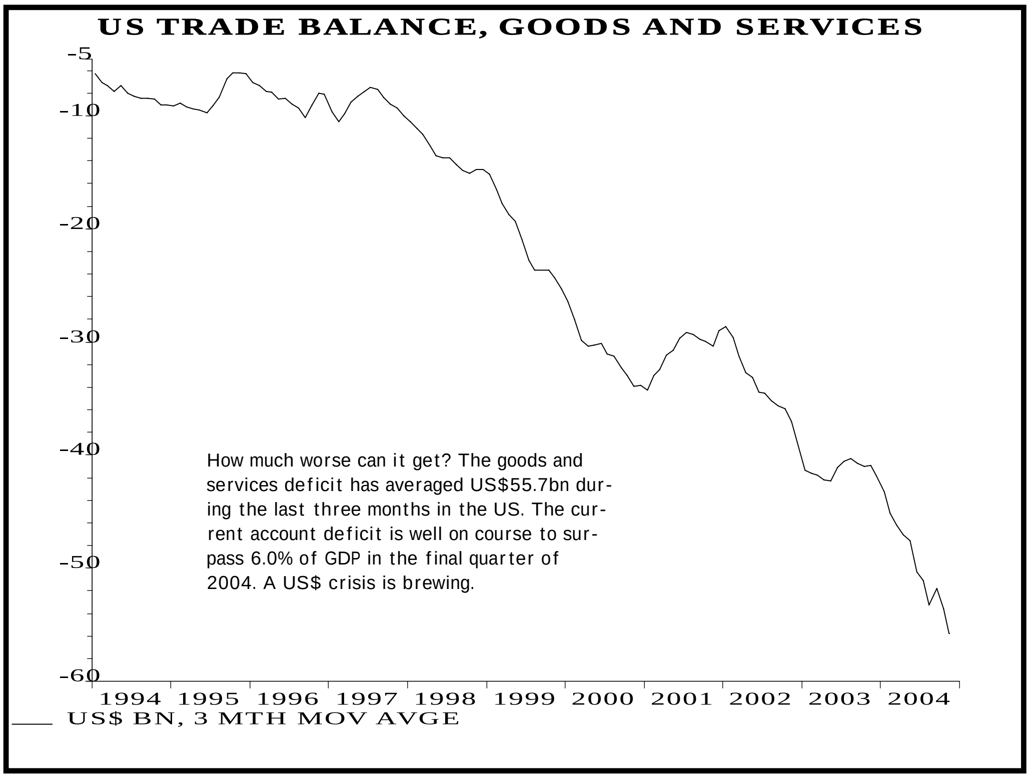
January 14th 2005

GFC ECONOMICS

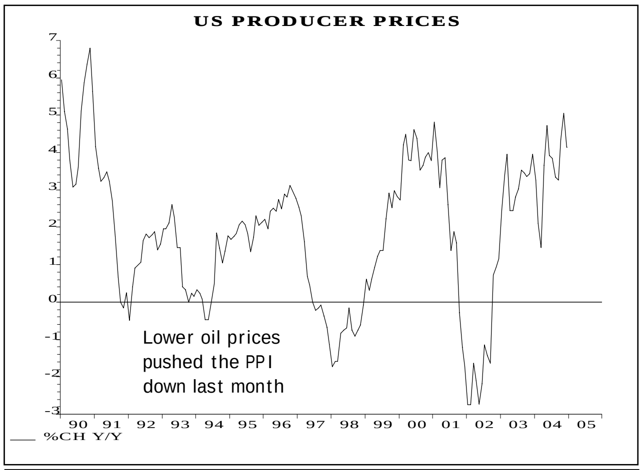
WEEKLY CHARTBOOK

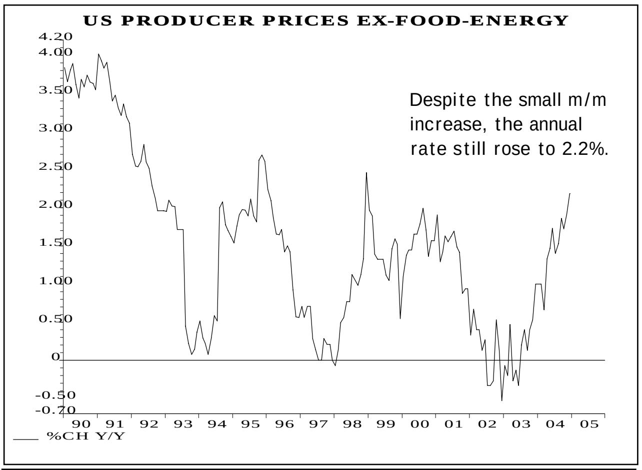
CHART OF THE WEEK

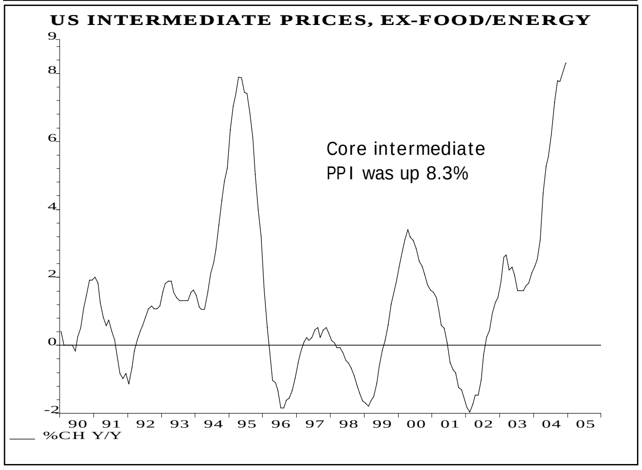


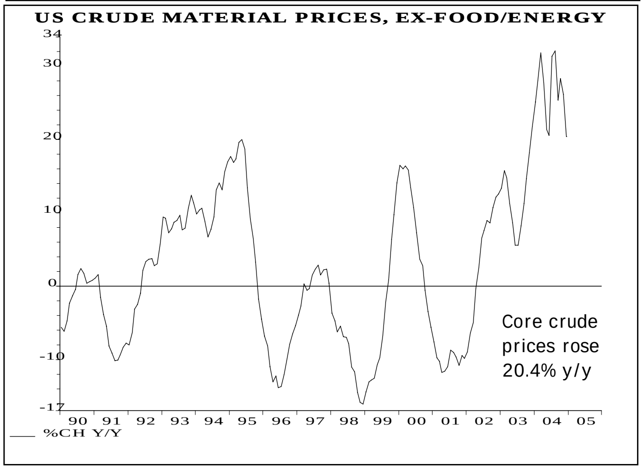
US - 1

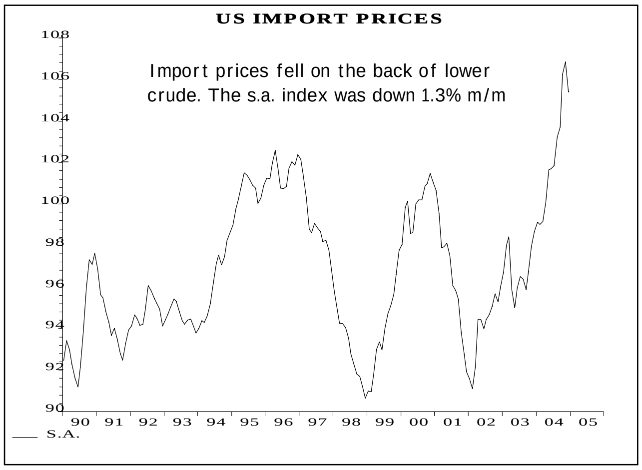
The producer price report for December will have allayed fears that a crumbling US$ and higher raw material prices pose significant upside inflation risks in 2005. Headline producer prices fell by 0.7% m/m, but more importantly, the core index was only up 0.1% m/m. That was the smallest increase since July. The core intermediate PPI rose 0.5% m/m, the biggest gain since September, but the ex-food and energy crude materials index dropped 1.7% m/m. While the decline in crude material prices points to a peak in the commodity price cycle, the import price data suggests otherwise. Ex-oil raw material prices were up again, climbing 1.4% m/m. Indeed, non-oil import prices continue to accelerate, rising by 0.5% m/m and 3.8% y/y.

