

Valance Company, Inc.



Weekly

April 19, 2006

III

Highlights

US – Elevated Core CPI (page 2)

Euroland – French Consumer Prices decelerate. Growth remains on track. (page 10)

Japan – The BoJ remains optimistic (page 16)

UK – House Price Surveys point towards stabilization (page 25)

New Zealand – CPI above the RBNZ's expectations (page 38)

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

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April 19, 2006

This week's mix of economic data highlighted the uncertainty of the Fed's path on rates. A chorus of Fed speakers, Fed reporters and the Fed minutes all conveyed a view that the Fed is getting ready to pause at 5%, causing the bond market to rally. Then the market quickly reversed course after seeing an elevated reading on core CPI. With commodity prices heading higher and the unemployment rate dropping, it will be extremely difficult for the Fed to pause for any length of time with core CPI running at 2.8% on a three month annualized basis. Housing indicators remained soft on the week.

Weekly Highlights

Core CPI- increased 0.344% M/M and 2.1% Y/Y in March. (page 2)

NAHB Housing Index- declined from 54 to 50 in April. (page 4)

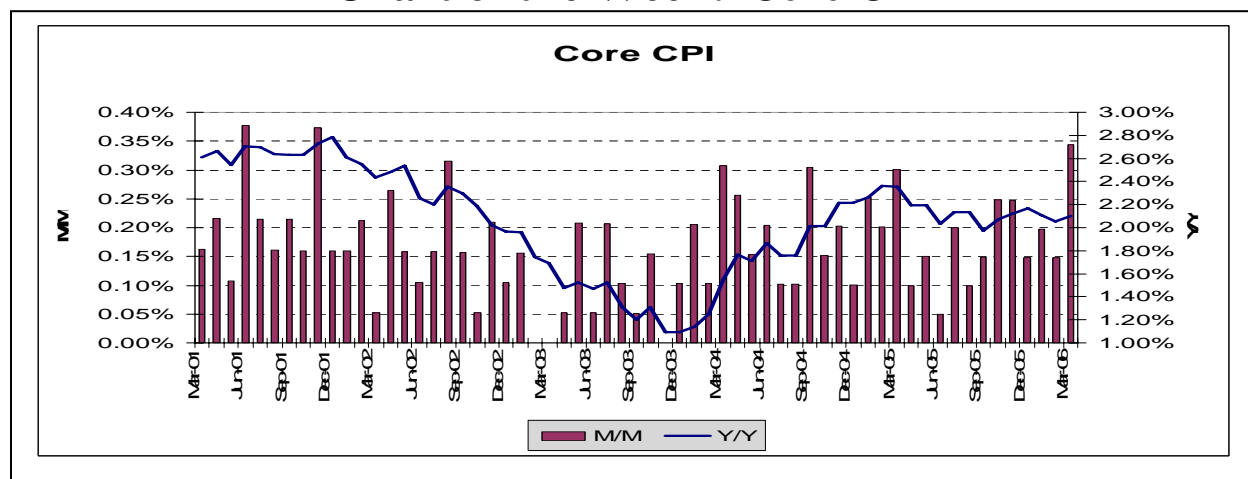
Retail Sales ex. Autos- increased 0.4% M/M and 9.2% Y/Y in March. (page 5)

Capacity Utilization- reached 81.2% in February. (page 6)

Mortgage Purchase Applications- down 10.3% Y/Y on a four-week moving average basis. (page 7)

Weekly Releases

Chart of the Week: *Core CPI*



Core CPI increased 0.344% M/M and 2.1% Y/Y in March; the annualized 3-month rate of growth is currently at 2.8%, up from 2.0% last month. This was the first M/M print above 0.2% since a year ago and will fuel the Fed's fears that commodity price pressures and diminishing resource utilization is making its way to core CPI. Owner's equivalent rent, 30% of core CPI, was up 0.4% M/M and could put upward pressure on core CPI in the future as rents catch-up to the large gains in home purchase prices in recent years.

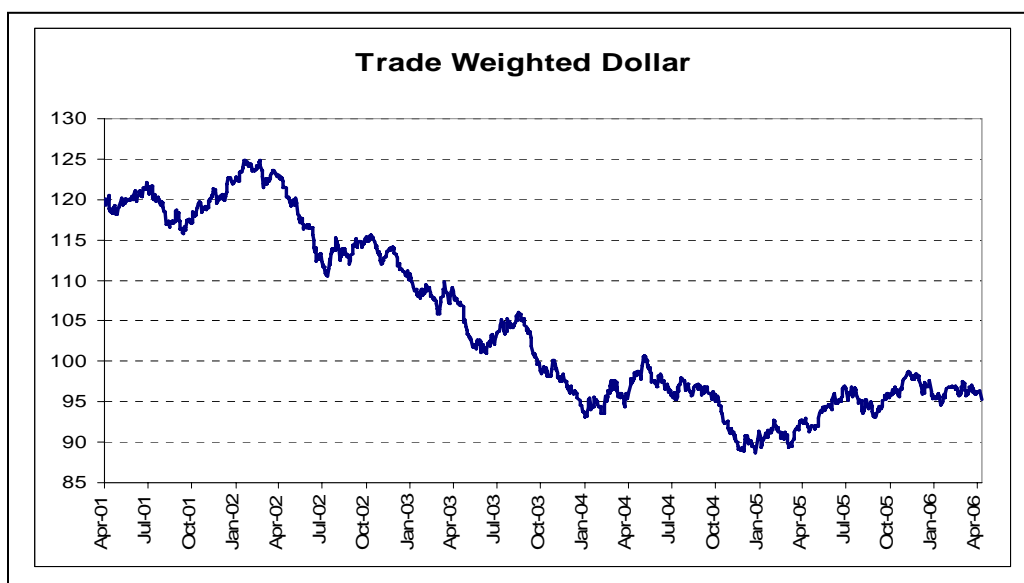
U.S. Financial Balances & Trade Weighted Dollar

Financial Balances

<i>U.S.</i>	<i>Latest period (\$blns)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-85.5 (March)	-2.6%
Trade Balance	-65.7 (February)	-5.8%
Current Account Balance	-224.4 (Q4)	-6.3%
Private Balance	--	-3.7%

The budget deficit is currently at \$327 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 February is still 5.8% 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.

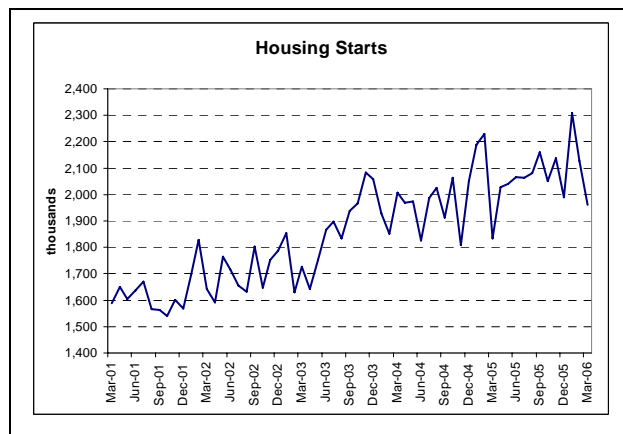
Trade Weighted Dollar



Housing

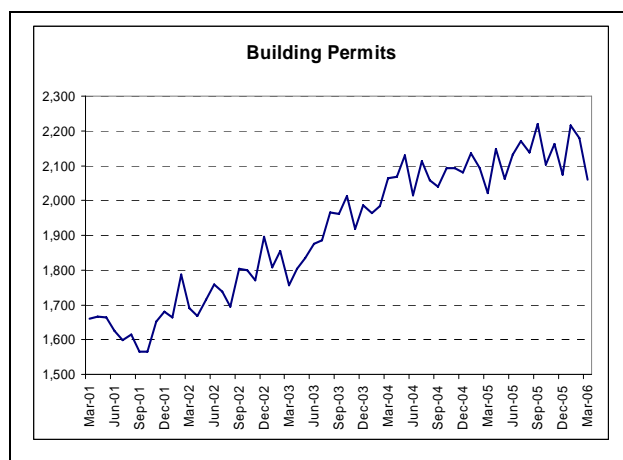
Housing Starts

Housing Starts decreased from 2,126k to 1,960k on a seasonally adjusted annualized basis in March. This series is down 7.8% M/M, but up 6.9% Y/Y. Given the volatility in this series it is still unclear if a meaningful slowdown is underway.



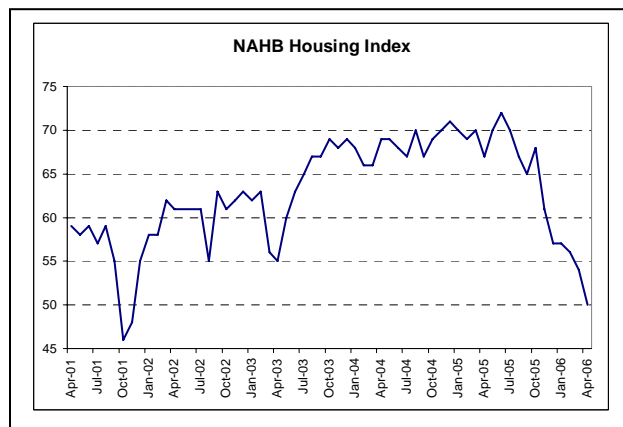
Building Permits

Building Permits decreased from 2,179k to 2,059k in March on a seasonally adjusted annualized basis. Despite declining 5.5% M/M, the absolute level of permits remains reasonably healthy, thus far.



NAHB Housing Index

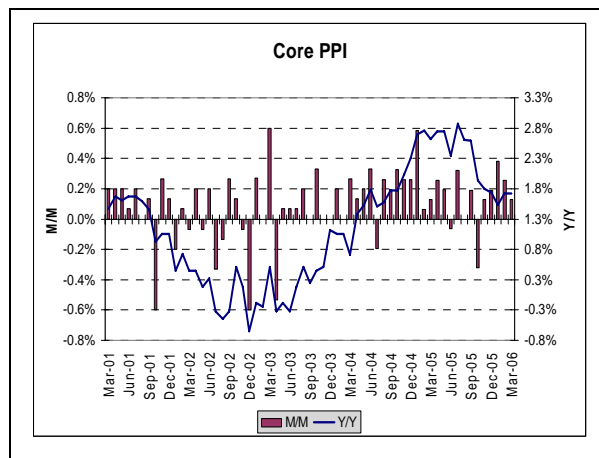
The NAHB Housing Market Index decreased from 54 to 50 in April. Current levels are significantly lower than in June 2005 when the index reached 72, and signaled future softening in the homebuilding sector. The present sales index declined from 59 to 54 and the future sales index declined from 62 to 58.



Core PPI, Import Prices & Retail Sales

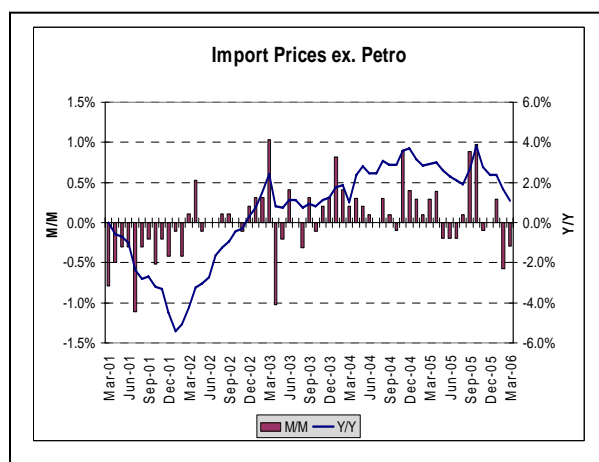
Core PPI

Core PPI increased 0.1% M/M and 1.7% Y/Y in March. Core intermediate goods increased 0.1% M/M and core crude goods were up 0.8% M/M. Early pipeline price pressures continue to build.



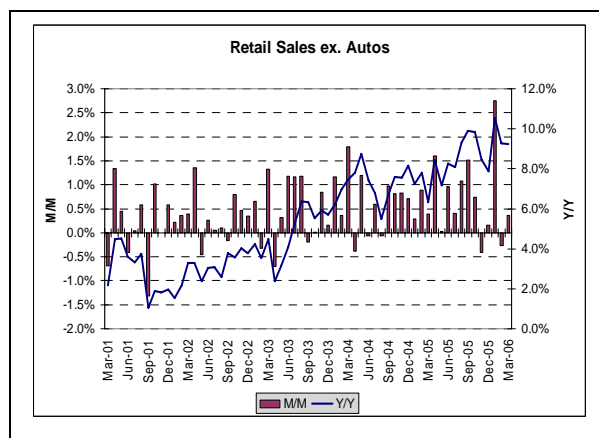
Import Prices ex. Petro

Import Prices, excluding petroleum, decreased 0.3% M/M and increased 1.1% Y/Y in March. Excluding all fuel, Import Prices gained 0.2% M/M and 2.2% Y/Y.



Retail Sales ex. Autos

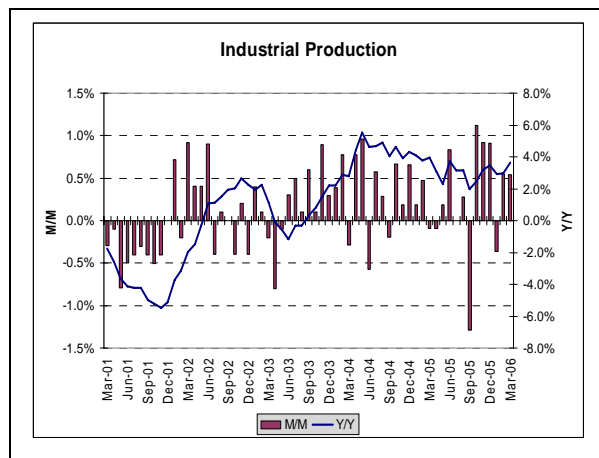
Retail Sales, excluding autos, increased 0.4% M/M and increased 9.2% Y/Y in March. Retail Sales, excluding both autos and gas, were also up 0.4% M/M and excluding, autos, gas, and building materials, up 0.3% M/M.



Industrial Production, Cap. Utilization & Empire Index

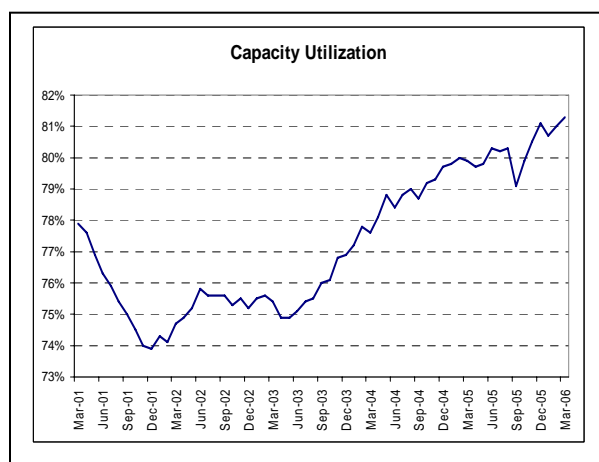
Industrial Production

Industrial Production increased 0.5% M/M and 3.6% Y/Y in March. The strength was widespread by sector and suggests that manufacturing is doing quite well.

