

# Valance Company, Inc.



Weekly

June 8, 2005

III

## Highlights

US – Payroll increases drop & Unit Labor Costs rise (page 2)

Euroland – Germany's manufacturing sector remains weak (page 7)

Japan – Strong Capex growth in Q1 (page 12)

UK – Weaker housing and retail sales data (page 17)

Canada– Housing softens (page 21)

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

## June 2 - June 8 Short Term Interest Rates

	Change in BPs		(3Mth. Futures Contracts Yields)			
Country	Official Rate	3 Mth. LIBOR	Sep-05	Dec-05	Mar-06	Jun-06
US	0.00	0.03	3.00	7.50	10.50	11.50
	3.00	3.38	3.71	3.84	3.91	3.97
EU	0.00	-0.01	1.00	-1.50	-4.00	-7.00
	2.00	2.11	2.05	2.01	2.02	2.07
JN	0.00	0.00	0.50	0.50	0.50	0.50
	0.00	0.05	0.09	0.11	0.14	0.17
UK	0.00	-0.01	0.00	0.00	1.00	1.00
	4.75	4.86	4.67	4.51	4.41	4.36
CA	0.00	-0.01	4.00	1.00	0.00	-2.00
	2.50	2.61	2.68	2.78	2.92	3.03
AU	0.00	-0.01	0.00	-3.00	-6.00	-6.00
	5.50	5.61	5.60	5.52	5.44	5.42
NZ	0.00	0.02	1.00	0.00	2.00	2.00
	6.75	6.95	6.97	6.84	6.64	6.45
SZ	0.00	0.00	-2.00	-4.00	-7.00	-9.00
	0.75	0.75	0.76	0.78	0.84	0.96

This document is for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy the products mentioned in it. No representation is made that any returns will be achieved. Past performance is not necessarily indicative of future results; any information derived herein is not intended to predict future results. This information has been obtained from various sources, including where applicable, entered by the user; we do not represent it as complete or accurate. Users of these calculators are hereby advised that Valance Co., Inc. takes no responsibility for improper, inaccurate or other erroneous assumptions to the extent such data is entered by the user hereof. Opinions expressed herein are subject to change without notice. The securities mentioned in this document may not be eligible for sale in some states or countries, nor suitable for all types of investors

Valance  
Economic  
Reports

Valance Co., Inc.

# Valance Economic Report: United States

Cesar Guerra  
(340) 692-7710[cguerra@valance.us](mailto:cguerra@valance.us)

June 8, 2005

This week's light economic data highlighted the tension facing the Fed- evidence of accelerating inflationary pressures seen in unit labor costs versus evidence of a weakening demand environment seen in soft payrolls. The early read on Fisher's "eighth inning" comments last week are that it was a rookie mistake, but Chairman Greenspan should provide more clarity in his presentation to Congress on Thursday.

## Weekly Highlights

**Employment-** payrolls increased 78k in May. (page 2)

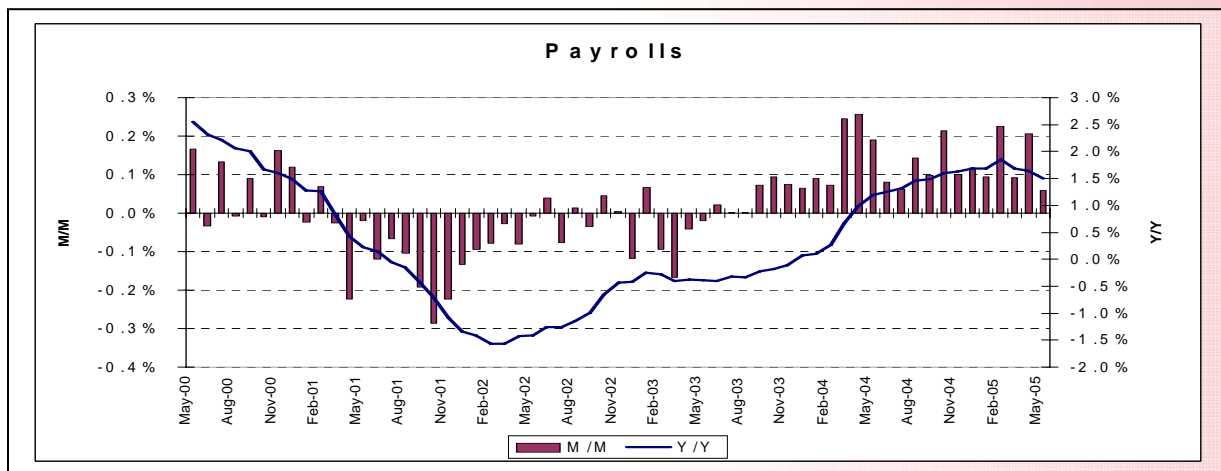
**Average Hourly Earnings-** increased 0.2% M/M and 2.6% Y/Y in May. (page 3)

**Unit Labor Costs-** increased 4.3% Y/Y in first quarter of 2005. (page 4)

**Vehicle Sales (SAAR)-** dropped from 17.5 million to 16.7 million. (page 4)

## Weekly Releases

### Chart of the Week: *Non-Farm Payrolls*

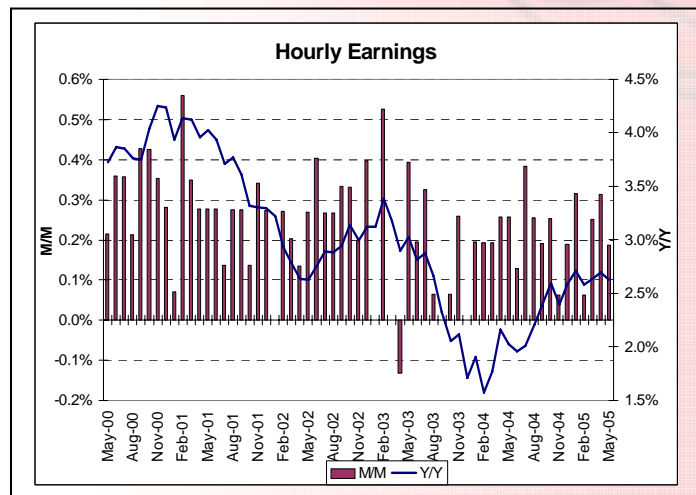


Non-farm Payrolls increased 78,000 in May, below market expectations and trend growth. However, the low level of continuing unemployment claims continues to suggest that the May reading is not an inflection point in a deteriorating labor market, but rather volatility around trend employment growth of 150,000. The average change over the past three months has been 158k. (See following page for more employment data).

## Employment

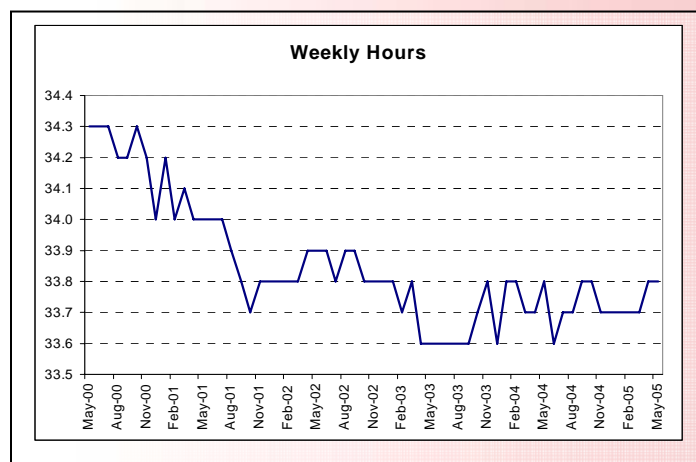
### Average Hourly Earnings

Average hourly earnings grew 0.2% M/M and 2.6% Y/Y in May. Gains in hourly earnings do not show that labor costs are accelerating like unit labor cost data has.



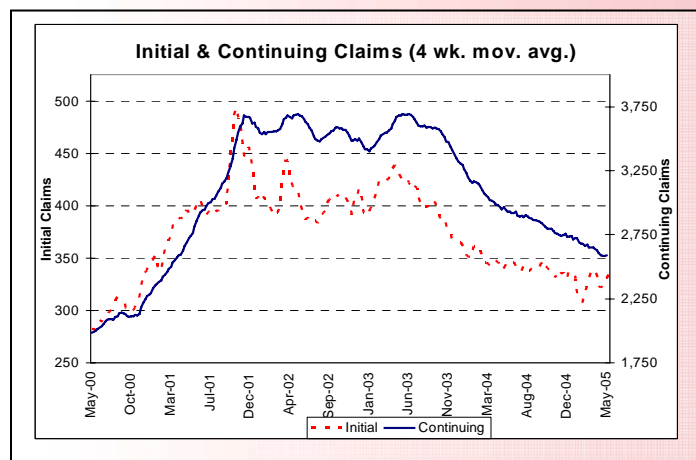
### Average Weekly Hours

Average weekly hours remained at 33.8 in May. This series has remained relatively flat for over a year at levels that suggest slack remains in the labor market. Last month's reading of 33.9, moved beyond the range, but was pulled back in after the most recent revision.



### Initial Continuing Claims

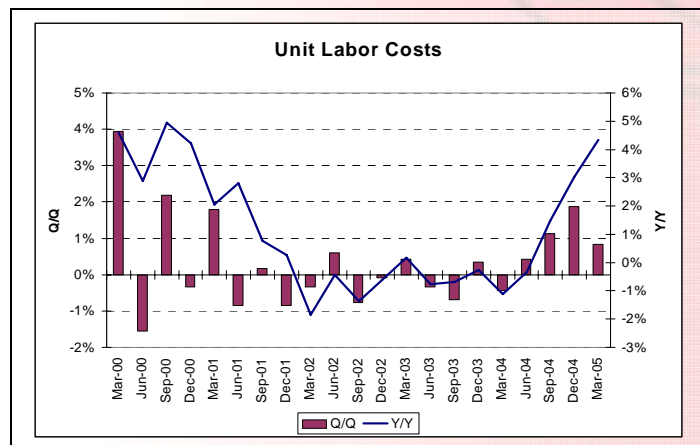
The four week moving average of initial and continuing claims increased to 335k and 2,591k, respectively. The level of continuing claims continue to suggest that payrolls should expand above trend. However, it will be important to monitor this high frequency data for evidence of deterioration.



