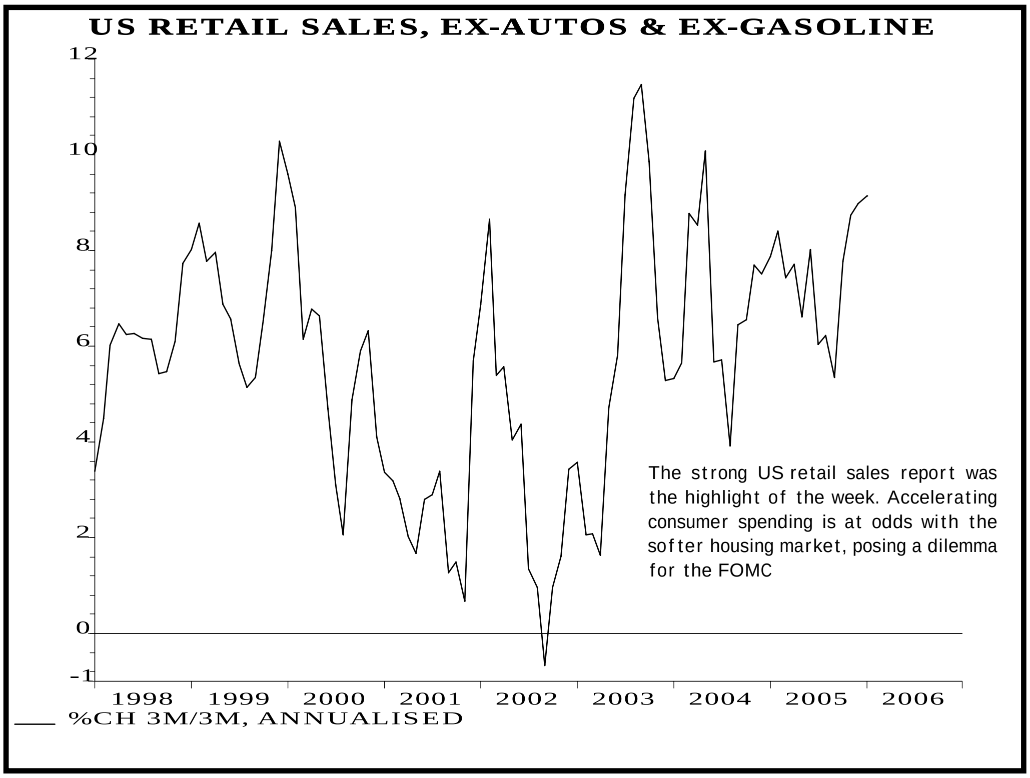
February 17th 2006

GFC ECONOMICS

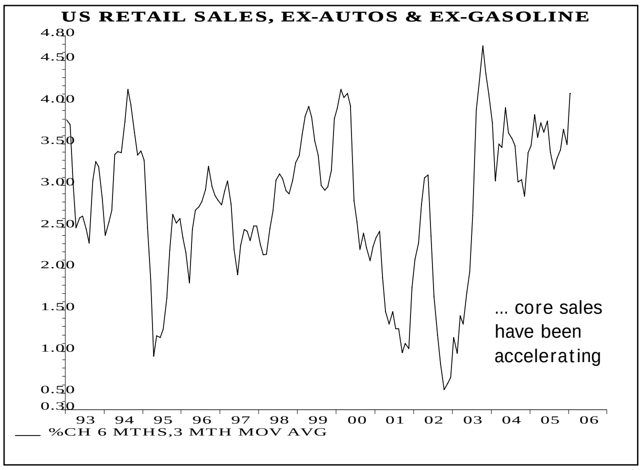
WEEKLY CHARTBOOK

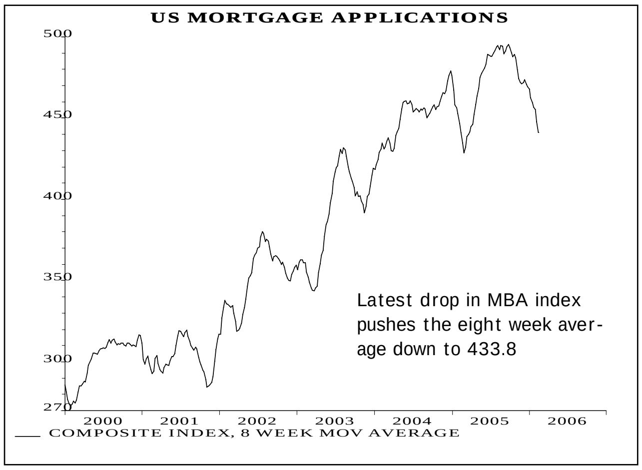
CHART OF THE WEEK

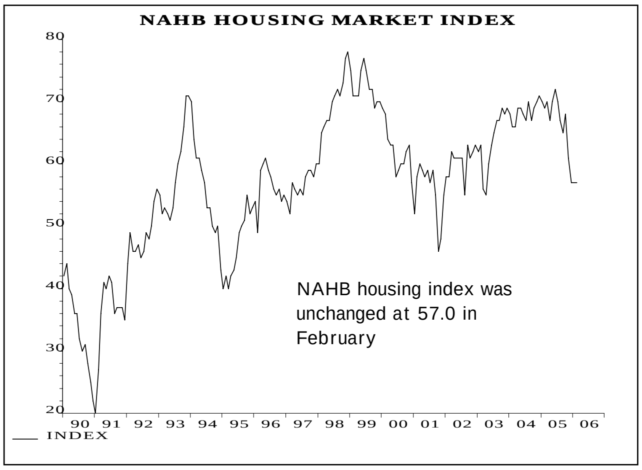


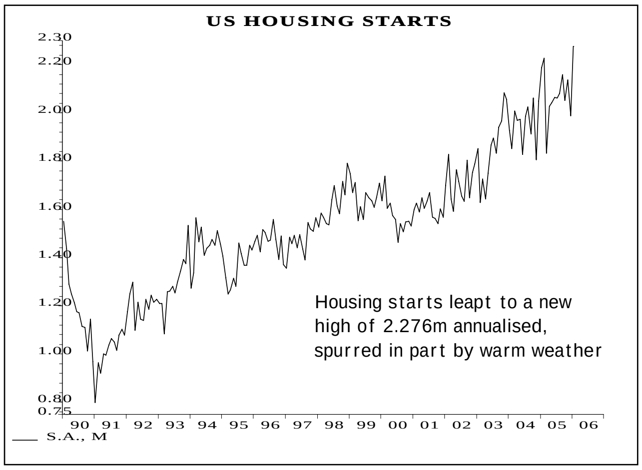
US - 1

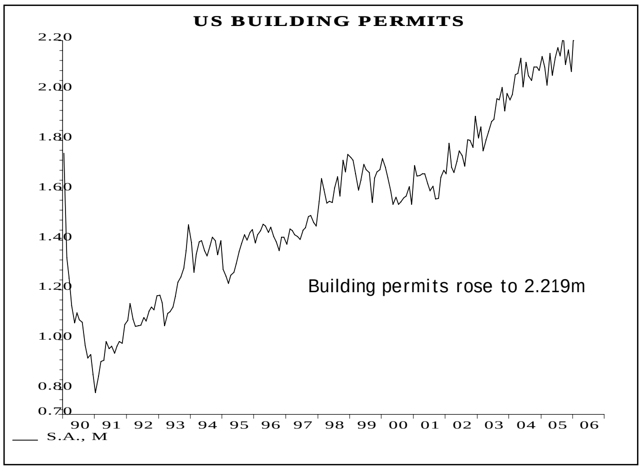
New Fed chairman Ben Bernanke highlighted the considerable momentum behind 'aggregate domestic demand' this week, and the latest retail sales report vindicated the point. The huge 1.8% m/m jump in non-auto/gasoline sales may have been partly exaggerated by the redemption of vouchers, but the underlying trend still appears unequivocally strong. And yet, mortgage demand has continued to soften, with the MBA composite index falling to a new low of 391.7. However, with the payroll report likely to post a significant acceleration in hiring early next month, the pressure for a further rise in short rates remains. That in turn could pose a significant risk to the housing market.







