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Global Economic Developments

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China: Will Strong First Quarter Result Change Policy?

Real GDP grew 9.7% year-on-year during the first quarter of 2011. The result was above consensus expectations (9.4% year-on-year), and virtually unchanged from the last three months of 2010 (9.8% year-on-year). Certainly not a shocking result; not descriptive of a qualitatively different reality than analysts and the markets perceived based on earlier high-frequency and anecdotal information. The same can be said about inflation at the consumer level, which rose to 5.4% year-on-year, marginally above expectations (5.2% year-on-year).

Nonetheless, the data marginally re-shapes the picture of current conditions and risks in the direction of a strong-economy, in which inflation would be slightly more distinctly the key driver for near-term macroeconomic policy. Certainly, policymakers do not get any evidence that their emphasis on tightening should be modified.

Still, the data do not diminish noticeably the likelihood of the central bank's projections, which include some moderation of real GDP growth and a modest deceleration of inflation later in the year.

As a consequence, the policy steps that had been expected prior to this release remain the most likely outcome: there should be one or two more interest rate increases in the next few months, with perhaps a pause at some point in the third quarter, plus the continuation of administrative efforts to keep loan growth within target, and other measures (fiscal and monetary, nationwide and local) designed to reduce price pressures in targeted segments of the economy, such as housing.

What has changed is that fresh high-frequency data, providing greater detail to validate or contradict the central bank's expectations, has become--on account of the first quarter results--slightly more important in determining the next policy turning point.

It should also be noted that there is a potential (relative) fragility underlying the real GDP numbers: the rate of real GDP growth stayed close to its level of a quarter ago mostly because of a surge of private fixed capital formation, which posted a 45% year-on-year gain, the largest since 2005 and obviously not sustainable. By comparison, consumer spending (at least to the extent revealed by the retail sales figures) expanded moderately, showing little sign of tightening-proof vigor and even some possible evidence of damage from the tightening efforts of the past year. Indeed, retail sales grew 16.3% year-on-year during the first three months of 2011, versus 18% year-on-year in the corresponding period of 2010 (and 18.4 for the year as a whole).

This internal-demand profile is probably conducive to some (dovish) prudence on the part of the PBOC, as it suggests that real GDP growth in the next few quarters will lose some of its apparent exuberance. This is a key reason to expect interest-rate hikes to exhaust their usefulness soon, in the central bank's risk-weighted calculations.

The bank would still, however, attempt to keep a lid on lending—thus far this year a successful effort, with new loans falling around 13% annually during the first quarter, and total loans rising a close-to-acceptable 16% year-on-year.

Finally, as regards exchange rate policy the available data are far from describing a situation so dire from the perspective of inflation that they would lead to an abandonment of the slow-appreciation approach to favor an inflation-containing revaluation.

Thus, we still expect a gentle upward path for the renmimbi in nominal terms, while the real effective exchange rate gains more substantially on the basis of strong wage growth, and more broadly a sustained inflation differential between China and its key trading partners. The effects of this process are beginning to appear in the trade account, with the surplus drastically lower in nominal terms, and a fraction of its former magnitude as a share of GDP. This trend should continue into the foreseeable future; no overnight disappearance of China's trade surplus, but a gradual withering over the next few years.

— Francisco J. Larios, DE Miami

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Europe

Eurozone

- **Growth and Production:** *Output rises further, but still modestly.* Coming in below expectations, industrial production increased by 0.4% M/M in February, twice the downwardly revised gain seen in January (the net impact of revisions was positive, however). The sector break-down showed broad based gains in February save for energy, including the first rise in durable consumer goods production in three months. Regardless, base effects helped push the Y/Y growth rate back to 7.3%, some three percentage points below the cycle-high recorded last May.

- **Trade:** *Trade balance in surplus.* The (unadjusted) trade balance was in surplus by € 1.4 bln in February, a clear improvement on the shortfall of € 1.5 bln in the same month of the last year. This was due to exports rising 23% in Y/Y terms, while imports increased by an even stronger 26%. Seasonally adjusted data for February, meanwhile, showed a smaller deficit than in January, shrinking from € 3.1 bln to € 2.4 bln. This reflected exports (1.6% M/M) rising more clearly than imports (1.0%).

France

- **Growth and Production:** *Manufacturing growth slows.* Coming in largely in line with expectations, manufacturing output increased 0.7% M/M in February, slowing from the 1.5% gain seen in the preceding month. On a Y/Y basis, manufacturing production picked up to 7.2%, reaching its highest level since May 2010. The latest M/M gain reflected growth in various sectors, led by refining, transport equipment and autos and only partially offset by a large swing into negative territory for electronics. Overall industrial production rose 0.4% M/M, undermined by contractions in energy and construction output, from 0.7% in January, bringing Y/Y growth up 0.2 percentage point to 5.6%.

- **Inflation:** *Inflation bounces back.* Overshooting expectations this time around, CPI inflation rose by 0.3 percentage point to 2.0% Y/Y, now at its highest since October 2008. In M/M terms, prices rose by 0.8%, and across most components, led by clothing (8.0%), oil products (4.0%) and fresh food (2.9%). The Y/Y breakdown showed fairly broad-based recovery in prices pressures, led by gains in food excluding fresh produce, oil products as well as clearly less negative clothing inflation. As a result, the seasonally adjusted core inflation (excluding fresh food, energy and taxes effects) bounced back 0.3 percentage points to 0.7% Y/Y. Meanwhile, EU-Harmonized inflation jumped to 2.2% Y/Y from 1.8% in the preceding month, also reaching a two-and-a-half-year high.

Italy

- **Growth and Production:** *Industrial output rebounds.* Surprising to the downside once again, industrial production swung by 3.1 percentage points to 1.4% M/M in February. Y/Y growth, meanwhile, picked up to 2.3% from 0.4% in January.

