

# Valance Company, Inc.



Weekly

August 31, 2005

III

## Highlights

**US** – Fed likely to keep moving if Katrina's impact proves transitory (page 2)

**Euroland** – Unemployment on a downtrend (page 8)

**Japan** – Core CPI stabilizes M/M (page 15)

**UK** – Strong GDP growth remains sluggish, consumer sentiment weakens (page 22)

**Canada** – Strong Q/Q GDP data (page 26)

### United States

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

### Euroland

Sean O'Reilly  
[soreilly@valance.us](mailto:soreilly@valance.us)

### Japan

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

### United Kingdom

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

### China

**Canada**  
La-Toya Elizee  
[lelizee@valance.us](mailto:lelizee@valance.us)

### Australia

**New Zealand**  
Milo Prochazka  
[mprochazka@valance.us](mailto:mprochazka@valance.us)

### Sweden

### Switzerland

### China

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

## August 25 - August 31 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
<b>US</b>	0.00	0.03	-5.75	-19.00	-23.00	-23.00
	3.50	3.87	3.93	4.08	4.11	4.14
<b>EU</b>	0.00	0.00	0.00	-1.00	-3.00	-3.50
	2.00	2.13	2.14	2.16	2.17	2.24
<b>JN</b>	0.00	0.00	0.00	-1.00	-1.50	-3.00
	0.00	0.06	0.09	0.10	0.14	0.19
<b>UK</b>	0.00	0.00	-1.00	-5.00	-8.00	-9.00
	4.50	4.59	4.56	4.41	4.30	4.26
<b>CA</b>	0.00	0.02	-10.50	-23.00	-26.00	-26.00
	2.50	2.88	2.85	2.97	3.08	3.15
<b>AU</b>	0.00	0.00	-1.00	-5.00	-7.00	-8.00
	5.50	5.57	5.60	5.53	5.45	5.37
<b>NZ</b>	0.00	-0.02	-1.00	0.00	-2.00	-2.00
	6.75	6.96	7.04	7.01	6.88	6.70
<b>SZ</b>	0.00	0.00	-1.00	-5.00	-6.00	-4.00
	0.75	0.76	0.78	0.84	0.95	1.11

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Valance Co., Inc.

# Valance Economic Report: United States

Cesar Guerra

(340) 692-7710

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

August 31, 2005

This week's light economic data and comments from Fed members over the weekend were overpowered by the damage of Hurricane Katrina. The final impact is still, obviously, unknown, but if the infrastructure damage is temporary the net effect on the national economy should be modest. The Fed's Santomero mentioned that the Fed could keep raising rates at a "measured pace". Fed funds futures show reduced expectations for a move in December, but have not priced in an immediate pause in reaction to events. This seems to express the view that Hurricane Katrina, in and of itself, will not destabilize the U.S. economy, but the economy is now more likely to slow in the months to come. Also, of interest this week were Greenspan's comments on the higher impact that asset prices play in the economy because of higher net worth to disposable income ratios. Greenspan clearly sees the stimulative impact of current housing dynamics, but he restated that Fed should just target the consequences of bubbles and not bubbles themselves.

## Weekly Highlights

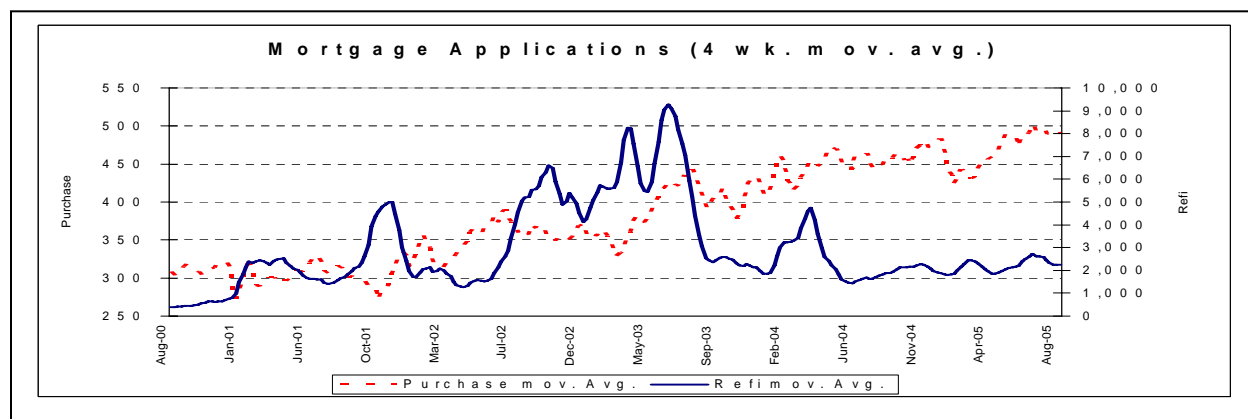
**Mortgage Applications** – purchase applications decreased 3.6% this week. (page 2)

**Employment**– Claims and Help Wanted signaled strength in the labor market. (page 3)

**Consumer Confidence**– indicators are mixed in August. (page 4)

## Weekly Releases

### Chart of the Week: *Mortgage Applications*



Purchase and refinancing mortgage applications decreased 3.6% and decreased 5.4%, respectively this week. Purchase applications are starting to slow, but the four week moving average is still up 9% Y/Y. It will be important to monitor if purchase applications continue to slow or if they react to now lower mortgage rates going forward. The slowing of the housing market has broad implications for macroeconomic conditions.

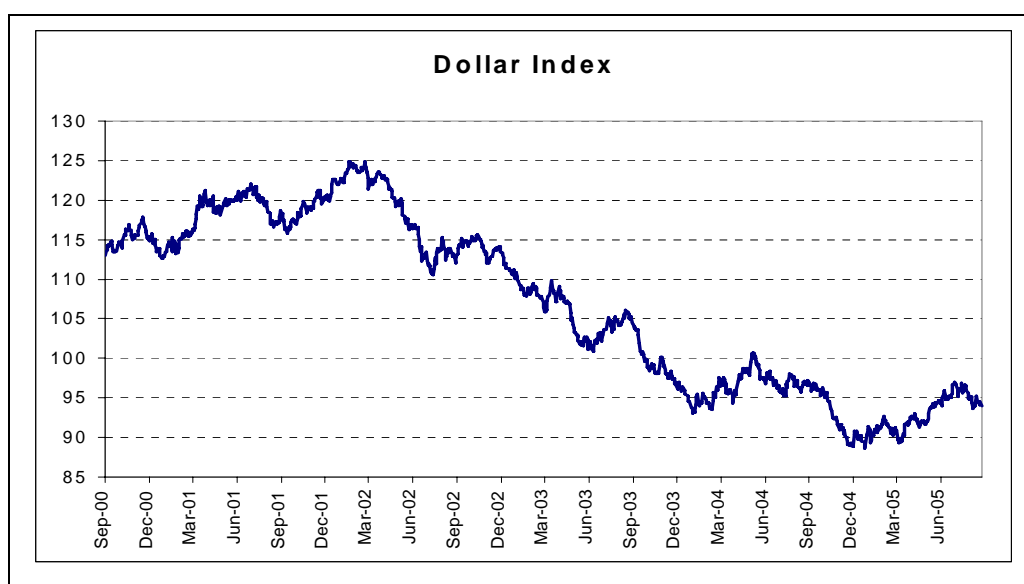
## U.S. Financial Balances & Trade Weighted Dollar

### Financial Balances

	Latest period (\$bns)	Last 12mo. as a % of GDP
Budget Balance	-57.8 (July)	-2.6%
Trade Balance	-58.8 (June)	-5.4%
Current Account Balance	-195.1 (Q1)	-5.8%
Private Balance		-3.2%

The budget deficit is currently at \$319 billion on a trailing twelve month basis and the CBO is estimating that the deficit will end fiscal year 2005 at \$331 billion, down \$81 billion from 2004. The CBO is also forecasting that the deficit will remain above \$300 billion until 2011 when the 2001 tax cuts are scheduled to expire-largely due to elevated defense spending. The trade balance in June also widened as the growth in exports was not large enough to reduce the large gap between the levels of imports and exports. The budget deficit remains too small to support a robust and sustained expansion. As mortgage equity extraction slows and debt service levels increase- fragility in the economy should become more evident.

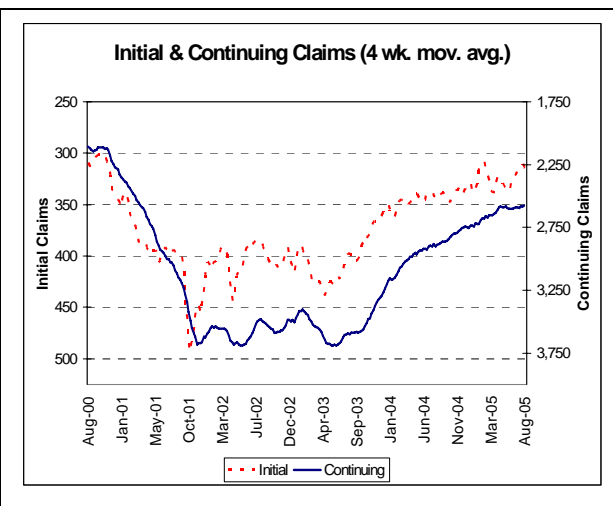
### Trade Weighted Dollar



## Continuing Claims, Help Wanted Index & Mort. Apps.

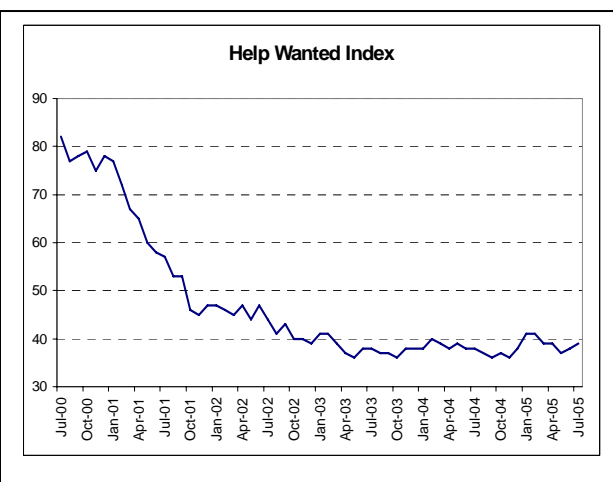
### Initial & Continuing Claims

The four-week moving average of initial and continuing claims decreased to 315k and 2,578k, respectively. The level of continuing unemployment claims is again signaling for an above trend payroll number in August, consistent with market expectations.



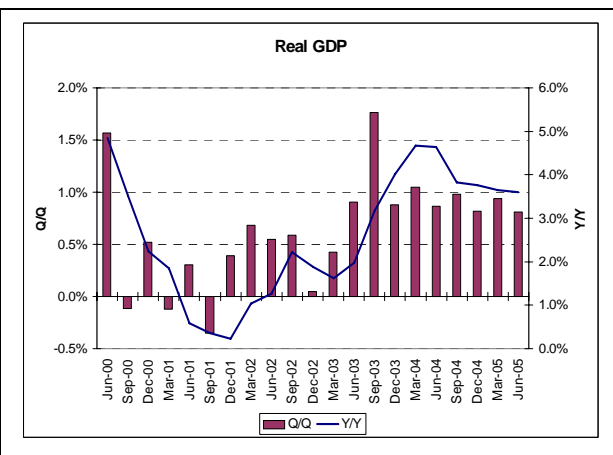
### Help Wanted Index

The Help Wanted Index ticked up to 39 in July. This indicator has continued to highlight a lack of demand for labor since 2003. As we have stated before, the shift from traditional media like newspapers could be masking some marginal improvements.



### GDP

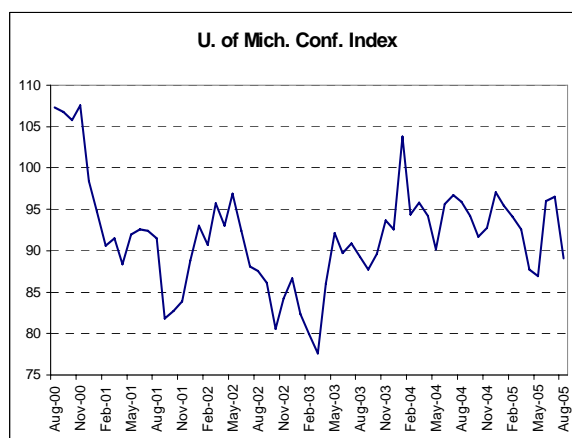
Q2 GDP annualized Q/Q growth was revised down to 3.3% from 3.4%. Changes in inventories subtracted 1.99% from growth and net exports added 1.22% to growth. Residential investment continued to grow at an annualized 9.8% rate.



## Consumer Confidence

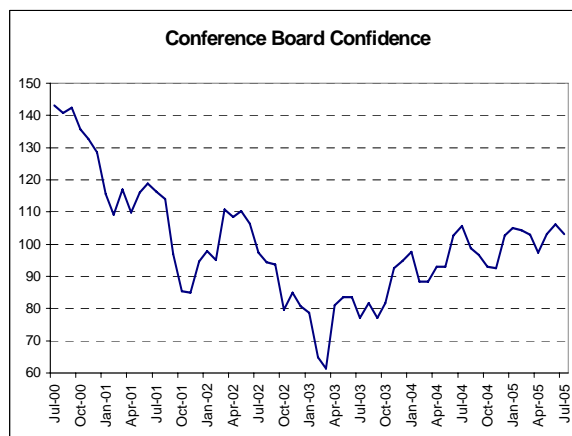
### U. of Michigan Confidence

The final University of Michigan Confidence Index in August showed a decrease from 96.5 to 89.1. The current and expectations components both declined more than five points, to 108.2 and 76.9, respectively.



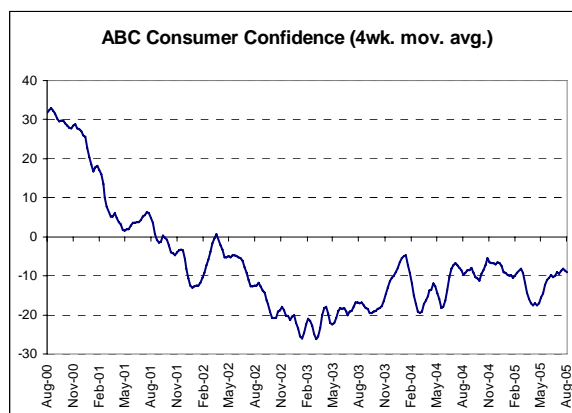
### Consumer Confidence

The Conference Board's Index of Consumer Confidence increased from 103.6 to 105.6 in August. Expectations and people's assessment of current conditions both improved from 93.2 to 93.7 and from 119.3 to 123.6, respectively. The job components both improved slightly.