## Unit Labor Costs, ISM Non-Manufacturing & Vehicle Sales

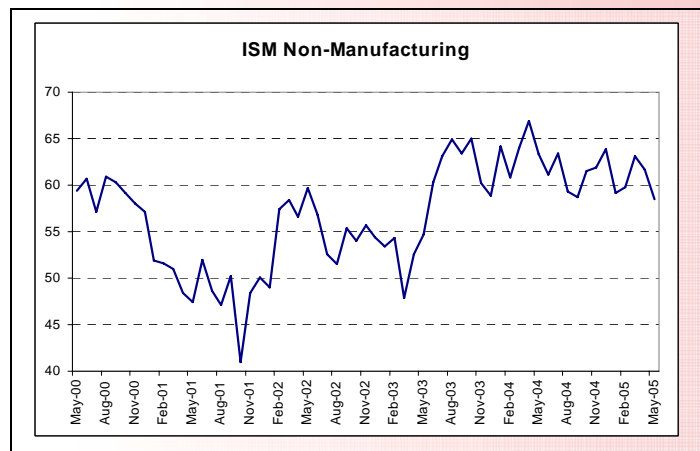
### Unit Labor Costs

Unit labor costs increased 0.8% Q/Q and 4.3% Y/Y in the first quarter of 2005. The revised data showed an acceleration in unit labor costs that is likely to keep the Fed concerned about core inflationary pressures going forward.



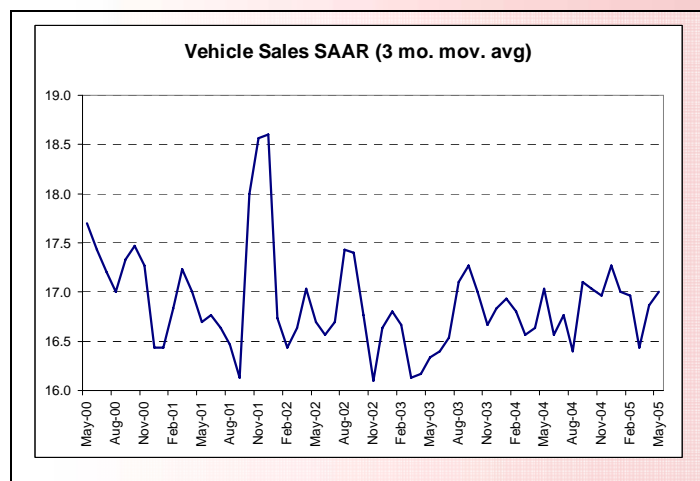
### ISM Non-Manufacturing

The ISM Non-Manufacturing Index decreased from 61.7 to 58.5 in May. The non-manufacturing index has moved lower, but has not shown the considerable weakness shown in the manufacturing surveys. The employment component improved 53.3 to 53.4 and the price component declined from 61.9 to 57.9.



### Total Vehicle Sales

The seasonally adjusted annual rate of total vehicle sales dropped from 17.5 million to 16.7 million in May. Domestic producers continue to lose shares to foreign manufacturers like Toyota. General Motors recently announced 25,000 job cuts by 2008.

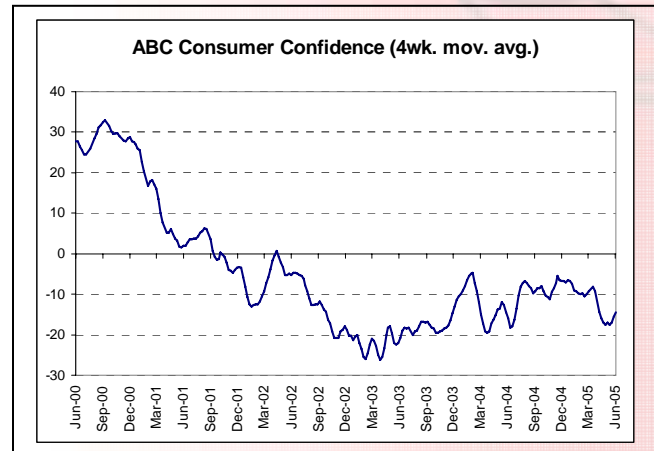




## Consumer Confidence, Mort. Apps. & Wholesale Inventories

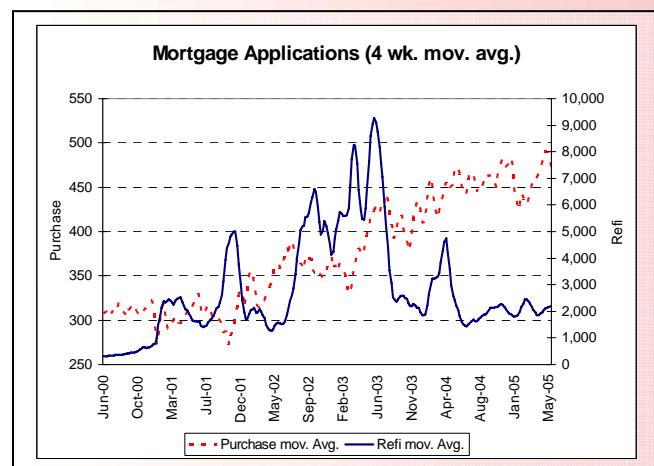
### ABC Consumer Confidence

The ABC Consumer Confidence Index increased from -13 to -12 this week. The buying climate series improved from -30 to -28 and the economic and financial components remained flat. The four week moving average continues to improve off of lows reached in the middle of May.



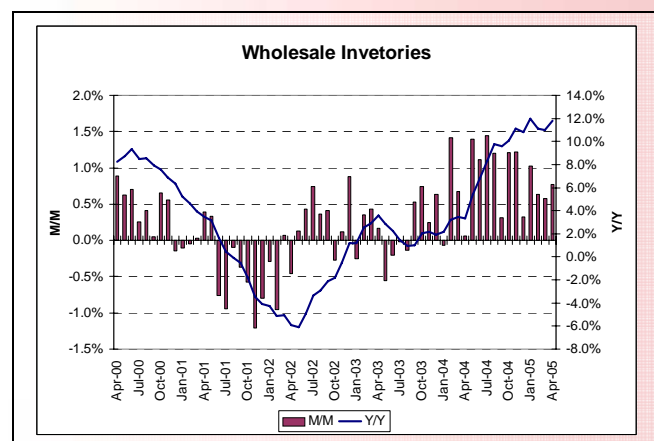
### MBA Mortgage Applications

Purchase and refinancing mortgage applications increased 3.6% and 10.3%, respectively this week. Lower mortgage rates drove applications higher and are likely to keep the housing market strong in the short-run.



### Wholesale Inventories

Wholesale inventories increased 0.8% M/M and 11.8% Y/Y in April. Inventories continued to build in April and despite the positive impact on second quarter GDP calculations, it is a sign of weakness in the economy.



## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/09	Initial Jobless Claim (JUN 4)	335K	350K
06/09	Continuing Claims (MAY 28)	NA	2602K
06/10	Trade Balance (APR)	-\$58.0B	-\$55.0B
06/10	Import Price Index MoM (MAY)	-0.4%	0.8%
06/10	Monthly Budget Statement (MAY)	-\$45.0B	-\$62.5B
06/14	PPI Ex Food & Energy MoM (MAY)	0.2%	0.3%
06/14	Retail Sales Less Autos (MAY)	0.2%	1.1%
06/14	ABC Consumer Confidence (JUN 12)	NA	-12
06/15	MBA Mortgage Applications (JUN 10)	NA	6.5%
06/15	CPI Ex Food & Energy MoM (MAY)	0.2%	0.0%
06/15	Business Inventories (APR)	0.4%	0.4%
06/15	Empire Manufacturing (JUN)	4.0	-11.1
06/15	Industrial Production (MAY)	0.2%	-0.2%
06/15	Capacity Utilization (MAY)	79.3%	79.2%
06/15	NAHB Housing Market Index (JUN)	NA	70

Valance Co., Inc.

# Valance Economic Report: Euro Zone

Sean O'Reilly

(340) 692-7710

[soreilly@valance.us](mailto:soreilly@valance.us)

June 8, 2005

This past week in the Euroland was relatively quiet with most interest centering on the shaky EU Constitution. German Factory Orders fell, again, while Industrial Production in both Germany and Spain rebounded from weak months.

