

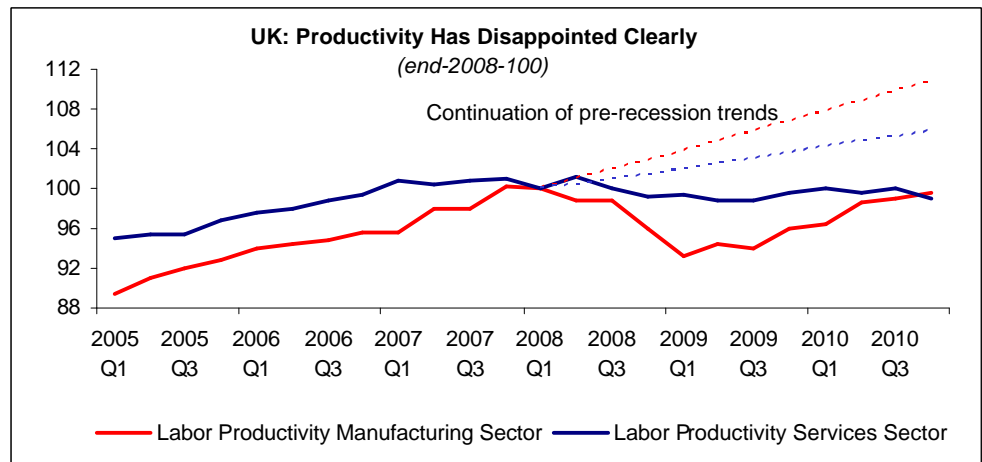
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## UK: MPC More Wary of UK Supply Side

Unsurprisingly, the minutes from this month’s BoE MPC meeting continued to show the committee split three ways, with Dale, Weale and (long-standing hawk) Sentance opting for a rate hike. Meanwhile, the five members voting for no change this month had probably not had their viewpoints altered by the recent data flow. They agreed that the Inflation Report pointed to a rate hike, but not an immediate one. Instead, their judgment was that an increase in Bank Rate in current circumstances could adversely affect consumer confidence, leading to an exaggerated impact on both spending and firms’ perceptions of their desired productive capacity. In addition, their view was that, were the downside risks to household spending to materialise, a path for policy weaker than that implied by market prices might become appropriate.

All of which implies that the status quo in the MPC is unlikely to change much in coming months. Admittedly, arch-hawk Sentance has now left the MPC with his replacement (Ben Broadbent) using testimony (offered last Tuesday) to suggest that he will be pragmatic, largely agreeing with the MPC consensus. However, at least two dissents are likely to continue given the extent to which the two other advocates of hiking seem unlikely to be swayed by any downside output surprises in coming months as they interpret such results to be as much a result of falling supply as softer demand.



Source: Bank of England.

This question of the supply side of the economy may become (if not already being) the major issue for the MPC. The minutes very clearly noted (and as the chart above corroborates) that productivity had been substantially weaker than the Committee had expected, with the weakness thereby possibly implying that the (current) modest rate of wage growth was consistent with a rate of underlying inflation higher than previously thought. This may reflect several factors, including the possibility that the path of underlying structural productivity before or during the recession might have been lower than previously thought, a result all the more notable as the BoE acknowledged that financial crises in other countries in the past had often been accompanied by sustained shortfalls in output relative to the pre-crisis trend. If so, this suggests more limited spare capacity than previously thought, a result that chimes with the messages from business survey indicators. Alternatively, the weakness in labour productivity may be a result of companies retaining or taking on staff in anticipation of a recovery in demand. In that case a margin of spare capacity within firms probably remained and might have increased further over the past year. Regardless, of this unfolding debate within the MPC it is unlikely that the BoE is going to include that the economy has no spare capacity.

— Andrew Wroblewski, DE London

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## Europe

### Eurozone

- **Trade:** *Mixed trade results.* The (unadjusted) trade balance was in surplus by €2.8 bln in March, little changed from the €2.7 bln outcome in the same month of the last year. This was due to exports rising at a somewhat slower pace of 16% in Y/Y terms, while imports increased by 17%. Seasonally adjusted data, however, showed a continued but smaller deficit than in March, shrinking from -€1.1 bln in February to -€0.9 bln. This reflected exports (1.1% M/M) rising more clearly than imports (0.3%).

### Italy

- **Trade:** *Trade deficit widens.* The global unadjusted trade deficit widened to €3 943 mln in March, up from the €1 689 mln deficit recorded in the same month of the previous year. In seasonally adjusted terms, the trade gap also widened, albeit more modestly, to €4 191 mln from a pared-back February reading of €3 407 mln, as a recovery in exports growth was accompanied by an even steeper bounce in imports.

