

# Valance Company, Inc.



Weekly

September 7, 2005

III

## Highlights

**US** – Low Unemployment & accelerating Unit Labor Costs likely keep the Fed moving (page 2)

**Euroland** – Manufacturing remained strong in July though a continuation into August doesn't appear likely (page 10)

**Japan** – Capex continues to strengthen (page 17)

**UK** – Conflicting data clouds future interest rate decisions (page 23)

**Canada** – BoC increased rates 25bps (page 28)

## September 1 - September 7 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	-0.07	-6.75	-13.00	-10.50	-8.50
	3.50	3.80	3.88	4.08	4.17	4.21
EU	0.00	0.00	-0.50	-2.50	-4.00	-5.00
	2.00	2.13	2.13	2.13	2.13	2.19
JN	0.00	0.00	0.50	1.00	0.50	0.00
	0.00	0.06	0.09	0.11	0.15	0.19
UK	0.00	0.00	1.00	2.00	2.00	3.00
	4.50	4.59	4.57	4.43	4.32	4.29
CA	0.25	-0.02	-2.00	-12.00	-17.00	-15.00
	2.75	2.86	2.88	3.00	3.11	3.21
AU	0.00	-0.02	3.00	4.00	6.00	7.00
	5.50	5.55	5.62	5.55	5.47	5.40
NZ	0.00	0.01	1.00	0.00	1.00	-2.00
	6.75	6.97	7.06	7.01	6.89	6.68
SZ	0.00	0.00	0.00	-1.00	-2.00	-4.00
	0.75	0.76	0.78	0.83	0.93	1.07

**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)

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

Valance Economic Reports

Valance Co., Inc.

# Valance Economic Report: United States

Cesar Guerra  
(340) 692-7710[cguerra@valance.us](mailto:cguerra@valance.us)September 7<sup>th</sup>, 2005

This week's economic data took a back-seat to assessing the extent of damage from Hurricane Katrina. However, some key pieces of data were released that should influence the Fed's decision going forward. The most important pieces were the strength of the payroll and unemployment data in August along with slowing productivity and accelerating unit labor costs in Q2. Both these factors would have kept the Fed hiking if Katrina was not a factor. Today's comments from Moskow along with Santomero's comments last week appear to show a Fed leaning towards hiking in September. Moskow stated, "Even without an increase in inflation expectations it will take appropriate monetary policy to keep inflation well contained."

## Weekly Highlights

**Employment-** payrolls increased 169k in August. (page 2)

**Average Hourly Earnings-** increased 0.1% M/M in August. (page 4)

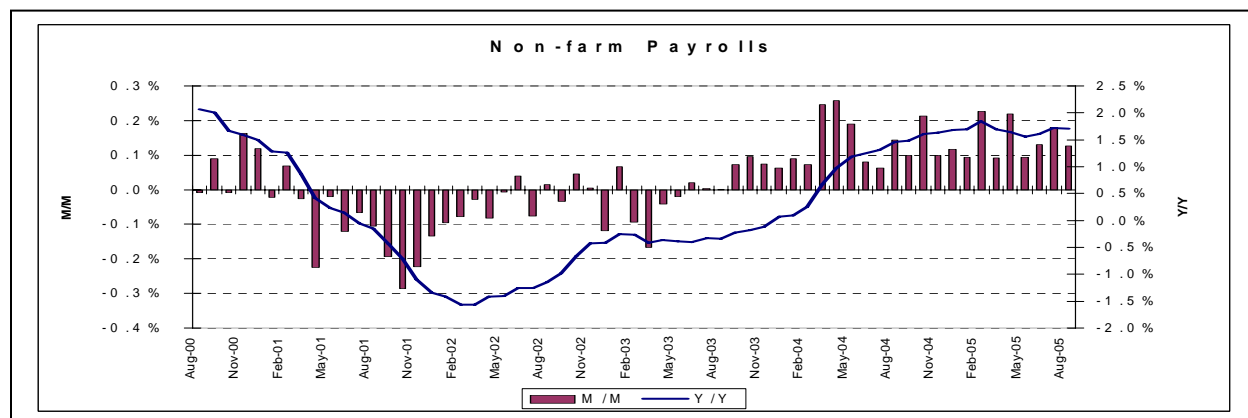
**Core PCE (Market)-** flat M/M in July. (page 5)

**ISM Non-Manufacturing-** increased from 60.5 to 65 in August. (page 6)

**Unit Labor Costs-** accelerated to a 2.5% annualized rate of growth in the second quarter of 2005. (page 7)

## Weekly Releases

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



Non-farm Payrolls increased 169k in August while July's gain was revised up 35k to 242k. The Unemployment rate dropped to 4.9% with labor participation increasing from 66.1% to 66.2%. Overall, the report was solid and would have likely kept the Fed moving rates higher if it were not for Katrina.

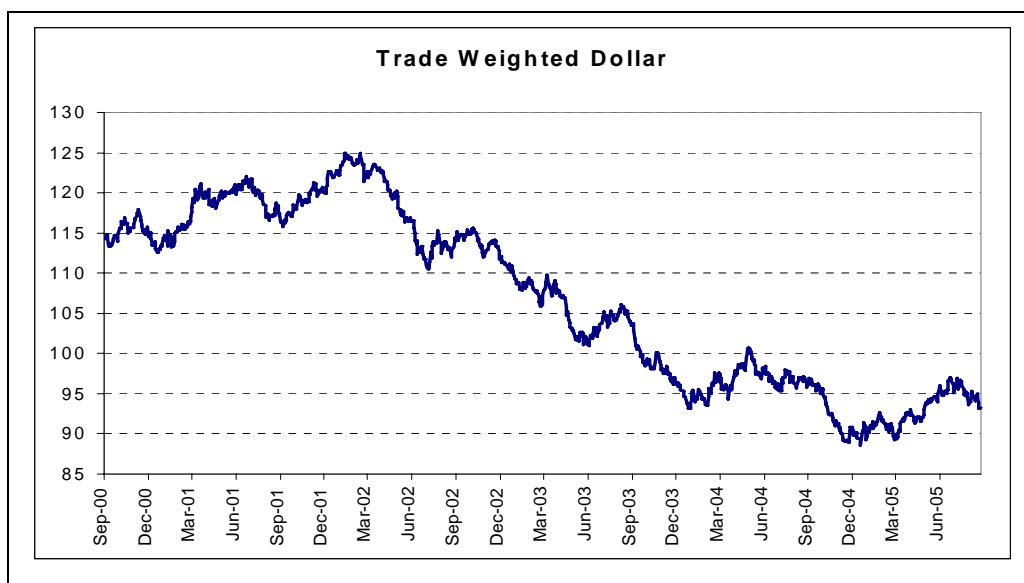
## ***U.S. Financial Balances & Trade Weighted Dollar***

### ***Financial Balances***

	<i>Latest period (\$bns)</i>	<i>Last 12mo. as a % of GDP</i>
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 bln, down \$81 bln from 2004. The CBO is also forecasting that the deficit will remain above \$300 bln 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.

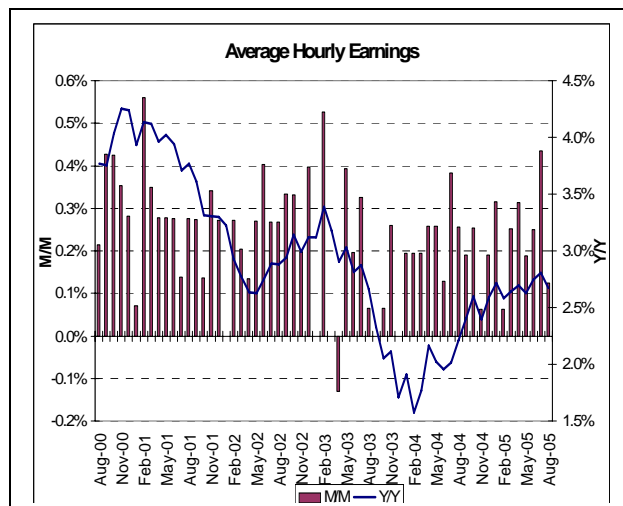
### ***Trade Weighted Dollar***



## Employment

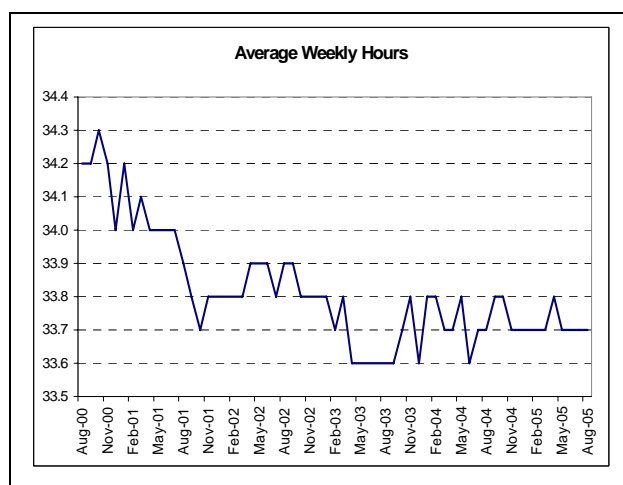
### Average Hourly Earnings

Average hourly earnings grew 0.1% M/M and 2.7% Y/Y in August. This data series still shows that upward wage pressures are subdued. The Fed will continue to watch all indicators of wages closely.



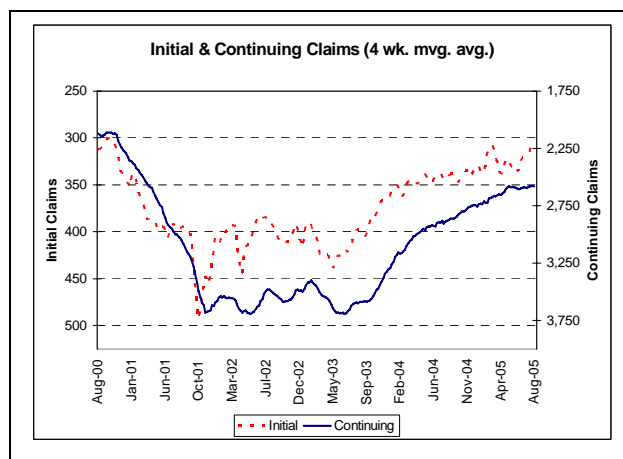
### Average Weekly Hours

Average weekly hours remained at 33.7 in August. This metric continues to be relatively flat in absolute terms, which suggests that some slack remains in the labor market and productivity strong.



### Initial & Continuing Claims

The four-week moving average of initial and continuing claims increased slightly to 317k and 2,583k, respectively. The level of continuing unemployment claims continued to suggest strength before Katrina.

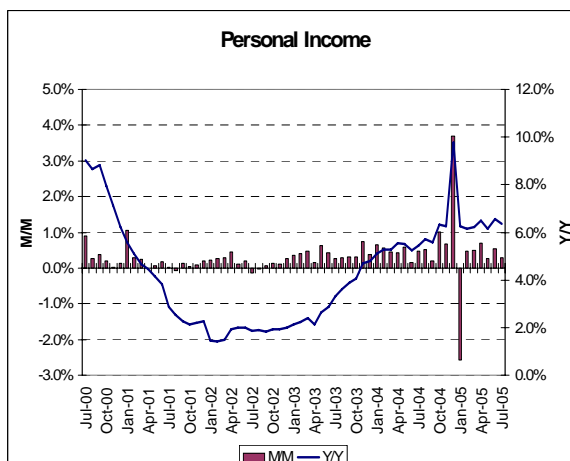


## Personal Income, Personal Spending & PCE Core

### Personal Income

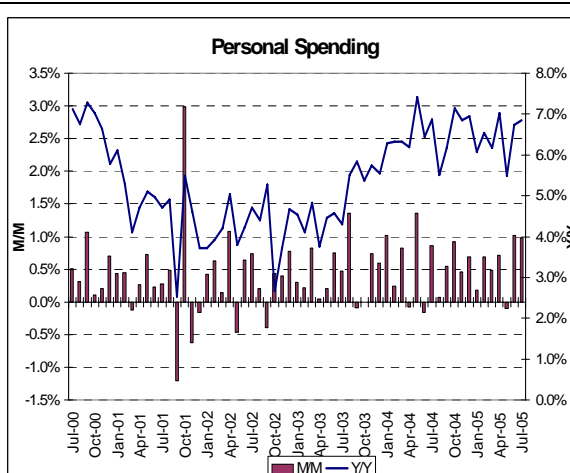
Personal Income increased 0.3% M/M and 6.3% Y/Y in July.

Personal Income growth remains at healthy levels and mostly reflects income gains of top earners. The wage data for non-supervisory roles remains under 3% Y/Y.



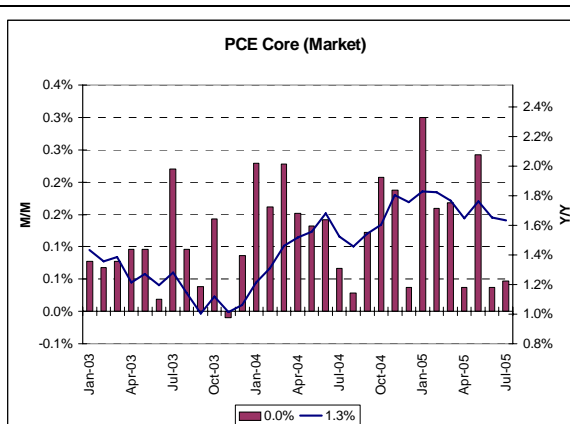
### Personal Spending

Personal Spending increased 1.0% M/M and 6.9% Y/Y in July. Spending remained quite strong as spending growth outpaced income growth- this dynamic is not sustainable in the long-run. Personal savings as percent of disposable income dropped to -0.6% from 0%



### PCE Core (Market)

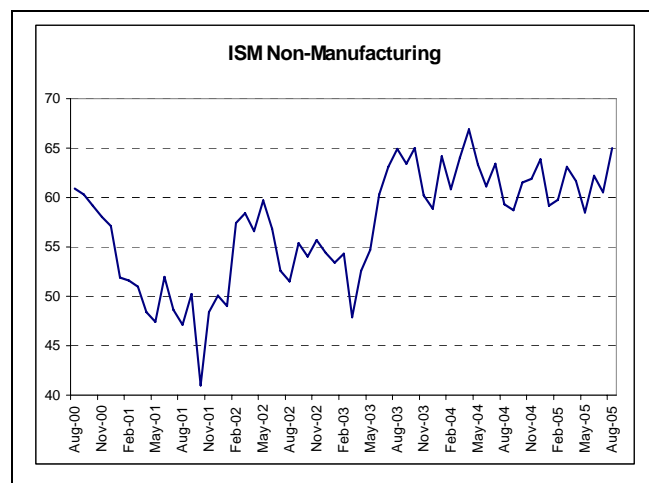
The PCE Core (market) deflator was flat M/M and grew 1.6% Y/Y in July. The Fed's favorite measure of inflation remains well behaved. However, before Katrina the Fed continued to view rates as accommodative and felt that slowing productivity, a low unemployment rate, and higher energy could put upward pressure on core inflation.



