

# Valance Company, Inc.



Weekly

July 20, 2005

III

## Highlights

**US** – PPI moderates; housing stays firm. (page 2)

**Euroland** – Weaker Euro leads to pick up in sentiment. (page 7)

**Japan** – BoJ maintains upbeat tone on economy. (page 13)

**UK** – Rate cuts getting closer? (page 17)

**China** – Growth accelerates, inflation cools. (page 26)

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## July 14 – July 20 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	1.00	2.50	4.00	6.00
US	3.25	3.64	3.95	4.17	4.24	4.28
EU	0.00	0.01	0.50	2.50	2.00	0.50
EU	2.00	2.13	2.12	2.15	2.19	2.28
JN	0.00	0.00	-0.50	0.00	-0.50	0.00
JN	0.00	0.06	0.09	0.11	0.13	0.17
UK	0.00	-0.03	-2.00	-2.00	-2.00	-2.00
UK	4.75	4.64	4.45	4.28	4.21	4.21
CA	0.00	0.01	-2.00	-5.00	-4.00	-4.00
CA	2.50	2.68	2.90	3.10	3.24	3.31
AU	0.00	0.00	-2.00	-2.00	-2.00	-1.00
AU	5.50	5.60	5.66	5.67	5.60	5.56
NZ	0.00	0.02	1.00	3.00	7.00	6.00
NZ	6.75	6.99	7.01	6.96	6.78	6.58
SZ	0.00	0.00	2.00	-1.00	-2.00	0.00
SZ	0.75	0.75	0.77	0.80	0.88	1.03

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Valance Co., Inc.

# Valance Economic Report: United States

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July 20, 2005

This week's light economic data showed core PPI declining M/M, a firm and stable housing market, a rebound in industrial production and minor gains in consumer confidence. Greenspan's comments to Congress did not offer much new information. He continued to reiterate that the strength of the economy should allow for the removal of accommodation. However, of particular interest were Greenspan's comments disagreeing with a study out of the Boston Fed that concluded that adjusted for a more normal labor participation rate the unemployment rate could be 1% to 3% higher. Greenspan thought a more reasonable number would be 0.5% higher. The CBO reduced its estimate of the 2005 budget deficit to "significantly less than \$350 billion" as revenues have been higher than expected. The contraction of the budget deficit along with a flat trade deficit could cool the porridge of this "Goldilocks economy."

## Weekly Highlights

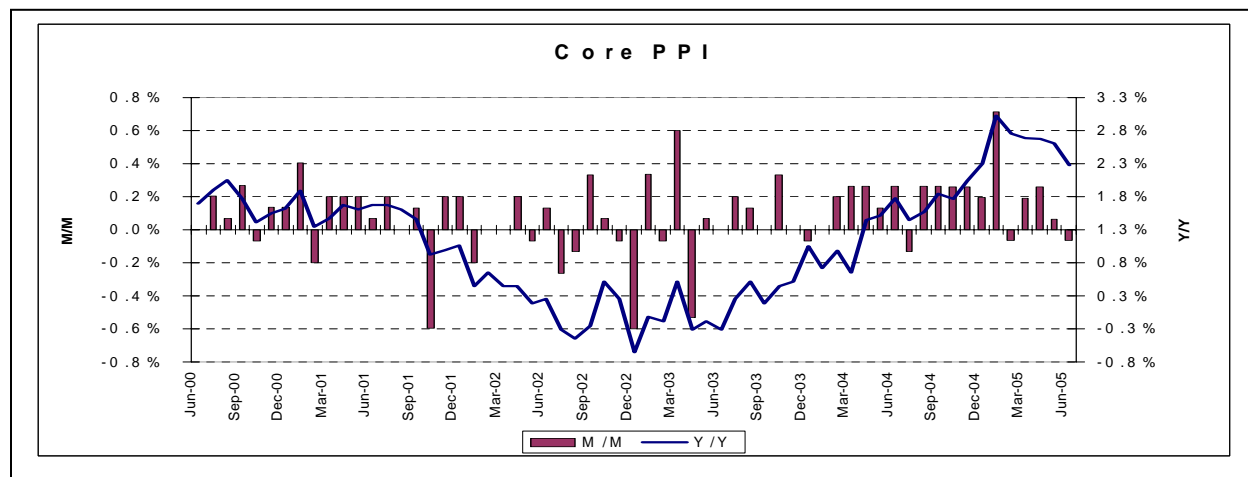
**Core PPI-** decreased 0.1% M/M and increased 2.2% Y/Y in June. (page 2)

**Industrial Production-** gained 0.9% M/M in June. (page 3)

**Housing-** starts and permits remained firm in June. (page 4)

## Weekly Releases

### Chart of the Week: *PPI ex Food & Energy*



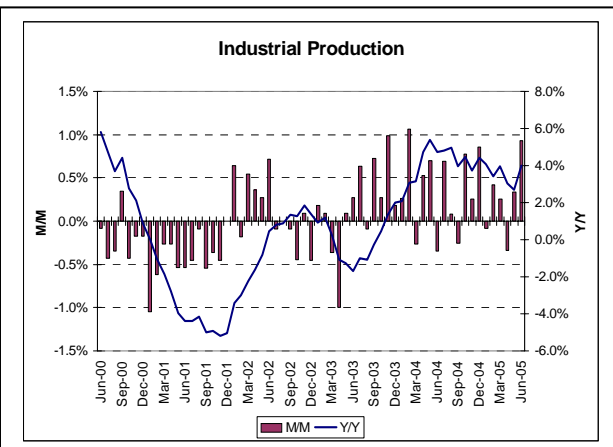
Core PPI decreased 0.1% M/M and increased 2.2% Y/Y in June. Price pressures in intermediate and crude goods also remained tame. The growth in producer prices that accelerated in 2004 and in part led to the acceleration in consumer prices, appear in full retreat. This dynamic should help core consumer prices to remain contained.

# Industrial Production, Capacity Utilization & Empire Index

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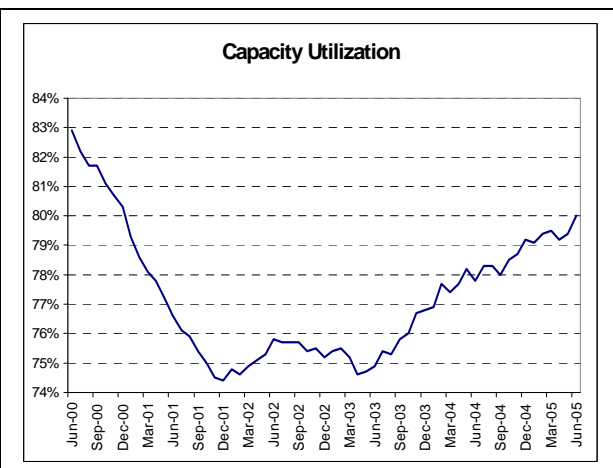
## Industrial Production

Industrial Production increased 0.9% M/M and 4.0% Y/Y in June. The slowing Y/Y growth trend was reversed in June. Production from electric utilities was a major driver of growth- growing 6.9% M/M.



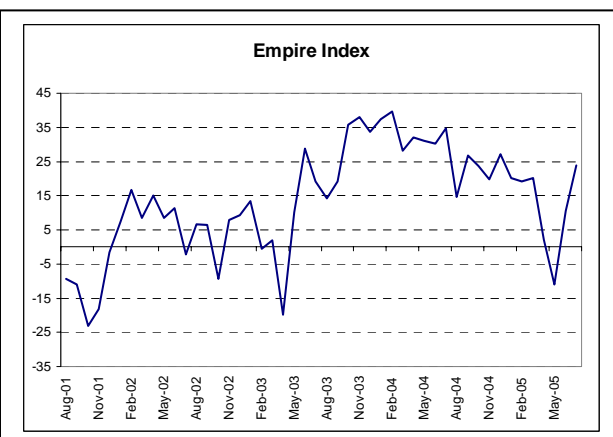
## Capacity Utilization

Capacity Utilization increased from 79.4% to 80.0% in June. This indicator suggests that the weakness seen in manufacturing over the past two months was temporary as slack continues to diminish.



## Empire Manufacturing Index

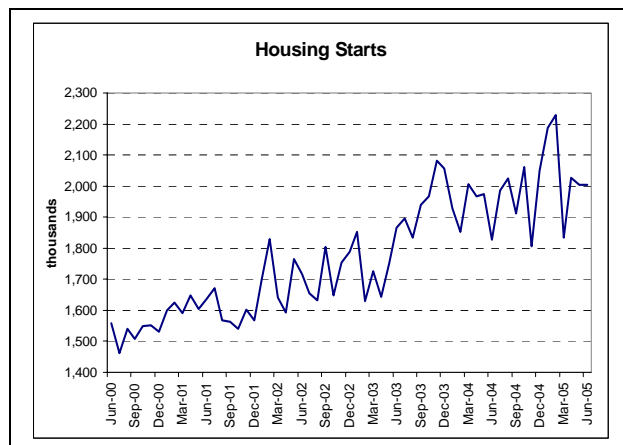
The Empire Manufacturing Index jumped again, increasing from 10.49 to 23.91 in July. The employment component decreased from 5.46 to 1.42 and the price component declined from 30.30 to 21.57.



