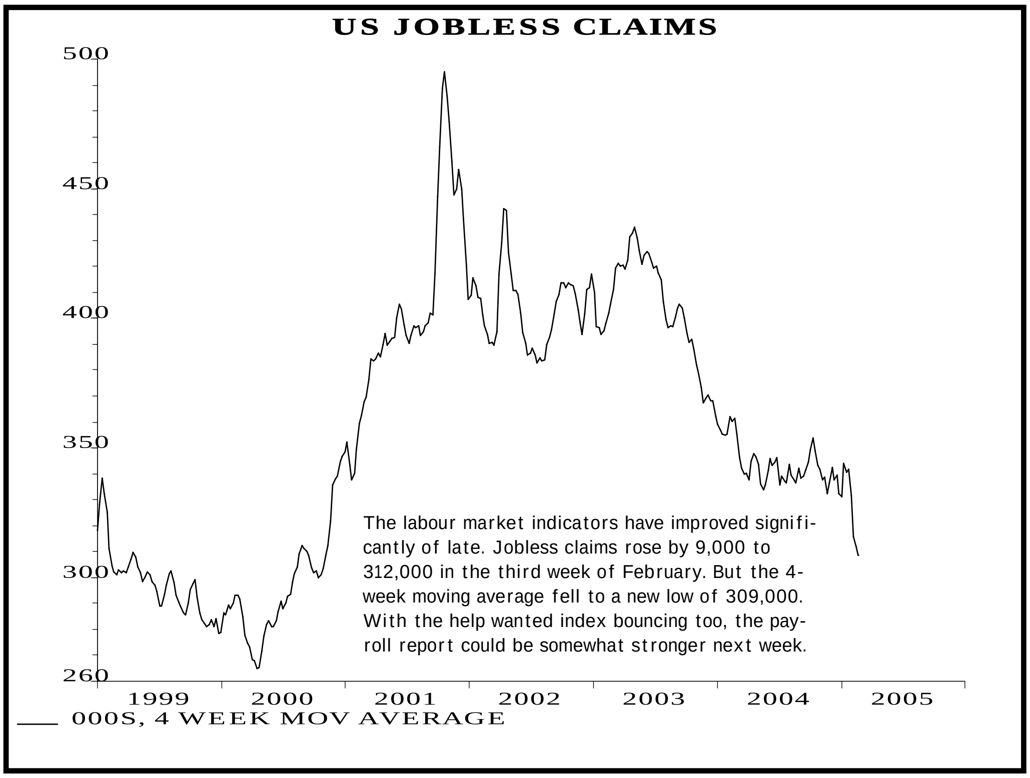
February 25th 2005

GFC ECONOMICS

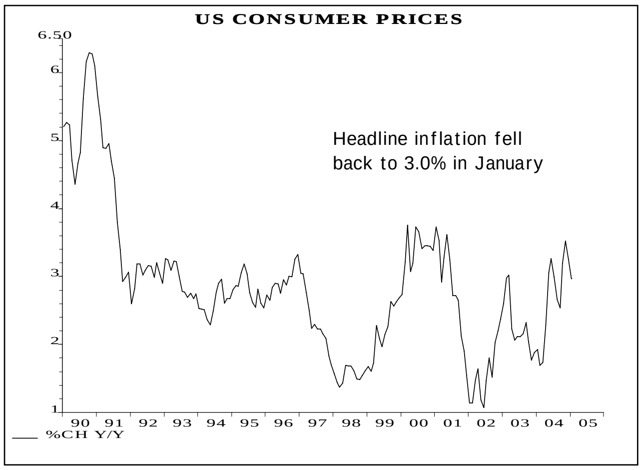
WEEKLY CHARTBOOK

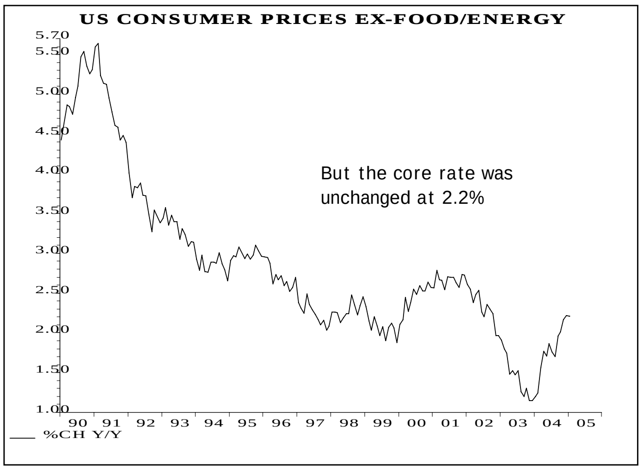
CHART OF THE WEEK

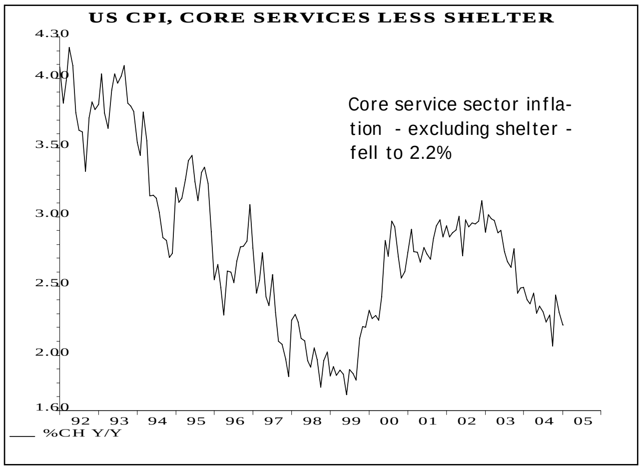


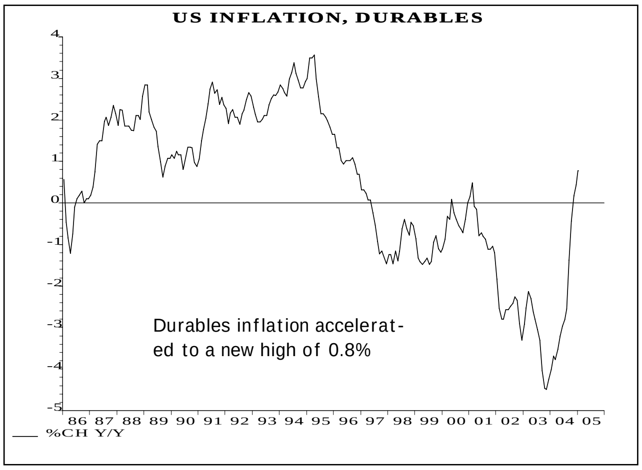
US - 1

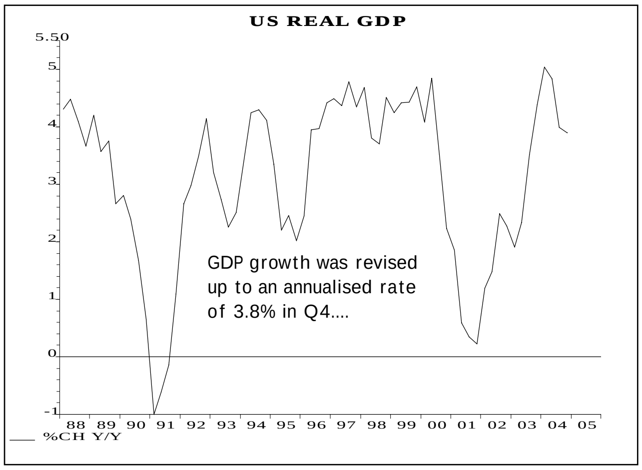
The January inflation report reaffirmed the sharp dichotomy that has emerged between the service and good sectors of late. Core service sector inflation - excluding shelter - fell back again last month. Transportation inflation slipped to 1.4% on the back of a 3.2% y/y drop in airline fares. The year-on-year gain in school and tuition fees declined to 6.5%, the lowest level since July 2003. A drop in the financial services component - due to lower bond yields - also played a part. But the rise in goods prices was underlined by another jump in durable goods prices. The rising current account deficit and the risks of a further sharp sell-off in the US$ still remain the biggest threat to the inflation numbers in the short to medium term.

