

# Valance Company, Inc.



Weekly

July 14, 2005

III

## Highlights

**US** – Inflation tame, consumer strong. (page 2)

**Euroland** – Growth continues to diverge within the Euro Zone member states. (page 8)

**Japan** – Current Account Surplus widens, confidence slips. (page 14)

**UK** – Y/Y CPI Inflation continues to increase. (page 20)

**Canada**– BoC to remove stimulus in “near term.” (page 27)

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

## July 8 – July 14 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	0.06	8.00	11.00	12.00	12.50
US	3.25	3.61	3.94	4.13	4.19	4.22
EU	0.00	0.01	4.00	6.50	9.50	11.50
EU	2.00	2.12	2.11	2.13	2.19	2.28
JN	0.00	0.00	0.00	0.00	0.50	2.00
JN	0.00	0.06	0.09	0.10	0.13	0.17
UK	0.00	0.02	11.00	12.00	9.00	8.00
UK	4.75	4.67	4.48	4.32	4.24	4.25
CA	0.00	0.03	14.50	12.00	11.00	11.00
CA	2.50	2.68	2.90	3.11	3.24	3.30
AU	0.00	0.00	1.00	2.00	3.00	1.00
AU	5.50	5.60	5.67	5.68	5.61	5.55
NZ	0.00	-0.01	-1.00	0.00	2.00	-6.00
NZ	6.75	6.97	7.00	6.94	6.74	6.52
SZ	0.00	0.02	5.00	12.00	16.00	19.00
SZ	0.75	0.75	0.76	0.82	0.92	1.05

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 Economic Report: United States

Cesar Guerra  
(340) 692-7710

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

July 14, 2005

This week's economic data highlighted trend growth in the labor market, tame inflationary pressures and robust retail sales in June. Strong consumer demand and the narrowing of the trade balance in the second quarter will likely yield 3.5% annualized growth for GDP. A rate hike in both August and September by the Fed is almost fully priced in by the markets.

## Weekly Highlights

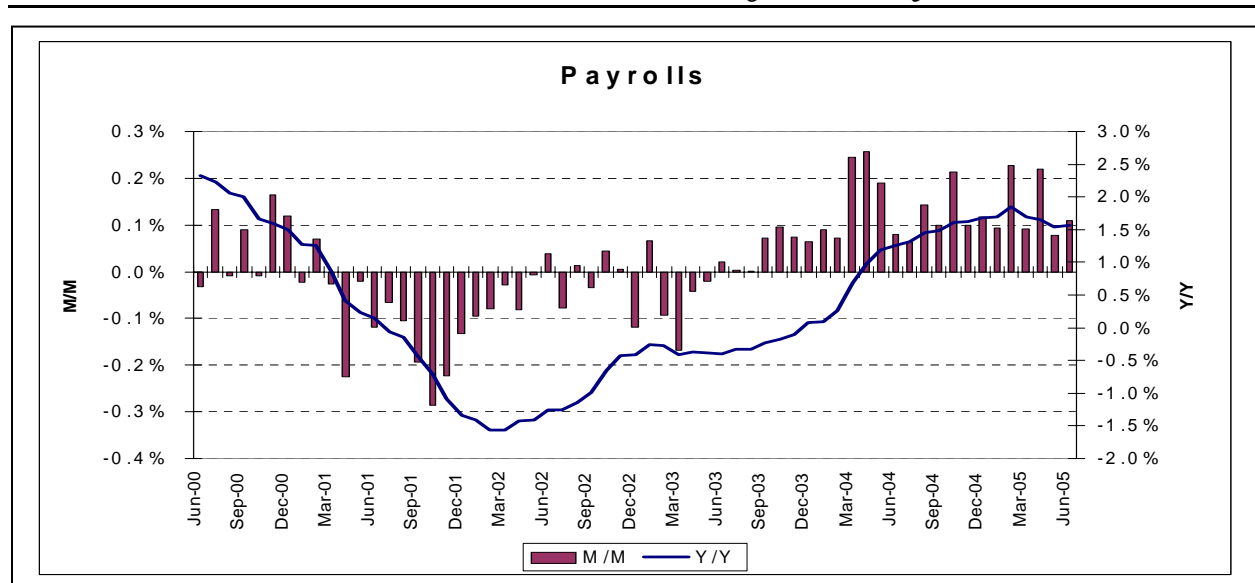
**Employment-** payrolls increased 146k in June. (page 2)

**Retail Sales-** excluding autos, increased 0.7% M/M and 8.3% Y/Y in June. (page 4)

**Core CPI-** increased 0.1% M/M and 2.1% Y/Y in June. (page 4)

## Weekly Releases

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

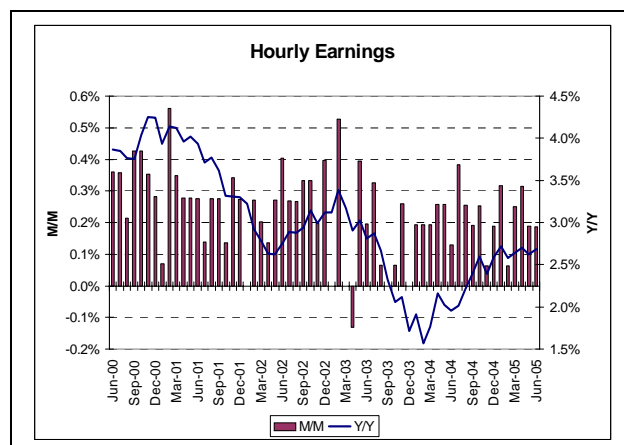


Non-farm Payrolls increased 146k in June, below market expectations and about equal to trend growth. May's initial reading of 78k was revised up to 104k. Like we discussed last month, the low level of continuing unemployment claims continues to suggest that payrolls are increasing at or slightly above trend growth. The average change per month over the past three months has been 181k. (See following page for more employment data).

## Employment

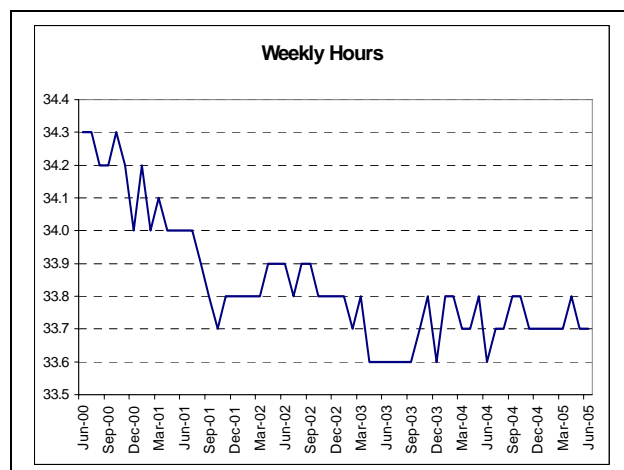
### Average Hourly Earnings

Average hourly earnings grew 0.2% M/M and 2.7% Y/Y in June. Gains in hourly earnings remain subdued and should not exert accelerating inflationary pressures.



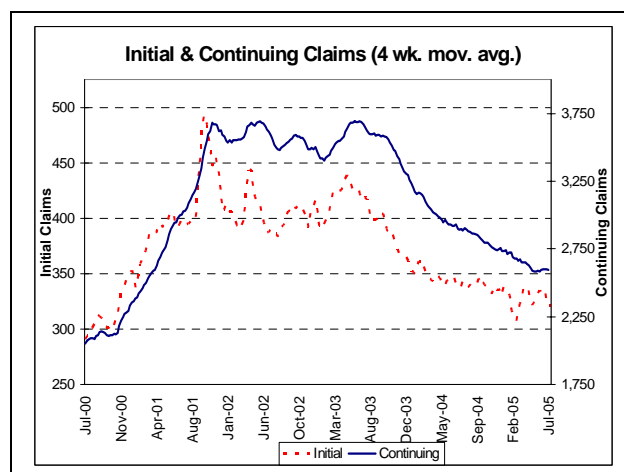
### Average Weekly Hours

Average weekly hours remained at 33.7 in June. This series continues to be relatively flat at absolute levels which suggest that slack remains in the labor market.



### Initial & Continuing Claims

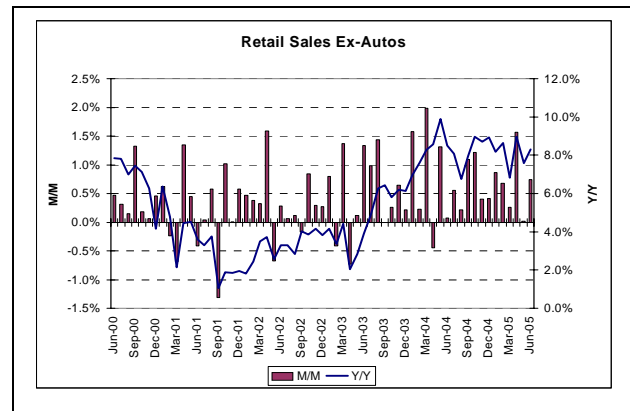
The four week moving average of initial and continuing claims increased slightly to 321k and decreased 2,596k, respectively. The level of continuing claims continue to suggest that payrolls should expand above trend. However, it will be important to monitor this high frequency data for evidence of deterioration.



## Retail Sales ex Autos, Core CPI & Import Prices

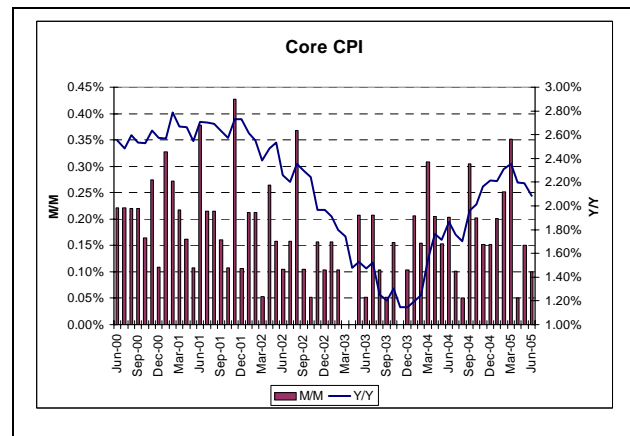
### Retail Sales ex Autos

Retail sales, excluding autos, increased 0.7% M/M and 8.3% Y/Y in June, above expectations. The consumer continues to show strength in the face of higher energy costs. Headline retail sales were up 1.7% M/M, partly fueled by aggressive pricing by General Motors. Excluding autos and gas, retail sales increased 0.6% M/M



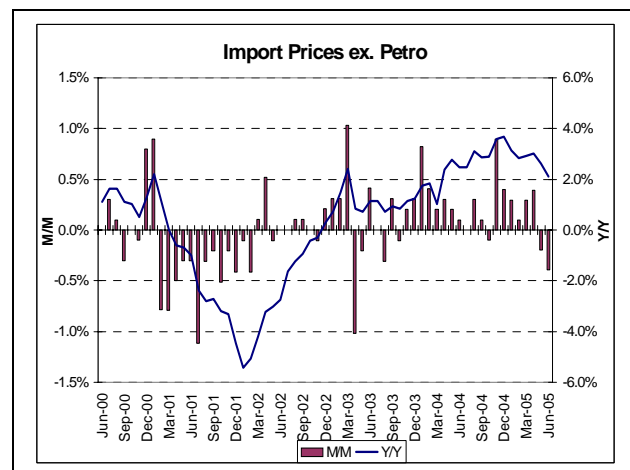
### CPI

Core CPI increased 0.1% M/M and 2.1% Y/Y in June. Core CPI appears relatively stable since November, but the Fed would like to make sure the upward trend since early 2004 does not continue. Easing of automobile prices, import prices and early stages of producer prices, should continue to help keep a tame inflationary environment.



### Import Prices

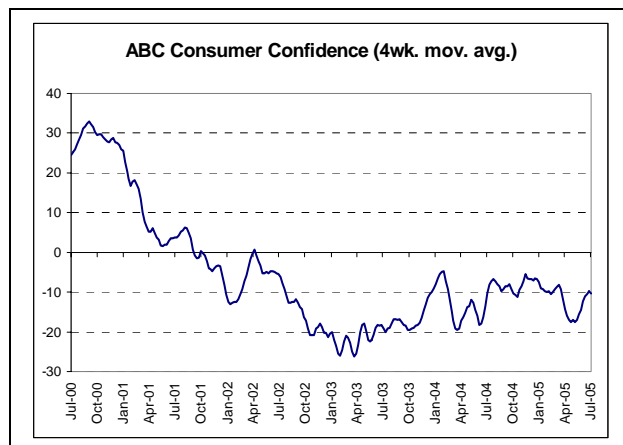
Import Prices, excluding petroleum, decreased 0.4% M/M and increased 2.1% Y/Y in June. As discussed previously, the strengthening of the dollar is exerting deflationary pressures via import prices.



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

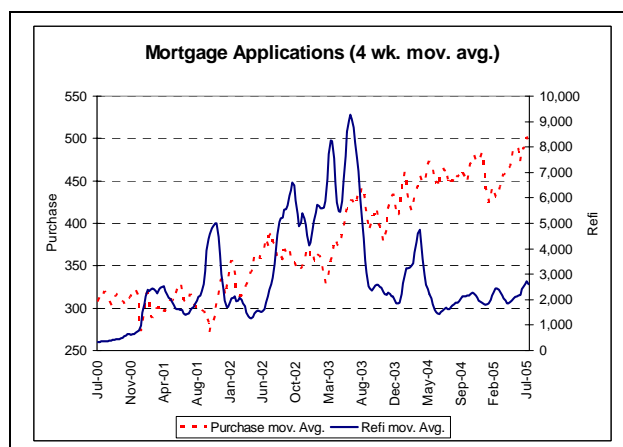
### ABC Consumer Confidence

The ABC Consumer Confidence Index dropped back to -11 from -9. The economy and finance components remained flat, but the buying climate component decreased from -22 to -26.



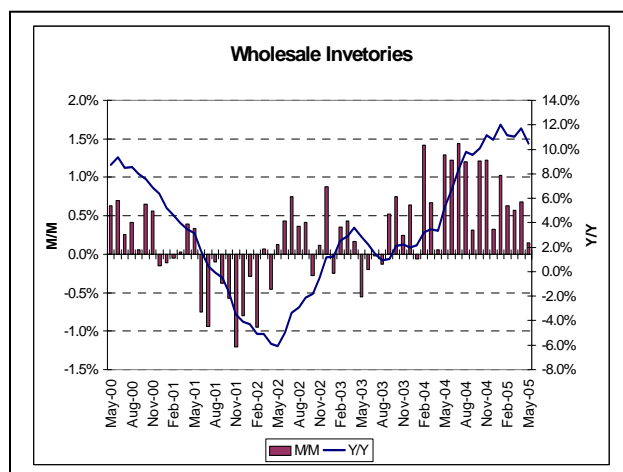
### MBA Mortgage Applications

Purchase and refinancing mortgage applications decreased 6.1% and 8.4%, respectively this week. Purchase applications are up 4.3% Y/Y and remain firm at the moment, but the back up long-term rates could send this series lower in the following weeks.