## ISM & Vehicle Sales

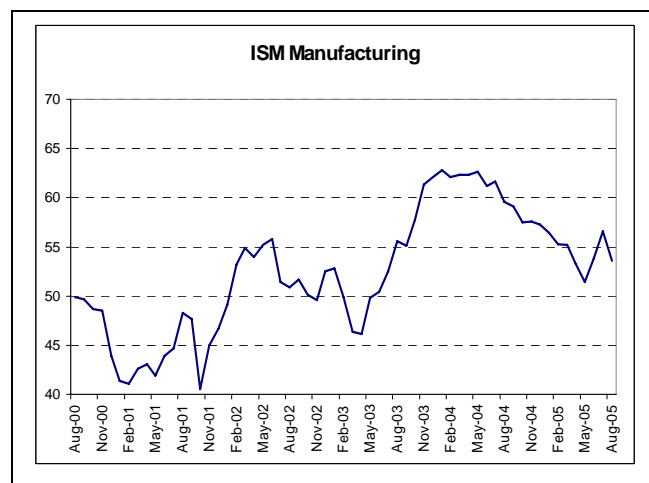
### ISM Non-Manufacturing

The ISM Non-Manufacturing Index increased from 60.5 to 65 in August. The employment component improved from 56.2 to 59.6 and the price component eased from 70.3 to 67.1. This data-point was seen as evidence that the economy was strong before Katrina struck.



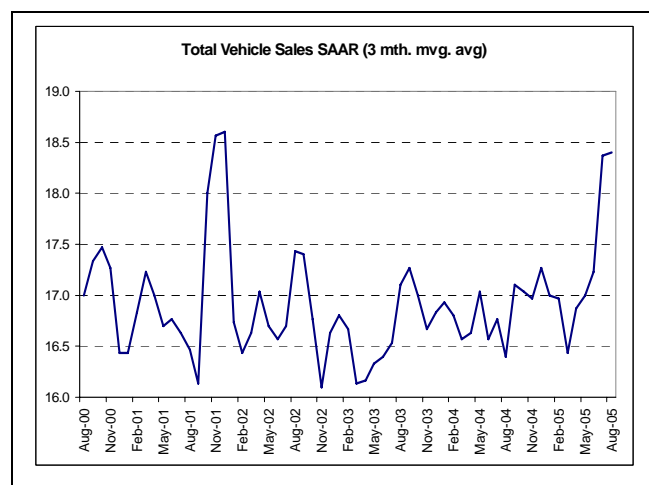
### ISM Manufacturing

The ISM Manufacturing Index decreased from 56.6 to 53.6 in August. The price component jumped from 48.5 to 62.5 and the Employment component declined from 53.2 to 52.6. The headline number signaled that the manufacturing sector may have been weaker than the market thought, pre-Katrina.



### Total Vehicle Sales

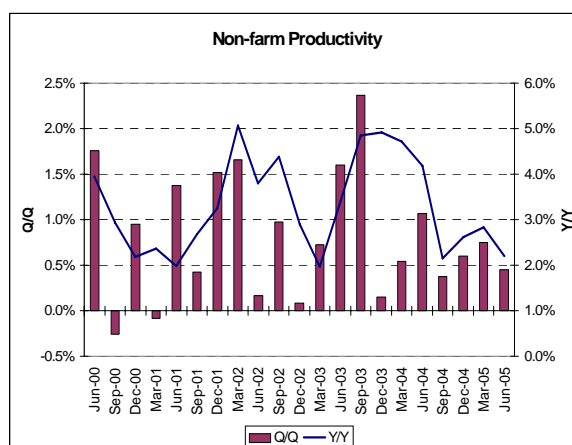
The seasonally adjusted annual rate of total vehicle sales dropped from 20.9 mln to 16.8 mln in August. The drop in vehicle sales was expected after "employee discounts" were used to aggressively reduce inventories.



## Non-farm Productivity Unit Labor Costs & Confidence

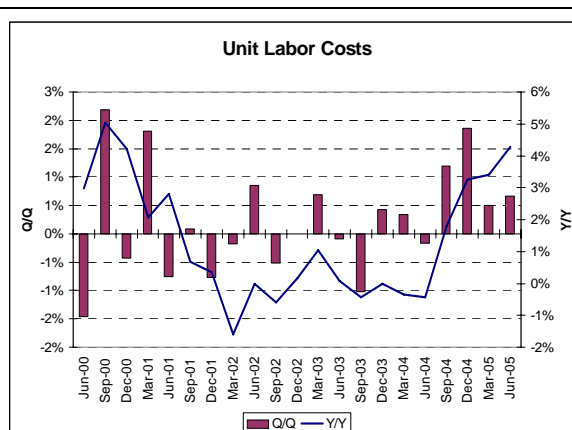
### Non-farm Productivity

Non-farm Productivity increased 0.4% Q/Q and 2.2% Y/Y in Q2 of 2005. Productivity growth slowed and put upward pressure on unit labor costs- confirming some of the Fed's concerns.



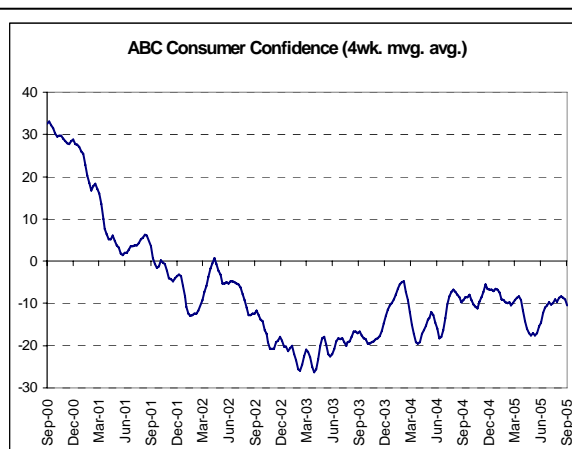
### Unit Labor Costs

Unit labor costs increased 0.7% Q/Q and 4.3% Y/Y in Q2 of 2005. The rate of annualized growth picked up from 2.0% in Q1 to 2.6% in Q2. With the unemployment rate at 4.9% the Fed is concerned that inflationary pressures will build through upward wage pressures.



### ABC Consumer Confidence

The ABC Consumer Confidence Index decreased from -12 to -14. The buying component remained flat at -28, but the economic and finance components both weakened. The economic component dropped from -26 to -32 and the finance component dropped from 18 to 17.

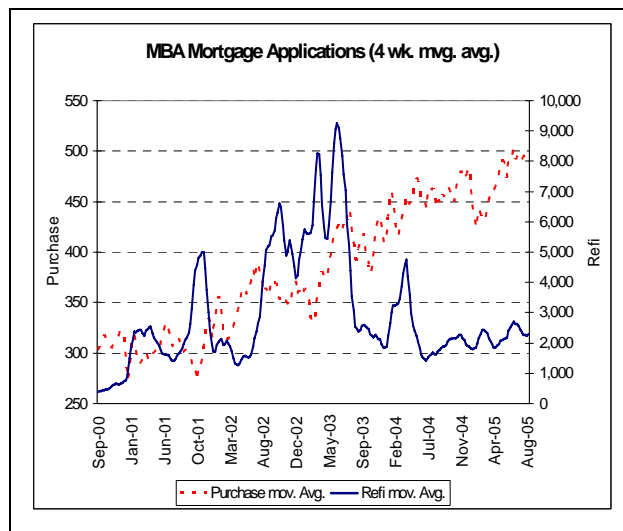




## Mortgage Applications & Construction Spending

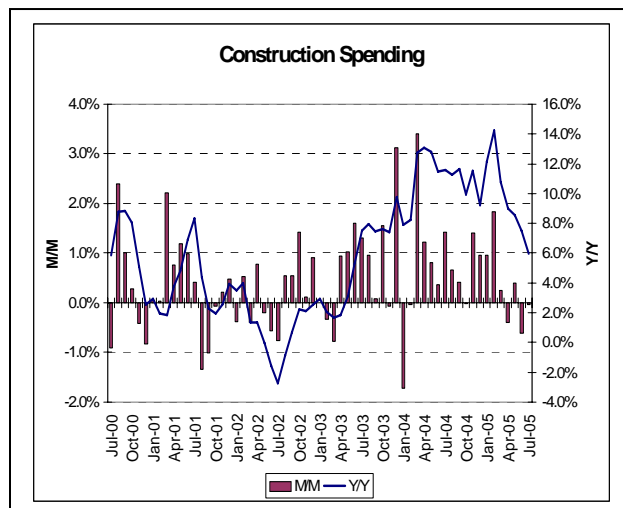
### MBA Mortgage Applications

Purchase and refinancing mortgage applications increased 6.1% and 7.7%, respectively this week. The strong response in applications to lower mortgage rates after Katrina could be seen as a reason for the Fed to keep hiking rates.



### Construction Spending

Construction Spending was flat M/M and increased 6.0% Y/Y in July. Y/Y growth continued to drop precipitously after reaching 14.3% Y/Y growth in February of 2005. Housing Starts and Permits have been at healthy levels on an absolute basis, but are not showing significant growth.





## *Key Dates This Week*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/08	Initial Jobless Claims (SEP 3)	315K	320K
09/08	Continuing Claims (AUG 27)	2578K	2607K
09/08	Wholesale Inventories (JUL)	0.6%	0.7%
09/08	Consumer Credit (JUL)	\$10.0B	\$14.5B
09/09	Import Price Index (M/M) (AUG)	1.4%	1.1%
09/13	PPI Ex Food & Energy (M/M) (AUG)	0.1%	0.4%
09/13	Trade Balance (JUL)	-\$59.5B	-\$58.8B
09/13	Monthly Budget Statement (AUG)	-\$47.8B	-\$41.1B
09/13	ABC Consumer Confidence (SEP 11)	NA	-14
09/14	MBA Mortgage Applications (SEP 9)	NA	6.8%
09/14	Advance Retail Sales (AUG)	-1.2%	1.8%
09/14	Retail Sales Less Autos (AUG)	0.5%	0.3%
09/14	Industrial Production (AUG)	0.3%	0.1%
09/14	Capacity Utilization (AUG)	79.8%	79.7%

Valance Co., Inc.

# Valance Economic Report: Euro Zone

Sean O'Reilly

(340) 692-7710

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

September 7, 2005

Following the decision to keep rates unchanged this month, the ECB noted both upside risks to inflation and downward risks to growth. Most Euro Zone growth indicators remained strong in July, bolstered by the manufacturing sector. However, August's PMI shows signs of a possible slowdown, suggesting that once again, a foreign led mini recovery has failed to create any sizable benefits for the consumer.

## Weekly Highlights

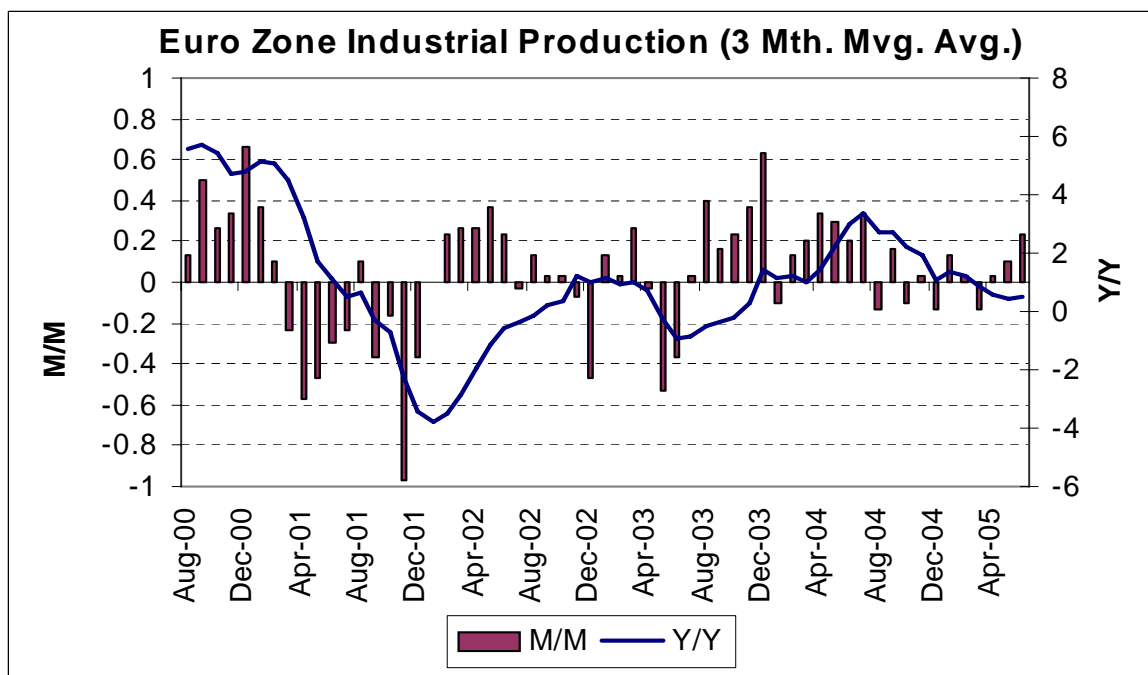
**German Factory Orders** –continued to increase in July, despite high oil prices. (page 12)

**Euro Zone Retail Sales** –continued its decline in July, as the euro consumer remains weak. (page 13)

**Euro Zone Manufacturing PMI**– fell in August, hinting at a possible slowdown. (page 14)

## Weekly Releases & News

### Chart of the Week: German Industrial Production



Germany's July Industrial Production increased much more than expected, rising 1.2% M/M and 3.2% Y/Y. It was the third monthly increase in four months as foreign demand drove manufacturing orders to their largest increase this year. Expectations were for a 0.3% M/M decline as rising oil prices were expected to dampen growth. Manufacturing has been strong this year, though August's PMI suggests some impending slowdown.

