

# Valance Company, Inc.



Weekly

June 29, 2005

III

## Highlights

US – Capex and inflation expectations fall (page 2)

Euroland – M3 growth accelerates (page 7)

Japan – Service industry indices improve (page 12)

UK – Largest drop in retail survey in 22 years (page 17)

Canada– BoC signals higher rates (page 20)

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## June 23- June 29 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	5.00	6.00	5.50	5.00
US	3.00	3.50	3.82	3.94	3.98	4.01
EU	0.00	0.00	4.50	5.50	5.00	4.50
EU	2.00	2.11	2.06	2.01	2.01	2.07
JN	0.00	0.00	0.00	0.50	-1.00	-1.50
JN	0.00	0.06	0.09	0.10	0.11	0.14
UK	0.00	-0.02	-5.00	-13.00	-12.00	-8.00
UK	4.75	4.80	4.60	4.35	4.24	4.23
CA	0.00	-0.01	1.50	5.00	7.00	8.00
CA	2.50	2.62	2.67	2.84	3.00	3.11
AU	0.00	-0.01	-5.00	-7.00	-10.00	-10.00
AU	5.50	5.60	5.63	5.58	5.48	5.44
NZ	0.00	-0.05	-3.00	-5.00	-11.00	-12.00
NZ	6.75	6.96	7.01	6.92	6.74	6.58
SZ	0.00	0.00	-1.00	-4.00	-1.00	1.00
SZ	0.75	0.75	0.73	0.72	0.78	0.89

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Valance  
Economic  
Reports

## Valance Economic Report: United States

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June 29, 2005

This week's light economic data was highlighted by core measures of capital expenditures in the Durable Goods Orders data challenging the Fed's thesis that business investment spending would drive growth in 2005. This was balanced by continued strength in the housing market. The market is pricing in hikes at the next two Fed meetings with a 50% chance of another hike in September. Thursday's statement is unlikely to change enough to give clarity on the September meeting. Meanwhile, the market and the Fed will return to closely monitoring economic data releases. Also of interest is the dramatic fall in long term inflation expectations from 2.60% in March to 2.25% this week.

### Weekly Highlights

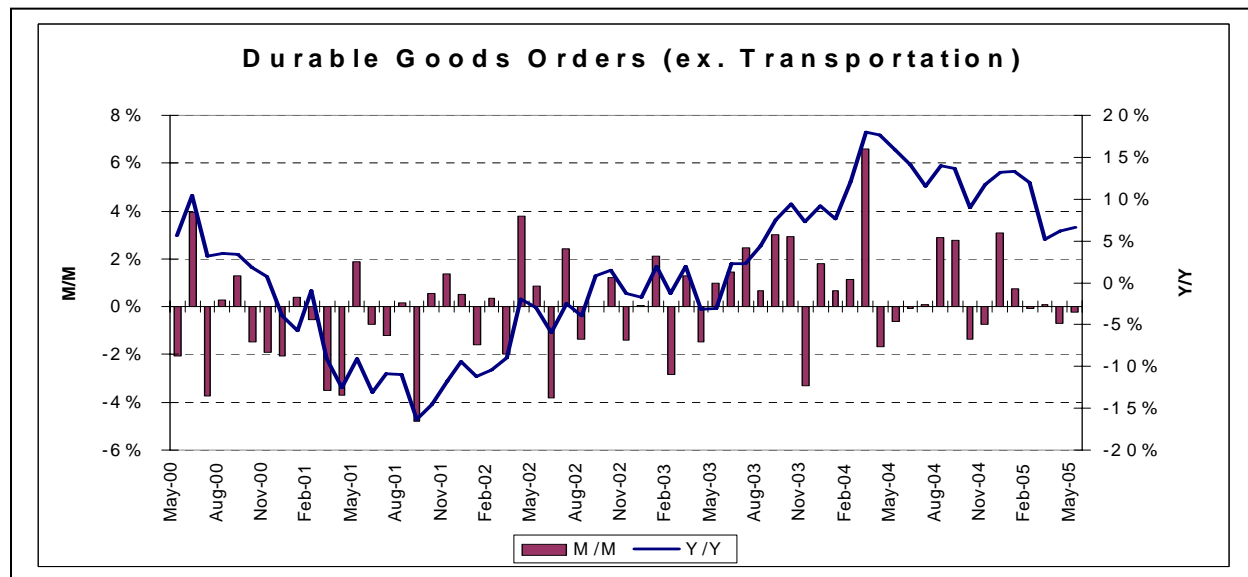
**Durable Goods Orders** – excluding transportation, decreased 0.2% M/M in May. (page 2)

**Housing**– data strong in May. (page 3)

**Confidence**– indicators mixed. (page 4)

### Weekly Releases

#### Chart of the Week: *Durable Goods ex. Transportation*

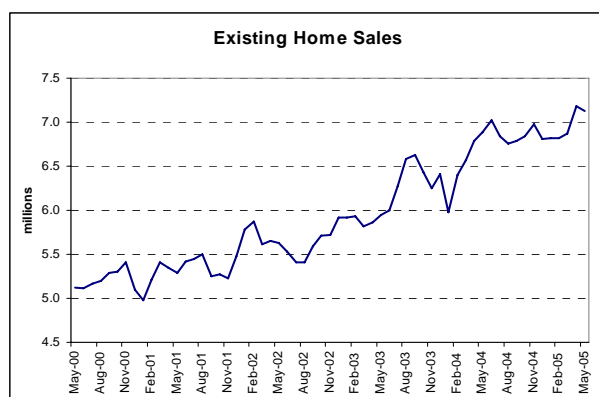


Durable goods orders, excluding transportation, declined 0.2% M/M and increased 6.8% Y/Y in May, below expectations. Non-defense capital goods orders ex-aircraft, what some consider core business capital expenditure, decreased 2.3% M/M after increasing 1.7% in April. Despite the volatile nature of this series, the weakness seen in core measures of capital expenditures continues to challenge the Fed's view that investment will drive growth.

## Housing

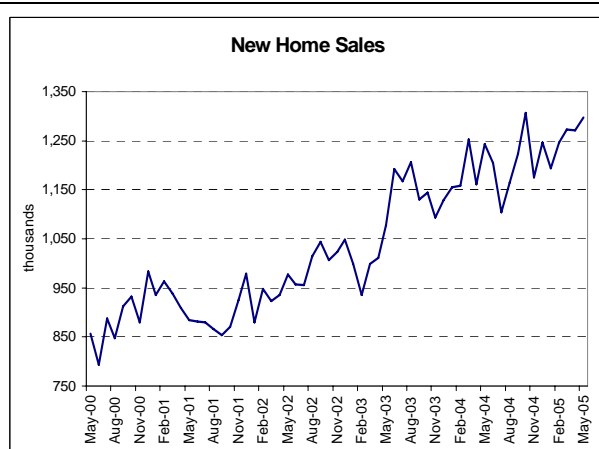
### Existing Home Sales

Existing Home Sales dropped a bit from 7.18 million on a seasonally adjusted annual rate basis in April to 7.13 million in May. Median prices were up 13% Y/Y in May as the housing market continues to show strength.



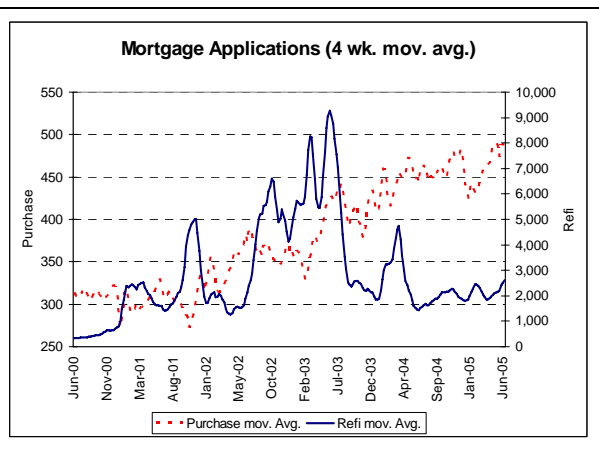
### New Home Sales

New Home Sales increased 2.1% M/M to 1.298 million on a seasonally adjusted annual rate in May. Median prices dropped 6.5% M/M in May, but are still up 2.5%Y/Y.



### MBA Mortgage Applications

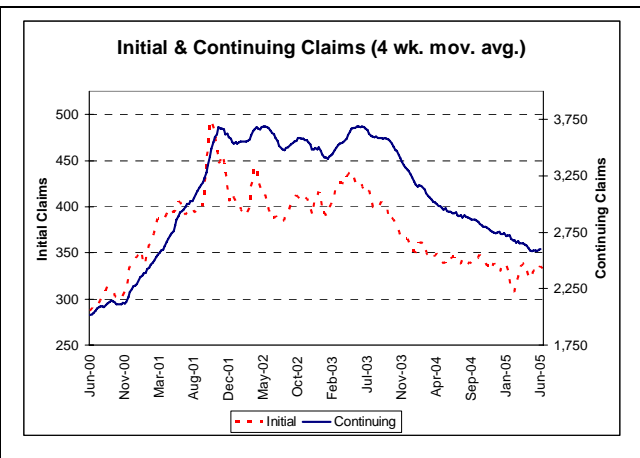
Purchase and refinancing mortgage applications decreased 0.4% and 1.8%, respectively this week. Despite the decline, purchase applications are up over 10% Y/Y.



## Initial and Continuing Claims & Consumer Confidence

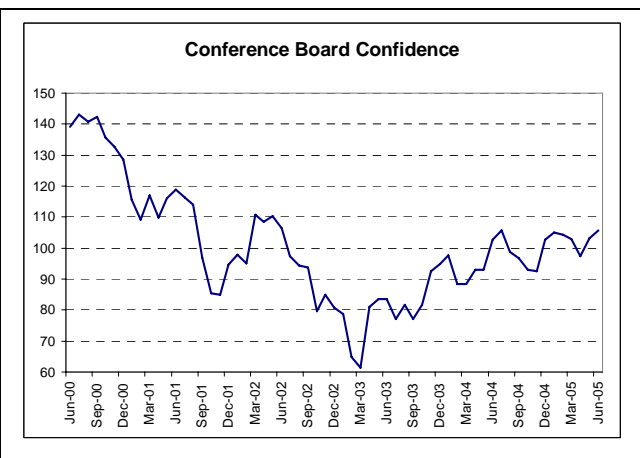
### Initial & Continuing Claims

The four-week moving average of initial claims dropped slightly to 333k and continuing claims increased a bit 2,603k, respectively from 336k and 2,596k. The level of continuing claims continue to suggest that payrolls should expand above trend and the recent drop in initial claims suggest that their recent up-tick may be an aberration.