### Wholesale Inventories

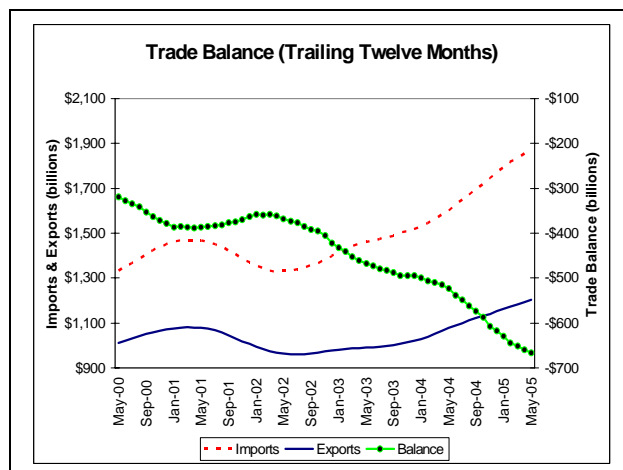
Wholesale inventories increased 0.1% M/M and 10.4% Y/Y in May. Inventory growth has begun to moderate and represents a positive sign for the health of the economy.



## Trade Balance & Budget Statement

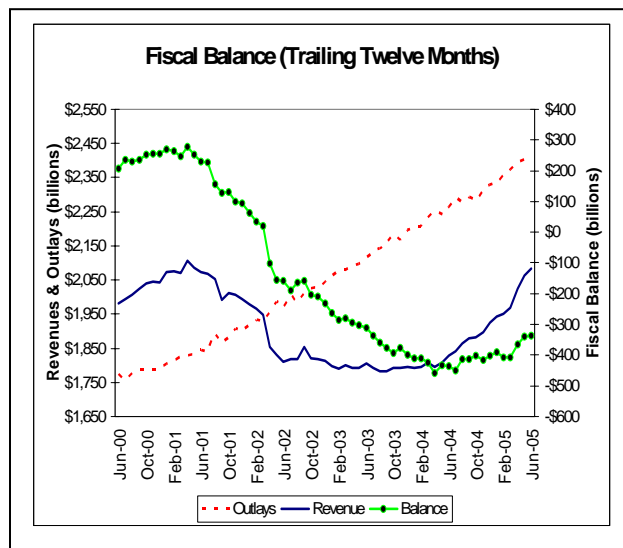
### Trade Balance

The trade balance narrowed to -\$55 billion in May, but on a trailing twelve month basis, expanded to -\$666 billion. Imports grew 11.8% Y/Y and exports grew 10.9% Y/Y.



### Budget Statement

The budget balance in June posted a surplus of \$22.4 billion. On a trailing twelve month basis, the deficit has dropped to \$336 billion. Higher than expected tax collections have been the key driver in lowering the deficit. The narrowing budget deficit combined with the relatively stable trade balance will be a headwind on the economy that can only be temporarily overpowered by credit expansion.



## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/15	Empire Manufacturing (JUL)	10.0	11.7
07/15	PPI Ex Food & Energy MoM (JUN)	0.1%	0.1%
07/15	Business Inventories (MAY)	0.2%	0.3%
07/15	Industrial Production (JUN)	0.4%	0.4%
07/15	Capacity Utilization (JUN)	79.6%	79.4%
07/15	U. of Michigan Confidence (JUL)	95.0	96.0
07/18	NAHB Housing Market Index (JUL)	71	71
07/19	Housing Starts (JUN)	2,050k	2,009k
07/19	Building Permits (JUN)	2,080k	2,050k
07/19	ABC Consumer Confidence (JUL 17)	NA	-11
07/20	MBA Mortgage Applications (JUL 15)	NA	-7.2%
07/21	Initial Jobless Claims (JUL 16)	NA	336k
07/21	Continuing Claims (JUL 9)	NA	2,617k
07/21	Leading Indicators (JUN)	0.4%	-0.5%
07/21	Philadelphia Fed. (JUL)	9.5	-2.2



Valance Co., Inc.

# Valance Economic Report: Euro Zone

Sean O'Reilly

(340) 692-7710

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

July 14, 2005

This week's Euro Zone economic indicators were relatively tame, with German and French exports boosted by the weak euro; Italian IP fell the most in two years. More importantly, with 3.1% labor cost growth and the euro/oil situation squeezing corporate margins, it seems unlikely that any export led growth will result in increased investment or employment.

## Weekly Highlights

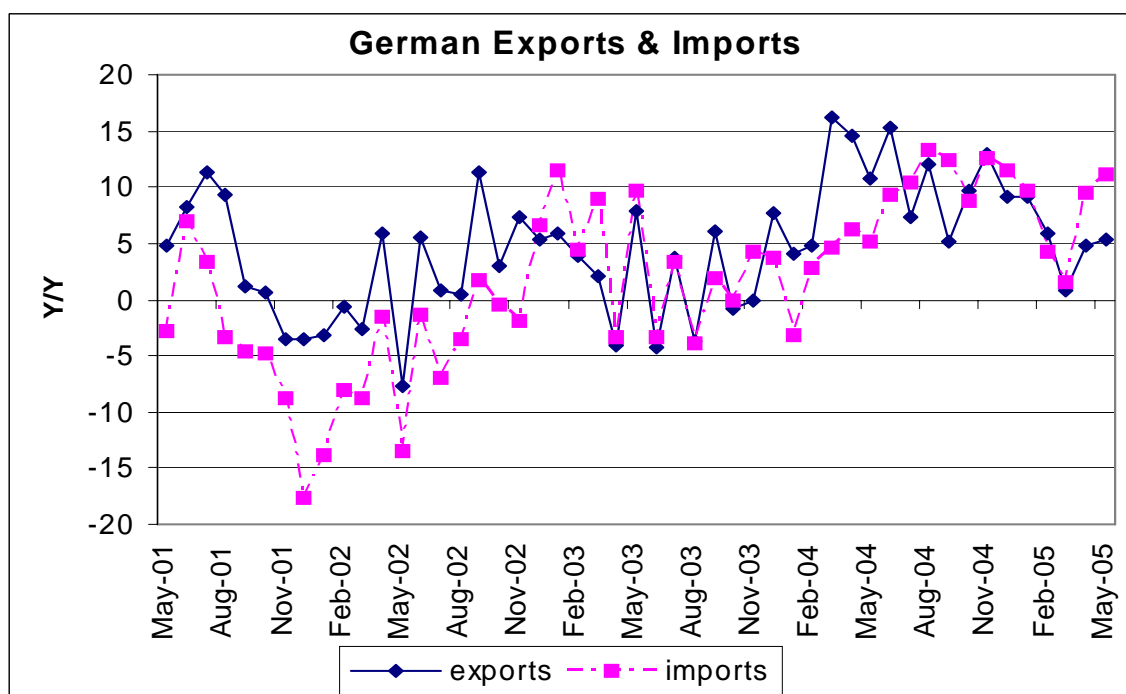
**German Production**– fell 0.2% M/M in May despite a weak euro. (page 9)

**French Production**– increased for the 1<sup>st</sup> time in 4 months in May. (page 9)

**French Trade Balance**– deficit narrowed in May as export growth accelerated. (page 10)

## Weekly Releases & News

### Chart of the Week: *German Trade*



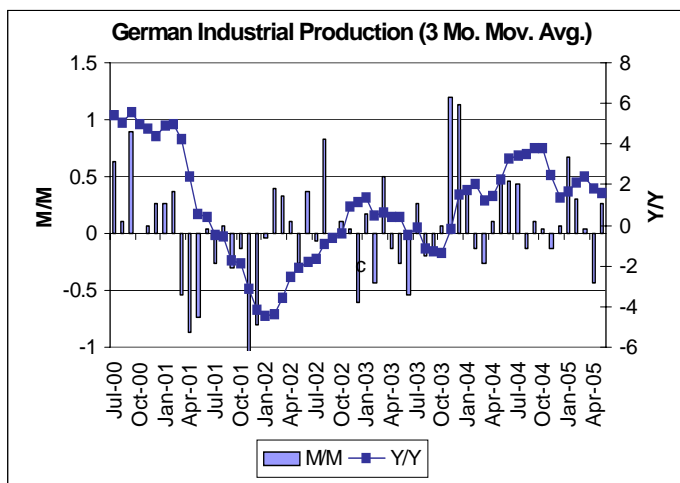
Germany's May exports continued to benefit from a weaker currency, growing 3.8% M/M and 5.3% Y/Y. Imports also expanded more than expected, increasing 5.9% M/M and 11.2% Y/Y. The Trade Surplus in turn, narrowed from 12.7B in April to 12.0B.



## German, French & Italian Industrial Production

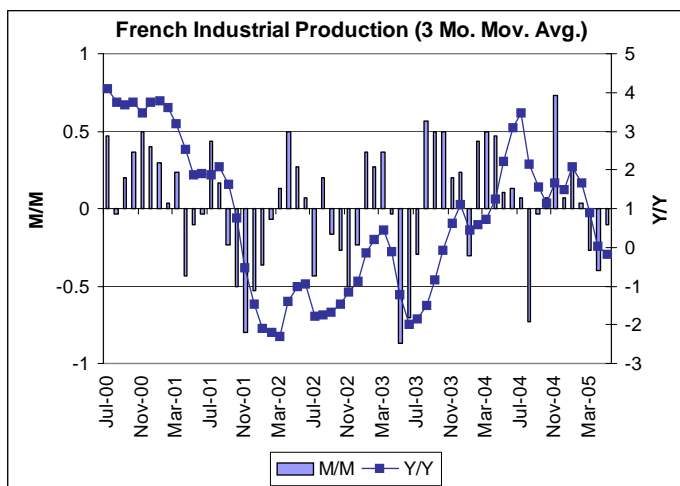
### German Industrial Production

*Germany's May Industrial Production fell 0.2% M/M while increasing 0.9% Y/Y; slightly above market expectations.*



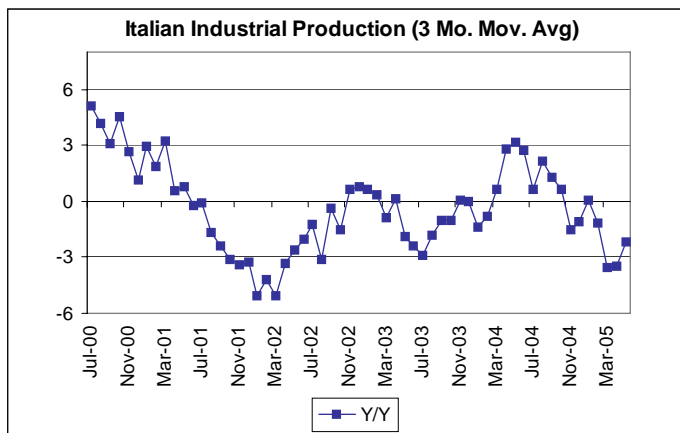
### French Industrial Production

*France's May Industrial Production rose for the first month in four, climbing 0.3% M/M while decreasing 0.2% Y/Y.*



### Italian Industrial Production

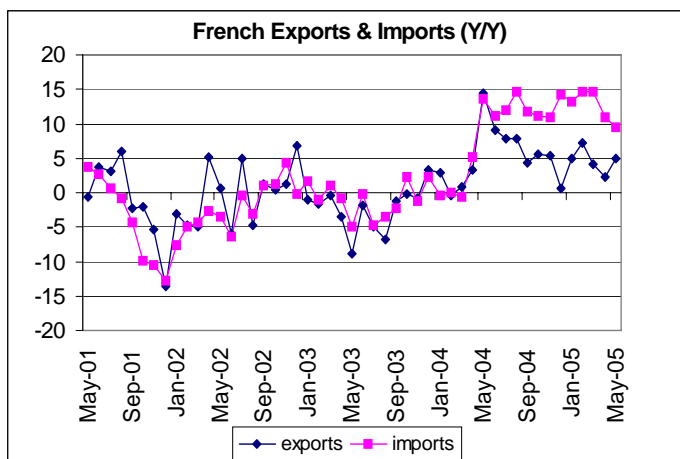
*Italy's May Industrial Production fell the most in two years, despite a weakening currency. Production fell 1% M/M and 2.1% Y/Y.*



## French Trade, Euro Zone Leading Indicators & Car Reg.'s

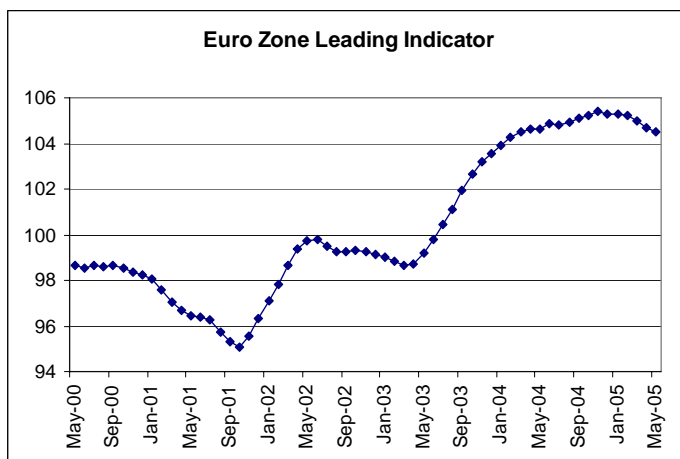
### French Trade

France's May Trade Deficit narrowed from 2.93B euros in April to 1.25 billion as export growth outpaced that of imports. Exports increased 7.4% M/M and 5% Y/Y while Imports grew 1.4% M/M and 9.6% Y/Y. Increased car and pharmaceutical sales to other EU countries drove most of the growth.



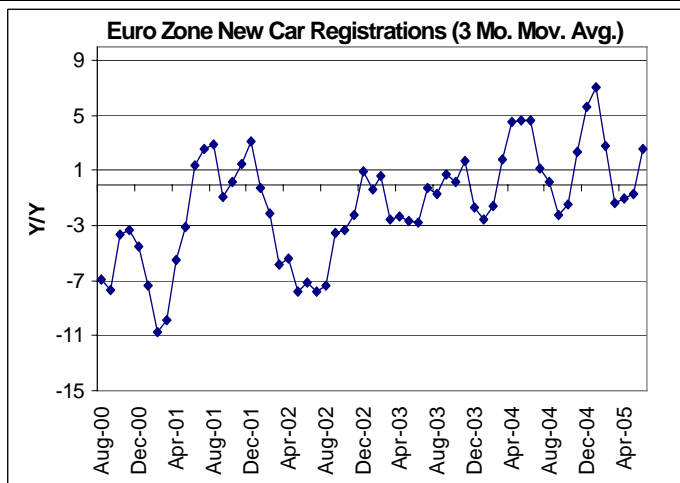
### Euro Zone OECD Leading Indicator

The Euro Zone's May OECD Leading Indicator fell for the fifth month in six, declining from 105.2 in April to 104.8.



