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Global Economic Developments

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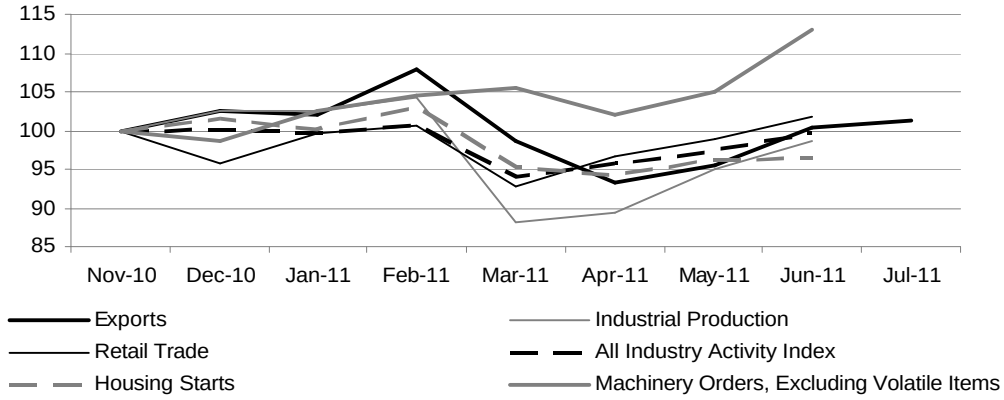
Japan's Recover

Japan's second-quarter GDP fell a bit less than expected, slipping 0.3% quarter on quarter, rather than the 0.6% looked for, but the surprise did not indicate that the economy was in any way healthier. The second quarter, of course, incorporated the three months following the March earthquake/tsunami, and activity has bounced back more quickly than expected since then—but generally remains below February levels. The prospect for growth beyond remains cloudy.

The economy had weakened even before the earthquake, with GDP declining 0.6% in the fourth quarter. Growth was a very strong 5.0% over the four quarters ending in the third, with personal consumption up an above-trend 2.5%, business investment up 6.7%, and export growth (+21.2%) exceeding import growth (+11.5%) by enough to add 1.4 percentage points to the overall figure. However, the fourth quarter saw consumption drop 0.9% (3.6% at an annualized rate) and business investment flatten out to 0.1% growth (0.4% annualized), while the contribution from trade turned negative (-0.1 percentage point, or -0.4 points annualized). On the face, it is not clear that growth would have strengthened to any degree in the first quarter, even if there had been no disasters.

Monthly Economic Indicators (Nov. 2010 = 100)



Seasonally adjusted monthly numbers (Chart, with levels indexed to November) give a better sense of the movement underlying the quarterly growth results. Demand-side readings were not unhealthy in the early part of the first quarter, with "core" domestic machinery orders rising month by month, and exports moving strongly upward. Household spending growth, on the basis of retail sales figures, was fair. Production-side indicators, meanwhile, were flat to firmer heading into the quarter, with industrial output clearly moving higher, but with the broader all-industry activity total running just steady, and housing starts tending upward only unevenly. Without the earthquake, the economy as a whole seems likely to have shown very modest growth, though with demand-side forces pulling upward—and perhaps with some forward momentum.

The mid-March disasters caused a crash in full-month readings for all of the demand-side indicators, with the exception of domestic core machinery orders—which in a hopeful indication of underlying stability in business confidence, have continued on a broadly upward path throughout this episode. Retail sales and exports, meanwhile, both fell hard, though the latter decline was driven much more by supply-side factors than by weakness abroad. Production activity—directly hit by the March destruction—contracted sharply, with industrial production dropping 15.5%, and pulling the all-industry measure down 6.4%, while housing starts fell 7.5%.

The second quarter saw all the indicators rebound to some degree, but with quarterly averages not moving up—either on the production side or the demand side—sufficiently to lift the corresponding GDP components. Third-quarter prospects are helped, on a purely mathematical basis, by the fact that June readings exceed the second quarter averages in every case—so that even flat results from here would produce net growth. Rebuilding in the stricken area, and business investment there, or to establish facilities elsewhere in the country, should boost output even further. But, deeper fundamentals on the domestic-demand side have not improved significantly since the fourth quarter, and reliance on export growth has become greater, even as the global economic outlook has deteriorated.

