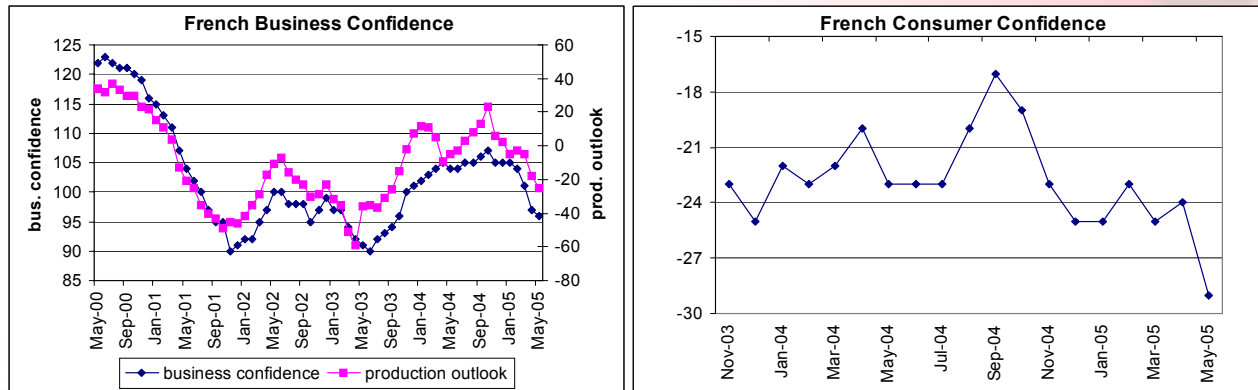
Chart of the Week: German Retail Sales



Germany's April Retail Sales unexpectedly fell, declining 3% Y/Y while remaining unchanged M/M. Market expectations were for unchanged Y/Y growth, but growing concern over employment opportunities and rising oil prices has put a dent in sales and domestic spending as a whole. Domestic demand fell 0.6% Q/Q in Q1 with further deterioration expected.

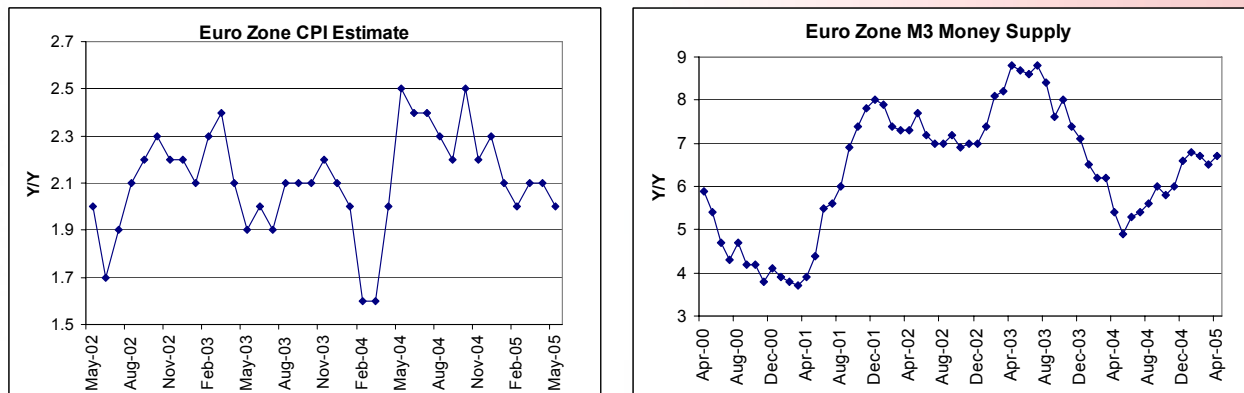
French Confidence & Euro Zone Inflation

French Business and Consumer Confidence



After peaking in Q4 2004, French confidence has continuously declined (along with domestic spending and growth). France's May Business Confidence fell to an 18 month low of 96 while the Production Outlook Index fell from -18 in April to -25. May's Consumer Confidence also fell to its lowest since inception, declining from -24 in April to -29. Market expectations were for an improvement in confidence.

Euro Zone CPI Estimate & M3



Euro Zone inflation remains contained as May's CPI estimate fell from 2.1% in April to 2.0%, confirming what many have thought for some time. The initial CPI estimate has been correct in predicting CPI for the past 2 months. On another front, Money Supply growth reaccelerated from 6.5% in March to 6.7% in April. Given the ECB's stance that M3 growth above 4.5% Y/Y poses inflation risks, it will be interesting to see which side of the coin they focus on.

Euro Zone, German & French Unemployment

Euro Zone Unemployment

The Euro Zone's April Unemployment rate was unchanged at 8.9%, in line with market expectations.



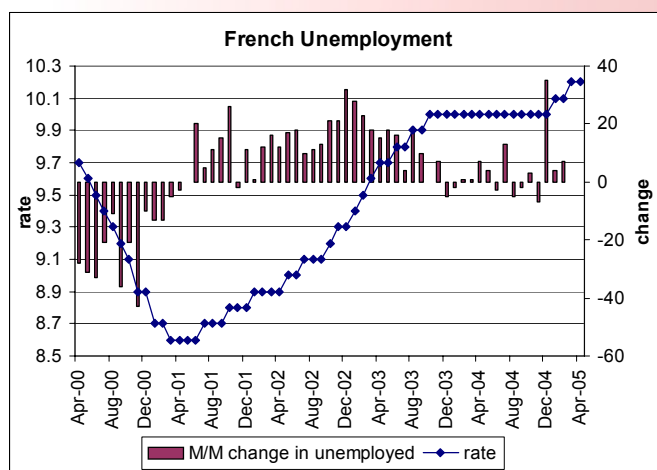
German Unemployment

Germany's May Unemployment rate was unchanged at 11.8% as 14,000 jobs were added to the economy. The total unemployed was unchanged at 4.87 million.



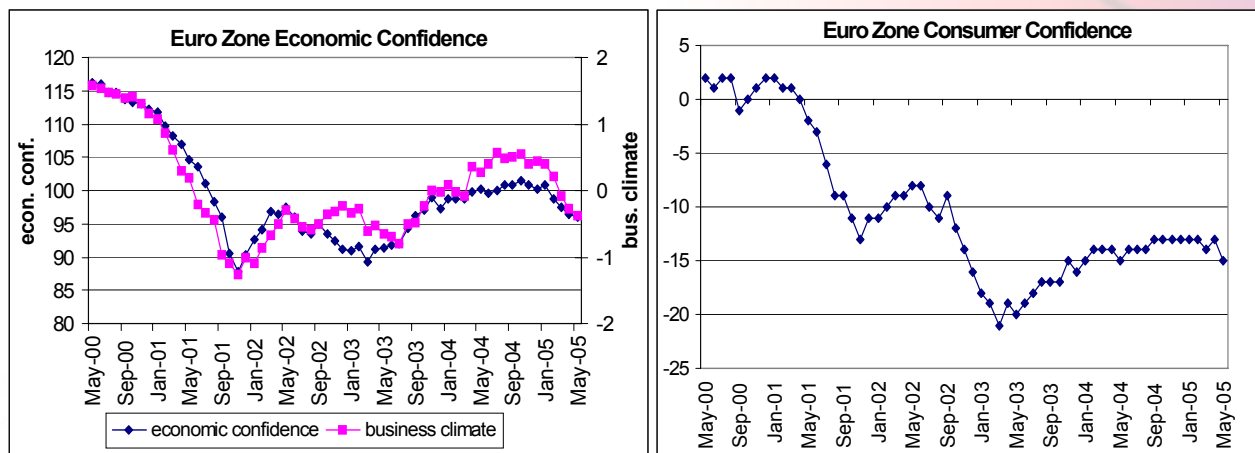
French Unemployment

France's April Unemployment rate was unchanged at 10.2% as zero jobs were added to the workforce. The high rate of unemployment is believed to have been the main factor in France's "no" vote to the EU constitution.



Euro Zone Confidence & GDP

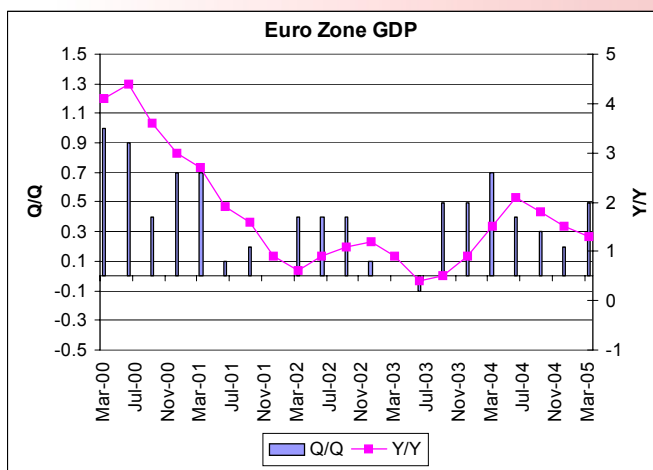
Euro Zone Economic, Business & Consumer Confidence



Confidence continues to fall across the board in the Eurozone as May's business, consumer and economic confidence all fell. The Euro Zone's Consumer Confidence Index fell from -13 in April to -15 in May, the Economic Confidence Index fell from 96.5 to 96.1 and the Business Climate Index declined from -0.28 to -0.35.

Euro Zone GDP

The Euro Zone's Q1 GDP was unrevised from the preliminary estimates as the economy expanded 0.5% Q/Q and 1.3% Y/Y. The Household Consumption Sub Index expanded 0.3% Q/Q while the Gross Fixed Capital Sub Index contracted 0.7% Q/Q.



Spanish Retail Sales, Italian Confidence & Euro Zone Trade

Spanish Retail Sales

Spain's April Retail Sales increased 2.4% M/M and 3.6% Y/Y. Despite the growth, the actual level of sales still remains well below those of Q4 2004.



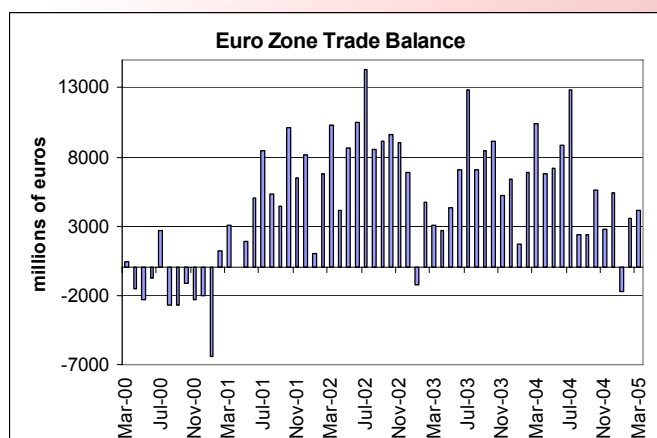
Italian Retailer's Confidence

Italy's April Retailer's Confidence indicator rebounded to 99.2 after hitting a 6 month low of 95.1 in March.



Euro Zone Trade Balance

The Euro Zone's March Trade surplus widened from 3.6 billion euros in February to 4.19 billion. The Current Account surplus unexpectedly narrowed from 6 billion to 2.3 billion.



Euro Zone PMI

Euro Zone PMI

The Euroland's May Manufacturing PMI Index fell from 49.2 in April to 48.7. Spain's PMI fell from 49.2 in April to 48.5 in May, Italy's fell from 48.0 to 47.1, France's fell from 49.8 to 48.8, and Germany's fell from 49.7 to 49.4 (Numbers above 50 indicate expansions while numbers below 50 indicate contraction.)

<i>Euro-12 Manufacturing PMI</i>	<i>May 05</i>	<i>Apr</i>	<i>Mar</i>	<i>Feb</i>	<i>Jan</i>	<i>Dec04</i>	<i>Nov</i>	<i>Oct</i>
<i>Overall Index</i>	48.7	49.2	50.4	51.9	51.9	51.4	50.4	52.4
<i>Output</i>	50.0	50.3	51.6	53.4	53.3	52.3	50.4	54.0
<i>Employment</i>	47.5	47.6	48.8	49.3	48.1	48.3	48.0	49.0

News

ECB/EU

June 1st – German Finance Minister, Hans Eichel, Bundesbank's President, Axel Weber, and other economists met last week to discuss the possible failure of the EU due to the divergences between countries. Germany's lower house of parliament has already attained legal counsel concerning the legality of a member leaving the EU.

June 1st – The EU cut its Q2 growth forecast from 0.4% Q/Q to 0.3% Q/Q after seeing European manufacturing contract in Q1, German sales fall, and confidence fall across most of the Euro Zone's countries.

