

- 1 **Q. In Volume 1: Application and Company Evidence, at page 59 of Ms. McShane's**  
 2 **testimony, footnote 49, the Company references Consensus Economics, Inc. surveys**  
 3 **of over 240 prominent financial and economic forecasters. Please provide a five-**  
 4 **year history of this source forecast for future Canadian bond interest rates, in**  
 5 **comparison to the actual Canadian bond interest rates that prevailed at the forecast**  
 6 **period. Please highlight any instance over the last five years where Consensus**  
 7 **Economics, Inc. forecasted that future Canadian bond yields would be lower than**  
 8 **the prevailing actual Canadian bond yield at the time that the forecast was**  
 9 **published. For all such instances, please provide copies of the Consensus**  
 10 **Economists, Inc. publication that lists the forecasts and identify the prevailing**  
 11 **Canadian bond yield.**
- 12
- 13 **A.** Table 1 provides the average forecast 10-year bond yields for the period 2002 to 2006 as  
 14 reported by Consensus Economics Inc. and the actual observed Government of Canada  
 15 10-year benchmark bond yields for the months of October, November and December. In  
 16 October 2006 (highlighted in Table 1) the Consensus Forecast was below the actual  
 17 Canadian Bond Yields. Attachment A contains a copy of the Consensus Forecasts for  
 18 October, 2006.  
 19  
 20

**Table 1**  
**Selected 10-Year Bond Yields**  
**2002 to 2006**  
**(percent)**

	Consensus Forecasts <sup>1</sup>			10-yr Benchmark Bond Yields <sup>2</sup>		
	October	November	December	October	November	December
2002	5.35	5.50	5.45	5.16	5.18	4.88
2003	5.05	5.15	5.20	4.85	4.79	4.66
2004	5.20	5.05	4.90	4.52	4.44	4.39
2005	4.40	4.55	4.45	4.16	4.06	3.93
2006	4.15	4.15	4.10	4.17	3.94	4.05

21

<sup>1</sup> Average of 3-month and 12-month Consensus Forecasts.

<sup>2</sup> Average monthly yield of the 10-year Government of Canada Benchmark Bond as reported on the Bank of Canada website.

**Consensus Forecasts for October 2006**

# CONSENSUS FORECASTS

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**Survey Date**  
**October 9, 2006**

Every month, Consensus Economics surveys over 240 prominent financial and economic forecasters for their estimates of a range of variables including future growth, inflation, interest rates and exchange rates. More than 20 countries are covered and the reference data, together with analysis and polls on topical issues, is rushed to subscribers by express mail and e-mail.

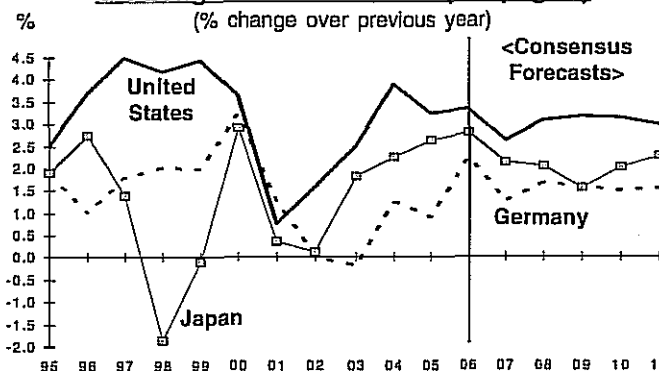
## Survey Highlights

- ❖ **GDP forecasts** for the world's major economies have remained largely unchanged in this month's survey, reflecting mixed data releases.
- ❖ Moderating economic activity in the **US**, combined with lower energy prices, has resulted in consensus forecasts for consumer price inflation being lowered this month. These factors have also seen the Fed pause its cycle of monetary tightening for the second consecutive meeting, with our panel predicting that the next move in interest rates could well be downwards, sometime in the second quarter of 2007.
- ❖ In contrast, our **UK** panellists are confident that the Bank of England will increase interest rates in November, attaching a 65% likelihood to this outcome. Strong GDP growth and above-target inflation already saw the central bank hike rates in August.
- ❖ **Oil price** forecasts have been lowered following the sharp decrease in prices in recent months (see page 27).
- ❖ This month's special survey is a repeat of our regular compilation of **Long-Term Forecasts** (pages 3, 28, and 29), with consensus expectations for the next 5-10 years.

## Contents

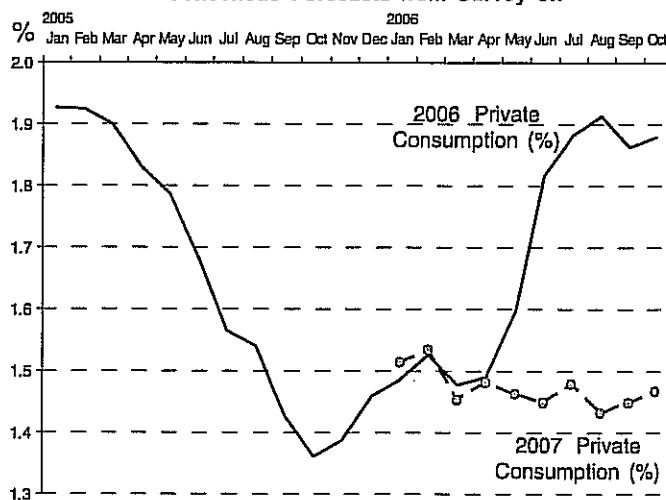
	<u>Page</u>
<b>Significant Changes in the Consensus</b> .....	2
<b>Long-Term Forecasts (continued on page 28)</b> .....	3
<b>Individual Country Forecasts</b>	
United States .....	4
Japan .....	6
Germany .....	8
France .....	10
United Kingdom .....	12
Italy .....	14
Canada .....	16
Euro zone .....	18
Netherlands .....	20
Norway .....	21
Spain .....	22
Sweden .....	23
Switzerland .....	24
Austria, Belgium, Denmark, Egypt, Finland, Greece .....	25
Ireland, Israel, Nigeria, Portugal, Saudi Arabia, South Africa .....	26
<b>Foreign Exchange and Oil Price Forecasts</b> .....	27
<b>Long-Term Forecasts (continued from page 3)</b> .....	28
<b>World Economic Activity</b> .....	32

## G-3 Long-Term GDP Growth (see page 3)



**In the Euro zone** (page 18), latest data releases suggest that economic activity remains robust, and this has led to an upgrade in our panel's forecasts for both 2006 and 2007 GDP growth. Upbeat news from forward-looking PMI surveys has helped. The German industrial sector, in particular, has played an important role in lifting regional production. A 3.7% jump (m-o-m) in German manufacturing orders in August, coupled with firm IFO business sentiment, also bodes well for Euro-wide capital spending intentions. However, despite this year's rise in investment estimates, 2007 forecasts have moderated on the back of the US slowdown and signs that Euro zone industrial output may be stabilizing. Consumer spending, however, continues to show gains, with August's 0.7% m-o-m rise in retail sales – from 0.4% in July – underscoring the improved outlook. Positive job market news has also supported private consumption expectations.

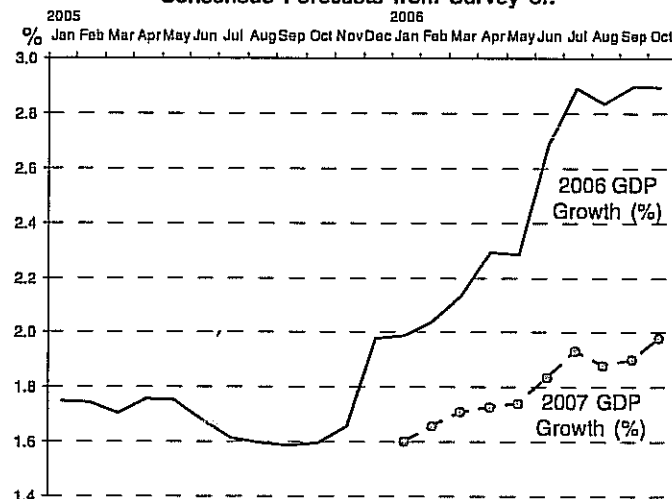
Consensus Forecasts from Survey of:



* % change on previous year	Historical Data			2006 Consensus Forecast	Consensus Forecasts for 2007 from Survey of					
	2003	2004	2005		May '06	June	July	Aug	Sep	Oct
Gross Domestic Product*	0.8	1.7	1.5	2.6	1.8	1.8	1.8	1.8	1.8	1.9
Private Consumption*	1.2	1.3	1.4	1.9	1.5	1.4	1.5	1.4	1.4	1.5
Gross Fixed Investment*	1.0	1.7	2.8	4.3	3.0	3.1	3.0	3.0	3.4	3.3

**In Switzerland** (page 24), 2007 forecasts have been upgraded again this month as the economy's recent strong performance continues. GDP growth has been at 0.7% (q-o-q) or above for the past five quarters, with the country benefiting from buoyant global economic activity (particularly in Germany, its closest trading partner) and a revival in domestic demand. Private consumption still remains fairly subdued by international standards but is forecast to increase by close to 2% in both 2006 and 2007. Strong exports, however, have been the bedrock of the expansion, with a current account surplus of 16% of GDP recorded in the first half of 2006. The upbeat data have prompted our panel to raise its 2007 forecast for this variable. Meanwhile, inflationary pressures remain absent, with prices anticipated to rise by just over 1% both this year and next. This has allowed the central bank to increase interest rates at a gradual pace.

Consensus Forecasts from Survey of:



* % change on previous year	Historical Data			2006 Consensus Forecast	Consensus Forecasts for 2007 from Survey of					
	2003	2004	2005		May '06	June	July	Aug	Sep	Oct
Gross Domestic Product*	-0.2	2.3	1.9	2.9	1.7	1.8	1.9	1.9	1.9	2.0
Private Consumption*	0.8	1.5	1.3	1.9	1.5	1.6	1.8	1.6	1.7	1.8
Current Account Balance (SwFr bn)	58.1	60.5	67.7	67.4	61.3	61.0	63.2	62.4	64.0	66.7

- GDP - Gross Domestic Product
  - na - not available
  - OECD - Organisation for Economic Co-operation and Development
  - y-o-y - year-on-year
  - q-o-q - quarter-on-quarter
  - IMF - International Monetary Fund
  - Emu - European economic and monetary union
  - ECB - European Central Bank
  - m-o-m - month-on-month
- Measures of GDP, Consumption, Business Investment and Industrial Production are expressed in real (i.e. inflation-adjusted) terms. These variables, and certain others as indicated, are expressed as percentage changes over the previous year.

In addition to their regular forecasts, country panellists were asked to provide longer-term forecasts covering the period until 2016 for growth in real GDP, consumer spending, investment and industrial production, along with consumer price inflation, current account balances and long-term bond yields. All definitions correspond to those used in the individual country pages.

United States												
* % change over previous year	Historical				Consensus Forecasts							
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>	
Gross Domestic Product*	1.6	2.5	3.9	3.2	3.4	2.6	3.1	3.2	3.1	3.0	3.0	
Personal Consumption*	2.7	2.8	3.9	3.5	3.2	2.8	3.0	3.0	3.0	2.9	2.9	
Business Investment*	-9.2	1.0	5.9	6.8	8.0	6.8	5.6	5.5	5.1	4.9	4.8	
Industrial Production*	0.1	0.6	4.1	3.2	4.5	3.2	3.2	3.1	3.3	3.5	3.5	
Consumer Prices*	1.6	2.3	2.7	3.4	3.5	2.5	2.3	2.3	2.3	2.3	2.3	
Current Account Balance (US\$bn)	-472	-528	-665	-792	-855	-847	-821	-810	-788	-777	-732	
10 Year Treasury Bond Yield, % <sup>2</sup>	3.8	4.4	4.2	4.4	4.8 <sup>3</sup>	5.0 <sup>4</sup>	5.2	5.4	5.3	5.3	5.3	

<sup>1</sup>Signifies average for period <sup>2</sup>End period <sup>3</sup>End January, 2007 <sup>4</sup>End October, 2007

Slowing growth fundamentals, coupled with higher interest rates, have raised concerns over the near-term **US** outlook. Our survey of long-term forecasts, though, suggests that GDP is expected to return to rates of 3% growth and above after 2007. The perceived resilience of US activity stems in large part from the economy's ability to implement technological change – which boosts the productivity of labour and capital inputs, thereby shifting North American trend-GDP growth rates higher – at a faster pace than its European counterparts. Indeed, **Canadian** GDP expectations over the forecast horizon project similar average growth of just under 3%. The US economy also benefits from less government intervention, lower taxation and fewer structural rigidities (although the US has yet to properly tackle its huge fiscal and current account deficits, with forecasts for the latter showing that the shortfall is not expected to narrow significantly over the next 5-10 years). In the **Euro zone**, this year's projection of firm economic growth of 2.6% is not expected to be sustained at the same rate of expansion going forward. Part

of this is due to structural challenges like more regulated labour markets and government intervention. Demographics are also significant: as Europe's "baby boom" generation moves towards retirement, a shrinking working population will shoulder a heavier burden to support them or risk a grave public pensions shortfall. Elsewhere, lower rates of job creation have yet to be properly tackled. This was illustrated earlier this year when efforts by the **French** government to add flexibility to youth employment were met with protests, partly by those seeking to preserve existing practices. In **Italy**, an already large fiscal shortfall – expected to reach 4.8% of GDP this year – has been met with plans to increase taxes; measures directly tackling structural rigidities have been less forthcoming. Consequently, French and, especially, Italian growth rates are forecast to remain modest over the medium-term. **Japan's** aging workforce and sizeable public deficit are also factors governing long-term forecasts. The good news, though, is that a return to deflation is not anticipated.

(tables continued on pages 28-29)

Japan												
* % change over previous year	Historical				Consensus Forecasts							
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>	
Gross Domestic Product*	0.1	1.8	2.3	2.6	2.8	2.2	2.0	1.6	2.0	2.3	1.7	
Private Consumption*	1.1	0.6	1.9	2.1	1.9	1.9	2.0	1.5	2.2	2.2	1.8	
Business Investment*	-5.2	6.2	4.7	7.8	9.1	5.7	4.6	3.1	3.5	4.2	2.6	
Industrial Production*	-1.3	3.3	5.2	1.5	3.8	2.3	2.7	1.4	2.5	3.2	2.0	
Consumer Prices*	-0.9	-0.2	0.0	-0.3	0.3	0.5	0.7	1.9	1.3	1.5	1.6	
Current Account Balance (¥tn)	14.1	15.8	18.6	18.3	18.4	18.2	18.3	19.6	20.0	20.4	21.2	
10 Year Treasury Bond Yield, % <sup>2</sup>	0.8	1.4	1.4	1.5	1.9 <sup>3</sup>	2.1 <sup>4</sup>	2.4	2.7	3.1	3.4	3.5	

Germany												
* % change over previous year	Historical				Consensus Forecasts							
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>	
Gross Domestic Product*	0.0	-0.2	1.2	0.9	2.2	1.2	1.7	1.6	1.5	1.6	1.5	
Private Consumption*	-0.8	-0.1	0.1	0.1	1.0	0.1	1.1	1.3	1.3	1.3	1.2	
Machinery & Eqpt Investment*	-7.5	-0.1	4.2	6.1	6.5	4.5	2.3	2.8	2.5	2.5	2.5	
Industrial Production*	-1.3	0.1	2.5	2.8	4.7	2.6	2.0	2.4	2.1	1.8	1.9	
Consumer Prices*	1.4	1.1	1.7	2.0	1.8	2.3	1.6	1.6	1.6	1.6	1.6	
Current Account Balance (Euro bn)	43.4	40.3	81.9	92.6	85.9	89.1	92.0	82.1	73.4	69.0	68.6	
10 Year Treasury Bond Yield, % <sup>2</sup>	4.2	4.3	3.7	3.3	3.9 <sup>3</sup>	4.0 <sup>4</sup>	4.2	4.3	4.3	4.2	4.3	