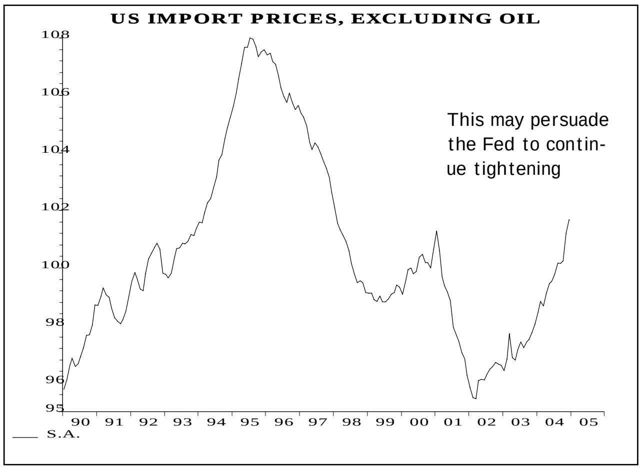








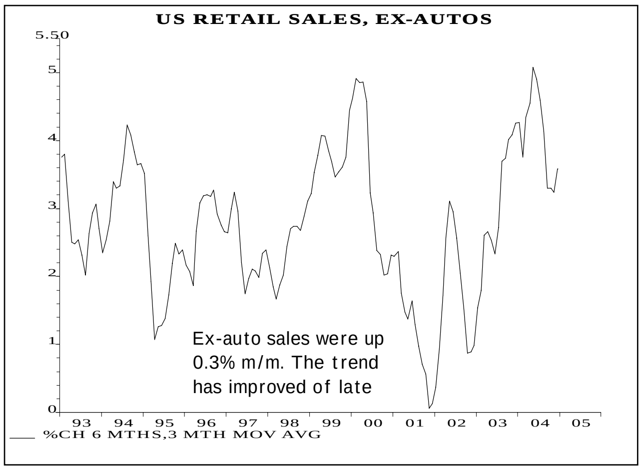


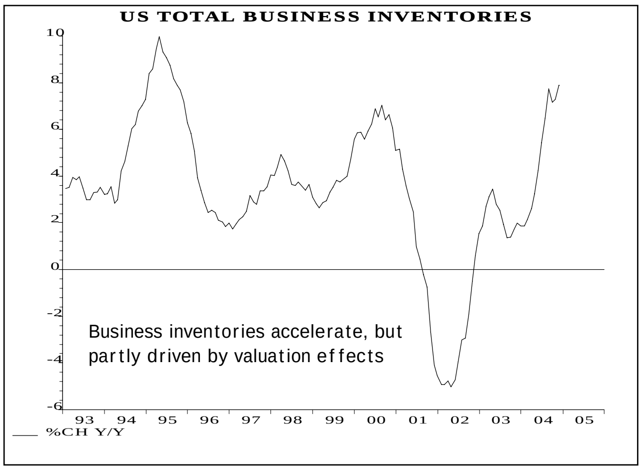


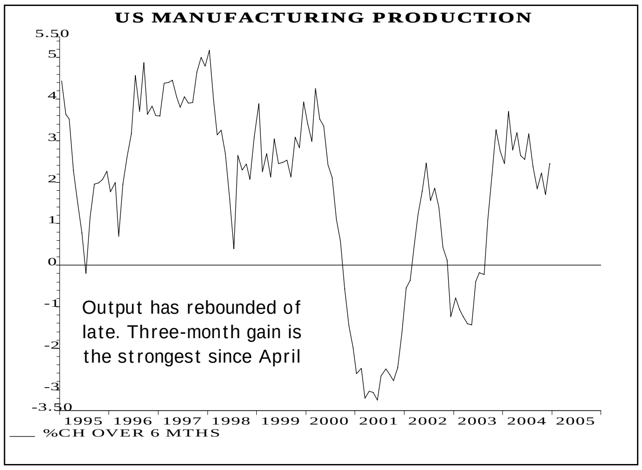
Source: Datastream

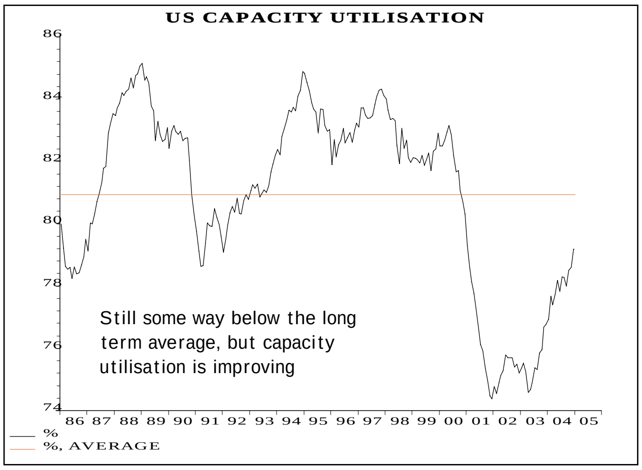
US - 2

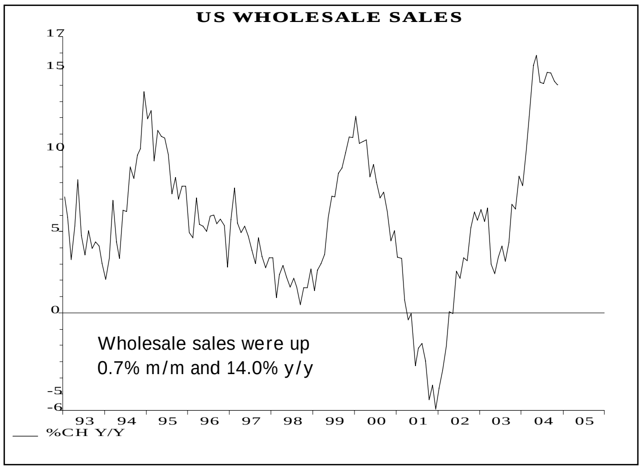
Retail sales were up sharply in December climbing by 1.2% m/m and 8.7% y/y. While a large part of this was in response to higher spending on autos, the underlying trend still points towards stronger consumption. Ex-auto sales have turned up in recent months too. The recovery in consumer spending has been accompanied by significant inventory accumulation, although part of this is down to price effects pushing up the value of raw material stocks. Nevertheless, the manufacturing production numbers provide clear evidence of the recent turnaround in the economy. Output was up 0.6% m/m in December and 1.7% in the last three months. Capacity utilisation is improving quickly too, after rising to 79.2% last month.