10

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

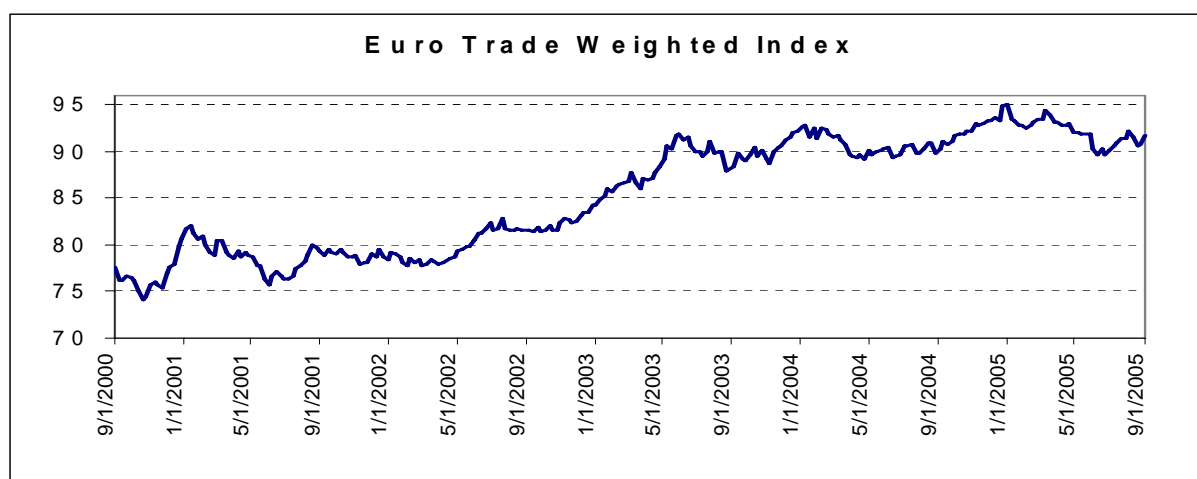
## ***Euro Zone Financial Balances & Trade Weighted Euro***

### ***Financial Balances***

<i>Germany</i>	<i>Last period (\$blns euros)</i>	<i>Last 12mo. as a % of GDP</i>
Budget Balance	-80.3 (12/04)	-3.6%
Trade Balance	16.8 (June)	7.3%
Current Account Balance	10.4 (June)	3.7%
Private Savings Balance		7.3%
<i>France</i>		
Budget Balance	-5.15 (May)	-3.2%
Trade Balance	-1.2 (June)	-1.3%
Current Account Balance	-0.6 (June)	-1.0%
Private Savings Balance		2.2%
<i>Italy</i>		
Budget Balance	-8.9 (August)	-3.7%
Trade Balance	-0.59 (June)	-0.3%
Current Account Balance	-2.7 (June)	-1.2%
Private Savings Balance		2.5%

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.

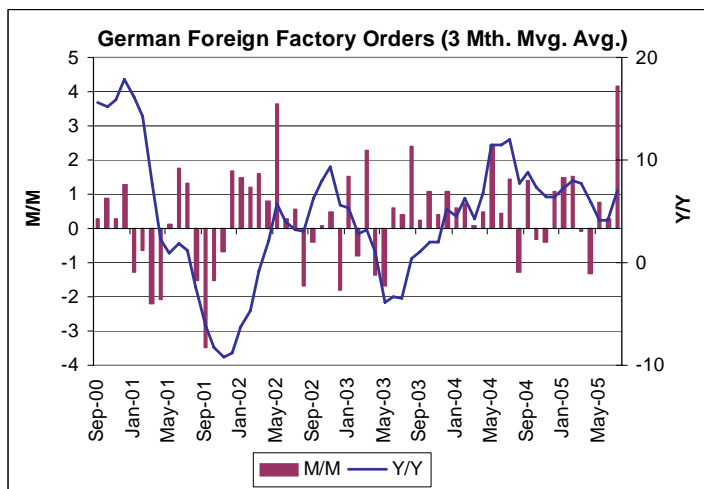
### ***Euro Trade Weighted Index***



## German Orders, Euro Zone Retail Sales & Unemployment

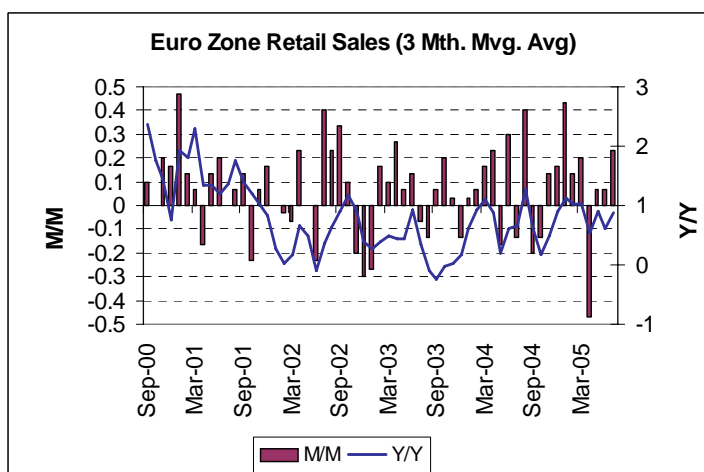
### German Factory Orders

*German Factory Orders unexpectedly rose in July, increasing 3.7% M/M and 3.8% Y/Y. Expectations were for a 0.9% M/M fall.*



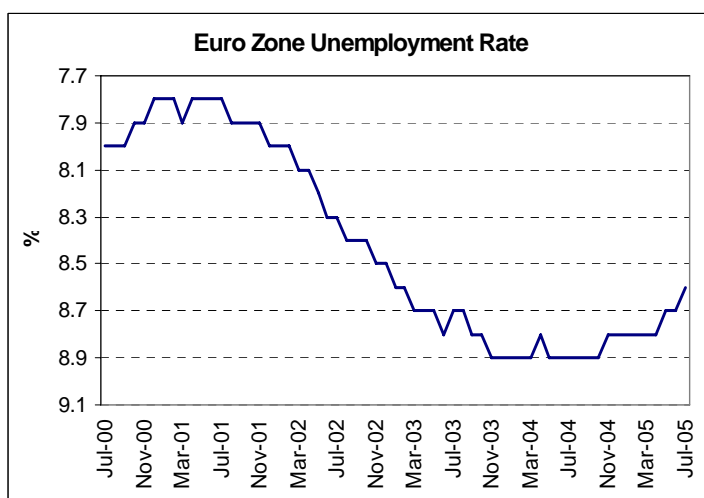
### Euro Zone Retail Sales

*The Euro Zone's July Retail Sales declined more than expected, falling 0.5% M/M and remaining unchanged Y/Y. The 3mth. Mvg. avg. increased 0.9% M/M.*



### Euro Zone Unemployment

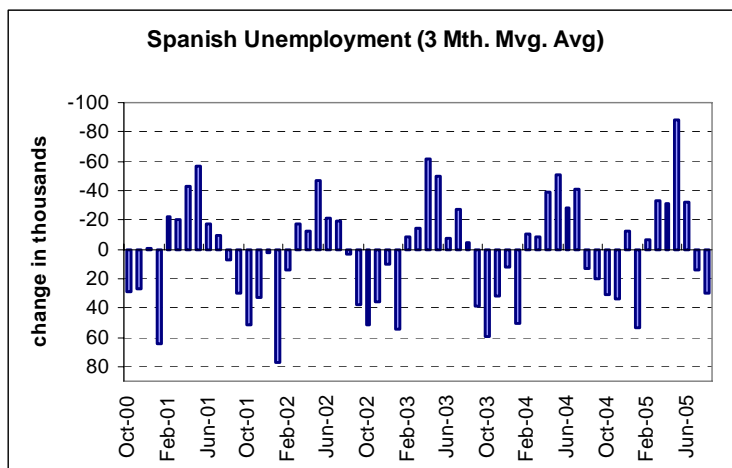
*The Euro Zone's July Unemployment Rate fell from 8.7% in June to 8.6%. BMW and Airbus have recently stated plans to hire 1,200 and 1,350 new workers respectively, while Volkswagen AG is threatening to cut "some thousands of surplus" jobs.*



## Spanish Unemployment, Italian Wages & Consumer Confidence

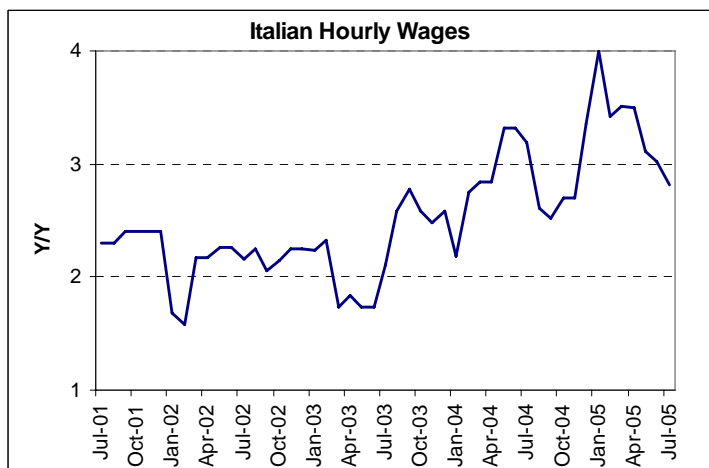
### Spanish Unemployment

*Spain's Total Unemployed increased 29k in August, bringing the total unemployed to 2.0 mln.*



### Italian Hourly Wages

*Italy's July Hourly Wages increased 0.4% M/M while decelerating from 3.0% Y/Y in June to 2.8%.*



### Italian Consumer Confidence

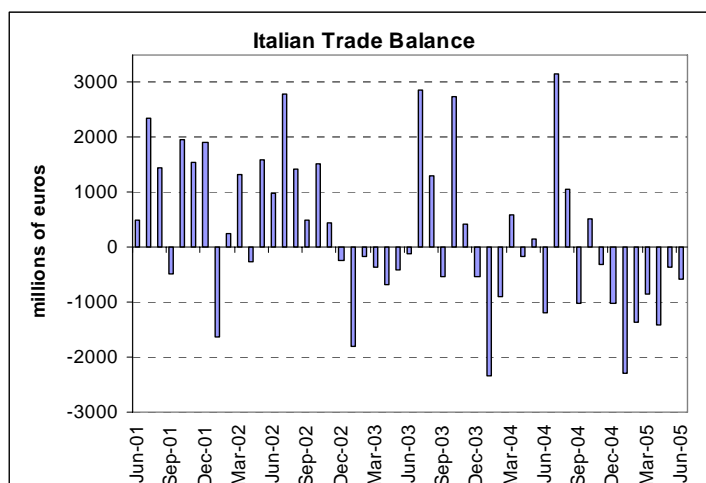
*Italy's August Consumer Confidence fell to its lowest in a year, declining from 100.9 in July to 100.8.*



## Italian Trade, Euro Zone Manufacturing & Services PMI

### Italian Trade Balance

Italy's June Trade Deficit widened slightly from 358 mln in May to 588 mln.



### Euro Zone Manufacturing & Services PMI

The Euroland's August Manufacturing PMI Index fell from 50.8 in July to 50.4. Germany's PMI fell from 49.8 to 48.7; France's PMI fell from 52.5 to 52.2; Spain's PMI rose from 51.4 to 52 and Italy's PMI fell from 50.0 to 48.5. (Numbers above 50 indicate expansions while numbers below 50 indicate contraction.)

<b>Euro-12 Manufacturing PMI</b>	<b>Aug '05</b>	<b>July</b>	<b>June</b>	<b>May</b>	<b>Apr</b>	<b>Mar</b>	<b>Feb</b>	<b>Jan</b>	<b>Dec</b>	<b>Nov</b>
Overall Index	<b>50.4</b>	50.8	49.9	48.7	49.2	50.4	51.9	51.9	51.4	50.4
Output	<b>51.8</b>	52.8	51.0	50.0	50.3	51.6	53.4	53.3	52.3	50.4
Employment	<b>48.3</b>	47.8	48.2	47.5	47.6	48.8	49.3	48.1	48.3	48.0

The Euro Zone July Services PMI fell from 53.5 in July to 53.3. The German Services PMI rose from 53.8 to 54.6, France's PMI fell from 57.9 to 55.3, and Italy's PMI increased from 48.0 to 50.0

<b>Euro -12 Services PMI:</b>	<b>Aug '05</b>	<b>July</b>	<b>June</b>	<b>May</b>	<b>Apr</b>	<b>Mar</b>	<b>Feb</b>	<b>Jan</b>	<b>Dec</b>	<b>Nov</b>
Overall:	53.3	<b>53.5</b>	53.1	53.5	52.8	53.0	53.0	53.4	52.6	52.6
Employment:	50.8	<b>50.4</b>	50.3	50.6	50.9	51.0	50.6	50.7	50.6	50.5
New Business:	52.5	<b>52.9</b>	52.3	52.6	52.7	51.4	52.0	52.7	51.3	50.7
Business Expectations:	63.3	<b>62.8</b>	63.1	64.4	63.5	67.5	64.3	66.3	63.2	61.4

## News

---

### ECB/ Euro Zone

**Sept. 6<sup>th</sup> – The OECD** lifted its 2005 growth forecast for the Euro Zone from 1.2% to 1.3% though it noted concern that the effects of Katrina would be hard to predict.

**Sept. 5<sup>th</sup> – The EU rejected calls from France** to have a European summit to discuss ways to boost Europe's struggling economies, stating that there was no need.

**Sept. 5<sup>th</sup> – ECB member, Nout Wellink**, state that he doesn't expect oil prices to result in higher wages and that the rate of price increases should decelerate by the end of 2005. Wellink stated, "I haven't seen second round effects, so now I don't expect second round effects." ECB member Lorenzo Bini Smaghi also added that "currently, interest rates are a sufficient contribution to economic growth."

**Sept. 1<sup>st</sup> – The ECB left rates unchanged in September** while raising its inflation forecast and lowering its growth expectations. The bank raised its inflation forecast from 2% in 2005 and 1.5% in 2006, to 2.2% in 2005 and 1.9% in 2006. President Trichet stated, "oil prices have once again increased by more than was suggested earlier...vigilance with regard to upside risks is warranted."