— Pierre Ellis, DE New York

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Europe

Eurozone

- **Growth and Production:** *GDP growth slows.* Q2 GDP rose by 0.2% Q/Q, below expectations and slowing clearly from the 0.8% unrevised pace of the previous quarter. The Q2 increase is still the ninth in a row, however. As a result, the Q2 Y/Y rate fell from the cycle-high of 2.5% in Q1 to 1.7%. Save for geographical details, this flash estimate comes with no breakdown. The latter will be forthcoming on 6 September, ie just in time for the next ECB Council meeting (due two days after) to examine the numbers. In regard to the geographical breakdown, this showed fairly broad based deterioration across member nations, with a clear slowing in growth seen in Germany and France as well as the likes of Belgium and the Netherlands. As for the fiscally errant countries, growth in Spain also slowed, albeit modestly so, while data for Greece was not available. However, Portugal saw flat growth in the quarter, following a 0.6% fall in Q1, and Italy actually saw growth picking up for the first time in three quarters.

- **Trade:** *More mixed trade results.* The (unadjusted) trade balance showed a surplus of € 0.9 bln in June, improving modestly from the € 0.7 bln surplus in the same month of the last year. This was the result of exports and imports both rising 3% in Y/Y terms in the month. Seasonally adjusted data, however, showed the May deficit of € 0.8 bln doubling to a shortfall of € 1.6 bln in June. This reflected exports (-4.7% M/M) outpacing imports (-4.1%).

Germany

- **Growth and Production:** *GDP growth slows clearly.* Preliminary Q2 GDP data was much weaker than expected, with the growth rate falling to just 0.1% Q/Q. The latest drop was accentuated by a downwardly revised 1.3% rise in the previous quarter, but was still the ninth gain in a row. As a result, Y/Y workday-adjusted growth fell to 2.7% from 4.7% in Q1.

Switzerland

- **Growth and Production:** *Weaker growth.* Coming in below expectations, preliminary data showed that GDP rose by 0.1% Q/Q in Q2, down clearly from the 0.8% Q1 gain. This resulted in the (unadjusted) Y/Y rate slumping to 1.5% from an upwardly revised 2.8% increase in the preceding quarter. The breakdown showed that the moderation in GDP growth was broad based, with private consumption being the only component seeing improvements in the last quarter.

Netherlands

- **Employment:** *Jobless rate rises.* The seasonally adjusted unemployment rate rose by 0.3 percentage point to 5.3% in the three months to July, now reaching a new cycle-high. The headline (unadjusted) figure also increased to a new cycle-high, but to 5.6%.

Sweden

- **Growth and Production:** *Output falls.* Surprising to the downside this time around, industrial production slumped 3.3% M/M in June, more than unwinding the 2.1% rise in the previous month and the largest drop in the cycle. Partly as a result, the Y/Y rate of growth slowed clearly to 6.4% from 13.2% in May, also hitting a cycle-low.

Spain

- **Growth and Production:** *Economic growth slows.* According to preliminary numbers, and matching the estimate recently made by the BoS, GDP grew by 0.2% in Q/Q terms in Q2, down slightly from the 0.3% reading of the previous quarter. As a result, Y/Y GDP decreased by 0.1 percentage point to 0.7%.

United Kingdom

- **Monetary and Fiscal Policy:** *Unanimous vote to keep rates unchanged, but hints of fresh QE?* Surprising many, the minutes from the 3-4 August BoE MPC meeting showed the committee voting unanimously to keep the Bank Rate at its historic low of 0.5%. This latest outcome was the result of MPC members Dale and Weale, both having previously called for a rate hike, shifting to the no change camp at the latest meeting, while Posen was again the lone voice in calling for fresh asset purchases (still by £ 50 bln). It is notable, however, that the minutes revealed some members considering whether there was a case for increasing the degree of monetary stimulus through further asset purchases, but concluded that the case was not yet strong enough at this juncture. The minutes further revealed that Dale and Weale (and possibly other members) remained concerned over long run risks attached to inflation, but believed that recent developments had weakened the case for removing some of the current stimulus.