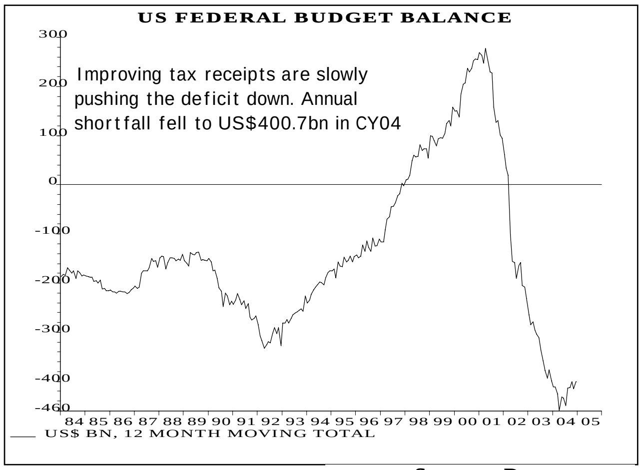








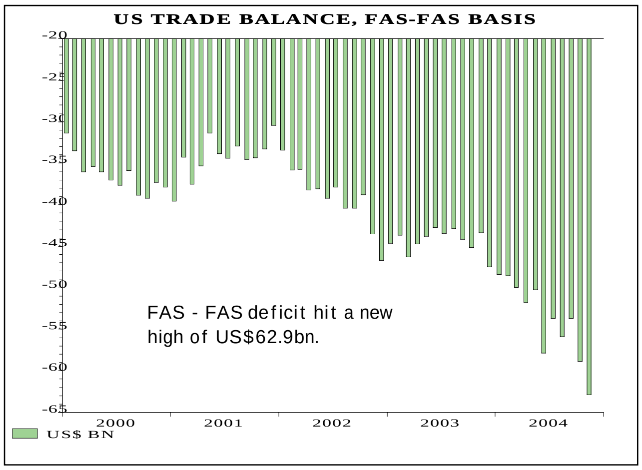


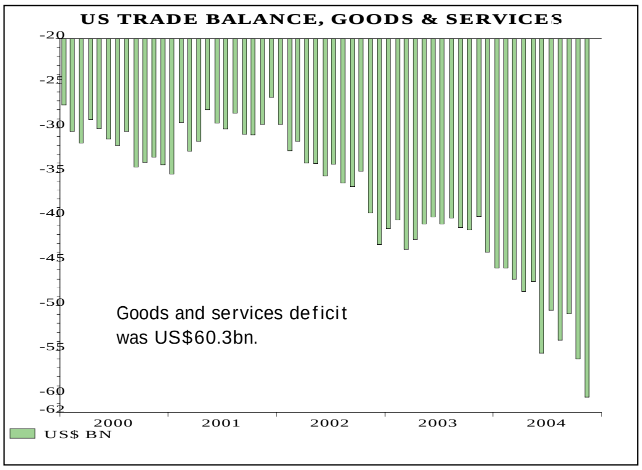


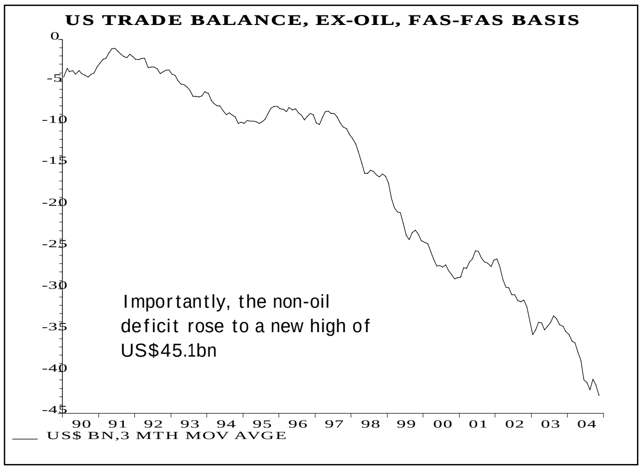
Source: Datastream

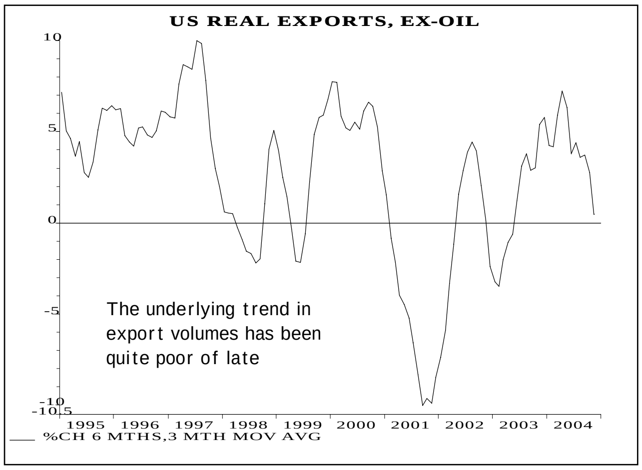
US - 3

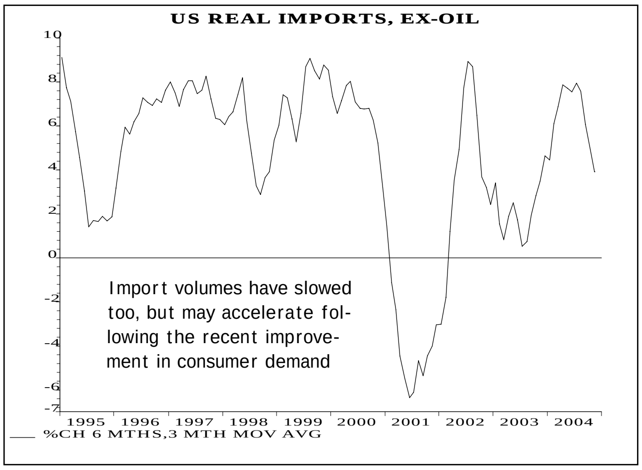
The trade deficit hit another record high during November, underlining the serious threat of a US$ crisis this year. This was partly due to higher oil prices. But the non-oil trade deficit rose too, and is showing clear signs of widening again. Export volumes were down sharply for the second month running, by 3.8% m/m, while imports leapt 7.3% m/m. The deterioration was across the board, with consumer goods, autos, capital goods, computers and industrial supplies all contributing to the record deficit. The bi-lateral deficit with China continues to rise, hitting a new high of US$157.6bn during the past year. But there were significant increases elsewhere, including Japan, Euroland, the UK, Canada, Mexico, Brazil and SE Asia.







