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Global Economic Developments

August 12, 2011

UK: BoE on Hold, Further Stimulus Not Ruled Out?

The August BoE Inflation Report released last Wednesday suggested that the unchanged BoE decision at the beginning of this month is going to be repeated for quite some time to come. Moreover, this latest stable policy decision is likely to have involved fewer dissents than of late, with it likely that no members continued to advocate tighter policy. This is understandable in light of the fresh market turmoil that has emerged of late as well as the clearly softer economic data backdrop and is implied from the Report no longer pointing to a wider range of views among members than normal. Indeed, the minutes to the August MPC meeting due this Wednesday should confirm near unanimity within the committee.

Otherwise, the Report unsurprisingly shows somewhat softer GDP growth in the coming year and much lower inflation late out than previously envisaged (ie in May), with a modest undershoot of the 2% target now being projected rather than the overshoot that stable policy would have brought (according to the May Report). As a result, this updated Report actually gives the MPC scope to restart asset purchases.

The fact that the Report concludes that inflation is about as likely to be below as above target in the medium-term does not suggest (as yet) any major appetite for fresh stimulus. Over and beyond the impact of the fall back in market interest rates of late, a further rationale for stable policy will be the MPC waiting to assess the extent to which forthcoming data sees the recent fall in commodity prices tempering the current consumer squeeze.

Regardless, the Report is possibly less indicative of possible near-term BoE actions than normal given the marked uncertainties facing the economic outlook. Indeed, the Report is quite candid that the greatest risks come from the Eurozone which, were they to crystallize, would have the potential to have a significant impact on the UK economy. To the extent that such risks are already reflected in asset prices, bank funding costs and confidence, are captured in the Inflation Report projections. However, and very notably, beyond that, the MPC sees no meaningful way to quantify all such risks and therefore many are excluded from its updated fan charts. In other words, and especially with the Governor also underlining that headwinds to the economy are getting stronger day by day, the downside risks may be greater than those embodied in the Inflation Report projections.

In this regard, Governor King accepted that the BoE has tools to act, including fresh asset purchases, albeit also underscoring the limits to which monetary policy can be used. This very much suggests that the BoE envisages conventional policy remaining on hold for some time, something that is already reflected in market thinking, where expectations for the first hike in rates have been deferred to late-2012, if not later. With this in mind, perhaps the MPC, or at least the Governor, may prefer that if the economy needs fresh stimulus, it is fiscal policy that lets up, with the very clear suggestion that current budget consolidation plans have such flexibility.

— Andrew Wroblewski, DE London

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Europe

Eurozone

- **Growth and Production:** *Output falls.* Coming in below expectations once again, industrial production fell by 0.7% M/M in June, swinging into negative from the 0.2% rise in the previous month and now a new cycle low. The sector break-down revealed falls across all components, led by capital and durable goods production. Meanwhile, in Y/Y terms, output growth slowed to 2.9% from 4.4% in May, also hitting a new cycle low.

France

- **Growth and Production:** *Manufacturing falls afresh.* Very much undershooting expectations, manufacturing output decreased strongly in June, slumping 1.9% M/M, thereby more than unwinding the little-revised 1.4% bounce seen in May. On a Y/Y basis, manufacturing production growth slowed to 3.3%, ie further away February's cycle-high of 7.4%. The M/M slump was relatively broad-based, albeit with overall production supported by a further rise in utility output. Even so, overall industrial production still slumped 1.6% M/M, unwinding much of the 1.9% May bounce, albeit resulting in Y/Y growth improving to 2.3%. *Economic growth stagnates.* According to preliminary data, real GDP was flat in Q/Q terms in Q2, undershooting expectations clearly and being the first non-positive reading since the end of the recession two years ago. The Y/Y rate, meanwhile, moderated to 1.6% from 2.1% in Q1, still being the joint-second highest in the cycle.

- **Inflation:** *Inflation moderates.* Coming in below expectations, headline CPI inflation fell by 0.2 percentage point to 1.9% Y/Y in July from the previous month, now the lowest since February. In M/M terms, prices fell by 0.4%, the first drop since January, dragged down by manufactured products and food. The Y/Y breakdown showed the latest outcome was largely the result of a clear swing into negative for manufactured products (-0.8% from 0.2% in June), outweighing mostly flat to rising price pressures elsewhere. As a result, the seasonally adjusted core inflation (excluding fresh food, energy and taxes effects) fell more markedly by 0.3 percentage point to 0.9% Y/Y. Meanwhile, EU-Harmonized inflation slipped to 2.1% Y/Y last month from 2.3%, now a five month low.

- **Employment:** *Employment rises.* Preliminary data showed (non-farm) employment increasing by 0.4% Q/Q in Q2, following a rise of the same size in the previous quarter. The latest increase was the sixth in a row, boosted by broad-based improvements across sectors. Meanwhile, the overall Y/Y rate picked up to 1.3% from 1.1% in Q1.

Germany

- **Trade:** *Exports correct back.* Undershooting expectations, the June (unadjusted) trade surplus narrowed to € 12.7 bln from € 14.3 bln in the same month of the previous year, also worsening from the € 14.8 bln May reading. In seasonally adjusted terms, the trade gap also fell, to € 11.5 bln in June from € 12.9 bln in May, undermined by a correction back in exports (-1.2% M/M after a 4.4% jump in May), alongside a modest rise in imports (0.3%). The (unadjusted) current account surplus, meanwhile, decreased to € 11.9 bln from € 13.4 bln in June 2010, leaving the year-to-date surplus little changed, actually down 0.3% at € 62.9 bln in the first five months of this year.