May 31st – German Economy and Labor Minister, Wolfgang Clement, stated that the ECB should cut rates despite the falling euro. Clement stated, "At a time when growth in Europe is declining, the ECB must of course consider stabilizing the economic situation." Ifo economist, Gernot Nerb, also called for a rate cut this week as the German situation continues to deteriorate. The OECD gave the same message last week, though the ECB won't likely concur. ECB member, Padoa-Schioppa, stated that, "What counts for the economy today is that rates are exceptionally low, not that they aren't changing...there has been no reason to change rates since our last movement."

France

May 30th – France vetoed the EU Constitution, potentially hurting European integration. The constitution needs acceptance by all 25 countries in order to pass, meaning France's vote effectively kills the legislation. ECB President, Jean Claude Trichet, downplayed the results, stating that, "I'm absolutely sure that we will overcome the difficulty, from that standpoint I'm confident. We will pursue our mandate. Being faithful to our mandate means reinforcing confidence, especially in the household."

Italy

May 31st – Bank of Italy Governor, Antonio Fazio, stated that Italian growth will stagnate this year and the deficit will reach 4% of GDP. Fazio stated, "There will be a slight recovery in the second half and a return to growth in 2006", a rather optimistic comment after the economy shrank in Q1.

May 27th – Italian Prime Minister, Silvio Berlusconi, denied that Italy was in recession, stating that the economy was "full of prosperity and joy." He also cited the country's large amount of cell phone text messaging as signs of their prosperity. The first stages of denial presumably.

Spain

May 30th – A Reuters report stated that Spain's Finance Minister, Pedro Solbes, expects Spain's economy to grow 3.2-3.4% this year, up from 3.1% last year.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/02	ECB Interest Rate Announcement	2.0%	2.0%
06/03	Euro Zone Retail Trade (APR)	0.2% M/M	0.3% M/M
06/03	Spanish Industrial Output (APR)	1.3% Y/Y	1.1% Y/Y
06/06	German Factory Orders (APR)		2.2% M/M
06/07	German Industrial Production (APR)		-0.3% M/M

Valance Co., Inc.

Valance Economic Report: Japan

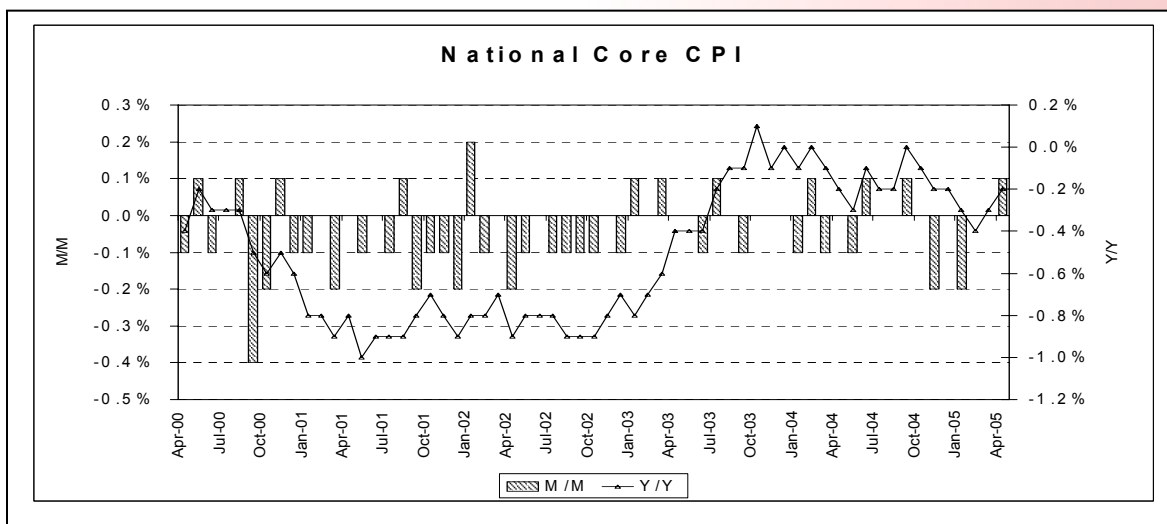
La-Toya C. Elizee
(340) 692-7710
lelizee@valance.us

June 1, 2005

This week's data lent solid support to the thesis that Japan is on a path to recovery. Retail Sales rose 2.9% M/M in April, faster than economists had expected, Core Inflation was a bit higher than anticipated reaching 0.1% M/M and the labor market improved significantly in April. The labor market has improved over the past three to six months and that appears to be driving consumption expenditure and prices higher. Consumer spending is strong enough to support the economy as incomes continue to rise. While domestic demand probably won't falter, there is a chance that external demand could weaken.

Weekly Highlights

- **Nationwide Core CPI** - increased 0.1% M/M in April, above expectations. (page 16)
- **Retail Sales** - rose 2.9% M/M in April, faster than economists expected. (page 17)
- **Unemployment Rate** - the Unemployment Rate in April was the lowest since December 1998. (page 18)
- **Industrial Production** - rose for the first time in three months in April. (page 20)
- **Japan's Small Business Confidence** - decreased from 48.1 to 47.9 in April. (page 19)

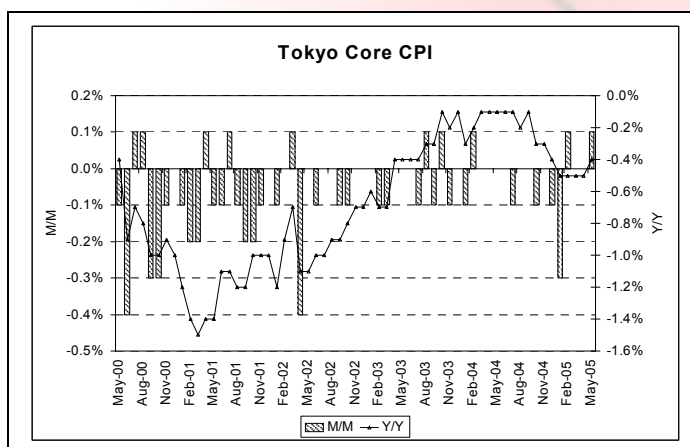
Weekly Releases & News**Chart of the Week: Nationwide Core CPI**

Nationwide Core Consumer Prices increased 0.1% M/M and decreased 0.2% Y/Y in April both above expectations. Headline CPI increased 0.2% M/M and remained flat Y/Y. The M/M increase was broadly-based with the exception of a decline in food prices. Clothing and footwear contributed the most to the increase, with a reading of 3.7% M/M.

Tokyo Core CPI, Retail Trade & Large Retailers' Trade

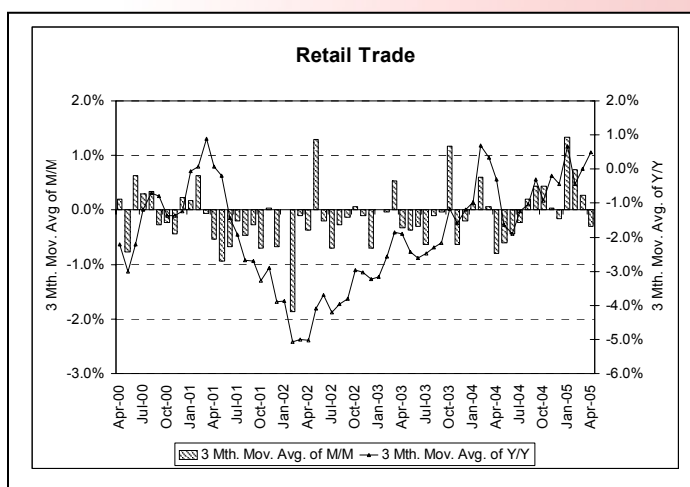
Tokyo Core CPI

Tokyo's Core CPI increased 0.1% M/M and decreased 0.4% Y/Y in May, in line with expectations.



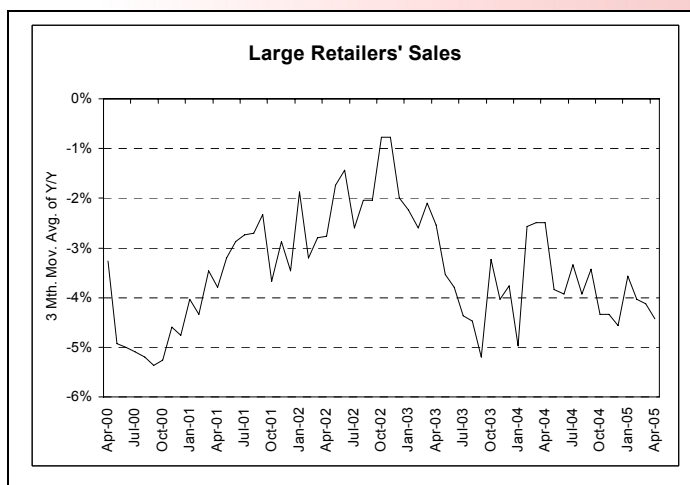
Retail Trade

Retail Trade increased 2.9% M/M and 3.9% Y/Y in April, well above the expected increase of 0.5% M/M and 1.4% Y/Y. The increase was primarily due to increases in cars and clothing. This was the highest Y/Y growth since 1998.



Large Retailers' Sales

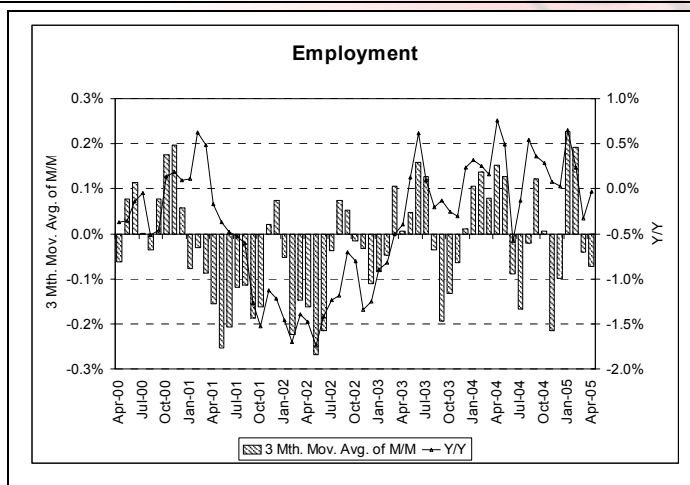
Large Retailers' Sales decreased 2.1% Y/Y in April, more or less in line with expectations. Sales of motor vehicles gained a seasonally adjusted 12.9% M/M in April, and clothing and accessories rose 3.3% M/M.



Employment Data

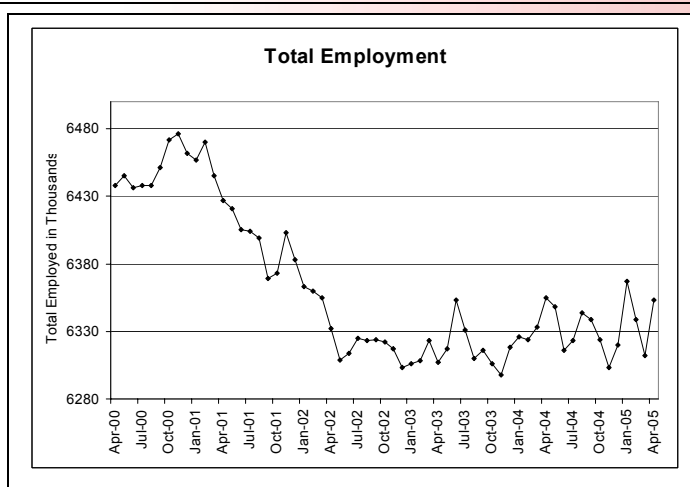
Employment

Employment increased 0.6% M/M (410,000) and decreased 0.1% Y/Y in April.. Full-time job growth now stands at 0.3% Y/Y.



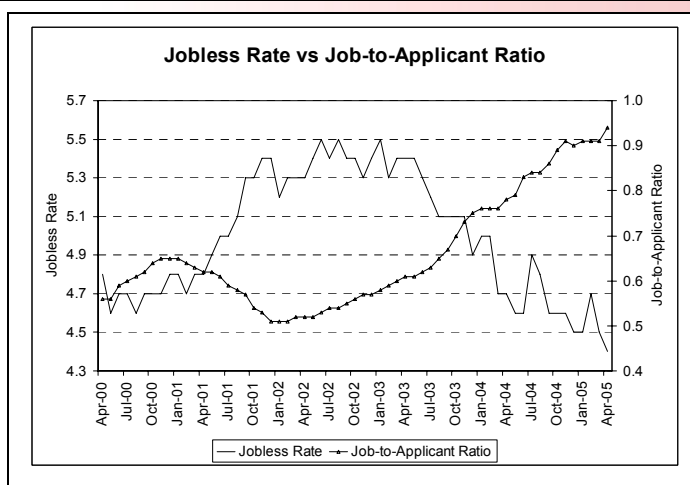
Total Employment

Employment rose by 410,000 people and the workforce expanded by 370,000 as job prospects have caused more people to enter the labor force. It appears that employment has stabilized over the past year and is starting to show some healthy dynamics.



