

# Valance Company, Inc.



Weekly

December 22, 2005

III

## Highlights

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**US** – Core PCE 3-mo. annualized rate at 2.0% in November up from 1.0% in August. (page 2)

**Euroland** – German and Italian Business Confidence spike! Q4 not as bad as we had thought? (page 10, 13)

**Japan** – Chance the Bank shifts policy continues to grow. (page 21)

**UK** – GDP remained unrevised at its sluggish levels for Q3. (page 27)

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Valance Economic Reports

Valance Co., Inc.

# Valance Economic Report: United States

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December 22, 2005

**This week's economic data showed mixed signals on the housing front and tame core measures of inflation. However, like Core CPI last week, Core PCE has accelerated significantly on a 3 month annualized rate basis. The Fed's Lacker also noted, "While the lack of an upsurge in the core PCE inflation figures for September and October is somewhat encouraging, I think it is too soon to declare that pass-through risk is entirely behind us."**

## Weekly Highlights

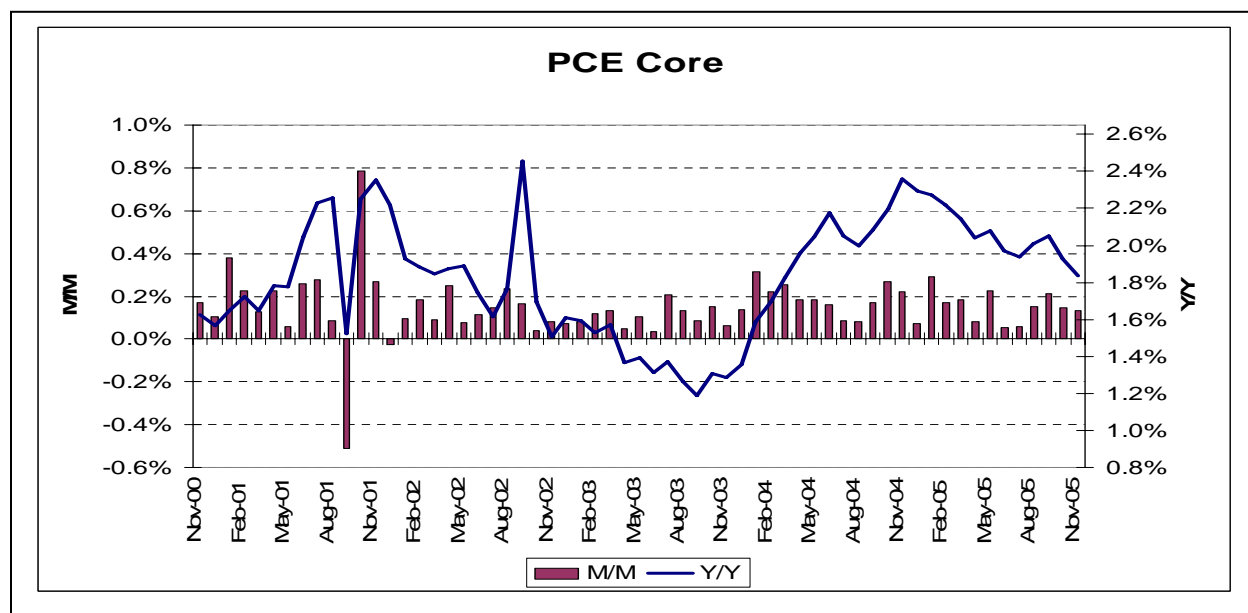
**Core PCE-** increased 0.1% M/M and 3 month annualized rate up 2.0% in November. (page 2)

**Housing Starts-** up 5.3% M/M and no signs of weakness in permit data. (page 4)

**Mortgage Purchase Applications-** down 0.5% Y/Y. (page 6)

## Weekly Releases

### Chart of the Week: *Core PCE*



Core PCE increased 0.1% M/M and 1.8% Y/Y in November. The three month annualized rate of core PCE was 2.0% in November up from 1.0% in August. If core inflation continues to be on the higher side of their implicit 1% to 2% range, the Fed will likely continue to hike to 5% due to upside risks from capacity concerns.

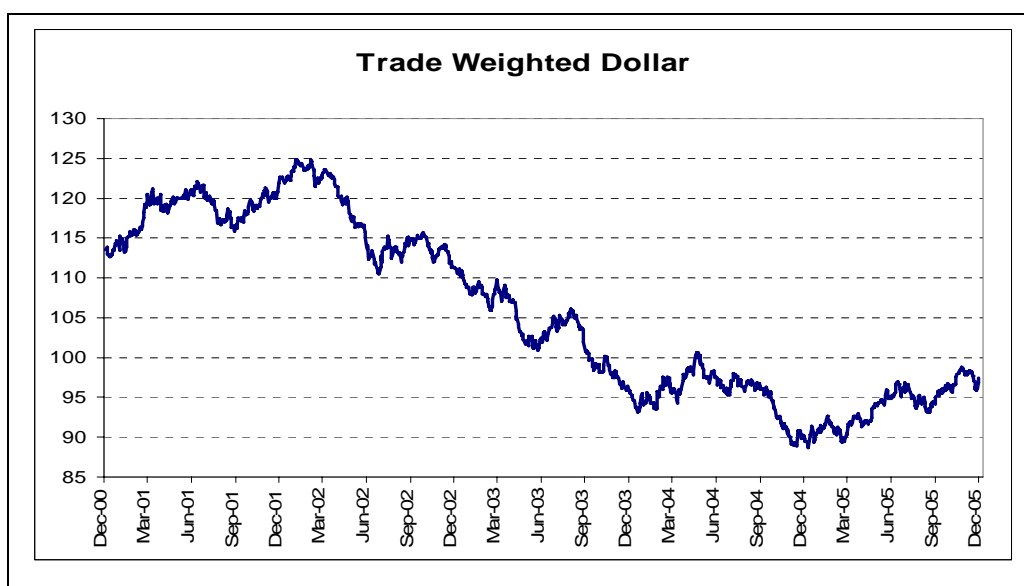
## ***U.S. Financial Balances & Trade Weighted Dollar***

### ***Financial Balances***

<i>U.S.</i>	<i>Latest period (\$blns)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-47.2 (October)	-2.4%
Trade Balance	-66.1 (September)	-5.6%
Current Account Balance	-195.8 (Q3)	-6.2%
Private Balance	--	-3.8%

The budget deficit is currently at \$308 bln on a trailing twelve month basis and forecasts see the budget deficit increasing to \$400 bln with Katrina related spending in 2006. The larger budget deficit will stimulate the economy in the short-run, but the trade deficit as of September is still 5.6% of GDP, with no clear signs of narrowing quickly. The budget deficit will remain too small to support a robust and sustained expansion, given the size of the current account deficit. As mortgage equity extraction slows and debt service levels increase, fragility in the economy should become more evident.

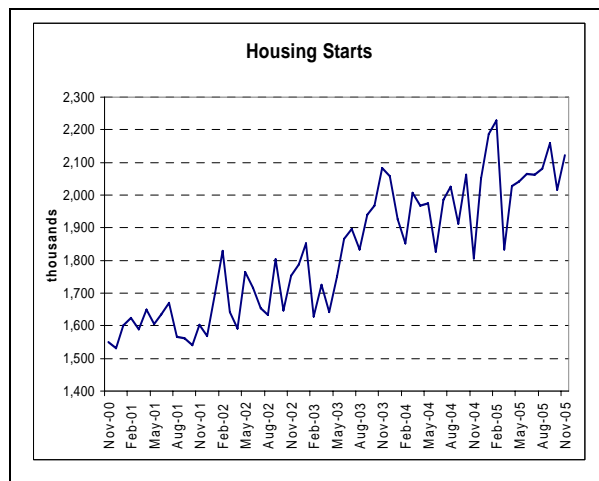
### ***Trade Weighted Dollar***



## Housing

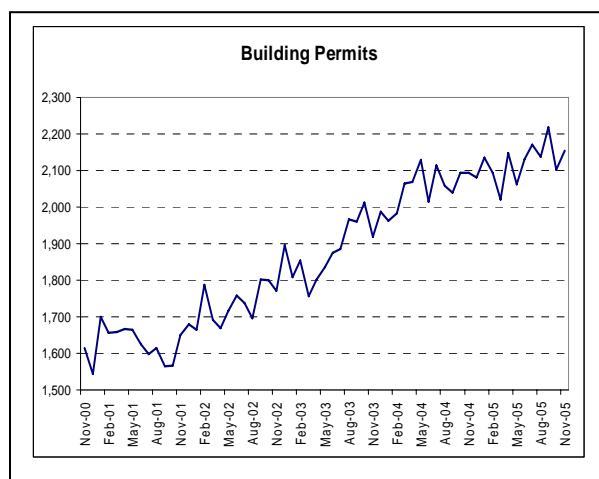
### Housing Starts

*Housing Starts increased from 2,017k to 2,123k on a seasonally adjusted annualized basis in November. Housing starts have not shown signs of slowing yet.*



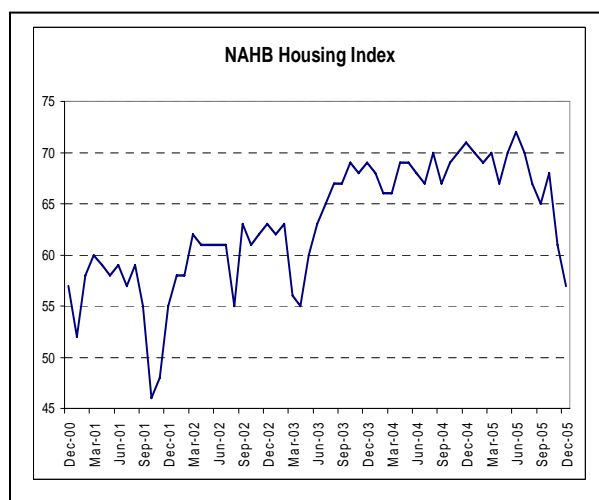
### Building Permits

*Building Permits increased from 2,103k to 2,155k on a seasonally adjusted annualized basis in November. Building permits have not shown any material weakness and suggest that housing volumes should remain healthy for the next six months.*



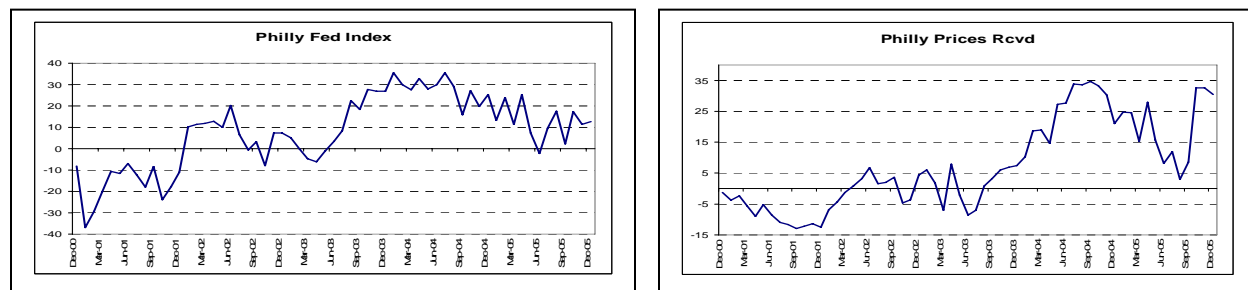
### NAHB Housing Index

*The NAHB Housing Index declined from 61 to 57 in December. The future sales index was flat at 65 and the present index declined from 67 to 63.*



## Philly Fed., Personal Income & Personal Spending

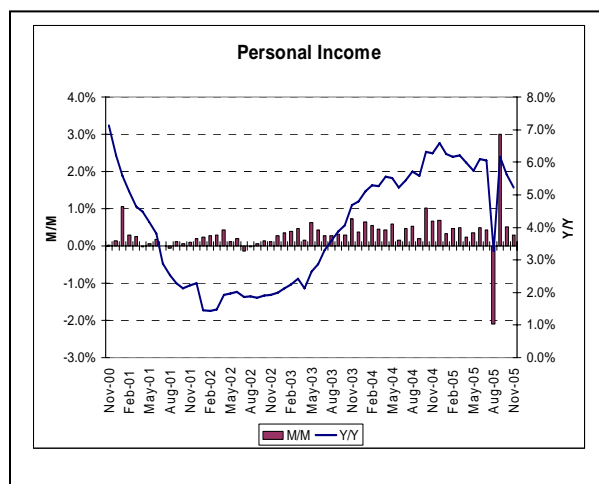
### Philly Fed Index



The Philly Fed Index increased slightly from 11.5 to 12.6 in December. The employment component decreased from 19.1 to 9.4. The Philly prices paid dropped from 56.8 to 49.0 and the prices received declined slightly from 32.5 to 30.5.

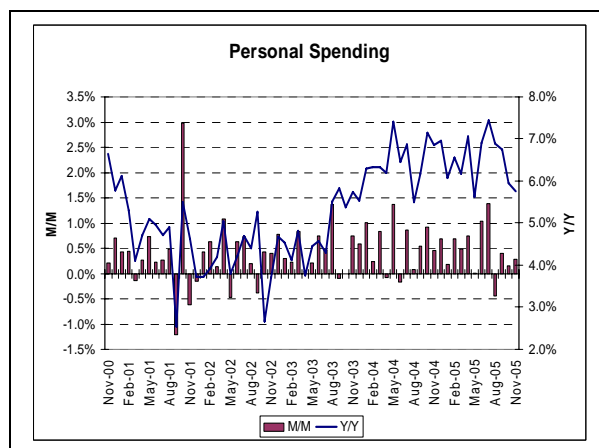
### Personal Income

Personal Income increased 0.3% M/M and 5.2% Y/Y November. The compensation and wages component increased 0.2% M/M. Y/Y growth has been trending lower, but remains at relatively healthy levels.



### Personal Spending

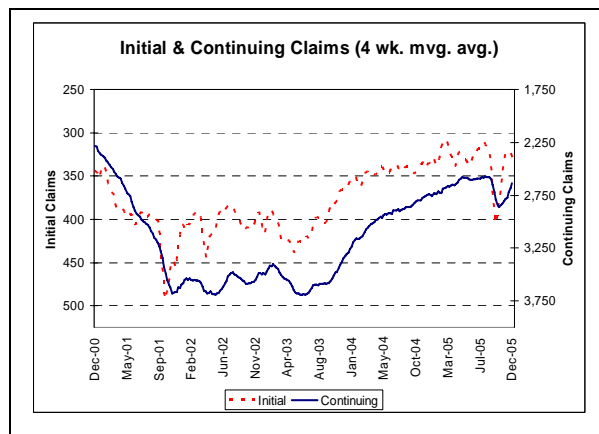
Personal Spending increased 0.3% M/M and 5.8% Y/Y in November. Personal Savings has continued to be negative according to this series as strong home prices likely buoy consumption.



## Employment Claims, Mort. Apps. & Current Account

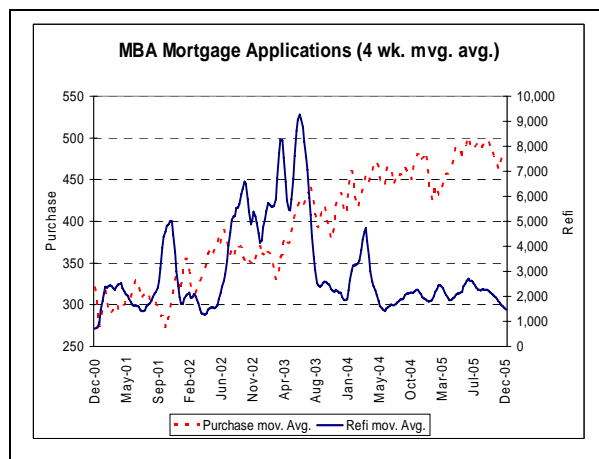
### Initial & Continuing Claims

The four week moving average of initial claims and continuing claims dropped to 325 and 2,640k, respectively. Claims data continues to show a healthy employment market.