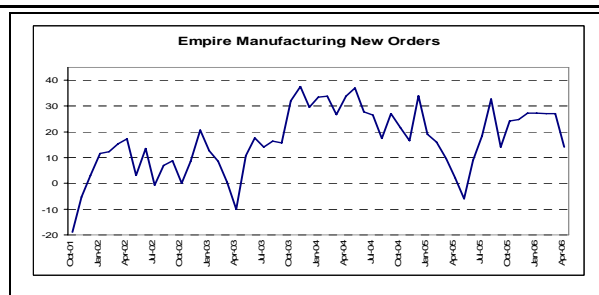
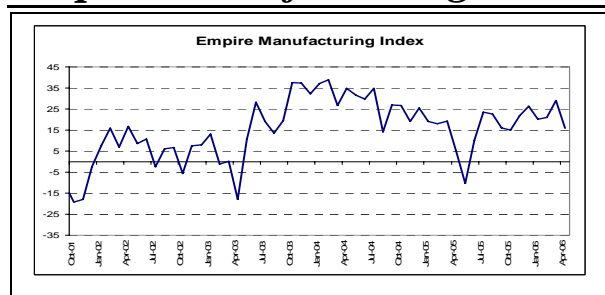


Capacity Utilization

Capacity Utilization increased from 81.0% to 81.3% in March. Capacity Utilization continues to trend higher and shows tighter levels of resource utilization. This indicator suggests that the Fed still has more work to do.



Empire Manufacturing Index

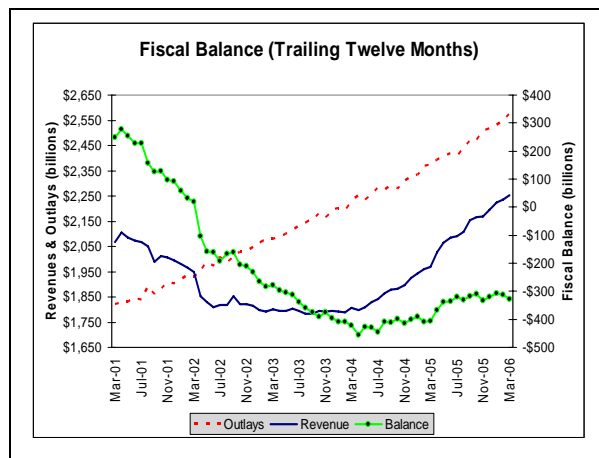


The Empire Manufacturing Index dropped significantly from 29.03 to 15.81 in April. New Orders fell from 26.99 to 14.11 and the employment component declined from 20.08 to 17.41. The prices paid series decreased from 39.32 to 37.9 and prices received increased from 12.82 to 14.52.

Fiscal Balance, Employment Claims & Mort. Apps.

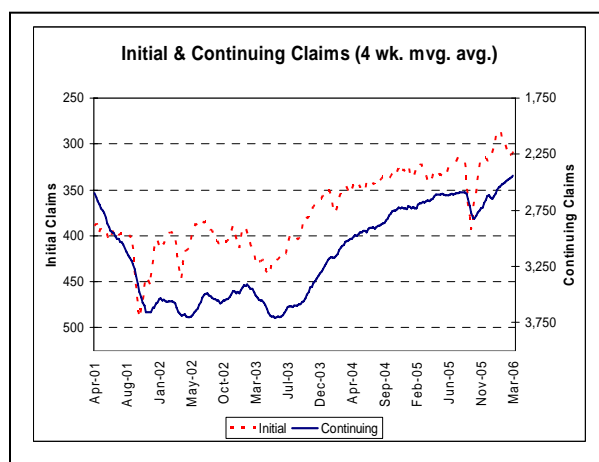
Fiscal Balance

The Fiscal Balance in March posted a deficit of \$85.5 bln versus a deficit of \$71.2 bln in March 2005. On a trailing twelve month basis, the deficit expanded from \$313 bln to \$327 bln. The budget deficit is now 2.6% of GDP on a trailing twelve month basis. The deficit is generally forecasted to reach \$400 bln for FY 2006.



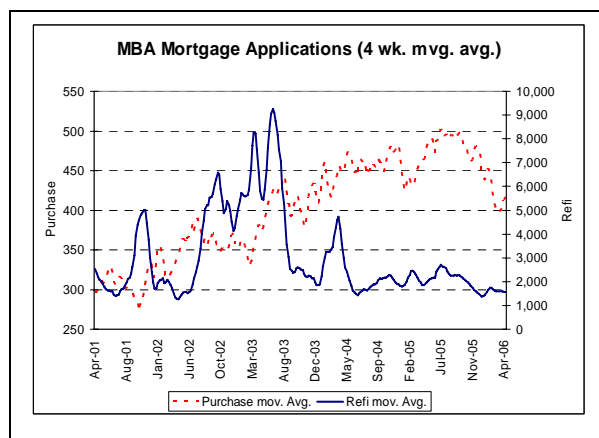
Initial & Continuing Claims

The four week moving average of initial claims decreased by 1k to 308k and continuing claims decreased by 8k to 2,444k. Overall claims data continues to show a healthy labor market and continuing claims continues to reach multi-year lows.



MBA Mortgage Applications

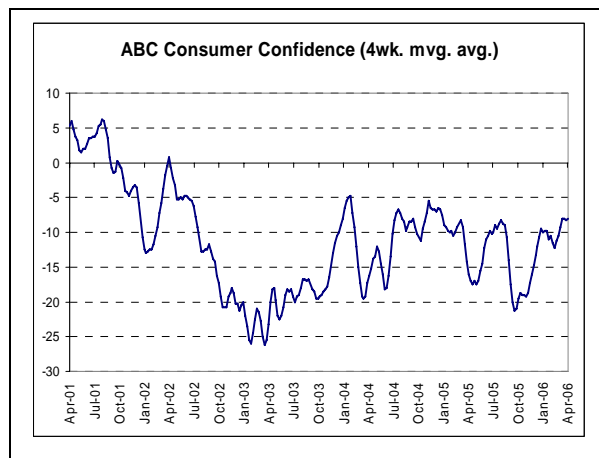
Purchase mortgage applications decreased 2.5% W/W and refi applications were down 0.4% W/W this week. The four-week moving average of purchase applications is down 10.3% Y/Y and was down 12.7% Y/Y just based on last week's reading. The slowing of the housing market is evident in mortgage application data.



Confidence & Fed Comments

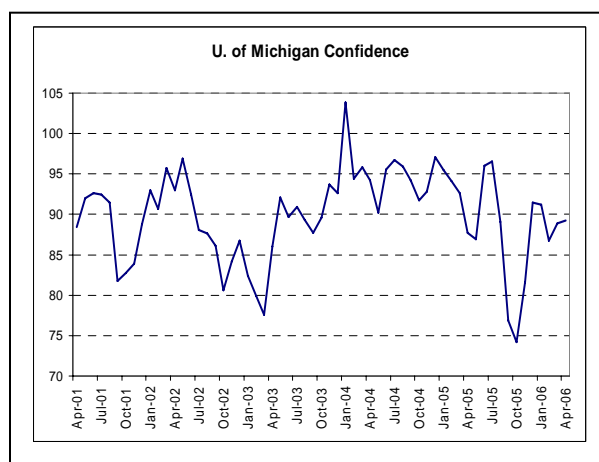
ABC Consumer Confidence

The ABC Consumer Confidence Index increased from -9 to -7. The buying climate remained flat at -26, but the econ and finance components improved from -20 to -18 and from 20 to 22, respectively.



U. of Michigan Confidence

The University of Michigan Confidence Index increased from 88.9 to 89.2 in April. The current conditions component improved from 109.1 to 111.1 and the expectations component dropped from 76.0 to 75.1. Inflation expectations inched up a bit: one year expectations increased from 3.0% to 3.1% and long-term expectations increased from 2.9% to 3.0%.



Fed Comments

Kohn- “At this juncture, given the apparent strength in demand and the narrowing margin of unused resources, I am focused on making sure that inflation and inflation expectations remain well anchored.”

“As I have already mentioned, it would not be surprising to see some pickup in hourly compensation, but such an acceleration may not add to price pressures. In today's competitive environment, and with profits generally robust, some of the cost increases might well be absorbed in margins. Moreover, further productivity gains should act to damp the effects on overall unit costs.”

“But the risks are not all one-sided. Price and compensation inflation have, in fact, remained moderate at high levels of resource utilization, despite rapid increases in energy and commodity prices, suggesting that some forces not yet fully identified may be helping to keep them contained. Those forces might include robust underlying productivity

Fed Comments contd. & Upcoming Dates

growth here at home or competition from abroad. It is also possible that the economy could cool more than expected if housing markets weaken quite substantially, consumption is cut back significantly, and as a consequence businesses pare capital spending plans.”

Bies- "We're closer (to a neutral interest-rate level) than we were a few months ago. Everyone agrees we are getting closer to the stopping point."

Yellen- "Inflation currently is near the upper end of the range that I feel is consistent with price stability. As such, I believe monetary policy must be vigilant."

"While I expect the housing sector to slow somewhat, I will be highly alert to the possibility of the policy tightening going too far."

"I am increasingly concerned about the well-known long and variable lags in monetary policy -- specifically, that the delayed effects of our past policy actions might impact spending with greater force than expected."

Fed Minutes- "Most members thought that the end of the tightening process was likely to be near, and some expressed concerns about the dangers of tightening too much, given the lags in the effects of policy. However, members also recognized that in current circumstances, checking upside risks to inflation was important to sustaining good economic performance. The need for further policy firming would be determined by the implications of incoming information for future activity and inflation."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/20	Initial Jobless Claims (APR 15)	308K	313K
04/20	Continuing Claims (APR 8)	2439K	2424K
04/20	Leading Indicators (MAR)	0.0%	-0.2%
04/20	Philadelphia Fed. (APR)	14.0	12.3
04/25	Existing Home Sales (MAR)	6.70M	6.91M
04/25	Richmond Fed. Manufact. Index (APR)	--	21
04/25	ABC Consumer Confidence (APR 24)	--	-7
04/26	MBA Mortgage Applications (APR 21)	--	-1.7%
04/26	Durables Ex. Transpo (MAR)	1.0%	-1.3%
04/26	New Home Sales (MAR)	1100K	1080K

Valance Co., Inc.

Valance Economic Report: Euro Zone

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April 19, 2006

There was little data released during an Easter shortened week in the Euro Zone. French Inflation slowed more than expected in March while Italian exports and Euro Zone Car Registrations expanded strongly.

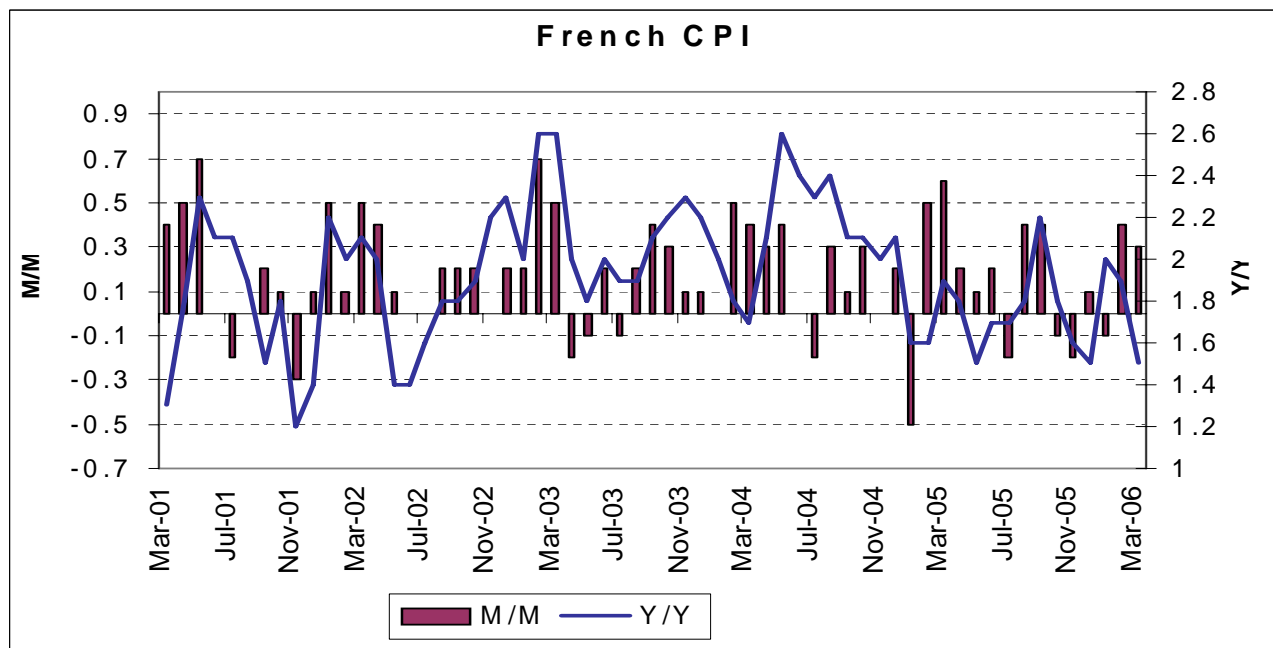
Weekly Highlights

French CPI– slowed to 1.5% Y/Y in March (page 10)

Italian Exports– expanded by 20% M/M in February. (page 12)

Weekly Releases & News

Chart of the Week: French CPI



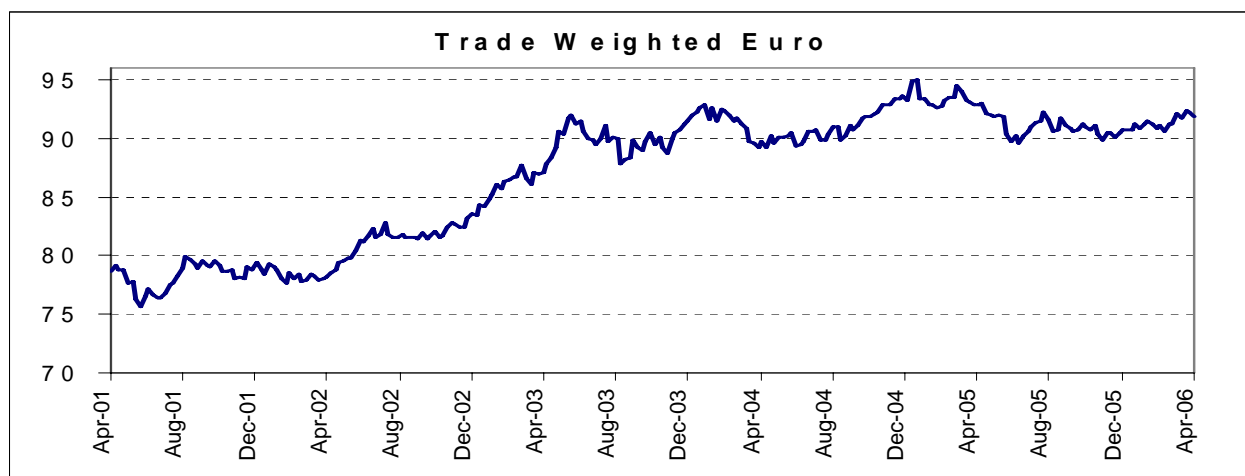
French inflation slowed in March, declining from 1.9% Y/Y in February to 1.5% as fresh food and manufactured goods prices fell. Prices rose 0.3% M/M as energy prices increased 0.5% M/M and 8.4% Y/Y.