### Germany

**Sept. 7<sup>th</sup> – Germany's Kiel Institute** cut its 2006 growth forecast from 1.3% to 1.1% as surging oil prices are expected to curb consumer spending. The 2005 growth forecast was unchanged at 0.7%. Consumer spending is forecasted to contract 0.8% in 2006, following a 0.3% decline this year.

**Sept. 6<sup>th</sup> – The Handelsblatt newspaper** noted that economic growth in Germany may start to pick up early next year. The newspaper, using their own indicator, predicted a slowing of growth to 0.7% this year followed by a recovery in early 2006.

**Sept. 6<sup>th</sup> – German Finance Minister Hans Eichel** plans to raise VAT rates on some goods to help constrain the widening budget deficit if he were to be reelected. The hike in taxes is part of a plan to boost government revenue by 6 bln euros in 2006. The CDU opposition party also plans to raise VAT, though their hikes would be accompanied by reductions elsewhere. Eichel also revised upward his German debt forecast, increasing 2005's total debt forecast from 22 bln euros to 35 bln. Recent polls suggest that the CDU has 43% of the popular vote with Schroeder's SPD party having 32%.

### France

**Sept. 1<sup>st</sup> – French Prime Minister, Dominique de Villepin**, proposed a 4.5 bln euro tax cut, in an attempt to spur economic growth. Villepin stated that he "wants it to be more compelling and easier to work in France than to live on state assistance." Single persons earning around 30k euros would receive a 15% tax cut while the poorest households, who are exempted from income taxes, would receive a 75 euro payment to help offset rising energy costs. The suggested cut is only 0.3% of GDP.



## *News & Key Dates This Week*

---

### **Spain**

**Sept. 1<sup>st</sup>** – **The Spanish government** plans to raise taxes on cigarettes and alcohol in an attempt to help fund the public health care system. An additional 25.4 mln euros a year is expected to be raised by increasing the tax on cigarettes by about 1%.

## *Key Dates This Week*

---

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/08	Italian Business Confidence (AUG)	85.5	86.0
09/09	French Industrial Production (JUL)	0.3% M/M	0.3% M/M
09/09	Italian Industrial Sales (JUN)	--	-1.6% M/M
09/09	Euro Zone OECD Leading Ind. (JUL)	--	104.9
09/13	French CPI (AUG)	--	-0.2% M/M
09/13	Spanish CPI (AUG)	--	-0.6% M/M

Valance Co., Inc.

**Valance Economic Report: Japan**

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

September 7, 2005

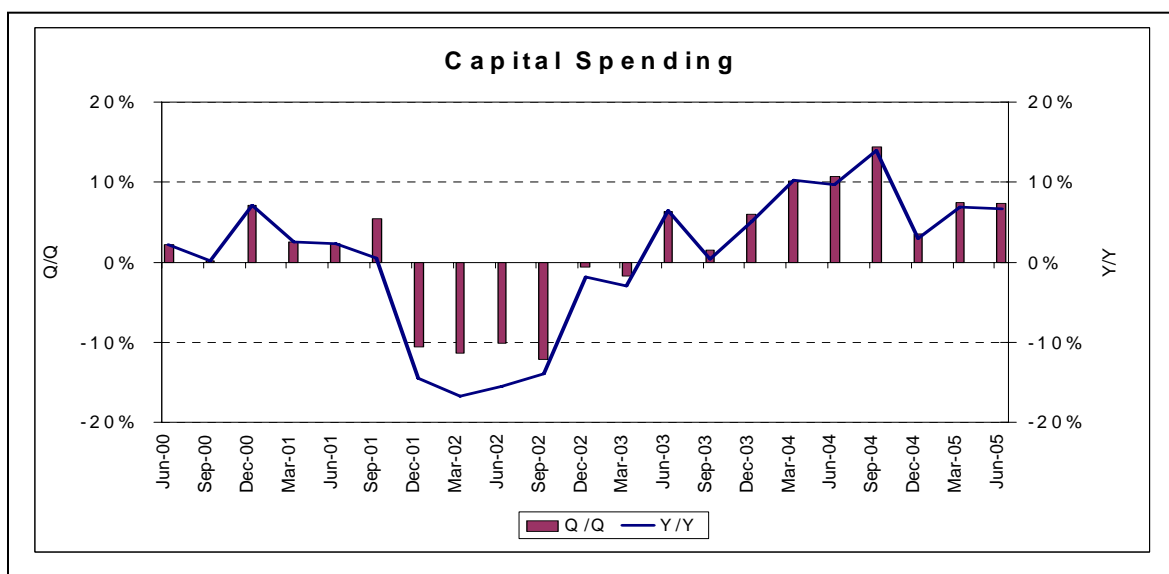
With capex continuing to trend upward and consumers becoming more confident in price increases as well as overall economic conditions, data continues to indicate that the recovery is picking up steam. Besides volatility in data such as household spending, and the potential for next week's elections to temporarily upset the market, we continue to look for a sustained recovery in Japan.

**Weekly Highlights**

**Capital Spending** – increased 1.7% Q/Q and 6.7% Y/Y in Q2. (page 17)

**Real Household Spending** – declined 4.2% M/M and 3.7% Y/Y in July. (page 19)

**Consumer Confidence** – increased from 46.6 in June to 48.1 in July. (page 20)

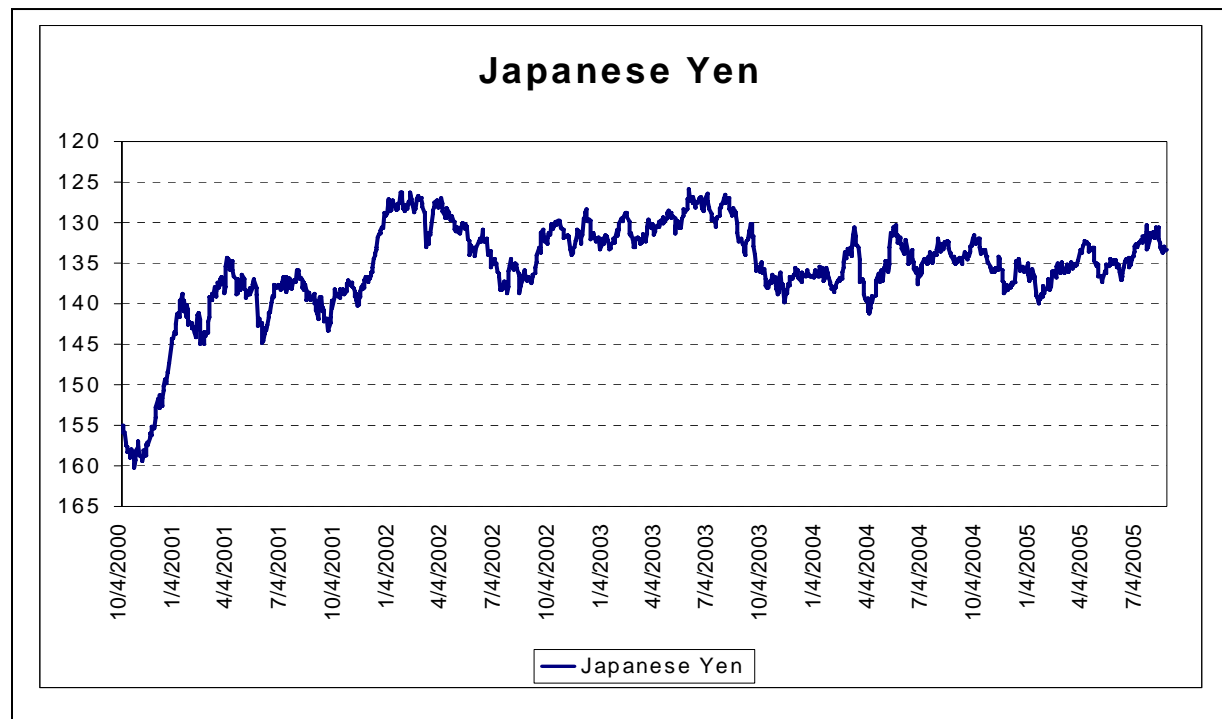
**Weekly Releases & News****Chart of the Week: *Capital Spending***

Capital spending increased 1.7% Q/Q and 6.7% Y/Y in Q2 2005, ahead of market expectations for a 3.8% Y/Y increase. The manufacturing component was strong, increasing 6.4% Q/Q and 19.7% Y/Y. Total Profits increased 4.7% Q/Q and 12.9% Y/Y. Manufacturing profits increased 5.8% Q/Q and 14.2% Y/Y. These increases all suggest prospects for manufacturers are improving.

## ***Japan's Financial Balances***

### ***Financial Balances***

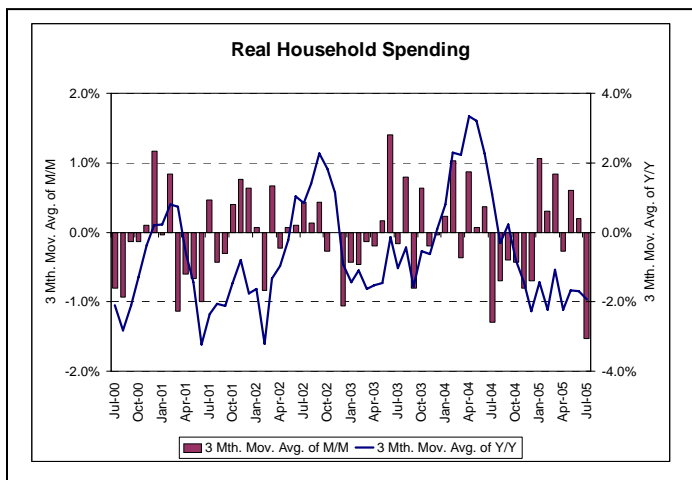
<i><b>Japan</b></i>	<i><b>Last period (¥trln)</b></i>	<i><b>Last 12mo. as a % of GDP</b></i>
Budget Balance	-3.03 (May)	-6.9%
Trade Balance	0.69 (June)	2.2%
Current Account Balance	1.50 (June)	5.2%
Private Balance		12.1%



## Household Spending, Leading Economic Index & Coincident Index

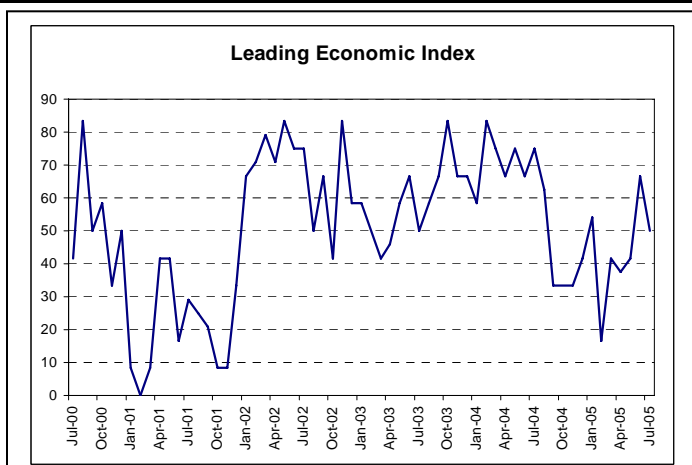
### Real Household Spending

Real household spending declined 4.2% M/M and 3.7% Y/Y in July. The decline was more than the 2.8% M/M economists expected, but may prove to be a one-off number as the series is volatile and households continue to be optimistic about economic conditions.



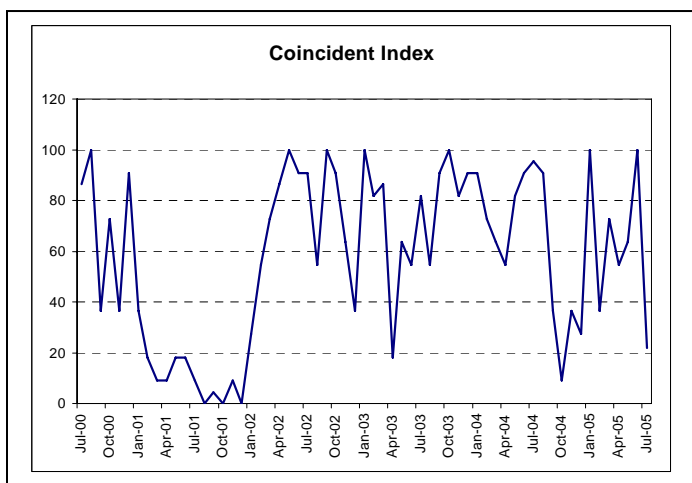
### Leading Economic Index

The Leading Economic Index declined from 66.7% in June to 50.0% in July. A number above 50% indicates that the economy will probably grow in 6 months time.



### Coincident Index

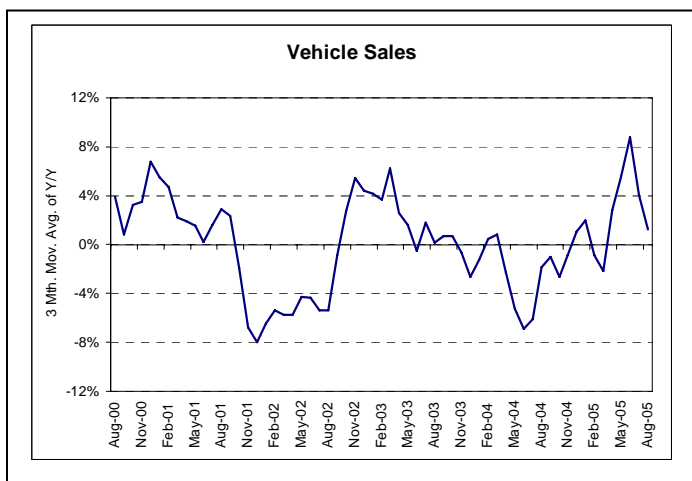
The Coincident Index declined from 100.0% in June to 22.0% in July. The decline brings the index into the pessimistic range and came as the capital goods shipments component and the retail and wholesale components declined. As with household spending, consumers remain optimistic about economic growth in the upcoming months, particularly within the labor market, housing starts, and manufacturer's shipments; all suggesting we may see a rebound in this data in August.



## Vehicle Sales & News

### Vehicle Sales

*Motor Vehicle Sales declined 1.5% Y/Y in August.*



### Business Confidence

Business confidence, as measured by the Teikoku Databank in August, increased from 44.0 pts in July to 44.6 pts in August. Gains were broad based: Manufacturing increased from 45.7 pts to 46.2, wholesale increased from 43.8 pts to 44.1 pts, and services increased from 47.9 pts to 49.1 pts. The retail component edged back from 42.7 pts to 42.0 pts.