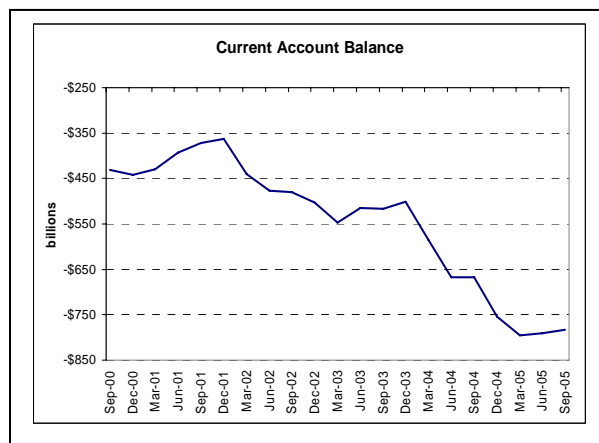
### Mortgage Applications

Purchase and refinancing mortgage applications decreased 5.2% and 1.6%, respectively, this week. The four-week moving average of purchase applications is now down 0.5% Y/Y and suggests that the housing market is starting to cool down.



### Current Account Balance

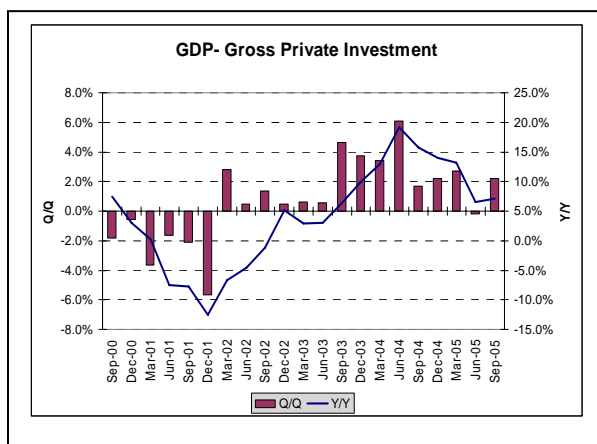
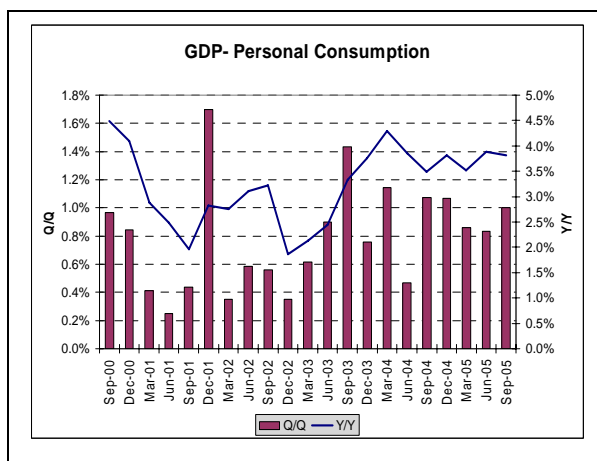
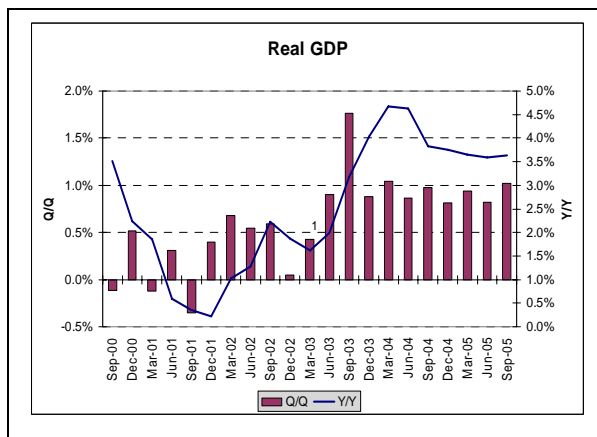
The Current Account Deficit narrowed from \$197.8 billion in the second quarter to \$195.8 billion in the third quarter. The Current Account is now 6.2% of GDP. The narrowing of the Current Account was partly driven by insurance payments after the hurricanes; this financial flow is almost certainly a one time item.



# GDP

## GDP

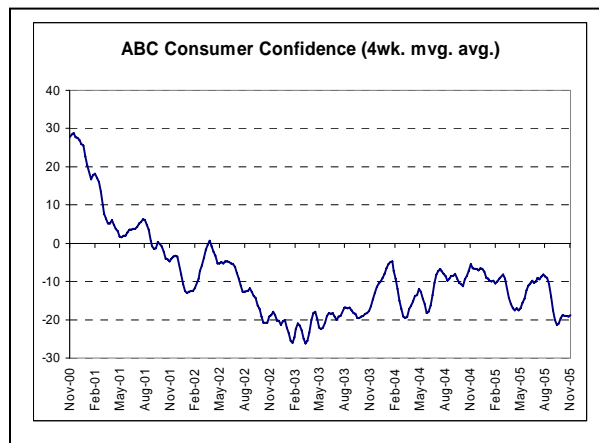
Q3 GDP annualized Q/Q growth was 4.1%, up from 3.3% in Q2 and revised down from 4.3% in the last revision. Inventories subtracted 0.43% from Q3 growth. Personal Consumption grew 4.1% and gross private investment grew 5.3%. The core consumption price deflator was up 1.4%, down from 1.7% in Q2. Overall, the report showed above potential economic growth with tame inflation.



## Consumer Confidence & Core PPI

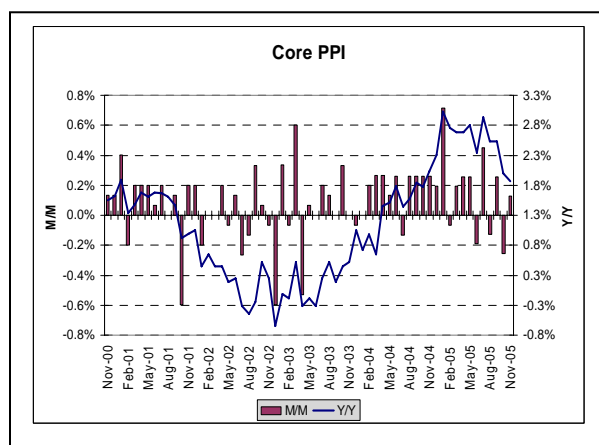
### ABC Consumer Confidence

*The ABC Consumer Confidence Index improved from -13 to -11. All the components improved. Econ, finance and buying components increased from -26, 14 and -28 to -24, 18 and -26, respectively. Headline confidence has increased for seven straight weeks.*



### Core PPI

*Core PPI increased 0.1% M/M and 1.8% Y/Y in November. The pressures from headline core PPI have been dropping significantly since July while pressures from earlier stages of production also declined this month.*





## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/23	Durables Ex Trans (NOV)	1.0%	0.6%
12/23	U. of Michigan Confidence (DEC F)	89.0	88.7
12/23	New Home Sales (NOV)	1300K	1424K
12/27	ABC Consumer Confidence (DEC 25)	NA	-11
12/28	MBA Mortgage Applications (DEC23)	NA	-4.0%
12/28	Consumer Confidence (DEC)	102.3	98.9
12/29	Initial Jobless Claims (DEC 24)	NA	318k
12/29	Continuing Claims (DEC 17)	NA	2,638k
12/29	Help Wanted Index (NOV)	39	38
12/29	Existing Home Sales (NOV)	7.00M	7.09M

Valance Co., Inc.

# Valance Economic Report: Euro Zone

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December 22, 2005

This week's data was mixed as German manufacturing remained strong, while Italian and Euro Zone production remained weak. Most interesting were surges in Italian Business Confidence and French Consumer Spending, possible indications that growth may be trickling from Germany to its neighbors (though I doubt it). On the price front, pressures continued to abate as Euro Zone CPI eased and labor costs remained well contained.

## Weekly Highlights

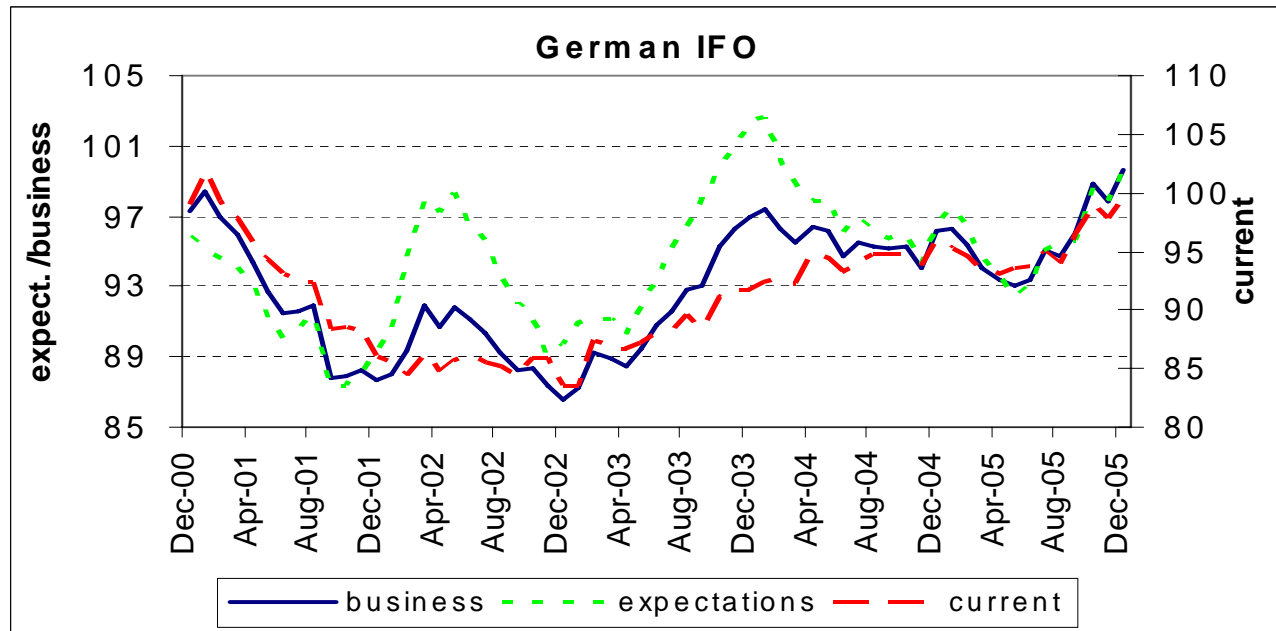
**German IFO**— Germany's manufacturing sector continues to provide hope. (page 10)

**French Cons. Spending**— November's spending stronger than expected. (page 12)

**Euro Zone CPI**— prices slow in November. (page 13)

## Weekly Releases & News

### Chart of the Week: German IFO



German Business Confidence jumped to a five year high in December, increasing from 97.8 in November to 99.6. The Current Assessment Index increased from 97.8 to 99.6 and the Expectations Index increased from 97.7 to 99.6. Optimism regarding continued strong export growth has fueled expectations for an acceleration of economic growth and may lead to an increase in corporate investment.

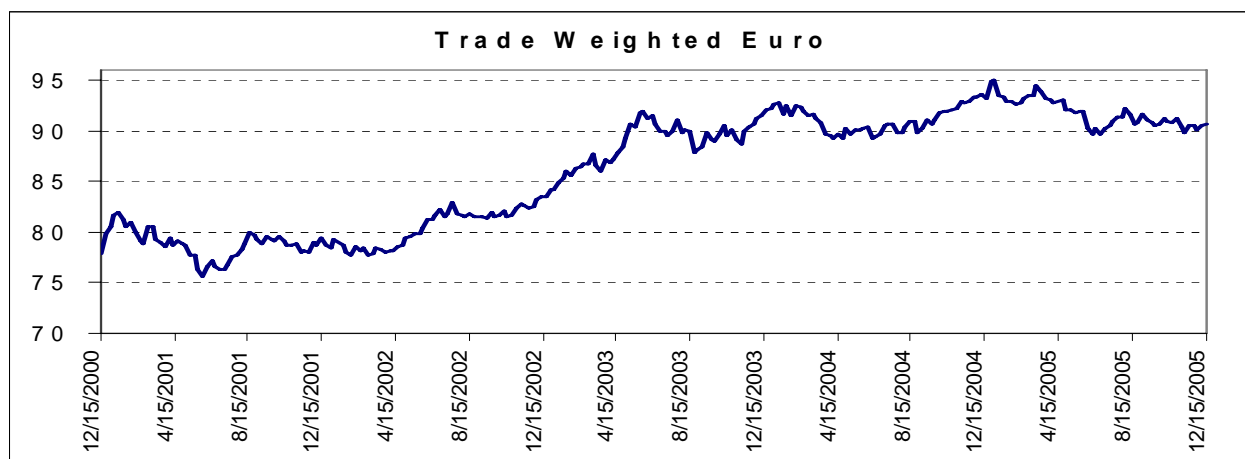
## ***Euro Zone Financial Balances & Trade Weighted Euro***

### ***Financial Balances***

<i>Germany</i>	<i>Last period (\$blns euros)</i>	<i>Last 12mth. 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.

