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Global Economic Developments

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Turkey: GDP Accelerates—Will Policy Change?

Turkey's real GDP expanded mightily in the last quarter of 2010 (3.6% quarter-on-quarter; 9.6% year-on-year, adjusting for working days). This is certainly above consensus expectations, which put growth in the 7%+ neighborhood. However, it cannot be said to be entirely surprising, since it is very coherent with both the known dynamics of the Turkish economy and with the (admittedly scant) high frequency indicators available.

Nonetheless, the result adds some urgency to the question—which we raised last week—of whether current monetary policy will need to be modified in the foreseeable future.

The likely answer will depend, not on the fourth quarter real GDP performance—partially or wholly incorporated into the most recent central bank decision to hold rates steady and increase reserve requirements--but on whether the pace of real GDP growth continues at a comparable rate during the first half of 2011.

If it does, higher interest rates would probably be instituted before the end of the year, possibly by at least 50 to 100 basis points. If not, interest rate hikes might be postponed, but probably not for very long into next year.

Otherwise, the story of Turkey's recovery from recession remains qualitatively unaltered:

The data confirm that the upturn is overwhelmingly domestic-demand driven. Investment, for example, has grown 48% in the past three quarters, and at the end of December 2010 stood 42% above its level of a year ago. And although earlier in the recovery it was the public sector's investment what dominated (it was, as of the end of last year, 47% above its pre-global recession level), private fixed capital formation is rising strongly (49.5% year-on-year in the fourth quarter), and is already 25% above the pre-crisis mark.

Meanwhile, the rapid growth of private consumption (which represents, roughly, 70% of GDP, and which expanded by about 14% in the second and third quarters of last year, was sustained, with a 0.7% quarter-on-quarter gain leaving it 9.2% up on a year-on-year basis. As in the case of fixed capital formation, private consumption is already above pre-recession levels by slightly more than 5 percentage points.

Unsurprisingly, the performance of exports is comparatively mediocre (4.3% year-on-year in the fourth quarter; a 3.4% gain for the year as a whole), but imports posted a substantial advance (25% year-on-year in the fourth quarter; 20% year-on-year during 2010).

From an output perspective, manufacturing (11% year-on-year in the three months to December) and construction (+17% year-on-year during the same period) led the economy, with the latter a particularly clear beneficiary, in the immediate past and over the next few quarters of a very constructive combination of expanding domestic demand and low interest rates.

Capacity utilization remains low, particularly in the industrial sector, which the central bank views as an inflation-buffer, allowing policymakers some time and some room to maneuver before they have to resort (as it appears likely within a 12-month horizon) to interest rate tightening.

Despite the central bank's earlier decision to cut interest rates, which helped bring the lira down from a peak of 1.35 in early November, the GDP result may—at least temporarily—reinforce a moderate appreciation trend in place over the past few weeks, given the increased expectation of higher interest rates. The bank still has—from the standpoint of their own policy framework, although perhaps not for very long—some room to cut interest rates if lira gains become too pronounced for their comfort against the background of a large current account deficit; after all, inflation is still at record lows.

— Francisco J. Larios, DE Miami

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Europe

Eurozone

- **Inflation:** *Inflation rises further and unexpectedly so.* Exceeding expectations, the flash HICP estimate for February saw inflation rise 0.2 percentage points to 2.6% Y/Y, a 29-month high and a therefore further above the ECB target.
- **Employment:** *Unemployment down further.* Matching expectations, the unemployment rate was 9.9% in February, a drop of 0.1 percentage point from the upwardly revised January outcome, but still a further slide from the 10.1% rate set last October, the latter having been the highest in 12 years. The actual level of unemployment decreased (by 77 000), a result that was modestly greater the average fall seen since the peak last October.

Germany

- **Inflation:** *Stable inflation.* According to preliminary data, March CPI inflation remained at the 2.1% Y/Y rate seen in the previous month, a result in line with most expectations, with prices rising 0.5% in M/M terms. Based on the details from six laender used to compute the preliminary estimate, the M/M rise reflected a further seasonal recovery in clothing prices alongside higher energy costs.

Italy

- **Inflation:** *Inflation rises further.* Exceeding expectations, preliminary data showed that consumer price inflation increased 0.1 percentage points to 2.5% Y/Y in February, now the highest in 27 months. The breakdown showed upward pressure from food and energy, but with also some rise evident in regard to service costs. Overall, prices rose 0.4% in M/M terms. The EU-harmonized measure, meanwhile, saw inflation rise leap 0.5 percentage points to 2.6% Y/Y.