## Weekly Highlights

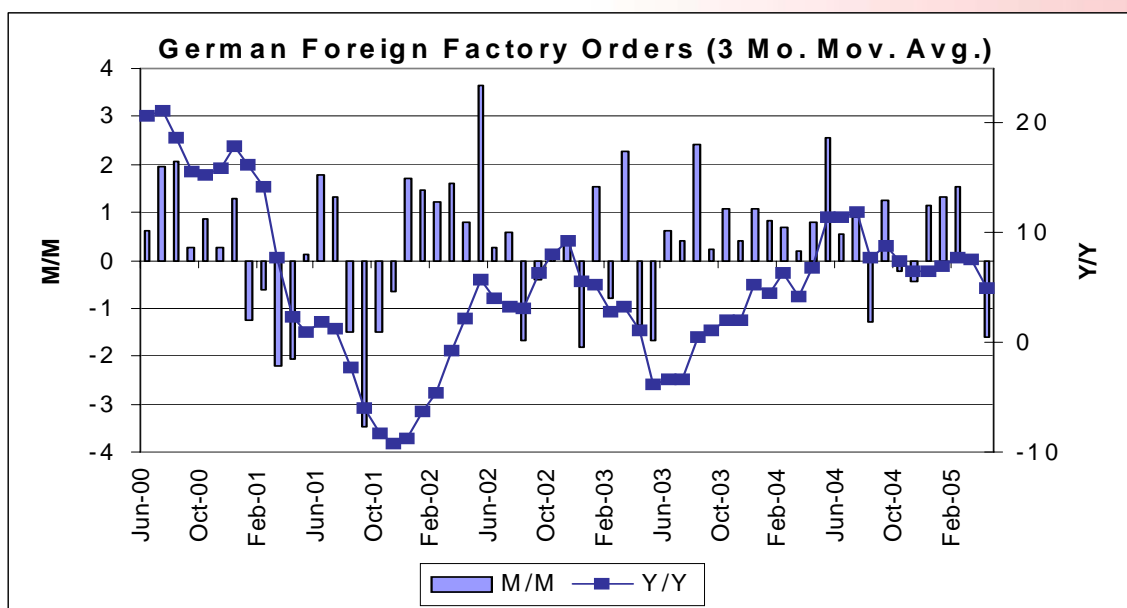
**German Factory Orders** – continued to decline in April. (page 7 )

**German Industrial Production**– increased for first time in 3 months in April. (page 8)

**Spanish Industrial Production** – spiked in April. (page 9)

## Data Releases & News

### Chart of the Week: *German Factory Orders*

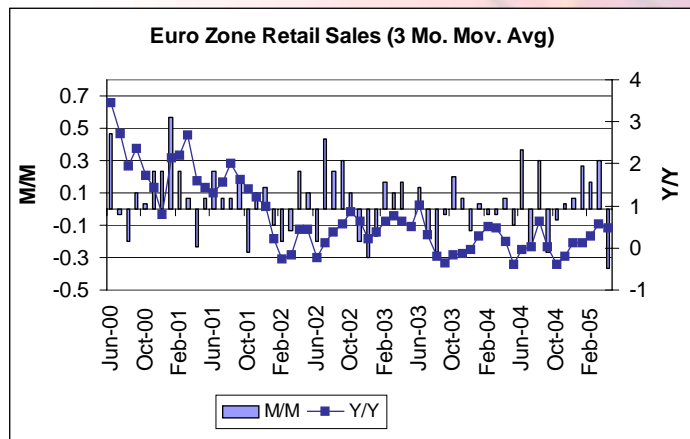


Germany's April Factory Orders fell for the third month in four; declining 2.9% M/M while increasing 2.6% Y/Y. Market expectations were for a 0.8% M/M fall. Factory Orders, like the PMI last week, continue to suggest signs of weakness in the manufacturing sector; with little domestic growth, this does not bode well for the economy.

# **Euro Zone Retail Sales, German & Spanish Industrial Production**

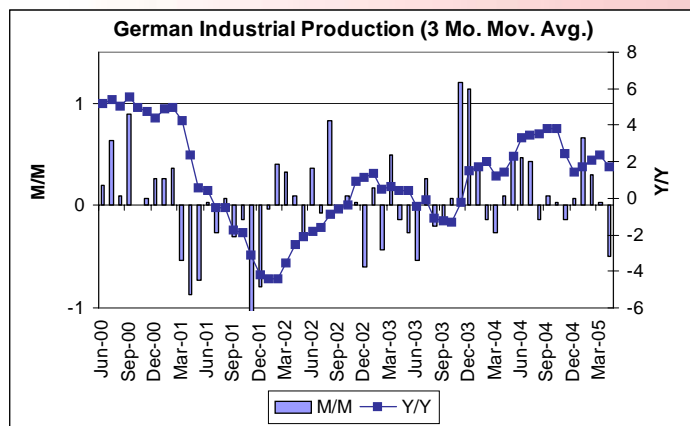
## **Euro Zone Retail Sales**

The Euro Zone's April Retail Sales fell 1.2% M/M and 0.9% Y/Y. It was the second Y/Y decline in the past 4 months as consumer spending continues to remain weak.



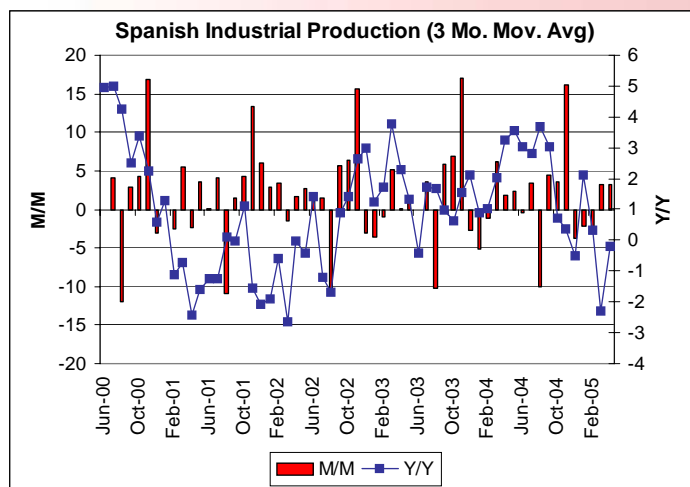
## **German Industrial Production**

Germany's April Industrial Production increased for the first time in 3 months, increasing 1.1% M/M and 1.9% Y/Y. Despite the increase, Ralph Wiechers, chief economist at VDMA industry group, stated, "We see a slowdown for the rest of the year. On the domestic side we'll be happy if we can just overcome stagnation."



## **Spanish Industrial Production**

Spain's April Industrial Production remained unchanged M/M while increasing 7.1% Y/Y. The 3 month moving average of Y/Y change fell 0.2%, declining for the sixth month in the past seven.

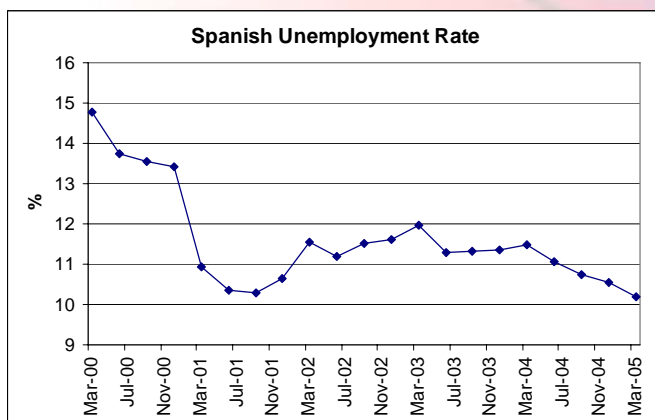




## Wholesale Sales & Leading Indicators

### Spanish Unemployment

Spain's April total unemployed fell by 30,627 bringing the total unemployed down from 1.68 million to 1.65 million. An actual unemployment rate was not released as of yet.



### Euro Zone Services PMI

The Euro Zone May Services PMI increased for the first time in 5 months, rising from 52.8 in April to 53.5. The German Services PMI rose from 51.3 in April to 52.6 in May, France's PMI increased from 57.7 to 59.0, Spain's PMI increased from 52.9 to 53.3 and Italy's PMI fell from 48.4 to 47.3.

<b>Euro -12 Services PMI:</b>	<b>May</b>	<b>Apr</b>	<b>Mar</b>	<b>Feb</b>	<b>Jan</b>	<b>Dec</b>	<b>Nov</b>	<b>Oct</b>
Overall:	<b>53.5</b>	52.8	53.0	53.0	53.4	52.6	52.6	53.5
Employment:	<b>50.6</b>	50.9	51.0	50.6	50.7	50.6	50.5	50.9
New Business:	<b>52.6</b>	52.7	51.4	52.0	52.7	51.3	50.7	52.1
Business Expectations:	<b>64.4</b>	63.5	67.5	64.3	66.3	63.2	61.4	62.2

## News

### ECB

**June 8<sup>th</sup>** – **ECB members, Christian Noyer and Nout Wellink**, commented on interest rates, stating that lower rates would not help the Euro Zone's economy. Noyer stated that, "Weak Euro Zone growth is a structural problem, not monetary", explaining the ECB's apparent callousness concerning recent weak growth. A separate report suggests that the ECB may now be open to all interest rate options, as an unidentified source stated that until last week the ECB was ready to hike rates and had ruled out a cut, but that they were now taking a more wait-and-see stance. The report correlates with ECB member Otmar Issing's recent comments that the bank's monetary policy strategy does not "rule out" a rate cut.

**June 2<sup>nd</sup>** – **ECB President, Jean Claude Trichet**, commented on the bank's decision to leave rates unchanged. **On rates:** "We expect euro area underlying inflation to remain contained in the medium term. We were unanimous that our interest rates are at an appropriate level for delivering price stability." **On the EU:** It is "absurd" to suggest that the EU is in danger due to the constitution rejections of France and the Netherlands. "It's totally absurd... it's like asking whether or not it is likely for California to have its own currency. It is totally absurd, and I will not comment any more on that." Both German and Italian officials have apparently discussed the idea of leaving the EU. **On Growth:** "Figures for real GDP growth over the last two quarters partly reflects working day adjustments to the data...this has led to some overstatement in Q1 2005. Most recent indicators for economic activity remain, on balance, on the downside... All in all, our judgment remains that real economic growth will gradually improve over the period ahead."

**June 8<sup>th</sup>** – **IMF fund director, Rodrigo de Rato**, stated that he expects European growth to accelerate in the second half of the year. "We believe we are in a temporary soft patch," de Rato said. He also stated that the ECB should consider reducing interest rate cuts if the current weakness continues.