	Average % Change on Previous Calendar Year										Annual Total										
	Gross Domestic Product		Personal Consumption		Business Investment		Pre - Tax Corporate Profits		Industrial Production		Consumer Prices		Producer Prices		Employment Costs		Auto and Light Truck Sales (mn units)		Housing Starts (mn units)		
Economic Forecasters	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	
Bear Stearns	3.5	3.2	3.2	3.0	8.6	8.9	20.6	6.1	4.5	3.8	3.6	2.9	na	na	na	na	17.0	17.5	1.95	1.85	
Inforum - Univ of Maryland	3.5	2.9	3.1	2.7	7.1	5.0	15.4	-2.0	4.5	4.0	3.7	3.1	3.6	2.0	na	na	16.6	16.7	1.86	1.71	
Wells Capital	3.5	2.9	3.2	3.0	8.4	9.2	19.9	4.7	4.4	3.7	3.7	2.9	3.4	2.5	3.1	3.6	16.5	16.5	1.84	1.58	
The Conference Board	3.5	2.6	3.2	3.1	8.3	6.6	20.1	3.3	5.0	3.6	3.5	3.2	3.6	4.2	na	na	16.5	16.3	1.87	1.64	
Ford Motor Corp	3.4	2.6	3.0	2.7	9.0	7.6	na	na	4.6	3.7	3.6	2.5	3.5	1.5	na	na	na	na	1.84	1.48	
Morgan Stanley	3.4	3.0	3.3	3.0	8.2	7.8	16.6	2.2	4.7	4.4	3.4	1.9	3.3	1.0	na	na	16.5	16.2	1.83	1.56	
Econ Intelligence Unit	3.4	2.2	3.2	2.1	na	na	na	na	4.1	2.0	3.8	3.3	3.9	3.0	na	na	17.2	16.4	na	na	
Eaton Corporation	3.4	2.8	2.9	2.3	8.4	6.4	23.6	10.3	4.4	3.7	3.7	2.5	3.6	1.8	3.4	3.3	16.5	16.5	1.85	1.72	
Lehman Brothers	3.4	2.7	3.2	2.7	7.9	8.5	19.8	3.0	4.7	4.0	3.5	2.6	na	na	na	na	16.5	16.3	1.80	1.55	
Moody's Economy.com	3.4	2.8	3.1	2.7	7.9	7.4	19.4	3.8	4.2	2.6	3.5	2.4	3.4	2.1	2.9	3.5	16.5	15.9	1.80	1.60	
United States Trust	3.4	2.5	3.2	2.5	7.4	7.2	21.4	4.9	4.4	2.1	3.5	2.3	na	na	na	na	16.5	15.5	1.81	1.40	
Wachovia Corp	3.4	2.6	3.1	2.6	8.2	7.0	17.6	9.0	4.3	2.0	3.5	2.5	3.4	2.2	3.0	3.0	16.5	16.4	1.82	1.47	
JP Morgan	3.4	2.9	3.2	3.1	8.2	8.2	19.7	4.8	na	na	3.4	2.3	3.6	2.4	3.0	3.5	16.5	16.1	1.85	1.69	
Georgia State University	3.4	2.2	3.1	2.7	7.9	6.4	21.5	4.0	4.5	3.6	3.5	2.1	3.4	2.0	2.9	3.1	16.2	15.9	1.81	1.57	
Nat Assn of Home Builders	3.3	2.7	3.1	2.9	7.5	6.0	20.1	3.0	4.3	3.7	3.5	2.7	3.7	2.7	3.0	3.3	16.6	16.5	1.84	1.62	
Daimler Chrysler	3.3	2.7	3.2	3.2	7.7	6.4	17.9	3.3	4.5	3.5	3.6	2.6	3.5	1.9	na	na	na	na	1.89	1.66	
Goldman Sachs	3.3	2.3	3.1	2.5	7.6	5.7	18.3	1.4	4.6	4.0	3.5	2.8	3.5	2.1	3.2	3.9	16.6	16.2	1.85	1.58	
Macroeconomic Advisers	3.3	2.9	3.2	3.4	8.1	6.5	19.0	2.4	4.5	3.9	3.4	2.3	3.4	1.8	na	na	16.6	16.6	1.83	1.59	
Northern Trust	3.3	2.4	3.1	2.5	7.9	5.6	na	na	3.9	1.6	3.6	2.7	na	na	na	na	16.4	16.1	1.82	1.55	
Oxford Economics	3.3	2.6	3.1	2.9	8.5	7.8	18.9	2.4	4.5	3.6	3.5	2.3	3.3	1.4	3.0	3.9	16.7	16.4	1.85	1.70	
DuPont	3.3	2.3	3.1	2.4	7.3	5.6	20.0	6.0	4.4	2.3	3.5	2.2	3.5	1.0	3.2	3.2	16.6	16.5	1.84	1.65	
General Motors	3.3	2.6	3.2	3.2	7.9	4.6	18.8	1.0	4.5	3.8	3.6	2.8	3.5	2.4	3.0	3.2	na	na	1.81	1.47	
Global Insight	3.3	2.4	3.2	2.8	8.2	6.3	18.4	4.6	4.4	2.2	3.3	2.2	2.7	3.1	2.8	3.0	16.5	16.3	1.83	1.59	
Merrill Lynch	3.3	1.8	3.2	1.9	7.7	5.8	na	na	4.4	1.6	3.3	1.5	na	na	na	na	16.4	15.3	1.86	1.50	
Univ of Michigan - RSQE	3.3	2.5	3.2	3.5	7.7	6.7	19.7	3.4	4.6	3.5	3.4	2.6	3.4	3.2	na	na	16.5	16.5	1.86	1.64	
Swiss Re	3.2	2.8	3.1	2.6	8.3	7.5	18.9	6.8	4.4	3.3	3.3	2.1	3.5	1.6	na	na	17.0	16.5	1.84	1.73	
Bank America Corp	3.2	2.7	3.2	3.0	7.5	6.1	na	na	4.4	3.6	3.5	2.7	3.4	1.8	na	na	16.4	16.2	1.82	1.73	
annie Mae	3.2	3.1	3.2	3.1	8.3	5.8	19.2	2.4	4.5	3.7	3.4	2.2	3.4	1.8	na	na	na	na	1.84	1.66	
Consensus (Mean)	3.4	2.6	3.2	2.8	8.0	6.8	19.3	4.0	4.5	3.2	3.5	2.5	3.5	2.2	3.0	3.4	16.6	16.3	1.84	1.61	
Last Month's Mean	3.5	2.6	3.2	2.7	8.0	6.7	20.3	3.7	4.4	3.3	3.6	2.7	3.7	2.6	3.1	3.5	16.6	16.4	1.88	1.68	
3 Months Ago	3.5	2.8	3.1	2.7	9.0	6.8	19.9	3.2	4.1	3.3	3.4	2.5	3.4	2.1	3.2	3.6	16.6	16.4	1.92	1.75	
High	3.5	3.2	3.3	3.5	9.0	9.2	23.6	10.3	5.0	4.4	3.8	3.3	3.9	4.2	3.4	3.9	17.2	17.5	1.95	1.85	
Low	3.2	1.8	2.9	1.9	7.1	4.6	15.4	-2.0	3.9	1.6	3.3	1.5	2.7	1.0	2.8	3.0	16.2	15.3	1.80	1.40	
Standard Deviation	0.1	0.3	0.1	0.4	0.4	1.2	1.7	2.6	0.2	0.8	0.1	0.4	0.2	0.7	0.2	0.3	0.2	0.4	0.03	0.10	
Comparison Forecasts																					
CBO (Jan. '06)	3.6	3.4									2.8	2.1			3.0	3.2					
OMB (June '06)	3.6	3.3									3.0	2.4									
IMF (Sep. '06)	3.4	2.9	3.0	2.6							3.6	2.9									
OECD (May '06)	3.6	3.1	3.6	3.3							3.3	2.4									

**Government and Background Data**

President - Mr. George W. Bush (Republican). Congress - The Republicans have majorities in both the House of Representatives (lower house) and the Senate (upper house). Next Elections - November 7, 2006 (Congressional) and November 2008 (Presidential). Nominal GDP - \$12,456bn (2005). Population - 298.2mn (mid-year, 2005).

**Quarterly Consensus Forecasts**

*Historical Data and Forecasts (bold italics) From Survey of September 11, 2006*

	2006			2007				2008		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product	3.7	3.6	3.2	3.4	2.7	2.6	2.6	2.7	2.9	3.0
Personal Consumption	3.4	3.0	2.9	3.4	2.8	2.8	2.6	2.7	2.8	2.9
Consumer Prices	3.7	4.0	3.4	3.2	3.3	2.7	2.4	2.3	2.3	2.3

**Historical Data**

* % change on previous year	2002	2003	2004	2005
Gross Domestic Product*	1.6	2.5	3.9	3.2
Personal Consumption*	2.7	2.8	3.9	3.5
Business Investment*	-9.2	1.0	5.9	6.8
Pre - Tax Corporate Profits*	15.5	12.1	19.1	12.5
Industrial Production*	0.1	0.6	4.1	3.2
Consumer Prices*	1.6	2.3	2.7	3.4
Producer Prices*	-1.3	3.2	3.6	4.9
Employment Costs*	3.6	3.8	3.7	3.3
Auto & Light Truck Sales, mn	16.8	16.6	16.9	16.9
Housing Starts, mn	1.71	1.85	1.95	2.07
Unemployment Rate, %	5.8	6.0	5.6	5.1
Current Account, US\$ bn	-472	-528	-665	-792
Federal Budget Balance, fiscal years, US\$ bn	-158	-378	-413	-318
3 mth Treasury Bill, % (end yr)	1.2	0.9	2.2	4.0
10 Year Trsy Bond, % (end yr)	3.8	4.4	4.2	4.4

Year Average		Annual Total		Fiscal Years (Oct-Sep)		Rates on Survey Date			
						4.8%		4.7%	
Unemployment Rate (%)		Current Account (US\$ bn)		Federal Budget Balance (US\$ bn)		3 month Treasury Bill Rate (%)		10 Year Treasury Bond Yield (%)	
2006	2007	2006	2007	FY 05-06	FY 06-07	End Jan'07	End Oct'07	End Jan'07	End Oct'07
4.6	4.5	na	na	-300	-275	5.5	5.8	5.4	5.8
4.7	4.8	na	na	na	na	4.9	4.9	4.9	5.1
4.7	4.8	-850	-860	-265	-285	5.0	4.3	4.9	4.5
4.7	5.0	-862	-883	-245	-290	5.5	5.0	4.5	4.3
4.8	5.4	na	na	-176	-225	5.0	4.8	4.5	5.3
4.7	5.0	-875	-849	-250	-250	5.1	5.0	5.1	5.1
4.7	5.1	-858	-879	-296	-335	na	na	na	na
4.7	5.0	na	na	-245	-280	5.0	4.4	5.0	4.8
4.7	4.7	-880	-900	-300	-325	5.2	5.3	4.9	5.1
4.7	4.9	-858	-830	-280	-306	4.9	4.6	5.0	5.0
4.7	5.1	-857	-800	-235	-320	4.7	4.0	4.5	4.4
4.8	5.0	-800	-820	-240	-225	4.9	4.9	4.7	4.9
4.7	4.5	-902	-1006	-260	-280	na	na	na	na
4.7	5.0	-848	-816	-170	-181	5.0	4.7	5.0	5.2
4.8	5.1	-854	-880	-235	-250	5.1	4.9	4.9	5.1
4.8	4.9	na	na	na	na	4.8	4.8	4.8	5.1
4.7	5.0	-885	-915	-260	-300	4.8	4.0	4.6	4.5
4.7	5.1	-839	-833	-233	-232	5.2	5.2	4.9	5.1
4.8	5.3	na	na	na	na	4.4	4.3	4.5	4.8
4.7	4.9	-849	-820	-364	-348	5.0	4.7	4.7	5.0
4.7	5.0	na	na	-260	-300	5.1	4.6	5.0	5.0
4.7	5.3	-775	-690	-234	-249	5.0	5.0	5.1	5.4
4.7	5.0	-875	-842	-270	-287	4.8	4.4	4.7	4.6
4.8	5.6	-849	-792	-275	-335	4.8	4.0	4.7	4.4
4.7	4.7	-845	-828	-173	-175	4.9	4.9	5.0	5.4
4.7	4.7	-853	-834	-259	-280	5.0	4.3	4.9	5.0
4.7	5.0	-880	-860	-280	-260	5.1	5.2	5.0	5.5
4.7	5.1	na	na	-190	-241	5.0	4.4	4.7	4.7
4.7	5.0	-855	-847	-252	-273	5.0	4.7	4.8	5.0
4.7	5.0	-855	-856	-246	-269				
4.7	4.9	-884	-887	-308	-320				
4.8	5.6	-775	-690	-170	-175	5.5	5.8	5.4	5.8
4.6	4.5	-902	-1006	-364	-348	4.4	4.0	4.5	4.3
0.0	0.2	28	61	44	45	0.2	0.4	0.2	0.4
5.0	5.0			-337	-270				
4.7	4.8			-423	-354				
4.8	4.9	-869	-959						
4.7	4.7								

**Fed Weighs Up Inflation Alongside Slower Growth Outlook**  
 The Fed left interest rates unchanged on September 20 for the second consecutive time, prompted by signs of receding price pressures. Oil prices have been on a downward bent over the past two months, while producer costs moderated recently on the back of lower automobile prices. Headline consumer price increases also fell back in August, to 3.8% y-o-y; however, this follows three consecutive months of inflation above 4%. Despite our panel downgrading its forecasts for both consumer and producer prices in 2006 and 2007, the inflation threat has not diminished completely. For example, core personal consumption expenditure prices (the Fed's primary indicator of underlying inflation) rose to a new cyclical high of 2.5% y-o-y in August, up from 2.3% in July. This coincided with news of rising income growth which, coupled with higher unit labour costs evidenced in the second quarter's productivity report, underscores the Fed's conclusion that "inflation risks remain." Our panellists are already predicting an end to monetary tightening (see box, below), but Fed chairman Ben Bernanke has hinted that any further movement in rates is more likely to be upward than down.

Industrial production contracted by 0.1% m-o-m in August following July's 0.4% gain, while the factory report for the same month showed zero growth in new orders (in m-o-m terms). Shipments did rise following two months of declines, while the trend in core capital goods orders and shipments over the third quarter bodes well for the business investment outlook. However, manufacturing sentiment has become increasingly muted, as evidenced in September's ISM survey which showed production, orders and, particularly, employment falling back. This year's forecast for industrial production, however, has crept up this month although 2007 estimates have moderated. Elsewhere, consumer spending remains resilient in the face of lukewarm job creation and waning housing market activity. Real consumption contracted by 0.1% m-o-m in August, but consumer confidence in September jumped as a result of lower gasoline prices and an improved perception of job fundamentals (September's labour report showed larger-than-expected upward adjustments to past data). Next year's expectations for consumer spending have consequently seen a slight upgrade.

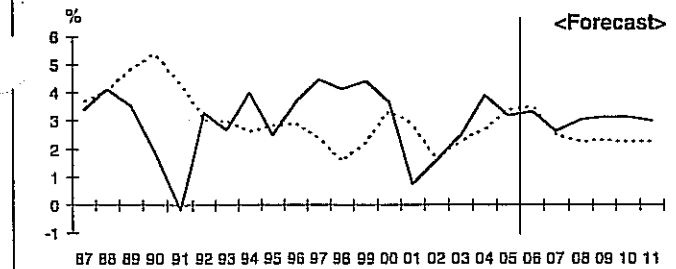
**Direction of Trade – 2005**

Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
Canada	23.4	Canada	16.9
Mexico	13.3	China	15.0
Japan	6.1	Mexico	10.0
Latin America	21.2	Asia (ex. Japan)	28.0
Asia (ex. Japan)	18.6	Latin America	17.5
Middle East	3.9	Middle East	4.0

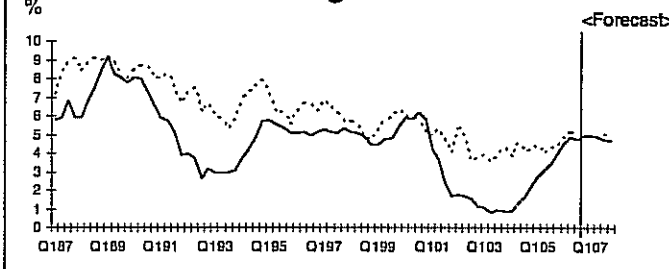
**US Fed Funds Rate – October 9, 2006 = 5.25%**

FORECASTS	End Dec. 2006	End Mar. 2007	End June 2007	End Sep. 2007
Consensus Mean Average:	5.22%	5.20%	5.06%	4.90%
Mode (most frequent forecast):	5.25%	5.25%	4.75%	4.50%