Jobless Rate vs. Job to Applicant Ratio

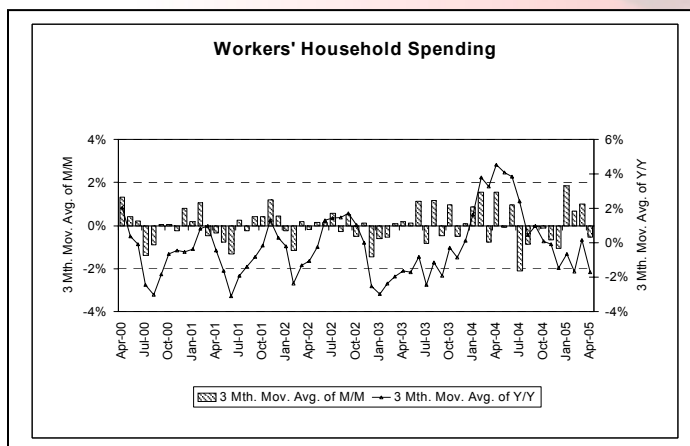
The Jobless rate declined to 4.4% in April, the lowest in more than six years. There were 94 jobs available for every 100 applicants in April, the highest in more than 12 years.



Workers' Household Spending, Labor Cash and Overtime Earnings & Small Business Confidence

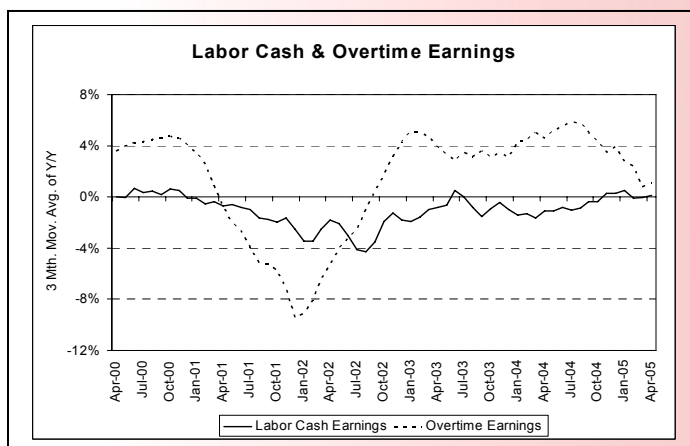
Workers' Household Spending

Worker's Household Spending increased seasonally adjusted 3.6% M/M and decreased 3.1%% Y/Y in April.



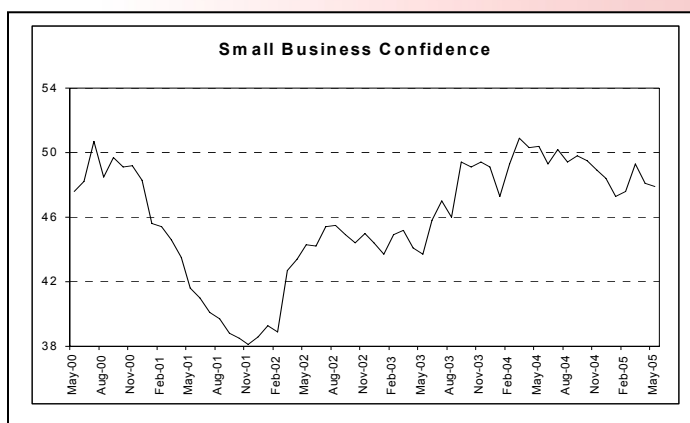
Labor Cash and Overtime Earnings

Labor Cash Earnings and Overtime Earnings increased 0.6% Y/Y and 1.6% Y/Y, respectively in April.



Small Business Confidence

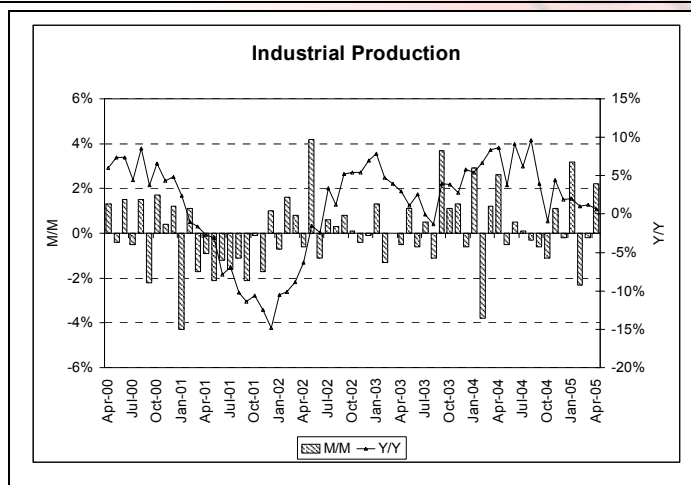
Japan's Small Business Confidence decreased from 48.1 to 47.9 in April.



Industrial Production, Vehicle Production & Vehicle Sales

Industrial Production

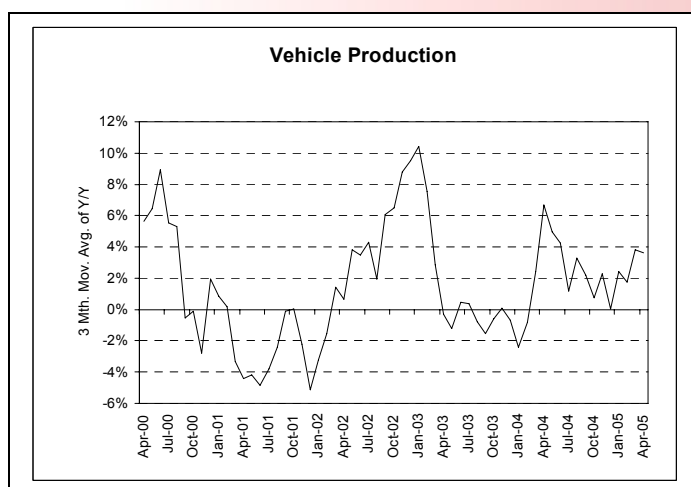
Industrial Production rose 2.2% M/M and 0.6% Y/Y in April suggesting that Japan's economic recovery is gaining momentum.



Vehicle Production

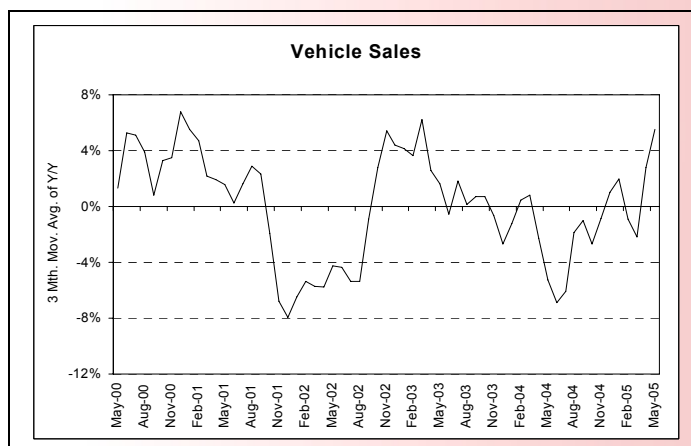
Vehicle Production gained 2.8% Y/Y in April led by Toyota and Honda.

Domestic production by Japan's 12 carmakers increased for the fourth consecutive month in April.



Vehicle Sales

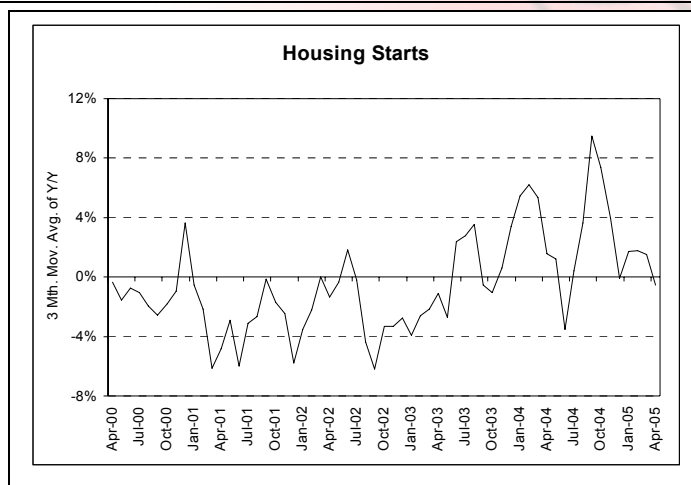
Vehicle sales increased 7% Y/Y in May.



Housing Starts & Construction Orders

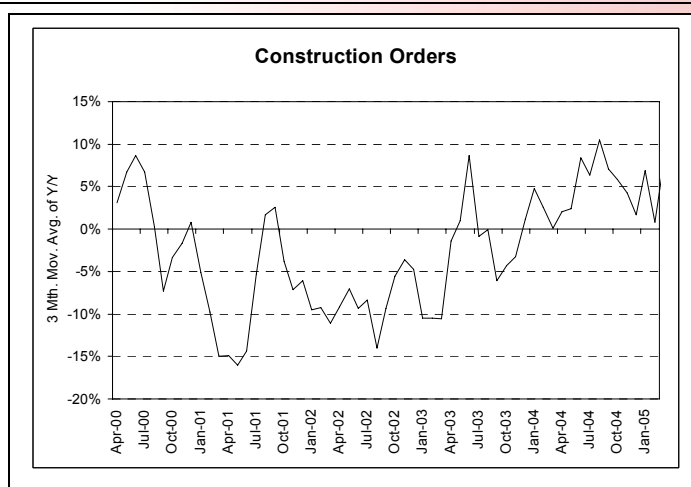
Housing Starts

Housing Starts increased 0.6% Y/Y in April.



Construction Orders

Construction Orders surprisingly increased 7.5% Y/Y in April instead of the expected 1.6% gain.



News & Comments

May 31st - Finance Minister Sadakazu Tanigaki:

“The Japanese economy is recovering at a steady pace, and the government’s assessment of the economy hasn’t changed.”

Hideo Hayakawa, head of the BOJ’s research department:

“It’s not normal that Japan’s interest rates have been held at almost zero while the government has had a persistent budget deficit. Japan had better avoid rushing the normalization of both situations. It’s a bit too early to declare that the economy’s lull is over.”

May 27th - Bank of Japan:

Eiji Hirano, Assistant Governor of the BOJ:

“Japan’s central bank is concerned about the risk of yen gains. We have a concern over the adverse effect that a sharp appreciation of the yen can cause on corporate profits, growth and prices. We still remain cautious more about the downside risks and this potential danger that we may suffer from a sharp appreciation of the yen.

On deflation in Japan:

“We have been trying to kill deflation so that we are the deflation terminator in that sense. We think we have been operating in a floating regime. While there has been intervention in the past, we have been clean in the last 14 months, so no intervention in the currency markets.”

“In Japan mild deflation still persists and traditional macro-policy measures are almost exhausted. The Bank of Japan holds a somewhat asymmetric assessment of the risks of exchange rate movements. That is to say we have a concern over the adverse effect that a sharp appreciation of the yen can cause on corporate profits, growth and prices.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/05	Capital Spending (1Q)	--	3.0%
06/05	Capital Spending Including Software	--	3.5%
06/07	Household Spending (Y/Y) (APR)	--	0.0%
06/07	Overall Household Spending (M/M) (APR)	--	0.0%
06/07	Bank Lending (Y/Y) (MAY)	--	-2.3%
06/08	Leading Economic Index (APR P)	--	36
06/08	Coincident Index (APR P)	--	70

Valance Co., Inc.