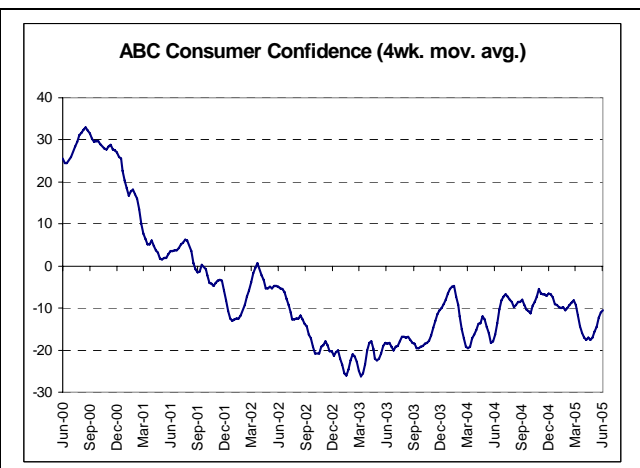
### Consumer Confidence

The Conference Board's Index of Consumer Confidence increased from 103.1 to 105.8 in June. Expectations and people's assessment of current conditions improved from 93.4 to 95.8 and from 117.8 to 120.7, respectively. The job components were mixed again in June.



### ABC Consumer Confidence

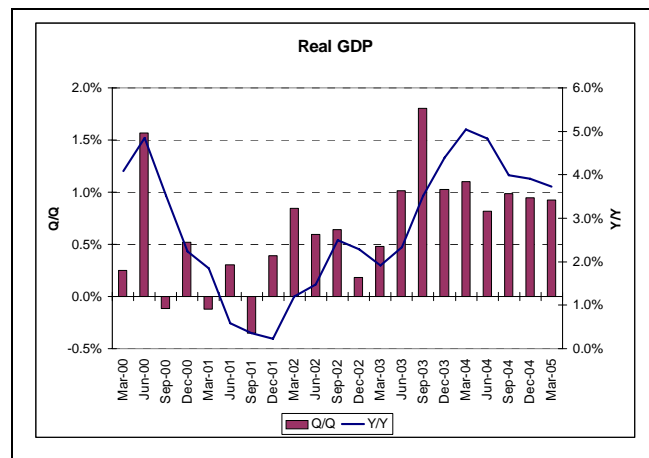
The ABC Consumer Confidence Index declined from -10 to -11 this week. The economy component remained at -24 and the finance and buying component dropped by two points to 14 and -24, respectively.



## GDP & Inflation Breakeven

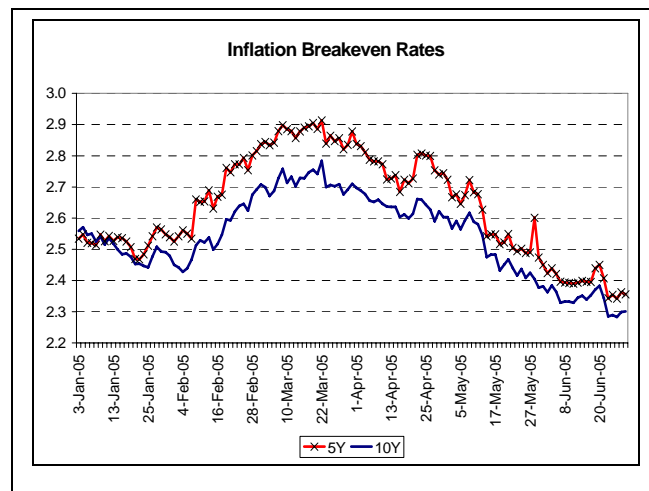
### GDP Annualized

Real GDP increased at a revised 3.8% annualized rate in the first quarter of 2005 up from the previous reading of 3.5% in May. Construction grew at a revised 11.5% annualized rate, up from 8.8% in the last estimate of Q1. A narrower trade deficit also contributed to the upwards GDP revision. Core PCE was also revised lower, from 2.2% to 2.0%.



### Inflation Breakeven Rates

Five year and ten year breakeven inflation rates have started to trend significantly lower since March. The five year breakeven has fallen from 2.90% in March to 2.36%. The ten year breakeven is currently lower at 2.30% which means that the five year- five years forward breakeven, a measure of long term inflation expectations, is down to 2.25% from 2.60% in March.



## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/30	Personal Income (MAY)	0.3%	0.7%
06/30	Personal Spending (MAY)	0.1%	0.6%
06/30	PCE Core MoM (MAY)	0.1%	0.1%
06/30	Initial Jobless Claims (JUN 25)	325K	314K
06/30	Continuing Claims (JUN 18)	2594K	2600K
06/30	Chicago Purchasing Manager (JUN)	54.0	54.1
06/30	Help Wanted Index (MAY)	40	39
06/30	FOMC Rate Decision Expected (JUN 30)	3.25%	3.00%
07/01	U. of Michigan Confidence (JUN F)	94.6	94.8
07/01	Construction Spending MoM (MAY)	0.5%	0.5%
07/01	ISM Manufacturing (JUN)	51.5	51.4
07/01	Total Vehicle Sales (JUN)	17.0M	16.7M
07/05	Factory Orders (MAY)	2.8%	0.9%
07/05	ABC Consumer Confidence (JUL 3)	NA	-11

Valance Co., Inc.

# Valance Economic Report: Euro Zone

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June 29, 2005

This week's Euro Zone economic indices showed the great benefits of a falling euro as optimism spiked across the area. German and French Business Confidence increased for the first time this year as a result. On the inflation side, German CPI accelerated and Euro Zone M3 soared above 7%. Next week will be important as many key releases come out prior to the ECB's July meeting. We're definitely looking for a return to hawkishness.

## Weekly Highlights

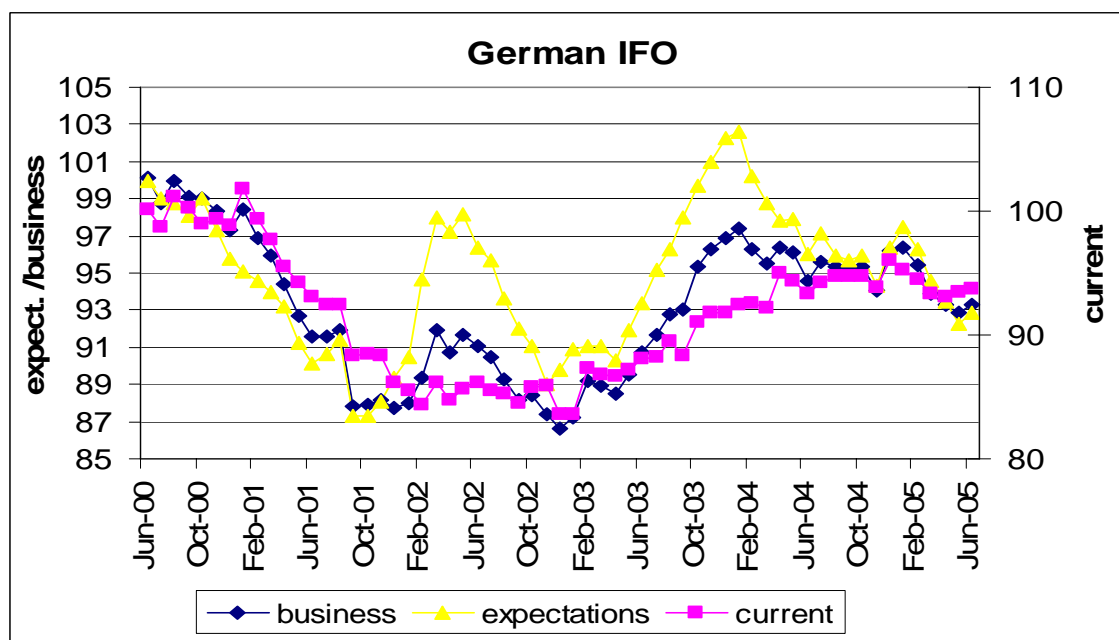
**German IFO** – confidence increased in June, due to weak euro. (page 7)

**Euro Zone M3** – M3 accelerated to 7.3% Y/Y in May. (page 8)

**French Business Confidence** – increased for first time this year in June. (page 9)

## Weekly Releases & News

### Chart of the Week: German IFO



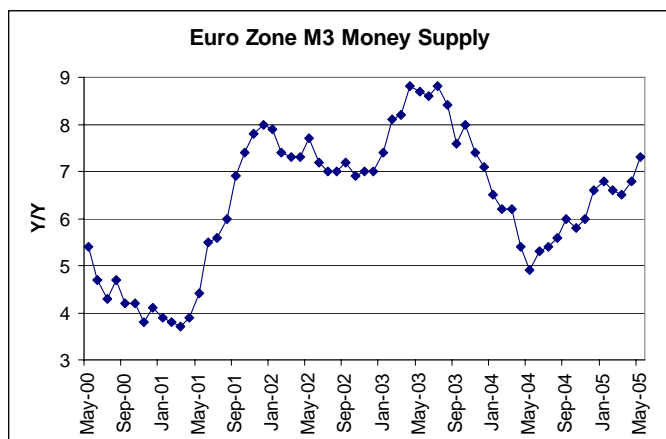
Germany's June IFO reflected the recent drop in the euro as all sub-indices increased. Business Climate increased from 92.9 in May to 93.3, the Current Assessment increased from 93.4 to 93.7, and the Expectations Index increased from 92.3 to 92.9. The euro's weakness has temporarily bolstered export prospects and confidence although medium term growth still appears very dismal.