**Real Growth and Inflation**



**Short- and Long-Term Interest Rates**



	Average % Change on Previous Calendar Year												Annual Total					
	Gross Domestic Product		Private Consumption		Business Investment		Industrial Production		Consumer Prices		Domestic Corporate Goods Prices		Total Cash Earnings (nominal)		New Car Registrations (mn)		Housing Starts (mn)	
	国内総生産		民間消費		民間設備投資		鉱工業生産		消費者物価		卸売物価		現金給与総額(名目)		新車登録台数(百万台)		親設住宅着工(百万戸)	
Economic Forecasters	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Merrill Lynch - Japan	3.2	3.0	2.2	3.2	10.4	7.3	4.7	3.3	0.3	0.7	na	na	na	na	na	na	na	na
Mitsubishi UFJ Research	3.2	2.0	1.8	1.1	9.8	7.4	4.5	2.0	0.2	0.8	3.1	2.7	1.0	1.8	na	na	1.30	1.28
Mitsubishi Research Institute	3.0	2.2	1.9	2.0	8.8	5.7	3.5	2.0	na	na	3.0	1.3	na	na	na	na	1.29	1.32
Daiwa Institute of Research	2.9	2.4	2.0	2.0	9.3	3.8	3.6	0.5	na	na	2.9	0.2	na	na	na	na	na	na
Deutsche Securities	2.9	1.6	1.7	1.7	9.6	2.1	3.8	-0.2	0.2	0.6	3.2	0.9	0.5	0.8	na	na	na	na
ITOCHU Institute	2.9	2.1	2.1	1.9	9.2	5.9	3.7	2.1	0.2	0.4	2.8	1.4	0.6	1.5	3.3	3.3	1.27	1.28
Nomura Securities	2.9	2.4	1.7	2.1	9.2	6.7	4.5	5.0	0.4	0.5	3.2	2.2	0.9	1.0	na	na	na	na
JP Morgan - Japan	2.8	2.8	1.9	2.3	9.9	9.1	3.9	4.2	0.2	0.7	3.0	2.5	na	na	na	na	na	na
HSBC	2.8	1.9	1.9	1.7	8.4	5.7	4.0	1.9	0.5	0.5	1.9	0.7	na	na	na	na	na	na
Econ Intelligence Unit	2.8	2.1	1.8	1.8	na	na	2.9	1.4	0.4	1.3	4.4	1.8	na	na	na	na	na	na
Global Insight	2.7	2.3	2.0	2.7	7.9	2.7	3.6	0.8	0.4	0.7	2.9	0.9	na	na	na	na	1.27	1.27
Credit Suisse	2.7	2.0	1.8	1.6	9.3	6.0	4.8	3.9	0.2	0.0	na	na	na	na	na	na	na	na
Goldman Sachs	2.7	2.4	1.8	1.6	9.2	10.3	3.4	3.5	0.2	0.5	2.7	1.5	na	na	na	na	na	na
Japan Ctr for Econ Research	2.7	2.0	1.9	1.5	8.1	4.3	3.8	3.3	na	na	2.7	0.9	0.9	1.7	na	na	1.31	1.33
Mizuho Research Institute	2.7	1.8	1.9	1.9	8.2	2.5	3.8	1.6	0.3	0.2	2.8	0.4	0.6	2.1	na	na	1.26	1.20
Nikko Citigroup	2.7	2.3	1.6	2.0	9.2	7.0	3.6	2.7	0.2	0.3	2.7	-1.6	na	na	na	na	na	na
NLI Research Institute	2.7	1.8	1.8	1.8	9.2	5.6	3.7	2.5	0.2	0.0	3.0	0.5	na	na	na	na	1.28	1.24
Toyota Motor Corporation	2.7	2.2	2.0	1.6	8.0	4.0	4.0	2.0	0.3	0.2	3.0	1.5	na	na	3.3	3.2	1.27	1.20
Bank of Tokyo-Mitsubishi UFJ	2.6	1.7	1.8	1.7	9.1	5.6	3.4	1.9	0.2	0.3	2.9	1.1	0.5	0.5	na	na	1.25	1.25
JBS	2.6	2.0	1.8	1.9	9.3	6.7	3.1	1.5	0.1	0.2	2.3	1.1	0.5	1.0	3.5	3.4	1.25	1.27
Consensus (Mean)	2.8	2.2	1.9	1.9	9.1	5.7	3.8	2.3	0.3	0.5	2.9	1.1	0.7	1.3	3.4	3.3	1.27	1.26
Last Month's Mean	2.8	2.2	1.9	1.9	9.1	5.3	3.9	2.2	0.4	0.6	2.9	1.0	0.7	1.3	3.4	3.3	1.27	1.25
3 Months Ago	3.0	2.2	2.2	1.9	6.9	5.1	3.9	2.5	0.6	0.6	2.4	0.7	0.8	1.3	3.3	3.3	1.26	1.26
High	3.2	3.0	2.2	3.2	10.4	10.3	4.8	5.0	0.5	1.3	4.4	2.7	1.0	2.1	3.5	3.4	1.31	1.33
Low	2.6	1.6	1.6	1.1	7.9	2.1	2.9	-0.2	0.1	0.0	1.9	-1.6	0.5	0.5	3.3	3.2	1.25	1.20
Standard Deviation	0.2	0.3	0.1	0.5	0.7	2.1	0.5	1.3	0.1	0.3	0.5	1.0	0.2	0.6	0.1	0.1	0.02	0.04
Comparison Forecasts																		
IMF (Sep. '06)	2.7	2.1	1.9	2.0					0.3	0.7								
OECD (May '06)	2.8	2.2	1.7	1.6					0.7	0.8								

## Government and Background Data

Prime Minister - Mr. Shinzo Abe (LDP). Parliament - The LDP-led coalition, with the New Komeito party, has a majority in the lower House of Representatives, or *Shugiin* (323 out of 480 seats). Next Elections - by 2010 (lower house). Nominal GDP - ¥502.6tn (2005). Population - 128.1mn (mid-year, 2005). Yen/\$ Exchange Rate - 110.2 (average, 2005).

## Quarterly Consensus Forecasts

Historical Data and Forecasts (bold italics) From Survey of September 11, 2006

	2006		2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product	3.4	2.5	2.9	2.4	2.4	2.4	2.1	1.9	1.9	1.9
Private Consumption	2.0	1.8	1.9	1.8	2.0	1.9	1.9	1.9	1.9	2.1
Consumer Prices	-0.1	0.2	0.7	0.7	0.5	0.6	0.6	0.6	0.6	0.8

## Historical Data

* % change on previous year	2002	2003	2004	2005
Gross Domestic Product*	0.1	1.8	2.3	2.6
Private Consumption*	1.1	0.6	1.9	2.1
Business Investment*	-5.2	6.2	4.7	7.8
Industrial Production*	-1.3	3.3	5.2	1.5
Consumer Prices*	-0.9	-0.2	0.0	-0.3
Domestic Corporate Goods Prices*-2.1	-0.8	1.2	1.7	
Total Cash Earnings (nominal)*	-2.3	-0.4	-2.7	0.6
New Car Registrations, mn	3.2	3.2	3.4	3.4
Housing Starts, mn	1.15	1.16	1.19	1.24
Unemployment Rate, %	5.4	5.3	4.7	4.4
Current Account, ¥tn	14.1	15.8	18.6	18.3
General Govt Budget Balance, SNA basis, fisc. years, ¥tn	-29.2	-35.3	-32.9	-25.4 e
3 mth CD's, % (end yr)	0.1	0.1	0.1	0.1
10 Yr Govt Bond, % (end yr)	0.8	1.4	1.4	1.5



Year Average	Annual Total	Fiscal Years (Apr-Mar)		Rates on Survey Date					
				0.4%		1.7%			
Inemployment Rate (%)	Current Account (¥tn)	General Government Budget Balance (¥tn)		3 month Yen Cert of Deposit (%)		10 Year Govt Bond Yield (%)			
失業率	経常収支	一般政府財政収支 (SNA ベース、兆円)		3ヵ月物円建譲渡性預金		10年物国債利回り			
2006 2007	2006 2007	FY 06-07	FY 07-08	End Jan'07	End Oct'07	End Jan'07	End Oct'07		
4.0	3.5	18.9	17.7	na	na	0.6	0.9	2.0	1.8
4.1	3.9	18.6	17.1	na	na	0.5	0.5	1.9	1.9
4.0	3.7	17.5	16.1	na	na	0.7	1.2	1.9	2.3
4.1	3.9	18.5	17.3	na	na	na	na	na	na
4.1	3.9	18.3	22.6	-26.6	-24.0	0.7	0.5	2.0	1.9
4.0	3.7	18.2	18.2	na	na	0.4	0.8	2.0	2.5
4.0	3.6	19.0	19.1	-14.9	-10.3	0.5	0.9	1.9	2.3
4.0	3.6	19.1	20.8	na	na	na	na	2.0	2.5
4.2	4.3	18.3	16.6	na	na	0.3	0.6	1.6	1.4
4.1	4.0	na	na	na	na	na	na	na	na
4.2	4.0	17.7	15.5	na	na	0.6	1.1	2.1	2.6
na	na	19.0	19.4	na	na	na	na	na	na
4.2	3.9	18.2	17.5	-18.3	-14.6	0.5	0.8	1.8	2.1
4.1	3.9	18.1	20.3	na	na	na	na	1.8	1.9
4.1	3.8	19.3	19.9	na	na	0.5	0.8	1.9	2.2
4.1	3.9	17.6	17.7	na	na	na	na	1.8	na
4.0	3.8	18.7	18.0	na	na	0.7	0.8	1.9	2.2
4.0	3.8	17.0	16.0	na	na	0.5	0.5	1.8	2.0
1.1	4.0	19.1	19.6	na	na	na	na	1.8	2.1
4.0	3.7	17.9	17.1	na	na	0.7	0.8	2.0	2.3
4.1	3.8	18.4	18.2	-19.9	-16.3	0.6	0.8	1.9	2.1
4.1	3.8	18.3	18.2	-19.5	na				
4.1	3.8	19.2	19.3	-20.0	na				
4.2	4.3	19.3	22.6	-14.9	-10.3	0.7	1.2	2.1	2.6
4.0	3.5	17.0	15.5	-26.6	-24.0	0.3	0.5	1.6	1.4
0.1	0.2	0.6	1.8	6.0	7.0	0.1	0.2	0.1	0.3
4.1	4.0								
4.0	3.5								

**Latest Tankan Survey Suggests Firm Fundamentals**

The Bank of Japan's September Tankan survey assuaged fears of a protracted slowdown following a rather muted second quarter. Sentiment among large manufacturing firms over the three months to September climbed to a two-year high, while both manufacturing and non-manufacturing respondents predicted that capital spending would jump by a 8.3% y-o-y during the current fiscal year (which began in April). Sales and profit projections showed a moderation compared with the previous year but, overall, the report presented a very upbeat picture of business investment intentions for 2007, forecasts for which has seen an upgrade. The Tankan report did suggest that non-manufacturing activity may have peaked during the three months to June, though. Elsewhere, data confirms that consumer spending underwent a soft patch during the summer months. There was a 0.6% (m-o-m) contraction in real spending by salaried workers in August, its second consecutive fall. This, combined with still-muted department store sales, was attributed to hot weather at the end of the month which enticed shoppers away. Retail sales, however, did bounce back from July's contraction, by 1.3% (y-o-y) in August. Fuel sales were a factor behind the increase although non-fuel retailing also saw a jump on the back of auto and household appliance spending. Our panel's outlook for private consumption remains firm – though unchanged – this month, supported by retailer confidence and signs of tightening job market conditions (also indicated in the Tankan report).

According to the Tankan, industrial activity looks likely to pick up in pace going into the third quarter. Indeed, data elsewhere show that production rebounded by 1.9% (m-o-m) in August following an unexpected decline in July, while shipments surged by an even stronger 2.5%. In addition, September's purchasing managers' survey predicts upbeat industrial output over the next two months. Industry has been buoyed by strong business spending, while yen weakness over the past few months has contributed to a surge in exports, as evidenced in summer trade data. The 2006 forecast for production growth stands at 3.8% this month, while next year's consensus has edged up slightly.

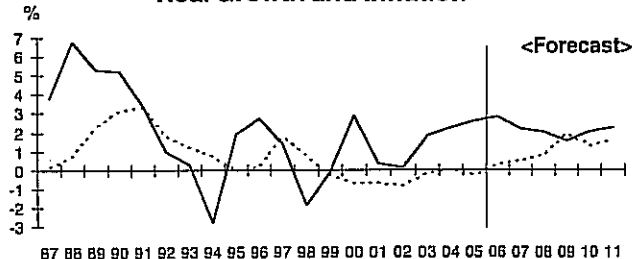
**Direction of Trade – 2005**

Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
United States	22.9	China	21.0
China	13.4	United States	12.7
South Korea	7.8	South Korea	4.7
Asia (inc. the above)	48.6	Asia (inc. the above)	44.6
Latin America	3.8	Middle East	16.9
Middle East	2.9	Latin America	2.8

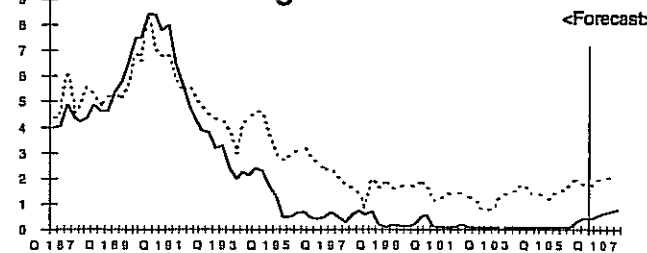
**Japan Uncollateralized Overnight Call rate – October 9, 2006 = 0.25%**

FORECASTS	End Dec. 2006	End Mar. 2007	End June 2007	End Sep. 2007
<b>Consensus Mean Average:</b>	0.38%	0.52%	0.61%	0.66%
<b>Mode (most frequent forecast):</b>	0.50%	0.50%	0.50%	0.50%

**Real Growth and Inflation**



**Short- and Long-Term Interest Rates**



	Average % Change on Previous Calendar Year													
	Gross Domestic Product		Private Consumption		Machinery & Equipment Investment		Industrial Production		Consumer Prices		Producer Prices		Negotiated Wages and Salaries	
	<i>Bruttoinlandsprodukt</i>		<i>Privater Verbrauch</i>		<i>Ausrüstungs-investitionen</i>		<i>Produktion im Produzierenden Gewerbe</i>		<i>Preisindex für die Lebenshaltung</i>		<i>Index für Erzeugerpreise</i>		<i>Tariflohn- und gehaltsniveau</i>	
Economic Forecasters	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
JP Morgan	2.5	2.0	1.3	1.3	6.6	5.0	4.4	2.8	2.0	2.5	na	na	na	na
Landesbank Berlin	2.5	1.1	0.9	0.8	6.7	2.4	4.5	2.0	1.7	1.9	5.7	2.5	1.9	2.4
Bank of America	2.4	1.5	1.0	0.3	na	na	4.8	4.6	1.7	2.2	na	na	na	na
IW - Cologne Institute	2.4	1.5	0.9	0.3	6.8	6.0	4.5	2.5	1.8	2.2	5.0	2.0	1.5	1.5
Lehman Brothers	2.4	1.3	0.9	0.6	na	na	5.0	1.5	1.7	2.1	5.8	3.4	na	na
UBS	2.4	1.5	0.9	0.6	7.3	4.2	4.8	2.7	1.8	2.5	5.7	2.6	na	na
Dresdner Bank	2.3	1.2	0.9	0.0	7.0	6.0	4.7	2.5	1.7	2.3	5.6	1.6	1.5	1.8
Goldman Sachs	2.3	1.7	1.0	0.5	6.9	3.9	4.3	2.0	1.8	2.2	5.7	2.7	na	na
HSBC Trinkaus	2.3	1.1	0.8	-0.4	6.8	3.5	4.6	2.4	1.8	2.0	5.5	2.4	1.6	1.6
Sal Oppenheim	2.3	1.4	1.0	-0.3	5.1	4.7	na	na	1.8	2.4	na	na	na	na
SEB	2.3	1.0	1.0	-0.1	6.8	4.2	4.7	2.8	1.7	2.3	5.2	2.5	2.2	2.4
WestLB	2.3	1.3	1.0	-0.3	7.0	5.5	3.5	2.8	1.7	2.5	5.3	3.0	2.0	2.0
WGZ Bank	2.3	1.5	1.4	0.5	7.1	5.0	5.5	3.0	2.0	2.4	5.5	1.4	2.0	2.3
DZ Bank	2.2	1.0	0.8	0.1	7.1	5.9	4.8	3.6	1.9	2.1	5.5	1.9	na	na
BHF-Bank	2.2	1.7	1.0	0.8	6.0	3.8	5.5	3.0	1.7	1.9	5.5	3.0	2.0	2.4
DekaBank	2.2	0.8	1.3	-0.6	6.3	3.5	4.3	0.3	1.7	2.6	5.5	1.6	2.0	2.0
DIW - Berlin	2.2	1.3	0.7	0.0	5.2	4.4	na	na	1.8	2.4	na	na	1.6	1.5
Helaba Frankfurt	2.2	1.5	1.0	0.0	7.0	5.0	4.7	2.5	1.8	2.5	5.0	2.0	1.9	2.2
HypoVereinsbank	2.2	0.7	1.2	0.8	4.6	2.9	na	na	1.8	2.5	na	na	2.0	2.0
MM Warburg	2.2	1.3	0.8	0.2	6.1	3.5	4.7	2.0	1.7	2.4	5.7	2.7	2.2	2.0
RWI Essen	2.2	1.7	0.8	0.2	7.2	7.1	4.7	3.5	1.7	2.1	5.5	3.5	1.7	1.9
Econ Intelligence Unit	2.2	1.4	1.0	-0.2	na	na	4.4	2.5	1.9	2.4	5.9	2.8	na	na
Morgan Stanley	2.1	0.7	1.2	-0.3	7.1	4.1	na	na	1.7	1.8	na	na	na	na
Bank Julius Baer	2.1	1.3	0.7	0.1	5.2	1.8	4.8	3.2	1.8	2.4	5.9	3.9	2.0	1.8
BayernLB	2.1	1.0	1.0	0.1	6.2	5.1	5.5	3.5	1.7	2.5	6.0	6.0	1.8	2.0
Citigroup	2.1	1.1	0.8	-0.4	7.3	5.5	5.0	3.0	1.7	2.5	5.2	3.0	1.7	1.9
Global Insight	2.1	1.1	0.8	0.3	6.8	4.0	5.6	3.0	1.7	2.3	5.4	2.1	2.2	2.6
IWWA	2.1	1.1	0.8	-0.3	7.2	6.1	4.2	2.0	1.7	2.4	5.5	2.0	1.5	1.8
Commerzbank	2.0	1.0	0.8	0.3	7.0	6.0	4.0	1.8	1.8	2.0	5.3	2.5	2.0	2.2
Deutsche Bank	2.0	0.5	1.1	-0.6	5.9	1.4	4.2	2.0	1.9	2.3	5.5	2.0	1.8	1.5
Consensus (Mean)	2.2	1.2	1.0	0.1	6.5	4.5	4.7	2.6	1.8	2.3	5.5	2.6	1.9	2.0
Last Month's Mean	2.2	1.2	1.0	0.1	6.4	4.5	4.4	2.4	1.8	2.4	5.5	2.6	1.8	1.9
3 Months Ago	1.8	1.1	0.9	0.1	5.6	4.2	4.0	2.4	1.8	2.4	5.1	2.4	1.8	1.8
High	2.5	2.0	1.4	1.3	7.3	7.1	5.6	4.6	2.0	2.6	6.0	6.0	2.2	2.6
Low	2.0	0.5	0.7	-0.6	4.6	1.4	3.5	0.3	1.7	1.8	5.0	1.4	1.5	1.5
Standard Deviation	0.1	0.3	0.2	0.5	0.8	1.4	0.5	0.8	0.1	0.2	0.3	1.0	0.2	0.3
Comparison Forecasts														
Government (Apr. '06)	1.6	1.0	0.3	-0.2	5.0	5.5								
Eur Commission (May '06)	1.7	1.0	1.2	-0.3	6.7	4.7								
IMF (Sep. '06)	2.0	1.3	0.7	0.3										
OECD (May '06)	1.6	1.5	0.6	0.6	4.7	5.4								

## Government and Background Data

**Chancellor** - Mrs. Angela Merkel (Christian Democratic Party or CDU).  
**Parliament** - A coalition of the CDU/CSU and SPD has a large majority in the 614-seat Bundestag (lower house); the CDU/CSU has a majority in the Bundesrat (upper house). **Next Elections** - 2009 (Bundestag).  
**Nominal GDP** - Euro2,247bn (2005). **Population** - 82.7mn mid-year (2005). **\$/Euro Exchange Rate** - 1.244 (average, 2005).