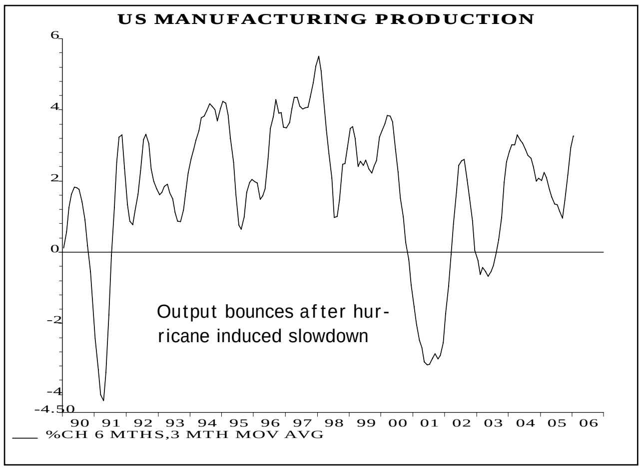


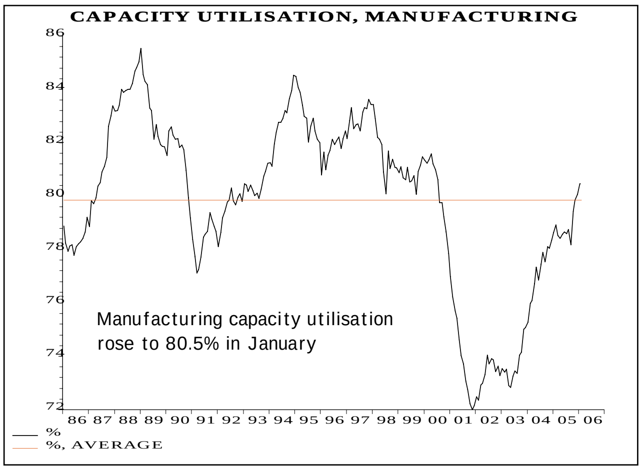


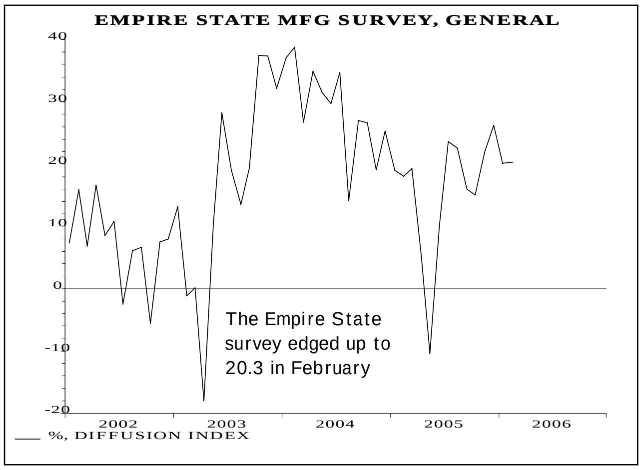
Source: Datastream

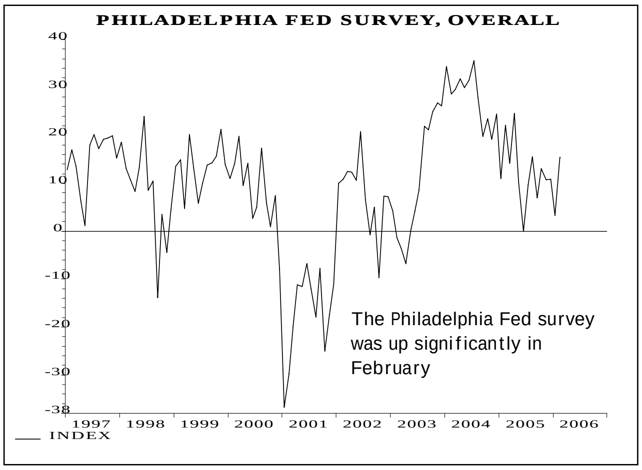
US - 2

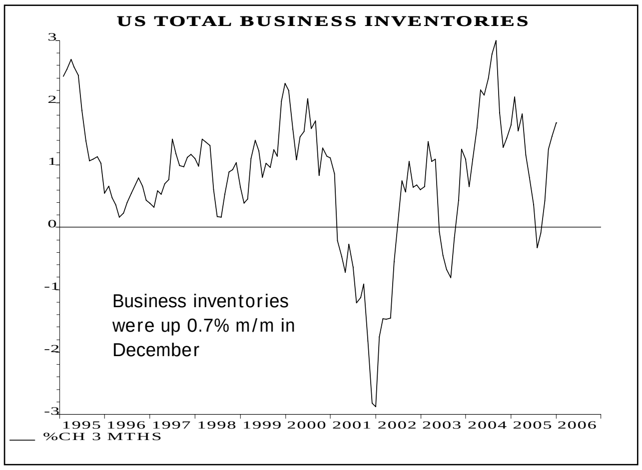
Another strong output report shows the manufacturing sector has fully recovered from the hurricane induced slowdown last autumn. Production rose by a respectable 0.7% m/m, pushing the 3m/3m annualised trend up to a new high of 9.7%. Manufacturing capacity is climbing above its long term average, which should bode well for investment spending. The stronger tone to manufacturing was underlined by the Philadelphia Fed survey which bounced in February to 15.4. The pace of inventory accumulation is also turning up, which might signal higher import growth and worse trade numbers in Q1.