### Consumer Confidence

The Consumer confidence index increased from 46.6 to 48.1 in July. The overall livelihood index increased from 45.2 to 46.9. The income growth index increased from 43.3 to 45.7, the employment index increased from 48.3 to 49.7, and the willingness to buy durable goods index increased from 49.7 to 50.2. The increases bring the July level to its second highest since August 2004.

### Consumers Expect Prices to Increase

According to a report released by the ESRI, the percentage of people that expect prices to increase in the next year has increased from 41.2% in June to 43.5% in July as the percentage of those expecting prices to decline dropped from 8.3% to 6.5%. The percentage of those that expect prices to stay roughly the same increased from 40.3% to 43.6% and the percentage of those that say they “don’t know” declined from 10.2% to 6.4%.

## ***News***

---

### ***Political Update – Polls Suggest a Tight Race***

---

According to a survey released last weekend, the public approval rating of the government under Koizumi declined 2% from 49% in July to 47% in August. The LDP's approval rating declined from 46% to 43% over the same time period. The slight change in support came after the LDP announced its candidates for the elections. With DPJ's support increasing from 19% to 23% at the same time, the LDP's lead narrowed by 7 pts, suggesting the elections may be close.

### ***Labor Shortages Near Bubble-Era Level According to Survey***

---

August labor shortages increased to a level last seen over a decade ago, according to a quarterly MoL survey. The Labor Shortage Diffusion Index climbed from 13 to 16 for full time employees, almost the same level recorded in November of 1992. This survey was the eighth consecutive to indicate the existence of labor shortages.

## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/07	Money Supply M2+CD (Aug Y/Y)	1.7%	1.7%
09/07	Broad Liquidity (Aug Y/Y)	2.6%	2.6%
09/07	Bank Lending (Aug Y/Y)	N/A	-2.1%
09/08	Machine Orders (Jul Y/Y)	8.6%	5.4%
09/08	Machine Tool Orders (Aug Y/Y)	N/A	8.1%
09/08	BoJ Monetary Policy Monthly Report	N/A	N/A
09/08	Eco Watchers Survey: Current (Aug)	N/A	50.4
09/08	Eco Watchers Survey: Outlook (Aug)	N/A	52.0
09/09- 09/30	Consumer Confidence (Aug)	N/A	48.2
09/09- 09/30	Consumer Confidence Households (Aug)	N/A	48.1
09/11	GDP (Q2 Q/Q)	0.4%	0.3%
09/11	GDP Annualized (Q2 Q/Q)	1.4%	1.1%
09/11	GDP Deflator (Q2 Q/Q)	-0.8%	-0.8%
09/11	Domestic CGPI (Aug M/M)	N/A	0.6%
09/11	Domestic CGPI (Aug Y/Y)	1.7%	1.5%
09/11	Export Price Index (Aug M/M)	N/A	1.9%
09/11	Export Price Index (Aug Y/Y)	N/A	1.9%
09/11	Import Price Index (M/M)	N/A	4.3%
09/11	Import Price Index (Y/Y)	N/A	14.3%
09/11	Current Account Total (Jul)	N/A	¥1086.6 bln
09/11	Adjusted Current Account Total (Jul)	N/A	¥1503.5 bln
09/11	Trade Balance – BoP Basis (Jul)	N/A	¥999.0 bln
09/13	Industrial Production (Jul M/M)	N/A	-1.1%
09/13	Industrial Production (Jul Y/Y)	N/A	-2.2%
09/13	Capacity Utilization (Jul)	N/A	104.4
09/13	BoJ Monetary Policy Meeting Minutes	N/A	N/A



Valance Co., Inc.

# Valance Economic Report: *United Kingdom*

Gabriel Webber

(340) 692-7710

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

September 7, 2005

**Manufacturing Production, HBOS House Prices and NIESR GDP all surprised to the upside this week; by contrast, Nationwide House Prices and PMI Services and Manufacturing reported weakness. The MPC is not expected to cut rates again until possibly at its November meeting.**

## Weekly Highlights

**Manufacturing Production** - increased 0.1% M/M and 0.1% Y/Y in July. (page 23)

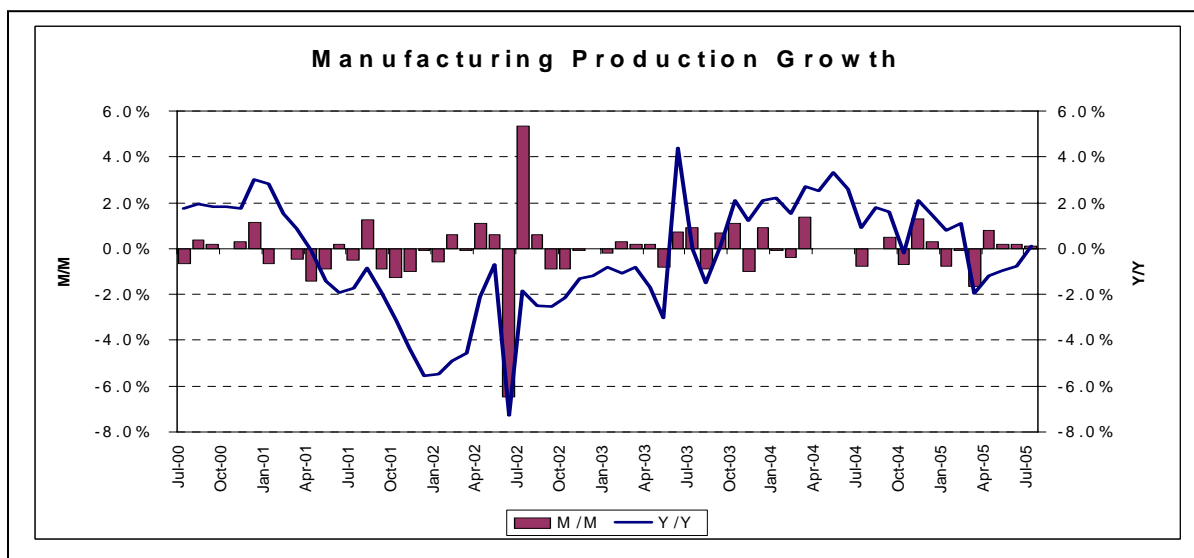
**HBOS House Prices** - surprisingly increased 1.6% M/M and 3.4% Y/Y in August. (page 25)

**PMI Services** - decreased from 56.3 to 55.2 in August, below expectations of 56.0. (page 26)

**British Retail Consortium** - reported that the three month trend average for same store retail sales decreased 1.2% versus the prior 3mths and annual growth decreased 1.0% Y/Y in August. (page 26)

## Weekly Releases & News

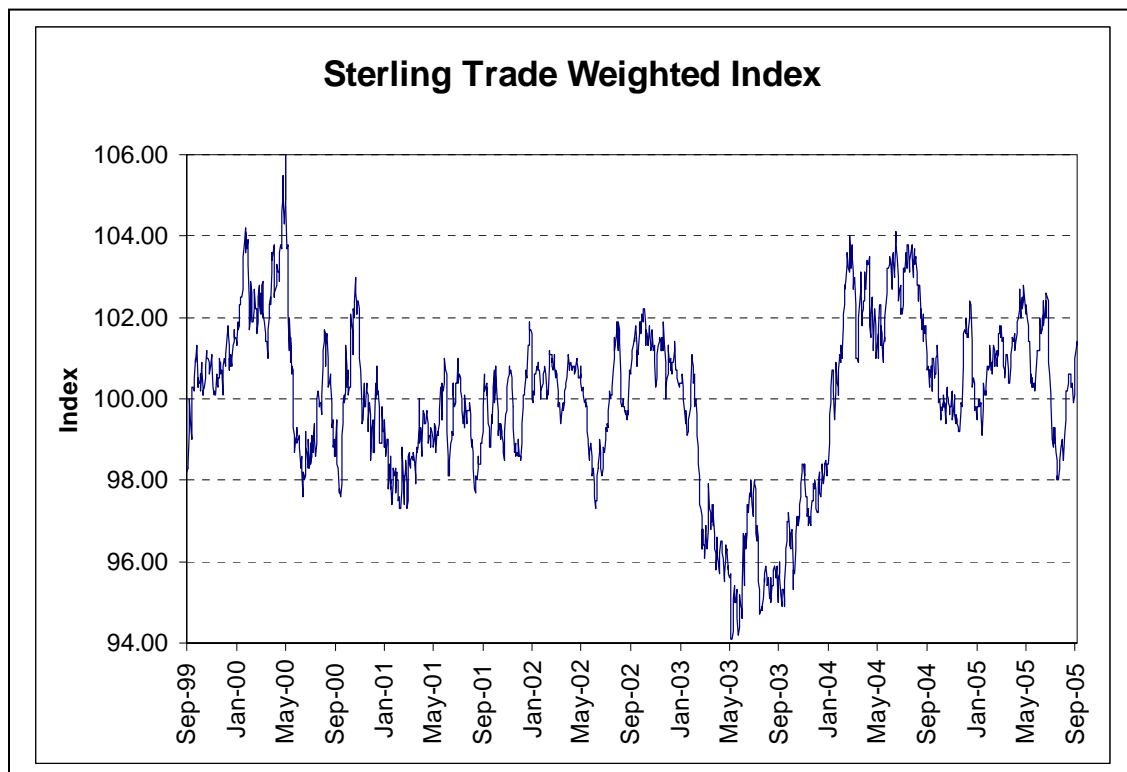
### Chart of the Week: *Manufacturing Production Growth*



Manufacturing Production increased 0.1% M/M and 0.1% Y/Y in July with the annual decline decelerating for a fourth month in a row. Due to this increase, some have commented that this sector may be emerging from its recession. However, August factory orders fell to their lowest level since October 2003 while oil prices continue to increase to record levels.

## Financial Balances

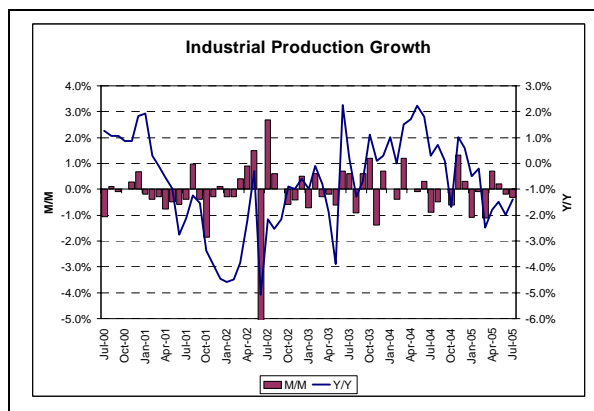
	<i>Last Period (billions)</i>	<i>Last 12m % of GDP</i>
Budget Balance (monthly)	-£5.9 (June)	-2.0%
Trade Balance (monthly)	-£3.4 (May)	-1.2%
Curr. Acct. Balance (quarterly)	-£5.8 (March)	-2.0%
Private Balance		-0.04%



## Industrial Production Growth & Housing Surveys

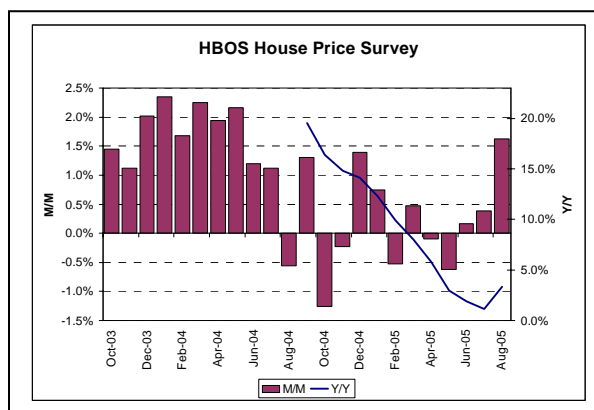
### Industrial Production Growth

*Industrial Production, which excludes mining and quarrying, decreased 0.3% M/M and 1.4% Y/Y in July.*



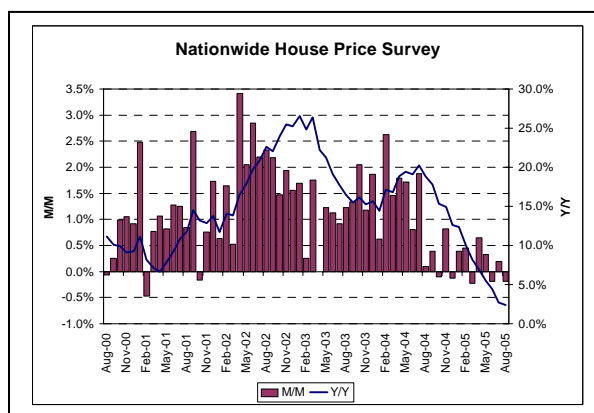
### HBOS House Price Survey

*HBOS House Prices surprisingly increased 1.6% M/M and 3.4% Y/Y in August. This is the largest M/M increase in fifteen months and first annual acceleration in eleven months. The increase appears at odds with most other measures of home prices.*



### Nationwide House Price Survey

*Nationwide House Prices decreased 0.2% M/M and increased 2.4% Y/Y in August, the slowest annual growth rate since May of 1996. Nationwide reported that the first-time buyer house price to earnings ratio is currently 4.7 versus its last peak of 3.9 in Q1 1989.*



## ***Data & Comments***

---

### ***Data***

---

#### **NIESR GDP Estimate**

NIESR estimated that real GDP increased 0.5% in the three months through August, which is the same rate as the April-June quarter and higher than the first three months of the year which was 0.4%. NIESR stated that "after weakness in the first half of the year, trend growth has resumed." However, this is in direct contrast to the OECD, CBI and British Chambers of Commerce which recently cut their growth forecasts for the UK.

#### **PMI Services**

CIPS PMI Services decreased from 56.3 to 55.2 in August, below expectations of 56.0. Business expectations decreased from 72.6 to 71.9 while business activity decreased from 56.8 to 55.2.

#### **PMI Manufacturing**

CIPS PMI Manufacturing increased from 49.5 to 50.1. Output and new orders increased, however, export orders were flat and employment fell to its lowest level since May of 2003.

#### **PMI Construction**

CIPS PMI Construction jumped from 54.7 to 57.4 in August, a sixteen month high. The jump was mainly due to the increase of commercial activity while housing activity only increased slightly.