## Housing

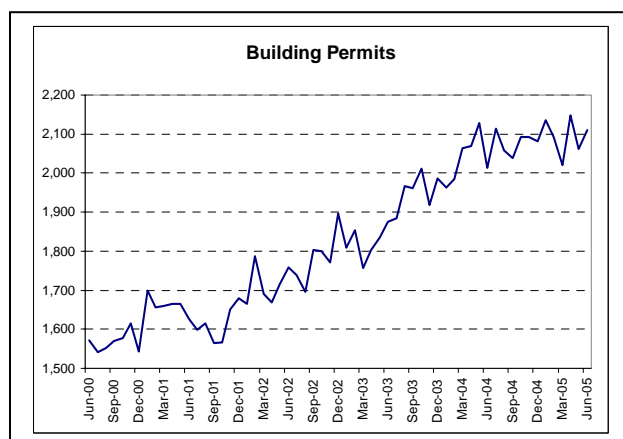
### Housing Starts

*Housing Starts were flat at 2,004k in June. Housing starts continue to remain strong, but over the past year have not shown any significant growth.*



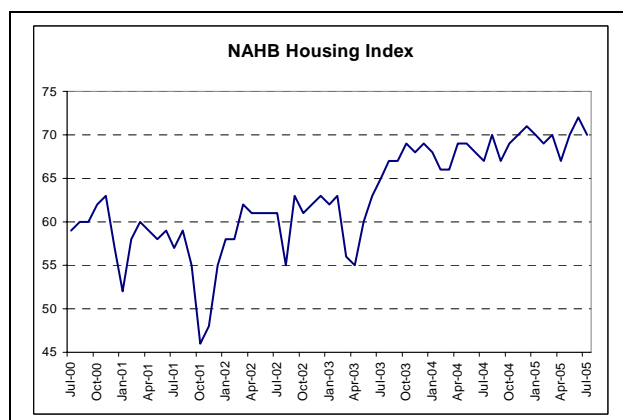
### Building Permits

*Building Permits grew from 2,062k to 2,111k in June. This series continues to remain robust around 2,100k units on an annualized basis, but does not show a backlog of accelerating growth.*



### NAHB Housing Market Index

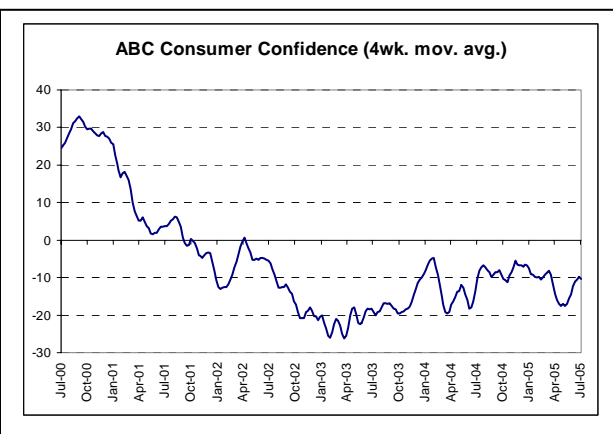
*The NAHB Housing Market Index declined back to 70 in July after reaching 72 in June. This series remains firm and does not show any looming weakness in the housing market.*



## Consumer Confidence & Mortgage Applications

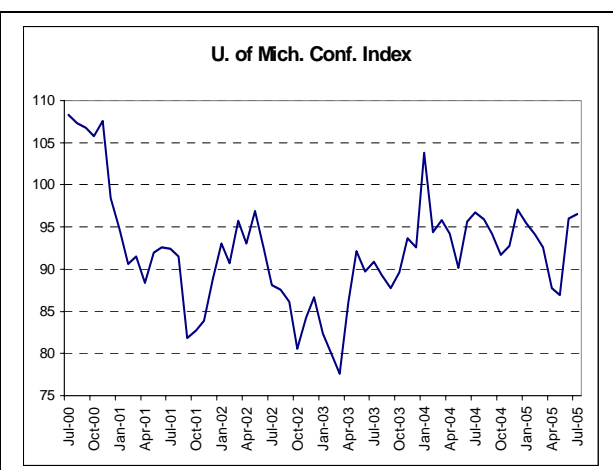
### ABC Consumer Confidence

The ABC Consumer Confidence Index snapped back up to -9 from -11. The economy and finance component improved from -20 to -18 and from 14 to 18, respectively, but the buying climate component decreased from -26 to -28.



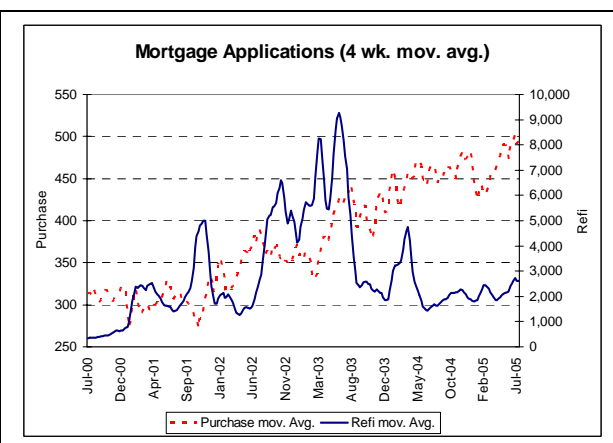
### U. of Michigan Confidence

The recent reading of the University of Michigan Confidence Index showed a slight increase from 96.0 to 96.5 in July. The current component dropped from 113.2 to 112.0 and the expectations component increased from 85.0 to 86.6.



### MBA Mortgage Applications

Purchase and refinancing mortgage applications decreased 0.1% and increased 2.5%, respectively this week. Purchase applications remain at elevated levels with the four week moving average growing 7% Y/Y.



## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/21	Leading Indicators (JUN)	0.5%	-0.5%
07/21	Philadelphia Fed. (JUL)	10.0	-2.2
07/25	Existing Home Sales (JUN)	7.13M	7.13M
07/26	Consumer Confidence (JUL)	105.0	105.8
07/26	ABC Consumer Confidence (JUL 24)	NA	-9
07/27	MBA Mortgage Applications (JUL 22)	NA	1.2%
07/27	Durable Goods Ex Transportation (JUN)	1.0%	-0.3%
07/27	New Home Sales (JUN)	1,300K	1,298K

Valance Co., Inc.

# Valance Economic Report: Euro Zone

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July 20, 2005

This week was the first peak at some of July's first-tier indicators and suggests, as we expected, a slight pickup in growth and sentiment for the Euro Zone. Germany's July ZEW accelerated significantly, albeit from 4 year lows. Core prices decelerated while headline prices picked up. July figures for the German Ifo, French Business Confidence and Italian Confidence will be released next week; we look for a pickup across the board with the exception of French Consumer Spending. The recent Eur bond sell-off should continue through the week.

## Weekly Highlights

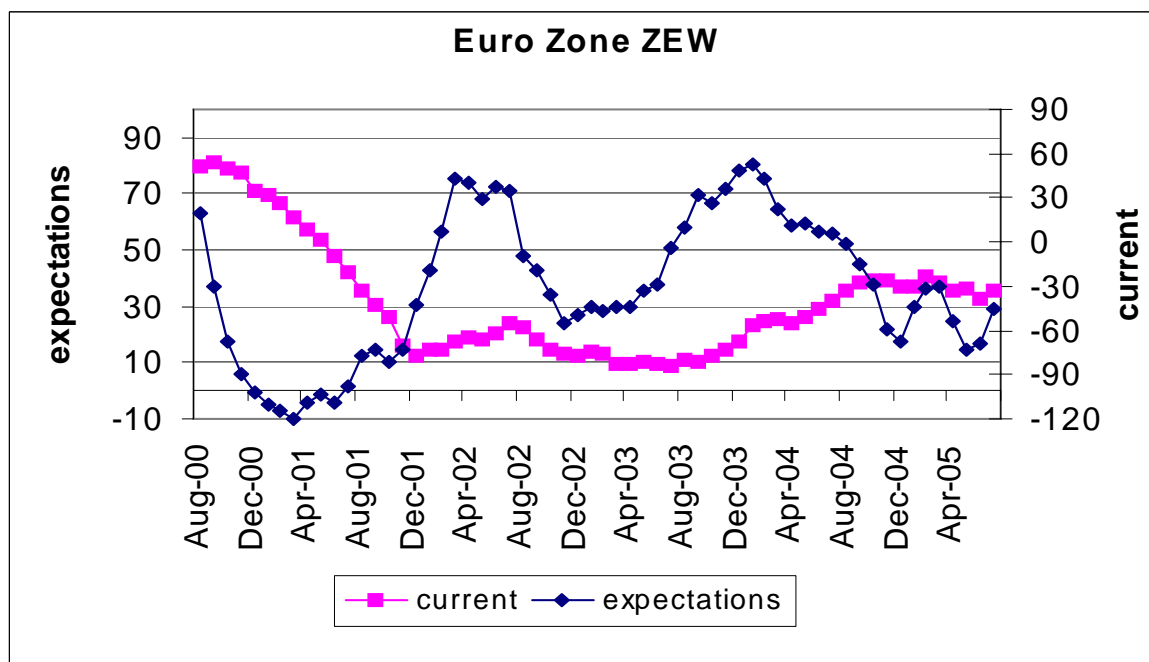
**German ZEW**– July's expectations surged on the back of a weak euro. (page 8)

**Euro Zone Production**– remained weak in May. (page 8)

**Euro Zone CPI**– headline inflation rose slightly to 2.1% Y/Y in June. (page 10)

## Weekly Releases & News

### Chart of the Week: Euro Zone ZEW



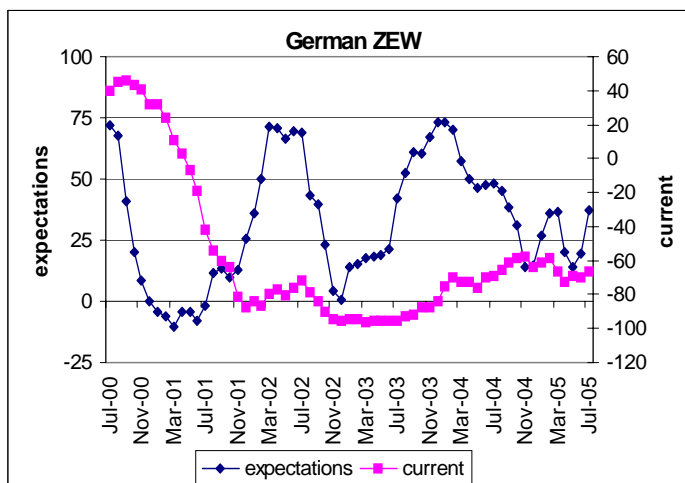
Germany's July ZEW Expectations Survey increased more than expected, rising from 16.7 in June to 29.0. The Current Assessment Survey increased from -38 to -32. The euro's 11% decline against the dollar this year has boosted exports and optimism, though we expect the effect to be rather short lived.