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)	-3.5% (2005)
Trade Balance	12 (Jan)	7.1%
Current Account Balance	5.2 (Jan)	3.5%
Private Savings Balance	--	7.0%
<i>France</i>		
Budget Balance	-6.7 (Jan)	-4.3%
Trade Balance	-2.4 (Jan)	-1.5%
Current Account Balance	-3.2 (Jan)	-2.1%
Private Savings Balance	--	2.2%
<i>Italy</i>		
Budget Balance	-15.7 (Mar)	-4.8%
Trade Balance	-1.9 (Feb)	-1.0%
Current Account Balance	-4.3 (Jan)	-1.3%
Private Savings Balance	--	3.5%

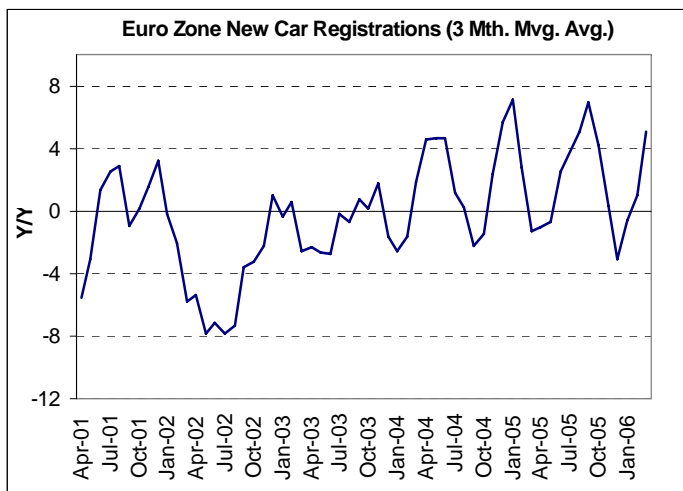
Trade Weighted Euro



Euro Zone New Car Reg's, Italian Trade & Current Account

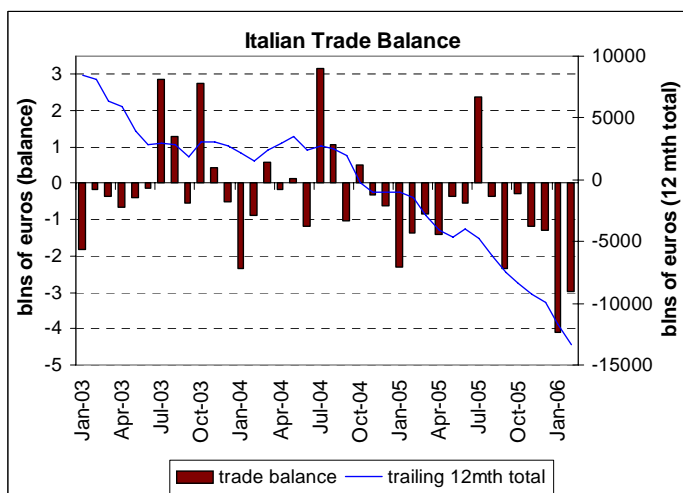
Euro Zone New Car Registrations

Euro Zone New Car Registrations increased more than expected in March, climbing 6.4% Y/Y.



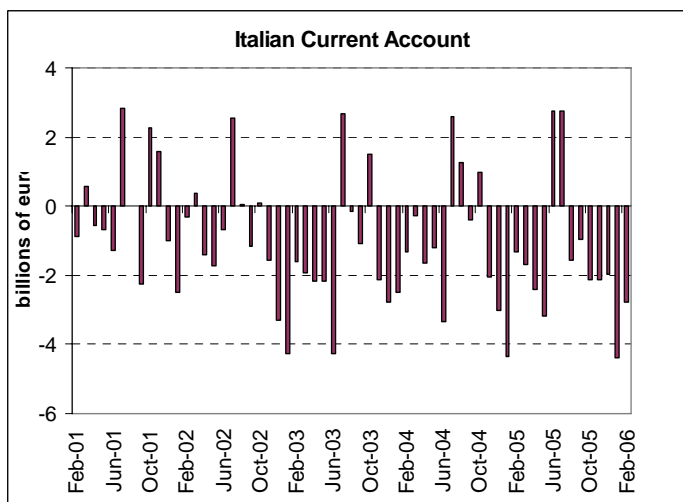
Italian Trade Balance

Italy's February Trade Deficit narrowed from 480 mln euros in January to 390 mln as exports expanded 20% M/M while imports grew 12%. Both imports and exports had surprisingly contracted M/M in January.



Italian Current Account

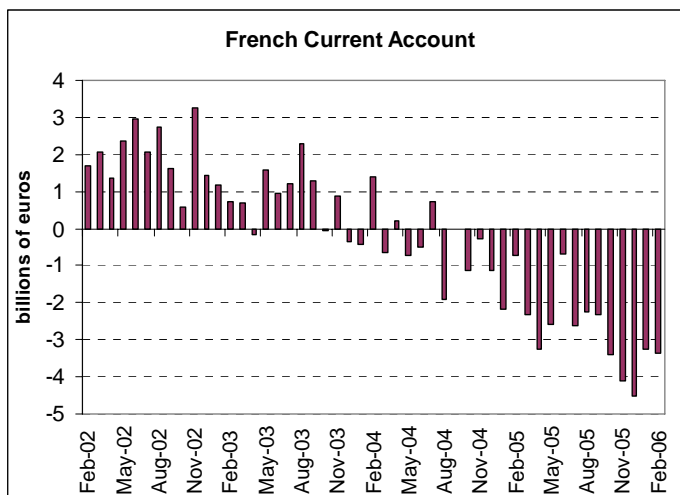
Italy's Current Account Deficit narrowed from 4.3 bln euros in January to 2.8 bln in March.



French & Spanish Current Account, German Producer Prices

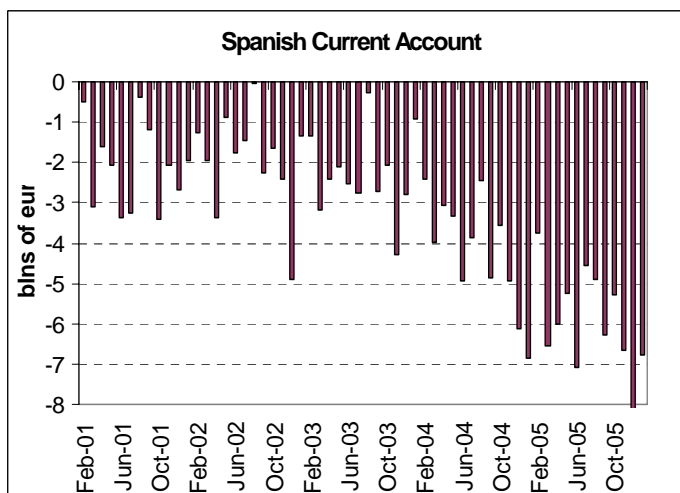
French Current Account

France's Current Account Deficit widened from 3.2 bln euros in January to 3.4 bln in February.



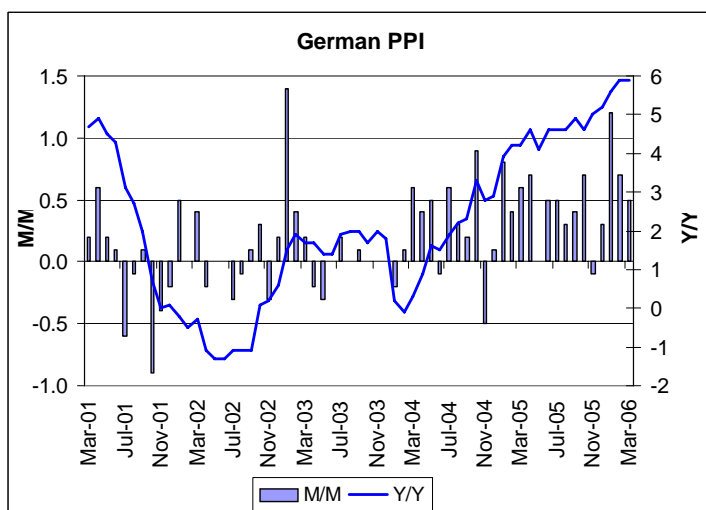
Spanish Current Account

Spain's Current Account Deficit narrowed from 8.2 bln euros in December to 6.8 bln in January.



German Producer Prices

German Producer Prices continued to accelerate in March, expanding 0.5% M/M and 5.9% Y/Y.



News

April 19th – **The IMF said that the ECB should not “rush” rate increases** even as the economy expands this year, stating, “Subdued” inflation and “fragile” domestic demand mean that ECB doesn’t need to raise rates quickly. They also raised their 2006 growth forecast from 1.8% to 2%.

April 19th – **Italy’s highest court upheld Romano Prodi’s victory over Silvio Berlusconi** in last week’s elections.

April 18th – **ECB nominee Juergen Stark stated that the bank needs to show “great vigilance”** in slowing inflation. “The central bank must always be ready to deal with prominent risks of inflation without delay and, where necessary, energetically,” Stark stated. Stark will be replacing Otmar Issing, who was also thought of as one of the ECB’s toughest inflation fighters.

April 18th – **German employers are said to be raising their earlier pay offer** in an attempt to avoid further strikes. IG Metall labor union has given employers an April 25th deadline to table an offer that “constitutes progress”. However, IG Metall remains pessimistic regarding a suitable solution. The previous offer was for 1.2% plus a 0.6% (of previous year’s salary) lump sum payment.

April 18th – **The German economy may accelerate in coming months as export growth** fuels domestic expansion according to a report by the German Economy Ministry. They stated, “The outlook for the domestic side of the economy, including construction, retail and services, is more pleasing.”

April 18th – **According to a report by Die Welt, many German retailers** and manufacturers plan to raise prices in the 2nd half of 2006, ahead of the German VAT hike that will take place in January, 2007. 32% of those surveyed stated that all costs related to the 3% tax will be passed on to the consumer, with 55% stating that they will pass on at least part of the costs.

April 13th – **The Bank of France raised its Q1 growth forecast** from 0.6% Q/Q to 0.7% as manufacturing growth and business confidence picked up.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/20	Spanish Factory Orders (FEB)	--	5.0% Y/Y
04/20	Italian Consumer Confidence (APR)	109	109.2
04/20	Italian Industrial Orders (FEB)	1.1% M/M	-0.6% M/M
04/20	Euro Zone CPI (MAR)	2.2% Y/Y	2.3% Y/Y
04/21	French Consumer Spending (MAR)	-1.1% M/M	1.8% M/M
04/21	Italian Retail Sales (FEB)	0.2% M/M	0.1% M/M

Valance Co., Inc.

Valance Economic Report: Japan

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April 19, 2006

The BoJ remains optimistic in its assessment of the economy, revising upward its outlook for 4 of 9 regions this past week. Real estate indicators continue to strengthen and the Leading Index continues to show improvement. Consumer confidence dipped last month. Looking forward, we continue to expect a Q3 ending to ZIRP.

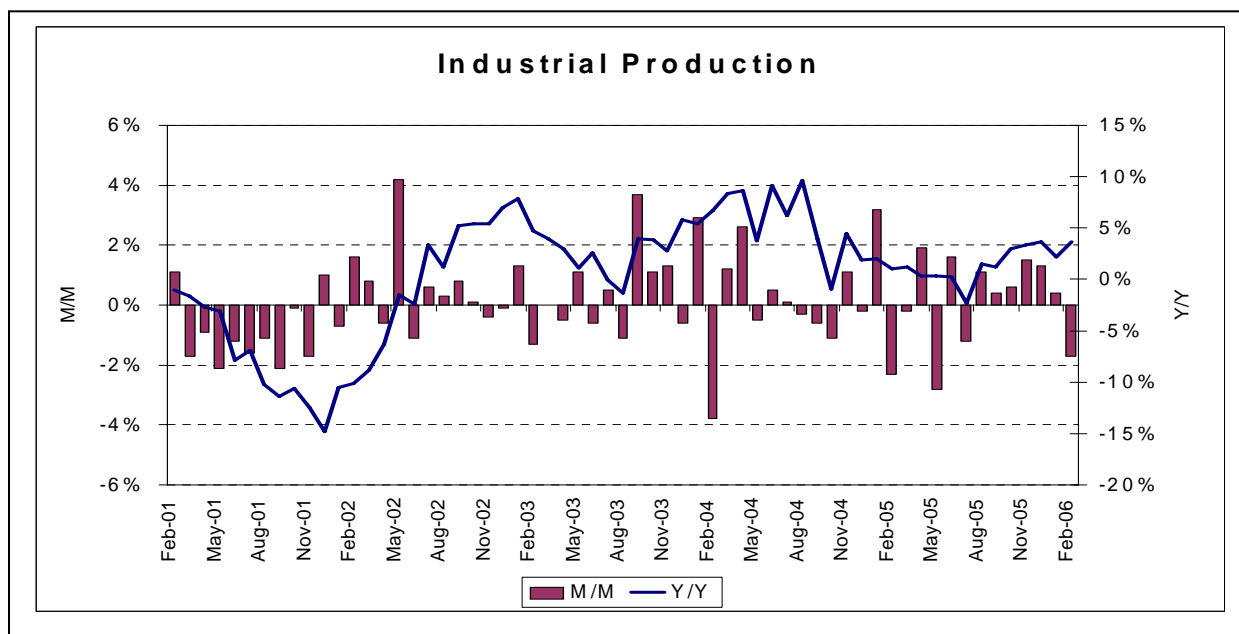
Weekly Highlights

Industrial Production –declined 1.2% M/M and increased 3.9% Y/Y in February, as originally estimated. (page 16)

CGPI – unchanged M/M and increased 2.7% Y/Y in March. (page 19)

Leading Economic Index – increased from 86.4 to 90.9 in March. (page 22)

