

# Valance Company, Inc.



Weekly

December 14, 2011

III

## Highlights

---

US – Trade data boost Q4 GDP estimates

EU – ECB reduced its benchmark interest rate by 25 bps to 1.00%

JN – Q3 Real GDP revised lower on CAPEX data

UK – Highest jobless rate since 1994

CA – Unexpected trade deficit

AU – Weak AUD helping the RBA

NZ – RBNZ cut its growth outlook

### United States

Michael Pede

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

### Japan

Davin Patton

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

### Europe

#### China

#### Canada

La-Toya Elizee

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

### United Kingdom

#### Australia

#### New Zealand

Milo Prochazka

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

### Sweden

#### Switzerland

#### China

Evelyn Richards

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

*Valance Economic Reports*

Valance Co., Inc.

**Valance Economic Report: United States**

Michael Pede

(340) 692-7710

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

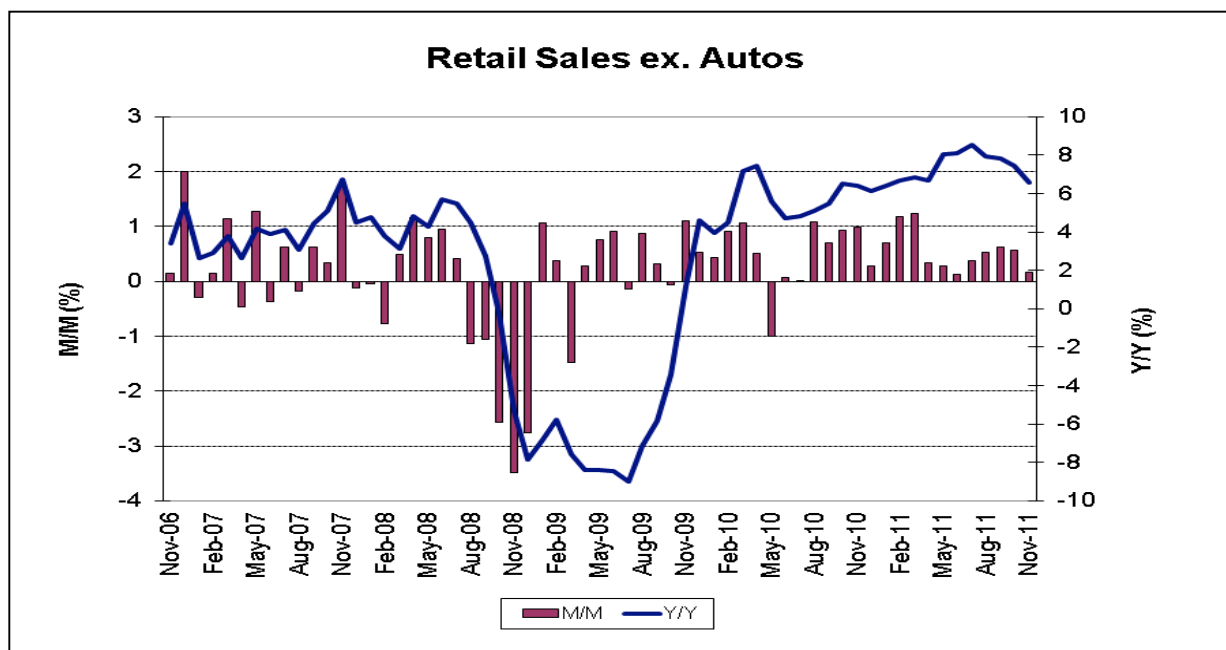
December 14, 2011

Retail sales were somewhat weaker than expected in November. The Trade Deficit, in real terms, came in below expectations as well, although this occurred as both exports and imports declined.

**Weekly Highlights**

**Retail Sales** – increased 0.2% M/M and 6.5% Y/Y, excluding autos, in November (US 1)

**Trade Balance** – declined from \$44.2 bln to \$43.5 bln in October (US 3)

**Weekly Releases****Chart of the Week: Retail Sales ex. Autos**

Retail Sales, excluding Autos, increased 0.2% M/M and 6.5% Y/Y in November. Headline Retail sales increased 0.2% M/M and 6.8% Y/Y. Core Retail Sales (excluding gas, building materials, and autos) increased 0.2% M/M and 5.6% Y/Y and are now increasing at a 6.6% three month annualized rate.

US 1

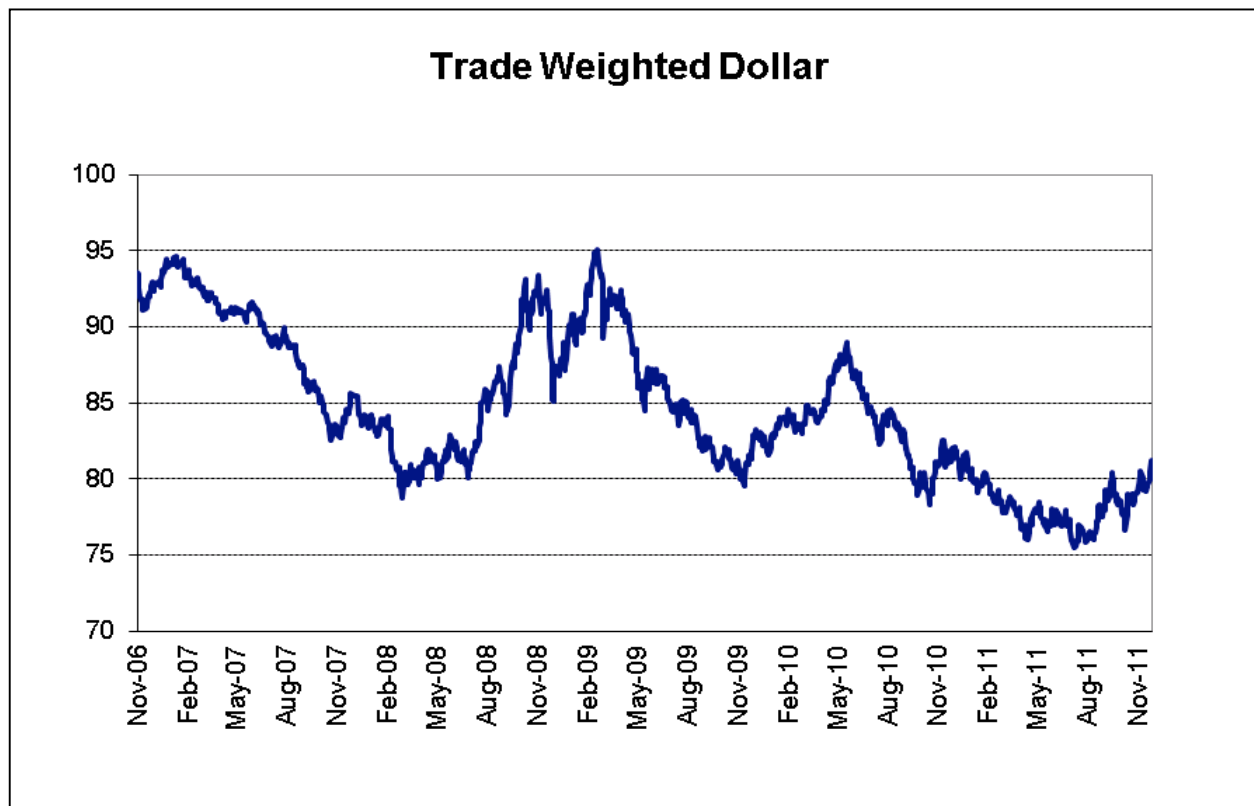
## U.S. Financial Balances & Trade Weighted Dollar

### Financial Balances

U.S.	Latest period (\$blns)	Last 12mth. as a % of GDP
Budget Balance	-98.5 (Aug)	-7.8%
Trade Balance	-61.8 (OCT)	-3.5%
Current Account Balance	-472.0B (Q2)	-3.1%
Private Balance	--	4.7%

The budget deficit on a trailing twelve month basis as of September is 7.8% of GDP. The trade deficit as of September is 3.5% of GDP. The budget deficit remains quite large but is starting to shrink through a combination of the expiration of stimulus funds and congressional spending cuts.

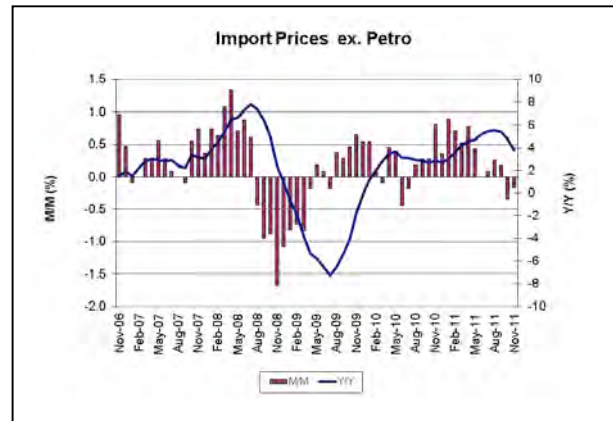
### Trade Weighted Dollar



# Import Prices, Trade Balance & Monthly Budget Statement

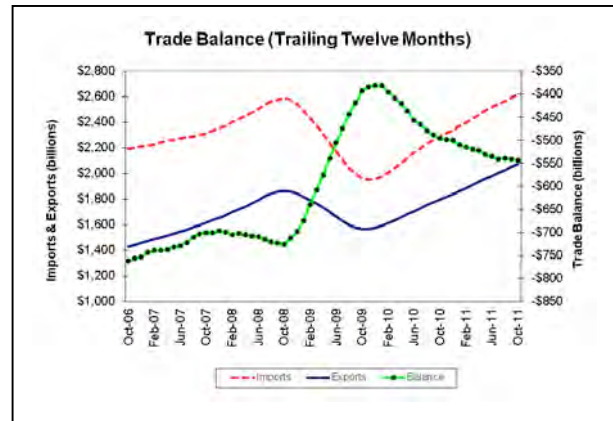
## Import Prices ex. Petro

Import Prices, excluding petroleum, increased 0.7% M/M and 9.9% Y/Y in November. Goods from China rose 0.3% M/M and 3.9% Y/Y.



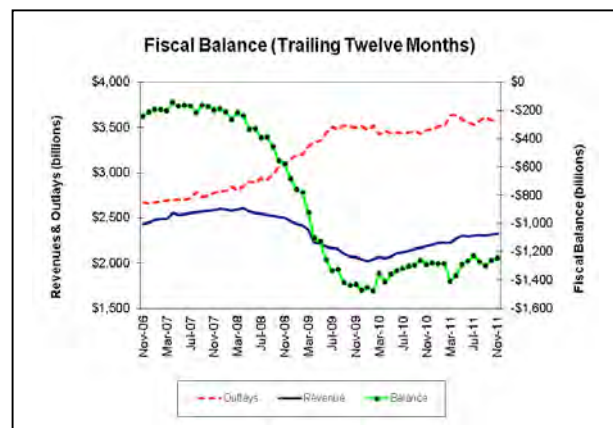
## Trade Balance

The Trade Deficit dropped from \$44.2 bln in September to \$43.5 bln in October. Total exports declined 0.8% M/M and are up 12.3% Y/Y. Imports declined 1.0% M/M and are up 11.9% Y/Y.



## Fiscal Balance Index

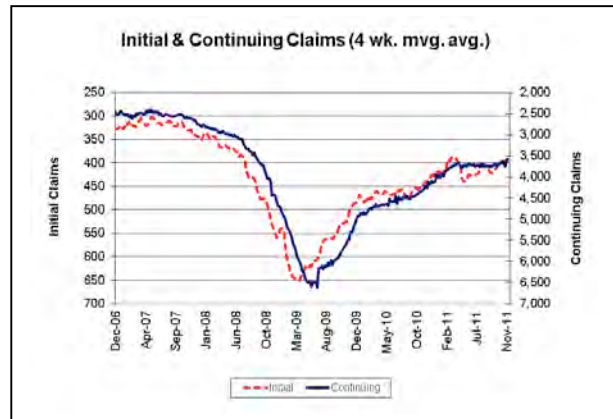
The Fiscal Balance in November showed a deficit of \$ 152.4 bln vs a deficit of \$149.0 bln one year ago.



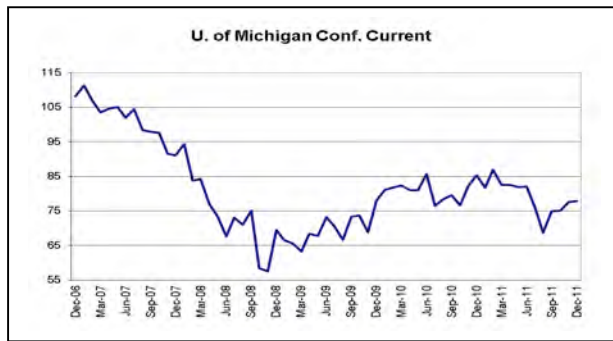
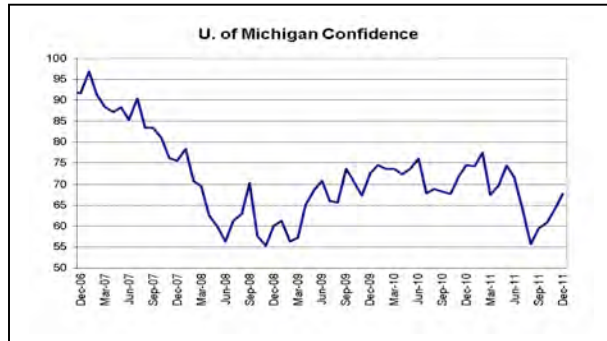
## Unemployment Claims & Confidence

### Initial & Continuing Claims

Initial claims dropped from a 404k to 381k, below market expectations of 395k. The four week moving average of Initial Claims fell 3k to 393k, the lowest reading since early April. Continuing claims declined from 3757k to 3583k.



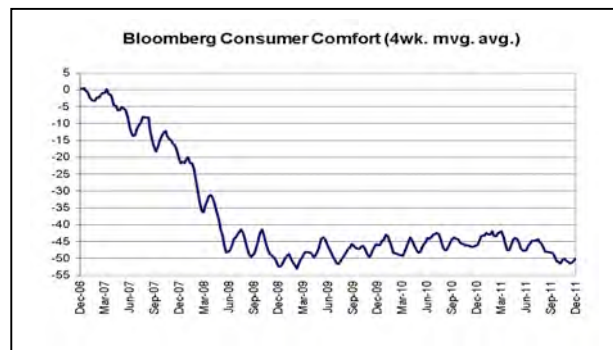
### U. of Michigan Confidence



The preliminary reading of the University of Michigan consumer sentiment index for December indicated an increase from 64.1 to 67.7 in December. The improvement exceeded market expectations for a more modest rise to 65.8. The current conditions component increased from 77.6 to 77.9 while the expectations component increased from 55.4 to 61.1. Also within the data, inflation expectations softened somewhat as the one year inflation reading declined from November's 3.2% to 3.1% in December. The five year inflation reading was unchanged at 2.7%.

### Bloomberg Consumer Comfort

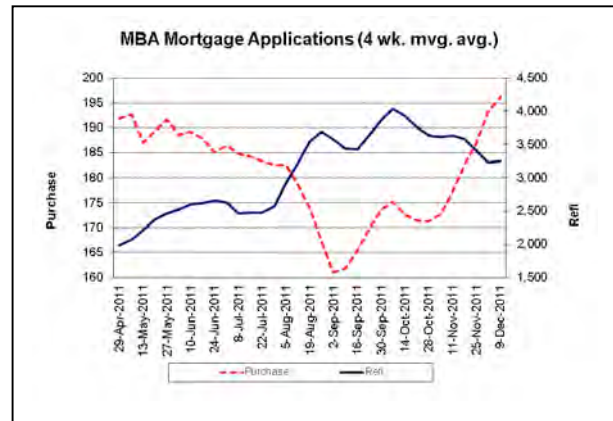
The Bloomberg Consumer Comfort Index declined slightly from -50.2 to -50.3. The buying climate index dropped from -49.4 to -52.6 while the personal finance component improved from -12.7 to -8.5. The state of the economy component declined from -88.5 to -89.7.



## Mort. Applications & Upcoming Dates

### MBA Mortgage Applications

MBA Mortgage Applications increased 12.8% W/W after declining 11.75 W/W last week. Refi Applications rose by 15.3% W/W.



### Key Dates This Week

Date	Indicator	Month	Expectation	Previous
12/15	Producer Price Index (M/M)	NOV	0.3%	-0.3%
12/15	PPI Ex Food & Energy (M/M)	NOV	0.20%	0.00%
12/15	Current Account Balance	3Q	-\$108.0B	-\$118.0B
12/15	Empire Manufacturing	DEC	2.5	0.61
12/15	Initial Jobless Claims	9-Dec	--	--
12/15	Industrial Production	NOV	0.2%	0.7%
12/15	Capacity Utilization	NOV	0.779	0.778
12/15	Bloomberg Consumer Comfort	40888	--	--
12/15	Philadelphia Fed.	DEC	5	3.6
12/16	Consumer Price Index (M/M)	NOV	0.10%	-0.10%
12/16	CPI Ex Food & Energy (M/M)	NOV	0.10%	0.10%
12/19	NAHB Housing Market Index	DEC	19	20
12/20	Housing Starts M/M%	NOV	-1.7%	-0.30%
12/20	Building Permits M/M%	NOV	-3.00%	10.90%
12/21	MBA Mortgage Applications	40893	--	--
12/21	Existing Home Sales M/M	NOV	0.6%	1.4%

Valance Co., Inc.

**Valance Economic Report: Euro Zone**

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

December 14, 2011

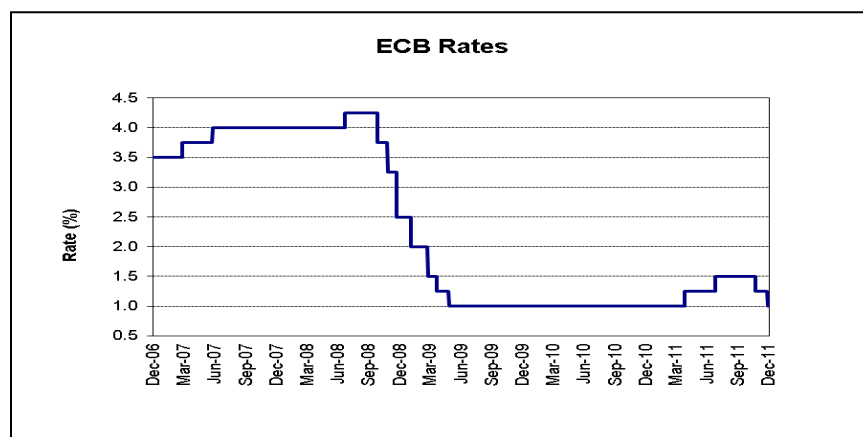
The ECB reduced its benchmark interest rate by 25 bps to 1.00%, citing that “The intensified financial market tensions are continuing to dampen economic activity in the euro area and the outlook remains subject to high uncertainty and substantial downside risks.” The EU ZEW Survey (Economic Sentiment) remained near cyclically low levels in December and French Non-Farm Payrolls growth was flat Q/Q in Q3.

**Weekly Highlights**

**ECB** – reduced rates by 25 bps to 1.00 % in December. (EU 1)

**EU ZEW Survey (Economic Sentiment)** – increased from -59.1 in Nov to -54.1 Dec. (EU 3)

**French Non-Farm Payrolls** – remained flat Q/Q in Q3, in line with expectations. (EU 6)

**Weekly Releases & News****Charts of the Week: ECB Benchmark Lending Rates**

ECB reduced benchmark interest rate by 25 bps to 1.00%, in line with market expectations. “The intensified financial market tensions are continuing to dampen economic activity in the euro area and the outlook remains subject to high uncertainty and substantial downside risks,” President Mario Draghi told a news conference.

