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Global Economic Developments

April 29, 2011

Brazil: Is the Central Bank Done Tightening?

The minutes of Brazil's central bank highlight that their decision to slow the pace of tightening to 25 basis points in the last meeting, from 50 basis points in the previous one, was not—as the market had originally interpreted—an indication of an imminent policy pause. Indeed, it now seems that policymakers hiked by less to hike for longer—if needed.

And this is the fundamental message of the Minutes: the central bank is buying time, delineating a more flexible tactical approach, allowing more time to let the tightening of the past year work, creating conditions to be on investors' radar screens for longer so as to better affect expectations and domestic demand, all of which motivated by the nearly universal (including the central bank's own) acknowledgement that annual IPCA-CPI inflation will probably surpass the target range ceiling of 6.5% in the foreseeable future.

There is, otherwise, no drastic change in the inflation outlook, as both the market and the central bank (and DE's own forecasts) have inflation remaining close to the target range, returning to 4.5% or thereabouts sometime in 2012.

Nonetheless, equities have reacted very negatively to the discovery of a seemingly more hawkish Monetary Council (Copom) mindset, in the aftermath of the President of Brazil's and the Minister of Finance's own hawkish statements.

In essence the latter two are taking pains to describe Brazil's economy as close to full employment, growing at a sustainable rate but at risk of overheating if lending is not brought under control. It should be said, however, that lending is already slowing, and that, finally, borrowing costs have begun to rise for the private sector. Thus it is still possible that interest rates might not be, under the new approach, much higher—if at all—than they would have been under the old one.

That is, whereas before we were expecting one more 50 basis points increase, then probably a pause, it is now likely that the Copom will approve 25 basis points in June, 25 basis points in July. An August hike is at this point slightly more likely than not, but as we move further back into the horizon the path of interest rates depends more critically on the actual data on lending. If a moderation of the latter is established, and inflation remains below explosive levels (a reasonable threshold could be 7%), then October could see a pause.

The bottom line is that the central bank has put markets on notice that they will react to what they see as unusual risks and persistent (although not out of control) inflation, by staying actively engaged in interest-rate management without an exit date, as under present conditions policy tightening should continue for a "sufficiently prolonged" time –the view held by a majority of the Council, versus a minority which apparently, according to the Minutes, would be in favor of pausing now to gauge the impact of previous tightening.

— Francisco J. Larios, DE Miami

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Europe

Eurozone

- **Inflation:** *Inflation rises further.* Exceeding some expectations, the flash HICP estimate for April saw inflation rise 0.1 percentage points to 2.8% Y/Y, a 30-month high and a therefore further above the ECB target.

France

- **Employment:** *Unemployment unchanged.* Matching expectations, the unemployment rate was 9.9% in March, matching the unrevised February outcome, but still down from the 10.1% rate set last October, the latter having been the highest in 12 years. The actual level of unemployment decreased (by 9 000), a result that was far smaller than the average drops seen since the peak last October.

Germany

- **Inflation:** *Easter effect pushes inflation higher?* According to preliminary data, April CPI inflation increased by 0.3 percentage points to 2.4% Y/Y, still the highest since October 2008. This result was in line with most expectations and reflected a 0.2% M/M rise, the latter largely a result of higher energy and fuel costs alongside a rise in some service charges, including package holidays. Indeed, these latter factors were behind the rise in the Y/Y rate, a development that was probably due to the impact of the late Easter this year. Meanwhile, the EU-harmonized rate also increased by 0.3 percentage points but to 2.6% Y/Y. The data very much imply a further jump in Eurozone April HICP data (flash figures are due on Friday).

- **Employment:** *Strength in labor market still evident?* Showing an as-expected decline, unemployment decreased by 37 000 in April, a less marked fall than the 55 000 drop seen in the previous month, albeit falling below the key 3 mln level. Even so, the adjusted unemployment rate remained at a cycle-low of 7.1%. On a further upbeat note, (March) employment continued to rise clearly, albeit no faster than in previous months. More reassuringly, however, there was also a further, clear rise in vacancies.