### Netherlands

- **Employment:** *Better jobs data.* The seasonally adjusted unemployment rate fell 0.1 percentage point to a 21-month low of 5.0% in the three months to April. The headline (unadjusted) figure, however, decreased more sizably, easing another 0.2 percentage point to 5.1%.

### United Kingdom

- **Inflation:** *Late Easter boosts CPI inflation.* Overshooting expectations, April consumer price inflation more than unwound the surprise fall seen in the previous month, rising 0.5 percentage points to 4.5% Y/Y, a 26-month high. Prices were up 1.0% in M/M terms, a record for any April, reflecting widespread gains, particularly in regard to transport, alcohol/tobacco and some services costs. These components were also the main factors behind the surge in the Y/Y rate, alongside some rise in household good. Higher fuel pressures were also evident, but their impact was offset by base effects. Of some note, the core rate (ie excluding energy, food, alcohol and tobacco) also surged, jumping 0.5 percentage point to a record-high 3.7% Y/Y.
- **Employment:** *More mixed labor market signs?* Somewhat surprisingly, April claimant count unemployment showed a further and steeper rise, with the 12 400 jump being the largest in 15 months. The April data may have been distorted by technical factors as well as the unusual amount of holidays. However, the fact that it was accompanied by upward revisions to previous data, the latter resulting in a now sizeable rise (of 6 400) in March, does suggest a fresh uptrend may have emerged, something possibly corroborated by the 0.1 percentage point rise in the unemployment rate on this basis (to 4.6%), the first such an increase since 2009. Admittedly, the (broader) ILO measure of unemployment painted a contrasting picture, with an 36 000 drop in the three months to March, enough to cause the jobless rate on this measure to edge back down to 7.7%. As with previous reports, details elsewhere in the labor market numbers contained additional mixed tones. On a somewhat less upbeat note, vacancies fell for a third successive month and more sizably so, and now a fall not exclusively a result of distortions arising from census workers. More optimistically, the rate of redundancies slipped (with only a modest rise visible so far 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, significant increase (0.4%) in the quarter to March, a jump that was still very much underpinned by a clear bounce-back in full-time employee jobs.

## Central Europe

### Czech Republic

- **Trade:** *Current account in surplus.* Balance of payments data for March showed the current account in surplus to the tune of CZK 2.7 bln, a very clear improvement from the CZK 14.5 bln deficit in the same month of 2010.

### Hungary

- **Monetary and Fiscal Policy:** *Rates on hold.* Surprising no one, the MNB left rates on hold at 6.0%, as the Council still sees earlier tightening moves as potentially sufficient to bring inflation, currently well above target, down to 3% by the end of 2012. Consumer prices are being pushed upward by high food and energy prices, but dampened by weak domestic demand and high unemployment. The Council expects the downside factors, and earlier tightening, to allow inflation to settle to the 3% target by late 2012. Supporting that case is “no sign yet” of a pickup in domestic demand, leaving external demand (driven by a still-shaky fiscal crisis in Europe) the main driver of growth.

### Russia

- **Growth and Production:** *GDP expands 4.1% year-on-year in Q1, slows from Q4.* Preliminary data put Q1 GDP up 4.1% from a year ago, slowing on the 4.5% pace recorded in Q4. No further breakdown was provided with the release. *Another miss for industrial production.* Disappointing expectations, industrial output rose 4.5% y/y in April, decelerating from 5.3%

the month prior. In seasonally-adjusted terms, output rose 0.3% m/m. Mining and manufacturing output softened, while utilities growth picked up slightly.

- **Employment:** *Unemployment jumps.* Adding to other weak data in April, the jobless rate bucked the expected seasonal downtrend, rising to 7.2% (7.1% in March, and 8.2% the same period last year).

## Poland

- **Growth and Production:** *Output growth moderating.* Industrial output growth edged lower to 6.6% y/y in April from 7.0% the month prior, reflecting slowdowns in manufacturing, utilities, and a slight increase in mining output. The result is not too disruptive of the moderate growth outlook, but will add to speculation that the NBP will not have enough evidence to hike rates again in June.

## Turkey

- **Employment:** *Lower unemployment.* The unemployment rate in the three months to March dropped by 2.9 percentage points to 11.4% from the corresponding period in 2010, while on a seasonally adjusted basis, the unemployment rate fell by 0.4 percentage points to 10.1% from the downwardly revised reading in preceding month, reaching a new cycle low. The employment rate, meanwhile, rose by 0.6 percentage points to a fresh cycle-high of 44.8% in adjusted terms, while the rate rose to 42.9% Y/Y from 40.7% in the same period of the previous year on an unadjusted basis. Moreover, the participation rate also saw improvement in both adjusted and unadjusted terms, the former seeing a 0.1 percentage point gain to 49.8%.