## German ZEW, Euro Zone, Industrial Production & Italian Industrial Orders

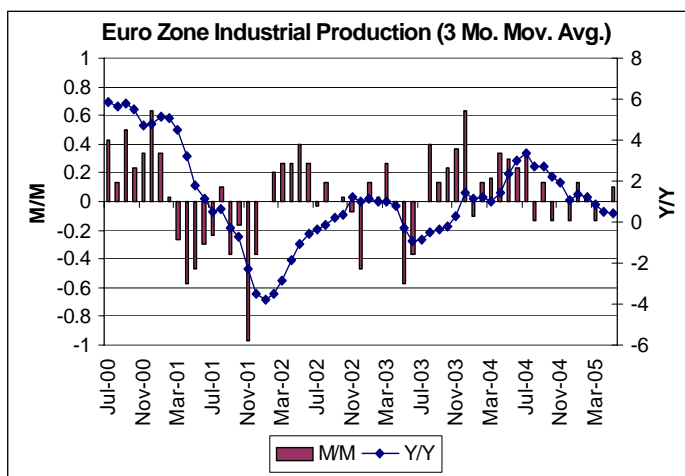
### German ZEW Survey

Germany's July ZEW Expectations Survey increased the most in two years as the euro's decline boosted export growth and optimism amongst manufacturers. Expectations increased from 19.5 in June to 37.0 in July while the Current Assessment Survey increased from -70.0 to -66.7.



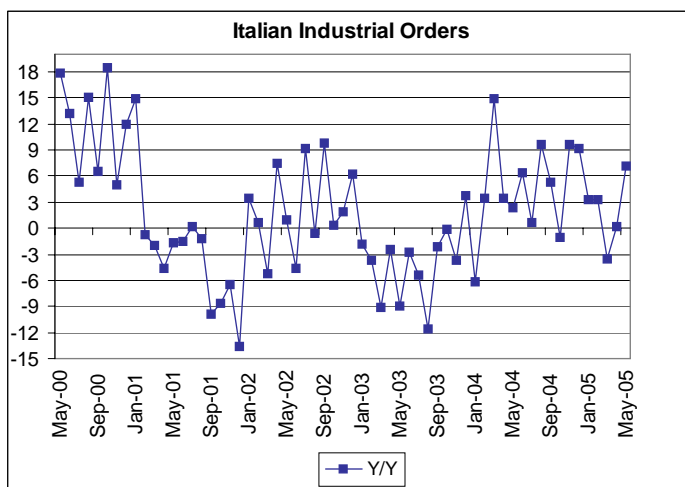
### Euro Zone Industrial Production

Euro Zone May Industrial Production fell a bit more than expected, falling 0.3% M/M while increasing 0.1% Y/Y. High oil prices have kept production on a downward trend since peaking in the summer of 2004.



### Italian Industrial Orders

Italy's May Industrial Orders fell less than expected, 0.2% M/M, while increasing 7.2% Y/Y. Industrial Sales fell 1.6% M/M while increasing 5.1% Y/Y as foreign sales fell for the first time since January (M/M).

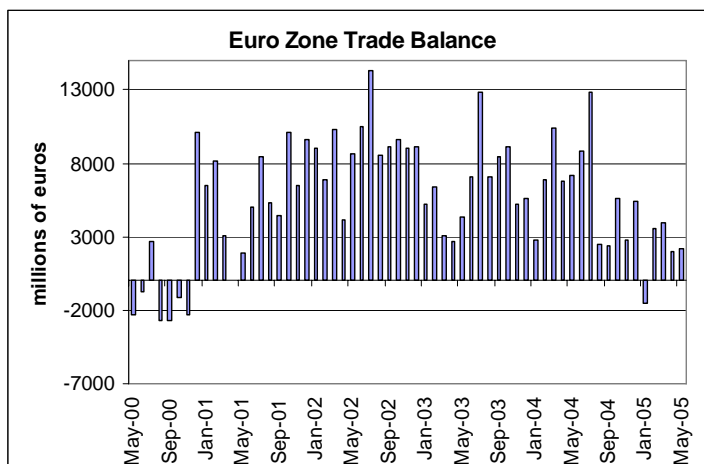




## ***Euro Zone & Italian Trade Balances, French Current Account***

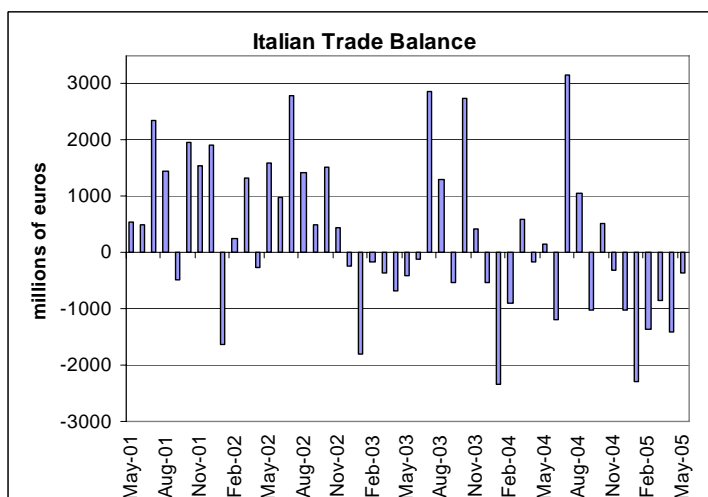
### ***Euro Zone Trade Balance***

*The Euro Zone's May Trade surplus widened slightly from 2.0 billion euros in April to 2.2 billion as exports grew 7.4% M/M and 7.5% Y/Y while imports grew 1.4% M/M and 14% Y/Y.*



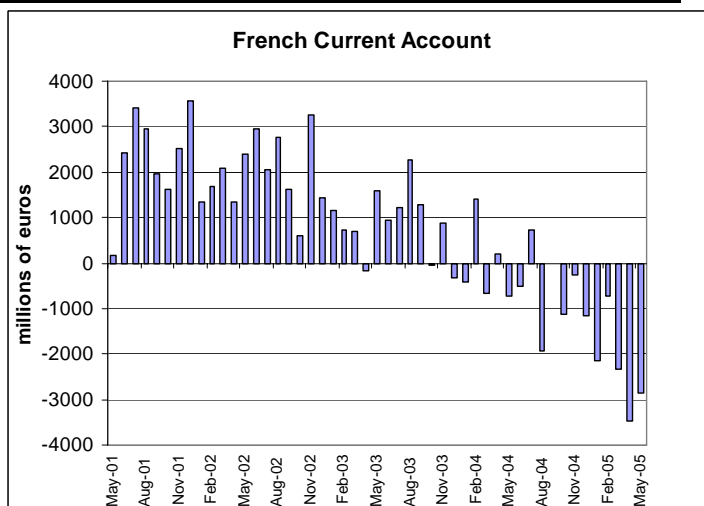
### ***Italian Trade Balance***

*Italy's May Trade deficit narrowed from 1.4 billion euros in April to 366 million as exports were unchanged M/M and imports fell 1.4%.*



### ***French Current Account***

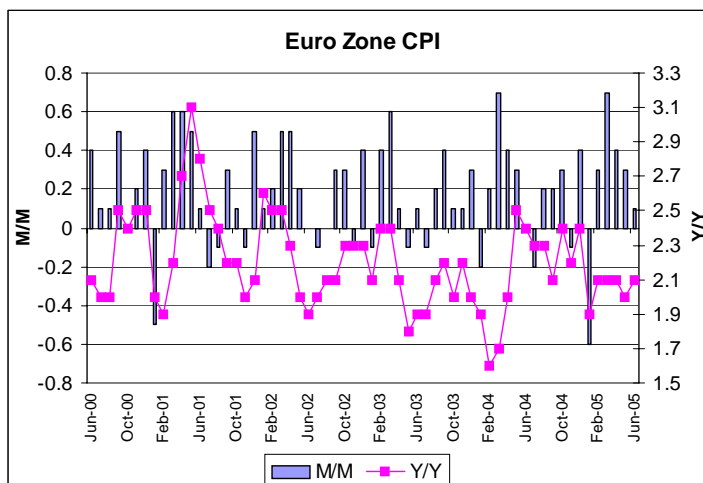
*France's May Current Account deficit narrowed from 3.2 billion euros in April to 2.9 billion as the goods' trade balance narrowed significantly from April.*



## Euro Zone CPI, Spanish Factory Orders & Current Account

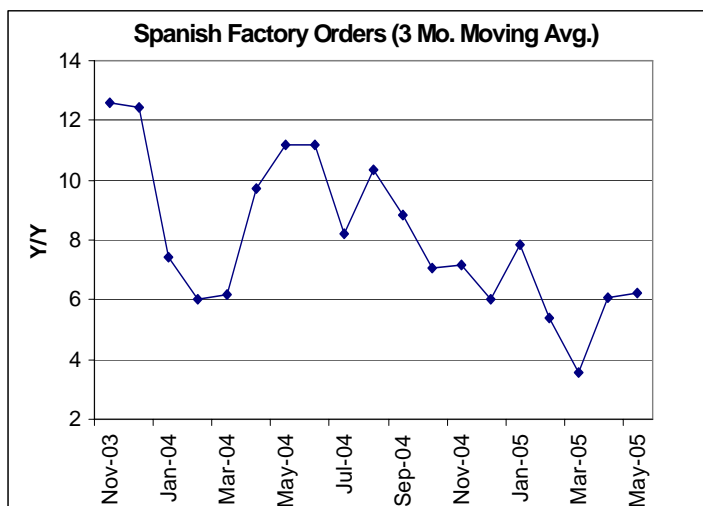
### Euro Zone CPI

The Euro Zone's June Consumer Prices accelerated slightly, increasing 2.1% Y/Y, up from 2.0% in May. June's prices increased 0.1% M/M from May, mostly due to a surge in oil prices and transport costs as energy prices climbed 9.4% M/M. Core CPI decelerated from 1.6% Y/Y in May to 1.4% in June while remaining unchanged M/M.