Belgium

- **Inflation:** *Inflation rises further.* Headline CPI inflation moved higher in March, reaching the highest in 27 months. The headline rate increased from 3.39% Y/Y to 3.52% Y/Y, apparently boosted further by energy.

Spain

- **Inflation:** *Inflation abates.* Coming in higher than expected, flash data showed EU harmonized CPI inflation still falling back in Match, easing 0.1 percentage point to 3.3% Y/Y. The latest reading backed off from the 26-month high set in February, the drop being the first in four months. However, headline national Y/Y CPI inflation remained at 3.6%.

United Kingdom

- **Trade:** External gap widens. The current account deficit widened further and clearly so to £ 10.49 bln in Q4 (2.9% of GDP) from a downwardly revised shortfall of £ 8.66 bln in Q2 (2.4% of GDP). The deterioration was broad-based, save for investment income.

Central Europe

Hungary

- **Monetary and Fiscal Policy:** *Rate held.* As expected, the MNB left rate its base rate unchanged at 6.0%, and signaled that rates may remain on hold for some time. Inflation is expected to be "considerably" above the 3% target in the short term, but may fall back to around the target by the end of the year, boosted by adverse cost-push shocks but restrained by weak domestic demand and high unemployment. In the Council's view, their recent interest rate hikes, from 5.25% to 6.0%, have been successful in reducing potential second-round effects of the aforementioned shocks to food and energy prices. As for the 2012 outlook, the Council judges "it may be necessary to maintain interest rates at their current levels for an extended period" in order to meet the target.
- **Employment:** *Rising unemployment.* Surprising on the upside, the unemployment rate (for the population aged 15 to 74) for the three months to February rose 0.1 percentage point to 11.5% from the same period of the previous year. The level of unemployment, meanwhile, rose to 489 000, up by 10 000 compared to the corresponding period in 2010. However, the rate of employment slipped back slightly to 48.7% in the three months to February from 48.8%, while the participation rate rose by 0.4 percentage point to 55.1% last month from the corresponding period in the previous year.
- **Trade:** *Inflation rises further.* Exceeding expectations, preliminary data showed that consumer price inflation increased 0.1 percentage points to 2.5% Y/Y in February, now the highest in 27 months. The breakdown showed upward pressure from food and energy, but with also some rise evident in regard to service costs. Overall, prices rose 0.4% in M/M terms. The EU-harmonized measure, meanwhile, saw inflation rise leap 0.5 percentage points to 2.6% Y/Y.

Russia

- **Growth and Production:** *GDP posts stronger Q4.* Gross domestic product rose at a 4.5% year-on-year pace in the fourth quarter, firmer than the upwardly-revised 3.1% in Q3, but a bit weaker than generally expected. Manufacturing (+13.3% y/y vs +9.4% in Q3) and construction activities (+6.1% versus -0.5%) saw increases, while the wholesale and retail trade sector slowed to 4.5% from 5.8% the quarter prior, corroborating other evidence of higher prices squeezing real consumer spending in recent months.

Poland

- **Trade:** *Current account deficit widens.* A pickup in imports led to a record widening in the current account deficit in the fourth quarter, to a shortfall of €5.3 billion, from €3.7 billion in Q3, and €3.0 billion the year prior. The goods deficit widened by €1.7 billion from the year prior, driving much of the headline result.

Turkey

- **Growth and Production:** *Stronger growth.* Exceeding expectations, national accounts data for Q4 showed seasonally adjusted economic growth to have picked up by 2.4 percentage points to 3.6% Q/Q from Q3, a seventh straight gain. In Y/Y terms, the

economy expanded 9.2%, up from the downwardly revised 5.2% Q3 reading. However, some of this increase can be attributed to working-day effects, as calendar adjusted Y/Y GDP growth was 9.6% in Q4, up from 6.2% in Q3. The output-side breakdown revealed that the renewed strength in growth was the result of gains in the primary and secondary sectors, the latter boosted by manufacturing growth but with the construction and utilities counterparts slowing, while the tertiary sector showed mixed results.

- **Trade:** *Trade deficit widens further.* Surprising on the downside, the February trade deficit more than doubled to $ 7,407 mln from $ 3,512 mln in the same month of the previous year. This was the result of Y/Y import growth, at 46.6%, having outpaced export growth, 22.1%.