## Asia and Pacific

### Japan

- **Monetary and Fiscal Policy:** *BoJ unchanged.* 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 it is likely to continue facing strong downward pressures, mainly on the production side, for the time being. However, backed by an increase in exports reflecting the improvement in overseas economic conditions and by a rise in demand for restoring capital stock, the economy is expected to return to a moderate recovery path from the second half of fiscal 2011 as supply-side constraints ease and production regains traction. This is a repetition of the view expressed after the last meeting on April 28.
- **Growth and Production:** *Recession returns?* Surprising to the downside, the Q1 preliminary estimate showed GDP contracting for the second successive quarter, dropping 0.9% Q/Q (-3.7% annualized). However, the figures were made all the more disappointing given downward revisions to previous data with Q4 numbers now showing a steeper drop of 0.8%. As a result, the Y/Y rate turned negative for the first time in five quarters at -3.0%. The Q/Q break-down showed that the negative headline reading reflected more broad-based weakness (save for government spending), including a further drop in consumer spending, alongside an additional modest knock from net trade. Meanwhile, the Q4 GDP deflator fell by 1.9% Y/Y, ie a slightly steeper drop than in the previous quarter.

### Hong Kong

- **Employment:** *Jobless rate rises.* Confounding expectations of a further fall, the April seasonally adjusted unemployment rate rose by 0.1 percentage point to 3.5% from the preceding month, rebounding from a March reading which was the lowest since September 2008 but only offsetting half the fall seen in March. The level of unemployment, meanwhile, rose by 5.9% M/M compared to 1.0% in March, a second straight gain following a run of six straight declines. However, the level of employment still rose modestly by 0.2% M/M from the 0.1% gain in the preceding month.

### Singapore

- **Trade:** *Weaker trade developments.* Showing a second straight drop and confounding expectations of a modest gain, seasonally adjusted core (non-oil domestic) exports fell by 3.6% M/M in April, building on the (marginally) revised 3.0% March slump. Moreover, on a Y/Y basis, core export growth plunged from 9.9% to -1.8%, the first outright fall since October 2009. The breakdown, showed electronics exports still falling (albeit less acutely than in March), while non-electronics export growth slowed clearly in spite of a rebound in pharmaceutical exports. Total exports, meanwhile, were up by 4.8% Y/Y, a much smaller gain than in March (14.8%). Total imports also saw the pace of growth slipping, from 17.2% Y/Y to 4.5%.

### Malaysia

- **Growth and Production:** *Economic growth slows further.* Coming in below expectations for once, national accounts data showed GDP growth slowing from 4.8% Y/Y in Q4 to a 1½ -year low of 4.6% last quarter. Nevertheless, the reading was the sixth straight gain. On the output side, the moderation in growth was fairly broad based, with a further and steeper fall in mining output, but more importantly, with weaker manufacturing sector growth, the latter slipping to a five-quarter low. Moreover, services sector output grew less clearly as well, albeit only canceling out some of the pick-up seen in Q4. The expenditure breakdown, meanwhile, provided some mixed signals with regards to domestic demand growth, as both public

and private consumption growth picked up (the former more clearly so) but with investment growth easing back to a one-year low. However, the main drag on headline growth came from net trade, where the pace of expansion in exports was overshadowed by the import counterpart.

- **Inflation:** *Rising price pressures.* Surprising on the upside, consumer price inflation rose from 3.0% Y/Y in March to 3.2% last month, the highest since March 2009. On a M/M basis, consumer prices rose by 0.2%, boosted by rising food, transport (petrol) and recreation/culture costs. The Y/Y breakdown, meanwhile, showed similar developments, with food price inflation rising 0.2 percentage points to 4.9% and with transport price pressures jumping from 4.6% to 5.3% alongside a marked gain in recreation/culture. Most other components saw mixed development but mostly of a marginal nature, save for further and clearer drop in clothing costs (-0.7% Y/Y vs -0.2%).

## Thailand

- **Trade:** *Slower export growth.* Data from the Ministry of Commerce showed export growth slowing from 30.9% Y/Y in March to 24.6% last month, a three-month low. Import growth, meanwhile, was down as well, slipping from 28.4% Y/Y to 27.9%, but only offsetting some of the gain seen in April. As a consequence, the trade deficit widened to \$ 797 mln in April from \$ 270 mln in the same month of 2010.