### Euro Zone New Car Registrations

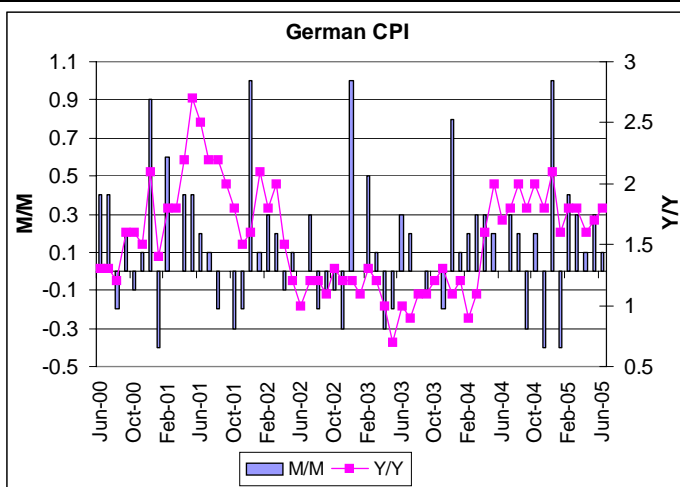
The Euro Zone's June New Car Registrations increased 6.8% Y/Y after falling 1.3% Y/Y in May.



## German, French & Spanish CPI

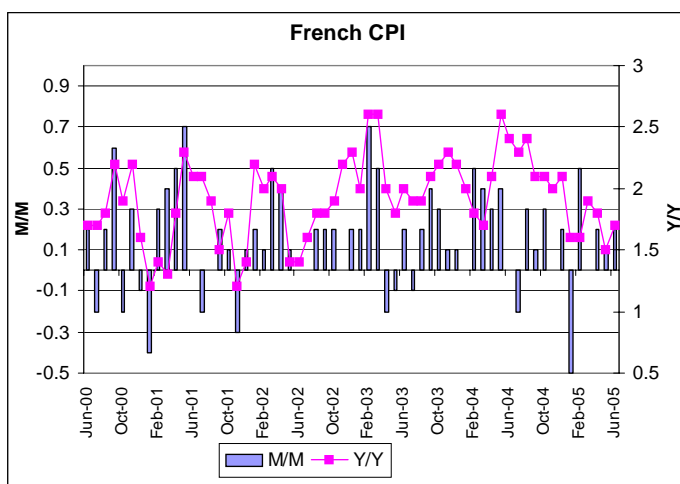
### German CPI

Germany's June prices climbed 0.1% M/M and 1.8% Y/Y, accelerating from May's 1.7% Y/Y rate. Oil remains the only real inflationary pressure in the German economy.



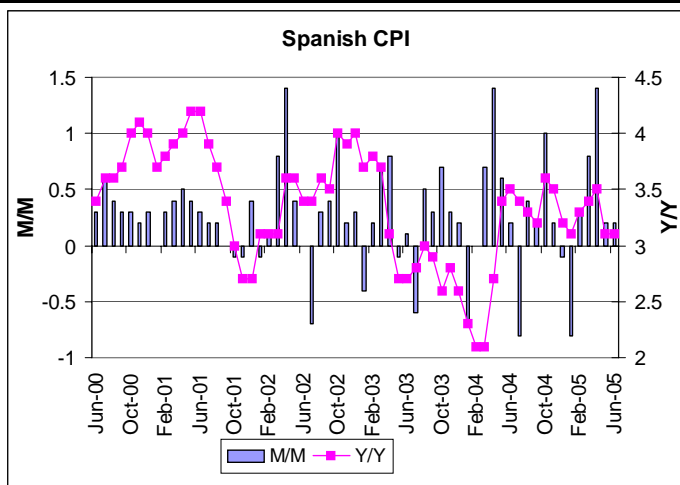
### French CPI

France's June CPI accelerated to 1.7% Y/Y from 1.5% in May. Prices increased 0.2% M/M as energy costs increased 1.8% from May.



### Spanish CPI

Spain's June prices accelerated from 3% Y/Y in May to 3.2% as oil and service prices increased. Prices rose 0.3% M/M.



## News

---

July 13<sup>th</sup> – **ECB member Jose Manuel Gonzalez-Paramo** commented on euro area growth and inflation, stating that growth has been unsatisfactory despite favorable financing conditions. Once again, structural reforms were cited as the solution to the problem.

July 12<sup>th</sup> – **ECB member Nicholas Garganas** commented that the bank may raise its inflation forecast due to record oil prices. “The oil price increases in recent weeks imply some upward revision to the main scenarios for inflation,” said Garganas. He also stated that, “One shouldn’t really expect too much from monetary policy as far as its contribution to growth is concerned.” ECB member John Hurley added that “interest rates are at a historic low” and that upside risks to inflation “warrant careful monitoring.” Last week ECB member Axel Weber stated that inflation risks had increased since the ECB’s June meeting.

July 12<sup>th</sup> – **Italian Finance Minister Domencio Siniscalco** commented on a HSBC report that stated that Italy, Germany and Holland had all been hurt by the single interest rate policy, stating that even within Italy there is no optimal single rate but that it didn’t prevent them from managing while using the lira. He also referred to the EU as a success. The European Commission also commented on the growth differentials, downplaying that they pose a threat to the EU but noting that they can “no longer ignore the problem”.

July 12<sup>th</sup> – **Italian Finance Minister Domencio Siniscalco** stated that Italy will cut its budget deficit by as much as 24 billion euros (about 1.1% of GDP each year) in the next two years by reducing spending and increasing revenue. The EU recently gave Italy an extra year, until 2007, to bring their increasing deficit below the 3% limit.

July 12<sup>th</sup> – **Germany’s opposition party**, who currently lead in popularity polls, plan to raise VAT taxes from 16% to 18% which would result in an acceleration in CPI from 1.9% to 2.8%.

July 12<sup>th</sup> – **The German HWWI Institute** stated that German growth will almost double next year, helped by a pick up in consumer spending after early election in September. The institute forecast German growth of 0.7% in 2005 and 1.3% in 2006, citing structural changes to be made by the new government as the main reason for increased growth.

July 12<sup>th</sup> – **ECB member Christian Noyer** commented on the euro exchange rate is not “misaligned” and that it is “very close to the historical average between 1986 and now.” Noyer suggested that the ECB will not cut rates to spur growth as “the danger would be that the markets would move up long term interest rates in line with less favorable inflationary expectations.”

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

---

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/15	Spanish Current Account (MAY)	--	-6560 euros
07/18	Euro Zone CPI (JUN)	--	2.1% Y/Y
07/19	Euro Zone ZEW econ. Sent. (JUL)	--	16.7
07/19	Euro Zone Industrial Production (MAY)	--	0.9% Y/Y
07/20	Spanish Factory Orders (MAY)	--	--

Valance Co., Inc.

# Valance Economic Report: Japan

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

July 14, 2005

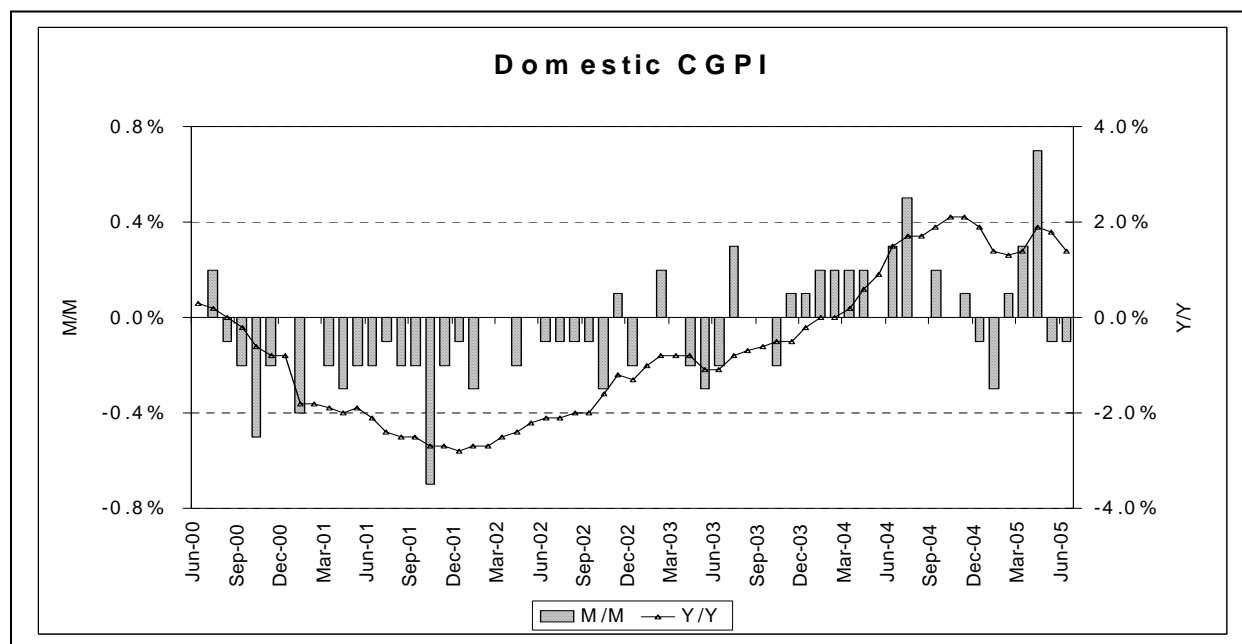
Mixed signals were shown in Japan's latest economic releases. Domestic CGPI and Consumer Confidence declined while the Adjusted Current Account Surplus widened above expectations. The BoJ reiterated in its July monthly report that Japan's "economy is recovering at a moderate pace, with some signs of emerging from weakness."

## Weekly Highlights

- **Domestic CGPI** - decreased 0.1% M/M and increased 1.4% Y/Y in June, below expectations. (Page 14)
- **Consumer Confidence (sa)** – decreased slightly from 45.6 in March to 45.4 in June. (page 15)
- **Industrial Production** - was revised down. (page 17)

## Weekly Releases & News

### Chart of the Week: Domestic CGPI

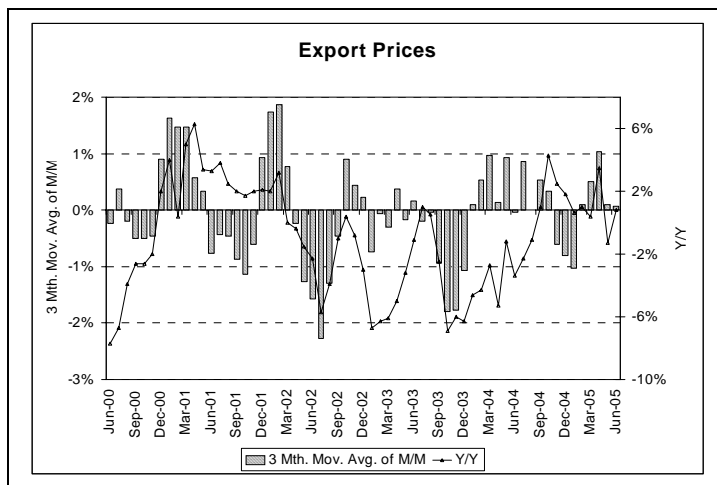


Domestic CGPI decreased 0.1% M/M and increased 1.4% Y/Y in June, below expectations. The 0.1% M/M decline in May and June follow the highest level recorded (+0.7%) since 1980 in April. Raw materials and final goods prices decreased 0.7% M/M and 0.1% M/M, respectively. Intermediate goods remained flat M/M.

## Export and Import Prices & Consumer Confidence

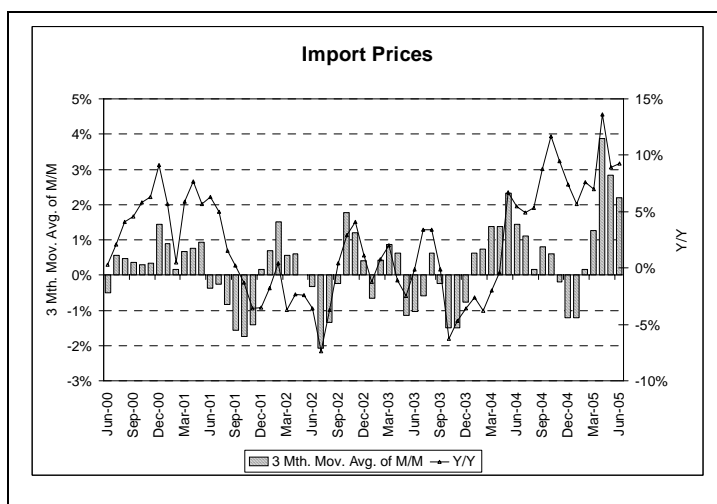
### Export Prices

Export Prices increased 0.5% M/M and 0.8% Y/Y in June.



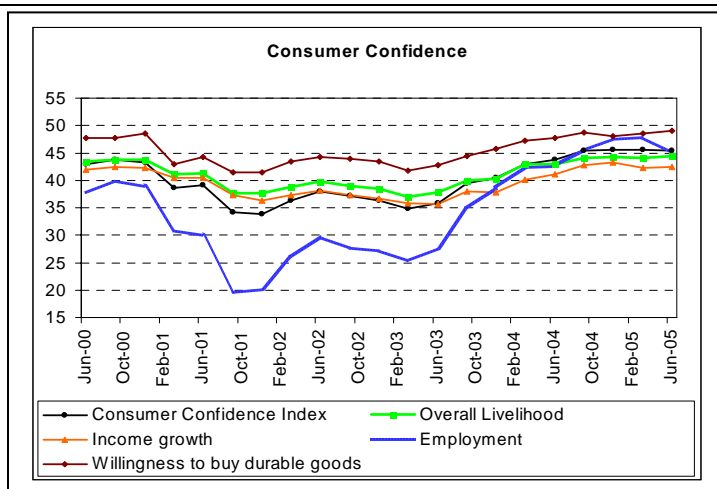
### Import Prices

Import Prices decreased 0.1% M/M and increased 9.3% Y/Y in June.



### Consumer Confidence

Consumer Confidence (seasonally adjusted) decreased slightly from 45.6 in March to 45.4 in June. Confidence increased in the overall livelihood (.4), income growth (.2) and willingness to buy durable goods (.5) sectors. Confidence in employment decreased 2.8. The nsa series decreased from 48.2 in May to 46.8 in June.