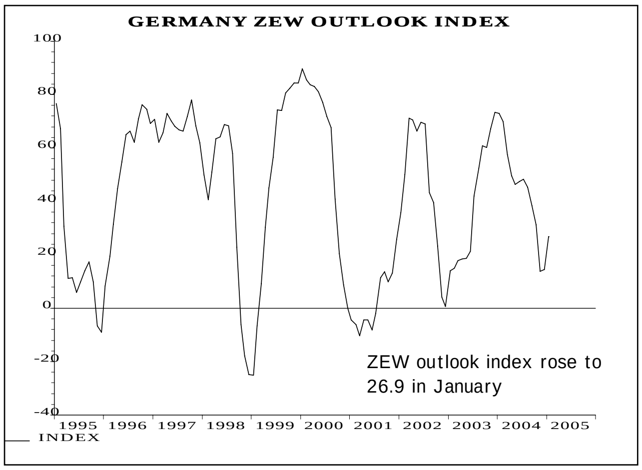


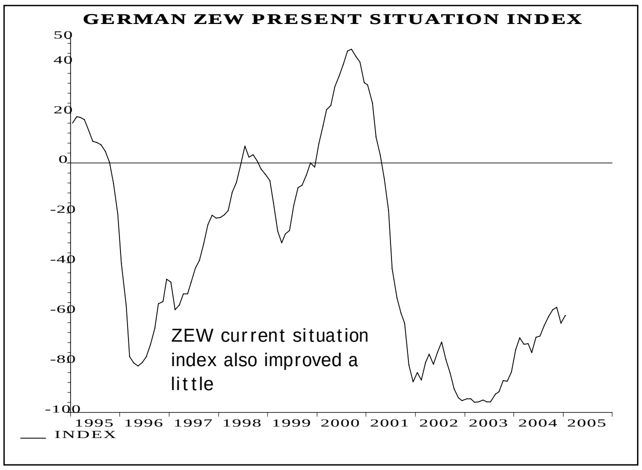


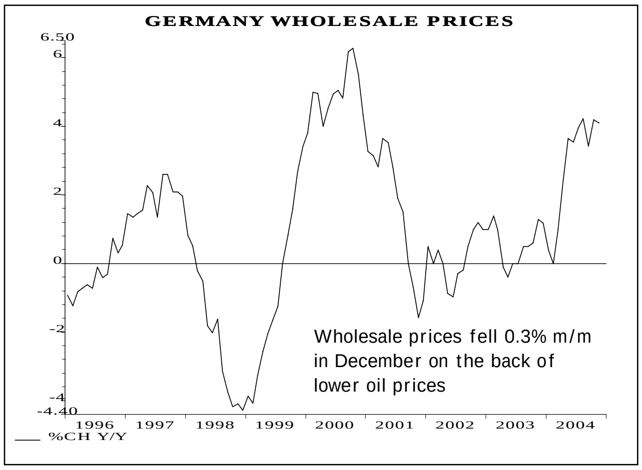
Source: Datastream

Euroland - 1

This week's data only added to the confusion over the health of the German economy. The ZEW outlook index improved significantly in January and, together with the bounce in IFO business confidence in December, confirms that sentiment has turned up. The hard economic data recently, however, has painted a more depressed picture. Not only were factory orders down sharply in November, but industrial output also fell a hefty 1.7%m/m and dropped 0.7% y/y. Meanwhile, the annual national accounts showed work-day adjusted GDP was up 1.1% y/y in 2004. The FSO said that GDP accelerated slightly in Q4, led by exports. Consumption also improved somewhat, but investment stagnated following a strong gain in Q3.







Source: Datastream

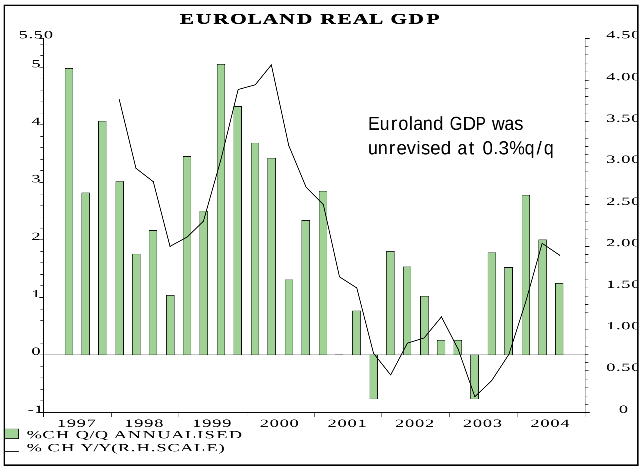
January 14th 2005

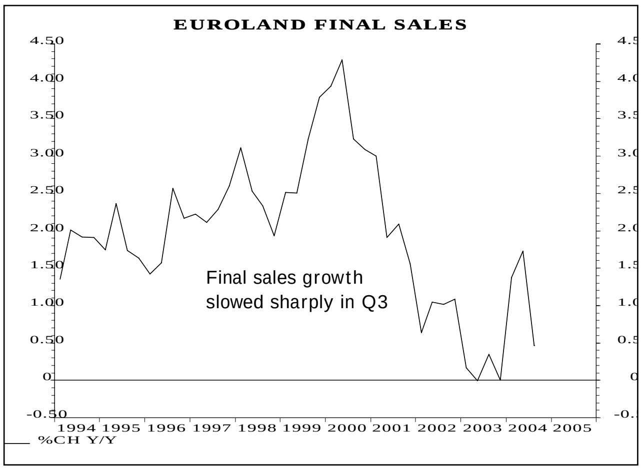
GFC Economics

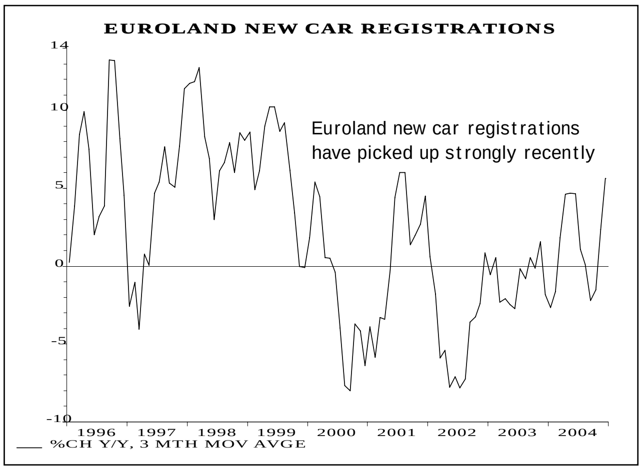
Weekly Chartbook

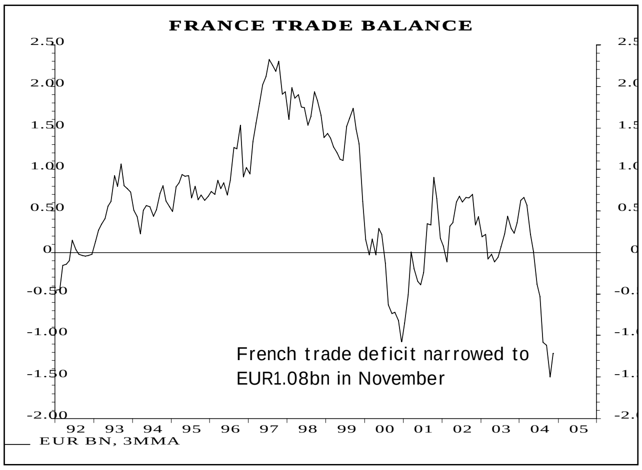
Euroland - 2

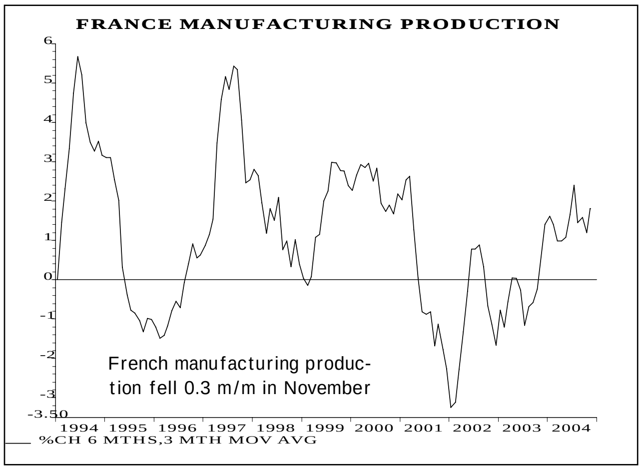
The revised Q3 Euroland GDP data left growth unchanged at 1.8% y/y. Consumption and investment were nudged down slightly, while the large build-up of stocks, far from being cut back as expected, was increased a little. On the consumption front, meanwhile, Euroland car registrations rose 9.6% y/y in December, the second consecutive large gain, suggesting that consumption may be rather firmer than last week's weak November retail sales implied. Elsewhere, in France, the trade deficit narrowed in November but has yet to break convincingly the deteriorating trend of the last year. French manufacturing production declined for the second month running in November, though the longer term trend remains positive.