Valance Economic Report: United Kingdom

Gabriel Webber

(340) 692-7710

gwebber@valance.us

June 1, 2005

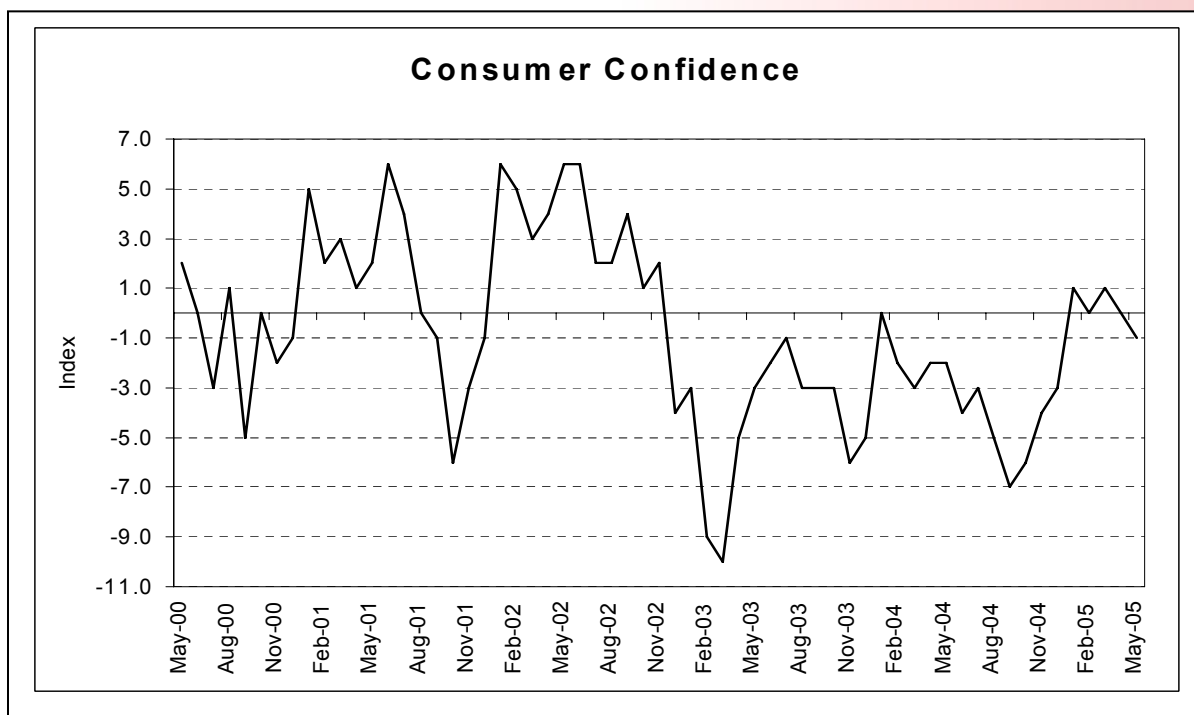
A relatively quiet week in the U.K. as expectations that official rates have peaked were further solidified as GfK Consumer Confidence decreased to its lowest levels in five months and manufacturing PMI experienced its sharpest decline in two years.

Weekly Highlights

GfK Consumer Confidence- decreased from zero to -1 in May. (page 24)

CIPS Manufacturing PMI- decreased from 49.1 to 47.3 in May. (page 25)

MPC member. Stephen Nickell- commented that there's still some slack in the U.K. labor market, which helps explain why wage inflation has remained subdued. (page 25)

Weekly Releases & News**Chart of the Week: Consumer Confidence**

GfK Consumer Confidence decreased from zero to -1 in May, its lowest level in five months. Consumers continue to be affected by the sluggish housing market and uncertainty over the path of interest rates. The outlook for the general economic situation over the next 12 months decreased from -6 to -7.

Data & Comments

Data

CIPS Manufacturing PMI:

CIPS Manufacturing PMI decreased from 49.1 to 47.3 in May, the sharpest decline in two years. Part of this decline was attributed to the collapse of MG Rover in late April. Manufactures have also been negatively affected by consumer spending which has slowed in the last two quarters; slowing domestic demand for goods while record oil prices have pushed up factories costs.

CBI Industrial Trends:

The Confederation of British Industry (CBI) reported that the volumes of retail sales increased slightly from -14 to -7 in May. However, results below zero represent a contraction in volume. Stock levels continue to remain high, even as retailers cut back orders from suppliers. Big ticket items such as furniture, carpets, DIY goods and clothing were down the most on the month.

BOE Mortgage Approvals:

The Bank of England reported that the number of mortgage approvals increased 3.3% M/M in April, the fastest pace in nine months.

Comments

MPC Comments:

MPC member, Stephen Nickell, commented that there's still some slack in the U.K. labor market, which helps explain why wage inflation has remained subdued even as unemployment holds at a three-decade low. "On balance, there still appears to be some spare capacity available in the labor market, but within firms the overall situation is tight. My impression is that the amount of spare capacity in the U.K. available in 2004, and indeed today, is slightly greater than in 1999-2000, not very different from that in 2001-3 and slightly less than in 1995-98."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/02	Nationwide House Prices	0.1% M/M 5.5% Y/Y	0.9% M/M 7.0% Y/Y
06/03	CIPS Services PMI	56	55
06/06	BRC Retail Sales Monitor	--	--
06/08	MPC Meeting	--	--
06/08	BRC Shop Price Index	--	--

Valance Co., Inc.

Valance Economic Report: Canada

Davin Patton

(340) 692-7710

dpatton@valance.us

June 1, 2005

Recent data from Canada continues to indicate the trend of a strong domestic economy and a slower manufacturing sector. The situation may improve however, as manufacturers in April paid less for raw materials and charged more for products at the gates. If this becomes a trend and manufacturing picks up, it is likely that a rate hike will be soon to follow.

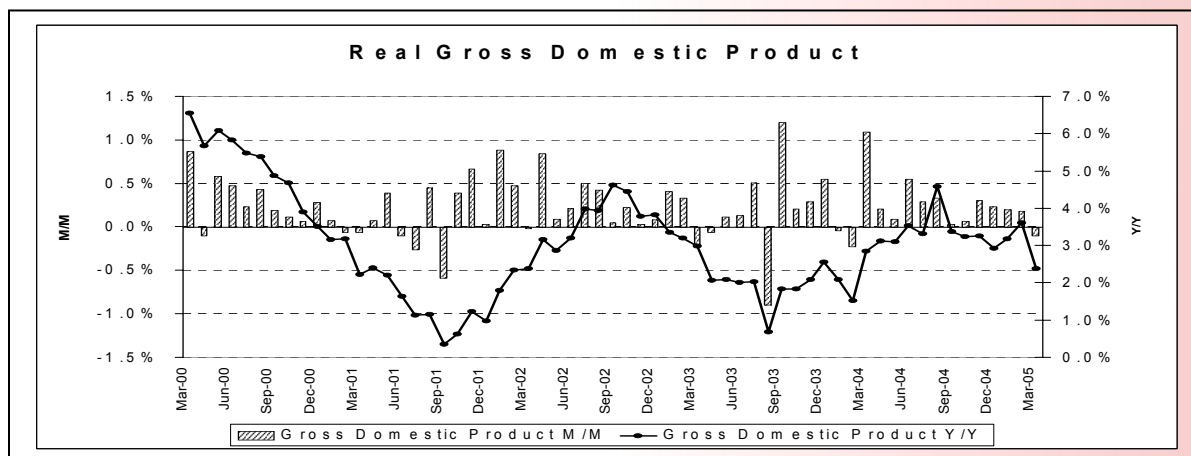
Weekly Highlights

Real GDP – declined 0.1% M/M and increased 2.4% Y/Y in March. (page 27)

Current Account – narrowed from \$5.3 bln to \$4.0 bln in Q1. (page 29)

Raw Materials Prices – declined 1.6% and increased 13.4% Y/Y in April. (page 29)

Industrial Product Prices – increased 0.5% M/M and 1.5% Y/Y in April. (page 29)

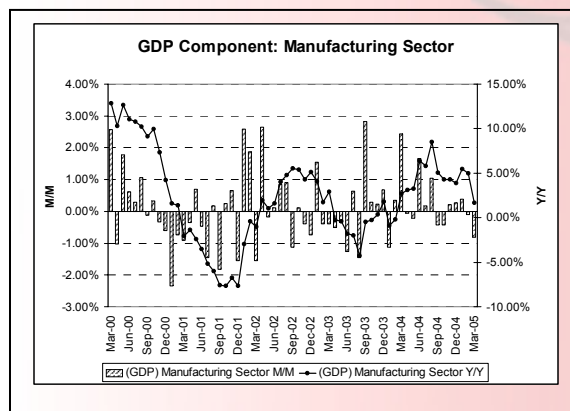
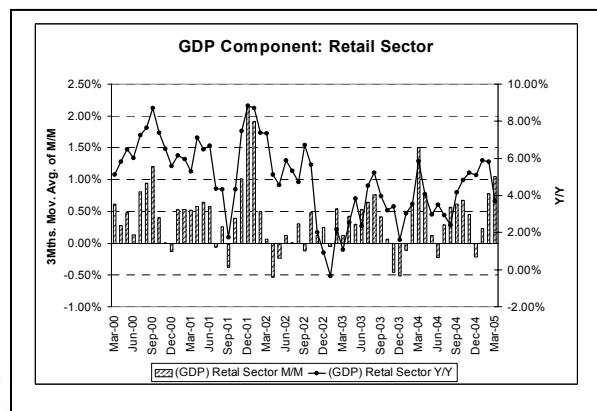
Weekly Releases & News**Chart of the Week: Real GDP**

Real GDP in Canada declined 0.1% M/M and increased 2.4% Y/Y in March. For the March quarter, the economy grew 0.6% Q/Q. Q4 annualized growth was revised upward from the original estimate of 1.7% to 2.1%. The Q1 annualized growth rate was 2.3% compared with a 3.5% rate for Canada's largest trading partner, the U.S. Actual growth came in slightly below expectations however, as the economy was expected to slow to only a 0.1% M/M increase in March, below the 0.2% M/M revised increase in February.

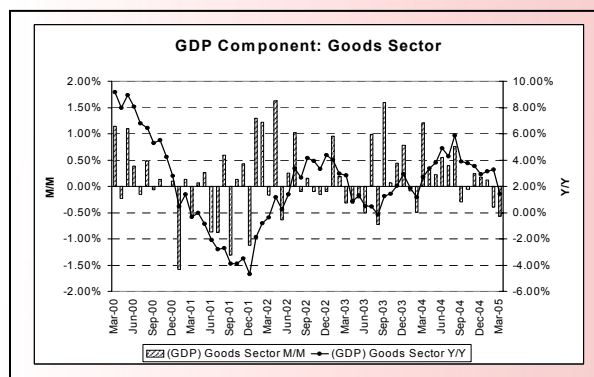
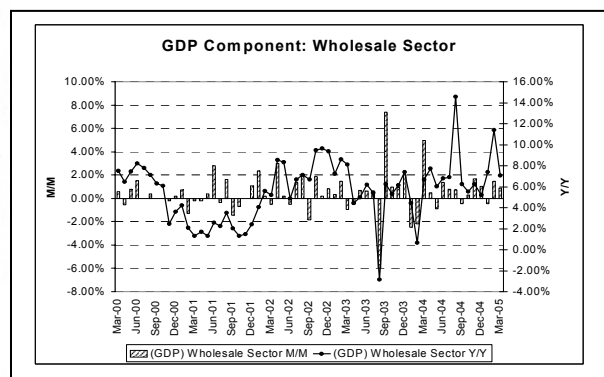
As domestic demand continues to be a key driver of growth, the story in Canada remains the same: it will take a pickup in manufacturing and exports for the BoC to feel pressured to raise its benchmark rate. This may happen later this year as domestic demand continues to drive growth.

GDP Components

Key Drivers: Retail & Manufacturing Sectors



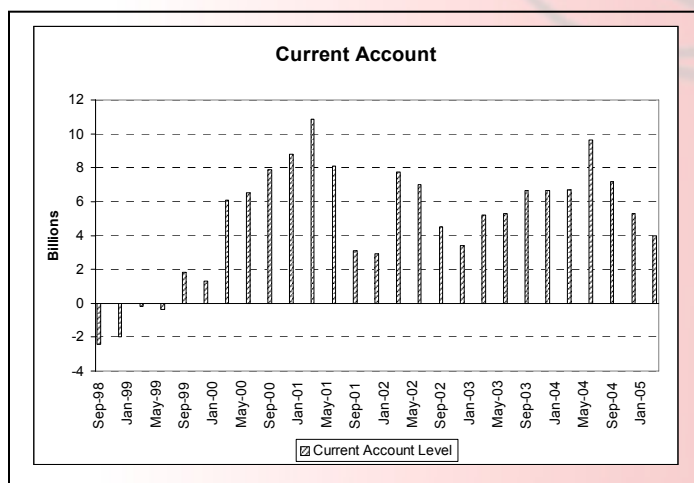
Canadian growth in March was driven primarily by the retail sector and domestic demand for durable and semi-durable goods. On a M/M basis, retail trade declined 0.2% M/M and increased 3.7% Y/Y. However, the 3-mth average for March was 1.0%. The manufacturing sector continues to exhibit signs of weakness, declining 0.9% M/M and increasing 1.7% Y/Y. The wholesale sector grew 0.9% M/M and 7.0% Y/Y in March. As a whole, the goods sector declined 0.6% M/M and increased 1.5% Y/Y.