### ABC Consumer Confidence

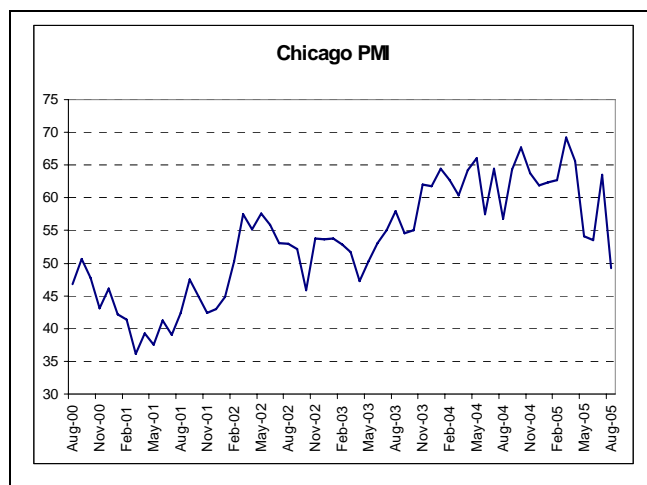
The ABC Consumer Confidence Index slipped from -9 to -12. The buying component remained flat at -28, but the economic and finance components weakened by four points each.



## Chicago PMI & Factory Orders

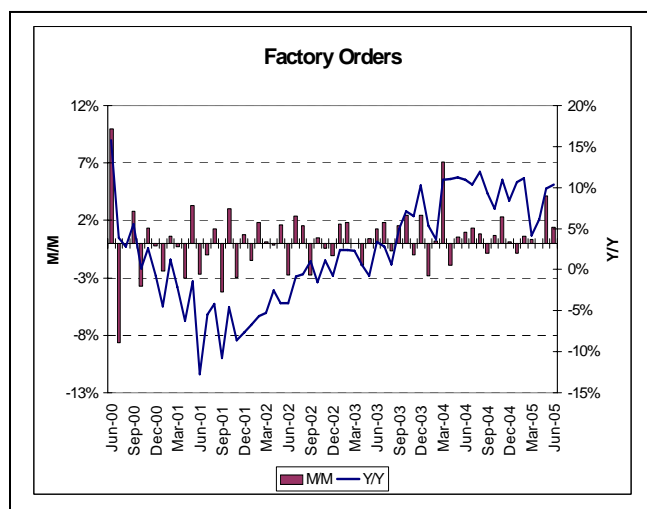
### Chicago PMI

The Chicago PMI decreased from 63.5 to 49.2 in August, below expectations. New orders dropped from 69.6 to 46.5. The employment component weakened from 56.1 to 51.7 and the price component increased slightly from 61.3 to 62.9. This survey was at odds with the Philly Fed and Empire surveys for August.



### Factory Orders

Factory Orders decreased 1.9% M/M and increased 6.3% Y/Y in July. This series mostly reflects the weakness seen in durable goods orders last week.



## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/01	Personal Income (JUL)	0.5%	0.5%
09/01	Personal Spending (JUL)	1.0%	0.8%
09/01	PCE Core (MoM) (JUL)	0.1%	0.0%
09/01	Initial Jobless Claims (AUG 27)	315K	315K
09/01	Continuing Claims (AUG 20)	2575K	2578K
09/01	Construction Spending (MoM) (JUL)	0.5%	-0.3%
09/01	ISM Manufacturing (AUG)	57.0	56.6
09/01	Pending Home Sales (MoM) (JUL)	0.0%	0.6%
09/01	Total Vehicle Sales (AUG)	17.3M	20.9M
09/02	Unemployment Rate (AUG)	5.0%	5.0%
09/02	Average Hourly Earnings (MoM) (AUG)	0.2%	0.4%
09/02	Change in Nonfarm Payrolls (AUG)	190K	207K
09/02	Average Weekly Hours (AUG)	33.7	33.7
09/06	ISM Non-Manufacturing (AUG)	61.3	60.5
09/06	ABC Consumer Confidence (SEP 4)	NA	-12
09/07	MBA Mortgage Applications (SEP 2)	NA	-4.5%
09/07	Nonfarm Productivity (2Q F)	2.2%	2.2%
09/07	Unit Labor Costs (2Q F)	1.3%	1.3%
09/07	Fed's Beige Book	NA	NA

Valance Co., Inc.

# Valance Economic Report: Euro Zone

Sean O'Reilly

(340) 692-7710

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

August, 2005

This past week's economic indicators offer hope that the moderate recovery seen in the manufacturing sector may in fact trickle into the labor market as employment increased in Germany and the total unemployed fell significantly in France. Employment figures in the euro zone tend to contain a large amount of "noise" but nonetheless give hope to a pickup in domestic demand. Evidence on the spending side remains muted however as German retail sales fell for the 2<sup>nd</sup> consecutive month in August.

## Weekly Highlights

**Euro Zone Household Consumption** – contracted once again in Q2. (page 10)

**German IFO** – confidence unexpectedly dropped after 3 months of gains. (page 10)

**Euro Zone M3** –unexpectedly accelerated again in July. (page 11)

## Weekly Releases & News

### Chart of the Week: German Employment



German Employment increased more than expected in July, rising for the 2<sup>nd</sup> consecutive month. 30k jobs were added in July, with another 29k added in June. The August Unemployment rate remained unchanged at 11.6% as the total unemployed decreased by 12k. An increase in the "1-euro" jobs (subsidized \$1.23/hr jobs) given to the long-termed jobless may be partly responsible for the increases, however.



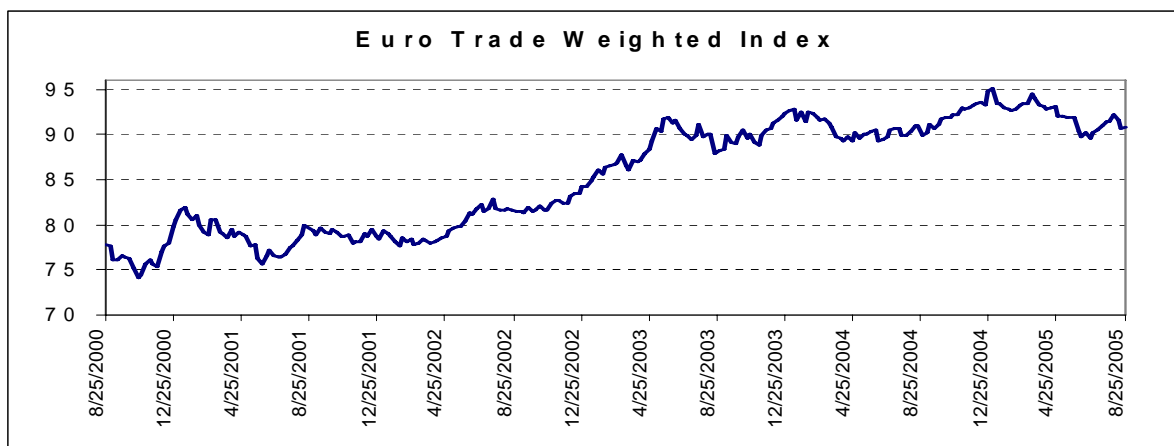
## ***Euro Zone Financial Balances & Trade Weighted Euro***

### ***Financial Balances***

<i>Germany</i>	<i>Last period (\$bns euros)</i>	<i>Last 12mo. as a % of GDP</i>
Budget Balance	-80.3 (12/04)	-3.6%
Trade Balance	12.1 (May)	7.1%
Current Account Balance	5.2 (May)	3.6%
Private Savings Balance		7.2%
<i>France</i>		
Budget Balance	-5.15 (May)	-3.4%
Trade Balance	-1.25 (May)	-1.3%
Current Account Balance	-2.87 (May)	-1.0%
Private Savings Balance		2.4%
<i>Italy</i>		
Budget Balance	-3.4 (July)	-3.5%
Trade Balance	-0.36 (May)	0.4%
Current Account Balance	-3.2 (May)	1.2%
Private Savings Balance		4.7%

Euro area public deficits will most likely overshoot their official targets once again in 2005 as growth this year has proven much weaker than forecasted. Initial 2006 budget drafts also suggest overly optimistic growth forecasts. Citigroup forecasts an average euro area deficit of 3.2% in 2005 and 3.4% in 2006, above the EU's 3% limit.

### ***Trade Weighted Euro***

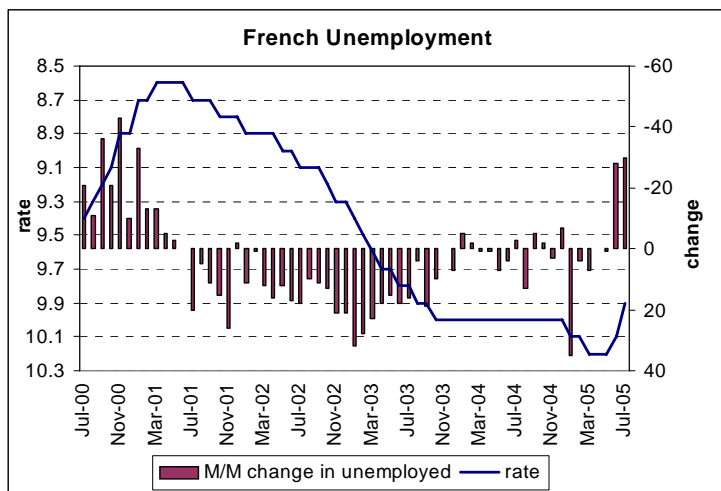


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## French Unemployment, Euro Zone GDP & German IFO

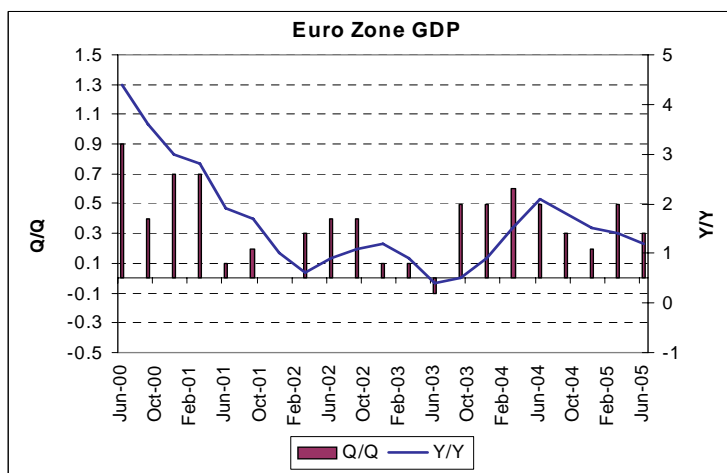
### French Unemployment

France's July Unemployment rate fell from 10.1% in June to 9.9% as the total unemployed fell by 30k. Whether jobs were added to the economy or job seekers have simply given up looking for work, is unclear.



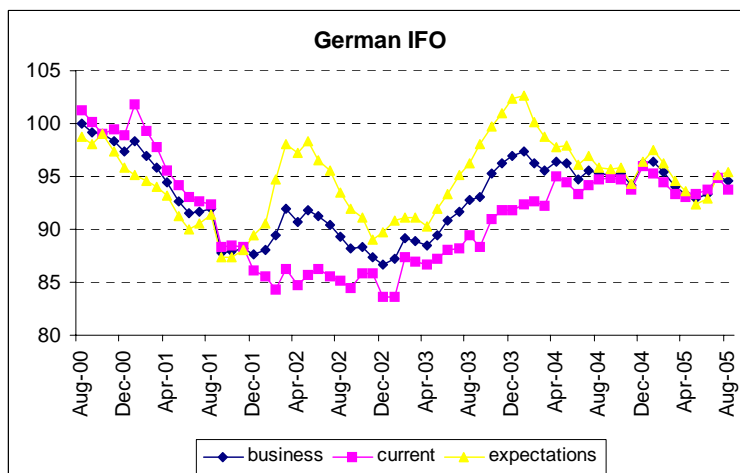
### Euro Zone GDP

The Euro Zone's Q2 GDP figures were slightly revised as the economy grew 0.3% Q/Q (unrevised) and 1.1% Y/Y (revised downward from 1.2%). Household consumption contracted 0.1% Q/Q, Gov't expenditures increased 0.3% Q/Q and Gross Fixed Capital Formation increased 0.2% Q/Q.



### German IFO

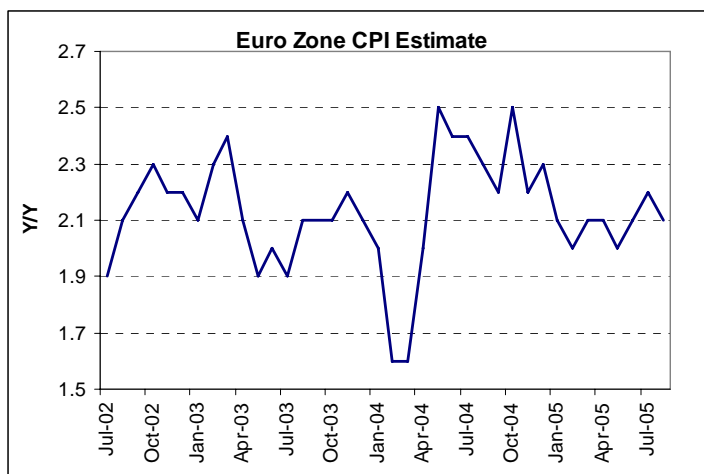
German Confidence unexpectedly fell in August, with the business climate survey falling from 95.0 in July to 94.6. The current assessment survey fell from 94.9 to 93.8 while the expectations survey increased from 95.1 to 95.4. High oil prices and poor domestic demand were responsible for the dampening of sentiment.