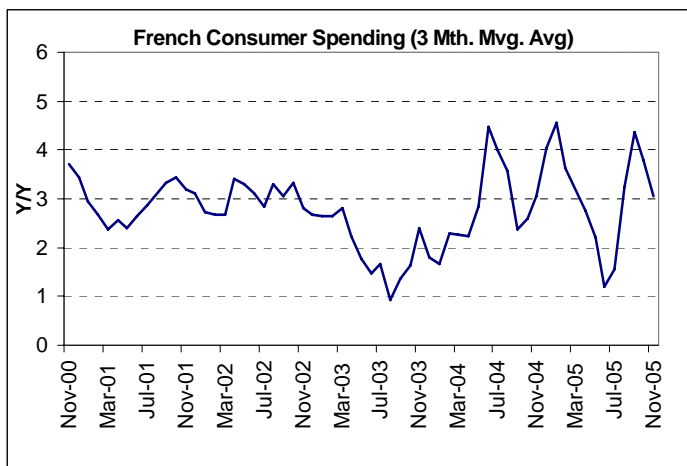
### ***Trade Weighted Euro***



## ***French & Spanish Consumer Spending, Italian Confidence***

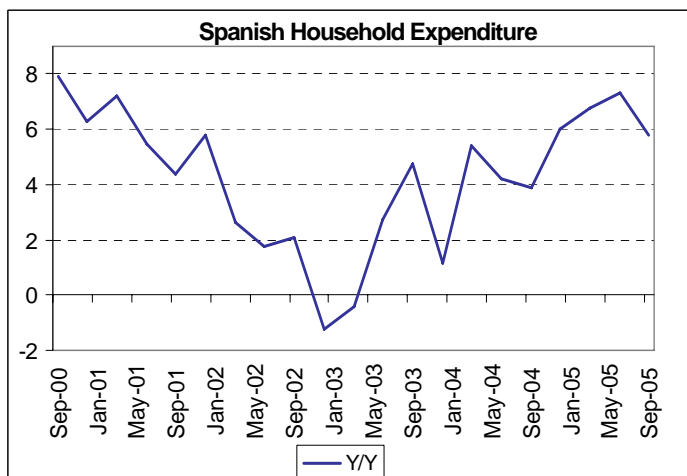
### ***French Consumer Spending***

*French Consumer Spending expanded a stronger than expected 1.1% M/M and 3.2% Y/Y in November, after contracting in October. The Bank of France stated that the French economy will likely grow faster than expected in Q4.*



### ***Spanish Household Expenditure***

*Spain's Q3 Household Expenditure expanded 2.4% Q/Q and 9.4% Y/Y after contracting 1.7% Q/Q in Q2.*



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

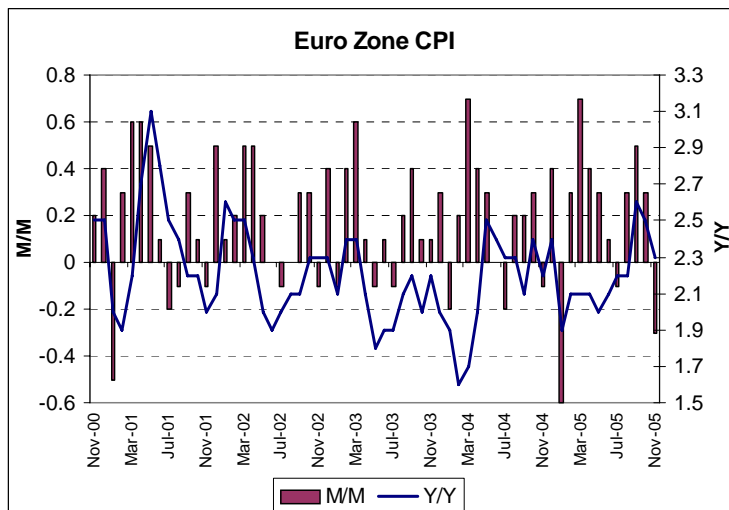
*Italian Consumer Confidence contracted for the first time in four months in December, declining from 108.7 in November to 108.2. Workers have likely become more concerned with their future savings after recent banking scandals.*



## Euro Zone CPI, Italian Wages & Business Confidence

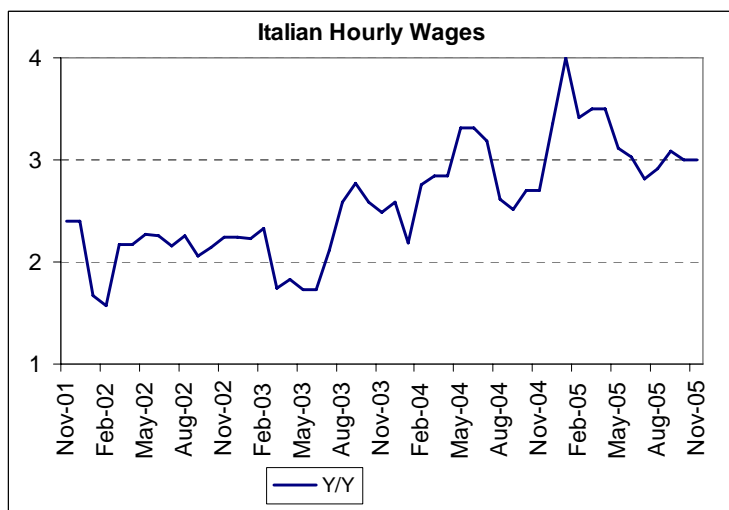
### Euro Zone CPI

*The Euro Zone's November Consumer Prices slowed from 2.5% Y/Y in October to 2.3% as prices fell 0.3% M/M as tobacco prices fell. Core CPI remained unchanged at 1.4% Y/Y.*



### Italian Hourly Wages

*Italy's November Hourly Wages were unchanged M/M while expanding 3% Y/Y.*



### Italian Business Confidence

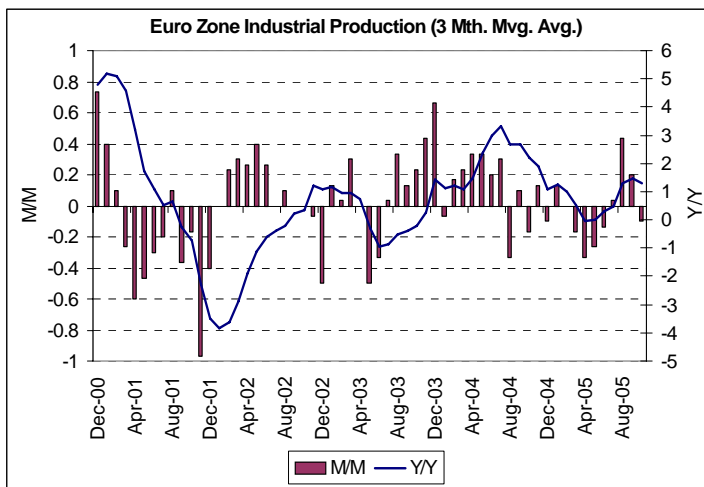
*Italian Business Confidence increased slightly more than expected in December, increasing from 90.1 in November to 91.1. A pickup in foreign demand expectations is likely responsible for much of the gain.*



## ***Euro Zone Ind. Production, Italian Orders & Unemployment***

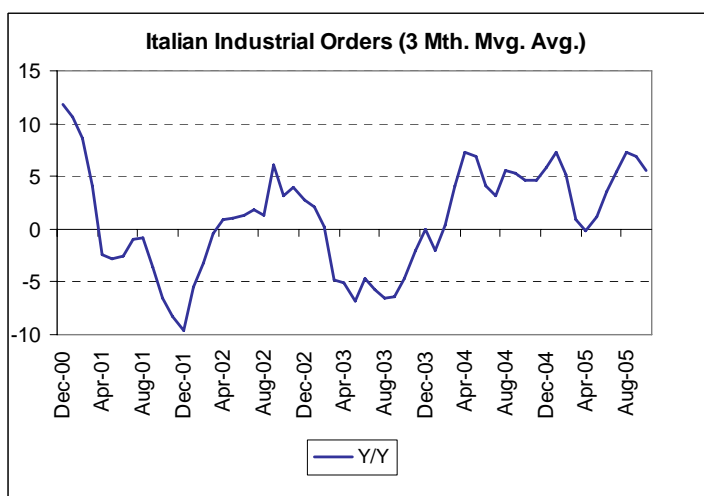
### ***Euro Zone Industrial Production***

*The Euro Zone's October Industrial Production contracted for the 2<sup>nd</sup> consecutive month, falling 0.8% M/M while expanding 0.1% M/M.*



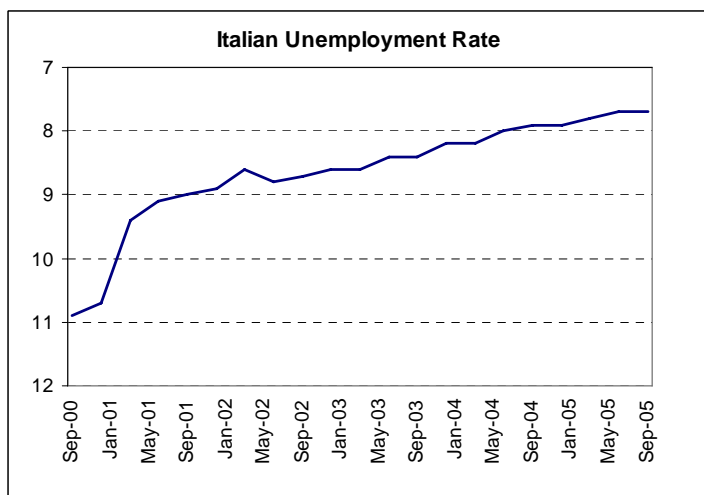
### ***Italian Industrial Orders***

*Italy's October Industrial Orders contracted 1.1% M/M while expanding 1.8% Y/Y. Industrial Sales contracted 0.6% M/M and 0.1% Y/Y.*



### ***Italian Unemployment***

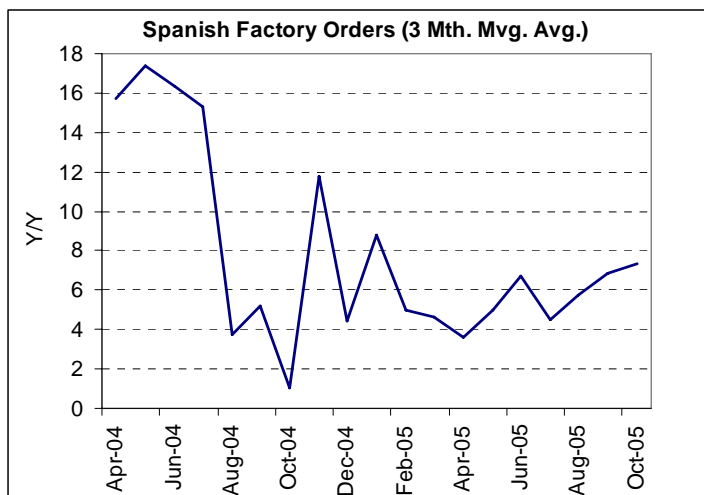
*Italy's Q3 Unemployment Rate remained unchanged at 7.7%.*



## Spanish Factory Orders, Italian Retail Sales & Euro Zone Trade

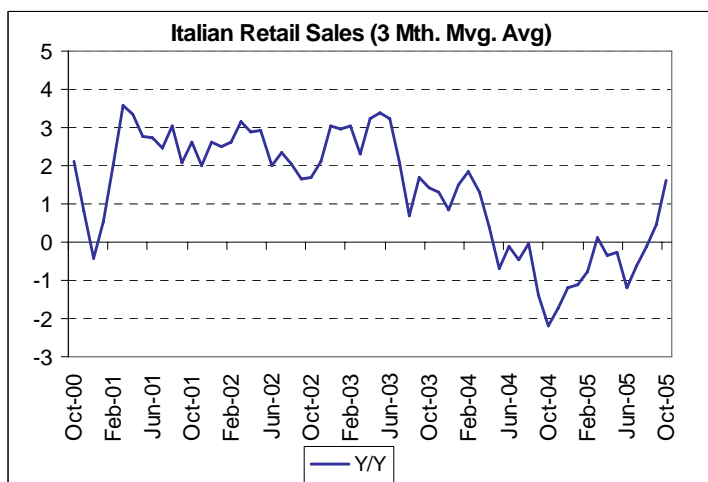
### Spanish Factory Orders

*Spanish Factory Orders growth slowed from 8.8% Y/Y in September to 3.8% Y/Y in October as capital goods orders contracted 1.2% Y/Y.*



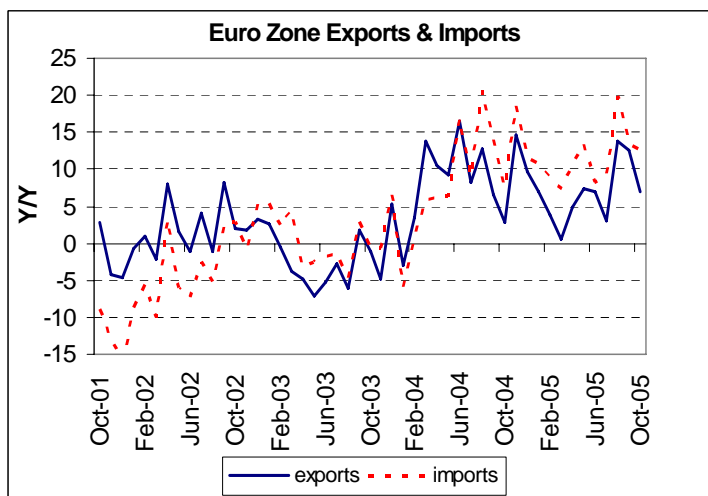
### Italian Retail Sales

*Italy's October Retail Sales expanded 0.3% M/M and 1.4% Y/Y.*



### Euro Zone Trade

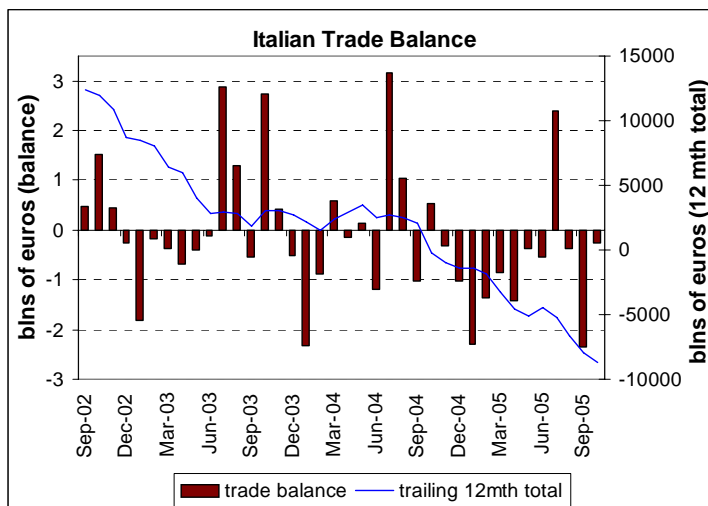
*The Euro Zone's September Trade Balance narrowed from a surplus of 2 mln in September to 0.0 mln as exports contracted 3% M/M and imports remained relatively unchanged.*



## Italian Trade & French Current Account

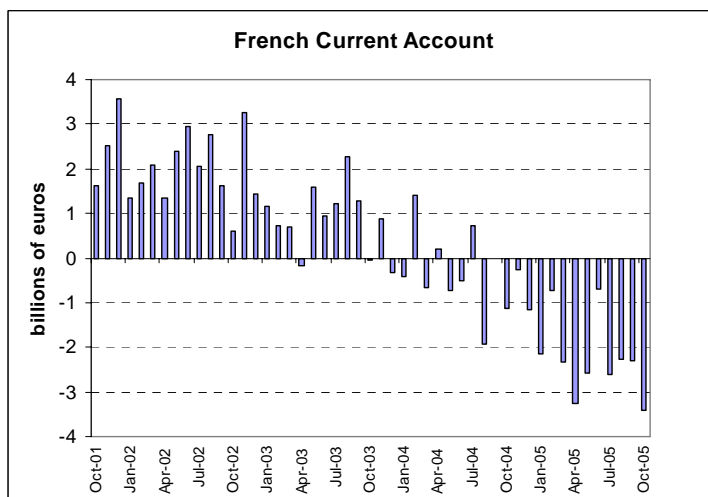
### Italian Trade Balance

Italy's November Trade deficit widened from 235 mln in October to 822 mln as exports expanded 8% Y/Y while imports expanded 17.7% Y/Y.



### French Current Account

France's October Current Account deficit widened from 2.3bln euros in September to 3.4bln.





## News

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Dec. 22<sup>nd</sup> – **ECB President Jean Claude Trichet** stated that there is a possibility that the bank raises rates before evidence of 2<sup>nd</sup> round effects appear. Tichet stated, “Prevention is better than cure, especially with regard to 2<sup>nd</sup> round effects. If we waited with our decisions until those effects happen, it would already be too late.”

Dec. 21<sup>st</sup> – **According to an IFO survey** published by the WirtschaftsWoche magazine, 1/3<sup>rd</sup> of German companies plan to increase spending in 2006. 11% of the surveyed companies planned on cutting spending. Regarding the direction of the economy, 2/3<sup>rd</sup> of those surveyed were optimistic.

Dec. 21<sup>st</sup> – **Germany’s HWWI Institute raised their forecast** for German growth from 0.6% in 2005 to 0.8%, and from 1% in 2006 to 1.4%, citing the possibility that increased exports will lead to increased domestic spending. They also forecasted 6.5% export growth in 2005 and 7.1% growth in 2006.