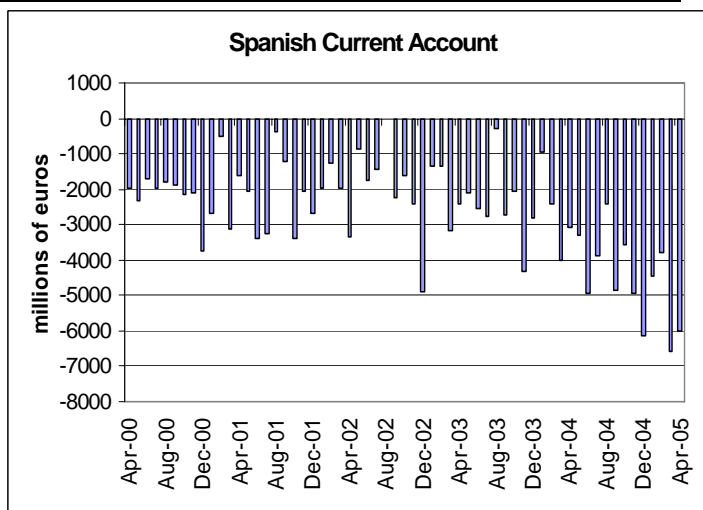
### Spanish Factory Orders

Spain's May Factory Orders increased 5.9% Y/Y, down from April's 12.9% gain, as growth of energy related orders decelerated.



### Spanish Current Account

Spain's April Current Account deficit narrowed slightly from 6.6 billion euros in March to 6.0 billion.



## News

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### ECB

**July 19<sup>th</sup> – ECB member, Yves Mersch**, commented on rates, making what I perceived to be hawkish statements regarding the future of rates. Mersch stated that rates are appropriate, as usual, but also noted that as a result of euro weakness, indicators are already pointing upward and only “needed to be confirmed with other data.” Finally, Mersch noted the upward risks that oil and administered prices pose and stated that “the policy of stability is a lasting contribution to growth.”

**July 18<sup>th</sup> – The European Commission** stated that after “disappointingly slow” Q2 growth, they expect growth to rebound in the second half of the year. A weaker euro, rising exports, and low interest rates were cited as the reasoning behind their expectations for growth to return to neutral toward the end of the year.

**July 15<sup>th</sup> – ECB member, Nout Wellink**, stated that interest rates are at a historic low and that lowering borrowing costs isn’t on his mind. Wellink stated that, “It’s clear that this building up of liquidity can’t go on forever. At the end of the day what you will get is inflation.” Wellink also noted that the benefits of cutting rates are “uncertain, but very limited. What are the costs? Uncertain, but potentially great.”

### Germany

**July 20<sup>th</sup> – The German IFO Institute** stated that German export growth may slow as global demand cools and that “several early indicators point to a weakening of export growth.” So far, manufacturers do not share the IFO’s pessimism as ZEW expectations sentiment surged this month.

**July 18<sup>th</sup> – The German Bundesbank** stated that German GDP growth most likely stalled in Q2, as expected. They forecasted that output was approximately equal to that of Q1, suggesting 0% Q/Q growth. They did note however, that domestic demand probably advanced in Q2.

### Italy

**July 18<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 reason for the increased growth.

**July 12<sup>th</sup> – The Ref Institute** reported that Italy will most likely not bring its budget deficit under the EU’s limit in the given 2 year allotment. They stated that the Italian economy will contract this year and the deficit would balloon to 6% of GDP in 2006, up from 4.6% this year. Italian Prime Minister, Silvio Berlusconi, plans to curb spending and raise revenue by 10 billion euros next year in an attempt to meet the EU’s limit.

## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/21	French Consumer Spending (JUN)	0.8% M/M	-0.9% M/M
07/21	Italian Consumer Confidence (JUL)	102.9	102.9
07/21	Italian Retail Sales (MAY)	-0.7% Y/Y	-3.9% Y/Y
07/22	Euro Zone Industrial Orders (MAY)	0.9% M/M	1.5% M/M
07/22	German CPI (JUL)	0.3% M/M	0.1% M/M
07/26	Italian Business Confidence (JUL)	--	84.2
07/26	German IFO –business climate (JUL)		93.3

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## **Valance Economic Report: Japan**

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July 20, 2005

Amid the light economic releases over the past week, Machine Tool Orders and the Coincident Index were revised up. The Bank of Japan's Minutes from its June 14<sup>th</sup> and 15<sup>th</sup> meetings showed members concurred that Japan's economic recovery would gradually become clear in the second half of 2005, and that the economy would experience a reasonably long period of growth, although at a moderate pace.

### **Weekly Highlights**

**Machine Tool Orders** - were revised up from 10.6% Y/Y to 10.8% Y/Y in June. (page 14)

**The Coincidence Index** – was revised up, in line with expectations. (page 14)

### **Weekly Releases & News**

#### ***Comments from the BoJ's Minutes of its June 14<sup>th</sup> and 15<sup>th</sup> Meeting***

The Bank of Japan decided by a majority vote (7-2) to keep its Current Account Balance unchanged at 30-35 trillion yen. The two dissenting votes were from Fukuma, who called for a 27-32 trillion yen Current Account Balance, and Mizuno who recommended a 25-30 trillion yen Current Account Balance. Excerpts from the minutes are as follows:

*On the Corporate Sector:* "In the corporate sector, business fixed investment had been increasing, reflecting high corporate profits."

*On Production:* "Production was increasing gradually, as inventory adjustments in IT-related sectors were progressing. Industrial production continued to increase in April, after showing a relatively large increase in the January-March quarter on a quarter-on-quarter basis.... As for the outlook, production was expected to continue its uptrend."

*On Employment:* "As for the employment and income situation, indicators related to job offers and the unemployment rate had been improving and the number of regular employees in the *Monthly Labour Survey* continued to increase on a year-on-year basis."

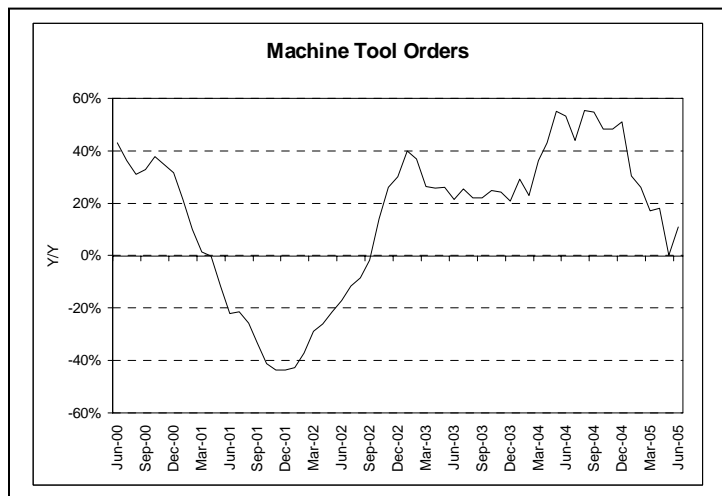
*On Private Consumption:* "Private consumption had been steady in April following the January-March quarter when many indicators showed improvement partly in reaction to the weakness in the October-December quarter due to adverse weather and natural disasters."

*On the price front:* "... international commodity prices remained at high levels. Domestic corporate goods prices had increased substantially, mainly reflecting the effects of the rise in crude oil prices, and were likely to continue increasing for the time being."

## Machine Tool Orders & Leading and Coincident Indices

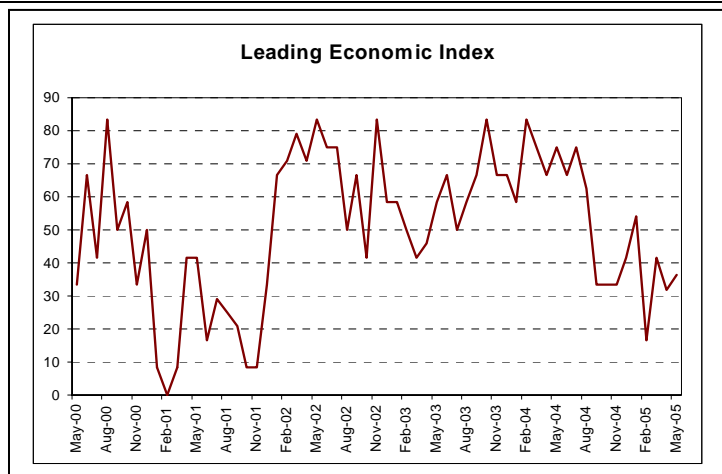
### Machine Tool Orders

Machine Tool Orders were revised up from 10.6% Y/Y to 10.8% Y/Y in June. Orders for machine tools totaled ¥672.8 billion in the January-June period, up 16.2% from January-June period last year. This figure is the second-highest January-June total on record, following the ¥705.3 billion yen orders recorded in 1990 during Japan's economic bubble.



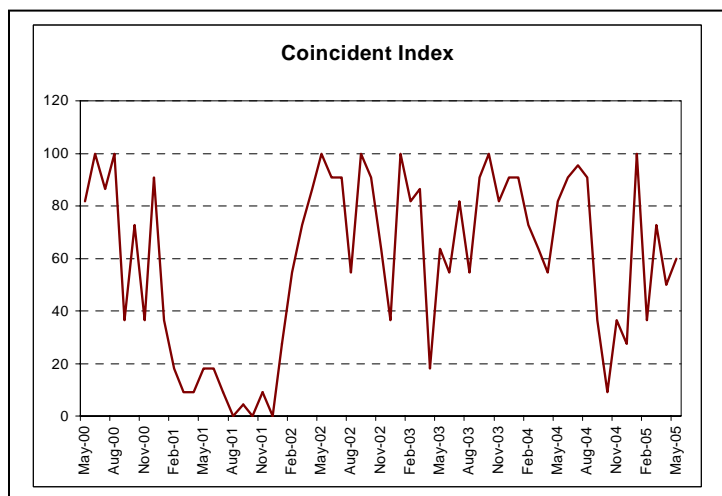
### Leading Economic Index

May's final figure for the Leading Economic Index, which measures job offers, consumer confidence and other indicators of future activity, was revised down from 40 to 36.4, in line with expectations.