Italy

- **Inflation:** *Inflation rises further.* Exceeding expectations, preliminary data showed that consumer price inflation increased 0.1 percentage points to 2.6% Y/Y in April, now the highest in 29 months. The breakdown showed upward pressure from energy, albeit with the core rate rising a notch to 1.8%. Overall, prices rose 0.5% in M/M terms. The EU-harmonized measure, meanwhile, saw inflation rise leap 0.2 percentage points to 3.0% Y/Y.

Sweden

- **Employment:** *Further upbeat jobs data.* Coming in slightly above expectations, the (unadjusted) unemployment rate fell further in March relative to its year-before counterpart. At 8.1%, it was 0.9 percentage points below that of the same month in 2010, a somewhat smaller Y/Y drop to that evident in previous readings. However, seasonally adjusted numbers confirmed no further fall in underlying joblessness, with the rate little changed at 7.7%. On a more unambiguously upbeat note, hours worked rose again last month, with the Y/Y gain picking up to 3.5%.

Spain

- **Inflation:** *Inflation abates.* Coming in higher than expected, flash data showed EU harmonized CPI inflation rising 0.2 percentage point to 3.5% Y/Y, the highest since October 2008.

United Kingdom

- **Growth and Production:** *Modest recovery in GDP.* Real GDP increased by 0.5% in Q/Q terms in Q1, in line with consensus thinking, it also being an exact reversal of the (unrevised) 0.5% contraction seen in the previous quarter. As a result, the Y/Y rate recovered 0.3 percentage points to 1.8%.

Central Europe

Hungary

- **Employment:** *Better labor market conditions.* Coming in slightly above expectations, the unemployment rate (for the population aged 15 to 74) for the three months to March slipped by 0.2 percentage point to 11.6% from the same period in 2010. The level of unemployment, meanwhile, decreased by 8 000 to 489 800 from the same period in the previous year. On a similarly upbeat note, the rate of employment picked up to 48.6% from the 48.4% outcome last year, while the participation rate climbed by 0.1 percentage point to 55.0%.

Poland

- **Employment:** *Higher unemployment.* Largely in line with expectations, the March (unadjusted) unemployment rate was 13.1%, up 0.1 percentage point from the 13.0% outcome in the same month of 2010. The level of unemployment, meanwhile, rose 2.8% Y/Y to 2.1 mln.

Turkey

- **Trade:** *Trade deficit widens further.* Surprising on the downside, the March trade deficit almost doubled to $ 9.80 bln from $ 5.03 bln in the same month of the previous year. This was the result of Y/Y import growth, at 44.0%, having outpaced export growth, 20.0%.

Asia and Pacific

Japan

- **Monetary and Fiscal Policy:** *BoJ on hold.* Surprising no-one the BoJ Board voted unanimously to continue the target for the overnight call loan rate among commercial banks at zero to 0.1%. As for the economy, the Board projected that the economy will slump in the near term due to the earthquake but maintained its medium-term projection that the economy will return to a moderate recovery path in a period through fiscal 2012, according to the semi-annual Outlook Report. The Board markedly pared back its collective fiscal 2011 real GDP forecast to 0.6%, due to effects of the March earthquake, from their January projection of 1.6%. However, the Board revised up its growth forecast for fiscal 2012 to 2.9% from 2.0% forecast in January. Following the meeting Governor Shirakawa, acknowledged that the Board is fully aware of the very high uncertainty in the wake of the earthquake. However, he also stressed that the Board needs to assess how the effects of the recently expanded asset-buying program will spread through the economy, before taking further monetary easing action

- **Growth and Production:** *Industrial production slumps.* Showing a massive slump and also undershooting most expectations, preliminary data for March showed that industrial production dropping 15.3% M/M, a record fall reflecting the initial impact of the earthquake last month. Understandably, the drop was larger than METI's estimate for March, causing it to pare back its assessment of the factory sector backdrop. Elsewhere, the data showed a 14.3% M/M slump in shipments in March, alongside a steep fall in inventories (of 4.3%).

- **Employment:** *Soft jobs data.* Clearly undershooting expectations, the unemployment rate remained at a 25-month low of 4.6% in March. However, the data did not include results from the three main areas hit by the earthquake. Less reassuringly, Y/Y employment growth (at -4.5%) turned negative once more, a swing largely reflecting a M/M decline of 5.1%. Meanwhile, the participation rate remained at 59.0%. More positively, the job-to-applicant ratio rose from 0.62 to 0.63, still a 26-month high.