Dec. 20<sup>th</sup> – **The EU raised its forecast for Euro Zone growth**, stating that the economy will grow 0.6% Q/Q in both Q4 and Q1 of 2006. They noted, “The recovery in the euro area is gaining momentum and we are more optimistic about the outlook for growth.”

Dec. 19<sup>th</sup> - **Germany’s IFO Institute increased their 2006 German growth** forecast from 1.2% to 1.7%. Ifo’s President Hans Werner Sinn stated, “We have a Christmas present for you. After a five year lull, the economy is finally picking up steam.”

Dec. 18<sup>th</sup> – **ECB member Papademos commented** on the lack of labor reform and its effects on inflation, stating that unemployment is “surprisingly and disappointingly high” and may not prevent inflation from accelerating. Papademos also noted that the lack of reforms puts the region at risk of further increases in inflation, even despite the high unemployment.

## *Key Dates This Week*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/23	French Wages (Q3 F)	--	0.6% Q/Q
12/23	French Business Confidence (DEC)	104	103
12/23	ECB Current Account (OCT)	--	-4.5B
12/23	German CPI (DEC)	0.9% M/M	-0.5% M/M
12/29	Euro Zone M3 (NOV)	--	8.0% Y/Y

Valance Co., Inc.

# Valance Economic Report: Japan

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December 22, 2005

The past week was quiet in terms of economic releases in Japan, with both the Tertiary Industry Index and the Adjusted Trade Balance increasing. More importantly, Governor Fukui continues to clear the air, announcing that the chances to shift the Bank's policy are growing over the course of next fiscal year. Core consumer prices "will become positive from now and then show stable gains as a trend," Fukui commented.

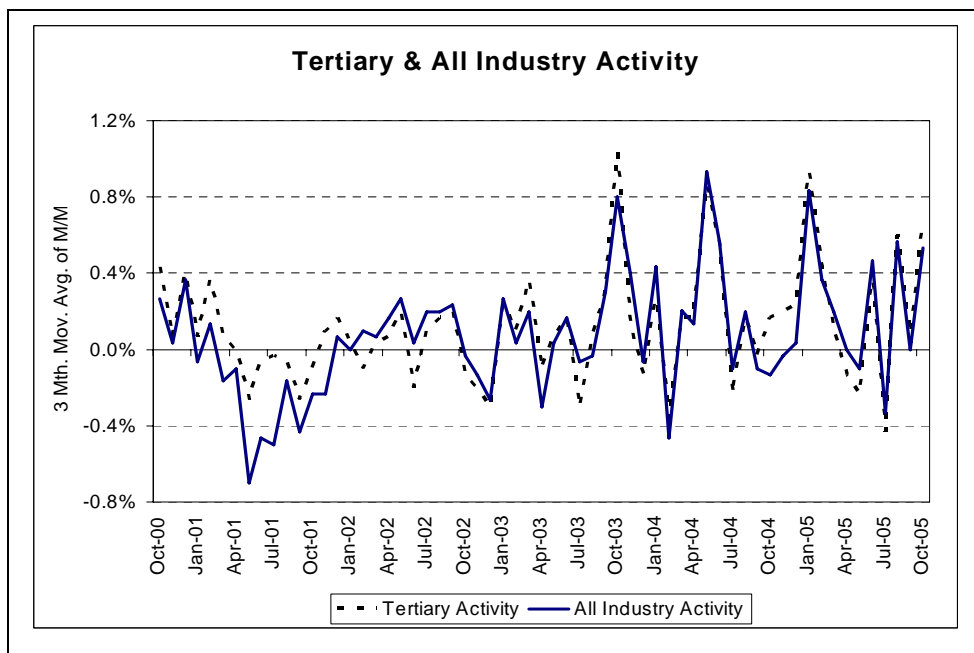
## Weekly Highlights

**All Industry Activity Index**– increased 0.9% M/M and 2.9% Y/Y. (page 19)

**Tertiary Industry Index**– increased 1.2% M/M and 3.0% Y/Y. (page 19)

**Adjusted Trade Balance** – increased from ¥ 698.5 bln to ¥ 708.1 bln in November. (page 21)

## Chart of the Week: *Tertiary & All Industry Activity Index*

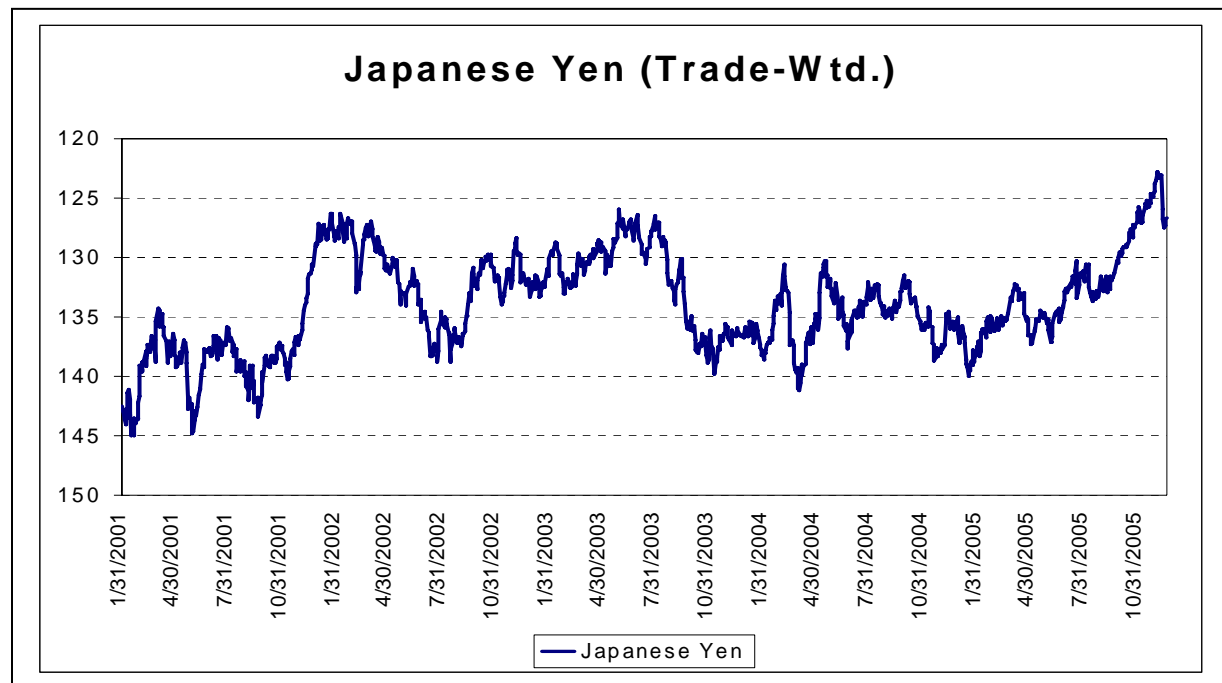


Tertiary Industry Activity increased 1.2% M/M and 3.0% Y/Y in October. All Industry Activity increased 0.9% M/M and 2.9% Y/Y in October as companies and households increased spending. Machinery and telecommunications led the increase.

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

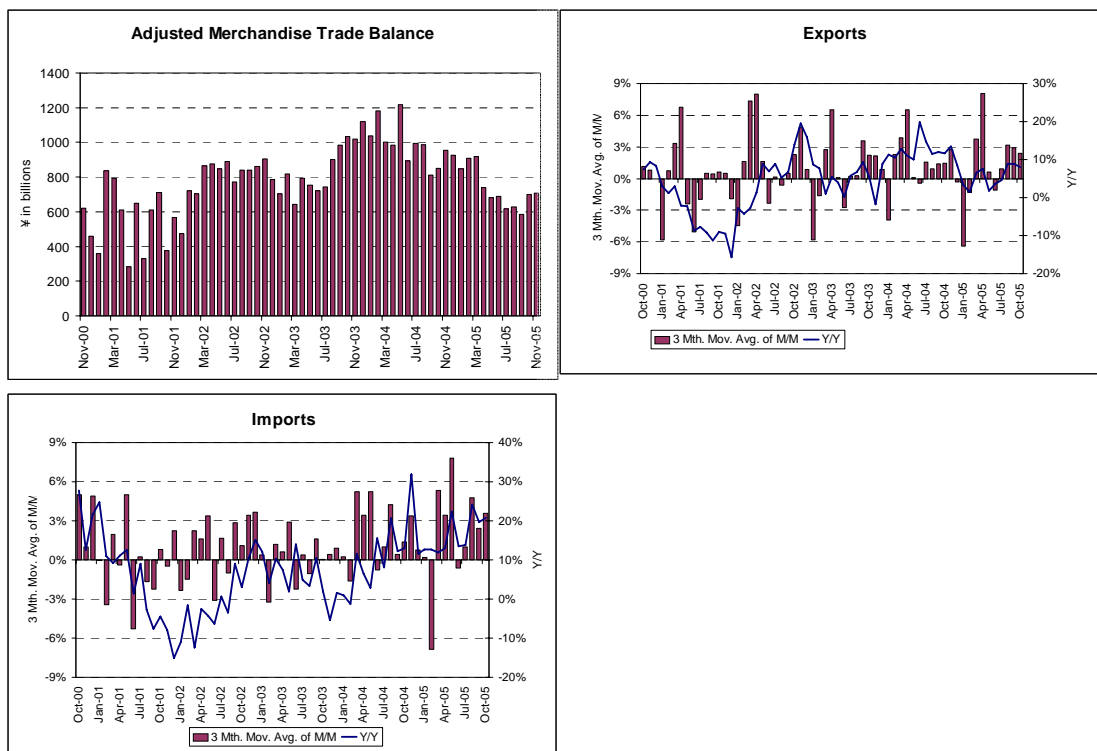
### ***Financial Balances***

<i><b>Japan</b></i>	<i><b>Last period (¥trln)</b></i>	<i><b>Last 12mth. 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%



## Adjusted Merchandise Trade Balance & News

### Adjusted Merchandise Trade Balance



*Adjusted Merchandise Trade Balance increased from ¥ 698.5 bln in October to ¥ 708.1 bln in November. Exports decreased 0.3% M/M and 8.0% Y/Y. Imports increased 3.4% M/M and 20.8% Y/Y.*

### News

#### BOJ's Fukui Says Japan's CPI to Show Stable Gains

Japan's consumer prices will probably show stable gains early next year and the chances that the central bank will end its deflation-fighting policy is rising, Bank of Japan Governor Toshihiko Fukui said. "Since we expect the recovery to likely be sustained and core consumer prices are set to show stable gains as a trend, the chances to shift our policy are growing over the course of next fiscal year" Fukui said at a business forum in Tokyo today. Core consumer prices, which exclude fresh food, "will become positive from now and then show stable gains as a trend."

#### Japan's Outstanding Government Debt Rises to Record \$6.81 Trln

Japan's outstanding government debt rose to a record high of 799.02 trillion yen (\$6.81 trillion) at the end of September, according to the Ministry of Finance. Japan's public debt, including government bonds, financing bills and loans, expanded 0.4 percent in the third quarter from the prior period, and increased 9.3 percent from the same quarter a year ago, the report showed.

## *Key Dates This Week*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/25	BSI Large Manufacturing (Q4 Q/Q)	N/A	6.4
12/25	BSI Large All Industry (Q4 Q/Q)	N/A	9.7
12/26	Jobless Rate (Nov)	4.4%	4.5%
12/26	Job-Applicant Ratio (Nov )	0.99	0.98
12/26	Workers' Household Spending (Nov M/M)	N/A	1.2%
12/26	Workers' Household Spending (Nov Y/Y)	2.0%	1.3%
12/26	Tokyo Core CPI (Dec M/M)	0.0%	0.0%
12/26	Tokyo Core CPI (Dec Y/Y)	-0.2%	-0.3%
12/26	National Core CPI (Nov M/M)	0.0%	0.1%
12/26	National Core CPI (Nov Y/Y)	0.2%	0.0%
12/26	Corp. Service Price (Nov Y/Y)	N/A	-0.6%
12/27	Housing Starts (Nov Y/Y)	7.3%	9.1%
12/27	Annualized Housing Starts (Nov)	1.236 M	1.292 M
12/27	Construction Orders (Nov Y/Y)	N/A	0.6%
12/27	Industrial Production (Nov M/M) Prelim	2.0%	0.6%
12/27	Industrial Production (Nov Y/Y) Prelim	3.3%	3.0%
12/27	Large Retailers' Sales (Nov) Prelim	-0.2%	-3.3%
12/27	Retail Trade (Nov M/M) Prelim	N/A	-0.4%
12/27	Retail Trade (Nov Y/Y) Prelim	1.2%	-0.4%
12/27	Labor Cash Earnings (Nov Y/Y) Prelim	N/A	0.6%
12/27	Overtime Earnings (Nov Y/Y) Prelim	N/A	2.0%

Valance Co., Inc.

# Valance Economic Report: *United Kingdom*

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December 22, 2005

The UK housing market and consumer continues to rebound with RICS posting its first price increase in fifteen months and CBI Retail Sales having its largest increase since 1995. On the flip side, GDP remained unrevised at its sluggish levels for Q3. Sluggish GDP growth and recent comments by Charlie Bean continue to increase the chances of rate cut in H1 2006.

## Weekly Highlights

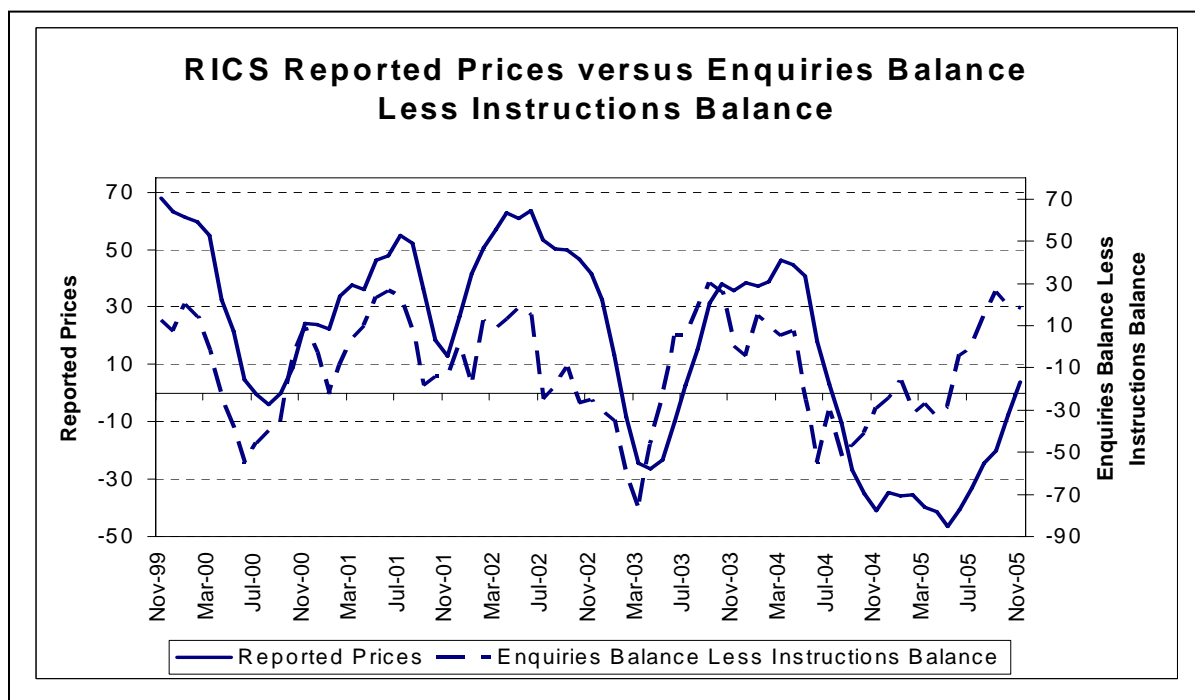
**RICS House Price Balance**- increased from -8 to +4 in November, the first price increase in fifteen months. (page 23)

