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Global Economic Developments

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Brazil: A Soft Landing?

The national accounts data just released has a very pronounced soft-landing look, suggesting not only that real GDP growth (seasonally-adjusted 1.3% quarter-on-quarter; 4.2% year-on-year in January-to-March 211) could proceed over the foreseeable future in the 4%-to-4.5% range but that the central bank should be very close to a pause, possibly as early as next week.

During the most recent meeting of the monetary council (Copom), the bank hiked rates by only 25 basis points, in contrast with the 50-basis points per meeting in the earlier months of 2011.

The overnight-Selic, Brazil's key policy rate, has moved up by 325 basis points in the last year, to 12% now, which leaves inflation-adjusted rates at extremely high levels even with inflation climbing from 4.5%, the center of the target range, to around 6.5%, its ceiling.

From an objective, data and historical perspective, and considering the usual lags in monetary policy, as well as the central bank's continuing fight to prevent further real appreciation, it would seem sensible for the Banco Central do Brasil (BCB) to enter a pause at this point. Whether they will or choose to wait until later will probably depend to a significant extent on their evaluation of the expectations-impact of such a decision.

Should this be the case, since annual inflation may have (marginally) surpassed the 6.5% mark in May, the likelihood is that the majority vote, which had to overcome a significant hawkish minority in April, will hesitate to move further in the dovish direction, hiking rates instead at the 25 basis-points pace initiated back then and waiting until the July or August meeting for more inflation-friendly data. However, that might not happen in the near-term: on an annual basis prices may continue to rise close to or above the upper-ceiling of the central banks for a few months before a descent towards the target begins.

This would not be a shocking development for the BCB, whose leaders have publicly warned that any effort to bring down inflation to the 4.5% neighborhood in 2011 would be unreasonably costly for the economy. Nonetheless, after a very aggressive tightening campaign, and facing significant opposition within their own ranks, the majority will have to be convinced that the costs of tightening further *now* could exceed the benefits, and indeed not be necessary from the standpoint of inflation-control. It's unclear that they will make that shift by June 8th, but they will in any event have to make it relatively soon to avoid rising overkill risks.

To be sure, the data suggest that policymakers are not against the wall in either direction, neither forced to tighten—domestic demand is growing at a moderate pace, which the BCB has just called *sustainable*—nor to pause and/or ease, as domestic demand seems still well supported by labor market fundamentals looking forward. Investment, in particular, accelerated from a seasonally-adjusted bottom of 0.4% quarter-on-quarter at the end of 2010 to 1.2% quarter-on-quarter in the January-to-March period. Private consumption is a greater concern, having slowed from 2.4% quarter-on-quarter to 0.6% quarter-on-quarter—although on an annual basis it should be noted that the gain is close to 6% year-on-year. It is also important to notice the record-low level of unemployment that prevails, providing a cyclical floor for consumption that seems to be under no significant risk at present. Meanwhile, real exports of goods and services declined 3.2% quarter-on-quarter, the first such drop since the recession ended, while imports also fell but by a much smaller 1.6% quarter-on-quarter.

All of these figures suggest that BCB demand-management is not needed to keep growth below inflationary rates, and that the risk of overkill is emerging as a more significant danger as the bank ponders their next move. On the basis of this logic, from a fundamental perspective it would be difficult to justify more than one interest rate increase, probably of 25 basis points.

— Francisco J. Larios, DE Miami

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Europe

Eurozone

- **Inflation:** *Inflation eases back.* Contrary to expectations of a stable reading, the flash HICP estimate for May saw inflation inch back 0.1 percentage point to 2.7% Y/Y, down from the 30-month high posted in April.

- **Employment:** *Unemployment unchanged.* Matching expectations, the unemployment rate was 9.9% in April, also matching the unrevised March and February outcomes but was 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 115 000, a drop that was larger than in March.

Germany

- **Growth and Production:** *Strength in labor market still evident?* Showing a smaller-than-expected decline, unemployment decreased by 8 000 in April, a much less marked fall than the revised 33 000 drop seen in the previous month. Even so, the adjusted unemployment rate fell 0.1 percentage point to a fresh cycle-low of 7.0%. On a further upbeat note, (April) employment continued to rise clearly, albeit no faster than in previous months. As reassuringly, there was also a further rise in vacancies, but one that was less marked than in the previous month.

Italy

- **Inflation:** *Inflation rises further.* In line with expectations, preliminary data showed that consumer price inflation was unchanged at 2.6% Y/Y in May, the joint-highest in 29 months. The breakdown showed upward pressure from food, being offset by weaker transportation and utilities costs pressures. Overall, prices rose 0.1% in M/M terms. The EU-harmonized measure, meanwhile, saw inflation rise 0.1 percentage point to 3.0% Y/Y.

Switzerland

- **Growth and Production:** *Less strong growth.* GDP rose by 0.3% Q/Q in Q1, a gain that was more muted than in Q4 (0.8%). Indeed, the Q1 outcome was the weakest since Q2 2009, when GDP fell outright. Moreover, the data was much worse than expected and on a Y/Y basis GDP growth slowed from a 2½-year high of 3.1% to a one-year low of 2.4%. The expenditure breakdown showed a modest (0.1%) Q/Q gain in final consumption, as household consumption grew less clearly and government spending fell outright. Meanwhile, capex was down as well (0.3%) but with net exports providing some relief as exports picked up and import growth slowed.