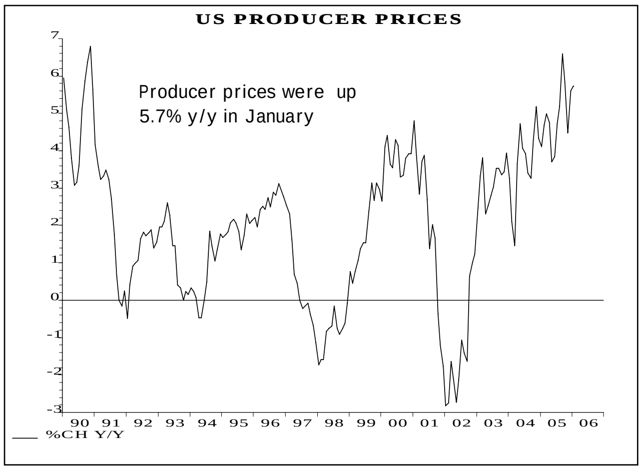


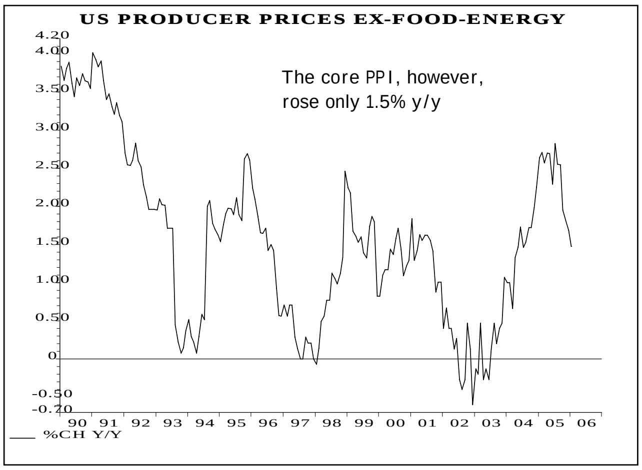


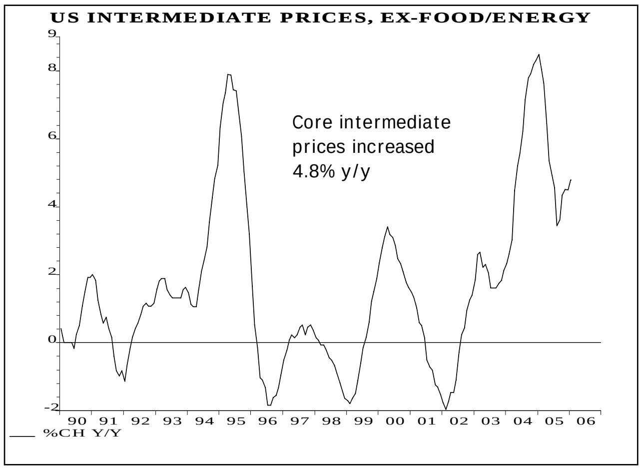
Source: Datastream

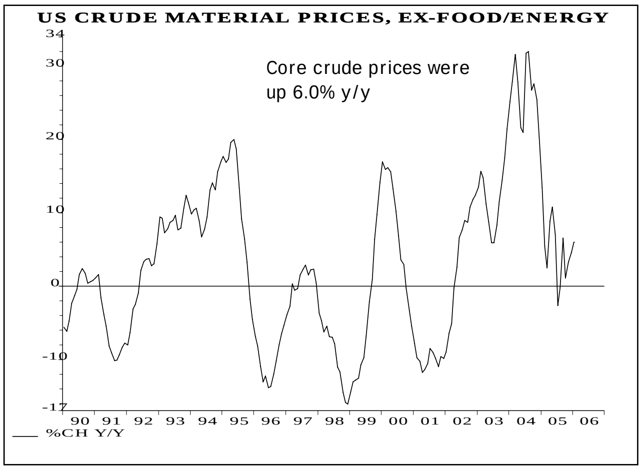
US - 3

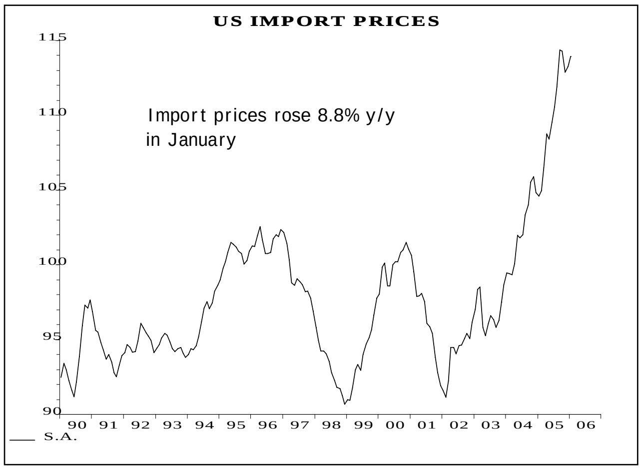
The core PPI rose strongly in January by 0.4% m/m. Inflation concerns were heightened by another large rise in the core intermediate PPI, which climbed 1.0% m/m. However, the core crude material index edged down slightly by 0.1% m/m, despite the recent sharp rise in commodity prices. Nevertheless, the six month rate still showed prices up a hefty 12.9%, which may feed through to intermediate and final factory gate prices over the coming months. Import prices were up again by a sizeable 1.3% m/m in January, although a large part of this reflected higher oil prices. Excluding oil, import prices rose 0.2% m/m. The annual growth rate in consumer goods import prices fell back to 0.1% y/y, down from a peak of 1.4% y/y last summer.