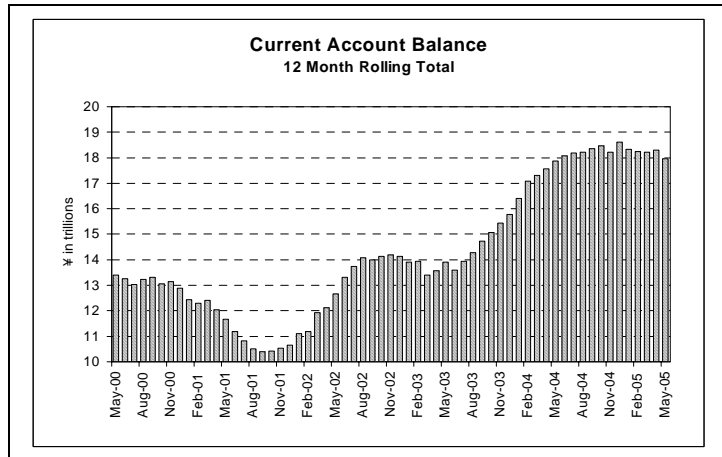




## Trade Data

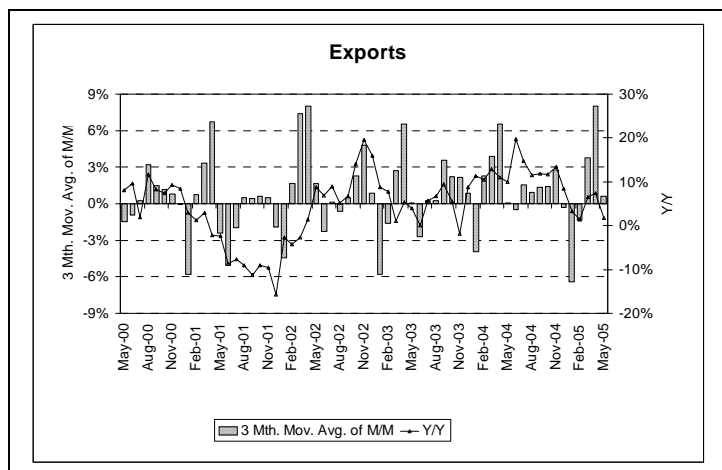
### Current Account Balance

*The Adjusted Current Account surplus unexpected widened from ¥1388.7 billion in April to ¥1440.5B billion in May. On a twelve month rolling basis, the Current Account surplus has steadied around ¥18 trillion (about 3.7% of GDP) for about one year.*



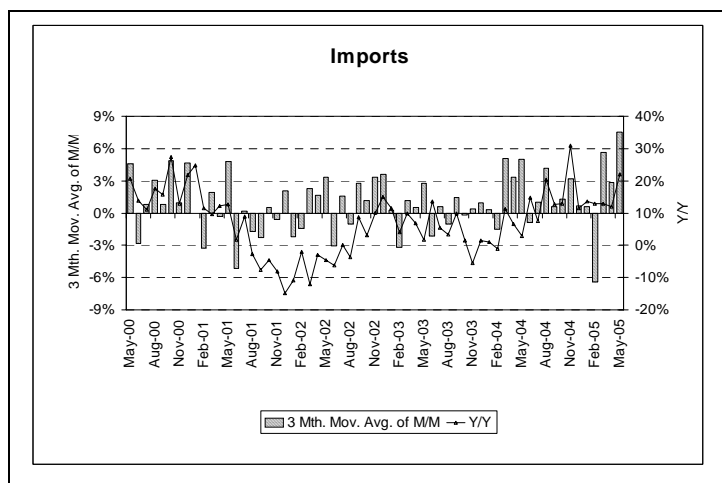
### Exports

*Exports decreased 12.7% M/M and increased 1.7% Y/Y in May.*



### Imports

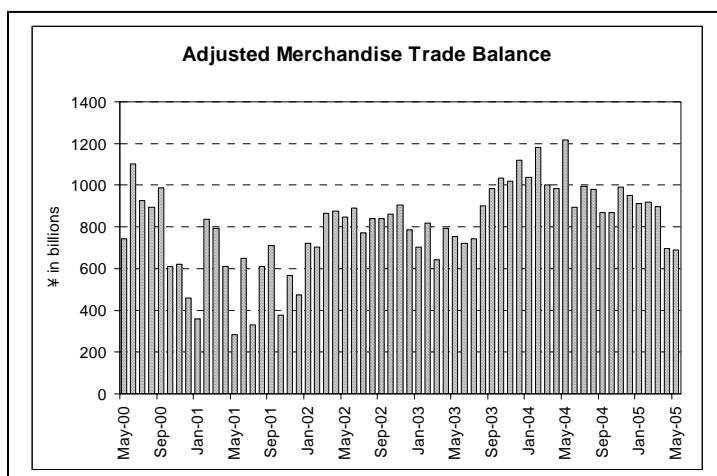
*Imports increased 1.3% M/M and increased 22% Y/Y in May.*



## Adjusted Trade Balance, Industrial Production & Capacity Utilization

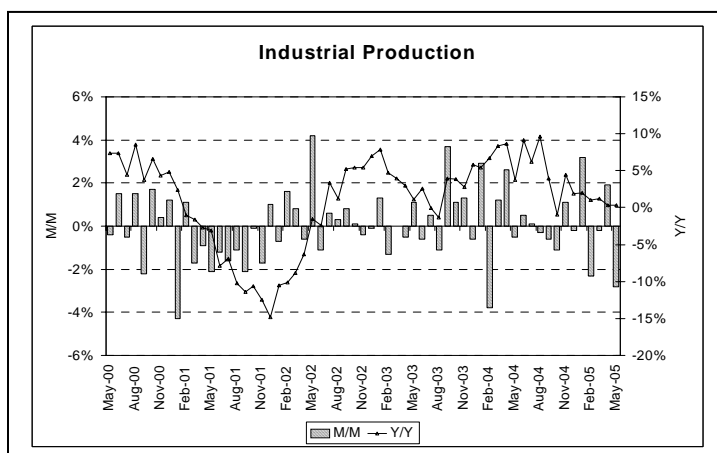
### Adjusted Trade Balance

Japan's Adjusted Merchandise Trade surplus narrowed from ¥697 bln in April to ¥690 in May as exports decreased and imports increased.



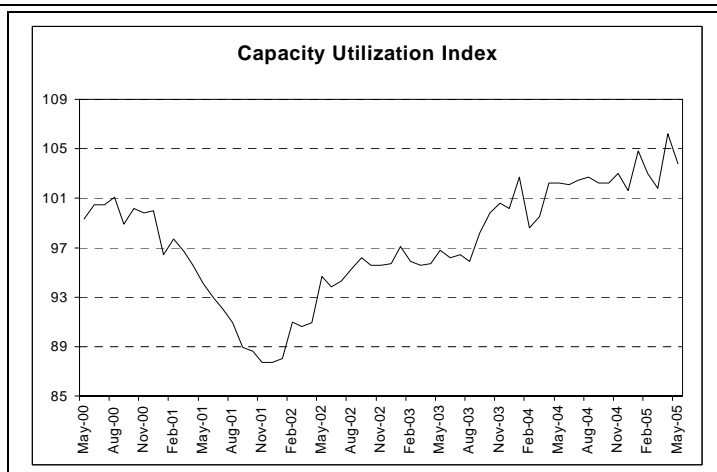
### Industrial Production

Industrial Production for May was revised down from -2.3% M/M and 0.9% Y/Y to -2.8% M/M and 0.3% Y/Y.



### Capacity Utilization

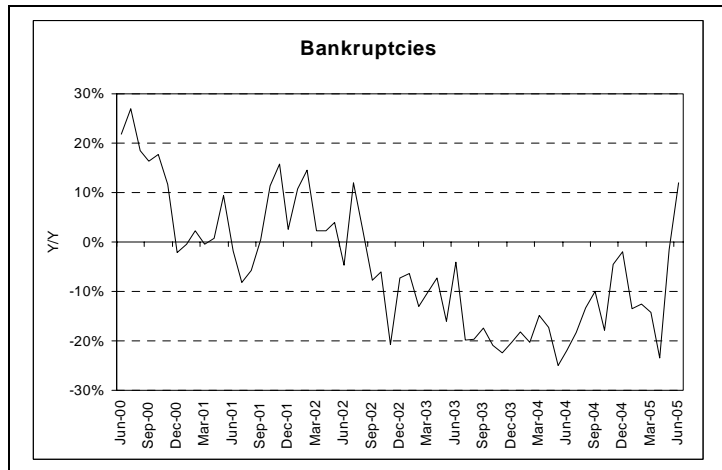
May's Capacity Utilization was revised down from 106.2 to 103.8.



## Bankruptcies and Tokyo Condominium

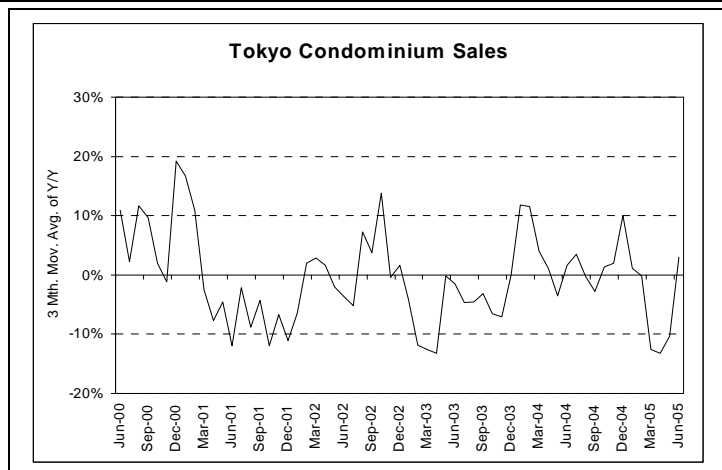
### Bankruptcies

*Bankruptcies increased 12% Y/Y in June, their first increase since August 2002.*



### Tokyo Condominium Sales

*Tokyo's Condominium Sales increased 20.9% Y/Y in June.*



## News & Upcoming Dates

---

**July 13th, BOJ Monetary Policy Monthly Report** – In its July Monthly Report, the BoJ reiterated that Japan’s “economy is recovering at a moderate pace, with some signs of emerging from weakness.” The report further stated that, “Domestic private demand is likely to continue increasing against the background of high corporate profits and the moderate rise in household income, while structural adjustment pressure stemming from firms’ excess capacity and debt has almost dissipated.” The report also stated that, “Consumer prices in fiscal 2005 and 2006 are both expected to be broadly in line with the outlook” made in April.

**July 13th, BOJ Monetary Policy Meeting** - The Bank of Japan decided by a majority vote to keep its current account deposits’ target around Y30 trillion to Y35 trillion and to allow the deposits to fall below the target as demand for funds remain weak.

**July 13th, Comments from the BoJ’s Governor Fukui** – Governor. Toshihiko Fukui, commented that he “cannot clearly say the economy has already emerged from a soft patch...But it is beginning to do so.” He also stated that consumer prices may start to increase by year-end or early next year as lower utility charges wear off.

## Key Dates This Week

---

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/15	Tokyo Dept. Store Sales (Y/Y) (JUN)		-1.6%
07/19	BoJ Monetary Policy Meeting Minutes		
07/19	Leading Economic Index (MAY F)		40.0%
07/19	Coincident Index (MA F)		55.6%
07/19	Machine Tool Orders (Y/Y) (JUN F)		10.6%
07/20	Convenience Store Sales (Y/Y) (JUN)		-1.9%

Valance Co., Inc.

**Valance Economic Report: United Kingdom**

Gabriel Webber

(340) 692-7710

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

July 14, 2005

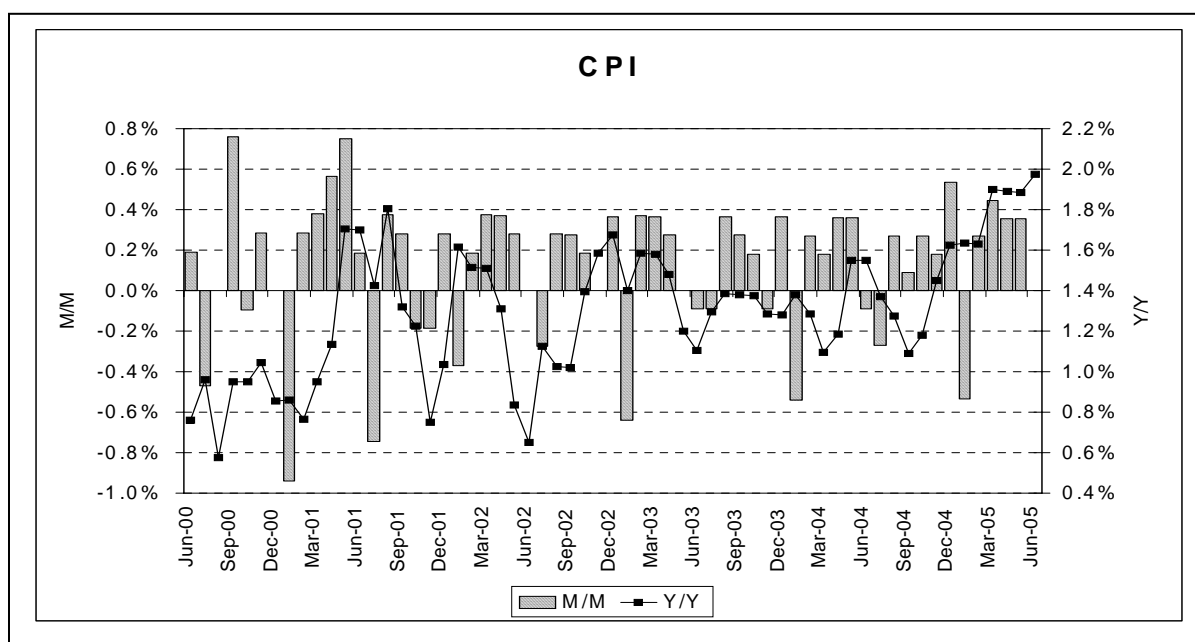
**Y/Y CPI Inflation continues to increase as the MPC ponders its next move for rates. The MPC sees the inflation outlook as being "broadly balanced" but the risks to growth being on "the downside." As a result, the MPC seems to be targeting weakening growth versus what it sees as a temporary rise in inflation.**

**Weekly Highlights**

**CPI-** remained flat M/M and increased slightly to 2.0% Y/Y in June, in line with expectations. (page 20)

**Average Earnings-** (ex bonuses) decelerated to 4.0% 3M/3M and to 3.9% Y/Y in May. (page 21)

**Trade Deficit-** decreased from £3.7 billion to £3.4 billion in May. (page 22)

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

CPI remained flat M/M and increased slightly to 2.0% Y/Y in June, basically in line with expectations, and its highest Y/Y rate in seven years. The largest upward effects came from food and non-alcoholic beverages. The largest downward effects came from recreation and culture activities. Core CPI which excludes energy and food increased from 0.9% Y/Y last year to 1.5% Y/Y in June.