Spain

- **Inflation:** *Inflation abates.* Coming in lower than expected, flash data showed EU harmonized CPI inflation easing back 0.1 percentage point to 3.4% Y/Y from the highest since October 2008.

Central Europe

Russia

- **Monetary and Fiscal Policy:** *Policy on hold.* The central bank left its benchmark interest rate unchanged at 8.00% following its May meeting, having hiked rates by 25 bp in April, the latter having been the second move so far this year.

Poland

- **Employment:** *Growth remains strong.* Matching expectations, Q1 GDP growth fell to 4.4% Y/Y from an upwardly revised reading of 4.5% in the previous quarter, still the second highest in over two years. On a seasonally adjusted Q/Q basis, growth picked up to 1.0% from 0.8%. The expenditure-side breakdown showed the latest Y/Y moderation to be the result of a deterioration in both private (3.9% from 4.0%) and government (1.5% from 7.6%) consumption, being tempered by an increase in capex (12.9% from 9.9%). The trade-side breakdown, however, showed a general deterioration, with both export (5.9% from 7.0%) and import (6.2% from 11.6%) growth moderating. On the output side, meanwhile, growth eased back across almost all sub-sectors and with the only exception being a slight rise in transport & communication (1.6% from 1.2%).

Turkey

- **Inflation:** *Inflation surges.* Surprising to the upside clearly, consumer price inflation jumped 2.91 percentage points to 7.17% Y/Y in April from the preceding month, a second consecutive increase and now reaching a six-month high. In M/M terms, prices also rose clearly by 1.55 percentage points to 2.42% M/M, boosted by food (4.71%) and clothing (11.68%). Meanwhile, the Y/Y breakdown revealed the latest surge in inflation to be a reflection of rising price pressures across nearly all components, led by a jump in food (12.61% Y/Y from 2.83% in April), clothing (6.23% from 5.74%), transport (8.69% from 7.98) and utilities (5.02% from 4.86%) inflation. Even so, core inflation (which excludes energy, food and non-alcoholic beverages) rose by a much more muted 0.30 percentage point to 4.72% Y/Y in April.

- **Trade:** *Trade deficit widens.* Surprising to the upside this time around, the April trade deficit widened clearly to $ 9.05 bln from $ 5.54 bln in the same month of 2010. This was a reflection of growing domestic demand boosting import growth to 40.2% Y/Y, outpacing export growth, which rose by 26.5%.

Asia and Pacific

Japan

- **Growth and Production:** *Industrial production rebounds.* Although surprising on the downside, preliminary data for April still showed industrial production rising a full 1.0% M/M, albeit with that gain coming on the back of an earth-quake affected record fall of 15.5% in March. Nevertheless, METI revised up its estimate for May output from 2.7% to 8.0%, also stating that another clear (7.7%) gain was to be expected in June. Elsewhere, however, the data showed a continued, but less acute fall in shipments in April (-2.7% M/M vs -14.6%), but with inventories rising 0.5%

- **Employment:** *Soft jobs data.* In line with expectations, the unemployment rate rose 0.1 percentage point from March's 25-month low to 4.7% in April. However, once more the data did not include results from the three main areas hit by the earthquake. On a further downbeat note, Y/Y employment continued to fall, slipping 4.4% in April, only marginally less severely than in the prior month (-4.5%). However, the participation rate rose clearly, up 0.7 percentage points to 59.7% but with the job-to-applicant ratio falling back from a 26-month high of 0.63 to a three-month low of 0.61.

Australia

- **Growth and Production:** *Economy contracts.* Roughly in line with market expectations, national accounts data showed the economy contracting by 1.2% Q/Q in Q1, more than canceling out the 0.8% gain in the last quarter of 2010. On a Y/Y basis, however, GDP growth remained positive, but slipped from 2.7% to a 1½-year low of 1.0%. However, the expenditure breakdown painted a still fairly up-beat picture with regards to domestic demand on a Q/Q basis. Admittedly, private consumption expenditure growth eased back to a one-year low, but with the slip being marginal, and with government spending actually picking up. Moreover, capex growth hit a five-quarter high of 2.4%. Instead the damage to the economy came mainly from a plunge in net trade, as exports fell by 8.7% while imports continued to expand. Indeed, net trade knocked some 2.4 percentage point off the headline GDP reading and with inventories also a drag on growth.

- **Trade:** *Current account widens.* Balance of payments data for Q1 showed the current account in deficit to the tune of A$ 10.5 bln, a deterioration on the preceding quarter, which saw a deficit of A$ 8.1 bln. The widening of the trade gap was due to a narrower & services surplus, but with the income deficit actually narrowing. *Trade surplus narrows.* Undershooting expectations this time around, the April trade surplus narrowed to A$ 1 597 mln from a slightly downwardly revised surplus of A$ 1 691 mln in March. This was the result of a sharp moderation in export growth (0.5% M/M from 10.1% in March), while import growth eased back only moderately to 1.0% from 1.4%, boosted by capital goods imports (12.2% from -7.9%).

Malaysia

- **Trade:** *Export growth strengthens.* Although undershooting expectations, export growth nevertheless rose from a five-month low of 4.1% Y/Y in March to 11.1% in April, the highest since July last year. The Y/Y breakdown showed the improvement to be relatively broad based, with the notable exception of electronic exports, which actually fell at a more marked pace in April. In geographical terms, export growth showed mixed messages with increases in India, Japan and Singapore, but with weaker growth in exports to China and with Australian and Hong Kong exports falling outright. Meanwhile, import growth slowed from 12.1% Y/Y to a five-month low of 9.4%, resulting in the trade balance widening by 1.8 bln ringgit to 11.0 bln ringgit in comparison to the same month of 2010.