## Euro Zone CPI Estimate, M3 & German CPI

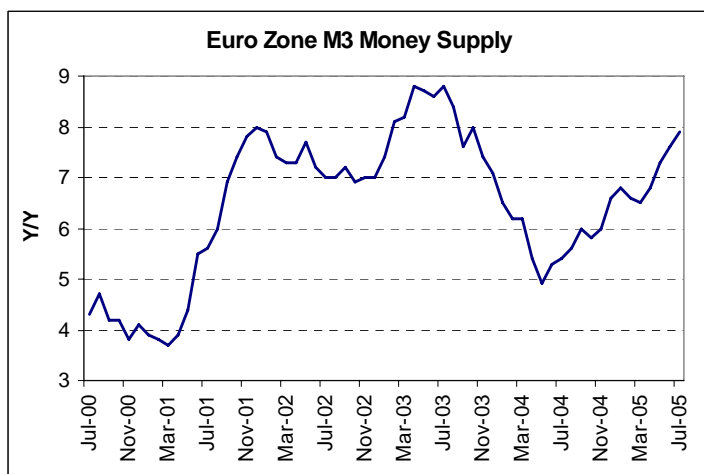
### Euro Zone CPI Estimate

*The Euro Zone's August CPI estimate forecasts a slight slowdown in inflation, decreasing from 2.2% Y/Y in July to 2.1%.*



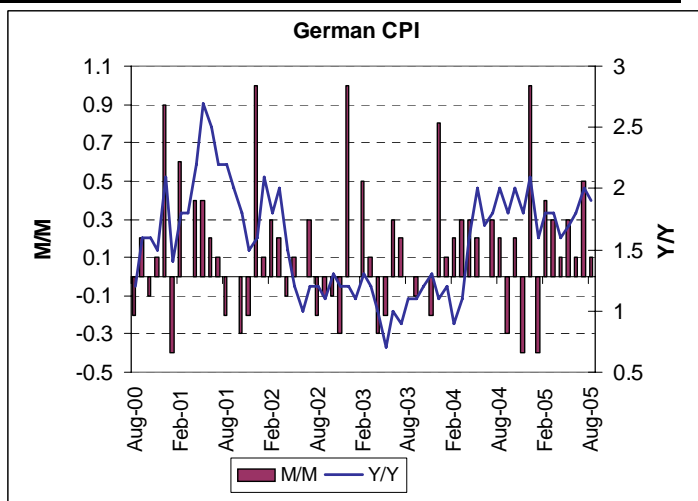
### Euro Zone M3

*The Euro Zone's July M3 money supply unexpectedly accelerated from 7.6% Y/Y in June to 7.9%, giving more fuel to the ECB's 'vigilance' stance.*



### German CPI

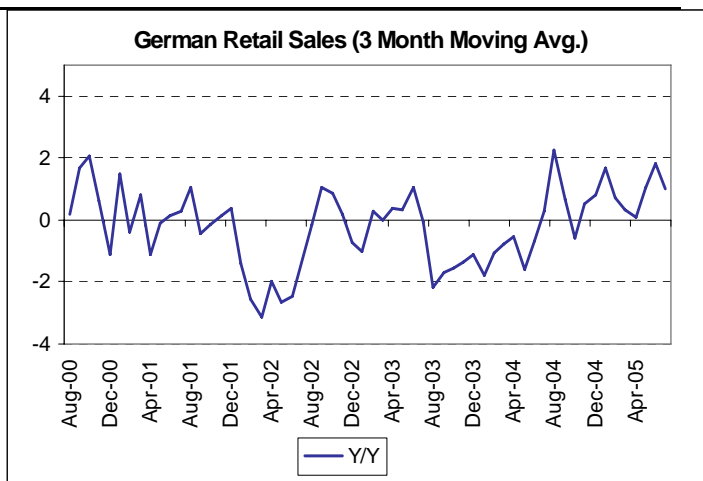
*German inflation slowed in August for the first time in 4 months. M/M prices increased 0.1% while Y/Y prices slowed from 2.0% in July to 1.9%. An inability to pass the increasing cost of oil on to consumers continues to keep inflation stable.*



## German, Italian & Spanish Retail Sales

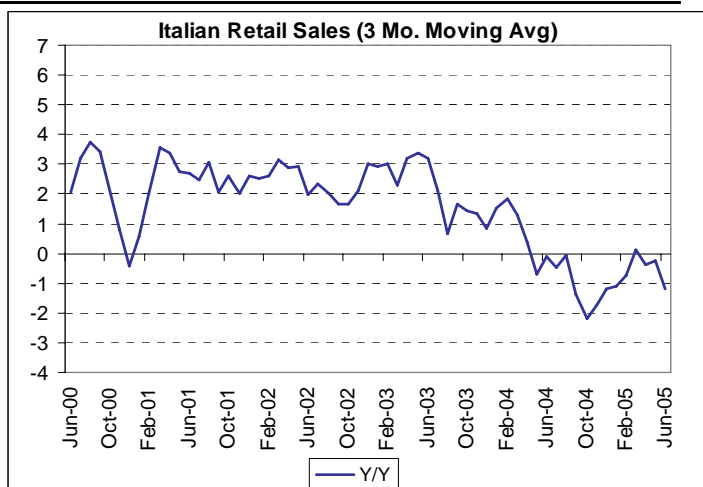
### German Retail Sales

*Germany's July Retail Sales unexpectedly fell for the 2<sup>nd</sup> consecutive month, falling 0.6% M/M and 3.0% Y/Y. Climbing oil prices are cited as the reason for the lack of spending.*



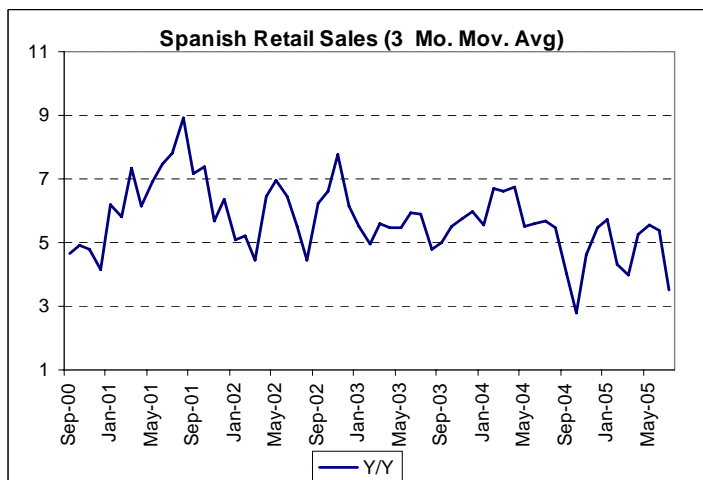
### Italian Retail Sales

*Italy's June Retail Sales fell 0.2% M/M and 0.7% Y/Y as the domestic sector remains remarkably weak.*



### Spanish Retail Sales

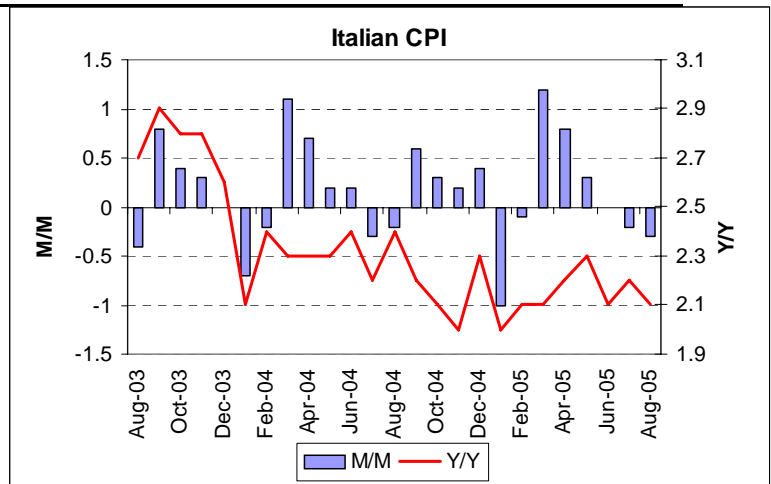
*Spanish Retail Sales increased 4.6% M/M and 1.5% Y/Y in July. Sales in the euro zone's strongest economy do, however, appear to be on a slightly slowing trend.*



## Italian & Spanish CPI

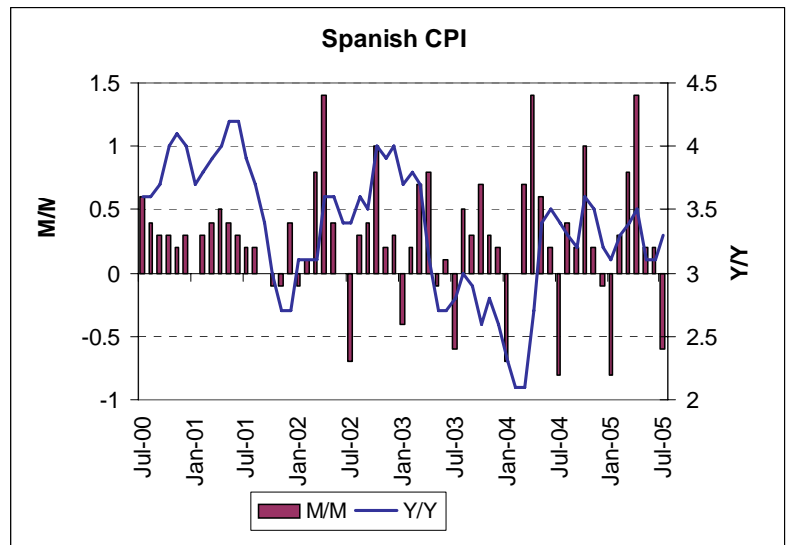
### Italian CPI

Italy's August CPI fell 0.3% M/M while slowing from 2.2% Y/Y in July to 2.1%.



### Spanish CPI

Spain's August EU harmonized CPI rose 3.3% Y/Y, for the 2<sup>nd</sup> consecutive month.



## News & Upcoming Dates

**Aug. 31<sup>st</sup> – The ECB** raised its 2005 growth forecast slightly from 1.4% Y/Y (forecasted in June) to 1.5%. The forecasts assume a \$55.39 avg. price/ barrel of oil for 2005 and a \$62.80 avg. price in 2006.

**Aug. 31<sup>st</sup> – French Prime Minister, Thierry Breton**, lowered his 2005 growth forecast for the 3<sup>rd</sup> time, decreasing the forecast from 2% to “between 1.5% and 2.0%” Breton cited high oil prices having weighed significantly on the economy as the main reason, though he did point out that businesses are hiring again and that growth is “coming back”.

**Aug. 29<sup>th</sup> – German Consumer Confidence** increased for the 1<sup>st</sup> time in 5 months as consumers placed hope on the expected removal of Chancellor Schroeder in the upcoming elections. The Gfk index increased from 3.2 in July to 3.4. A poll taken by StepStone Deutschland AG found that German companies would most likely increase hiring if the CDU party won the elections. 4.8% of companies surveyed stated that they would boost employment if Chancellor Schroeder remained in power, compared to 36% boosting employment if the CDU party won.

**Aug. 29<sup>th</sup> – Germany’s BDI Industry Group**, which represents 107,000 companies, cut its 2005 German growth forecast from 1% to “below 1%”. They also noted that if this year’s elections resulted in a larger coalition rather than a change in government that 2006 growth would remain around 1% as well.

**Aug. 27<sup>th</sup> – Bundesbank President, Axel Weber**, commented on German growth, stating that the economy was recovering at a “very moderate pace” and that growth is “slowly picking up”. Weber also noted that domestic investment has started to pick up and that he retains his 1% 2005 growth forecast though he doesn’t rule out that the economy may do better.

## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/01	ECB announces rates (SEP)	2%	2%
09/01	Euro Zone PMI Manufacturing (AUG)	51.0	50.8
09/01	Italian Hourly Wages (JUL)	--	3.0% Y/Y
09/01	Spanish Unemployment Change (AUG)	--	14.6k
09/02	Euro Zone PMI Services (AUG)	--	53.5
09/02	Euro Zone Retail Trade (JUL)	--	0.4% M/M

Valance Co., Inc.

**Valance Economic Report: Japan**

Davin Patton  
(340) 692-7710  
[dpattton@valance.us](mailto:dpattton@valance.us)

August 31, 2005

Recent Japanese data continues to support views that a recovery is underway. Core CPI was unchanged M/M and the jobless rate increased because more workers became optimistic of the economy and sought employment. Although industrial production and household spending edged downward, expectations for future production were increased and labor earnings improvement supports future consumption prospects.

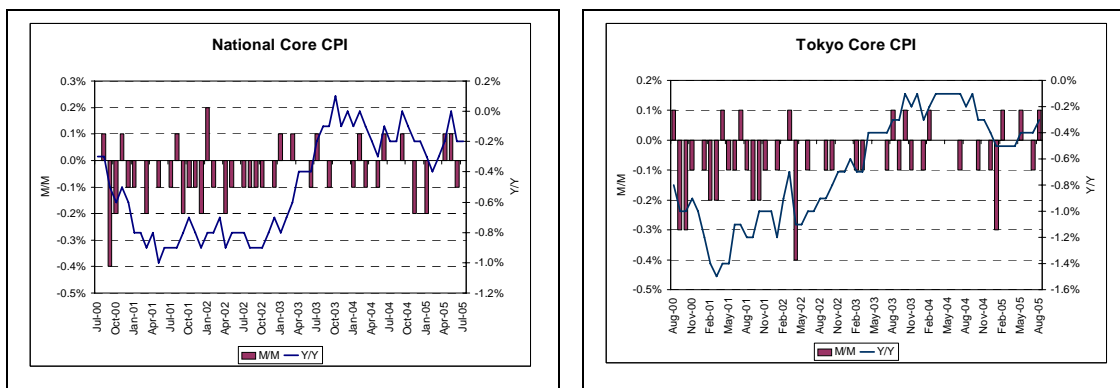
**Weekly Highlights**

**CPI Ex Fresh Foods** – unchanged M/M and declined 0.2% Y/Y in July. (page 15)

**Jobless Rate** –increased from 4.2% in June to 4.4% in July. (page 17)

**Industrial Production** – decreased 1.1% M/M and 2.2% Y/Y in July. (page 17)

**Workers' Household Spending** – decreased 3.5% M/M and 3.3% Y/Y in July. (page 19)

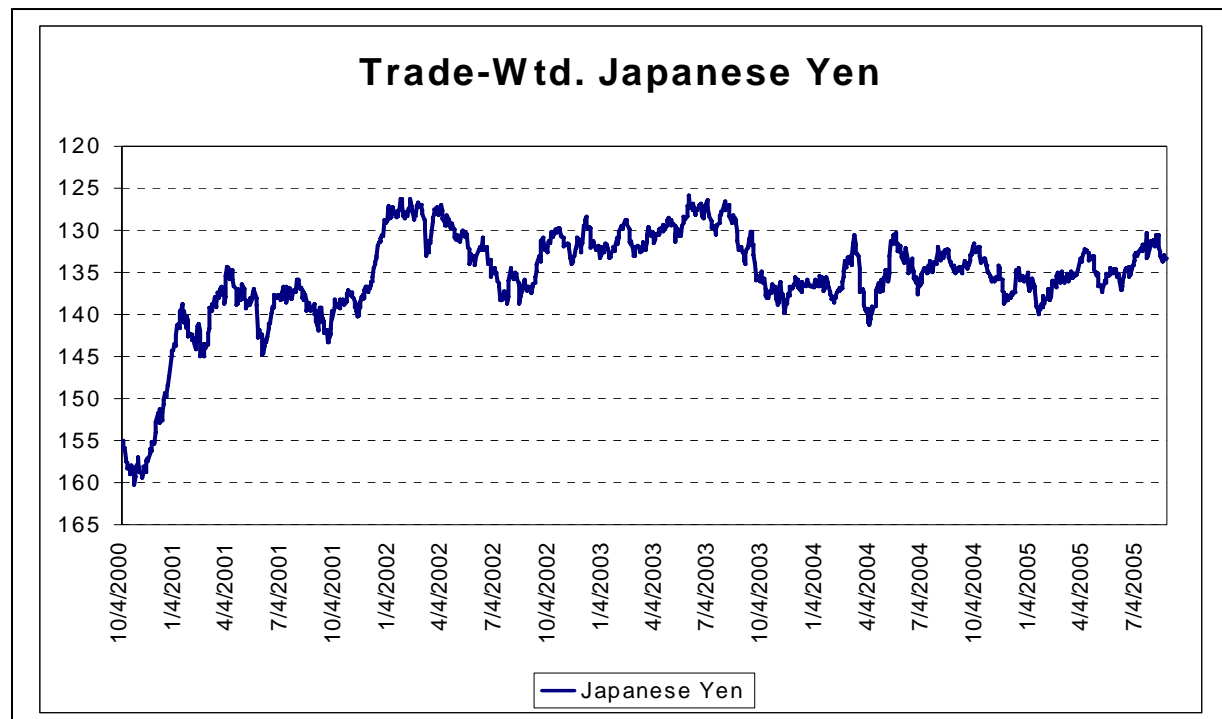
**Weekly Releases & News****Chart of the Week: *Consumer Prices***

National Core CPI was unchanged M/M and declined 0.2% Y/Y in July. Tokyo Core CPI increased 0.1% M/M and declined 0.3% Y/Y in August. This data, both coming in at market-anticipated levels, suggest that the economy is gathering momentum as prices stabilize. We expect Y/Y price gains to begin increasing throughout the country by year's end as special factors wear off, and for this trend to continue into next year.