- **Inflation:** *Inflation rises.* Coming in above expectations, July consumer price inflation edged up by 0.2 percentage point to 4.4% Y/Y. Prices were flat in M/M terms, however, a reflection of sharp falls in the price of clothing and household goods, being tempered by increases elsewhere. Meanwhile, and notably, the core rate (which excludes energy, food, alcohol and tobacco) bounced back last month to 3.1% Y/Y from 2.8% in June.

- **Employment:** *Weaker labor market conditions.* Surprising to the upside once again, claimant count unemployment showed a further and steeper rise, with a 37 100 jump in July, the largest since May 2009. This update looks less distorted by technical factors and, given that it is the fifth in a row, does increasingly suggest a fresh uptrend has emerged, especially as the unemployment rate on this basis has risen to 4.9% (now up 0.4 percentage points from the trough in March. On a similarly downbeat note, the (broader) ILO measure of unemployment saw an increase of 38 000 in the three months to June, pushing up the rate on this basis to 7.9%, the largest quarterly increase in the series since the three months to June 2009. On a further downbeat note, vacancies fell by 22 000 in the three months to July, following an unchanged reading in the previous month. Moreover, hours worked fell further during the quarter, while the rate of redundancies picked up afresh. However, on the positive side, employment showed a increase of 0.1% in the quarter to June, albeit an increase that was half the gain of the previous report, but still very much underpinned by a clear rise in full-time employee jobs.

Central Europe

Czech Republic

- **Growth and Production:** *Economic growth moderates.* Preliminary data showed Q2 real GDP rising 2.4% Y/Y, adjusted for calendar and working day effects, down from 2.8% in the previous quarter. On a Q/Q basis, seasonally adjusted GDP rose by 0.2%.

Hungary

- **Growth and Production:** *Growth stagnates.* Undershooting expectations clearly, preliminary real Q2 GDP data showed economic growth being flat Q/Q, in seasonally adjusted terms, down from 0.3% in Q1, ending a run of five successive gains. On an (unadjusted) Y/Y basis, GDP growth slowed by one percentage point to 1.5% Y/Y in Q2 from the preceding quarter, a sixth straight positive outcome. On a workday adjusted basis, meanwhile, the economy expanded by 1.5% Y/Y last quarter, down clearly from the 2.4% gain in Q1.

Poland

- **Growth and Production:** *Weaker output.* Industrial output disappointed in July, decelerating to a 1.8% pace from 2.0% in June, in contrast to expectations of a slight acceleration. The details were marginally less gloomy, with manufacturing output picking up slightly (+2.3% y/y vs +1.9% the month prior), while weakness was evident in mining and utilities activity.

Turkey

- **Employment:** *Mixed messages in labor market.* The unemployment rate in the three months to June fell to 9.4% from 11.0% in the same period of 2010. On a seasonally adjusted basis, however, the unemployment rate picked up slightly to 10.3% in May from 10.1% in April, a second straight increase to a four-month high. Meanwhile, also on an adjusted basis, the May employment rate fell slightly to 44.8% from 44.9% in April, while, on an unadjusted basis, the employment rate rose to 45.7% from 44.0% in the same period of 2010. Elsewhere, the participation rate was 50.5% on an unadjusted basis, and 49.9% in adjusted terms.

Asia and Pacific

Japan

- **Growth and Production:** *Less steep fall in growth.* Surprising to the upside, the Q2 preliminary estimate showed GDP contracting for a third successive quarter, dropping by 0.3% Q/Q (-1.3% annualized) following a 0.9% slump in the previous quarter. As a result, the Y/Y rate was negative for a second consecutive quarter, falling by 1.0% after a drop of the same size in Q1. The Q/Q break-down showed that the latest fall in the headline reading reflected fairly broad-based weakness across components, but being undermined by increases in public investment, government consumption, non-residential investment and fixed capital formation. Meanwhile, the Q2 GDP deflator fell by 2.2% Y/Y, a steeper drop than the 1.9% fall in Q1 and now the largest decline in three quarters.