## ***Euro Zone M3, German CPI & Italian Hourly Wages***

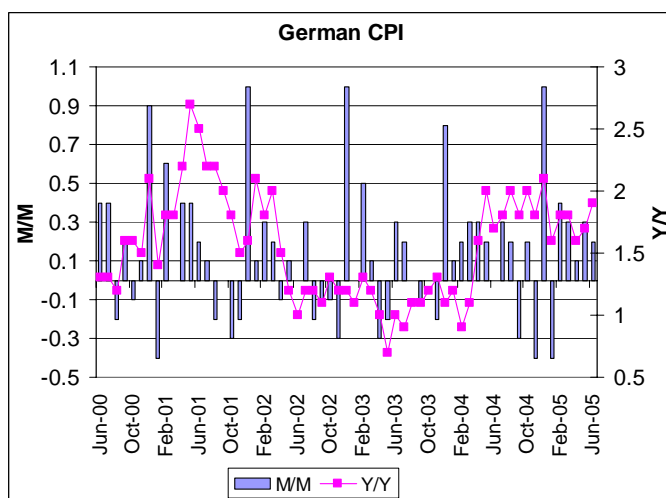
### ***Euro Zone M3***

*The Euro Zone's May M3 growth accelerated sharply from 6.7% Y/Y in April to 7.3%. M3 has consistently accelerated since the ECB started noting concern earlier this year. Private sector credit, the ECB's chief concern, increased 6.5% Y/Y after hitting a 3yr high of 6.7% in April.*



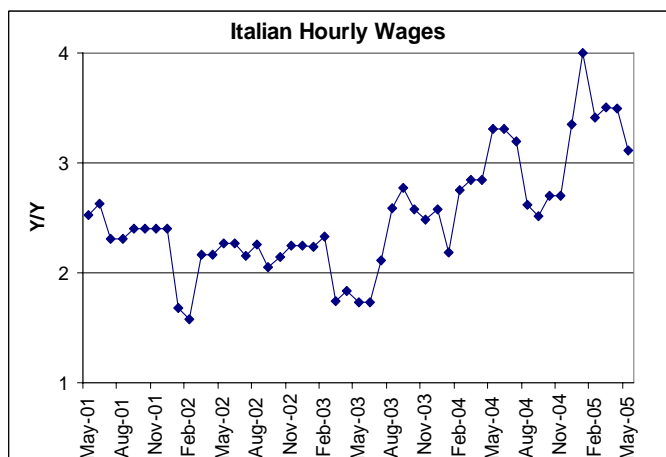
### ***German CPI***

*Germany's June CPI accelerated from May as prices increased 0.2% M/M and 1.9% Y/Y up from 1.7% Y/Y. The pickup in prices is mostly due to the continued appreciation in oil prices.*



### ***Italian Hourly Wages***

*Italy's May Hourly Wages decelerated from 3.5% Y/Y growth in April to 3.1%. Wages increased 0.1% M/M.*

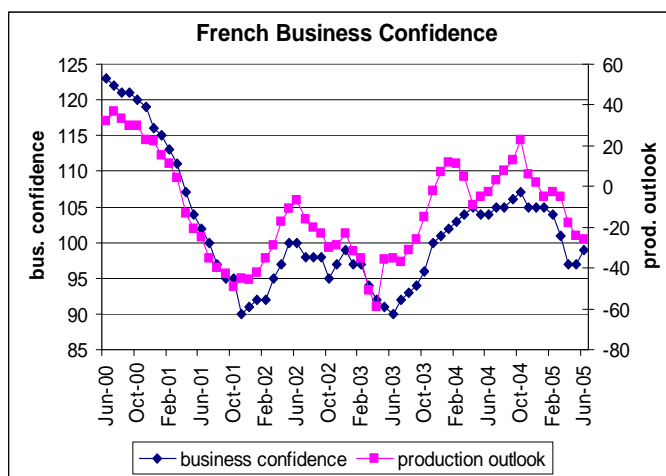




## ***French Bus. Confidence, Italian Bus. & Consumer Confidence***

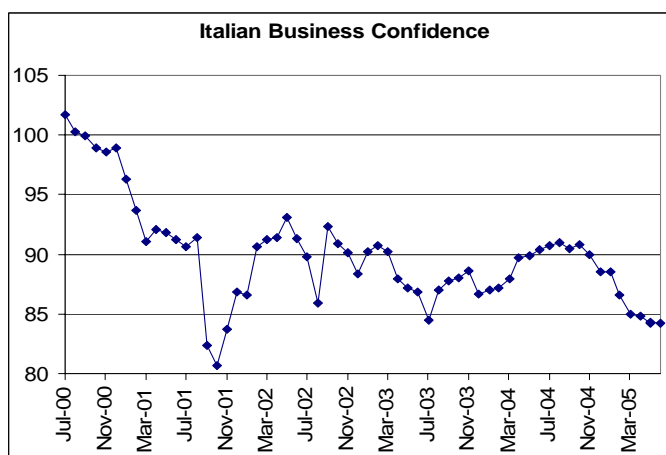
### ***French Business Confidence***

*France's June Business Confidence increased from 96 in May to 99 as the euro's fall increased optimism among manufacturers. The Production Outlook Index still fell however, declining from -25 in May to -26.*



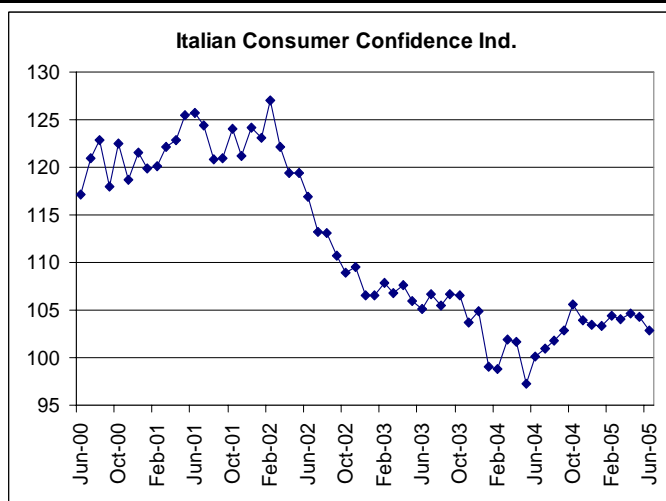
### ***Italian Business Confidence***

*Italy's June Business Confidence fell from 84.3 in April to 84.2. Confidence is at its lowest level since November of 2000.*



### ***Italian Consumer Confidence***

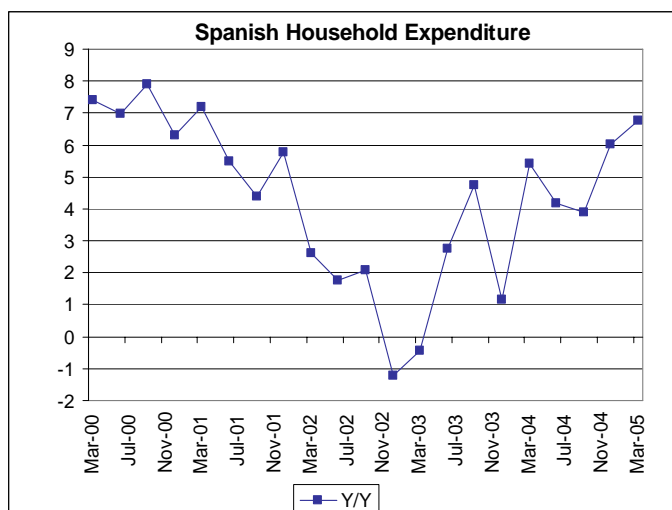
*Italy's June Consumer Confidence fell for the third time in four months, declining from 104.3 in May to 102.9.*



## Spanish Household Spending & Euro Zone Current Account

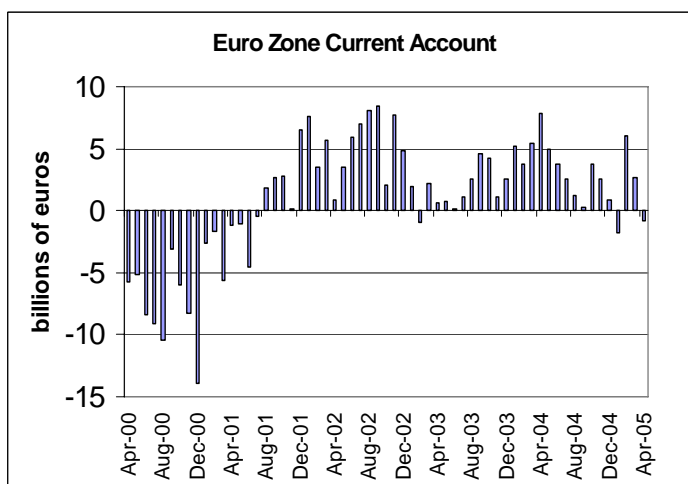
### Spanish Household Spending

Spain's Q1 Household Expenditures increased 4.5% Q/Q and 6.7% Y/Y. Spain's domestic sector has remained significantly stronger than its EU counterparts as unemployment continues to fall.



### Euro Zone Current Account

The Euro Zone's April Current Account balance narrowed from a surplus of 2.7 billion euros in March to a deficit of 0.8 billion.



## News & Upcoming Dates

**June 29<sup>th</sup>** – **The EU** urged Italy to lower their budget deficit once again. The commission also proposed giving Italy until 2007 to get their deficit in order.

**June 29<sup>th</sup>** – **The IMF** cut its 2006 forecast for German growth from 1.8% to 1.3% while raising their 2005 forecast from 0.8% to 1%. Germany's IFO Institute lowered its 2005 growth forecast from 1.2% to 0.8%, citing a lack of investment as the key problem for Germany. Germany's DIW Institute also lowered their 2005 forecast from 1.8% to 0.9% while trimming their 2006 forecast from 2% to 1.5%.