Norway

- **Monetary and Fiscal Policy:** *Policy held, further hikes deferred.* Contrary to most expectations, at least the consensus taken almost a week ago, the Norges Bank kept its key policy rate at 2.25% after its latest Board meeting, thereby matching the decision made in June. At that previous meeting, the Bank flagged further hikes, the next of which would probably have been at this juncture. However, very clearly the Board now thought otherwise, noting that growth among the trading partners of Norway seemed to be weaker than expected. Combined with the fresh turbulence in financial markets this suggested to the Board that the key policy rate be left unchanged. Even so, the Norges Bank seems to be merely deferring the previously envisaged rate hikes, with Governor Olsen stressing that no new rate path has been put together as well as admitting a hike has been actively considered. Moreover, the statement pointed explicitly to a rate hike by October, ie two meetings hence. In other words, the Board still has faith with the existing rate path which envisages hiking to just under 5% by the end of 2014, including what may be two more 25 bp moves in the remainder of the year (in which three meetings are currently scheduled). Indeed, the new statement once again stressed that the Norwegian economy is still growing at a robust pace and domestic developments have been broadly in line with that projected, all of which suggests that the key policy rate should be raised further.

- **Inflation:** *Inflation rises back clearly.* Overshooting expectations this time around, CPI inflation increased by 0.3 percentage point to 1.6% Y/Y in July, thereby exactly unwinding the drop seen in the previous month. On a M/M basis, prices fell 0.2%, led by a further, seasonal fall in clothing. The Y/Y breakdown shows that the rise in CPI inflation came from a swing in food price inflation as well as by a much smaller drop in airfares than 12 months before, the latter probably related to the timing of Easter this year. As a result, the core rate, CPI-ATE (excluding taxes and electricity), jumped back to 1.2% Y/Y from 0.7% in June, back to the low seen in January.

United Kingdom

- **Monetary and Fiscal Policy:** *Rates on hold, further stimulus not ruled out?* The latest (August) BoE Inflation Report suggested that the unchanged BoE decision last week saw fewer divides than of late, with it likely that no members continued

to advocate tighter policy. This is implied from the Report no longer pointing to a wider range of views among members than normal. Otherwise, the Report shows somewhat softer growth and much lower inflation than previously (ie in May), with the modest undershoot of the 2% target now being envisaged actually giving the MPC scope to restart asset purchases.

- **Growth and Production:** *Industrial activity still feeble.* Surprising somewhat to the downside this time around, June manufacturing output dropped 0.4% M/M, thereby unable to build on the 1.8% recovery seen in May. As a result, June factory sector output proved unable to recover any further from the damage caused by the additional holiday related to the April royal wedding as well as supply effects from the Japanese earthquake, alongside the late Easter, all of which took their toll on production in April (output dropped 1.6%). Indeed, the fresh June drop was enough to cause the three-month rate of growth for manufacturing to weaken further, easing to a 21-month low of -0.5%. Perhaps of more note but little surprise, the fresh weakness was very much concentrated in consumer goods production, especially on the durable side, albeit the latter possibly a correction after the jump in May. Admittedly, oil and utility production bounced back materially in June, a further leap in the case of the latter. As a result, overall June industrial production was unchanged in M/M terms after a 0.8% recovery in May.

- **Trade:** *Exports picture less upbeat.* Once again revealing a larger shortfall than expected, the total visible trade gap widened from a little-revised shortfall of £ 8.47 bln in May to a shortfall of £ 8.87 bln in June, the later being the highest since the record gap posted last December. The latest data reflected a 2.8% M/M correction back in exports (down from record level in May) alongside a 1.5% fall back in imports (also from record-high), albeit with the drop in the former partly accentuated by swings in both oil and erratics and prices. Indeed, excluding oil and erratics, the nominal deficit on this basis actually narrowed afresh. In terms of import prices, the data showed clear and widespread rises.

Central Europe

Czech Republic

- **Growth and Production:** *Output growth moderates.* Data for June showed industrial production rising by 7.4% Y/Y, slowing clearly from 15.2% in the previous month. The latest outcome was the result of a broad-based easing back in growth across all components, led by a sharp drop in mining (6.1% Y/Y from 23.0%). Industrial orders growth, meanwhile, saw a less marked fall to 5.0% Y/Y from 5.2% in May, dragged down by a steeper fall in domestic orders (-5.2% from -3.9%), while non-domestic orders growth actually improved (11.8% from 10.8%). Elsewhere, construction output growth turned more negative, falling by 6.3% Y/Y in June from a drop of 4.9% in the preceding month.

- **Inflation:** *Inflation moderates further.* Consumer price inflation slipped 0.1 percentage point in July to 1.7% Y/Y, hitting a three-month low. On a M/M basis, prices rose by 0.3% last month. The Y/Y breakdown showed the latest moderation to be a reflection of decreasing price pressures for food (4.4% from 4.8% in June) and utilities (2.8% from 3.0%), being tempered by rises for transport (2.1% from 1.9%) and a clear swing into positive for seasonal goods (11.1% from -7.8%).