- **Trade:** *Export growth falls.* Coming in above expectations this time around, the July (unadjusted) trade balance still deteriorated clearly to a surplus of just ¥ 72.5 bln from a surplus of ¥ 799.2 bln in the same month of the previous year. In contrast, the seasonally adjusted trade gap improved but remained in deficit to the tune of ¥ 130.5 bln. The latest adjusted result was a reflection of clear slowing in export growth to 0.8% in July from 5.1%, while imports fell by 0.4% last month following a 0.3% rise in June.

Singapore

- **Trade:** *Exports fall.* Coming in below expectations once again, seasonally adjusted non-oil exports fell by 2.3% M/M in July, a less steep drop than the 4.1% fall in the previous month but now being the fourth decline in five months. In Y/Y terms, non-oil exports fell clearly by 2.8%, contrasting clearly with the 1.0% rise in the preceding month, the largest decline since 2009. The breakdown revealed the latest slowing to be the result of a clear fall in non-electronic

products growth (5.9% Y/Y from 11.9% in June), alongside a slightly less negative electronics export figure at -16.9% Y/Y from -17.2%.

Malaysia

- **Growth and Production:** *Economic growth slows.* Coming in above expectations this time around, national accounts data still showed GDP growth slowing to 4.0% Y/Y in Q2 from an upwardly revised rise of 4.9% in the previous quarter, the slowest pace since 2009. Nevertheless, the reading was the seventh straight gain. On the output side, the breakdown revealed the latest slowing in growth to be a reflection of broad-based deterioration across components, led by a clear slowing in manufacturing (2.1% Y/Y from 5.5% in Q1), and with the only exception being a swing into positive for agriculture (6.9% from -0.2%). The expenditure breakdown, meanwhile, showed weaker domestic demand growth, with growth in both public (4.0% Y/Y from 8.9% in Q1) and private consumption (6.4% from 6.7%) falling in the last quarter. Moreover, investment growth fell to a new cycle-low of 3.2% Y/Y from 6.5% in Q1, but with net trade providing a boost, as the pick up in export growth outpaced the drop in import growth.

- **Inflation:** *Inflation moderates.* Coming in slightly below expectations, consumer price inflation fell by 0.1 percentage point to 3.4% Y/Y in July from the preceding month, still the second-highest in the cycle. In M/M terms, prices picked up by 0.2%, boosted by food and household goods. The Y/Y breakdown, meanwhile, showed mixed messages, with rises in food, household goods and recreation outweighing falls in clothing and transport

The Americas

Canada

- **Inflation:** *CPI inflation decelerates.* Headline consumer price inflation softened to 2.7% y/y in July, slowing from 3.1% in June. In seasonally-adjusted terms, the index rose 0.1% after a decline of 0.3% in June. The BoC core rate (excludes volatile items and indirect taxes) came in at an in-line 1.6% y/y, and rose 0.3% in monthly terms after dipping 0.3% the month prior. The broad CPI result reflected further decelerating in energy prices, shelter costs, and the falling-away of provincial sales tax effects. The goods/services breakdown showed services prices falling to 2.1% y/y growth, the slowest since September 2010 after reaching a cycle high of 2.9% in March, while goods prices rose 3.5% y/y, down from 3.8% in June. Implications from the report for monetary policy are minimal given global uncertainties on the policy and economic fronts. Worries about inflation will be put on the back burner for some time, keeping the Bank of Canada on hold well into 2012 and perhaps later, assuming the benign scenario of slower growth does indeed play out in the quarters ahead. A weak growth environment, interspersed with periodic stalls in the U.S., does not provide support for a scenario where the BoC diverges materially from the Fed's policy stance. With the Fed on hold seemingly into perpetuity, a BoC hike will not come anytime soon. The case for a cut will require clear signs of renewed recession and/or significant financial market stress, but the benefits of such a move with the overnight rate already at 1% seem negligible under the BoC's current outlook, and would represent clear capitulation with respect to relatively optimistic projections made in late July.