Philippines

- **Growth and Production:** *Weaker growth.* Coming in slightly below expectation, GDP growth eased back from 6.1% in Q4 2010 to 4.9% last quarter, albeit with the latter reading still very much able the long-term trend. On a seasonally adjusted Q/Q basis, meanwhile, the economy expanded by 1.6%, a clearer gain than in the preceding quarter (0.5%). The output-side breakdown showed the Q/Q gain to have been driven further and clearer gains in the industrial sector, (3.2% vs 2.15) but with growth in the services sector improving as well. In contrast, although still expanding, agricultural output (at 0.9% Q/Q, was more modest than in Q4 (1.85). Meanwhile on the expenditure side, notably private consumption expenditure growth held firm at 4.9% Y/Y, with the headline drop instead caused by a further and more marked decline in government spending and weaker capex growth, the latter slowing from 21.6% Y/Y to 12.0%, while net trade provided a drag on growth was export growth was (narrowly) outpaced by the import counterpart.

New Zealand

- **Trade:** *Trade balance in surplus.* Coming in ahead of expectations, trade data for April showed the trade balance in surplus to the tune of NZ$ 1 113 mln, up on the outcome of the same month last year (NZ$ 660 mln). As a result, the 12-month

cumulative trade surplus widened to NZ$ 1 187 mln. Exports rose for a fourteenth straight month in April, with the rate of growth rising from 13.2% to 17.4%, while the import counterpart more than halved to 7.2%.

South Korea

- **Growth and Production:** *Weaker output.* Confounding expectations of a modest gain, industrial production fell by a seasonally adjusted 1.5% M/M in April canceling out most of the preceding month's 1.7% jump, as manufacturing fell by 1.5% alongside falls in mining and utilities output. On a Y/Y basis, output growth slipped 2.1 percentage points to 6.9%. The data also showed shipments falling by 1.7% M/M, following a 2.7% March gain and with Y/Y growth down from 10.6% to 7.3%, a seven-month low.

- **Inflation:** *Price pressures still elevated.* Although coming in a smidgen below expectations and slipping 0.1 percentage point, consumer price inflation remained above the BoK tolerance-ceiling (of 4.05) for a fifth straight month, coming in at 4.1% last month. Admittedly, the May reading was a four-month low and on a M/M basis consumer prices were flat, as falling food and transport (petrol) costs offset higher clothing, alcohol & tobacco and miscellaneous goods/services costs. The Y/Y breakdown, meanwhile, saw similar developments, with food price inflation falling to a nine month low of 6.2% and with transport price pressures easing as well. Utilities price inflation, meanwhile rose by 0.6 percentage point to 4.9%, the highest since the middle of 2008 alongside gains in clothing and alcohol & tobacco price pressures. As a consequence, core inflation actually rose by 0.3 percentage point to 3.5% Y/Y last month, the highest in XYZ months.

- **Trade:** *Still strong trade data.* Surprising on the downside for once, export growth fell back from a downwardly revised 25.1% Y/Y in April to 23.5% last month. The component breakdown showed some fairly broad-based easing back in export growth. Imports, in contrast, saw growth picking up from 23.9% Y/Y to 29.9%,, a four month high, resulting in the trade surplus narrowing to $ 2 746 mln last month from a surplus of $ 4 043 in the same month of 2010.

India

- **Growth and Production:** *Weaker growth.* Undershooting expectations this time around, GDP growth slipped by 0.5 percentage point to 7.8% Y/Y in Q1, following a 0.6 percentage point drop in the preceding quarter and now showing the slowest pace of growth since Q4 2009. The output-side breakdown revealed the latest moderation to be a result of a fairly broad-based easing back in the secondary sector, led by manufacturing (5.5% Y/Y from 6.0% in Q4) and construction (8.2% from 9.7%), but with utilities (7.8% from 6.4%) seeing an increase. The services sector, meanwhile, bounced back slightly, with two of the three sub-sectors showing faster growth and with the only exception being the financial/real-estate sector (9.0% from 10.8%). On a slightly more downbeat note, however, agricultural sector growth slipped from the six-year high of 9.9% Y/Y in Q4, but remained robust at 7.5%.
- **Trade:** *Further easing back in export growth.* Trade data for April showed exports growing by 34.4% Y/Y, down from 43.8% in the preceding month and further away from February's 11-month high. Imports, meanwhile, rose by 14.1% Y/Y, also a slower pace than in March (17.3%) as both oil and non-oil import growth slipped. As a result, the trade balance was in deficit to the tune of $ 9.0 bln in April, still an improvement on the April 2010 shortfall of $ 11.0 bln.

Indonesia

- **Inflation:** *Headline consumer price inflation inches down.* Roughly in line with expectations, consumer price inflation slipped from 6.16% Y/Y to 5.98% last month, the weakest since October last year and a fourth successive decline. The Y/Y slip came in spite of a 0.12% M/M gain in consumer prices, as broad-based gains were partially offset by falling food costs. The Y/Y breakdown also revealed the headline slump to have been mainly due to weaker food price inflation, with the latter falling back from 11.08% Y/Y to a seven-month low of 10.22%, alongside easing clothing cost pressures. However, most other components actually saw price pressures increasing, with the result that core inflation rose further, up from 4.62% Y/Y to 4.64%.