Asia and Pacific

Japan

- **Growth and Production:** *Industrial production rises further.* Showing a further recovery and also exceeding most expectations, preliminary data for February showed that industrial production increased 0.4% M/M, thereby accentuating the 1.3% January rise. The bounce, the fourth in a row, was also above METI's estimate for February made in that month, with METI pointing to 1.4% increase in March but then for a 1.4% decline for April, albeit with these projections not taking account of the repercussions of the earthquake this month. Regardless, METI maintained its assessment of the factory sector backdrop somewhat, still describing that industrial production is showing signs of an upward movement.
- **Employment:** *Softer jobs data.* Clearly undershooting expectations, the unemployment rate dropped 0.3 percentage point to a 25-month low of 4.6% in February. Even more reassuringly, Y/Y employment growth (at 0.6%) turned positive once more, a swing aided by a third successive M/M rise. Meanwhile, the participation rate edged up to 59.0%. More positively, the job-to-applicant ratio was rose from 0.61 to 0.62, a 26-month high.

New Zealand

- **Trade:** *Trade balance in surplus.* Although coming in below expectations, trade data for February still showed the trade balance in surplus to the tune of NZ$ 194 mln, the first surplus in eight months. However, the surplus was still smaller than that seen in the same month of 2010 (NZ$ 328 mln), resulting in the 12-month cumulative trade surplus narrowing to NZ$ 758 mln from NZ$ 893 mln in January, still the tenth consecutive surplus following a stretch of deficits going back to July 2002. Exports rose for a twelfth straight month in February, having fallen for 11 successive months before March 2010 and with the gain of 16.6% up clearly on the 4.4% January reading. As a consequence, 12-month export growth improved 1.8 percentage points to 11.9% Y/Y, the highest since March 2009. Imports, meanwhile, registered a 22.9% Y/Y gain, the eleventh straight rise and one that was more pronounced than in January (14.3%). Moreover, the gain resulted in cumulative import growth improving from 7.4% to 9.0%, also the strongest reading since March 2009.

South Korea

- **Growth and Production:** *Weaker output.* Coming in a smidgen below market expectations, industrial production fell by a seasonally adjusted 2.3% M/M in February, the first outright fall since October last year. Accentuating the drop, meanwhile, the January gain was revised down 0.4 percentage points to 4.2%. The breakdown showed that the headline gain was broadly based, but led by a 2.2% drop in manufacturing output, (also the first fall since October). However, utilities and mining output fell as well, the former slumping 5.1% –thereby all but offsetting the 5.2% gain in January – while the latter was down by 3.4%, the second slip in the last three months. As a consequence of the M/M drop, on a Y/Y basis, output growth slipped 4.3 percentage points to 9.1%, the weakest reading since September 2010. The weaker headline reading reflected slower growth in manufacturing and utilities and with the mining sector contracting for the eleventh time in 13 months of data. The data also showed shipments falling by 4.4% M/M, exactly offsetting the January gain and with Y/Y growth down from 14.6% to 10.3%, a five-month low. However, on a more upbeat note, machinery orders rose by 30.3% Y/Y in February, over twice the pace seen in the preceding month (15.0%) and extending the volatility of a series that is also prone to revisions. Moreover, the equipment investment index also showed some upbeat signs, with the series actually seeing a gain of 22.3% a clear improvement on the 7.3% jump seen in January. Mirroring the fall in the secondary sector, services sector output dropped a seasonally adjusted 3.4% M/M, the first outright fall since September 2010 and the largest in over 10 years. Nevertheless, on a Y/Y basis, the services sector continued to expand, albeit with the 0.2% gain much less marked than in January (4.6%) and the weakest in five months. Meanwhile, the breakdown showed a fairly broad-based decline, most notably with a further and steeper drop in the real restate sector alongside a fall in wholesale services and weaker finance and business growth.
- **Inflation:** *Consumer price inflation jumps further.* Although undershooting expectations for once, consumer price inflation rose by 0.2 percentage point to 4.7% Y/Y in March, the highest since October 2008. On a M/M basis, consumer prices rose by 0.5%, pulled higher by rising transport (petrol) costs. The Y/Y breakdown, meanwhile, saw similar developments, with transport price inflation up from 6.6% to a 14-month high of 7.9%.There were also clear increases in furnishings and 'miscellaneous' consumer price inflation, but with most other components seeing little meaningful change. As a consequence, core inflation was up 0.2 percentage point to 3.3% Y/Y last month, the highest in over 19-months.
- **Trade:** *Current account in surplus.* Balance of payments data for February showed the current account in surplus to the tune of $ 1 178 mln, a clear improvement on the same month in 2010 when the surplus was a mere $ 363 mln. The larger surplus reflected an improving goods balance and with the services shortfall narrowing. *Stronger trade data.* Surprising on the upside once again, export growth rose from 16.9% Y/Y in February to 30.3% last month. However, both the component and geographical breakdown showed mixed developments. Imports, meanwhile, saw growth rising from 16.4% Y/Y to 27.9%, resulting in the trade surplus narrowing to $ 3 102 mln last month from a surplus of $ 3 731 mln in the same month of 2010.