Current Account, Raw Materials, Industrial Product Prices

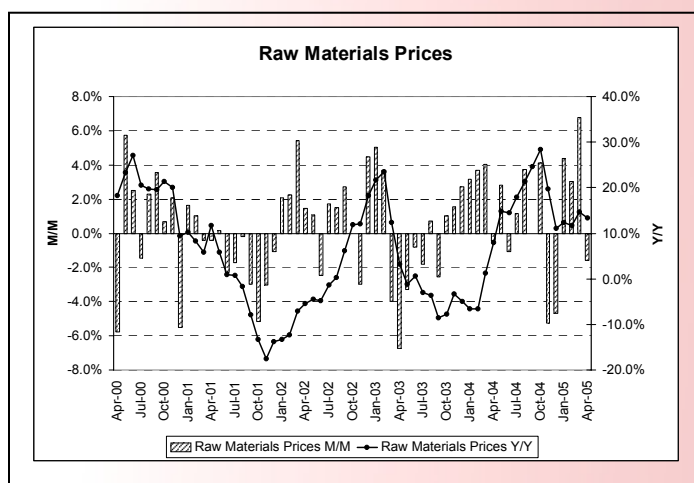
Current Account

The current account surplus narrowed from \$5.3 bln to \$4.0 bln in Q1. The current level is the lowest since 2003 and resulted from a 3 year increase in the C\$ boosting spending on foreign made products.



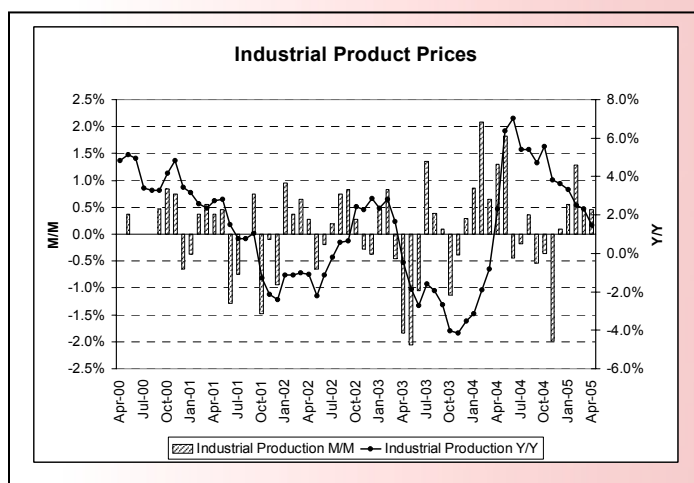
Raw Materials

Raw Materials Prices paid by manufacturers declined 1.6% M/M and increased 13.4% Y/Y in April. Declines in prices were led by decreases in prices of mineral fuels, non-ferrous metals, and vegetable products.



Industrial Product Prices

Industrial Product Prices increased 0.5% M/M and 1.5% Y/Y in April. The increase resulted from higher prices for petroleum products, motor vehicles, pulp and paper products, as well as chemical products and communications products.



Election Update, Company Operating Profits, PM Martin's Comments & Existing Home Sales

Election Update

The Canadian budget may not be passed until September as the two opposition parties, the Bloc Quebecois and the Conservatives, hold six of the 11 votes the parliamentary finance committee needs to vote on the budget. Should the committee not get the required number of votes, the next vote will be in September since the parliament takes its summer recess by June 23rd. Delaying the vote may put a number of things, including the Liberal-New Democrat alliance, into jeopardy as spending is delayed.

Company Operating Profits

First quarter operating revenue for Canadian companies increased 0.7% Q/Q and 5.7% Y/Y . Operating profits increased 3.4% Q/Q and 11.2% Y/Y in Q1, while after tax profits declined 7.9% Q/Q and increased 12.3% Y/Y in Q1. Profit margins increased from 7.8% in Q4 2004 to 8.0% in Q1 2005, while after tax profit margins declined from 5.0% in Q4 to 4.5% .

Canadian Prime Minister Martin Comments

Canadian Prime Minister, Paul Martin, remained committed to his plan of cutting the federal debt to a planned 25% of the GDP over nine years, saying that he was steadfast in his commitment to stay in surplus. He stated that the more than \$9 billion in spending that his minority government added to the budget in order to win support would not prevent him from reducing debt and posting a surplus.

Existing Home Sales

Existing home sales in Canada increased 4.2% M/M in April, the most in 13 months. The average price of a house or condominium increased 8.7% Y/Y and the value of sales increased 5% Y/Y.

Dodge's Comments & Upcoming Dates

BoC Gov. Dodge's Comments

BoC Governor, David Dodge, commented that Asian countries should remove their fixed exchange rates, stating that "The concern is that the longer these imbalances remain unresolved, the greater the chances that the ultimate resolution will be disorderly." He continued to say that "The only way to truly minimize the costs of adjustment is to allow nominal exchange rates to move around." In his speech, Dodge made no reference to the Canadian economy's outlook or interest rates.

Another risk Dodge commented on was that "in North American and European countries, as well as in Japan and other OECD countries, there will be a period of deflation if there isn't a period of inflation in China and Asia."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/06	Building Permits (Apr)	1.0%	4.9%
06/06	Ivey PMI (May)	60.0	58.3
06/08	Housing Starts (May)	225.0K	230.4K

Valance Co., Inc.

Valance Economic Report: Australia

Davin Patton

(340) 692-7710

dpatton@valance.us

June 1, 2005

This week's data was on the soft side as the economy in Q1 expanded slightly less than expected and the current account deficit widened to a record high. Retail sales were soft as well, and when combined with a drought, which has crimped farm production and exports, economic weakness became more evident. Altogether, this data gives the Reserve Bank of Australia enough leeway to remain on hold for some time. If upcoming housing and trade data continue on this trend, it may be possible that we'll see rate cuts as the next step.

Weekly Highlights

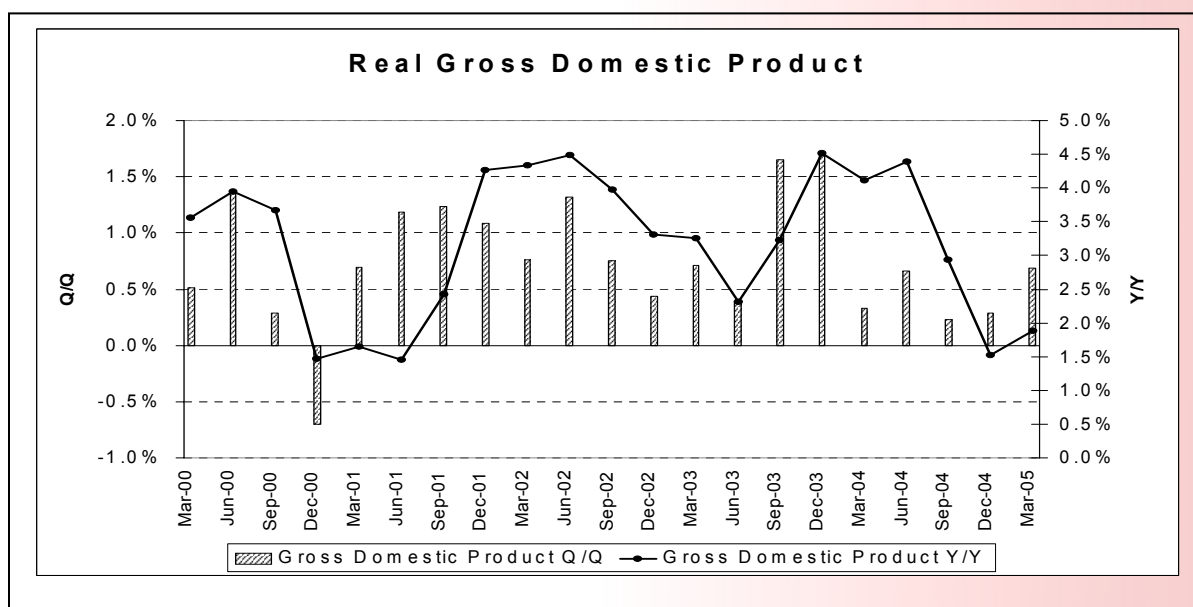
Real GDP – increased 0.7% Q/Q and 1.9% Y/Y in Q1. (page 32)

Current Account Deficit– widened from \$15.4bln to \$15.65bln in Q1. (page 34)

Retail Sales – declined 0.5% M/M and increased 2.8% Y/Y in April. (page 34)

Weekly Releases & News

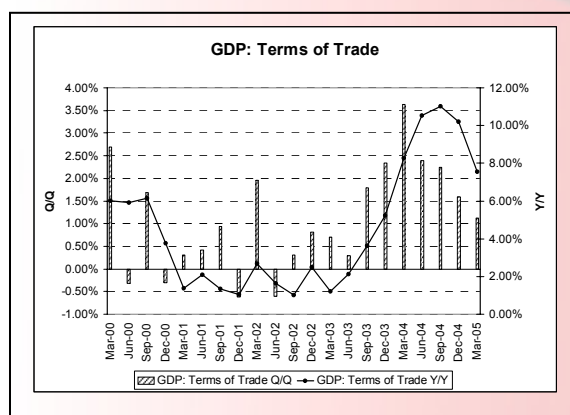
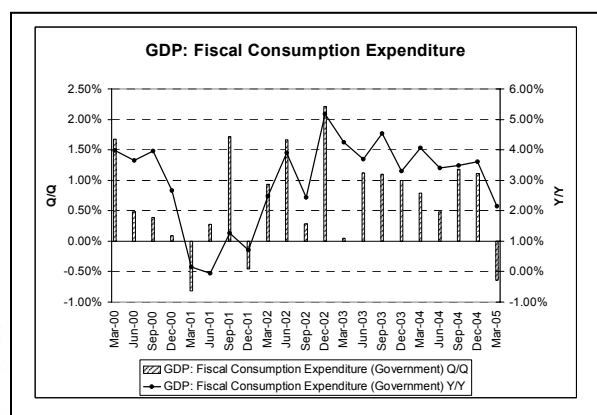
Chart of the Week: GDP



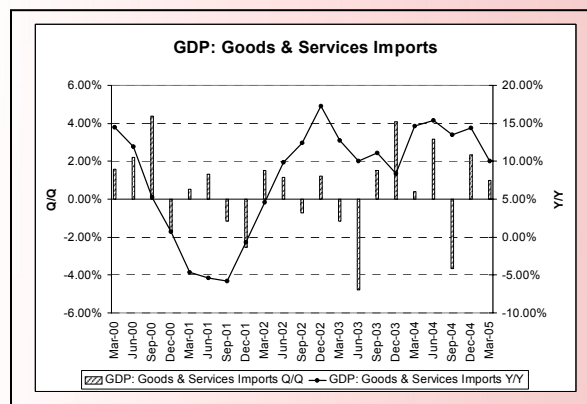
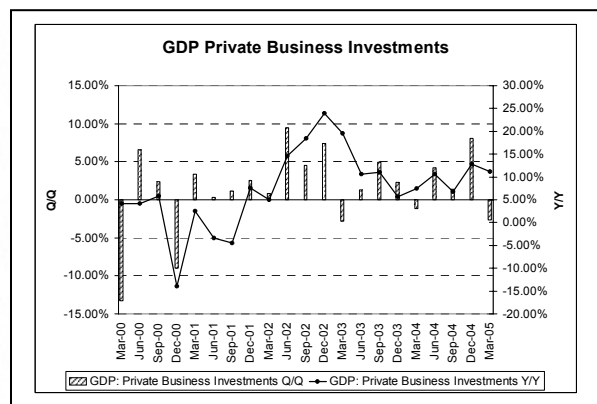
Australia's economy expanded 0.7% Q/Q and 1.9% Y/Y in Q1 as farm output stalled and business investments declined, supporting views that the RBA will remain on hold through the remainder of the year. The growth came slightly below expectations for a 0.9% Q/Q increase and comes amidst a drought and slower manufacturing, reinforcing beliefs that additional rate hikes cannot be justified.

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

Key Drivers: Farm Output & Manufacturing Sectors



Growth in Australia was slowed by farm output and slower business investments. Wheat sales are expected to decline 3.3% while beef export revenue is expected to slide 5.7% in the 12mths ending June 30, 2006. With business investments declining 2.6% Q/Q in Q1 and lower business confidence as well, it appears that the Australian economy may be trending onto a slower path through much of 2005. Against this backdrop the RBA has more than enough leeway room to remain on hold for some time.



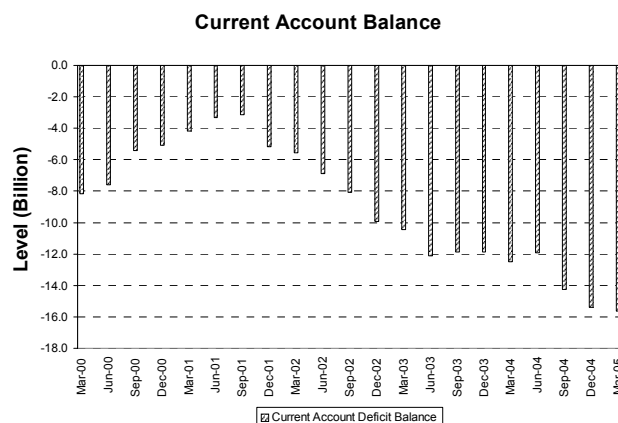
Australian PMI Declines to Three Year Low

The index that measures the Australian manufacturing production declined from 52.9 points in April to 50.5 points in May, nearing a 3yr low and indicating that the manufacturing sector is nearing the point where it is neither growing nor slowing. The Chief Executive of the Australian Industry Group, the group that conducted the survey, stated that "This is reflecting, in particular, the nervousness of consumers and the resulting slowdown in spending."