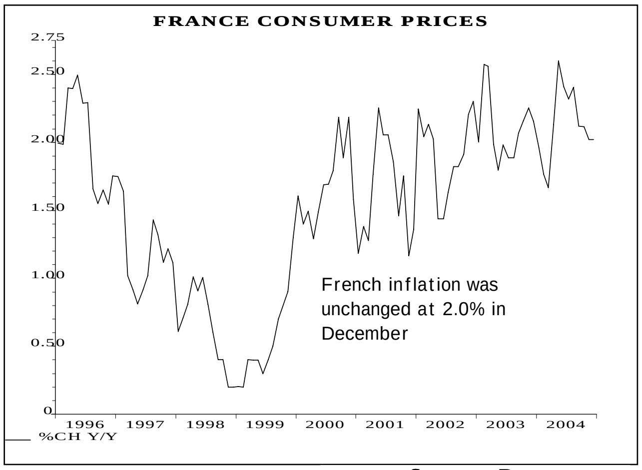








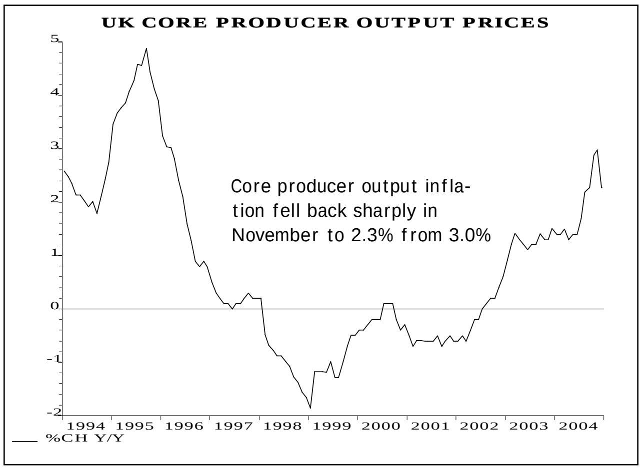


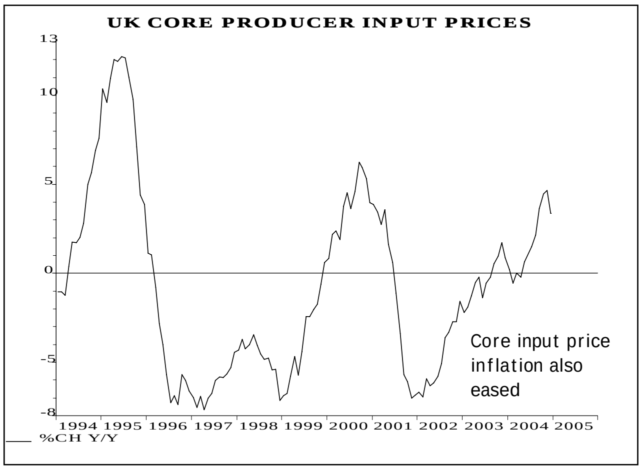


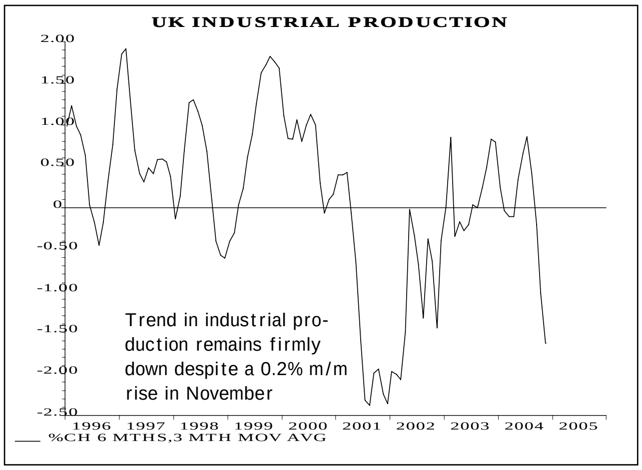
Source: Datastream

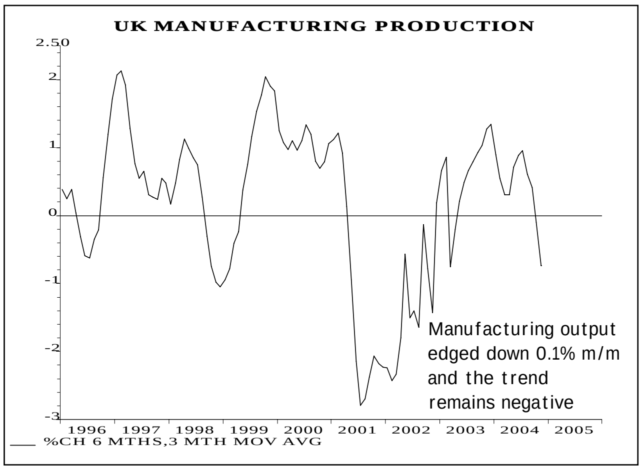
UK

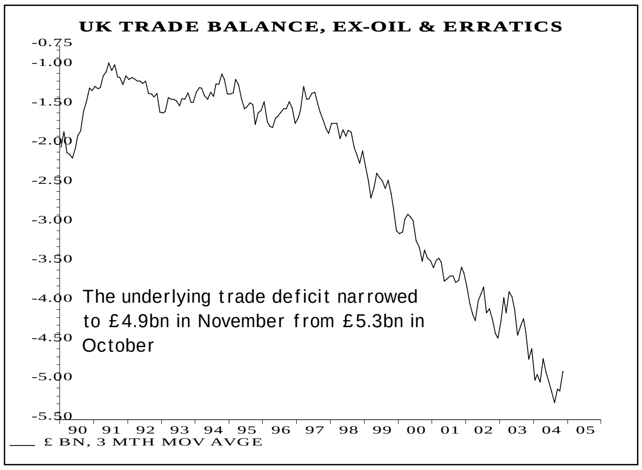
Factory gate inflation fell back sharply in December from its recent 10 year highs, and will ease one of the MPC's concerns on the inflation front. Headline input price inflation slumped from 6.7% to 3.4%. Oil prices were the main factor driving the decline but core inflation also dropped back to 3.4% from 4.7%. Core output prices, meanwhile, recorded their largest monthly drop since July 1999, on the back of a sharp decline in secondary raw material prices such as scrap metal. Elsewhere, the official manufacturing data continued to disappoint. While industrial production edged up in December for the first time in six months, manufacturing output slipped slightly and continues to paint a much bleaker picture than the survey data.