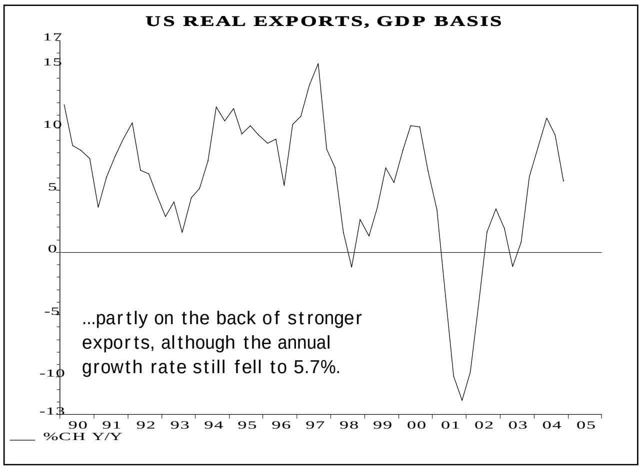








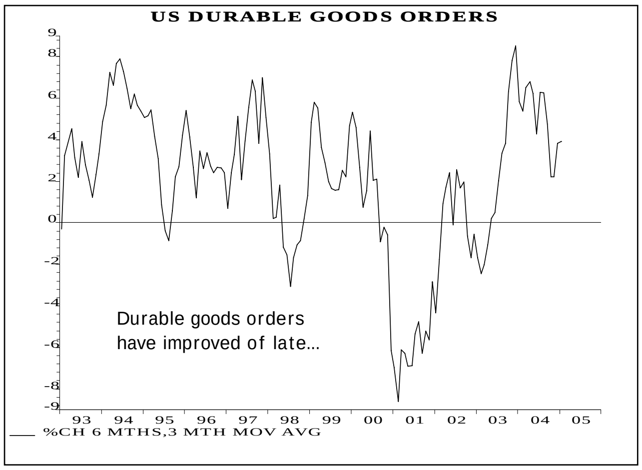


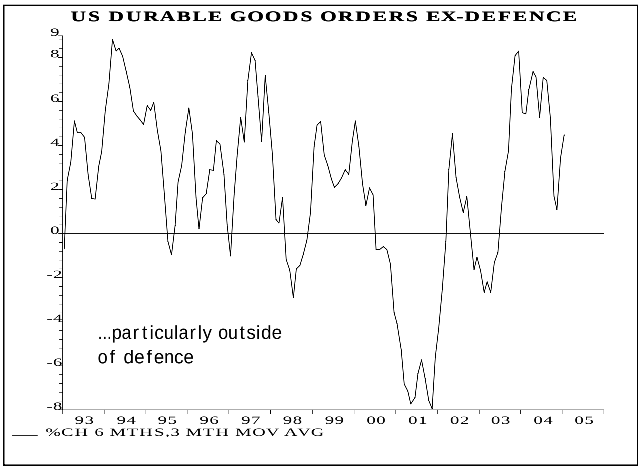


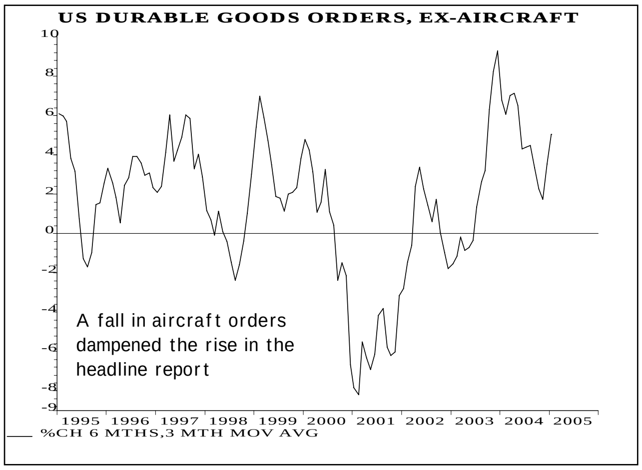
Source: Datastream

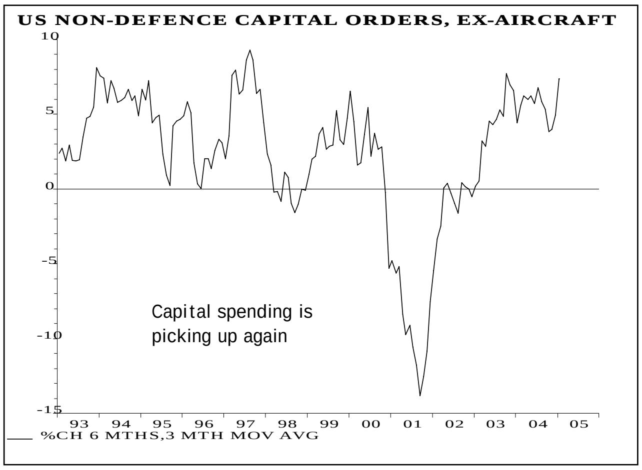
US - 2

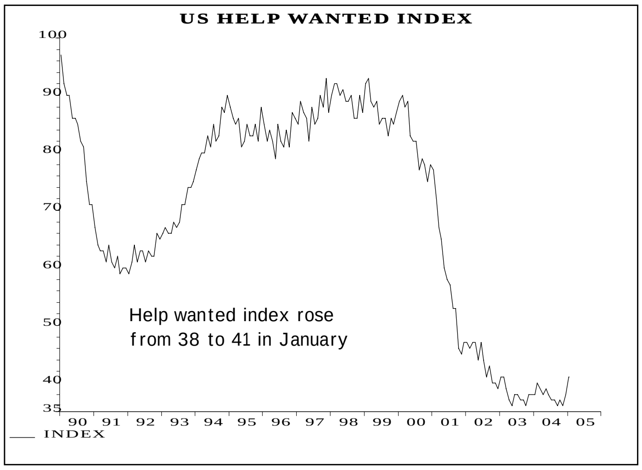
Durable goods orders fell 0.9% m/m in January and were down 0.8% m/m outside of defence. The underlying tone of the report, however, was not that weak. Part of the decline was attributable to lower aircraft orders, which contributed 0.6% percentage points to the fall in overall orders. The December numbers were also