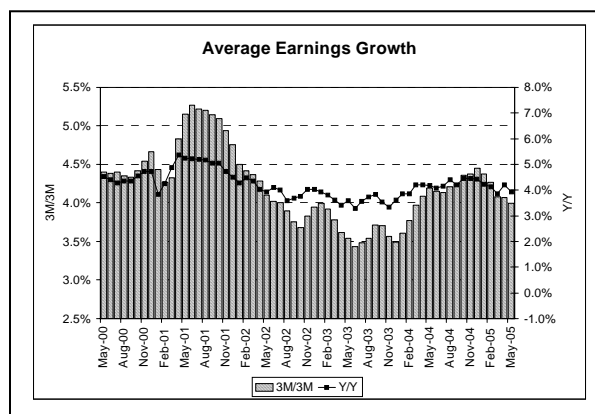
## Earnings Growth & Producer Prices

### Average Earnings Growth

*Average Earnings (ex bonuses) decelerated from 4.1% 3M/3M to 4.0% 3M/3M and from 4.2% Y/Y to 3.9% Y/Y in May.*

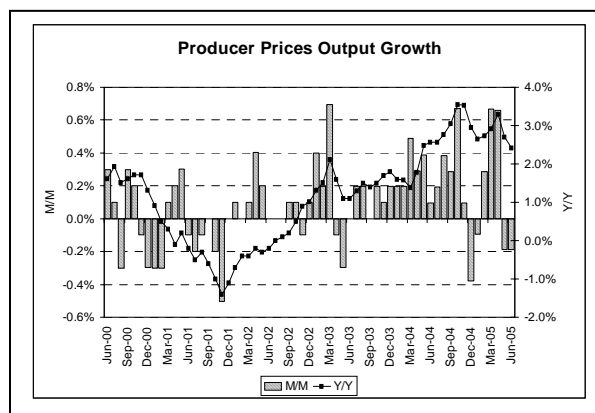
*Manufacturing earnings decreased from 3.5% 3M/3M to 3.2% 3M/3M in May. Services earnings decreased from 4.4% 3M/3M to 4.3% 3M/3M in May.*

*Average Earnings (including bonuses) slowed to 4.1% 3M/3M and 4.6% Y/Y as due to some bonuses in the real estate, renting and business services sector being paid earlier in 2005 than they had been in 2004.*

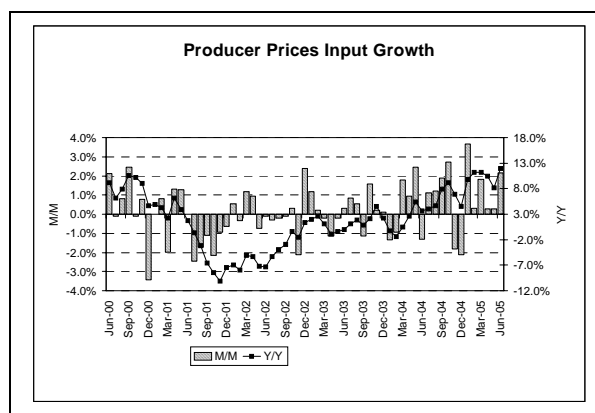


### Producer Prices

*Output Producer Prices decreased 0.2% M/M and increased 2.4% Y/Y in June which shows the continuing squeeze put on UK profit margins as producers are unable to pass along rising oil prices to their customers.*



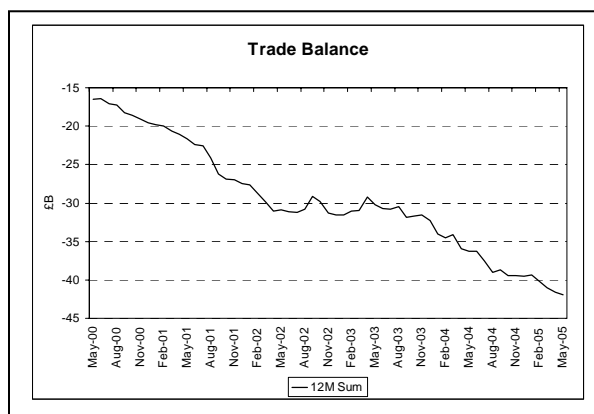
*Input Producer Prices increased 2.1% M/M and 11.9% Y/Y in June, mainly due to surging oil prices.*



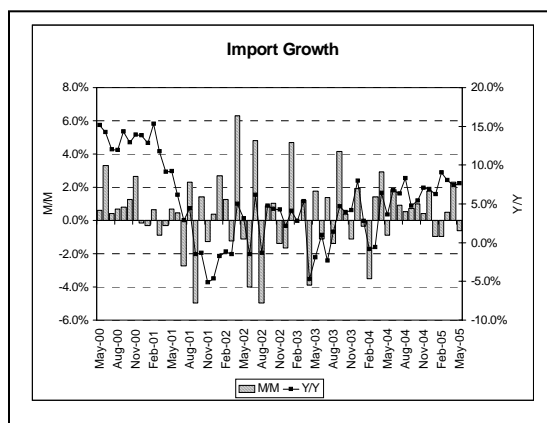
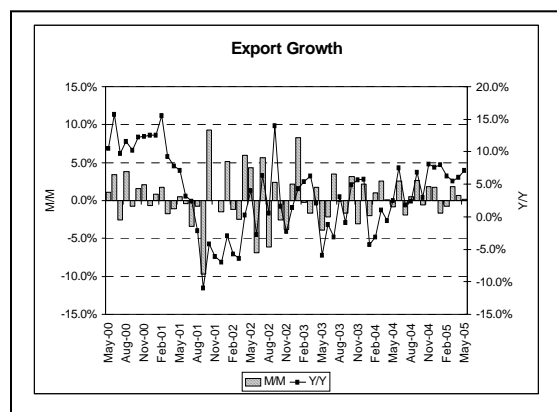
## Trade Deficit

### Trade Deficit

*The Trade Deficit decreased from £3.7 billion to £3.4 billion in May. The deficit with the EU was unchanged as exports and imports rose by similar amounts. Meanwhile, the deficit with non-EU countries decreased from £2.6 billion to £2.4.*



### Exports & Imports Growth



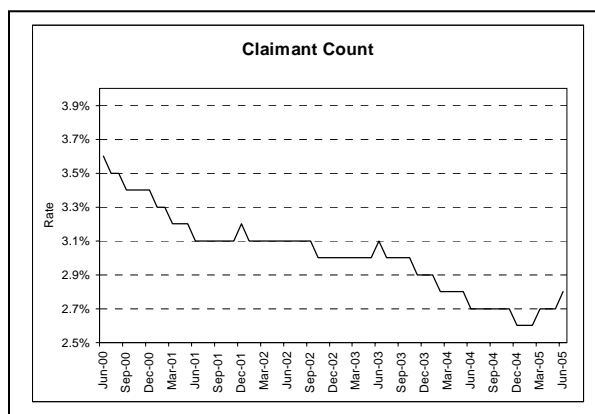
*Exports increased 0.2% M/M and 7.2% Y/Y in May. Imports fell 0.6% M/M and increased 7.7% Y/Y in May. Exports and imports both continue to be affected by the weakening Sterling versus the U.S. Dollar as UK discusses rate cuts and the US continues to hike rates.*



## Employment Data & House Price Survey

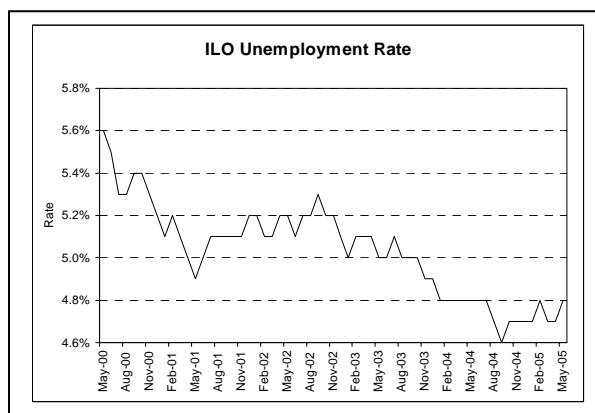
### Claimant Count

*The Claimant Count unemployment rate increased from 2.7% to 2.8% in June, the highest in thirteen months. Surging oil prices and the slowdown in consumer spending has softened the labor market as producers and retailers have trimmed jobs to keep costs down. The number of people claiming unemployment benefits increased by 8,800 to 864,900 in June.*



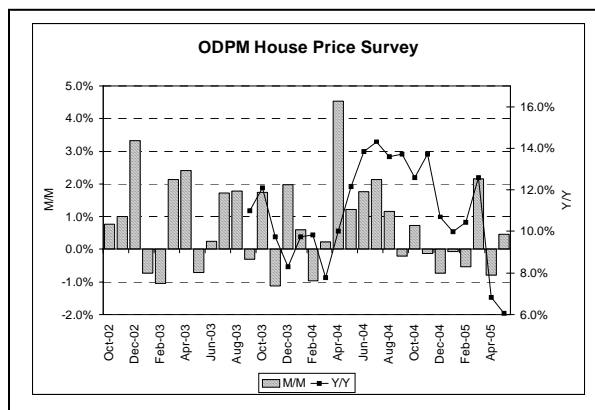
### ILO Unemployment Rate

*The ILO reported that unemployment increased from 4.7% to 4.8% in May.*



### ODPM House Prices

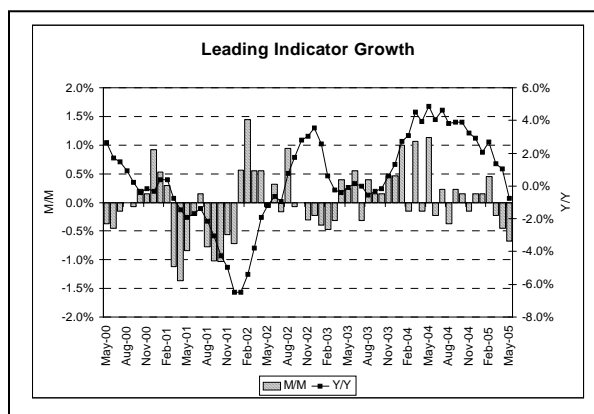
*ODPM House Prices increased 0.5% M/M and slowed from 6.8% Y/Y to 6.0% Y/Y in May. Y/Y growth remains the highest in Northern England while being the lowest in London, 12.0% Y/Y and 1.6% Y/Y, respectively in May.*



## Leading Indicators

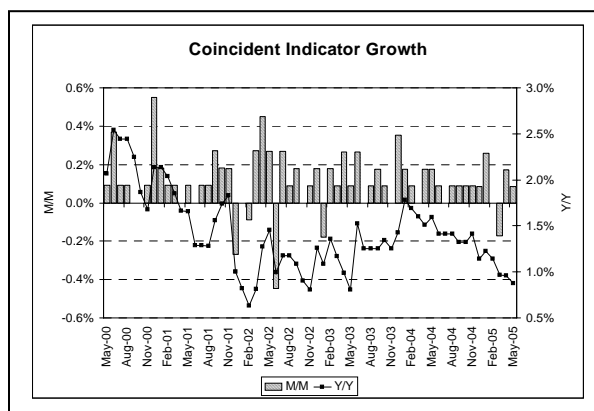
### Leading Indicator

*The Leading Indicator decreased 0.7% M/M and increased 0.7% Y/Y in May. Order book volume decreased 25.0% M/M and volume of expected output decreased 63.0% M/M.*



### Coincident Indicator

*The Coincident Indicator increased 0.1% M/M and increased 0.9% Y/Y in May. Industrial production and retail sales both remained flat M/M while employment increased 0.1% M/M.*



## ***Data & Comments***

---

### ***Data***

---

#### **BCC Quarterly Economic Survey**

The British Chamber of Commerce reported that service companies domestic sales decreased from 23 to 12 in Q1 2005, the lowest since Q4 of 1998. This report hints at the possibility of the weakness in retail and manufacturing sectors creeping into the service sectors which have been resilient thus far.

#### **Business Confidence Survey**

The Guardian newspaper is reporting that a survey for Lloyds TSB Group Plc said business confidence is at its lowest level since December of 2001. Almost a third of companies said they experienced declining sales and orders in the first half of 2005, while profit margins at 37% of businesses have been cut due to rising costs. Expectations of new orders, sales and profitability for the next six months are at the lowest level since December of 2001.

#### **Monster Employment Index**

The Monster Employment Index for online job recruitment and related employment opportunities increased from 103 in May to 104 in June. The index has been on an upward trend since January. Occupations showing the greatest increases in online job availability during June were plant and machine operators and craft workers, while demand for technicians, associate professionals, and clerks also showed solid growth from May to June.

### ***Comments***

---

#### **MPC Member, Kate Barker's comments:**

##### **Monetary Policy:**

"Inflation has been below target but what's important is not where inflation is today. When you're setting interest rates today you are trying to control inflation tomorrow. The best practice frontier is a trade off between two things; the theoretical and the one that actually explains what happens."

##### **House prices:**

"House prices have changed and that may have affected consumption but we are uncertain about that at the moment. Some have argued that households have borrowed too much but it is important for us to know if it is true."

##### **Oil prices:**

"If there is a change as there has been in recent oil prices it is less likely to push inflation up. Wages may not go up because people believe the rise will be temporary. In that sense the greater our credibility the easier our job becomes."

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

---

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/18	RICS House Prices Survey	-52	-49
07/20	MPC Minutes	--	--
07/20	Public Net Borrowing	--	£8.7B
07/21	Retail Sales		0.1% M/M 1.3% Y/Y

Valance Co., Inc.

# Valance Economic Report: *Canada*

Davin Patton

(340) 692-7710

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

July 14, 2005

Economic data from Canada has remained strong. The Trade Surplus narrowed in May but June Employment and Housing were firm. The BoC stated that it may need to remove stimulus in the “near term”, suggesting it is likely to raise its overnight rate at its September 17<sup>th</sup> meeting.