## The Americas

### Canada

- **Inflation:** *CPI inflation beginning to moderate?* Matching the March reading, consumer prices rose 3.3% y/y in April. The result was on the low end of expectations, as food prices did not show further upward acceleration (+3.3% y/y in April, matching the March reading), and clothing prices fell from a year ago (-1.1% y/y in Apr. vs. +0.9% in Mar.). Only transportation-related costs rose at a higher rate in April than during the month prior (+8.3% y/y vs. +6.6%). Meanwhile, the Bank of Canada core measure retreated to +1.6% y/y from +1.7% the month prior, once again pointing to subdued underlying price pressures. In monthly terms, the seasonally-adjusted headline index rose 0.3%, and the BoC core measure 0.2%. The results as a whole, especially when paired with the soft retail sales figure for March and the recent decline in broader commodity indices, do suggest that while higher energy prices have lifted the headline index well above the BOC target, that rise should still prove largely transitory, allowing the BoC to remain on hold further into 2011. Supporting that case, services price inflation edged a bit lower (2.7% vs. 2.9%), while the ex food and energy index (not the same as the BoC core) slipped to 1.7% y/y from a recent high of 2.1%.

## Africa

### South Africa

- **Inflation:** *Further, but slight, gain in consumer price inflation.* Although undershooting expectations, consumer price inflation still rose in April, albeit only marginally so. Headline CPI was up 4.2% Y/Y last month, a 0.1 percentage point increase on the March outcome but still the highest reading since June last year. On a M/M basis, consumer prices rose by 0.3%. The Y/Y breakdown revealed the latest gain was the result of increases in price pressures from restaurants & hotels and with recreation & culture no longer providing a drag. Meanwhile, food price pressures eased back slightly.

## Comparative International Economic Indicators

	Real Growth*			Consumer Prices*		
	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:Q1	1.7	2.3	2011:M4	0.4	3.1
Canada	2010:Q4	3.3	3.2	2011:M4	0.3	3.3
Eurozone	2011:Q1	3.4	2.5	2011:M4	0.6	2.8
United Kingdom	2011:Q1	2.0	1.8	2011:M4	1.0	4.5
Germany	2011:Q1	6.1	4.8	2011:M4	0.2	2.2
France	2011:Q1	5.9	3.6	2011:M4	0.3	2.1
Italy	2011:Q1	0.4	1.0	2011:M4	0.5	2.6
Switzerland	2010:Q4	3.5	3.2	2011:M4	0.1	0.3
Japan	2011:Q1	-3.7	-0.7	2011:M3	0.3	0.0
Korea	2011:Q1	5.6	4.0	2011:M4	0.0	4.2
Taiwan	2011:Q1	-26.2	6.5	2011:M4	0.8	1.3
Hong Kong	2011:Q1	-22.4	7.2	2011:M3	0.3	4.6
Singapore	2011:Q1	8.6	8.3	2011:M3	0.1	5.0
Australia	2010:Q4	3.0	2.7	2011:Q1	1.6	3.3
Mexico	2011:Q1	2.1	4.4	2011:M4	0.0	3.4

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

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

	Industrial Production*			Current Account (Billions of Dollars)			
	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period	Latest Period	Trailing 12-Month Sum	2010 Total	2009 Total
United States	2011:M4	0.0	5.0	2010:Q4	-470.2	-470.2	-378.4
Canada	2011:M2	-0.9	5.0	2010:Q4	-48.5	-48.5	-38.6
United Kingdom	2011:M3	0.2	0.7	2010:Q4	-56.2	-56.2	-37.1
Germany	2011:M3	0.7	10.9	2011:Q1	184.7	185.1	189.6
France	2011:M3	-0.9	3.5	2011:Q1	-61.0	-55.4	-51.8
Italy	2011:M3	0.4	3.2	2011:Q1	-70.3	-67.5	-43.2
Switzerland	2011:Q1	7.4	6.1	2010:Q4	76.6	76.6	57.2
Japan	2011:M3	-3.4	-13.1	2011:Q1	183.2	196.0	142.6
Korea	2011:M3	18.0	8.7	2011:Q1	30.7	28.2	32.8
Taiwan	2011:M3	25.9	13.8	2011:Q1	40.3	39.9	42.9
Hong Kong	2011:Q1	-1.5	5.8	2010:Q4	13.9	13.9	18.0
Singapore	2011:M3	37.9	22.0	2011:Q1	52.5	49.5	35.1
Australia	2011:Q1	-0.8	-0.3	2010:Q4	-31.7	-31.7	-43.3
Mexico	2011:M3	10.2	4.2	2010:Q4	-5.7	-5.7	-6.3