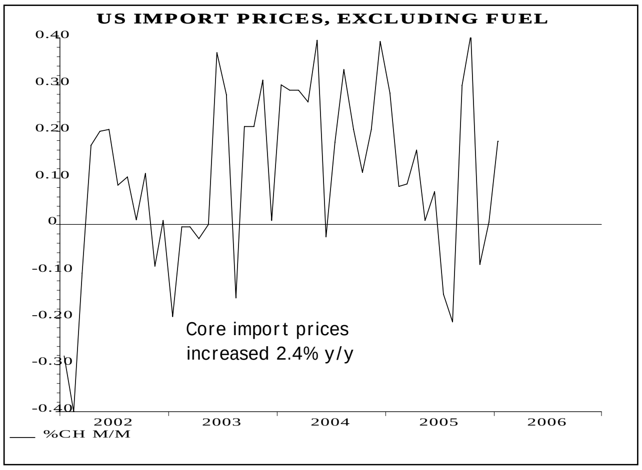












Source: Datastream

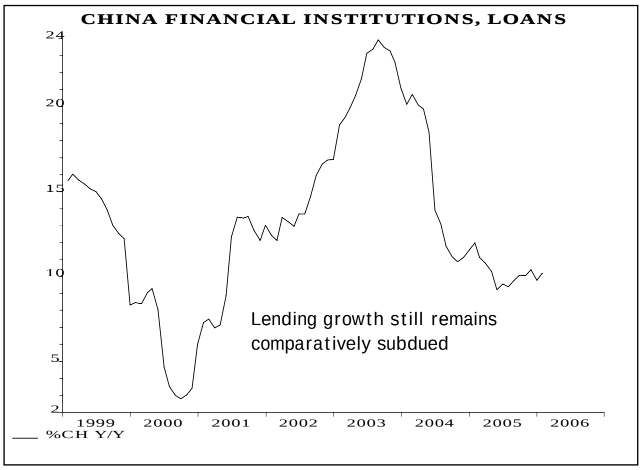
February 17th 2006

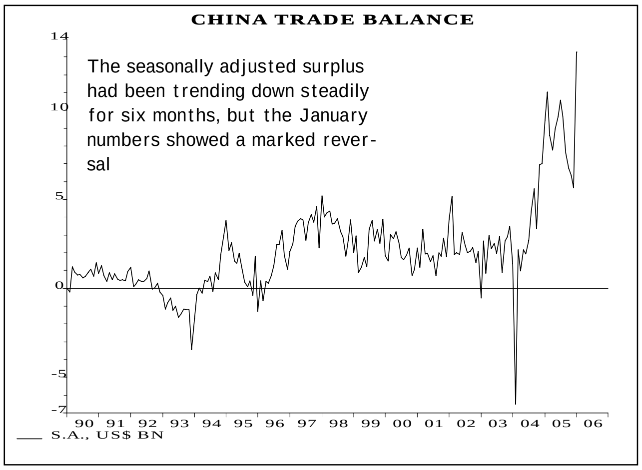
GFC ECONOMICS

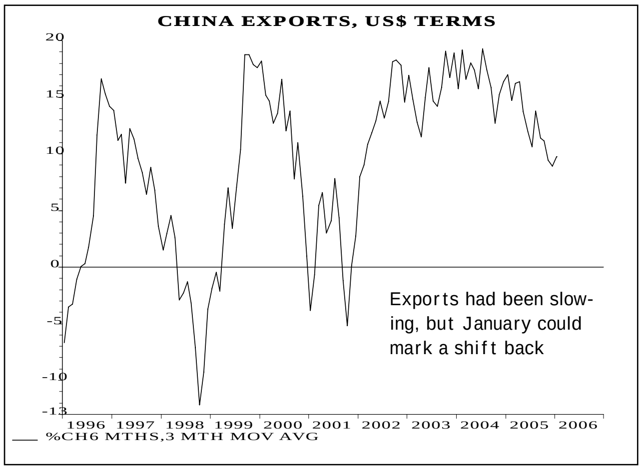
WEEKLY CHARTBOOK

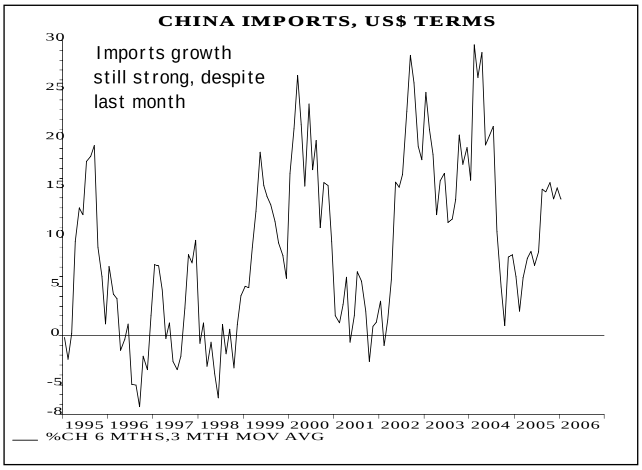
China

China's trade surlpus rose sharply in January, as exports snapped back after a sluggish end to 2005. Seasonally adjusted exports rose 7.5% m/m, which combined with a 4.0% m/m drop in imports pushed the surplus up to US$9.6bn in unadjusted terms. That marked a rise of 34.5% over January a year earlier. The seasonally adjusted surplus was a record US$13.3bn, something that can only invite fresh trade tensions. The money supply numbers show that the Chinese authorities are doing their best to reflate. Since last year's currency revaluation, domestic monetary conditions have been progressively loosened, and M2 rose by 19.2% y/y in January. Total lending climbed 13.1% y/y.