- **Employment:** *Labor market conditions improve.* The July unemployment rate dropped to 8.2% from 8.7% in the same month of 2010. The level of unemployment, meanwhile, also fell to 485 600 from 505 300 in July 2010, while vacancies rose to 38 900 from 33 500.

- **Trade:** *Trade surplus widens.* Visible trade data for June showed seasonally adjusted exports falling by 0.3% M/M, a less steep fall from the 1.0% drop in the previous month. Imports, meanwhile, saw a sharper fall than in the previous month, slipping by 1.7% M/M in June from a 0.7% slump in May. As a result, the trade surplus widened to CZK 13.1 bln in June from CZK 10.1 bln.

Hungary

- **Inflation:** *Inflation falls further.* Undershooting expectations once again, CPI inflation slipped by 0.4 percentage point to 3.1% Y/Y, a third successive fall and now the lowest since March 2009. In M/M terms, prices fell by 0.3%, dragged down by food (-1.2%) and clothing (-2.5%). The Y/Y breakdown, meanwhile, showed a fairly broad-based easing back in price pressures, also led by food (5.4% from 6.7% in June). Elsewhere, and notably, core inflation (which excludes food and energy) actually picked up in the month to 3.2% Y/Y from 3.0% in June, reaching a new cycle-high.

- **Trade:** *Exports fall.* Trade data for June showed exports falling by 2.1% Y/Y, a clear contrast to the 15.7% increase in the previous month and the first drop since November 2009. Import growth, meanwhile, also swung into negative, falling by 2.6% Y/Y from a rise of 11.3% in May. As a result, the June trade surplus widened slightly to HUF 163.9 bln from HUF 160.0 bln in the same month in 2010.

Russia

- **Growth and Production:** *GDP falls.* Coming in below expectations, preliminary national accounts data for Q2 showed GDP growth slowing to 3.4% Y/Y from 4.1% in the previous quarter, a second consecutive slowing. *Output continued to expand in July.* Industrial production rose 0.4% in seasonally-adjusted month-on-month terms in July, following gains of 0.4%, 0.5%,

and 0.7% from April to June. The annual rate dipped slightly, to 5.2% from 5.7% the month prior. Manufacturing growth slowed to 5.5%, from 7.1%, while mining and utilities both saw a slightly quicker pace of expansion.

Poland

- **Inflation:** *Weaker CPI inflation.* Putting upside inflation worries on the back burner, headline CPI inflation decelerated to a 4.1% year-on-year rate in July, from 4.2% in June. Prices fell 0.3% from the prior month. The current annual reading represents a clear slowdown from the 5.0% cycle-high reached in May, recent months all having surprised to the downside.

Turkey

- **Growth and Production:** *Trade surplus widens.* Visible trade data for June showed seasonally adjusted exports falling by 0.3% M/M, a less steep fall from the 1.0% drop in the previous month. Imports, meanwhile, saw a sharper fall than in the previous month, slipping by 1.7% M/M in June from a 0.7% slump in May. As a result, the trade surplus widened to CZK 13.1 bln in June from CZK 10.1 bln.

Asia and Pacific

Japan

- **Growth and Production:** *Industrial production growth moderates more clearly.* Showing a slightly clearer slowdown by coming in 0.1 percentage point below the preliminary reading, final data for June showed industrial production rising by 3.8% M/M, down clearly from the 6.2% jump in the previous month. Elsewhere, the data showed a (0.4 percentage point downwardly revised) 8.1% M/M jump in shipments in June, alongside an unrevised 2.8% drop in inventories.

- **Trade:** *Current account show mixed messages.* Surprising to the downside this time around, the June (unadjusted) current account surplus narrowed clearly to ¥ 526.9 bln from the ¥ 1057.8 bln surplus seen in the same month of 2010. Meanwhile, in seasonally adjusted terms, the current account surplus actually widened to ¥ 922.8 bln in June from ¥ 391.0 bln in May.

Australia

- **Employment:** *Labor market conditions deteriorate.* Coming in above expectations this time around, the seasonally adjusted unemployment rate picked up by 0.2 percentage point to 5.1% in July from the preceding month, now the highest since November 2010. Employment, meanwhile, surprised clearly to the downside, falling by 100 following an 18 200 rise in the previous month, the first decrease since April. This was a reflection of a marked swing into negative for full-time employment (-22 200 from 51 100 in June), outweighing the recovery in part-time employment (22 100 from -32 900). Elsewhere, the participation rate was stable at 65.6% last month.

China

- **Growth and Production: Output and investment growth moderate.** July fixed-asset investment growth slipped 0.2 percentage point to 25.4% Y/Y from the previous month, a second straight decrease but still the third highest in the recent cycle. The breakdown showed investment growth picking up for the primary sector (22.8% from 20.6%), but was dragged down by decreases in the secondary (26.7% from 27.1%) and tertiary (24.5 from 24.7%) sectors. As for industrial production, output growth moderated to 14.0% Y/Y from 15.1% in June, still the second highest in four months. The latest easing back in growth was a reflection of a fairly broad-based deterioration across components, with the only exception being a jump in crude oil (5.9% Y/Y from 1.6% in June).

- **Inflation:** *Inflation hits fresh high.* Coming in above expectations once again, consumer price inflation rose by 0.1 percentage point to 6.5% Y/Y in July, now the highest since June 2008. In M/M terms, prices rose by 0.5%. The Y/Y breakdown, meanwhile, showed the latest increase to be the result of a fairly broad-based rise in price pressures, led by food (14.8% from 14.4%) and household items (2.7% from 2.5%), and being undermined by a fall for housing (5.9% from 6.2%).