Taiwan

- **Monetary and Fiscal Policy:** *Policy tightened once more.* In line with expectations, the Central Bank of the Republic of China (Taiwan) hiked its interest rates by another 12.5 bp, bringing the benchmark discount rate to 1.725% following its latest quarterly meeting. This was the fourth straight hike, but still having done relatively little to offset the cumulative reductions seen in the

wake of the global financial crisis. In the accompanying statement, the CBRC provided a still positive tone with regards to domestic growth, noting that economic activity was on a steady path of expansion. Indeed, the statement cited the latest Directorate General of Budget and Accounting's (DGBAS) 2011 GDP upwardly revised growth projection of 4.92 % (from an estimate of 4.51% three months ago). However, the CBRC also underscored that there were uncertainties associated with this outlook, mainly the risk that global growth would slow due to elevated commodity prices and the still uncertain impact of the Japanese earthquake. As for prices, the central bank continued to point to upward pressures coming from international commodity prices and also domestic demand, resulting in the inflation forecast for this year being revised up from 1.85% to 2.00%. As a consequence, the CBRC repeated that it would continue to apply appropriate monetary policy in a timely manner, language used at its last meeting in December as well.

India

- **Trade:** *Current account deficit narrows.* Balance of payments data for Q4 showed a current account deficit of $ 9.7 bln an improvement on the shortfall of $12.2 bln in the same quarter of 2009. *Stronger export growth.* Trade data for February showed exports growing by 49.7% Y/Y, up from 33.4% in the preceding month and hitting an 11-month high. Imports, meanwhile, rose by 21.2% Y/Y, a faster pace than in the preceding month (13.1%) as a continued (but much more modest) fall in oil imports was more than canceled out by another surge in other imports (31.0%). As a result, the trade balance was in deficit to the tune of $ 36.8 bln in February, an improvement on the January 2010 shortfall of $ 10.3 bln.

Indonesia

- **Inflation:** *Headline consumer price inflation inches down.* Surprising to the down-side once more, consumer price inflation slipped from 6.84% Y/Y to 6.65% last month. The Y/Y slip came in on the back of a 0.32% M/M drop in consumer prices, as falling food and clothing costs more than offset gains elsewhere. The Y/Y breakdown also revealed the headline slump to have been due to weaker food price inflation, with the latter falling back from 14.80% Y/Y to a four-month low of 13.60%. In contrast, all other components saw price pressures increasing, with the result that core inflation rose further, up from 4.36% Y/Y to 4.45%
- **Trade:** *Exports strengthen.* Data for February showed exports rising by 28.9%, a seventeenth straight gain and one that was than the upwardly revised rise of 26.0% in January. Nevertheless, the reading still confounded expectations of a slip in export growth and the pick-up in the pace of growth reflected both stronger oil and non-oil exports. Imports, meanwhile, rose by 26.3% Y/Y in February, having risen by 32.3% in the prior month. Consequently, the trade balance was in surplus to the tune of to $ 2 401 mln in February, an improvement on the $ 1 668 mln surplus in the same month of 2010.

Thailand

- **Inflation:** *Consumer price inflation rises.* In line with expectations, consumer price inflation was up from 2.9% Y/Y in February to 3.1% last month, the highest since August last year, coming in the back of a 0.5% M/M gain. This M/M jump reflected rising food and transport (petrol) prices. The Y/Y breakdown also saw food price inflation rising, but with little change in non-food price pressures. Of some more note, core inflation was still up 0.1 percentage point to 1.6% Y/Y.
- **Trade:** *Stronger trade data.* Exports rose by 29.1% Y/Y in February, a gain that was the sixteenth in as many months and one that was stronger than in January (21.4%). Import growth, in contrast, was down, slipping 12.6 percentage points to 18.6%, albeit only canceling out some of the surge in January. As a result, the trade balance was in surplus to the tune of $ 2 031 mln in February, a surge from the $ 453 mln surplus seen in the same month of 2010.