- **Trade:** *Trade deficit widens.* The global unadjusted trade deficit widened to € 3 633 mln in February, up from the € 2 841 mln deficit recorded in the same month of the previous year. In seasonally adjusted terms, the trade gap also widened, albeit more modestly, to € 2 991 mln from a pared-back January reading of € 2 720 mln, as export growth swung into negative territory (-1.4% in February from 4.3%). Meanwhile, the EU trade gap narrowed on both an unadjusted and seasonally adjusted basis.

Norway

- **Inflation:** *Inflation falls.* Largely in line with expectations this time around, CPI inflation dropped by 0.2 percentage points to 1.0% Y/Y, the third successive fall and the lowest since October 2009. On a M/M basis, prices rose 0.3%. The Y/Y breakdown shows the latest drop in CPI inflation is a result of a fall back in food (0.4% in February to -0.3%), housing (2.2% to 0.7%) and household services (-0.5% to -1.6%), all offset by a less weak clothing component (-5.5% to -1.0%). There was little change in the other components. As a result, the core rate, CPI-ATE (excluding taxes and electricity), was unchanged from the month before at 0.8% Y/Y.

Sweden

- **Inflation:** *Higher inflation.* Largely matching expectations, March headline CPI inflation rose by 0.4 percentage point to 2.9% Y/Y, a fresh cycle-high (actually the highest in 29 months). Prices increased 0.7% in M/M terms last month, a result of a broad-based rise, but mainly a rebound in clothing costs. The long-standing core measure (CPIX, which excludes mortgage costs and taxes) also rose but less clearly, rising 0.1 percentage point to 1.1% Y/Y, up from a 17-month low. Meanwhile, the underlying measure (CPIF) which the Riksbank puts more emphasis on (and which holds mortgage interest expenditure constant) rose 0.2 percentage point to 1.5%.

United Kingdom

- **Inflation:** *CPI inflation abates (at last).* Undershooting expectations, consumer price inflation fell for the first time since last July and clearly so, falling 0.4 percentage points to 4.0% Y/Y, thereby exactly unwinding the rise to the 28-month high seen in February. Prices were up 0.3% in M/M terms, reflecting widespread gains, particularly in regard to energy, but with service and food costs having fallen. These latter components were also the main factors behind the drop in the Y/Y rate, alongside some easing back in clothing price inflation (at 2.8%) the highest on record. Higher energy pressures were also evident, however. Of some note, the core rate (ie excluding energy, food, alcohol and tobacco) dropped 0.2 percentage point to 3.2% Y/Y. Elsewhere, and of some note, the March Y/Y RPIX rate (which excludes mortgages) fell from 5.5% to 5.4%, while the RPI counterpart fell twice as much but to 5.3%.

- **Employment:** *More mixed labor market signs?* Somewhat surprisingly, March claimant count unemployment showed a fresh rise, albeit by a modest 700, but with some upward revisions to previous data, the latter resulting in less sizeable drop (of 8 500) having occurred in February. These developments still left the unemployment rate on this basis at 4.5%. However, the (broader)

ILO measure of unemployment painted a contrasting picture, with an 17 000 drop in the three months to February, enough to cause the jobless rate on this measure to edge back down to 7.8%. As with previous reports, details elsewhere in labor market numbers contained a further array of mixed tones. On a somewhat less upbeat note, vacancies fell for a second successive month and more sizably so, albeit largely reflecting distortions arising from census workers. More optimistically, the rate of redundancies slipped (despite a rise in the public sector component) while hours worked picked up further and clearly. More notably, and also on the positive side, employment showed a further and more significant increase (0.5%) in the quarter to February, a jump that was very much underpinned by a bigger bounce-back in full-time employee jobs. There was also a further rise in participation rates.

- **Trade:** *Record exports help trigger narrower trade gap.* Once again showing a much smaller shortfall than expected, the total visible trade gap narrowed from an upwardly revised shortfall of £ 7.79 bln in January to a deficit of £ 6.78 bln in February, a 12-month low. The latest data reflected a further pick-up in exports alongside another sharp drop in imports, albeit with both developments partly accentuated by swings in both oil and erratics, although underlying export volume figures were very strong too. Even so, excluding oil and erratics, the deficit on this basis also narrowed. In terms of import prices, the data showed mixed developments.

Central Europe

Czech Republic

- **Inflation:** *Inflation eases.* Meeting expectations, CPI inflation slipped 0.1 percentage point to 1.7% Y/Y in March from the previous month, now equaling the eight-month low reached in January. In M/M terms, consumer prices rose by 0.1%, with increases in domestic fuels, clothing and transport counterbalanced by falls in package holidays, recreation & culture and seasonal goods. The Y/Y break down revealed mixed messages, with less negative clothing (from -3.7% in February to -3.0) offset largely by falls in food (4.2% to 3.7%) and seasonal goods (10.3% to 3.2%) inflation. Indeed, excluding seasonal goods, CPI inflation actually rose from 1.5% Y/Y in February to 1.6%. The latest reading marks the third straight month in which CPI inflation has undershot the Czech National Bank (CNB)'s forecast (by 0.2 percentage point this time). As a consequence, these latest results may serve to calm the hawks on the CNB board and increases the likelihood of a decision to hold rates at the Bank's next policy meeting on 5 May.

Hungary

- **Inflation:** *Inflation rises further.* Exceeding expectations, consumer price inflation rose by 0.4 percentage points to 4.5% Y/Y in March, reaching a four-month high. In M/M terms, prices increased 1.1%, led by gains in food (2.2%), clothing (2.0%) and utilities (1.5%). The Y/Y breakdown revealed mixed messages, with rises in price pressures for food (8.6% from 7.4% in February), utilities (8.2% from 7.0%) and services (2.1% from 1.9%) offset only partially by falls in clothing (0.5% from 1.4%) and alcohol & tobacco (0.8% from 1.2%). Durable goods prices continued to fall, albeit less negatively in Y/Y terms, by -1.3% from -1.8% in the preceding month. Even so, the core rate (which excludes food, energy and goods with administered prices) still picked up to 2.5% Y/Y from 1.9% in February.