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

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

	Unemployment Rate*				Long-Term Government Bond Yield		
	Latest Period	Latest	Prev. Period	Year Ago Period	Latest	Prev. Month	Year Ago
United States	2011:M4	9.0	8.8	9.8	3.15	3.41	3.21
Canada	2011:M4	7.6	7.7	8.1	3.15	3.33	3.32
United Kingdom	2011:M4	4.6	4.5	4.7	3.35	3.58	3.56
Germany	2011:M3	6.3	6.4	7.4	3.06	3.31	2.69
France	2011:M3	9.5	9.5	9.8	3.57	3.50	2.93
Italy	2010:Q4	8.5	8.4	8.3	4.77	4.74	3.96
Switzerland	2011:M4	3.1	3.3	4.0	1.88	2.06	1.56
Japan	2011:M3	4.6	4.6	5.0	1.13	1.24	1.27
Korea	2011:M4	3.7	4.3	3.8	4.33	4.45	5.00
Taiwan	2011:M3	4.5	4.7	5.7	1.45	1.36	1.41
Hong Kong	2011:M4	3.5	3.4	4.4	2.44	2.63	2.58
Singapore	2011:Q1	1.8	2.0	2.1	2.34	2.48	2.54
Australia	2011:M4	4.9	4.9	5.4	5.32	5.52	5.40
Mexico	2011:M3	4.6	5.4	4.8	2.97	3.14	3.39

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

	Call Money Rate			Exchange Rate			
	Latest	Prev. Month	Year Ago	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Euro	1.25	1.25	1.00	1.4152	0.2	-2.6	13.3
United States	0.10	0.11	0.19	78.36§	0.0	0.8	-10.3
Canada	1.00	1.00	0.25	0.9735	-0.5	-2.2	9.0
United Kingdom	0.50	0.50	0.48	1.6238	0.3	-1.0	13.0
Germany	1.25	1.25	1.00	1.3822	-0.2	2.6	-11.7
France	1.25	1.25	1.00	4.6358	-0.2	2.6	-11.7
Italy	1.25	1.25	1.00	1368.41	-0.2	2.6	-11.7
Switzerland	0.09	0.05	0.00	0.8792	1.5	1.0	23.6
Japan	0.09	0.09	0.10	81.75	-1.2	1.0	8.9
Korea	3.02	3.04	2.02	1082.8	0.4	0.0	9.4
Hong Kong	0.11	0.10	0.05	7.7742	0.0	0.0	-0.4
Singapore	0.16	0.16	0.13	1.2387	0.5	0.0	12.0
Australia	0.00	4.75	4.50	1.0666	0.9	-0.4	30.5
Mexico	4.46	4.47	4.59	11.6472	0.7	-0.5	11.4

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*			Consumer Prices*		
	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:Q1	4.0	3.0	2011:M4	0.2	3.4
Netherlands	2011:Q1	3.5	2.7	2011:M4	0.5	2.1
Denmark	2010:Q4	1.0	2.5	2011:M4	0.4	2.9
Sweden	2010:Q4	5.1	7.2	2011:M4	0.4	3.0
Norway	2010:Q4	10.1	1.5	2011:M4	0.5	1.3
Finland	2010:Q4	7.0	5.0	2011:M4	0.2	3.2
Spain	2011:Q1	1.2	0.8	2011:M4	1.2	3.8
Portugal	2011:Q1	-3.5	-0.7	2011:M4	0.4	4.1
Indonesia	2011:Q1	6.2	6.5	2011:M4	---	---
Philippines	2010:Q4	83.1	7.1	2011:M4	0.8	4.5
Malaysia	2011:Q1	-11.7	4.6	2011:M4	0.2	3.2
Thailand	2010:Q4	29.6	3.8	2011:M4	1.4	4.0
India	2010:Q4	43.8	9.7	2011:M3	0.0	8.8
China	2011:Q1	---	9.7	2011:M4	---	5.3
Argentina	2010:Q4	10.5	10.1	2011:M3	0.9	9.7
Brazil	2010:Q4	3.0	5.0	2011:M4	0.7	6.4

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

\*Not seasonally adjusted.