The Americas

Canada

- **Growth and Production:** *Monthly GDP surges on manufacturing.* As expected, monthly real GDP rose 0.5% in January from the month prior, building on a string of successively stronger readings since a 0.1% drop last September (+0.3%, +0.4%, and +0.5% from October through December, respectively). The manufacturing sector saw widespread increases, notably in chemical products, metals, and vehicles sectors. Manufacturing industries as a whole rose 2.8%, which when combined with smaller increases in construction (+0.4%) and a dip in mining/oil-related activities (-0.5%), put total goods sector output up 1.1%, a fourth consecutive advance. The larger service sector saw a 0.3% increase, up for a sixth straight month, and matching December's pace of growth. There, finance and real estate activities rose 0.5%, while wholesale trade advanced 0.7%, slower than the 1%+ pace recorded the prior two months. As expected, retail trade came in soft for a second month, dropping 0.1% after a 0.5% decline in December.

Brazil

- **Growth and Production:** *Industrial output accelerates once again.* After posting soft readings in the latter half of 2010, industrial output 1.9% in seasonally-adjusted terms in February, building on a 0.2% gain in January. That was enough to take the year-on-year rate to 6.9%, helped by favorable base effects. Manufacturing growth accelerated to 7.0% y/y from 2.2% the month prior.
- **Trade:** *Trade balance widens.* Higher export prices helped the trade balance record a wider-than-expected surplus in March, coming in at $1.6 billion, compared to $1.2 billion in February and $0.7 billion the same period a year ago.

Africa

South Africa

- **Trade:** *Trade deficit narrows.* The (unadjusted) trade deficit narrowed to 350 mln rand in February from 5 151 mln rand in the same month of 2010. This was a result of exports growth rising to 29.2% Y/Y from 22.3% in January, outpacing imports growth, which fell from 24.1% to 15.4%.

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	2010:Q4	2.0	12.0
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:M2	0.5	2.2
	2011:M2	0.3	2.2
	2011:M2	0.4	2.4
	2011:M2	0.8	4.3
•	2011:M3	0.5	2.1
	2011:M2	0.5	1.7
•	2011:M3	0.4	2.5
	2011:M2	0.4	0.5
	2011:M2	-0.1	0.0
•	2011:M3	0.5	4.7
	2011:M2	0.7	1.3
	2011:M2	1.1	3.7
	2011:M2	-0.1	5.0
	2010:Q4	0.4	2.7
	2011:M2	0.4	3.6

**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:M2	0.0	5.8
Canada	2011:M1 •	1.3	6.9
United Kingdom	2011:M1	0.6	4.5
Germany	2011:M1	1.8	12.4
France	2011:M1	1.1	5.5
Italy	2011:M1	-1.5	0.9
Switzerland	2010:Q4	7.4	6.1
Japan	2011:M2 •	4.7	2.8
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:M1	0.5	6.6

**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	-53.9	-53.9	-51.9
	2010:Q4	-73.3	-73.3	-43.2
•	2010:Q4	76.6	76.6	57.3
	2010:Q4	195.0	195.0	142.7
	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:M2	7.8	7.8	8.2
United Kingdom	2011:M2	4.5	4.5	4.9
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:M2	3.4	3.5	4.1
Japan	2011:M2 •	4.6	4.9	5.0
Korea	2011:M2	4.5	3.8	4.9
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:M2	5.0	5.0	5.3
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
United States	3.45	3.47	3.87
Canada	3.37	3.34	3.56
United Kingdom	3.72	3.64	3.92
Germany	3.37	3.20	3.09
France	3.53	3.34	3.40
Italy	4.80	4.80	3.95
Switzerland	1.99	1.86	1.90
Japan	1.29	1.28	1.36
Korea	4.46	4.68	4.91
Taiwan	1.37	1.42	1.44
Hong Kong	2.73	2.74	2.79
Singapore	2.50	2.60	2.83
Australia	5.54	5.49	5.75
Mexico	3.34	3.38	3.37

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.00	1.00	1.00
United States	0.13	0.16	0.18
Canada	1.00	1.00	0.25
United Kingdom	0.50	0.50	0.48
Germany	1.00	1.00	1.00
France	1.00	1.00	1.00
Italy	1.00	1.00	1.00
Switzerland	0.06	0.06	0.03
Japan	0.09	0.10	0.10
Korea	2.98	2.75	2.00
Hong Kong	0.08	0.10	0.03
Singapore	0.16	0.16	0.19
Australia	0.00	4.75	4.00
Mexico	4.47	4.53	4.56

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Euro	1.4225	1.0	2.6	4.7
United States	78.95§	-0.1	-0.8	-5.8
Canada	0.9643	1.7	0.9	4.4
United Kingdom	1.6112	0.4	-1.3	5.4
Germany	1.3748	-1.0	-2.5	-4.5
France	4.6110	-1.0	-2.5	-4.5
Italy	1361.09	-1.0	-2.5	-4.5
Switzerland	0.9243	-0.5	-0.1	12.3
Japan	84.04	-3.3	-2.7	10.4
Korea	1091.2	2.1	3.3	3.1
Hong Kong	7.7782	-0.2	-0.2	0.2
Singapore	1.2599	0.1	0.7	9.8
Australia	1.0385	1.2	2.1	12.7
Mexico	11.8306	1.3	2.1	4.0