revised up, to show a gain of 1.4% m/m, compared with initial estimates of a 0.6% m/m increase. The outlook for capital spending remains encouraging too, with non-defence capital goods orders rising 3.0% m/m outside of the volatile aircraft sector. This week's labour market data has also been strong, with a bounce in the help-wanted index reinforcing the recent drop in jobless claims.

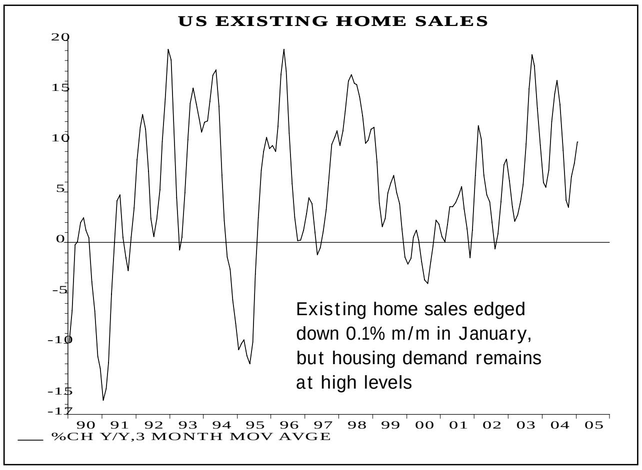












Source: Datastream

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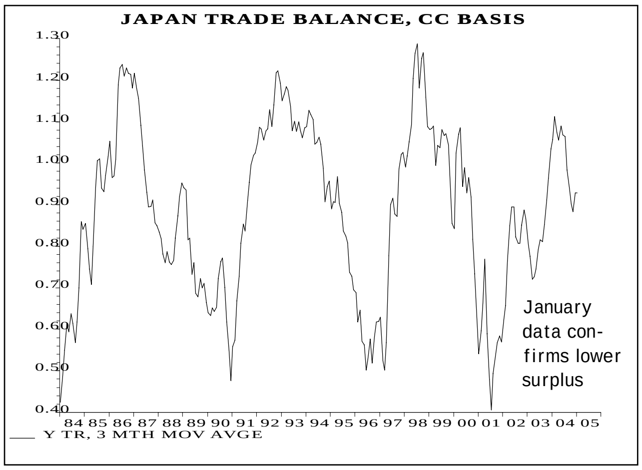
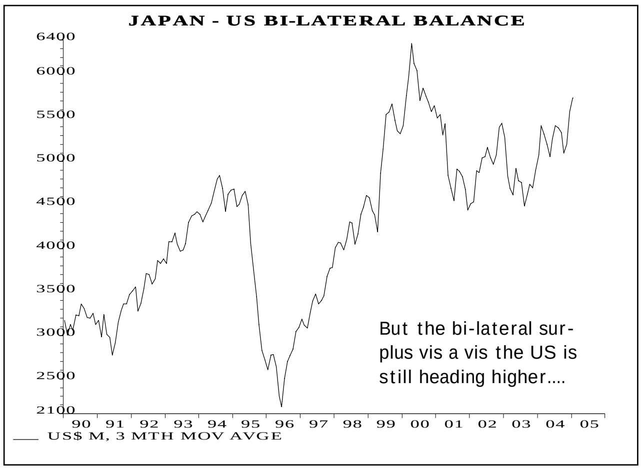
GFC ECONOMICS