### Italy

**June 8<sup>th</sup>** – After earlier statements by Italian ministers regarding Italy leaving the EU and adopting the lira, **Italian Finance Minister, Domenico Siniscalco**, stated that it would make "no sense" to adopt the lira as it would add 80 billion euros to the cost of financing Italy's current debt. Prime Minister, Silvio Berlusconi, also dismissed the calls to abandon the euro.

**June 7<sup>th</sup>** – The **EU Commission** warned Italy to cut its "unsustainable" deficit, calling for a reduction in spending or an increase in taxes. Italian officials had previously stated that they had hoped that the EU would view their Q1 contraction as justification for exceeding the EU limit and be lenient; apparently not.

### France

**June 8<sup>th</sup>** – **French Prime Minister, Dominique de Villepin**, may propose payroll tax cuts for small companies in an effort to boost employment. The government may also boost an existing tax credit for low income workers.

## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/09	German Current Account (APR)	9B	Q12B
06/09	German CPI (MAY)		0.1% M/M
06/10	French Industrial Production (APR)	-0.1% M/M	-0.5% M/M
06/10	French Trade Balance (APR)	-2M	-2379M
06/10	Italian Exports (Q1)	-1.2% Q/Q	-4.7% Q/Q
06/10	Euro Zone Current Account (Q1)	4.8B	14.3B

Valance Co., Inc.

**Valance Economic Report: Japan**

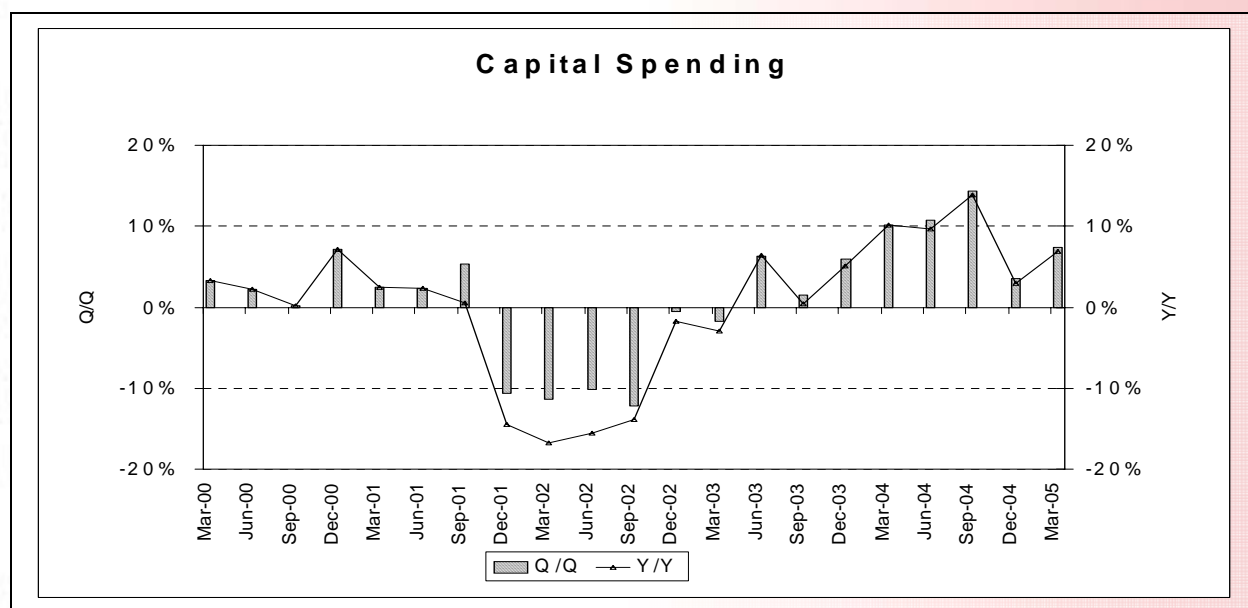
La-Toya C. Elizee  
(340) 692-7710  
[lelizee@valance.us](mailto:lelizee@valance.us)

June 8, 2005

**Strong increases in Capital Spending were the main highlight of Japan's recent economic data. Capital Spending including software increased 7.4% Y/Y in 1Q. Meanwhile, the Eco Watchers' Survey continues on its uptrend and Bank Lending showed some encouraging results by posting its lowest decrease since the series began in 1998.**

**Weekly Highlights**

- **Capital Spending including software** - increased 7.4% Y/Y in Q1. (page 12)
- **Household Spending** - decreased 3.0% M/M and 1% Y/Y in April. (page 13)
- **The Eco Watchers' Survey** - continues to trend upwards. (page 13)
- **Japan's Adjusted Bank Lending** - decreased 0.4% Y/Y in May. (page 14)

**Weekly Releases & News****Chart of the Week: Capital Spending**

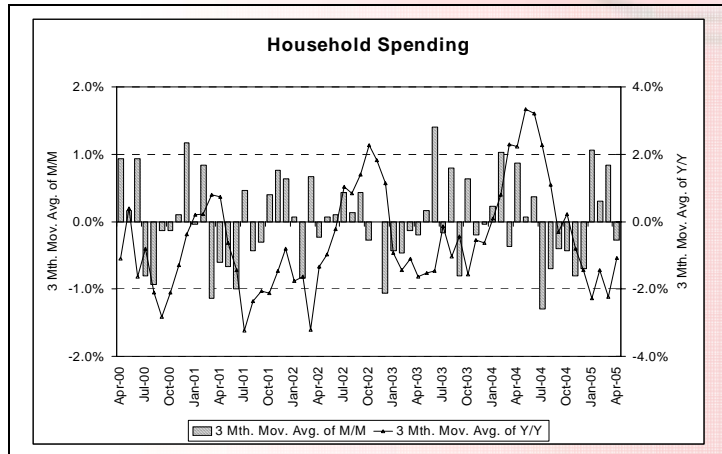
Capital Spending, including and excluding software, increased 7.4% Y/Y and 6.9% Y/Y, respectively in Q1. Capex by non-manufacturers, increased 7.1% Y/Y in Q1 following 1.3% Y/Y growth in the October-December quarter. The growth rate of Capex by manufacturers increased 8.1% Y/Y.



## Household Spending, Leading and Coincident Indices & Eco Watchers' Survey

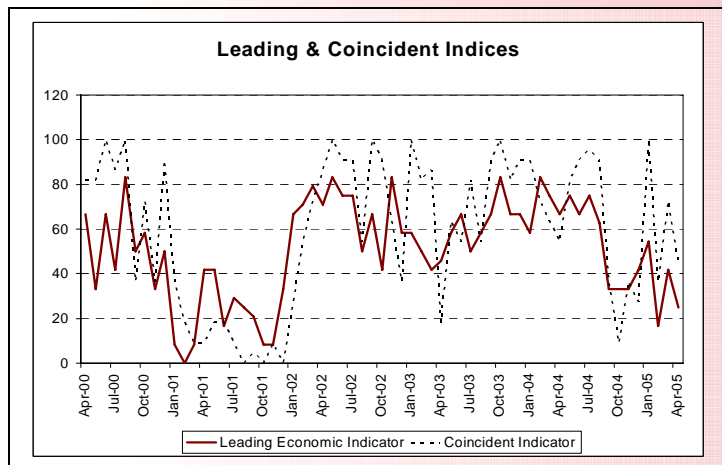
### Household Spending

Household Spending decreased 3.0% M/M and 1% Y/Y in April. Continuous improvements in consumer confidence, coupled with the recent strong employment data, should help to strengthen household spending.



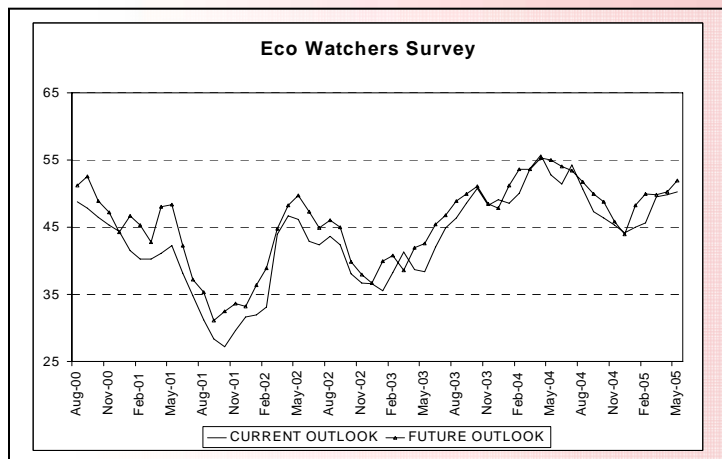
### Leading & Coincident Indices

Based on Preliminary figures, the Leading Economic Index decreased from 36.4 in March to 25.0 in April, in line with expectations. The Coincident Index also decreased from 70 to 44.4. The Leading and Coincident Indices appear to be a very volatile series. However, as production gradually recovers the Leading Economic Index should begin to rise above the expansion mark.