	Industrial Production*			Current Account (Billions of Dollars)			
	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period	Latest Period	Trailing 12-Month Sum	2010 Total	2009 Total
Belgium	2011:M2	7.2	13.4	2010:Q4	5.9	5.9	1.8
Netherlands	2011:M3	1.7	2.1	2010:Q4	60.5	60.5	38.9
Denmark	2011:M3	-1.7	-1.5	2011:Q1	18.3	16.8	6.8
Sweden	2011:M3	-0.1	13.5	2010:Q4	29.1	29.1	28.3
Norway	2011:M3	-1.5	-6.4	2010:Q4	53.5	53.5	50.1
Finland	2011:M3	-1.1	0.4	2011:Q1	7.8	7.6	5.9
Spain	2011:M3	10.6	1.0	2010:Q4	-63.8	-63.8	-75.3
Portugal	2011:M3	6.9	-2.4	2011:Q1	-20.9	-22.6	-25.7
Indonesia	2011:M3	4.3	6.2	2011:Q1	6.0	6.2	31.8
Philippines	2011:M2	-1.9	11.1	2010:Q4	8.5	8.5	21.9
Malaysia	2011:M3	12.1	2.3	2010:Q4	28.0	28.0	8.8
Thailand	2011:M3	1.1	-7.2	2011:Q1	16.0	14.8	7.1
India	2011:M3	16.9	7.3	2010:Q4	-51.9	-51.9	10.2
Argentina	2011:M3	20.3	5.0	2010:Q4	3.6	3.6	11.1
Brazil	2011:M3	8.5	-2.1	2011:Q1	-50.0	-47.4	-24.3

\*Not seasonally adjusted except for Netherlands, Sweden, Norway, Finland, and Spain.

Thailand reported as 12-month moving average.

	Unemployment Rate*				Long-Term Government Bond Yield		
	Latest Period	Latest	Prev. Period	Year Ago Period	Latest	Prev. Month	Year Ago
Belgium	2011:M3	7.7	7.7	8.4	4.22	4.32	3.12
Netherlands	2011:M3	4.2	4.3	4.5	3.35	3.59	2.91
Denmark	2011:M3	4.0	4.0	4.3	4.22	4.32	3.12
Sweden	2011:M3	7.7	7.6	8.5	2.91	3.26	2.53
Norway	2011:M4	2.8	2.9	3.0	3.47	3.78	3.23
Finland	2011:M3	9.3	8.4	9.1	3.43	3.34	2.88
Spain	2011:M3	20.7	20.6	19.6	5.48	5.47	4.07
Portugal	2011:M3	11.1	11.1	10.7	9.39	9.28	4.62
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	3.99	4.08	4.00
Thailand	2011:M2	0.7	1.0	1.0	3.78	3.64	3.55
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.

	Call Money Rate			Exchange Rate			
	Latest	Prev. Month	Year Ago	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	1.25	1.25	1.00	28.5093	0.2	-2.6	11.7
Netherlands	1.25	1.25	1.00	1.5574	0.2	-2.6	11.7
Denmark	1.00	1.00	0.75	5.2690	0.2	-2.6	11.6
Sweden	1.92	1.75	0.25	6.3127	1.2	-3.0	20.6
Norway	2.25	2.00	2.00	5.5486	0.3	-3.6	15.0
Finland	1.25	1.25	1.00	4.2020	0.2	-2.6	11.7
Spain	1.25	1.25	1.00	117.59	0.2	-2.6	11.7
Portugal	1.25	1.25	1.00	141.69	0.2	-2.6	11.7
Indonesia	6.22	6.28	6.16	8536.0	0.1	1.3	7.9
Philippines	4.50	4.25	4.00	43.125	0.0	0.2	6.2
Malaysia	0.00	0.00	0.00	3.0120	-0.3	0.1	8.0
Thailand	—	—	—	30.280	0.0	-1.2	6.1
India	7.75	6.75	3.75	45.016	0.3	1.6	-3.8
China	—	—	—	6.4920	0.1	0.5	4.9
Argentina	9.68	10.05	9.55	4.0850	0.0	-0.2	-4.6
Brazil	11.16	11.16	0.00	1.6202	1.0	-3.4	14.0

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

Week ended: 5/20/2011

## Focus on Mexico: GDP Slows in First Quarter

Mexico's real GDP expanded 0.5% quarter-on-quarter during the first three months of the year, and 4.6% on an annual basis. The result was somewhat weaker than expected (Consensus: 5.0%) but in line with Decision Economics' estimate (4.6% year-on-year). Despite the sideways movement of the annual figure, the result suggests a current trend towards average growth closer to 4% than to the 4.5%-to-5% range currently expected.

There is, however, a fair likelihood that as the year progresses the accumulated forces of external and domestic demand could indeed leave the economy better off than the recent data would suggest.

In particular, investment appears to be expanding strongly, as it rebounds from the recession and it seeks to accommodate a relatively constructive demand outlook, while private consumption—which has for the last few quarters grown at roughly 5%-plus pace—appears supported by low interest rates and improving labor market conditions from a 6-to-9-month time horizon.

The strength of exports is also quite visible at present, although the risks associated with this source of demand are a source of unease for many market participants who have an eye on the lingering weaknesses of the US economy, the main destination of Mexican foreign sales.