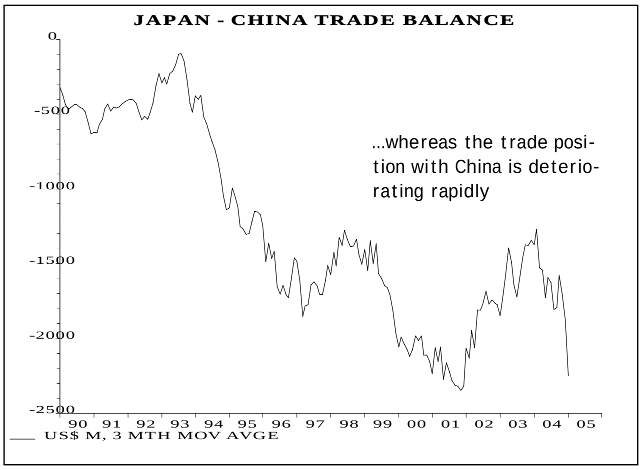
WEEKLY CHARTBOOK

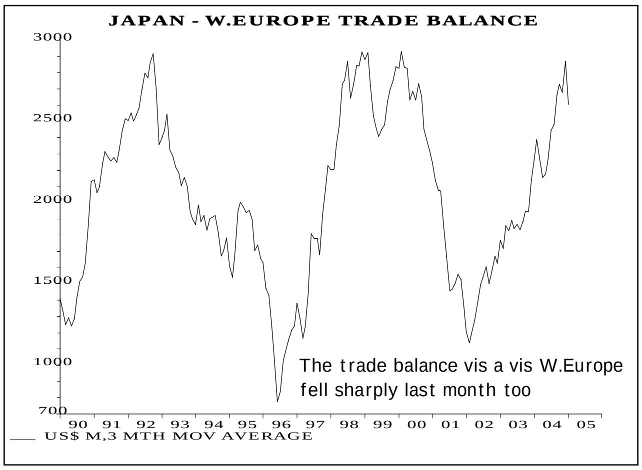
Japan - 1

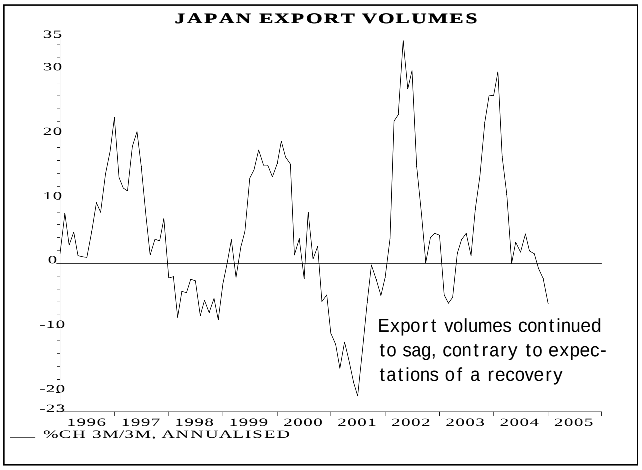
Japan's trade surplus fell for the fifth month running in January on an annual basis, dropping 17.7% from a year earlier. Higher oil prices are leaving their mark, but the underlying trend in the real data has also continued to deteriorate. Export volumes fell 5.8% m/m, 'outstripping' a 1.6% m/m drop in imports. The bi-lateral data showed only a small drop of 1.5% y/y in the surplus vis a vis the US. There was a bigger fall in the bi-lateral trade balance with W. Europe, which was down 24.2% y/y. But the biggest decline - and most significant contributor to the lower trade surplus - occurred with China. The bi-lateral deficit rose 29.7% y/y, and reduced Japan's overall trade surplus by US$831m, compared to January 2004.