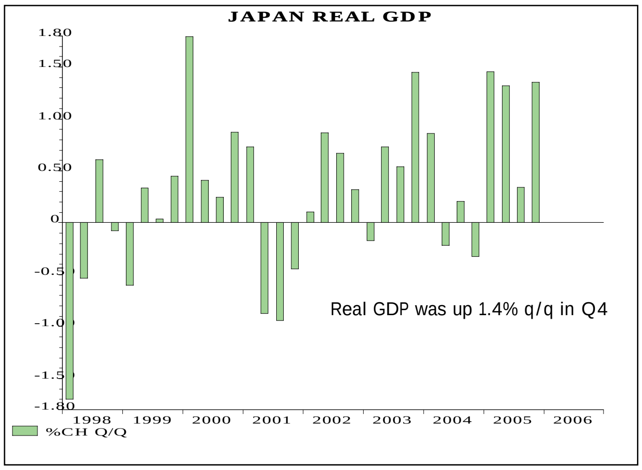


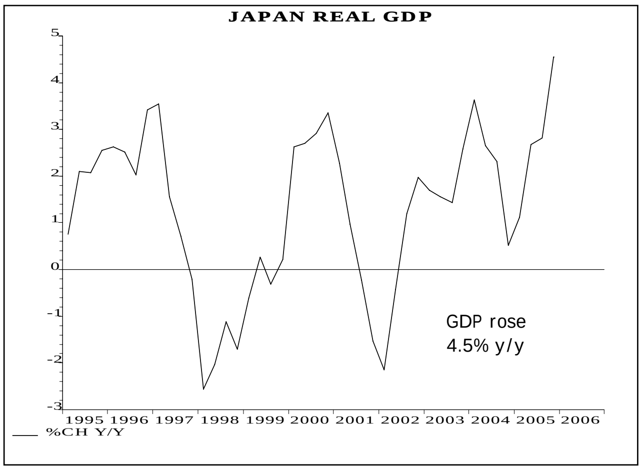


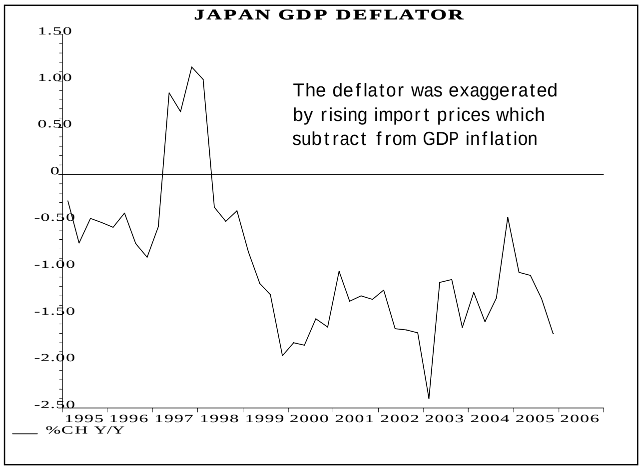
Source: Datastream

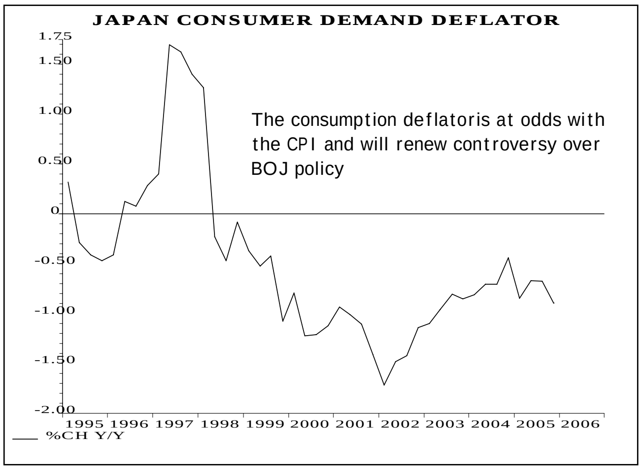
Japan - 1

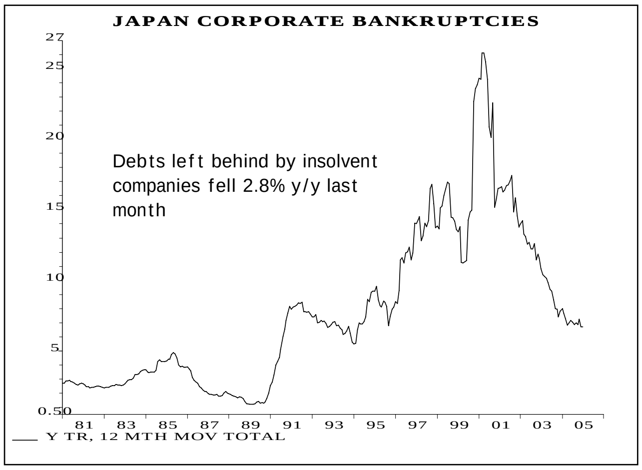
The GDP numbers were undoubtedly strong, but the deflator fell sharply in Q4 too. The headline deflator was down 1.7% y/y. The scale of the decline in price pressures on this measure clearly overstates the true fall in domestic inflation. A hefty rise in import prices helped to push the deflator down by 1.0 percentage points over the past year. Nevertheless, the rate of the decline in the consumption deflator did accelerate a touch too, from -0.7% y/y to -0.9% y/y, offsetting a modest improvement in the capex deflator. That said, the economy was strong in Q4 with consumption growth bouncing back impressively from a Q3 lull. Final domestic demand was up 0.1% q/q.