- **Trade:** *Stronger export growth.* Data for April showed exports rising by 37.3%, a nineteenth-straight gain and one that was clearly more marked than in March (28.1%). Indeed, the April reading surprised clearly on the upside. Imports, meanwhile, rose by 32.5% Y/Y in April, having risen by 32.0% in the prior month. As a result, the trade balance was in surplus to the tune of to $ 1 630 mln in April, a clear improvement on the $ 799 mln surplus in the same month of 2010.

Thailand

- **Monetary and Fiscal Policy:** *Policy tightened yet again.* As expected, the Bank of Thailand (BoT) raised its benchmark interest rate by another 25 bp to 3.00% following its latest policy meeting, the sixth hike in the last seven meetings. The accompanying policy statement noted that the global economy had moderated in Q1 but maintained its overall growth momentum and the BoT noted that risks to the global inflation outlook were expected to remain going forward. BoT again raised some concerns about the impact from the Japanese earthquake, noting that the slump h in the Japanese economy had been more sever than expected, but also said that the recovery was expected to be faster than the BoT had previously envisioned. Regardless, the central bank remained upbeat about the domestic economy, describing it as expanding well and

that the fundamentals remained strong and would support growth in 2011 in spite of some manufacturing weakness associated with supply shortages caused by the Japanese earthquake. However, the statement seemed more concerned by the inflation back-drop and outlook than that published following the BoT's last meeting in April. Indeed, highlighted that CPI inflation had increased more than expected and that inflation expectation continued to edge up. Crucially it also said that there was a risk that inflation would continue to accelerate resulting in core inflation breaching the target-ceiling (of 3.5%).

- **Inflation:** *Consumer price inflation rise further.* Although undershooting expectations, consumer price inflation was still up from 4.0% Y/Y in April to 4.20% last month, the highest since September 2008. ON a M/M basis consumer price rose, 0.3% M/M, with this gain mainly reflecting rising food costs (3.1%). The Y/Y breakdown, however, saw food price inflation falling back, but with non-food price pressures increasing on a fairly broad basis, but led by transport (petrol) price inflation, which hit a one-year high. Of some further note, core inflation was up 0.4 percentage point to 2.5% Y/Y, also the highest September 2008.

- **Trade:** *Weaker trade data.* Exports rose by 24.7% Y/Y in April, a gain that was the eighteenth in as many months but one that was weaker than in March (31.0%). Import growth, was down as well, slipping 0.9 percentage point to 26.3%. As a result, the trade balance was in deficit to the tune of $ 477 mln in April, deterioration from the $ 201 mln shortfall seen in the same month of 2010.

The Americas

Canada

- **Monetary and Fiscal Policy:** *Rate held, BoC recognizes need to "eventually" hike rates.* As expected, the Bank of Canada left the overnight rate on hold at 1%. The major change to the statement was the line that "To the extent that the expansion continues and the current material excess supply in the economy is gradually absorbed, some of the considerable monetary policy stimulus currently in place will be eventually withdrawn, consistent with achieving the 2 per cent inflation target. Such reduction would need to be carefully considered." In short, assuming the output gap appears on track to close by the middle of 2012, in line with the Bank's April forecast, a rate hike is in the cards later this year, but still not in the next few months. Still, leaving in the "carefully considered" and indeed, by keeping much of that section intact, the statement leaves room to remain on hold through the summer, making September or October the likely earliest date for an increase, especially given some near-term hurdles of softer consumer spending and supply-chain disruptions out of Japan. Elsewhere, the statement expressed a slightly less benign view of core inflation, noting that underlying inflation is "relatively subdued," as opposed to "is subdued" as of April.

- **Growth and Production:** *GDP growth picks up, but composition less than solid.* GDP rose 3.9% at an annualized rate in Q1, accelerating on a 3.1% pace in Q4 2010. The details showed effectively flat results from consumer spending and government expenditure, and a drag from net exports, while the major upward drivers were business investment and inventories. Of the 3.9% headline gain, 2.1 percentage points were due to business investment, and 2.6 from inventories, while net exports subtracted 0.8 points. Other categories had little impact. *Monthly GDP rebounds.* Monthly real GDP rose 0.3% after a 0.1% decline in February, reflecting strength in the goods sector and a slightly negative print for the service sector of less than 0.1%. Retail trade (-1.0%) and finance and RE activities (-0.1%) softened, the latter experiencing its first drop since July 2010. All goods sectors saw positive moves in March, led by manufacturing (+1.8%) and construction (+0.7%).

Brazil

- **Growth and Production:** *Q1 GDP indicates soft landing.* Real GDP printed at 1.3% in the first quarter, from 0.8% in the previous quarter. In non-seasonally adjusted terms, the pace of growth decelerated to 4.2% year-on-year, compared to 5.0% in Q4. While the recovery has moderated, it remains robust, driven by investment and consumption (although the latter has eased somewhat). Further underpinning the strength are higher commodity prices. The latest data suggest that activity may be responding to more restrictive macroeconomic conditions – Brazil's central bank has been tightening policy since early 2010 to cool the economy and rein in inflation – and may prompt a pause in rate hikes.