## Japan Financial Balances

### Financial Balances

<i>Japan</i>	<i>Last period (¥trln)</i>	<i>Last 12mo. as a % of GDP</i>
Budget Balance	-3.03 (May)	-6.9%
Trade Balance	0.69 (June)	2.2%
Current Account Balance	1.50 (June)	5.2%
Private Balance		12.1%



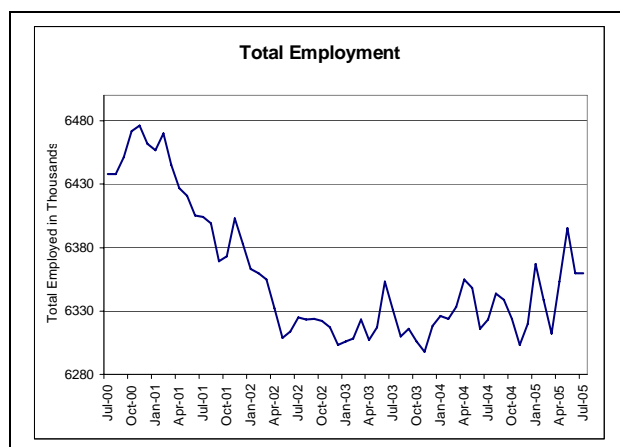
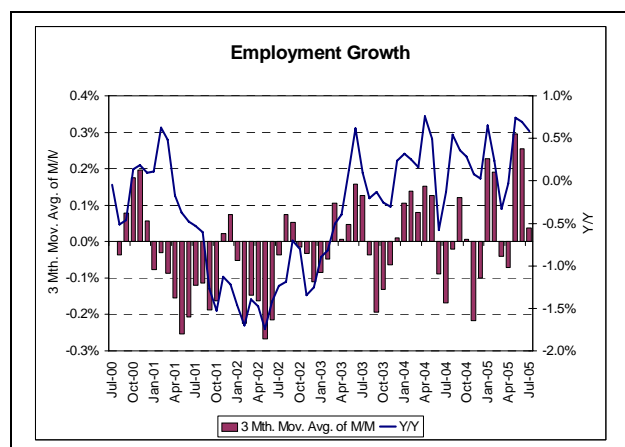
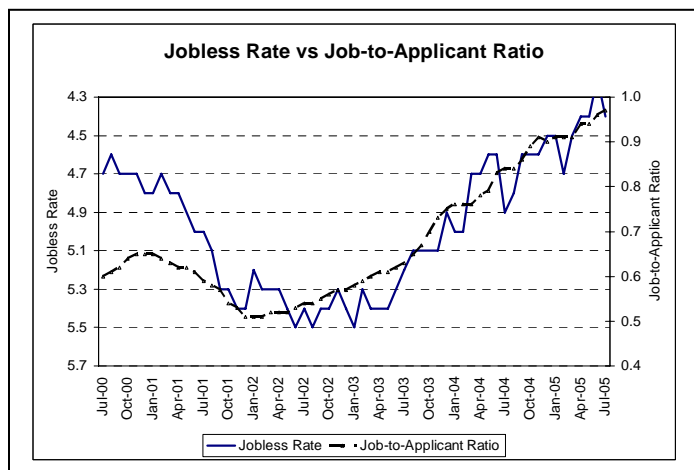


## Employment & Industrial Production

### Employment

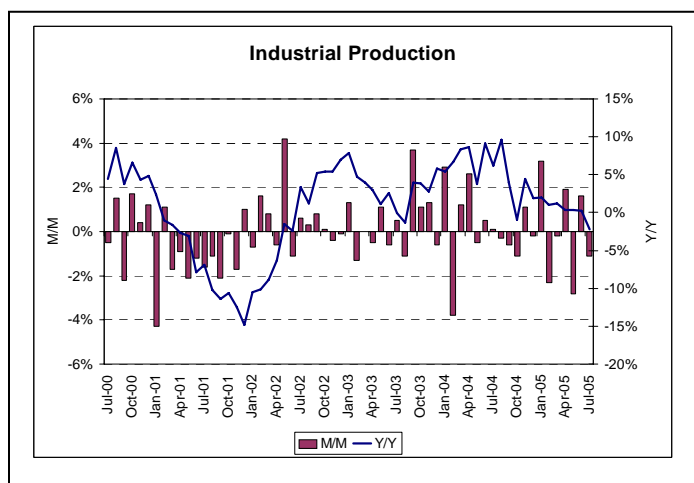
Total Employment in Japan remained relatively unchanged in July. At the same time however, an improving economy has convinced some of the unemployed to seek employment, increasing the unemployment rate from 4.2% in June to 4.4% in July due to a 170k rise in the size of the labor force.

The job-applicant ratio increased from 0.96 to 0.97 in July.



### Industrial Production

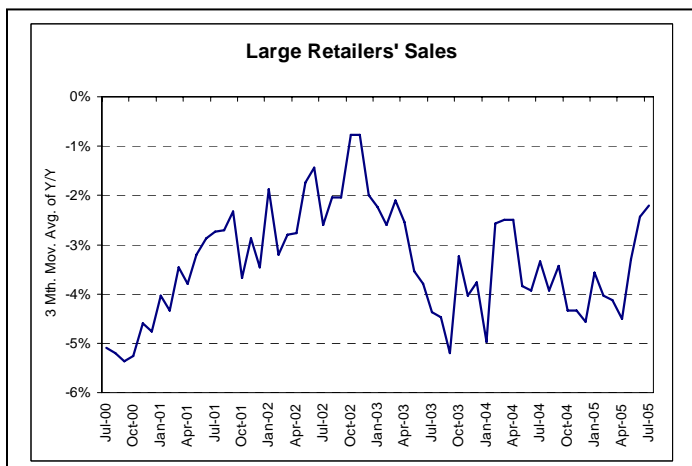
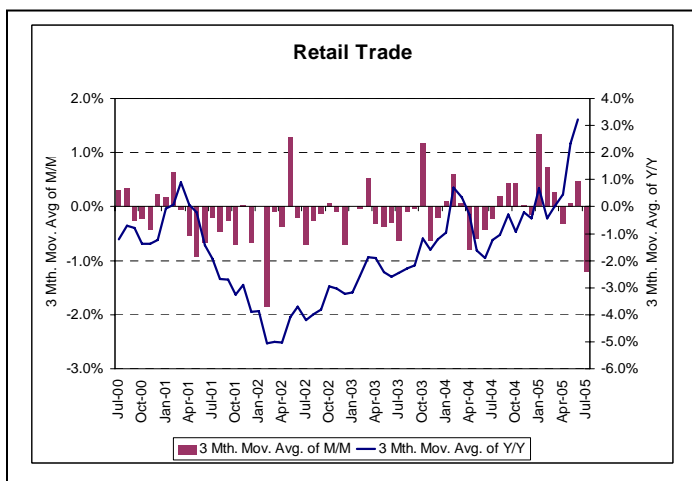
Industrial Production declined 1.1% M/M and 2.2% Y/Y in July. Although the decline was worse than the 0.5% M/M and 1.5% Y/Y decline that the market expected, it follows solid June data. Forecasts for August and September production were for a 2.3% M/M increase through both months.



## Retail Trade, Retailers' Sales & Small Business Confidence

### Retail Trade

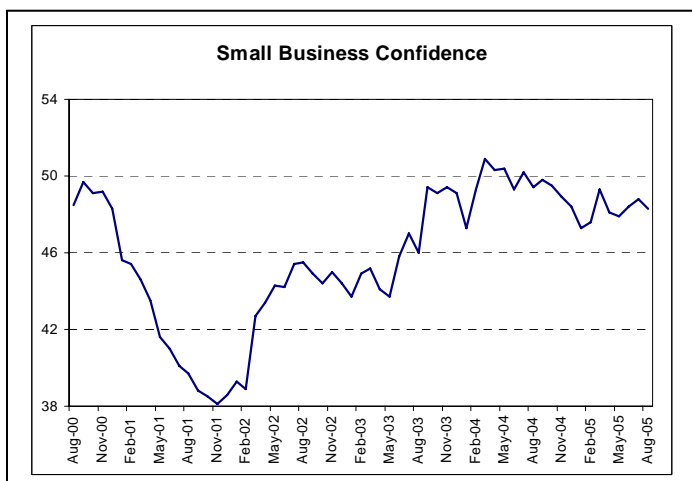
Retail trade declined 2.2% M/M and increased 0.6% Y/Y in July. Large Retailers' Sales declined 1.6% M/M in July.



### Small Business Confidence

Small Business Confidence edged lower in August, declining from 48.8 to 48.3. Sentiment among small manufacturers fell from 49.2 in July to 48.8 in August. Confidence among retailers, construction companies, and other non-manufactures declined from 48.5 to 47.8 in August.

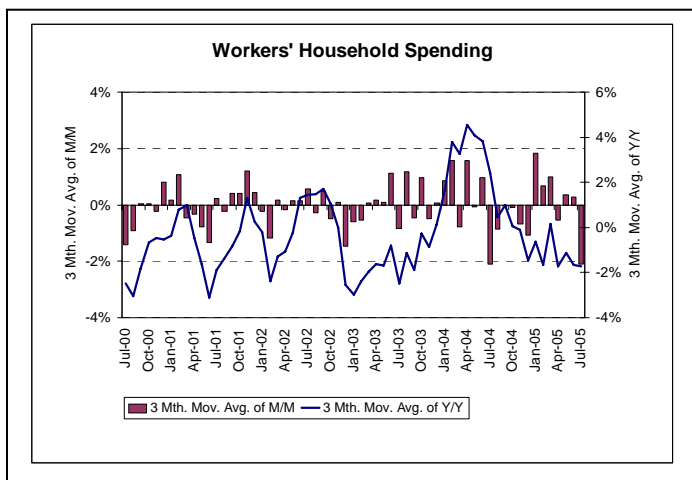
The report also commented that small business confidence is expected to increase to 51.0 in September.



## Workers' Household Spending, Earnings & Vehicle Production

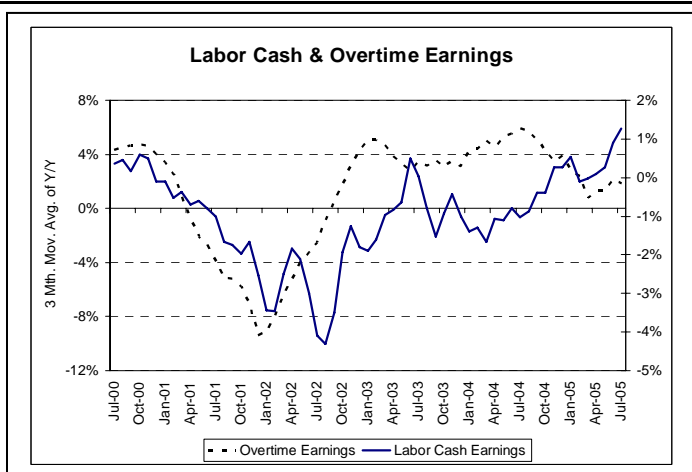
### Workers' Household Spending

*Workers' Household Spending declined 3.5% M/M and 3.3% Y/Y in July.*



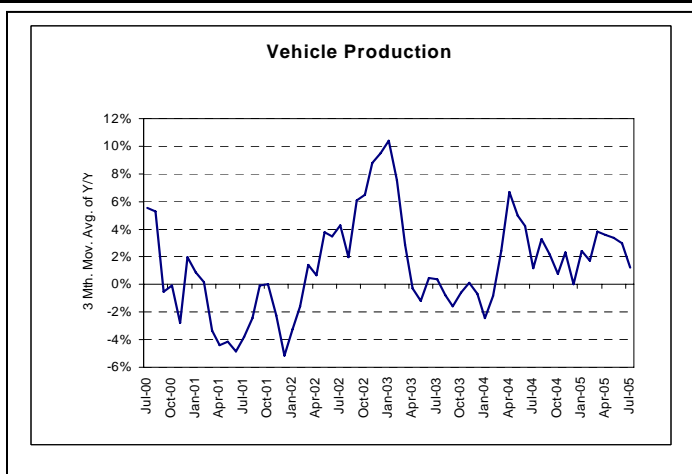
### Labor Earnings

*Labor cash earnings increased 1.7% Y/Y and overtime earnings increased 1.3% Y/Y in July. The increase brings wages to their highest Y/Y level in 8 months.*



### Vehicle Production

*Vehicle Production declined 2.5% Y/Y in July.*



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## ***News***

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### ***Japan PMI***

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Japan's Performance of Manufacturing Index declined from 54.1 to 53.8 in August, and the 3mth average increased from 53.9 to 54.0. The production component of the index increased from 55.8 to 56.3 as the new orders component fell from 55.7 to 54.9.

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### ***Koizumi's Comments & National Sales Tax to Increase***

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Prime Minister Koizumi stated on August 31<sup>st</sup> that the nation's 5% sales tax would inevitably increase, although he had also promised that he would not increase the tax on consumers while he is the Prime Minister. Although he didn't say when the rate would go up, he had planned on stepping down in September 2006. He did state that the tax should not be increased before 2007.

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### ***Slow Money Supply May Delay BoJ Policy***

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According to a report by Nikkei news, the recent lack of significant growth in monetary flows within the Japanese economy could delay the BoJ's plan to terminate its quantitative easing policy. According to the BoJ, the nation's money supply increased only 1.7% Y/Y, the 4<sup>th</sup> consecutive month of Y/Y growth at the 1.0% level. The report noted that the cause of this was due to softness in bank lending, which declined 4.0% Y/Y in June and 2.4% Y/Y in July. It also noted that the government does not believe that the economy will be able to beat deflation unless the amount of money in circulation grows.

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### ***Construction Orders & Housing***

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Construction Orders increased 20.8% Y/Y and Housing Starts increased 9.2% M/M and 8.3% Y/Y in July. The increase brings housing starts to their highest level in eight years. Construction Orders increased to their highest level since March.

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

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/01	Vehicle Sales (Aug Y/Y)	N/A	-3.4%
09/01- 09/08	Consumer Confidence (Jul)	48.2	46.8
09/01- 09/08	Consumer Confidence Households (Jul)	48.5	46.6
09/01	Monetary Base (Aug Y/Y)	1.2%	1.5%
09/04	Capital Spending (Q2)	N/A	6.9%
09/04	Capital Spending Incl Software (Q2)	N/A	7.4%
09/06	Household Spending (Jul Y/Y)	N/A	-0.1%
09/06	Overall Household Spending (Jul M/M)	N/A	-1.2%
09/06- 09/07	BoJ Monetary Policy Meeting	N/A	N/A
09/06	Official Reserve Assets (Aug)	N/A	\$839.4 bln
09/07	Lending Economic Index (Jul)	N/A	63.6%
09/07	Coincident Index (Jul)	N/A	100.0%

Valance Co., Inc.