## Weekly Highlights

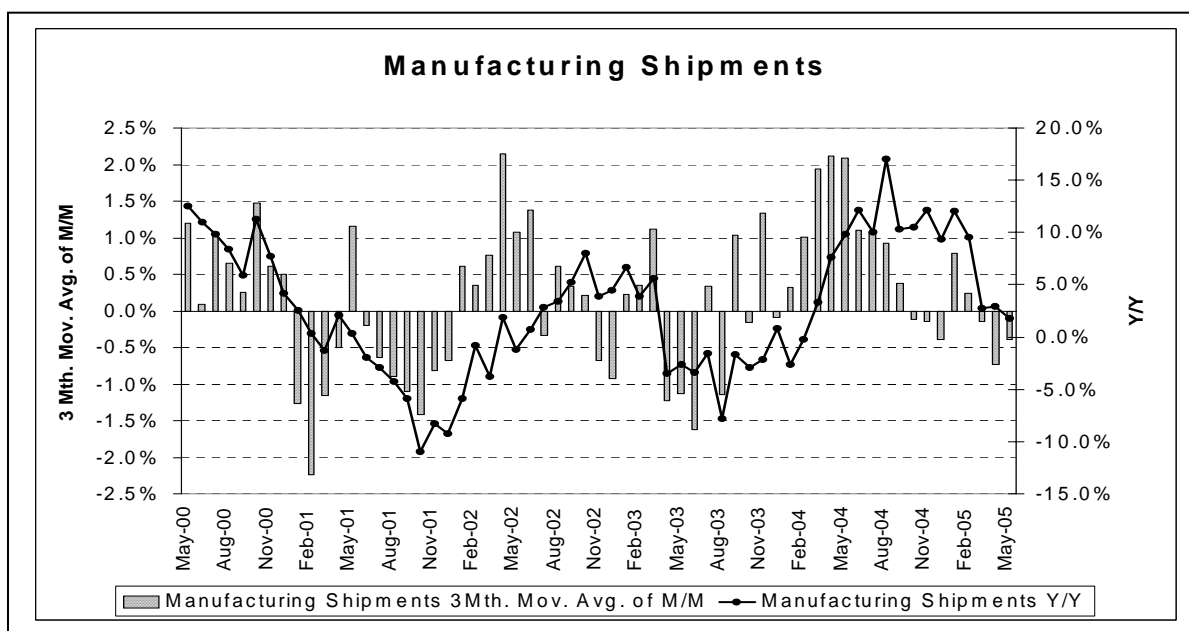
**Manufacturing Shipments** – declined 0.1% M/M and increased 1.7% Y/Y in May. (page 27)

**Trade Surplus**– narrowed from \$5.1 billion to \$4.0 billion in May. (page 28)

**Employment** –14.2k new jobs in June. (page 29)

## Weekly Releases & News

### Chart of the Week: *Manufacturing Shipments*

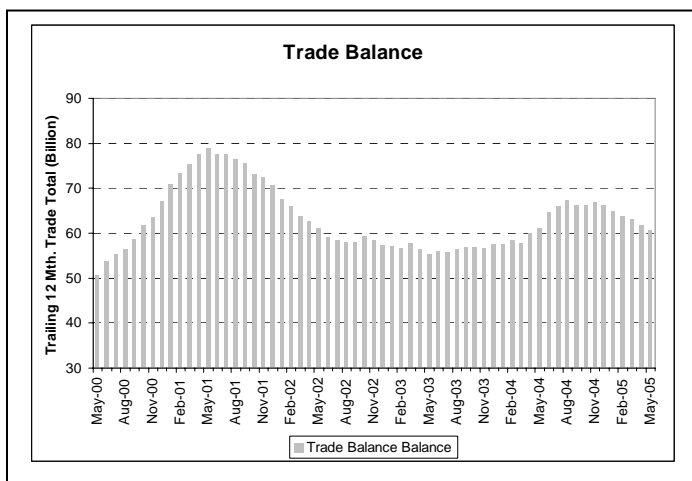


Manufacturing was relatively unchanged M/M in May as shipments declined 0.1% M/M and increased 1.7% Y/Y. Excluding the transportation sector, shipments were up 0.6% M/M. Unfilled orders increased 0.6% M/M and 7.2% Y/Y. Inventories increased 0.2% M/M and 7.3% Y/Y. Manufacturing orders declined 0.6% M/M and increased 2.4% Y/Y. Overall, this data is in line with the BoC's view that the manufacturing sector is adjusting well to current economic conditions.

## Trade Balance, Exports & Imports

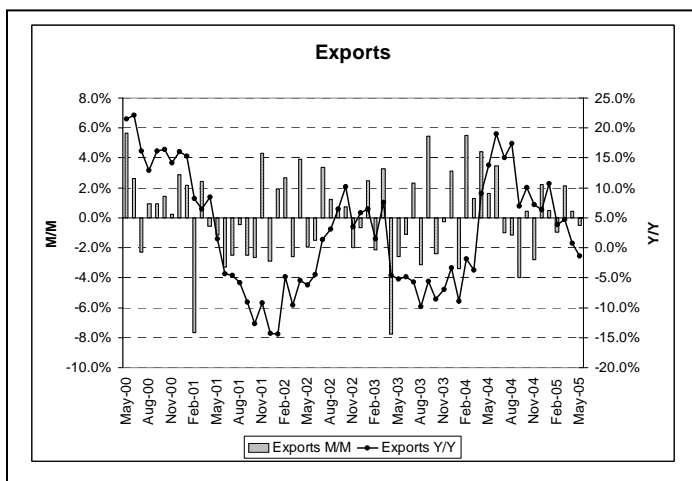
### Trade Balance

Canada's Trade Surplus narrowed in April from a revised \$4.9 billion in April to \$4.0 billion in May.



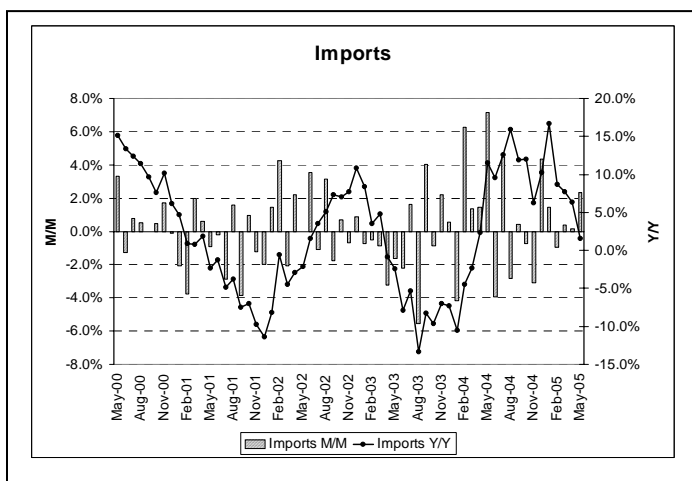
### Exports

Exports declined 0.5% M/M and 1.4% Y/Y in May, the first M/M decline since February.



### Imports

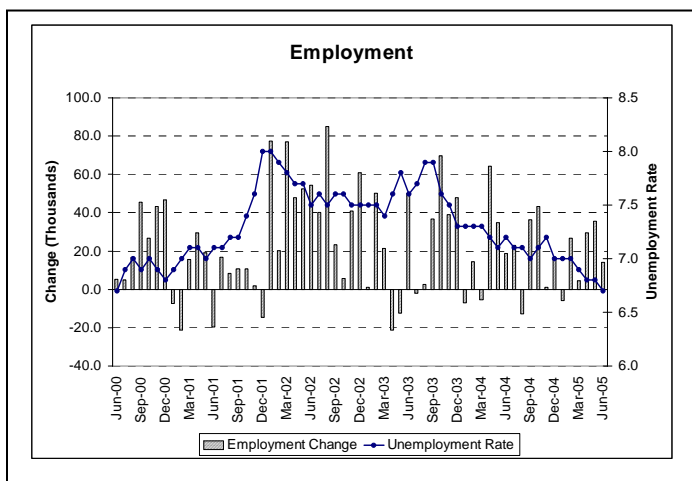
Imports increased 2.3% M/M and 1.5% Y/Y, the largest M/M increase since last December.



## Employment, Labor Productivity & Capacity Utilization

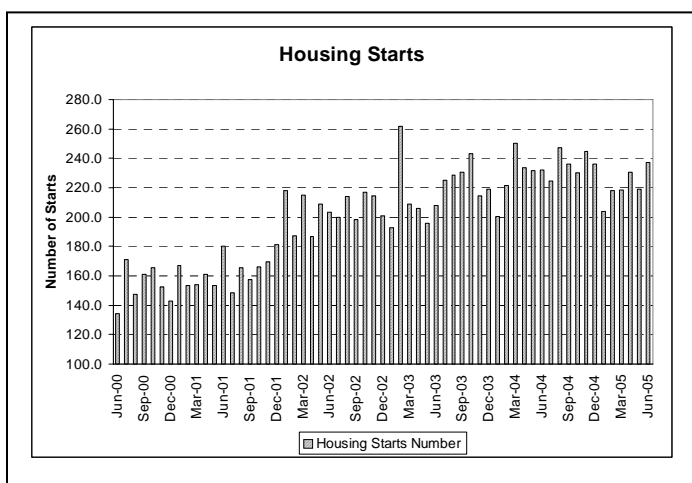
### Employment

The Canadian economy picked up 14.2k new jobs in June, lowering the unemployment rate from 6.8% to 6.7%, a 30yr low. The increase was due to a 52.2k increase in full time jobs. Part time jobs declined 38.8k jobs. The goods producing sector gained 32.8k jobs while the manufacturing sector gained 6.1k jobs.



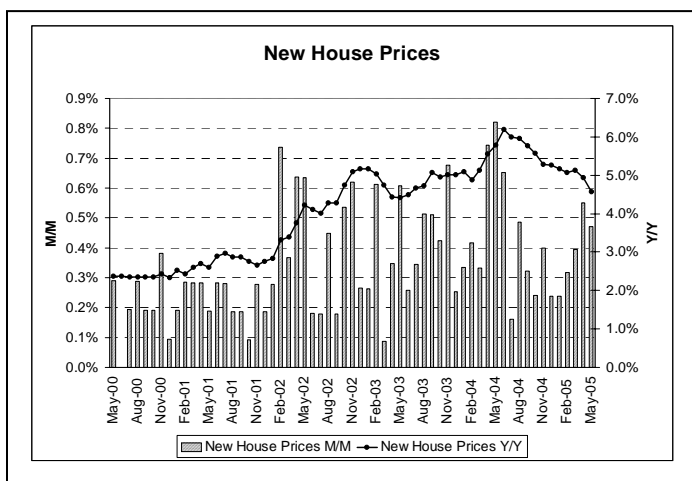
### Housing Starts

Housing starts increased 8.4% M/M and 2.3% Y/Y in June to 237.2k, ahead of the 222.5k that the market expected.



### New House Price Index

The prices of new houses increased 0.5% M/M and 4.6% Y/Y in May.

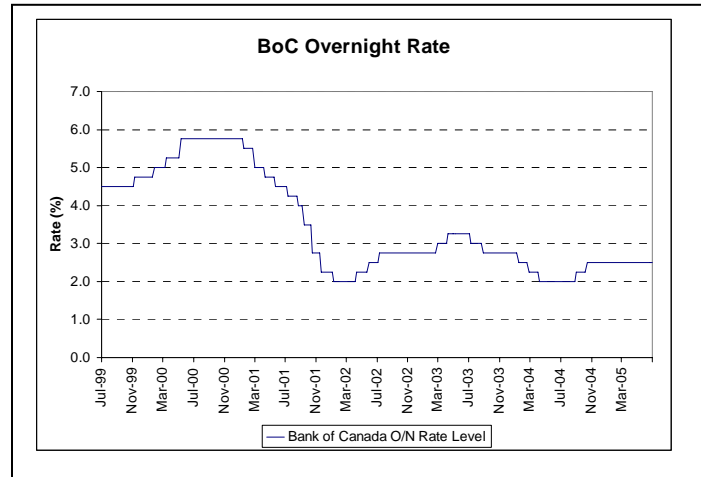




## ***New House Prices, New Motor Vehicle Sales & Election Update & Upcoming Dates***

### ***BoC Overnight Rate***

*The BoC decided to leave its overnight rate unchanged at 2.50% on July 12<sup>th</sup>, as the market anticipated. In its accompanying statement, the BoC noted that a reduction in the amount of monetary policy stimulus would be needed in the “near term” to keep aggregate demand and supply in balance and inflation on target,, suggesting that the BoC may decide to increase its overnight rate within the next three months.*



### ***Consumer Confidence***

Consumer Confidence in Canada increased from 122.6 in May to 122.9 in June, which fits in with firm domestic demand and the BoC’s comments that the Canadian economy is adjusting well to global economic conditions.

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

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/15	New Motor Vehicle Sales (May)	-6.0%	1.6%
07/20	Wholesale Sales (May)	0.5%	0.9%
07/20	Leading Indicators (June)	0.3%	0.3%

Valance Co., Inc.

# Valance Economic Report: Australia

Davin Patton

(340) 692-7710

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

July 14, 2005

Recent data from Australia was on the softer side as May Home Loans were weaker than expected and Consumer Confidence declined in July. Business Confidence in June remained somewhat mixed, although most businesses remained optimistic. Looking forward, the RBA will probably remain on hold through the remainder of the year.

## Weekly Highlights

**Home Loans** – declined 0.4% M/M and increased 10.5% Y/Y in May. (page 31)

**Consumer Inflation Expectations** – increased from 4.4% over the next 12mths in June to 4.7% in July. (page 32)

**NAB Business Survey** – business confidence increased in June. (page 32)

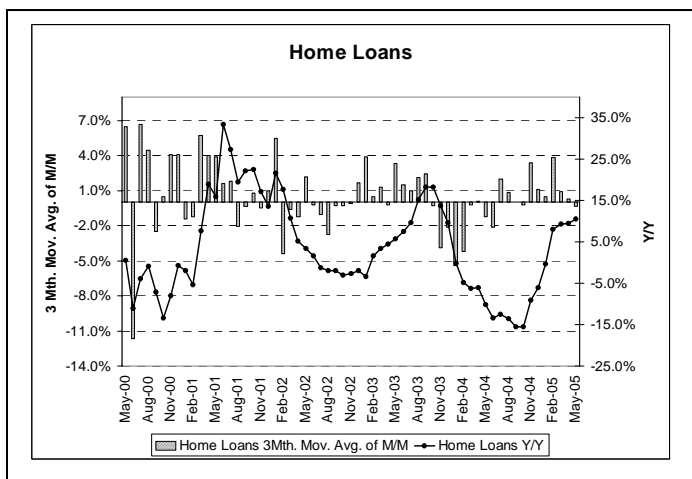
**Consumer Confidence**– declined 5.5% M/M and 9.9% Y/Y in July. (page 32)

## Weekly Releases & News

### Home Loans

*Home loans declined 0.4% M/M and increased 10.5% Y/Y in May, below market expectations for a 0.5% M/M increase.*

*The value of lending to investors who plan to rent or resell homes declined 6.8% M/M.*



## ***Consumer Inflation Expectations, Business Confidence, Consumer Confidence & Upcoming Dates***

---

### ***Consumer Inflation Expectations***

---

Australian consumers' expectations of inflation over the next 12 months increased from 4.4% in June to 4.7% in July, according to the Melbourne Institute. "The rise in inflationary expectations comes in the wake of ongoing mixed evidence of the strength of the economy in recent weeks with continuing strong labor market data," the Melbourne Institute stated.