## Quarterly Consensus Forecasts

*Historical Data and Forecasts (bold italics) From Survey of September 11, 2006*

	2006		2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Gross Domestic Product	1.7	2.4	2.4	2.8	1.9	1.3	1.1	0.9	1.3	1.4
Private Consumption	1.0	0.6	0.5	2.2	0.1	0.5	0.3	-0.4	0.7	0.8
Consumer Prices	2.0	1.9	1.7	1.6	2.8	2.4	2.2	2.2	1.6	1.5

## Historical Data

* % change on previous year	2002	2003	2004	2005
Gross Domestic Product*	0.0	-0.2	1.2	0.9
Private Consumption*	-0.8	-0.1	0.1	0.1
Machinery & Eqpt Investment*	-7.5	-0.1	4.2	6.1
Industrial Production*	-1.3	0.1	2.5	2.8
Consumer Prices*	1.4	1.1	1.7	2.0
Producer Prices*	-0.6	1.7	1.6	4.6
Negotiated Wages & Salaries*	3.2	2.5	1.9	1.5
Unemployment Rate, %	9.8	10.5	10.5	11.7
Current Account, Euro bn	43.4	40.3	81.9	92.6
Public Sector Budget				
Balance, Euro bn	-64.5	-73.9	-64.0	-56.1
3 mth Euro, % (end yr)	2.9	2.1	2.2	2.5
10 Yr German Govt Bond, % (end yr)	4.2	4.3	3.7	3.3

Year Average	Annual Total				Rates on Survey Date			
	Unemployment Rate (%)		Public Sector Budget Bal. (Euro bn)		3.5%		3.8%	
Rate (%)	Current Account (Euro bn)	Public Sector Budget Bal. (Euro bn)	3 month Euro Rate (%)	10 Year German Govt Bond Yield (%)				
Arbeitslosenquote, % der Erwerbspers. insgesamt	Leistungsbilanz (Euro bn)	Bilanz der Gebietskörperschaften (Euro bn)	3 Monate Euro (%)	Rendite von Bundesanleihen, 10 Jahre (%)				
2006 2007	2006 2007	2006 2007	End Jan'07 End Oct'07	End Jan'07 End Oct'07				
11.1 10.8	71.2 81.3	-65.0 -59.0	na na	na na				
10.9 10.7	103.0 116.0	-60.0 -66.0	3.5 3.1	3.6 3.8				
11.0 10.5	88.1 88.4	-60.9 -42.1	3.5 3.7	3.8 4.6				
na na	na na	na na	3.6 na	4.0 na				
10.9 11.1	85.0 76.1	-59.6 -39.9	3.7 3.6	3.8 3.5				
10.8 10.6	82.9 77.9	na na	3.7 4.0	4.3 3.9				
10.9 10.3	92.5 100.0	-53.8 -38.2	3.7 3.7	3.9 4.1				
10.9 10.2	83.0 82.0	na na	3.8 3.8	4.2 4.1				
10.9 10.5	87.5 84.0	-66.0 -49.0	3.6 3.5	3.7 3.6				
10.8 10.2	na na	na na	3.5 4.3	3.8 4.3				
10.9 10.3	85.0 80.0	-58.0 -45.0	3.6 3.9	4.0 4.3				
10.9 10.7	na na	-50.0 -48.0	3.6 3.5	3.7 3.6				
10.9 10.0	87.0 85.0	na na	3.7 3.7	3.8 3.7				
10.9 10.5	85.0 70.0	-65.0 -59.0	3.5 4.2	3.9 4.5				
10.9 10.4	60.0 70.0	-50.0 -45.0	3.5 3.5	3.5 3.8				
10.9 10.8	71.4 90.4	-62.4 -56.5	3.6 3.9	3.8 4.2				
11.0 10.6	95.0 99.0	-62.5 -43.2	3.5 3.6	4.2 4.1				
10.9 10.4	90.0 95.0	-65.0 -59.0	3.7 4.1	4.1 4.4				
10.9 10.7	88.0 84.0	-68.0 -60.0	3.8 3.7	3.8 4.0				
10.9 10.7	108.0 112.0	-61.0 -56.0	3.7 3.7	3.5 3.3				
10.9 10.2	105.0 110.0	na na	3.7 4.0	4.2 4.5				
10.7 10.4	na na	na na	na na	na na				
10.9 10.5	74.8 76.4	-63.2 -54.5	3.6 3.2	4.0 3.8				
11.0 10.5	81.2 106.6	-60.0 -66.0	3.8 3.4	4.3 4.2				
10.9 10.4	90.0 95.0	-63.0 -50.0	3.8 3.4	3.9 3.6				
10.6 10.5	81.4 93.4	-64.0 -50.6	3.6 3.6	3.6 3.8				
10.9 9.9	79.3 91.1	-57.6 -46.4	3.6 3.5	4.1 4.1				
10.9 10.5	80.0 102.0	-55.5 -40.2	na na	na na				
10.8 10.2	90.0 90.0	-40.0 -31.0	3.7 3.6	3.7 3.9				
10.9 10.7	90.0 80.0	-60.0 -47.3	3.8 3.5	3.9 3.8				
10.9 10.5	85.9 89.1	-59.6 -49.8	3.6 3.7	3.9 4.0				
10.9 10.5	85.4 88.0	-60.3 -50.2						
11.0 10.7	85.5 89.1	-65.8 -54.6						
11.1 11.1	108.0 116.0	-40.0 -31.0	3.8 4.3	4.3 4.6				
10.6 9.9	60.0 62.0	-68.0 -66.0	3.5 3.1	3.5 3.3				
0.1 0.3	10.4 13.7	6.4 9.0	0.1 0.3	0.2 0.3				

**Inflation Eases Ahead of 2007 Tax Hike**

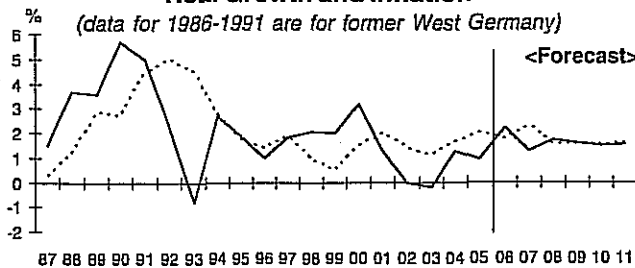
Data releases over the past month have been largely upbeat, indicating that this year's upturn in activity will probably continue until year-end. After posting GDP growth of 0.9% q-o-q during the second quarter, the economy appears to have remained relatively buoyant in the third. Industry has benefited from strong global demand and, more recently, improving domestic conditions, with production soaring by 1.9% m-o-m in August, its greatest rate of increase in nearly three years. The data underline our panel's upgraded forecast of 4.7% growth in production for this year. Manufacturing orders also surprised on the upside after surging by 3.7% m-o-m in August, with both domestic and foreign orders sharply up. In addition, business confidence indicators show that current conditions continue to improve. And, with consumers likely to bring forward purchases in order to avoid the 3%-point increase in value-added tax (VAT) scheduled for January 1, this trend will likely continue. Indeed, the current conditions component of the IFO business survey reached a 15-year high in September. However, the effects of the planned VAT rise on business and the economy as a whole have added a note of caution to the outlook. The future expectations component of the IFO survey is gathering downward momentum, while the ZEW survey saw an even more acute decline in expectations over the summer months. GDP forecasts for 2007 do reflect the expectation that activity will slow, with growth of 2.2% predicted for this year before moderating to only 1.2% in 2007, as the VAT hike, possible slowing global demand and higher interest rates curtail the recovery.

Consumer price inflation in September fell sharply, to 1.0% (y-o-y) from 1.7% in August, the lowest rate for two-and-a-half years, as the price of oil declined sharply (see page 27). Also playing an important part was the September 2005 tobacco tax hike dropping out of the calculation. Next year's VAT increase, however, will see inflation rise above 2%, our panel believes, although there is a degree of uncertainty as to how much of the increase will be passed on to consumers through higher prices and how much businesses will shoulder, to the detriment of their profit margins.

**Direction of Trade – 2005**

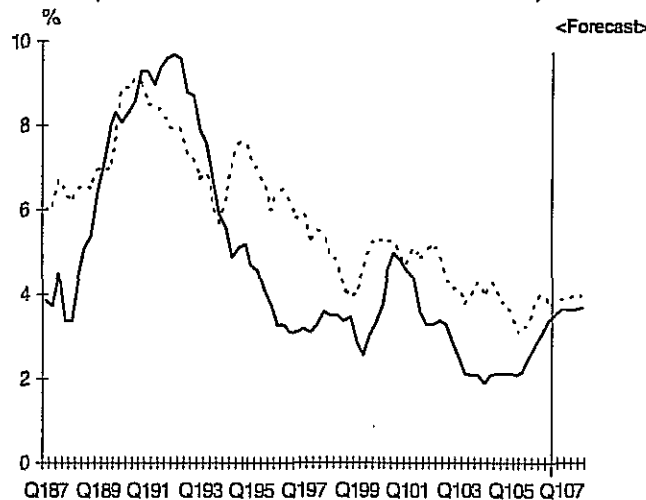
Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
France	10.1	France	8.8
United States	8.8	Netherlands	8.5
United Kingdom	7.9	United States	6.5
Eastern Europe	14.8	Eastern Europe	16.2
Asia (inc. Japan)	7.1	Asia (inc. Japan)	12.4
Middle East	2.9	Latin America	2.1

**Real Growth and Inflation**



**Short- and Long-Term Interest Rates**

(short rate = 3 mth Euro-Dm for Q187 to Q498)



	Average % Change on Previous Calendar Year											
	Gross Domestic Product		Household Consumption		Business Investment		Industrial Production (excl. construction, energy and food)		Consumer Prices		Hourly Wage Rates	
	<i>Produit Intérieur Brut</i>		<i>Consommation des Ménages</i>		<i>Investissements des Entreprises</i>		<i>Production Industrielle (hors energie et IAA)</i>		<i>Prix à la Consommation</i>		<i>Taux de Salaire Horaire</i>	
Economic Forecasters	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
BIPE	2.4	1.8	2.8	2.2	4.0	3.9	2.3	2.0	1.9	1.6	2.9	2.6
JP Morgan	2.4	2.6	2.9	2.6	4.3	4.7	na	na	1.8	1.8	na	na
Bank of America	2.4	2.3	2.7	2.1	3.6	3.0	2.1	3.0	1.8	1.7	2.8	2.9
Morgan Stanley	2.3	1.9	2.9	2.3	4.0	2.9	2.0	1.6	1.9	1.3	2.9	na
Econ Intelligence Unit	2.3	1.8	2.4	2.0	na	na	na	na	2.0	1.7	na	na
BNP-Paribas	2.3	2.0	2.6	2.4	4.0	3.8	1.3	1.0	1.8	1.3	2.8	2.7
Credit Agricole	2.3	2.2	2.8	2.6	4.0	4.1	1.5	1.4	1.8	1.8	na	na
Exane	2.3	1.8	2.6	1.7	3.9	2.8	1.5	1.7	1.9	1.8	2.5	2.5
GAMA	2.3	2.3	2.7	2.1	4.0	3.6	1.8	0.8	1.8	1.7	3.1	3.2
Goldman Sachs	2.3	2.3	2.6	2.4	4.3	4.9	2.1	2.5	1.9	1.5	na	na
IXIS CIB	2.3	1.9	2.7	2.0	3.6	2.9	na	na	1.9	1.9	na	na
Natexis Banque Populaire	2.3	1.8	2.7	2.2	4.0	2.7	2.3	1.6	1.8	1.6	2.8	2.7
OFCE	2.3	2.2	2.8	2.5	4.0	3.5	na	na	1.9	1.8	3.4	3.3
Societe Generale	2.3	1.9	2.8	2.3	4.1	3.6	na	na	1.8	1.5	3.1	3.1
Total	2.3	2.3	2.4	2.3	4.1	4.0	1.8	2.0	1.7	1.7	na	na
UBS	2.3	1.9	2.7	2.0	3.9	3.4	1.9	1.4	1.8	1.8	na	na
Centre Prev l'Expansion	2.2	1.8	2.6	2.3	4.5	5.5	1.8	1.2	2.0	1.5	na	na
COE - CCIP	2.2	1.9	2.7	2.5	3.7	3.6	na	na	1.8	1.4	3.0	2.7
HSBC France	2.2	1.6	2.6	2.3	3.9	3.2	1.6	0.8	1.9	1.7	2.9	2.7
Rexecode	2.2	1.8	2.6	2.2	3.7	3.5	na	na	2.0	1.7	2.9	2.6
<b>Consensus (Mean)</b>	2.3	2.0	2.7	2.3	4.0	3.7	1.8	1.6	1.9	1.6	2.9	2.8
Last Month's Mean	2.3	2.0	2.6	2.2	3.7	3.6	1.8	1.7	1.9	1.7	2.9	2.8
3 Months Ago	2.0	1.9	2.4	2.1	3.6	3.4	1.8	1.8	1.8	1.6	2.9	2.7
High	2.4	2.6	2.9	2.6	4.5	5.5	2.3	3.0	2.0	1.9	3.4	3.3
Low	2.2	1.6	2.4	1.7	3.6	2.7	1.3	0.8	1.7	1.3	2.5	2.5
Standard Deviation	0.1	0.3	0.1	0.2	0.2	0.7	0.3	0.6	0.1	0.2	0.2	0.3
<b>Comparison Forecasts</b>												
Government (Sep. '05)	2.3		2.3		4.3				1.8			
Eur Commission (May '06)	1.9	2.0	2.1	2.2								
IMF (Sep. '06)	2.4	2.3	2.7	2.5								
OECD (May '06)	2.1	2.2	2.3	2.3								

### Government and Background Data

President - Mr. Jacques Chirac (UMP). Prime Minister - Mr. Dominique de Villepin (UMP). Parliament - The centre-right Union for a Popular Movement (UMP) has 353 out of the 577 seats in the National Assembly. Next Elections - April/May 2007 (presidential). Nominal GDP - Euro1,707bn (2005). Population - 60.5mn (mid-year, 2005). \$/Euro Exchange Rate - 1.244 (average, 2005).