Russia

- **Growth and Production:** *Output growth softens.* Industrial output edged a bit lower in a year-on-year comparison in March (+5.3% vs. +5.8% in February), but accelerated in seasonally-adjusted terms, rising 0.7% from the month prior after a 0.1% drop in Febraury. Mining and manufacturing activities saw some deceleration in annual growth rates, while utilities growth expanded. The headline year-on-year reading is the slowest since Nov. 2009, and represents a reading nearer to the lower end of the range seen in the pre-global crisis period.

Poland

- **Inflation:** *CPI inflation quickens.* Offsetting the unexpected softness in February, consumer price inflation rose at a 4.3% year-on-year pace in March, well ahead of expectations, and up from 3.6% recorded the month prior. The gains appeared to be centered in food and beverage prices (+6.1% y/y in March, +4.8% in Feb), fuel (+13.9% vs +12.4%), though most other categories also saw modest acceleration. The jump supports the central bank's recent rate hike, and makes a move in May much more likely, with markets perhaps speculating a 50 bps move may be in the cards. Another 25 bps move is the more likely path, though wage data later this month gain in importance.

Turkey

- **Employment:** *Lower unemployment.* The unemployment rate in the three months to February dropped by 2.6 percentage points to 11.9% from the reading recorded in the corresponding period in 2010. On a seasonally adjusted basis, the unemployment rate fell by 0.3 percentage points to 10.6% in February from the downwardly revised reading in preceding month, reaching a new cycle low. The employment rate, meanwhile, rose by 0.3 percentage points to a new cycle high of 44.2% in adjusted terms, while the rate rose to 42.3% Y/Y from 40.6% in the same period of the previous year in unadjusted terms. Moreover, the participation rate also saw improvement in both adjusted (49.4% in March from 49.3% in February) and unadjusted (48.1% in February from 47.5% in the same period in 2010) terms.

Asia and Pacific

China

- **Growth and Production:** *Strong growth.* Although surprising on the upside once more, national accounts data nevertheless showed GDP growth easing back 0.1 percentage point to 9.7% in Q1, canceling out half the Q4 2010 gain. The broad sectoral breakdown revealed growth of 3.5% in the primary sector in Q1, somewhat more muted than the full-year gain of 4.3% in 2010, while the secondary sector expanded by 11.1% and the tertiary sector saw growth of 9.1%, the latter two readings also down on

their respective 2010 outcomes. In contrast to the preceding two quarters, private consumption provided more of a boost to growth than investment, the former contributed 5.9 percentage points to growth and the latter 4.3 percentage points. Also of some note, net trade was a drag on the headline figure to the tune of 0.5 percentage point. For the first time, meanwhile, the National Bureau of Statistics (NBS) released a seasonally adjusted reading, with GDP expanding 2.1% on a Q/Q basis, a slightly less clear gain than in Q4 (2.45%).

- **Inflation:** *Price pressures rise.* In line with leaked reports to the press, Consumer price inflation rose from 4.9% Y/Y to 5.4% in March, the highest reading since July 2008 and exceeding market expectations formed before the press leak. The Y/Y breakdown showed the pick-up in price pressures to have been broadly based, with food price inflation rising from 11.0% Y/Y to a four-month high of 11.7%, while non-food prices were up 2.7%, the largest gain in over seven years and up 0.4 percentage point on the February reading. In M/M terms, however, consumer prices fell by 0.2%.

- **Trade:** *Trade balance back to surplus.* Overshooting expectations clearly, March trade data showed the trade balance recover from the $ 7.24 bln deficit in March 2010 into a modest surplus of $ 0.14 bln in March this year. This marked recovery was the result of a significant jump in Y/Y export growth to 35.8% from the 2.4% seen in the previous month, while import growth increased by a relatively more moderate 7.9 percentage points to 27.3%. The correction in exports was broad-based on a geographical basis, with exports rising to all regions except Hong Kong.

Singapore

- **Monetary and Fiscal Policy:** *Monetary policy stance tightened, but less than expected.* In its latest twice-yearly monetary policy statement, the Monetary Authority of Singapore (MAS) said that it would re-center the effective exchange rate (S$NEER) band upwards, a move widely expected by analysts, but in a surprising twist said that the S$NEER would be re-centered below the prevailing level of the currency. Moreover, in contrast to the last (October 2010) statement, the MAS also refrained from changing the slope or the width of the target-band. In justifying the new policy stance, the MAS pointed to the step-up in activity seen in Q1 and said that, in light of the Q1 development, full-year growth was likely to come in at the upper-end of its 4-6% forecast range. Moreover, it believed that the global economy was expected to grow at a moderate pace in 2011, notwithstanding the impact of the Japanese earthquake. As for price pressures, the MAS expected the rise in consumer price inflation seen over the last few months, although also underscored that there had been base-effects at work, effects that would moderate going forward. However, the MAS also pointed to increasing wage pressures and rising global oil and food prices as clear concerns. Indeed, full-year CPI inflation was expected to come in at the upper-half of the 3-4% forecast range that the MAS had revised up in mid-February.

- **Growth and Production:** *Economy surprisingly strong.* Exceeding even the most optimistic expectation, advance national accounts showed GDP up 23.5% Q/Q on an annualized basis last quarter, the largest gain in three quarters and building on the much more modest 3.9% recovery in Q4. On a Y/Y basis, however, GDP growth slipped from 12.0%, to a five-quarter low of 8.4%.

Malaysia

- **Growth and Production:** *Output rebounds.* Coming in slightly below expectations, industrial production growth jumped by 4.5 percentage points to 5.0% Y/Y in February from the previous month, a six-month high. The breakdown revealed broad expansion in all three sectors of manufacturing (3.8% in January to 7.9%), mining (-6.7% to -0.7%) and electricity (0.3% to 0.7%).