Africa

South Africa

- **Growth and Production:** *Stronger growth?* National accounts data for Q1 showed GDP growing by 4.8% on an annualized Q/Q basis, up 0.3 percentage point on the revised Q4 outcome. However on a Y/Y basis, growth eased back 0.2 percentage point to 3.6%. The output breakdown showed the Q/Q reading to have been boosted by a surge in manufacturing output (14.5% vs 4.1%) alongside stronger retail trade (4.4% vs 3.5%) and finance/real estate (4.8% vs 1.7%) sector growth. Meanwhile, the agricultural sector provided a drag on growth.

- **Trade:** *Trade deficit narrows.* Surprising to the downside, the April (unadjusted) trade deficit narrowed to 2446 mln rand from 2649 mln rand in the same month of 2010. This was the result of exports rising 19.0% Y/Y, outpacing the increase in imports of 17.5%.

Comparative International Economic Indicators

Real Growth*

	Latest Period		Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:Q1		1.8	2.3
Canada	2011:Q1	•	3.9	2.9
Eurozone	2011:Q1		3.4	2.5
United Kingdom	2011:Q1		1.9	1.8
Germany	2011:Q1		6.1	4.8
France	2011:Q1		3.9	2.2
Italy	2011:Q1		0.4	1.0
Switzerland	2011:Q1	•	1.0	2.5
Japan	2011:Q1		-3.7	-0.7
Korea	2011:Q1		5.6	4.0
Taiwan	2011:Q1		-26.2	6.5
Hong Kong	2011:Q1		-22.4	7.2
Singapore	2011:Q1		8.6	8.3
Australia	2011:Q1	•	-4.7	1.0
Mexico	2011:Q1		2.1	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:M4		0.4	3.1
	2011:M4		0.3	3.3
	2011:M4		0.6	2.8
	2011:M4		1.0	4.5
	2011:M5	•	0.2	2.4
	2011:M4		0.3	2.1
	2011:M5	•	0.1	2.6
	2011:M4		0.1	0.3
	2011:M4	•	0.3	0.3
	2011:M5	•	0.0	4.1
	2011:M4		0.8	1.3
	2011:M4		0.7	4.6
	2011:M4		0.3	4.5
	2011:Q1		1.6	3.3
	2011:M4		0.0	3.4

**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:M4		0.0	5.0
Canada	2011:M3	•	1.1	5.2
United Kingdom	2011:M3		0.2	0.7
Germany	2011:M3		0.7	10.9
France	2011:M3		-0.9	3.5
Italy	2011:M3		0.4	3.2
Switzerland	2010:Q4		7.4	6.1
Japan	2011:M4	•	-11.5	-14.0
Korea	2011:M4	•	-2.7	6.9
Taiwan	2011:M4		-5.6	6.9
Hong Kong	2010:Q4	•	-1.5	5.8
Singapore	2011:M4		-15.0	-9.6
Australia	2011:Q1		-3.8	-5.4
Mexico	2011:M3		10.2	4.2

**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
	2011:Q1	•	-50.0	-49.3	-40.3
	2010:Q4		-56.2	-56.2	-37.1
	2011:Q1		184.5	185.1	189.6
	2011:Q1		-61.0	-55.4	-51.8
	2011:Q1		-75.6	-71.2	-41.3
	2010:Q4		76.6	76.6	57.2
	2011:Q1		183.2	196.0	142.6
	2011:Q1		30.6	28.2	32.8
	2011:Q1		40.3	39.9	42.9
	2010:Q4		13.9	13.9	18.0
	2011:Q1		52.5	49.5	35.1
	2011:Q1	•	-27.6	-31.9	-43.3
	2011:Q1		-7.4	-5.6	-6.4

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

Unemployment Rate*

	Latest Period		Latest	Prev. Period	Year Ago Period
United States	2011:M5	•	9.1	9.0	9.6
Canada	2011:M4		7.6	7.7	8.1
United Kingdom	2011:M4		4.6	4.5	4.7
Germany	2011:M4	•	6.1	6.2	7.3
France	2011:M4	•	9.4	9.5	9.8
Italy	2010:Q4		8.5	8.4	8.3
Switzerland	2011:M4		3.1	3.3	4.0
Japan	2011:M4	•	4.7	4.6	5.1
Korea	2011:M4		3.7	4.3	3.8
Taiwan	2011:M4		4.3	4.5	5.4
Hong Kong	2011:M4		3.5	3.4	4.4
Singapore	2011:Q1		1.8	2.0	2.1
Australia	2011:M4		4.9	4.9	5.4
Mexico	2011:M4		5.1	4.6	5.4

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
	2.99	3.22	3.37
	2.99	3.12	3.39
	3.29	3.38	3.58
	3.06	3.30	2.68
	3.72	3.66	3.03
	4.63	4.70	4.29
	1.78	2.02	1.53
	1.14	1.21	1.29
	4.21	4.47	4.90
	1.42	1.40	1.42
	2.29	2.55	2.47
	2.32	2.43	2.79
	5.23	5.40	5.43
	2.93	3.01	3.10

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.25	1.25	1.00
United States	0.11	0.10	0.18
Canada	1.00	1.00	0.50
United Kingdom	0.50	0.50	0.48
Germany	1.25	1.25	1.00
France	1.25	1.25	1.00
Italy	1.25	1.25	1.00
Switzerland	0.09	0.09	0.06
Japan	0.09	0.09	0.10
Korea	3.00	3.01	1.99
Hong Kong	0.09	0.09	0.05
Singapore	0.16	0.16	0.13
Australia	0.00	4.75	4.50
Mexico	4.47	4.47	4.56

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
	1.4633	2.2	-1.3	20.3
	77.56§	-0.6	0.7	-11.0
	0.9771	-0.1	-1.8	6.1
	1.6431	-0.5	-0.3	12.4
	1.3365	-2.1	1.3	-16.9
	4.4824	-2.1	1.3	-16.9
	1323.13	-2.1	1.3	-16.9
	0.8345	1.8	3.2	27.8
	80.22	0.7	0.5	13.5
	1080.1	0.2	-0.5	9.8
	7.7782	0.0	0.1	-0.2
	1.2281	0.7	0.3	12.7
	1.0721	0.1	-0.3	26.9
	11.6588	-0.5	-0.1	8.8

§ Morgan Guaranty Trade-Weighted Index.