**June 27<sup>th</sup>** – **ECB member Mersch** stated that there was no reason to change interest rates as oil prices are being offset by a weaker currency. Mersch stated, "Rates are appropriate, and for the foreseeable future, I have not seen any evidence that would deviate me from this analysis." ECB member Jose Manuel Gonzalez-Paramo echoed these statements, stating that rates are "appropriate", the bank has a "wait-and-see" attitude, and that the bank is "without bias." He also noted inflation risks such as oil and indirect taxes. ECB member, Guy Quaden, added that rates "will rise again one day, I don't know when." He also stated that the euro's fluctuations were created by an unstable dollar, not an unstable euro.

**June 24<sup>th</sup>** – **France's Prime Minister, Dominique de Villepin**, promised to move forward as quickly as possible with his 4.5 billion euro plan to boost employment. Villepin plans to make a dent in unemployment by September 1<sup>st</sup> and is including such measures as a 1,000 euro bonus to any long termed unemployed who returns to work.

## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/30	French Consumer Confidence (JUN)	-28	-29
06/30	French Unemployment Rate (MAY)	10.2%	10.2%
06/30	French GDP (Q1 F)	0.2% Q/Q	0.7% Q/Q
06/30	German Unemployment Rate (JUN)	11.8%	11.8%
06/30	Euro Zone Consumer Confidence (JUN)	-15	-15
07/01	German PMI Manufacturing (JUN)	49.7	49.4

## Valance Economic Report: Japan

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June 29, 2005

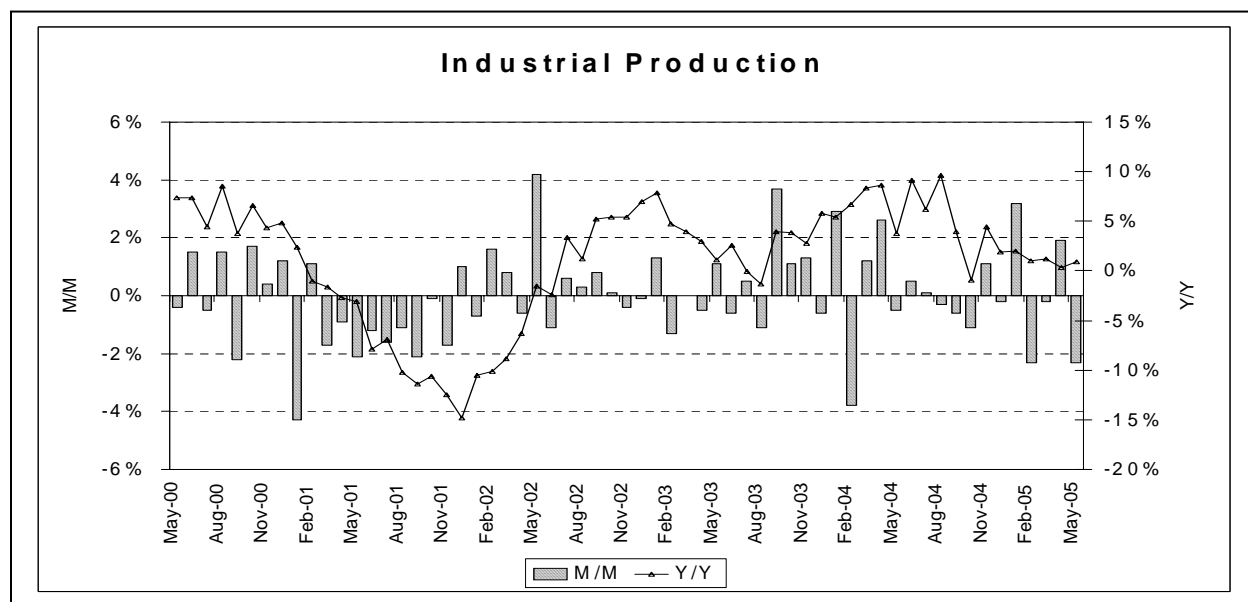
This week's results were more or less in line with or above expectations. Industrial Production and Retail Trade both posted results in line with expectations while the Tertiary and All Activity Index increased above expectations. Meanwhile, the BSI Large All Industry Index in Q2 improved, bolstering expectations that the Q2 BOJ's Tankan report (one of Japan's most closely watched gauge of business confidence) to be released later this week, will show an improvement in sentiment.

### Weekly Highlights

- **Industrial Production** - decreased 2.3% M/M and increased 0.9% Y/Y in May. (page 12)
- **Retail Trade** - decreased 1.5% M/M and increased 2.7% Y/Y in May, above expectations. (page 13)
- **The Tertiary and All Industry Activity** - increased 1.8% M/M and 1.7% M/M, respectively, in April. (page 14)

### Weekly Releases & News

#### Chart of the Week: *Industrial Production*

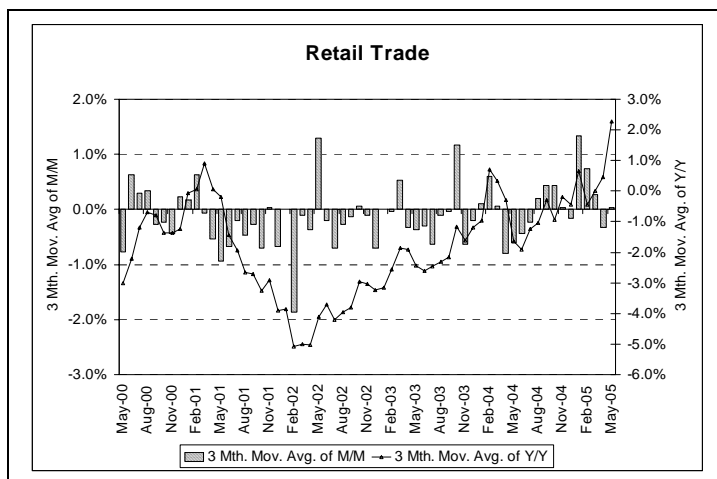


Industrial Production decreased 2.3% M/M and increased 0.9% Y/Y in May, compared to expectations of -2.3% M/M and 0.5% Y/Y. The decline was mainly attributed to decreases in the production of autos, digital cameras and personal computers, as demand from China and the U.S. slowed. Inventories remained flat at 0.0% M/M and Shipments decreased 2.7% M/M. According to the METI's, Industrial Production is expected to increase 1.7% M/M in June, higher than their original forecast of 1.4%, and then expected to decline 1.2% M/M in July.

## Retail Trade, Large Retailers' Sales & Corporate Service Prices

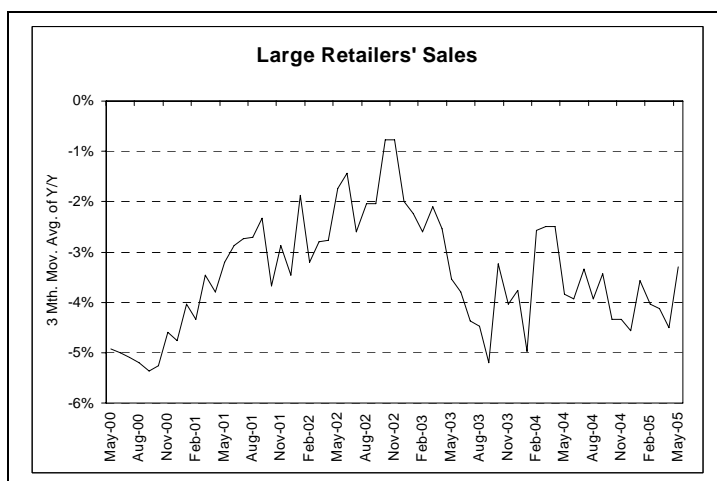
### Retail Trade

Retail Trade decreased 1.5% M/M and increased 2.7% Y/Y in May, above expectations. These results follow strong increases of 2.8% M/M and 3.8% Y/Y in April. The M/M decline was attributed to unseasonably cool weather which prompted consumers to trim spending on items such as summer clothing, as well as a correction from a strong April.



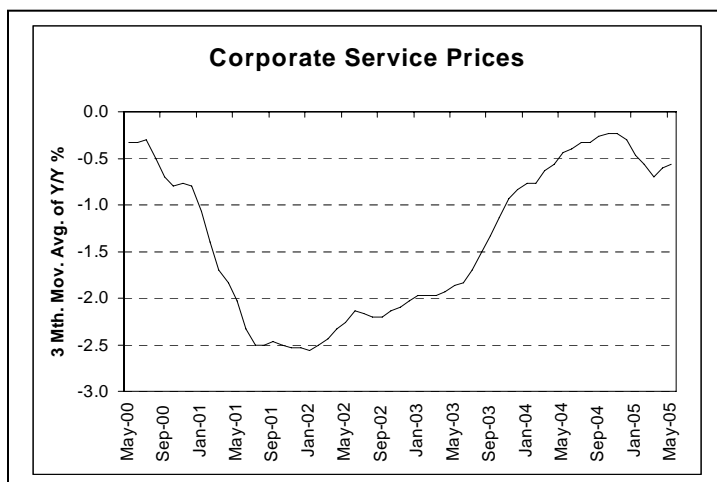
### Large Retailers Sales

Large Retailers' Sales decreased 3.1% Y/Y in May, above expectations. This series declined 0.2% M/M. Sales in clothing and food and beverages both declined 0.5% M/M.



### Corporate Service Prices

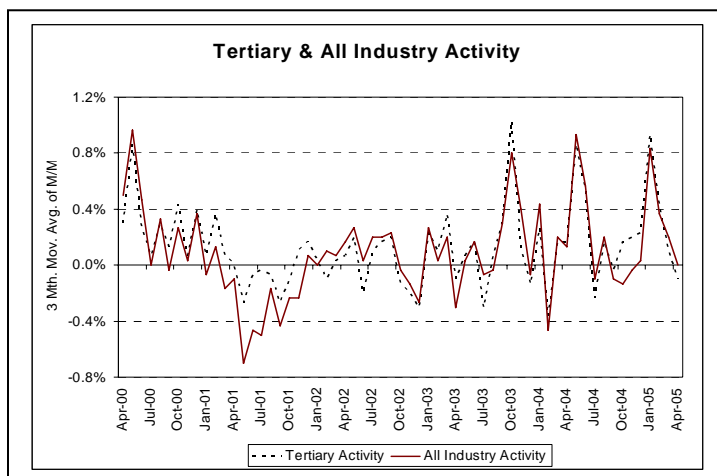
Corporate Service Prices decreased 0.3% M/M and 0.5% Y/Y in May. This decline was mainly attributed to softness in the transportation (-0.6) and advertising (-3.3) sectors. The information services and office rent sectors increased 0.4% and 0.2%, respectively.