Current Account, PCE & Retail Sales

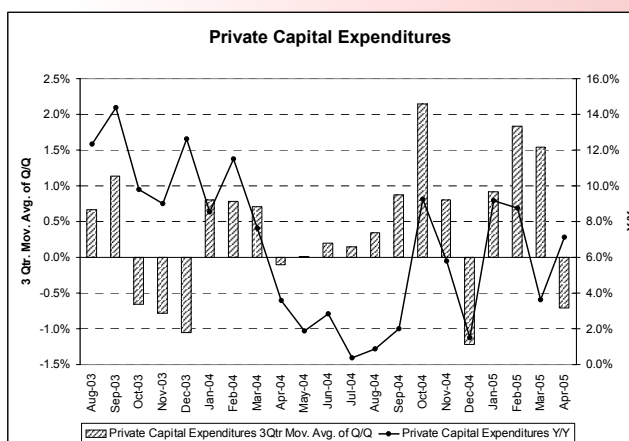
Current Account

Australia's current account deficit widened from \$15.41 bln in Q4 to \$15.65 bln in Q1. The widening brought the country's current account deficit to a record high; this resulted as a record amount of consumer goods were imported, while farm exports declined and offshore investors earned more from their holdings of local shares and bonds.



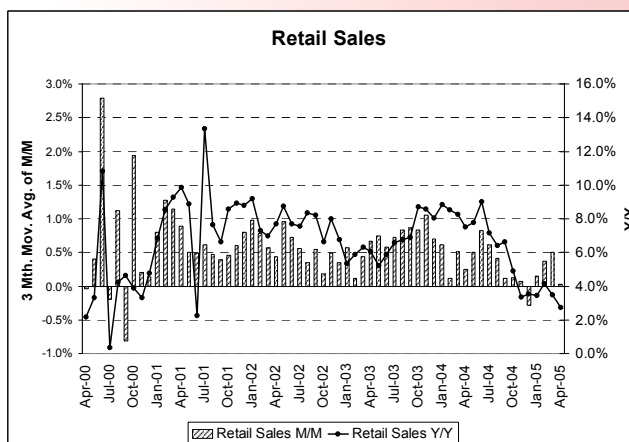
Private Capital Expenditure

Private capital expenditures declined 4.0% Q/Q and increased 16.3% Y/Y in Q1. Businesses stated that they intend on increasing their spending over the next 12 months, particularly in the mining sector, suggesting that manufacturing growth may improve over the next year.



Retail Sales

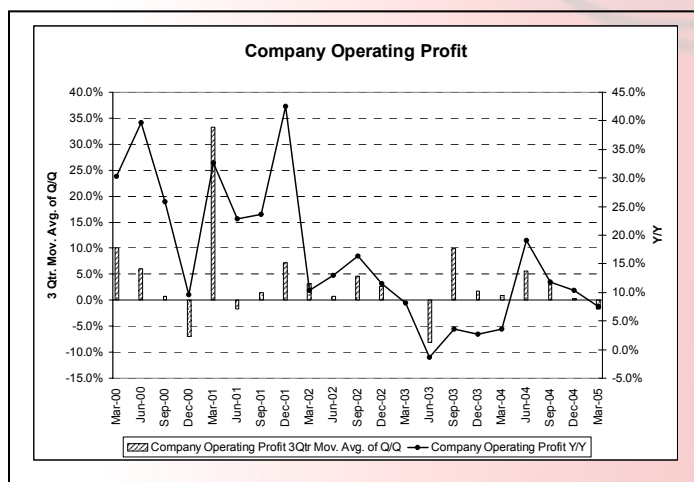
Retail Sales in Australia declined 0.5% M/M and increased 2.8% Y/Y as sales in department stores declined 11.3% M/M and sales of clothing and soft goods declined 7.0% M/M. The decline in clothing sales came as the country experienced its hottest April in 146 years. The decline in overall sales further underscores low business confidence and suggests possible weakness in domestic demand.



Company Operating Profit, Inventories & Drought Comments

Company Operating Profit

Company profits in Australia declined 1.7% Q/Q and increased 7.5% Y/Y in Q1. The decline in profits was unexpected and came as a drop in domestic demand slowed earnings at retailers and builders.



Comments on Drought

A drought that has ruined 45% of farmland in Australia has been slowing economic growth according to Deputy PM John Anderson, Treasurer Peter Costello and Agriculture's Don Mackay.

On May 31st, Costello commented that "The rural sector is now very dramatically being affected by the drought," and that "unless we get rains shortly in eastern Australia crops will not be planted. Farm incomes haven't recovered since and agricultural production is 16% lower over the year to March quarter."

Australia's Anderson commented that the outlook for farmers is "very worrying." The drought is not expected to ease significantly in the next six months according to the Australian Bureau of Meteorology.

Don Mackay, chief executive of Australian Agricultural Co., only commented that "There is some concern out there about the drought. Australia no longer rides on a sheep's back, but agriculture is still a major export." He did note however, that he was "not seeing any softening in demand for beef."

Leading Index, Credit to Consumers & Businesses & Key Dates

Leading Index

The Australian Leading Index declined 0.1 percent M/M to 155.3 in March. The decline follows a revised 0.3% gain in February and brings the annualized rate to a range of 1.5%-2.5%. Half of the components declined in March. They include rural goods exports, share prices, inverted medium-term government bond yield, and the yield spread between 10y bonds and 90day bank bills. The gross operating surplus of non-financial companies, building approvals, companies' sales-to-inventory ratio, and the money supply all increased. The index of coincident indicators, which gauge current economic growth, increased 0.2% M/M.

Credit to Consumers & Businesses

Australian credit to consumers increased 0.8% M/M and 12.2% in the 12mths ending in April. Credit given to businesses increased 1.2% M/M and 11.2 in the 12mths ending in April. Overall credit increased 0.9% M/M and 12.0% in the 12mths ending in April.

Key Upcoming Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/01	Trade Balance (Apr)	-2100M	-2672M
06/01	Building Approvals (Apr)	1.8%	-6.98%
06/02	AIG Performance of Services Index	N/A	N/A
06/02	House Prices (Q1)	0.0%	0.6%
06/05	TD Securities May Inflation Index	N/A	N/A
06/05	ANZ Job Advertisements (May)	N/A	7.3%

Valance Co., Inc.

Valance Economic Report: New Zealand

Davin Patton

(340) 692-7710

dpatton@valance.us

June 1, 2005

This week's data indicates a turn to the softer side for the New Zealand economy. The trade deficit narrowed on lower domestic demand, building permits declined sharply and business confidence declined as well. The data supports our view that the RBNZ will remain on hold through much of the year, with possible easing coming in H1 2006.

Weekly Highlights

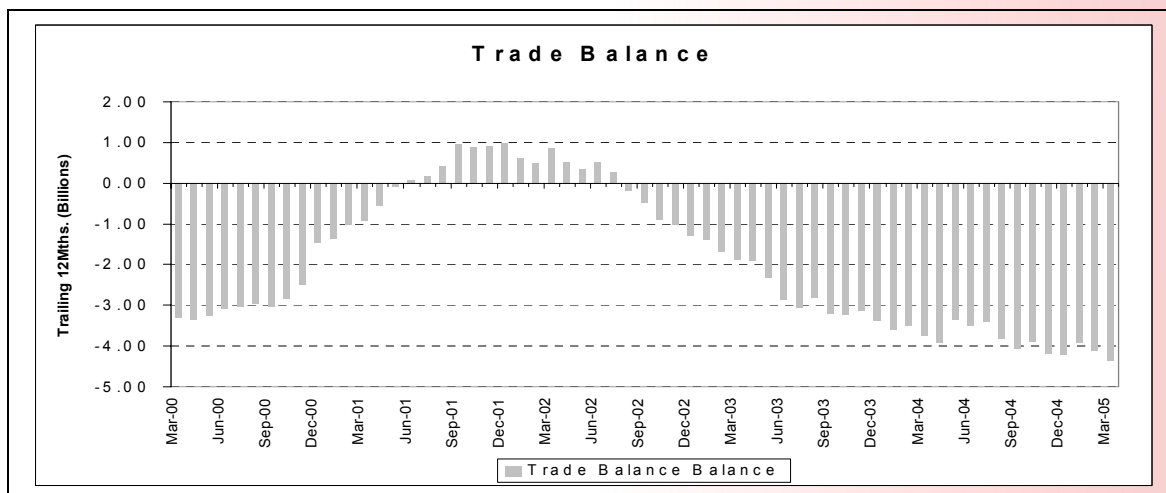
Trade Balance – narrowed from -193.3M to -147.3M in April. (page 37)

Building Permits – decreased 33.9% M/M and -32.2% Y/Y in April. (page 38)

NBNZ Business Confidence – declined to seven year low in May. (page 38)

Weekly Releases & News

Trade Balance

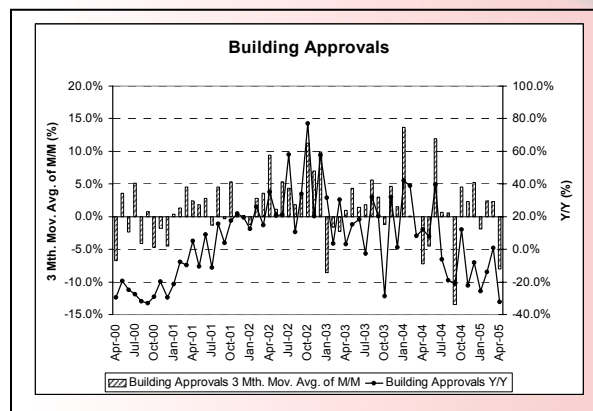


The estimated Trade Deficit widened from 193.3 million in March to 147.3 million in April. Imports were estimated to decline 1.1% M/M and increase 2.3% Y/Y. Exports were estimated to increase 0.4% M/M and 4.2% Y/Y. Although not the final estimate, the data suggests that domestic demand has already begun to cool and that the RBNZ will be able to remain on hold for some time.

Building Approvals, Business Conditions & Upcoming Dates

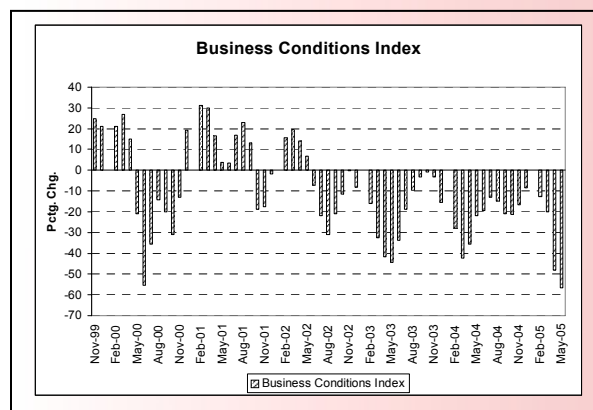
Building Approvals

Building approvals in April declined a sharp 33.9% M/M and 32.2% Y/Y. The decline brought approvals to its lowest level in over three years. The decline was largely due to apartments as the ex-apartments approvals rate declined 12% M/M. The value of residential building and renovation declined in the month as well, falling 19% Y/Y.



Business Conditions Index

The New Zealand Business Conditions Index declined to a 7 year low in April, falling 56.7% M/M. Out of the companies surveyed, 23% expect to sell less in the coming year. Although it's up from the 18% that stated the same thing in April, it is the lowest since April of 1998. 32% of those surveyed stated that sales may rise, the lowest in about two years.



Key Dates This Week

Date	Indicator	Expectation	Previous
06/02	Trade Balance (Revised) (April)	N/A	N/A

Valance Co., Inc.