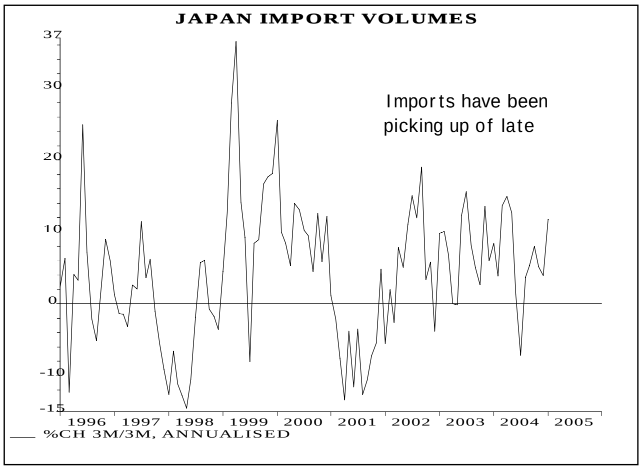








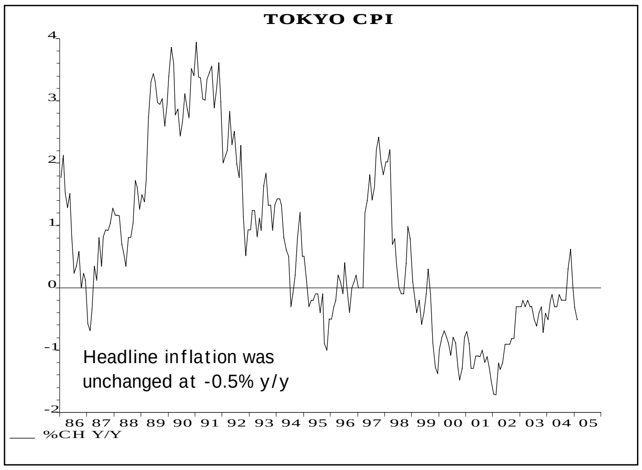


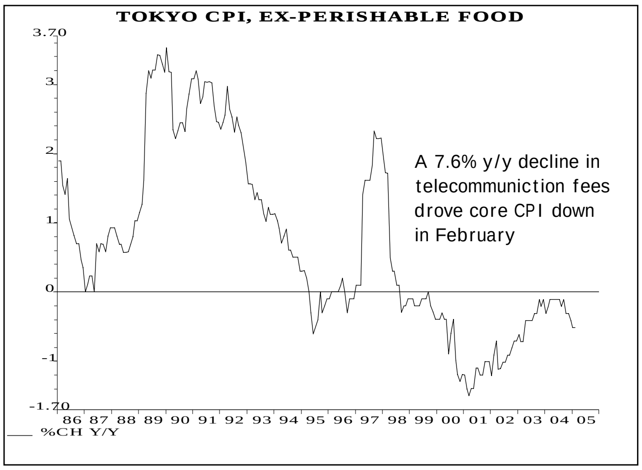


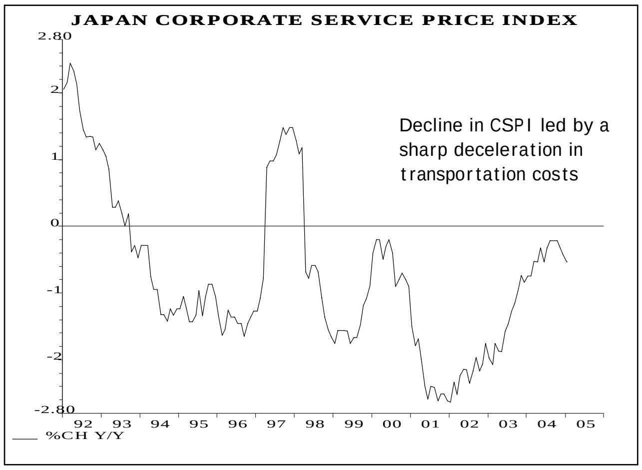
Source: Datastream

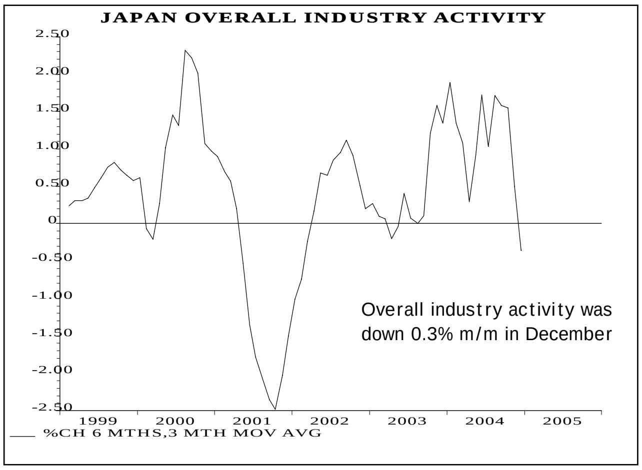
Japan - 2

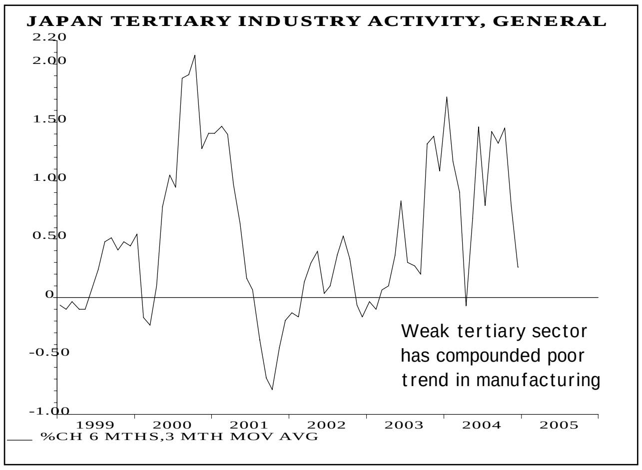
Tertiary industry activity was unchanged during the final month of 2004, continuing a poor run of numbers stretching back to last summer. The tertiary activity index was up just 0.2% during the second half of 2004, and with industrial production turning down too, the overall level of business activity fell 0.7% over the corresponding period. Elsewhere, the inflation reports confirmed the recent deterioration, with the ex-perishable Tokyo CPI falling again by 0.5% y/y, and the decline in the CSPI accelerating to -0.5% y/y. While it is early days yet, the core CPI is falling well short of BoJ forecasts for an average rise of 0.1% y/y through FY2005.