#### **BRC Retail Sales Monitor**

The British Retail Consortium (BRC) reported that the three month trend average for same store retail sales decreased 1.2% from the prior 3mths and annual growth decreased 1.0% Y/Y in August. Annual same store growth has been negative for six of the eight months this year and remains weak compared to the trends of recent years.

#### **BRC Shop Prices**

The British Retail Consortium (BRC) reported that shop prices decreased 0.6% M/M and 0.5% Y/Y in August. Retailers are being forced to discount items, mainly kitchen equipment, furniture and home improvement products to continue to attract customers. Food prices increased 1.3% Y/Y while non-food items decreased 1.6% Y/Y in August.

#### **Nationwide Consumer Confidence**

Nationwide Consumer Confidence decreased from 101 to 100 in August. The present situation index decreased from 104 to 99 while the expectations index increased from 99 to 101.

Manufacturing Production, HBOS House Prices and NIESR GDP all reported positive data this week. However, these indicators conflict with other indicators in their respective category. For example, factory orders recently fell significantly in contrast to this month's Manufacturing Production. Secondly, HBOS Housing Survey reported an increase while Nationwide continued its decline and the last RICS release remained subdued. Lastly, NIESR GDP reported a positive outlook for the economy, while the OECD, CBI and British Chambers of Commerce all recently cut their growth forecasts for the UK.

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

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/08	BOE Announces Rates	4.50%	4.50%
09/09	Trade Balance	-4700 Mn	-4277 Mn
09/12	PPI Input	--	1.8% M/M 13.5% Y/Y
09/12	PPI Output	--	0.7% M/M 3.0% Y/Y
09/12	ODPM House Prices	--	5.0% Y/Y
09/13	CPI	--	0.1% M/M 2.3% Y/Y
09/14	Claimant Count	--	--
09/14	Average Earnings	--	--

Valance Co., Inc.

# Valance Economic Report: *Canada*

La-Toya C. Elizee

(340) 692-7710

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

September 7, 2005

The Bank of Canada increased rates today by 25bps to 2.75% stating that, “with the Canadian economy operating close to capacity and the stance of monetary policy still stimulative, the Bank will be monitoring developments closely and continuing to assess underlying trends in the economy.”

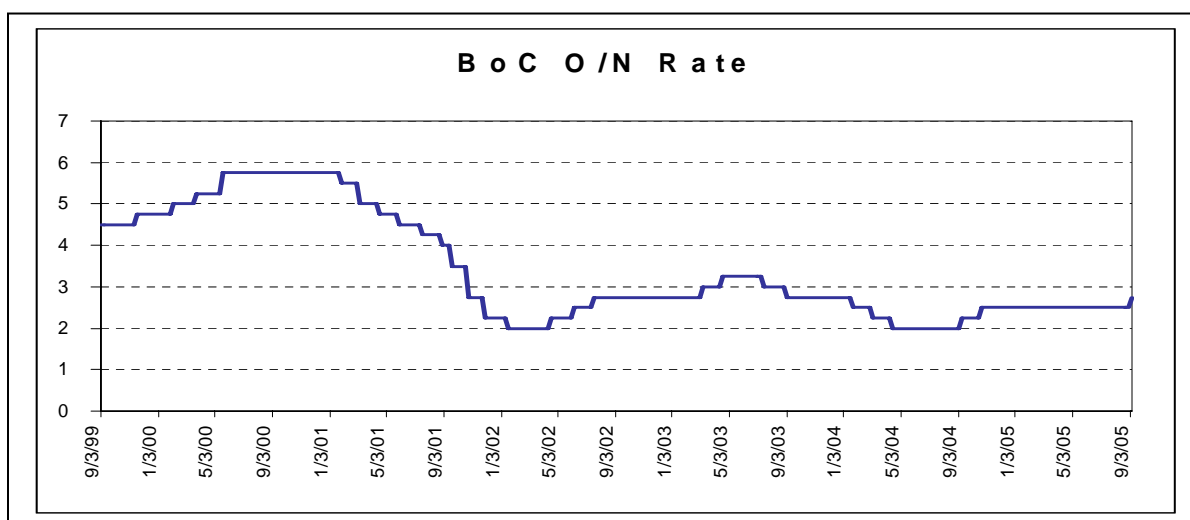
## Weekly Highlights

**The Bank of Canada** - increased interest rates by 25bps to 2.75% as expected. (page 28)

**Building Permits** - decreased 3% M/M and increased 2.8% Y/Y in July. (page 30)

## Weekly Releases & News

### Charts of the Week: *BoC O/N Rate*



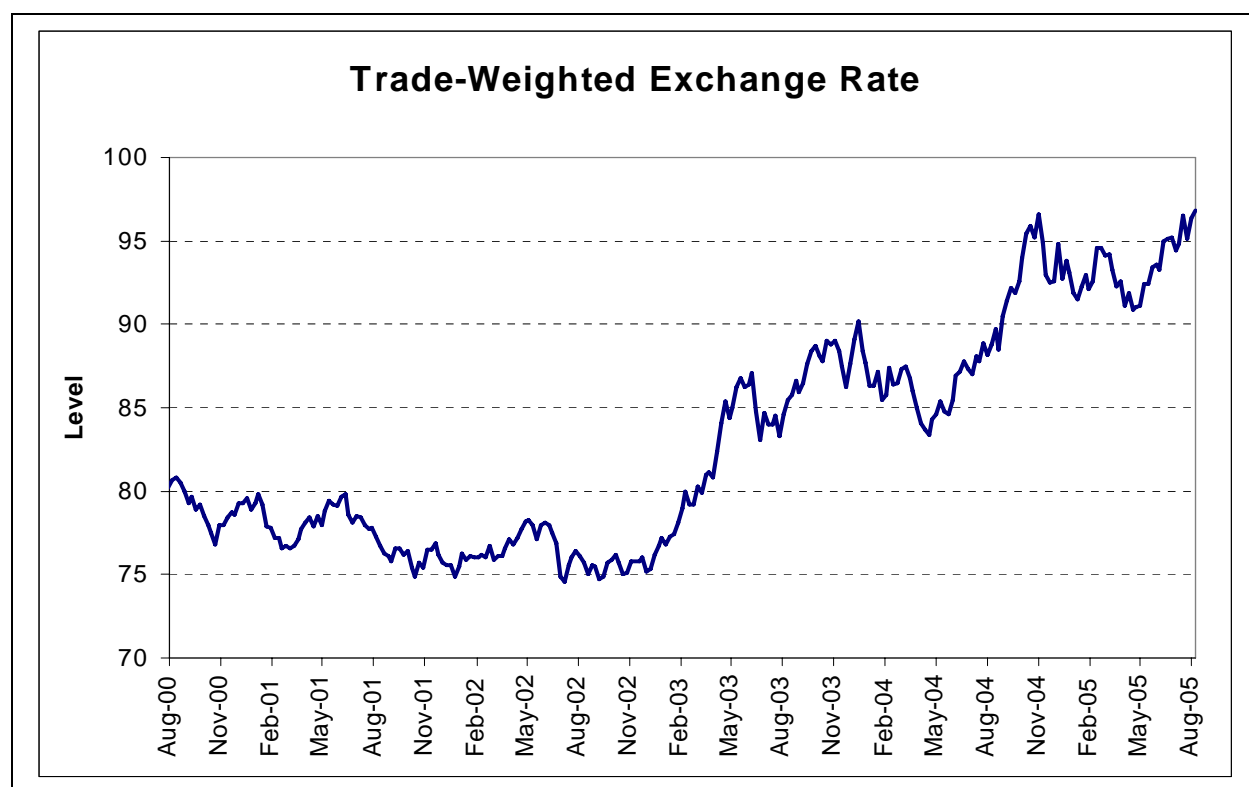
The Bank of Canada increased interest rates by 25bps to 2.75% as expected. The Bank stated that “the global and Canadian economies have generally evolved in line with the Bank’s expectations” and that the “pace of growth and the level of activity in the Canadian economy in the second quarter were somewhat higher than had been expected.” However, instead of stating that policy accommodation must be removed “in the near term” as was stated in July, the Bank left that phrase out. More importantly though, the Bank noted, “With the Canadian economy operating close to capacity and the stance of monetary policy still stimulative, the Bank will be monitoring developments closely and continuing to assess underlying trends in the economy.” Karim Basta, Director of Research, here at Valance Co. Inc., stated that, “Removing near-term does not box them into an October hike, but I think they will still end up hiking by a total of 100bps by the end of June 2006.” The Bank’s next meeting is on October 18<sup>th</sup>.

## ***Financial Balances & Trade Weighted Exchange Rate***

### ***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%

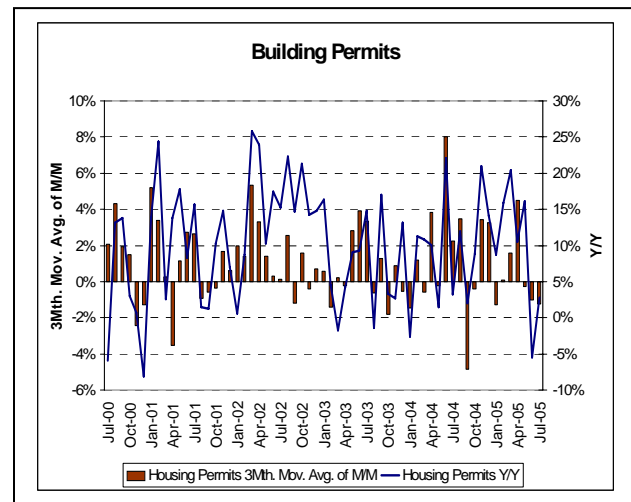
### ***Trade-Weighted Exchange Rate***





## Building Permits & Upcoming Dates

Building Permits decreased 3% M/M and increased 2.8% Y/Y in July. Permits for non-residential construction decreased 10% M/M while residential permits increased 1.3% M/M.



## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/08/05	Ivey Purchasing Managers Index (AUG)	57.5	51.5
09/08/05	Capacity Utilization Rate (Q2)	86.4%	86.4%
09/08/05	New Housing Price Index (M/M) (JUL)	0.5%	0.8%
09/09	Unemployment Rate (AUG)	6.8%	6.8%
09/09	Net Change in Employment (AUG)	20.0K	5.9K
09/09	Housing Starts (AUG)	230.0K	242.3
09/09	Labor Productivity (Q/Q) (Q2)	0.1%	0.2%
09/13	Int'l Merchandise Trade (JUL)	C\$5.0	C\$5.0
09/14	Manufacturing Shipments (M/M) (JUL)	0.5%	0.5%

Valance Co., Inc.

# Valance Economic Report: Australia

Milo Prochazka

(340) 692-7710

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

September 7, 2005

The Reserve Bank of Australia, in a widely anticipated decision, left interest rates unchanged for a sixth consecutive month this past week. The Australian economy had picked up pace in the June quarter, as booming commodity prices, soaring business investment and construction all boosted growth. GDP rose at its fastest pace since the fourth quarter of 2003.

## Weekly Highlights

**RBA Overnight Rate** – stays at 5.50% in September. (Page 31)

**GDP** – rose by 1.3% Q/Q in Q2. (Page 32)

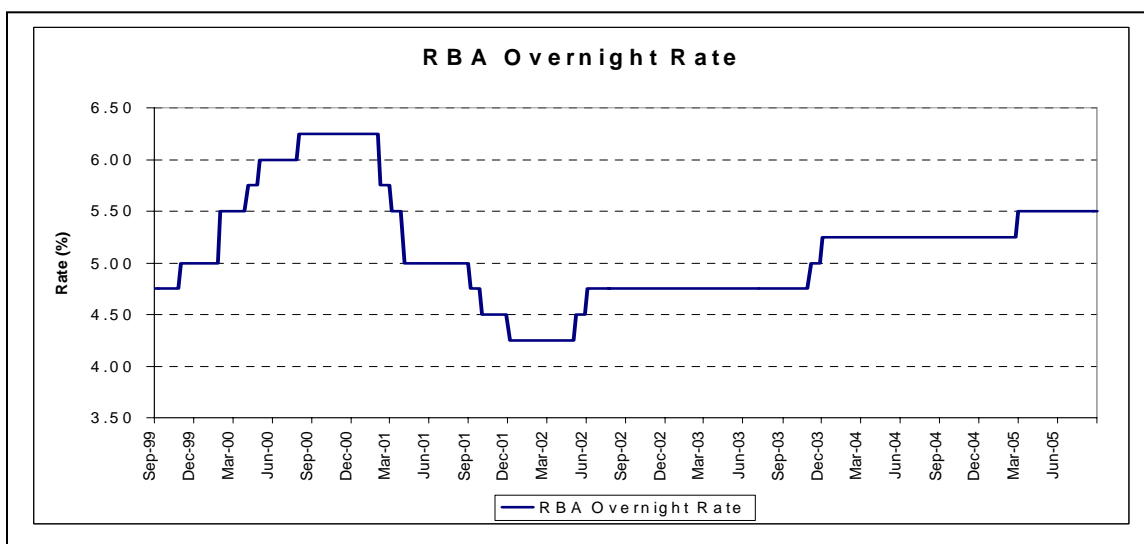
**Private Capital Expenditure** – surged 7.3% Q/Q in Q2, more than double the increase economists had forecast. (Page 32)

**Home Loans** – rose 0.2% M/M in July. (Page 33)

**ANZ Job Advertisements** – rose 0.5% M/M in August. (Page 33)

## Weekly Releases & News

### Chart of the Week: RBA Overnight Rate

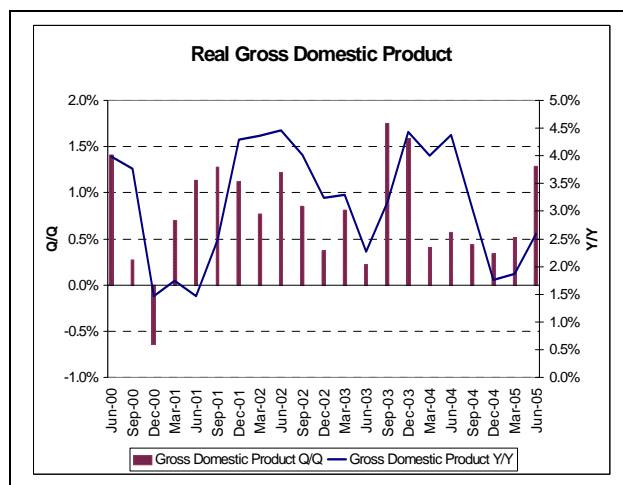


The Reserve Bank of Australia, in a widely anticipated decision, left interest rates at 5.50% for a sixth consecutive month. The RBA is seen likely to remain sitting pat at least until the end of the year.