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

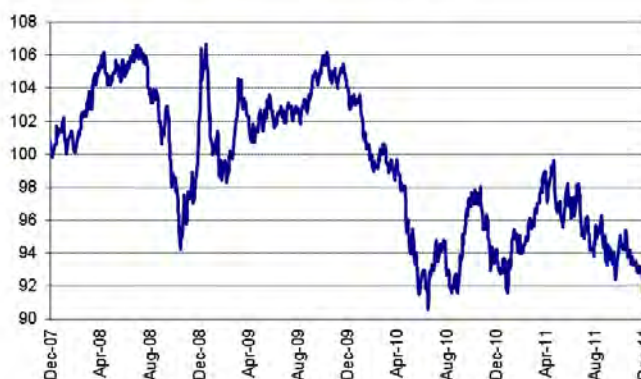
### ***Financial Balances***

<i>Germany</i>	<i>Last period (\$blns euros)</i>	<i>Last 12mth. as a % of GDP*</i>
Budget Balance		-3.3%
Trade Balance	17.4 (September)	2.0%
Current Account Balance	15.7 (September)	6.9%
Private Savings Balance		-3.6%
<i>France</i>		
Budget Balance		-2.7%
Trade Balance	-6.3 (September)	-4.9 %
Current Account Balance	-4.0 (September)	-3.9%
Private Savings Balance		-1.2%
<i>Italy</i>		
Budget Balance		-3.9 %
Trade Balance	-1.8 (September)	-7.7%
Current Account Balance	-5.3 (August)	5.5%
Private Savings Balance		-4.5

\*Budget Balance as of year end 2010 – Source  
OECD

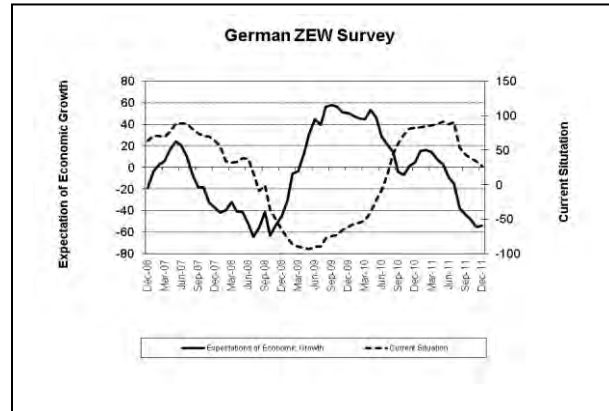
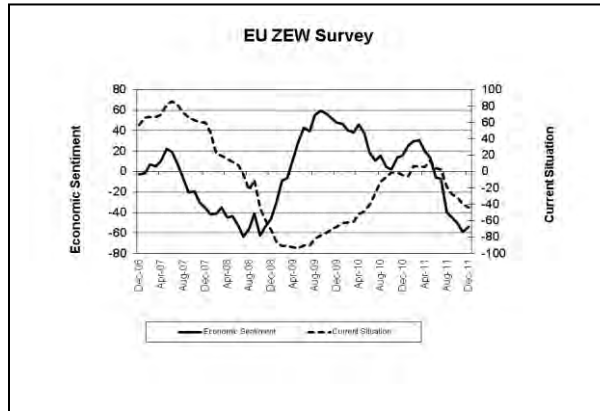
### ***Trade Weighted Euro***

**Trade Weighted Euro**



## ZEW Surveys & EU Industrial Production

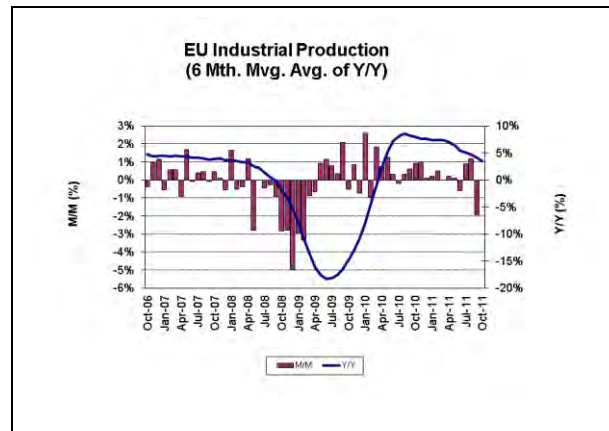
### EU & German ZEW Surveys



The EU ZEW Survey (Economic Sentiment) increased from -59.1 in November to -54.1 in December. The Current Situation Index increased from -45.0 to -31.3. Germany’s ZEW Survey (Econ. Sentiment) increased from -55.2 to -53.2 and the Current Conditions gauge fell from 34.2 to 26.8.

### EU Industrial Production

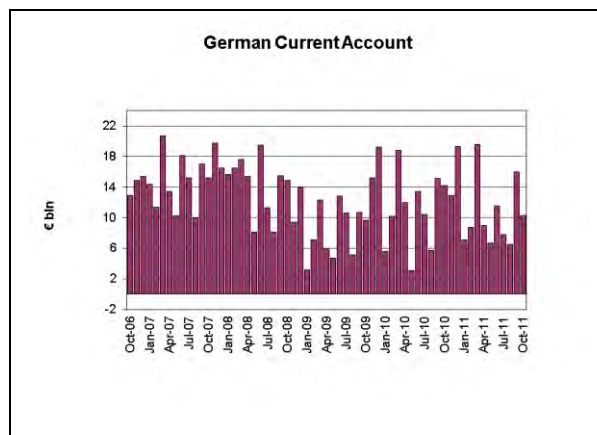
EU Industrial Production was flat M/M in October following a 1.9% Y/Y decline in September. Y/Y growth increased 1.6% in October. Gains in the production of Capital and Non-durable Consumer Goods were offset by decline in production of Intermediate and Energy Goods.



## German Current Account, Trade Balance & Exports

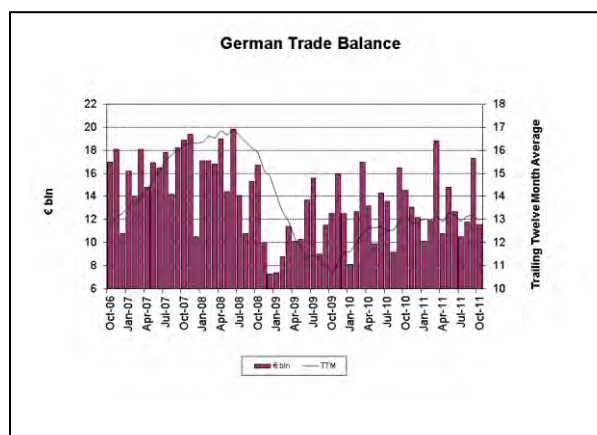
### German Current Account

Germany's Current Account surplus narrowed from €16.0 bln in September to €10.3 bln in October. The Current Account balance stood at surplus of €14.2 bln in October 2010.



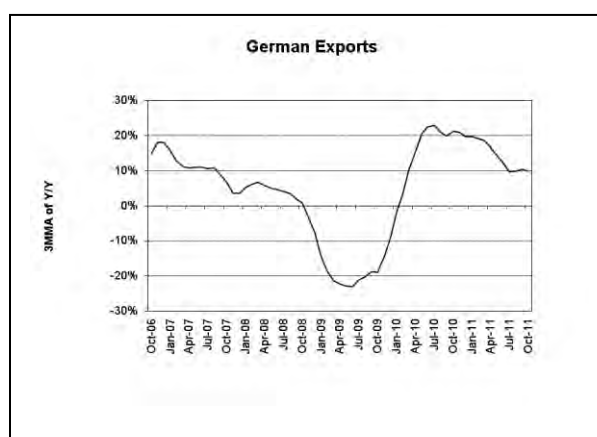
### German Trade Balance

Germany's Trade surplus narrowed from €17.3 bln in September to €11.6 bln in October as exports fell more than imports. The surplus stood at €14.5 bln in October 2010.



### German Exports

German Exports fell 3.6% M/M and increased 6.7% Y/Y in October. Imports fell 1.0% M/M and increased 10.7% Y/Y.



## German CPI & French Industrial Prod./Business Sentiment

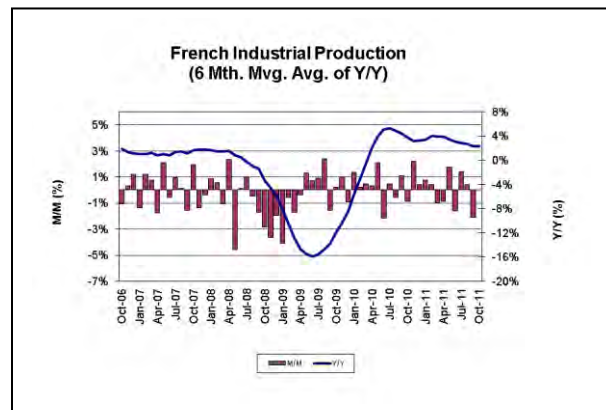
### German CPI

Final figures show that German CPI was flat M/M and increased 2.8% Y/Y, as was previously estimated.



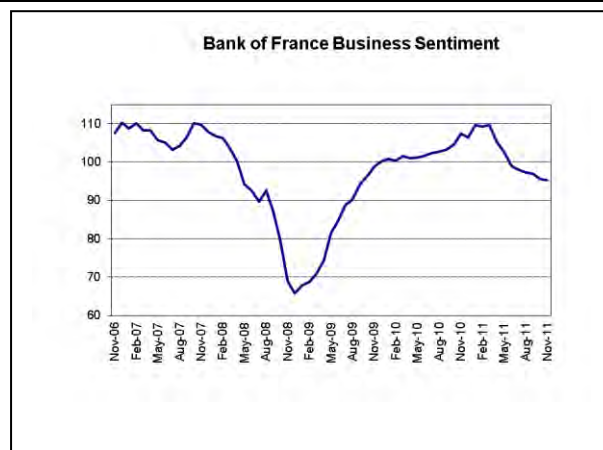
### French Industrial Production

French Industrial Production was flat M/M and increased 1.8% Y/Y in October. Manufacturing Production was also flat M/M while Y/Y growth increased 2.6%.



### Bank of France Business Sentiment

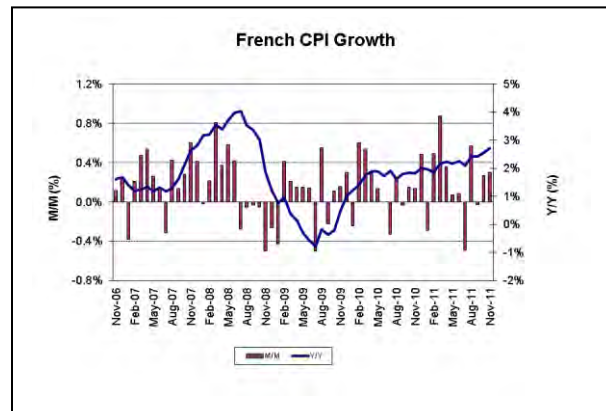
French Business Sentiment fell from 96 in October to 95 in November. The Capacity Utilization Rate fell from 79.3 to 79.2. Price of Finished Goods increased from two to three.



## ***French CPI, Non-Farm Payrolls and Current Account***

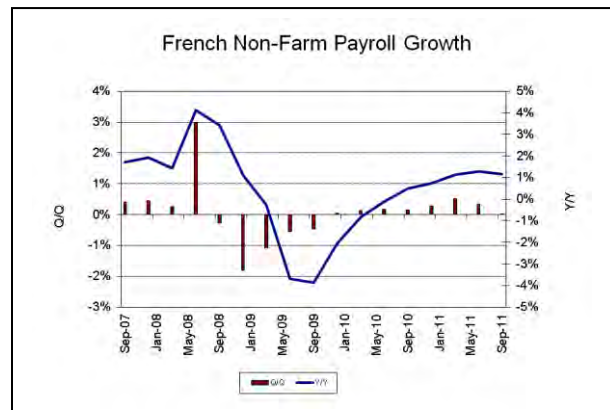
### ***French CPI***

French CPI increased 0.3% M/M and 2.7% Y/Y in November. Market expectations were for a 0.1% M/M and a 2.5% Y/Y gain.



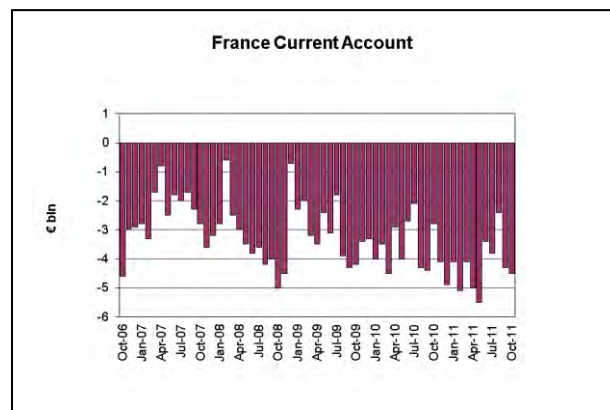
### ***French Non-Farm Payrolls***

Final figures show that French Non-Farm Payrolls growth was flat Q/Q in Q3. Y/Y growth increased 1.2%.



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

The French Current Account deficit widened from €4.3 bln in September to €4.5 bln in October. The Current Account balance stood at a deficit of €2.8 bln in October 2010.



## ***Comments/News***

---

***Dec. 14th - Smaghi Says ECB Bond-Buying Based on Circumstances, Zeit Reports (Bloomberg)*** - European Central Bank executive board member Lorenzo Bini Smaghi said any decision on the ECB buying more government bonds has to be taken “on the basis of circumstances,” Die Zeit reported, citing an interview. The central bank can’t ignore the fact that in the current crisis “markets are dysfunctional” and that’s why the ECB implemented the Securities Markets Program, Smaghi told the newspaper, according to an e-mailed version of the interview. “Our target is to achieve price stability and to implement a single monetary policy for the euro area as a whole,” Smaghi said, when asked if the ECB would buy more bonds. “There is no single monetary policy, if interest rates, not only for government, but also for corporates and households, in certain countries spiral out of control.” Smaghi, who is stepping down from the ECB’s executive board, said German fears that “aggressive action” by the central bank leads to inflation is “wrong, based on simple economic analysis,” the newspaper said. Asked by Die Zeit whether Italy can save itself, Smaghi said “it can, and it must,” according to the article, adding that “markets need to be convinced quickly.”

***Dec. 14th - ECB’s Mersch Says Risks to Economic Outlook Are on the Downside (Bloomberg)*** - European Central Bank council member Yves Mersch said risks to the economic outlook in the euro area are on the downside. “Important downward risks remain for the euro zone’s economic outlook in a context of increased uncertainty,” Luxembourg’s central bank, which Mersch heads, said in a quarterly report published today. “The downward risks are linked to a new intensification of tensions on financial markets in the euro zone and to their potential repercussions on the region’s real economy.” A gradual economic recovery can be expected in the course of 2012, supported by “very low interest rate levels in the short-term and by all the measures adopted to support the functioning of the financial sector,” the report said. Inflation should fall below 2 percent next year and “risks to the outlook for medium-term price evolution are globally balanced,” it said. Upside inflation risks relate to increases in indirect taxes and administered prices as governments seek to reduce budget deficits. “The main downward risks are linked to the repercussions of weaker-than-expected growth in the euro zone and in the world,” the report said.

***Dec. 14th - Bank Spain Says Markets Showed Signs of Euro Disintegration (Bloomberg)*** - Bank of Spain Chief Economist Jose Luis Malo de Molina said markets were showing signs of the “disintegration” of the single currency before the European Union summit last week. “The freezing up of the interbank market and the dislocation of sovereign-debt markets constituted signs of disintegration of the single-currency area and serious obstacles to the transmission of common monetary policy,” he said in a speech late yesterday posted on the Bank of Spain’s website.

---

## ***Comments/News Cont'd***

---

***Dec. 10th - Worries grow over IMF loans to Europe (Reuters)*** - The prospect of Italy or Spain turning to the IMF for rescue loans is worrying the US and other nations that fear they could suffer losses on funds they have extended to the IMF. European leaders have agreed to provide 150 billion euros in bilateral loans to the IMF, with another 50 billion euros coming from non-European countries. The funds would not count as a contribution toward Europe's IMF quotas. Channeling money to the IMF can occur through the fund's general resources or a so-called IMF-administered account. Any lending from the IMF's general resources would spread the risk across the entire IMF membership. In an administered account, the countries contributing would take the losses in the case of default.

***Dec. 9<sup>th</sup> - Debt crisis weighs on German growth outlook (AP)*** - The Bundesbank lowered the 2012 growth forecast for Germany from 1.8 percent to 0.6 percent due to ongoing economic struggles in the 17-nation eurozone. "The crisis in public finances in a number of euro-area countries, the ensuing uncertainty and general economic slowdown are increasingly placing a strain on the economic activity in Germany," the bank said. Still, the bank said that the "domestic conditions for an extended, broadly based upswing are still intact" and that it was predicting growth to pick up to 1.8 percent in 2013, assuming that there will be "no further significant escalation of the sovereign debt crisis." This year's GDP growth is expected to come in at 3 percent, down from a previous forecast of 3.1 percent.

## *Key Dates This Week*

<b>Date</b>	<b>Country</b>	<b>Indicator</b>	<b>Month</b>	<b>Expectations</b>	<b>Previous</b>
12/15/2011	EC	Euro-Zone CPI - Core (Y/Y)	NOV	1.60%	1.60%
12/15/2011	EC	Euro-Zone CPI (M/M)	NOV	0.10%	0.30%
12/15/2011	EC	Euro-Zone CPI (Y/Y)	NOV	3.00%	3.00%
12/15/2011	EC	Eurozone Employment (Q/Q)	3Q	--	0.30%
12/15/2011	EC	Eurozone Employment (Y/Y)	3Q	--	0.40%
12/16/2011	EC	Euro-Zone Trade Balance	OCT	1.0B	2.9B
12/19/2011	EC	Euro-Zone Current Account nsa	OCT	--	-2.5B
12/19/2011	EC	ECB Euro-Zone Current Account SA	OCT	--	0.5B
12/20/2011	GE	GfK Consumer Confidence Survey	JAN	--	5.6
12/20/2011	GE	Producer Prices (M/M)	NOV	--	0.20%
12/20/2011	GE	Producer Prices (Y/Y)	NOV	--	5.30%
12/20/2011	GE	IFO - Business Climate	DEC	--	106.6
12/20/2011	GE	IFO - Current Assessment	DEC	--	116.7
12/20/2011	GE	IFO - Expectations	DEC	--	97.3
12/16/2011	FR	Business Confidence Indicator	DEC	93	95
12/15/2011	IT	CPI - EU Harmonized (M/M)	NOV F	-0.10%	-0.10%
12/15/2011	IT	CPI - EU Harmonized (Y/Y)	NOV F	3.70%	3.70%

Valance Co., Inc.

# Valance Economic Report: Japan

Davin Patton

(340) 692-7710

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

December 14, 2011

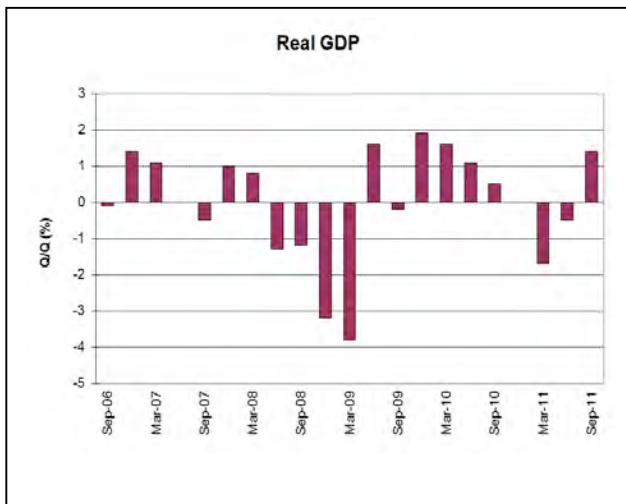
**Q3 Real GDP** was revised slightly lower on weaker than estimated capex data. While Tertiary Industry Activity increased, exports declined and the BSI Business Conditions Index dropped.