Mexico

- **Growth and Production:** *GDP growth slows on base effects.* Seemingly ancient history at this point, data for Q2 showed a slowdown in growth to 3.3% y/y from 4.6%, though that in part represents the impact of an outsized gain in Q2 2010 (+7.6% annualized). The April-June period came in at 4.5% at a seasonally-adjusted, annualized rate, (+1.1% q/q). The result reflected stronger mining activity, a slowdown in construction, and a healthy pace in the manufacturing sector (+1.4% q/q after +1.6% in Q1). The result comes amid downgrades to the outlook by both the central bank and private sector analysts, implying an even more protracted hold for the central bank amid tame inflation pressures.

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:Q2	0.7	1.7
United Kingdom	2011:Q2	0.7	0.7
Germany	2011:Q2	0.5	2.8
France	2011:Q2	0.0	1.6
Italy	2011:Q2	1.0	0.8
Switzerland	2011:Q1	1.0	2.5
Japan	2011:Q2	-1.3	-0.9
Korea	2011:Q2	3.4	3.3
Taiwan	2011:Q2	14.4	5.0
Hong Kong	2011:Q2	-3.7	5.1
Singapore	2011:Q2	1.0	0.9
Australia	2011:Q1	-4.7	1.0
Mexico	2011:Q2	4.5	3.6

**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:M7	0.5	3.6	
2011:M7	0.2	2.7	
2011:M7	-0.6	2.5	
2011:M7	0.0	4.5	
2011:M7	0.3	2.5	
2011:M7	-0.4	1.9	
2011:M7	0.3	2.6	
2011:M7	-0.8	0.5	
2011:M6	-0.2	-0.4	
2011:M7	0.7	4.7	
2011:M7	-0.3	1.3	
2011:M6	0.5	5.6	
2011:M6	-0.2	5.2	
2011:Q2	0.9	3.6	
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:M7	0.9	3.7
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:Q1	-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:Q1	-12.9	3.6
Singapore	2011:M6	9.0	10.5
Australia	2011:Q1	-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
2011:Q1	-471.9	-470.9	-376.6	
2011:Q1	-50.0	-49.3	-40.3	
2011:Q1	-70.4	-71.6	-37.1	
2011:Q2	190.6	184.4	189.7	
2011:Q2	-63.4	-45.0	-39.1	
2011:Q2	-83.3	-71.2	-41.3	
2011:Q1	76.7	76.6	57.2	
2011:Q2	166.0	196.0	142.6	
2011:Q2	28.2	28.2	32.8	
2011:Q2	38.3	39.9	42.9	
2011:Q1	14.7	13.9	18.0	
2011:Q2	51.3	49.5	35.1	
2011:Q1	-27.6	-31.9	-43.3	
2011:Q1	-7.5	-5.7	-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:M7	4.9	4.8	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:M7	3.4	3.5	4.3
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
2.07	2.93	2.58
2.30	2.95	2.92
2.39	3.07	3.01
2.11	2.77	2.31
3.39	3.41	2.60
4.93	5.60	3.77
0.91	1.55	1.15
0.99	1.09	0.94
3.84	4.17	4.61
1.33	1.54	1.27
1.62	2.22	2.02
1.59	2.20	1.90
4.23	4.96	4.92
1.85	2.39	2.09