### Eco Watchers' Survey

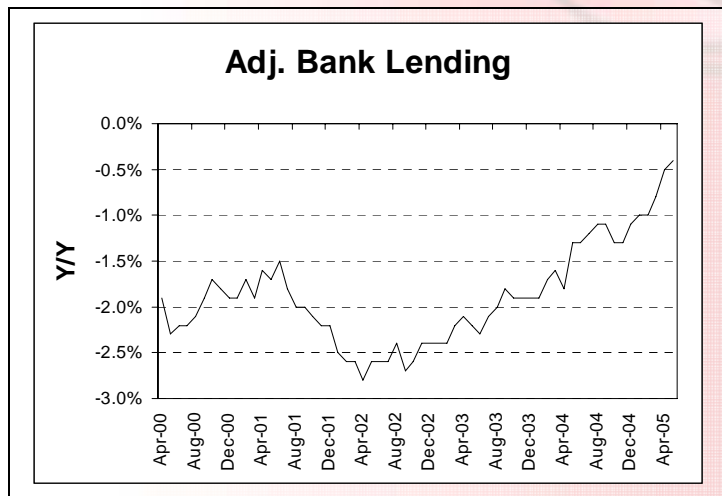
The Eco Watchers' Survey Current Outlook increased from 49.8 in April to 50.3 in May. The following were contributions to the overall Current Outlook Survey: Households +0.7%, Business - 0.5%, and Employment +1.5%. At the same time, the Future Outlook Survey increased from 50.3 to 51.9, with the following M/M increases: Household 1.7%, Business 1.0% and employment 1.9%.



## Adjusted Bank Lending

### Adjusted Bank Lending

*Japan's Adjusted Bank Lending decreased 0.4% Y/Y in May, posting its lowest decrease since the series started in 1998.*



## News

---

**June 7<sup>th</sup>** – Japan’s government is urging its central bank to implement effective policy measures to help end deflation. A report submitted by Minister Heizo Takenaka, Economic and Fiscal Policy Minister, stated “Though the economy overall is recovering at a moderate pace, deflation still continues...We want the Bank of Japan to implement effective monetary policy measures while monitoring moves and expectations in financial markets.”

**June 7<sup>th</sup>** – Kiyohiko Nishimura, the newest of the BoJ’s nine policy makers, commented that the Bank should maintain its current account deposit target because there is still some uncertainty on the recovery of export-led growth. “Judging from recent economic indicators, we don’t need to change monetary policy for now,” Nishimura stated. However, he further commented that, “Though I said we don’t need to change the target for reserves for now, I don’t mean we would make no change in the future.”

Valance  
Economic  
Report

## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/09	Consumer Confidence (MAY)	48.0	47.4
06/09	Consumer Confidence Households	.....	47.4
06/09	Machine Tool Orders (Y/Y) (MAY P)	.....	18.2%
06/09	Domestic CGPI (M/M) (MAY)	0.0%	0.6%
06/09	Domestic CGPI (Y/Y) (MAY)	1.8%	1.8%
06/09	Export Price Index (M/M) (MAY)	.....	1.0%
06/09	Export Price Index (Y/Y) (MAY)	.....	3.5%
06/09	Import Price Index (M/M) (MAY)	.....	6.0%
06/09	Import Price Index (Y/Y) (MAY)	.....	12.5%
06/12	Gross Domestic Product (Q/Q) (1Q F)	1.3%	1.3%
06/12	Gross Domestic Product Annualized (Q/Q) (1Q F)	5.3%	5.3%
06/12	GDP Deflator (Y/Y) (1Q F)	-1.3%	-1.2%
06/13	Industrial Production (M/M) (APR F)	.....	2.2%
06/13	Industrial Production (Y/Y) (APR F)	.....	0.6%
06/13	Capacity Utilization (APR F)	.....	101.8%
06/13 – 06-14	BoJ Monetary Policy Meeting	.....	.....
06/14	Bankruptcies (Y/Y) (MAY)	.....	-23.5%
06/15	BoJ Monetary Policy Monthly Report	.....	.....



Valance Co., Inc.

# Valance Economic Report: *United Kingdom*

Gabriel Webber

(340) 692-7710

[gwebber@valance.us](mailto:gwebber@valance.us)

June 8, 2005

The housing market continued its slide after a brief period of stabilizing as HBOS and Nationwide housing surveys both reported sharp decreases in median home prices. This in turn has hurt consumers as the BRC reported that shop prices and same store sales have decreased, despite heavy advertising by stores.

## Weekly Highlights

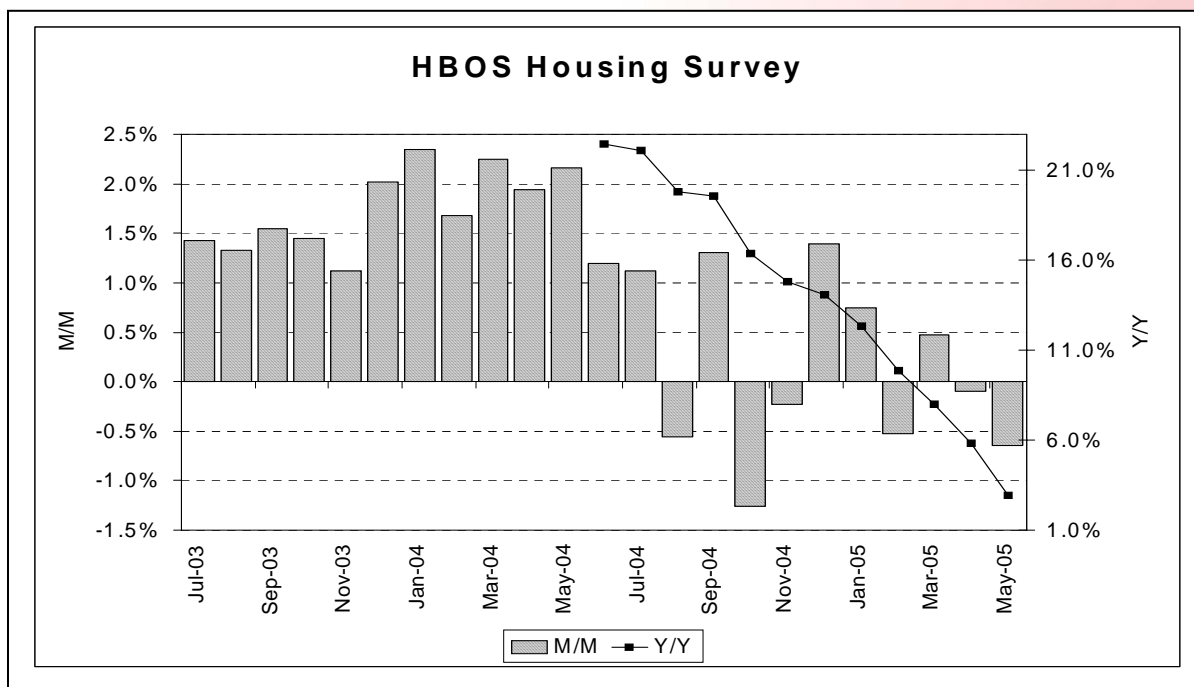
**HBOS House Prices:** decreased 0.6% M/M and slowed to 5.7% Y/Y in May. (page 17)

**Nationwide House Prices:** increased 0.3% M/M and 5.5% Y/Y in May as the housing stock continues to increase. (page 18)

**The British Retail Consortium (BRC):** reported that shop prices decreased 0.4% M/M and increased 0.7% Y/Y in May and same store sales increased 2.4% Y/Y. (page 19)

## Weekly Releases & News

### Chart of the Week: *HBOS House Price Survey*

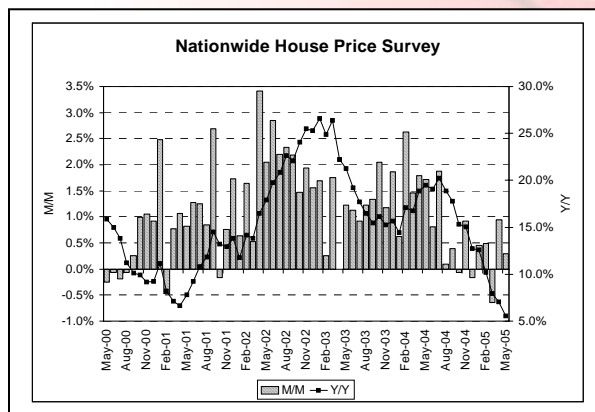


HBOS House Prices decreased 0.6% M/M and slowed to 2.9% Y/Y in May, the lowest annual rate of inflation in four years. Halifax predicts that house prices will continue to decline to 2% Y/Y.

## House Price Survey

### Nationwide House Prices

*Nationwide House Prices increased 0.3% M/M and 5.5% Y/Y in May, slightly better than expectations. The largest impact on house prices has been the lower levels of buyer activity. Agents have also reported an increase in housing supplies since February of last year.*



## ***Data & Comments***

---

### ***Data***

---

#### **PMI Services**

CIPS Services PMI decreased from 56.5 to 55.1 in May. All sectors were strong due to proactive marketing to customers, yet employment decreased from 53.2 to 51.7.

#### **PMI Construction**

CIPS Construction PMI decreased from 54.8 to 52.6 in May, the lowest in 3½ years. The weakened growth was a result of a decline in civil engineering, static housing activity and an easing in the rate of expansion of commercial activity.

#### **BRC Retail Sales**

The British Retail Consortium (BRC) reported that same store sales decreased 2.4% Y/Y in May. The BRC said many retailers were resorting to discounts and sales days to attract customers. The BRC is calling for an immediate cut in rates.

#### **BRC Shop Price Index**

The British Retail Consortium (BRC) reported that shop prices decreased 0.4% M/M and increased 0.7% Y/Y in May. Food prices increased 1.7% Y/Y while the price of non-food items remained the same despite widespread promotions and advertising.

## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/09	Industrial Production	0.2% M/M -2.5% Y/Y	-1.2% M/M -1.9% Y/Y
06/09	Trade Balance	-4725M	-4412M
06/09	MPC Rates	4.75%	4.75%
06/09	NIESR GDP Estimate		0.4% M/M
06/13	Input Producer Prices		0.3% M/M 10.4% Y/Y
06/13	Output Producer Prices		0.7% M/M 3.2% Y/Y
06/13	ODPM House Prices		12.6% Y/Y
06/13	RICS House Price Balance		-40
06/14	CPI		0.4% M/M 1.9% Y/Y
06/15	Claimant Count Rate		2.7%
06/15	Average Earnings ex bonus		4.6% 3M/3M 4.1% Y/Y
06/15	Manufacturing Unit Wage Cost		0.3% M/M
06/15	Leading Indicator		0.1% M/M
06/15	Coincident Indicator		0% M/M



Valance Co., Inc.