- **Trade:** *Trade surplus widens clearly.* Overshooting expectations once again, trade data for July showed the trade surplus widening to $ 31.48 bln from $ 28.73 bln in the same month of the preceding year, now the largest since January 2009. The breakdown revealed the latest widening to be a reflection of a fall in both export (20.4% Y/Y from 17.9% in June) and import (22.9% from 19.3%) growth. On a geographical basis, export growth increased to most regions, but with the notable exception of moderation for the US.

Hong Kong

- **Growth and Production:** *GDP falls.* Confounding expectations of a rise, Q2 GDP data showed the economy contracting 0.5% Q/Q, swinging into negative from the 3.1% rise in Q1 and being the first fall since Q1 2009. Meanwhile, in unadjusted Y/Y terms, growth slowed to 5.1% from 7.5% in Q1, now the lowest since Q4 2009. The expenditure-side Y/Y breakdown revealed the latest outcome to be a reflection of a fairly broad-based deterioration across components, being undermined by rises in household spending (9.2% from 8.0%) and investment (8.1% from -0.3%).

Malaysia

- **Growth and Production:** *Output rebounds.* Confounding expectations of a further fall, June industrial production rose by 1.0% Y/Y, bouncing back from a 5.6% drop in the previous month and ending a run of two successive declines. The breakdown showed the latest recovery to be the result of improvements across all three sectors of manufacturing (4.5% Y/Y from 1.4% in May), mining (-8.6% from -23.9%) and utilities (3.6% from -0.2%). Meanwhile, manufacturing sales growth picked up to 12.9% Y/Y in June from 7.5% in the previous month.

South Korea

- **Monetary and Fiscal Policy:** *Policy held, but tightening bias maintained.* As was expected by most, at least after the US credit rating downgrade, the Bank of Korea (BoK) left the base lending rate unchanged at 3.25% at its meeting in August, following a similar decision in the previous month and a 25 bp hike in June. The unofficial English translation of the MPC statement, meanwhile, saw few major changes from the previous month. Most of the changes came in the assessment of the global economy, with the Bank now seeing major economies exhibiting signs of weakening and with the potential for a continuing slowdown as well as the spread of sovereign debt problems in Europe seen as posing downside risks. The Committee's view of the domestic economy was, however, largely unchanged, with the Bank repeating that the economy has maintained its upward trend and with the only change coming in the comment that uncertainty to the growth path has intensified due to external risk factors. Labor market conditions continued to improve. With regard to inflation, the BoK did not offer any fresh insights, observing further rises in both headline inflation (4.7% in July versus the Bank's target of 3% ± 0.1) and the core rate (3.8% in July, a 26-month high), driven by the uptrend in the economy and inflation expectations, and with was expected to persist for the time being. Elsewhere, house prices continued to weaken around Seoul, but picked up for the rest of the country.

Taiwan

- **Trade:** *Further rise in export growth.* Confounding market expectations of a slowing, export growth actually picked up by 6.8 percentage point to 17.6% Y/Y in July from the preceding month, now a three-month high. Import growth, meanwhile, saw a more modest rise to14.0% Y/Y from 12.5% in June, still the second lowest in the cycle. As a result, the trade surplus widened to $ 3.34 bln last month from $ 2.15 bln in July 2010.

India

- **Growth and Production:** *Output growth rebounds.* Overshooting expectations clearly, June industrial production growth jumped to 8.8% Y/Y from 5.9% in the previous month, now a three-month high. The result was mostly due to a jump in manufacturing output growth from 6.1% Y/Y to 10.0% in June, while mining (0.6% from 1.3%) and electricity (7.9% from 10.3%) production both moderated. On a M/M basis, industrial output rose by 2.7%.

Indonesia

- **Monetary and Fiscal Policy:** *Rates unchanged.* As was expected by most, Bank Indonesia left its benchmark interest rate (the BI rate) unchanged at 6.75% at its latest meeting. This was a sixth-straight decision to keep policy on hold, with the last hike coming in February this year. The statement accompanying the decision began with the observation that the impact of the recent turmoil in financial markets, caused by the downgrade of the US credit rating, will have a limited effect in domestic markets and can be contained. The assessment of the domestic economy remained upbeat, with growth expected to accelerate on the back of strong exports, household consumption and investment. Growth for 2011 is now expected to be at 6.6% following the upwardly revised range of 6.3-6.8% given in the previous statement. With regard to inflation, the Bank noted the recent deceleration in consumer price inflation to below its target for 2011 (4.61% Y/Y vs 5%), and was expected to remain under control even with price pressures rising from increased consumption during the Ramadhan and Eid holidays.

The Americas

Canada

- **Trade:** *Trade data a clear negative for Q2 GDP.* The merchandise trade deficit widened to $1.6 billion in June from $1.0 billion in May, missing general expectations to the downside. The result reflected a 1.7% drop in exports, mostly on energy (-5.1%) and autos (-5.3%), and a 0.2% decline for imports. Energy imports fell 11.7%, while imports of machinery and equipment (+2.5%) rose for a fourth consecutive month. Businesses appear to be taking advantage of the strong CAD to boost investment in machinery and equipment – positive over the long run in terms of improving productivity and competitiveness, but it adds to weak performance in the short term. Importantly, the constant-dollar data were even weaker than the nominal numbers suggested, with export volumes falling 2.3% and imports rising 1.9%. The combination there, combined with the weak real export trend in place for some time now, means net exports will be an even greater drag on Q2 growth than previously thought. During the quarter, real goods exports fell nearly 10% at an annual rate, while imports rose about 13%. With consumer spending on track to, at best, come in about flat once again, investment and inventories are potentially the only sources of strength during the quarter. In short, a negative Q2 GDP print is now very possible, albeit with some important June data still unavailable.