**Current Account Deficit**- jumped from -£1.4 bln in Q2 to -£10.2 bln in Q3. (page 26)

**Real GDP**- remained unrevised at 0.4% Q/Q and 1.7% Y/Y in its third revision for Q3. (page 27)

## Weekly Releases & News

### Chart of the Week: *RICS House Price Balance*



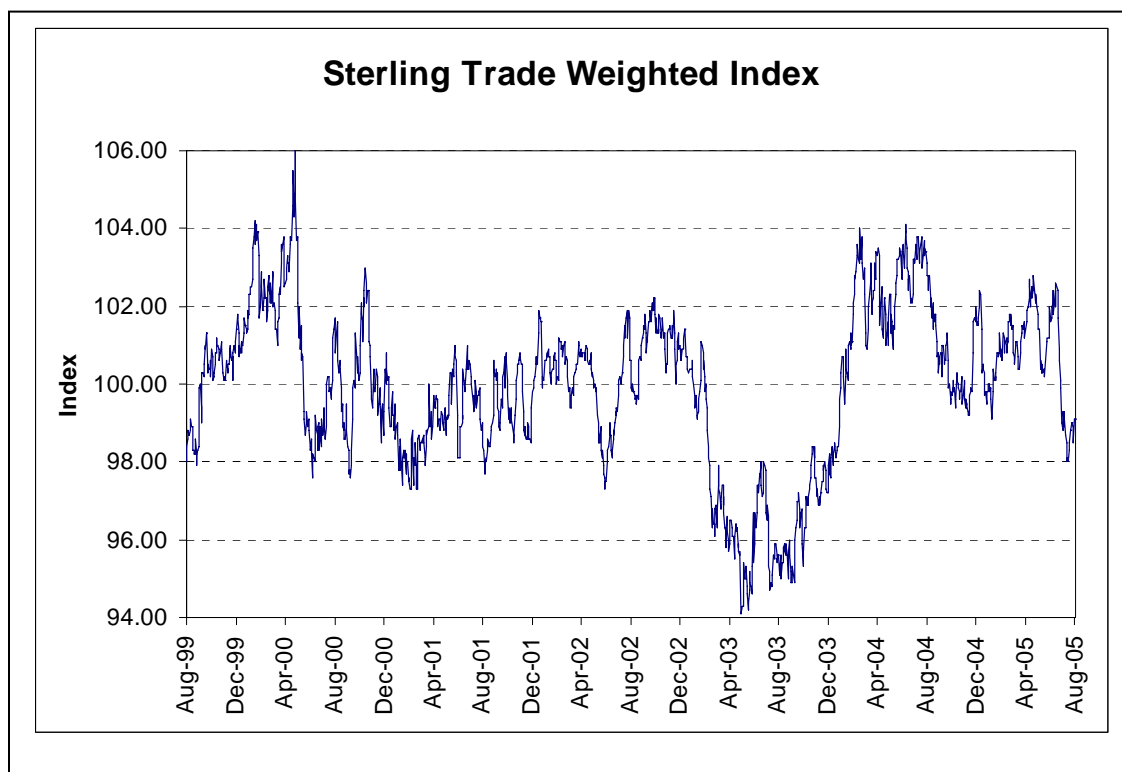
RICS House Price Balance increased from -8 to +4 in November, the first price increase in fifteen months. House prices increased in seven regions with the largest increases in London, Wales and Scotland, though prices still decreased in three regions.

23

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## ***Financial Balances & Trade Weighted Index***

<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	£9.3(Nov)	+5.2%
Trade Balance (monthly)	-£2.8 (Oct)	-1.6%
Curr. Acct. Balance (quarterly)	-£10.1 (Sept)	-0.8%
Private Balance	--	-5.9%

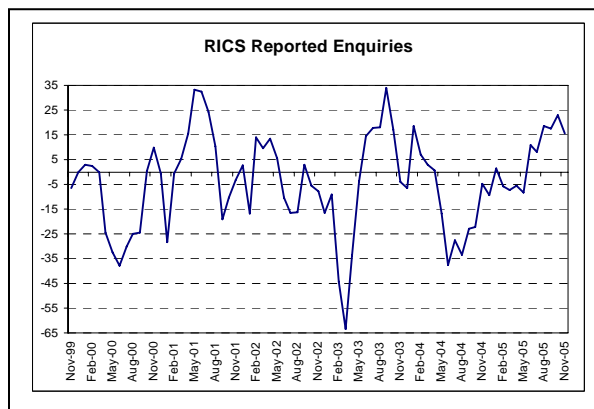




## RICS House Price Survey Data

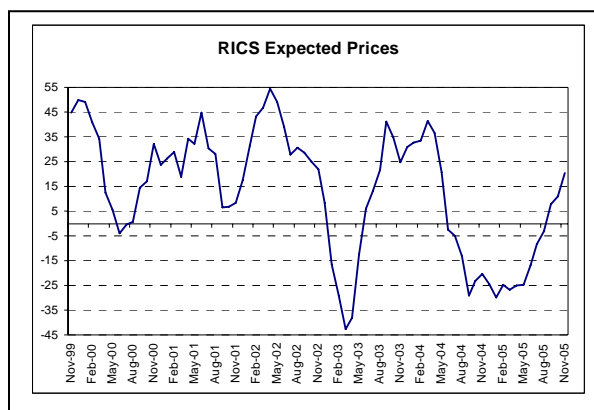
### Reported Enquiries

*New Buyer Enquiries decreased from +23 to +15 in November. Though it is the sixth consecutive month of increase, it is the fastest deceleration in seventeen months. RICS commented that some of the stimulus from the August rate cut is beginning to fade.*



### Expected Prices

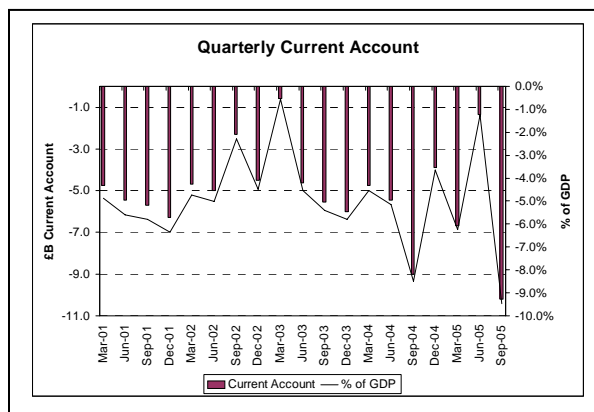
*RICS Expected Prices increased from +11 to +20 in November, an eighteen month high though only returning to its long term*



## Current Account Deficit & Budget Balance

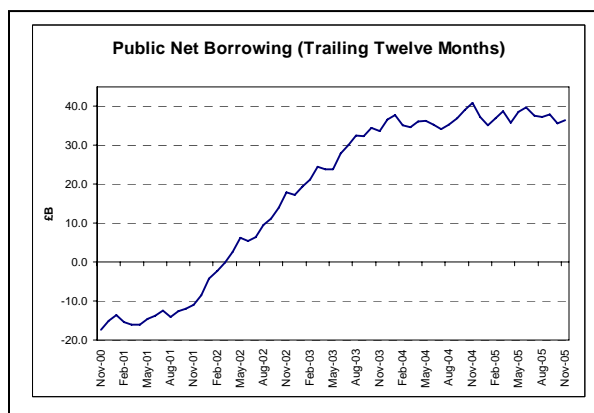
### Current Account Deficit

*Current Account Deficit jumped from -£1.4 bln in Q2 to -£10.2 bln in Q3, much larger than expected and the highest since records began. The deficit increased mainly due to foreign-owned companies repatriating huge profits made from soaring oil prices.*



### Budget Balance

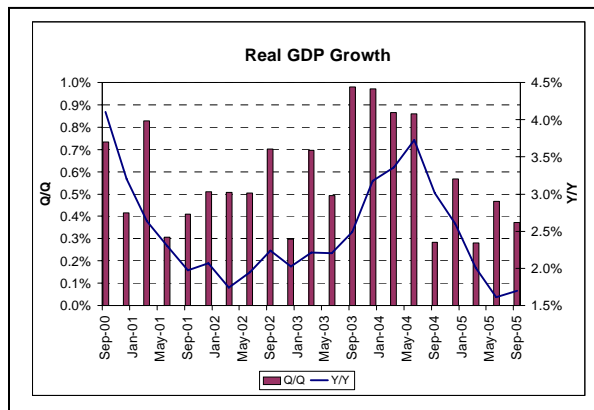
*The Budget Balance increased from £8.5 bln in November 2004 to £9.3 bln in November 2005 and is currently trending higher on an annual basis.*



## Real GDP & GDP Components

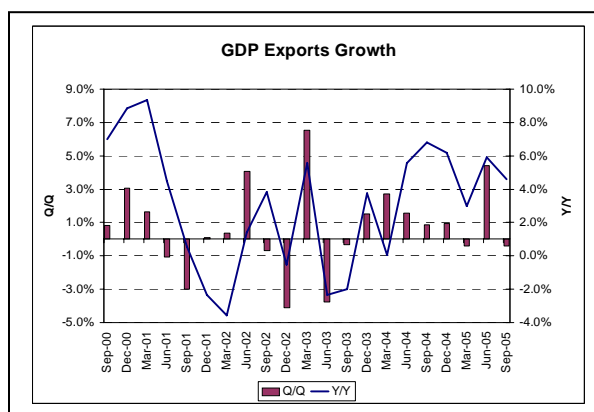
### Real GDP Growth

GDP remained unrevised at 0.4% Q/Q and 1.7% Y/Y in its third revision for Q3 as the economy grew at its slowest pace in thirteen years. The slowing was due in part to a recession in manufacturing, sluggish consumer spending, rising unemployment and stagnating house prices.



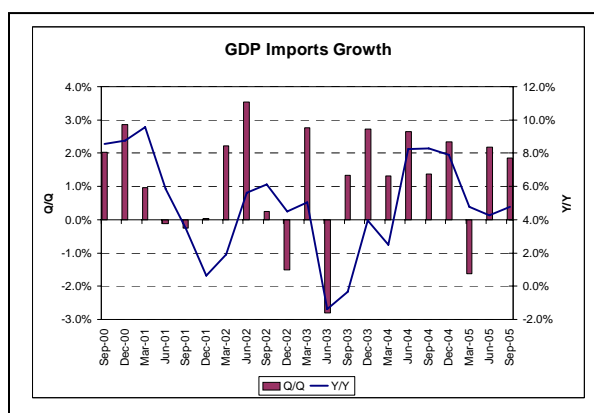
### GDP Exports Growth

Exports decreased 0.4% Q/Q and increased 4.6% Y/Y in Q3.



### GDP Imports Growth

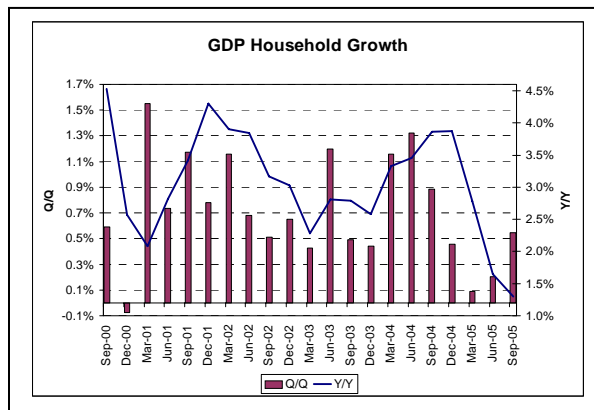
Imports increased 1.9% Q/Q and 4.8% Y/Y in Q3.



## GDP Components

### GDP Household Consumption Growth

*Household Consumption increased 0.5% Q/Q and 1.3% Y/Y in Q3.*



## ***MPC Minutes***

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MPC Members surprisingly voted 8-1 to leave rates unchanged at their December 8th meeting. Members stated that “it was also too early to conclude that there would be no wage response to the past pickup in inflation. In this regard, although it was encouraging that there had been little evidence that wage growth had risen in response to higher energy prices, January was an important month for pay settlements.” The member who voted for a rate cut was Stephen Nickell who is known as the MPC’s top expert on the labor market.

## ***Data & Comments & Upcoming Dates***

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### ***Data***

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#### **CBI Distributive Trades**

The Confederation of British Industry (CBI) Retail Sales Index jumped from -22 in November to 0 in December, the largest increase since 1995 and significantly above expectations.

### ***Comments***

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MPC Member Charlie Bean commented that the market should not assume interest rates are on hold at 4.75% until the spring and that it would not necessarily wait until it had full information about the annual winter pay round and Christmas sales before making its next move. “There may be relevant news that comes in the interim which points very clearly in one direction or the other. I don’t think it’s a case of saying we are just going to sit here until the springtime doing nothing; it will be very much responding to the news coming in. It so happens that rates have been stable, but I don’t think we would feel constrained about moving them round more if that was necessary to achieve the target.”

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

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/29	BBA Mortgage Lending Data	--	--
12/29	GfK Consumer Confidence	--	-8

Valance Co., Inc.