### Coincident Index

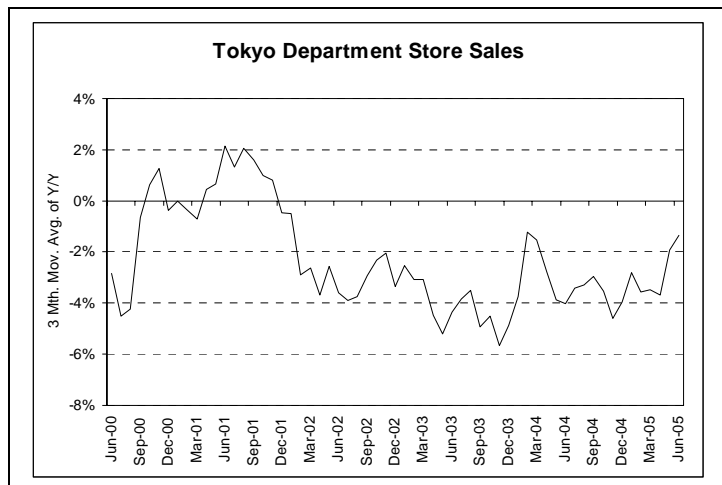
The Coincident Index was revised up from 55.6 to 60.0 in May, in line with expectations. This index combines results from 11 indicators which include factory production, department store sales and power used by large manufacturers, to measure current economic performance.



## Tokyo Department Store Sales & Convenience Store Sales

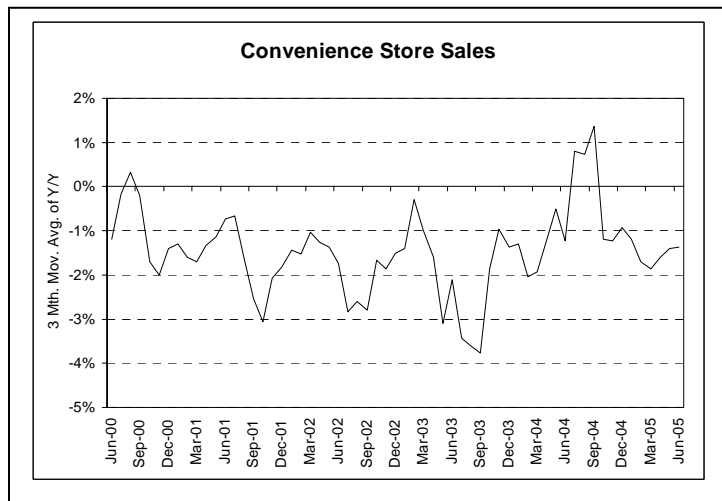
### Tokyo Department Store Sales

*Tokyo's Department Store Sales decreased 1.1% Y/Y in June.*



### Convenience Store Sales

*Convenience Store Sales decreased 1.3% Y/Y in June.*





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

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### ***News***

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**July 15<sup>th</sup>** - The Cabinet Office, in a report, urged the Bank of Japan to announce a target for prices as it seeks to overcome deflation. “It's important for the Bank of Japan to implement effective monetary policy while monitoring movements of financial markets and their expectations,” the Cabinet Office commented. The BOJ should try to “stabilize expectations of financial markets and pre-empt their volatile moves,” the report stated.

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

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/21	Tertiary Industry Index (M/M) (MAY)	-1.3%	1.8%
07/21	All Industry Activity Index (M/M) (MAY)	-1.5%	1.7%
07/25	Corp Service Price (Y/Y) (JUN)	.....	.....
07/26	BoJ Monetary Policy Meeting	.....	.....
07/27	Large Retailers' Sales (JUN P)	.....	-3.1%
07/27	Retail Trade (Y/Y) (JUN P)	.....	2.7%
07/27	Retail Trade (M/M sa) (JUN P)	.....	-1.5%

Valance Co., Inc.

# Valance Economic Report: United Kingdom

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July 20, 2005

**Interest rate cuts appear on their way! The MPC Minutes released today show the committee nearly voted to cut rates at their last meeting in July, but Governor Mervyn King was the deciding vote, and he voted to leave rates unchanged. It is most likely that members will vote to cut rates upon receiving the August *Inflation Report*, which will shed light on the current economic situation in greater detail.**

## Weekly Highlights

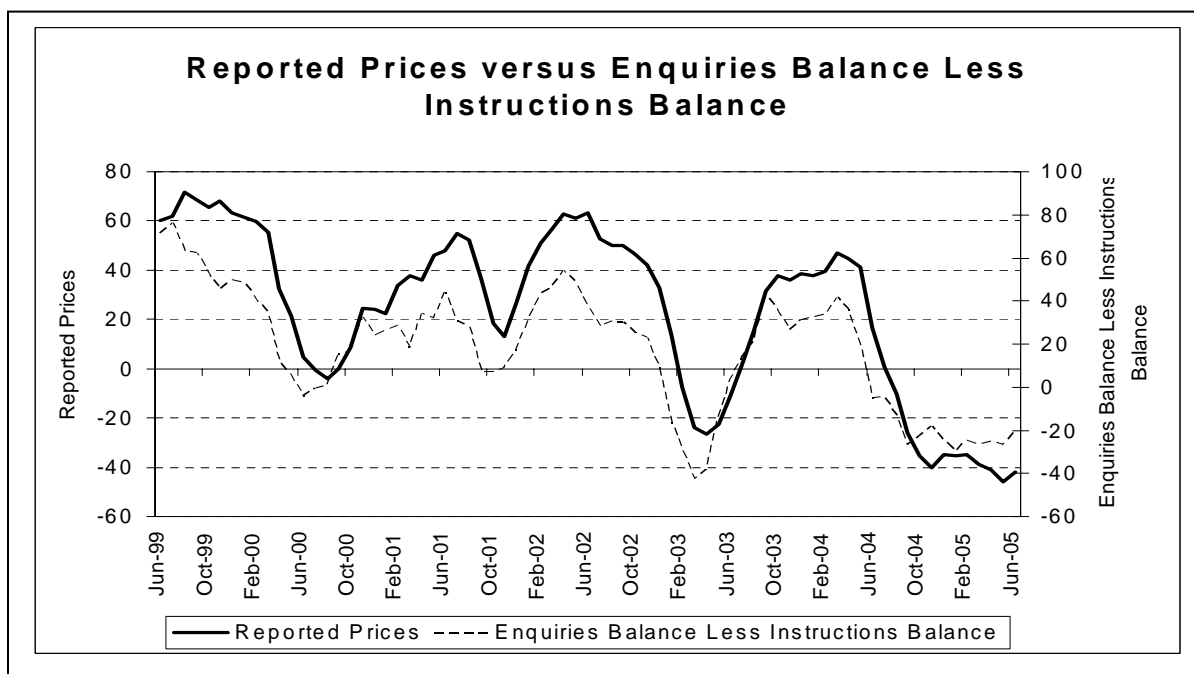
**MPC Minutes-** members voted 5-4 to leave rates unchanged at their last meeting in July. (page 19)

**RICS House Price Survey-** increased from -46 to -42 in June, but the housing market still remains subdued. (page 17)

**Budget Deficit-** increased from £4.4 billion in June 2004 to £5.9 billion in June 2005. (page 18)

## Weekly Releases & News

### Chart of the Week: *RICS Reported Prices*

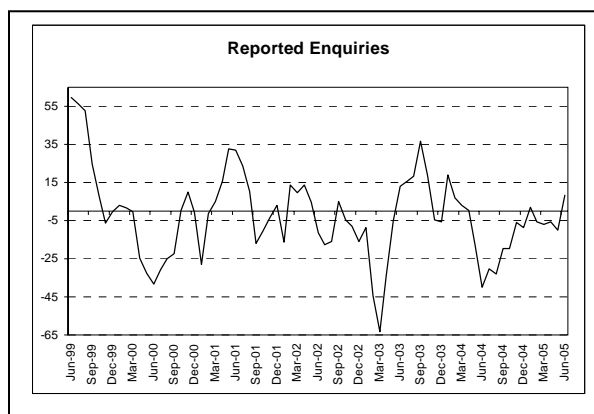


The RICS House Price Survey increased from -46 to -42 in June. Even though price declines have eased a little, the market still remains subdued. Decline in prices continue to be reported across the country with London one of the weaker areas.

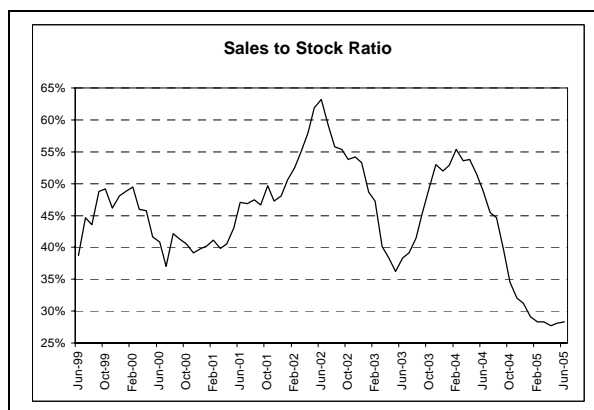
## RICS Data & Budget Deficit Data

### RICS

*RICS New Buyer Enquiries increased from -10 to +8 in June, the first increase since January 2005, and the largest since January 2004. Housing activity has picked up slightly as expectations of interest rate cuts have spurred buyers confidence.*

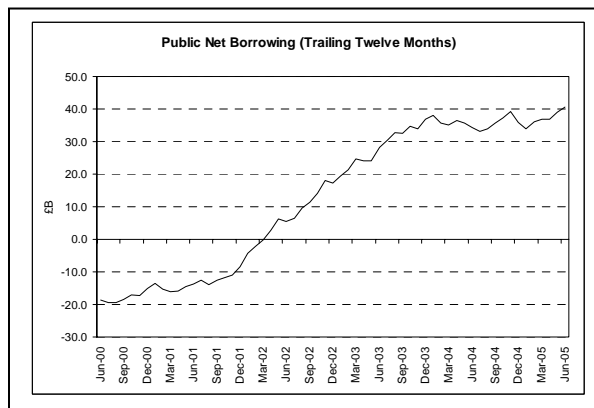


*RICS Sales to Stock Ratio remained at 28% for the fifth consecutive month and below the long term average of 37%. This lack of movement since February points to stable yet subdued underlying market expectations.*



### Budget Deficit

*The Budget Deficit increased from £4.4 billion in June 2004 to £5.9 billion in June 2005. Details showed a pickup in net investment spending and deterioration in the current budget net borrowing excluding capital investment. As the deficit increases, pressure is placed on Gordon Brown to increase taxes to meet his Golden Rule. Brown recently changed the timing of his economic cycle which gained him an extra £12 billion to meet this rule.*



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## ***Data & Comments***

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### ***MPC Minutes***

The MPC voted 5-4 to leave rates unchanged at 4.75% which shows how finely balanced the debate for the appropriate level of interest rates is in the UK. The Governor, who votes last, tipped the scale by voting for no change, leaving rates unchanged after the remaining members had voted 4-4. The minutes showed much discussion about the recent downward GDP revisions, and a lot of uncertainty over the implications of the downward revisions to business investment and consumer spending.