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.50	1.50	1.00
United States	0.12	0.09	0.21
Canada	1.00	1.00	0.75
United Kingdom	0.53	0.59	0.50
Germany	1.50	1.50	1.00
France	1.50	1.50	1.00
Italy	1.50	1.50	1.00
Switzerland	-0.75	0.09	0.03
Japan	0.10	0.09	0.10
Korea	3.23	3.26	2.28
Hong Kong	0.10	0.11	0.01
Singapore	0.16	0.16	0.13
Australia	0.00	4.75	4.50
Mexico	4.47	4.48	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
1.4391	1.0	1.2	12.2
77.64§	-0.4	0.5	-8.0
0.9891	-0.2	-4.4	4.9
1.6461	1.1	1.9	5.5
1.3590	-1.0	-1.2	-10.9
4.5578	-1.0	-1.2	-10.9
1345.38	-1.0	-1.2	-10.9
0.7860	-1.0	4.1	23.8
76.49	0.3	2.9	10.4
1087.6	-0.7	-3.1	7.3
7.7971	0.1	0.1	0.3
1.2107	0.1	0.3	10.6
1.0397	0.4	-3.3	16.5
12.3065	0.0	-5.6	3.1

§ 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:Q2	0.6	1.7
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:Q2	0.9	0.7
Portugal	2011:Q2	0.1	-0.9
Indonesia	2011:Q2	12.0	6.5
Philippines	2011:Q1	-31.2	4.9
Malaysia	2011:Q2	11.8	4.0
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:M7	-0.3	4.0
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:M7	0.2	3.4
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	0.3	6.6

**Not seasonally adjusted.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M5	-0.2	12.6
Netherlands	2011:M6	-1.6	0.6
Denmark	2011:M6	-5.8	-3.1
Sweden	2011:M6	-2.3	3.6
Norway	2011:M6	5.2	-4.1
Finland	2011:M6	-3.3	0.5
Spain	2011:M6	3.6	3.3
Portugal	2011:M6	-3.5	1.5
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:Q2	5.6	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:M7	4.3	4.1	4.6
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	3.90	4.31	2.96
Netherlands	2.50	3.13	2.49
Denmark	3.90	4.31	2.96
Sweden	1.98	2.79	2.39
Norway	2.26	3.25	3.20
Finland	3.30	3.35	2.50
Spain	4.97	5.98	4.05
Portugal	10.60	11.91	5.18
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	3.63	3.87	3.72
Thailand	3.48	4.01	3.33
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	2.16	2.12	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	5.88	6.04	6.23
Philippines	4.50	4.50	0.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	7.50	7.40	5.72
China	—	—	—
Argentina	9.70	9.95	9.93
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	28.0294	1.0	1.2	10.9
Netherlands	1.5312	1.0	1.2	10.9
Denmark	5.1757	1.0	1.3	10.9
Sweden	6.3858	1.9	0.9	13.4
Norway	5.4699	1.0	0.4	11.5
Finland	4.1313	1.0	1.2	10.9
Spain	115.61	1.0	1.2	10.9
Portugal	139.30	1.0	1.2	10.9
Indonesia	8558.0	0.0	-0.2	4.5
Philippines	42.615	0.0	0.2	5.2
Malaysia	2.9799	0.8	0.7	4.9
Thailand	29.820	0.4	0.2	5.3
India	45.748	0.9	2.9	-1.8
China	6.3925	0.0	1.0	5.9
Argentina	4.1771	-0.4	-1.0	-6.1
Brazil	1.6012	0.7	-2.3	8.8

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

Week ended: 8/19/2011

Focus on Mexico: Moderate (and Vulnerable) GDP Growth

The advance second-quarter national accounts data confirm that Mexico's GDP has settled—at least for now—into a pattern of growth that would have the economy expand in the 3.5%-to-4% for the year, down from 5.4% in 2010 and below earlier, more optimistic, forecasts. This is certainly not a bullish outlook; moreover, it is a very vulnerable one given Mexico's close economic ties with the United States.

Still, the data do not (again, *at least for now)*, point to recessionary conditions as the next stage in the cycle. On the contrary, real GDP actually accelerated on seasonally-adjusted and quarter-on-quarter basis, from 0.6% in the first quarter, to 1.1% in the second (annualized 2.4% versus 4.5%, according to INEGI, the national statistics institute. In annual terms, however, real GDP growth went from 4.6% year-on-year in the first quarter to 3.3% year-on-year in the second.