For the time being, it is important to notice that (according to balance of payments data—the expenditure breakdown of GDP has not been released yet) export growth continued at double-digit rate in the first quarter of 2011, only slightly slower at an annual rate than in the last three months of 2010 (20.7% year-on-year versus 23% year-on-year). This deceleration resulted entirely from the oil-exports component: non-oil exports grew practically at the same rate (20.5% year-on-year versus 20.7% year-on-year in the three months to December 2010).

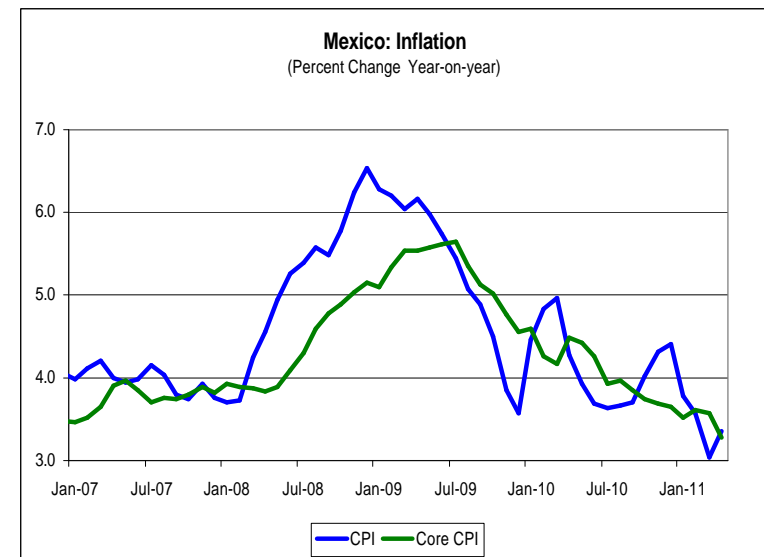
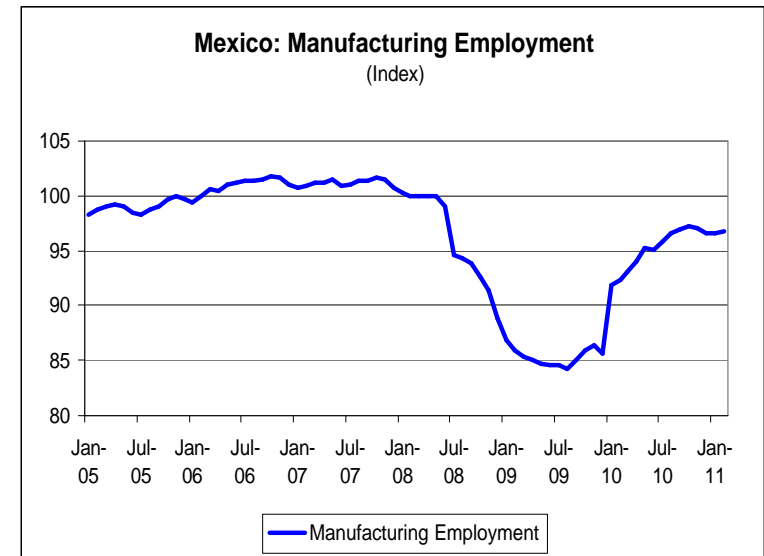
There was, to be sure, a somewhat larger reduction of the pace of growth of the key manufacturing segment of exports, from 27% year-on-year in the last quarter of 2010 to around 23% year-on-year in January-to-March. But the trade figures exhibited an irregular pattern in the last few months, apparently distorted, with the annual figure only 1.7% year-on-year in January, then jumping to 37.4% year-on-year and 42.6% year-on-year in February and March, respectively, so it is unclear where the trend-line is at this point—but it is nonetheless clear that it remains high, if not rising.

As for imports, their growth is very strong, even as the Mexican peso has been for the past year and a half, unable to rise versus the US dollar in a manner comparable to other EM currencies (such as Brazil). This is consistent with a continuing recovery of domestic demand, particularly on the part of the consumer. Consumption-good imports, for example, rose 23% year-on-year in the first three months of 2011; their rate of expansion was 27.5% last year, but that figure resulted from a comparison against a depressed level.

The sector GDP breakdown released along with the headline number does indeed show consumer-related activities experiencing little hesitation, pointing to a steady pattern of household spending. Commerce, for example, expanded 9.5% year-on-year during the first quarter, practically unchanged from the previous three-month period, but the annual rate actually understates the strength of the sector, as the comparison in the January-to-March period is versus a much higher base than in the last quarter of 2010. It should also be noted that Construction follows the same pattern, suggesting an underlying source of future strength for the economy, at least over the next few quarters, as the underpinnings of such sector (low interest rates and improving household finances) remain intact.