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

§ 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	82.1	7.1
Malaysia	2010:Q4	6.1	4.8
Thailand	2010:Q4	29.6	3.8
India	2010:Q4	43.8	9.7
China	2010:Q4	---	9.8
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:M2		0.7	1.9
Denmark	2011:M2		1.2	2.7
Sweden	2011:M2		0.6	2.1
Norway	2011:M2		0.4	1.2
Finland	2011:M2		0.6	3.3
Spain	2011:M3	•	0.8	3.6
Portugal	2011:M2		0.0	3.5
Indonesia	2011:M3	•	---	---
Philippines	2011:M2		1.1	4.3
Malaysia	2011:M2		0.5	2.9
Thailand	2011:M3	•	0.5	3.2
India	2011:M2	•	-0.5	7.6
China	2011:M2		---	4.9
Argentina	2011:M2	•	0.7	10.0
Brazil	2011:M2		0.6	6.0

**Not seasonally adjusted.*

Industrial Production*

	Latest Period		Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2010:M12		-6.9	9.8
Netherlands	2011:M1		-2.5	-1.7
Denmark	2011:M1		2.1	5.9
Sweden	2011:M1		2.4	10.3
Norway	2011:M1		-2.7	-6.8
Finland	2011:M1		-2.8	7.7
Spain	2011:M1		2.3	6.0
Portugal	2011:M2	•	-3.5	1.5
Indonesia	2011:M1	•	0.1	7.6
Philippines	2011:M1	•	-6.3	25.7
Malaysia	2011:M1	•	0.4	1.0
Thailand	2011:M2	•	-6.2	-4.6
India	2011:M1	•	0.8	3.7
Argentina	2011:M1		-7.4	7.1
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		16.9	16.9	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	2010:M12		0.7	1.0	0.9
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	4.30	4.26	3.54
Netherlands	3.66	3.38	3.32
Denmark	4.30	4.26	3.54
Sweden	3.38	3.36	3.20
Norway	3.86	3.76	3.75
Finland	3.35	3.16	3.34
Spain	5.31	5.33	3.81
Portugal	8.51	7.47	4.18
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	4.11	4.08	4.12
Thailand	3.70	3.89	3.90
China	—	—	—
Argentina	—	—	—
Brazil	—	—	—

Call Money Rate

	Latest	Prev. Month	Year Ago
Belgium	1.00	1.00	1.00
Netherlands	1.00	1.00	1.00
Denmark	0.75	0.75	0.75
Sweden	1.75	1.89	0.25
Norway	2.00	2.00	1.75
Finland	1.00	1.00	1.00
Spain	1.00	1.00	1.00
Portugal	1.00	1.00	1.00
Indonesia	6.28	6.08	6.20
Philippines	4.25	4.00	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	6.60	6.30	2.75
China	—	—	—
Argentina	10.35	10.55	9.40
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	28.3567	1.0	2.5	4.5
Netherlands	1.5491	1.0	2.5	4.5
Denmark	5.2418	1.0	2.5	4.3
Sweden	6.2965	1.3	0.3	12.0
Norway	5.4885	2.0	1.1	7.2
Finland	4.1795	1.0	2.5	4.5
Spain	116.96	1.0	2.5	4.5
Portugal	140.93	1.0	2.5	4.5
Indonesia	8696.0	0.2	1.3	4.2
Philippines	43.360	-0.1	0.3	4.0
Malaysia	3.0255	0.0	0.4	7.1
Thailand	30.260	0.0	0.9	6.5
India	44.585	-0.2	-0.8	-0.7
China	6.5477	0.1	0.4	4.1
Argentina	4.0537	-0.3	-0.6	-4.5
Brazil	1.6128	3.0	2.7	8.6

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

Week ended: 4/1/2011

Focus on Australia

In the past few months there has been very little activity from the Reserve Bank of Australia (RBA), with the central bank having kept its benchmark Cash Rate on hold at 5.25% since November last year and with nothing suggesting that any further rate hike is in the offing in the current month.