Valance Economic Report: China

Evelyn L. Richards

(340) 692-7710

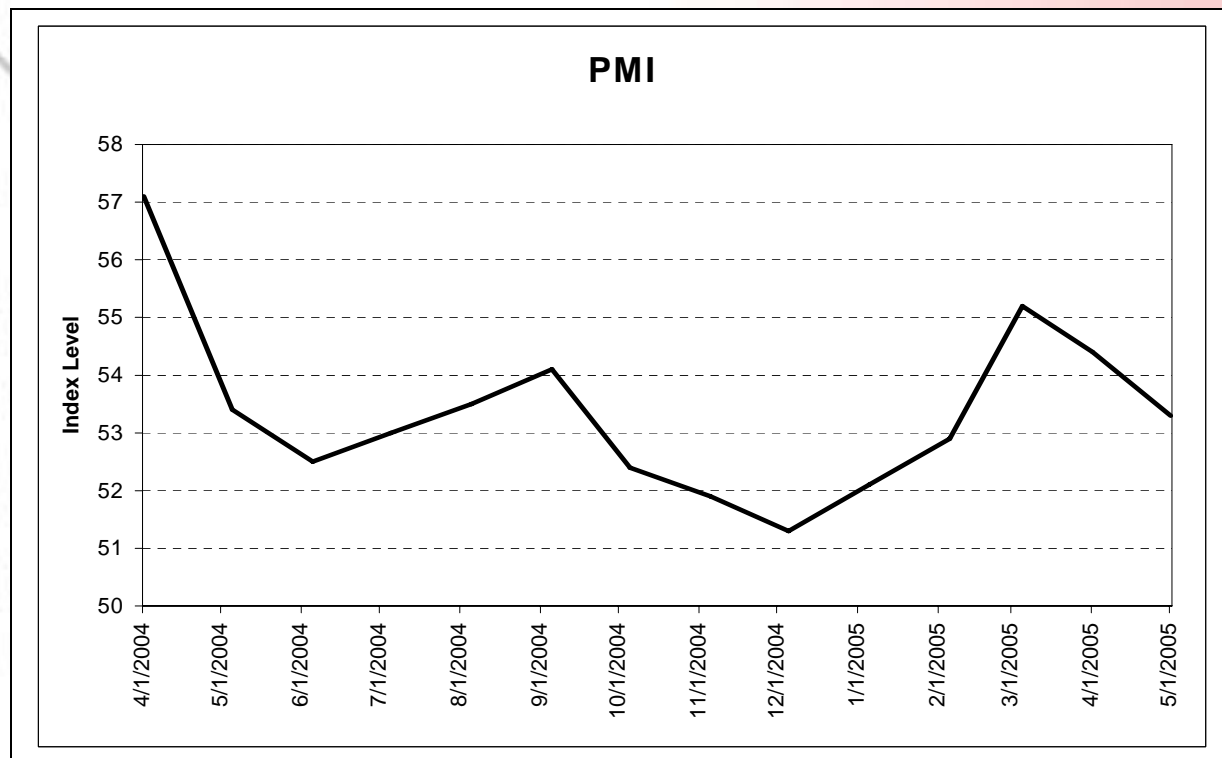
erichards@valance.us

June 1, 2005

This past week's economic data was highlighted by China's Manufacturing PMI which fell to 53.3 in May, but stayed above 50, indicating expansion. Meanwhile, China continues to keep its currency "basically stable" amid ceaseless pressure from the U.S. and the E.U. China has decided to lift its proposed June 1st export duties in retaliation to the U.S. and E.U.'s decision to impose tariffs.

Weekly Releases & News

Chart of the Week: CLSA May Manufacturing PMI



The Manufacturing PMI fell from 54.4 in April to 53.3 in May. The index decreased in seven out of the eleven components -- finished goods, employment, supplier deliveries and stocks of purchases all posted increases. The following page displays the breakdown of the PMI Survey.

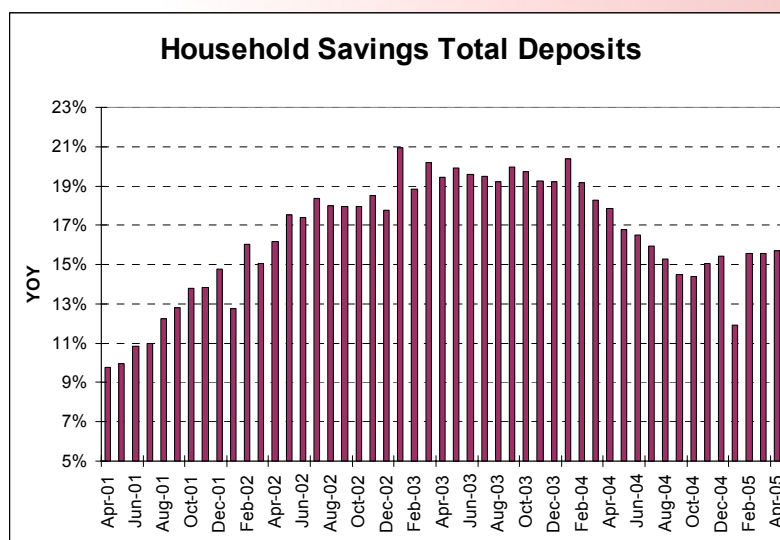
PMI Survey Results & Household Savings

PMI Survey Results

	May 2005	Apr 2005	Mar 2005	Feb 2005	Jan 2005	Dec 2004	Nov 2004	Oct 2004	Sept 2004	Aug 2004	July 2004	June 2004
Seasonally Adjusted Index												
PMI	53.3	54.4	55.2	52.9	52.1	51.3	51.9	52.4	54.1	53.5	53.0	52.5
Output	55.4	56.1	56.6	54.6	53.9	53.2	54.5	55.1	56.4	55.6	55.5	55.1
New orders	55.1	58.0	59.4	55.5	54.9	53.0	53.7	54.1	56.9	55.3	54.6	54.5
New export orders	55.6	57.1	58.6	54.8	55.6	55.1	56.0	54.1	56.6	59.4	59.9	57.0
Backlog of work	56.5	59.2	61.6	56.8	56.9	54.0	55.9	55.3	56.9	56.2	54.0	55.1
Finished goods	49.2	47.5	47.8	49.4	49.0	46.9	48.9	48.3	46.6	48.2	49.8	48.7
Employment	50.6	50.4	51.5	50.2	49.5	49.2	49.8	49.9	50.7	51.0	51.2	50.4
Output prices	51.0	54.1	56.0	51.7	49.5	50.1	54.2	55.0	57.9	56.2	51.8	50.3
Input prices	54.4	69.2	71.3	59.6	56.0	59.1	64.0	71.8	74.0	71.7	62.4	56.2
Supplier deliveries	49.3	48.2	47.3	48.8	49.0	48.8	48.7	46.9	46.5	45.1	47.1	46.6
Quan. of purchases	54.8	56.9	57.4	55.0	54.6	52.5	53.8	54.7	58.1	57.3	55.6	55.1
Stocks of purchases	51.7	50.8	50.4	48.4	46.6	45.1	45.8	44.9	47.2	46.0	45.6	43.2

Household Savings Total Deposits

Household Savings increased 0.4% M/M and 15.7% Y/Y, respectively.



News Releases & Upcoming Dates

May 31st – Taking Back Tariffs – China decided to lift its proposed June 1st placement of export taxes on 81 categories of textiles; this came after the U.S. and E.U. imposed restrictions on Chinese exports. Bo Hilai, Minister of Commerce, stated that a “corresponding policy adjustment” should be made to counteract the “groundless” restrictions the U.S. and E.U. have placed on textiles.

May 28th – China’s Reserves – Reserves rose \$50 bln in Q1 to a new record total of \$659 bln.

May 27th & 26th – Yuan Concerns – Despite considerable pressure from the U.S. and EU, the PBoC still maintains that China will revalue its currency at its own pace, but will keep it “basically stable at a rational equilibrium.” Recent comments are as follows:

- **U.S. Treasury Secretary, John Snow**, stated to Congress, “We’ve got their attention and they’re gonna move.”
- Spokesperson, **Zhang Yansheng of the National Development and Reform Commission’s External Economy Research Institute**, said “It will be better to keep the renminbi’s exchange rate stable for another two years.”
- **Central Bank Chief, Zhou Xiaochuan**, commented that “The sequence of reform is very crucial. It costs us a lot.” Xiaochuan added that “If we slow down the reform, it also costs us a lot.”
- **Vice Secretary General of the China Macro Economy Academy, Wang Jian**, stated, “Foreigners think China cannot withstand pressure for a revaluation of the yuan and that if there’s enough pressure, the yuan will be forced higher and higher.” Wang also mentioned that “The dollar is extremely unstable because of the twin deficits. If the renminbi is revalued, other Asian currencies will go up too and the dollar could collapse in the near future.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/07-14	Ttl Export - Ind. (Y/Y) - May	--	31.9%
06/07-14	Trade Surplus in US Bln - May	--	4.59B
06/07-14	Ttl Import – Ind. (Y/Y) – May	--	16.2%

Valance Co., Inc.

Valance Economic Report: Sweden

Evelyn L. Richards

(340) 692-7710

erichards@valance.us

June 1, 2005

This past week's economic data continued to show signs of weakness in Sweden's economy. Retail Sales and Consumer Confidence were below expectations, while Manufacturing Confidence and PMI increased. As a result of the sluggish economy, the Bank is proposing making a "marginal" cut to its 3.2% growth forecast for 2005 and 2006. Meanwhile, in response to rate talks, Central Bank Governor, Heikensten, commented that "It is important that all doors are kept open."

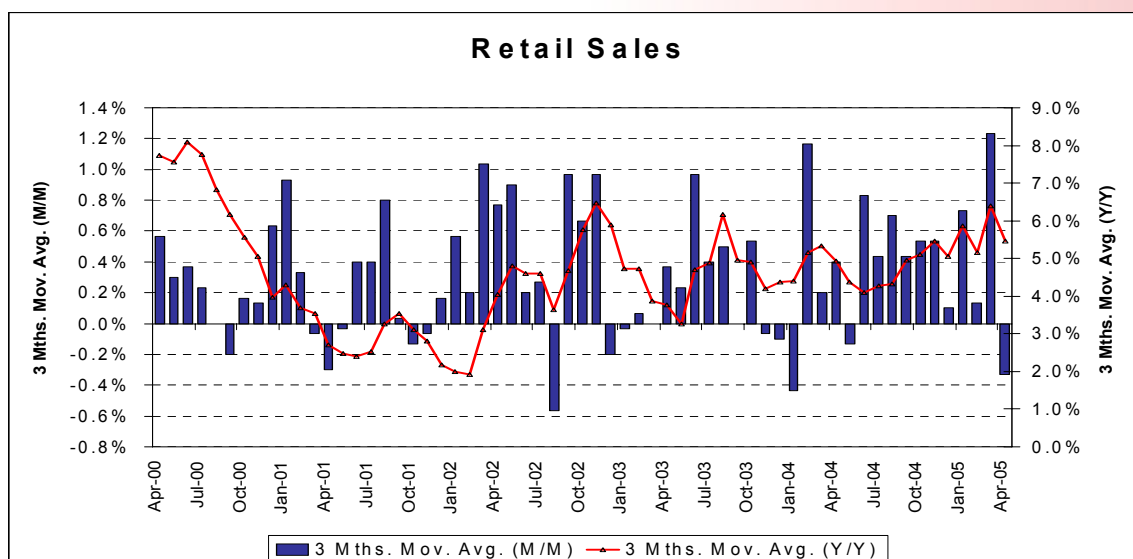
Weekly Highlights

Retail Sales - Retail Sales fell 2.8% M/M and climbed 4.0%Y/Y in April. (page 42)

Unemployment Rate - fell from 6.0% in March to 5.8% in April. (page 43)

Weekly Releases & News

Chart of the Week: Retail Sales

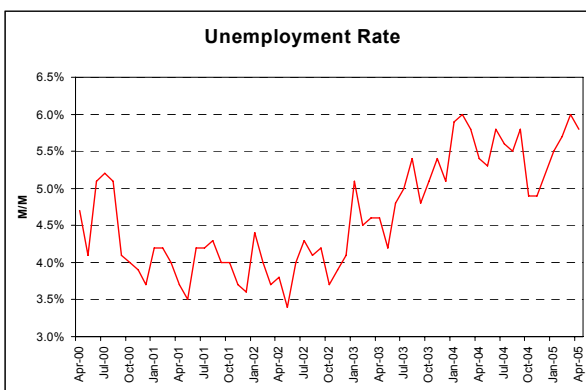


Retail Sales fell 2.8%M/M and climbed 4.0%Y/Y in April, below expectations of a -0.6% M/M loss and 6.0 Y/Y gain. This decrease was attributed to the effects of record-high oil prices. Based on recent economic conditions, the Central Bank has proposed making a "marginal" cut to its 3.2% growth forecast for 2005 and 2006.