## Weekly Highlights

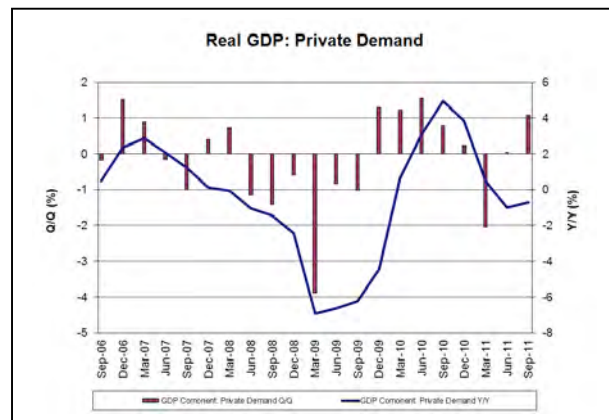
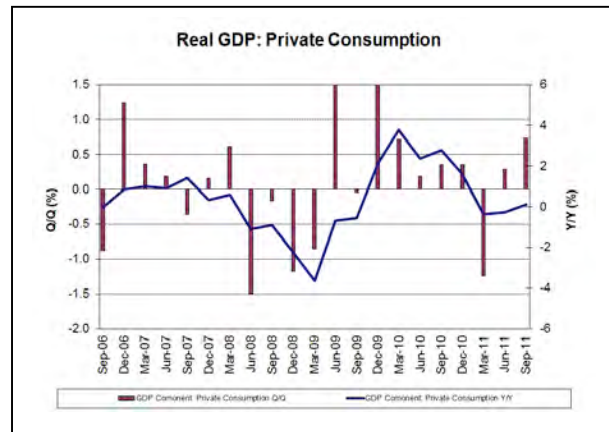
**Real GDP** –expanded 1.4% Q/Q in real terms in Q3. (JN 1)

**Tertiary Industry Activity** – increased 0.6% M/M in October. (JN 7)

## Chart(s) of the Week: *Gross Domestic Product*

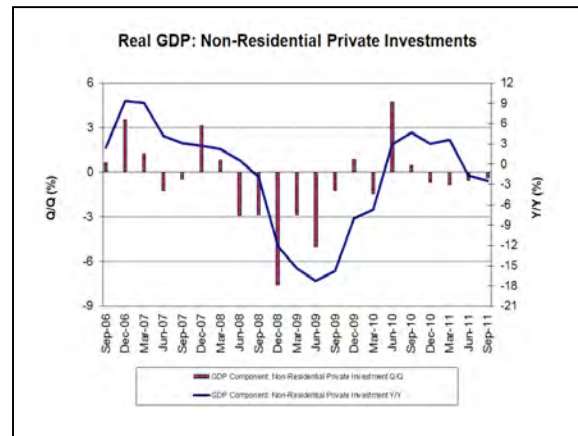
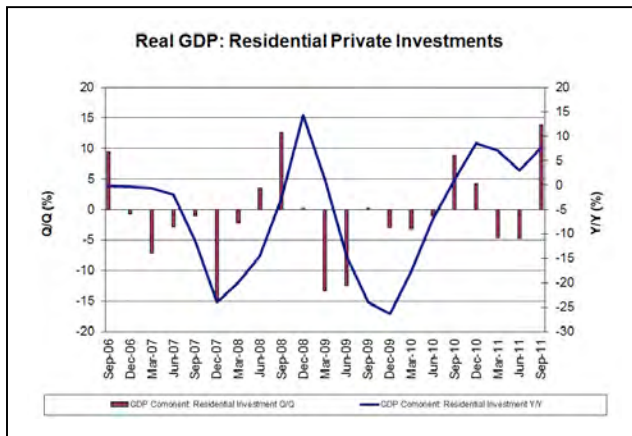
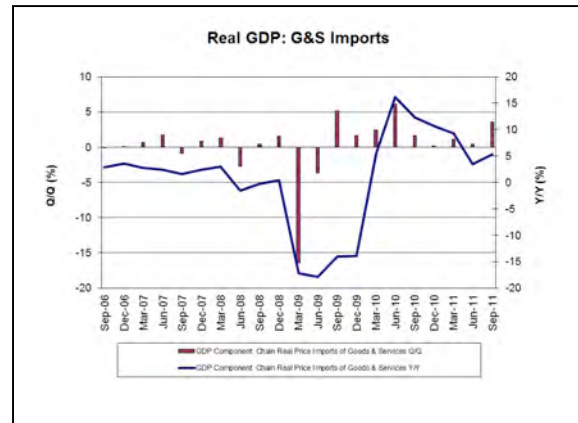
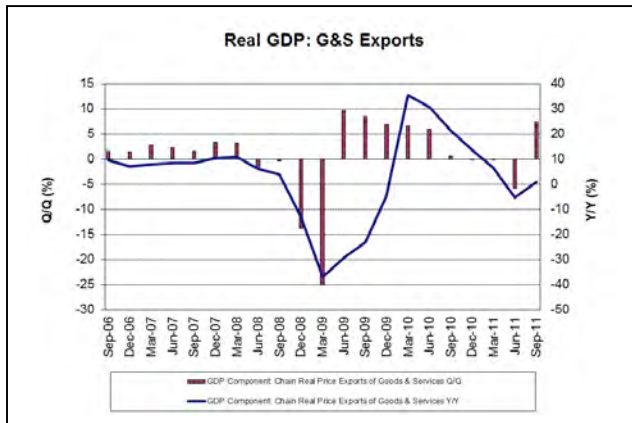


According to the latest estimate of Real GDP in Q3, Japan's economy expanded at a rate of 1.4% Q/Q in Q3, a tick below the preliminary estimate of a 1.5% Q/Q increase and a tick above the market's expectations for a 1.3% Q/Q increase. At an annualized rate, the economy expanded at a rate of 5.6% in Q3. The GDP deflator declined 2.2% Y/Y against preliminary estimates for a 1.9% Y/Y drop.



Also within the data, domestic private demand increased 0.8% Q/Q (vs 1.0% Q/Q estimated), private demand increased 1.1% Q/Q (vs 1.4% Q/Q estimated), public demand was unchanged (vs a 0.1% Q/Q drop estimated), and CAPEX increased 0.2% Q/Q- well below initial estimates for a 0.8% Q/Q increase. Net Exports increased 7.3% Q/Q while Net Imports increased 3.5% Q/Q, both of these exceeding initial estimates for 6.2% Q/Q and 3.4% Q/Q respectively.

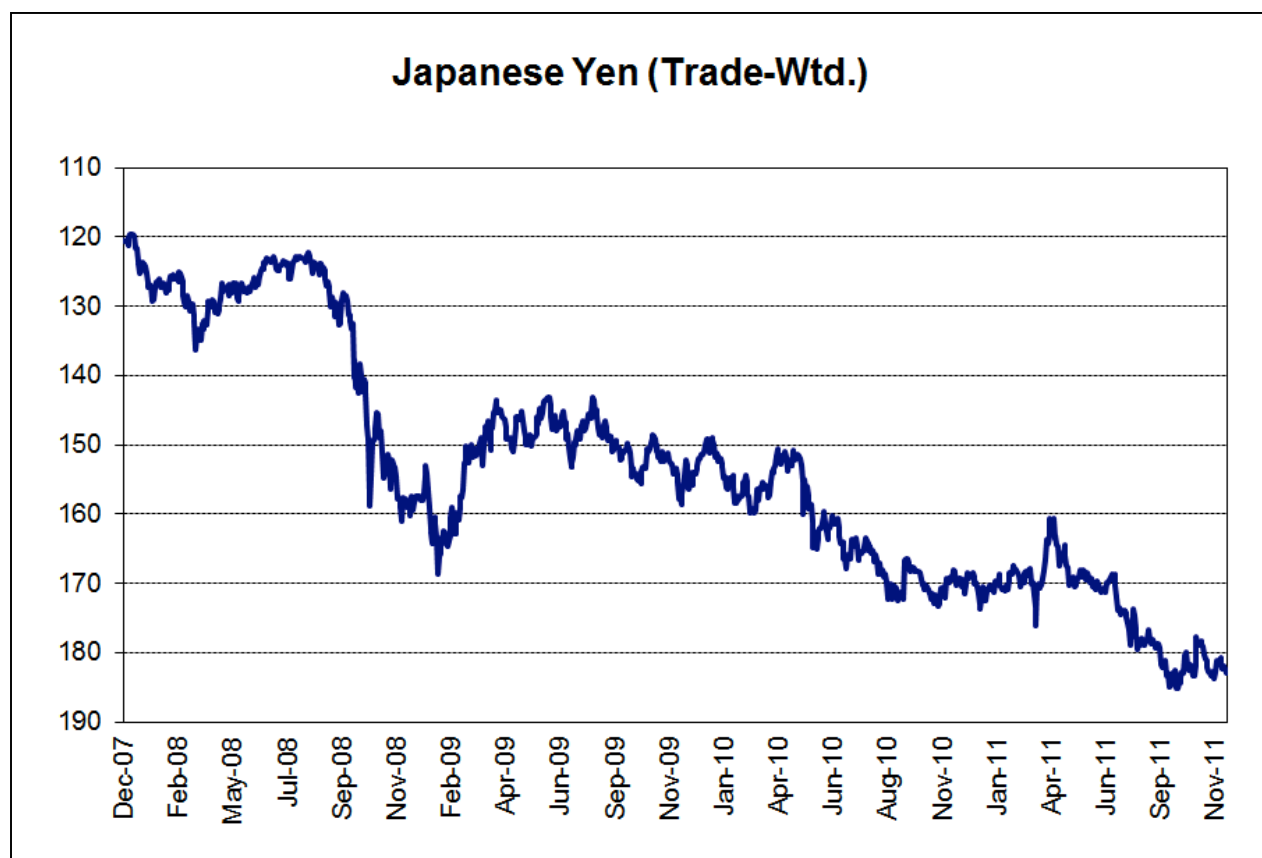
# Gross Domestic Product Components



## Japan's Financial Balances

### Financial Balances

Japan	Last period (¥trln)	Last 12mth. as a % of GDP
Budget Balance	-3.50 (Dec)	-6.9%
Trade Balance	0.58 (Dec)	1.5%
Current Account Balance	1.87 (Dec)	3.5%
Private Balance	--	11.6%

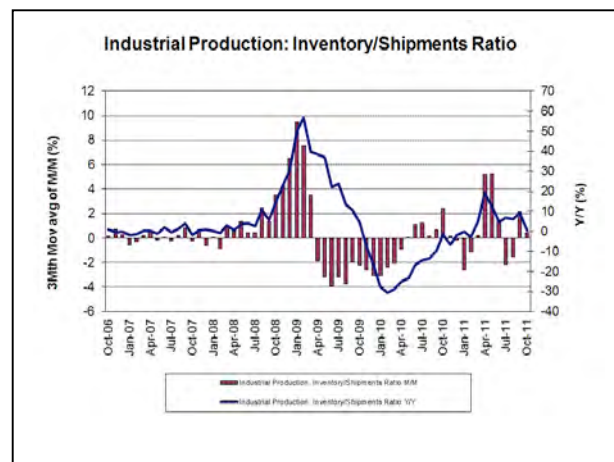
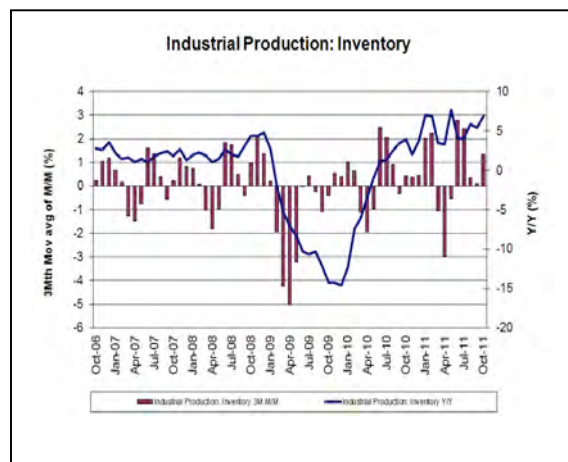
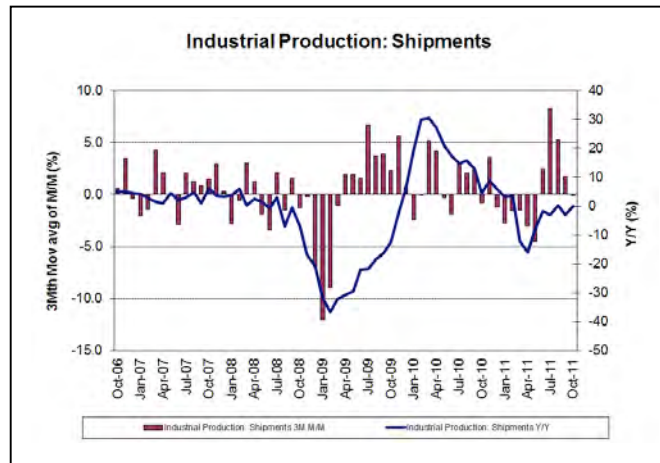
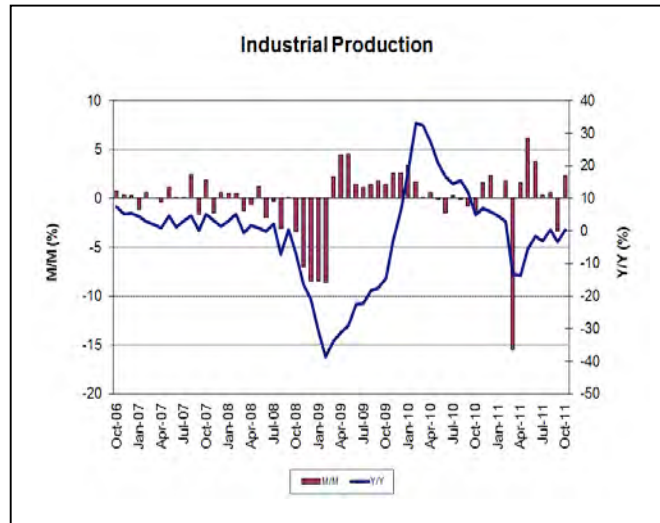


# Industrial Production

Final data on Industrial Production in October indicates that it increased 2.2% M/M and 0.1% Y/Y, against preliminary estimates for a 2.4% M/M gain.

Within the details, shipments increased 0.2% M/M and dropped 0.3% Y/Y against an expected increase of 0.6% M/M. Inventories increased 0.9% M/M and 7.0% Y/Y against an expected increase of 0.8% M/M. The Inventory Ratio dropped 0.9% M/M and increased 1.0% Y/Y against an expected 1.1% M/M decline.

As noted in the preliminary report, industries expect production to drop 0.1% M/M in November and increase 2.7% M/M in December.

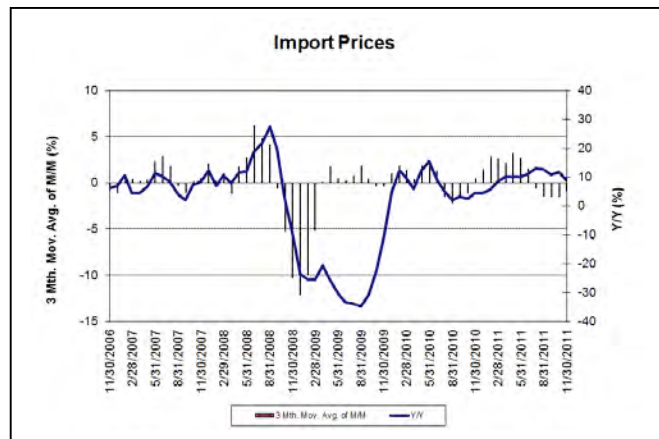
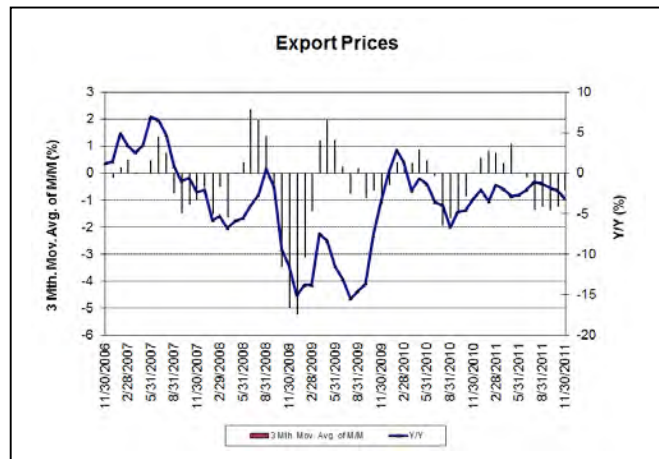
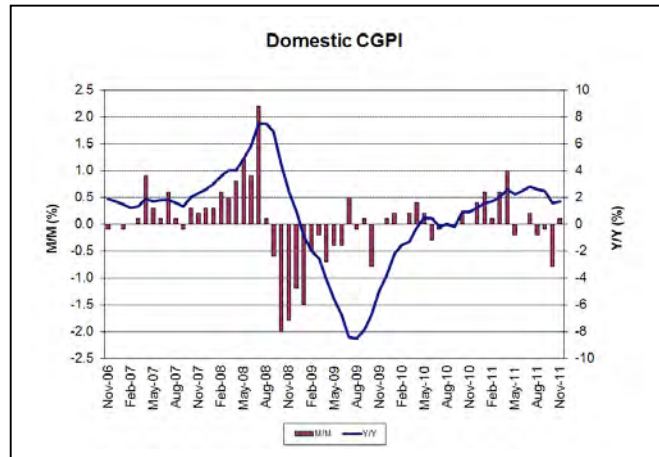


## CGPI, Export & Import Prices

Corporate Goods Prices improved 0.1% and 1.7% Y/Y in November. The M/M improvement beat market expectations of 0.1% M/M decline.

Within the data, Export prices increased 0.1% M/M and dropped 3.2% Y/Y. Import prices were unchanged M/M and increased 8.7% Y/Y.

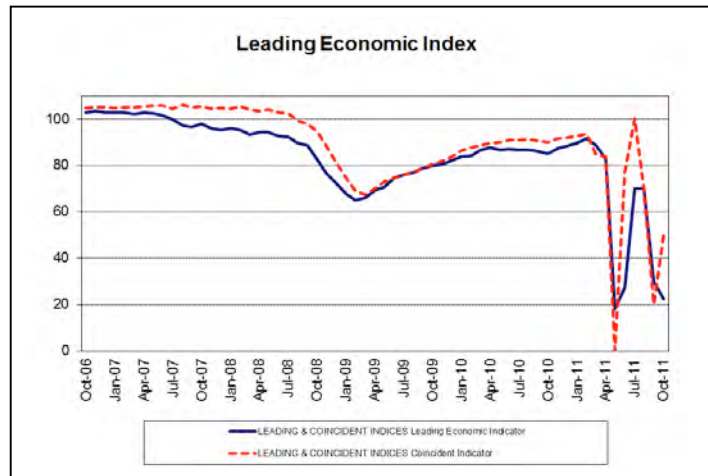
By industry, overall M/M prices increased in agriculture and utilities. Manufacturing as a whole was flat M/M.



## Leading Index & Eco Watchers Survey

### Leading Index

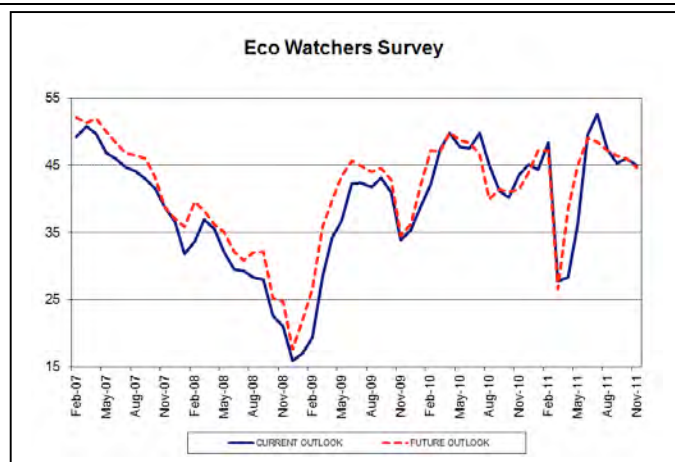
According to preliminary data, Japan's Leading Index was unchanged at 91.5 in October while the Coincident index improved from 89 to 90.3. The data was roughly in line with market expectations, which called for a one tick increase to 91.6 in the Leading Index and an increase to 90.3 in the Coincident Index.



### Eco Watchers Survey

The Eco Watchers Survey Current Condition Index declined 0.9pts to 45.0 in November. Within the data, household conditions declined 0.9pts to 43.6, business conditions declined 0.7pts to 45.4 and employment conditions declined 1.8pts to 53.0.

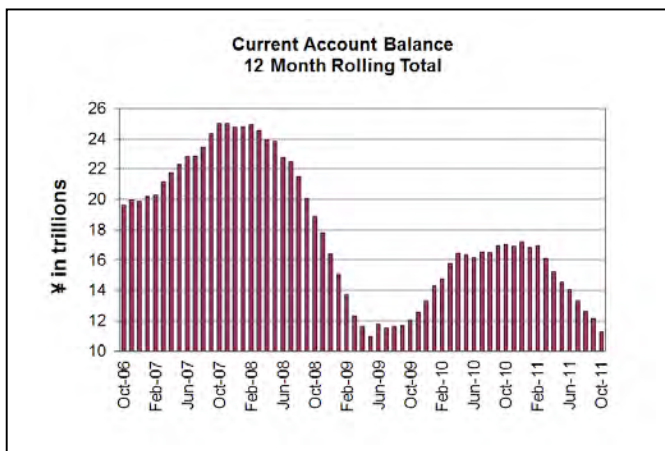
Meanwhile the Outlook index declined from 45.9 to 44.7 as household outlook declined 1.8pts to 44.3, business outlook declined 0.3pts to 43.0 and employment outlook declined 0.5pts to 50.5.



# Current Account Surplus & Tertiary Industry Activity

## Current Account Surplus

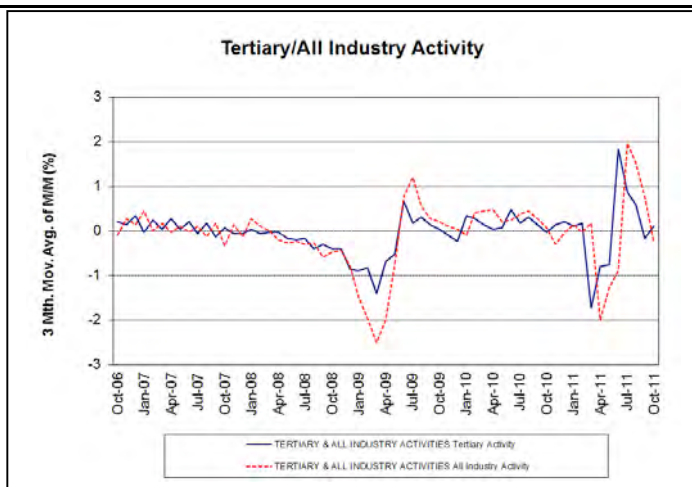
The adjusted Current Account Balance declined from Y1186.6 bln in September to Y518.6 bln in October, roughly meeting expectations for a decline to Y520.0 bln. The Trade Balance, on a Balance of Payments Basis, declined from Y91.9 to -Y526.9 as exports declined 4.4% M/M and 2.7% Y/Y while imports increased 7.7% M/M and declined 21.3% Y/Y.