Comparative International Economic Indicators (Cont.)

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:Q1	4.0	3.0
Netherlands	2011:Q1	3.5	2.7
Denmark	2011:Q1 •	-4.5	1.0
Sweden	2011:Q1 •	3.3	6.5
Norway	2011:Q1	-1.8	0.1
Finland	2011:Q1 •	3.4	5.8
Spain	2011:Q1	1.2	0.8
Portugal	2011:Q1	-3.5	-0.7
Indonesia	2011:Q1	6.2	6.5
Philippines	2011:Q1 •	-31.2	6.1
Malaysia	2011:Q1	-11.7	4.6
Thailand	2011:Q1	9.1	3.0
India	2011:Q1 •	32.2	7.7
China	2011:Q1	---	9.7
Argentina	2010:Q4	10.5	10.1
Brazil	2011:Q1 •	5.4	4.2

**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
2011:M5 •		0.3	3.3
2011:M4		0.5	2.1
2011:M4		0.4	2.9
2011:M4		0.4	3.0
2011:M4		0.5	1.3
2011:M4		0.2	3.2
2011:M5 •		0.0	3.5
2011:M4		0.4	4.1
2011:M5 •		---	---
2011:M4		0.8	4.5
2011:M4		0.2	3.2
2011:M5 •		0.3	4.2
2011:M4 •		0.5	9.4
2011:M4		---	5.3
2011:M4 •		0.8	9.7
2011:M5 •		0.3	6.5

**Not seasonally adjusted.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M3	14.6	7.0
Netherlands	2011:M3	1.7	2.1
Denmark	2011:M3	-1.7	-1.5
Sweden	2011:M3	-0.1	13.5
Norway	2011:M3	-1.5	-6.4
Finland	2011:M3	-1.1	0.4
Spain	2011:M3	10.6	1.0
Portugal	2011:M4 •	-8.1	-1.6
Indonesia	2011:M3	4.3	6.2
Philippines	2011:M3	5.5	11.1
Malaysia	2011:M3	12.1	2.3
Thailand	2011:M4 •	-3.1	-7.3
India	2011:M3	16.9	7.3
Argentina	2011:M4 •	-1.2	5.4
Brazil	2011:M4 •	-6.4	-1.3

**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
2010:Q4		5.9	5.9	1.8
2010:Q4		60.5	60.5	38.9
2011:Q1		18.3	16.8	6.8
2011:Q1 •		32.2	28.8	28.3
2011:Q1 •		49.6	51.4	44.5
2011:Q1		7.8	7.6	5.9
2011:Q1 •		-65.9	-63.8	-75.3
2011:Q1		-20.9	-22.6	-25.7
2011:Q1		6.0	6.2	31.8
2010:Q4		8.5	8.5	21.9
2011:Q1 •		28.5	27.3	8.8
2011:Q1		16.0	14.8	7.1
2010:Q4		-51.9	-51.9	10.2
2010:Q4		3.6	3.6	11.1
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	#VALUE!
Netherlands	2011:M4	4.2	4.2	4.5
Denmark	2011:M4 •	3.8	3.9	4.2
Sweden	2011:M4	7.4	7.7	9.1
Norway	2011:M4	2.8	2.9	3.0
Finland	2011:M4	8.2	9.3	9.3
Spain	2011:M4 •	20.7	20.7	19.8
Portugal	2011:M4 •	12.6	12.6	10.9
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:M3 •	0.7	0.7	1.0
China	2009	4.3	4.2	4.2
Argentina	2011:Q1	7.4	7.3	8.3
Brazil	2011:M4	6.4	6.5	7.3

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
	4.05	4.28	3.43
	3.31	3.57	2.94
	4.05	4.28	3.43
	2.91	3.19	2.67
	3.35	3.71	3.56
	3.58	3.50	2.92
	5.23	5.26	4.52
	9.81	9.52	5.03
	—	—	—
	—	—	—
	3.97	4.03	3.98
	3.74	3.70	3.32
	—	—	—
	—	—	—
	—	—	—

Call Money Rate

	Latest	Prev. Month	Year Ago
Belgium	1.25	1.25	1.00
Netherlands	1.25	1.25	1.00
Denmark	1.00	1.00	0.75
Sweden	1.95	2.03	0.25
Norway	2.25	2.00	2.00
Finland	1.25	1.25	1.00
Spain	1.25	1.25	1.00
Portugal	1.25	1.25	1.00
Indonesia	6.20	6.32	6.24
Philippines	4.50	4.25	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	6.05	6.75	4.90
China	—	—	—
Argentina	9.78	10.55	9.65
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
	27.5659	2.1	-1.3	16.9
	1.5059	2.1	-1.3	16.9
	5.0948	2.2	-1.3	16.7
	6.1325	1.4	-0.6	21.9
	5.3342	1.7	-0.2	17.5
	4.0630	2.1	-1.3	16.9
	113.70	2.1	-1.3	16.9
	137.00	2.1	-1.3	16.9
	8528.0	0.4	0.3	7.2
	43.199	0.3	-0.8	6.8
	3.0100	0.7	-1.2	7.8
	30.280	0.1	-0.7	7.1
	44.819	-0.8	0.8	-4.0
	6.4798	0.2	0.2	5.1
	4.0894	-0.1	-0.3	-4.3
	1.5761	1.2	2.6	13.3