Philippines

- **Trade:** *Export growth slows further.* Coming in clearly below expectations once again, February export growth fell to 8.2% Y/Y from 11.7% in the preceding month, a second consecutive fall and now at its slowest since November 2009. Meanwhile, exports fell by 3.4% in unadjusted M/M terms. The Y/Y breakdown showed the latest reading to reflect a broad-based easing back in export growth, led by a swing into negative for forest products (-25.1% from 19.6% in January), and with the crucial electronic products component also swinging into negative territory (-2.7% from 5.3%). On a geographical basis, a similar picture emerged, with export growth falling to all regions.

South Korea

- **Monetary and Fiscal Policy:** *Policy on hold for now.* Surprising few, the Bank of Korea (BoK) kept the benchmark interest rate (the Bank Rate) on hold at its April meeting (i.e. still at 3.00%). This BoK has hiked rates three times in the past six months, hiking every other month starting in November 2010 and with the latest tightening seen in March. The unofficial English translation of the MPC statement in April saw no major changes in language or content compared to a month before. The BoK continued to forecast a sustained pace of recovery in the global economy, led by emerging market economies. Meanwhile, the same downside risks, such as the political unrest in the Middle East, rising global commodity prices and Euro area sovereign debt concerns, were noted, but with the Japanese earthquake added to the list this time around. In terms of the domestic economy, the BoK repeated its judgment that the upward trend in growth will be maintained, led by continued high growth in exports but now noting a, previously unmentioned, faltering in consumption and facilities investment. Continued strength in the labor market was once again underscored. Regarding consumer price inflation, the BoK largely repeated its hawkish language from the previous month. The statement pointed to the 4.7% Y/Y increase in prices as being due to petroleum products and personal services. Looking forward, the Bank noted a growing possibility of inflationary pressures persisting in the coming months, due to increasing demand pressures from the continued growth of the domestic economy, volatility in global commodity prices as well as elevated inflation expectations. House prices, meanwhile, were also noted as having accelerated in most of the country.

- **Employment:** *Unemployment stable.* Exceeding expectations once again, the March seasonally adjusted unemployment rate remained at 4.0% from the previous month, still a one-year high. However, the level of unemployment rose by 1.1% M/M, slowing significantly from the 12.2% jump seen in February. Meanwhile, growth in the level of employment saw similar developments, falling 0.7 percentage points to 0.3% M/M from the preceding month. Details provided by the (unadjusted) Y/Y breakdown also showed employment slowing slightly to 2.0% in March from 2.1% in February while the participation rate rose for the third successive month to 69.0%.

Taiwan

- **Trade:** *Slower export growth.* Surprising on the upside, February export growth eased back to 16.7% Y/Y from 27.3% in the previous month, now just 0.1 percentage point above the 15-month low reached in January. Import growth, meanwhile, also eased to 16.7% Y/Y in February, albeit from a higher 28.7% in the previous month. As a result, the trade surplus improved modestly to $ 1.77 bln from $ 1.52 bln in the same month of 2010. The breakdown showed the latest easing back in export growth to be led by declines in textile products (from 45.8% in January to 21.2%), plastics & rubber (46.0%$ to 16.8%), chemicals (60.5% to 14.7%) as well as the crucial electronics equipment (22.7% to 13.5%) export growth.

India

- **Growth and Production:** *Industrial output growth slower.* Undershooting expectations clearly, manufacturing output growth dropped 0.1 percentage point to 3.5% Y/Y in February from an upwardly revised reading of 3.6% in January. Meanwhile, mining output also slowed but to 0.6% Y/Y from 1.5% in February. As a result, overall industrial production growth eased back slightly to 3.6% Y/Y in February from 3.8% in the preceding month, with the latest slip reflecting falls in consumer and basic goods output.

Indonesia

- **Monetary and Fiscal Policy:** *Policy held.* As expected by most, Bank Indonesia left its benchmark interest rate unchanged (at 6.75%) at its meeting in April, following another decision to hold in the preceding month and a rate hike in February. The central bank cited the recent strength in the rupiah as helping to contain price pressures as consumer price inflation fell to 6.65% Y/Y in March from 6.84% in February. The continued rise in the core rate (4.45% in March from 4.36%), however, still very much points to the possibility of further hikes in the near-term future.

The Americas

Canada

- **Monetary and Fiscal Policy:** *Bank of Canada holds rates steady.* As expected, the Bank of Canada left it overnight-rate target unchanged at 1 percent, judging recent stronger-than-expected domestic growth still to be "largely consistent" with the outlook presented in the January Monetary Policy Report. The stronger performance did prompt forecast upgrades which implied that full-capacity operation will be reached by mid-2012—two quarters sooner than expected in January. Nevertheless, the potential for "even greater headwinds" from Canadian dollar strength kept the Bank of the opinion that "Any further reduction in monetary policy stimulus would need to be carefully considered," just as at the previous policy-rate decision.

- **Trade:** *Trade surplus shrinks on lower export volumes:* The merchandise trade balance narrowed to C$0.03 billion in February, from a revised C$0.38 billion in January, as a decline in exports (-C$1.9 billion; -4.9 percent) outstripped a decline in imports (-C$1.5 billion; -4.0 percent). The value of exports fell for the first time in five months, led by energy (-8.0 percent) and automotive products (-12.3 percent), with agriculture the only sector recording an increase in the month (+1.3 percent). This was driven primarily by lower export volumes (-5.2 percent), as prices increased 0.3 percent. Similarly, plunging imports of energy (-9.4 percent) and automotive products (-12.5 percent) led a broad-based decline in the total value of imports; volumes contracted (-4.3 percent), while prices rose 0.2 per cent. Nevertheless, the trade balance remains well above the record July 2010 deficit of -C$2.42 billion. The trade surplus with the United States widened to C$4.58 billion in February on a 6.1 percent fall in imports, which more than offset a 3.5 percent fall in exports as the appreciation of the CAD against the USD appears to be weighing on the latter. Excluding the U.S., Canada's trade deficit with the rest of the world widened, largely a result of lower exports of precious metals to the European Union.