**Valance Economic Report: Canada**

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December 22, 2005

**Economic releases were strong: Core CPI, Retail Sales and Wholesale Sales all increased above expectations.**

**Weekly Highlights**

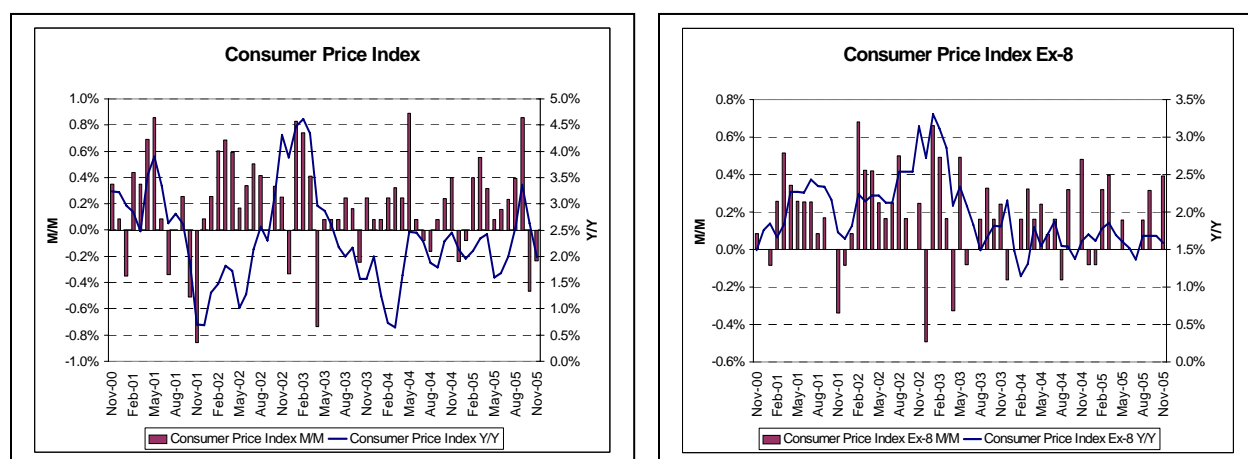
**Core CPI** - increased 0.4% M/M and 1.6% Y/Y in November. (page 30)

**Retail Sales** - increased 0.6% M/M and 4.5% Y/Y in October. (page 32)

**Wholesale Sales** - increased 2.2% M/M and 8.7% Y/Y in October. (page 32)

## Weekly Releases & News

### Charts of the Week: *CPI*



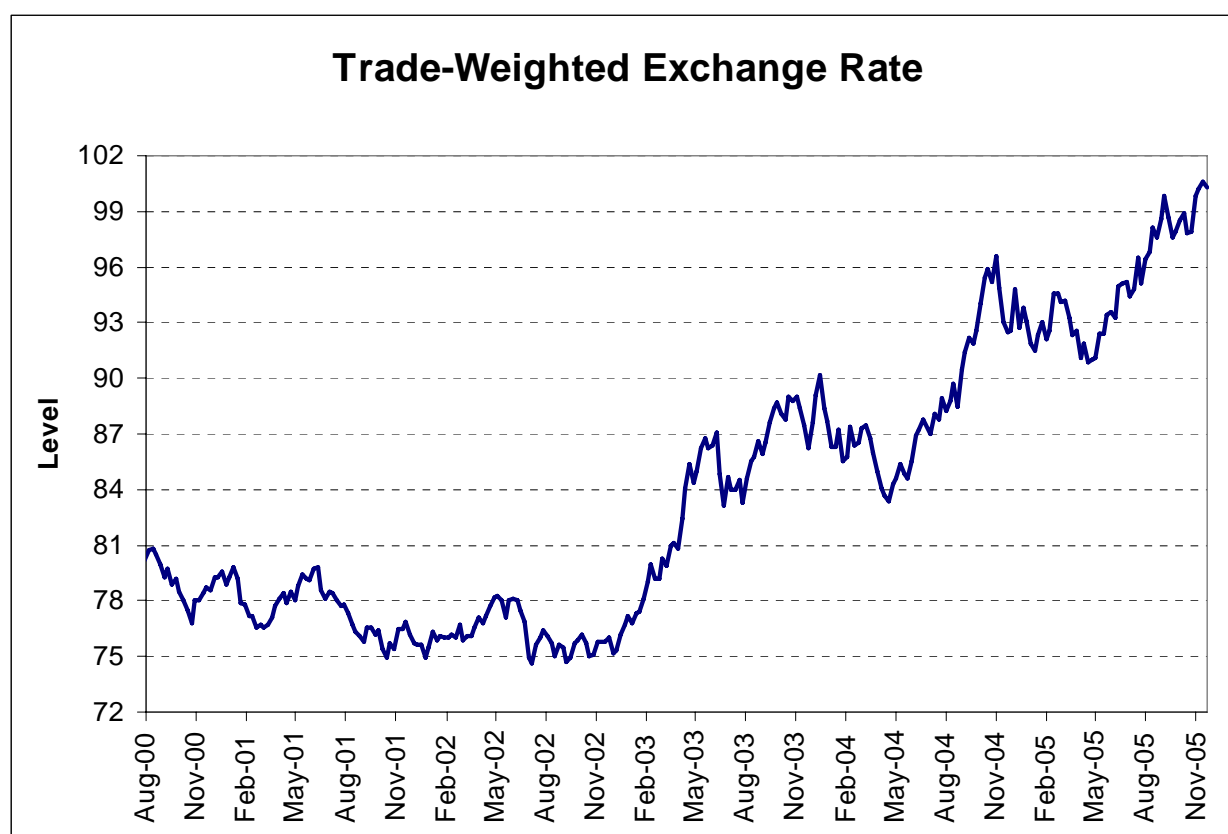
Canada's Headline CPI decreased 0.2% M/M in November, due to the decline in gasoline prices along with lower prices for traveler's accommodations and women's clothing. Y/Y growth slowed from 2.6% in October to 2.0% in November. Core CPI increased 0.4% M/M and 1.6% Y/Y in November, above market expectations. The upward pressure to Core CPI occurred as a result of higher costs for purchasing and leasing automotive vehicles (+5.2%).

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

### ***Financial Balances***

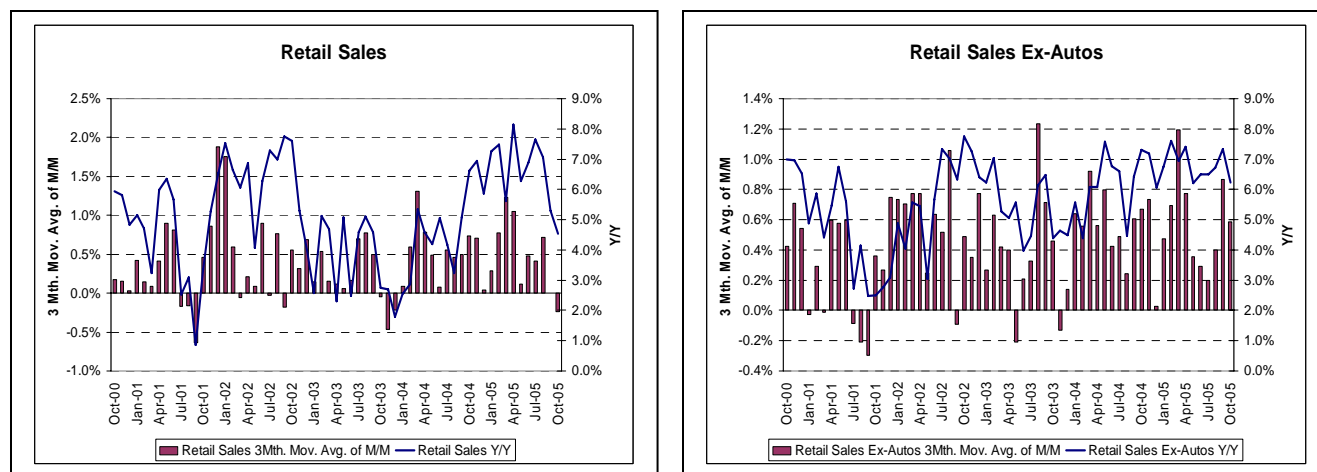
<i>Canada</i>	<i>Latest period (C\$bln)</i>	<i>% of GDP</i>
Budget Balance	1.7 (June)	.2%
Trade Balance	7.0 (Sept)	4.9%
Current Account Balance	9.3 (Q3)	2.2%
Private Balance	--	2.0%

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



## Retail Sales & Wholesale Sales

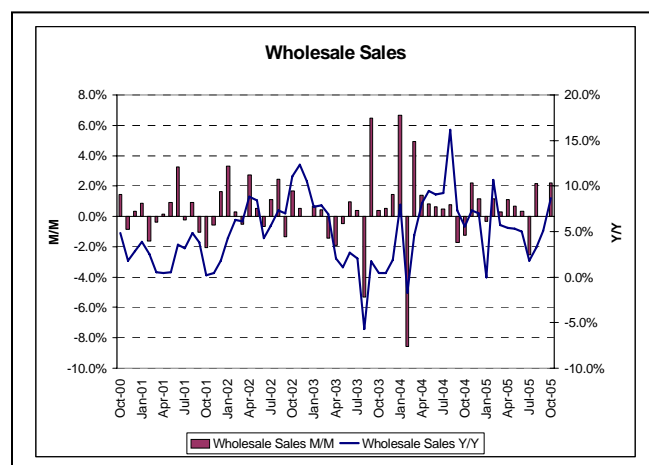
### Retail Sales



*Retail Sales increased 0.6% M/M and 4.5% Y/Y in October, primarily due to increases in sales of motor vehicles. Excluding the automotive sector, Retail Sales decreased 0.3% M/M and increased 6.2% Y/Y. Despite the M/M decline in the overall Retail Sales Ex-Autos, two of its sectors posted solid gains: pharmacies and personal care stores (+0.9%) and furniture, home furnishings and electronics stores (+0.5%).*

### Wholesale Sales

*Wholesale Sales increased from 0.0% M/M and 5.0% Y/Y to 2.2% M/M and 8.7% Y/Y in October. The increase was mainly attributed to increases in the machinery and electronic equipment sector and the personal and household goods sector. In October, wholesalers increased their sales in six of the seven wholesale trade sectors. Food, beverage and tobacco products decreased 1.8% M/M. Notably, growth of 1.5% or more was posted by wholesalers in four sectors, led by gains of 12.8% in farm products. Inventories increased 0.7% M/M in October.*





## *Upcoming Dates*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/23	Gross Domestic Product (M/M) (OCT)	0.2%	0.0%
01/04	Industrial Product Price (M/M) (NOV)	-0.5%	-0.1%
01/04	Raw Materials Price Index (M/M) (NOV)	-2.3	-1.4%
01/05	Ivey Purchasing Managers Index (DEC)	62.4	65.8
01/06	Unemployment Rate (DEC)	6.4	6.4%
01/06	Net Change in Employment (DEC)	21.0K	30.6K
01/10	Housing Starts (DEC)	.....	220.4K
01/10	Building Permits (M/M) (NOV)	.....	1.2%
01/10	New Housing Price Index (M/M) (NOV)	.....	0.7%
01/13	New Motor Vehicle Sales (M/M) (NOV)	.....	3.3%

Valance Co., Inc.

# Valance Economic Report: Australia

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December 22, 2005

Data was mixed this week as New Home Building Starts declined sharply and New Car Sales are on the rise again. Easing gas prices have helped to put a cap on the inflation rate and inflationary expectations have moved lower.

## Weekly Highlights

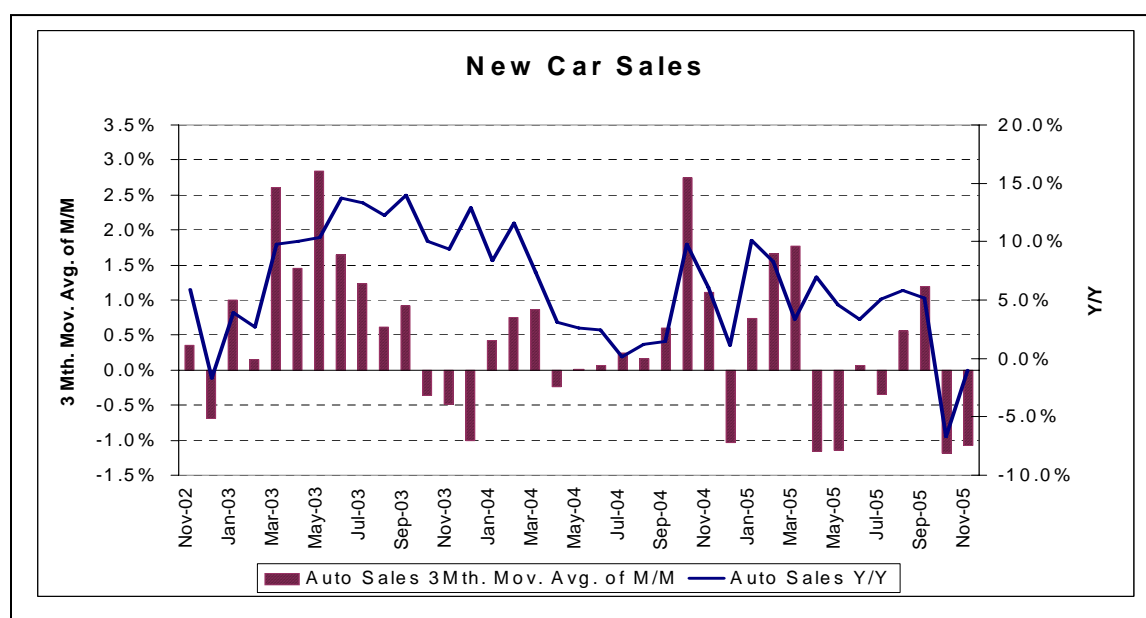
**New Car Sales** - increased 2.2% M/M and declined 1.1% Y/Y in November. (page 34)

**Dwelling Starts** – declined 5.0% Q/Q and 4.4% Y/Y in Q3. (page 35)

**Westpac Leading Economic Index** – rose 0.5% M/M and 3.8% Y/Y in October. (page 35)

## Weekly Releases & News

### Chart of the Week: New Car Sales



New Car Sales increased 2.2% M/M and declined 1.1% Y/Y in November. The Australian Employment Department's Skilled Vacancies Index claims that the number of available automotive industry jobs fell 4.3% in December. Overall, the figures suggest that Australia's automotive industry may expect a subdued start to 2006.

## ***New Dwelling Starts, Skilled Vacancies, Westpac Leading Index & News***

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### ***New Dwelling Starts***

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Australia's New Dwelling Starts for Q3 declined 5.0% to 38,035 units (seasonally adjusted) from the upwardly revised 5.6% (previous 5.5%) in Q2. In the year to September 2005, total dwelling commencements fell 4.4%.

### ***DEWR Skilled Vacancies Index***

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An index measuring the number of jobs available for skilled workers in Australia fell 0.1% in December from November, Total Skilled Vacancies were 5.0% lower in December than a year earlier.

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

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The Westpac Leading Index, a gauge of growth for the next six to nine months, rose 0.5% in October from September. The annualized growth rate of the index was 3.8%, above its long-term trend of 3.7%. The main positives for the index have been corporate profits, the real money supply, the share market and real unit labor costs.

### ***News***

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#### **Australia's Costello Forecasts A\$11.5 bln Surplus in 2005-06**

The government raised its forecast budget cash surplus for the year ending June 30, 2006, to A\$11.5bln (\$8.7bln). The Liberal-National government won a fourth term last year, and forecast a A\$8.9bln surplus in May. Costello raised the forecast 2006-07 surplus to A\$9.7 billion from A\$7.9 billion previously forecast.

#### **Easing petrol prices helps put a cap on inflation rate**

CPI growth in Australia is expected to slow in the next year, according to a new survey. The latest Consumer Inflationary Expectations Survey from the Melbourne Institute forecasts just 4.6% growth in consumer prices in the next 12 months compared with expectations of 4.7% growth in the November 2005 survey. The slowdown in consumer price growth has been attributed to the decline in petrol prices since they peaked in September. Growth in wages should be steady, according to the survey's participants, while fewer people now expect inflation to rise above the RBA's target range of 2-3%.

## *Upcoming Dates*

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<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/22	Conference Board Leading Index (OCT)	---	---

Valance Co., Inc.

# Valance Economic Report: New Zealand

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December 22, 2005

The Current Account Deficit widened to a record high of 8.5% of GDP in the year ending on September 30<sup>th</sup>, due to soaring oil prices and increased consumer demand for imports, leading S&P to comment that it places the nation's AA+ credit rating at risk. The housing market is still strong as House Prices rose to a record high in November. The government lowered its forecast for growth in the year to March 2007 as New Zealand's economic growth almost stalled in Q3. In addition Business and Consumer Confidence have slumped to five-year lows.