Australia

- **Inflation:** *Inflation rises.* Coming in above expectations this time around, Q1 consumer price inflation surged by 0.6 percentage point to 3.3% Y/Y from Q4 2010, the highest since December 2008. In Q/Q terms, prices rose 1.6%, the largest gain in almost five years, driven by increases in the cost of education (5.7%), healthcare (3.9%) and food (2.9%). The Y/Y breakdown, meanwhile, showed the latest outcome to be the result of increasing price pressures from food (4.3% from 2.5% in Q4 2010), transport (3.0% from 1.7%) and less negative clothing (-1.3% from -4.8%) costs, which were tempered by moderate falls in inflation for healthcare (4.1% from 5.0%), housing (4.8% from 5.0%) and alcohol & tobacco (11.2% from 11.4%).

Hong Kong

- **Trade:** *Export growth slips.* Trade data for March showed export growth falling back from 24.7% Y/Y to a three-month low of 21.5%, due to a slip in re-export growth. Indeed domestic exports actually saw growth inching up 0.1 percentage point to 11.6%. Imports, meanwhile, rose by 18.8%, a less marked gain than that seen in February (25.2%) and also the smallest since the end of last year. As a consequence, the trade balance was in deficit to the tune of HK$ 40.1 bln in March, a slight deterioration on the same month of last year (- HK$ 38.9 bln).

Singapore

- **Growth and Production:** *Output surges.* Although undershooting expectations, seasonally adjusted data nevertheless showed industrial production jumping 22.0% M/M, more than wiping out the 2.0% drop in the preceding month and extending the volatility of the series. As a result, Y/Y growth picked up from 4.7%, to 22.0%, the highest reading since November last year. The breakdown, however, revealed that the recovery was almost exclusively due to a surge in growth in the volatile and influential biomedical/pharmaceutical sector (from -6.8% Y/Y to 57.0%), albeit with general manufacturing growth up as well, but much less clearly so. As noteworthy, however, most other components saw growth slowing, most notable electronics output (6.9% Y/Y from 9.0%). Indeed, excluding the biomedical sector industrial production grew by a mere 6.1% Y/Y, on the back of a 0.1% M/M gain.

- **Inflation:** *Consumer price inflation stable.* Largely in line with expectations, consumer price inflation was unchanged from the 5.0% Y/Y reading in February, following a 0.5 percentage point fall in the previous month and still the second highest in 29 months. In M/M terms, prices rose 0.1%, as a surge in clothing prices (2.5%) and housing (0.6%) more than offset drops in prices of transport (-0.6%) and communication (-0.4%). The Y/Y breakdown, meanwhile, showed the latest reading to be the result of rising price pressures from housing (7.1% from 5.8% in February) and recreation (2.4% from -1.7%) being offset by falling inflation for transport (13.4% from 15.2%), clothing (0.9% from 1.3%) and health care (2.9% from 3.2%).

- **Employment:** *Jobless rate drops back.* According to preliminary data, the seasonally adjusted unemployment rate fell 0.3 percentage point in Q1 to 1.9%, more than unwinding the rise seen in the previous quarter. Indeed the Q1 result is the lowest in three years.

Philippines

- **Trade:** *Still strong import growth.* February data showed imports growing by 20.1% Y/Y, a slip from January's 23.7% and a seven-month low but still coming in clearly above the long-term average. The breakdown, however, showed import growth of electronics (accounting for over 30% of the total) plunging from 37.6% to 5.3%, a drop only partially offset by rising mineral fuel growth. Together with the already published export data, the trade balance was in deficit to the tune of $ 823 mln in February, a deterioration of $ 490 mln on the same month of 2010.

New Zealand

- **Monetary and Fiscal Policy:** *Policy on hold.* Surprising no-one, RBNZ Governor Bollard announced that the central bank would leave its Official Cash Reserve rate (OCR) on hold at 2.5% for now, having cut it by 50 bp last month in response to the recent earth-quake in Christchurch. However, Bollard underscored that the outlook for the domestic economy remained very uncertain following the earthquake, although activity in the rest of the country appeared relatively unaffected. On an upbeat note, Bollard noted that business confidence and consumer spending – which plunged in March – was now recovering. Governor Bollard also highlighted that growth in New Zealand's trading partners remained robust and with export commodity prices rising, but on a down-beat note added that rising global oil prices and the strength of the New Zealand dollar would have a dampening effect on economic activity. As for price pressures, the RBNZ expected CPI inflation to settle comfortable within the target range as soon as the impact from the hike in VAT in Q4 dropped out, calling the current monetary policy setting appropriate and saying it would be so 'for some time'.