**Valance Economic Report: Canada**

Davin Patton

(340) 692-7710

[dpattson@valance.us](mailto:dpattson@valance.us)

June 8, 2005

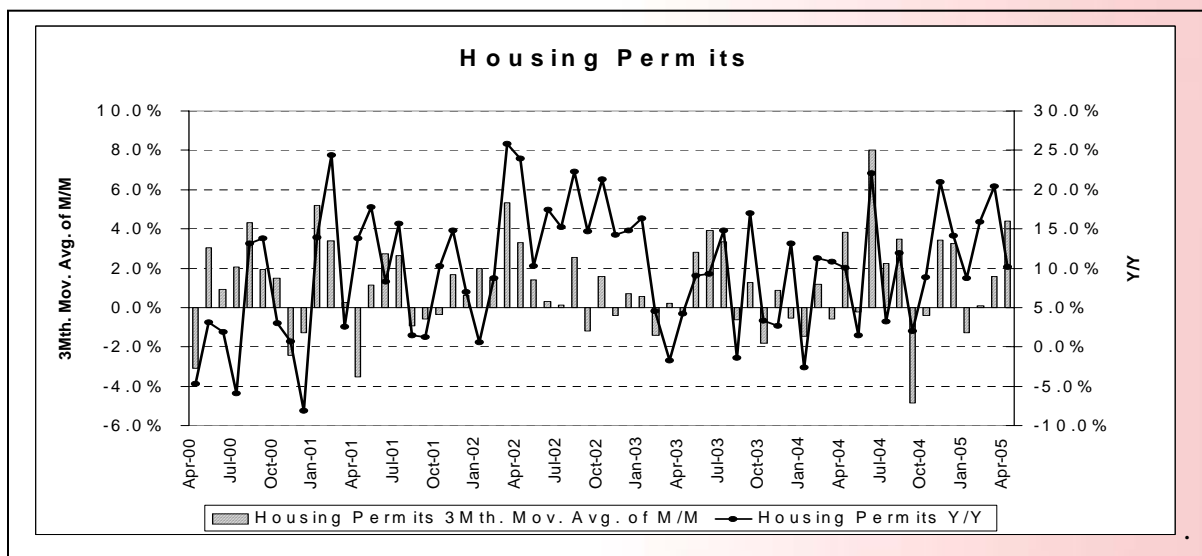
Recent data continues to tell a similar story from last week. Housing starts and permits declined for the month while the Ivey PMI increased. Jenkins of the BoC reiterated the BoC's tightening bias. Until manufacturing picks up however, it would be a difficult case for rate hikes.

**Weekly Highlights**

**Housing Permits** – declined 2.5% M/M and increased 10.2% Y/Y in April. (page 21)

**Housing Starts** – annual rate declined from 230.4k to 218.8k in May. (page 22)

**Ivey PMI** – increased from 58.3 to 62.0 in May. (page 22)

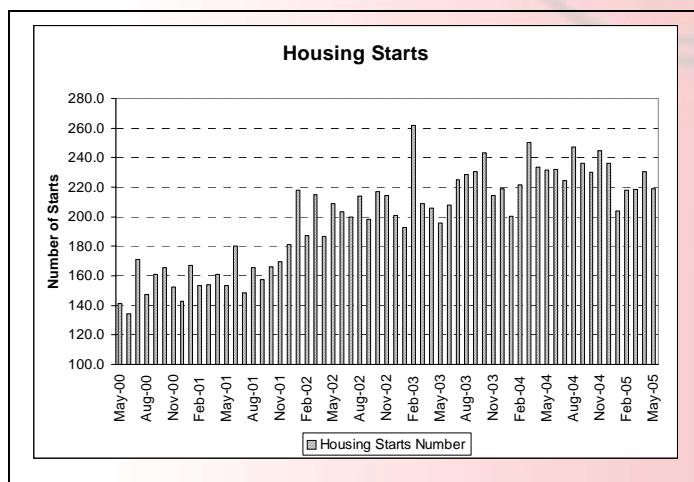
**Data Releases & News****Chart of the Week: *Building Permits***

Housing permits declined 2.5% M/M and increased 10.2% Y/Y in April, supporting views that although the housing sector cannot be categorized as weak, it is not as strong as it was in 2004. From the BoC's perspective, we expect them to maintain their tightening bias; however, we still believe that they will not act on their bias until the manufacturing sector picks up.

## Housing Starts, Ivey PMI, Home Affordability Index

### Housing Starts

The rate of housing starts declined more than the market anticipated, falling 5% M/M from an annual rate of 230.4K units to 218.8k units in May.



### Ivey PMI

The Ivey Purchasing Manager's Index in Canada rebounded in May, increased from 58.3 to 62.0. The employment component of the index increased from 58.7 in April to 63.3 in May. The inventories component declined from 55.1 in April to 53.3 in May. The Supplier delivery component of the index declined from 49.1 in April to 44.7 in May. Prices declined as well, dropping from 65.3 in April to 63.0 in May.

### Home Affordability Index

Homes became less affordable in Canada during Q1 as the home affordability index increased from 36.2% of pre-tax income in Q4 to 36.6% in Q1 2005. On a Q/Q basis, the index increased 0.1% Q/Q and 1.8% Y/Y in Q1.

## ***Election Update, Inflation Gauge, Auto Sales & Jenkins' Comments***

---

### ***Election Update***

---

**June 2<sup>nd</sup>** – Prime Minister, Paul Martin, may attempt to have Parliament work through its scheduled summer recess, if he cannot pass his budget and legislation permitting same sex marriages by June 23<sup>rd</sup>. Martin may be forced to call an election if the budget isn't passed in June. New Democratic Party leader, Jack Laton, has stated that his support of the liberals depends on the plan winning passage before the recess.

**June 4<sup>th</sup>** – Bernard Landry, leader of the Parti Quebecois, the opposition separatist party in the Canadian province of Quebec, stepped down after failing to achieve the number of votes required for a confidence vote.

### ***Inflation Gauge***

---

The ECRI future inflation gauge increased 0.6% M/M, from 100.8 to 101.4 in April, suggesting that expectations for inflation increased last month. On an Y/Y basis, the rate became less negative, increasing from -3.3% to -2.2%.

### ***Auto Sales***

---

Auto sales declined from 162.5k vehicles last May to 157.5k this May. The 3.1% M/M decline was led by Chrysler and Ford, and represented the lowest number of sales since 1999. The decline is viewed as troubling to some as there were strong purchasing incentives across the board. In light of this data, some economists expect auto sales to decline as much as 3% this year.

### ***Jenkins' Comments***

---

BoC Senior Deputy Governor, Paul Jenkins, stated that the BoC would need to raise rates as the economy accelerates this year and next to slow inflation. "A reduction of monetary stimulus will be required over time," Jenkins stated. However, it is likely that the BoC will wait until the manufacturing sector picks up before raising its overnight rate.

## ***Key Dates This Week***

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/09	New House Price Index (Apr)	0.4%	0.4%
06/09	Capacity Utilization Rate (Q1)	85.7%	86.0%
06/09	Labor Productivity (Q1)	0.3%	0.2%
06/10	Unemployment Rate (May)	6.8%	6.8%
06/10	Net Change in Employment (May)	15.0K	29.3K
06/10	Int'l Merchandise Trade (Apr)	\$4.5 bln	\$4.2 bln
06/14	Manufacturing Shipments (Apr)	0.5%	-2.4%
06/15	New Motor Vehicle Sales (Apr)	0.0%	-5.9%



Valance Co., Inc.

# Valance Economic Report: Australia

Davin Patton

(340) 692-7710

[dpatton@valance.us](mailto:dpatton@valance.us)

June 8, 2005

This week's data was mixed, though it tended to be on the soft-side. The trade balance narrowed and although the housing market proved resilient, it has slowed from its pace earlier this year. With weaker domestic demand it is likely that the RBA will remain on hold in the upcoming months.

## Weekly Highlights

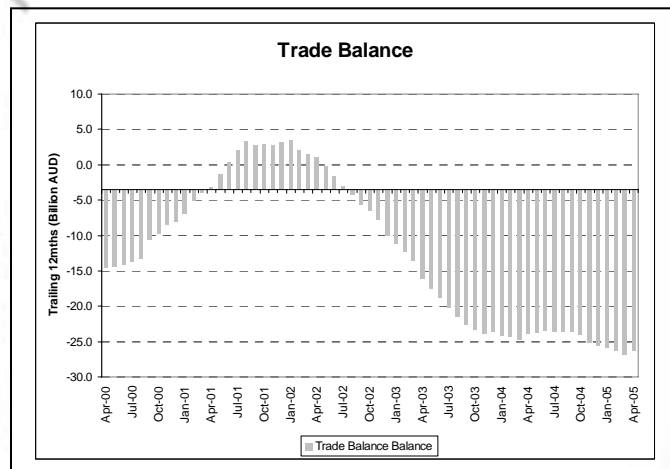
**Trade Deficit** – narrowed from 2.7 billion to 1.3 billion in April. (page 32)