# Valance Economic Report: **United Kingdom**

Gabriel Webber

(340) 692-7710

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

August 31, 2005

The MPC seems to have backed itself into a dilemma as GDP growth remains sluggish and as consumer sentiment weakens as oil prices have continued to reach record levels. On one hand, the MPC may need to cut rates to spur growth within the housing market and consumer consumption; on the other hand, it remains concerned about the energy impact on inflation. Therefore, we expect the repo rate to remain at 4.50% for the next several months, unless something drastic happens.

## Weekly Highlights

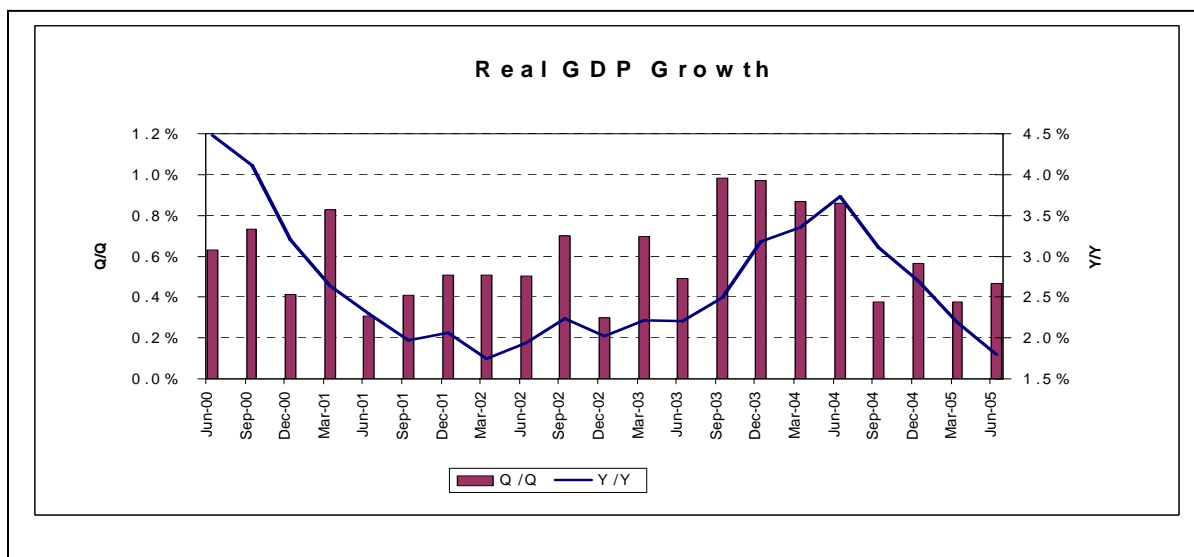
**GDP** – revised up slightly to 0.5% Q/Q and 1.8% Y/Y in Q2. (page 22)

**Consumer Confidence** -. fell from -1 in July to -4 in August. (page 24)

**BOE** - reported that mortgage lending decreased 8.4% M/M and slowed from 10.8% Y/Y to 10.4% Y/Y in July. (page 24)

## Weekly Releases & News

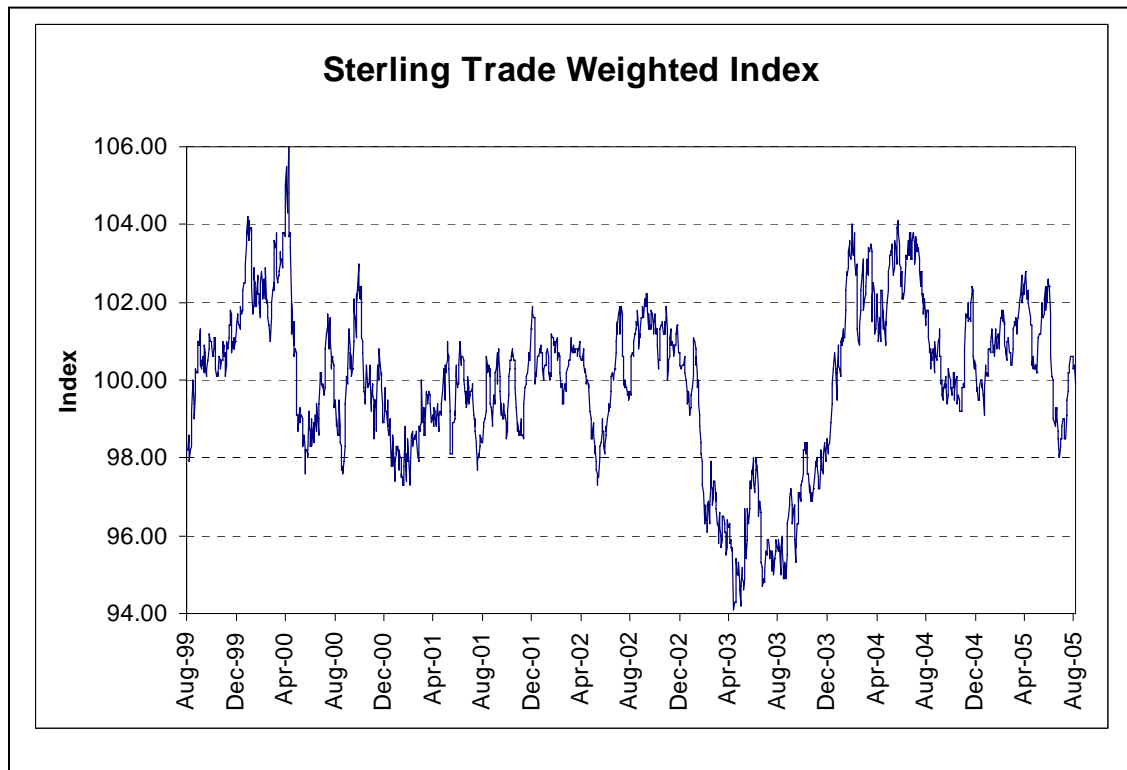
### Chart of the Week: *GDP*



Quarterly GDP in its second revision for Q2 was revised up from 0.4% Q/Q to 0.5% Q/Q; annual growth was revised down from 2.1% Y/Y to 1.8% Y/Y, the slowest annual rate of growth since Q1 2002. Details show that consumer consumption remains weak as it increased only slightly from 0.1% Q/Q to 0.2% Q/Q. This weakness however, was offset by investment which increased 1.5% Q/Q. The GDP deflator rose 1.7% Y/Y.

## Financial Balances

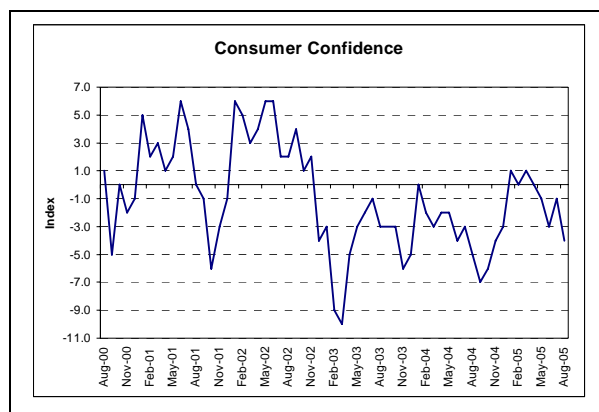
	<i>Last Period (billions)</i>	<i>Last 12m % of GDP</i>
Budget Balance (monthly)	-£5.9 (June)	-2.0%
Trade Balance (monthly)	-£3.4 (May)	-1.2%
Curr. Acct. Balance (quarterly)	-£5.8 (March)	-2.0%
Private Balance		-0.04%



## GfK Consumer Confidence

### GfK Consumer Confidence

*The index of optimism among consumers fell from -1 in July to -4 in August, below expectations of -1, suggesting that consumer spending will continue to slow.*



### Data

#### CBI Distributive Trades

The Confederation of British Industry (CBI) reported that 20% of retailers felt that businesses will deteriorate in the next quarter as only 13% of retailers were optimistic in August. This is the first time in seven years that more retailers were pessimistic about the future than optimistic. In addition, 45% of retailers reported a decrease in the volume of sales while only 27% reported an increase in sales from August of last year.

#### Net Lending Secured on Dwellings

The Bank of England reported that mortgage lending decreased 8.4% M/M and slowed from 10.8% Y/Y to 10.4% Y/Y in July, significantly below expectations and the lowest since July of 2002.



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

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/01	Nationwide House Prices	0.0% M/M 2.6% Y/Y	0.2% M/M 2.6% Y/Y
09/01	PMI Manufacturing	--	49.5
09/01	PMI Construction	--	54.5
09/01	PMI Services	--	--
09/05	BRC Retail Sales	--	--
09/06	Industrial Production	--	0.0% M/M -1.9% Y/Y
09/06	Manufacturing Production	--	0.2% M/M -1.0% Y/Y

Valance Co., Inc.

# Valance Economic Report: *Canada*

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

August 31, 2005

**Strong Real GDP growth, flat M/M Core CPI growth and the widening of the Current Account Surplus, highlighted this past week's data in Canada. With these results, the consensus is still anticipating an interest rate hike on September 7<sup>th</sup>.**

## Weekly Highlights

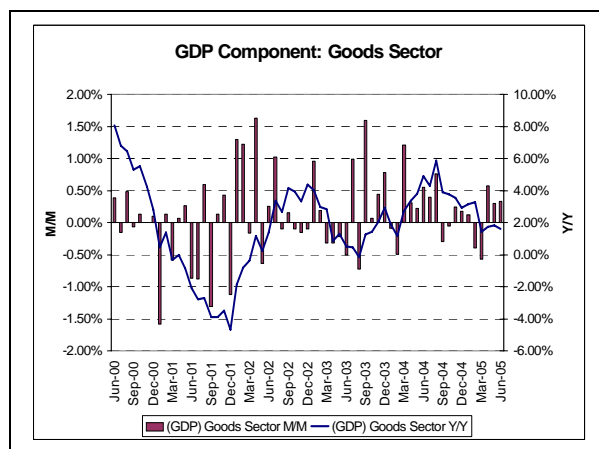
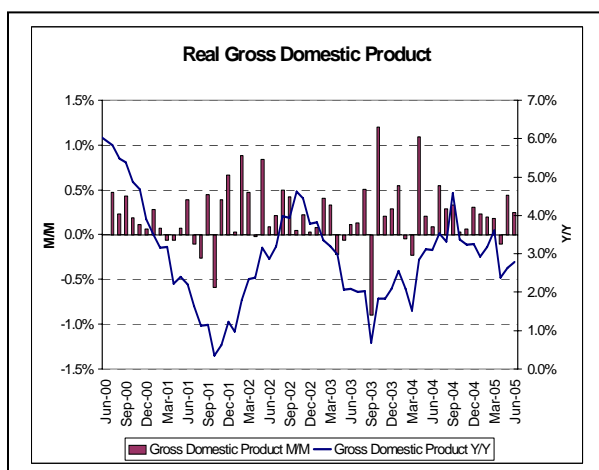
**Real GDP** - increased 0.2% M/M and 2.8% Y/Y in June. (page 26)

**Core CPI** - remained flat M/M and increased 1.4% Y/Y in July. (page 28)

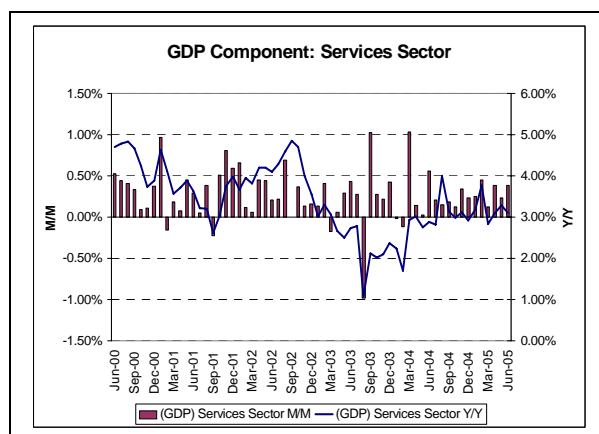
**Current Account Surplus** - widened to \$4.7 billion in Q2 from \$3.4 billion in Q1. (page 29)

## Weekly Releases & News

### Charts of the Week: *GDP*



*Real GDP growth increased 0.8% Q/Q in Q2 compared to 0.5% Q/Q growth in Q1. Continued strength in personal expenditures and a rebound in housing contributed to this strong Q2 result. Real GDP increased 0.2% M/M and 2.8% Y/Y in June. The Goods Sector increased 0.3% M/M and 1.6% Y/Y and the Services Sector increased 0.4% M/M and 3.1% Y/Y.*