Mexico

- **Monetary and Fiscal Policy:** *Rate held.* As expected, Mexico's central bank held its base rate at 4.5%, but once again recognized risks to inflation, and that it is monitoring price developments closely. The bank expects the output gap to close by mid-2011, saw renewed strength in domestic demand, and expected core inflation (running at 3.2% in Mar), to reverse its downward trend. Still, it appears that late-2011 is would be the earliest potential start of a tightening cycle, as the surging peso continues to dampen inflationary pressures seen elsewhere in EM countries. Unexpected increases in domestic demand and inflation pressures could change that outlook, but labor market slack should keep upside inflation pressures in check, for now.

- **Growth and Production:** *Industrial production stumbles.* Total industrial production fell 0.4 percent in February to be 5.2 percent higher year-over-year, slowing from 6.6 percent in January. The expansion in the utilities sector gathered pace over the month, while growth in manufacturing and construction output slowed. The mining sector recorded another decline. Output growth appears to have settled back after peaking in early 2010 (when it reached almost 10 percent); the level has recovered to be 14 percent higher than its trough in the first quarter of 2009, but remains 6 percent below its pre-crisis peak in late 2007.

Comparative International Economic Indicators

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2010:Q4	3.1	2.8
Canada	2010:Q4	3.3	3.2
Eurozone	2010:Q4	1.1	2.0
United Kingdom	2010:Q4	-1.9	1.5
Germany	2010:Q4	1.5	4.0
France	2010:Q4	1.6	1.7
Italy	2010:Q4	0.5	1.5
Switzerland	2010:Q4	3.5	3.2
Japan	2010:Q4	-1.3	2.5
Korea	2010:Q4	2.0	4.7
Taiwan	2010:Q4	19.0	6.9
Hong Kong	2010:Q4	21.6	6.2
Singapore	2011:Q1 •	9.6	8.5
Australia	2010:Q4	3.0	2.7
Mexico	2010:Q4	5.1	4.4

**Seasonally adjusted annualized rate, otherwise not seasonally adjusted and reported only on a year-over-year basis.*

Consumer Prices*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
	2011:M3 •	0.5	2.7
	2011:M2	0.3	2.2
	2011:M3 •	1.4	2.7
	2011:M3 •	0.3	4.1
	2011:M3	0.5	2.1
	2011:M3 •	0.8	2.0
	2011:M3	0.4	2.5
	2011:M3	0.7	1.1
	2011:M2	-0.1	0.0
	2011:M3	0.5	4.7
	2011:M3	-0.9	1.4
	2011:M2	1.1	3.7
	2011:M2	-0.1	5.0
	2010:Q4	0.4	2.7
	2011:M3	0.2	3.0

**Not seasonally adjusted except for United States and Germany.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:M3 •	0.8	5.9
Canada	2011:M1	1.3	6.9
United Kingdom	2011:M2	-1.2	2.4
Germany	2011:M2	1.6	14.7
France	2011:M2 •	0.4	5.8
Italy	2011:M2 •	1.4	2.4
Switzerland	2010:Q4	7.4	6.1
Japan	2011:M2	5.8	2.9
Korea	2011:M2	-11.4	9.1
Taiwan	2011:M2	-17.0	13.3
Hong Kong	2010:Q4	-1.5	5.8
Singapore	2011:M2	-9.1	4.8
Australia	2010:Q4	-0.8	-0.3
Mexico	2011:M2 •	-4.3	5.2

**Seasonally adjusted except for Switzerland, Korea, Taiwan, Hong Kong, Singapore and Mexico. Switzerland and Australia are quarterly numbers.*

Current Account (Billions of Dollars)

	Latest Period	Trailing 12-Month Sum	2010 Total	2009 Total
	2010:Q4	-470.2	-470.2	-378.4
	2010:Q4	-48.5	-48.5	-38.6
	2010:Q4	-56.1	-56.1	-37.1
	2010:Q4	185.1	185.1	189.6
	2010:Q4	-55.4	-55.4	-51.7
	2010:Q4	-73.2	-73.2	-43.2
	2010:Q4	76.6	76.6	57.3
	2010:Q4	196.2	196.2	142.6
	2010:Q4	28.2	28.2	32.8
	2010:Q4	40.6	40.6	42.9
	2010:Q4	14.8	14.8	18.0
	2010:Q4	49.5	49.5	35.1
	2010:Q4	-31.7	-31.7	-43.3
	2010:Q4	-5.7	-5.7	-6.3

**Eurozone refers to the EU25 for the Current Account Figure.*

Unemployment Rate*

	Latest Period	Latest	Prev. Period	Year Ago Period
United States	2011:M3	8.8	8.9	9.7
Canada	2011:M3	7.7	7.8	8.2
United Kingdom	2011:M3 •	4.5	4.5	4.8
Germany	2011:M2	6.3	6.5	7.3
France	2011:M2	9.6	9.6	9.9
Italy	2010:Q4	8.5	8.4	8.3
Switzerland	2011:M3	3.3	3.4	4.1
Japan	2011:M2	4.6	4.9	5.0
Korea	2011:M3 •	4.3	4.5	4.1
Taiwan	2011:M2	4.7	4.6	5.8
Hong Kong	2011:M2	3.6	3.8	4.6
Singapore	2010:Q4	2.0	1.8	2.1
Australia	2011:M3	4.9	5.0	5.4
Mexico	2011:M2	5.4	5.4	5.4

Seasonally adjusted except for Italy, Switzerland, Korea, Taiwan and Mexico.

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
	3.41	3.17	3.83
	3.30	3.13	3.72
	3.60	3.48	4.04
	3.38	3.09	3.13
	3.68	3.46	3.42
	4.73	4.69	3.97
	2.10	1.78	1.91
	1.29	1.23	1.37
	4.49	4.37	4.97
	1.36	1.36	1.44
	2.74	2.59	2.84
	2.40	2.30	2.74
	5.58	5.40	5.86
	3.11	3.31	3.23

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.25	1.00	1.00
United States	0.13	0.15	0.23
Canada	1.00	1.00	0.25
United Kingdom	0.50	0.59	0.43
Germany	1.25	1.00	1.00
France	1.25	1.00	1.00
Italy	1.25	1.00	1.00
Switzerland	0.05	0.05	0.05
Japan	0.09	0.11	0.10
Korea	3.01	3.00	2.00
Hong Kong	0.09	0.11	0.03
Singapore	0.16	0.16	0.16
Australia	4.75	4.75	4.25
Mexico	4.47	4.47	4.53

Note: All figures in percent unless otherwise indicated. • Data updated in the last week.