- **Trade:** *Trade balance in surplus.* Although coming in ahead of expectations, trade data for March still showed the trade balance in surplus to the tune of NZ$ 464 mln, albeit down on the outcome of the same month last year. As a result, the 12-month cumulative trade surplus narrowed to NZ$ 631 mln. Exports rose for a thirteenth straight month in March, albeit with the rate of growth slowing to 11.1%.

South Korea

- **Growth and Production:** *Still strong growth.* Roughly in line with expectations, advance national accounts data saw a clear gain in Q/Q terms, with the economy expanding by 1.4% in Q1, a much clearer gain than in Q4 (0.5%) and the fastest in three quarters. However on a Y/Y basis, economic growth continued to slow, slipping from 4.7% to a 1½-year low of 4.2%. Even so, the latest outcome was still in line with the long-term average. Nevertheless, the output side breakdown, showed the manufacturing and construction sectors behind much of the headline gain, albeit with construction output falling outright once more and at nearly twice the pace seen in Q4 (-3.2% Q/Q vs -6.1%). Services output growth, meanwhile, strengthened by 0.2 percentage point to 1.3%, the highest in exactly one year. Meanwhile, the expenditure breakdown provided some mixed messages. On an upbeat note, private consumption expenditure strengthened in Q1, albeit only moderately so (0.5% Q/Q), but with a surge in government spending; the largest (at 1.8%) in exactly one year. However, providing a more muted message, capex fell for a second straight quarter and with the drop being the largest (4.3%) since Q4 2008 due to construction investment plunging (although facilities investment was down as well, but less clearly so). More than offsetting the impact of the capex drop, however, net trade once more provided a boost to headline growth, to the tune of 1.2 percentage points, as export growth expanded at a more rapid clip than the impart counterpart. *Higher output.* Coming in a below market expectations, industrial production still rose by a seasonally adjusted 1.4% M/M in March, unwinding some of the 2.5% February drop, the later having been the first outright fall since October last year. On a Y/Y basis, output growth slipped 0.5 percentage points to 8.7%, still the weakest reading since September 2010.

- **Trade:** *Current account surplus widens.* The April balance of payments data showed the current account surplus to have widened to $ 1 435 mln, up $ 236 mln from the same period in 2010 and a fourth straight widening in the surplus. The breakdown revealed the latest increase to be the result of a significant narrowing in the services deficit being tempered by a moderate fall in the goods balance.

Taiwan

- **Growth and Production:** *Output growth bounces back.* Exceeding expectations, industrial production growth rose by 0.87 percentage point to 13.82% Y/Y in March from the five-month low seen in the preceding month. The breakdown showed the latest increase to be the result of a significant bounce-back in construction (2.66% from -58.96% in February) which was tempered by slight moderations seen in the other components. *Growth slows further.* Although coming in above expectations, national accounts data nevertheless showed GDP growth slowing further in Q1. Indeed, growth slipped from 6.92% Y/Y to 6.19%, but still remains very clearly above the long-term trend. On a seasonally adjusted Q/Q basis, moreover, GDP saw a 3.2% gain, after a flat Q4 reading. Nevertheless, the expenditure breakdown (all purely in Y/TY terms) provided some mixed messages with regards to the domestic economy. Indeed, private consumption expenditure picked up to 4.81% last quarter, while capex growth turned negative. Net trade, meanwhile, provided a stronger boost to headline growth in Q4, as imports rose less clearly than exports, albeit with both slowing. On the output side, the data showed the secondary sector still boosting growth, but less clearly so than in Q4 as weaker manufacturing and construction growth was only partially offset elsewhere.

Thailand

- **Growth and Production:** *Manufacturing output falls further.* Undershooting expectations, March manufacturing output fell by 6.67% Y/Y, down from the upwardly revised 2.97% slide in February, the largest fall in 19 months. Meanwhile, in seasonally adjusted M/M terms, output fell by 0.10% in March, following the steeper fall in February of 2.18%.