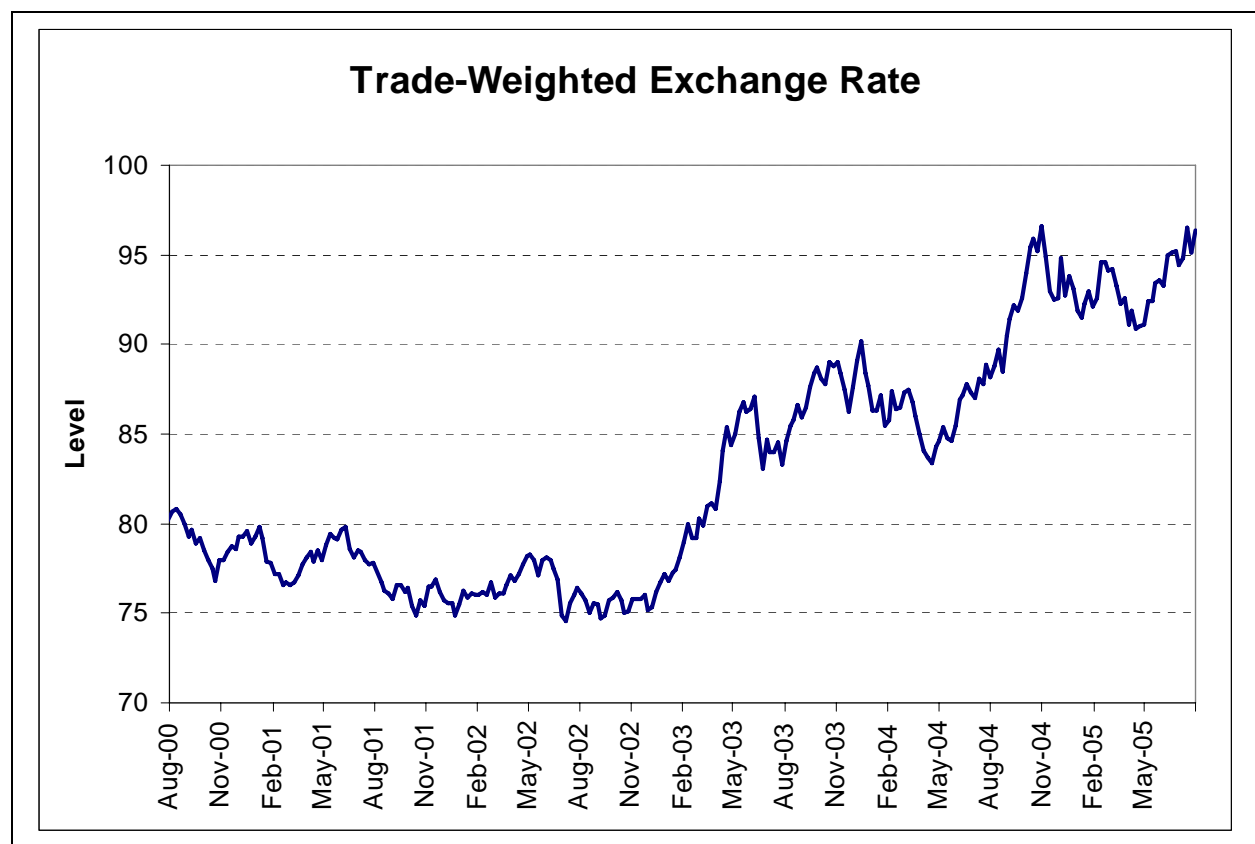


## *Financial Balances*

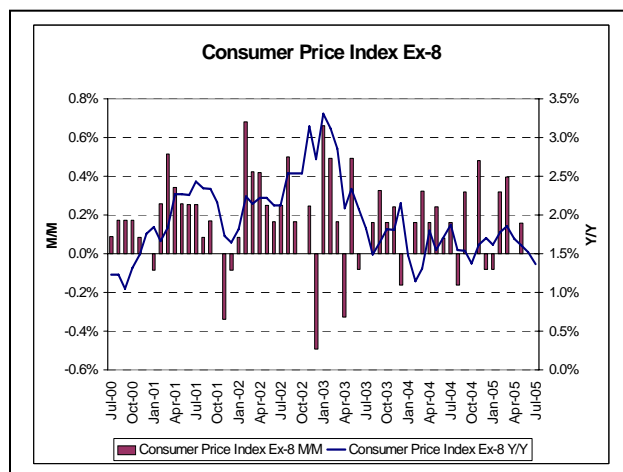
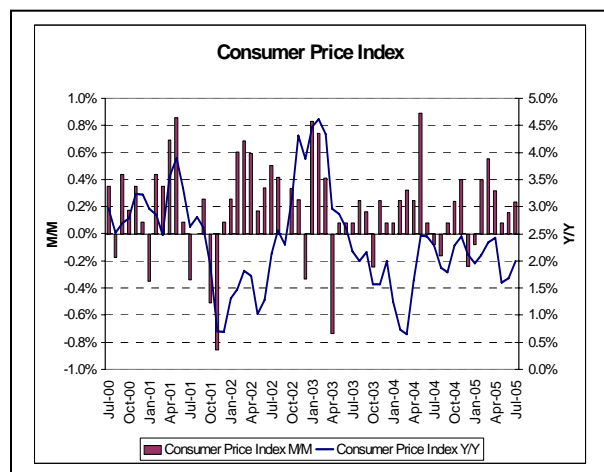
### *Financial Balances*

	<i>Latest period (C\$bn)</i>	<i>% of GDP</i>
Budget Balance	1.7 (June)	.2%
Trade Balance	4.9 (June)	4.9%
Current Account Balance	4.7 (Q2)	2.2%
Private Balance		2.0%

### *Trade Weighted Dollar*



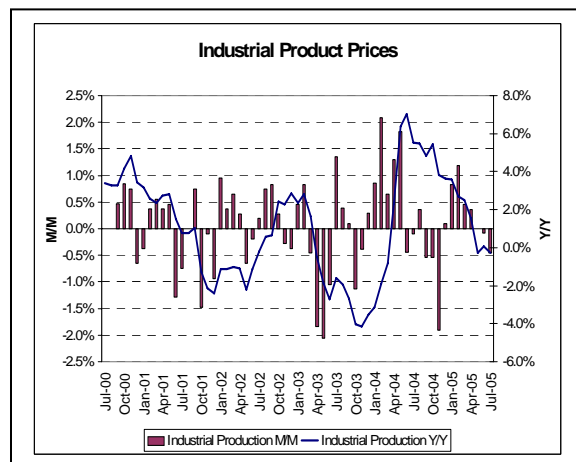
## CPI & Industrial Production



Core CPI remained flat M/M and increased 1.4% Y/Y in July. Headline CPI increased 0.2% M/M and 2.0% Y/Y. Core CPI on a M/M basis received most of its upward pressure from increased prices for traveler accommodation (+5.5%), restaurant meals (+0.3%), cablevision (+1.7%), and women's clothing (+1.0%), while downward pressure was attributed to a decrease in prices for the purchase and leasing of automotive vehicles (-1.7%).

## Industrial Product Prices

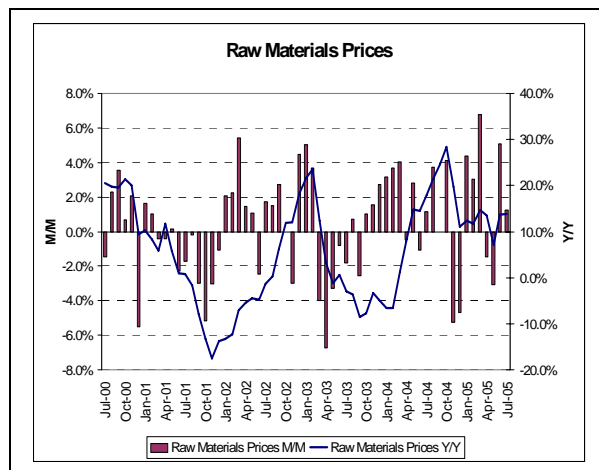
Industrial Product prices decreased 0.4% M/M and 0.3% Y/Y in July due to the strengthening of the Canadian dollar against the U.S. dollar by 1.4% between June and July. Excluding the impact of the exchange rate, the IPPI would have remained unchanged instead of declining 0.4%.



## Raw Materials Prices & Current Account

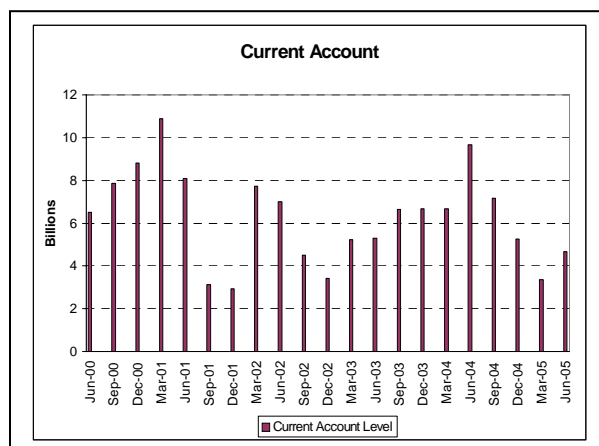
### Raw Materials Prices

Raw Materials increased 1.2% M/M and 13.8% Y/Y in July, largely driven by crude oil prices. Prices for intermediate and final goods decreased 0.6% M/M and 0.1% M/M, respectively.



### Current Account

Canada's Current Account Surplus widened to \$4.7 billion in Q2 from \$3.4 billion in Q1 as exports increased more than imports. Energy products accounted for the largest gain in exports, however, exports of machinery and equipment also increased substantially.



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

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### ***Business Profits Increased in Q2***

Canada's Business profits increased 2.9% to a record C\$51.9 billion in Q2. This increase was mainly led by oil companies and retailers, and was the 12<sup>th</sup> increase in the last 14 quarters.

### ***Average Hourly Earnings Increased***

Average Hourly Earnings increased 2.2% in the first half of this year compared to the first half of 2005. At mid-year, industries posting the largest gains for 2005 were mining, oil and gas extraction (+5.0%), retail trade (+3.8%), and other services (+3.8%).

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

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/07	Building Permits (M/M) (JUL)	--	1.5%
09/07	Bank of Canada Rate	2.75%	2.50%
09/07	Ivey Purchasing Managers Index (AUG)	--	51.5

Valance Co., Inc.

# Valance Economic Report: Australia

Milo Prochazka

(340) 692-7710

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

August 31, 2005

**Australia's Trade Deficit widened in July as the cost of imported fuel soared while Q2's Current Account Deficit narrowed more than expected. Retail Sales growth unexpectedly stalled in July as record gasoline prices curbed spending. Building Approvals fell the most in three years in July and credit growth posted its smallest increase since October 2002, signaling that the Australian economy is slowing.**

## Weekly Highlights

**Current Account Deficit** – narrowed to A\$12.6 billion from a revised A\$15 billion in the Q1. (page 31)

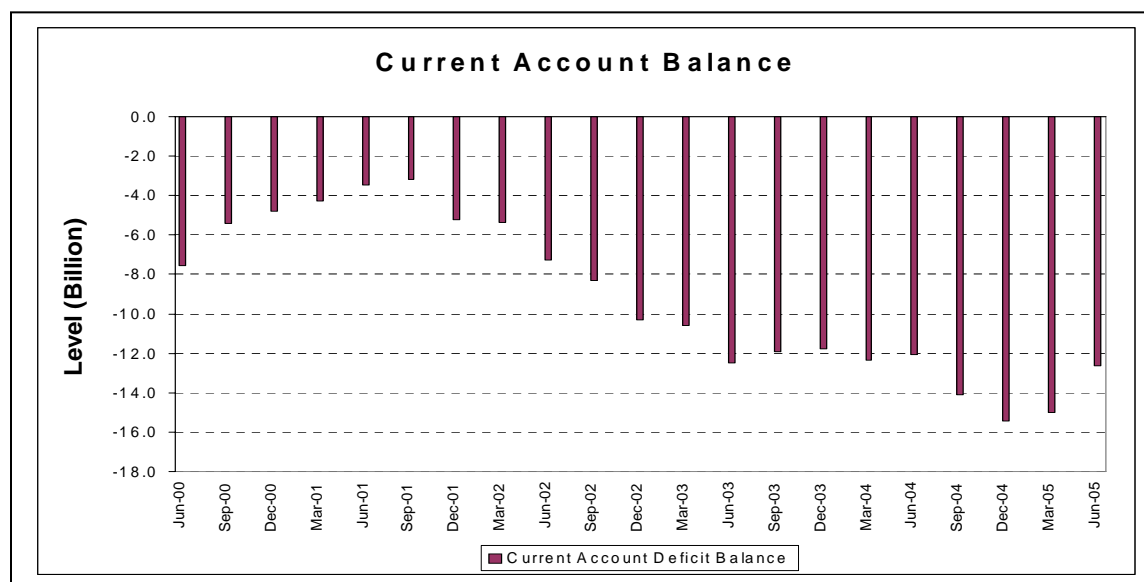
**Trade Deficit** - widened to A\$1.46 billion in July from a revised A\$1.4 billion in June. (page 32)

**Retail Sales** - unexpectedly stalled in July from a revised 1.1% gain in June. (page 32)

**Building Approvals** – fell 8.9% M/M in July from a revised 0.2% (previous 0.9%) increase in June. (page 33)

## Weekly Releases & News

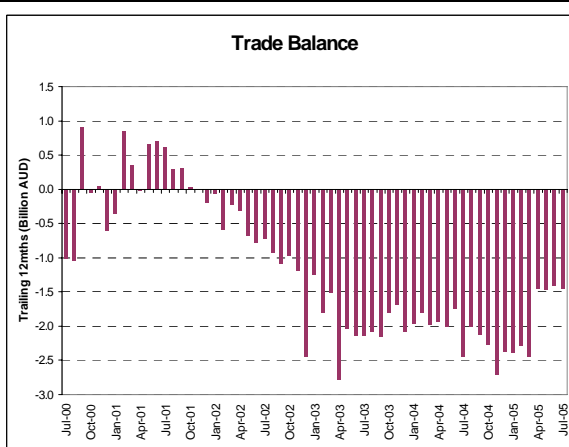
### Chart of the Week: *Current Account Deficit*



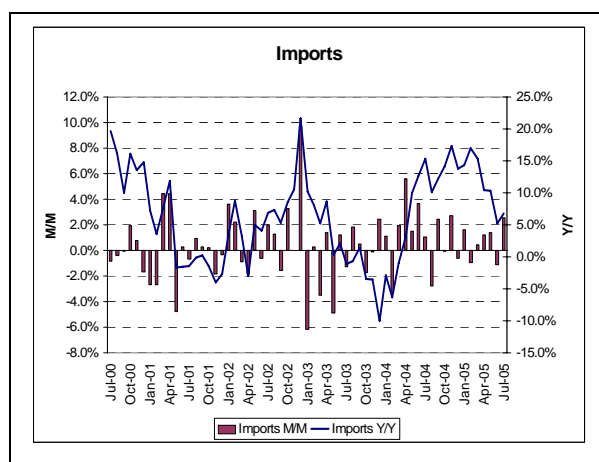
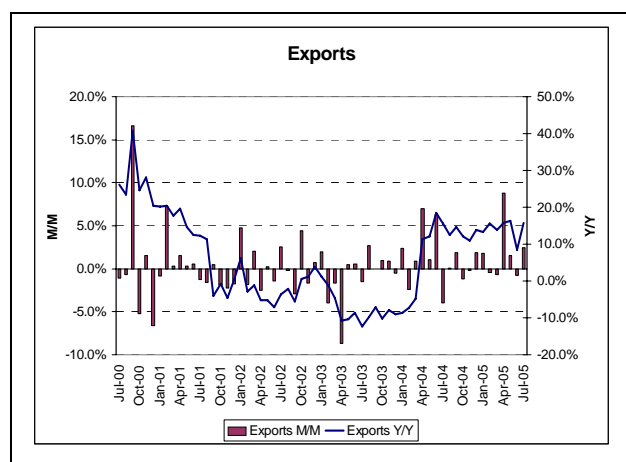
Australia's Q2 Current Account Deficit narrowed more than expected to A\$12.6 billion from a revised A\$15 billion (previously A\$15.6 billion) in the Q1 as surging coal and iron ore prices boosted export earnings. Australia's Current Account Shortfall fell to about 5.7% of GDP in the Q2 from 6.9% in the Q1.

## Trade Balance, Exports & Imports and Retail Sales

Australia's Trade Deficit widened to A\$1.46 Billion in July (from a revised A\$1.4 billion in June) as the value of imports of fuel and business equipment increased. Imports and Exports rose 2.5% M/M and 2.42% M/M respectively in July.

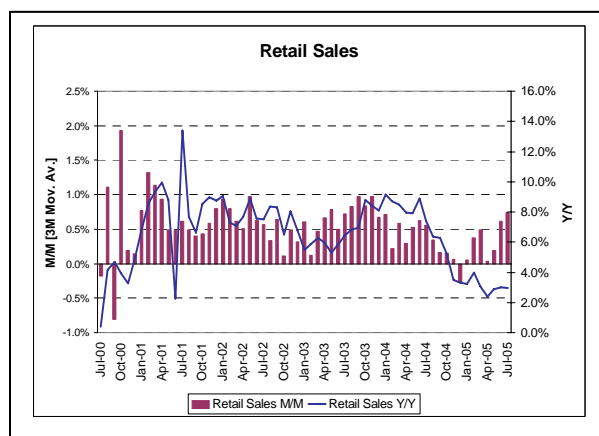


## Exports & Imports



## Retail Sales

Australia's Retail Sales growth unexpectedly stalled (0.0%) in July from a revised 1.1% (previously 1.3%) gain in June as record fuel prices have been keeping a lid on consumer discretionary spending.