## ***Tertiary & All Industry Activity Index, BSI & Corporate Service Prices***

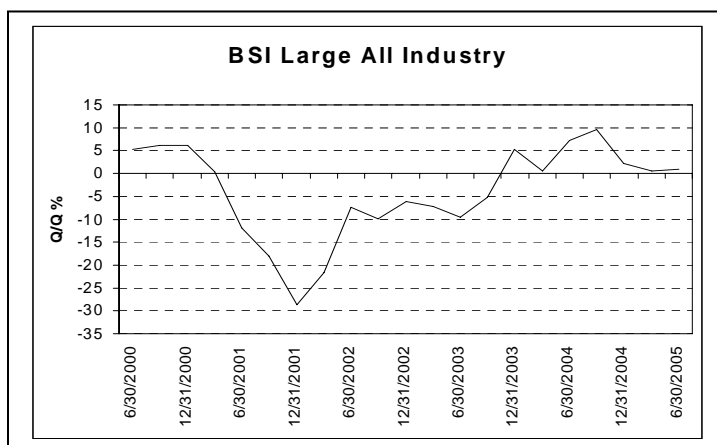
### ***Tertiary & All Industry Activity Index***

*The Tertiary and the All Industry Activity indices, measures of demand for services such as retailing and banking that makes up 60% of Japan's economy, increased 1.8% M/M and 1.7% M/M, respectively, in April. Both readings increased above expectations as wage increases have boosted consumer spending.*



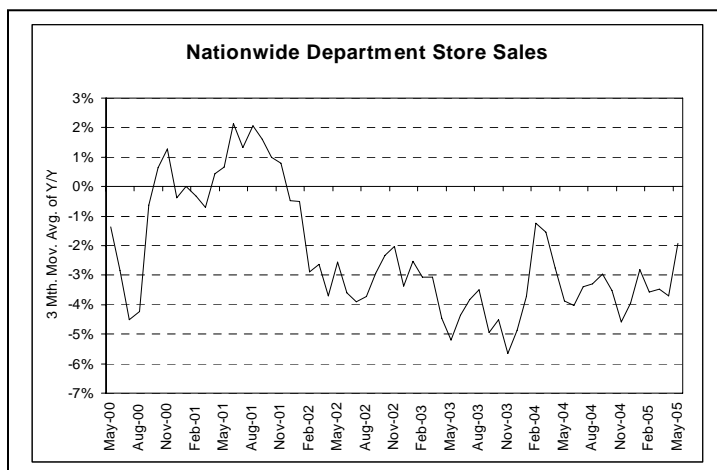
### ***BSI Large All Industry Index***

*The BSI Large All Industry Index showed that Japanese businesses have become more optimistic as growth increased from 0.6% Q/Q in Q1 to 0.9% Q/Q in Q2. This may be an indication that this week's Tankan may show some improvement.*



### ***Nationwide Department Store Sales***

*Nationwide Department Store Sales decreased 1.3% Y/Y in May. The largest decline occurred in the restaurant (-5.2%) and the household goods components (-3.6%). There was an increase of 4.3% Y/Y and 0.6% Y/Y in the Services and Sundries component, respectively.*



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## News

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**June 29<sup>th</sup> – Foreign direct investment** in Japan reach record levels in the year ending March 31<sup>st</sup> as a result of an increase in acquisitions from financial companies. Overseas investments increased to ¥4.03 trillion from ¥2.12 trillion a year ago.

**June 28<sup>th</sup>- Toshiro Muto, one of the Bank of Japan's two deputy governors**, revealed that “There are some arguments among the board's nine members on whether the central bank should lower its target for reserves.” He also stated, “However, I believe there is a consensus among the board that the most important thing is to maintain the policy.”

**June 28<sup>th</sup> – Japan's Finance Minister, Sadakazu Tanigaki**, commented that, “Japan has made efforts to achieve an energy efficient economy and therefore, the direct impact on Japan has been limited. However, if the situation continues, we must carefully watch what kind of impact oil prices will have on the Japanese economy.”

**June 23<sup>rd</sup> – Bank of Japan's Governor, Toshihiko Fukui**, reiterated that there is no change to the central bank's monetary policy. “There is no change at all to our policy framework,” Fukui commented at an annual meeting of Japanese credit cooperatives in Tokyo. Fukui further stated that Japan's economic recovery will become clearer in the second part of this year and that the economy will move toward “a moderate but long recovery.”

**June 23<sup>rd</sup> – Bank of Japan's Governor, Toshiro Muto**, commented that, “It's still debatable whether year-on-year gains in consumer prices alone would guarantee an end to deflation. He further stated, “We have to carefully judge how long any gains in core consumer prices will last.” The Bank has forecast only a “slight gain” in core prices; however, it is “unclear” whether or not the Bank will actually shift policy next year. An upward trend in core CPI and visible prospects that prices will remain on an upward trend are two of the three conditions that the Bank cited are necessary for terminating its quantitative easing policy.



## *Key Dates This Week*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/30	Housing Starts (Y/Y) MAY	-0.1%	0.6%
06/30	Annualized Housing Starts (MAY)	1.65M	1.138M
06/30	Construction Orders (Y/Y) (MAY)	15.0%	7.5%
06/30	Small Business Confidence (JUN)	48.3	47.9
06/30	Jobless Rate (MAY)	4.4%	4.4%
06/30	Job-to-Applicant Ratio (MAY)	0.94	.094
06/30	Workers' Household Spending (Y/Y) (MAY)	-1.8%	-3.1%
06/30	Workers' Household Spending (M/M) (MAY)	.....	-3.6%
06/30	Tokyo CPI (M/M sa) (JUN)	0.0%	0.1%
06/30	Tokyo CPI Ex Fresh Food (M/M sa) (JUN)	0.0%	0.1%
06/30	Tokyo CPI (Y/Y) (JUN)	-0.3%	-0.2%
06/30	Tokyo CPI Ex Fresh Food (Y/Y) (JUN)	-0.4%	-0.4%
06/30	National CPI (M/M sa) (MAY)	0.0%	-0.1%
06/30	National CPI Ex Fresh Food (M/M sa) (MAY)	-0.1%	0.1%
06/30	National CPI (Y/Y sa) (MAY)	0.1%	0.0%
06/30	National CPI Ex Fresh Food (Y/Ysa) (MAY)	-0.1%	-0.2%
06/30	Tankan All Industries Capex (2Q)	4.5	1.0
07/01	Vehicle Sales (Y/Y) (JUN)	.....	7.0%
07/03	Labor Cash Earnings (Y/Y) (MAY P)	.....	0.6%
07/03	Overtime Earnings (Y/Y) (MAY P)	.....	1.6%
07/06	Leading Economic Index (MAY P)	.....	31.8
07/06	Coincident Index (MAY P)	.....	50.0

## Valance Economic Report: United Kingdom

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June 29, 2005

The future path of interest rates was made even more uncertain today as the Bank of England showed that increases in consumer credit and mortgage lending beat expectations in May. However, the CBI reported that Y/Y retail sales had its largest quarterly plunge in 22 years. The contradictory nature of these reports may postpone the urgency of rate cuts.

### Weekly Highlights

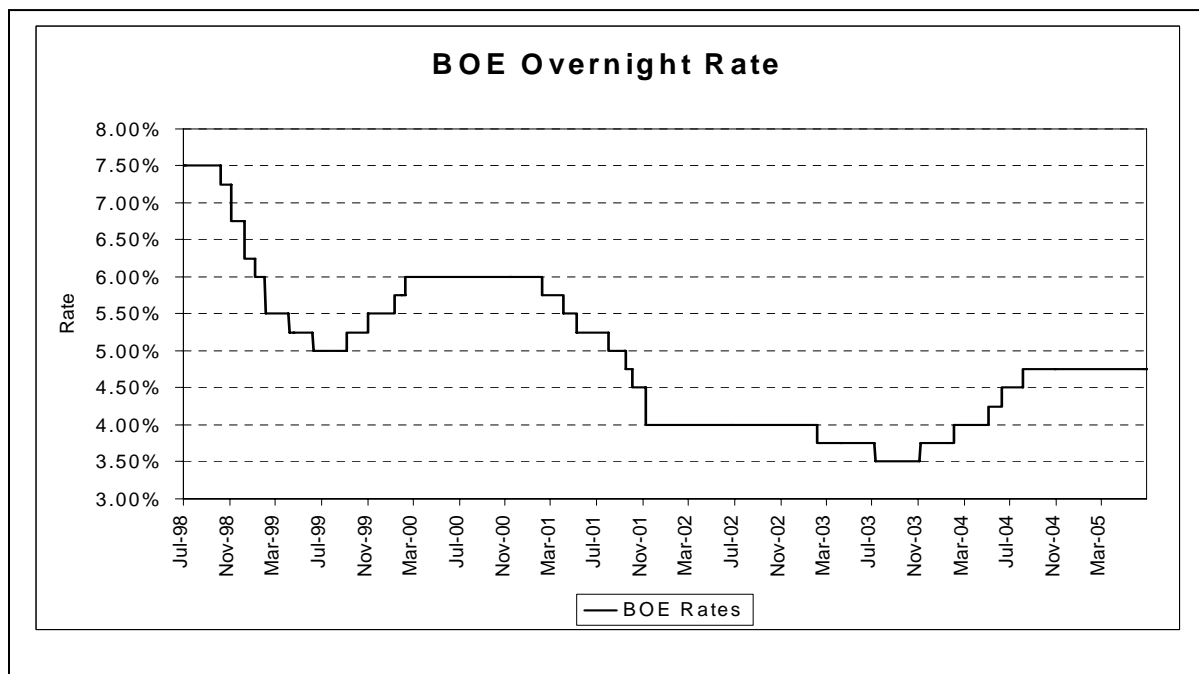
The BOE- reported that consumer credit increased 1.0% M/M and 13.2% Y/Y in May reflecting a surge in credit card spending. (page 17)

The BOE- reported that mortgage lending increased 0.9% M/M and 11.1% Y/Y in May. (page 18)

The CBI- reported that retail sales decreased from -7 to -19 in June from June of 2004, the sharpest drop in 22 years. (page 18)

### Weekly Releases & News

#### Chart of the Week: *BOE Overnight Rate*



Future rate cuts seemed to be very imminent after last weeks MPC Minutes, though today's BOE data most likely postpones the timing. The short-Sterling strip is pricing in a rate cut by September of this year.