Chart of the Week: *Industrial Production*



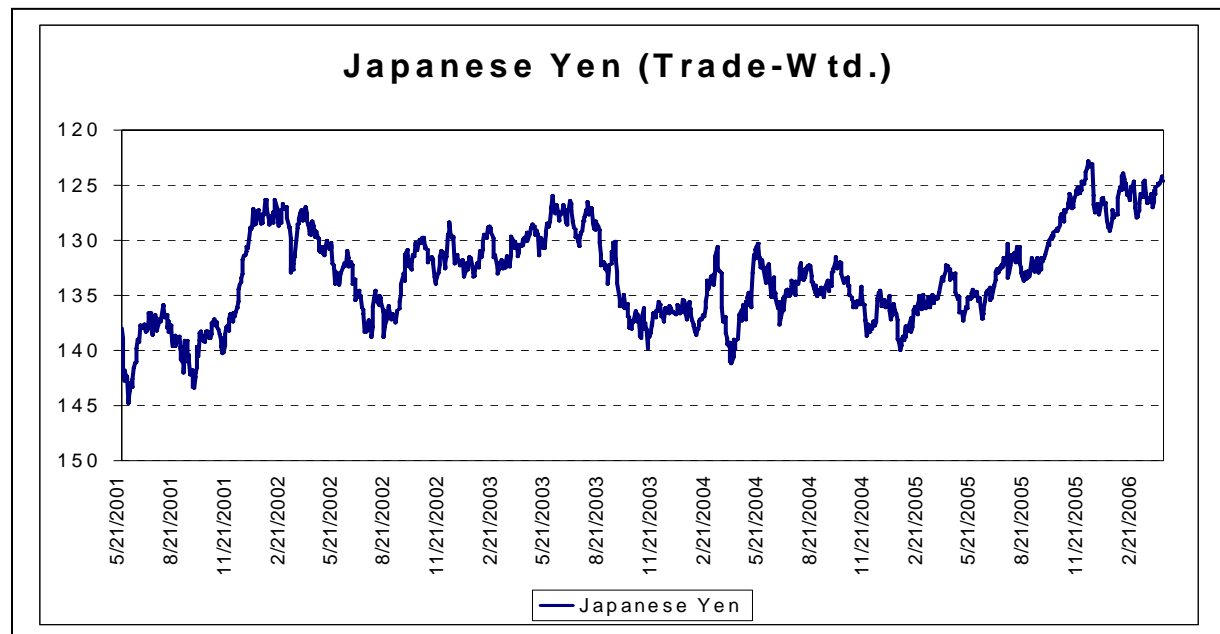
Final data on Industrial Production in February indicated a decline of 1.2% M/M and an increase of 3.9% Y/Y, relatively unchanged from the original estimate – with declines in electrical machinery, chemicals, and fabricated metals sectors. Among the subcomponents, shipments declined 2.0% M/M and increased 5.4% Y/Y. Inventories increased 0.2 % M/M and 2.8% Y/Y. The Inventory Ratio increased 1.8% M/M and 1.2% Y/Y.

All in all, the data appears to be a one-off decline. The trend in production remains positive. A March survey suggested that producers expect production to improve 0.3% M/M in March, above the 0.7% M/M decline that manufacturers expected when surveyed in February.

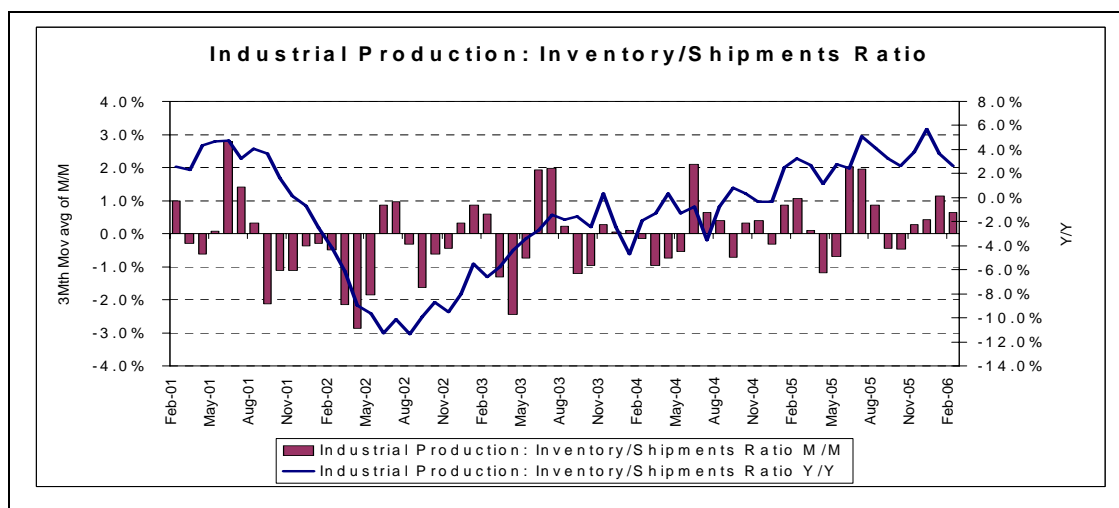
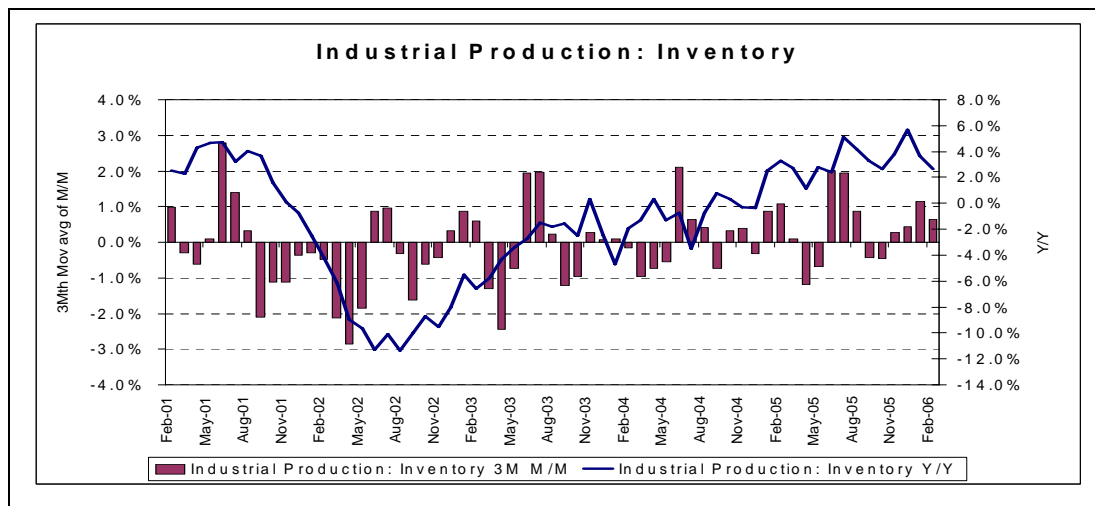
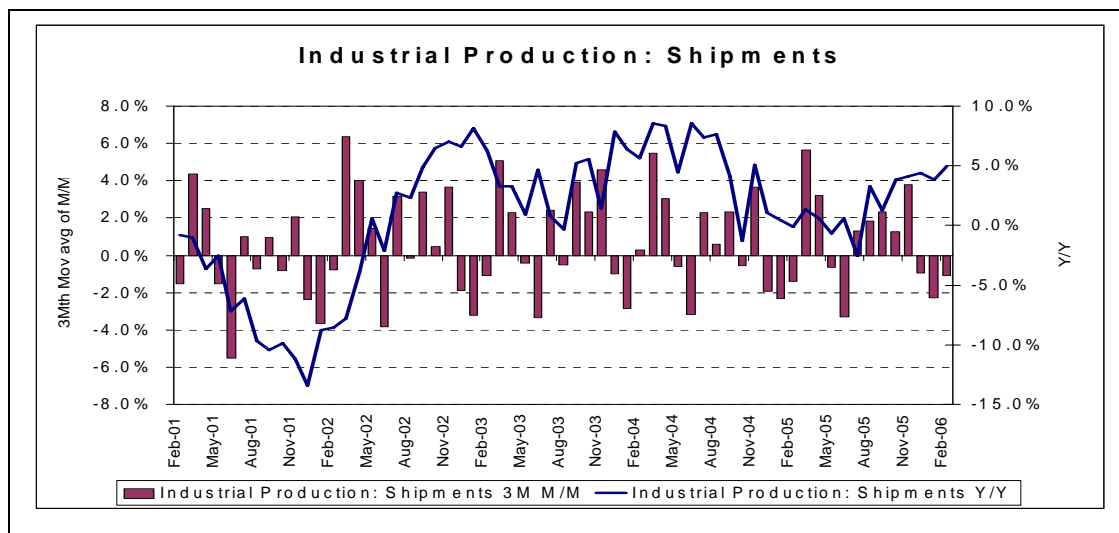
Japan's Financial Balances

Financial Balances

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



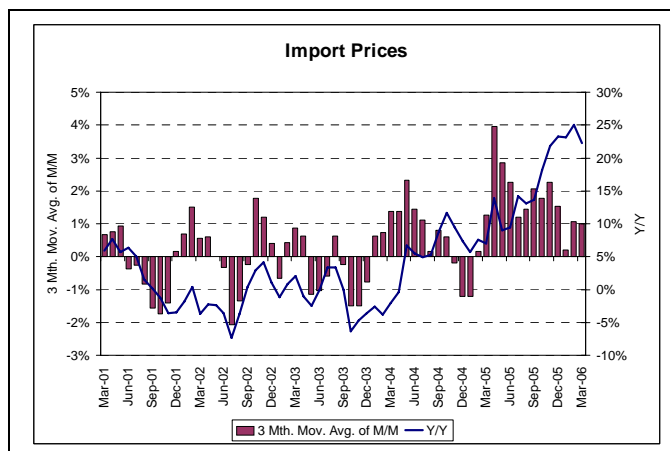
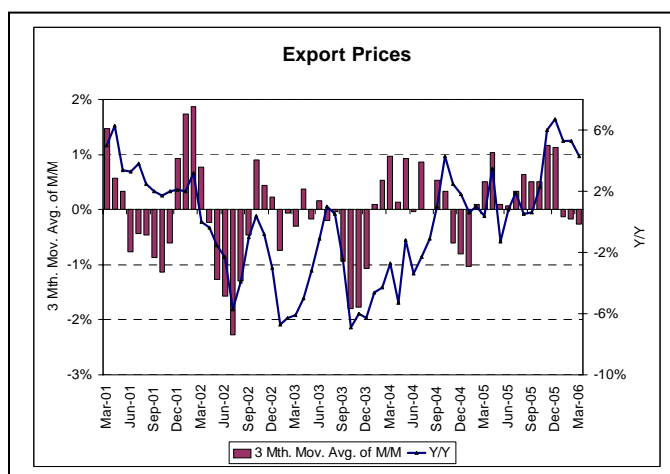
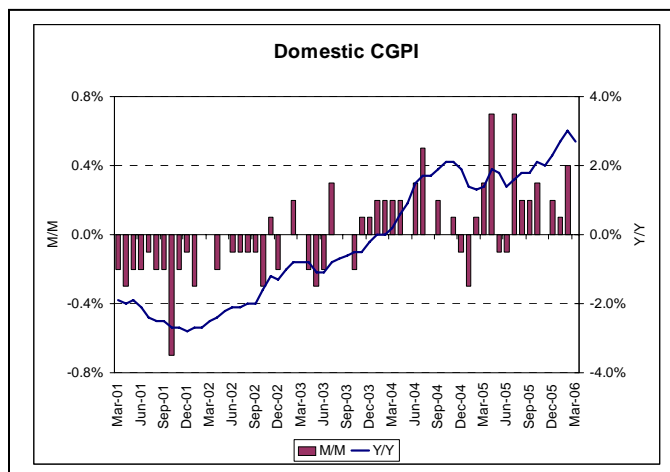
Industrial Production



CGPI, Export & Import Prices

Japan's CGPI Index was unchanged M/M and increased 2.7 Y/Y in March, slightly below market expectations for a 0.2% M/M and 2.8% Y/Y increase. The increase in Y/Y prices has largely been driven by increases in fuel and commodity costs.

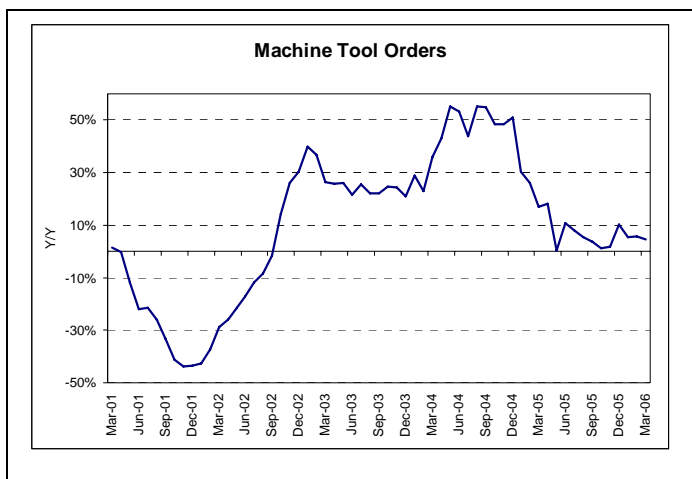
Export prices declined 0.3% M/M and increased 4.3% Y/Y in March, while import prices declined 0.5% M/M and increased 22.3% Y/Y.



Machine Tool Orders, Bankruptcies & Dept. Store Sales

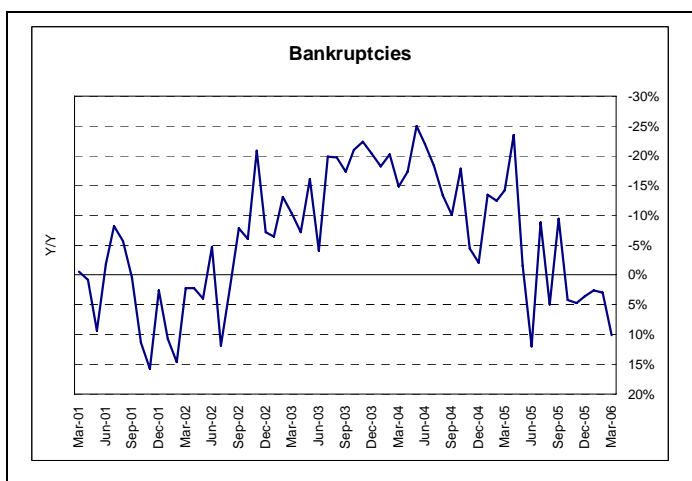
Machine Tool Orders

Machinery Tool Orders increased 5.2% Y/Y in March, largely due to continuing strength in foreign demand.



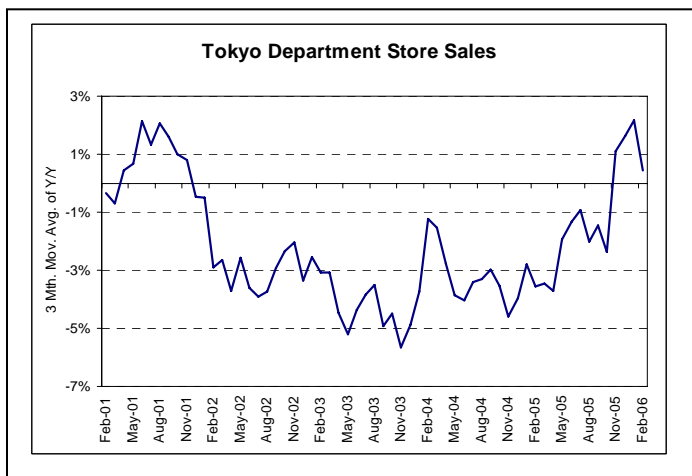
Bankruptcies

Corporate Bankruptcies increased 20.2% M/M and 10.0% Y/Y in March as finance/insurance, as well as, primary industries saw large increases in bankruptcies.