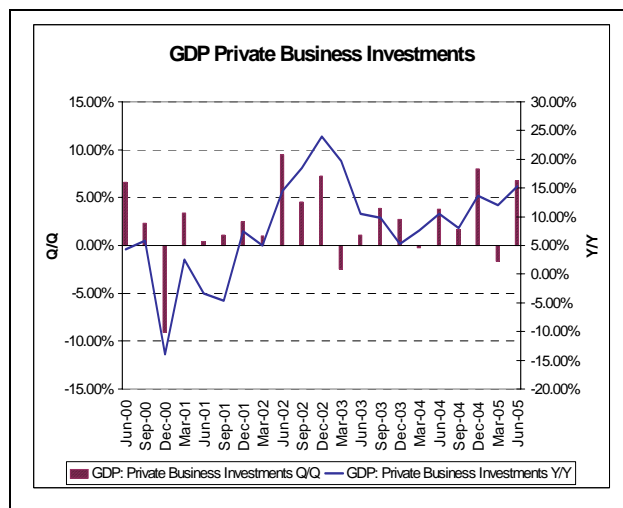
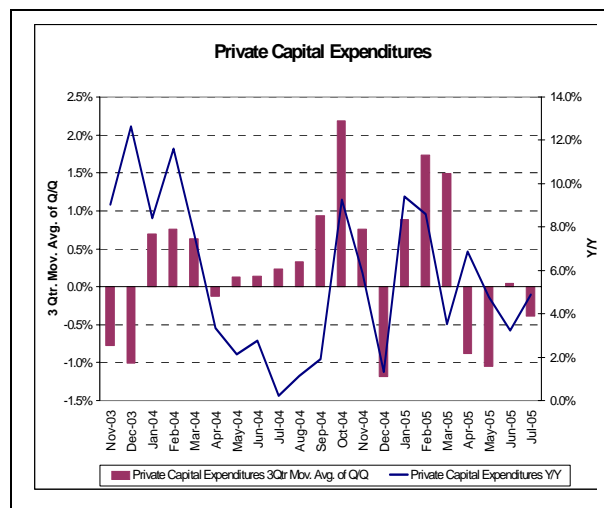
# GDP, Private Capital Expenditure & House Price

## Real GDP

Q2 gross domestic product rose by 1.3% Q/Q, slightly above market forecasts of 1.2% and an acceleration from the downwardly revised 0.5% (from 0.7%) in Q1.



## Private Capital Expenditure

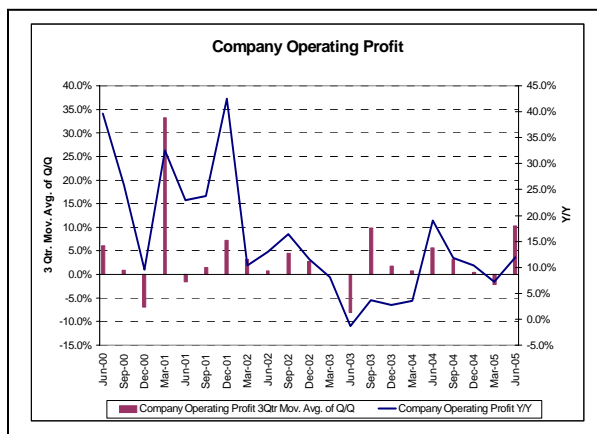


Capital spending on equipment, buildings and plants jumped 7.3% Q/Q in Q2 from the upwardly revised -0.9% (from -3.8%) in Q1. It was twice the pace expected by economists.

# Company Operating Profit, Home Loans & ANZ Job Ads

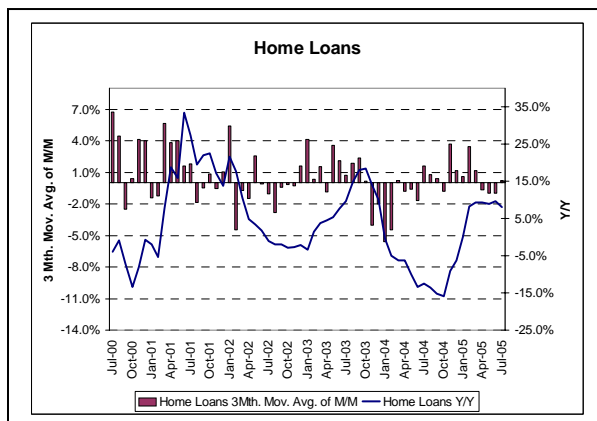
## Company Operating Profit

Gross Company Operating Profits jumped 10.2 % Q/Q in Q2 from the downwardly revised -2.2% (from -1.7%) in Q1. It was the largest increase in four years in Q2, as record commodity prices stoked miners' earnings.



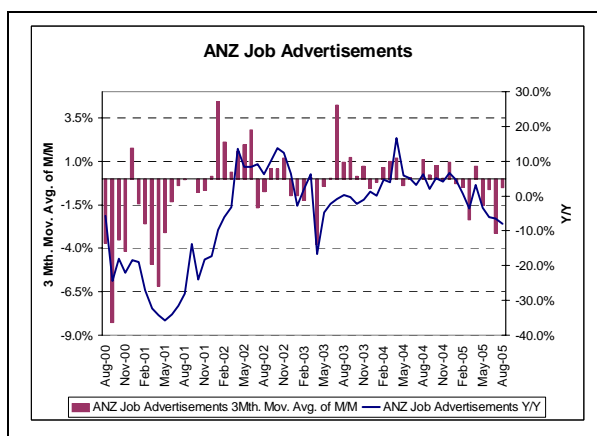
## Home Loans

Australia's home-loan approvals were little changed (0.2%) on a month and have stabilized on the Y/Y basis.



## ANZ Job Advertisements

Job vacancies advertised in major newspapers last month rose 0.5 % M/M.



---

## ***Westpac's ACCI Australian Business Confidence & News***

---

### ***Business Confidence***

---

Australian companies' confidence in the economy remained at two-year low in May. The index measuring companies' expectations of the economy over the next six months remained unchanged at negative 5 points from three months earlier. A negative result means more companies expect the economy to worsen than those forecasting it to improve.

### ***Retail Back in Positive Territory***

---

Australian consumers are spending again, with new figures on Wednesday showing a rise in retail spending in August after four months of declines. The Cash-card Retail Activity Index, which measures Australia's retail spending rose a seasonally adjusted 0.4% in August, following four consecutive months of decline.

### ***Minerals exports hit \$67bn***

---

The export earnings of Australia's mines increased by almost one-third to a record \$67 bln in 2004-2005. The chief commodities forecaster, the Australian Bureau of Agricultural and Resource Economics (ABARE), said that the minerals and energy sector enjoyed a 29% lift in export earnings last financial year following substantial increases in contract prices from Asian steel mills and electricity generation plants

### ***Peter Costello comments on the nation's economic growth***

---

Australian Treasurer Peter Costello commented on the nation's economic growth:

“We are expecting solid growth in the economy over the course of next year. Inflation is within our band of 2% to 3%. Employment is at a 30 year low at around 5%. We are in a strong fiscal position and we will keep it that way. We maintain steady growth. “

“High oil prices are pushing up petrol prices in Australia and that's not good for the economy, and that's not good for the consumers. I wish OPEC nations would increase oil production so that prices come back. “

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

---

	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/07	Unemployment Rate (AUG)	5.1%	5.0 %
09/07	Employment Change (AUG)	0.00%	12.70
09/07	RAB Business Survey (AUG)	---	---
09/13	Dwelling Starts (2Q)	---	-2.2

Valance Co., Inc.

---

## Weekly Economic Report: **China**

---

La-Toya C. Elizee

(340) 692-7710

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

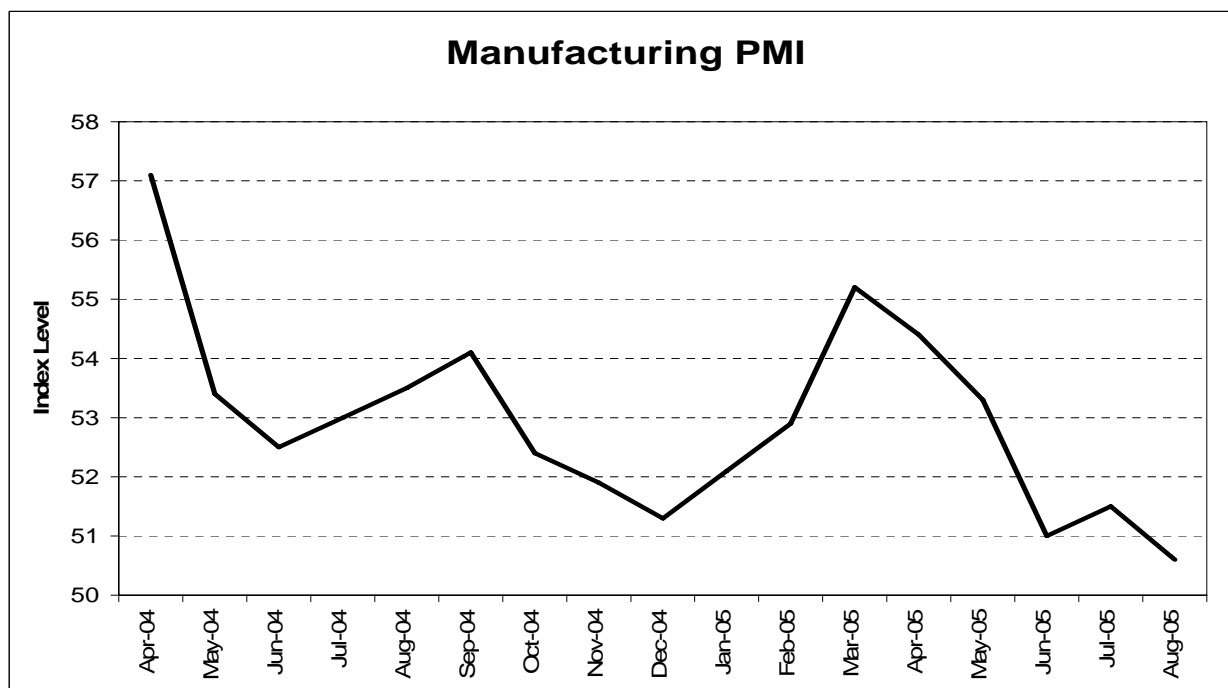
September 7, 2005

This week in China, the PMI Survey declined, but the absolute level remained above the boom/bust threshold. Elsewhere, the European Union's Trade Commissioner, Peter Mandelson and China's Minister of Commerce, Bo Xilai, came to an agreement on textile items to enter Europe. Also last week, the U.S. has set an October 1<sup>st</sup> deadline for China to come to a decision in regards to certain textile goods.

### Weekly Releases & News

#### Chart of the Week: **CLSA August Manufacturing PMI**

---



The Manufacturing PMI fell from 51.5 to 50.6 in August. The index decreased in eight out of the eleven components – new export orders, output prices and input prices all posted increases. August's reading is the lowest since the survey began 17 months ago, but it remains above the 50 mark which shows that the number of manufacturers who said conditions improved was greater than the number that said conditions deteriorated. The following page displays the breakdown of the PMI Survey.



## PMI Survey Results & News Releases

### PMI Survey Results

Manufacturing PMI employment fell by .9 points to reach 50.6. New Orders decreased marginally from 52.5 to 52.2 and Finished Goods decreased from 50.5 to 49.9. Input Prices increased by 4.2 points and New Export Orders increased .9. The PMI is a composite index with the following weightings: New Orders (30%), Output (25%), Employment (20%), Supplier Delivery Times (15%) and Stocks of Items Purchased (10%).

	Aug 2005	Jul 2005	Jun 2005	May 2005	Apr 2005	Mar 2005	Feb 2005	Jan 2005	Dec 2004	Nov 2004	Oct 2004	Sept 2004	Aug 2004
<b>Seasonally Adjusted Index</b>													
PMI	50.6	51.5	51.0	53.3	54.4	55.2	52.9	52.1	51.3	51.9	52.4	54.1	53.5
Output	51.4	53.2	51.3	55.4	56.1	56.6	54.6	53.9	53.2	54.5	55.1	56.4	55.6
New orders	52.2	52.5	51.6	55.1	58.0	59.4	55.5	54.9	53.0	53.7	54.1	56.9	55.3
New export orders	52.5	51.6	51.1	55.6	57.1	58.6	54.8	55.6	55.1	56.0	54.1	56.6	59.4
Backlog of work	52.5	52.8	53.3	56.5	59.2	61.6	56.8	56.9	54.0	55.9	55.3	56.9	56.2
Finished goods	49.9	50.5	48.9	49.2	47.5	47.8	49.4	49.0	46.9	48.9	48.3	46.6	48.2
Employment	49.1	50.5	50.3	50.6	50.4	51.5	50.2	49.5	49.2	49.8	49.9	50.7	51.0
Output prices	49.2	47.1	47.5	51.0	54.1	56.0	51.7	49.5	50.1	54.2	55.0	57.9	56.2
Input prices	52.1	47.9	46.1	54.4	69.2	71.3	59.6	56.0	59.1	64.0	71.8	74.0	71.7
Supplier deliveries	50.1	50.2	49.5	49.3	48.2	47.3	48.8	49.0	48.8	48.7	46.9	46.5	45.1
Quan. of purchases	53.4	53.7	52.8	54.8	56.9	57.4	55.0	54.6	52.5	53.8	54.7	58.1	57.3
Stocks of purchases	48.3	48.7	51.0	51.7	50.8	50.4	48.4	46.6	45.1	45.8	44.9	47.2	46.0

### News Releases

**September 7<sup>th</sup> – Economic Growth to Slow to 9.0% in 2005** – China's Central Television reported that Vice Premier Zeng Peiyan stated that economic growth in China will slow from 9.5% in 2004 to 9.0% this year.

**September 6<sup>th</sup> – MS 2005-2006 Growth Forecasts Cut** - Morgan Stanley (MS) cut its economic growth forecast for 2005 from 9.5% to 9.3% on higher oil prices. In addition, MS Economist Andy Xie cut his 2006 growth estimate from 7.0% to 6.7%.