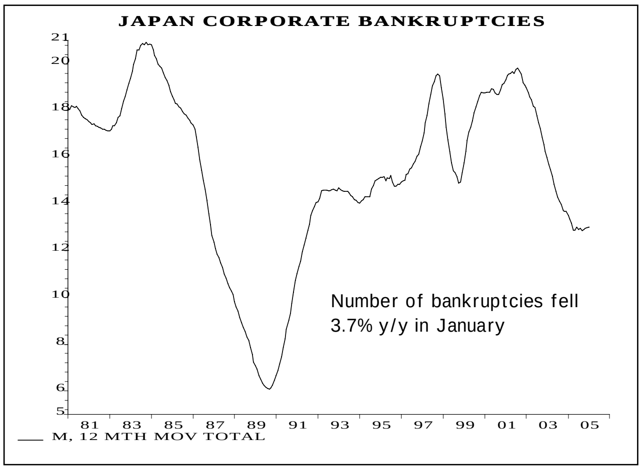








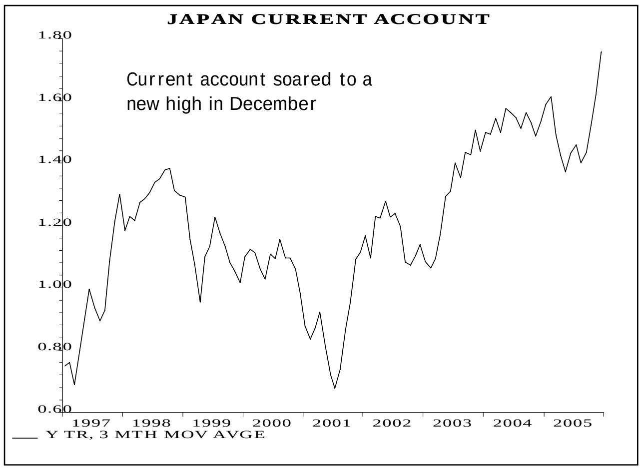


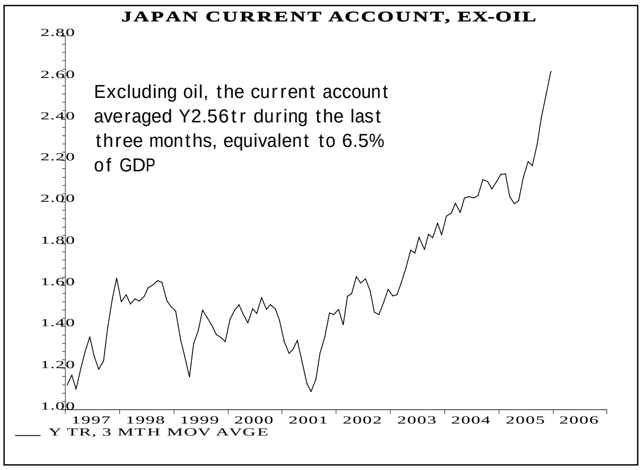


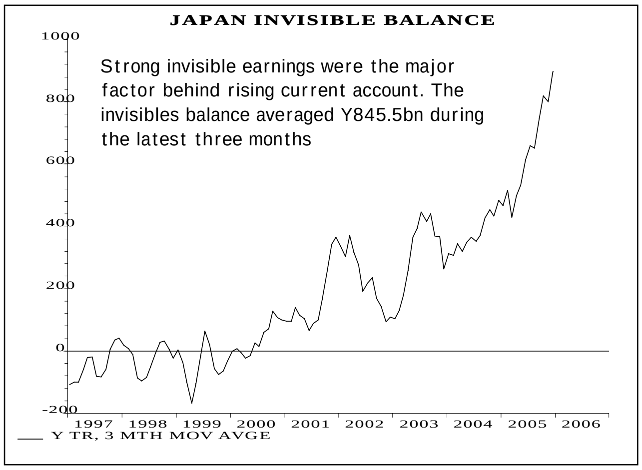
Source: Datastream

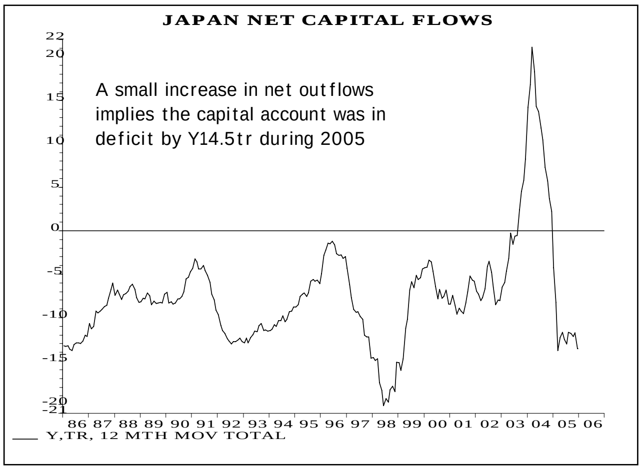
Japan - 2

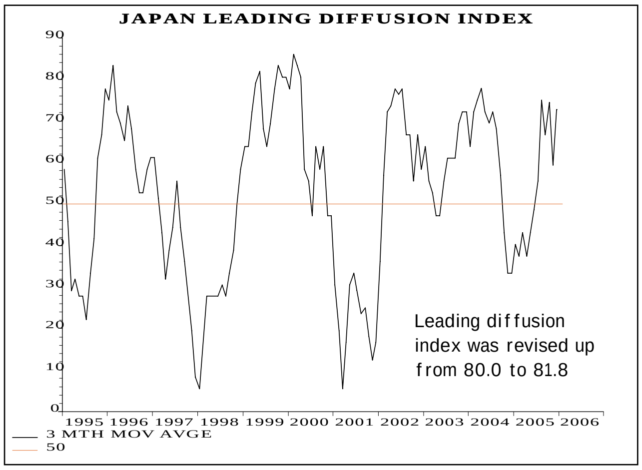
Another strong current account report underlines the risks of a sharp reversal in the yen at some stage this year. The headline surplus surged in December on a seasonally adjusted basis to Y2.024tr, pushing the 3-month average up to a new high. Excluding oil, the current account jumped to Y2.89tr, up from Y2.45tr in the month before. The trade balance fell back from Y976.1bn to Y851.8bn, but that was offset by another leap in the invisibles account. The net income balance climbed a hefty 38.1% y/y, pushing the 2005 total up to a record Y11.4tr, or 2.3% of GDP. Elsewhere, the leading indicator was revised up a touch for January. And capacity utilisation rose 0.9% m/m to its highest level since early 1997.