Unemployment Rate, Manufacturing Confidence & Consumer Confidence

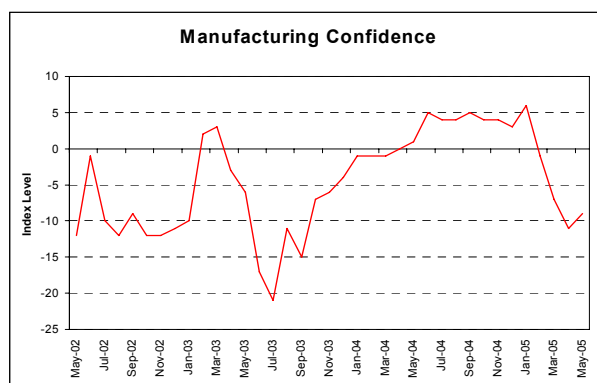
Unemployment Rate

The Unemployment Rate fell from an upwardly-revised 6.0% in March (from 5.5%) to 5.8% in April, as more people left jobs to participate in retraining programs; bringing the total to 8.4% in April.



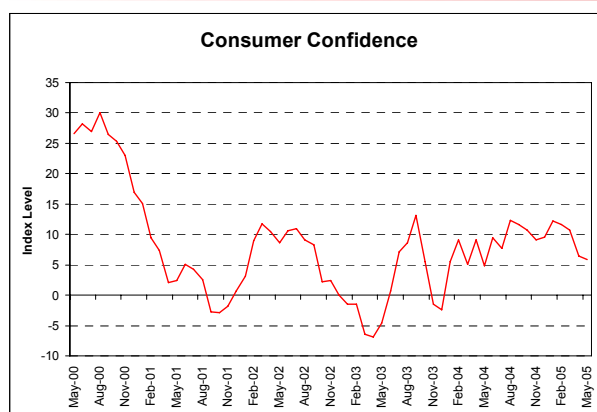
Manufacturing Confidence

Manufacturing Confidence rose from -11.0 in April to -9.0 in May.



Consumer Confidence

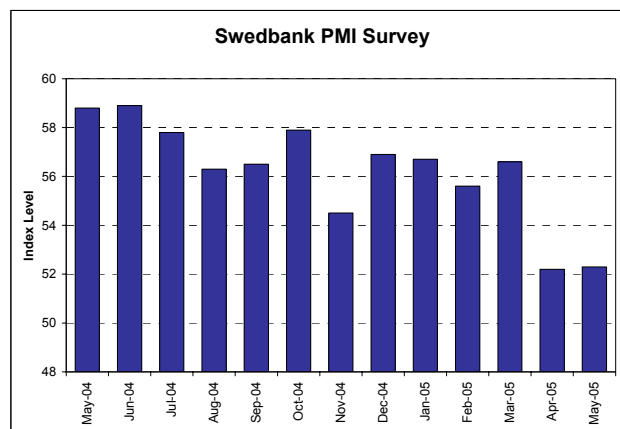
Consumer Confidence fell from 6.5 in April to 5.9 in May, below expectations of 6.0.



PMI Survey, Current Account & News Releases

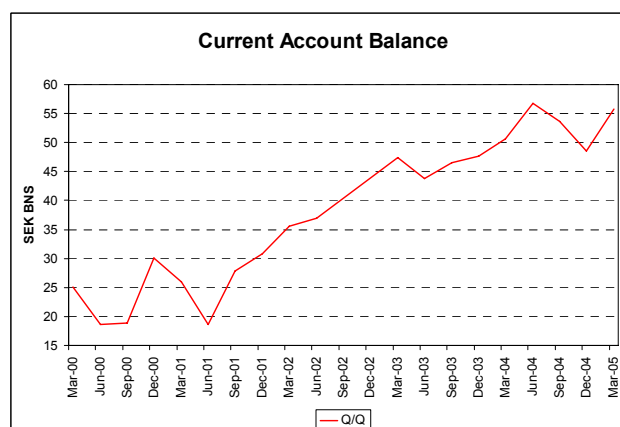
PMI Survey

Sweden's PMI increased slightly from 52.2 in April to 52.3 in May, as expected. The increase was partly a result of a rise in new orders from 50.7 to 53.3. Conversely, the employment and production indices fell from 50.1 to 48.1 (indicating cutbacks) and 56.1, respectively.



Current Account

Sweden's Current Account surplus widened from SEK 46.4 bln in Q4 of 2004 to SEK 55.8 bln in Q1 of this year (\$7.6 bln). The rise was partially attributed to the export of services.



News Releases

May 31st - Labor Board Predicts Unemployment to Fall – The Swedish Labor Board has predicted the unemployment rate will decline to 5.1% in 2005 as hiring in the building industry picks up. Head of the Labor Board, Anders Johansson, stated “this is a relatively weak increase in employment and unemployment is still high.” Additionally, the Labor Board predicts economic growth to be at 2.8% this year and 2.4% in 2006.

News Releases (cont'd.) & Upcoming Dates

May 31st – Heikensten's Comments on Rates - In view of a slowing economy, Central Bank Governor, Lars Heikensten, stated that “It is important that all doors are kept open” in reference to rate talks. He added he “is not ready to make a firm line ahead of the next monetary policy meeting.” The Bank has stood firm on its stance to keep its benchmark rate at 2.0%, despite pressures from political heads, economists and unions.

May 30th - Bergstroem Says Factors Still Suggest Higher Inflation – Villy Bergstroem, Central Bank Deputy Governor, stated underlying factors in the economy are contributing to higher inflation. Bergstroem said “it is important to hold on to a stable analytical framework and a consistent forecast assessment. The underlying factors still indicate a rise in resource utilization and thereby a rise in inflation.” Swedish Inflation has stayed below the Central Bank's 2.0% target for 19 consecutive months while underlying inflation rose just 0.4% Y/Y in April.

May 26th - Bergstroem's Thoughts on Lowering Unemployment - In a speech made by Deputy Governor, Villy Bergstroem, he stated that “attending to the structural problems in the labor market” instead of reducing interest rates will lower unemployment. Bergstroem added that manipulating the interest rate up or down is seen as impacting employment, however, “that statement is not compatible with any serious assessments or forecasts.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/08	Swedish Budget Deficit - May	--	12.9B
06/08	GDP s.a (Q/Q) – 1Q	--	0.3%
06/08	GDP w.d.a. (Y/Y) – 1Q	--	2.0%

Valance Co., Inc.

Valance Economic Report: Switzerland

Milo Prochazka

(340) 692-7710

mprochazka@valance.us

June 1, 2005

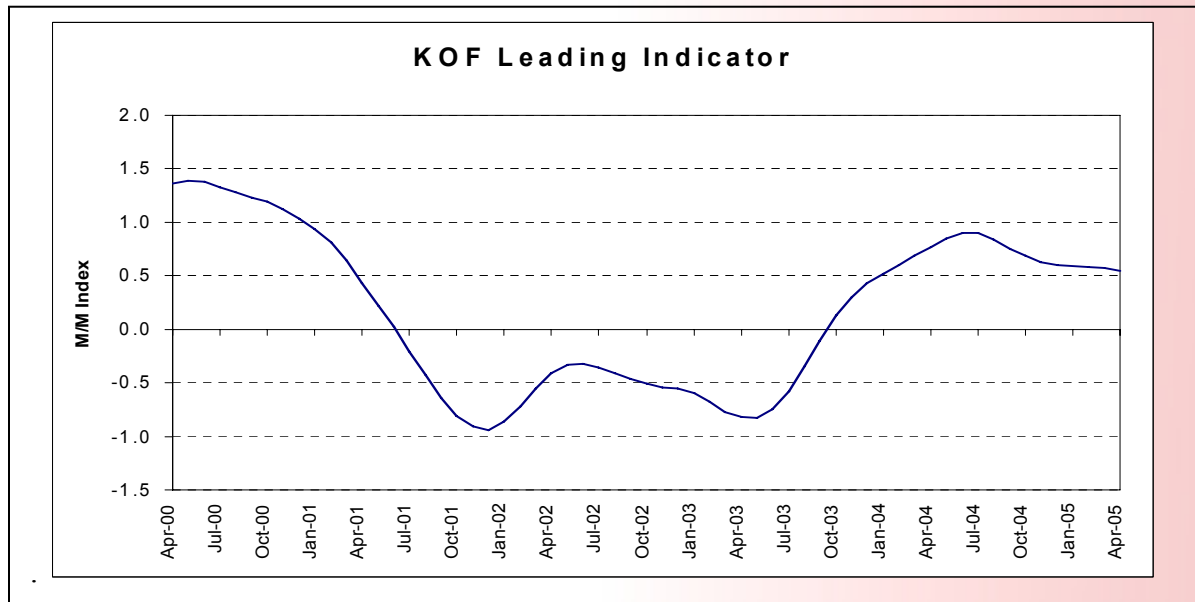
Switzerland's economy is still struggling to recover from a fourth-quarter contraction as signs mount of an economic slowdown in Europe. The economy may not reach the 1.5% growth forecast by the government, amid weaker demand for exports. Meanwhile, Swiss inflation hasn't breached the Central Bank's 2% limit since 1995.

Weekly Highlights

- **KOF Leading Indicator** – lowest since January. (page 46)
- **CPI** – inflation slowed to the lowest rate in eight months. (page 47)
- **SVME** – declined more than expected. (page 47)

Weekly Releases & News

Chart of the Week: KOF Swiss Leading Indicator

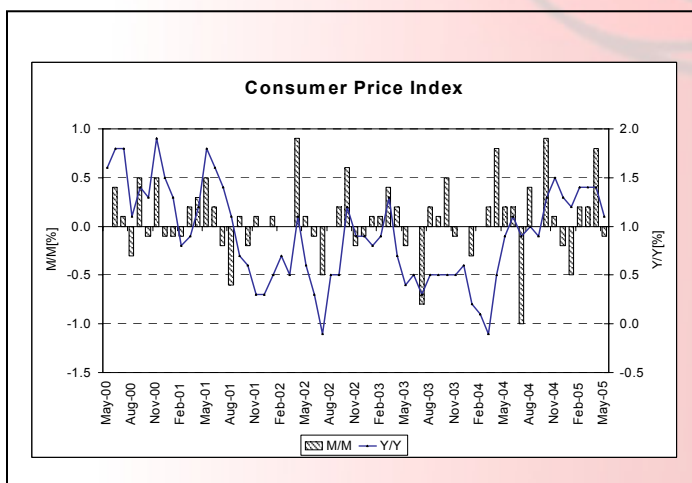


The monthly aggregate of indicators decreased to 0.53 in May from a revised 0.55 in April, the lowest since January 2004, undermining expectations for acceleration in economic growth in a second half growth rebound.

Unemployment, Producer & Import Prices, Trade Balance

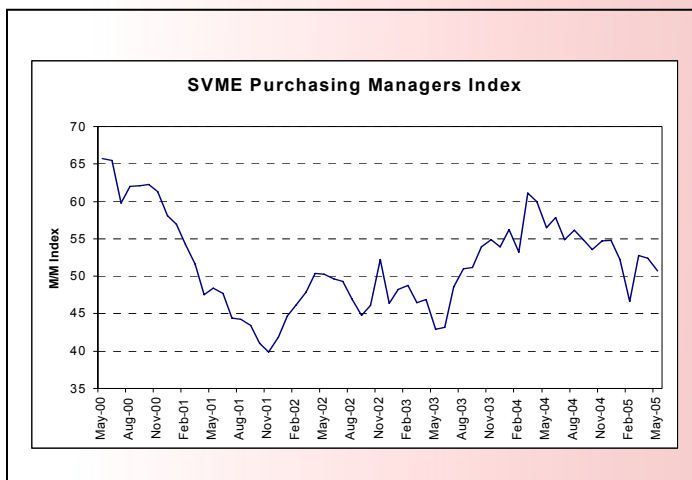
CPI

Swiss Consumer Prices decreased to 1.1% y/y from April's 1.4 % and 0.1% m/m led by a 9.6 % decline in heating oil costs. Core inflation in May rose 0.7% y/y and was unchanged from April.



SVME Purchasing Managers Index

The Index fell to 50.7 in May from a revised 52.4 in April. A reading below 50 indicates contraction.



News & Comments

May 27th-Swiss Economics Minister Joseph Deiss:

“Swiss economy may grow less quickly this year than the 1.5% forecast by the government amid weaker demand for exports.”

“I continue to be convinced that we will be over 1 percent and growth in gross domestic product of 1.3% or 1.5%, that will probably be it.”

“Slower growth is not a purely Swiss problem. The whole world is moving less dynamically, so it's no surprise that we're breathing a little harder.”

“Higher oil costs have an indirect impact on the Swiss economy by weakening the performance of trading partners. Oil prices continue to remain high, although the trend is not decisively upwards.”

“The Swiss franc at about 1.55 per euro is an exchange rate that functions reasonably well. The dollar's decline means that the situation, in terms of how it affects the competitiveness of our economy, has improved.”

May 26th-SNB's president Jean-Pierre Roth:

“A drop in unemployment isn't imminent, although the labor market should recover in the second half of the year.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/06	Unemployment Rate	---	3.8%
06/08- 06/16	Adjusted Real Retail Sales	---	7.6%