**Building Approvals** – increased 1.8% M/M and declined 15.3% Y/Y in April. (page 34)

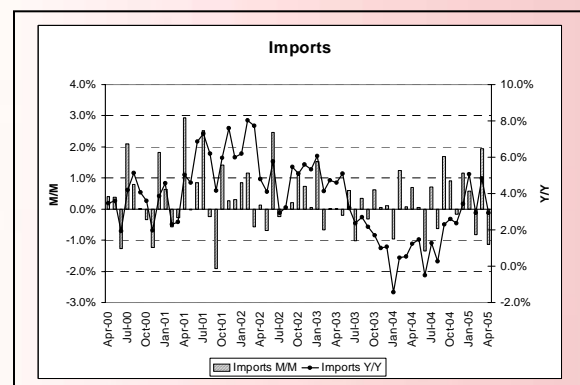
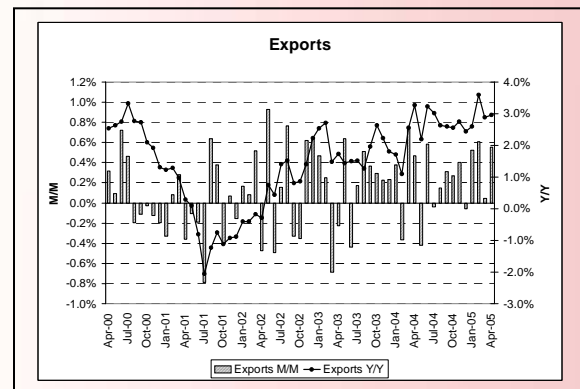
**Home Loans** – increased 0.6% M/M and 9.9% Y/Y in April. (page 34)

## Weekly Releases & News

### Trade Balance



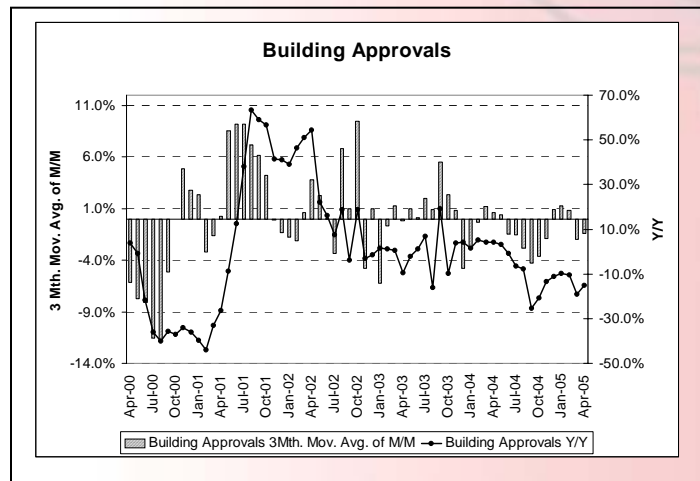
Australia's trade deficit narrowed from \$2.7 billion to \$1.3 billion in April. The narrowing went against market expectations for a smaller change to \$2.1 billion and came on export demand. Exports increased 9.3% M/M and increased 16.2% Y/Y. Imports declined 0.4% M/M and increased 10.3% Y/Y. Exports increased sharply as increasing coal and iron prices boosted earnings for businesses such as the world's largest mining company, Centennial Coal Co. Despite the strong data, with a soft domestic market, the RBA is expected to remain on hold through the remainder of 2005.



## Building Approvals, House Prices & Home Loans

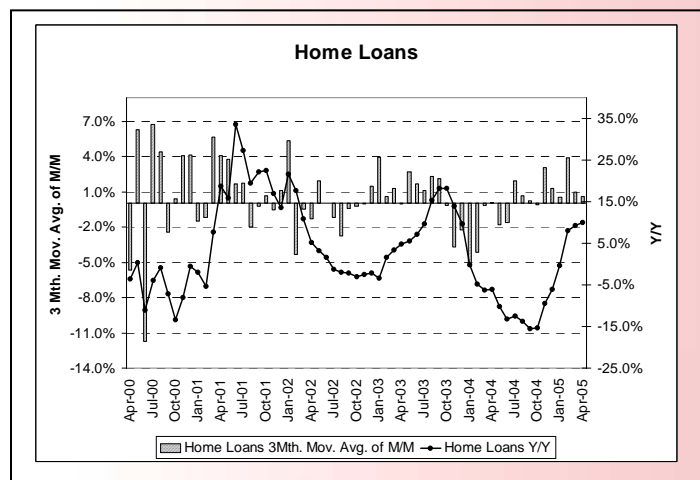
### Building Approvals

*Building Approvals in Australia increased 1.8% M/M and declined 15.3% Y/Y in April, increasing slowly from a 4 year low as the recent rise in employment and rising incomes have increased demand for housing.*



### Home Loans & House Prices

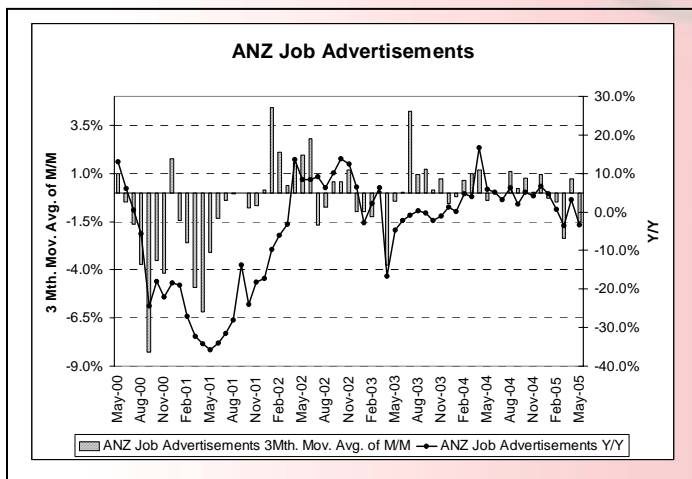
*House Prices increased 0.2% Q/Q and 0.4% Y/Y in Q1. Home Loans increased 0.6% M/M and 9.9% Y/Y in April. The small increase in Home Loans was below market expectations of a 2.3% M/M increase and was caused by a housing market that remains relatively soft in comparison with its pace in early 2005.*



## ANZ Job Advertisements, Inflation Index, Business Confidence, AIG PSI

### ANZ Job Advertisements

The number of jobs advertised in major Australian newspapers declined 7.3% M/M and 3.3% Y/Y in May, reaching a two year low. When seen next to the recent decline in retail sales, the data suggests that domestic demand will continue to cool in the upcoming months.



### Inflation Index

According to the TD Securities Inflation Index, consumer prices declined 0.2% M/M and increased 2.1% Y/Y in May. Core prices increased 0.1% M/M and 2.3% Y/Y. The index suggests that inflation is near the bottom of the Reserve Bank of Australia's 2-3% range and supports views that the RBA will be able to remain on hold for some time.

### Business Confidence

The index measuring business confidence remained at a two year low in May while the index measuring companies' expectations of the economy over the next six months remained unchanged at -5 pts from three months earlier. A negative result indicates that more companies expect the economy to worsen instead of improve.

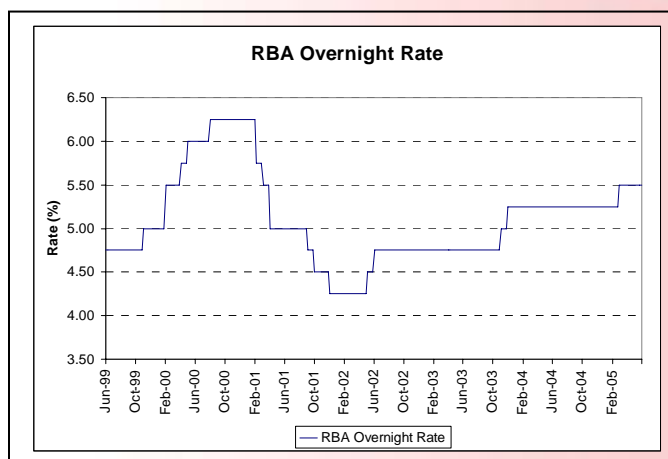
### AIG Performance of Services Index

The AIG Performance of Services Index declined from 51.4 to 48.8 in May. According to the survey, the services industry, which accounts for two-thirds of the economy, contracted due to declines in retail trade.

## RBA Overnight Rate, Costello's Comments & Workers' Pay Increase

### RBA Overnight Rate

The Reserve Bank of Australia kept its overnight rate unchanged as recent data suggests slowing domestic demand and manufacturing. Although the RBA does not provide statements when changes aren't made to its overnight rate, its Gov., Ian Macfarlane, will be making a statement in Sydney on June 14<sup>th</sup>. There, he is expected to state that the economy has cooled since the beginning of the year.



### Workers' Minimum Pay Increase

Australia's lowest pay workers received a 3.6% pay increase after the country's labor court increased the minimum wage from \$467.40/week to \$484.40/week. The \$17 increase fell short of the \$26.60 increase sought by the Australian Council of Trade Unions, Australia's main labor union.

### Key Dates This Week

Date	Indicator	Expectation	Previous
06/08	Unemployment Rate (May)	5.2%	5.1%
06//08	Employment Change (May)	-5.00	6.90
06/08	Participation Rate (May)	64.4%	64.5%
06/13	NAB Business Survey (May)	N/A	N/A
06/13	RBA Governor Speech	N/A	N/A
06/14	Westpac Consumer Confidence (June)	N/A	N/A



Valance Co., Inc.