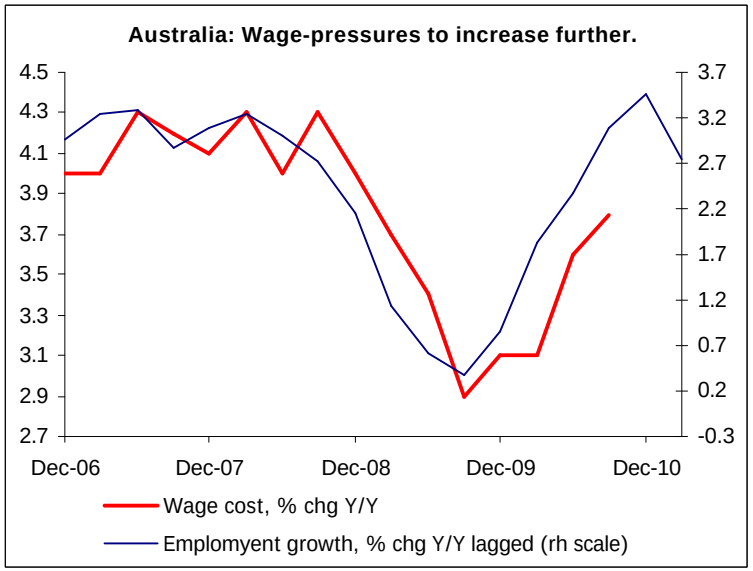
This recent inactivity, however, is far from surprising; with Australia having suffered less clearly from the global economic downturn than most other developed economies, the central bank began hiking interest rates as early as October 2009 and has tightened policy by a cumulative 200 bp since then, very much in contrast to the likes of the ECB and BoE, where talk of rate hikes have only begun surfacing relatively recently. Indeed, unlike not only Western European, but also most Asian, central banks the policy tightening already undertaken by the RBA has brought about commercial interest-rate levels deemed slightly restrictive by the central bank.

This restrictive policy is understandable, as the real economy remained strong throughout last year, with GDP expanding by 2.7%, boosted in particular by demand from Asia for Australia's natural resources. Crucially, this demand is also expected to be the main engine for economic growth going forward, as it provides the impetus for a further pick-up in capex in the resources sector and compensating for the still tentative private consumption backdrop. The natural resource sector has also been behind much of the resilience seen in the labor market throughout 2010. However it is notable that employment growth has, in recent months, come off the peak seen in late-2010 and survey data suggests that some continued moderation is to be expected going forward. Admittedly, these recent developments have not prevented wage pressures from rising back to levels not seen since before the economic downturn. Indeed, given the lagged nature of wage cost, a further pick-up can be expected before any moderation is due, as the upper chart shows.

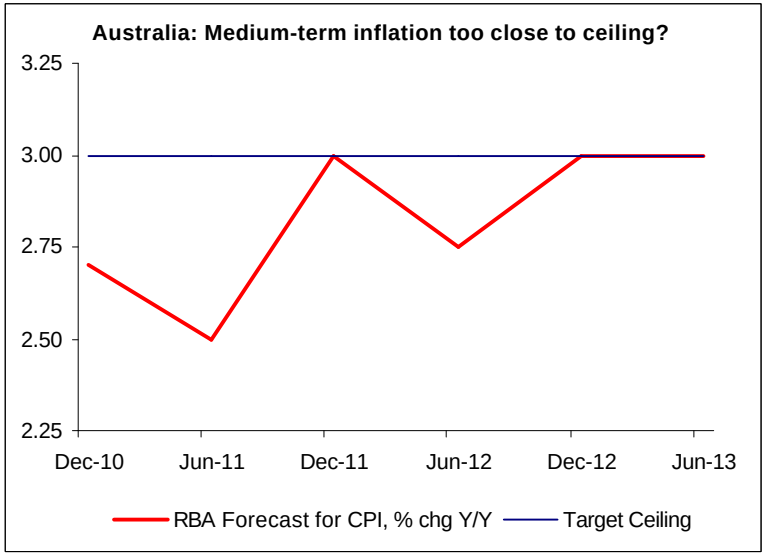
However, more importantly for the current policy stance, the RBA continues to describe consumer price pressures as consistent with the medium-term objective of monetary policy. Indeed, when looking through the temporary inflationary impact of the inflationary pressures caused by production losses — caused by flooding and Cyclone Yasi – the Bank expected inflation over the year ahead to be within its 2-3% target-range. However, as the lower chart shows, in 2012 and 2013 CPI inflation is perilously close to exceeding that target, something that the RBA will have to take into account going forward, particularly if global price pressures were to increase further, or if the central bank has underestimated the impact on prices from natural disasters. As for the former, however, the strength of the Australian dollar has helped shield the economy from much of the inflationary pressures emanating from rising oil and other commodity prices, while at the same time helping boost Australia's terms of trade to record-highs.