Comparative International Economic Indicators

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:Q2	1.3	1.6
Canada	2011:Q1	3.9	2.9
Eurozone	2011:Q1	3.4	2.4
United Kingdom	2011:Q2	0.7	0.7
Germany	2011:Q1	6.1	4.8
France	2011:Q2 •	0.0	1.6
Italy	2011:Q2	1.0	0.8
Switzerland	2011:Q1	1.0	2.5
Japan	2011:Q1	-3.5	-0.7
Korea	2011:Q2	3.4	3.3
Taiwan	2011:Q2	12.1	4.9
Hong Kong	2011:Q2 •	-3.7	5.1
Singapore	2011:Q2	1.0	0.9
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
United States	2011:M6	-0.2	3.4
Canada	2011:M6	-0.7	3.1
Eurozone	2011:M6	0.0	2.7
United Kingdom	2011:M6	-0.1	4.2
Germany	2011:M7	0.3	2.5
France	2011:M7 •	-0.4	1.9
Italy	2011:M7	0.3	2.6
Switzerland	2011:M7	-0.8	0.5
Japan	2011:M6	-0.1	0.2
Korea	2011:M7	0.7	4.7
Taiwan	2011:M7	-0.3	1.3
Hong Kong	2011:M6	0.5	5.6
Singapore	2011:M6	-0.2	5.2
Australia	2011:Q2	0.9	3.6
Mexico	2011:M7 •	0.5	3.5

**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:M6	0.2	3.4
Canada	2011:M5	-2.2	0.7
United Kingdom	2011:M6 •	0.0	-0.3
Germany	2011:M6	-1.1	6.6
France	2011:M6 •	-1.7	2.1
Italy	2011:M6	-0.6	0.3
Switzerland	2011:Q2	-9.2	5.0
Japan	2011:M6	16.5	-1.7
Korea	2011:M6	0.4	6.4
Taiwan	2011:M6	-2.8	3.6
Hong Kong	2011:Q2	-12.9	3.6
Singapore	2011:M6	9.0	10.5
Australia	2011:Q2	-3.8	-5.4
Mexico	2011:M6 •	-0.6	3.7

**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
United States	2011:Q1	-471.9	-470.9	-376.6
Canada	2011:Q1	-50.0	-49.3	-40.3
United Kingdom	2011:Q1	-70.4	-71.6	-37.1
Germany	2011:Q2 •	190.6	184.4	189.7
France	2011:Q2 •	-63.4	-45.0	-39.1
Italy	2011:Q1	-78.0	-71.2	-41.3
Switzerland	2011:Q1	76.7	76.6	57.2
Japan	2011:Q2 •	166.0	196.0	142.6
Korea	2011:Q2	28.2	28.2	32.8
Taiwan	2011:Q1	40.3	39.9	42.9
Hong Kong	2011:Q1	14.7	13.9	18.0
Singapore	2011:Q2 •	51.3	49.5	35.1
Australia	2011:Q1	-27.6	-31.9	-43.3
Mexico	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:M7	9.1	9.2	9.5
Canada	2011:M7	7.2	7.4	8.0
United Kingdom	2011:M6	4.7	4.7	4.6
Germany	2011:M6	6.1	6.1	7.1
France	2011:M6	9.7	9.6	9.8
Italy	2011:Q1	8.2	8.4	8.5
Switzerland	2011:M7 •	3.0	3.0	3.8
Japan	2011:M6	4.6	4.5	5.2
Korea	2011:M7 •	3.3	3.3	3.7
Taiwan	2011:M6	4.4	4.3	5.2
Hong Kong	2011:M6	3.5	3.5	4.6
Singapore	2011:Q2	2.7	1.8	2.8
Australia	2011:M7 •	5.1	4.9	5.3
Mexico	2011:M6	5.4	5.2	5.0

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
United States	2.25	2.88	2.75
Canada	2.46	2.93	3.00
United Kingdom	2.53	3.12	3.12
Germany	2.33	2.75	2.42
France	3.33	3.47	2.72
Italy	5.02	5.55	3.84
Switzerland	1.20	1.55	1.25
Japan	1.05	1.11	1.01
Korea	3.90	4.18	4.76
Taiwan	1.39	1.48	1.29
Hong Kong	1.79	2.21	2.04
Singapore	1.70	2.13	1.87
Australia	4.43	4.96	5.03
Mexico	1.80	2.53	2.36

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.50	1.50	1.00
United States	0.14	0.09	0.20
Canada	1.00	1.00	0.75
United Kingdom	0.53	0.50	0.50
Germany	1.50	1.50	1.00
France	1.50	1.50	1.00
Italy	1.50	1.50	1.00
Switzerland	-0.25	0.09	0.04
Japan	0.09	0.09	0.10
Korea	3.24	3.26	2.27
Hong Kong	0.10	0.09	0.03
Singapore	0.16	0.16	0.13
Australia	0.00	4.75	4.50
Mexico	4.44	4.43	4.55