The MPC members who voted for a cut argued that output growth had slowed more sharply in the recent past than first estimated; which the MPC thinks is a sign of weakness going forward. In addition, the downside risks to household spending “were perhaps greater than previously thought.” The members suggested that “monetary policy was no longer accommodative” and that “early action would reduce the risk” that bigger rate cuts would be needed in the future.

The MPC members who voted for unchanged rates felt the recent increases in asset prices were likely to add inflationary pressures. The significant decline in short-term interest rates since the May *Inflation Report* should help support investment and consumer spending. In addition, the Governor and remaining members, argued that there appeared to be no great risk in waiting for more evidence before deciding on a rate change in August, after the August *Inflation Report*.

On an interesting side note, the four members who voted for a cut (Kate Barker, Charles Bean, Stephen Nickell and David Walton) all made their careers as professional full-time economists. The other four members, who voted for unchanged rates (Rachel Lomax, Andrew Large, Richard Lambert and Paul Tucker), have some economics background, but their careers have not been as heavily focused on being full-time economists.

In addition, the MPC says its decision “was reached solely on the economic merits” and was not affected by the terrorist attacks in London.

### ***Data***

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#### **Rightmove House Prices:**

Rightmove House Price Survey decreased 1.0% M/M and decelerated from 2.4% Y/Y to 0.2% Y/Y in July, the weakest annual rate in 10 years.

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

The British Bankers Association (BBA) reported that mortgage lending increased 2.2% M/M and remained at 12.0% Y/Y in June.

## ***Data, News & Upcoming Dates***

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### ***Data cont.***

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#### **CML Mortgage Lending Figures:**

The Council of Mortgage Lending (CML) reported that mortgage lending increased 16.0% M/M and decreased 9.0% Y/Y in June. CML feels the housing market is stabilizing which indicates improved buyer confidence matched by sellers' realistic price expectations.

### ***News***

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#### **Gordon Brown:**

Gordon Brown adjusted the timing of his economic cycle to make it easier to meet his budget rules amid concerns that faltering economic growth may derail his efforts to raise revenue. He said the current economic cycle started in 1997-98 instead of 1999-2000, giving the Treasury an additional £12.7 billion to meet rules which require him to balance his books over the course of the cycle. Brown delayed his next review of government expenditure by a year to 2007 and said it would be a “comprehensive” look at the nation's spending priorities.

#### **Mercer Human Resource Consulting Survey:**

Mercer Human Resource Consulting conducted a survey and found that U.K. job satisfaction is falling as a more buoyant employment market fuels workers' expectations of being able to find a better alternative. Fewer than 64% of employees are satisfied at work, 10% lower than Mercer's last survey three years ago. The percentage of employees that feel a “strong sense of commitment” to their organization dropped from 59% to 5%.

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

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/21	Retail Sales	0.3% M/M	0.1% M/M
		0.8% Y/Y	1.3% Y/Y
07/22	GDP	0.4% Q/Q	0.4% Q/Q
		1.7% Y/Y	2.1% Y/Y
07/22	Index of Distribution	--	-0.3% M/M 0.7% Y/Y

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# Valance Economic Report: *Canada*

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July 20, 2005

This week was relatively quiet in Canada. With the BoC set to increase its overnight rate from 2.50% to 2.75% at its September 7<sup>th</sup> meeting, May's Wholesale Sales came in below expectations and Q2 Consumer Confidence declined slightly. June's Leading Indicators met expectations however, and on a whole, this week's data was not weak enough to significantly impact the BoC's view that a removal of stimulus would be needed in the "near term."

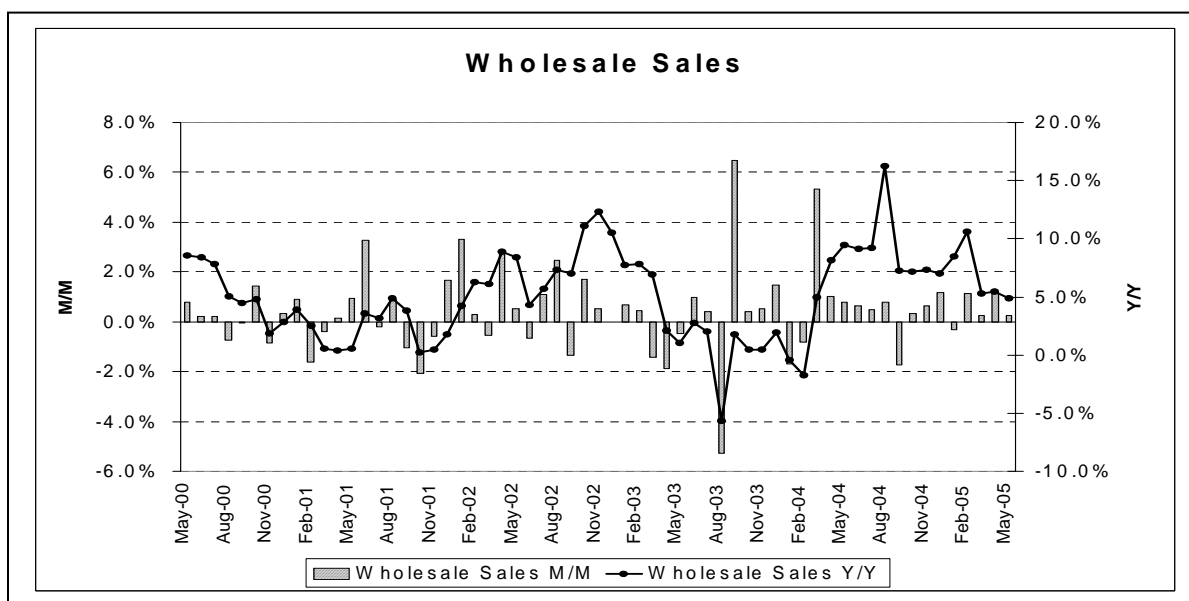
## Weekly Highlights

**Wholesale Sales** – increased 0.2% M/M and 4.9% Y/Y in May. (page 21)

**Leading Indicators** – increased 0.3% M/M and 3.9% Y/Y in June. (page 22)

## Weekly Releases & News

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

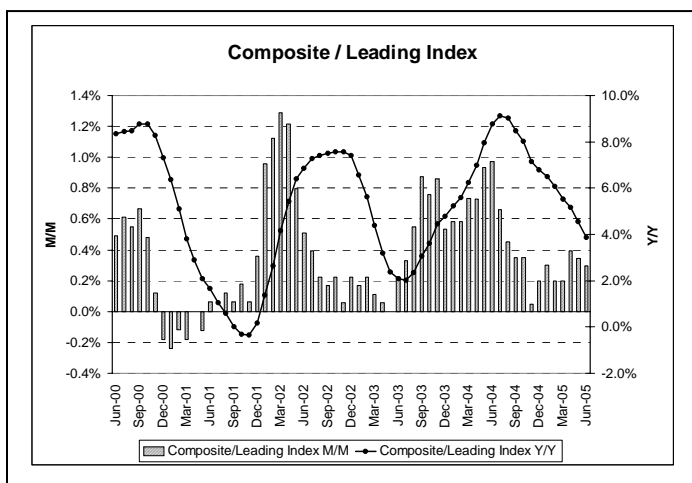


Wholesale Sales increased 0.2% M/M and 4.9% Y/Y in May, below expectations for a 0.5% M/M increase. Sales of machinery and electronic equipment increased 2.4%, indicating that companies may be investing to increase productivity. Building materials sales declined 3% M/M, reflecting the slowdown in housing starts from Q1 2005. Although the data missed market expectations, it is not weak enough to deter the BoC from raising its overnight rate in the upcoming months.

## Leading Index, Motor Vehicle Sales, & Consumer Confidence

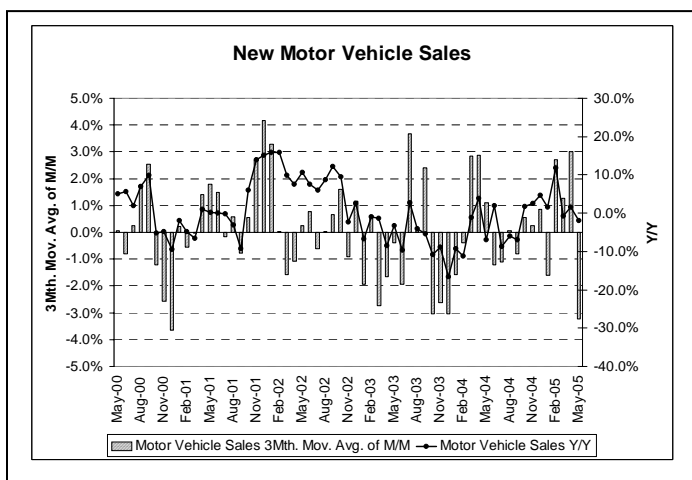
### Composite/Leading Index

The Composite Index in Canada increased 0.3% M/M and 3.9% Y/Y in June. The Housing Component Index increased 2.6% M/M, providing the strongest contribution.