The bottom line, however, is that the first quarter preliminary GDP report is a number of notches below the exuberance threshold: Mexican GDP has finally recovered back to pre-recession levels, and the economy enters the expansion phase on a solid footing, with some potential elements of an upside surprise in place (particularly as regards consumer spending) but with little of the dynamism that has been present in other emerging markets over the last year or so, and which has helped generate policy-altering inflationary pressures. In fact, given where inflation actually is in Mexico at the moment, the implication of the figures just released probably extends the horizon for Banco de Mexico's dovish stance. A rate increase this year, for starters, appears to be a low-probability event.

—Francisco J. Larios, DE Miami



May 20, 2011

**DECISION ECONOMICS**

	Latest	Week Ago	% Chg. YTD *	May 20, 2011 12/31/10
Yen/\$	81.74	80.80	0.8	81.12
\$/Euro	1.4152	1.4119	-5.7	1.3384
Yen/Euro	115.68	114.08	6.5	108.57
\$/STG	1.6238	1.6197	-4.0	1.5612
Sfr/\$	0.8791	0.8925	-6.0	0.9352
Can\$/US\$	0.9733	0.9686	-2.5	0.9980
Mexican Peso/\$	11.647	11.728	-5.6	12.340
Brazil Real/\$	1.6204	1.6362	-2.5	1.6613
Thai Baht/\$	30.280	30.280	0.7	30.060
Malaysian Ringgit/\$	3.0120	3.0025	-1.7	3.0635
Indonesian Rupiah/\$	8536.3	8546.0	-5.1	8996.0
Korean Won/\$	1082.8	1086.8	-3.8	1126.0
Philippines Peso/\$	43.125	43.130	-1.5	43.800
India Rupee/\$	45.016	44.865	0.7	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.	0.26	0.26	-0.05	0.30
Canada	1.20	1.20	-0.03	1.23
Euro	1.39	1.37	0.45	0.94
U.K.	0.82	0.82	0.07	0.76
Japan	0.20	0.20	0.01	0.19

**LONG-TERM (10-Year Benchmark)\*\***

U.S.	3.15	3.17	-0.15	3.30
US 10 Year Swap Rate	3.24	3.25	-0.14	3.38
Canada	3.15	3.20	0.03	3.12
Italy	4.77	4.61	-0.04	4.82
Germany	3.06	3.08	0.09	2.96
U.K.	3.35	3.37	-0.05	3.40
Switzerland	1.88	1.89	0.16	1.72
Japan (JGB)	1.13	1.13	0.00	1.13
Australia	5.32	5.37	-0.23	5.55
Brazil	4.28	4.35	-0.34	4.61
India	8.35	8.23	0.43	7.92

**Spreads to US 10-Year**

10 Year Swap Spread	0.09	0.08	0.01	0.08
10 Year - 2 Year	2.63	2.64	-0.07	2.70
Moody AAA	1.72	1.77	0.08	1.64
UK Gilt	0.20	0.19	0.10	0.10
German Bund	-0.09	-0.09	0.24	-0.33
Italian 10-year	1.63	1.44	0.11	1.52

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

**STOCK MARKETS**

U.S. (DJIA)	12512	12596	8.1	11578
S&P 500	1333	1338	6.0	1258
NASDAQ Composite	2803	2828	5.7	2653
Russell 2000	829	836	5.8	784
Canada (TSE-300)	13652	13377	1.6	13443
Mexico (Bolsa)	35306	35045	-8.4	38551
Argentina (Merval)	3383	3378	-4.0	3524
Brazil (Bovespa)	62639	63235	-9.6	69305
Germany (DAX, XETRA)	7267	7403	5.1	6914
U.K. (FT-SE 100)	5948	5926	0.8	5900
France (CAC-40)	3991	4019	4.9	3805
Switzerland (SMI)	6531	6563	1.5	6436
Japan (Nikkei-225)	9607	9649	-6.1	10229
Hong Kong (Hang Seng)	23199	23276	0.7	23035
Australia (All Ordinaries)	4808	4787	-0.8	4847
South Korea (KOSPI)	2112	2120	2.9	2051
Thailand	1073	1100	3.9	1033
India (BSE)	18326	18531	-10.6	20509
China (Dow Jones Shanghai Index)	362	363	1.6	356
Singapore (Straights Times Index)	3169	3130	-0.7	3190

**COMMODITIES**

Gold (USD/Troy Ounce)	1513.68	1495.02	6.5	1420.78
Crude Oil (WTI, Spot)	99.49	99.65	8.9	91.38
CRB Futures	341.56	338.53	2.6	332.80
CRB Raw Industrials (Spot)	560.23	553.68	7.7	520.33