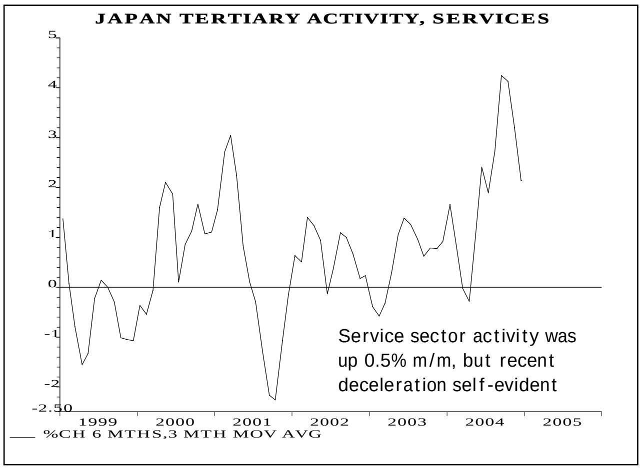








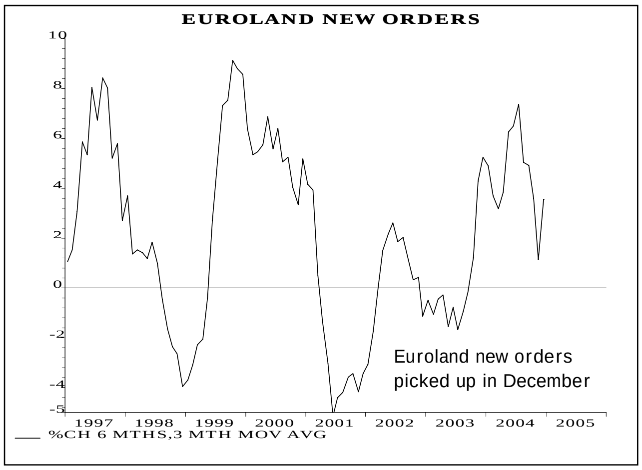


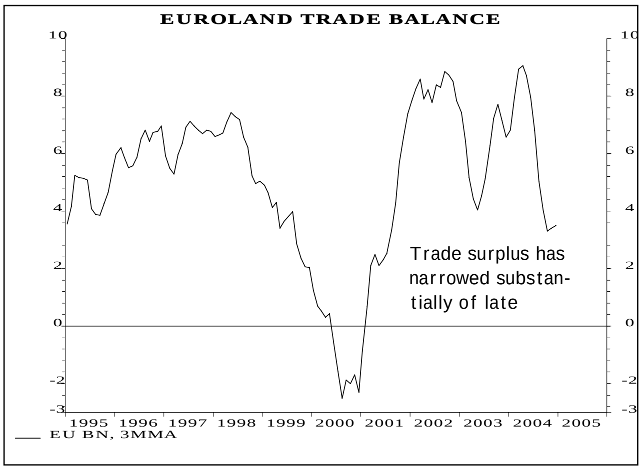


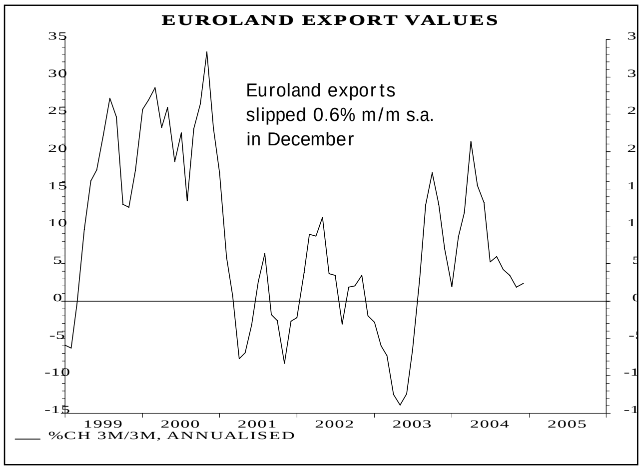
Source: Datastream

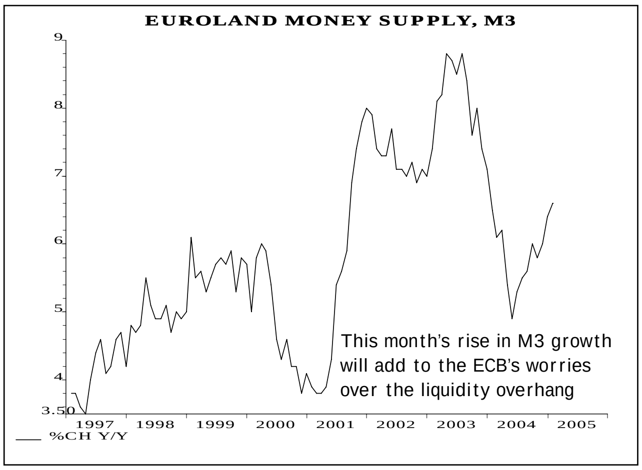
Euroland - 1

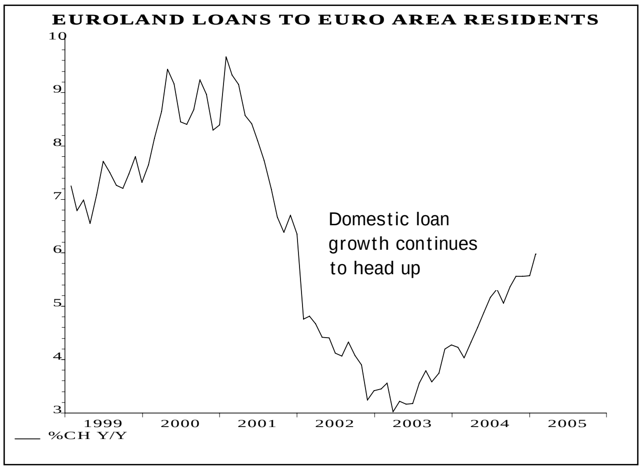
Euroland new orders surged 8.8% m/m in December on the back of a 21.0% m/m spike in transport equipment, which was led by the French aerospace industry and German transport sector. This bounce is at odds with other industrial data of late, and is unlikely to be sustained.The Euroland trade surplus, meanwhile, widened from EUR3.4bn to EUR4.2bn s.a. in December, but the deteriorating trend remains in place. Indeed, the increased surplus was not led by a pick-up in exports, but by a fall in imports. Elsewhere, M3 money growth rose from 6.4% y/y to 6.6% y/y in January, and remained well above the ECB's 4.5% reference value. Domestic loan growth to private residents increased from 7.0% y/y to 7.5% y/y.