### Motor Vehicle Sales

Motor vehicle sales declined 6.9% M/M and 1.9% Y/Y in May.



### Consumer Confidence

Consumer Confidence declined 0.1% Q/Q and increased 10.6% Y/Y while the economic outlook declined 1.5% Q/Q and increased 14.6% Y/Y in Q2 2005.



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***Key Dates This Week***

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/22	Consumer Price Index (June)	0.3%	0.1%
07/22	Core CPI (June)	0.1%	0.2%
07/22	Retail Sales (May)	-0.4%	1.5%

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## ***Valance Economic Report: Australia***

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July 20, 2005

**This week was relatively quiet in Australia. The Westpac Leading Economic Index rose while the trend growth rate remained unchanged. In other news, the Australian government announced that it would be paying off net debt within the next 18 months. CPI and New Home Sales, both of which will be released next week, will shed more light on what's ahead for the Australian economy. As it stands, the RBA will likely remain on hold for some time until new data pressures them to react accordingly.**

### **Weekly Highlights**

**Westpac Leading Economic Index** – increased 0.4% M/M in May. (page 24)

### **Weekly Releases & News**

#### ***Westpac Leading Economic Index***

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Australia's Westpac Leading Economic Index increased 0.4% M/M from 216.1 to 216.9 in May. The annualized growth rate increased from 0.6% to 0.7% and the trend growth rate remained unchanged at 3.7%. The Coincident Index, which measures current economic conditions, increased 0.3% M/M from 199.0 to 199.5.

The increases were the third consecutive and were driven largely by an increase in share prices, housing approvals and the money supply. Westpac's global head of economics commented that, "The index is indicating that growth in 2006 is unlikely to show a further step down from a fairly soft second half of 2005," and that "although the growth rate in the index appears to have bottomed out, at this stage it's showing no evidence of a solid pickup."

## ***Government Debt & Upcoming Dates***

### ***Government Plan to Repay Debt***

Australia's government announced that it will pay off its net debt within 18 months, without the sale of its \$33.8 bln stake in Telstra Corp. Finance Minister, Nick Minchin, stated that, "We will completely eliminate net debt within 18 months from now, even without the full privatization of Telstra." The government has been using budget surpluses to reduce debt from 19.1% of GDP in 1996 to 1.9% of GDP. The government will also contribute future budget surpluses to a so called "Future Fund." The investment fund will grow from an initial \$16 bln to \$140 bln by 2020 to cover the government's pension liabilities for politicians, public servants and defense workers. Minchin also commented that the details will be determined in the upcoming weeks and that the \$16bln in liquidity will not enter the market in "one afternoon."

### ***Key Dates***

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/21	RBA June Bulletin	N/A	N/A
07/21	Conference Board Australia Leading Index (May)	N/A	N/A
07/21	Export Price Index (Q2)	9.5%	-0.5%
06/21	Import Price Index (Q2)	0.0%	-2.4%
07/24	Housing Industry Association New Home Sales (June)	N/A	N/A
07/24	Producer Price Index (Q2)	N/A	0.0%
07/25	National Australia Business Survey (Q2)	N/A	N/A
07/26	CPI (Q2)	0.9%	0.7%
07/26	Core CPI (Q2)	N/A	1.8%

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## Weekly Economic Report: *China*

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July 20, 2005

**Strong economic growth and soft inflation set the tone for this week's report. Real GDP growth accelerated 9.5% Y/Y in 2Q above expectations of 9.2%, while Consumer Price growth slowed to a 22 month low in June, posting a 1.6% Y/Y increase. Growth in investment, production and consumption all improved in June.**

### Weekly Highlights

**Real GDP-** increased 9.5% Y/Y in Q2, above expectations. (Page 26)

**Consumer Price-** growth slowed to 1.6% Y/Y in June. (Page 27)

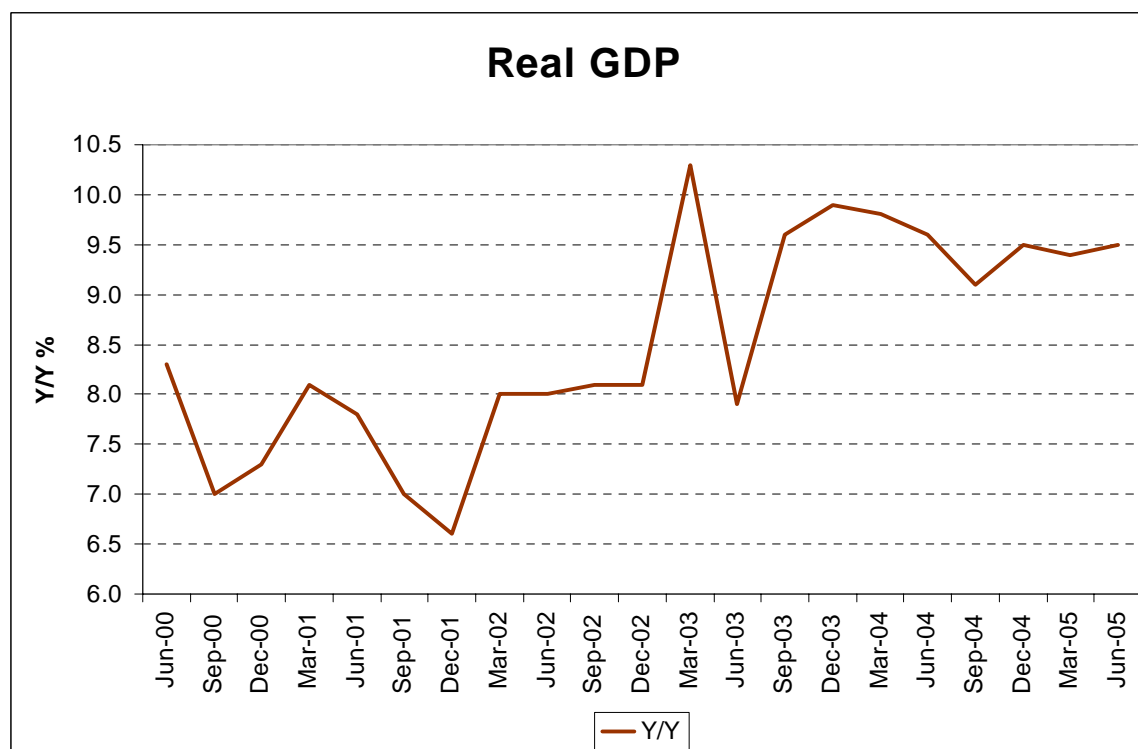
**China's Unemployment Rate-** remained at 4.2%. (Page 28)

**Household Savings-** increased 0.1% M/M and 16% Y/Y in June. (Page 28)

### Weekly Releases & News

#### Chart of the Week: *Real GDP*

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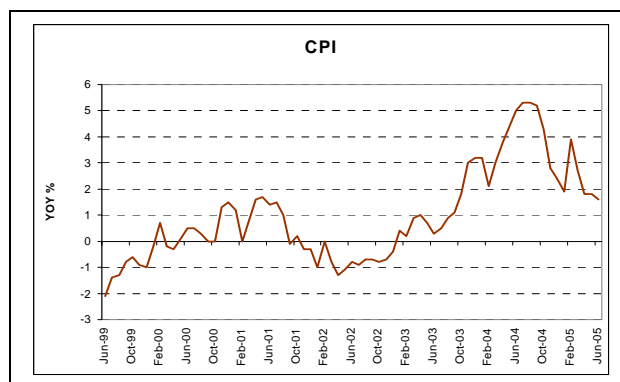


China's Real GDP increased 9.5% Y/Y in Q2, above expectations of 9.2% Y/Y. This upbeat result was attributed to a pick up in exports and investment in power plants, mines and factories.

## CPI, Unemployment Rate & Retail Sales

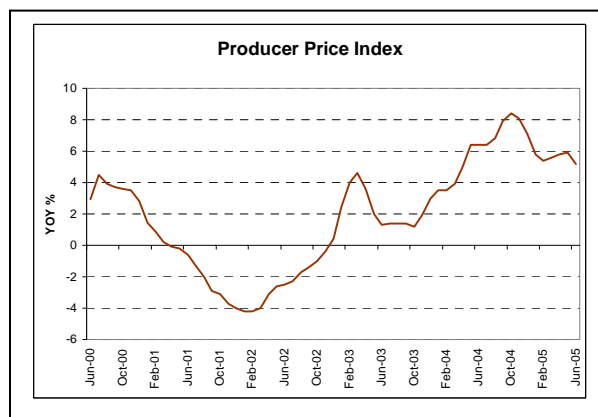
### CPI

Consumer Price growth slowed to a 22 month low in June, posting a 1.6% Y/Y increase. This slow down in CPI growth may be attributed to a faster growth of supply and not weakened demand.



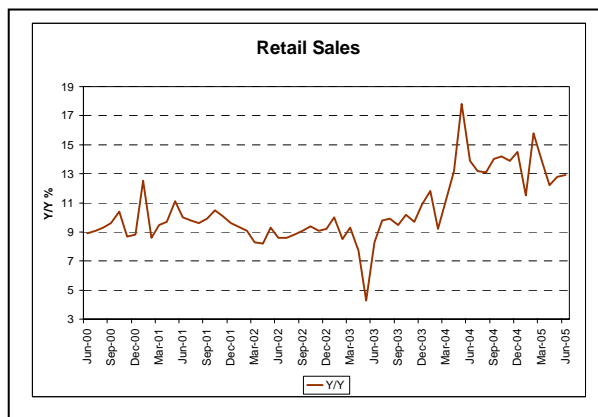
### Producer Price Index

Producer Price growth increased 5.2% Y/Y in June. This result is the smallest gain since April 2004.