### ***Business Confidence***

---

Australian Business Confidence increased for a second consecutive month in June, as the Business Sentiment Index increased 1 point from a reading of 4 to a reading of 5. A positive level indicates that companies expecting their industry to improve outnumbered those that expect deterioration.

### ***Consumer Confidence***

---

Australian Consumer Confidence declined 5.5% M/M and 9.9% Y/Y in July according to the Westpac Melbourne Institute Consumer Sentiment Index. Westpac's global head of economics stated that, "Consumers unease with industrial relations legislation is likely to persist for some time," and that "Another factor which may have influenced confidence has been the relentless rise in Oil prices."

### ***Key Dates***

---

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/18	National Australia Business Survey (Q2)	N/A	N/A
07/18	National Australia Bank Business Survey (June)	N/A	N/A

Valance Co., Inc.

# Valance Economic Report: New Zealand

Davin Patton

(340) 692-7710

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

July 14, 2005

Recent data from New Zealand continues to suggest that the economy is cooling. Though house prices increased in June, Retail Sales and Job Ads declined. Looking forward, we continue to expect the RBNZ to remain on hold in the upcoming months, more than likely into Q1 2006.

## Weekly Highlights

**Consumer Prices** – increased 0.9% Q/Q and 2.8% Y/Y in Q2. (page 33)

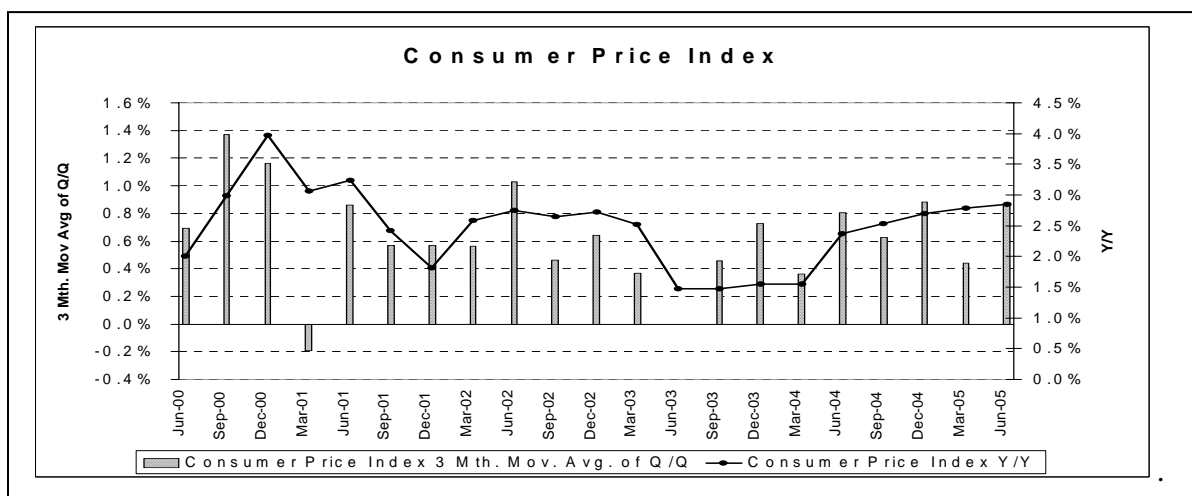
**Retail Sales** – declined 0.6% M/M and increased 6.5% Y/Y in May. (page 34)

**Building Approvals** –increased 11.4% M/M and declined 26.1% Y/Y in May. (page 34)

**ANZ Job Ads**– declined 0.3% M/M and 5.5% Y/Y in June. (page 34)

## Weekly Releases & News

### Chart of the Week: Consumer Price Index

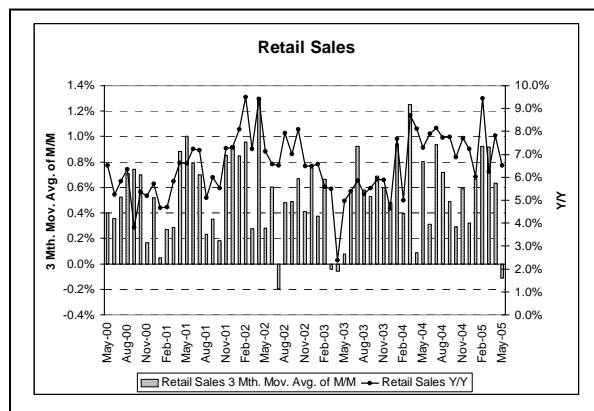


Consumer prices in New Zealand accelerated to from 0.4 % Q/Q in Q1 to 0.9% Q/Q and 2.8% Y/Y in Q2. The increase mirrored expectations from the RBNZ and suggests that the RBNZ will remain hawkish for some time. Despite the acceleration in price increases, economists continue to expect the RBNZ to remain on hold through the end of the year.

## Retail Sales, Building Approvals & ANZ Job Ads

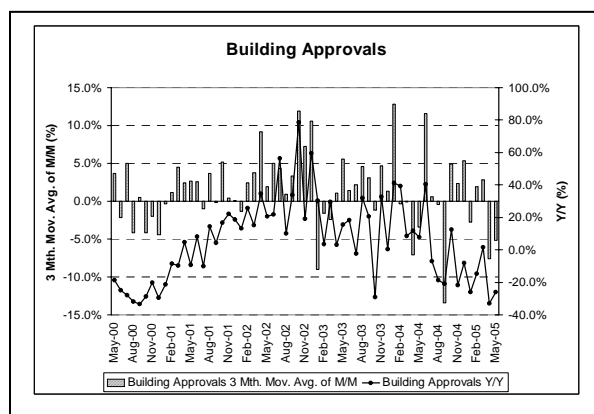
### Retail Sales

Retail Sales in New Zealand declined 0.6% M/M and increased 6.5% Y/Y in May. The decline was against expectations for a 0.4% M/M increase and suggests that domestic demand may be slowing.



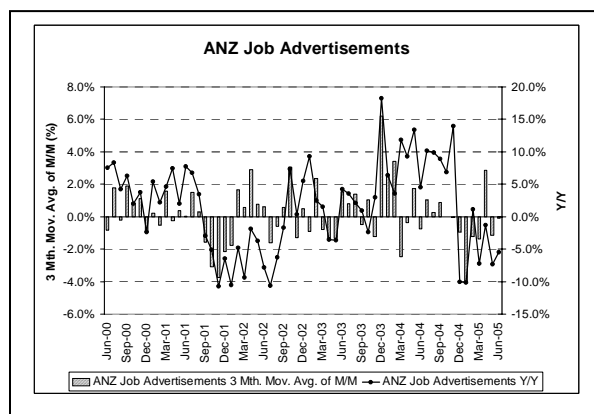
### Building Approvals

Building Approvals increased 11.4% M/M and declined 26.1% Y/Y in May.



### ANZ Job Ads

Job Advertisements in major New Zealand newspapers declined 0.3% M/M and 5.5% Y/Y in June.



## *House Prices & Upcoming Dates*

---

### *House Prices*

---

House Prices in New Zealand increased 14.2% Y/Y in June, up from the 13.5% Y/Y increase in May.

### *Key Dates This Week*

---

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/26	Trade Balance (June)	N/A	-\$24.735 mln

Valance Co., Inc.

# Weekly Economic Report: *China*

La-Toya C. Elizee

(340) 692-7710

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

July 14, 2005

**A widening Trade Surplus and a slowdown in Foreign Direct Investment are the main macro highlights of the past week.**

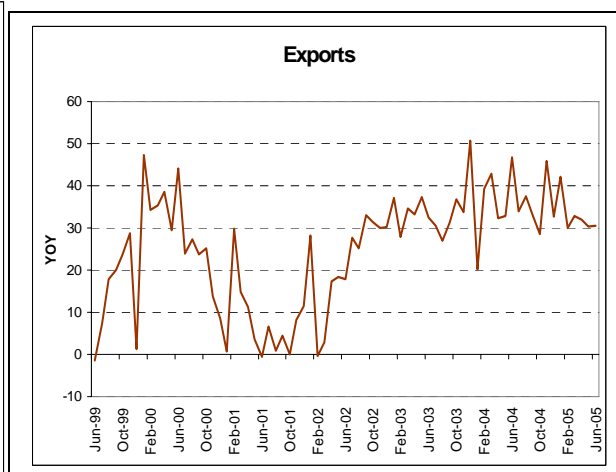
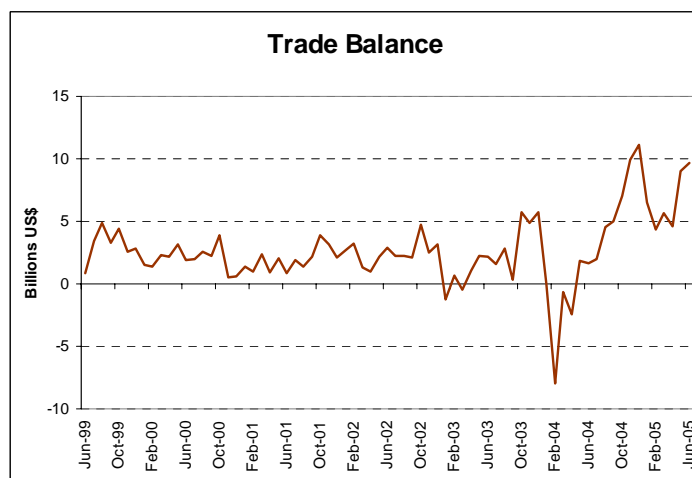
## Weekly Highlights

**China's Trade Surplus** - widened from US\$9.0 bln in May to US\$9.7 bln in June. (Page 36)

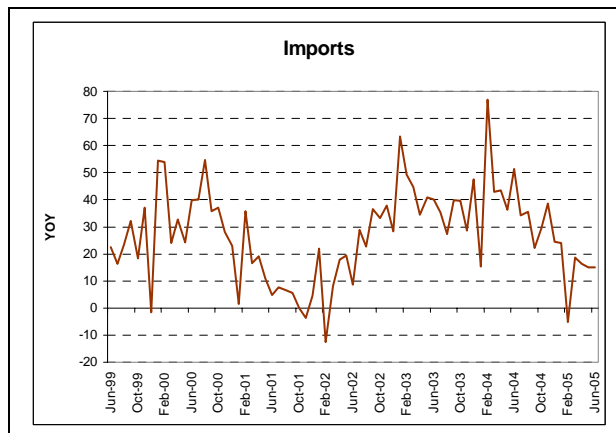
**Foreign Capital Utilized** – decreased from -0.8% Y/Y in May to -3.18% Y/Y in June. (Page 38)

## Weekly Releases & News

### Chart of the Week: *Trade Balance*



China's Trade Surplus widened US\$9.0 bln in May to US\$9.7 bln in June, as exports growth continues to exceed that of imports. Total Export growth increased from 30.3% Y/Y in May to 30.6% Y/Y in June. Total Import growth increased from 15.0% Y/Y in May to 15.1% Y/Y in June.

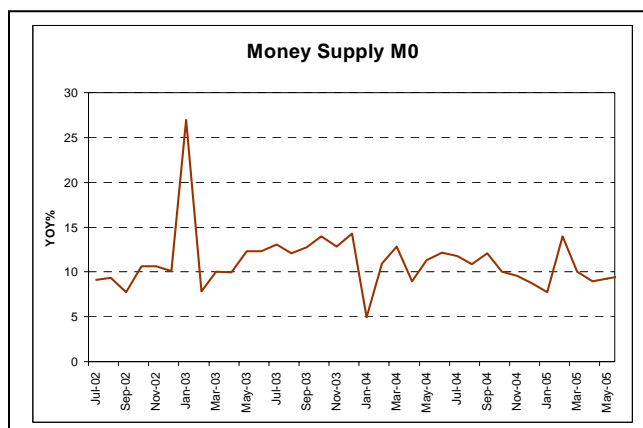




## Money Supply

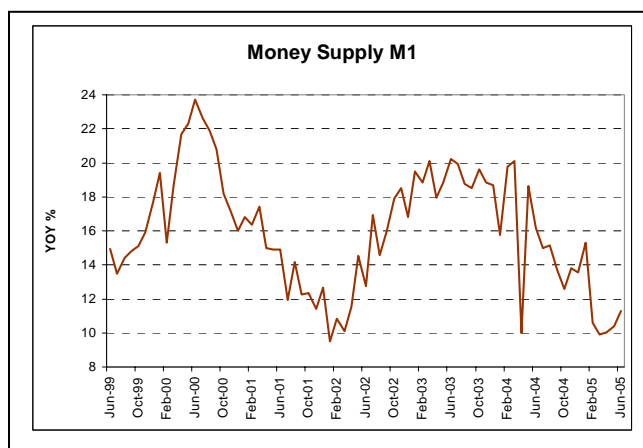
### Money Supply – M0

Money Supply M0 increased from 9.3% Y/Y in May to 9.6% Y/Y in June.



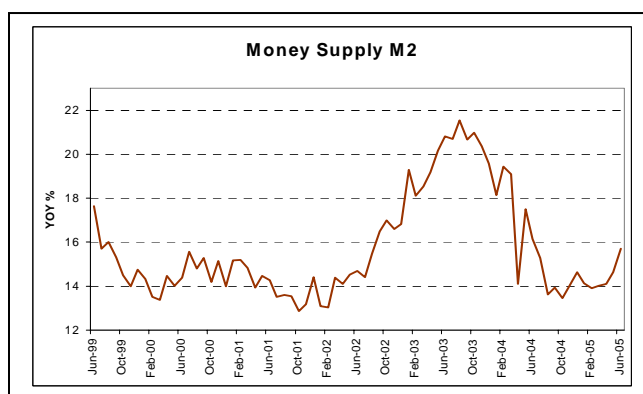
### Money Supply – M1

Money Supply M1, which includes cash, increased from 10.4% Y/Y in May to 11.3% Y/Y in June.



### Money Supply – M2

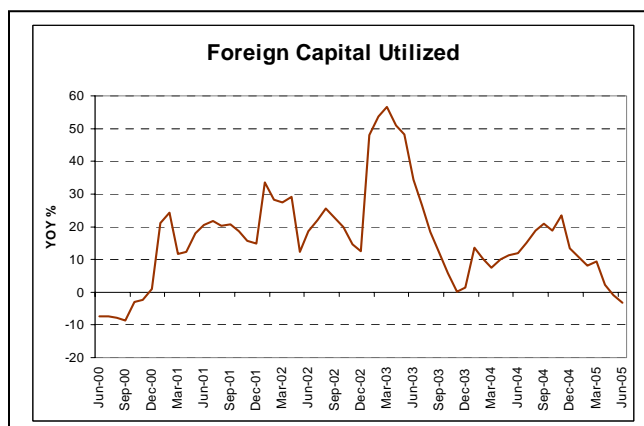
Money Supply M2, which includes cash and all deposits, increased from 14.6% Y/Y in May to 15.7% Y/Y in June. Money supply has move between the bank target range for the first time in 11 months, after steadying around 14% level, for 10 consecutive months. China's central bank previously set a target range of 15% -17%, enforced to help control the "over-heated economy."