Tokyo Dept. Store Sales

Tokyo Department Store Sales increased 1.4% Y/Y in March as improvement in clothing and accessories sales outweighed declines in household appliances.

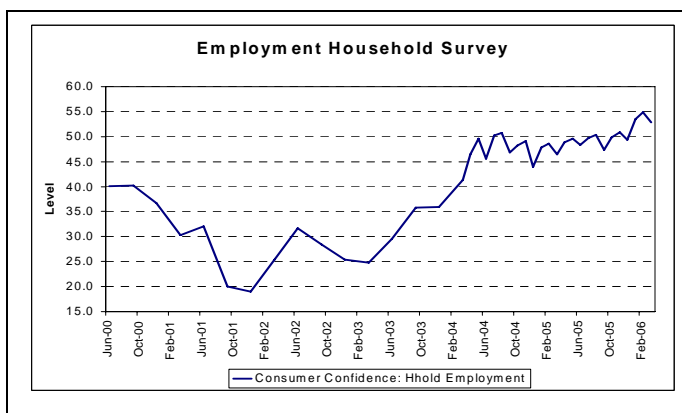
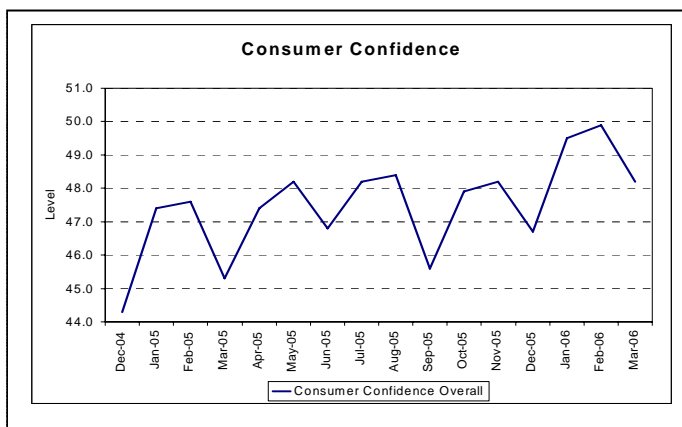


Consumer Confidence & Household Spending

Consumer Sentiment

In March, Consumer Confidence declined from 49.9 to 48.2. The employment component of the index declined from 54.9 to 52.9. The willingness to buy durable goods declined from 51.4 to 50.0. Income growth declined from 46.2 to 43.5.

Overall, the trend continues to be very firm, despite the recent decline, as the labor market remains tight and household optimism remains on a trend upward.

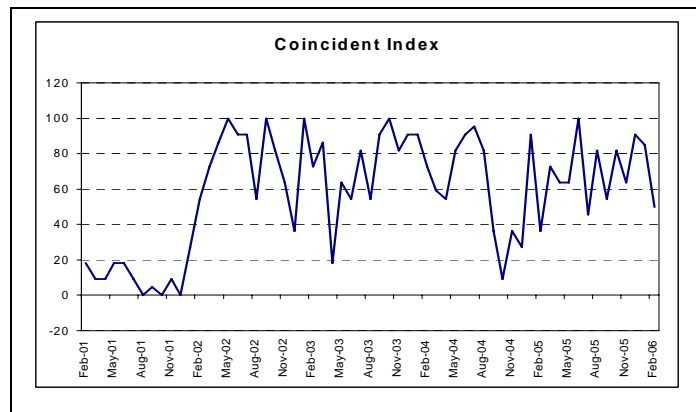
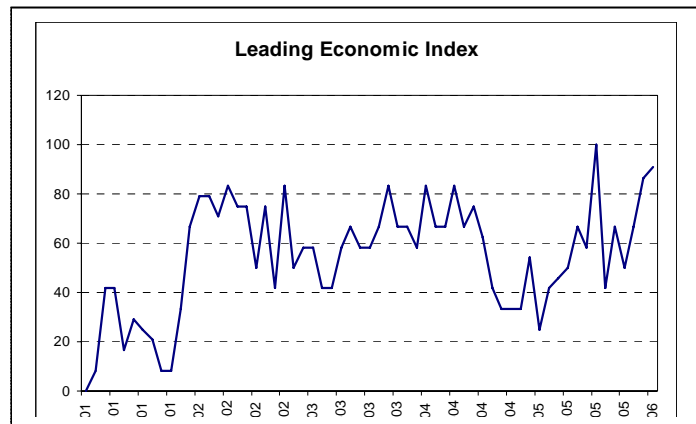


Leading & Coincident Indices

Leading & Coincident Indices

In February, the Leading Economic Index increased from 86.4 to 90.9. The Coincident Index declined from 85.0 to 50.0. All components saw improvement in the leading index, with the exception of floor area/housing starts.

The Coincident Index was mixed however, with retail and wholesale sales seeing improvement while industrial production, manufacturers' shipments, and capacity utilization seeing declines.



News

News

April 19th – Banks are shifting their funds from deposits with the BoJ to investments elsewhere in the markets. Some banks noted that they were receiving lower interest rates in short term investments than they had during the quantitative easing period. A breakdown of current accounts by sector indicated that in March, major banks held ¥15.1 trln, regional banks held ¥3 trln, and foreign banks held ¥2.3 trln while other financial institutions held ¥10 trln. In comparison, regional banks have so far been able to reduce their balance of current accounts by over ¥1.5 trln.

April 19th – According to an unnamed MoF official cited by the Nikkei News, “[The MoF] needs to avoid disorderly moves” in interest rates and rises in interest rates to levels that are higher than what can be justified by a nation’s economic health.”

April 18th – According to an article in the Nikkei News, demand for sales people is increasing in Japan as the economy recovers. It was noted that staffing service firms’ prices are increasing. Currently these firms are charging ¥2,300 – ¥2,500 per hour for sales staff to follow up on existing customers and ¥2,400 – ¥3,000 per hour for those adding customers. These fees have increased ¥100-¥200 per hour over the last year. At the same time however, the supply of workers has been limited, further pressuring prices.

April 18th – Office building occupancy rates are increasing in Osaka, Sendai, and other large cities besides Tokyo, indicating that the supply-demand balance for office rental space is improving and that demand is broadening.

April 18th – Finance Minister Tanigaki said that recent increases in long term rates are not desirable for Japan’s economy, noting that, “Japan is still in mild deflation. Under such circumstances, the recent long-term rate rises are a bit too quick and undesirable.”

April 18th – In its Regional Economic Report, the BoJ continued to note that “the economy as a whole continues to recover steadily,” and that “Improvement in major cities has been prominent, and other regions continue to be on the recovery trend.” In the report, the BoJ also revised upward its economic view for 4 of 9 regions.

April 17th – Economic and Fiscal Policy Minister Yosano commented that Japan’s economic recovery will continue “for a considerably long time.” He also commented that “Japan’s economy will further improve if volatility in the market is small and prices are stable.”

April 17th – BoJ Gov. Fukui commented that “[Japan’s] economy is recovering steadily. On domestic demand, corporate capital spending is recovering on the back of high corporate profits, and this favorable impact is filtering through to the household sector with personal spending also recovering.” He also commented that the BoJ must closely watch risk factors such as higher crude oil costs, that longer-term growth may come from positive indicators such as production, income, and expenditures, and that he expects core CPI to remain in positive territory.

News & Key Dates This Week

News

April 13th – Office vacancy in central Tokyo declined from 3.0% to 2.9% as of March 31st, marking the first sub 3.0% rate in over 14 years. According to the survey, both large and small businesses are now in need of office space, suggesting that the market has now turned in the lessors' favor.

April 13th – The ratio of condominiums sold in the greater Tokyo area increased from 78.7% to 83.2% in FY05, marking the first 80%+ rate in 9 years.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/20	Convenience Store Sales (Mar Y/Y)	N/A	-2.4%
04/20	Tertiary Industry Index (Feb M/M)	-1.1%	2.2%
04/20	All Industry Index (Feb M/M)	-1.1%	1.4%
04/24	Corp. Service Prices (Mar Y/Y)	N/A	-0.1%

Valance Co., Inc.

Valance Economic Report: *United Kingdom*

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April 19, 2006

Both the RICS and Rightmove House Price Surveys pointed to stabilization in the housing market. The MPC Minutes were relatively neutral in tone, confirming the MPC is happy to take a wait and see mode.

Weekly Highlights

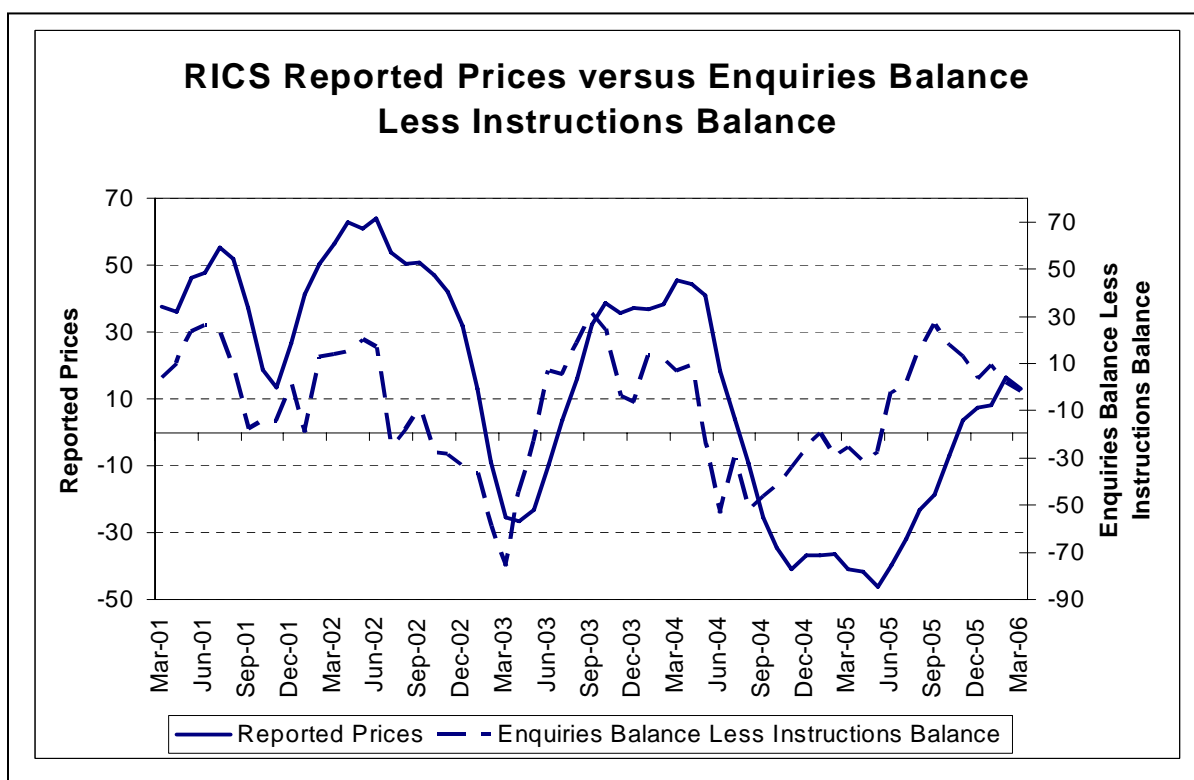
RICS House Price Survey - decelerated from +16 to +13 in March. (page 25)

Rightmove House Price Survey - increased 1.1% M/M and 4.1% Y/Y in April. (page 29)

MPC Minutes - showed members voted 7-1 to leave rates unchanged at 4.50%. (page 29)

Weekly Releases & News

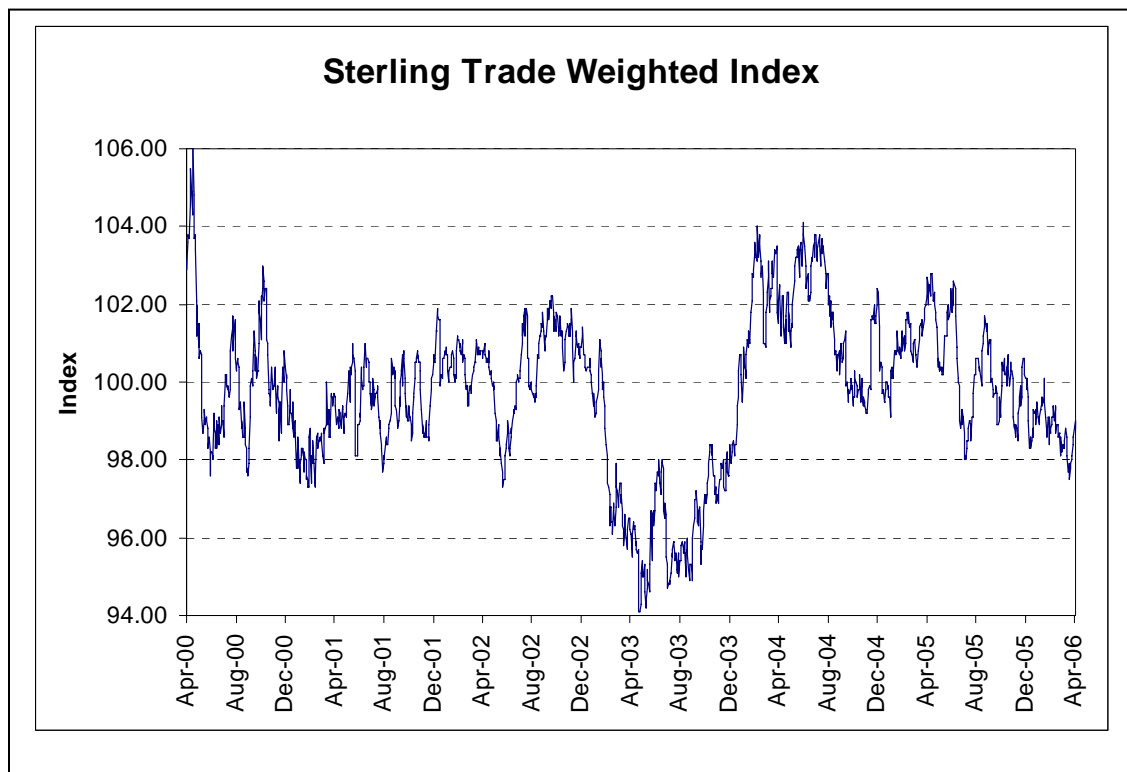
Chart of the Week: *RICS Reported Prices*



RICS House Price Survey decelerated from +16 to +13 in March. Price increases in London slowed sharply in March, as some of the impact from City bonus payments faded. However, prices in southern England continue to strengthen.