## Weekly Highlights

**Current Account Deficit** – widened to NZ\$5.07bln in Q3 from a revised NZ\$2.802bln in Q2. (page 37)

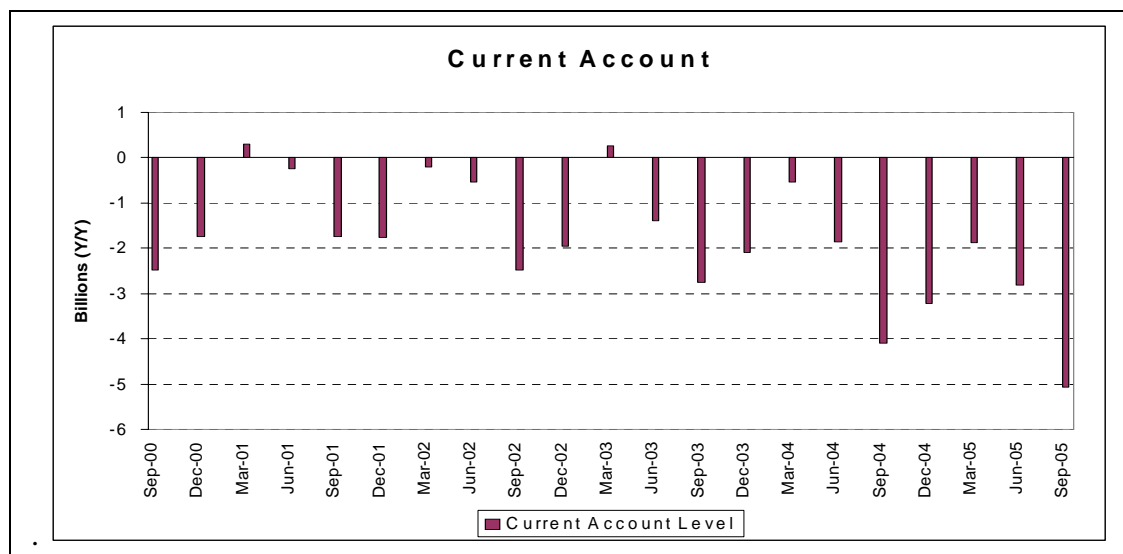
**Real GDP** - expanded 0.2% in Q3. (page 38)

**Housing Sales** – increased 9.9% M/M and declined 1.2% Y/Y in November. (page 38)

**Visitor Arrivals** – fell 1.3% M/M in November. (page 38)

## Weekly Releases & News

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

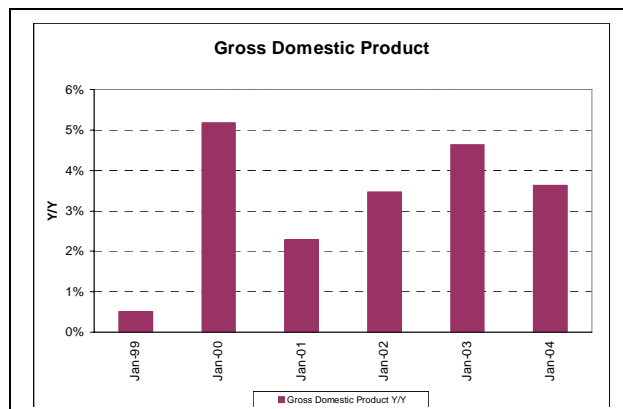


The Current Account Deficit widened to NZ\$5.07bln in Q3 from a revised NZ\$2.80bln in Q2 (previously -2.85bln). The Current Account Deficit now stands at a record 8.5% of GDP in the year ended Sept. 30 from 8% in June.

## GDP, Housing Sales & Visitor Arrivals

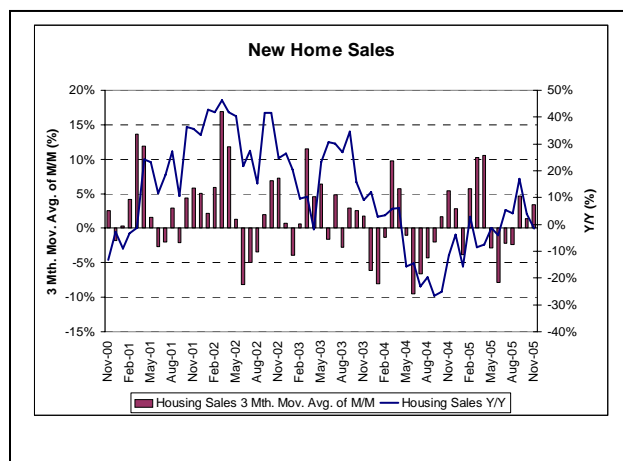
### GDP

New Zealand's economic growth almost stalled in Q3 as a rising currency crimped exports. The economy expanded 0.2%, one sixth of the pace in Q2, when it grew 1.2%. A slump in home building was the other major detractor from GDP.



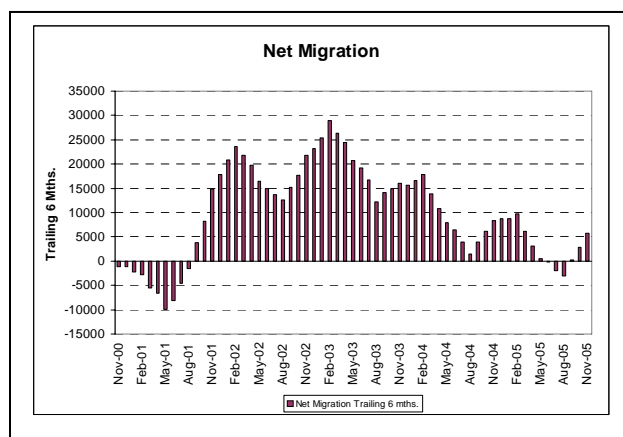
### Housing Sales

New Zealand consumers bought more houses in November than in October. Sales rose 9.9% M/M to 9357 units and declined 1.2% Y/Y in November. The national median house price rose to NZ\$300,000 in November from NZ\$295,000 in October. Median House sale took 27 days from 28 days in October.



### Visitor Arrivals

New Zealand gained 62% fewer permanent migrants Y/Y in November, suggesting home buying and consumer spending may slow after having driven economic growth at the fastest pace in four years in 2004. NZ gained 6,160 permanent migrants in a year to November 30<sup>th</sup>. Visitor arrivals fell 1.3% M/M in November.



## ***NBNZ Consumer Confidence, Business Confidence, ANZ-Business NZ PMI & News***

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### ***NBNZ Consumer Confidence***

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New Zealand Consumer Confidence fell to a five-year low in Q4 because of repeated warnings by the RBNZ that record-high interest rates will crimp incomes, make jobs less secure and slow economic growth. The Index dropped to 110.1 from 120.2 in Q3.

### ***NBNZ Business Confidence***

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New Zealand Business Confidence fell to a five-year low in December as companies said record interest rates may crimp profits and may push the economy into recession. 67% of the companies surveyed by the National Bank said that the economy will get worse and 5% said it will improve. The 62% gap is the second-largest in more than 17 years after 66% in November.

### ***ANZ-Business NZ PMI***

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New Zealand Manufacturing Index expanded to 52.3 in November from 49.6 in October.

### ***News***

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#### **RBC's Comments on New Zealand Economic Growth Outlook**

Michael Every, senior economist at RBC Capital Markets in Sydney, comments on the outlook for New Zealand economic growth. The government today lowered its forecast for growth in the year to March 2007 to 1.7% from the 2.6% it forecast in August. He also commented on the outlook for the benchmark interest rate, which the RBNZ raised to a record 7.25% this month.

#### **On the outlook for growth:**

“Growth is in a decelerating trend in New Zealand. That 1.7% forecast is about right. The economy is going to continue to slow.”

“I don't think you can rule a recession out, although it's not in our forecasts. High interest rates are hurting companies and they can't pass on their higher costs completely. And the exchange rate is historically very high.”

“The key is the housing market and how that responds to higher interest rates going forward.”

#### **On Central Bank's efforts to curb housing and spending:**

“To date, it hasn't worked. House sales volumes and prices were up very strongly in November. Consumers keep piling into housing thinking it's a one-way bet. The Reserve Bank says the good times are over. That message will filter through.”

## ***News Cont. & Key Dates This Week***

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### **On when interest rates may decline:**

“The economy is going to slow aggressively. Interest rates have to remain at these levels for a fair while, but toward the end of next year, and particularly if housing starts to wobble, the Reserve Bank will cut rates.”

### **On the outlook for New Zealand's currency:**

“The New Zealand dollar has been under pressure the past few sessions. Once the market realizes interest rates will come down again, the currency could come under further pressure.”

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

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No data for the upcoming week



Valance Co., Inc.

# Weekly Economic Report: **China**

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December 22, 2005

Economic data releases in China showed solid gains across the board, as the Real Estate Climate Index, Wholesale Prices and Industrial Profits all increased. Meanwhile, China has upwardly revised its 2004 GDP by 16.8% putting the size of its economy on track to surpass that of the United Kingdom.

## Weekly Highlights

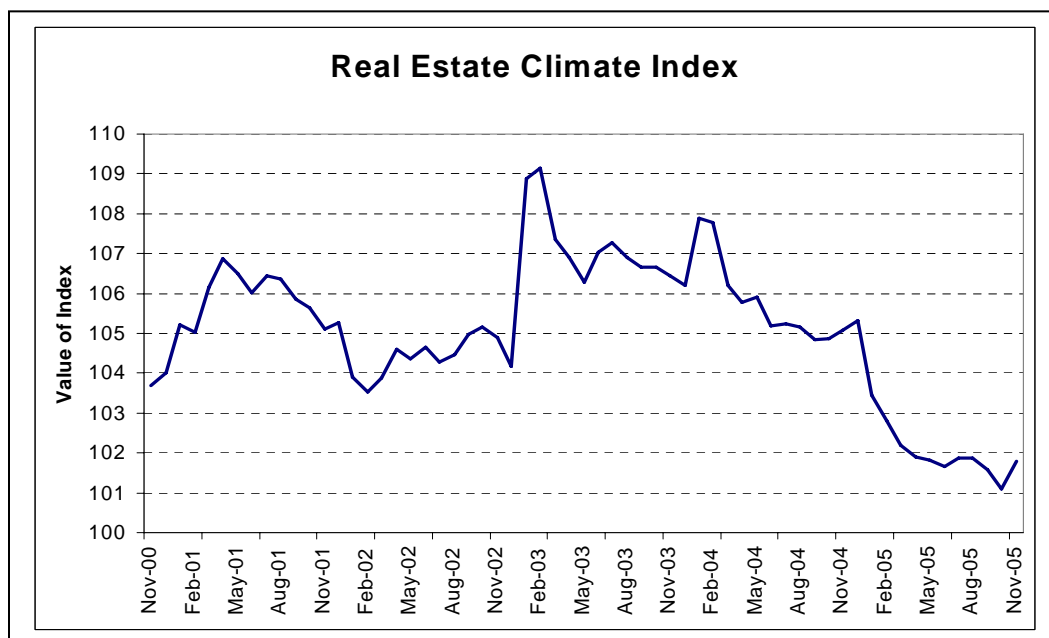
**China's Real Estate Climate** - edged up from 101.1 in October to 101.8 in November. (page 41)

**Industrial Profits growth** - increased from 19.4% Y/Y in October to 20.1% Y/Y in November. (page 42)

**Wholesale Price growth** - slowed from 0.9% Y/Y in October to 0.7% Y/Y in November. (page 42)

## Weekly Releases & News

### Chart of the Week: *Real Estate Climate Index*

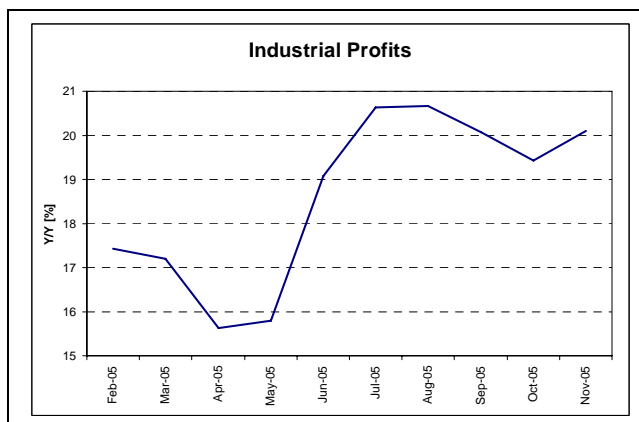


China's Real Estate Climate Index edged up from 101.1 in October to 101.8 in November. The Construction Area and Capital Source components both posted increases.

## Industrial Profits, Wholesale Prices & News Releases

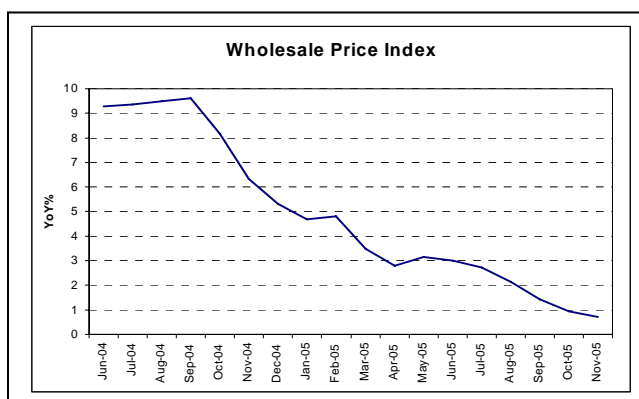
### Industrial Profits

Industrial Profits growth increased from 19.4% Y/Y in October to 20.1% Y/Y in November.



### Wholesale Prices

Wholesale Price growth slowed from 0.9% Y/Y in October to 0.7% Y/Y in November.



### News Releases

**December 22<sup>nd</sup> – Surplus Adds Pressure on Yuan** - Spokesperson for the National Bureau of Statistics, Yao Jingyuan, stated, “rising trade surplus adds pressure on the yuan” to appreciate. The Bureau added that China’s trade surplus is expected to expand to over \$100 bln in 2005. This is causing the U.S. to further pressure China into letting its currency appreciate at a faster pace.

**December 22<sup>nd</sup> – Is China Ready to Widen the Yuan’s Trading Band** - Market News International (MNI) reported that China isn’t ready to widen the yuan’s trading band. MNI also stated that China will further increase the yuan’s flexibility but doesn’t expect them to do it any time soon. Conversely, Dow Jones Newswires reported that China will likely widen the band by 2.5% next July.

**December 20<sup>th</sup> – Exchange Rate System Operating in a Stable Manner** - The PBoC announced in its Q4 Monetary Policy Report that China’s exchange rate system is operating steadily and the yuan’s flexibility is gradually improving.

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

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**December 20<sup>th</sup> – China Revised up its 2004 GDP** – The National Bureau of Statistics (NBS) indicated that “Preliminary estimation using results from the economic census indicates that China's GDP for the year 2004 was RMB 15,987.8 billion at current prices, representing an increase of RMB 2,300 billion or 16.8% over the preliminary estimated figure using regular annual statistical data.” The NBS also added that the revision was mostly attributed to the services sector – which was modified from 31.9% to 40.7% of GDP. This data places China's economy as the world's fourth largest .

**December 20<sup>th</sup> – Commissioner, Li Deshui of National Bureau of Statistics Comments on China's GDP Revision** – Li Deshui, Commissioner of China's National Bureau of Statistics made the following comments on China's GDP Revision, exchange rate policies and macro-economic policies:

***On “weak statistics”:*** “The National Bureau of Statistics is currently revising historical data back to 1993 based on the result of the economic census.” “China has very weak statistics for the service sector.” “Along with economic reform, China has seen a diversified economic development in terms of ownership, and in particular, a dynamic development of private and individually-run service activities. It is very difficult to conduct statistical surveys as they are very scattered with frequent changes, resulting in a certain degree of under-coverage.” “Those under-reported sectors include computer services, software, Internet services, household services and recreation services.”

***On where China ranks:*** “China's GDP value in U.S. dollar terms after the revision has overtaken Italy to rank the sixth largest economy in the world, one place higher than before the revision. “The size of China's GDP is closing in on those of France and the U.K., and for this year China's economy may be close to that of France, but will still be some distance behind the U.K.”

***On the service sectors:*** “The census results showed that the economic structure is actually more rational and healthier than shown by previous statistics.” “The census results told us that the service sectors have contributed significantly to China's economic growth, instead of the earlier judgments that simply attributed the economic expansion to manufacturing and export growth.”