What drove the seasonally-adjusted series' acceleration? The expenditure disaggregation will not be released for another month. From the output perspective, both secondary (industry) and tertiary (services) activities increased their pace; the former from 0.7% quarter-on-quarter to 1.3% quarter-on-quarter (the fastest pace since April-to-June of 2010); the latter from 0.8% quarter on quarter to 0.95% quarter-on-quarter. Primary activities, however, suffered their second large quarterly drop in a row (-2.4% quarter-on-quarter in January-to-March; -2.6% quarter-on-quarter in April-to-June).

While the decline of Primary Activities GDP is clearly the result of Agriculture's contraction, it should be noted that Secondary Activities GDP (which includes mining, construction, manufacturing, and utilities) showed a seasonal deceleration in the last three (a modest quarterly slowdown in manufacturing, from 1.6% to 1.4%; a more marked weakening in construction, from 0.7% to -0.1%, and utilities, from 3.2% to 1.2%) but a positive offset by mining, which had dropped during the previous three quarters and recovered 1.1% quarter-on-quarter in the April-to-June period.

It should also be noted that the quarterly acceleration of manufacturing, construction, and to a much lesser extent utilities did not suffice to prevent their annual rate from falling, while for most services (particularly Healthcare, Science/Technology, Entertainment, and Restaurant/Hotels) year-on-year growth was higher in the second quarter than in the first.

Outlook implications: were it not for the substantial probability that adverse developments could originate north-of-the-border, one would be tempted to say that these data (incomplete as it is, pending the release of demand-side figures) suggest that there is a solid floor under the Mexican economy's cyclical oscillation, with a high likelihood that the pace of growth during the foreseeable future would be neither impressive (i.e. 5% or more), nor sub-par.

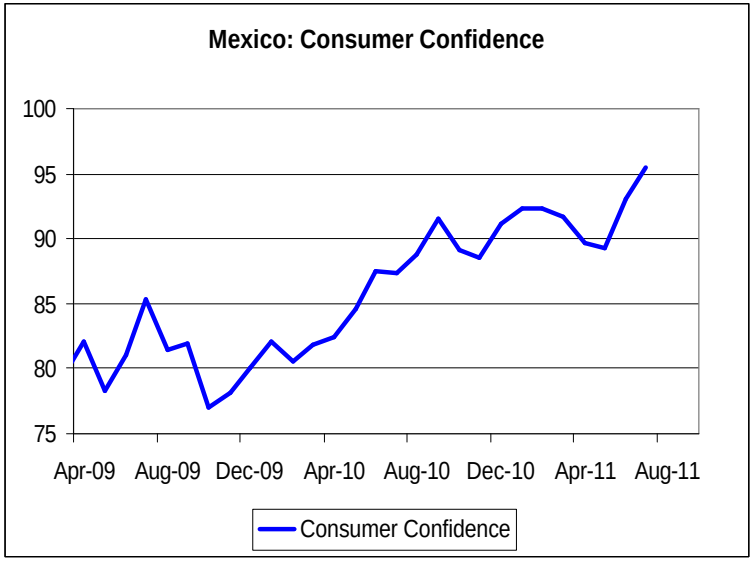
If anything, the continuation of a tame inflation environment (CPI and core CPI are rather stable and within the central bank's tolerance range) plus the maintenance of a positive employment and labor incomes trend would add some potential upside—perfectly consistent, incidentally, with the still ascendant pattern of consumer confidence, which has moved up unambiguously and sharply in June and July, even as financial markets traverse a turbulent period.

Policy implication: these figures provide no reason for a change of macroeconomic policy, which will likely include for the foreseeable future low (if not lower) interest rates.

As hinted, a further deceleration of the US economy might actually force the central bank to ease further to keep domestic demand from caving in as the potential shock hit Mexico's GDP through the traditional channels (exports, workers remittances, and FDI flows—the latter already decelerating in the past few months).