Financial Balances & Trade Weighted Index

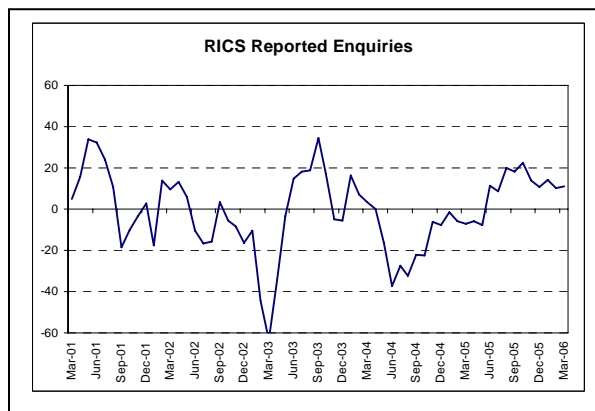
<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	-£2.3 (Feb)	+0.8%
Trade Balance (monthly)	-£3.8 (Jan)	-1.3%
Curr. Acct. Balance (quarterly)	-£10.9 (March)	-3.9%
Private Balance	--	-4.6%



RICS House Price Survey

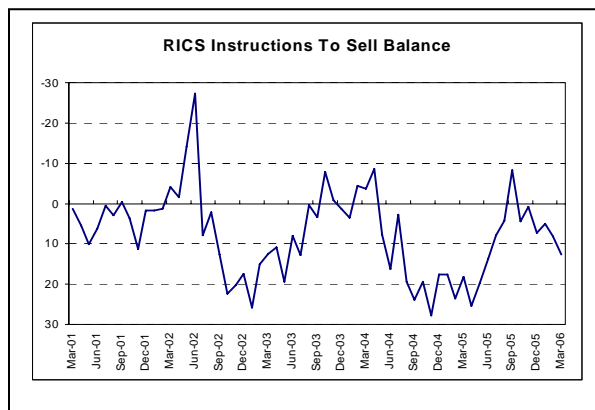
RICS Reported Enquiries

Reported Enquiries increased from +10 to +11 in March, its tenth consecutive increase and the longest run of increases in the survey's history. RICS cites a prevailing low interest rate environment as the impetus for enquiries.



RICS New Instructions to Sell

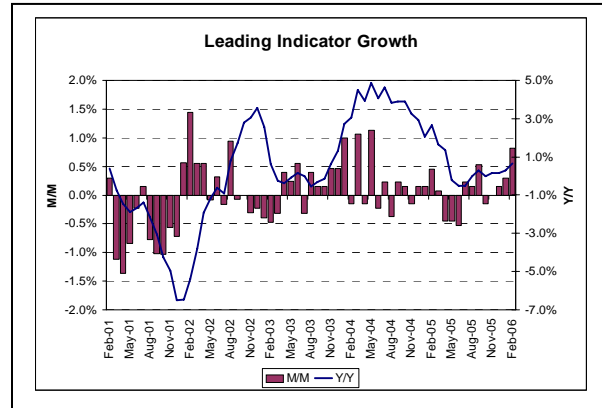
New Instructions to Sell increased from +8 to +13 in March. Instructions are still falling in London and the South East, but are rising everywhere else.



Leading & Coincident Indicator

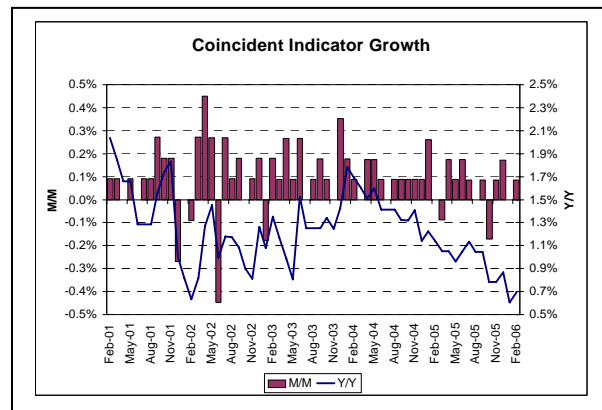
Leading Indicator

The Leading Indicator increased 0.8% M/M and 0.9% Y/Y in February. Consumer Confidence and productivity increased while New Orders decreased.



Coincident Indicator

The Coincident Indicator increased 0.1% M/M and 0.7% Y/Y in February.



MPC Minutes

MPC Members voted 7-1 to leave rates unchanged at 4.50% for an eighth consecutive month.

- *For most members the data suggested that recent output growth had continued to grow at or around the trend rate, although for some there remained a small downside risk to the near-term outlook.*
- *Inflation was likely to remain close to target with some upside risks in the near term related to recent increases in energy prices. In the light of those considerations it was appropriate to leave the repo rate unchanged this month.*

Stephen Nickell's continued call for a rate cut:

- *The data continued to suggest that there was a degree of spare capacity in the economy, particularly in the labor market.*
- *Permanent income would be negatively impacted by higher energy prices and the rising effective tax rate and so consumption growth was unlikely to pick up.*

Data

Rightmove House Price Survey

Rightmove House Price Survey increased 1.1% M/M and 4.1% Y/Y in April as house prices set a new record for the third successive month. Rightmove cites heightened buyer demand and a shortage of supply coming onto the market for the continued increase. Demand is being driven by buyers for higher priced property types in the more affluent regions in the southern half of the country.

BCC Quarterly Economic Survey

The British Chamber of Commerce released its Quarterly Economic Survey, the largest independent business survey in the UK.

- *The upturns in the export balances of both manufacturing and services are pleasing features of the Q1 findings, but unless it is nurtured and supported, export growth will fizzle out.*
- *The Manufacturing sector recorded improvements in its Q1 balances for home sales and orders, export sales and orders, employment expectations, and plant and machinery investment.*
- *The Manufacturing sector recorded declines in its balances for employment, cash flow, and profitability confidence.*
- *Manufacturing has persistently failed to sustain recovery, and Q1's confidence balances are disappointing and worrying. Recent signs of an upturn are very tentative, and the sector faces acute threats.*
- *Service sector Q1 performance improved in most areas, but many results remain mediocre. Balances for home sales and orders, export sales and orders, employment and employment expectations, plant and machinery investment, and both confidence balances all rose in Q1. But the service sector's improvement in Q4 and Q1 was from a low base, and prospects remain uncertain.*

News

News

April 19th - U.K. Needs 'Greater Consolidation' to Balance Budget, IMF Says - Britain may have to rein in spending to balance its budget, the International Monetary Fund said today, increasing pressure on Chancellor of the Exchequer, Gordon Brown, to pare investment before the next election. Efforts to curb the budget deficit by squeezing expenditure and raising taxes on oil companies are insufficient and Brown will need to take further "concrete measures" after 2008, the Fund said in its twice-yearly World Economic Outlook. Britain has borrowed almost 140 bln pounds (\$250 bln) since the year ended March 2002, when the budget was in balance, and the IMF led calls for Brown to raise taxes or scale back investments in schools and hospitals which was popular with voters.

April 18th - U.K. Households' Inflation Expectations Reach Record - U.K. consumers' inflation expectations reached a record in March as oil prices approached all-time highs again, the Bank of England said. The rate of inflation will accelerate to 2.7% over the next 12 months, according to the median response in a poll of 3,939 people conducted for the bank by the market research company, NOP Ltd., between Feb. 16th to March 14th. That was up from 2.2% in the previous November poll and the highest in the history of the question, the bank said today.

April 18th - UK coal producer pushes for price increases of 40% - Britain's largest coal producer wants to increase the prices that it charges to power generators by 40%, putting more pressure on energy costs, The Times has learned that U.K. Coal is negotiating key contracts with electricity generators and wants big increases to reflect the soaring world coal price. It says that Britain needs coal to meet a large proportion of its power needs, at least for the next ten years. The company also says that generators cannot import all of their coal because the rail infrastructure will not cope and that even with a 40% increase, it can beat import prices. High gas prices and problems with nuclear energy output have also meant that the country has become increasingly reliant on coal for power generation. In the past five months 50% of Britain's electricity generation has come from coal.

April 17th - High street has a quiet holiday - Retailers have been deprived of an early bank holiday boost as the number of people visiting the high street fell on Good Friday, according to the first analysis of the key weekend's trends. The number of shoppers venturing out across the U.K. continued to slide on Friday, dropping 4.3% compared with the same day last year. Since January, the number of people on the U.K.'s streets, malls and in stores has fallen 4.7% from a year earlier. Good Friday's 4.3% decline came despite heavy discounting by retailers attempting to lure consumers into shops to buy other full-priced items. (Daily Telegraph)

Upcoming Dates

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/20	CPI	0.4% M/M 2.0% Y/Y	0.3% M/M 2.0% Y/Y
04/24	Retail Sales	--	0.5% M/M 2.1% Y/Y
04/24	Public Sector Net Borrowing	--	£2.3 bln
04/24	BBA & CML Mortgage Lending	--	--
04/26	Nationwide House Prices	--	1.1% M/M 5.3% Y/Y

Valance Co., Inc.

Valance Economic Report: *Canada*

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April 19, 2006

Canada's March Composite/Leading Index increased 0.6% M/M, doubling expectations, while the February manufacturing data posted a downside surprise. The International Monetary Fund expects Canada's economy to grow 3.1% in 2006 and 3.1% in 2007. They also noted that "Inflation remains well contained but, with the output gap closing, further interest rate increases will likely be needed in the coming months."

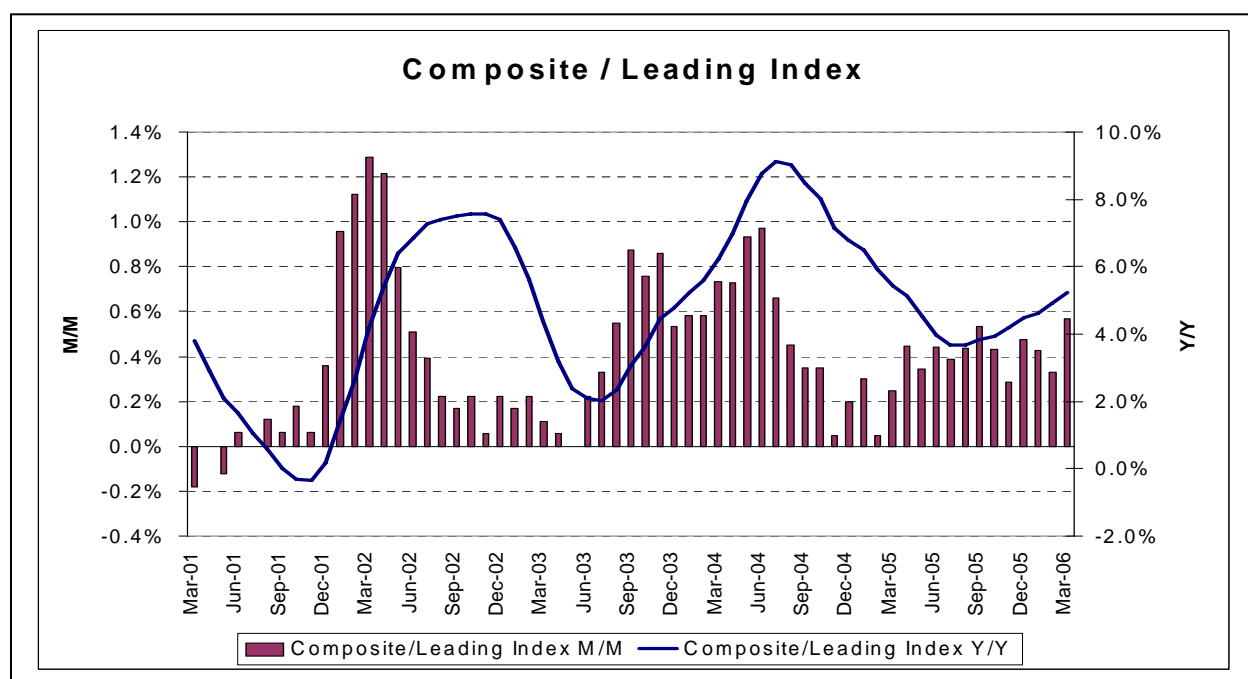
Weekly Highlights

The Composite/Leading Index - increased 0.6% M/M and 5.2% Y/Y in March, well above expectations. (page 32)

Manufacturing Shipments - decreased 2.2% M/M and 0.4% Y/Y in February. (page 34)

Weekly Releases & News

Chart of the Week: *Composite/Leading Index*



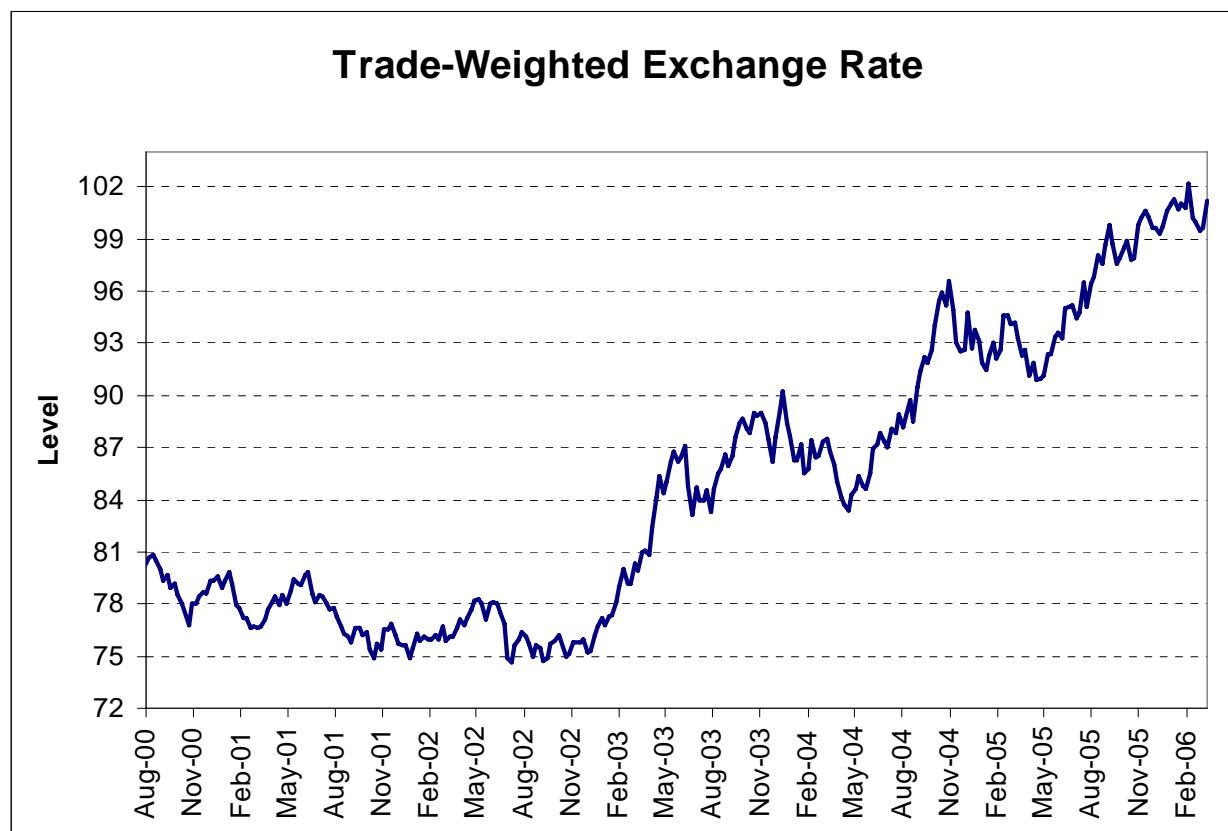
The Composite/Leading Index increased 0.6% M/M and 5.2% Y/Y in March, mainly as a result of gains in the housing and stock market. Eight of the ten components increased. The housing index increased 2.9%, its largest gain since mid 2005. The stock market reached another record in March, increasing 3.1% M/M. The U.S. leading indicator grew 0.5%, the highest increase in nearly two years. The two components that declined were related to manufacturing.