- **Trade:** *Stronger trade data.* Exports rose by 31.0% Y/Y in March, a gain that was the seventeenth in as many months and one that was stronger than in February (29.1%). Import growth, meanwhile, picked up to 27.2%. As a result, the trade balance was in surplus to the tune of $ 1 892 mln in March, a surge from the $ 1 002 mln surplus seen in the same month of 2010.

Comparative International Economic Indicators

Real Growth*

	Latest Period		Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:Q1	•	1.7	2.3
Canada	2010:Q4		3.3	3.2
Eurozone	2010:Q4		1.1	2.0
United Kingdom	2011:Q1	•	2.0	1.8
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	2011:Q1	•	5.6	4.0
Taiwan	2011:Q1	•	-26.6	6.2
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:M3		1.1	3.3
	2011:M3		1.4	2.7
	2011:M3		0.3	4.1
	2011:M4	•	0.1	2.1
	2011:M3		0.8	2.0
	2011:M4	•	0.5	2.6
	2011:M3		0.6	1.0
	2011:M3	•	0.3	0.0
	2011:M3		0.5	4.7
	2011:M3		-0.9	1.4
	2011:M3		0.3	4.6
	2011:M3	•	0.1	5.0
	2011:Q1	•	1.6	3.3
	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:M3	• -3.2	-12.9
Korea	2011:M3	• 18.0	8.7
Taiwan	2011:M3	• 25.9	13.8
Hong Kong	2010:Q4	-1.5	5.8
Singapore	2011:M3	• 37.9	22.0
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
	2011:Q1	•	30.7	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:M3	•	6.3	6.4	7.4
France	2011:M3	•	9.5	9.5	9.8
Italy	2010:Q4		8.5	8.4	8.3
Switzerland	2011:M3		3.3	3.4	4.1
Japan	2011:M3	•	4.6	4.6	5.0
Korea	2011:M3		4.3	4.5	4.1
Taiwan	2011:M3	•	4.5	4.7	5.7
Hong Kong	2011:M3		3.4	3.6	4.4
Singapore	2011:Q1	•	1.8	2.0	2.1
Australia	2011:M3		4.9	5.0	5.4
Mexico	2011:M3		4.6	5.4	4.8

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
	3.29	3.44	3.73
	3.20	3.29	3.66
	3.43	3.67	3.95
	3.24	3.34	3.06
	3.55	3.61	3.33
	4.73	4.78	4.07
	2.06	1.93	1.81
	1.21	1.25	1.29
	4.48	4.49	4.81
	1.43	1.36	1.44
	2.56	2.74	2.89
	2.41	2.53	2.71
	5.43	5.53	5.74
	3.07	3.32	3.39

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.25	1.00	1.00
United States	0.10	0.14	0.20
Canada	1.00	1.00	0.25
United Kingdom	0.58	0.40	0.48
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	0.09	0.10
Korea	3.02	2.98	2.00
Hong Kong	0.09	0.09	0.03
Singapore	0.16	0.16	0.16
Australia	0.00	4.75	4.25
Mexico	4.50	4.47	4.45

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
	1.4809	1.7	4.8	11.9
	76.77§	-1.0	-3.1	-8.6
	0.9457	0.9	2.6	5.9
	1.6704	1.2	3.9	9.0
	1.3207	-1.7	-4.6	-10.6
	4.4294	-1.7	-4.6	-10.6
	1307.50	-1.7	-4.6	-10.6
	0.8653	2.3	5.8	20.2
	81.09	1.0	2.2	13.8
	1071.5	0.9	2.9	3.9
	7.7664	-0.1	-0.2	0.0
	1.2237	0.9	3.0	10.7
	1.0967	2.1	6.2	18.2
	11.5021	0.9	3.5	5.8