## Tertiary Industry Activity

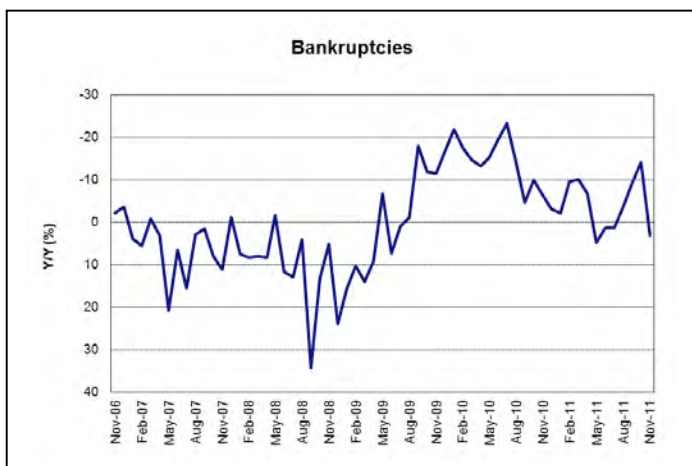
Tertiary Industry Activity increased 0.6 M/M and 0.5% Y/Y in October, against market expectations for a 0.4% M/M increase and following a 0.7% M/M decline in September.

The M/M improvement occurred on increases in wholesale/retail, electricity, IT, healthcare and transport/postal industries.



## Bankruptcies

Corporate Bankruptcies increased 3.2% Y/Y in November, the first increase since July.



## BSI Business Conditions Index

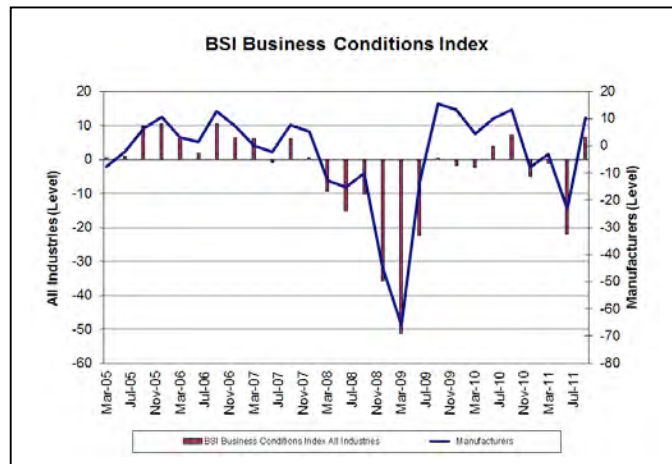
### BSI Business Conditions Index

The BSI All Industry Index for Large Firm declined from +6.6 in Q3 to -2.5 in Q4 as manufacturing declined from +10.3 to -6. non-manufacturing declined from +4.6 to -6. The decline into negative territory in the indicated that pessimists outnumbered optimists.

Among small firms, conditions improved somewhat as the index increased from -2. -16.1. Small manufacturing conditions improved from -19.2 to -14.3 while small manufacturing conditions improved from to -16.5.

Regarding employment conditions, large reported an improvement from +1.3 to +1 an improvement in non manufacturing conditions outweighed a decline in manufacturing conditions. Among small employment conditions improved from + +6.4 as small non manufacturers saw an improvement in conditions while small manufacturers saw declines. Looking for large firms expect employment condition drop from +1.7 in Q4 to +1.4 in Q1 2012 drop again to 0 in Q2.

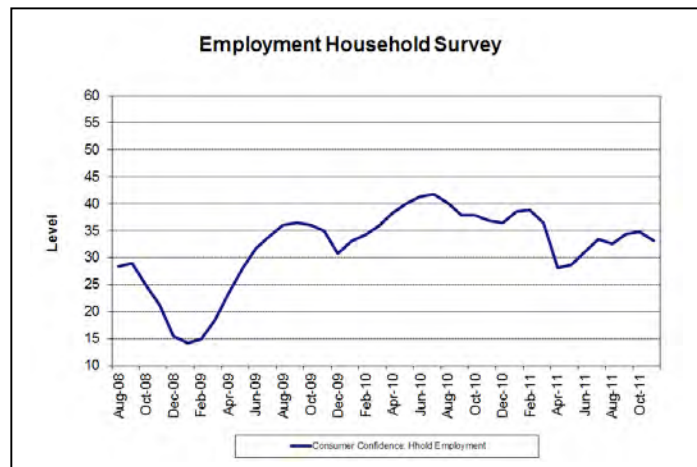
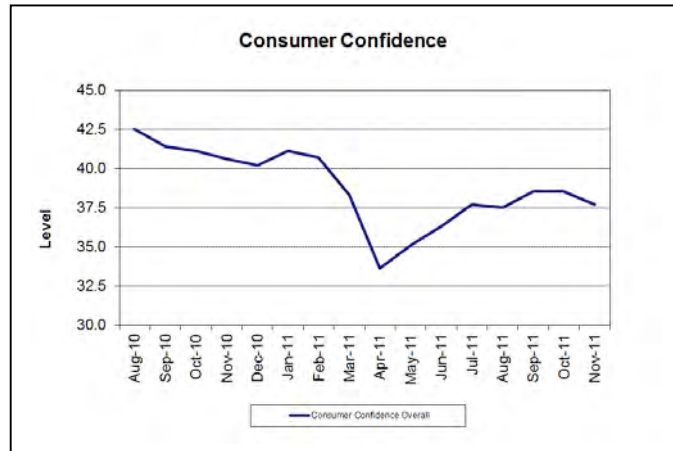
Across large firms, overall conditions are expected to improve however, rising from -2.5 in Q4 to +1.1 in Q1 and +1.7 in Q2.



## Consumer Confidence

### Current Account Surplus

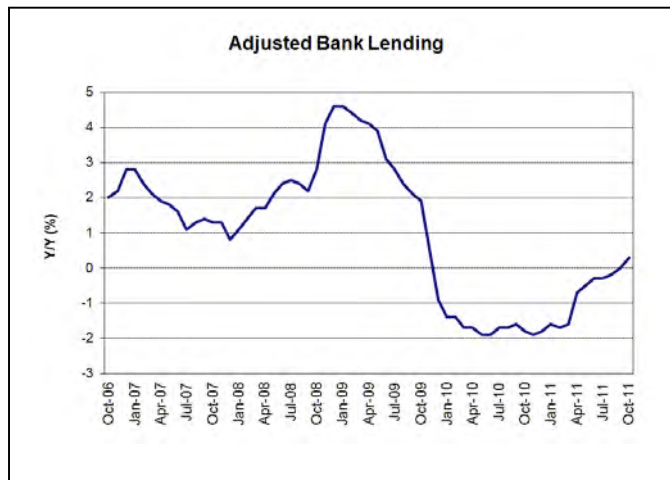
Consumer Confidence declined 0.5pts to 38.1 in November, against market expectations for a 0.3pt decline to 38.3. Within the data, overall livelihood declined 0.7pts to 39.1, income growth declined 0.4pts to 38.7, employment declined 1.0pts to 34.3, and willingness to buy durable goods increased 0.1pts to 40.4.



# Bank Lending & Machinery Tool Orders

## Bank Lending

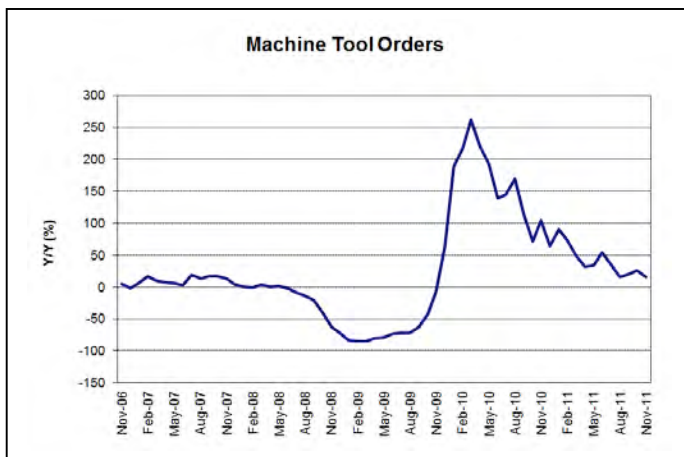
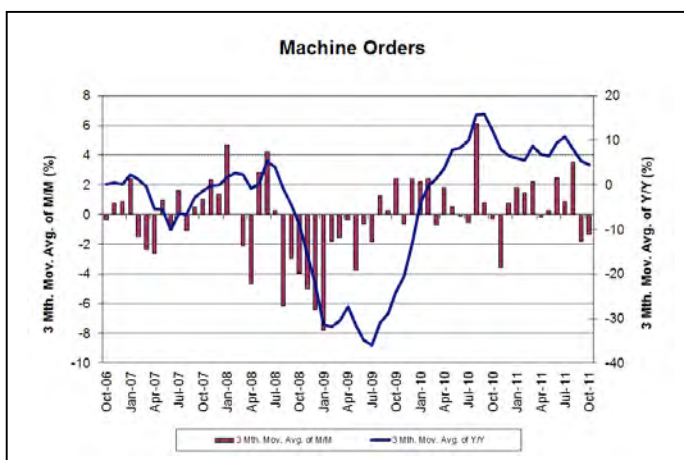
Bank Lending increased 0.2% Y/Y in November. Among City banks, lending declined 1.3% Y/Y and among Regional banks, lending increased 1.9% Y/Y.



## Machine Orders & Machine Tool Orders

Core Machinery Orders in October declined 6.9% M/M and increased 1.5% Y/Y, failing to meet market expectations for a 0.5% M/M gain and a 9.6% Y/Y gain. The decline occurred on a drop in nonmanufacturing orders as manufacturing orders increased 5.5% M/M.

Preliminary data on November Machine Tool Orders indicates a 15.9% Y/Y increase.



---

**News**

---

**December 13<sup>th</sup> - Gov't Panel Recommends Limiting FY12 Spending** – According to an article in the Nikkei, the government will cap its policy spending at approximately 71 tln yen in FY12, bringing ceilings for policy spending to roughly the same levels as the initial FY11 budget.

**December 13<sup>th</sup> - Trade Minister Edano Comments** – Japan's trade and industry minister Edano commented that the Euro debt crisis will have an impact on the economy, stating that "The auto industry is a pillar of the Japanese economy. But large growth in exports cannot be expected in the current circumstances of the strong yen and the European debt crisis, whose fallout will be unavoidable for the Japanese economy."

**December 9<sup>th</sup> - BOJ Nishimura Comments** – BoJ Deputy Gov Nishimura commented on economic prospects, stating that "Japan's economy cannot avoid deceleration due to slowing overseas economy, the effect of the high yen, and the impact of the floods in Thailand."

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/14	Tankan Lge Manufacturers Index	-2	2
12/14	Tankan Non-Manufacturing	1	1
12/14	Tankan Lge Mfg Outlook	-3	4
12/14	Tankan Non-Mfg Outlook	1	1
12/14	Tankan Large All Indust Capex	2.50%	3.00%
12/14	Tokyo Condominium Sales (YoY)	N/A	-9.30%
12/15	Machine Tool Orders (YoY)	N/A	15.90%
12/18 - 12/19	Cabinet Office Monthly Economic Report	N/A	N/A
12/19	Nationwide Dept. Sales (YoY)	N/A	-0.50%
12/19	Tokyo Dept. Store Sales (YoY)	N/A	-1.90%
12/19	All Industry Activity Index (MoM)	N/A	-0.90%
12/20	Leading Index CI	N/A	91.5
12/20	Coincident Index CI	N/A	90.3
12/20	Convenience Store Sales YoY	N/A	14.10%
12/20	Merchnds Trade Balance Total	N/A	-¥273.8B
12/20	Adjusted Merchnds Trade Bal.	N/A	-¥457.9B
12/20	Merchnds Trade Exports YoY	N/A	-3.7
12/20	Merchnds Trade Imports YoY	N/A	17.9
12/20 - 12/21	BOJ Target Rate	N/A	0.10%

Valance Co., Inc.

# Valance Economic Report: United Kingdom

Milo Prochazka

(340) 692-7710

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

December 14, 2011

As widely expected the BoE kept its benchmark rate unchanged and maintained its target holdings of Gilts at 275bln pounds. CPI slowed for a second straight month in November, meeting expectations. The Unemployment Rate climbed to the highest level since 1994 in October.

## Weekly Highlights

**CPI** – rose 0.2% M/M and 4.8% Y/Y in November. (UK 1)

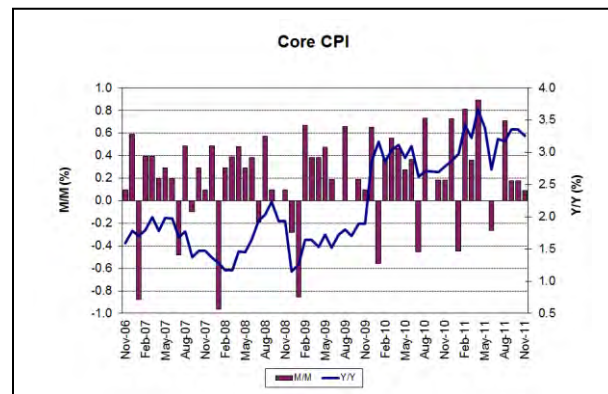
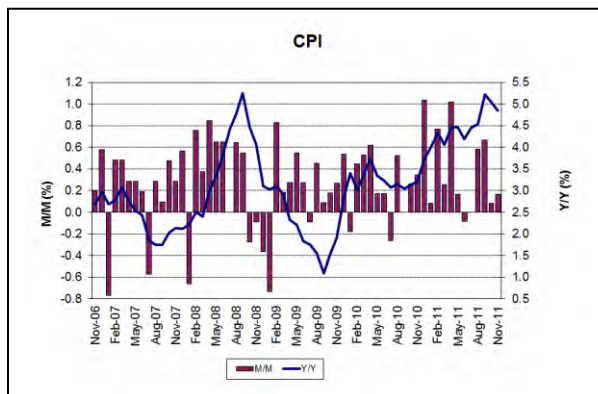
**BoE Overnight Rate** – held at 0.50%. (UK 2)

**Jobless Claims** – increased by 3.0k in November. (UK 3)

**RICS Net House Price Balance** – increased from -24 in October to -17 in November. (UK 6)

## Weekly Releases & News

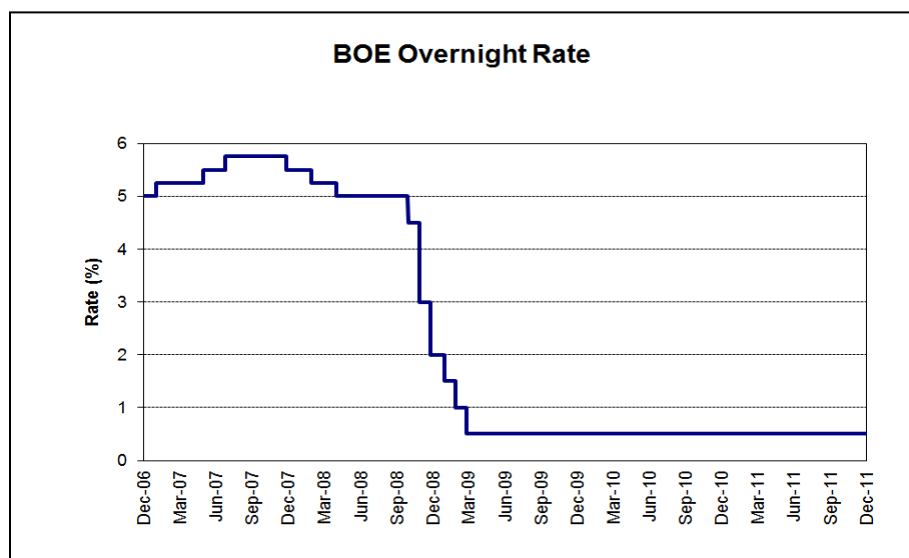
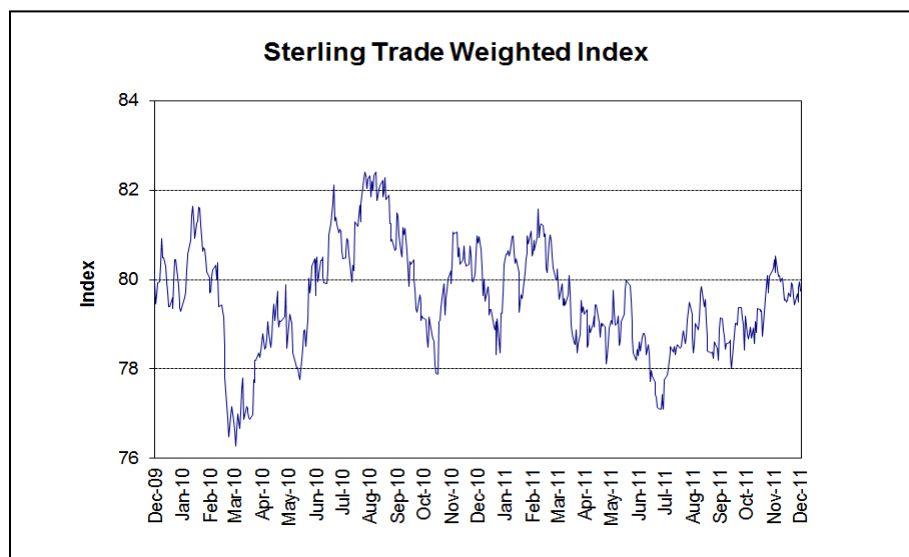
### Chart(s) of the Week: CPI



Headline CPI increased 0.2% M/M (0.2% exp.) and decelerated from 5.0% Y/Y to 4.8% Y/Y (4.8% exp.) in November. Food prices rose 0.2% M/M and 4.0% Y/Y, the smallest annual increase since July 2010. Transport prices fell 0.6% M/M as petroleum prices declined. Core inflation rose 0.7% M/M and eased from 3.4% Y/Y to 3.2% Y/Y, slightly less than the 3.3% Y/Y expected.

## Financial Balances & FX

U.K.	Last Period (blns)	Last 12mth. % of GDP
Budget Balance (monthly/total)	+£12.0 (June)	+10.6%
Curr. Acct. Balance (quarterly)	-£9.4(Mar)	-3.2%
Private Balance	+£2.6	+7.4%

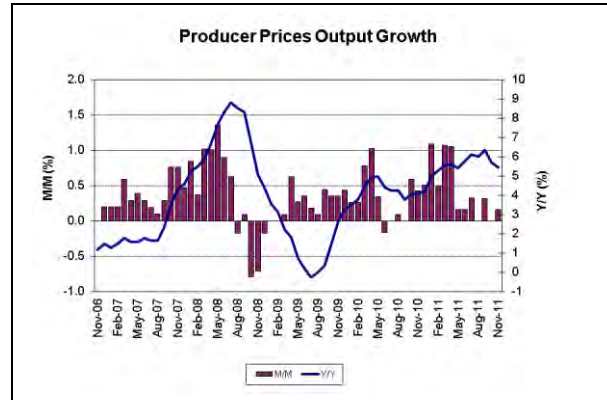


The MPC voted to keep its benchmark rate at 0.50% and maintained the Asset Purchase Target at £275 bln. The Bank Rate has been at 0.50% since March 2009.

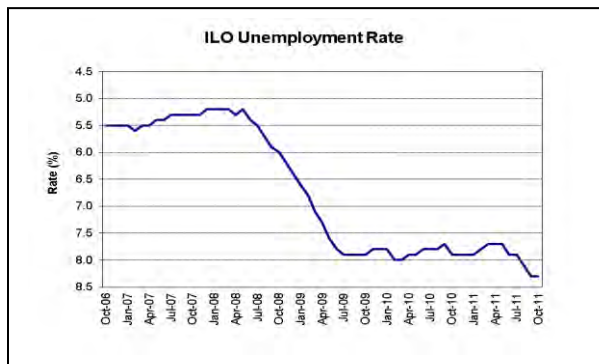
## PPI & Employment Data

### Producer Prices Input/Output Growth

November Prices charged by factories rose 0.2% M/M, more than the 0.0% expected, and 5.4% Y/Y. Core Producer Prices were flat M/M and rose 3.2% Y/Y. Raw Material Prices rose 0.1% M/M and 13.4% Y/Y.



### Employment Data

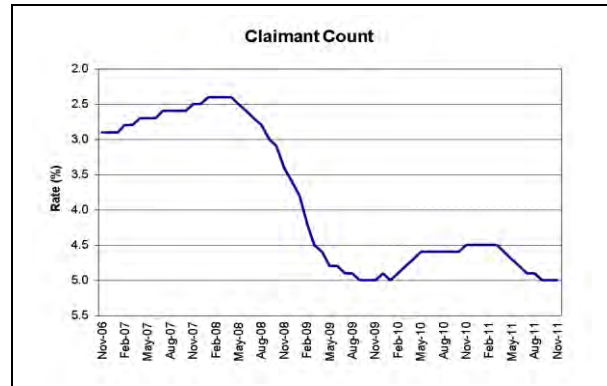
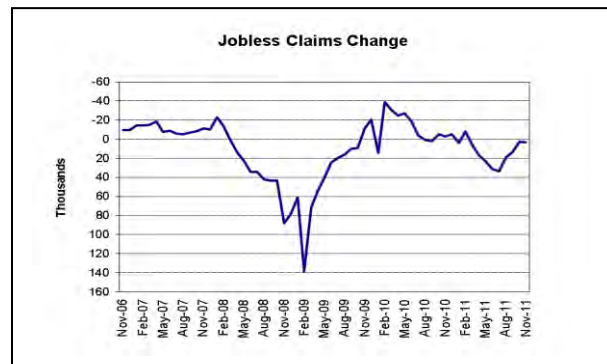


The ILO Unemployment Rate remained at 8.3% in the three months through October, meeting expectations. The jobless rate climbed from 7.9% to 8.3% between May and July.