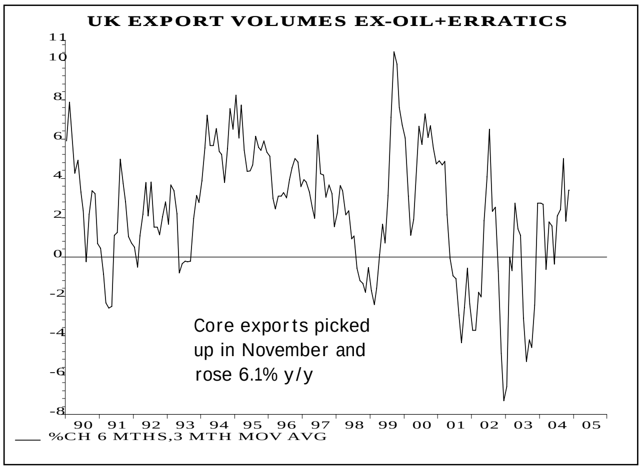








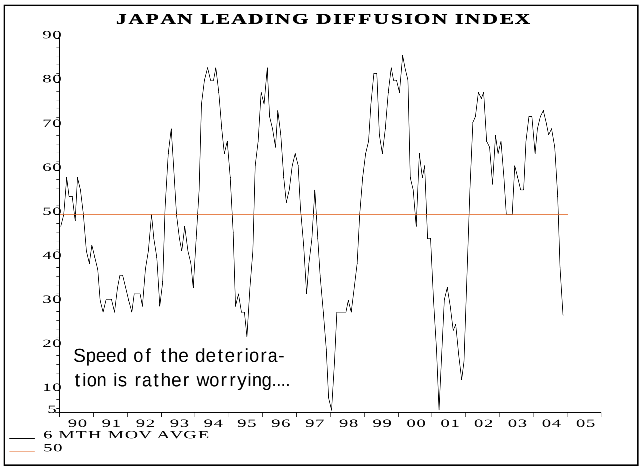


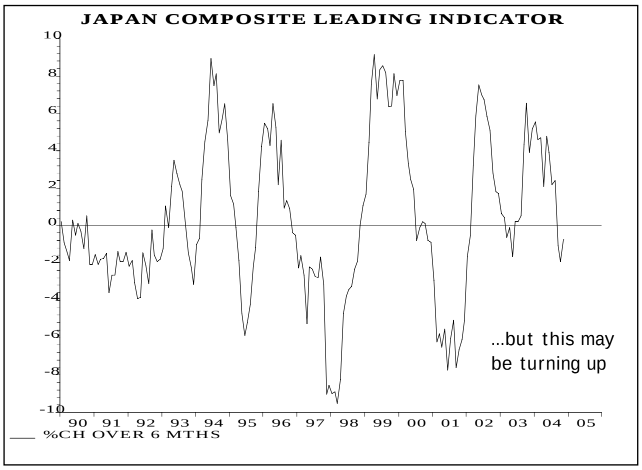


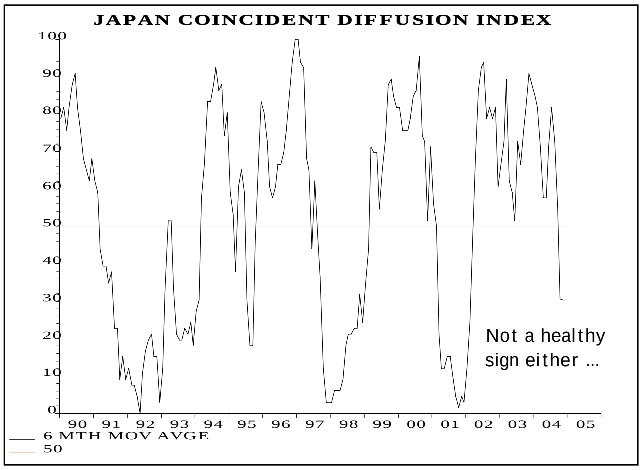
Source: Datastream

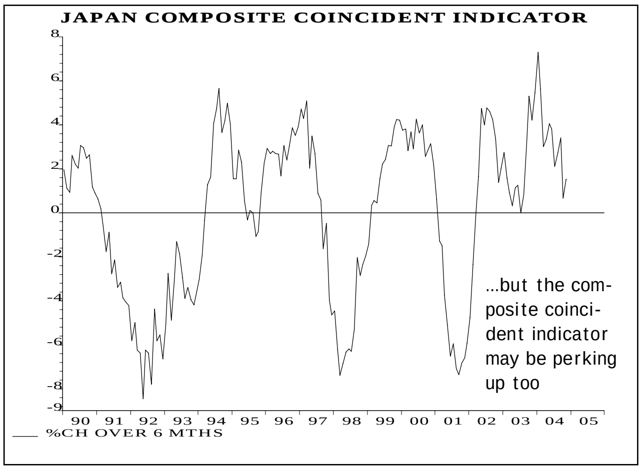
Japan - 1

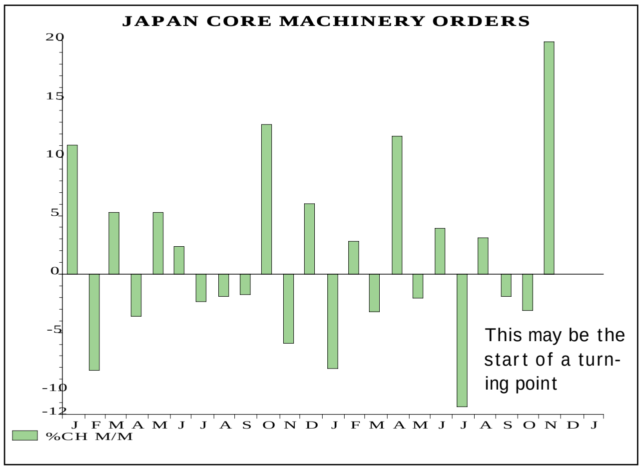
Cabinet Office figures confirmed the sharp deterioration in Japan's leading indicators this week. The diffusion index bounced from 18.5 in October to 30.0. But it has been ensconced below the 50.0 mark for three months running, traditionally a harbinger of recession. The coincident diffusion index was also below the so-called boom-bust threshold, despite rising to 44.4. However, the alternative composite measures suggest there is light at the end of the tunnel, with the leading indicator climbing 1.2% m/m and the coincident index bouncing 1.6% m/m. Furthermore, the sharp rise in machinery orders suggests the economic outlook is improving. Foreign orders were up for the second month running, rising by 29.0% m/m.