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Euro	1.4426	-0.4	3.8	6.3
United States	78.21§	-0.4	-1.8	-6.1
Canada	0.9604	-0.5	3.1	4.2
United Kingdom	1.6299	-0.5	1.7	5.2
Germany	1.3558	0.4	-3.7	-5.9
France	4.5472	0.4	-3.7	-5.9
Italy	1342.26	0.4	-3.7	-5.9
Switzerland	0.8929	1.5	1.7	15.5
Japan	83.06	2.0	-4.4	10.7
Korea	1089.8	-0.6	3.6	1.6
Hong Kong	7.7745	0.0	-0.3	0.2
Singapore	1.2428	1.1	3.1	9.6
Australia	1.0564	0.0	7.4	13.0
Mexico	11.6716	0.5	3.9	4.1

§ Morgan Guaranty Trade-Weighted Index.

Comparative International Economic Indicators (Cont.)

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2010:Q4	2.0	2.0
Netherlands	2010:Q4	2.5	2.2
Denmark	2010:Q4	1.0	2.5
Sweden	2010:Q4	5.1	7.2
Norway	2010:Q4	10.1	1.5
Finland	2010:Q4	7.0	5.0
Spain	2010:Q4	0.9	0.6
Portugal	2010:Q4	-1.2	1.2
Indonesia	2010:Q4	-5.7	6.9
Philippines	2010:Q4	83.1	7.1
Malaysia	2010:Q4	6.1	4.8
Thailand	2010:Q4	29.6	3.8
India	2010:Q4	43.8	9.7
China	2011:Q1 •	---	9.7
Argentina	2010:Q4	10.5	10.1
Brazil	2010:Q4	3.0	5.0

**Seasonally adjusted annualized rate, otherwise not seasonally adjusted and reported only on a year-over-year basis. China is in nominal terms.*

Consumer Prices*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M3	0.5	3.5
Netherlands	2011:M3	1.2	2.0
Denmark	2011:M3 •	0.6	2.7
Sweden	2011:M3 •	0.7	2.6
Norway	2011:M3 •	0.3	1.0
Finland	2011:M3 •	0.5	3.3
Spain	2011:M3	0.7	3.6
Portugal	2011:M3 •	1.6	4.0
Indonesia	2011:M3	---	---
Philippines	2011:M3	0.3	4.3
Malaysia	2011:M2	0.5	2.9
Thailand	2011:M3	0.5	3.2
India	2011:M2	-1.6	8.8
China	2011:M3 •	---	5.4
Argentina	2011:M2	0.7	10.0
Brazil	2011:M3	0.3	6.1

**Not seasonally adjusted.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M1	-0.2	12.6
Netherlands	2011:M2	-1.6	0.6
Denmark	2011:M2	-2.7	0.4
Sweden	2011:M2 •	1.3	14.9
Norway	2011:M2	0.1	-6.5
Finland	2011:M2 •	0.9	5.9
Spain	2011:M2	3.6	3.3
Portugal	2011:M2	-3.5	1.5
Indonesia	2011:M2 •	-4.1	4.3
Philippines	2011:M1	-6.3	25.7
Malaysia	2011:M2 •	-7.6	5.0
Thailand	2011:M2	-6.2	-4.6
India	2011:M2 •	-5.0	3.6
Argentina	2011:M2	-1.1	5.6
Brazil	2011:M2	3.0	6.9

**Not seasonally adjusted except for Netherlands, Sweden, Norway, Finland, and Spain. Thailand reported as 12-month moving average.*

Current Account (Billions of Dollars)

	Latest Period	Trailing 12-Month Sum	2010 Total	2009 Total
Belgium	2010:Q4	5.9	5.9	1.8
Netherlands	2010:Q4	60.5	60.5	38.9
Denmark	2010:Q4	16.5	16.5	6.8
Sweden	2010:Q4	29.1	29.1	28.3
Norway	2010:Q4	53.5	53.5	50.1
Finland	2010:Q4	7.6	7.6	5.9
Spain	2010:Q4	-63.8	-63.8	-75.3
Portugal	2010:Q4	-22.5	-22.5	-25.6
Indonesia	2010:Q4	6.3	6.3	31.8
Philippines	2010:Q4	8.5	8.5	21.8
Malaysia	2010:Q4	28.0	28.0	8.8
Thailand	2010:Q4	14.8	14.8	7.1
India	2010:Q4	-51.9	-51.9	10.2
Argentina	2010:Q4	3.6	3.6	11.1
Brazil	2010:Q4	-47.5	-47.5	-24.3

Unemployment Rate*

	Latest Period	Latest	Prev. Period	Year Ago Period
Belgium	2011:M2	7.6	7.7	8.4
Netherlands	2011:M2	4.3	4.3	4.5
Denmark	2011:M2	4.0	4.1	4.3
Sweden	2011:M2	7.6	7.8	8.8
Norway	2011:M3	2.9	3.0	3.1
Finland	2011:M2	8.4	8.2	9.2
Spain	2011:M2	20.5	20.4	19.3
Portugal	2011:M2	11.1	11.2	10.5
Indonesia	2010	7.1	7.9	7.9
Philippines	2011:Q1	7.4	7.1	7.3
Malaysia	2010:Q4	3.2	3.2	3.5
Thailand	2011:M1	1.0	0.7	1.4
China	2009	4.3	4.2	4.2
Argentina	2010:Q4	7.3	7.5	8.4
Brazil	2011:M2	6.4	6.1	7.4