Hence, since the end of last year there have been few developments that would shake the RBA out of its ongoing policy pause in the immediate future. Indeed, the uncertainties as to the impact on the economy of the natural disasters having befallen Australia early this year has raised concerns not only about inflationary pressures but also about the growth outlook. Furthermore, these concerns will only have been accentuated by the possible impact on the global economy (and hence export demand) from the earthquake in Japan. As a result, although the strength of the economy, the rise in wage growth and the very real risk of inflation exceeding target over the medium-term suggests that further policy tightening is highly likely this year, the uncertainties caused by recent developments are likely to restrain the RBA for some time yet, at least until the next set of growth and inflation forecasts published are in early May and probably beyond that into the third quarter.

— Samuel Sidenbladh / DE London



Source: Australian Bureau of Statistics



Source: Reserve Bank of Australia

DECISION ECONOMICS April 1, 2011

	Latest	Week Ago	% Chg. YTD *	12/31/10
Yen/$	84.05	81.34	3.6	81.12
$/Euro	1.4225	1.4088	-6.3	1.3384
Yen/Euro	119.56	114.59	10.1	108.57
$/STG	1.6114	1.6042	-3.2	1.5612
Sfr/$	0.9243	0.9199	-1.2	0.9352
Can$/US$	0.9643	0.9805	-3.4	0.9980
Mexican Peso/$	11.830	11.992	-4.1	12.340
Brazil Real/$	1.6128	1.6620	-2.9	1.6613
Thai Baht/$	30.260	30.270	0.7	30.060
Malaysian Ringgit/$	3.0255	3.0265	-1.2	3.0635
Indonesian Rupiah/$	8695.5	8717.0	-3.3	8996.0
Korean Won/$	1091.2	1114.2	-3.1	1126.0
Philippines Peso/$	43.360	43.328	-1.0	43.800
India Rupee/$	44.585	44.756	-0.3	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.	0.30	0.31	0.00	0.30
Canada	1.20	1.20	-0.03	1.23
Euro	1.19	1.15	0.25	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.	3.45	3.44	0.15	3.30
US 10 Year Swap Rate	3.55	3.55	0.17	3.38
Canada	3.37	3.24	0.25	3.12
Italy	4.80	4.76	-0.01	4.82
Germany	3.37	3.28	0.41	2.96
U.K.	3.72	3.61	0.32	3.40
Switzerland	1.99	1.86	0.28	1.72
Japan (JGB)	1.29	1.23	0.16	1.13
Australia	5.54	5.44	-0.01	5.55
Brazil	4.65	4.58	0.04	4.61
India	7.99	8.01	0.07	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.10	0.11	0.02	0.08
10 Year - 2 Year	2.64	2.71	-0.05	2.70
Moody AAA	1.60	1.56	-0.13	1.73
UK Gilt	0.27	0.17	0.17	0.10
German Bund	-0.08	-0.16	0.25	-0.33
Italian 10-year	1.35	1.32	-0.17	1.52

** Year-to-date changes are calculated from the difference in yields.

STOCK MARKETS				
U.S. (DJIA)	12377	12221	6.9	11578
S&P 500	1332	1314	5.9	1258
NASDAQ Composite	2790	2743	5.2	2653
Russell 2000	847	824	8.1	784
Canada (TSE-300)	14130	14039	5.1	13443
Mexico (Bolsa)	37778	36784	-2.0	38551
Argentina (Merval)	3468	3349	-1.6	3524
Brazil (Bovespa)	69247	67766	-0.1	69305
Germany (DAX, XETRA)	7180	6946	3.8	6914
U.K. (FT-SE 100)	6010	5901	1.9	5900
France (CAC-40)	4055	3972	6.6	3805
Switzerland (SMI)	6440	6352	0.1	6436
Japan (Nikkei-225)	9708	9536	-5.1	10229
Hong Kong (Hang Seng)	23802	23159	3.3	23035
Australia (All Ordinaries)	4955	4840	2.2	4847
South Korea (KOSPI)	2121	2054	3.4	2051
Thailand	1064	1038	3.1	1033
India (BSE)	19420	18816	-5.3	20509
China (Dow Jones Shanghai Index)	376	379	5.7	356
Singapore (Straights Times Index)	3120	3071	-2.2	3190

COMMODITIES				
Gold (USD/Troy Ounce)	1427.30	1429.74	0.5	1420.78
Crude Oil (WTI, Spot)	107.59	105.00	17.7	91.38
CRB Futures	360.89	359.57	8.4	332.80
CRB Raw Industrials (Spot)	575.25	568.87	10.6	520.33