§ 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:M4 •	0.2	3.4
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:M4 •	1.3	3.8
Portugal	2011:M3	1.6	4.0
Indonesia	2011:M3	---	---
Philippines	2011:M3	0.3	4.3
Malaysia	2011:M3	0.1	3.0
Thailand	2011:M3	0.5	3.2
India	2011:M3 •	0.0	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:M2 •	7.2	13.4
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:M2 •	-1.9	11.1
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	-25.7
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	2011:Q1 •	16.0	14.8	7.1
India	2010:Q4	-51.9	-51.9	10.2
Argentina	2010:Q4	3.6	3.6	11.1
Brazil	2011:Q1 •	-50.0	-47.4	-24.3

Unemployment Rate*

	Latest Period	Latest	Prev. Period	Year Ago Period
Belgium	2011:M3 •	7.7	7.7	8.4
Netherlands	2011:M3 •	4.2	4.3	4.5
Denmark	2011:M2	4.0	4.1	4.3
Sweden	2011:M3 •	7.7	7.6	8.5
Norway	2011:M4 •	2.8	2.9	3.0
Finland	2011:M3 •	9.3	8.4	9.1
Spain	2011:M3 •	20.7	20.6	19.6
Portugal	2011:M3 •	11.1	11.1	10.7
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:M3	6.5	6.4	7.6

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
Belgium	4.23	4.26	3.57
Netherlands	3.51	3.63	3.28
Denmark	4.23	4.26	3.57
Sweden	3.18	3.36	2.97
Norway	3.71	3.83	3.64
Finland	3.38	3.44	3.29
Spain	5.29	5.21	4.05
Portugal	9.64	8.10	5.48
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	3.97	4.11	4.06
Thailand	3.68	3.71	3.47
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	2.05	1.75	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	6.29	6.29	6.12
Philippines	4.25	4.25	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	6.85	6.60	3.75
China	—	—	—
Argentina	10.05	10.35	9.45
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	27.2401	1.7	4.6	10.6
Netherlands	1.4881	1.7	4.6	10.6
Denmark	5.0358	1.7	4.6	10.5
Sweden	6.0434	1.0	4.5	16.6
Norway	5.2483	2.2	5.9	11.3
Finland	4.0149	1.7	4.6	10.6
Spain	112.35	1.7	4.6	10.6
Portugal	135.38	1.7	4.6	10.6
Indonesia	8563.0	0.7	1.8	5.0
Philippines	42.734	0.9	1.6	4.3
Malaysia	2.9610	1.5	2.1	7.4
Thailand	29.860	0.2	1.5	7.5
India	44.219	-0.3	-1.2	-0.7
China	6.4921	0.2	1.0	4.9
Argentina	4.0783	0.0	-0.9	-5.1
Brazil	1.5762	-0.6	3.2	8.8

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

Week ended: 4/29/2011

Focus on Canada: Risks Building Around the Consumer?

Advanced economies have experienced a challenging few years, but Canada has been one of the best performers, already regaining pre-crisis levels of output and employment. Add to that a relatively low level of sovereign debt relative to its peers and a more solid fiscal position – admittedly not a tough benchmark to beat – and its relative strength, particularly among the G7 economies, becomes quite apparent. Tack on a strong currency, the lack of a recent housing downturn, and positive exposure to rising commodity prices through energy exports, and it would appear that the economy is enjoying a "sweet spot" of sorts.

But good times are often when risks accumulate. One risk is household borrowing above that which can be comfortably serviced under a more "normal" interest rate environment. Stretched consumer balance sheets, if combined with a downturn in likely-overheating housing markets in some areas, would adversely impact consumer spending, and the broader economy.

This interaction is a key downside risk to the Bank of Canada's outlook, and in part explains the Bank's hesitation to rush into raising rates too quickly. But, consumer spending is also a key *upside* risk for the Bank. "Exceptionally stimulative" financing conditions could spur borrowing in excess of income growth, boosting spending and inflation pressures.

Chart 1 shows Canadian consumer credit and mortgage liabilities as a percent of disposable income, versus the recent U.S. experience. Of course, one chart does not an analysis make, as lending standards and down payment requirements for housing purchases have been stricter in Canada. New rules were introduced in early 2010, and now again in early 2011, to tighten qualifying standards in anticipation of eventually-higher interest rates. But on its own, it does explain why policymakers are expressing concerns.