### Quarterly Consensus Forecasts

Historical Data and Forecasts (bold italics) From Survey of September 11, 2006

	2006				2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product	1.4	2.6	2.5	2.7	2.6	1.9	1.8	1.8	1.8	1.9		
Household Consumption	2.3	3.1	2.6	2.6	2.4	2.2	2.2	2.1	2.1	2.2		
Consumer Prices	1.8	2.0	1.8	1.9	1.9	1.6	1.7	1.7	1.7	1.7		

### Historical Data

* % change on previous year	2002	2003	2004	2005
Gross Domestic Product*	1.1	1.1	2.0	1.2
Household Consumption*	2.3	2.3	2.5	2.2
Business Investment*	-2.9	0.3	4.2	3.7
Industrial Production*	-1.7	-1.0	2.4	0.0
Consumer Prices*	1.9	2.1	2.2	1.7
Hourly Wage Rates*	3.6	2.8	2.9	3.0
Unemployment Rate, %	9.1	9.9	10.0	10.0
Current Account, Euro bn	15.4	7.0	-5.6	-27.0
Public Sector Budget				
Balance, Euro bn	-49.1	-66.8	-61.0	-50.0
3 mth Euro, % (end yr)	2.9	2.1	2.2	2.5
10 Yr French Govt Bond, % (end yr)	4.2	4.4	3.7	3.3

Year Average	Annual Total				Rates on Survey Date				
	Unemployment Rate (%)		Public Sector Budget Balance (Euro bn)		3.5%		3.8%		
	Current Account (Euro bn)			3 month Euro Rate (%)		10 Year French Govt Bond Yield (%)			
Taux de Chômage (%)	Solde Courant (Euro md)	Balance Budgétaire (Euro md)		Taux d'intérêt 3 mois Euro (%)		Rendement des obligations d'Etat, 10 ans (%)			
2006 2007	2006 2007	2006 2007		End Jan'07	End Oct'07	End Jan'07	End Oct'07		
9.1	8.4	-27.0	-28.0	-51.2	-51.4	3.6	3.3	4.3	3.9
9.0	8.0	-21.0	-18.0	-50.0	-52.0	3.8	4.1	3.7	3.7
9.1	8.4	-27.3	-20.1	-49.8	-48.1	3.5	3.7	3.8	4.6
9.1	8.5	na	na	-45.5	-43.9	3.7	3.2	4.1	4.8
9.3	9.1	na	na	na	na	na	na	na	na
9.0	8.2	-29.0	-25.0	-48.0	-48.0	3.7	3.2	3.7	3.3
9.1	8.8	-30.0	-18.5	-48.0	-46.2	3.9	3.9	4.1	4.0
9.1	8.8	-32.0	-29.0	-48.0	-50.0	3.8	3.8	3.6	3.9
9.0	8.6	-27.0	-18.0	-47.0	-43.0	3.6	3.8	4.1	4.3
9.2	8.7	-9.1	-12.7	-50.1	-55.9	3.8	3.8	4.2	4.1
9.1	8.6	na	na	-46.1	-47.0	3.6	3.6	3.9	3.8
9.1	8.5	-28.0	-25.0	-56.0	-58.0	3.8	3.6	3.8	3.8
9.1	8.4	-33.8	-44.2	-48.1	-53.4	3.6	3.8	4.0	4.2
9.1	8.4	-30.0	-28.0	-51.0	-53.0	3.7	3.9	3.7	4.0
9.1	8.8	-25.0	-20.0	-52.0	-48.0	3.6	3.6	4.1	4.2
9.1	8.6	-26.0	-29.6	-46.3	-42.6	3.7	4.0	3.7	4.0
9.9	9.5	-30.0	-30.0	-50.7	-48.0	3.5	3.5	4.0	3.8
9.1	8.6	-27.4	-40.5	-52.1	-54.3	3.6	3.5	4.0	4.0
9.1	8.8	-23.0	-19.0	-50.7	-54.3	3.6	3.4	3.7	3.6
9.0	8.5	-30.0	-30.2	-51.9	-48.3	3.5	3.5	3.9	4.0
9.1	8.6	-26.8	-25.6	-49.6	-49.8	3.7	3.6	3.9	4.0
9.1	8.6	-25.0	-22.9	-52.0	-54.0				
9.3	8.9	-26.6	-26.2	-54.9	-54.7				
9.9	9.5	-9.1	-12.7	-45.5	-42.6	3.9	4.1	4.3	4.8
9.0	8.0	-33.8	-44.2	-56.0	-58.0	3.5	3.2	3.6	3.3
0.2	0.3	5.5	8.2	2.6	4.4	0.1	0.3	0.2	0.3
9.5	9.2								

**Industry and Consumption Provide Contrasting Outlooks**

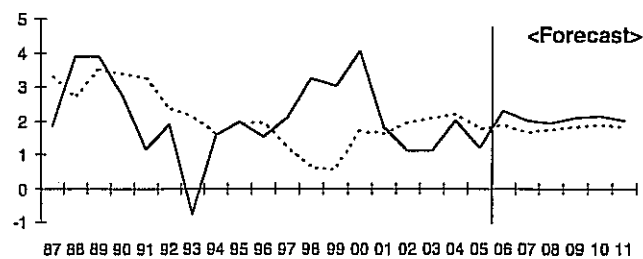
The final release of the second quarter national accounts confirmed that the expansion soared during the three months to June by 1.2% q-o-q, the fastest pace of growth since the end of 2000. Growth was lifted by business investment (on the back of companies' increased profit margins) which grew by 2.3% q-o-q compared with the 1.8% figure initially released. As a result, our panel's forecast for 2006 business spending has jumped this month from 3.7% to 4.0%. However, going into the third quarter, business sentiment appeared to falter slightly. INSEE's survey of manufacturer sentiment edged down in September on the back of a more muted perception of current conditions, while the purchasing managers' indicator for manufacturing also cooled. The moderation in sentiment may have been due in part to the sharp decline in July production, by 1.5% in m-o-m terms. Indeed, despite production recovering in August by 0.9%, our panel's industrial output forecasts for 2007 have slipped this month following evidence of declining export competitiveness. July saw a sharp 3.0% (m-o-m) drop in exports, the second contraction in a row, as a result of the strong euro. Indeed, exports to outside the Euro zone fell by 5.3% m-o-m, although goods and services sold to Germany actually rose. Industry has not been helped by marked weakness in the automobile sector. Peugeot Citroen and Renault (France's largest carmakers) depleted their stocks of older models in an effort to boost auto trade this summer but, unfortunately, a 0.7% m-o-m fall in sales in July, coupled with a 13.0% contraction (y-o-y) in new car registrations, suggests some measure of caution on the part of the French consumer.

On the whole, though, consumer spending, remains upbeat. After contracting by 0.9% m-o-m in July, manufactured goods' consumption soared by 3.3% in August, providing strong support to the expansion in the third quarter. Elsewhere, despite a decline in car sales in July, overall retail activity surged from a 0.1% gain (m-o-m) in June to a 0.8% increase on the back of homewares and equipment purchases. Looking ahead, another improvement in consumer confidence last month, coupled with robust job creation, has helped to lift our panel's household consumption expectations.

**Direction of Trade – 2005**

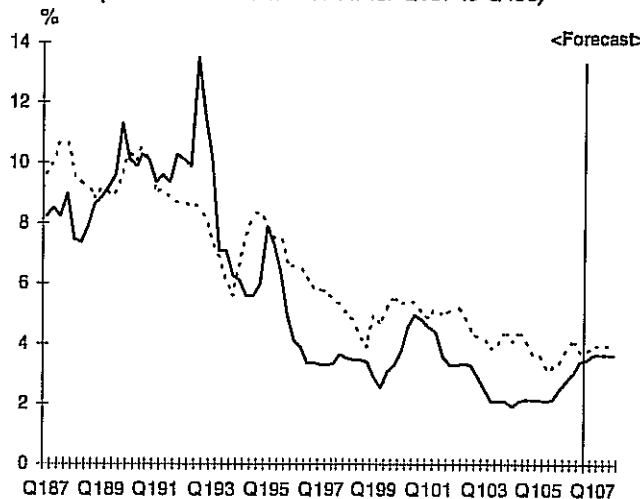
Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
Germany	14.7	Germany	18.9
Spain	9.6	Belgium	10.7
Italy	8.7	Italy	8.2
Eastern Europe	7.3	Asia (inc. Japan)	7.3
Asia (inc. Japan)	6.7	Eastern Europe	7.0
Africa	5.9	Africa	4.5

**Real Growth and Inflation**



**Short- and Long-Term Interest Rates**

(short rate = 3 mth Euro-Ffr for Q187 to Q498)



	Average % Change on Previous Calendar Year																	
	Gross Domestic Product		Household Consumption		Gross Fixed Investment		Company Trading Profits		Manufacturing Production		Retail Prices (underlying rate)		Consumer Prices Index (HICP)		Output Prices		Average Earnings	
Economic Forecasters	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Credit Suisse	2.8	2.8	2.3	2.8	5.0	4.8	na	na	na	na	2.9	2.7	2.3	2.0	na	na	4.5	4.5
Lloyds TSB Financial Markets	2.8	2.8	2.3	2.5	5.0	4.0	5.0	6.0	1.0	1.5	2.8	2.8	2.3	2.4	2.7	2.0	4.2	4.5
Barclays Capital	2.7	2.8	2.3	2.6	5.1	3.5	na	na	1.6	3.7	2.9	2.8	2.4	2.3	na	na	4.2	4.1
ABN Amro	2.7	2.9	2.3	2.8	5.1	3.2	na	na	na	na	2.9	3.0	2.3	2.4	na	na	na	na
Confed of British Industry	2.7	2.5	2.3	2.3	5.3	3.5	6.1	7.7	1.0	0.7	2.9	3.0	2.4	2.3	2.8	2.6	4.3	4.4
DTZ Research	2.7	2.5	2.2	2.4	5.0	3.4	na	na	0.6	1.0	2.8	2.6	2.3	2.3	na	na	4.0	4.2
ING Financial Markets	2.7	2.2	2.1	1.9	4.9	3.1	na	na	1.0	1.6	2.7	2.3	2.4	1.9	2.8	2.0	4.2	4.2
Beacon Econ Forecasting	2.6	2.5	2.8	3.5	5.1	3.8	na	na	0.8	-0.5	2.9	3.3	2.4	2.5	na	na	4.4	4.7
Global Insight	2.6	2.5	2.2	2.3	4.8	3.5	na	na	0.8	1.6	2.8	2.6	2.4	2.1	2.7	2.1	4.2	4.3
Goldman Sachs	2.6	2.5	2.2	2.4	5.0	2.0	-1.1	3.3	1.2	1.6	2.9	2.8	2.3	2.2	2.7	2.2	4.6	4.5
JP Morgan	2.6	2.7	2.2	2.9	5.1	3.8	na	na	na	na	3.2	2.4	2.3	2.2	2.8	2.7	na	na
Liverpool Macro Research	2.6	2.4	1.6	1.5	na	na	na	na	na	na	2.4	2.3	na	na	na	na	4.2	4.1
Lombard Street Research	2.6	2.3	2.5	2.6	4.5	1.6	na	na	na	na	2.7	2.4	2.2	2.3	na	na	4.3	4.1
Merrill Lynch	2.6	2.7	2.3	2.6	5.2	3.8	na	na	1.3	2.0	2.9	3.3	2.3	2.4	na	na	4.4	4.3
Oxford - LBS	2.6	2.3	2.2	2.2	5.7	3.0	-0.6	6.5	1.3	0.6	2.8	2.6	2.3	2.1	2.2	1.4	4.2	4.6
UBS	2.6	2.5	2.2	2.6	4.8	3.8	na	na	1.0	1.3	3.1	3.1	2.3	2.1	na	na	4.3	4.1
HSBC	2.5	1.8	2.2	1.6	4.8	3.0	na	na	1.3	0.8	2.8	2.7	2.2	2.1	3.3	2.2	4.4	4.3
Capital Economics	2.5	2.0	2.1	2.5	4.8	3.5	-1.5	2.0	1.3	1.0	3.0	2.8	2.3	2.2	2.5	1.5	4.2	4.4
HBOS	2.5	2.8	2.0	2.7	5.0	3.6	na	na	1.0	1.2	2.6	2.4	2.2	1.9	2.4	1.5	4.2	4.2
ITEM Club	2.5	2.5	2.0	2.4	5.1	3.5	5.0	6.0	1.0	1.9	2.7	2.6	2.3	2.1	3.0	2.0	4.1	3.6
Lehman Brothers	2.5	2.2	2.1	1.4	4.7	3.4	na	na	1.1	-0.4	3.0	2.8	2.4	2.2	2.6	2.4	4.1	3.4
RBS Financial Markets	2.5	2.4	2.1	2.1	4.9	3.5	3.8	5.9	1.0	1.3	2.9	3.0	2.3	2.3	3.2	2.8	4.1	4.3
Morgan Stanley	2.5	2.5	1.7	1.8	4.1	2.3	na	na	1.2	1.1	2.9	2.8	2.4	2.4	na	na	4.2	4.3
Experian Business Strategies	2.5	2.3	2.1	2.2	4.4	2.4	4.4	11.4	1.1	1.5	2.7	2.6	2.2	2.1	2.6	1.5	4.5	4.6
Citigroup	2.4	1.7	2.2	2.2	5.4	4.2	-1.5	1.9	1.1	1.1	2.9	2.6	2.3	2.1	2.5	2.5	4.1	3.8
Schroders	2.4	2.5	2.1	2.3	3.9	3.1	na	na	0.9	1.9	2.9	2.7	2.3	2.1	na	na	4.0	4.1
Cambridge Econometrics	2.2	2.7	2.0	2.5	3.6	3.8	4.8	5.3	0.5	1.4	2.1	2.0	2.0	2.1	na	na	4.2	4.4
Economic Perspectives	2.2	-0.1	2.0	0.5	3.8	-2.9	1.5	-3.5	0.5	0.8	2.6	2.7	2.4	2.6	2.6	2.0	3.9	3.5
Consensus (Mean)	2.6	2.4	2.2	2.3	4.8	3.1	2.4	4.8	1.0	1.2	2.8	2.7	2.3	2.2	2.7	2.1	4.2	4.2
Last Month's Mean	2.6	2.4	2.1	2.2	4.8	3.3	4.9	4.9	0.9	1.4	2.8	2.6	2.3	2.2	2.7	2.1	4.2	4.2
3 Months Ago	2.4	2.5	2.0	2.3	4.2	3.3	5.1	4.7	0.8	1.4	2.5	2.4	2.1	2.0	2.5	2.1	4.2	4.1
High	2.8	2.9	2.8	3.5	5.7	4.8	6.1	11.4	1.6	3.7	3.2	3.3	2.4	2.6	3.3	2.8	4.6	4.7
Low	2.2	-0.1	1.6	0.5	3.6	-2.9	-1.5	-3.5	0.5	-0.5	2.1	2.0	2.0	1.9	2.2	1.4	3.9	3.4
Standard Deviation	0.1	0.6	0.2	0.6	0.5	1.4	3.0	3.8	0.3	0.8	0.2	0.3	0.1	0.2	0.3	0.5	0.2	0.3
Comparison Forecasts																		
Treasury (Mar. '06)	2.3	3.0	2.3	2.5	1.9	4.3			0.8	2.0								
Eur Commission (May '06)	2.4	2.8	1.9	2.3	3.4	4.3							2.0	2.0				
IMF (Sep. '06)	2.7	2.7	2.4	2.8	5.3	4.1							2.3	2.4				
OECD (May '06)	2.4	2.9	2.1	2.4	3.1	5.2							2.2	1.7				

**Government and Background Data**

Prime Minister - Mr. Tony Blair (Labour). Parliament - The Labour party has a majority of 64 in the 646-seat House of Commons (lower house).  
 Next Election - By June 2010 (general election). Nominal GDP - £1,225bn (2005). Population - 59.7mn (mid-year, 2005).  
 \$/£ Exchange Rate - 1.820 (average, 2005).