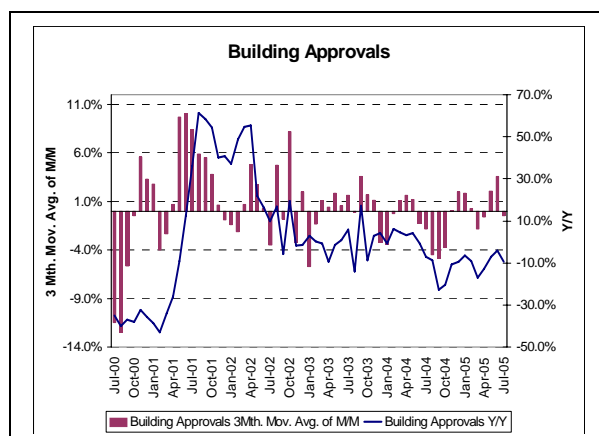




## Building Approvals & Trade Weighted Exchange Rate

### Building Approvals

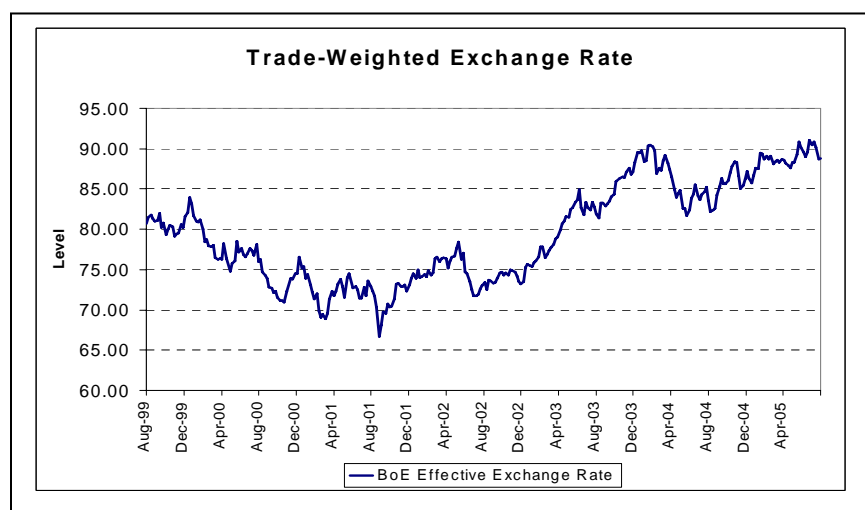
Approvals granted to build houses and apartments or to begin renovations, tumbled 8.9% M/M in July from June's revised 0.2% (previous 0.9% M/M) increase.



### Australian Consumer & Business Borrowing

Borrowing by Australian consumers and businesses recorded its lowest gain in three years in July, led by a slowdown in mortgage lending. The RBA's credit measure increased 0.5% in July compared to a 0.7% increase in June. Home lending rose 0.6% in July which is half the pace of June's increase.

### Trade-Weighted Exchange Rate



## *Key Dates this Week*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
08/31	Private Capital Expenditure (2Q)	---	-3.8%
08/31	Australia House Price (2Q)	0.0% Both	0.2% Q/Q, 0.4% Y/Y
09/04	ANZ JOB Advertisements (AUG)		-0.2%
09/05	Reserve Bank Policy-Setting Meeting (SEP)	---	---
09/05	Home Loans (JUL)	---	-0.9%
09/06	RBA CASH TARGET (SEP)	---	5.50%
09/06	GDP (2Q)	0.7% Q/Q, 1.9% Y/Y	0.7%, 1.9%

Valance Co., Inc.

# Valance Economic Report: New Zealand

Milo Prochazka

(340) 692-7710

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

August 31, 2005

New Zealand's trade deficit widened to a record NZ\$617 million in July, compared to NZ\$384 million a year earlier. With the import side holding up more strongly than exports for now, the NBNZ hasn't ruled out the possibility of an eighth rate increase by the end of the year.

## Weekly Highlights

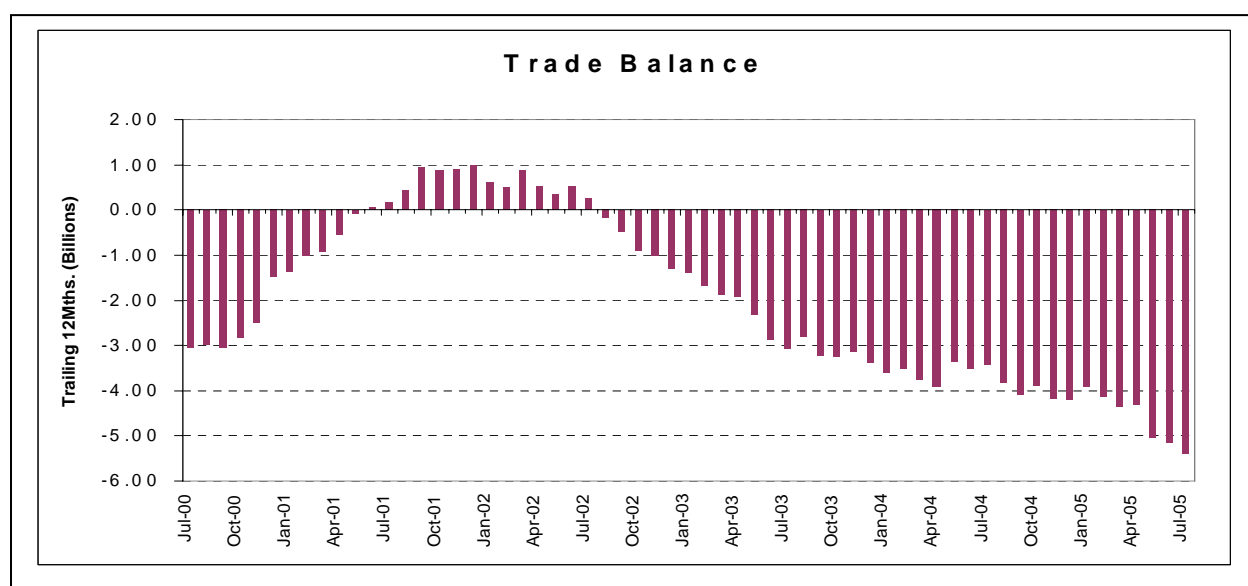
**Trade Deficit** – widened to a record NZ\$617 million Y/Y in July. (page 34)

**Building Permits** – declined a seasonally adjusted 7.2% M/M and 15.0% Y/Y in July. (page 35)

**NBNZ Business Confidence** – improved from -43.2% to -32.1% in August. (page 35)

## Weekly Releases & News

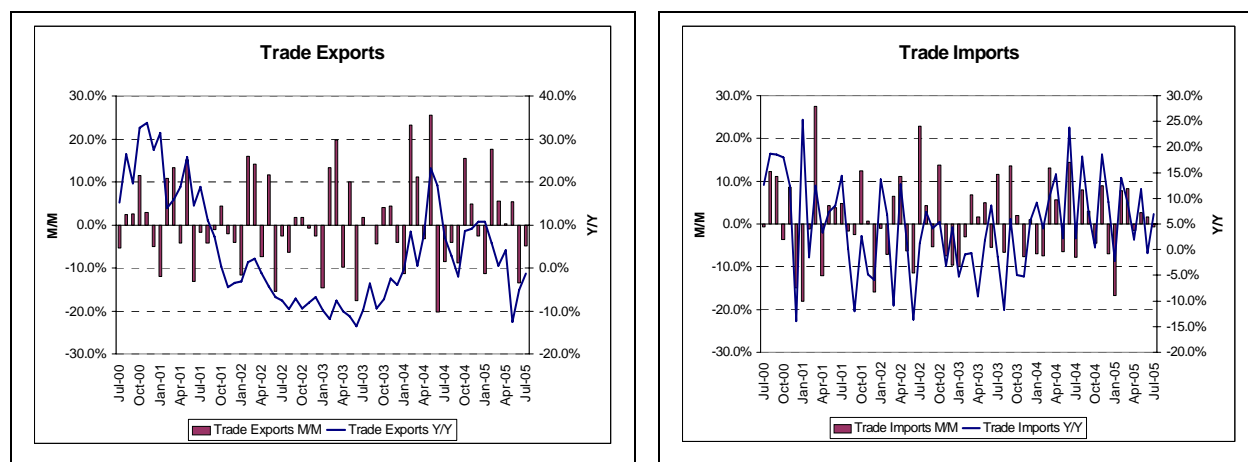
### Chart of the Week: *Trade Deficit*



New Zealand's trade deficit widened to a record NZ\$617 million in July from a revised NZ\$510 million in June (previously NZ\$522 million), compared to NZ\$384 million a year earlier in July, as surging fuel prices and strong consumer demand have driven Imports. Exports fell 4.9% M/M and 1.4% Y/Y and Imports fell 0.7% M/M and rose 6.9% Y/Y in July.

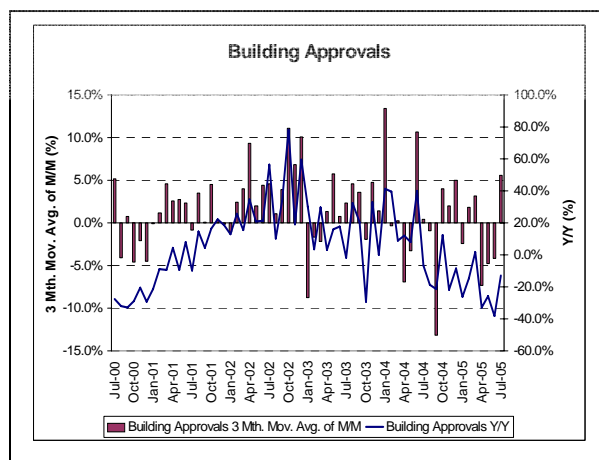
## Exports & Imports, Building Permits & Business Confidence

### Exports & Imports



### Building Permits

Approvals to build new homes declined a seasonally adjusted 7.2% M/M and 15.0% Y/Y in July. The Y/Y data marks 10 straight months of decline, suggesting that the housing boom that stoked economic growth in 2004 is slowing.



### NBNZ Business Confidence

New Zealand Business Confidence improved from -43.2% to -32.1% in August. It has been a fifth decline in 6 months as crude oil prices have surged to a record high. In July, Confidence rose from -48.8% to -43.2%. About a quarter of companies surveyed expect profits to rise this year, and about a third expects profits to fall. Those measures are unchanged from July's survey. About 13% of all companies surveyed forecast the economy to improve in the next year and 45% forecasts a slowdown. More companies have been pessimistic about the economy than optimistic every month since June 2002.

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

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### ***New Zealand's Labor Party Lead Narrows***

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New Zealand's ruling Labor Party had its lead over the main opposition National Party narrowed three weeks from the general election. Support for Labor fell 2 percentage points from a week ago to 43%. National's support rose 3 points to 40%. Support for Labor Prime Minister Helen Clark increased to 45% from 43%, while support for National Party leader Don Brash jumped 6 points to 27%. The general election is going to take place on September 17th.

### ***Key Dates***

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None This Week

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Valance Co., Inc.

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## Weekly Economic Report: *China*

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

August 31, 2005

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

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### *News Releases*

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**August 31<sup>st</sup> – China’s Central Bank Will Buy Currency on Weakness Says Warren Mosler** – Warren Mosler, President of Valance Co. Inc., expressed the idea that China does not want to lose its competitiveness with Japan and the Euro Zone. He further stated that to maintain its competitiveness, China will buy those currencies (the Yen and the Euro) as it earns foreign exchange reserves.

**August 31<sup>st</sup> – U.S./China Talks Failed** – Reuters reported China and the U.S. have ended textile talks, but still have not come to an agreement. Cass Johnson of the U.S. National Council of Textile Organizations stated he expects that as a result of the failed talks, the U.S. will more than likely try to impose more restrictions on additional textile categories. Johnson added “... the Chinese government was not interested in moving off its position – and neither was the U.S. government.”

**August 31<sup>st</sup> - China’s Manufacturing Activity** – The China Federation of Logistics and Purchasing and the National Bureau of Statistics reported that China’s Manufacturing Activity increased from 51.7 in July to 52.6 in August -- the first time in five months. Seven out of nine components experienced increases as Finished Good Inventory and Imports suffered losses.

**August 31<sup>st</sup> – Overseas Trade Surplus Expected to Quadruple This Year** - China’s Overseas Trade Surplus is expected to quadruple from \$32 bln to \$140 bln in 2005 adding pressure to China’s currency revaluation process, according to the Wall Street Journal who cited a report by the Manufacturers Alliance/MAPI, an Arlington, Virginia based research group.

**August 29<sup>th</sup> – Yuan Revaluation not a one-time thing** –Central Bank Governor, Zhou Xiaochuan, remarked that the current exchange rate is on its way to a market driven system and the recent 2.1% revaluation was “not a one-time adjustment.” Separately, Deputy Governor, Ma Delun, said not to expect another announcement of the rise and fall of the yuan from the PBoC. Speculation is that another adjustment will be made prior to Chinese President Hu Jintao’s meeting with President Bush in September.

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

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### *News*

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**August 25<sup>th</sup> – Government Revenue Increased 15%** - Xinhua News Agency reported that government revenue in China rose 15% Y/Y to 1.94 tln yuan from January to July. This amount was 62.7 bln more than the same period the previous year.

### *Key Dates This Week*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
08/21-30	Foreign Exchange Reserves	--	711.00B
09/07-14	Ttl Export (Ind.) – Y/Y - Aug	--	28.7%
09/07-14	Ttl Import (Ind.) – Y/Y - Aug	--	12.7%
09/07-14	Trade Surplus - Aug	--	10.40B

Valance Co., Inc.

# Valance Economic Report: Sweden

Evelyn L. Richards

(340) 692-7710

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

August 31, 2005

Data released in Sweden over the past week was mixed as the Trade and Current Account Balances narrowed and M/M Retail Sales growth fell by 0.6%. Conversely, Manufacturing and Consumer Confidence both rose above expectations and the Unemployment Rate fell. Separately, the NIER revised its June 2005 forecast from 2.1% to 2.4% and its 2006 forecast from 2.8% to 2.9%. In other news, Danske Bank expects the Riksbank to reverse its June interest rate cut decision by December and change its GDP growth forecast to above 3.0%.