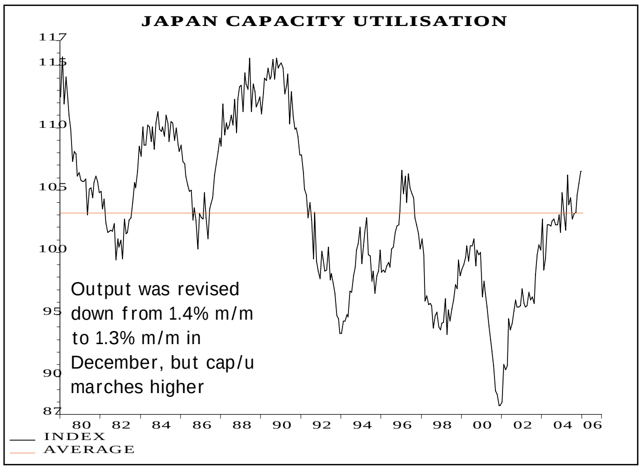








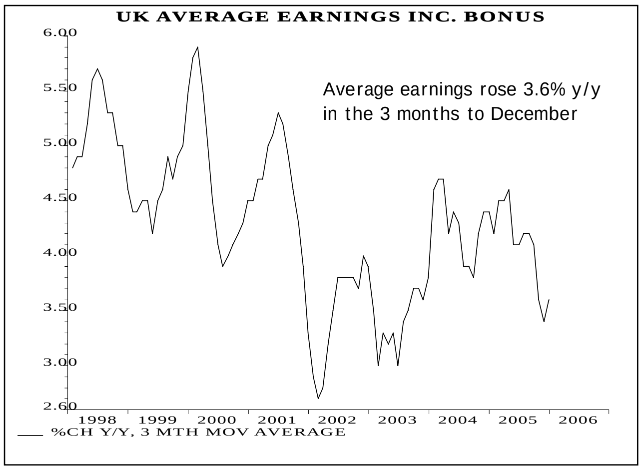


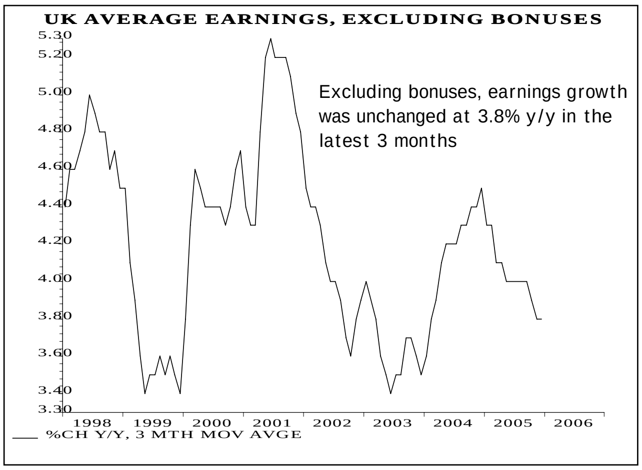


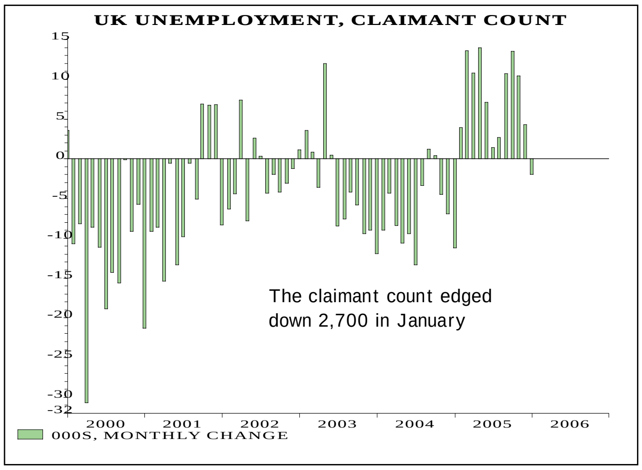
Source: Datastream

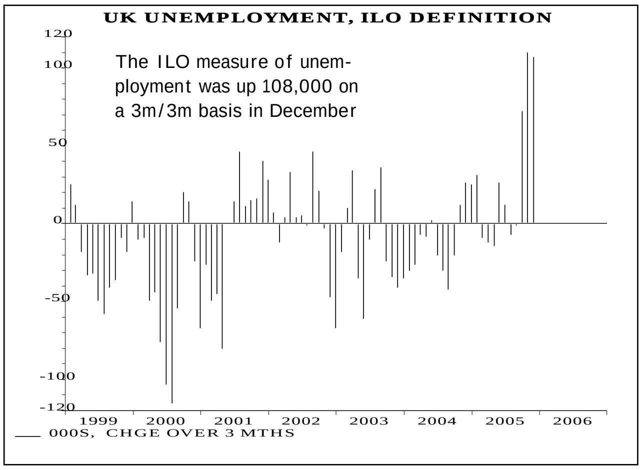
UK - 1

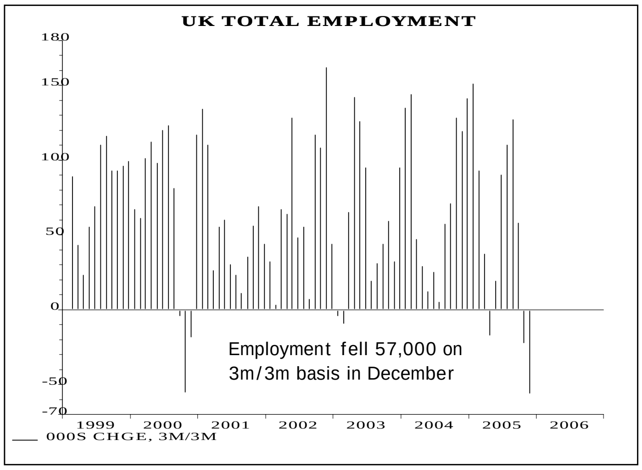
This week's labour market numbers sent out conflicting signals, with the ILO measures pointing to a marked weakening but the claimant count and the vacancy data indicating an improvement. The ILO measure showed the unemployment rate rising to 5.1% in the 3 months to December from 4.7% in the previous 3 months. Employment also was down 0.2% over the same period. The claimant count, however, fell in January for the first time in a year. Average earnings growth also picked up in December. Including bonuses, earnings growth rebounded to 4.2% y/y from 3.4% y/y. This rise would have been led primarily by large financial sector pay-outs, but a rise in public sector earnings growth to 4.8% y/y also contributed.