The Claimant Count Rate remained at 5.0% in November.

The number of people claiming benefits rose by 3.0k in November, against expectations of 13.7k. This marks the largest number of unemployed (2.64 mln) since 1994.

Weekly pay, including bonuses, rose 2.0% in the quarter, from a year earlier, compared to a 2.3% gain in the previous three months. Excluding bonuses, pay growth increased from 1.7% to 1.8%.



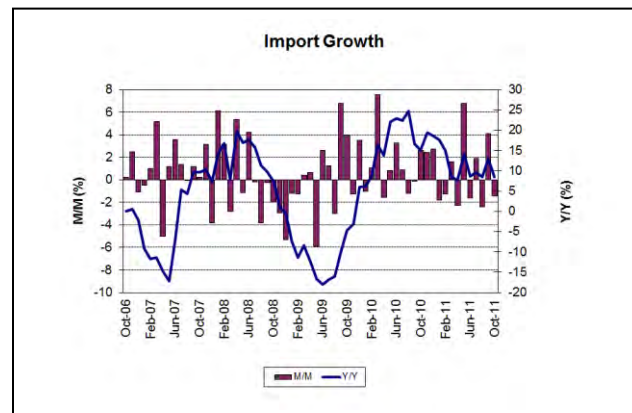
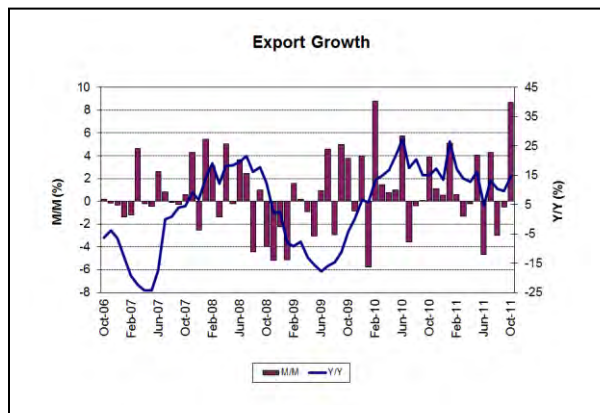
## Trade Balance & DCLG Housing Survey

### Trade Balance

October's Trade Deficit narrowed from £4.3bn to £1.6bn. This is the largest monthly narrowing since the series began in 1998. The trailing twelve month trade deficit is now £ 32.1bn (about 2.7% of GDP).



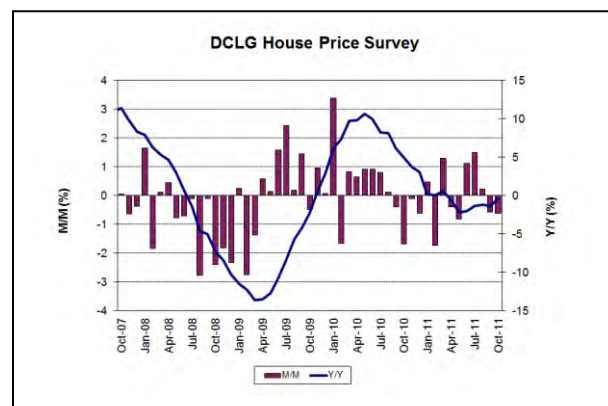
### Exports & Imports



Imports fell 1.5% M/M and rose 8.5% Y/Y in October. Exports surged 8.7% M/M and 14.7% Y/Y, as demand from outside the EU increased sharply.

### DCLG House Price Survey

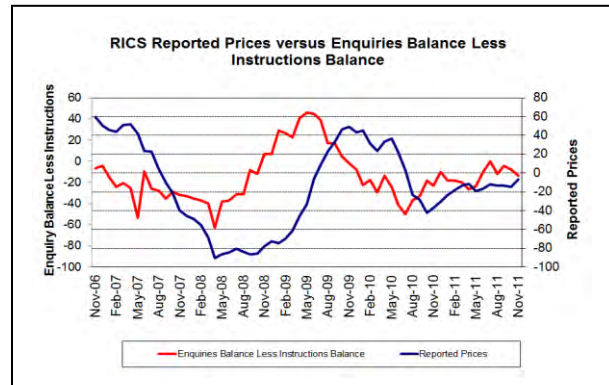
According to the Department for Communities and Local Government, House Prices fell 0.4% Y/Y in October after they dropped 1.4% Y/Y in September. This is a seventh straight annual decline. In London, prices rose 3.9% Y/Y after gaining 2.8% Y/Y previously.



## RICS House Price Survey

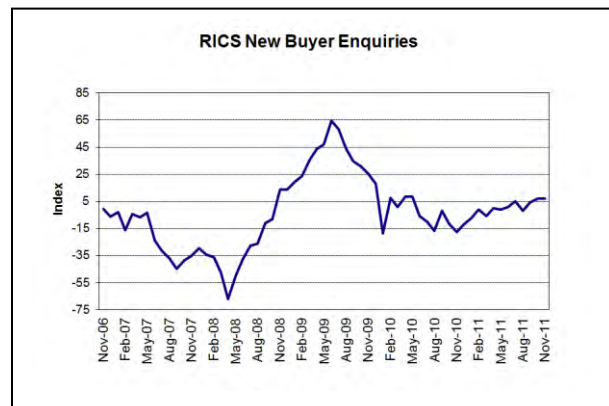
### RICS House Price Survey

The RICS House Price Net Balance survey improved 7pts to -17 in November.

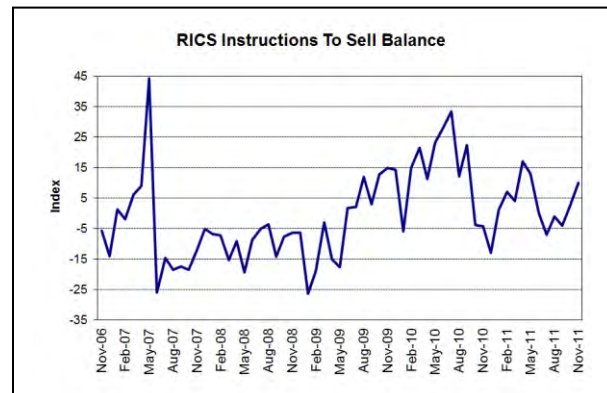
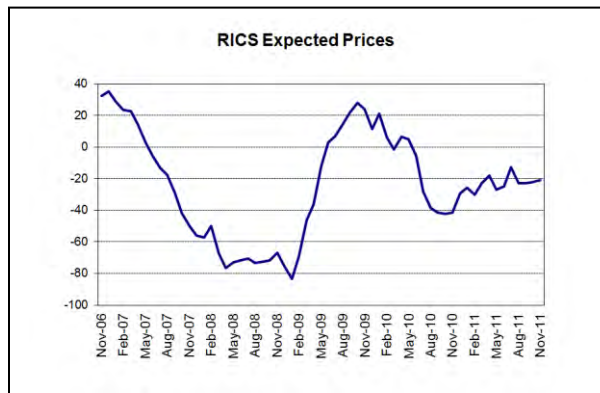


### RICS New Buyer Enquiries

New Buyer Enquiries remained stable at +7 in November. This is the third positive result in a row.



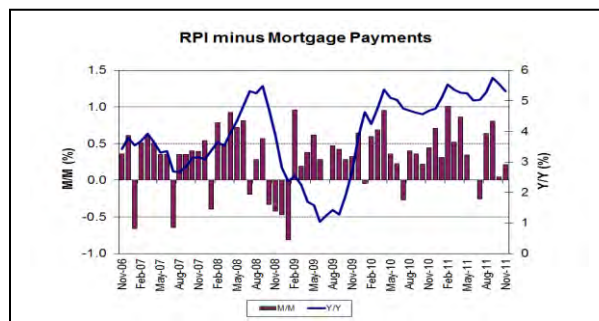
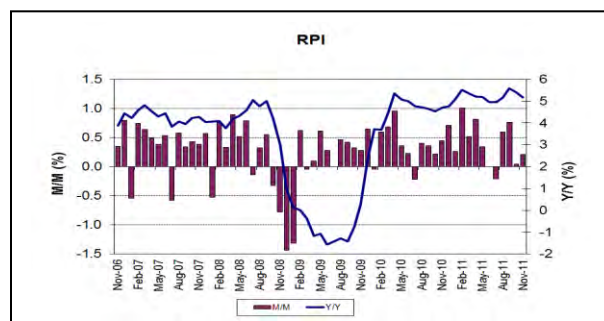
### RICS Expected Prices & Sales to Stock Ratio



The house price outlook remained stable at -21 in November. The ratio of completed sales (over the last three months), compared to stocks of unsold property on the market, fell from 21.2 to 21.0 in November. New Vendor Instructions improved from +3 to 10 during the same month.

## RPI & Other Data

### RPI Growth & RPI, ex. Mortgage Interest Payments



RPI rose 0.2% M/M in November and 5.2% Y/Y from 5.4% Y/Y previously. RPI, excluding cost of home loans, rose 0.2% M/M and slowed from 5.6% Y/Y to 5.3% Y/Y.

## News

**Dec. 14<sup>th</sup> - Dale Says U.K. May Face at Least One Quarter of Contraction (Bloomberg)** - BoE Chief Economist Spencer Dale said the U.K. economy may be facing at least one quarter of contraction before a "gentle recovery" in the second half of next year. "If I expect to see broadly flat growth, there must be a possibility that I see one or two quarters of negative growth," he said. "For the very large majority of companies and families in our country, what really matters is getting growth up to more normal levels so we can get unemployment coming down again and companies' order books back up to more normal levels." "There are risks on both sides of the inflation environment, they're not just one-sided," Dale said. "I do expect inflation to fall, but my view about the risks to being above or below the target are a little more balanced than the Monetary Policy Committee's best collective judgment."

**Dec. 13<sup>th</sup> - Dale Says BOE Can Increase QE in Response to Europe's Crisis (Bloomberg)** - BoE Chief Economist Spencer Dale said the central bank is prepared to add further stimulus if needed as economic growth stalls and the unresolved euro debt crisis threatens the outlook. "The near-term outlook has weakened very materially," Dale said. "Although the precise reasons why the economy appears to have slowed are uncertain, and we can't rule out some intensification of domestic headwinds, the most likely explanation would seem to be the growing fallout from the euro area as it has lurched from one mini crisis to another." While European leaders agreed to a new plan to stem the region's debt crisis last week, Dale said it's still not clear if that will prove to be a "credible response." The outlook for the U.K. "depends on the euro zone being able to implement a credible and effective response to the substantial challenges it faces," he said. "Failure to do so poses the single biggest threat to our recovery."

**Dec. 12<sup>th</sup> - BoE said to have overestimated QE boost (FT)** - An article in the BIS quarterly review says the initial £200bn of quantitative easing lowered yields on government debt by a far smaller margin than the BoE estimated in its own study in September. Without quantitative easing, the yields on five and 10-year gilts would have been 100 bps higher, the Bank said at the time. It concluded that the purchases had boosted growth by between 1.5% and 2%. The BIS article on the result of quantitative easing in the US and the UK however says the MPC's first round of asset purchases, conducted between January 2009 and February 2010, had little more than a quarter of the effect on gilt yields that the Bank claimed.

---

## ***News Cont'd***

---

**Dec. 12<sup>th</sup> - BoE said to have overestimated OE boost (FT)** - An article in the BIS quarterly review says the initial £200bn of quantitative easing lowered yields on government debt by a far smaller margin than the BoE estimated in its own study in September. Without quantitative easing, the yields on five and 10-year gilts would have been 100 basis points higher, the Bank said at the time. It concluded that the purchases had boosted growth by between 1.5% and 2%. The BIS article on the result of quantitative easing in the US and the UK however says the MPC's first round of asset purchases, conducted between January 2009 and February 2010, had little more than a quarter of the effect on gilt yields that the Bank claimed.

**Dec. 9<sup>th</sup> - George Osborne Warns Euro Collapse Would Cause 'Enormous Damage' to UK Economy (Telegraph)** - George Osborne has dismissed suggestions that Britain could bounce back quickly from a eurozone break-up, warning that it would do "enormous damage" to the UK economy.

Speaking to the House of Lords Economic Affairs Committee, the Chancellor urged the public not to assume that a eurozone disintegration would be felt in the UK for only one or two years. "There would be enormous damage," Mr Osborne said. "Those who say we'd have a year or two of hardship and then bounce back out of it may be somewhat optimistic." He also cited research suggesting there would be "a very significant drop in UK GDP if the euro were to fall apart". The Chancellor confirmed that the Treasury is preparing for "all eventualities", including a break-up of the euro, but he stressed that no amount of contingency planning would prevent "huge damage" from a "disorderly" collapse. "You can make a bad situation less worse, but it would still be a bad situation," he said. "I don't think it will come as any surprise that we're spending even more effort on these plans than we have done previously." The Chancellor stressed protecting the interests of Britain's financial services industry was at the top of its priorities in negotiations with the European Union.

**Dec. 8<sup>th</sup> - Banks reduce lending to property companies (FT)** - The proportion of banks willing to commit lending to the building and owning of new offices and shops has fallen to 43 %. The report from De Montfort University estimates that property lenders are also lumbered with between 85bn and 114bn of debt which cannot be refinanced in today's market. The figure represents about half of the 220.4bn of debt held by lenders to the sector. Lenders to UK commercial property were sitting on almost 10,000 distressed loans. The loans had a value of 24.3bn - equivalent to 13 % of the sector's total loan book. The number of distressed loans is up from about 7,700 at the end of 2010. Lenders reported 9,400 loans in technical default, compared to 6,402 at the end of last year.

**Dec. 8<sup>th</sup> - U.K. Mortgage Approvals Fell 8% in Oct. Vs Sept., CML Says (Bloomberg)** - U.K. mortgage approvals fell 8 % to 44,500 in October from the previous month, the Council of Mortgage Lenders said. The reading was down 5 % from a year earlier, the London-based group said in an e-mailed statement today. The value of the loans fell 8 % on the month to 6.5 bln pounds, the CML said.

**Dec. 8<sup>th</sup> - U.K. November Wage Growth Quickened on Factories, VocaLink Says (Bloomberg)** - Take-home pay growth at Britain's largest publicly traded companies accelerated in November, led by manufacturing companies, VocaLink Ltd. said. Incomes after tax and other deductions climbed 2.6 % in the three months through November from a year earlier, the group said in a statement in London today. That compares with 2.5 % in the quarter through October. Wage growth at manufacturers picked up to 4.1 %, the highest in three years, from 2.7 %, according to the report. Pay growth slowed 0.1 %age point to 2.4 % at service companies and dropped to 2 % from 2.2 % in the public sector. VocaLink said the increase in manufacturing pay may be due to a number of pay awards linked to retail-price inflation, which was at 5.4 % in October. The company, which processes 90 % of British salaries paid directly to bank accounts, used salary-payment data from more than 200 members of the FTSE 350 Index and more than 600 government-related organizations for the report.

## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Month</i>	<i>Expectation</i>	<i>Previous</i>
12/8	BOE Asset Purchase Target	DEC	275B	275B
12/8	BOE ANNOUNCES RATES	8-Dec	0.50%	0.50%
12/9	PPI Input NSA (MoM)	NOV	-0.10%	-0.80%
12/9	PPI Input NSA (YoY)	NOV	12.90%	14.10%
12/9	PPI Output n.s.a. (MoM)	NOV	0.00%	0.00%
12/9	PPI Output n.s.a. (YoY)	NOV	5.30%	5.70%
12/9	PPI Output Core NSA (MoM)	NOV	0.00%	-0.10%
12/9	PPI Output Core NSA (YoY)	NOV	3.30%	3.40%
12/9	Visible Trade Balance GBP/Mn	OCT	-£9400	-£9814
12/9	Trade Balance Non EU GBP/Mn	OCT	-£5400	-£5715
12/9	Total Trade Balance (GBP/Mln)	OCT	-£3450	-£3940
12/12	RICS House Price Balance	NOV	--	-24%
12-16 DEC	Nationwide Consumer Confidence	NOV	--	36
12/13	DCLG UK House Prices (YoY)	OCT	--	-1.40%
12/13	CPI (MoM)	NOV	--	0.10%
12/13	CPI (YoY)	NOV	--	5.00%
12/13	Core CPI YOY	NOV	--	3.40%
12/13	Retail Price Index	NOV	--	238
12/13	RPI (MoM)	NOV	--	0.00%
12/13	RPI (YoY)	NOV	--	5.40%
12/13	RPI Ex Mort Int.Payments (YoY)	NOV	--	5.60%
12/14	Claimant Count Rate	NOV	--	5.00%
12/14	Jobless Claims Change	NOV	--	5.3K
12/14	Average Weekly Earnings 3M/YoY	OCT	--	2.30%
12/14	Weekly Earnings exBonus 3M/YoY	OCT	--	1.70%
12/14	ILO Unemployment Rate (3mths)	OCT	--	8.30%

Valance Co., Inc.

# Valance Economic Report: Canada

Milo Prochazka

(340) 718-7710

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

December 15, 2010

**Manufacturing Shipments** dropped more than expected in October, while **Labor Productivity** surprised to the upside in Q3. Canada posted an unexpected trade deficit in October. In its Financial Stability Review, the BoC said “the risk is very high that a further escalation of tensions in the euro area could adversely affect domestic financial stability.”

## Weekly Highlights

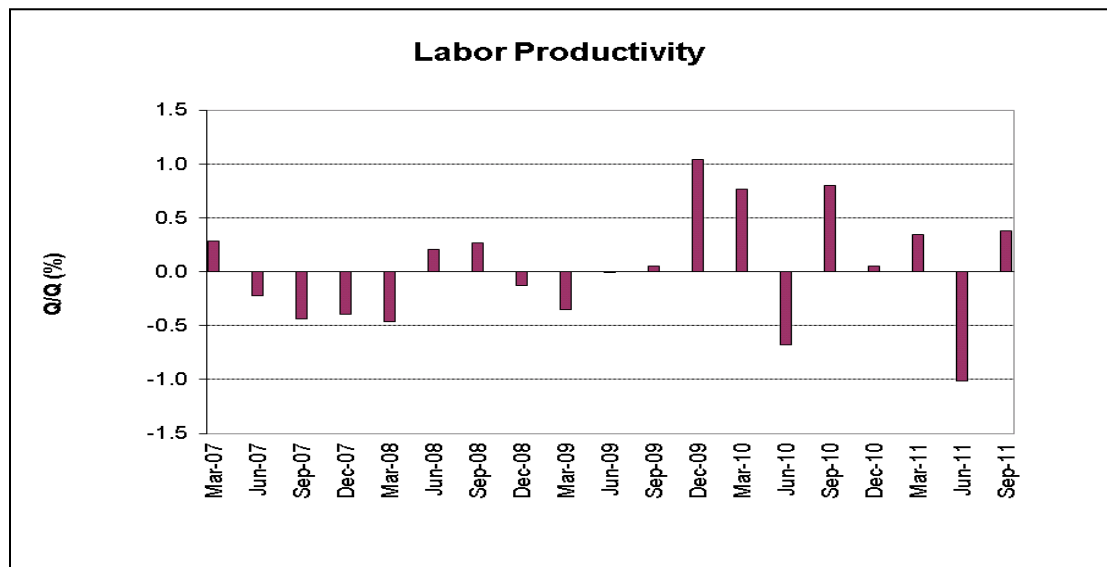
**Labor Productivity** – unexpectedly rose 0.1% in Q3. (CA 1)

**Manufacturing Shipments** – dropped 0.8% M/M in October. (CA 3)

**Leading Indicator Index** - rose 0.8% M/M in November. (CA 3)

## Weekly Releases & News

### Chart(s) of the Week: *Labor Productivity*



Labor productivity rose 0.4% Q/Q in Q3, following a downwardly revised 1.0% Q/Q (previously -0.9%) decline in Q2. Unit labor costs fell 0.5% Q/Q, while Hours worked increased 0.7% Q/Q. Hourly compensation eased 0.1% Q/Q.