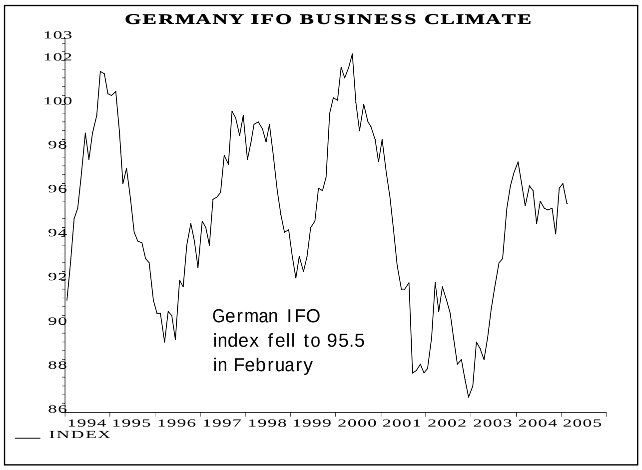


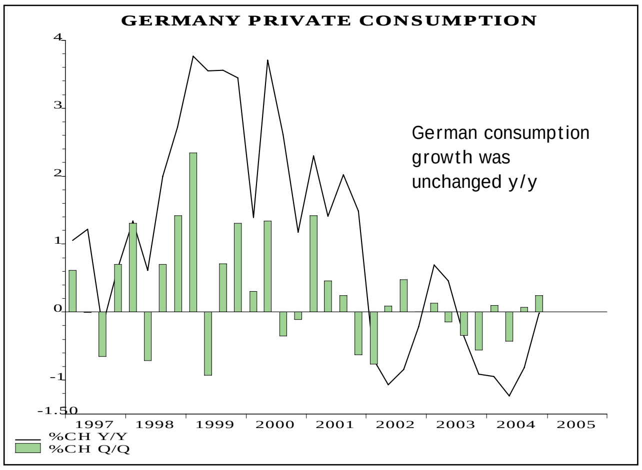
Source: Datastream

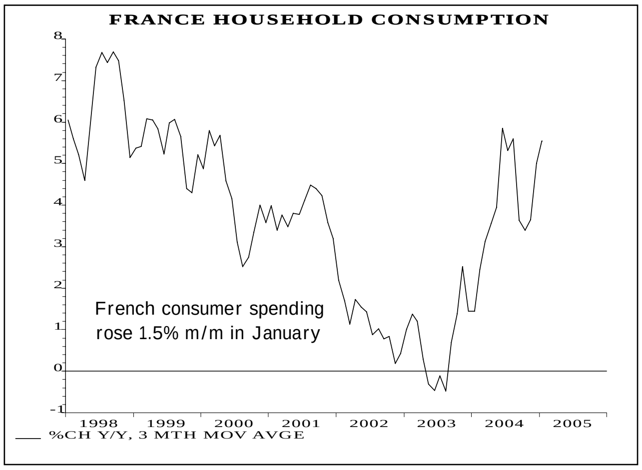
WEEKLY CHARTBOOK

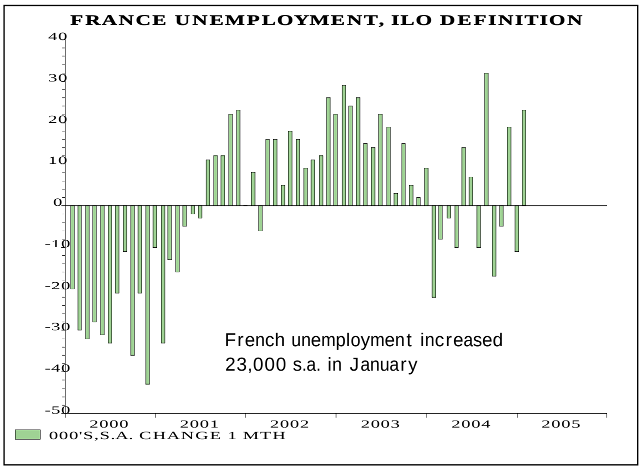
Euroland - 2

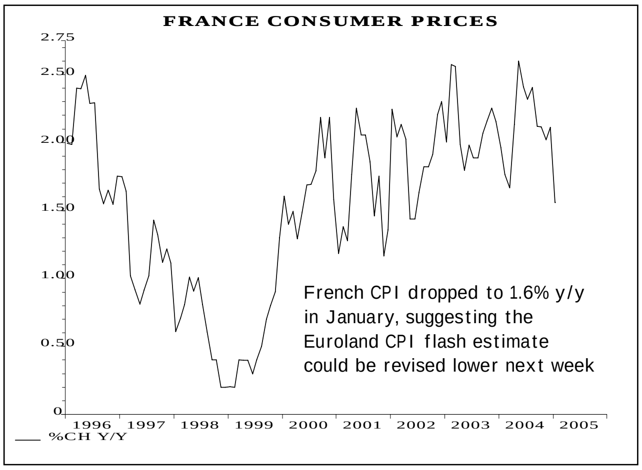
A decline in business confidence in Germany, Belgium and Italy this month has set back hopes that Euroland's economy will pick up in Q1. Indeed, with the oil price rising again and the euro strengthening once more, confidence could remain under pressure. The component breakdown of German GDP showed stocks were the main drag on Q4 growth, with consumption posting a modest 0.2% q/q gain. In France, meanwhile, the January data showed the rebound in consumer spending in Q4 continuing into the new year. Doubts, however, remain over how long this can continue, as the labour market remains very weak. The unemployment rate rose to 10.0% last month, a five year high.