Financial Balances & Trade Weighted Exchange Rate

Financial Balances

<i>Canada</i>	<i>Latest period (C\$bln)</i>	<i>Last 12mth. as % of GDP</i>
Budget Balance	1.6 (Jan)	0.4%
Trade Balance	6.3 (Feb)	4.8%
Current Account Balance	13.3 (Q4)	2.2%
Private Balance	--	1.8%

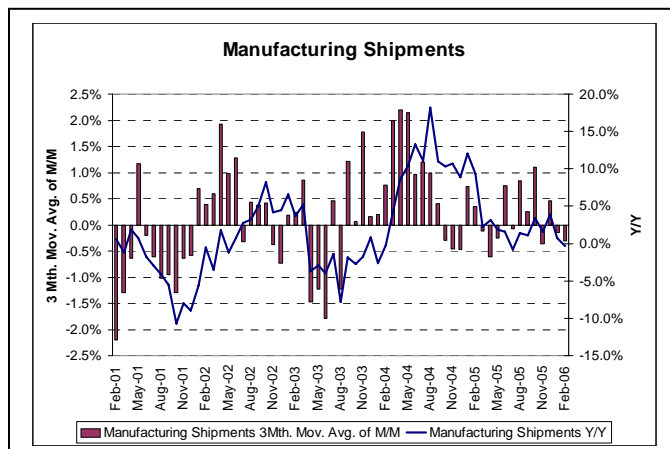
Trade-Weighted Exchange Rate



Manufacturing Data

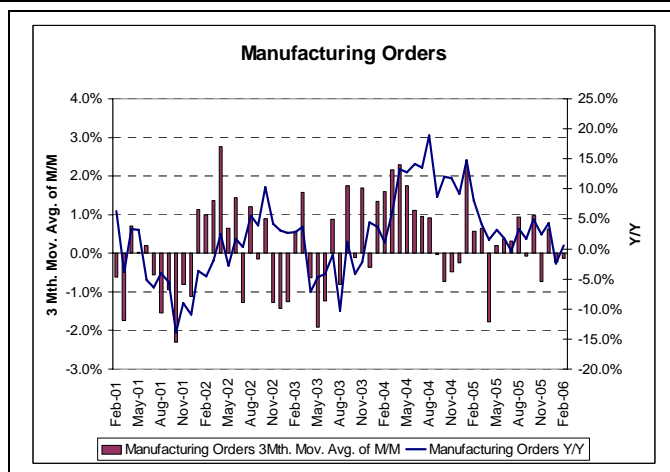
Manufacturing Shipments

Manufacturing Shipments decreased 2.2% M/M and 0.4% Y/Y in February, the third decrease in four months. The decrease was mainly attributable to lower industrial prices for petroleum, wood and chemical products. Excluding the petroleum and coal products, wood products and chemical products industries, shipments declined just 0.8% M/M.



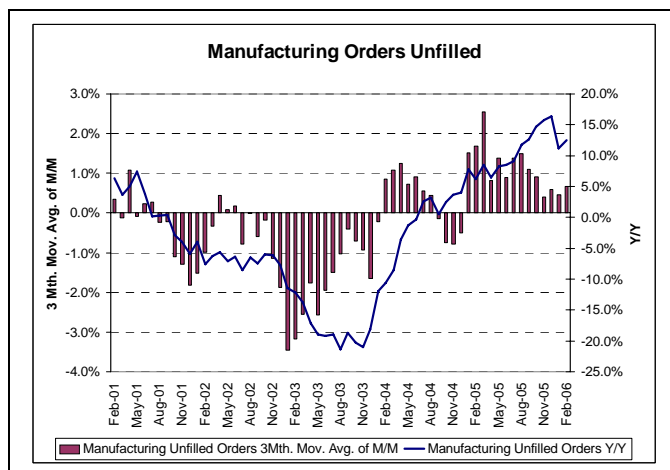
Manufacturing Orders

Manufacturing Orders decreased 2.1% M/M and increased 0.6% Y/Y in February, as a result of decreases in the aerospace (-16.5%) and primary metals (-2.3%) industries.



Unfilled Manufacturing Orders

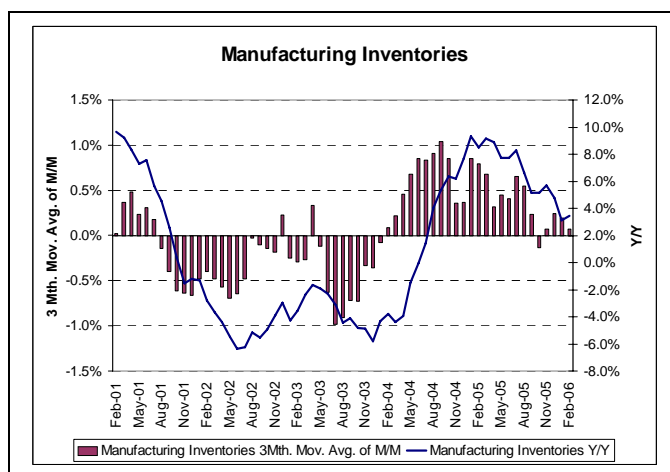
Unfilled Manufacturing Orders increased 1.0% M/M and 12.5% Y/Y in February, the fifth consecutive M/M increase.



Manufacturing Inventories & New Motor Vehicle Sales

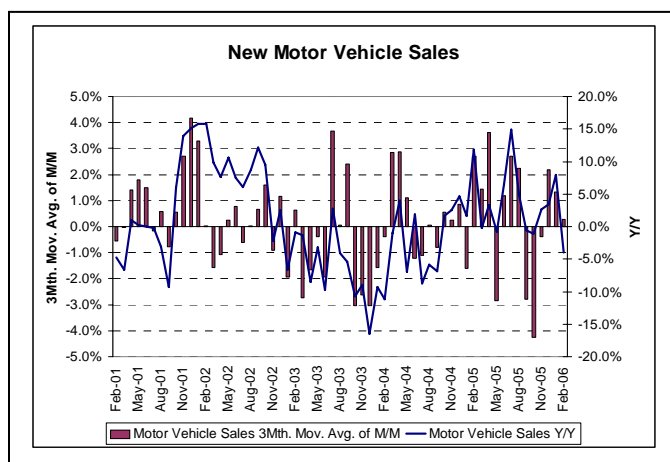
Manufacturing Inventories

Manufacturing Inventories increased 0.3% M/M and 3.4% Y/Y in February. On trend terms, however, inventories have been trending down and may indicate future increases in production.



New Motor Vehicle Sales

New Motor Vehicles Sales decreased 0.4% M/M and 3.9% Y/Y in February. Based on preliminary figures from the auto industry, new motor vehicle sales increased 1.0% M/M in March.



News

April 19th – **The International Monetary Fund stated in its bi-annual global report that Canada's economy will likely expand 3.1% in 2006 and 3.0% in 2007 and further interest rate hikes may be needed in the coming months.**

Excerpt from IMF report:

“In Canada, the economy continues to perform strongly, benefiting from the improvement in the terms of trade caused by high energy and other commodity prices. Private consumption is growing strongly, supported by rising employment and asset prices, while healthy corporate profits have underpinned a pickup in business investment. Growth is projected at 3.1 percent this year, with most of the risks to the outlook stemming from possible external developments—in particular, the Canadian economy is vulnerable to any slowdown in the United States, an abrupt depreciation of the U.S. dollar, or a worsening of the terms of trade caused by weaker global commodity prices. Inflation remains well contained but, with the output gap closing, further interest rate increases will likely be needed in the coming months. The fiscal outlook remains favorable. The new government has some fiscal room to maneuver in achieving its objective of lowering the tax burden and slowing spending growth, while maintaining fiscal surpluses and keeping government debt on a firm downward path. As in most other industrial countries, however, rising health care costs present a long-term challenge to fiscal sustainability, and reforms to the public health system will be needed to contain costs.”

April 17 – **Mixed news from the Bank of Canada Business Outlook Survey** - The number of executives who said their firm may have some difficulty in its ability to meet an unexpected increase in demand decreased from 34.7% in Q4 2005 to 32.7% in Q1 2006. The number of firms who said they currently face labor shortages that restrict their ability to meet demand decreased from 49.0% in Q4 in 2005 to 44.0% in Q1 2006. Although more Canadian companies could fill new orders, the share of executives expecting inflation faster than 2 % increased from 61.4% in Q5 to 63.4% in Q1.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/20	Consumer Price Index (MAR) (M/M)	0.4%	-0.2%
04/20	Consumer Price Index (MAR) (Y/Y)	2.1%	2.2%
04/20	CPI Excluding Core 8 (MAR) (M/M)	0.3%	0.3%
04/20	CPI Excluding Core 8 (MAR) (Y/Y)	1.6%	1.7%
04/21	Wholesale Sales (M/M) (FEB)	0.0%	1.8%
04/21	Retail Sales Less Autos (FEB) (M/M)	0.2%	1.4%
04/21	Retail Sales Less Autos (FEB) (Y/Y)	0.2%	1.4%
04/25	Bank of Canada (APR 25)	4.00%	3.75%

Valance Co., Inc.

Valance Economic Report: New Zealand

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April 19, 2006

The latest data brought a couple of surprises in terms of consumer spending. Very strong retail sales and another jump in home sales certainly don't confirm the recessionary talk of some economists. Annual inflation climbed to a level, which remains uncomfortable to the RBNZ in terms of kicking off its easing cycle.

Weekly Highlights

Retail Sales – rose 1.9% M/M and 5.1% Y/Y in February. (page 38)

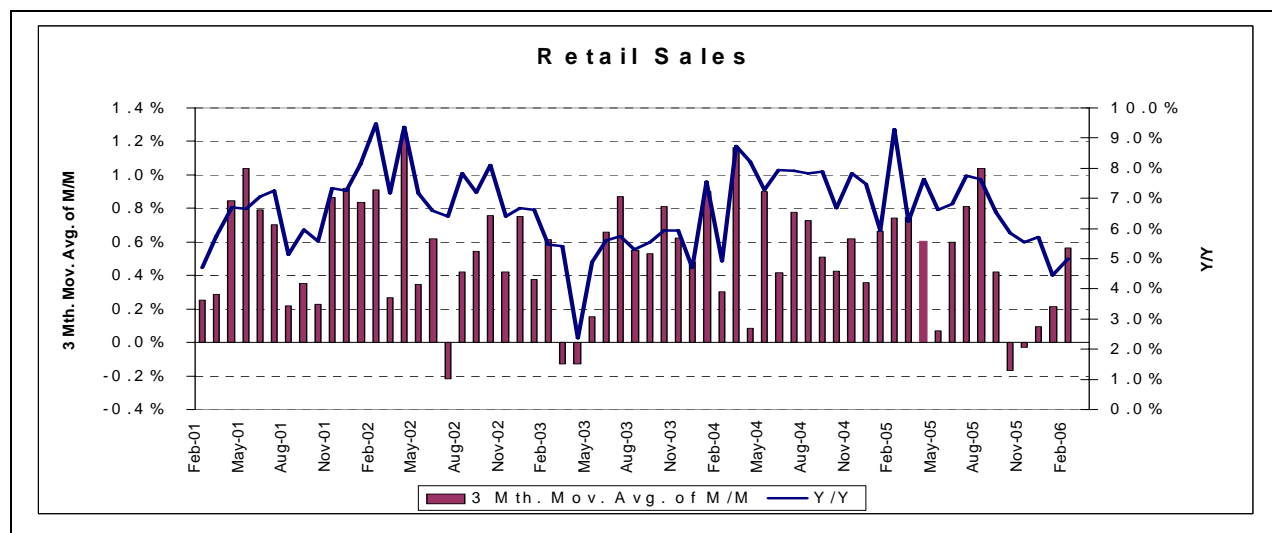
CPI - rose 0.7% Q/Q and 3.4% Y/Y in Q1. (page 39)

New Home Sales – rose 27% M/M and decreased 3% Y/Y in March. (page 39)

ANZ-Business NZ PMI – rose to 53.5 in March from 51.2 in February. (page 39)

Weekly Releases & News

Chart of the Week: *Retail Sales*



February Retail Sales rose 1.9% M/M (0.3% gain was expected) from January when they were unchanged. It was the largest monthly gain in two years and the first increase in 3 months. The Y/Y gain was 5.1%. Seventeen of the 24 store categories surveyed had higher sales in February led by vehicles, restaurants and hotels. Ex-autos sales rose 1.4% in February. Many economists have suggested the data has seasonal adjustment problems.

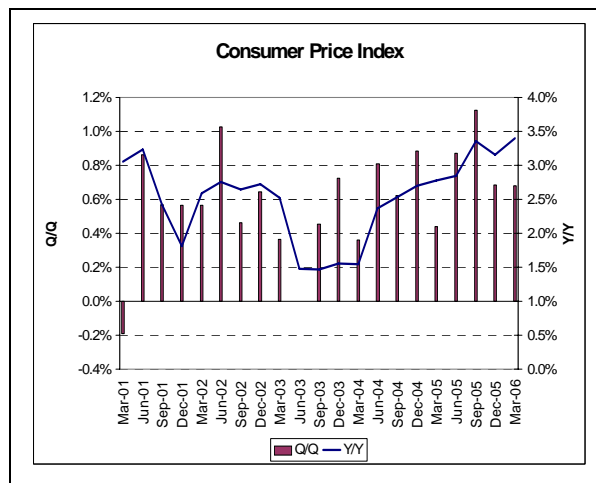
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CPI, New Home Sales & Business PMI

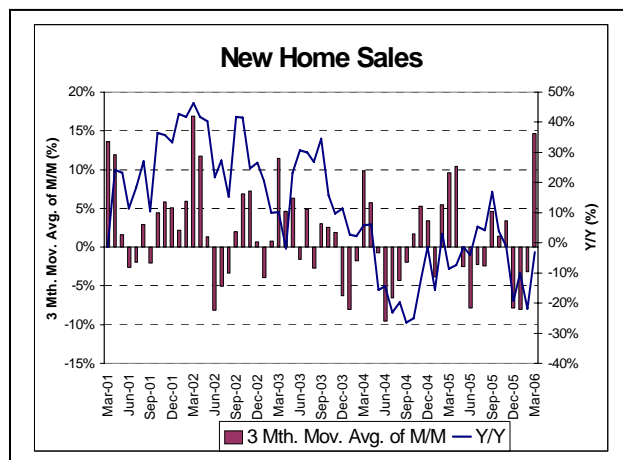
CPI

The Consumer Price Index rose as expected 0.7% in Q1. Prices rose 3.4% Y/Y, up from the previous quarter's 3.2%. The inflation rate remains above the RBNZ's 1-3 per cent target. The most significant contribution to the CPI in the March quarter came from food, housing, and climbing gas prices. The cost of buying and building a new house increased 1% in the quarter -- the 28th consecutive gain. Gas prices rose 5.1% from Q4. The food group increased 1.0% in the March 2006 quarter.