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## *Data & Comments*

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### *Data*

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#### **BOE Net Consumer Credit**

The BOE reported that consumer credit increased 1.0% M/M and 13.2% Y/Y in May, reflecting an increase in credit card spending.

#### **BOE Net Lending on Dwellings**

The BOE reported that mortgage lending increased 0.9% M/M and 11.1% Y/Y in May. This may suggest a rebound in the housing market as the BOE's data is a good leading indicator of house price inflation.

#### **BBA Mortgage Lending Figures**

The British Bankers' Association (BBA) reported that mortgage approvals decreased 3.0% M/M and 17.0% Y/Y in May, which is more in line with other surveys.

#### **CBI Distributive Trades**

The Confederation of British Industry (CBI) reported that retail sales plunged from -7 to -19 in June from June of 2004, the sharpest drop in 22 years. Consumers have continued to tighten spending in face of the uncertainty of the slowing housing market.

#### **CBI Industrial Trends Survey**

The Confederation of British Industry (CBI) reported that new manufacturing orders decreased from -22 to -25 in June, with order books at their lowest since October 2003. Manufacturers are facing tight cost pressures as they are unable to pass on rising oil prices to consumers.

## *Key Dates This Week*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/30	Nationwide House Prices	-0.1% M/M 4.7% Y/Y	0.3% M/M 5.5% Y/Y
06/30	GDP Q1 R3	0.5% M/M 2.7% Y/Y	0.7% M/M 2.9% Y/Y
06/30	GfK Consumer Confidence	-2	-1
07/01	Total Business Investment		0.1% M/M 4.4% Y/Y
07/01	CIPS PMI Manufacturing		
07/04	CIPS PMI Construction		
07/05	CIPS PMI Services		
07/06	Industrial Production		0.9% M/M -1.9% Y/Y
07/06	NIESR GDP Estimate		

Valance Co., Inc.

# Valance Economic Report: *Canada*

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June 29, 2005

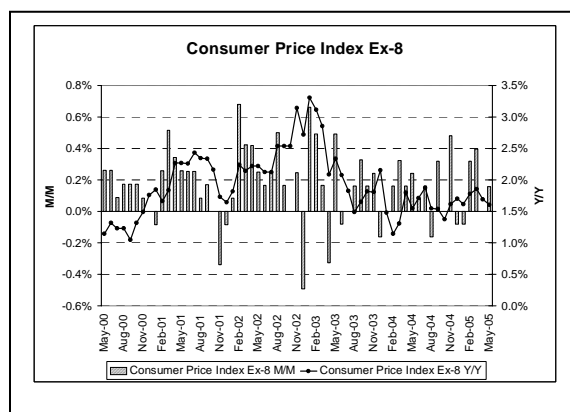
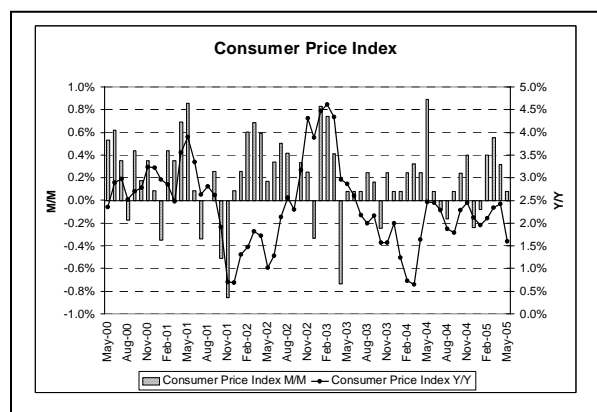
This week's data remained firm as core consumer prices increased by 0.2% and BoC Gov. Dodge commented that he still saw the need for rates to increase. Acknowledging a strong domestic sector, he confirmed that if investment and profits pick up in the manufacturing sector, the BoC will be soon to follow with their promise of a "reduction in stimulus" of monetary policy.

## Weekly Highlights

**CPIx8**– increased 0.2% M/M and 1.6% Y/Y in May. (page 20)

## Weekly Releases & News

### Charts of the Week: *Consumer Price Index*



Consumer Prices in Canada, excluding the eight most volatile items, increased 0.2% M/M and 1.6% Y/Y in May. The increase in prices was driven primarily by an increase in alcohol and tobacco prices; recreation & education, as well as the service sectors experienced significant increases as well. Clothing and footwear sectors saw the largest declines.

## ***Dodge's Comments, Goodale's Comments, & Upcoming Dates***

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### ***BoC Gov. Dodge's Comments***

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The Bank of Canada's Governor, David Dodge, stated that he would raise Canada's overnight rate "over time" as economic growth accelerates and companies invest in productivity improving equipment to adjust to a higher currency that crimped exports. He stated that, "We continue to see evidence that strong domestic demand is offsetting the weakness in net exports," and that "A reduction of monetary stimulus – that is, an increase in our key policy rate—will be required over time."

Dodge also acknowledged that domestic demand increased more than expected in Q1. He also stated that, "What is clear is that over the last four quarters the analysis has not changed very much and that we are going to reach capacity near the end of 2006."

### ***Finance Minister Goodale's Comments***

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According to Finance Minister, Ralph Goodale, Canada must lower taxes to make itself more attractive to investors. He stated that, "We must keep working in every budget to improve our competitive position on taxes," and that "We have reduced taxes and must continue that pattern and that commitment."

Goodale also stated that he would meet with his provincial counterparts in the upcoming months to begin working on the creation of a national securities regulator.

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

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/07	Building Permits (May)	-0.5% M/M	-2.6% M/M
07/07	Ivey PMI (June)	60.5	62.0

Valance Co., Inc.

## Valance Economic Report: Australia

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June 29, 2005

**This week was fairly quiet in Australia with few significant economic data releases. New Home Sales declined in May and the Leading Index increased in April, suggesting that the economy will experience a gradual slowing of growth and giving the RBA little reason to change rates at their next policy meeting on July 5<sup>th</sup>.**

### Weekly Highlights

**New Home Sales** – declined 4.6% M/M in May. (page 22)

**Leading Index** – increased 0.5% M/M in April. (page 22)

### Weekly Releases & News

#### *New Home Sales*

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*Sales of new homes in Australia declined 4.6% M/M in May as demand slowed in the Southern Australia and Victoria states, according to the Housing Industry Association. The decline in May offsets a 4.3% M/M gain from April and is in line with the HIA's expectations for housing to continue to slow. HIA senior economist stated that, "We may well see sales weaken a little over the remainder of the year," however, he also stated that significant weakness was unlikely. Most economists expect the country's housing market to have a soft landing later in 2005.*

#### *Leading Index*

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*Australia's Leading Index increased 0.5% M/M in April, following a 0.3% M/M decline in March. The index increased due the rise in rural exports, money supply and building approvals, according to the Conference Board. The Coincident Index, the gauge of current economic growth, was unchanged in April.*



## *Key Dates This Week*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/30	AIG PMI	N/A	N/A
06/30	Building Approvals (May)	0.0%	1.8% M/M
06/30	Retail Sales (May)	0.4%	-0.5% M/M
07/03	TD Securities Inflation Index (June)	N/A	N/A
07/03	Trade Balance (May)	N/A	-1325M
07/04	AIG PSI	N/A	N/A
07/05	RBA Overnight Rate	5.50%	5.50%

Valance Co., Inc.

# Valance Economic Report: New Zealand

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June 29, 2005

**New Zealand's Current Account Deficit widened in Q1, GDP grew below expectations and the Trade Deficit narrowed in May. The data continues to suggest that the economy will be slowing in the upcoming months and that, despite a tightening bias, the RBNZ will likely remain on hold through the remainder of the year.**

## Weekly Highlights

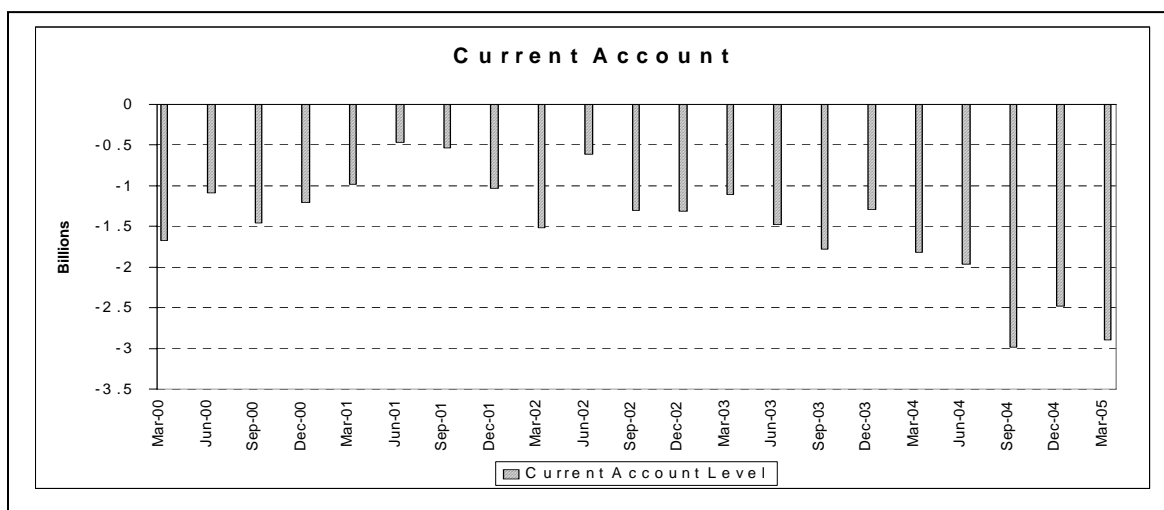
**Current Account Deficit** – widened from \$9.34 bln to \$10.35 bln in the year through March. (page 24)