### Retail Sales

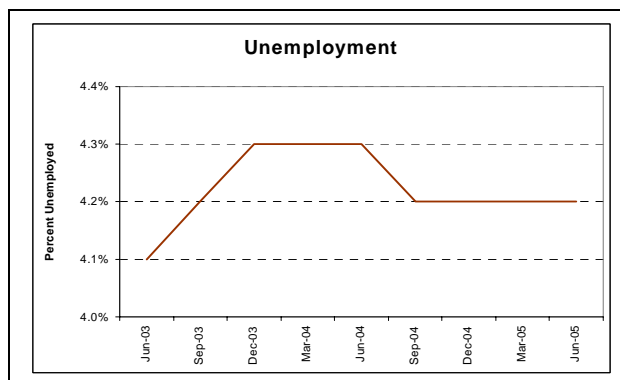
Retail Sales growth increased from 12.8% Y/Y in May to 12.9% Y/Y in June, above expectations.



## Unemployment, Household Savings & Value Added Industry

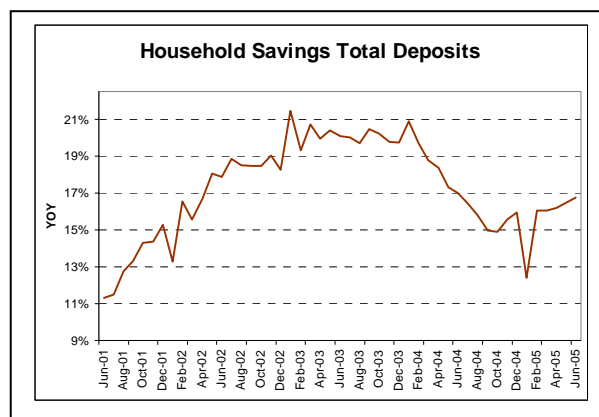
### Unemployment

China's Unemployment rate has remained at 4.2% for the past four quarters. There were a total of 5.95 million new jobs added in the first half of the year, which amounts to about 66% of the government's 9 million target for the year.



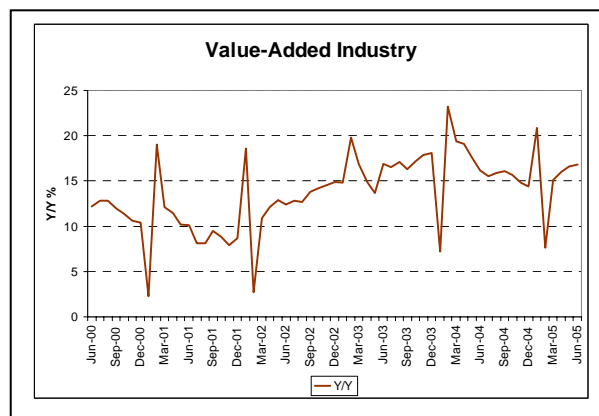
### Household Savings

Household Savings increased 0.1% M/M and 16% Y/Y in June.



### Value Added Industry

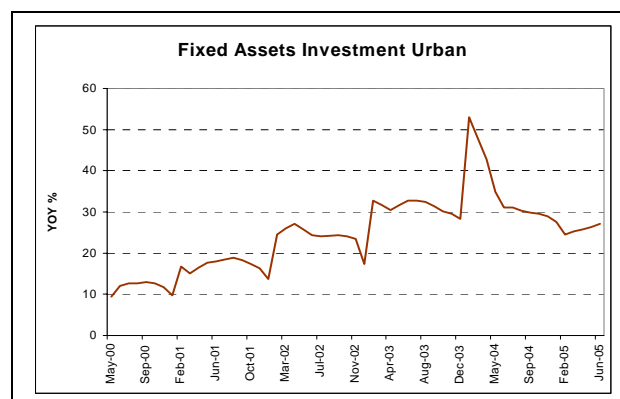
Value Added Industry growth increased from 16.6 % Y/Y in May to 16.8% Y/Y in June, above expectations, as production of export-oriented goods such as computers (61.3% Y/Y in 1H05) continue to increase.



## ***Fixed Assets Investments, News Releases & Upcoming Dates***

### ***Fixed Assets Investments Urban***

*Fixed Assets Investment increased from 26.4% Y/Y in May to 27.1% Y/Y in June.*



### ***News Releases***

**July 19<sup>th</sup> – Central Bank To Keep Yuan Stable** – Despite the growing consensus that China may float its currency slightly upward, the Central Bank confirmed the government’s stance that “gradual reform” of its currency will take place while the exchange rate is kept stable. The Bank reiterated the government’s position to reform China’s exchange rate “in a step by step manner” and on its own terms. “We must push forward reform based on China’s own initiative, and always stay on top of the changes, so as to prevent fluctuations in the financial market and economic instability,” the Bank added.

**July 19<sup>th</sup> – Debt Ratings Raised to A-** - Standard & Poor (S&P) raised China’s foreign and local currency debt ratings by one level to A-. The change was attributed to China’s “government’s aggressive restructuring of its financial sector combined with improved profitability of the state-owned enterprises,” S& P stated.

**July 14<sup>th</sup> – China Won’t Raise Interest Rate** – Assistant Governor of the PBoC, Yi Gang, stated that in an effort to minimize hot money entering the country (in hopes of a higher yuan), China has decided not to raise interest rates in the near term. Yi added that keeping the yuan stable, steadying property prices and falling money market rates should all attribute to cooling speculation.

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

*Nothing to report.*



## Valance Economic Report: Switzerland

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July 20, 2005

The Swiss economy is still struggling to gather speed after stagnation in the first three months of the year. This week's data showed that growth in Switzerland is too weak to boost inflation and that the Central Bank has room to keep borrowing costs unchanged. Retail Sales is still falling and inflationary pressures receded. The government cut its 2006 inflation forecast to 0.5% from 1.0%.

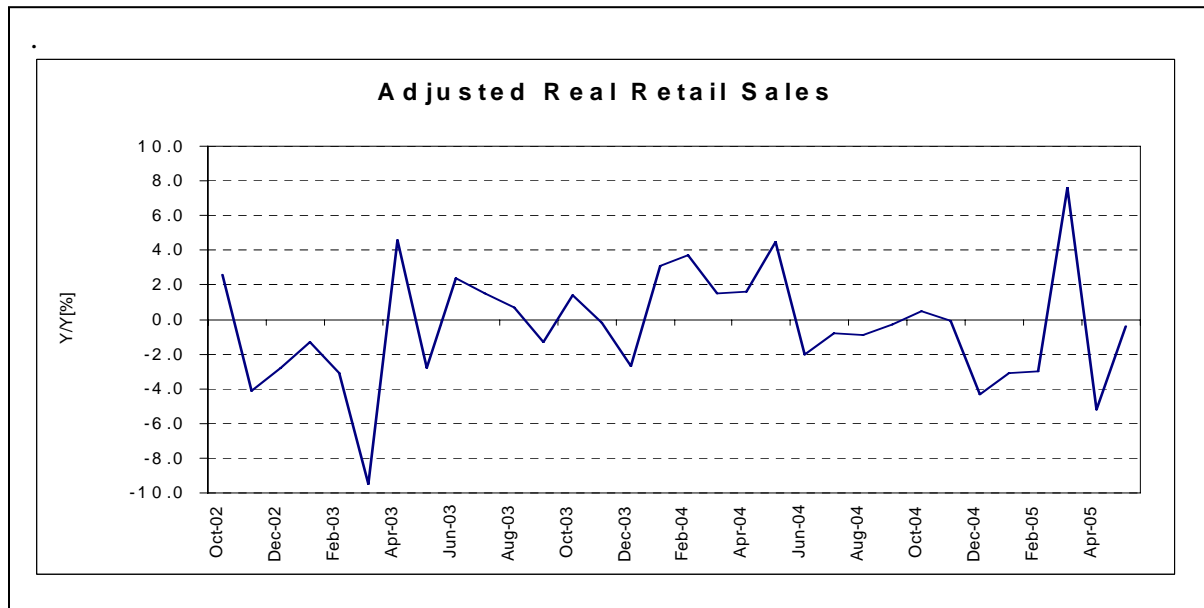
### Weekly Highlights

**Adjusted Real Retail Sales** - declined 0.4% Y/Y and 0.7% M/M in May. (page 30)

**Producer & Import Prices** - fell 0.3% M/M and rose 0.5% Y/Y in June. (page 31)

### Weekly Releases & News

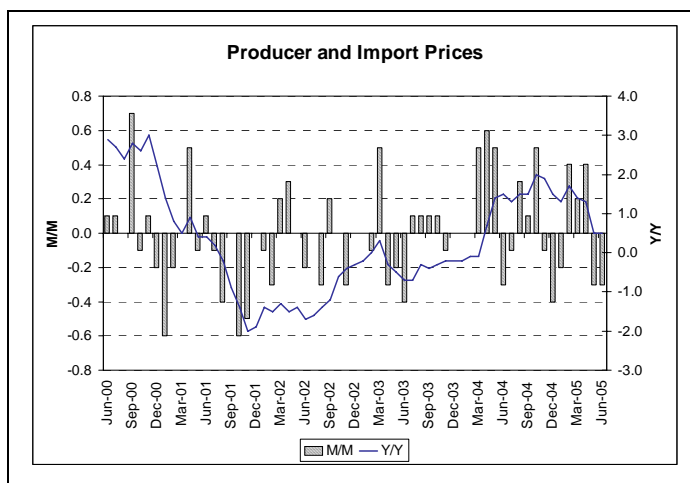
#### Chart of the Week: *Retail Sales*



Swiss Retail Sales fell a nominal 0.7% in May; this decline marks the sixth month in seven as surging gasoline prices prompted households to trim spending. May's sales declined 0.4% from a year earlier when adjusted for inflation.

## Producer & Import Prices and News & Comments

Swiss Producer and Import Prices unexpectedly fell 0.3% M/M and rose 0.5% Y/Y in June. Economists had forecast a 0.3% M/M increase.



## News & Comments

### SNB Inflation Forecast:

Switzerland's Central Bank doesn't expect surging oil costs to push inflation above its 2% ceiling before 2007. The SNB on June 16<sup>th</sup> lowered its inflation forecast for next year to 0.5% from 1%.

***Key Dates This Week***

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
<i>07/21</i>	<i>Trade Balance</i>	<i>---</i>	<i>1.15B</i>