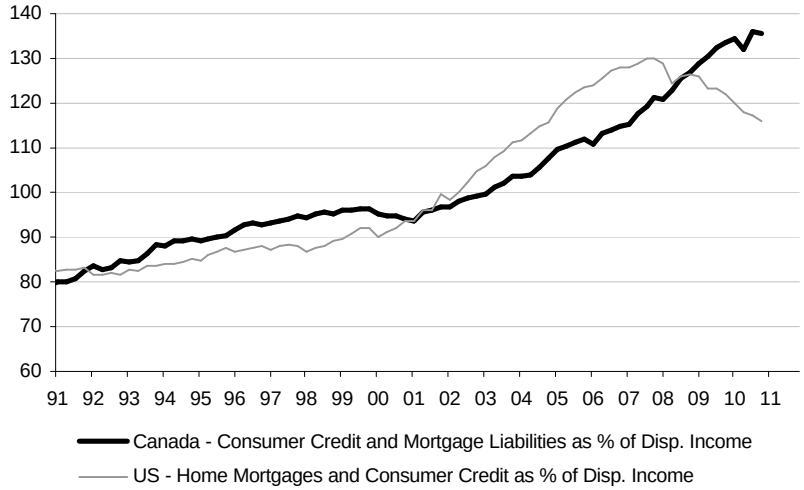
Are households getting the message? Early evidence suggests, yes. Chart 2 shows year-over-year growth rates of consumer credit, mortgages, and disposable income in Canada. Credit data run through January 2011, and disposable income through Q4 2010. Consumer credit is advancing at its slowest pace in nearly a decade, while mortgage credit is still rising at a healthy clip, albeit well off pre-recession highs. The latter is likely to slow in coming months as tighter mortgage rules begin to take effect. Importantly, disposable income rebounded markedly as employment, particularly full-time jobs, recovered significantly, with the full-time employment measure now just below its pre-crisis peak.

Moving forward, the most favorable scenario, and perhaps more likely outcome under our baseline scenario for the global economy, is one where the macro-prudential tightening measures are effective in restraining bubble-like tendencies on the home price side, while rising employment, and commodity prices at a permanently higher level, continue to provide support for incomes, allowing for a moderating-but-intact upward trend for consumer spending. The Bank of Canada, under its most recent projections, expects that consumption is "unlikely to be bolstered by gains in house prices," suggesting they do see at least a flattening, if not some outright weakening, in home prices. That appears very plausible.

The interest rate outlook is in turn of great importance, as a faster tightening cycle would provide a greater shock to consumer balance sheets, and housing affordability. But, a more-gradual cycle appears in the cards, even as headline inflation jumped to 3.3% y/y in March (accompanied by a sharp rise in the core rate as well). Temporary factors impacted the recent inflation readings, growth is already beginning to show signs of moderating after a late-2010/early-2011 surge, and the Canadian dollar continues to surge – the latter dampening price pressures and weighing on U.S.-facing exporters. In part for that reason, the BoC will be unable to embark on a rapid tightening cycle without the Fed also making headway on its own exit strategy, something that does not appear to be occurring with much, if any, urgency. In short, risks are elevated, perhaps more-so than generally recognized – explaining the BoC's continued caution about rate hikes – but can, at this point, be resolved in a relatively benign manner.

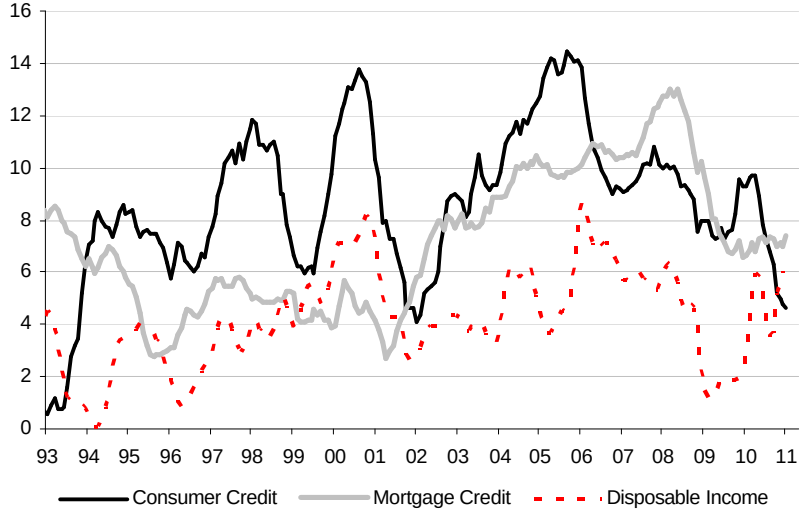
— Andrew Husby, DE New York

Chart 1: Consumer Credit and Mortgage Debt in the US and Canada
(Percent of Disposable Income)