**Quarterly Consensus Forecasts**

*Historical Data and Forecasts (bold italics) From Survey of September 11, 2006*

	2006				2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product	2.3	2.6	2.7	2.7	2.6	2.5	2.4	2.4	2.5	2.5		
Household Consumption	1.5	2.4	2.3	2.0	2.2	2.1	2.1	2.2	2.3	2.4		
Consumer Prices Index	1.9	2.2	2.4	2.5	2.5	2.2	2.1	2.1	2.2	2.1		

**Historical Data**

* % change on previous year	2002	2003	2004	2005
Gross Domestic Product*	2.1	2.7	3.3	1.9
Household Consumption*	3.6	3.0	3.5	1.4
Gross Fixed Investment*	3.7	0.4	6.0	2.7
Company Trading Profits*	4.8	8.3	10.3	2.3
Manufacturing Production*	-2.6	0.2	2.0	-1.1
Retail Prices (underlying rate)*	2.2	2.8	2.2	2.3
Consumer Prices Index (HICP)*	1.3	1.4	1.3	2.1
Output Prices*	0.0	1.5	2.5	2.8
Average Earnings*	3.6	3.5	4.3	4.0
Unemployment Rate, %	3.1	3.0	2.7	2.7
Current Account, £ bn	-16.5	-14.9	-19.3	-27.4
Public Sector Net Cash Requirement, fiscal yrs, £ bn	25.2	39.7	38.6	40.0
3 mth Interbank, % (end yr)	3.9	4.0	4.8	4.6
10 Yr Gilt Yields, % (end yr)	4.4	4.8	4.5	4.1

Year Average		Annual Total		Fiscal Years (Apr-Mar)		Rates on Survey Date			
Unemployment Rate (%)		Current Account (£ bn)		Public Sector Net Cash Requirement (£ bn)		5.0%		4.6%	
						3 month Interbank Rate (%)		10 Year Gilt Yield (%)	
2006	2007	2006	2007	FY 06-07	FY 07-08	End Jan'07	End Oct'07	End Jan'07	End Oct'07
2.7	2.7	-32.0	-33.0	na	na	5.3	5.3	na	na
3.0	3.0	-31.6	-32.5	39.0	35.0	5.2	4.9	4.8	4.9
3.0	3.1	-34.6	-34.7	38.0	35.2	5.1	5.1	4.8	4.9
na	na	na	na	na	na	na	na	na	na
3.0	3.0	-30.6	-30.5	na	na	na	na	na	na
3.0	3.0	-25.9	-27.4	na	na	5.0	5.0	5.1	5.0
3.1	3.5	-32.0	-29.0	39.0	37.0	5.1	4.6	4.4	4.5
2.9	3.0	-35.4	-55.9	40.4	54.5	5.2	5.6	4.5	4.8
3.0	3.1	-30.6	-29.8	39.4	37.4	5.0	5.1	4.7	4.8
2.8	3.3	-33.5	-34.0	43.1	40.3	4.9	4.9	4.8	4.7
na	na	-37.5	-42.4	na	na	na	na	na	na
2.9	3.3	-35.3	-42.1	38.3	34.1	4.6	4.5	4.9	4.5
3.2	3.3	-26.2	-28.0	42.0	40.0	5.3	4.8	4.8	4.7
3.0	2.9	na	na	na	na	na	na	na	na
3.0	3.1	-30.4	-25.6	48.5	36.8	5.0	4.8	4.4	4.5
3.1	3.2	-34.7	-39.1	39.9	37.5	5.0	5.0	4.8	4.7
2.8	3.2	-35.0	-38.0	36.0	39.0	5.1	4.3	4.4	4.2
3.0	3.0	-32.0	-48.0	39.0	31.0	5.2	4.5	4.4	4.5
3.0	3.0	-32.0	-28.0	38.5	35.0	5.1	4.9	4.7	4.6
3.0	2.9	-34.1	-33.0	40.0	41.0	na	na	na	na
3.0	3.1	-30.7	-34.5	37.0	na	5.2	4.9	4.5	4.5
3.0	3.1	-31.0	-27.8	37.0	35.6	5.1	4.8	4.8	4.7
na	na	na	na	na	na	5.2	5.1	5.1	5.3
3.0	3.1	-29.2	-35.9	43.5	36.4	5.0	4.7	4.9	5.0
3.0	3.5	-35.2	-54.8	41.5	39.6	5.0	5.0	4.6	4.6
3.0	3.3	-29.0	-31.0	37.0	39.0	5.2	4.8	4.6	4.7
3.0	3.0	-27.2	-25.9	na	na	na	na	na	na
3.0	3.7	-25.0	-20.0	42.0	48.0	4.9	4.5	4.5	4.3
3.0	3.1	-31.6	-34.4	40.0	38.5	5.1	4.9	4.7	4.7
3.0	3.2	-32.0	-32.6	39.3	37.4				
3.0	3.2	-32.5	-33.5	38.5	37.5				
3.2	3.7	-25.0	-20.0	48.5	54.5	5.3	5.6	5.1	5.3
2.7	2.7	-37.5	-55.9	36.0	31.0	4.6	4.3	4.4	4.2
0.1	0.2	3.3	8.8	2.9	5.2	0.2	0.3	0.2	0.3
		-32.8	-36.5						

**Bank of England Holds Fire on Rate Hike**

The outlook for the economy remains bright, with the period of healthy GDP growth experienced over the past year expected to extend into 2007. Consensus forecasts for GDP growth in 2006 and 2007 remain unchanged this month, with the economy projected to expand by 2.6% and 2.4%, respectively. Revised national accounts data did reveal, however, that activity grew at a slower pace in the second quarter than previously thought, by 0.7% q-o-q compared with 0.8%. Domestic demand was also slightly less robust. Despite this, gains in employment and a strengthening housing market have helped to calm fears that consumer spending might slump in light of elevated energy prices, high debt levels and concerns over pensions. To be sure, consumption is not expected to represent as important a factor in driving economic activity as in past years, but steady spending growth is still forecast (consensus forecasts anticipate increases of over 2% this year and in 2007). Retail sales in the third quarter to August remained resilient, with y-o-y increases of over 4%, even as momentum generated during a buoyant second quarter eased somewhat.

Consumer price inflation in August moved up to 2.5% y-o-y from 2.4% in July, due in part to a jump in toy and computer games' prices. Further increases are expected by many analysts who point to the inclusion of the rapid rise in university tuition fees in the index from October onwards. Downward pressure from September's sharp decline in oil prices, though, could well mitigate the full impact of any upward move. Consensus forecasts for inflation have remained unchanged this month, following a gradual rise in expectations over the summer. Meanwhile, inflationary pressure from wage growth abated in July, particularly in the private sector. The Bank of England is concerned that rising costs for households may lead to higher wage demands, but, so far, there is little evidence of this. Nonetheless, inflation remains above the bank's 2% target, with the majority of economists expecting a 25 basis-point rate increase in November. Since the previous rate rise in August (which took interest rates to 4.75%), members of the Monetary Policy Committee have indicated that further tightening is on the cards.

**Direction of Trade – 2005**

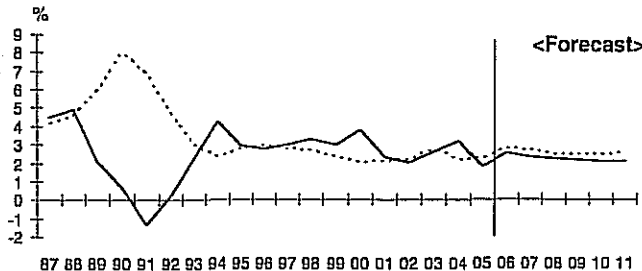
Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
United States	14.9	Germany	12.9
Germany	10.7	United States	8.7
France	8.7	France	7.2
Asia (Inc. Japan)	8.2	Asia (Inc. Japan)	14.9
Middle East	5.3	Eastern Europe	6.7
Eastern Europe	5.3	Africa	3.0

**Likelihood of a Bank of England Interest Rate Change**

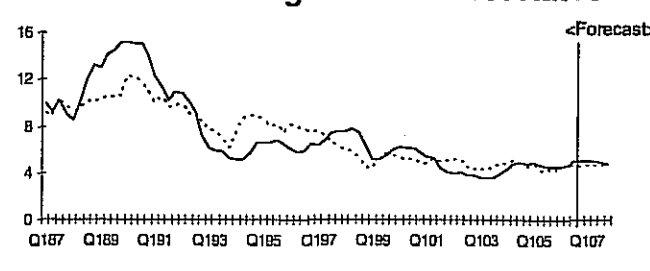
Our panel's estimated average probability of a change in the repo rate (4.75% on survey date) at or before the next Monetary Policy Committee Meeting is:

INCREASE	NO CHANGE	DECREASE	
64.7	+ 31.9	+ 3.3	= 100 %
Most likely rate change mentioned:			+0.25%

**Real Growth and Inflation**



**Short- and Long-Term Interest Rates**



	Average % Change on Previous Calendar Year													
	Gross Domestic Product		Household Consumption		Gross Fixed Investment		Industrial Production		Consumer Prices		Producer Prices		Contractual Hourly Earnings	
	<i>Prodotto Interno Lordo</i>		<i>Consumi delle Famiglie</i>		<i>Investimenti Fissi Lordi</i>		<i>Produzione Industriale</i>		<i>Prezzi al Consumo</i>		<i>Prezzi alla Produzione</i>		<i>Retribuzione Orarie Contrattuali</i>	
Economic Forecasters	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Banca IMI	1.8	1.5	1.7	1.2	3.2	1.7	2.1	1.8	2.1	1.9	5.4	3.4	2.5	2.8
JP Morgan	1.8	1.8	1.8	1.7	3.4	2.3	na	na	2.3	1.9	5.5	2.5	na	na
ENI	1.7	1.6	1.7	1.3	3.2	2.0	2.1	0.9	2.2	2.0	6.0	2.3	2.8	2.9
Banca Nzle del Lavoro	1.7	0.9	1.7	1.1	3.6	1.2	2.0	0.7	2.3	2.0	5.9	4.2	2.8	3.2
HSBC	1.7	0.9	1.7	1.1	3.5	1.1	1.9	0.2	2.2	2.1	na	na	2.7	2.4
Prometela	1.7	1.0	1.6	1.0	2.5	1.8	2.3	0.8	2.3	1.7	4.5	-0.3	2.7	2.2
Ref.	1.7	1.3	1.6	1.1	3.7	1.9	1.5	0.3	2.1	1.8	5.2	1.5	3.1	2.9
Bank of America	1.7	1.6	1.7	1.7	3.3	1.7	2.0	1.3	2.2	1.8	5.3	2.5	2.4	2.1
Banca Intesa	1.7	1.1	1.7	1.7	2.9	1.6	1.9	1.5	2.1	1.9	5.8	2.7	2.8	2.9
Capitalia	1.6	1.2	1.6	1.2	2.7	1.5	1.2	0.9	2.2	2.0	5.8	3.2	2.7	2.4
Centro Europa Ricerche	1.6	1.3	1.6	1.3	2.9	1.3	na	na	2.2	2.0	na	na	na	na
Goldman Sachs	1.6	1.0	1.8	1.3	2.3	1.4	2.2	0.5	2.2	1.8	5.2	3.8	na	na
ING Financial Markets	1.6	1.2	1.6	1.2	3.1	2.3	2.3	1.2	2.2	1.9	5.5	2.1	2.9	2.8
UniCredit Banca Mobiliare	1.6	1.0	1.7	1.0	3.2	1.9	1.8	1.2	2.2	2.0	5.7	3.7	na	na
IXIS CIB	1.5	0.9	1.7	1.2	2.9	1.4	2.5	1.8	2.2	2.2	4.6	3.0	2.9	3.0
Confindustria	1.5	1.4	1.5	1.3	2.6	2.1	na	na	2.2	2.0	na	na	na	na
ISAE	1.5	1.3	1.3	1.2	2.3	2.2	na	na	2.3	2.0	4.8	1.8	na	na
Econ Intelligence Unit	1.5	1.2	1.4	1.0	3.3	2.7	1.0	0.8	2.3	2.0	5.8	3.0	na	na
Consensus (Mean)	1.6	1.2	1.6	1.3	3.0	1.8	1.9	1.0	2.2	1.9	5.4	2.6	2.8	2.7
Last Month's Mean	1.6	1.2	1.6	1.2	2.8	1.7	2.0	1.0	2.2	1.9	5.4	2.6	2.7	2.6
3 Months Ago	1.4	1.2	1.4	1.3	2.2	1.8	1.8	1.1	2.2	1.9	4.7	2.4	2.7	2.5
High	1.8	1.8	1.8	1.7	3.7	2.7	2.5	1.8	2.3	2.2	6.0	4.2	3.1	3.2
Low	1.5	0.9	1.3	1.0	2.3	1.1	1.0	0.2	2.1	1.7	4.5	-0.3	2.4	2.1
Standard Deviation	0.1	0.3	0.1	0.2	0.4	0.4	0.4	0.5	0.1	0.1	0.5	1.1	0.2	0.4
Comparison Forecasts														
Government (Jul. '06)	1.5	1.5	1.3	1.3	2.2	1.9								
Eur Commission (May '06)	1.3	1.2	1.0	1.1	2.3	2.2								
IMF (Sep. '06)	1.5	1.3	1.3	1.5	2.3	2.0								
OECD (May '06)	1.4	1.3	1.1	1.1	2.9	3.1								

### Government and Background Data

Prime Minister - Mr. Romano Prodi (*L'Ulivo*).  
 Parliament - A centre-left coalition, known as the *Unione*, has majorities in both the Chamber of Deputies (lower house) and the Senate (upper house). Next Elections - By 2011 (parliamentary). Nominal GDP - Euro1,418bn (2005). Population - 58.1mn (mid-year, 2005). \$/Euro Exchange Rate - 1.244 (average, 2005).

### Quarterly Consensus Forecasts

*Historical Data and Forecasts (bold italics) From Survey of September 11, 2006*

	2006				2007				2008					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Gross Domestic Product	1.6	1.5	1.5	1.7	1.3	1.2	1.3	1.4	1.5	1.6	1.6	1.6	1.6	1.6
Household Consumption	2.0	1.5	1.4	1.8	1.2	1.3	1.3	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Consumer Prices	2.1	2.2	2.2	2.2	2.2	1.9	1.8	1.8	2.0	1.9	1.9	1.9	1.9	1.9

### Historical Data

* % change on previous year	2002	2003	2004	2005
Gross Domestic Product*	0.3	0.1	0.9	0.1
Household Consumption*	0.2	1.0	0.5	0.1
Gross Fixed Investment*	4.0	-1.5	1.9	-0.4
Industrial Production*	-1.6	-0.5	-0.6	-0.8
Consumer Prices*	2.5	2.7	2.2	2.0
Producer Prices*	0.2	1.6	2.7	4.0
Contractual Hourly Earnings*	2.1	2.2	2.8	3.1
Unemployment Rate,%	8.6	8.4	8.0	7.7
Current Account, Euro bn	-10.0	-17.4	-12.5	-22.1
State Sector Cash Balance, Euro bn	-30.8	-46.4	-50.1	-59.6
3 mth Euro, % (end yr)	2.9	2.1	2.2	2.5
10 yr Italian Govt Bond, % (end yr)	4.3	4.5	3.8	3.5



Year Average	Annual Total				Rates on Survey Date				
	Current Account (Euro bn)		State Sector Cash Balance (Euro bn)		3.5%		4.0%		
Unemployment Rate (%)					3 month Euro Rate (%)		10 Year Italian Govt Bond Yield (%)		
Tasso di Disoccupazione (%)	Partite Correnti (Euro mld)		Fabbisogno del Settore Statale (Euro mld)		Interessi Euro Trimestrali (%)		Buoni del Tesoro Decennali (%)		
2006 2007	2006 2007	2006 2007	2006 2007	End Jan'07	End Oct'07	End Jan'07	End Oct'07		
7.1	7.0	-25.0	-21.0	-60.0	-55.0	3.5	3.5	4.3	4.0
7.2	6.5	-35.6	-39.0	na	na	na	na	na	na
7.6	7.7	-31.1	-24.9	-66.0	-58.0	3.6	3.7	4.2	4.5
7.3	7.3	-30.0	-27.0	-62.0	-60.0	3.8	3.4	4.0	3.7
7.2	7.4	na	na	na	na	3.6	3.4	3.9	3.8
7.4	7.2	-32.9	-23.1	-50.0	-45.0	na	na	na	na
7.2	7.0	-32.0	-30.0	-60.1	-63.6	3.5	4.0	4.1	4.3
7.3	7.3	-27.2	-23.2	-72.2	-53.4	3.5	3.7	3.8	4.6
7.1	7.1	-17.3	-15.3	-47.7	-58.4	3.5	3.8	4.1	3.9
7.4	7.3	-28.0	-25.0	-57.0	-55.0	3.7	3.6	4.1	4.0
7.2	7.0	na	na	na	na	3.7	3.8	4.2	4.4
7.4	7.7	-16.0	-17.0	na	na	3.8	3.8	4.2	4.1
7.4	7.3	-39.7	-41.0	-52.7	-51.0	na	na	na	na
7.0	6.8	na	na	na	na	na	na	na	na
7.2	7.5	na	na	-53.0	-55.5	3.7	3.6	3.9	3.8
7.5	7.3	-24.1	-29.4	na	na	na	na	na	na
7.4	7.1	na	na	na	na	na	na	na	na
7.6	7.5	na	na	na	na	na	na	na	na
7.3	7.2	-28.2	-26.3	-58.1	-55.5	3.6	3.7	4.1	4.1
7.4	7.3	-28.5	-27.0	-58.2	-54.0				
7.5	7.4	-27.3	-23.4	-62.1	-59.7				
7.6	7.7	-16.0	-15.3	-47.7	-45.0	3.8	4.0	4.3	4.6
7.0	6.5	-39.7	-41.0	-72.2	-63.6	3.5	3.4	3.8	3.7
0.2	0.3	7.0	7.8	7.6	5.1	0.1	0.2	0.2	0.3
7.6	7.5			-59.0	-52.4				
7.7	7.7								
7.7	7.6								

**Tax Increases Loom Over Outlook**

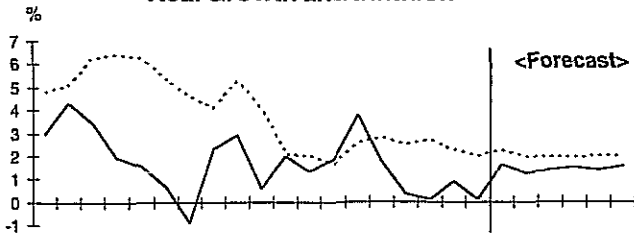
Strengthening business and consumer sentiment has given a boost to the short-term outlook this month, although higher taxes in 2007 are expected to rein in household consumption and GDP growth going forward. Having fallen in August, consumer confidence (as measured by ISAE) rose unexpectedly strongly in September. Many analysts put the rise in optimism down to the recent steep decline in oil prices (see page 27 for more details). In addition, ISAE's index of business sentiment rebounded in September after declining in the previous two months. An improved view of expected future output was the main driver behind the increase in confidence. The survey also suggested that firms were finding it easier to pass on higher input costs to consumers by raising the prices of their goods. Despite this, consumer price inflation remains remarkably stable, with the latest reading of 2.2% in September in line with outturns over much of the year to date. Consensus forecasts anticipate that a period of disinflation will leave prices up by 1.9% in 2007, from 2.2% this year.