## Valance Economic Report: China

La-Toya Elizee  
(340) 692-7710  
[lelizee@valance.us](mailto:lelizee@valance.us)

June 8, 2005

**No economic data was released this week.**

### News Releases

**June 7<sup>th</sup> – Comments on Plans for Yuan** – The PBoC's Governor, Zhou Xiaochuan, said at a conference in Beijing that in regards to China's stance on its currency adjustments, "Time has proven that China's slow and phased-in approach has been successful. We will continue in this way." He added that the exchange rate will be handled the same way, but first the economy must ensure it can "adjust" before changes are made. Zhou further stated that international pressures are "politically based" and "counter productive" to yuan reform. Other comments on the Yuan:

- June 6<sup>th</sup> - **Vice Premier, Huang Ju**, echoed Zhou's sentiments by agreeing that the yuan will "gradually" be made "fully convertible" and China will move in a "step by step manner."
- June 5<sup>th</sup> - **Deputy Finance Minister, Lou Jiwei**, stated that China "isn't yet ready" to float its currency as a result of an immature system.
- June 8<sup>th</sup> - Revisiting the question as to when reform would take place, **Governor Xiaochuan** remarked, "Despite an unfixed timetable, it does not mean that China's reform of exchange rate system will be postponed over a long period of time."

**June 7<sup>th</sup> – Q1 Foreign Debt Growth** – China's government reported that Q1 Foreign debt rose 2.1%, totaling 233.4 bln US, in 2005; slowing from the year earlier period.

**June 6<sup>th</sup> – Textile Issue Exaggerated** - China's Commerce Minister, Bo Xilai, stated in an interview that the textile issue between the US and China "...is exaggerated in the United States." Bo added that the dispute should not "become an obstacle to other trade." However, he pointed out as an example, that the U.S. is placing restrictions on high-tech products that China wants to buy from the U.S. Bo further added that it is not right "to use a double standard" on trade. He expressed his concern that the U.S. and E.U. are depriving China's textile manufacturers of their rights, but at the same time wants China "to open the agricultural and service markets." On June 2<sup>nd</sup>, Carlos Gutierrez, U.S. Commerce Secretary, made comments regarding the trade agreement between the two countries. He mentioned to students at Tsinghua University in China, that "...a safeguard provision" was negotiated in case of "market disruption." Due to the disruption, quotas were imposed "for a period of time, not permanent, while the industry continues to adjust and finds new ways of competing..." Gutierrez said. He added that talks with Bo are not to negotiate, but to "explain our positions."

**June 6<sup>th</sup> - Plans to Trim Budget Deficit** – China's Finance Minister, Jin Renqing, reported that the government plans to cut the budget deficit to 2.0% of GDP in 2005. Jin stated that the government's goal is to "create a sound, stable economic environment." China continues to maintain that it is concerned more with improved financial markets and economic stability, than reforming its exchange rate. Still no timetable has been set.



## News Releases (cont'd.) & Upcoming Dates

**June 6<sup>th</sup> – Plans To Stimulate Consumption To Eliminate Trade Gap** – In an effort to reduce the trade surplus, PBoC Governor, Zhou Xiaochuan, stated the government hopes to stimulate consumer spending. Zhou commented that, “We haven’t seen much increase in consumption, but rather we saw rapid growth in exports.” “Our policies are to cut the trade surplus to zero if possible. We want to use new policies to increase consumption,” Zhou added.

**June 6<sup>th</sup> – Textile Makers May Use Up Quotas** – The Import and Export of Textile report published by China’s Chamber of Commerce stated that quotas imposed by the U.S. on China’s textile exports will probably be used up by the end of July. As it stands, 21.6% of its annual quotas placed on man-made fiber underwear have already been used up thus far. In addition, the China Daily reported that the six remaining categories that the U.S. had imposed quotas on, may also be used up by the same time. One reason for the rapid consumption is that “...quantitative restrictions placed on textiles from China are not reasonable...,” stated, Gao Hong, Researcher at the Chinese Academy of Social Sciences. Another explanation “is that companies are exporting as much as they can before the quotas are used up,” said an official from the Chamber.

## Key Dates This Week

Date	Indicator	Expectation	Previous
06/07-14	Ttl Export (Ind.) – Y/Y - May	--	31.9%
6/07-14	Trade Surplus in US Billion - May	--	4.59B
06/07-14	Ttl Import – (Ind.) Y/Y – May	--	16.2%
06/09-16	Retail Sales Value (Ind.) – Y/Y - May	--	12.2%
06/09-16	Retail Sales Value (Acc.) – Y/Y - May	--	13.3%
06/09	Producer Price Index – Y/Y - May	--	5.8%
06/12-17	Money Supply – M0, M1, M2 - May	--	9.0%, 10.0%, 14.1%
06/12	CPI – Y/Y - May	2.4%	1.8%
06/14	Value-Added Industry, VAI Current - May	--	16.1%, 564.70B
06/15	Fixed Assets Inv. Urban Cum. – Y/Y - May	--	25.7%
06/15	Actual & Contract FDI Cumulative (Y/Y) – May	--	--

Valance Co., Inc.

# Valance Economic Report: Sweden

Evelyn L. Richards

(340) 692-7710

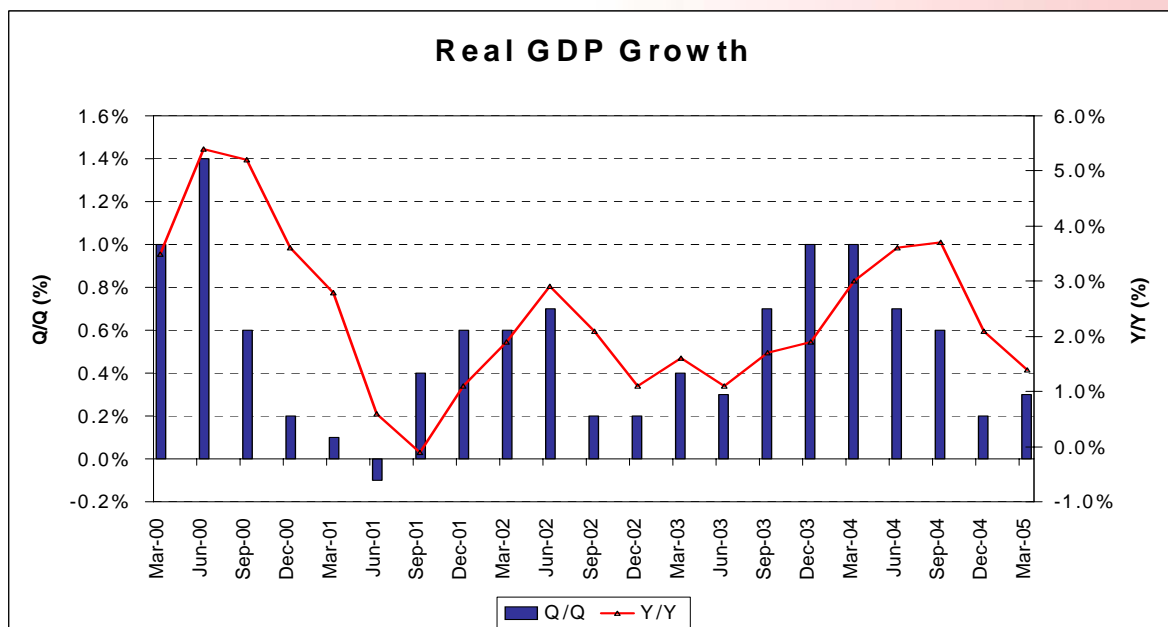
[erichards@valance.us](mailto:erichards@valance.us)

June 8, 2005

This past week's economic data continued to show signs of weakness in Sweden's economy as GDP was lower than expected. Up to this point, the Riksbank has kept its interest rate unchanged at 2.0%. However, in view of current economic conditions, Governor Heikensten's comments of a "slightly weaker than anticipated" economy suggest a rate cut may be in order.

## Weekly Releases & News

### Chart of the Week: GDP

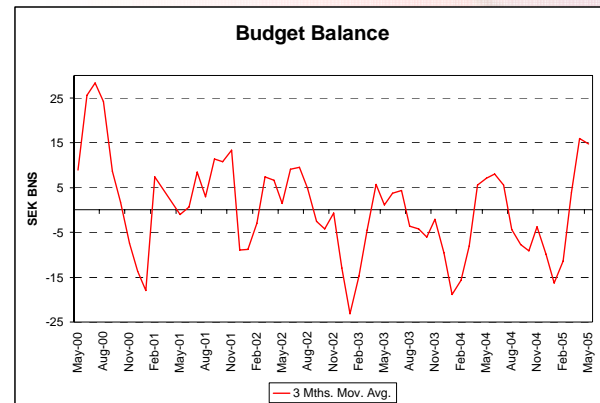


GDP grew from a revised 0.2% in Q4 of 2004 (down from 0.3%) to 0.3% in Q1 of 2005. Conversely, Y/Y growth slowed, from a revised 2.1% in Q4 (up from 2.0%) to 1.4% in Q4. Additionally, imports rose by 7.0% Q/Q outpacing export growth of 3.0% Q/Q. The Riksbank has forecasted a Y/Y economic growth of 2.8%. However, Governor Lars Heikensten's commented that the economy "is slightly weaker than anticipated"; suggesting a possible rate cut. The next meeting will take place on June 20<sup>th</sup>.

## Budget Balance & Upcoming Dates

### Budget Balance

Sweden experienced a smaller-than-expected surplus of SEK 11.5 bln in May -- down from SEK 12.9 bln in April. The decline was a result of higher than expected interest payments and delayed payments from the Central Bank to the government.



### Key Dates This Week

Date	Indicator	Expectation	Previous
06/09	AMS Unemployment Rate - May	--	5.0%
06/09	Industrial Production s.a. (M/M) / n.s.a. (Y/Y) - Apr	--	0.6% / 4.4%
06/09	Industrial Orders s.a. (M/M) / n.s.a. (Y/Y) - Apr	--	-1.2% / -5.0%
06/09	Activity Level Index - Apr	--	109.4
06/14	CPI – Headline Rate (M/M) / (Y/Y)	--	0.1% / 0.3%
06/14	CPI – Underlying Inflation (M/M) / Y/Y	--	0.2% / 0.4%