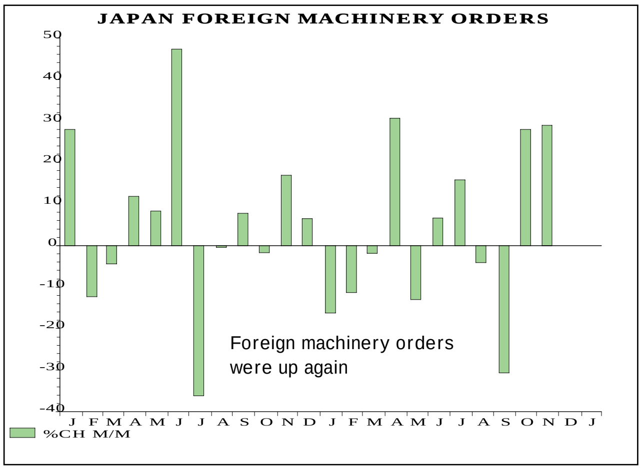








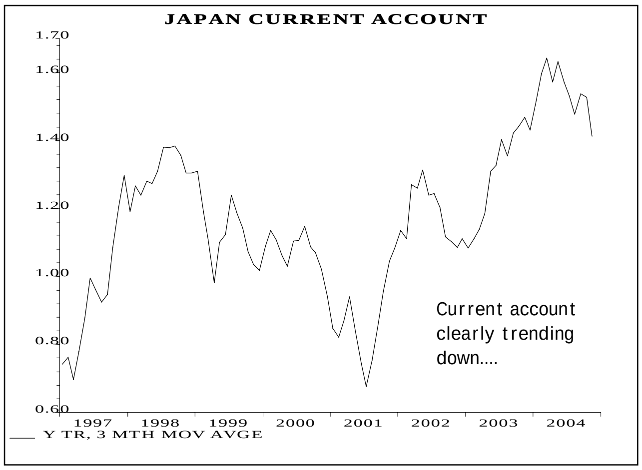


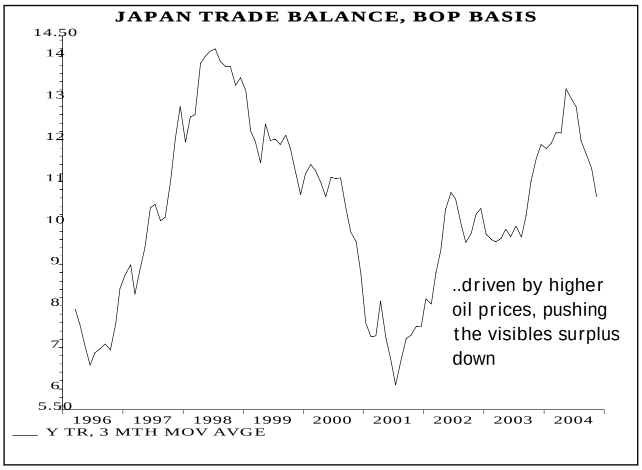


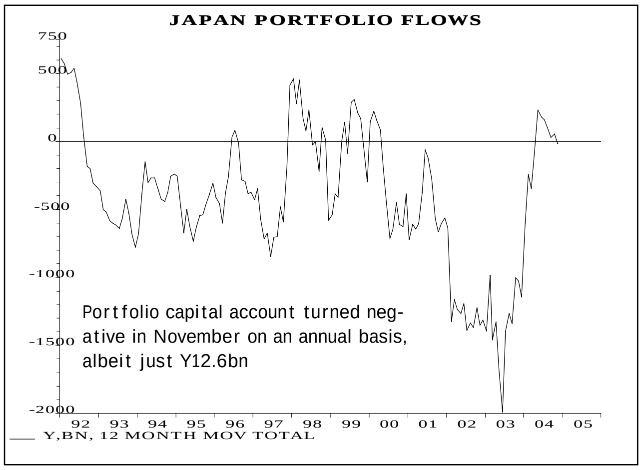
Source: Datastream

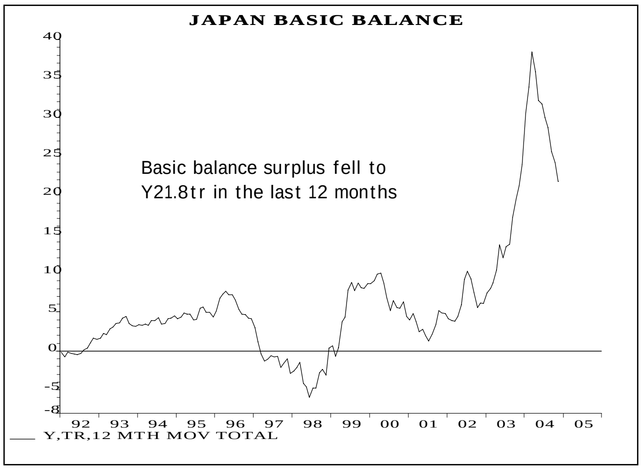
Japan - 2

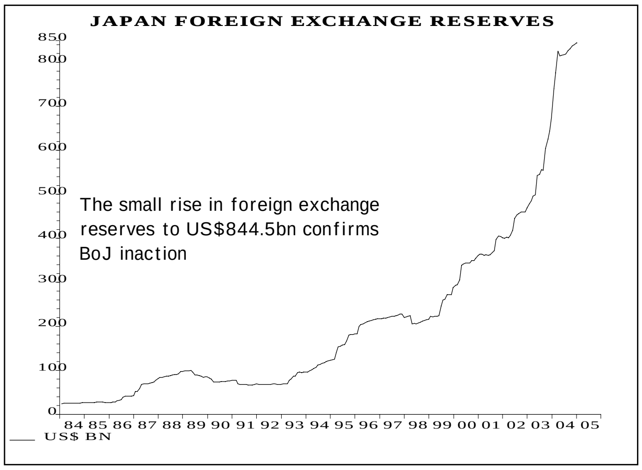
Despite the strong machinery orders, the trade numbers show that Japan's current account is trending down. In seasonally adjusted terms, the surplus rose during November to Y1.386tr, but the 3-month moving average fell to its lowest level since August last year. Ordinarily, this should presage a weaker yen, but part of the deterioration has been down to higher oil prices. Significantly, the bi-lateral surpluses vis a vis the US and Europe are still climbing. And while the portfolio capital flows are turning negative, pushing the basic balance down even more quickly, the yen is likely to remain under upward pressure against the US$ and the euro. The modest rise in reserves suggests the BoJ has - so far - been reluctant to intervene.