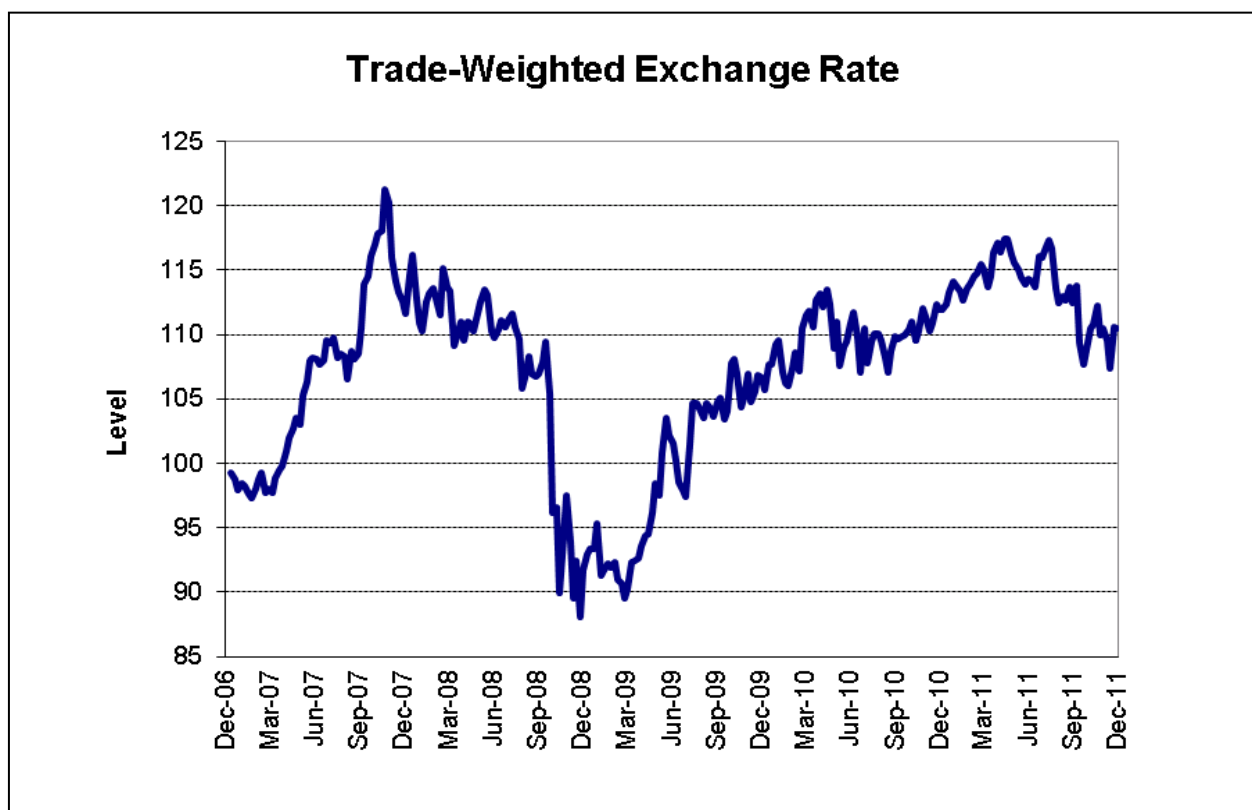
CA - 1

## Financial Balances & Trade Weighted Exchange Rate

### Financial Balances

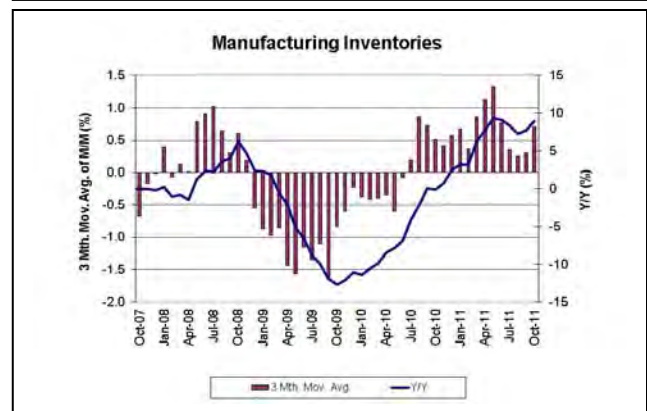
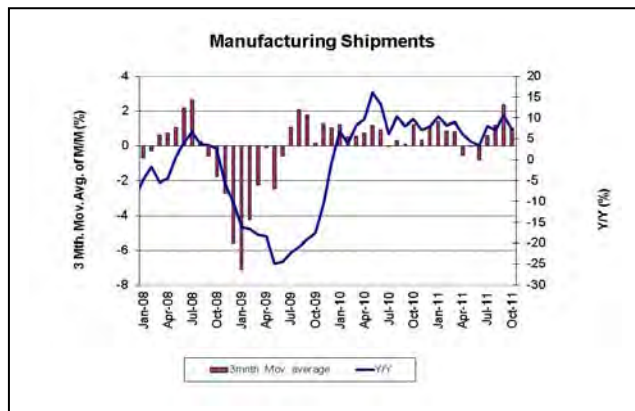
Canada	Latest period (C\$bln)	Last 12mth. as % of GDP
Budget Balance	-0.9 (Feb)	-2.3%
Trade Balance	-0.89 (Oct)	-1.4%
Current Account Balance	-12.1 (Q3)	-6.3%
Private Balance	--	-4.0%

### Trade-Weighted Exchange Rate



# Manufacturing Data & Wholesale Sales

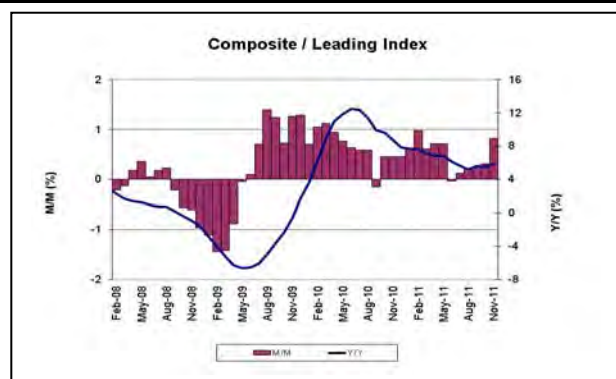
## Manufacturing Data



Manufacturing Shipments dropped 0.8% M/M in October, following a 2.6% M/M gain in September. Economists expected a 0.6% M/M decline. Ex. autos, sales fell 1.1% M/M, total inventories rose 1.4% M/M, unfilled orders dropped 0.3% M/M, and new orders plummeted 4.7% M/M. Total factory sales fell in 13 of the 21 categories, which makes up 70 % of Canada’s total. The ratio of inventories to sales increased from 1.30 to 1.33 in October.

## Leading Indicators

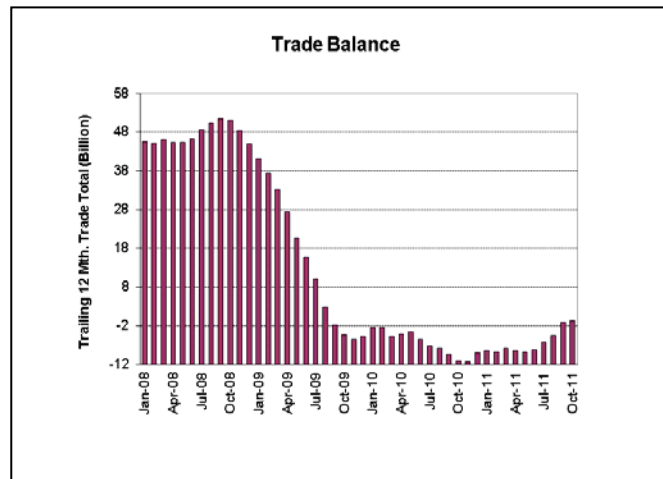
The Composite Index rose 0.8% M/M in November, following a 0.3% M/M gain in October. This is the largest monthly increase in five months, mainly due to gains in the manufacturing component.



# Trade Balance

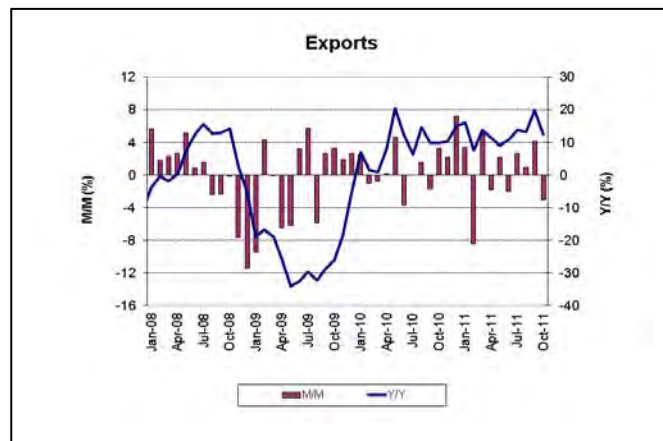
## Trade Balance

Canada's Trade Balance swung from a C\$1.03 bln surplus in September to a C\$0.89 bln in deficit in October, as energy shipments helped push imports to a new record. The surplus with the US narrowed to C\$ 3.1bln in October from C\$4.08 bln in September



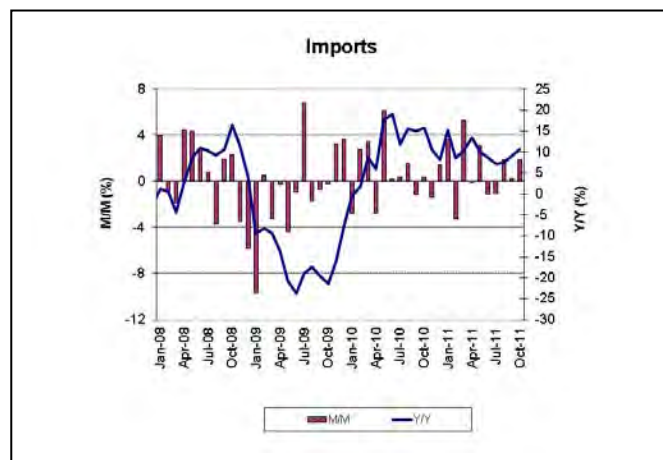
## Exports

Exports fell 3.0% M/M in October, mainly due to a 5.8% drop in energy receipts. Industrial goods shipments dropped for the first time in six months in October, falling 6.0% M/M. Exports to countries other than the US fell 7.9% M/M, after peaking in September 2011.



## Imports

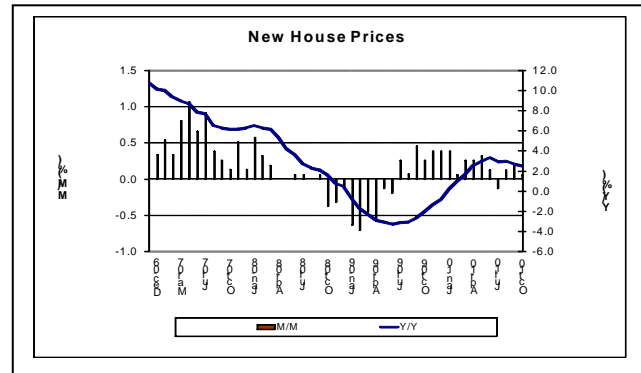
Imports rose 1.9% M/M to a record C\$ 39.3 bln in October, led by energy (+3.0% M/M) and machinery & Equipment (+3.8% M/M). Y/Y growth increased 10.7%.



## New House Prices & News

### New House Prices

New House Prices rose 0.2% M/M and 2.5% Y/Y in October.



### News

**Dec. 13<sup>th</sup> - Canada Household Debt Ratio Hits Record 153% in 3rd Quarter (Bloomberg)** - Canadian household debt rose to a record 153% of disposable income in Q3 as borrowing increased, a rise the central bank has said threatens the economic recovery because people may struggle to repay what they owe when interest rates rise. The ratio rose from a revised 150.6% in the previous three months, according to Statistics Canada figures. While household debt is the main domestic threat, it does not pose a “clear and present danger” in the way the European debt crisis does, Bank of Canada Governor Mark Carney said today in an interview with CBC Radio. Disposable income was unchanged in Q3 while consumer debt levels rose, the report said. Canadians held a record C\$1 trillion of mortgage debt for the first time. Canada’s average five-year mortgage rate was 5.29% last week, close to the lowest in decades. The equity held by consumers as a percentage of real estate value has declined each quarter since the start of 2010. The ratio fell to 67.3% in Q3 and was at 68.2% at the start of 2010.

**Dec. 8<sup>th</sup> - Canada Bank Sees High Risk to Financial System From Europe (Bloomberg)** - Canada’s financial system faces a “high” risk of disruption linked to Europe’s debt crisis and the chance of a global economic slowdown, the country’s central bank said. The risk of problems from a spreading of investor concerns about Europe is “very high” and has risen since June, the Bank of Canada said today in its semi-annual Financial System Review. The report also said there are high risks posed by slowing global growth and unchecked trade and budget deficits, while Canada’s financial system “remains strong.” “The risks to the stability of Canada’s financial system are high and have increased markedly over the past six months,” the Ottawa-based bank said. “The risk is very high that a further escalation of tensions in the euro area could adversely affect domestic financial stability, particularly through a general retrenchment from risk-taking, funding pressures and confidence effects.” The global recovery is also strained by inflexible currencies such as China’s that add to “global imbalances” in trade and investment flows, the report said. “The world is experiencing the economic ramifications of an international monetary system that does not have a coherent set of exchange rate policies,” the review said. Canada’s main domestic risk is high household debt, the report said. Consumer debts are a record 149% of income, and the bank said further record highs are likely. “The elevated levels of household debt and housing prices require continued vigilance and close co-operation among Canadian authorities” the report said. The global environment of low interest rates, which is likely to continue, is hurting the balance sheets of life insurance companies and pension funds, the report also said.

## *Key Dates This Week*

<i>Date</i>	<i>Indicator</i>	<i>Month</i>	<i>Expectation</i>	<i>Previous</i>
12/20	Consumer Price Index (M/M)	Nov	-	+0.2%
12/20	Consumer Price Index (Y/Y)	Nov	-	+2.9%
12/20	Core CPI (M/M)	Nov	-	+0.3%
12/20	Core CPI (Y/Y)	Nov	-	+2.1%
12/21	Retail Sales (M/M)	Oct	-	+1.0%
12/21	Retail Sales Less Autos (M/M)	Oct	-	+0.5%
12/19	Whole Sales (M/M)	Oct	-	+0.3%

Valance Co., Inc.

# Valance Economic Report: Australia

Milo Prochazka

(340) 692-7710

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

December 14, 2011

**In November, Australian businesses unexpectedly shed the largest number of full-time jobs since April. The NAB Business Confidence remained unchanged in November, and the Westpac Consumer Confidence dropped to its lowest level since August.**

## Weekly Highlights

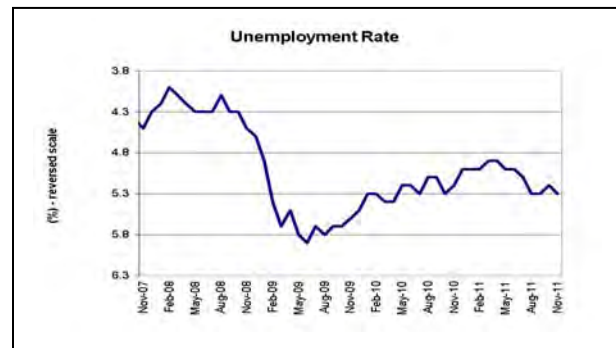
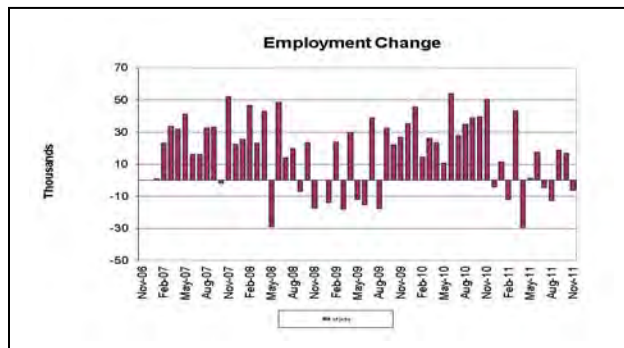
**Unemployment Rate** – rose from 5.2% to 5.3% in November. (AU 1)

**Westpac Consumer Confidence Index** – dropped 8.3% M/M in December. (AU 3)

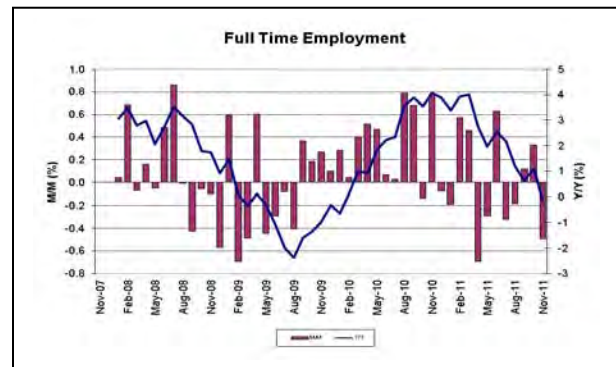
**NBA Business Confidence** – remained at +2 in November. (AU 3)

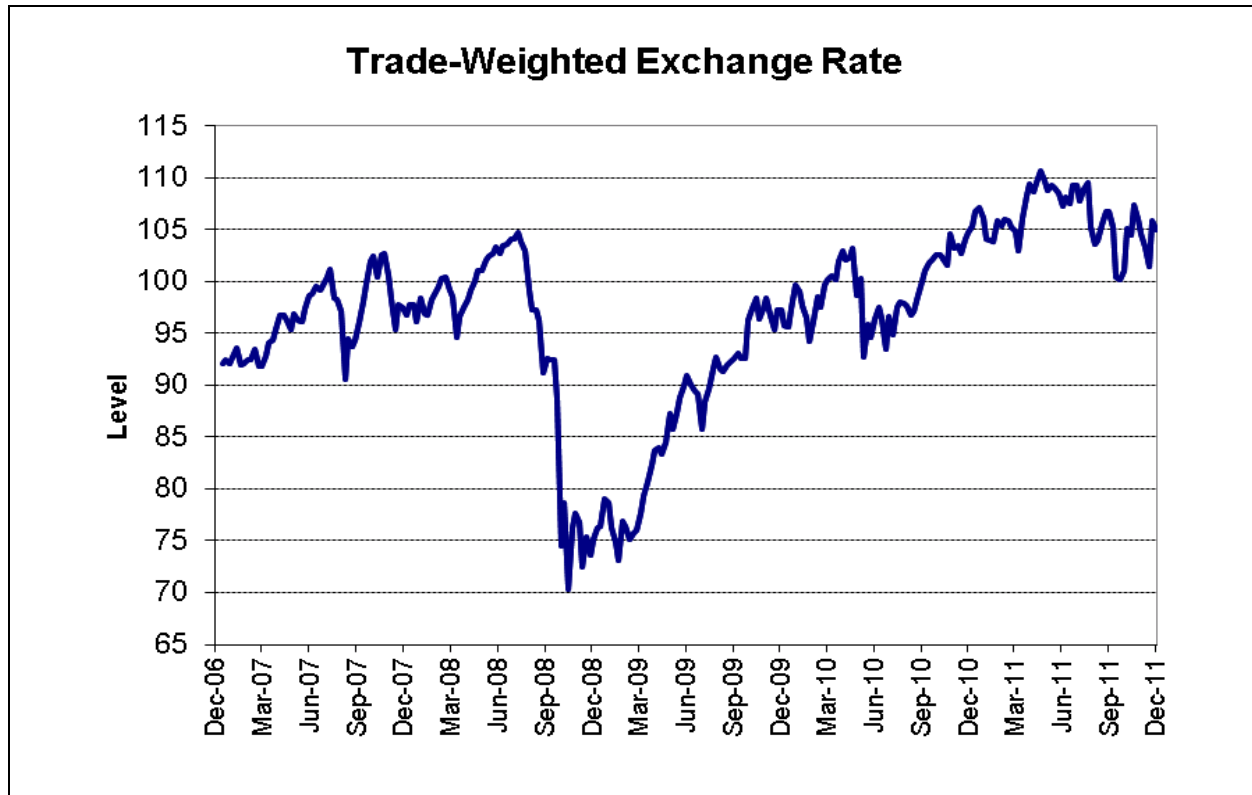
## Weekly Releases & News

### Chart of the Week: *Employment Data*



Total employment fell by 6.3k in November after a revised 16.8k (previously +10.1k) in October. The unemployment rate increased from 5.2% to 5.3%. The market expected a 10k job gain and an unchanged unemployment rate. Full time jobs fell by 39.9k after gaining 26.2k in October. This is the largest cut in full-time jobs since April. Part time jobs rose by 33.6k.



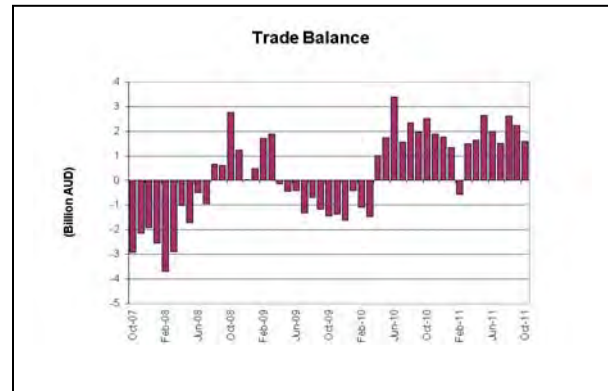
***FX******Trade-Weighted Exchange Rate***

The AUD has fallen 7.5% against the USD since it reached \$1.1081 on July 27<sup>th</sup>, the highest level since it was freely floated in 1983.