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

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Euro	1.4252	-0.2	0.6	11.1
United States	77.99§	-0.2	0.5	-7.7
Canada	0.9906	-0.9	-3.4	5.0
United Kingdom	1.6277	-0.7	1.1	4.5
Germany	1.3721	0.2	-0.7	-10.0
France	4.6019	0.2	-0.7	-10.0
Italy	1358.40	0.2	-0.7	-10.0
Switzerland	0.7776	-1.3	4.9	25.9
Japan	76.82	2.0	2.7	10.6
Korea	1079.6	-1.2	-1.8	9.0
Hong Kong	7.7927	-0.2	0.0	0.3
Singapore	1.2118	0.4	0.5	11.0
Australia	1.0356	-0.8	-3.7	15.5
Mexico	12.3071	-2.6	-5.3	3.4

§ 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:Q2	3.2	2.7
Netherlands	2011:Q1	3.6	2.3
Denmark	2011:Q1	-3.2	1.6
Sweden	2011:Q2	3.9	5.3
Norway	2011:Q1	-1.8	0.1
Finland	2011:Q1	1.7	5.1
Spain	2011:Q1	1.2	0.8
Portugal	2011:Q1	-2.4	-0.6
Indonesia	2011:Q2	12.0	6.5
Philippines	2011:Q1	-31.2	4.9
Malaysia	2011:Q1	-11.7	4.6
Thailand	2011:Q1	9.1	3.0
India	2011:Q1	32.2	7.7
China	2011:Q2	---	9.5
Argentina	2011:Q1	11.8	9.6
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
Belgium	2011:M7	0.1	3.8
Netherlands	2011:M7	0.0	2.6
Denmark	2011:M7 •	-0.1	2.9
Sweden	2011:M7 •	0.0	3.0
Norway	2011:M7 •	-0.2	1.6
Finland	2011:M6	0.3	3.5
Spain	2011:M7	-0.5	3.1
Portugal	2011:M7 •	-0.1	3.2
Indonesia	2011:M7	---	---
Philippines	2011:M7 •	0.1	5.1
Malaysia	2011:M6	0.3	3.5
Thailand	2011:M7	0.2	4.1
India	2011:M6	1.1	8.6
China	2011:M7 •	---	6.5
Argentina	2011:M6	0.7	9.7
Brazil	2011:M7	0.2	6.9

**Not seasonally adjusted.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M4	14.6	7.0
Netherlands	2011:M6	0.5	-1.5
Denmark	2011:M6 •	-5.8	-3.1
Sweden	2011:M5	0.7	8.2
Norway	2011:M6	5.2	-4.1
Finland	2011:M6 •	-3.3	0.5
Spain	2011:M6	10.0	0.8
Portugal	2011:M6	7.4	-0.3
Indonesia	2011:M6 •	1.6	4.9
Philippines	2011:M5	4.2	0.9
Malaysia	2011:M6 •	3.4	1.0
Thailand	2011:M6	11.8	3.3
India	2011:M6 •	2.7	8.7
Argentina	2011:M6 •	0.2	2.3
Brazil	2011:M6	-3.9	0.9

**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	2011:Q1	2.7	4.4	-0.5
Netherlands	2011:Q1	61.8	56.2	38.9
Denmark	2011:Q2 •	21.0	16.6	6.8
Sweden	2011:Q1	32.2	28.8	28.3
Norway	2011:Q1	49.6	51.4	44.5
Finland	2011:Q1	7.5	7.5	5.9
Spain	2011:Q1	-65.8	-64.5	-75.3
Portugal	2011:Q1	-20.9	-22.6	-25.7
Indonesia	2011:Q2 •	4.6	5.6	31.8
Philippines	2011:Q1	8.2	8.5	21.9
Malaysia	2011:Q1	28.5	27.3	8.8
Thailand	2011:Q2	16.2	14.8	7.1
India	2011:Q1	-44.3	-51.9	10.5
Argentina	2011:Q1	2.9	3.1	11.1
Brazil	2011:Q2	-49.0	-47.4	-24.3

Unemployment Rate*

	Latest Period	Latest	Prev. Period	Year Ago Period
Belgium	2011:M6	7.4	7.3	8.4
Netherlands	2011:M6	4.1	4.2	4.5
Denmark	2011:M6	4.0	4.0	4.1
Sweden	2011:M6	7.5	7.7	8.1
Norway	2011:M7	2.8	2.5	3.0
Finland	2011:M6	8.4	9.8	8.8
Spain	2011:M6	21.0	20.8	20.2
Portugal	2011:M6	12.2	12.4	12.1
Indonesia	2010	7.1	7.9	7.9
Philippines	2011:Q2	7.2	7.4	8.0
Malaysia	2011:Q1	3.1	3.2	3.7
Thailand	2011:M5	0.5	0.8	1.5
China	2009	4.3	4.2	4.2
Argentina	2011:Q1	7.4	7.3	8.3
Brazil	2011:M6	6.2	6.4	7.0

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
Belgium	4.09	4.27	3.03
Netherlands	2.67	3.16	2.63
Denmark	4.09	4.27	3.03
Sweden	2.18	2.70	2.46
Norway	2.54	3.18	3.29
Finland	3.26	3.41	2.62
Spain	4.99	5.82	4.18
Portugal	10.39	12.56	5.14
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	3.67	3.86	3.84
Thailand	3.50	4.04	3.41
China	—	—	—
Argentina	—	—	—
Brazil	—	—	—