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

Week ended: 6/3/2011

Focus on Canada: After Mixed GDP Data, BoC Notes it Too Will 'Eventually' Hike

On the surface, last week saw two encouraging headlines out of Canada, as Q1 GDP data came in just shy of 4%, and the Bank of Canada appeared confident enough in the outlook to recognize the need for an eventual rate hike – the latter accompanied by far less detail than the Fed's manual. Specifically, the statement noted that "to the extent that the expansion continues and the current material excess supply in the economy is gradually absorbed, some of the considerable monetary policy stimulus currently in place will be eventually withdrawn, consistent with achieving the 2 per cent inflation target. Such reduction would need to be carefully considered."

The "will be eventually withdrawn" bit is what markets appropriately latched on, as policy statements have for some time recognized excess supply and considerable stimulus, but lacked explicit bias toward action. While "will" and "eventually" are less than exact guidance, the new language reminds investors that if the Japan-related disruptions, Eurozone wrangling, and soft-patch in the U.S. prove do not prove lasting, late-2011 could still see a rate hike. Importantly, even "sharply" restrained growth in Q2 (perhaps even coming in below the 2.0% already penciled in within the April Monetary Policy Report) is part of the Bank's projections, suggesting will be looking through several months of poor data. A central bank with an inflation mandate and an output gap projected to close by mid-2012 can only hang its hat on "uncertainty" for so long with interest rates as stimulative as they are.

To that end, Governor Carney also expressed a slightly less benign view of price pressures, noting that underlying inflation is "relatively subdued," as opposed to "is subdued" in April. It is worth noting that the upward nudge to the inflation outlook came even as market-based breakeven inflation rates receded substantially over the past month.

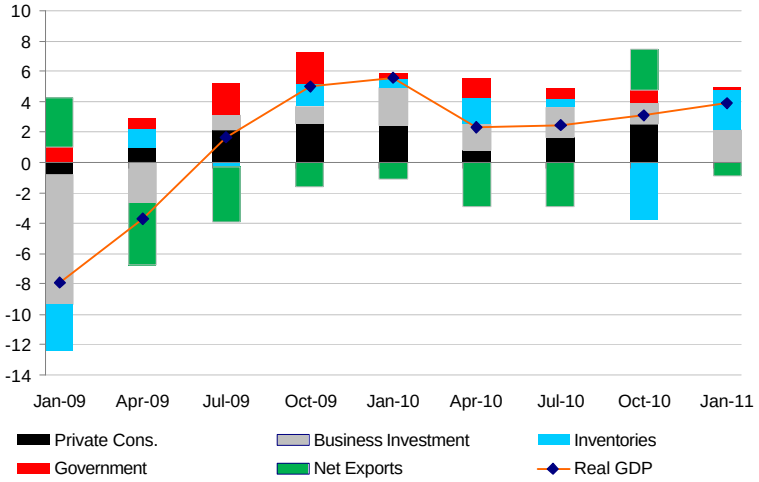
Elsewhere, though Q1 GDP growth data at this point reflect ancient history, given U.S. and global growth jitters, the details, when combined with higher frequency releases and upcoming data flow, still suggest that businesses expect the slowdown to have little longer-term impact. The innards showed effectively flat results from consumer spending and government expenditure, and a drag from net exports, while the major upward drivers were business investment and inventories. Of the 3.9% headline gain, 2.1 percentage points were due to business investment, and 2.6 from inventories, while net exports subtracted 0.8 points (see Chart 1). Q2 will be significantly weaker, as consumer spending is facing a tough lift-off point based on March real retail sales data, and net exports will surely see a hit from Japan-related supply disruptions.

The potential for a weak consumer spending profile has been expected by markets and the Bank for some time due to higher energy prices, far less scope for strong home price appreciation, and high debt burdens (see Apr. 29 GED Focus, "Risks Building Around the Consumer?"). Still, more-serious and protracted weakness will be needed to shake the BoC its view that the consumer remains a key upside risk to the inflation outlook. Elsewhere, the rebound in investment is so far encouraging, both as an expression of confidence in the future, and because emphasis on M&E-related productivity gains should help firms mitigate unfavorable CAD pressures.

Looking ahead, an important update will be the May Labor Force Survey this Friday, as businesses have had ample time to judge both the domestic consumer spending slowdown and the external risk factors. The private sector added significantly to payrolls in April (+36K), and a result that points to at least retaining the April surge, largely centered in the service sector, would alleviate concerns of a more-than-temporary slowdown. Even a headline jobs decline driven by manufacturing shutdowns should not be viewed too seriously, as they would be reversed ahead. In short, economic data are sure to weaken in coming months (with an unwelcome stall apparent in the service sector (see Chart 2), but for now should be viewed as a temporary slowdown and not a more serious roll-over of the growth picture. Signs of a rebound in H2 would then bring a Sep/Oct rate hike back into the picture.