## Weekly Highlights

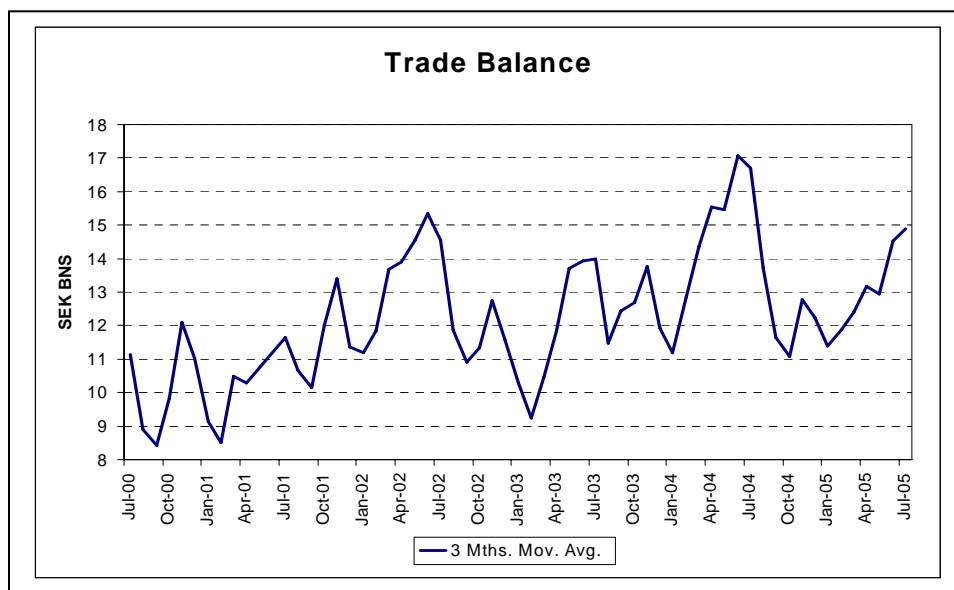
**Trade Balance** – narrowed from SEK 19.2 bln in June to SEK 13.4 bln in July. (page 40)

**Unemployment Rate** – fell from 7.1% in June to 6.9% in July. (page 41)

**Retail Sales** – fell 0.6% M/M and rose 8.6% Y/Y. (page 41)

## Weekly Releases & News

### Charts of the Week: Trade Balance



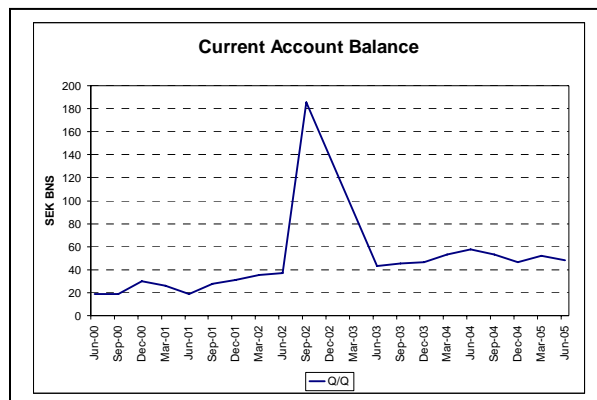
The Trade Surplus narrowed from SEK 19.2 bln in June to SEK 13.4 bln in July, below economists' expectations of a SEK 14.3 bln surplus. Consumer demand and growing imports were to blame for the M/M decrease. Exports and Imports rose 11.0% Y/Y and 15.0% Y/Y, respectively.



## Current Account, Unemployment Rate & Retail Sales

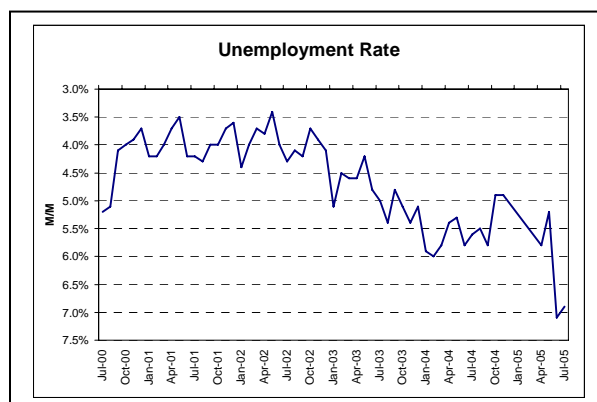
### Current Account

Sweden's Current Account surplus narrowed from SEK 55.8 bln in Q1 to SEK 48.1 bln in Q2 of this year. The decline was attributed to import growth.



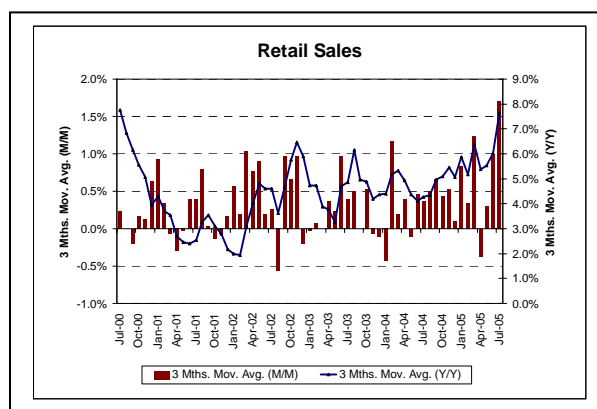
### Unemployment Rate

The Unemployment Rate fell from 7.1% in June to 6.9% in July. The decrease was primarily due to students finding jobs. The number of persons employed rose by 70K last month.



### Retail Sales

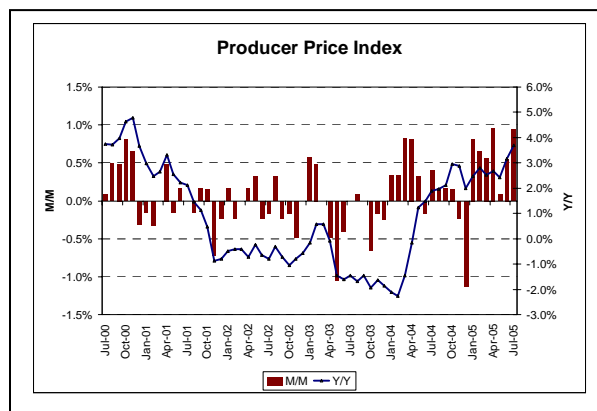
Retail Sales fell 0.6% M/M and rose 8.6% Y/Y in July. The M/M decrease was attributed to falling food (-0.9%) and durables prices (-2.1%). Expectations were for a -2.5% M/M decline and 6.5% Y/Y gain.



## PPI, Manufacturing & Consumer Confidence

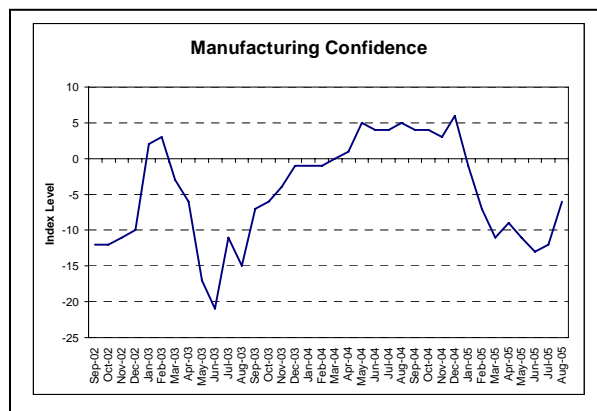
### PPI

The Producer Price Index rose 0.9% M/M and 3.7% Y/Y in July, above expectations of a 0.7% M/M and 3.5% Y/Y gain. The growth was partially attributed to the increase in costs of petroleum products.



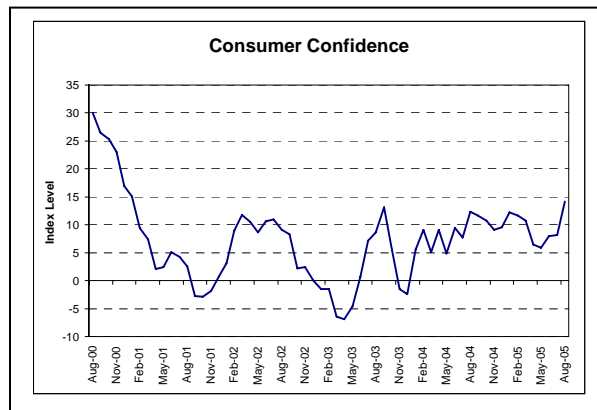
### Manufacturing Confidence

Manufacturing Confidence rose from -12.0 to -6.0 in August, the highest since December. Expectations were for -9.5.



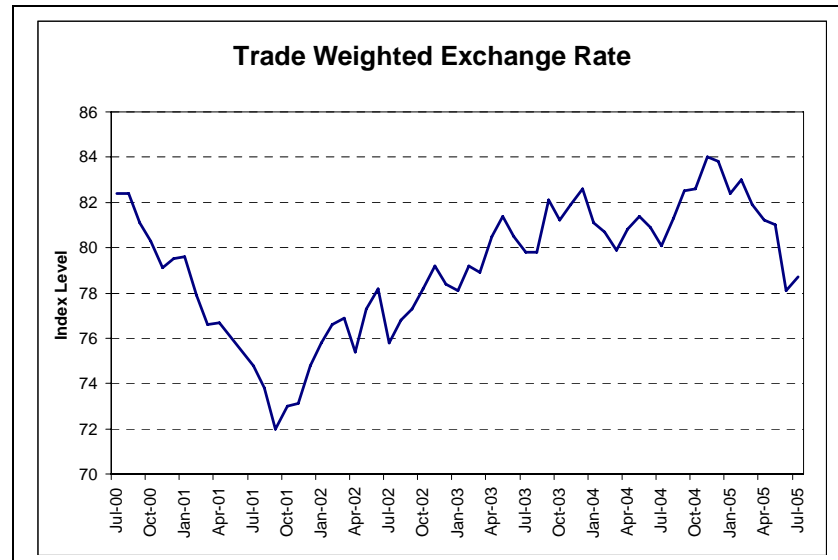
### Consumer Confidence

Consumer Confidence rose from 8.2 in July to 14.2 in August, above expectations of a rise to 9.0. This marked the largest gain since January of 2001.



## Trade Weighted Exchange Rate, News Releases & Upcoming Dates

### Trade Weighted Exchange Rate



### News

**August 31<sup>st</sup> – NIER's June Predictions Revised** - The National Institute of Economic Research has revised its June predictions for 2005 and 2006 GDP growth. Its 2005 forecast has been changed from 2.1% to 2.4% and its 2006 forecast from 2.8% to 2.9%.

**August 29<sup>th</sup> – Swedish Rate Increase Expected in December** – Danske Bank, the largest Nordic Lender, reported it expects the Riksbank to raise interest rates from 1.5% by December. Danske Bank also anticipates that the Central Bank will revise its GDP growth forecast to above 3.0% for 2006 (currently at 2.2%).

### Key Dates This Week

Date	Indicator	Expectation	Previous
09/01	Swedbank PMI Survey - Aug	54.8	54.8
09/07	Swedish Budget Deficit - Aug	--	10.9B

Valance Co., Inc.

## Valance Economic Report: Switzerland

Evelyn L. Richards

(340) 692-7710

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

August 31, 2005

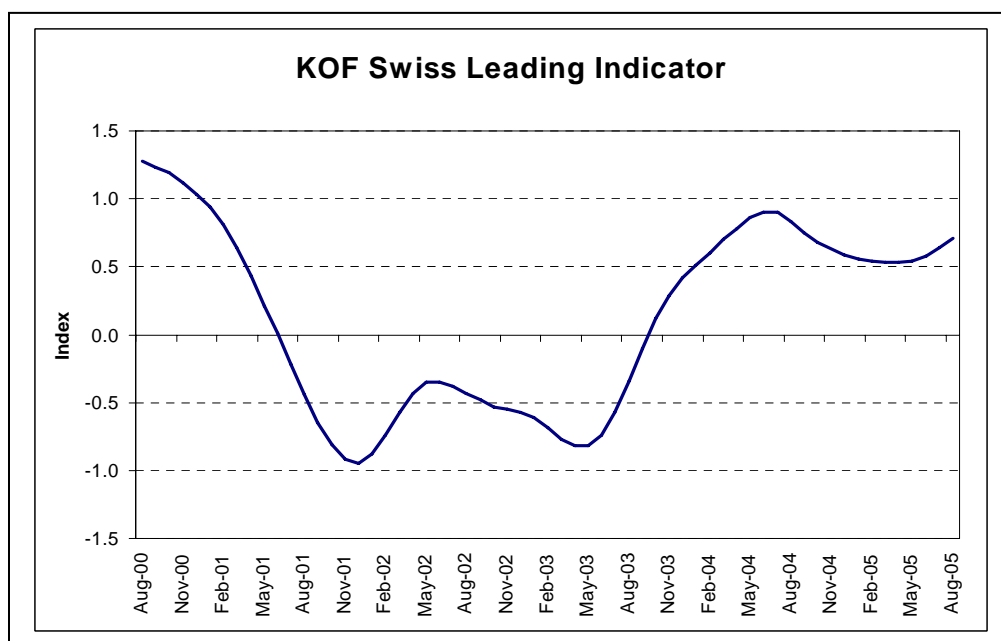
This week's economic data continued to show signs that Switzerland's export-driven economy is improving. The KOF Swiss Leading Indicator increased to 0.71 in August, well above expectations, marking the highest rise in 11 months.

### Weekly Highlights

**KOF Swiss Leading Indicator** - increased from a revised 0.64 in July to 0.71 in August (page 44)

### Weekly Releases & News

#### Chart of the Week: *KOF Swiss Leading Indicator*

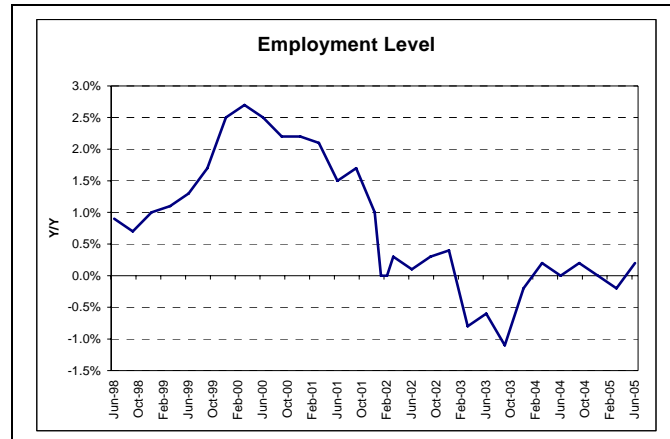


The monthly aggregate of indicators increased from a revised 0.64 (up from 0.57) in July to 0.71 in August, above expectations of a rise to 0.58. This marked the highest level in 11 months and the fourth consecutive month of gains. Switzerland's export-driven economy is being fueled by the franc's 10.0% percent drop against the dollar.

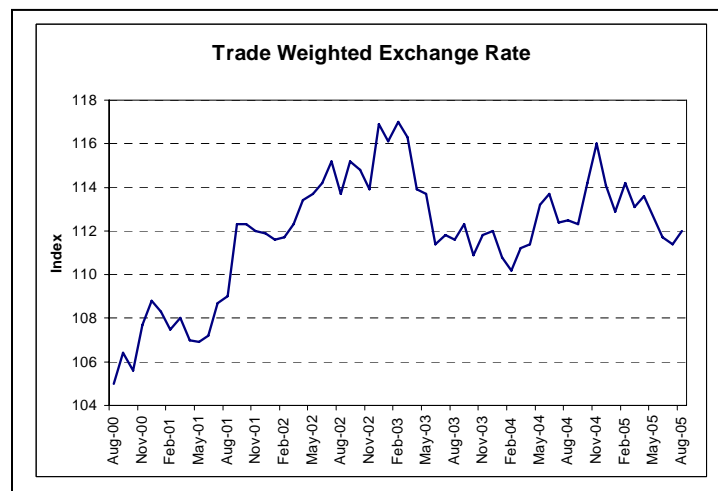
## *Employment Level, Trade Weighted Exchange Rate & Upcoming Dates*

### *Employment Level*

Switzerland's Employment Level increased from -0.2% Q/Q in Q1 to 0.2% Q/Q in Q2 as companies hired more workers to meet export demand. Expectations were for a 0.2% Q/Q decline.



### *Trade Weighted Exchange Rate*



### *Key Dates This Week*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
08/01	CPI - M/M / Y/Y - Aug	--	-0.05% / 1.2%
08/01	SVME Purchasing Managers Index - Aug	--	52.4