Call Money Rate

	Latest	Prev. Month	Year Ago
Belgium	1.50	1.50	1.00
Netherlands	1.50	1.50	1.00
Denmark	1.25	1.25	0.75
Sweden	2.19	2.13	0.56
Norway	2.25	2.25	2.00
Finland	1.50	1.50	1.00
Spain	1.50	1.50	1.00
Portugal	1.50	1.50	1.00
Indonesia	5.89	6.08	6.22
Philippines	4.50	4.50	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	7.80	7.00	5.25
China	—	—	—
Argentina	9.70	11.70	9.85
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	28.3008	-0.2	0.7	10.0
Netherlands	1.5460	-0.2	0.7	10.0
Denmark	5.2267	-0.2	0.7	10.0
Sweden	6.5104	-0.5	-0.4	12.0
Norway	5.5255	-0.9	0.1	10.6
Finland	4.1713	-0.2	0.7	10.0
Spain	116.73	-0.2	0.7	10.0
Portugal	140.65	-0.2	0.7	10.0
Indonesia	8554.0	-0.1	-0.1	5.0
Philippines	42.600	0.1	1.0	6.2
Malaysia	3.0038	0.3	0.6	5.7
Thailand	29.940	-0.3	0.5	6.3
India	45.338	1.3	1.8	-3.1
China	6.3898	0.8	1.2	5.8
Argentina	4.1600	-0.1	-0.9	-5.8
Brazil	1.6077	-2.0	-2.0	9.2

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

Week ended: 8/12/2011

Focus on China: Do New Data Justify a New Policy?

China's CPI inflation was up marginally in July, to 6.5% year-on-year, from 6.4% year-on-year in June. Meanwhile, Fixed Capital Formation posted a marginally slower annual pace (24.5% year-on-year in July, versus 25.1% year-on-year the previous month. More importantly, inflation-adjusted retail sales seem to have slowed for the fifth month in a row (based on available nominal sales and retail price data, DE estimates real sales in the 11%-to-11.4% year-on-year range, down from 11.9% year-on-year, without any base effects distorting the result). Finally, industrial production decelerated from 15.1% year-on-year to 14% year-on-year.

These figures are not policy game changers, and they do not point to any alteration in the known trends: the economy is still expanding at a relatively fast pace—although some softening, particularly from consumption and exports—has occurred.

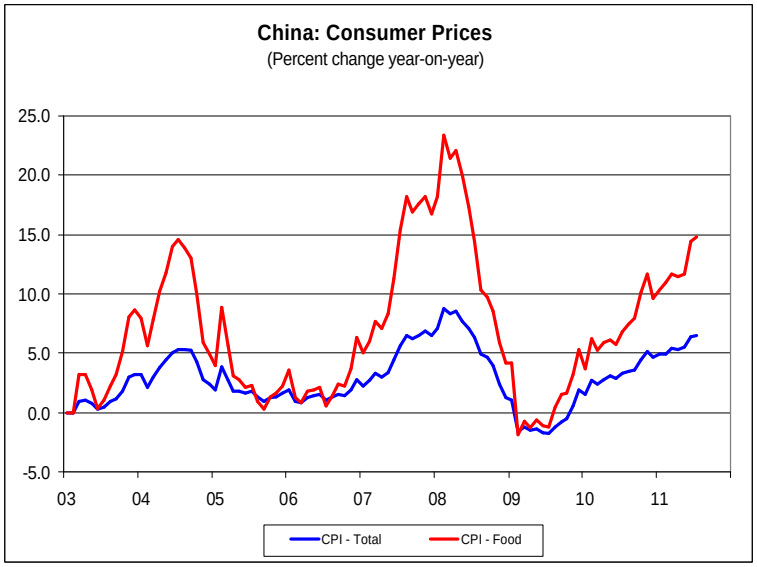
Inflation is still too visible a threat for the central bank to change course drastically, but not enough to keep the current policy stance without nuances as the tightening medicine works its way through the system, the global economy slows and global risks mount.

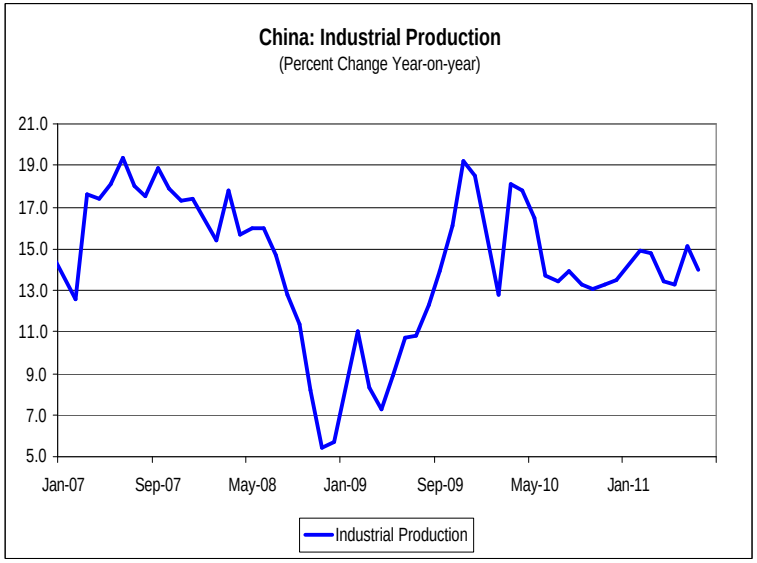
Thus, after this data release it still seems reasonable to expect a pause in interest rate hikes in the near-term, without (yet) removing or relaxing the lending ceilings imposed on the state-owned banking system, but while pushing for (hard to attain) changes in the distribution of loans in favor of credit-starved small firms.