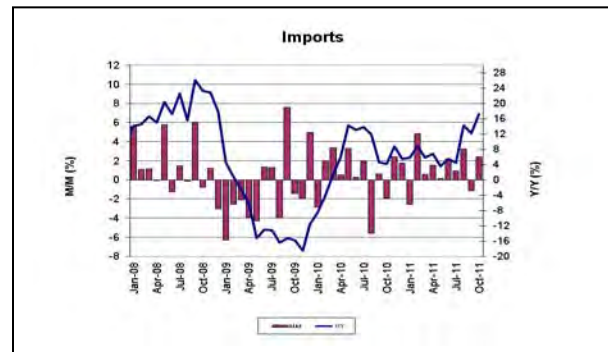
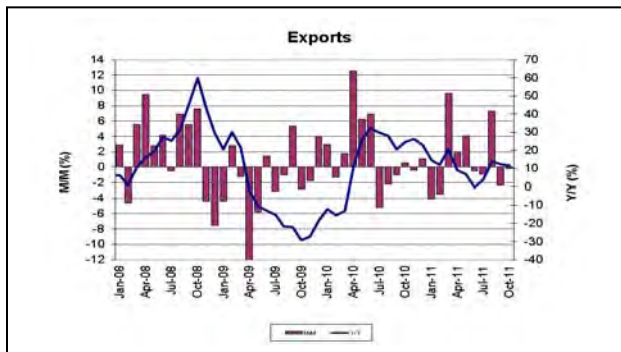
## Trade Balance & Home Loans

### Trade Balance

Australian Trade Surplus narrowed from A\$2.25 bln in September to A\$ 1.60 bln in October.



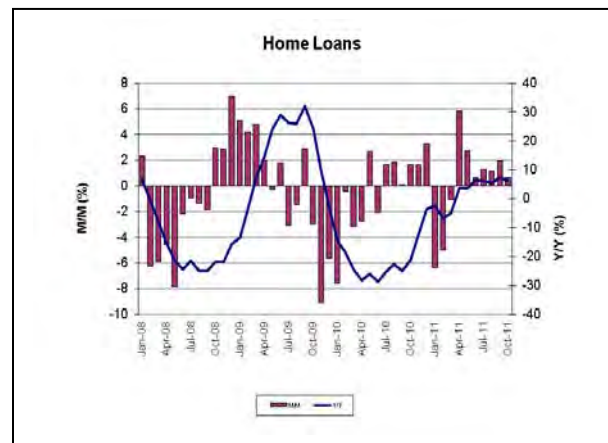
### Exports & Imports



Total Exports fell 0.2% M/M and rose 11.6% Y/Y in October, while total Imports rose 2.4% M/M and 17.2% Y/Y. Exports to EU dropped 21.1% M/M in October after falling 30.1% M/M in September. Imports from EU fell 5.3% M/M in October after dropping 7.1% M/M in September.

### Home Loans

In October, the number of Home Loan approvals rose 0.7% M/M after increasing 1.9% M/M in September. This is the 7<sup>th</sup> straight monthly increase. The market expected a flat M/M result. First-time home buyers accounted for 17.9% of dwellings that were financed in October, up from 16.4% in September and higher than the 15.4% a year earlier. The number of refi loans fell 1.8% M/M.



## News & Upcoming Dates

**Westpac/MI Consumer Confidence** - The Consumer Sentiment Index dropped by 8.3% M/M in December. The Confidence Index is now at 94.7; this compares to the reading of 111.0 from a year ago. The measure of the state of economy in 12-months' time plummeted 19.4% M/M. A reading above/below 100 indicates optimists outnumbered pessimists.

**NAB Business Confidence Survey** - The Australian Business Confidence Index remained at +2 in November. The last time the index was negative was in May 2009. The lowest level on record (-32) was reached in January 2009. The Business Conditions Index rose from 0 to 1pt.

**O2 Dwelling Starts** - Total dwelling unit starts dropped 6.8% Q/Q and 11.5% Y/Y. This is the largest quarterly drop since Q3 2010. Expectations were for a 1.0% Q/Q decrease. All main categories recorded a quarterly decline with new private sector houses falling 2.5% Q/Q.

**Dec. 14<sup>th</sup> - Battellino Says Lower Currency to Help Australia in EU Slump (Bloomberg)** - The RBA Deputy Governor Ric Battellino said a likely fall in the local dollar will help insulate the nation from an economic slump in Europe, where a "disruptive event" can't be ruled out. "It would be prudent to assume that, if the European economy were to slow markedly over the next year or so, Australia would be affected," Battellino said in prepared remarks for a speech today in Sydney. "It is also likely, however, that if that were to eventuate, the exchange rate of the Australian dollar would fall, as it has when global growth has weakened in the past, providing some cushion." Demand for Australian resources from emerging nations such as India and China helped boost the Australian dollar to a record in July. The currency declined after Battellino's comments, with the so-called Aussie having depreciated 2.9% this month as the RBA made its second straight rate cut in response to increased risks to global growth and rising unemployment. "While the direct exposure of Australia to a slowing in European demand is low, the indirect exposure, through the effect on some of our important trading partners, could be significant," the RBA's No. 2 official told the 24th Australasian Finance & Banking Conference. "China and India, for example, both ship a substantial share of their exports to the euro area and these could be expected to decline."

## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Month</i>	<i>Expectation</i>	<i>Previous</i>
12/14	New Car Sales (M/M)	NOV	-	+1.1%
12/14	Consumer Inflation Expectations	DEC	-	2.5%
12/19	Conference Board Index (M/M)	NOV	-	+0.1%
12/19	RBA Minutes	DEC	-	-
12/20	Westpac Leading Index (M/M)	OCT	-	-0.3%

Valance Co., Inc.

# Valance Economic Report: New Zealand

Milo Prochazka

(340) 692-7710

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

December 14, 2011

The RBNZ kept its OCR at 2.50% and lowered its GDP growth forecast over the next three years citing weakening domestic demand and the EU's deepening debt crisis. Manufacturing Sales Volumes dropped for the second straight quarter, while sales activity stalled.

## Weekly Highlights

**OCR** – unchanged at 2.50% (NZ 2)

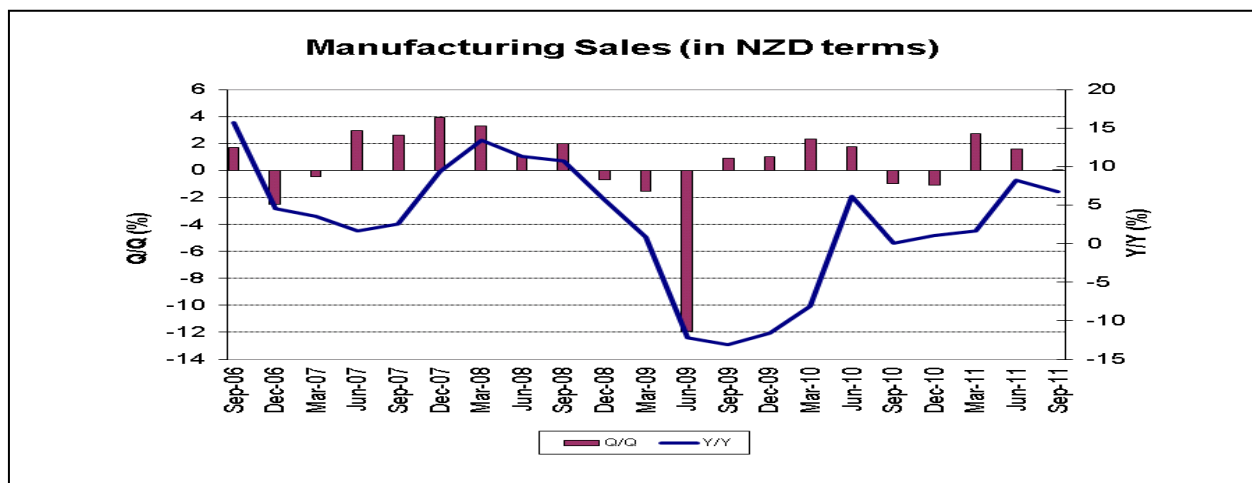
**Manufacturing Sales Volumes** – fell 1.4% Q/Q in Q3 (NZ 1)

**REINZ House Sales** – rose 1.1% M/M in November. (NZ 2)

**QV Home Sales** – increased 1.7% Y/Y in November. (NZ 3)

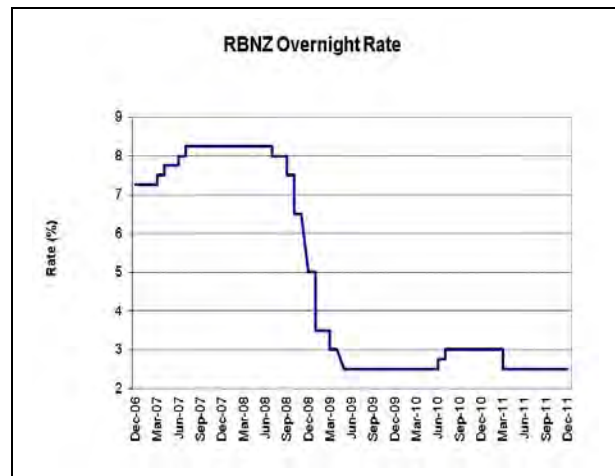
## Weekly Releases & News

### Charts of the Week: *Mfg. Sales*



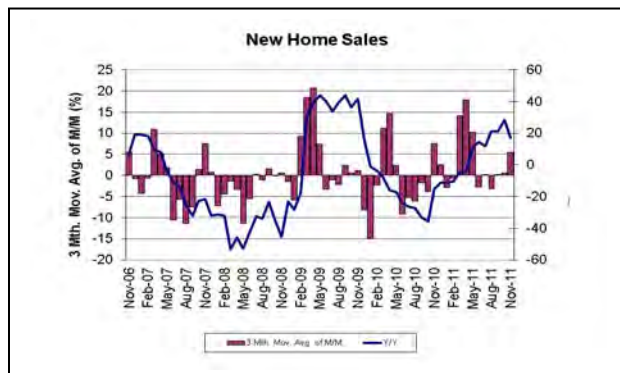
Manufacturing Sales (value in NZD) were flat Q/Q and slowed from 8.1% Y/Y in Q2 to 6.7% Y/Y in Q3. Sales, ex-Meat & Dairy, dropped 0.9% Q/Q and slowed from 7.2% Y/Y to 5.6% Y/Y. Meat & Dairy sales rose 1.4% Q/Q and slowed from 10.4% Y/Y to 9.9% Y/Y. Sales volumes fell 1.4% Q/Q in Q3, compared to the downwardly revised 1.4% Q/Q drop (previously -0.7%) in Q2.

## FX & RBNZ OCR



As expected, the RBNZ kept its official cash rate at 2.50% and signaled that rates will remain at a record low level until at least mid-2012. The RBNZ Governor, Alan Bollard said that “you may see that the 90-day track that we’ve published is consistent with some gentle rises sometime in the middle of next year.” There is a 48% chance of a 25bp rate cut by June, according to swaps prices from Westpac Banking Corp.

## REINZ House Sales/Prices



According to the Real Estate Institute of New Zealand Inc., House Sales were up 20.0% M/M and 16.9 % Y/Y in November. Median House Prices rose 1.1% M/M and 1.4% Y/Y. It took 35 days to sell a house in November, same as in October and down from 40 days a year ago.

## ***RBNZ Policy Decision Statement & Data***

---

### **OCR unchanged at 2.5 percent**

*The Reserve Bank today left the Official Cash Rate (OCR) unchanged at 2.5 percent.*

*Reserve Bank Governor Alan Bollard said: "As foreshadowed in the September Statement, global conditions have deteriorated. Continuing difficulties related to sovereign and bank debt in a growing number of European economies have resulted in high levels of volatility in financial markets. There has also been a softening in international economic activity, including in the Asia-Pacific region.*

***"Global developments are having some negative impact on New Zealand, though to date it has been limited. Business confidence has declined and investment spending is likely to remain weak for some time. In addition, tightness in international markets means funding costs for New Zealand banks will increase to some degree over the coming year.***

*"There remains a high degree of uncertainty around the global outlook and, as discussed in the scenario in this Statement, there is a risk that conditions weaken further.*

***"Domestically, economic activity continues to expand, though at a modest pace. Although off their peaks, export commodity prices remain elevated. In addition, the depreciation of the New Zealand dollar provides some support for the tradable sector of the economy. Over time, repairs and reconstruction in Canterbury will also provide a significant boost to demand for an extended period.***

*"Annual headline inflation is estimated to have returned within the Bank's 1 to 3 percent target band in the December quarter. Underlying inflation continues to sit close to 2 percent. **In addition, wage and price setting pressures have remained contained.***

***"Given the current unusual degree of uncertainty around global conditions and the moderate pace of domestic demand, it remains prudent for now to keep the OCR on hold at 2.5 percent."***

**ANZ Roy Morgan Consumer Confidence** - According to the ANZ Roy Morgan Consumer Confidence Index fell from 109.0 in November to 108.4 in December. This is the fourth monthly decline in a row. When asked about the domestic economy 1 year forward, the measure improved from -7 to -6 points and the 5-year forward outlook measure dropped from 28 to 20. When asked about buying a major household item, this measure fell from +19 to +15.

**QV Home Prices** - According to Quotable Value New Zealand Ltd., the government's valuation agency, the National House Price Index (NZD) rose 1.7% Y/Y in November, after rising 1.2% Y/Y in October. This is the fourth straight annual increase.

**Credit Card Spending** - According to the RBNZ, total credit card spending fell 0.2 % M/M in November after increasing 1.8% M/M in October. Retail Spending fell 0.5 % M/M after gaining 1.6% M/M previously.

**Food Prices** - According to Statistics New Zealand, June food prices rose 0.2% M/M and 1.9% Y/Y in November. This monthly result follows three consecutive declines. The largest fall was recorded in Fruits & Vegetables (4.0% M/M); the only negative category.

## **News & Upcoming Dates**

**Dec. 13<sup>th</sup> - Fonterra Lifts Forecast Payout on 'Modest' Commodities Recovery** (Bloomberg) - Fonterra Cooperative Group Ltd., the world's largest dairy exporter, raised its forecast milk payout to farmers for the year through May, citing a modest recovery in commodity prices. Auckland-based Fonterra revised its forecast price to NZ\$6.50 per kilogram of milk solids, from a NZ\$6.30 estimate in October, the company said in a statement today. World dairy trade growth was being led by whole and skim milk powders, Chief Executive Officer Theo Spierings said in the statement. "This reflects strong demand especially in emerging markets, including a number of ASEAN economies, as well as Brazil, Mexico and China," the company said. Dairy prices rose in three of the past four fortnightly auctions, Spierings said. Whole-milk powder has gained 13 percent since dropping to a 13-month low in early September, according to the result of its Dec. 6 auction. In October, Fonterra lowered its forecast payment for the year by 6.6 percent, citing softer commodity prices. The revised total payout forecast range is NZ\$6.90 to NZ\$7.00, which includes a distributable profit range of 40-50 New Zealand cents per member share. Fonterra is required to consider its milk payout every quarter.

**Dec. 8<sup>th</sup> - Reserve Bank governor Alan Bollard held the official cash rate at 2.5% and said the rate is on hold "for now" (NBR)** - The decision this morning was unanimously expected by economists but the implications of the accompanying monetary policy statement is that there will be no change in the OCR for some time. The central bank's forecasts are now more downbeat: worsening global economic conditions have led the Reserve Bank shave nearly 1% off its growth forecasts for the next three years. GDP growth is now expected to total 8.3% over the next three years: back in September the Reserve Bank's forecast was for 9.1%. Volatility from the Eurozone and a "modest" downturn in the hitherto booming Asia-Pacific export markets, are all cited as reasons for a more restrained growth path. A "soft" domestic economy is the other main reason. The overnight index swap (OIS) market has priced in no rate rise until around the fourth quarter next year, and has actually implicitly priced in a rate cut in the first few months of 2012, but no economist expects the Reserve Bank to do this.

### **Key Dates This Week**

<i>Date</i>	<i>Indicator</i>	<i>Month</i>	<i>Expectation</i>	<i>Previous</i>
12/14	Business PMI	NOV	-	46.5
12/18	Services	NOV	-	50.6
12/18	NBNZ Business Confidence	DEC	-	18.3
12/20	Current Account Balance	Q3	-	-0.921 bln
12/20	Net Migration	NOV	-	-650.0

# Weekly Economic Report: China

Evelyn L. Richards

(340) 692-7710

erichards@valance.us

December 14, 2011

**In November, Consumer Prices slowed but continued to be above the government's 4% target so far this year; PPI dipped below expectations; and M2 Money Supply growth slowed.**

## Weekly Highlights

**Exports** – rose 13.8% Y/Y in November. (CH 1)

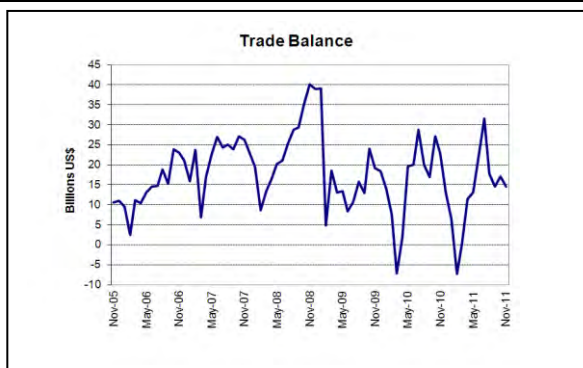
**CPI** – fell to 4.2% Y/Y in November. (CH 2)

**PPI** – slowed from 5.0% in October to 2.7% in November. (CH 2)

**M2 Money Supply** – slowed from 12.9% Y/Y in October to 12.7% Y/Y November. (CH 3)

## Weekly Releases & News

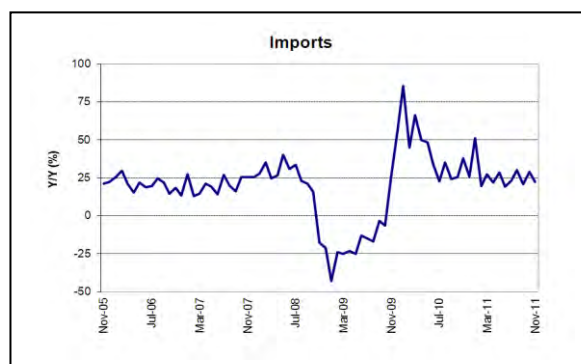
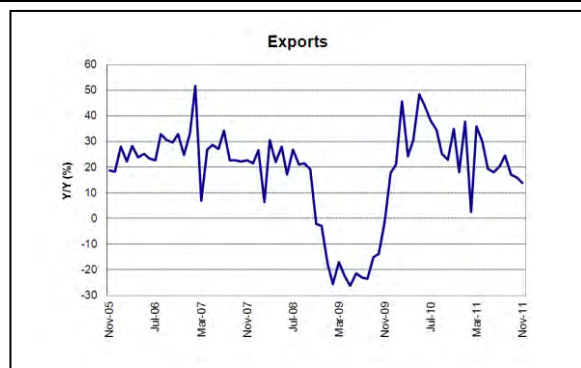
### Chart(s) of the Week: Trade Balance



China's Trade Balance narrowed from a surplus of \$17.03 bln in October to a surplus of \$14.52 bln in November. The surplus was expected to reach \$15.20 bln.

Exports growth rose 13.8% Y/Y in November – compared with 15.9% Y/Y growth the previous month; above expectations of a 10.9% Y/Y gain.

Imports growth rose 22.1% Y/Y in November – compared with 28.7% in October. They were expected to gain 18.8%.



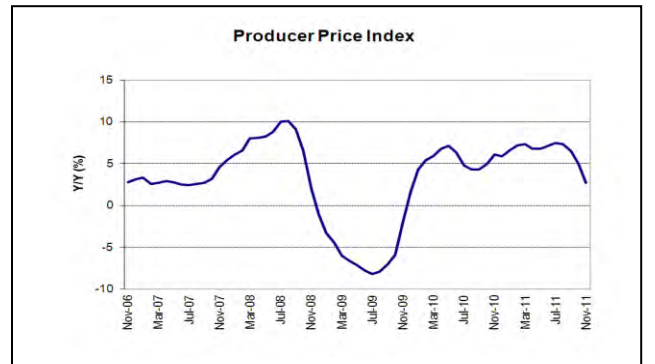
## CPI

As expected, the Consumer Price Index fell from 5.5% in October to 4.2% Y/Y in November.



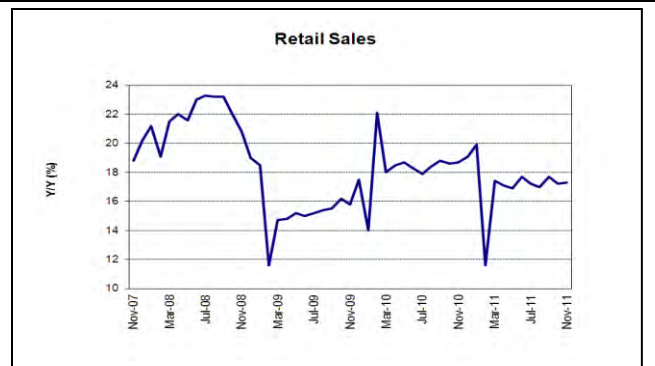
## PPI

The November Producer Price Index fell from 5.0% Y/Y in October to 2.7% Y/Y. The Index was expected to reach 3.4% Y/Y.