**September 6<sup>th</sup> – EU/China Reach Agreement** – The European Union's Trade Commissioner, Peter Mandelson and China's Minister of Commerce, Bo Xilai, came to an agreement on September 5<sup>th</sup> which will allow 77 million textile items (i.e., sweaters, trousers, t-shirts, etc.) to enter Europe. This follows Mandelson's concerns relating to higher consumer prices, clothing shortages and losses for businesses as a result of hoards of Chinese garments, which have exceeded their quotas, being detained at EU ports.

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

### *News Releases (cont'd.)*

**September 1<sup>st</sup> – U.S. Re-Imposes Quotas on Chinese Clothing** –The U.S., after failed talks with China, has decided to re-impose quotas on two more categories of textile imports – namely fabrics made with synthetic filament threads and body-supporting undergarments. The U.S. government has also set an October 1<sup>st</sup> deadline to come to a decision in regards to sweaters, dressing gowns, knit fabrics and wool trousers.

### *Upcoming Dates*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/7-14	TTL Export / Import – Y/Y - Aug	27.0% / 17.1%	28.7% / 12.7%
09/7-14	Trade Surplus - Aug	10.35B	10.40B
09/08	PPI (Y/Y) - Aug	--	5.2%
09/11-16	Money Supply – M0/ M1/M2 - Aug	--	9.1% / 11.0% / 16.3%
09/11-15	Retail Sales Value Indiv / Accum (Y/Y) - Aug	--	12.7% / --
09/11	CPI (Y/Y) - Aug	--	1.8%
09/13	Value Added Industry Current / Y/Y - Aug	--	581.10B / 16.1%
09/14	Fixed Assets Inv Urban Cum. (Y/Y) - Aug	--	27.2%
09/14	Actual / Contract FDI Cumulative (Y/Y) - Aug	--	-3.42% / --

Valance Co., Inc.

**Valance Economic Report: Sweden**

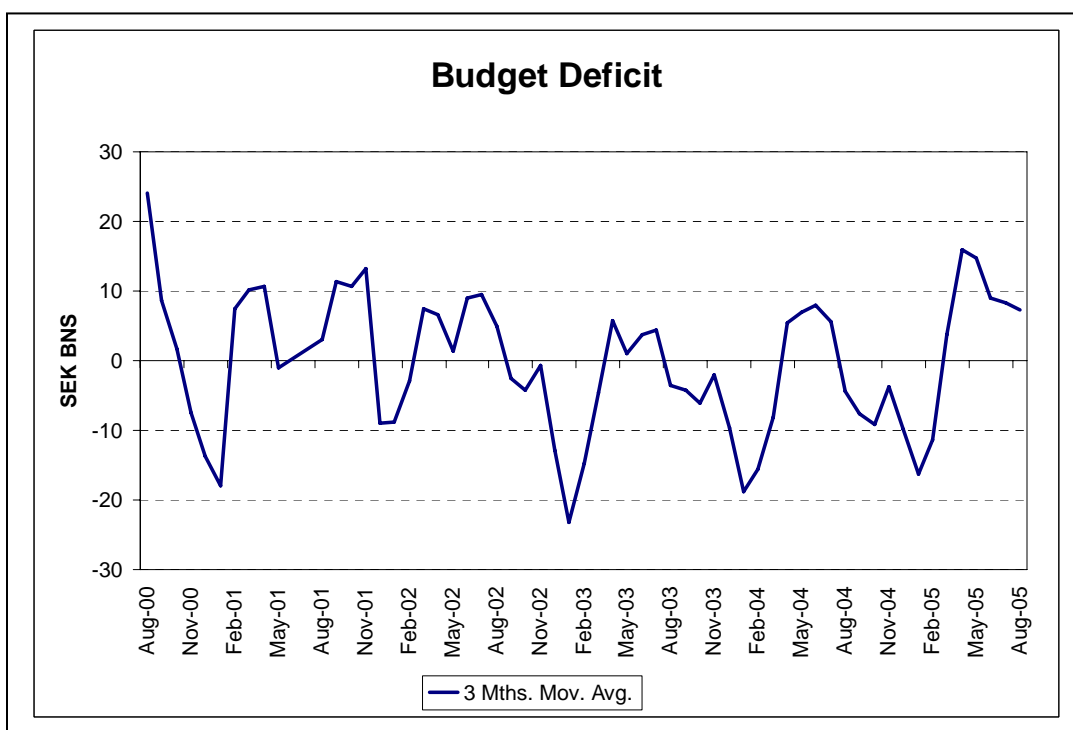
Evelyn L. Richards

(340) 692-7710

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

September 7, 2005

This past week's economic data was mixed as Sweden experienced a smaller-than-expected budget deficit and the PMI fell from 54.8 in July to 54.1 in August.

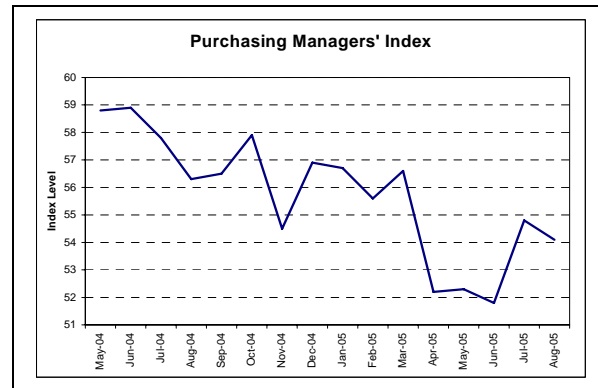
**Weekly Releases & News****Charts of the Week: Budget Deficit**

Sweden experienced a budget deficit of SEK 8.4 bln last month, below expectations of a SEK 13.3 bln deficit. The lower-than-expected deficit was a result of higher tax payments by companies and smaller tax refunds and government debt payments.

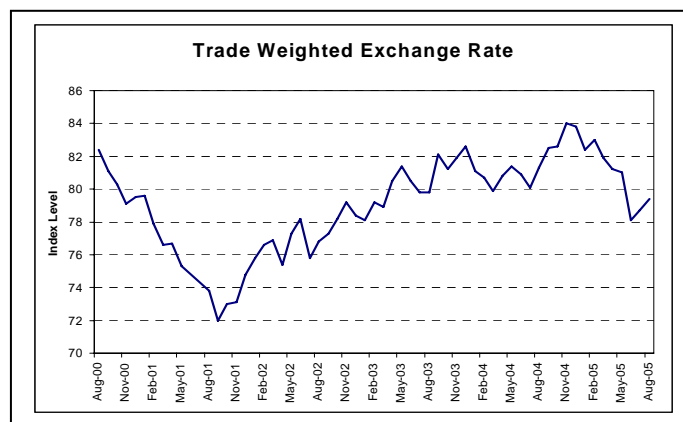
## PMI, Trade Weighted Exchange Rate & Upcoming Dates

### PMI

Sweden's Purchasing Managers' Index fell from 54.8 in July to 54.1 in August. Production (56.8) and Employment (50.6) both fell, while Orders rose (57.3). August's reading slowed from a four-month high.



### Trade Weighted Exchange Rate



### Upcoming Dates

Date	Indicator	Expectation	Previous
09/08	Industrial Production s.a. (M/M) / n.s.a. Y/Y - Jul	--	1.6% / 2.6%
09/08	Industrial Orders s.a. (M/M) / n.s.a. (Y/Y) - Jul	--	3.0% / -1.8%
09/08	Activity Index Level- Jul	--	110.5
09/09	AMS Unemployment Rate - Aug	--	6.0%
09/13	CPI Headline Rate – M/M / Y/ Y	-- / 5.9%	-0.4% / 0.3%
09/13	CPI Underlying Inflation – M/M / Y/Y	3.7% / 4.2%	-0.2% / 0.7%

Valance Co., Inc.

# Valance Economic Report: Switzerland

Evelyn L. Richards

(340) 692-7710

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

September 7, 2005

**Data this week pointed towards signs of an improved Swiss economy as CPI rose from -0.5% M/M in July to 0.1% M/M in August and the SVME PMI climbed from 51.8 in July to 54.0 in August. Conversely, Y/Y growth in consumption eased from 1.2% in July to 1.0% in August, taking some pressure off the SNB to raise interest rates.**

## Weekly Highlights

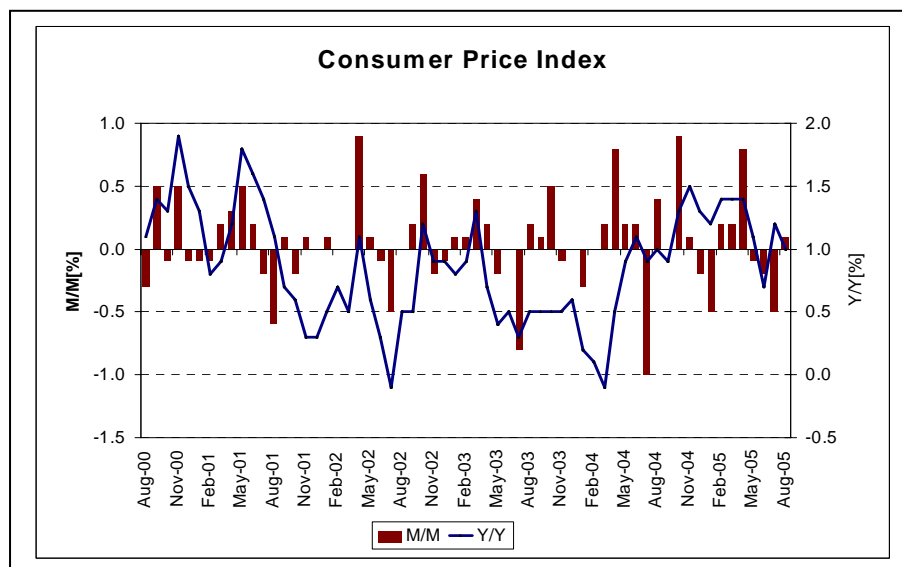
**CPI** – rose 0.1% M/M and 1.0% Y/Y in August. (page 41)

**Core CPI** – rose 0.1% M/M and 0.2% Y/Y in August. (page 41)

**SVME PMI** – rose from a revised 51.8 in July to 54.0 in August, signaling expansion. (page 42)

## Weekly Releases & News

### Chart of the Week: Consumer Price Index

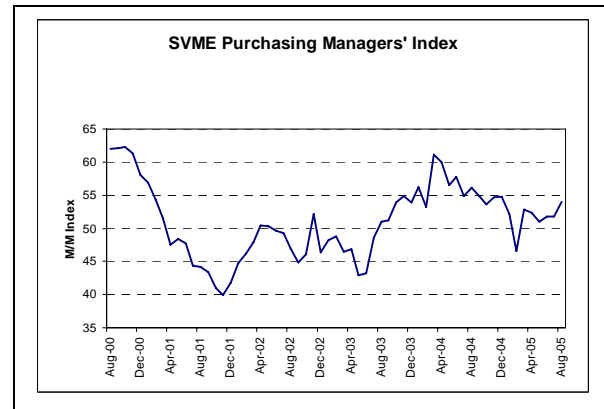


Swiss Consumer Prices rose 0.1% M/M and 1.0% Y/Y in August from -0.5% M/M and 1.2% Y/Y in July, mostly due to higher oil prices. Expectations were for a 0.3% M/M and 1.1% Y/Y gain. The Y/Y decline suggested that the SNB will leave rates unchanged at its next meeting on September 15<sup>th</sup>. At the same time, Core CPI rose 0.1% M/M and 0.2% Y/Y in August from -1.0% M/M and 0.4% Y/Y in July.

## SVME PMI, PMI Results & Trade Weighted Exchange Rate

### SVME Purchasing Managers' Index

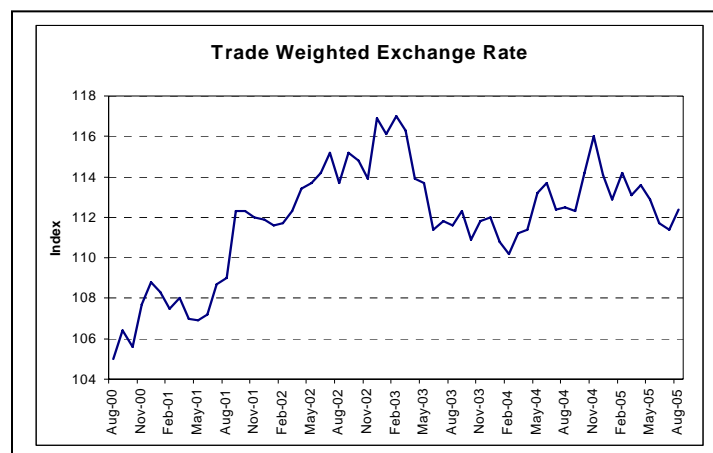
Switzerland's Purchasing Managers' Index rose from a revised 51.8 in July (down from 52.4) to 54.0 in August, signaling expansion. As illustrated in the PMI table below, the index increased in five out of eight components. August's reading was the highest in eight months as the declining franc has bolstered export growth.



### PMI Results

	Aug 2005	Jul 2005	Jun 2005	May 2005	Apr 2005	Mar 2005
PMI s.a.	54.0	51.8	51.8	51.0	52.4	52.8
Output	55.9	51.2	55.9	52.0	53.3	54.3
Backlog of Orders	56.1	53.7	52.7	55.2	54.5	53.1
Quantity of Purchase	52.3	54.8	49.2	49.0	55.8	47.7
Purchase Prices	57.5	49.8	47.6	46.4	55.2	56.4
Suppliers Delivery Times	54.9	58.3	51.8	50.8	49.6	42.2
Stocks of Purchases	47.0	49.1	46.3	40.5	45.9	49.1
Stocks of Finished Goods	46.3	42.3	46.1	46.3	51.3	49.4
Employment	51.1	46.1	48.4	49.0	53.6	52.6
PMI NSA	50.9	49.9	54.1	52.3	53.9	54.5

### Trade Weighted Exchange Rate



## *Key Dates This Week*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/08	Unemployment Rate / sa – Aug	--	3.5% / 3.8%
09/09	GDP (Q/Q) / (Y/Y) – 2Q	--	0..0% / 0.7%
09/12-16	Adjusted Retail Sales (Y/Y) - Jul	--	3.2%