Source: Statistics Canada, Federal Reserve

Chart 2: Canada – Credit Growth Slowing, Mortgages May Follow
(Percent Change Year-on-Year)



Source: Statistics Canada

DECISION ECONOMICS April 29, 2011

	Latest	Week Ago	% Chg. YTD *	12/31/10
Yen/$	81.09	81.88	0.0	81.12
$/Euro	1.4809	1.4561	-10.6	1.3384
Yen/Euro	120.09	119.23	10.6	108.57
$/STG	1.6704	1.6509	-7.0	1.5612
Sfr/$	0.8653	0.8861	-7.5	0.9352
Can$/US$	0.9458	0.9545	-5.2	0.9980
Mexican Peso/$	11.502	11.605	-6.8	12.340
Brazil Real/$	1.5762	1.5663	-5.1	1.6613
Thai Baht/$	29.860	29.920	-0.7	30.060
Malaysian Ringgit/$	2.9610	3.0054	-3.3	3.0635
Indonesian Rupiah/$	8562.5	8623.0	-4.8	8996.0
Korean Won/$	1071.5	1080.8	-4.8	1126.0
Philippines Peso/$	42.734	43.140	-2.4	43.800
India Rupee/$	44.219	44.368	-1.1	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	0.27	-0.03	0.30
Canada	1.20	1.20	-0.03	1.23
Euro	1.35	1.30	0.41	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.	3.29	3.39	0.00	3.30
US 10 Year Swap Rate	3.37	3.48	-0.01	3.38
Canada	3.20	3.29	0.08	3.12
Italy	4.73	4.74	-0.08	4.82
Germany	3.24	3.31	0.28	2.96
U.K.	3.43	3.55	0.03	3.40
Switzerland	2.06	2.06	0.34	1.72
Japan (JGB)	1.21	1.24	0.08	1.13
Australia	5.43	5.49	-0.11	5.55
Brazil	4.51	4.61	-0.10	4.61
India	8.13	8.10	0.21	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.08	0.08	-0.01	0.08
10 Year - 2 Year	2.68	2.74	-0.02	2.70
Moody AAA	1.74	1.69	-0.04	1.78
UK Gilt	0.14	0.16	0.04	0.10
German Bund	-0.05	-0.09	0.28	-0.33
Italian 10-year	1.44	1.35	-0.08	1.52

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

STOCK MARKETS				
U.S. (DJIA)	12811	12506	10.7	11578
S&P 500	1364	1337	8.4	1258
NASDAQ Composite	2874	2820	8.3	2653
Russell 2000	865	846	10.4	784
Canada (TSE-300)	13945	13972	3.7	13443
Mexico (Bolsa)	36963	36816	-4.1	38551
Argentina (Merval)	3408	3414	-3.3	3524
Brazil (Bovespa)	66133	67058	-4.6	69305
Germany (DAX, XETRA)	7514	7249	8.7	6914
U.K. (FT-SE 100)	6070	5897	2.9	5900
France (CAC-40)	4107	4005	7.9	3805
Switzerland (SMI)	6540	6445	1.6	6436
Japan (Nikkei-225)	9850	9686	-3.7	10229
Hong Kong (Hang Seng)	23721	23896	3.0	23035
Australia (All Ordinaries)	4899	4874	1.1	4847
South Korea (KOSPI)	2192	2198	6.9	2051
Thailand	1094	1105	5.9	1033
India (BSE)	19136	19602	-6.7	20509
China (Dow Jones Shanghai Index)	367	385	3.1	356
Singapore (Straights Times Index)	3180	3195	-0.3	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1552.50	1506.85	9.3	1420.78
Crude Oil (WTI, Spot)	113.38	111.71	24.1	91.38
CRB Futures	370.56	367.44	11.3	332.80
CRB Raw Industrials (Spot)	566.37	575.48	8.8	520.33