** Not seasonally adjusted except for Denmark, Netherlands is a 3-month moving average.*

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
Belgium	4.31	3.99	3.54
Netherlands	3.64	3.37	3.36
Denmark	4.31	3.99	3.54
Sweden	3.35	3.20	3.21
Norway	3.83	3.74	3.77
Finland	3.49	3.29	3.38
Spain	5.42	5.17	3.85
Portugal	9.00	7.50	4.40
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	4.07	4.01	4.08
Thailand	3.65	3.78	3.71
China	—	—	—
Argentina	—	—	—
Brazil	—	—	—

Call Money Rate

	Latest	Prev. Month	Year Ago
Belgium	1.25	1.00	1.00
Netherlands	1.25	1.00	1.00
Denmark	1.00	0.75	0.75
Sweden	1.84	1.98	0.25
Norway	2.00	2.00	1.75
Finland	1.25	1.00	1.00
Spain	1.25	1.00	1.00
Portugal	1.25	1.00	1.00
Indonesia	6.18	6.25	6.15
Philippines	4.25	4.00	0.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	6.75	6.30	3.55
China	—	—	—
Argentina	10.15	10.55	9.50
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	27.9643	-0.4	3.7	5.9
Netherlands	1.5276	-0.4	3.7	5.9
Denmark	5.1700	-0.4	3.7	5.7
Sweden	6.1898	0.2	4.5	13.3
Norway	5.3757	0.2	5.2	8.2
Finland	4.1217	-0.4	3.7	5.9
Spain	115.34	-0.4	3.7	5.9
Portugal	138.98	-0.4	3.7	5.9
Indonesia	8668.0	-0.2	1.3	3.8
Philippines	43.240	-0.7	1.1	2.5
Malaysia	3.0229	0.0	1.0	5.4
Thailand	30.140	-0.5	0.8	6.5
India	44.335	0.6	-1.7	-0.2
China	6.5317	0.1	0.6	4.3
Argentina	4.0698	-0.5	-0.8	-5.2
Brazil	1.5771	-0.5	5.9	9.8

Note: All figures in percent unless otherwise indicated. • Data updated in the last week.

Week ended: 4/15/2011

Focus on the United Kingdom

It is becoming ever clearer that the near-term fate of UK GDP growth lies in the hands of the consumer. This is not so much a reflection that the consumer is by far and away the largest segment of the spending side of the economy, at just over 62% of GDP. Instead, it is a reflection of the clear and wide-ranging headwinds that are hitting the UK consumer, varying from fiscal consolidation, rising prices and soft labor market dynamics, the latter leading to below-inflation pay awards. In particular, the question is the extent to which the very sizeable additional fiscal measures that came into play with the new fiscal year that started earlier this month will hit the consumer more clearly, as they are likely to make a further erosion of household incomes to the tune of over 1% or around £ 2.3 bln.

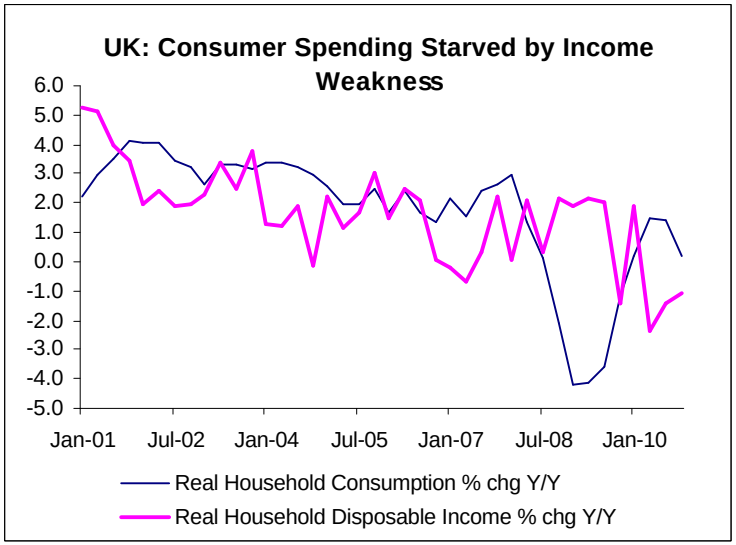
However, even ahead of this 'hit', it seems the consumer sector was already faltering. Recently released data suggests that the fundamentals behind the consumer were already deteriorating sharply last year. Indeed, national account figures showed that household real disposable incomes fell by 0.8% in 2010, the first such calendar-year drop since 1981 and the largest four-quarter decline since 1977. Moreover, the weakness became more manifest towards the end of the year, with a 0.5% Q/Q slump in Q4 alone. This very much corroborates the gloomy picture painted by BoE Governor King in a speech in January when he warned that real wages in 2011 were likely to be no higher than seen in 2005, a six-year stagnation last seen in the UK back in the 1920s.

As the upper chart illustrates, household real disposable incomes very clearly determine consumer spending. If anything, the clear weakness in incomes suggest that spending has actually been resilient of late despite the 0.3% Q/Q drop in the latter in Q4. This resilience is actually a result of a fall in household savings rates through 2010, the question being whether there is scope for any further reduction through this year.