**Real GDP** – increased 0.6% Q/Q and 2.5% Y/Y in Q1. (page 25)

**Trade Deficit** – narrowed from \$143.6m to \$24.7m in May. (page 25)

## Weekly Releases & News

### Chart of the Week: *Current Account Deficit*

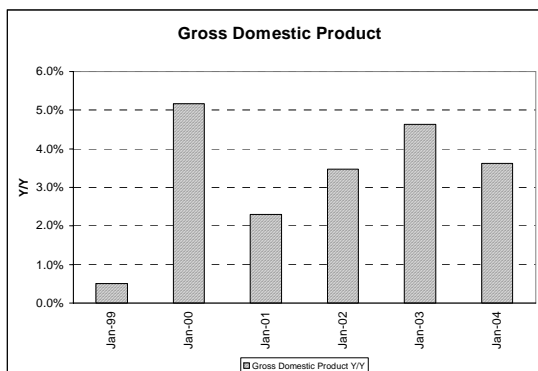


New Zealand's Current Account Deficit widened from \$9.34 billion in the year through December to \$10.35 billion in the year through March. The widening brings the Current Account to 7% of the country's GDP and was caused by firm domestic demand and consumer spending. Looking forward, it remains likely that the RBNZ will remain on hold, as most recently released data suggests that the economy will be slowing in the upcoming months.

## GDP & Trade Deficit

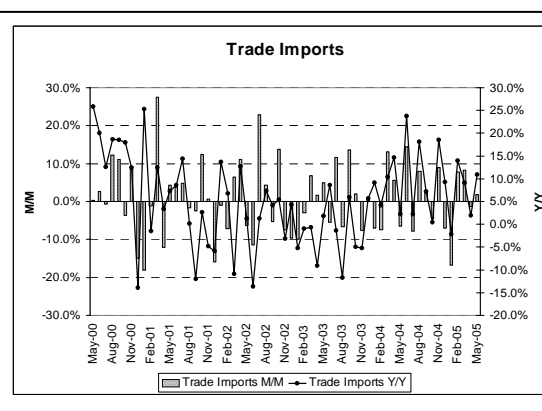
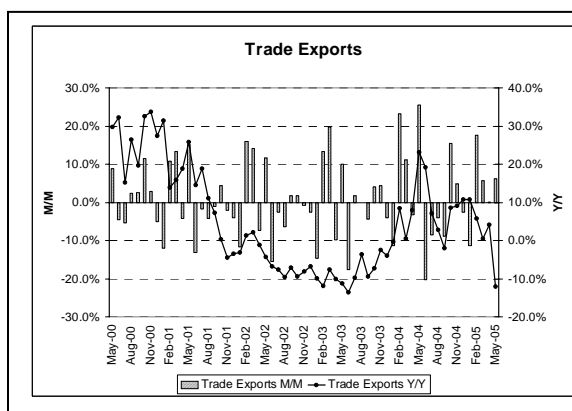
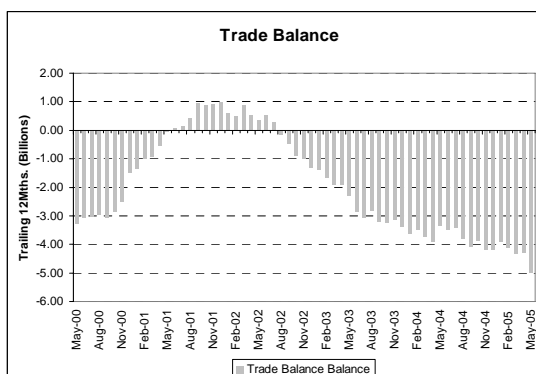
### Real GDP

New Zealand's Real GDP increased 0.6% Q/Q and 2.5% Y/Y in Q1. Government Admin and Defense industries posted the largest gains as well as construction industries. The growth was slightly less than the 0.8% Q/Q increase that the market anticipated. Q1 growth was also less than the 1.0% Q/Q growth that the RBNZ had anticipated, giving the RBNZ enough room to remain on hold through the upcoming months.



### Trade Deficit

For the first time, New Zealand ran a Trade Deficit in May as exports were unable to compensate for domestic demand. The Trade Deficit narrowed from 143.6 mln in April to 24.7 mln in May. Imports increased 1.8% M/M and 11.0% Y/Y in May. Exports increased 6.2% M/M and declined 12.0% Y/Y in May.



## ***Business Confidence & Upcoming Dates***

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### ***Business Confidence***

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*Business Confidence in New Zealand increased in June, although it continues to remain near a 7 year low. The NBNZ Business Confidence Survey indicated that 22% of companies expect sales to decline in the upcoming year, slightly above the 23% that stated the same thing in May.*

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

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/29	Building Permits (May)	N/A	N/A

*Valance Co., Inc.****Valance Economic Report: China***

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June 29, 2005

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

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***News Releases***

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**Jun 27<sup>th</sup> - China Top 100 Retailers Sales Increased 11.5% in May** - China's top 100 retailers recorded 11.5% growth in sales in May from a year earlier, as consumers bought more food, clothing and mobile phones. Sales in April increased 27.8% Y/Y.

**Jun 27<sup>th</sup> -China's Premier, Wen Jiabao, Comments on Exchange-Rate Reform, High Oil Prices** -China's Premier, Wen Jiabao, made the following remarks in a speech at the Asia-Europe Meeting (ASEM) of European Union and Asian Finance Ministers in the Chinese coastal city of Tianjin, east of Beijing:

**On the yuan:**

"We must push forward the reform but always stay on top of the changes, so as to prevent fluctuations in the financial market and economic instability...We need to continue improving the yuan exchange rate forming mechanism and develop an exchange rate system that is more market-oriented and more flexible. However, since this reform involves a wide range of areas and will have a far-reaching impact, it still requires a great deal of preparation."

**On oil prices, and the role ASEM should play in the global economy:**

"We need to pool our efforts and adopt responsible macro-economic policies to maintain the stability of major reserve currencies, curb big fluctuations in oil prices and prevent the rise of trade protectionism in all forms."

**June 26<sup>th</sup> - Takatoshi Kato, Deputy Managing Director of the International Monetary Fund**, stated that, "In China, the introduction of greater exchange-rate flexibility would be in China's own interests, particularly since it would facilitate monetary control. There are now no major technical impediments to exchange rate regime reform and, given the strength of China's economy, conditions are favorable for an early initial move."

## ***News Releases Cont'd***

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### **June 26<sup>th</sup> - Zhou Xiaochuan, Governor of the People's Bank of China, Comments on Interest Rates and Consumer Prices:**

#### **On whether China needs to raise interest rates this year:**

“For the time being, we probably won't. The rise in fixed-asset investment in May partly reflects the base effect as we introduced measures to curb investments and for the real estates sector last April. The higher investment in May still needs to be monitored.”

#### **On whether China's economy is overheating:**

“It's hard to say now. The clear sign of an overheating economy is higher prices. If consumer prices are rising fast, then there is a problem. China's prices are partly driven by international factors. Overall speaking, China's prices are stabilizing.”

“The economy is growing a bit fast, but whether it's overheating, one cannot make a conclusion yet.”

#### **On measures to boost consumer spending:**

“We'll keep interest rates relatively low to help boost consumer spending. There are other measures too, such as increasing support to farmers, and other budgetary and departmental measures. But those are not up to us.”

**June 25<sup>th</sup> - China Says Facts Are Distorted in EU Probe on Shoes** - China disagrees with anti-dumping investigations by the European Union in regards to increased Chinese shoe imports, accusing its trading partner of distorting trade figures and misleading the public. “China urges the EU to start with the facts, make decisions cautiously and avoid trade frictions,” stated Chong Quan, a commerce ministry spokesman, in a statement on the ministry's Web site. China opposes the EU starting anti-dumping investigations without “factual grounds or legal basis.” The EU alleged that imports of some types of shoes from China surged 581 percent in the first four months of this year, 25 times the 22.8 percent increase recorded by China's customs office.

**June 24<sup>th</sup> – China's Fiscal Revenue Slows after Tariff Cuts** – China's fiscal revenue slowed to 13.1% Y/Y in the first five months of the year to reach 1.35 trillion yuan, compared to an increase of 32.4% in the first five months of the year a year ago. Fiscal expenditures increased 15.2% to 958.5 billion yuan in the first five months, the report said. Revenue from tariffs decreased 11.5% to 32.5 billion yuan in the first four months from a year ago.

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

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/04	CLSA June Manufacturing PMI	--	--



Valance Co., Inc.

# Valance Economic Report: Sweden

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June 29, 2005

On the heels of a 50bp rate cut and lowering the economic growth forecast, the SCB warned that the pace of export growth would falter and that it expects inflation clearly to be below its 2% target in two years.