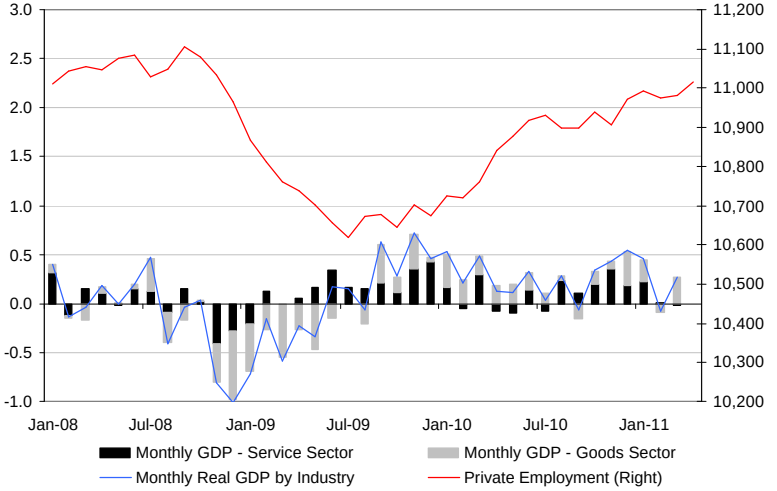
— Andrew Husby, New York

Chart 1: GDP Accelerates...But Consumers Disappear
(Contributions to Percent Change in GDP Growth)



Source: Statistics Canada and Decision Economics, Inc

Chart 2: Monthly Real GDP and Private Employment: Some Risk From Stall in Service Sector, But Firms Still Adding to Payrolls
(Percent, and Thousands)



Source: Statistics Canada and Decision Economics, Inc

DECISION ECONOMICS June 3, 2011

	Latest	Week Ago	% Chg. YTD *	12/31/10
Yen/$	80.22	80.80	-1.1	81.12
$/Euro	1.4634	1.4319	-9.3	1.3384
Yen/Euro	117.39	115.70	8.1	108.57
$/STG	1.6431	1.6510	-5.2	1.5612
Sfr/$	0.8346	0.8494	-10.8	0.9352
Can$/US$	0.9772	0.9761	-2.1	0.9980
Mexican Peso/$	11.658	11.604	-5.5	12.340
Brazil Real/$	1.5761	1.5945	-5.1	1.6613
Thai Baht/$	30.280	30.310	0.7	30.060
Malaysian Ringgit/$	3.0100	3.0315	-1.7	3.0635
Indonesian Rupiah/$	8527.5	8565.0	-5.2	8996.0
Korean Won/$	1080.1	1082.3	-4.1	1126.0
Philippines Peso/$	43.199	43.310	-1.4	43.800
India Rupee/$	44.819	45.168	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.	0.25	0.25	-0.05	0.30
Canada	1.20	1.20	-0.03	1.23
Euro	1.38	1.38	0.44	0.94
U.K.	0.83	0.83	0.07	0.76
Japan	0.20	0.20	0.01	0.19
LONG-TERM (10-Year Benchmark)**				
U.S.	2.99	3.07	-0.31	3.30
US 10 Year Swap Rate	3.11	3.16	-0.27	3.38
Canada	2.99	3.06	-0.13	3.12
Italy	4.63	4.75	-0.19	4.82
Germany	3.06	2.99	0.09	2.96
U.K.	3.29	3.32	-0.11	3.40
Switzerland	1.78	1.83	0.07	1.72
Japan (JGB)	1.14	1.13	0.01	1.13
Australia	5.23	5.23	-0.31	5.55
Brazil	4.23	4.30	-0.38	4.61
India	8.29	8.39	0.37	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.12	0.08	0.04	0.08
10 Year - 2 Year	2.56	2.60	-0.14	2.70
Moody AAA	1.88	1.81	0.29	1.59
UK Gilt	0.30	0.24	0.20	0.10
German Bund	0.07	-0.09	0.40	-0.33
Italian 10-year	1.64	1.67	0.12	1.52

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

STOCK MARKETS				
U.S. (DJIA)	12151	12403	5.0	11578
S&P 500	1300	1326	3.4	1258
NASDAQ Composite	2733	2783	3.0	2653
Russell 2000	808	831	3.1	784
Canada (TSE-300)	13518	13798	0.6	13443
Mexico (Bolsa)	35134	35819	-8.9	38551
Argentina (Merval)	3167	3266	-10.1	3524
Brazil (Bovespa)	64341	64295	-7.2	69305
Germany (DAX, XETRA)	7109	7163	2.8	6914
U.K. (FT-SE 100)	5855	5881	-0.8	5900
France (CAC-40)	3891	3951	2.3	3805
Switzerland (SMI)	6407	6469	-0.4	6436
Japan (Nikkei-225)	9492	9522	-7.2	10229
Hong Kong (Hang Seng)	22950	23118	-0.4	23035
Australia (All Ordinaries)	4667	4760	-3.7	4847
South Korea (KOSPI)	2113	2100	3.0	2051
Thailand	1058	1067	2.4	1033
India (BSE)	18376	18266	-10.4	20509
China (Dow Jones Shanghai Index)	343	340	-3.7	356
Singapore (Straights Times Index)	3146	3136	-1.4	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1541.18	1536.40	8.5	1420.78
Crude Oil (WTI, Spot)	100.56	100.23	10.0	91.38
CRB Futures	348.61	343.33	4.8	332.80
CRB Raw Industrials (Spot)	564.54	555.17	8.5	520.33