The government in late September announced that it had agreed upon a proposed 2007 budget. Plans to increase taxes – by raising the top rate of income tax from 41% to 43%, while simultaneously lowering the threshold from €100,000 to €75,000 – are expected to boost tax revenues. Making government more efficient and clamping down on tax evasion also form part of the proposals, which are forecast to lower the budget deficit from an expected 4.8% of GDP in 2006 to 2.8% in 2007. The measures, though, are not all aimed at narrowing the fiscal gap. There will be increased spending on infrastructure in poorer southern regions of the country, while labour taxes will be reduced in an effort to boost business competitiveness. Some economists, however, are disappointed by the budget's reliance on higher tax revenues instead of lower public spending, and have also argued that it does not go far enough in tackling structural rigidities. But, with a government majority of just one in the Senate, the budget in its current form could well be subject to further political compromise. The centre-right opposition has promised to organise street protests against the budget, citing the tax increases as unfair to the middle classes.

**Direction of Trade – 2005**

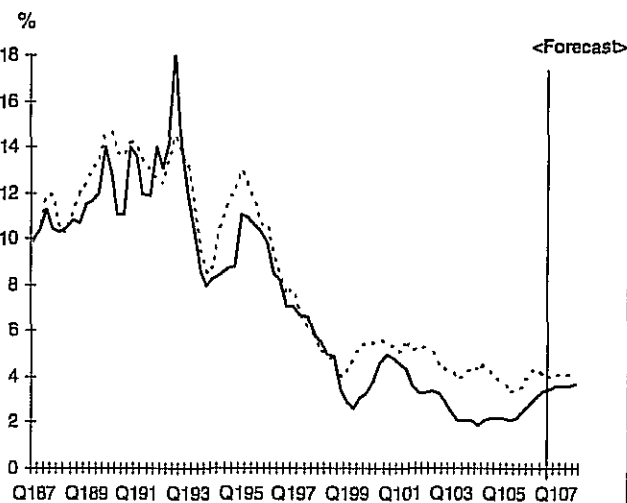
Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
Germany	13.2	Germany	17.1
France	12.1	France	9.9
United States	8.0	Netherlands	5.7
Eastern Europe	14.3	Eastern Europe	13.9
Asia (inc. Japan)	5.8	Asia (inc. Japan)	9.0
Middle East	4.9	Middle East	7.1

**Real Growth and Inflation**



**Short- and Long-Term Interest Rates**

(short rate = 3 mth Treasury Bill for Q187 to Q498)



	Average % Change on Previous Calendar Year										Annual Total							
	Gross Domestic Product		Personal Expenditure		Machinery & Equipment Investment		Pre - Tax Corporate Profits		Industrial Production		Consumer Prices		Industrial Product Prices		Average Hourly Earnings		Housing Starts (thousand units)	
	<i>Produit Intérieur Brut</i>		<i>Dépenses de Consommation des Ménages</i>		<i>Investissement Productif</i>		<i>Bénéfices des Sociétés avant impôts</i>		<i>Production Industrielle</i>		<i>Prix à la Consommation</i>		<i>Prix des Produits Industriels</i>		<i>Rémunération Horaire Moyenne</i>		<i>Construction de Logements mises en chantier, milliers</i>	
Economic Forecasters	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Caisse de Depot	2.9	2.8	3.8	3.1	9.1	8.3	na	na	na	na	2.3	2.0	na	na	na	na	220	190
CIBC World Markets	2.9	2.5	3.8	2.8	8.8	6.9	4.6	8.0	na	na	2.1	2.2	na	na	na	na	226	202
Global Insight	2.9	2.6	3.9	3.2	9.7	7.4	3.0	6.8	1.0	2.6	2.0	1.5	2.8	0.5	3.4	3.6	226	211
Infometrics	2.9	2.7	3.8	3.1	9.0	8.0	3.0	1.5	0.7	2.0	2.1	1.7	3.0	1.4	3.6	3.2	222	180
Merrill Lynch Canada	2.9	2.3	4.3	3.5	9.2	7.2	na	na	na	na	2.0	1.7	na	na	na	na	230	208
Scotia Economics	2.9	2.6	3.9	3.0	9.0	7.0	6.0	4.0	1.0	2.0	2.3	2.0	na	na	na	na	220	190
Bank of Montreal	2.8	2.7	4.1	3.3	9.8	9.3	4.1	5.4	na	na	2.1	1.8	na	na	na	na	228	204
BMO Capital Markets	2.8	2.7	4.0	3.0	9.4	6.8	6.0	4.8	0.6	1.2	2.1	2.0	2.2	1.8	2.7	3.2	225	190
Desjardins	2.8	2.4	4.1	3.6	9.3	7.4	7.5	5.5	na	na	2.2	1.8	2.9	3.1	3.1	2.3	230	210
Economap	2.8	2.6	4.0	2.6	9.6	7.0	6.0	4.0	0.5	0.8	2.1	2.0	1.5	1.0	3.5	3.2	220	190
EDC Economics	2.8	2.4	3.8	2.9	9.1	7.3	6.0	3.5	na	na	2.3	2.0	na	na	3.2	3.2	224	192
National Bank Financial	2.8	2.3	4.1	3.2	9.4	9.9	2.6	-10.2	na	na	na	na	na	na	na	na	220	195
Royal Bank of Canada	2.8	2.7	3.9	2.8	9.6	10.0	6.4	4.0	na	na	2.3	1.8	na	na	na	na	222	200
Toronto Dominion Bank	2.8	2.3	4.0	3.4	9.3	8.7	3.5	1.7	na	na	2.4	1.9	na	na	na	na	227	189
University of Toronto	2.8	2.6	3.6	2.3	9.4	7.9	3.4	3.7	na	na	2.0	1.3	na	na	na	na	226	190
Conf Board of Canada	2.7	2.9	3.9	3.4	9.2	8.5	3.5	3.1	na	na	1.9	1.4	2.5	1.2	na	na	226	203
Consensus (Mean)	2.8	2.6	3.9	3.1	9.3	8.0	4.7	3.3	0.8	1.7	2.1	1.8	2.5	1.5	3.3	3.1	224	197
Last Month's Mean	2.9	2.7	3.9	3.0	9.2	7.9	5.2	4.6	0.4	1.8	2.2	1.9	2.3	2.2	3.4	3.3	225	197
3 Months Ago	3.1	2.8	3.6	2.9	8.9	8.4	5.5	4.0	1.0	2.1	2.1	1.8	1.7	1.5	3.6	3.6	218	192
High	2.9	2.9	4.3	3.6	9.8	10.0	7.5	8.0	1.0	2.6	2.4	2.2	3.0	3.1	3.6	3.6	230	211
Low	2.7	2.3	3.6	2.3	8.8	6.8	2.6	-10.2	0.5	0.8	1.9	1.3	1.5	0.5	2.7	2.3	220	180
Standard Deviation	0.1	0.2	0.2	0.3	0.3	1.1	1.6	4.3	0.2	0.7	0.1	0.3	0.6	0.9	0.3	0.4	4	9
Comparison Forecasts																		
IMF (Sep. '06)	3.1	3.0	3.9	3.1							2.2	1.9						
OECD (May '06)	3.1	3.3	3.3	3.6							2.0	2.3						

### Government and Background Data

Prime Minister - Mr. Stephen Harper (Conservative). Government - The Conservatives lead a minority government, with 124 out of 308 seats in parliament (155 seats are needed for a clear majority). Next Election - By 2011 (general election). Nominal GDP - C\$1,371bn (2005). Population - 32.3mn (mid-year, 2005). C\$/US\$ Exchange Rate - 1.212 (average, 2005).

### Quarterly Consensus Forecasts

Historical Data and Forecasts (bold italics) From Survey of September 11, 2006

	2006				2007				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product	3.2	2.9	<b>2.8</b>	<b>2.8</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
Personal Expenditure	3.7	3.9	<b>4.1</b>	<b>3.9</b>	<b>3.3</b>	<b>3.0</b>	<b>2.9</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>
Consumer	2.5	2.6	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>

### Historical Data

* % change on previous year	2002	2003	2004	2005
Gross Domestic Product*	2.9	1.8	3.3	2.9
Personal Expenditure*	3.6	3.0	3.3	3.9
Machinery & Eqpt Investment*	-2.8	7.9	10.3	10.5
Pre - Tax Corporate Profits*	6.4	7.1	18.3	10.6
Industrial Production*	2.1	0.2	1.8	1.0
Consumer Prices*	2.3	2.7	1.8	2.2
Industrial Product Prices*	0.0	-1.4	3.2	1.5
Average Hourly Earnings*	2.2	1.6	3.2	3.4
Housing Starts, '000 units	205	218	233	225
Unemployment Rate, %	7.7	7.6	7.2	6.8
Current Account, C\$ bn	19.8	14.1	27.6	31.8
Federal Govt Budget Balance, fiscal years, C\$ bn	6.6	9.1	1.5	13.2
3 mth Trsy Bill, % (end yr)	2.7	2.6	2.5	3.4

Unemployment Rate (%)	Annual Total		Fiscal Years (Apr-Mar)		Rates on Survey Date			
	Current Account (C\$ bn)		Federal Govt Budget Balance (C\$ bn)		4.2%		4.1%	
Taux de Chômage (%)	Balance Courante (C\$ md)		Balance Budgétaire (C\$ md)		Rendement sur les Bons du Trésor de 3 mois %		Rendement des Obligations d'État de 10 ans %	
2006 2007	2006 2007	FY 06-07 FY 07-08	End Jan'07 End Oct'07	End Jan'07 End Oct'07				
6.4 6.5	30.0 24.5	6.0 5.0	4.2 4.0	4.3 4.9				
6.4 6.6	18.9 20.3	3.0 3.0	3.8 3.2	3.9 3.4				
6.4 6.5	22.0 20.0	3.0 3.0	4.0 3.8	4.0 4.1				
6.4 6.2	23.0 18.0	5.0 3.0	4.0 4.1	4.3 4.5				
6.4 6.8	20.7 5.7	na na	4.3 3.8	4.3 4.1				
6.4 6.5	18.5 5.5	4.0 4.4	3.9 3.4	4.0 3.8				
6.4 6.5	27.3 28.2	na na	4.2 4.2	4.0 4.5				
6.4 6.3	19.0 7.0	5.0 3.0	4.2 3.9	4.0 4.1				
6.4 6.5	20.3 16.4	7.5 6.0	4.0 3.5	3.9 4.1				
6.4 6.3	20.0 10.0	5.0 3.0	4.0 3.9	4.0 4.1				
6.4 6.6	28.0 24.0	na na	4.3 4.3	4.0 3.9				
6.4 6.6	19.4 12.0	5.0 0.0	3.7 3.2	3.9 3.6				
6.4 6.4	22.8 18.9	na na	4.2 4.1	4.2 4.0				
6.3 6.5	20.2 15.9	3.0 4.0	4.1 3.9	4.2 4.6				
6.4 6.5	21.6 16.1	na na	4.2 4.2	4.3 4.5				
6.5 6.6	21.2 21.1	8.1 6.3	4.1 4.3	4.5 4.8				
6.4 6.5	22.1 16.5	5.0 3.7	4.1 3.8	4.1 4.2				
6.4 6.4	24.5 21.0	4.4 3.6						
6.3 6.3	32.3 26.0	4.8 3.8						
6.5 6.8	30.0 28.2	8.1 6.3	4.3 4.3	4.5 4.9				
6.3 6.2	18.5 5.5	3.0 0.0	3.7 3.2	3.9 3.4				
0.0 0.1	3.5 6.9	1.7 1.7	0.2 0.4	0.2 0.4				
6.3 6.3								
6.4 6.2								

**Mining and Oil Extraction Lift Industrial Output in July**

Following a slowdown in activity during the second quarter, output-based GDP growth progressed into July on a relatively positive note. The economy expanded by 0.2% m-o-m following flat growth in June, boosted by the energy, retail and financial sectors. Energy output, in particular, surprised on the upside, accelerating by 1.3% m-o-m in July, its first monthly gain since March. Despite the closure of some oil sites, extraction among those already in operation soared significantly. This, coupled with a 2.4% surge in mining output, helped to lift industrial production by 0.5% m-o-m, compared with a 0.1% gain in the previous month. However, manufacturing (which excludes mining, oil and gas extraction) showed no gains m-o-m, and it is still too early to tell whether the rise in industrial production suggests a veritable turnaround in the sector after months of lacklustre activity. Indeed, following June's 1.9% resurgence (m-o-m) in manufacturing shipments, July saw only a 0.8% rise. Elsewhere, weakness in net trade, along with a deceleration in labour productivity during the second quarter, has added further uncertainty to the outlook. 2006 production forecasts have recovered this month after September's downgrade, but 2007 expectations have slipped slightly. Consumer spending, in contrast, remains firm. The July GDP report showed retail trade lifted by incentives to promote new vehicle purchases as well as an increase in used car sales. Moreover, personal expenditure has been supported by solid employment growth, as evidenced in the September labour survey which showed payrolls rising by 210,000 since the beginning of the year and the jobless rate slipping from 6.5% to 6.4%. There are suggestions, though, that the housing sector is moderating, with housing starts reaching only 213,700 units in August, compared with 236,500 in July. This year's housing forecasts have slipped this month, but personal expenditure prospects for both 2006 and 2007 remain upbeat.

The Federal government budget surplus for FY05-06 proved to be much larger than the C\$7.9bn predicted by our panel last month. The surplus reached C\$13.2bn, fuelled by the expansion which also helped to reduce the nation's debt burden (now standing at 35.1% of GDP). Our panel's budget forecasts have consequently risen this month.

**Direction of Trade – 2005**

Major Export Markets (% of Total)		Major Import Suppliers (% of Total)	
United States	84.1	United States	57.5
Japan	2.1	China	7.4
United Kingdom	1.8	Mexico	3.8
Asia (ex. Japan)	4.0	Asia (ex. Japan)	12.9
Latin America	1.8	Latin America	6.7
Middle East	0.6	Africa	1.7

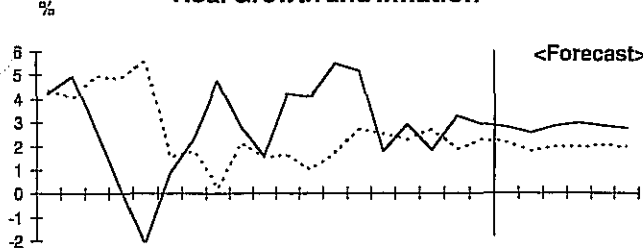
**Likelihood of a Bank of Canada Interest Rate Change**

Our panel's estimated average probability of a change in the overnight lending rate (4.25% on survey date) at or before the next key policy meeting following the survey date is:

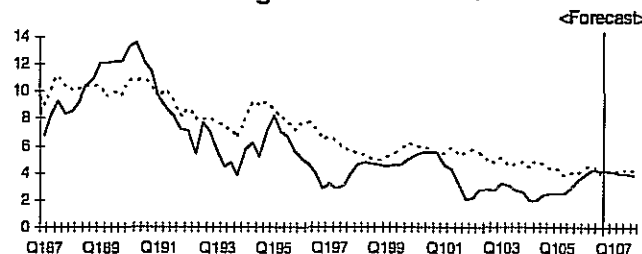
INCREASE	NO CHANGE	DECREASE	
2.5	+ 89.3	+ 8.2	= 100 %