This challenging calibration of policy points in the direction of higher domestically-induced risks, including that of tightening overkill. There is a non-negligible probability that policymakers have already set in motion a cooling process that might intensify beyond what was initially foreseen, bringing about a full-fledged slowdown.

Part of the reason is, of course, the lagged consequences of credit restrictions on the economy, through their impact on small and medium enterprises' borrowing, investment and employment. But an eye should also be kept on the considerable exposure of China's GDP through the export channel, whose outlook gets more questionable by the day in view of the problems of the developed world. Those problems are, however, hurting commodity prices and, at least in the near-term, creating some room for policymaker optimism regarding inflation, which in China remains largely commodity-price (particularly food-price) driven. Given these considerations, it should not surprise if the policy of slow, gradual appreciation of the renmimbi continues formally in place, but with a growing probability that—at least on a temporary basis---appreciation could slow to a crawl.

— Francisco J. Larios, DE Miami





August 12, 2011

DECISION ECONOMICS August 12, 2011

	Latest	Week Ago	% Chg. YTD *	12/30/09
Yen/$	76.81	78.40	-5.3	81.12
$/Euro	1.4254	1.4282	-6.5	1.3384
Yen/Euro	109.48	111.97	0.8	108.57
$/STG	1.6278	1.6391	-4.3	1.5612
Sfr/$	0.7776	0.7674	-16.9	0.9352
Can$/US$	0.9906	0.9820	-0.7	0.9980
Mexican Peso/$	12.307	11.991	-0.3	12.340
Brazil Real/$	1.6077	1.5761	-3.2	1.6613
Thai Baht/$	29.940	29.850	-0.4	30.060
Malaysian Ringgit/$	3.0038	3.0120	-1.9	3.0635
Indonesian Rupiah/$	8553.8	8548.0	-4.9	8996.0
Korean Won/$	1079.6	1067.4	-4.1	1126.0
Philippines Peso/$	42.600	42.630	-2.7	43.800
India Rupee/$	45.338	44.740	1.4	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.	0.29	0.27	-0.01	0.30
Canada	1.12	1.14	-0.11	1.23
Euro	1.49	1.52	0.55	0.94
U.K.	0.85	0.83	0.09	0.76
Japan	0.19	0.20	0.01	0.19
LONG-TERM (10-Year Benchmark)**				
U.S.	2.25	2.56	-1.05	3.30
US 10 Year Swap Rate	2.41	2.73	-0.96	3.38
Canada	2.46	2.51	-0.67	3.12
Italy	5.05	6.20	0.23	4.82
Germany	2.32	2.30	-0.65	2.96
U.K.	2.55	2.68	-0.85	3.40
Switzerland	1.20	1.24	-0.51	1.72
Japan (JGB)	1.04	1.02	-0.09	1.13
Australia	4.43	4.48	-1.11	5.55
Brazil	3.97	4.00	-0.64	4.61
India	8.27	8.41	0.35	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.16	0.17	0.08	0.08
10 Year - 2 Year	2.06	2.27	-0.64	2.70
Moody AAA	2.05	1.58	1.11	0.93
UK Gilt	0.30	0.12	0.19	0.10
German Bund	0.07	-0.26	0.40	-0.33
Italian 10-year	2.80	3.64	1.28	1.52

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

STOCK MARKETS				
U.S. (DJIA)	11269	11445	-2.7	11578
S&P 500	1179	1199	-6.3	1258
NASDAQ Composite	2508	2532	-5.5	2653
Russell 2000	698	715	-11.0	784
Canada (TSE-300)	12542	12162	-6.7	13443
Mexico (Bolsa)	33362	33698	-13.5	38551
Argentina (Merval)	2967	3068	-15.8	3524
Brazil (Bovespa)	53473	52949	-22.8	69305
Germany (DAX, XETRA)	5998	6236	-13.3	6914
U.K. (FT-SE 100)	5320	5247	-9.8	5900
France (CAC-40)	3214	3279	-15.5	3805
Switzerland (SMI)	5253	5172	-18.4	6436
Japan (Nikkei-225)	8964	9300	-12.4	10229
Hong Kong (Hang Seng)	19620	20946	-14.8	23035
Australia (All Ordinaries)	4238	4170	-12.6	4847
South Korea (KOSPI)	1793	1944	-12.6	2051
Thailand	1062	1124	2.8	1033
India (BSE)	16840	17306	-17.9	20509
China (Dow Jones Shanghai Index)	330	333	-7.3	356
Singapore (Straights Times Index)	2851	3107	-10.6	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1745.90	1663.80	22.9	1420.78
Crude Oil (WTI, Spot)	85.38	86.88	-6.6	91.38
CRB Futures	326.53	326.80	-1.9	332.80
CRB Raw Industrials (Spot)	539.15	551.37	3.6	520.33