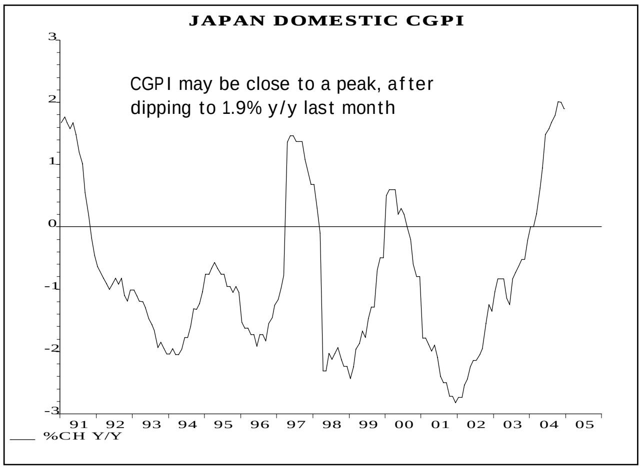








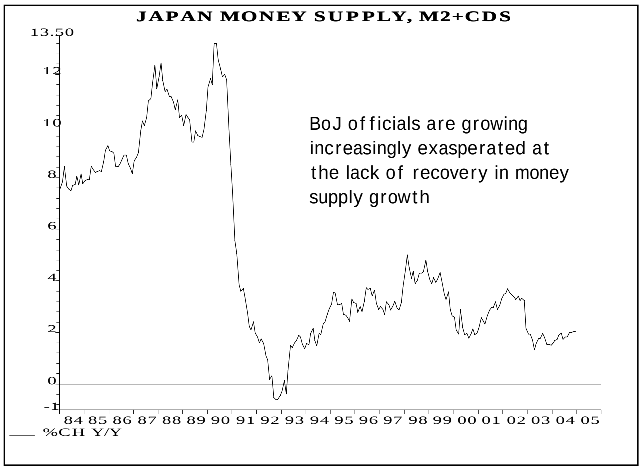


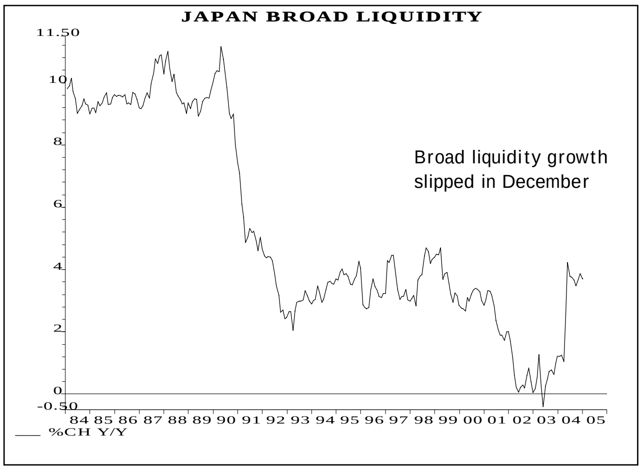


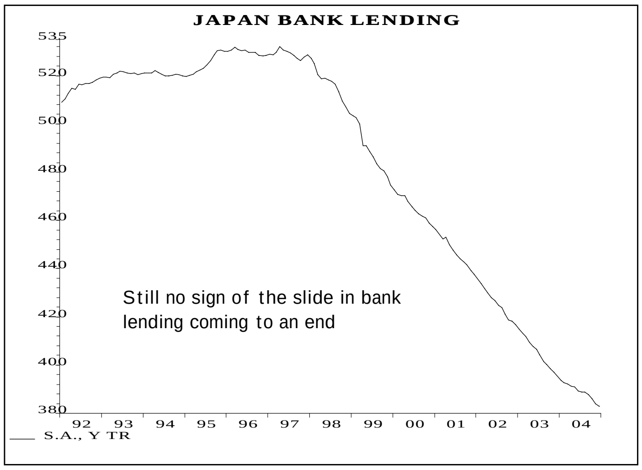
Source: Datastream

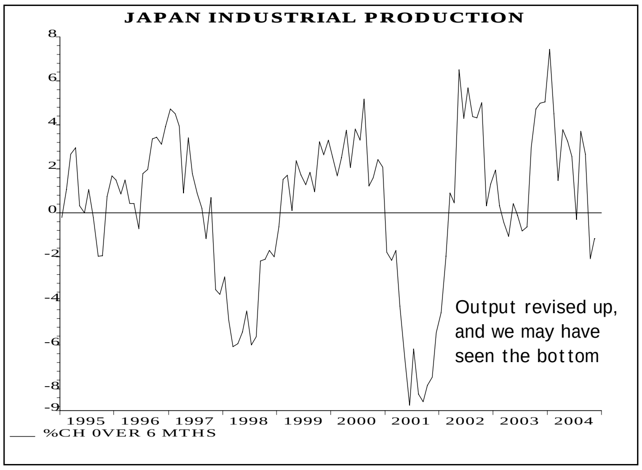
Japan - 3

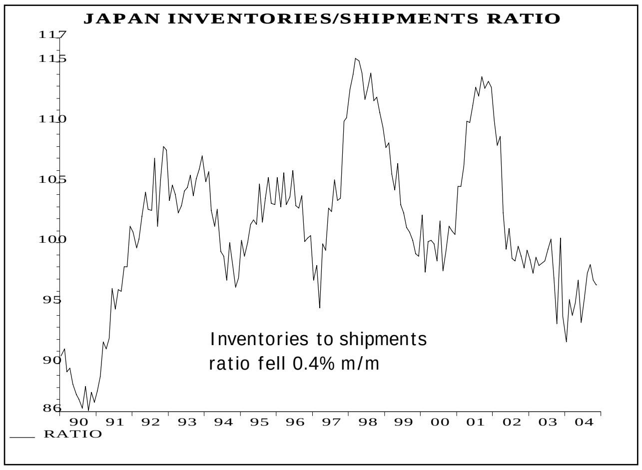
Yet another disappointing set of money supply numbers give the Bank of Japan little reason to scale back on the policy of quantitative easing. M2+CDs growth was unchanged at 2.0% y/y, broad liquidity growth slipped a touch to 3.7% y/y, and bank lending fell by 3.1% y/y. The latter was a modest improvement from November's decline of 3.3% y/y. But the level of total loans outstanding has still dropped by 28.0% since April 1997. Last but not least, the industrial production numbers for November were revised up a touch, to show an increase of 1.7% m/m, compared with a preliminary reading of 1.5% m/m. Indeed, the capacity utilisation index climbed to its highest level since August 1997.

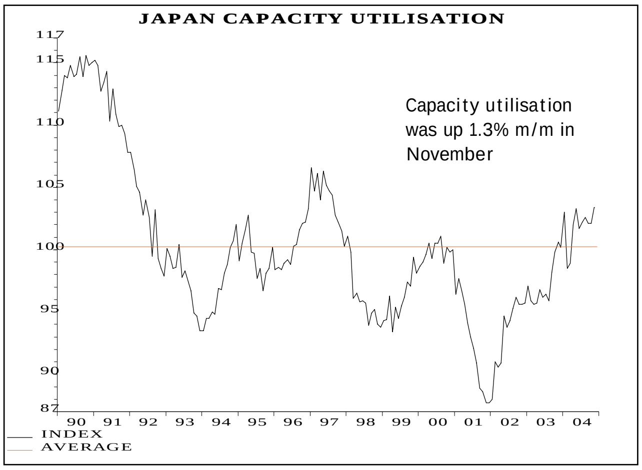








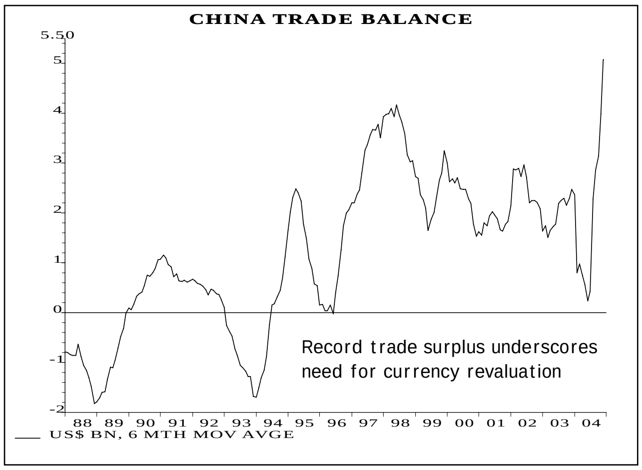


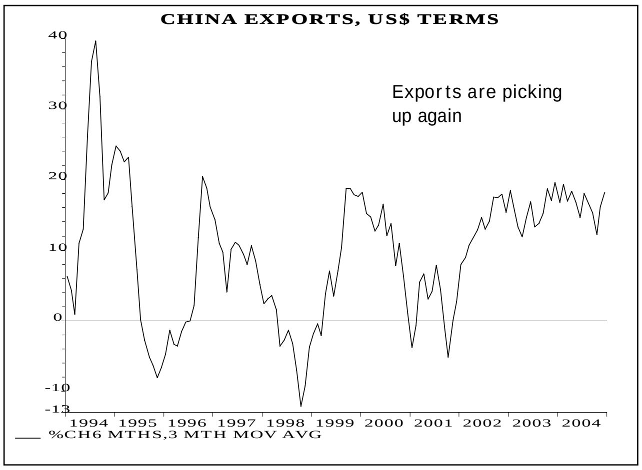


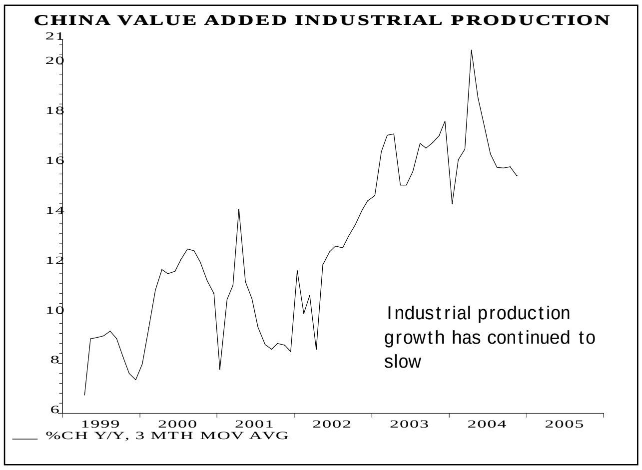
Source: Datastream

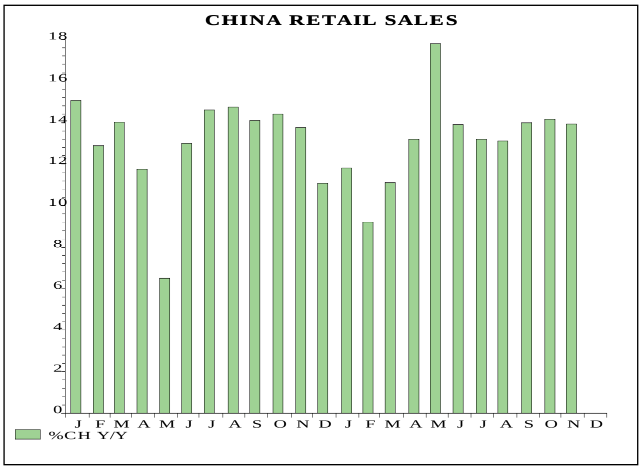
China

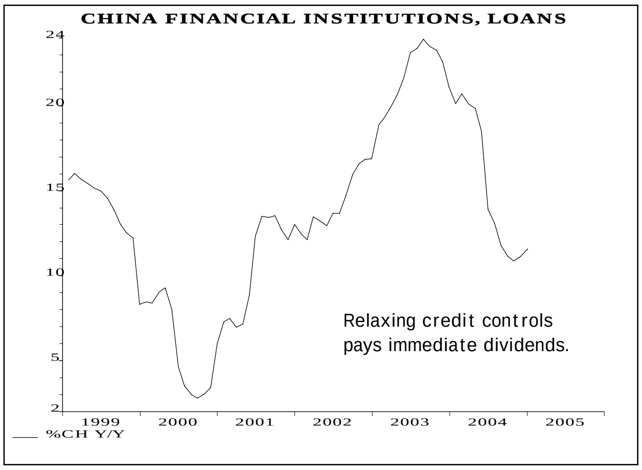
China's trade surplus rose to a record high during December, hitting US$11.1bn on a headline basis. In seasonally adjusted terms, the trade balance also reached an all-time high, of US$8.2bn. Imports fell on the month by 1.5%, but after the strong gains witnessed in the previous two months, the modest drop suggests the underlying trend is strengthening. Exports were up 0.4% m/m, but following November's leap of 14.0% m/m, that also points to a significant acceleration. Elsewhere, retail sales growth remained strong, climbing 13.9% y/y, but output growth slipped to 14.8% y/y, the lowest increase since January. More significantly, both money supply and lending growth nudged up in December.











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