New Home Sales

New Zealand House Sales rose for a second month in March and the average price reached a record high. Sales rose 27 % to 10,094 in March from 7,930 in February. The median price paid for a house advanced to a record NZ\$302,000 in March from NZ\$295,000 in February. From a year earlier, the average price rose 7.7%. The time it took to sell a house was 33 days in March compared with 37 in February and 28 in March last year.



ANZ Business NZ PMI

New Zealand's Manufacturing PMI rose to 53.5 in March from 51.2 in February, in part due to a recent sell-off of NZD that has helped to revive exports. A reading below 50 indicates manufacturing is contracting.

News & Upcoming Dates

CPI Detailed Commentary:

Seven of the nine groups in the CPI recorded increases in the March 2006 quarter. The most significant upward contributions came from the housing, food, and recreation and education groups. Less significant upward contributions came from the personal and health care, tobacco and alcohol, household operation, and credit services groups. The other two groups in the CPI recorded decreases, the most significant contribution coming from transportation, with apparel providing a less significant contribution.

The most significant individual upward contributions to the movement in the CPI came from price increases for petrol (up 5.1%) and the purchase and construction of new dwellings (up 1.0%). The most significant individual downward contribution came from lower prices for international air travel (down 12.3%). Gasoline prices were up 23.5% on year, making the biggest contribution to the spike in annual inflation.

CPI all groups tradable and non-tradable component series:

In the March 2006 quarter, the non-tradable component increased 1.0%, following a 1.0% increase in the December 2005 quarter. The tradable component decreased 0.1% in the March 2006 quarter, following an increase of 0.5% in the December 2005 quarter. Within the tradable component, the fall in international airfares more than offset the rise in petrol prices. From the March 2005 quarter to the March 2006 quarter, the non-tradable component increased 4.2 % and the tradable component increased 2.1%. The RBNZ is focused on costs that aren't influenced by the currency or commodity prices (non-tradables).

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
4/20	Visitor Arrivals (MAR)	---	1.5%
4/25	NBNZ Business Confidence (APR)	---	-51.0%

Valance Co., Inc.

Weekly Economic Report: *China*

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April 19, 2006

China's Foreign Exchange Reserves maintained their solid upward trend in March while **M2 Money Supply** growth remained elevated. On currency flexibility, the World Trade Organization stated that China should make its currency more flexible to control inflation and improve the economy. The Organization also noted that, "it is unlikely that a completely freely floating exchange rate can be achieved with the current set of regulations and controls in place."

Weekly Highlights

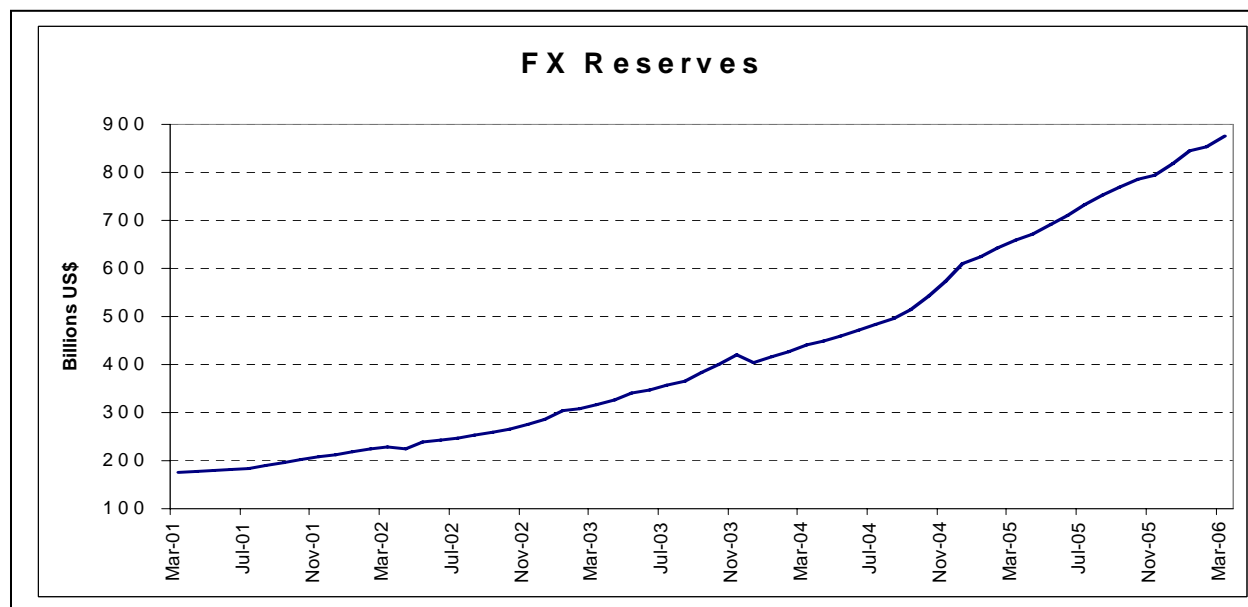
China's Foreign Exchange Reserves - increased from \$853.7 bln in February to \$885.1 bln in March. (page 41)

Money Supply M2 - growth remained at 18.8% Y/Y in March. (page 42)

Foreign Capital Utilized - slowed from 7.9% Y/Y in February to 6.4% Y/Y in March. (page 43)

Weekly Releases & News

Chart of the Week: *Foreign Reserves*

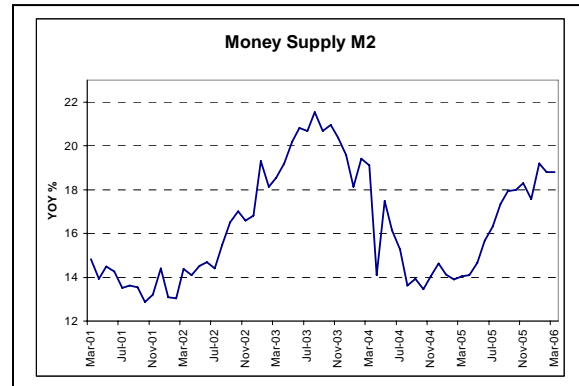


China's Foreign Exchange Reserves increased from \$853.7 bln in February to \$885.1 bln in March. China is currently the world largest holder of Foreign Exchange Reserves, holding 20% of total foreign reserves.

Money Supply

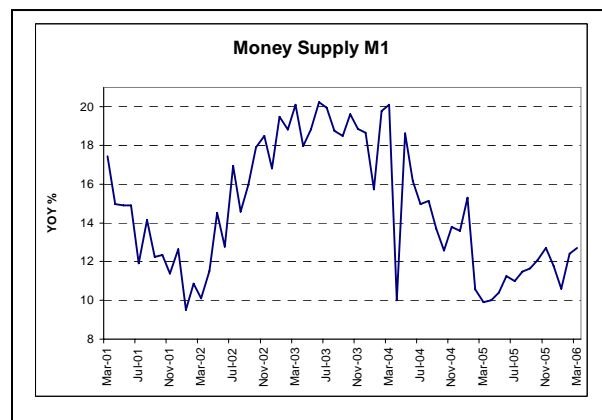
M2

Money Supply M2 growth remained at 18.8% Y/Y in March. The PBoC expects M2 to grow by 16% Y/Y in 2006; however, M2 has exceeded the Central Bank's official target for tenth consecutive months.



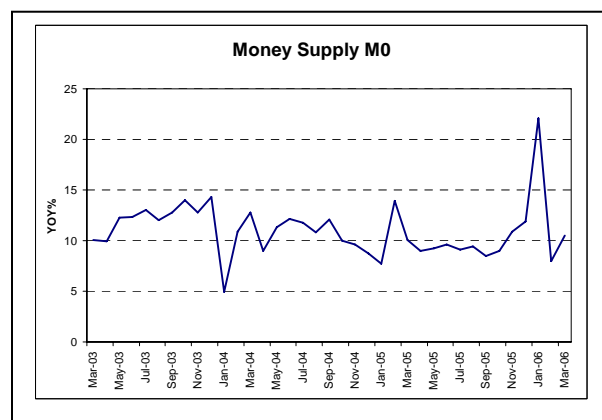
M1

Money Supply M1 growth increased from 12.4% Y/Y in February to 12.7% Y/Y in March. The PBoC expects M1 to increase by 14% Y/Y in 2006.



M0

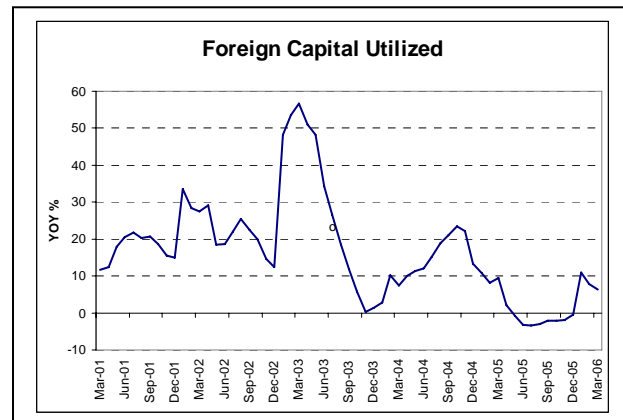
Money Supply M0 growth increased from 8.0% Y/Y in February to 10.5% Y/Y in March.



Foreign Capital Utilized & News Releases

Foreign Capital Utilized

Foreign Capital Utilized slowed from 7.9% Y/Y in February to 6.4% Y/Y in March. China is expected to see about \$60 bln of new foreign direct investment this year, as areas such as telecommunications are made more accessible to overseas companies.



News Releases

April 19th - WTO Says China Should Move to A More Flexible Yuan - A policy review report, issued by the World Trade Organization (WTO), stated that China should make its currency more flexible to control inflation and improve the economy. The WTO wrote that more flexibility “could enable China to operate a more independent monetary policy, which would be better suited to ensuring a low and stable rate of inflation” and “would allow the market to play a greater role in determining interest rates and therefore in allocating resources.” The WTO added, “it is unlikely that a completely freely floating exchange rate can be achieved with the current set of regulations and controls in place.”

April 18th – RMB Flexibility Cannot Resolve Trade Issues - The Dow Jones Newswires reported that a Central Bank Senior Official stated that the RMB’s flexibility cannot solve U.S. trade issues or global economic imbalances.

April 17th – GDP Grew Faster-Than-Expected In Q1 - Shanghai Securities News reported that China’s economy grew a faster-than-expected 10.2% Y/Y in Q1. The growth was attributed to a pickup in foreign trade and fixed assets investments.

April 17th – Morgan Stanley Raised Its 2006 Economic Growth Forecast - Morgan Stanley & Co. raised its forecast for China’s economic growth from 7.8% to 9.5% for 2006, on stronger investment spending.

April 17th – OECD Says China Should Encourage Takeovers By Foreign Companies – An OECD report stated that China should loosen ownership restrictions, improve transparency and encourage takeovers by foreign companies. Kenneth Davies, Senior Economist of the OECD stated that, “Mergers and acquisitions could play a larger part in China’s FDI inflows if government policies were more open and transparent.” Davies added, “China also needs to open its capital markets fully to foreign investors.”

April 16th – Retail Sales Rose in Q1 - Assistant Commerce Minister, Huan Hai, stated that China’s Retail Sales rose 12.2% Y/Y in Q1.

News Releases (Cont'd.)

April 16th – Director of the Institute of Finance & Banking, Li Yang, Comments on China's Q1 Growth –

On first-quarter growth: “The pace of GDP growth is not a problem, I don't think we should be concerned about it.”

On fixed-asset investment growth: “China's fixed-asset investment in the first quarter is quite high, which has prompted the government to warn about the risks of an investment rebound again. But I don't think it's a problem. Both domestic savings and current natural resources are sufficient to back the growth. As the government continues to take measures to adjust the overall investment structure, the growth for the full year will be roughly the same as last year's. The key in stabilizing economic growth is to stabilize investment, as the changes in China's economic growth have been closely linked to fluctuations in investment over the past decade. The government should strictly continue its curbs on over-heated sectors to stop them from expanding capacity. On the other hand, investment in infrastructure construction, service sectors and housing projects should be encouraged over the next few years. As China still faces difficulty in boosting domestic consumption, sustaining stable investment growth is important.”

On China's savings rate: “China's high savings rate over the past two decades is a result of the increasing proportion of the workforce in the overall population during the period, and also the result of its social and economic reform, which prompted people to save more to prepare for future uncertainties. China's high savings rate has been the main driver for the country's strong investment growth and at the same time has helped keep inflation relatively low. These favorable conditions for economic growth are expected to run out in 10 to 15 years as the ageing population increases and fewer people enter the workforce as a result of the one-child policy.”

April 15th – PBoC Says China Needs Private Property Laws - PBoC Vice Governor, Wu Xiaoling, stated that China needs private property laws for unemployment, investment and competition reasons. Xiaoling commented that the government should institute anti-trust legislation and reduce its holdings in domestic companies. Xiaoling added, “We need the legislative framework to give a clear interpretation of private property sectors.” Senior Economist, Kenneth Davies of the OECD offered, “The uncertainty of private property rights increases risks.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/19	GDP Constant Price (Y/Y) – Q1	9.7%	9.9%
04/19	Unemployment Rate – Q1	--	4.2%
04/19	Producer Price Index (Y/Y) – Mar	2.9%	3.0%
04/19	Purchasing Price Index (Y/Y) – Mar	--	6.8%
04/19	CPI (Y/Y) – Mar	1.3%	0.9%
04/19	Retail Sales Value / Accum (Y/Y) – Mar	12.7% / --	9.4% / 12.5%
04/19	Value Added Industry (Y/Y) / Current – Mar	16.0% / --	20.1% / 547.31B
04/19	Fixed Assets Investment Urban Cum (Y/Y) – Mar	26.4%	26.6%
04/19	Industrial Profits Cum (Y/Y) – Mar	--	21.8%
04/21-27	Wholesale Prices (Y/Y) – Mar	--	0.7%