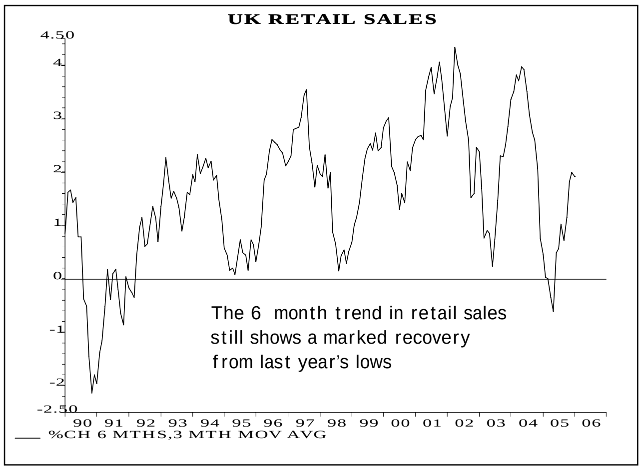


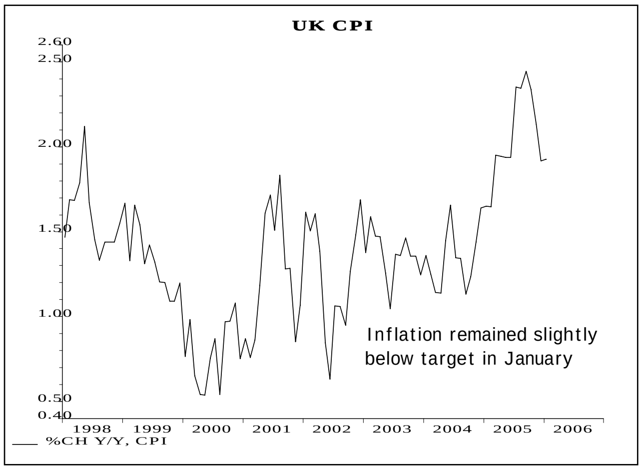


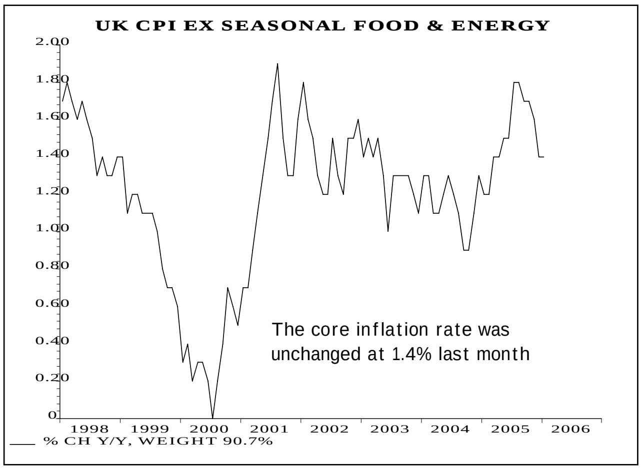
Source: Datastream

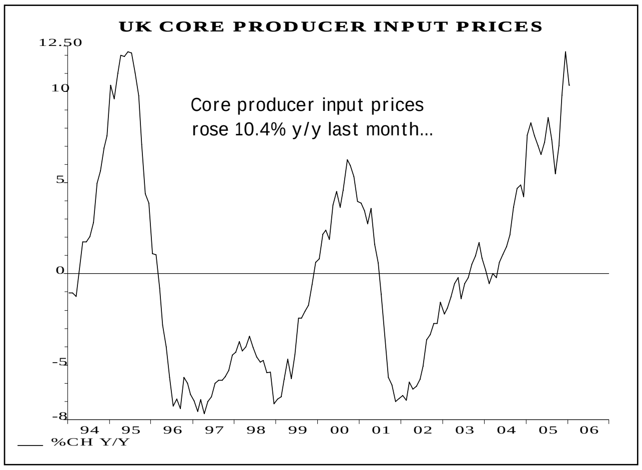
UK - 2

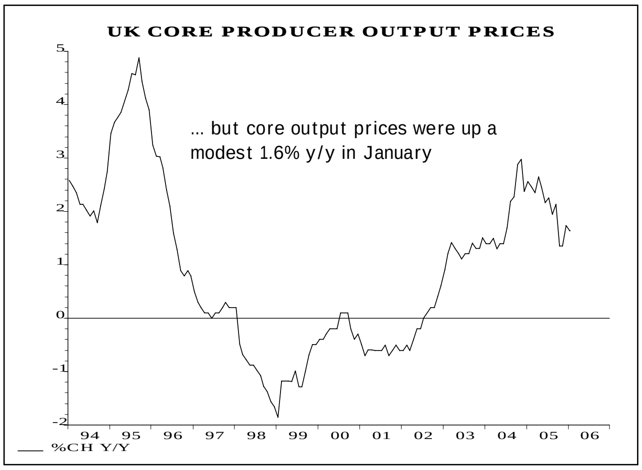
Retail sales fell further than expected in January, with the 1.2% m/m decline pulling the 3m/3m annualised rate down from a high of 6.5% in the previous month to 5.1%. In mitigation, the difficulty in adjusting for such a pronunced swing between the two months does cast some doubts over the numbers. The non-seasonally adjusted data show that sales fell by 36.5% m/m last month. Neverthless, with headline inflation being revised down in December and confirmed at 1.9% last month, the doves are clearly winning the argument, for now. Input prices were up sharply, but the impact seems to be felt more on margins than on final output prices, where the core rate remains well contained.











Source: Datastream

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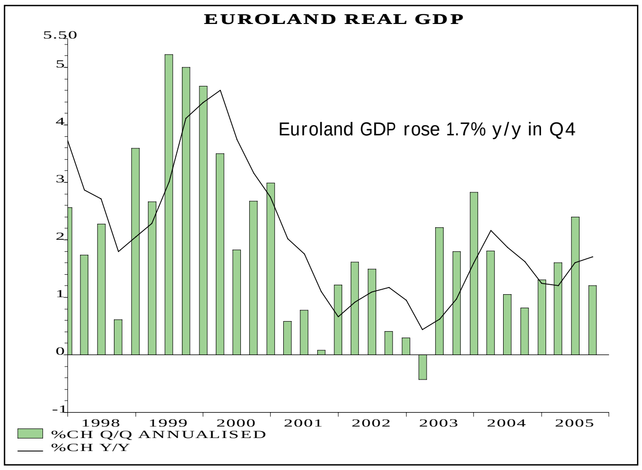
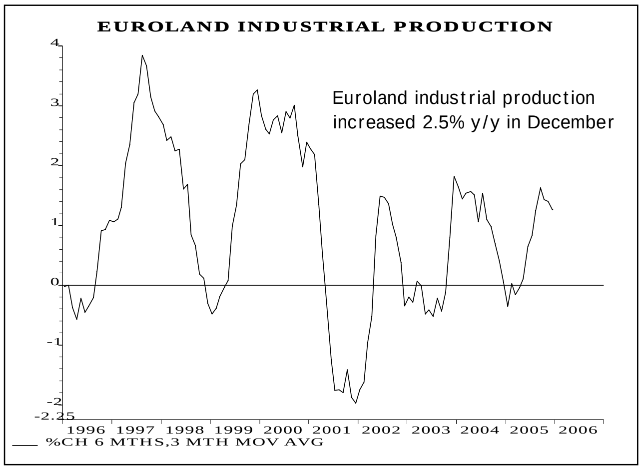
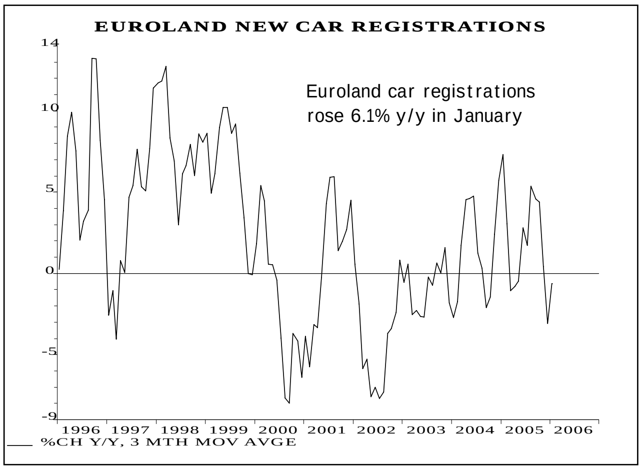
WEEKLY CHARTBOOK

Euroland

Euroland GDP growth slowed in Q4 to 0.3% q/q from 0.6% q/q in Q3. The deceleration was driven primarily by France and Germany, where growth fell back following strong gains the previous quarter. German GDP was unchanged in Q4 after a 0.6% q/q rise in Q3. Declines in both private and government consumption offset continued gains in investment, particularly construction. Elsewhere, Euroland industrial production was up only 0.1% m/m in December, though this followed a 1.3% m/m gain the previous month. More encouragingly, car registrations bounced back in January, following weakness in the previous couple of months. Finally, the German ZEW index remained at close to a two year high in February.







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