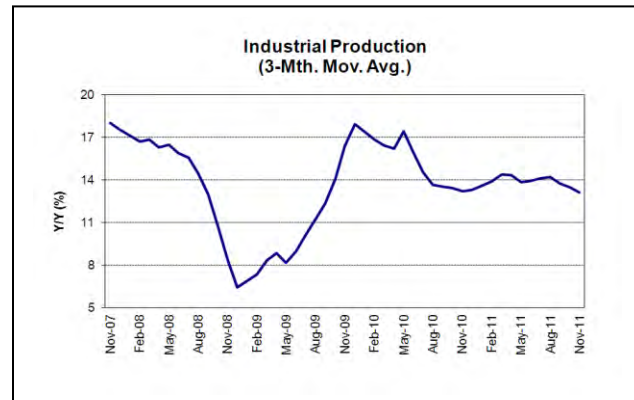
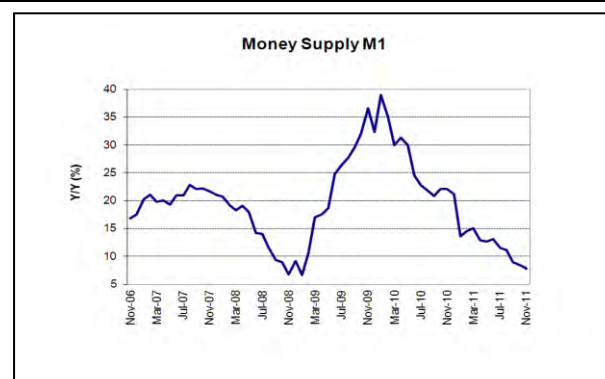
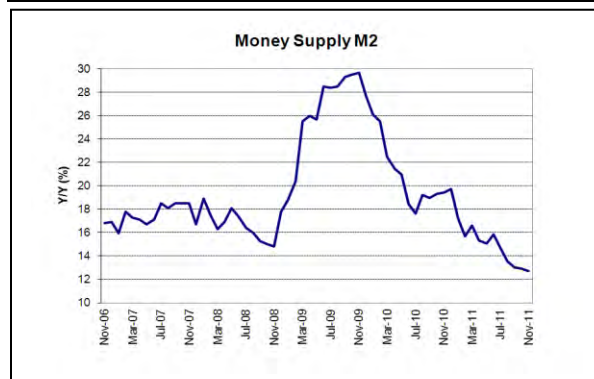
## Retail Sales

Retail Sales climbed from 17.2% Y/Y in October to 17.3% Y/Y in November. Sales were expected to fall to 16.8%.



**Industrial Production**

Industrial Production fell from 13.2% Y/Y in October to 12.4% Y/Y in November, below expectations of 12.6% Y/Y.

**Money Supply**

M2, the broadest measure of money supply, slowed from 12.9% Y/Y in October to 12.7% Y/Y in November; below expectations of 12.8%.

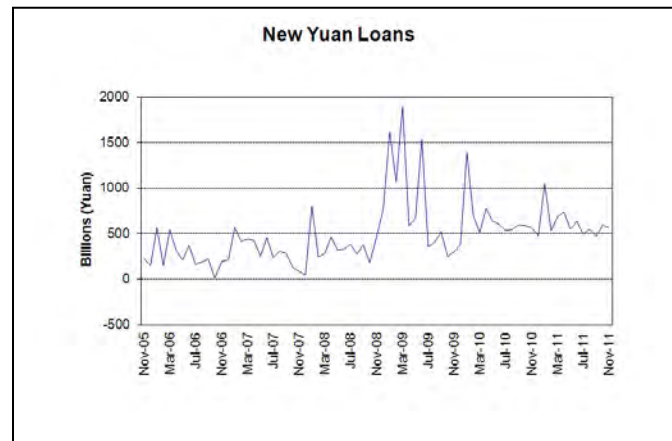
M1 Money Supply growth slowed from 8.49% Y/Y in October to 7.8% Y/Y in November. It was expected to reach 8.6% Y/Y.

M0 Money Supply growth slowed from 11.9% Y/Y in October to 12.0% Y/Y in November.

## New Yuan Loans, Data & News

### New Yuan Loans

New Yuan Loans fell from \$586.8 bln in October to \$562.2 bln in November; above expectations of \$550.0 bln.



### Data

**December 14<sup>th</sup> (Bloomberg) – Conference Board Leading Economic Indicator** – fell 0.1% to 160.1 in October. Economist Andrew Polk of the Conference Board remarked:

*The risk of a more substantive slowdown in China's economic growth than anticipated so far is rising. Targeted loosening of credit markets should give some help to companies but the pass through from previous policy tightening measures will continue to act as a brake on the economy.*

**December 9<sup>th</sup> (Bloomberg) - Fixed-Asset Investment** – slowed slightly from 24.9% Y/Y in October to 24.5% Y/Y in November. A 24.8% Y/Y gain was expected.

### News

**December 13<sup>th</sup> (NASDAQ) - China's Economic Growth Rate May Stay Above 8.5% in 2012** – PBoC Advisor, Li Daokui was quoted as saying a forum, that China's economy will likely reach 8.5% in 2012. Daokui reportedly said that inflation will range between 35 and 5% over the next few years.

**December 9<sup>th</sup> (Bloomberg) - China Says It's Prepared to Help Stabilize Financial Markets** - Foreign Ministry Spokesman, Hong Lei said:

*...European countries have put forward important proposals to deal with the debt crisis*

*We are ready to work with the international community to stabilize international financial markets and promote recovery and growth.*

## **News (Cont'd.) & Upcoming Dates**

### **News (Cont'd.)**

**December 8<sup>th</sup> (UPI) - China Lowers GDP Forecast** - The Chinese Academy of Social Sciences revised its 2011 GDP for China from a previous forecast of 9.4% to 9.2% and 8.9% in 2012 “assuming there is no significant deterioration in the global economic and political conditions and no serious natural disasters nor other problems at home.” The Academy also said inflation will now reach 4.6% in 2012 - down from a projected 5.5% in 2011.

### **Key Dates This Week**

<i>Date</i>	<i>Indicator</i>	<i>Month</i>	<i>Expectation</i>	<i>Previous</i>
11-09-10	Trade Balance	OCT	\$25.75B	\$14.51B
11/09-10	Exports / Imports	OCT	16.1% / 22.2%	17.1% / 20.9%
11/10-15	New Yuan Loans	OCT	500.0B	470.0B
11/10-15	Money Supply – M0 / M1 / M2	OCT	-- / 9.3% / 13.0%	12.7% / 8.9% / 13.0%
11/13-17	Actual FDI	OCT	--	7.9%
11/16	Conference Board China September Leading Economic Index			

Valance Co., Inc.

# Valance Economic Report: Sweden

Evelyn L. Richards

(340) 692-7710

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

December 14, 2011

**In November, Y/Y CPI inflation slowed slightly, but continued to remain above the Riksbank's 2% target and Unemployment dropped to 4.4%. Industrial Output growth exceeded expectations, while Orders declined in October.**

## Weekly Highlights

**CPI** – rose 0.2% M/M and 2.8% Y/Y in November. (SW 1)

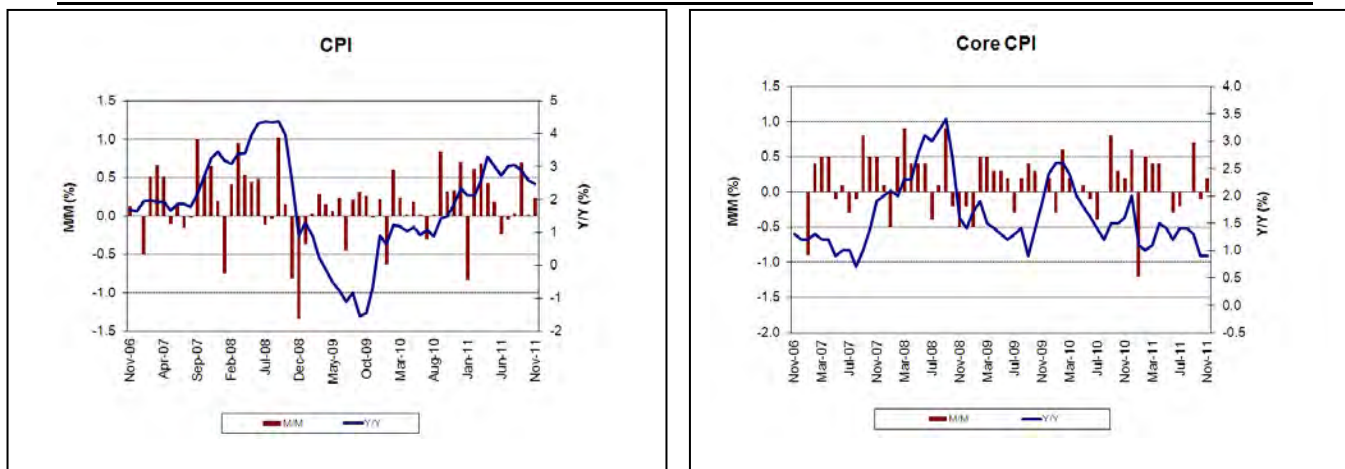
**Core CPI** – rose 0.2% M/M and 1.1% Y/Y in November. (SW 1)

**Industrial Production** – rose 0.4% M/M and 4.7% Y/Y in October. (SW 2)

**Unemployment Rate** – dropped from 4.5% in October to 4.4% in November. (SW 2)

## Weekly Releases & News

### Chart(s) of the Week: CPI



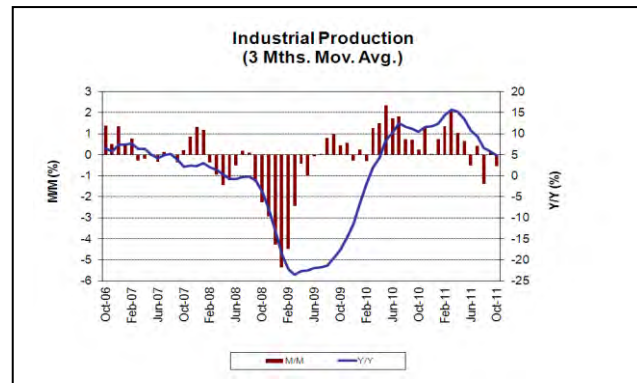
Headline Consumer Price growth rose 0.2% on the month, compared with 0.0% M/M posted the month before, and above the 0.1% growth expected. Annually, prices rose 2.8%, compared with 2.9% the previous month. The annual rate was expected to reach 2.7%. Increases in electricity (+4.6%) and higher interest costs for owner occupied housing (+0.9%) had a positive effect on the monthly rate; while lower prices for clothing and footwear (-1.3%), petrol prices (-1.4%), and package holidays (-6.5%) contributed negatively. On a core basis, prices rose 0.2% M/M (from -0.1% M/M the month before) and held at 1.1% Y/Y.

SW 1

## Industrial Production/Orders & Unemployment Rate

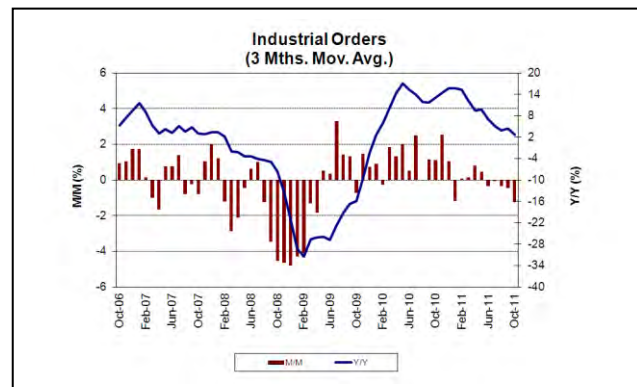
### Industrial Production

Industrial Production rose 0.4% M/M and 4.7% Y/Y in October, compared with 1.4% M/M and 4.6% Y/Y the previous month. On a monthly basis, production was mixed, but mostly positive, in most of the industry's subsectors, with the strongest development in the transport equipment and pharmaceutical industries; while the electronics industry suffered the biggest drop.



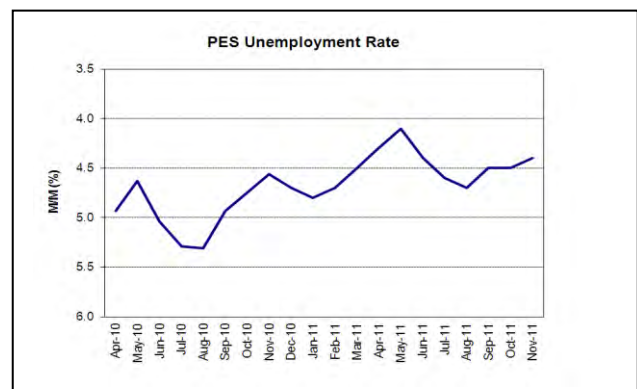
### Industrial Orders

October Industrial Orders fell 1.8% M/M and 5.0% Y/Y, compared with -1.3% M/M and +1.1% Y/Y in September. The electrical equipment and electronics industries suffered the greatest fall, while the transport equipment industry had the biggest positive impact. New orders in the domestic market declined 1.2% M/M and by 2.2% in the export market.



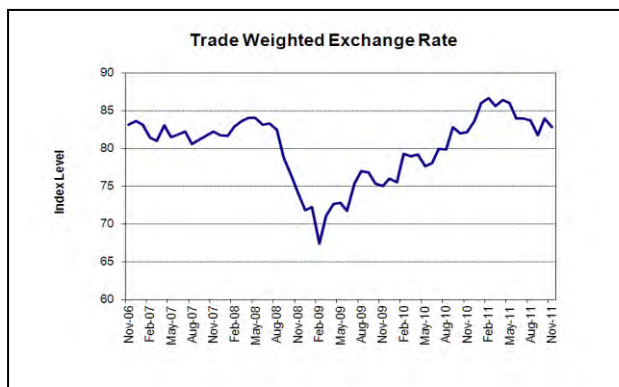
### Unemployment Rate

The Unemployment Rate (n.s.a.) dropped to 4.4% in November. The rate was expected to remain unchanged at 4.5%. The number of unemployed totaled 202K persons -- down almost 6K. Meanwhile, the number of vacancies reached approximately 52K -- up 4K from the prior year.



## Trade Weighted Exchange Rate, News & Upcoming Dates

### Trade Weighted Exchange Rate



### News

**December 14<sup>th</sup> (Bloomberg) - Riksbank to Cut Rate to 1.7 Percent in 2012** – A survey by TNS Sifo Prospero showed that the Riksbank is expected to cut its benchmark interest rate to 1.7% in 2012; consumer prices will reach 2.0% in 2012 and 2.1% in 2013; and GDP will grow 1.8% in 2012 and 2.2% in 2013.

### Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Month</i>	<i>Expectation</i>	<i>Previous</i>
12/15	Unemployment Rate	NOV	6.9%	6.9%
12/16	Average House Prices	NOV	--	1.822M
12/20	Riksbank Interest Rate	DEC 20	--	2.00%
12/21	Consumer Confidence	DEC	--	--
12/21	Manufacturing Confidence	DEC	--	-12
12/21	Economic Tendency Survey	DEC	--	94.0

Valance Co., Inc.

# Valance Economic Report: Switzerland

Evelyn L. Richards

(340) 692-7710

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

December 14, 2011

The franc's strength continues to wreak havoc on Switzerland's economy: Swiss Producer & Import Prices fell for the 7<sup>th</sup> consecutive month in November and the December Outlook for Swiss Investor Confidence dropped further.

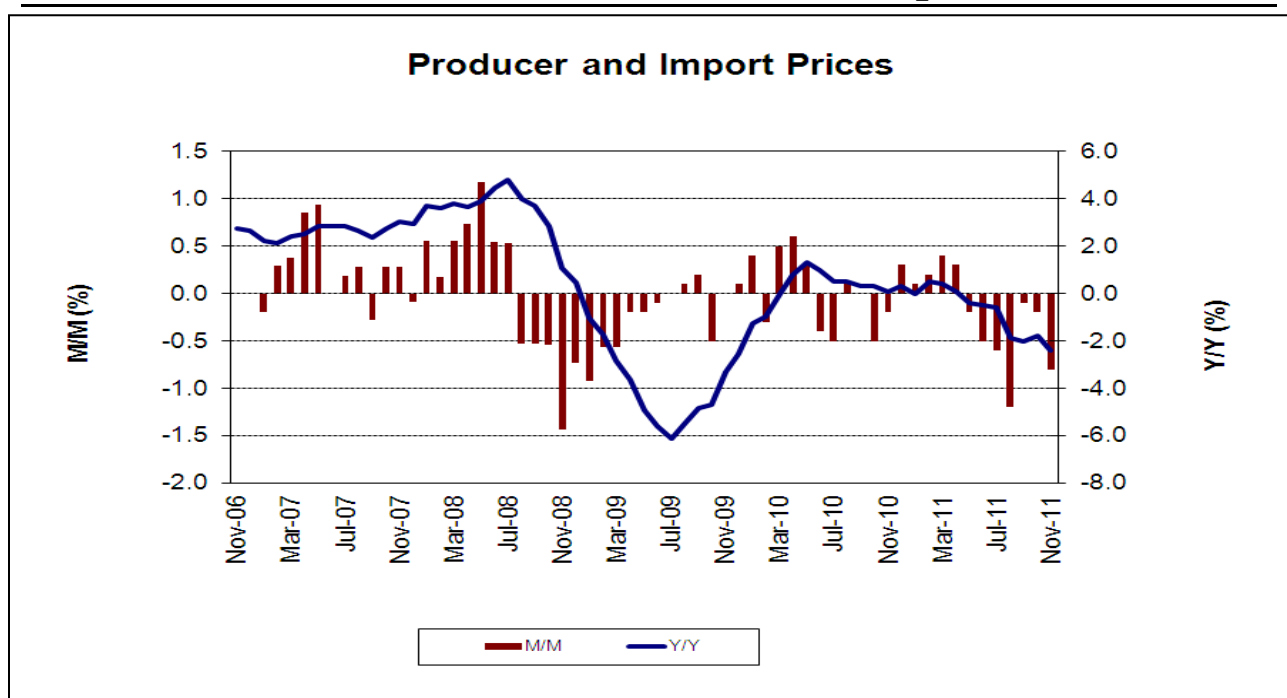
## Weekly Highlights

**Producer & Import Prices** – fell 0.8% M/M and 2.4% Y/Y in November. (SZ 1)

**December Investor Sentiment** – fell from -64.3 in November to -72.0. (SZ 2)

## Weekly Releases & News

### Chart(s) of the Week: *Producer & Import Prices*

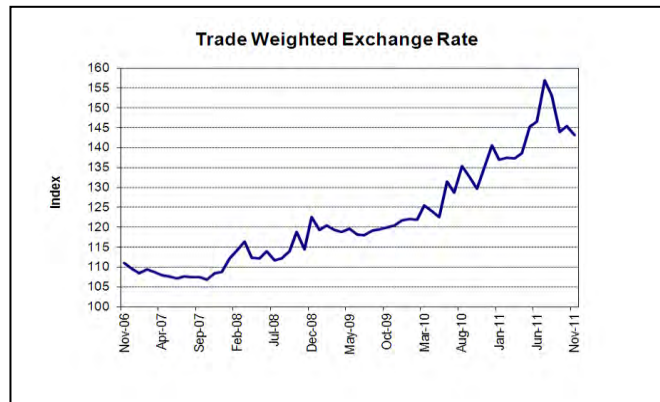


Switzerland's combined Producer & Import Price Index fell 0.8% M/M in November, compared with -0.2% M/M the previous month. Annually, the index slipped 2.4% in November, compared with -1.8% the year before. The franc's strength is partly to blame for the continued downturn in the index. Prices were expected to reach -0.2% M/M and -1.8% Y/Y.

SZ 1

## Trade Weighted Exchange Rate, Data & News

### Trade Weighted Exchange Rate



### Data

**November 14<sup>th</sup> – December Swiss Investor Sentiment (Bloomberg)** - A survey by the ZEW Center for European Economic Research and Credit Suisse Group showed that the outlook for Swiss Investor Confidence worsened from -64.3 in November to -72.0 in December.

### News

**December 13<sup>th</sup> (Bloomberg) - Government Cuts Growth Forecast, Sees Recovery in 2013** - The State Secretariat for Economic Affairs lowered its growth forecasts for this year and next as a result of slower export orders. The Secretariat said that GDP will rise 1.8% this year, from 1.9% previously forecast; 0.5% in 2012, from 0.9%; and 1.9% in 2013. It remarked:

*Assuming that a further escalation of the debt crisis in the euro area can be averted, economic weakness in Switzerland should be limited and will be brief. However, at its current level the franc is still very highly valued and curbs Swiss companies' international competitiveness.*

*The minimum exchange rate of the SNB has stabilized the currency situation for companies and thus slightly improved. Still, the franc remains on the current level, around 1.23 versus the euro, very highly valued.*

**Key Dates This Week**

<i>Date</i>	<i>Indicator</i>	<i>Month</i>	<i>Expectation</i>	<i>Previous</i>
12/15	IP	Q3	-0.9% / 0.0%	3.6% / 2.3%
12/15	SNB 3-Mth Libor Target	DEC 15	0.00%	0.00%
12/16	KOF Inst. Dec. Economic Forecast			
12/20	Trade Balance	NOV	--	2.15B
12/20	Exports / Imports	NOV	--	1.3% / 1.4%
12/21	Money Supply M3	NOV	--	8.2%