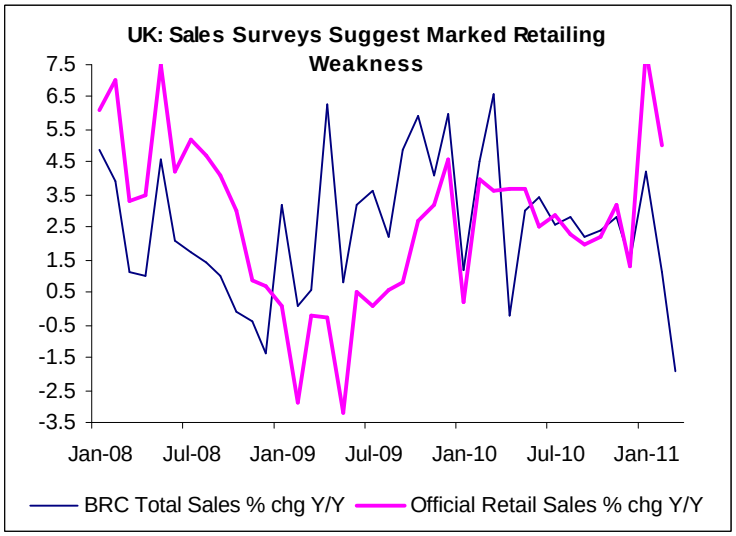
There seem to be no such signs of consumers spending more, the very opposite in fact. Indeed, a raft of anecdotal evidence, reports from high-profile retailers and fresh gloom in household sentiment surveys suggest that consumer spending is undergoing a fresh slump. Indeed, and according to the British Retail Consortium (BRC), like-for-like nominal store sales tumbled in March, apparently only partly hit by the later Easter this year, falling 3.5% Y/Y, the weakest reading in the 16-year history of the survey. The weakness is all the more worrisome given that the BRC numbers are in nominal terms, albeit with some sign that softer growth in food prices contributed somewhat to the weaker overall sales figure. The data offer ill omens for official retail sales data for March due next Thursday (see lower chart).

Regardless, there is already mounting data suggesting that the economy is very fragile. Indeed, numbers on the output side of the economy (especially from construction) suggest that Q1 saw a far weaker rebound in GDP than most had expected after the weather distortions that dogged activity at the end of 2010. Indeed, it seems as if the economy has (on average) been flat for the last two quarters, with the worrying sign (from surveys such as the BRC) being that (consumer) spending may actually be in the process of weakening even further, as households anticipate/react to the squeeze on incomes caused by fiscal consolidation and rising commodity prices. This will clearly be a concern for the BoE, as it mulls growing downside risks over and beyond the likely (marked) undershoot of its Q1 GDP projection alongside the failure of inflation to provide any further upside shock.

— Andrew Wroblewski, DE London



Source: UK Office of National Statistics



Source: UK Office of National Statistics and British Retail Consortium

DECISION ECONOMICS				April 15, 2011
	Latest	Week Ago	% Chg. YTD *	12/31/10
Yen/$	83.06	84.76	2.4	81.12
$/Euro	1.4427	1.4483	-7.8	1.3384
Yen/Euro	119.83	122.76	10.4	108.57
$/STG	1.6301	1.6383	-4.4	1.5612
Sfr/$	0.8927	0.9065	-4.5	0.9352
Can$/US$	0.9604	0.9554	-3.8	0.9980
Mexican Peso/$	11.673	11.731	-5.4	12.340
Brazil Real/$	1.5774	1.5689	-5.1	1.6613
Thai Baht/$	30.140	29.980	0.3	30.060
Malaysian Ringgit/$	3.0229	3.0215	-1.3	3.0635
Indonesian Rupiah/$	8667.5	8653.0	-3.7	8996.0
Korean Won/$	1089.8	1083.0	-3.2	1126.0
Philippines Peso/$	43.240	42.955	-1.3	43.800
India Rupee/$	44.335	44.077	-0.8	44.705
* For Year-to-Date change calculations, all signs refer to the movement of the U.S. dollar, except for the Yen/Euro rate, where the sign refers to the euro.				
BENCHMARK YIELDS				
SHORT-TERM (3-Month LIBOR)**				
U.S.	0.27	0.29	-0.03	0.30
Canada	1.20	1.20	-0.03	1.23
Euro	1.28	1.24	0.34	0.94
U.K.	0.82	0.82	0.06	0.76
Japan	0.20	0.20	0.01	0.19
LONG-TERM (10-Year Benchmark)**				
U.S.	3.41	3.58	0.11	3.30
US 10 Year Swap Rate	3.50	3.68	0.12	3.38
Canada	3.30	3.44	0.18	3.12
Italy	4.73	4.75	-0.08	4.82
Germany	3.38	3.48	0.42	2.96
U.K.	3.60	3.81	0.20	3.40
Switzerland	2.10	2.12	0.38	1.72
Japan (JGB)	1.29	1.33	0.16	1.13
Australia	5.58	5.64	0.04	5.55
Brazil	4.65	4.65	0.04	4.61
India	8.04	7.99	0.12	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.09	0.10	0.01	0.08
10 Year - 2 Year	2.71	2.77	0.01	2.70
Moody AAA	1.65	1.54	-0.19	1.84
UK Gilt	0.19	0.23	0.09	0.10
German Bund	-0.03	-0.10	0.30	-0.33
Italian 10-year	1.32	1.17	-0.20	1.52
** Year-to-date changes are calculated from the difference in yields.				
STOCK MARKETS				
U.S. (DJIA)	12342	12380	6.6	11578
S&P 500	1320	1328	4.9	1258
NASDAQ Composite	2765	2780	4.2	2653
Russell 2000	835	841	6.6	784
Canada (TSE-300)	13799	14208	2.6	13443
Mexico (Bolsa)	36983	37472	-4.1	38551
Argentina (Merval)	3382	3480	-4.0	3524
Brazil (Bovespa)	66684	68718	-3.8	69305
Germany (DAX, XETRA)	7178	7217	3.8	6914
U.K. (FT-SE 100)	5996	6056	1.6	5900
France (CAC-40)	3974	4062	4.5	3805
Switzerland (SMI)	6400	6458	-0.6	6436
Japan (Nikkei-225)	9592	9768	-6.2	10229
Hong Kong (Hang Seng)	24008	24396	4.2	23035
Australia (All Ordinaries)	4939	5037	1.9	4847
South Korea (KOSPI)	2141	2128	4.4	2051
Thailand	1085	1079	5.0	1033
India (BSE)	19387	19612	-5.5	20509
China (Dow Jones Shanghai Index)	387	385	8.8	356
Singapore (Straights Times Index)	3153	3187	-1.2	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1486.73	1474.93	4.6	1420.78
Crude Oil (WTI, Spot)	109.63	112.79	20.0	91.38
CRB Futures	362.78	368.70	9.0	332.80
CRB Raw Industrials (Spot)	576.31	578.06	10.8	520.33