— Francisco J. Larios, DE Miami





DECISION ECONOMICS August 19, 2011

	Latest	Week Ago	% Chg. YTD *	12/30/09
Yen/$	76.49	76.71	-5.7	81.12
$/Euro	1.4392	1.4248	-7.5	1.3384
Yen/Euro	110.08	109.30	1.4	108.57
$/STG	1.6466	1.6278	-5.5	1.5612
Sfr/$	0.7860	0.7779	-16.0	0.9352
Can$/US$	0.9891	0.9873	-0.9	0.9980
Mexican Peso/$	12.306	12.309	-0.3	12.340
Brazil Real/$	1.6012	1.6117	-3.6	1.6613
Thai Baht/$	29.820	29.930	-0.8	30.060
Malaysian Ringgit/$	2.9799	3.0038	-2.7	3.0635
Indonesian Rupiah/$	8557.8	8554.0	-4.9	8996.0
Korean Won/$	1087.6	1079.6	-3.4	1126.0
Philippines Peso/$	42.615	42.600	-2.7	43.800
India Rupee/$	45.748	45.404	2.3	44.705

* For Year-to-Date change calculations, all signs refer to the movement of the U.S. dollar, except for the Yen/Euro rate, where the sign refers to the euro.

BENCHMARK YIELDS				
SHORT-TERM (3-Month LIBOR)**				
U.S.	0.30	0.29	0.00	0.30
Canada	1.13	1.12	-0.10	1.23
Euro	1.48	1.49	0.54	0.94
U.K.	0.87	0.85	0.11	0.76
Japan	0.19	0.19	0.00	0.19
LONG-TERM (10-Year Benchmark)**				
U.S.	2.07	2.26	-1.23	3.30
US 10 Year Swap Rate	2.20	2.41	-1.17	3.38
Canada	2.30	2.46	-0.82	3.12
Italy	4.93	5.02	0.12	4.82
Germany	2.11	2.33	-0.86	2.96
U.K.	2.39	2.53	-1.01	3.40
Switzerland	0.91	1.20	-0.80	1.72
Japan (JGB)	0.99	1.05	-0.14	1.13
Australia	4.23	4.43	-1.32	5.55
Brazil	3.97	4.00	-0.64	4.61
India	8.26	8.20	0.34	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.14	0.16	0.05	0.08
10 Year - 2 Year	1.87	2.07	-0.83	2.70
Moody AAA	2.07	2.05	0.98	1.08
UK Gilt	0.32	0.28	0.22	0.10
German Bund	0.04	0.08	0.37	-0.33
Italian 10-year	2.86	2.76	1.34	1.52

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

STOCK MARKETS				
U.S. (DJIA)	10818	11269	-6.6	11578
S&P 500	1124	1179	-10.7	1258
NASDAQ Composite	2342	2508	-11.7	2653
Russell 2000	652	698	-16.8	784
Canada (TSE-300)	12007	12542	-10.7	13443
Mexico (Bolsa)	33138	33362	-14.0	38551
Argentina (Merval)	2826	2967	-19.8	3524
Brazil (Bovespa)	52448	53473	-24.3	69305
Germany (DAX, XETRA)	5480	5998	-20.7	6914
U.K. (FT-SE 100)	5041	5320	-14.6	5900
France (CAC-40)	3017	3214	-20.7	3805
Switzerland (SMI)	5094	5253	-20.9	6436
Japan (Nikkei-225)	8719	8964	-14.8	10229
Hong Kong (Hang Seng)	19400	19620	-15.8	23035
Australia (All Ordinaries)	4172	4238	-13.9	4847
South Korea (KOSPI)	1745	1817	-14.9	2051
Thailand	1069	1062	3.5	1033
India (BSE)	16142	17059	-21.3	20509
China (Dow Jones Shanghai Index)	323	330	-9.4	356
Singapore (Straights Times Index)	2734	2851	-14.3	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1852.35	1746.90	30.4	1420.78
Crude Oil (WTI, Spot)	82.26	85.38	-10.0	91.38
CRB Futures	329.47	326.53	-1.0	332.80
CRB Raw Industrials (Spot)	539.89	539.15	3.8	520.33