## Weekly Highlights

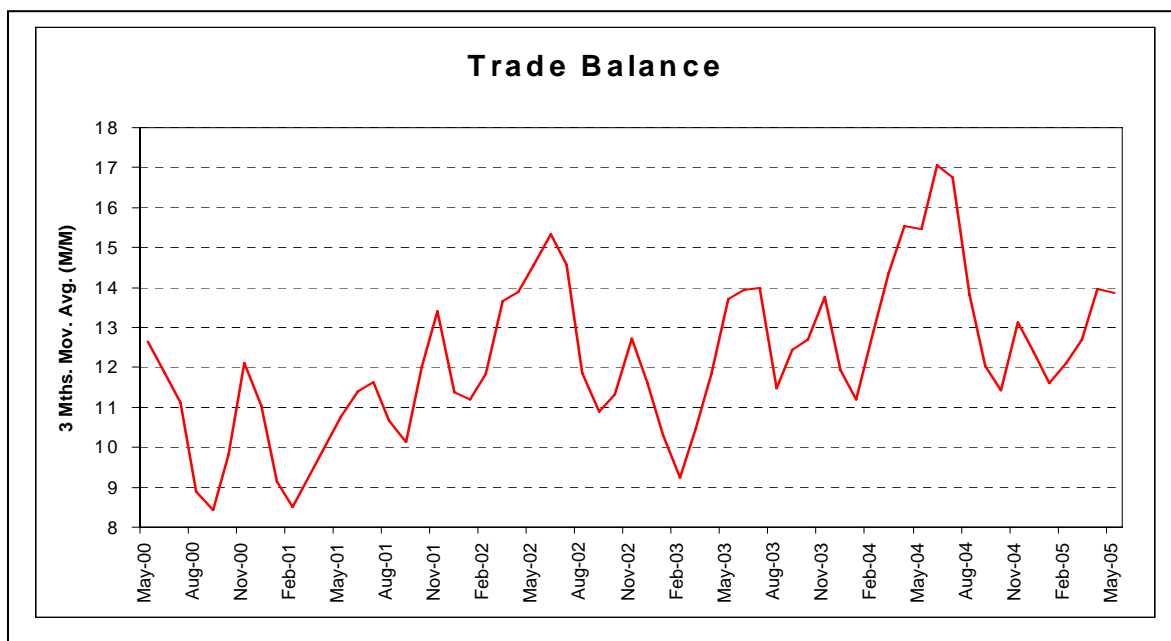
**Trade Balance** – fell from SEK 14.0 bln in April to 13.0 bln in May. (page 30)

**PPI** – rose 0.1% M/M and 2.4% Y/Y in May, below expectations of 0.2% M/M and 2.5% Y/Y. (page 31)

**Retail Sales** – rose 1.6% M/M and 4.8% Y/Y. (page 31)

## Weekly Releases & News

### Chart of the Week: Trade Balance

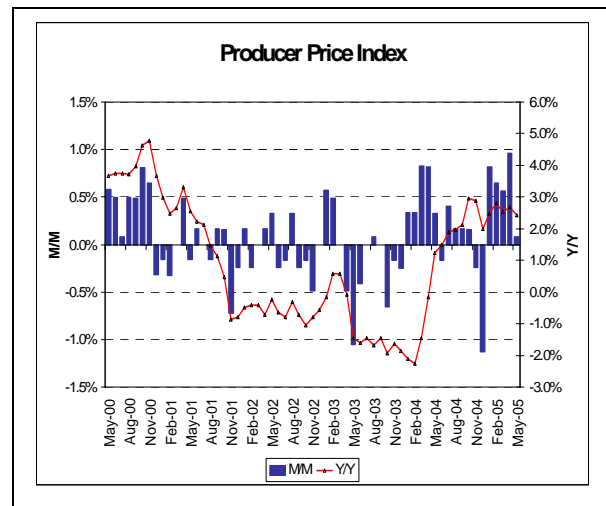


The Trade Surplus narrowed from SEK 14.0 billion in April to SEK 13.0 billion in May, above economists' expectations as slower growth in the 12-nation euro area crimped demand for exports. Imports and exports rose 11.4% Y/Y and 5.9% Y/Y, respectively.

## PPI & Retail Sales

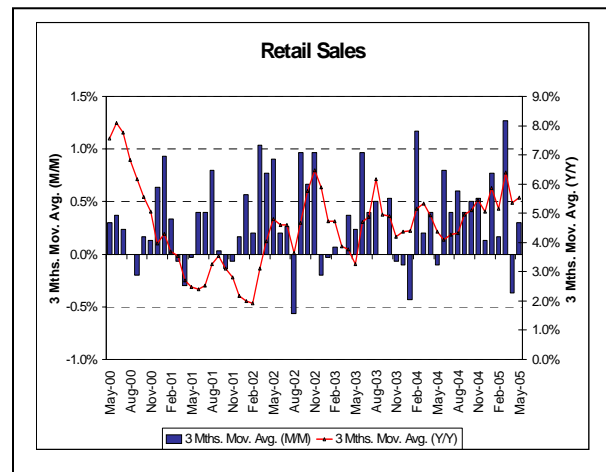
### PPI

The Producer Price Index rose 0.1% M/M and 2.4% Y/Y in May, below expectations of a 0.2% M/M and 2.5% Y/Y gain. The growth was partially attributed to the increase in costs of metals and machinery.



### Retail Sales

Retail Sales rose 1.6% M/M and 4.8% Y/Y as sales of durable goods rose 7.9% Y/Y in May.



## *News Releases & Upcoming Dates*

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### *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/01	Swedbank PMI Survey	--	52.3

## Valance Economic Report: Switzerland

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June 29, 2005

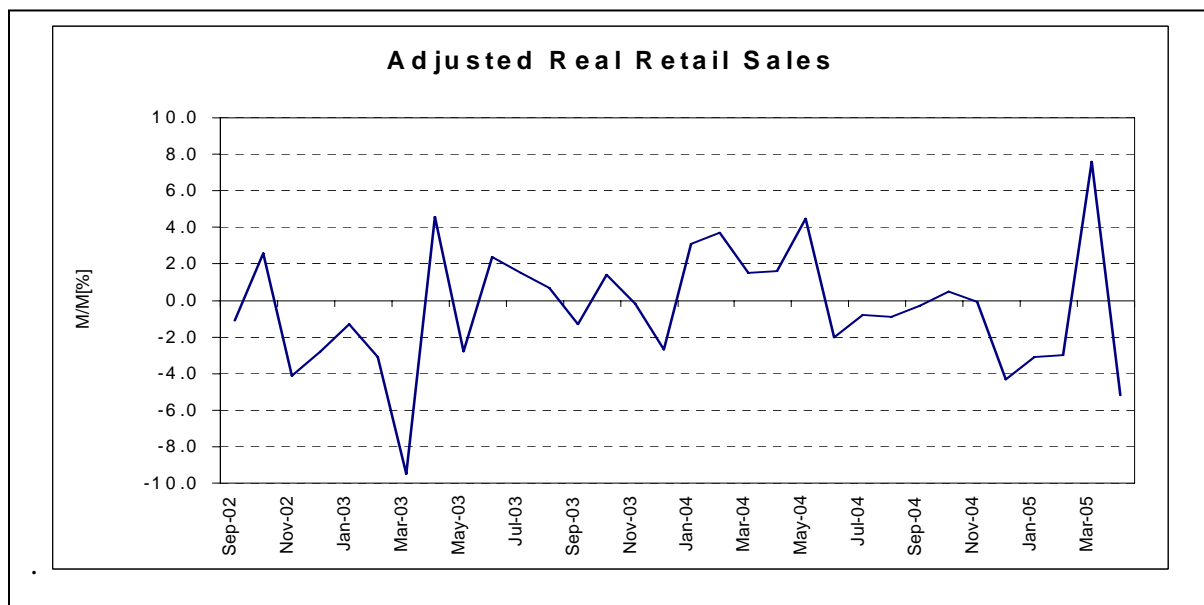
**The SNB said that rates are to remain on hold due to lower-than-expected economic growth and inflation. Recent data confirm economic weakness.**

### Weekly Highlights

**Adjusted Real Retail Sales** - fell 5.2% Y/Y in April from a 7.6% in March. (page 33)  
**KOF Leading Indicator** – declined to 0.46 in June from 0.49 in May. (page 34)

### Weekly Releases & News

#### Chart of the Week: *Retail Sales*

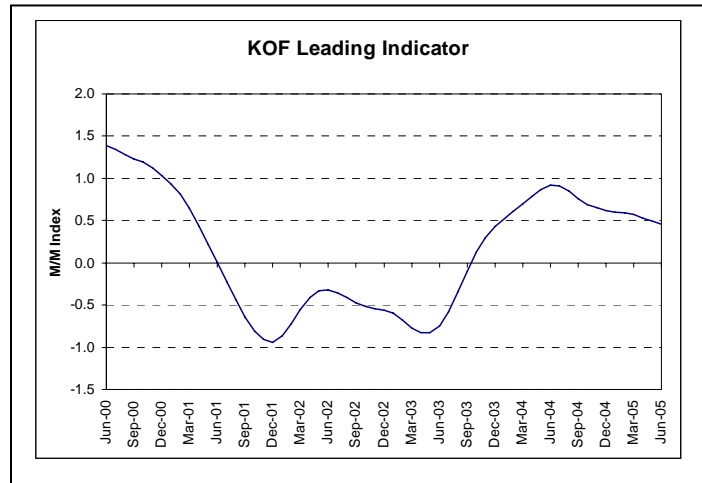


Retail Sales fell 5.2% Y/Y in April from a positive 7.6% in March when adjusted for inflation and shopping days, the largest decline since March 2003 as high oil prices have left Swiss households with less disposable income.

## KOF Swiss Leading Indicator

### KOF

*The monthly aggregate of indicators declined to 0.46 in June from a revised 0.49 (originally 0.53) in May, the lowest since December 2003.*



## ***News, Comments & Upcoming Dates***

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### **SNB President Jean-Pierre Roth:**

“Oil prices are dangerous for all of us and could burden our development and that of our neighboring countries”

Concern about higher energy costs was a key reason the SNB this month left its main lending rate unchanged at 0.75% for a ninth month. The bank said lower-than-expected economic growth and inflation give it time to wait before raising the rate.

### **KOF Institute:**

“The slowdown in GDP growth is likely to persist throughout the next few months. Oil prices are starting to bite into people's disposable income. Surging gasoline prices have left Swiss consumers with less disposable income. Swiss retail sales dropped the most in more than two years in April.”

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

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/30	CPI	0.2%	-0.1%
07/01	SVME Purchasing Managers Index	51.0	50.7