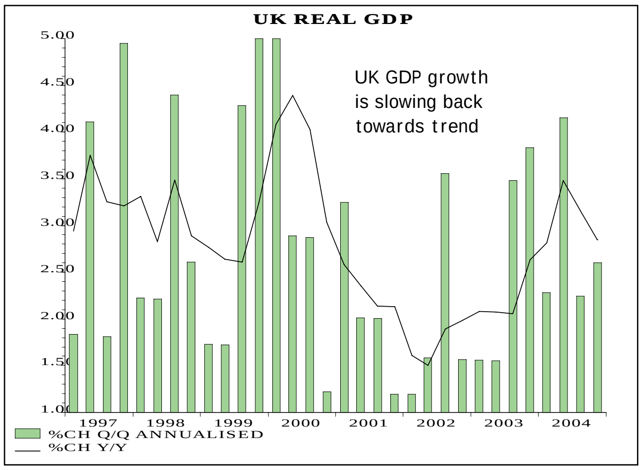


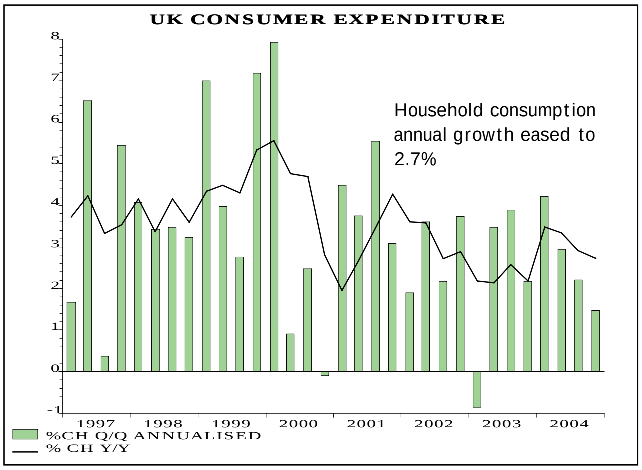


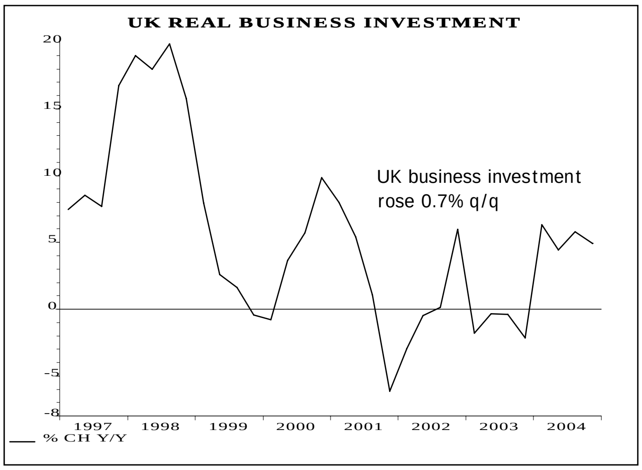
Source: Datastream

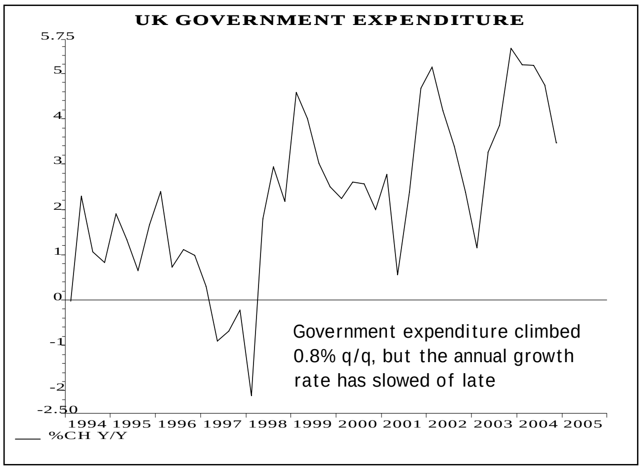
UK

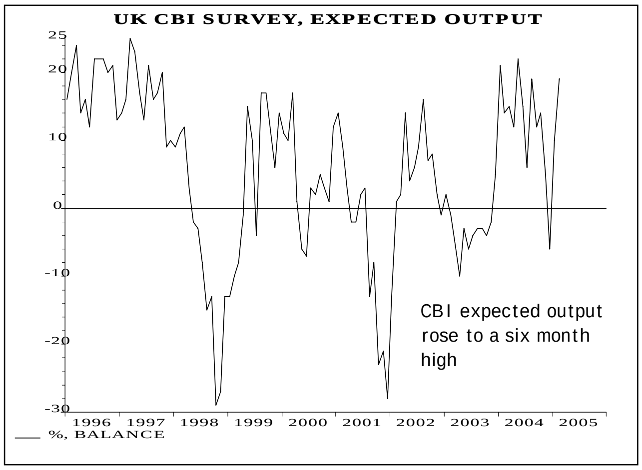
UK GDP was unrevised at 0.7% q/q in Q4, but the annual rate of growth was revised up slightly from 2.8% to 2.9%. The breakdown showed a robust performance from investment and government spending. By contrast, consumption rose 0.4% q/q, its weakest quarterly performance since Q1 2003. Elsewhere, this month's CBI industrial trends survey painted a mixed picture for manufacturing. The expected output balance rose to +19 from +10 the previous month, marking the strongest reading since August last year. This optimism, however, was not reflected in increased order books. While total orders did edge higher from -13 to -10, order books continued to be well below normal.

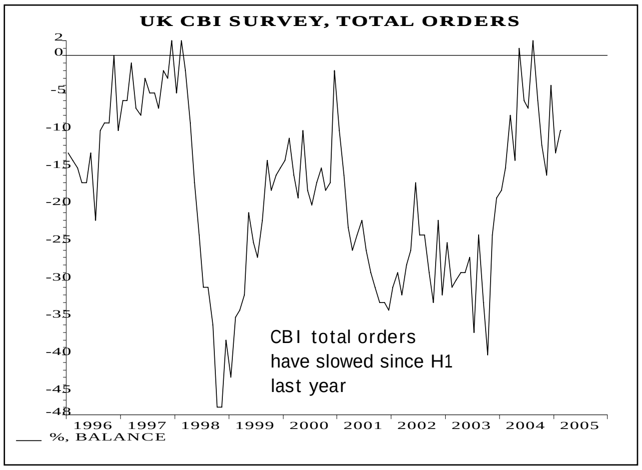












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