## Foreign Capital & Foreign Exchange Reserves

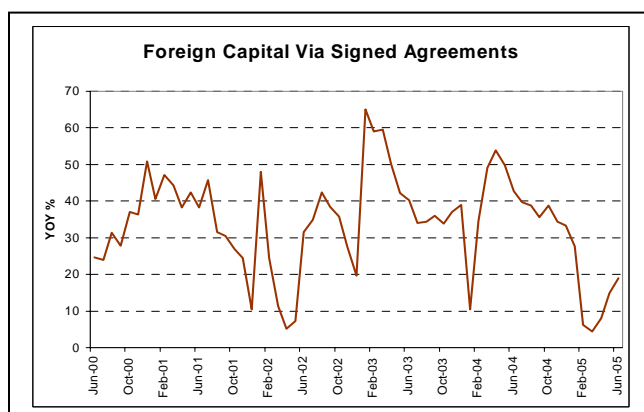
### Foreign Capital Utilized

Foreign Capital Utilized decreased from -0.8% Y/Y in May to -3.2% Y/Y in June as overcapacity in industries, including steel and autos, have pushed prices lower, affecting profits and prompting manufacturers to slow down expansion. Growth in this series has been slowing since the end of 2004.



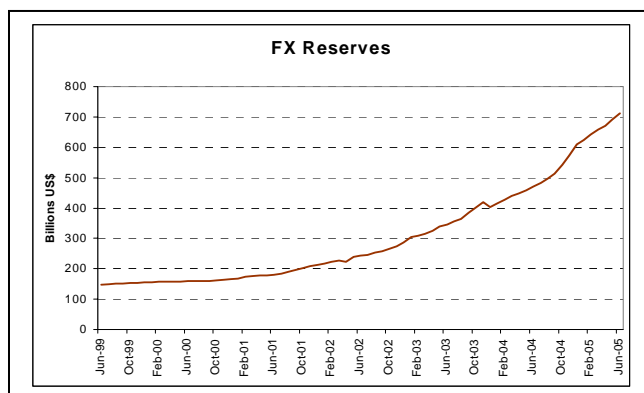
### Foreign Capital Via Signed Agreements

Foreign Capital Via Signed Agreements growth increased from 14.8% Y/Y in May to 19% Y/Y in June.



### Foreign Exchange Reserves

China's Foreign Exchange Reserves surged to a record \$711 billion in June as exports increased and banks increased lending.



## ***News Releases & Upcoming Dates***

---

**July 13<sup>th</sup> - Possible New Restrictions on Textile Imports** – U.S. textile groups are trying to force the Bush Administration's hand in applying new measures to Chinese textile imports such as, shirts, skirts, pajamas and swimwear. The new restrictions came as a result of the January 1 elimination of the global quota placed on textiles. Liang Shiyu of the China's Chamber of Commerce for the Import and Export of Textiles stated "We hope that the US side will not introduce curbs to new categories." Shiyu added, "That will enlarge the influence on our textile industry." At the same time, the U.S. textile groups have again filed petitions to place caps on Chinese-made curtains. These groups promise to continue petitioning the U.S. government until both countries come to a consensus.

**July 12<sup>th</sup> – GDP Growth Expected to Slow** - China Securities Journal reported that economic growth in China is expected to slow to 8.8% in 2005, down from 9.5% last year. The Journal also forecast slowdowns in Q3 and Q4 of this year of 8.6% and 8.2%, respectively.

**July 12<sup>th</sup> – Flexibility vs. Revaluation** – Director of the State Administration of Foreign Exchange, Hu Xiaolian, reported that China's currency regulator is aiming for a more flexible yuan instead of a mere revaluation. Hu stated, "The goal of the exchange rate reform is to make it more market-driven and more flexible, rather than merely moving towards a revaluation." Hu also maintains that China is still working towards reforming its currency, but at its own pace.

**July 11<sup>th</sup> – Central Bank May Reduce Currency Controls** – In an effort to help companies invest overseas, China's Central Bank Governor, Zhou Xiaochuan, would like for currency controls to be eased. Governor Xiaochuan stated that China "should actively and prudently reduce some unnecessary foreign exchange controls" to promote investment in view of China's high "reliance on overseas markets." A timetable has not yet been set.

**July 11<sup>th</sup> - Urban Housing Prices Increase** – Urban Housing Prices in China increased 8.0% Y/Y in Q2, up 1.5% from Q1.

**July 10<sup>th</sup> - Tax Revenue Rose in First Half** – The State Administration of Taxation reported that tax revenue in China increased 21.7% Y/Y in the first half of 2005.

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

---

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/20-30	Household Savings – Trin Yuan - Jun	--	13.06T

Valance Co., Inc.

# Valance Economic Report: Sweden

Evelyn L. Richards

(340) 692-7710

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

July 14, 2005

Data released in Sweden over the past week showed some signs of improvement: **Industrial Production and Industrial Orders both surged** and **Core CPI rose 0.1%..** By contrast, the job market continues to negatively impact recovery efforts as companies continue to cut and move jobs to lower cost areas.

## Weekly Highlights

**Industrial Production** - rose 0.9% M/M, but slipped -0.9 Y/Y in May. (page 40)

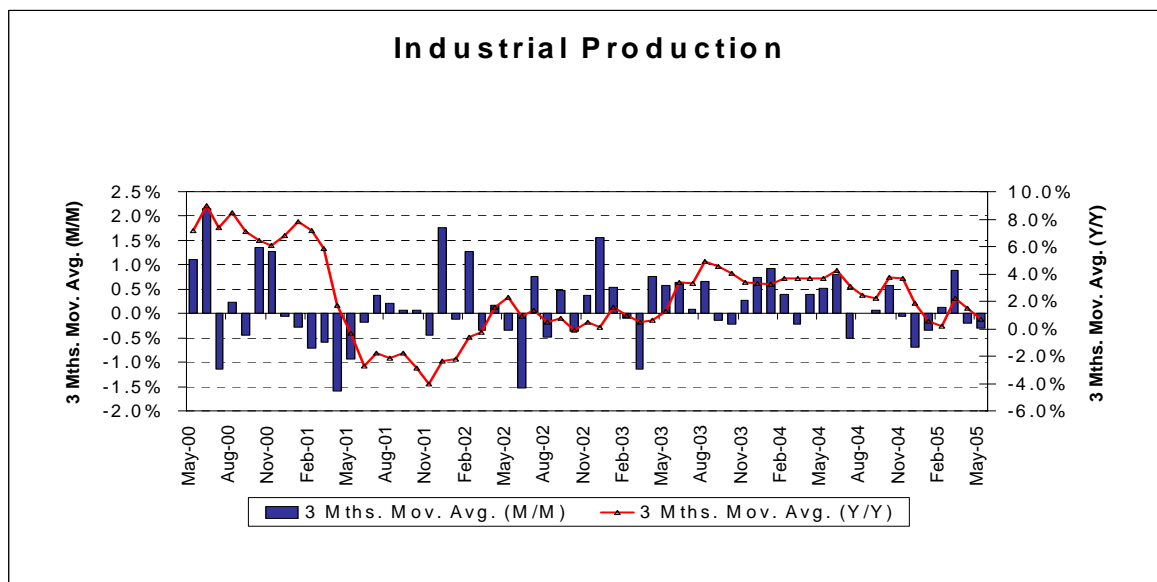
**CPI** – M/M growth remained unchanged while Y/Y growth rose from 0.1% in May to 0.6% in June. (page 41)

**Core CPI** - increased 0.1% M/M and 0.7% Y/Y in June. (page 41)

**Industrial Orders** - rose 0.9% M/M and 10.7% Y/Y in May. (page 41)

## Weekly Releases & News

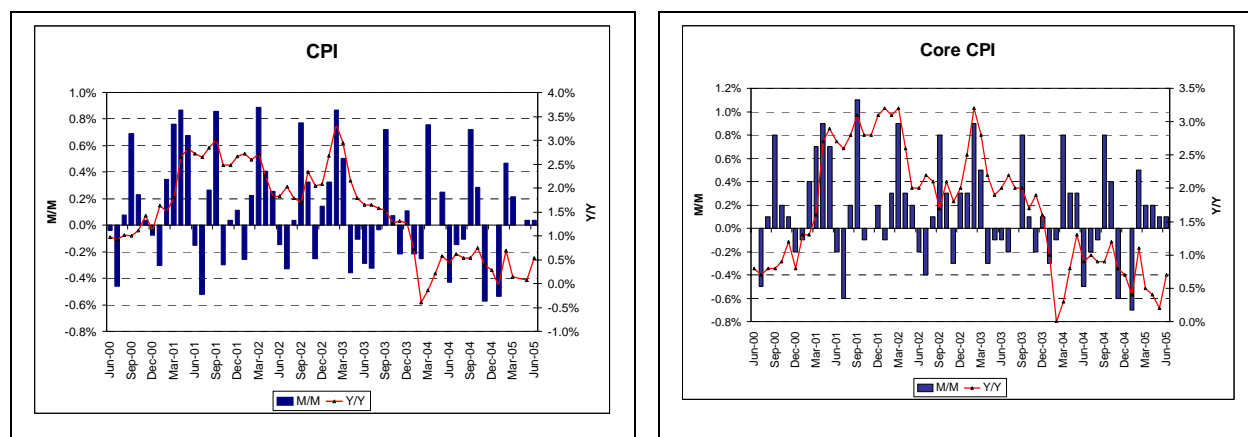
### Chart of the Week: *Industrial Production*



Industrial Production rose 0.9% M/M and slipped 0.9% Y/Y in May. The rise was partially attributed to a 2.2% increase in production in the capital goods industry. On trend, production still looks weak.

## CPI & Industrial Orders

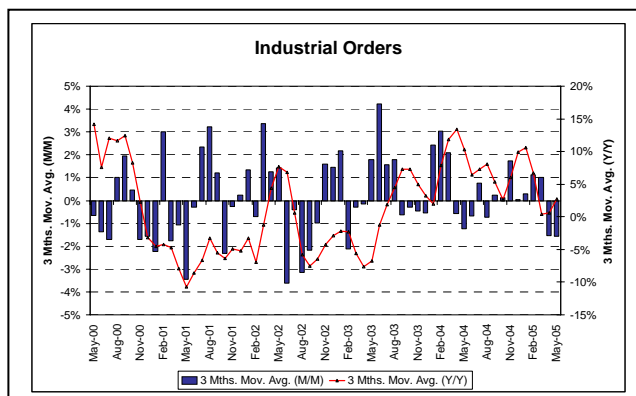
### CPI



Swedish Consumer Prices M/M growth remained unchanged from May to June. Due to base effects, the Y/Y growth surged from 0.1% in May to 0.6% in June. Underlying inflation increased 0.1% M/M and 0.7% Y/Y, above the Riksbank's expectations of a 0.5% Y/Y gain. The data was reflective of the effects of a weakening krona and rising oil prices on transport costs. Inflation has remained below its 2.0% target since September of 2003.

### Industrial Orders

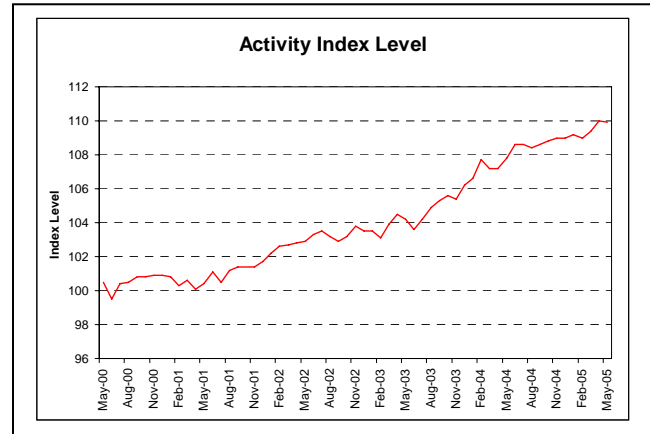
Industrial Orders rose 0.9% M/M and 10.7% Y/Y in May. This was reflective of a 2.5% increase in domestic market orders and a 0.3% decrease in export market orders. In addition, new orders in the capital goods industry increased by 4.0% while new orders in the intermediate goods industry decreased by 1.1% in the same period.



## Activity Level Index & AMS Unemployment Rate

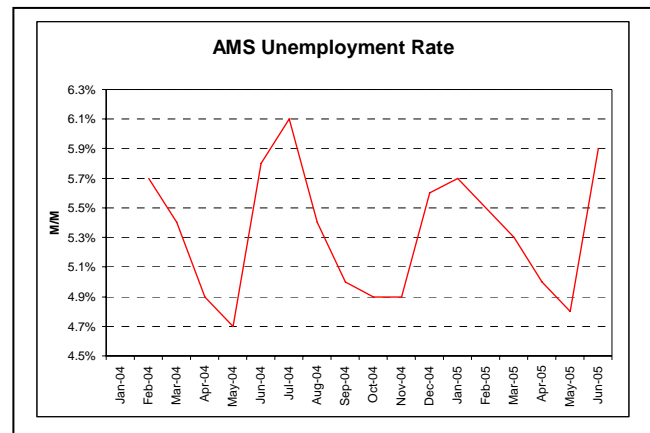
### Activity Index Level

*The Activity Index Level remained unchanged at 109.9 from April to May.*



### AMS Unemployment Rate

*The Labor Board's un-official Unemployment Rate rose significantly from 4.8% in May to 5.9% in June. The increase can be attributed to companies that have continued to cut and move jobs to lower cost areas. A total of 262K Swedes were unemployed (an increase of 49K from the month before). This data is based on the number of people collecting unemployment benefits at the end of the month.*



## ***News Releases & Upcoming Dates***

---

### ***News Releases***

---

**July 12<sup>th</sup> - Nuder May Seek More Expansive Budget** – In an effort to increase growth and create new jobs, Sweden's Finance Minister, Paer Nuder, stated the government will consider, in September, making the budget more expansive. Nuder commented that Sweden's economy hasn't experienced a "period of high growth" due to the job market situation.

**July 11<sup>th</sup> – Survey Shows Riksbank Holding Interest Rates Through Q3** – According to a survey of economists, the Riksbank is expected to leave its benchmark interest rate unchanged at 1.5% through September to determine if recovery efforts are effective.

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

---

*Nothing to report.*