***On data collection:*** “We are concerned about whether the GDP calculation this year and next year, and for the years between the census, will again show huge disparities as shown this time.” “China will improve data collection on service sectors, involve more personnel, and network at local levels and work more closely with other government departments, especially those calculating service sector data, in order to improve its national economy calculation during the census years.” “Adding up local GDP calculations gave a total closer to the census result than the statistic bureau's original estimate, but that doesn't mean that local governments' calculations are more accurate or scientific.” “The census showed that previously 19 provinces have under-estimated their 2004 economic growth while 12 provinces have over-estimated.”

***On exchange rate policies:*** “China's currency policy is not directly linked to the census result.” “China has just made important currency policy changes for only half a year and proved to be successful.” “It's impossible that we will change the current policies frequently and the current policy will be maintained for a long term.”

***On macro-economic policies:*** “The result of the census will not change China's macro- economic policy framework that we have drawn up.” “There won't be fundamental changes to the overall picture of China's economy after the census and our judgment over economic affairs, based on previous estimates, stands.” “Problems that have already been spotted by the government, such as inefficient energy consumption and the need for further industrial restructuring, are not affected by the census result, thus no change to the macro-policies that have been set to address those problems.” “China so far has not seen obvious signs of inflation or deflation, and we are going to actively guard against the possible occurrence of both.”

## ***News Releases (cont'd.) & Key Dates This Week***

**December 19<sup>th</sup> – IMF to Monitor Currencies More Closely** - Tim Adams, the Treasury Department's top official for international issues, announced that the IMF will start to monitor, more closely, the currency exchange practices of countries including China. Adams stated the IMF has been "asleep at the wheel". The IMF is working closely with the U.S. in reference to surveillance of China, specifically, so that China makes its currency more flexible. Adams added, "I don't want to micromanage the IMF and they don't want to be micromanaged." "They know what tools they have available to them, and if they need more tools, they should come back to us and we'll find ways to get those tools for them," Adams stated.

**December 19<sup>th</sup> – China's 2006 Urban Jobless Rate Expected to Reach 4.6%** - The Xinhua News Agency reported at a government labor and social security meeting, that China's 2006 urban unemployment rate is expected to reach 4.6% -- with 9 mln individuals being employed.

**December 19<sup>th</sup> – GDP Predictions** - Commerce Minister's Bo Xilai stated that China's 2005 GDP will exceed 9.0%. Meanwhile, the National Development and Reform Commission expect a 9.3% expansion. Additionally, the Academy of Social Sciences also predicts a 9.3% growth in 2005, with a slowdown to 8.6% in 2006.

**December 19<sup>th</sup> – China's 2005 Fiscal Revenue Expected to Reach 3 Trln Yuan** - The Xinhua News Agency reported that China's 2005 fiscal revenue is expected to reach 3 trln yuan – an increase of 15% from the year before.

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

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/25-30 Nov	Leading, Coincident & Lagging Indices –	--	102.6 / 100.7 / 93.1
12/27-29 Nov	Government Revenue & Expenditure –	--	295.3B / 218.8B

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**Valance Economic Report: Sweden**

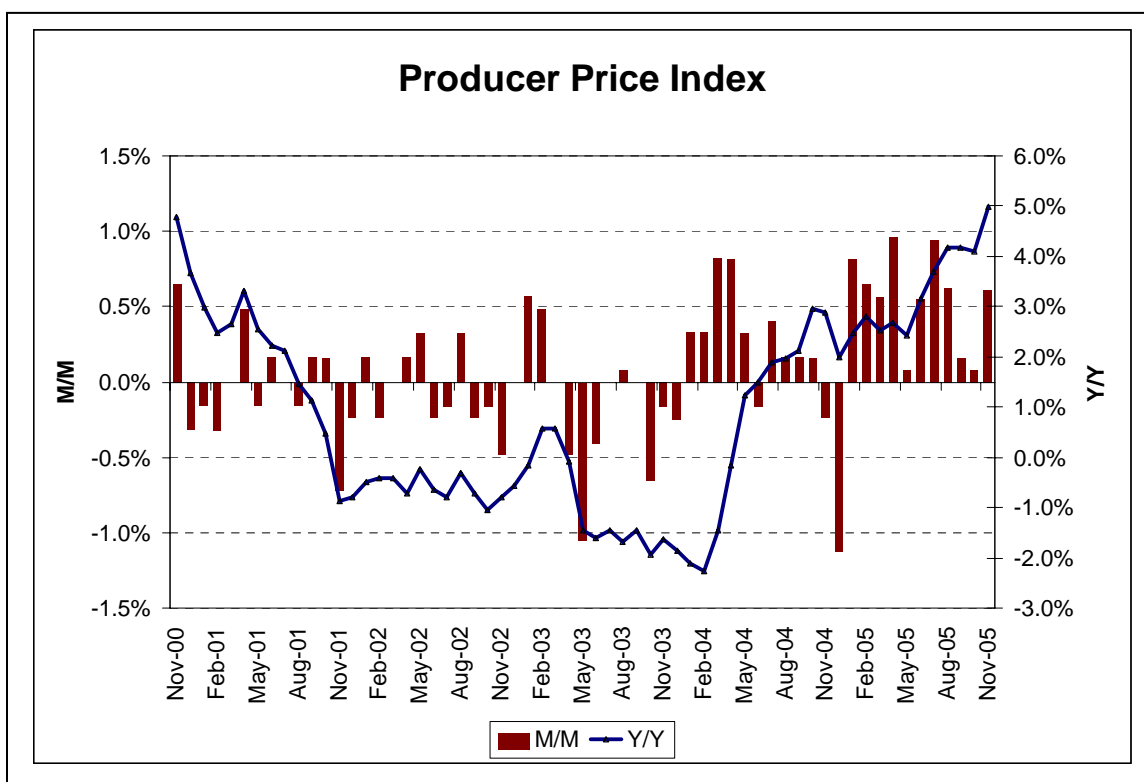
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December 22, 2005

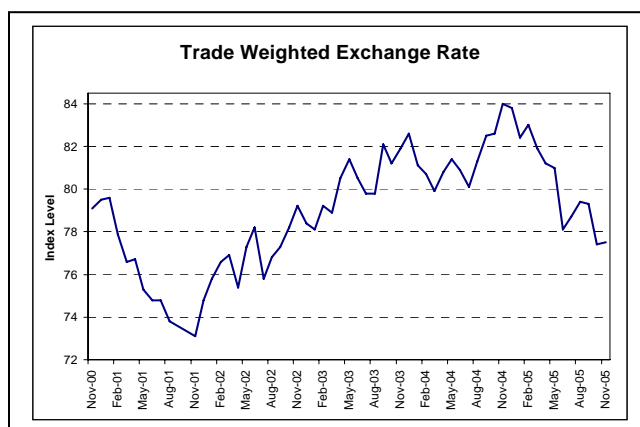
Sweden's Producer Price Index rose above expectations; the 11<sup>th</sup> consecutive monthly gain came as a result of rising import and export prices.

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

The Producer Price Index rose from 0.1% M/M and 4.1% Y/Y in October to 0.6% M/M and 5.0% Y/Y in November, above expectations of no change from the month before and a 4.4% Y/Y gain. The M/M increase could be explained by improving export and import prices amid a falling krona.

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

### Trade Weighted Exchange Rate



### News Releases

**December 21<sup>st</sup> – Sweden’s Economy Expected to Grow** - The National Institute of Economic Research (NIER) announced that it expects Sweden’s economy to expand 3.6% in 2006 on consumer spending and exports. Expectations are also for a 3.1% expansion in 2007, with inflation still below the Bank’s 2.0% target.

**December 19<sup>th</sup> – Riksbank Deputy Governor, Lars Nyberg, Commented on Raising Rates Early** - Riksbank Deputy Governor Lars Nyberg made the following comments relative to raising rates, stating, “In my opinion, an earlier initiated and more gradual raising of interest rates would increase the chances of a more orderly slowdown in the rate of price increases, in roughly the same way as in the U.K. and Australia.”

### Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/23	Retail Sales s.a. (M/M) / n.s.a. (Y/Y) – Nov	--	0.8% / 7.3%
12/28	Manufacturing Confidence - Dec	-3.0	-5.0
12/28	Consumer Confidence - Dec	10.2	9.9

Valance Co., Inc.

# Valance Economic Report: *Switzerland*

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December 22, 2005

**This week's data was mixed. Following the Swiss National Bank's decision to raise its target for the three-month Libor Rate to 1.0% earlier this month, further hikes are expected next year.**

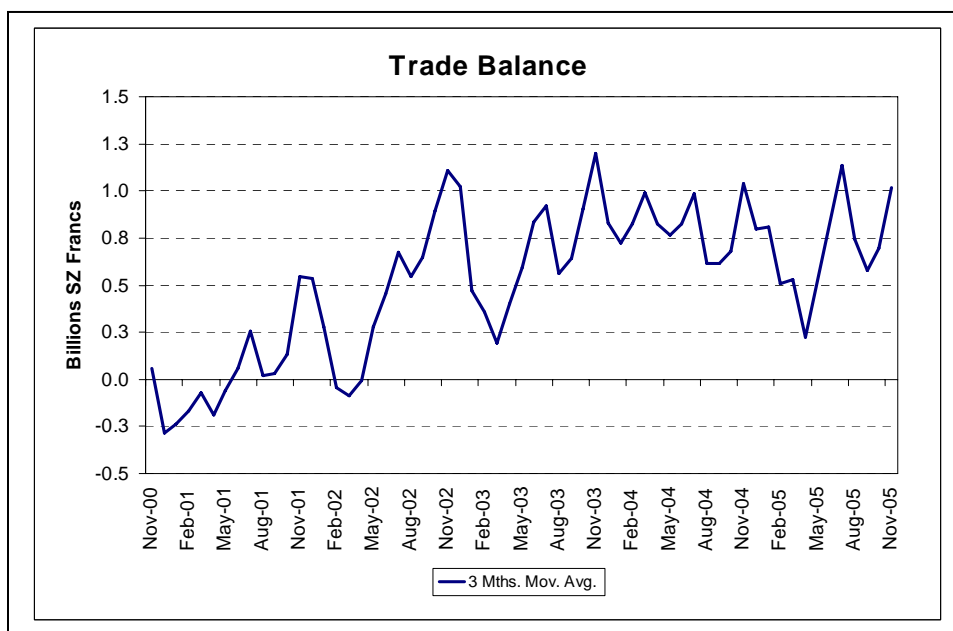
## Weekly Highlights

**Trade Balance** - narrowed from a surplus of 1.16 bln francs in October to a surplus of 0.94 bln francs in November. (page 47)

**Industrial Production** - fell significantly to -3.4% Q/Q and 2.8% Y/Y in Q/3. (page 48)

## Weekly Releases & News

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

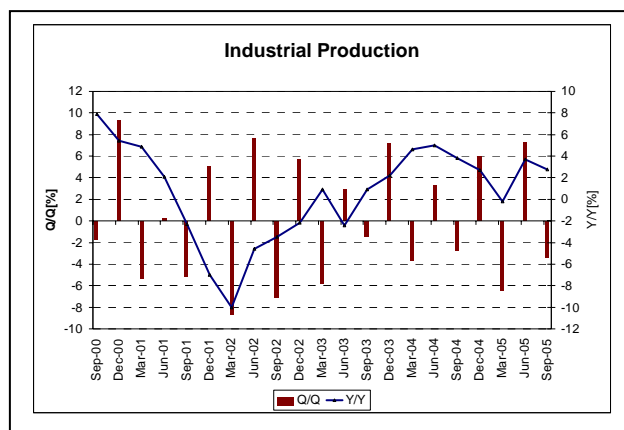


Switzerland's Trade Balance narrowed from a surplus of 1.16 bln francs in October to a surplus of 0.94 bln francs in November, as imports outweighed exports. This data suggests that Switzerland's export-driven economy is boosting domestic spending and hiring. Imports and exports, adjusted for inflation, advanced 4.4% M/M and 4.1% M/M, respectively, marking the highest gains since 1989.

## Industrial Production, Producer and Import Prices & Employment Level

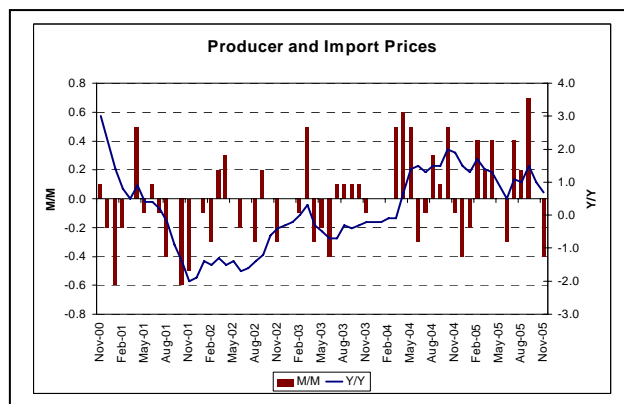
### Industrial Production

Industrial Production fell significantly from 7.6% Q/Q and 4.0% Y/Y in Q2 to -3.4% Q/Q and 2.8% Y/Y in Q3. The Q/Q decline was due, in part, to \$60 a barrel oil prices which have prompted companies to reduce their investments in machinery and equipment. Orders fell 5.0% Q/Q and rose 5.7% Y/Y in Q3.



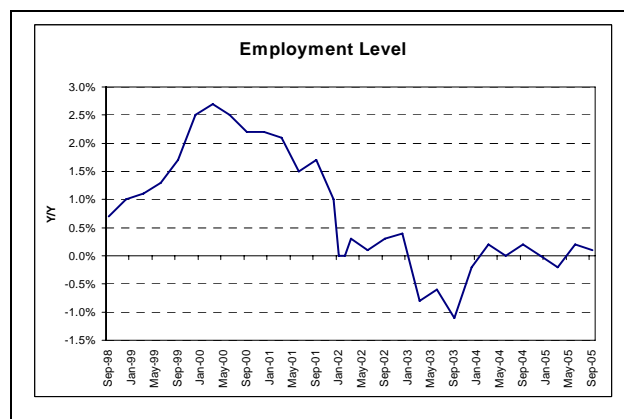
### Producer & Import Prices

Producer & Import Prices slowed from 0.0% M/M and 1.0% Y/Y in October to -0.4% M/M and 0.7% Y/Y in November, mostly due to declining oil prices.



### Employment Level

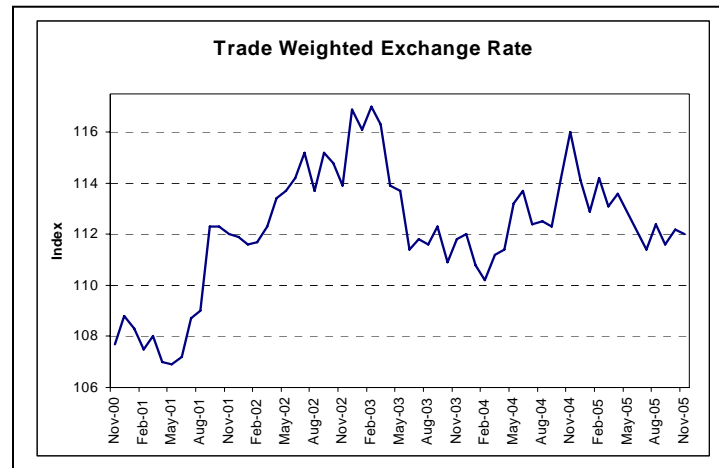
Switzerland's Employment Level rose 0.1% Y/Y in Q3. Expectations were for a 0.2% Y/Y gain.





## Trade Weighted Exchange Rate & Upcoming Dates

### Trade Weighted Exchange Rate



### Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/27	UBS Consumption Indicator (Nov)	--	-0.732