Most likely rate change mentioned: None

**Real Growth and Inflation**



**Short- and Long-Term Interest Rates**



The EURO ZONE is: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.	Average % Change on Previous Calendar Year								Annual Total		Average % Change on Previous Calendar Year								Year Average		
	Gross Domestic Product		Private Consumption		Govt Consumption		Gross Fixed Investment		Change in Inventories (Euro bn)		Industrial Production		Consumer Prices		Industrial Producer Prices		Hourly Labour Costs		Unemployment Rate (%)		
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	
<b>Economic Forecasters</b>	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	
JP Morgan	2.8	2.5	2.0	2.2	1.9	1.0	4.7	4.5	30.1	28.6	3.5	2.5	2.3	2.2	na	na	na	na	7.9	7.5	
Banca Intesa	2.7	2.2	2.0	1.3	2.0	1.5	4.7	3.8	5.3	6.0	3.7	2.2	2.2	2.3	5.1	2.0	na	na	7.9	7.7	
ING Financial Markets	2.7	2.1	1.9	1.6	1.9	1.0	4.3	3.6	na	na	3.1	2.1	2.3	2.1	na	na	na	na	7.9	7.7	
UBS	2.7	1.8	1.9	1.6	1.8	0.7	4.4	2.9	na	na	3.8	2.1	2.2	2.3	5.5	2.8	na	na	7.8	7.5	
Oxford Econ Forecasting	2.6	1.9	2.0	1.6	2.1	1.3	4.1	2.9	38.2	41.0	3.1	1.4	2.2	2.2	5.4	2.0	na	na	7.8	7.5	
Banca IMI	2.6	2.0	1.8	1.7	2.0	1.5	4.5	3.5	na	na	3.0	2.9	2.2	1.9	5.4	3.4	2.5	2.0	7.9	7.5	
Credit Agricole	2.6	2.0	1.9	1.7	2.0	1.5	4.4	3.1	na	na	3.2	1.9	2.3	2.2	5.4	2.1	2.4	2.5	7.8	7.4	
Deutsche Bank	2.6	1.6	1.8	1.3	2.0	1.4	4.5	2.6	na	na	3.2	1.8	2.3	2.2	5.2	2.2	2.4	2.5	7.8	7.6	
Goldman Sachs	2.6	2.0	1.8	1.7	2.1	2.1	4.4	3.4	na	na	3.6	2.3	2.2	2.1	5.2	2.7	na	na	7.9	7.8	
Grupo Santander	2.6	2.0	2.0	1.7	2.0	1.7	4.4	3.1	na	na	na	na	2.3	2.2	na	na	na	na	7.8	7.5	
Lehman Brothers	2.6	1.4	1.9	1.4	1.9	1.0	4.8	3.4	28.6	44.3	3.4	0.9	2.2	2.3	5.0	2.4	2.3	3.0	7.8	7.5	
Merrill Lynch	2.6	2.1	2.0	1.5	2.0	1.4	4.4	4.3	na	na	3.3	1.5	2.2	2.4	5.2	2.2	2.2	2.7	7.9	7.5	
Societe Generale	2.6	1.9	1.9	1.4	2.0	1.1	4.3	3.0	na	na	na	na	2.2	2.2	na	na	na	na	7.9	7.6	
WestLB	2.6	1.9	1.9	1.0	2.0	0.8	4.5	4.0	na	na	3.0	2.0	2.3	2.3	3.0	1.5	2.2	2.2	8.0	7.7	
Morgan Stanley	2.6	1.5	1.9	1.2	2.0	1.6	4.4	3.2	na	na	na	na	2.2	2.1	na	na	na	na	7.9	7.5	
Bank of America	2.6	2.1	1.8	1.6	2.0	1.5	4.3	3.7	na	na	3.5	2.9	2.2	2.1	5.1	2.1	2.4	2.7	7.9	7.6	
Bank Austria	2.5	1.5	1.8	1.3	1.9	1.0	3.8	2.7	na	na	3.3	2.0	2.3	2.1	4.7	2.0	2.3	2.3	8.0	7.7	
Bank Julius Baer	2.5	1.9	1.7	0.5	1.9	1.0	4.2	4.6	na	na	3.5	2.3	2.3	2.4	4.8	2.5	2.7	2.2	7.9	7.7	
Commerzbank	2.5	1.8	2.1	1.5	2.1	1.5	4.6	3.2	na	na	3.0	2.0	2.3	2.0	3.3	2.3	2.5	2.8	7.9	7.5	
Danske Bank	2.5	2.0	2.0	1.7	2.0	1.8	4.3	3.3	na	na	na	na	2.3	2.3	5.6	3.2	2.8	3.0	7.9	7.5	
Dresdner Bank	2.5	2.0	1.8	1.4	1.9	1.5	4.3	3.0	na	na	3.4	2.0	2.2	2.2	5.4	2.6	na	na	7.9	7.4	
ETLA	2.5	2.1	1.8	1.4	2.2	1.4	3.7	3.4	na	na	2.8	2.1	2.2	2.3	na	na	na	na	7.7	7.4	
Global Insight	2.5	1.7	1.9	1.6	1.8	1.3	4.1	3.1	na	na	3.2	2.1	2.3	2.3	5.2	2.4	2.5	2.6	7.9	7.7	
HSBC	2.5	1.5	1.7	1.3	1.9	1.2	4.4	2.7	na	na	3.1	1.4	2.2	2.2	na	na	2.3	2.4	7.9	8.0	
SEB	2.5	1.9	1.8	1.4	2.0	1.4	4.5	3.8	na	na	3.3	2.5	2.2	2.1	5.3	2.5	2.3	2.5	7.9	7.7	
UniCredit Banca Mobiliare	2.5	1.5	1.9	1.1	1.9	0.9	4.3	3.0	na	na	na	na	2.3	2.1	na	na	na	na	7.9	7.7	
ABN Amro	2.4	1.9	1.7	1.5	1.5	0.9	3.9	2.8	22.5	51.2	na	na	2.2	2.3	na	na	na	na	8.1	8.0	
European F'cast Network	2.4	1.8	1.9	2.5	1.7	0.8	4.0	2.9	na	na	3.5	2.5	2.2	1.9	3.5	2.5	2.5	3.9	7.7	7.3	
AXIS CIB	2.4	1.6	1.7	1.0	1.9	2.2	3.9	2.0	16.8	17.3	na	na	2.3	2.3	na	na	2.0	1.8	8.3	7.6	
Lloyds TSB Financial Mkts	2.4	1.8	2.0	1.5	1.7	1.5	3.4	2.9	na	na	3.1	1.3	2.4	2.4	4.6	0.2	na	na	7.9	7.7	
Econ Intelligence Unit	2.4	1.8	2.0	1.3	1.5	1.3	3.7	3.1	na	na	na	na	2.2	2.1	4.8	2.6	na	na	na	na	
<b>Consensus (Mean)</b>	2.6	1.9	1.9	1.5	1.9	1.3	4.3	3.3	23.6	31.4	3.3	2.0	2.3	2.2	4.9	2.3	2.4	2.6	7.9	7.6	
<b>Last Month's Mean</b>	2.5	1.8	1.9	1.4	1.9	1.3	4.1	3.4	28.4	30.5	3.2	2.0	2.3	2.2	5.0	2.2	2.4	2.6	7.9	7.6	
<b>3 Months Ago</b>	2.2	1.8	1.9	1.5	1.5	1.4	3.1	3.0	38.1	42.8	2.9	2.1	2.2	2.1	4.6	1.9	2.5	2.6	8.0	7.7	
<b>High</b>	2.8	2.5	2.1	2.5	2.2	2.2	4.8	4.6	38.2	51.2	3.8	2.9	2.4	2.4	5.6	3.4	2.8	3.9	8.3	8.0	
<b>Low</b>	2.4	1.4	1.7	0.5	1.5	0.7	3.4	2.0	5.3	6.0	2.8	0.9	2.2	1.9	3.0	0.2	2.0	1.8	7.7	7.3	
<b>Standard Deviation</b>	0.1	0.2	0.1	0.4	0.2	0.4	0.3	0.6	11.5	17.3	0.2	0.5	0.1	0.1	0.7	0.6	0.2	0.5	0.1	0.2	
<b>Comparison Forecasts</b>																					
Eur Commission (Sep. '06)	2.5	1.8	1.7	1.4			4.2	2.4					2.3	2.2					8.4	8.2	
IMF (Sep. '06)	2.4	2.0	1.8	1.7	2.1	1.5	4.2	3.6					2.3	2.4					7.9	7.7	
OECD (May '06)	2.2	2.1	1.5	1.7	1.9	1.4	3.5	3.7					2.1	2.0					8.2	7.9	

### European Monetary Union

Euro zone - The twelve European countries (listed at the top of this page) are united by a common currency (the euro), monetary policy and adherence to the Maastricht Treaty. Monetary Policy - is set by the European Central Bank's (ECB) governing board, headed currently by Jean-Claude Trichet. Nominal GDP - Euro7,991.7bn (2005). Population - 310.2mn (mid-year, 2005). \$/Euro Exchange Rate - 1.244 (average, 2005).

### Quarterly Consensus Forecasts

Historical Data and Forecasts (bold italics) From Survey of September 11, 2006

	2006				2007				2008				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Gross Domestic Product	2.1	2.6	<b>2.6</b>	<b>2.8</b>	<b>2.3</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.9</b>	<b>1.9</b>			
Private Consumption	1.8	1.7	<b>1.6</b>	<b>2.2</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>1.2</b>	<b>1.6</b>	<b>1.7</b>			
Consumer													

### Historical Data

* % change on previous year	2002	2003	2004	2005
Gross Domestic Product*	0.9	0.8	1.7	1.5
Private Consumption*	0.9	1.2	1.3	1.4
Government Consumption*	2.4	1.8	1.1	1.4
Gross Fixed Capital Formation*	-1.5	1.1	1.7	2.8
Change in Inventories, Euro bn (nominal)	-13.5	-0.8	13.0	26.1
Industrial Production*	-0.5	0.3	2.0	1.2
Consumer Prices*	2.3	2.1	2.1	2.2
Industrial Producer Prices*	-0.1	1.4	2.3	4.1
Hourly Labour Costs*	3.7	3.3	3.5	2.6
Unemployment Rate, (%)	8.3	8.7	8.9	8.6
Exports - Goods & Services*	1.6	1.1	6.3	4.5
Imports - Goods & Services*	0.3	3.1	6.2	5.5
Current Account, Euro bn	53.2	31.9	46.8	-23.5
General Govt Budget Balance, Euro bn	-183	-227	-213	-189

Average % Change on Previous Calendar Year		Annual Total				Average % Change on Prev. Year			
Exports of Goods & Services	Imports of Goods & Services	Current Account (Euro bn)		General Govt Budget Balance (Euro bn)		Money Supply, M3, end period			
2006	2007	2006	2007	2006	2007	2006	2007		
8.8	6.3	8.2	6.3	-38.3	-47.0	-175	-133	na	na
7.9	4.9	7.3	4.4	-18.7	-22.6	-174	-149	7.9	4.8
8.4	3.8	7.8	4.0	na	na	na	na	7.9	6.3
8.5	3.5	7.7	3.0	-15.1	42.6	-183	-164	8.1	7.3
8.5	4.8	8.0	4.7	-18.5	3.3	-182	-162	na	na
8.2	3.2	7.6	3.6	-10.0	-20.0	-160	-200	7.5	6.0
8.7	5.3	8.1	5.3	-25.2	-8.7	-176	-166	8.2	6.5
8.2	4.6	7.8	4.6	-30.0	-10.0	-186	-169	7.0	4.8
8.5	4.3	8.1	4.8	-34.6	-42.2	-199	-178	7.6	6.2
8.3	4.6	7.9	4.6	-54.3	-31.0	-184	-174	na	na
8.8	4.6	8.6	6.1	-64.1	-128.1	-165	-161	8.3	4.0
8.3	4.6	8.0	4.6	-45.0	-40.0	na	na	7.9	5.0
8.5	4.6	8.2	4.6	-35.0	-29.0	na	na	na	na
8.5	4.5	8.0	4.0	0.0	20.0	-200	-170	8.0	6.4
7.6	2.7	8.0	3.1	na	na	na	na	8.1	4.8
8.2	3.8	7.8	3.8	-39.3	-16.0	-168	-131	8.0	6.0
na	na	na	na	na	na	na	na	7.8	6.0
8.6	6.5	8.2	4.7	na	na	na	na	na	na
8.5	4.3	8.2	5.0	-20.0	10.0	-190	-158	8.3	6.0
9.0	6.0	9.0	7.0	na	na	na	na	8.3	6.5
8.3	4.7	8.0	4.5	-46.3	-20.0	na	na	na	na
7.1	4.1	7.4	4.0	na	na	-188	-188	na	na
7.3	3.2	7.2	3.7	-38.0	-34.0	-187	-165	7.3	6.0
8.1	3.0	7.8	3.5	na	na	na	na	8.2	7.0
8.4	3.9	7.8	3.8	-30.0	-10.0	-210	-180	6.5	6.0
8.6	4.1	8.1	4.4	na	na	na	na	na	na
7.8	4.4	8.0	5.1	-41.0	-32.0	-213	-207	na	na
3.3	5.9	8.2	7.1	na	na	na	na	na	na
8.4	3.6	8.1	3.4	na	na	-199	-175	7.4	4.9
7.9	4.3	7.4	4.6	-22.2	-0.7	-180	-176	7.2	5.2
7.6	5.3	7.1	5.1	na	na	-173	-152	na	na
8.3	4.4	7.9	4.6	-31.3	-20.8	-185	-168	7.8	5.8
8.1	4.4	7.8	4.6	-33.4	-24.7	-187	-175	7.6	5.8
7.2	4.5	7.2	4.6	-29.3	-19.1	-197	-184	7.7	5.8
9.0	6.5	9.0	7.1	0.0	42.6	-160	-131	8.3	7.3
7.1	2.7	7.1	3.0	-64.1	-128.1	-213	-207	6.5	4.0
0.4	0.9	0.4	1.0	15.5	33.7	14	19	0.5	0.9

**ECB Increases Target Interest Rate**

The ECB raised its main refi rate to 3.25% on October 5, the fifth 25 basis-point increase this year. The move was widely expected, given the acceleration in August retail sales and improving job market conditions which are helping to support consumption. The ECB has signalled that another rate hike might be forthcoming; however, with September inflation slowing to 1.8% y-o-y, coupled with the moderation in US activity, some observers predict that monetary tightening could be reaching the top end of its cycle. Elsewhere, a 3.7% m-o-m jump in German machinery orders in August has helped to buoy Euro zone investment expectations for 2006. However, a 0.4% (m-o-m) decline in August production suggests that the expansion in industry may have peaked.

**Euro Zone Interest Rates**

Forecasts are provided by a total of more than 80 panelists for **Germany** (page 9), **France** (page 11), **Italy** (page 15), the **Netherlands** (page 20) and **Spain** (page 22). This allows the analysis of forecasts for different yields on individual country 10-year benchmark bonds. Forecasts for 3-month interest rates are all for the EURIBOR rate.

	Actual Oct 9 '06	Consensus End Jan '07	Consensus End Oct '07
Euribor: 3-mth, %	3.5	3.7	3.7
German 10-yr Govt Bond, %	3.8	3.9	4.0

**Likelihood of an ECB Interest Rate Change**

Our panel's estimated average probability of a change in the refinancing rate (3.25% on survey date) within the 30 days following the survey date is:

INCREASE	NO CHANGE	DECREASE	
13.9	+ 86.1	+ 0.0	= 100 %

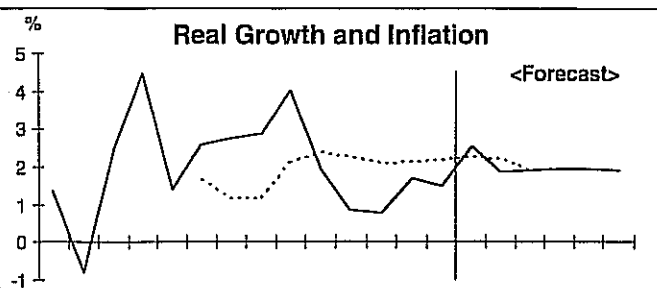
Most likely rate change mentioned: None

**Euro Exchange Rates**

Forecasts are provided by more than 100 panellists and are shown on page 27.

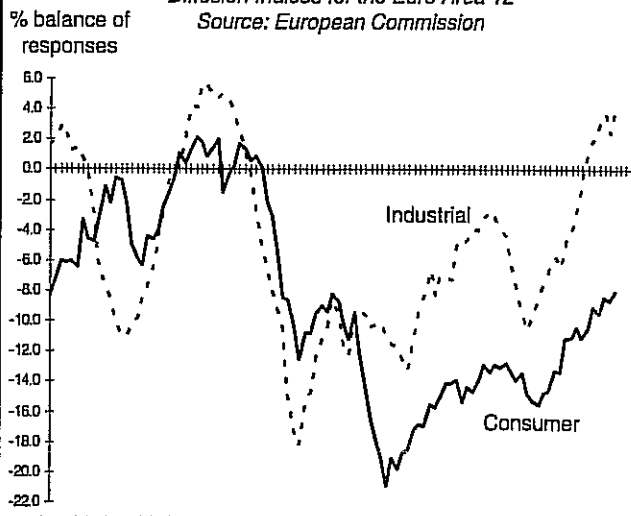
**Euro Zone Economic Statistics**

The source of all Historical Data (facing page) is Eurostat, with the exception of the Current Account and the Money Supply, M3, which are from the European Central Bank. The base years and statistics methodologies used by Eurostat may differ from those used by individual Euro zone-member countries included in *Consensus Forecasts*. Eurostat data is often drawn from the national statistical agencies within the Euro zone but is adjusted to achieve standard classifications.



**Consumer and Industrial Confidence**

Diffusion Indices for the Euro Area 12  
Source: European Commission



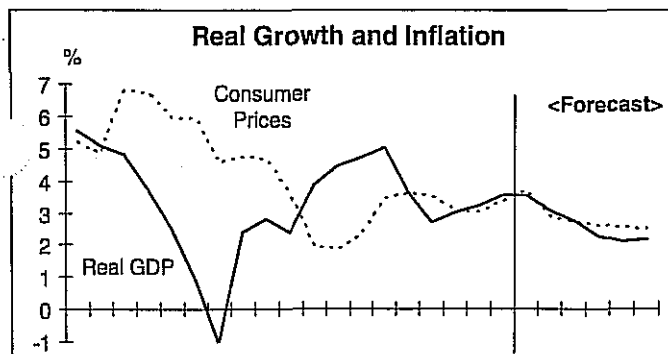




	Average % Change on Previous Calendar Year												Annual Total		Rates on Survey Date			
	Gross Domestic Product		Household Consumption		Gross Fixed Investment		Industrial Production		Consumer Prices		Salary Cost per Hour		Current Account (Euro bn)		3.5%		3.8%	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	End Jan'07	End Oct'07	End Jan'07	End Oct'07
<b>Economic Forecasters</b>	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	End Jan'07	End Oct'07	End Jan'07	End Oct'07
<b>FUNCAS</b>	3.7	3.2	3.6	3.2	6.1	5.2	3.9	3.1	3.6	2.8	3.3	3.0	-81.2	-93.6	3.8	4.2	4.0	4.3
<b>Goldman Sachs</b>	3.7	2.9	3.4	3.0	5.8	3.7	na	na	3.7	3.0	na	na	-79.9	-87.2	3.8	3.8	4.2	4.1
<b>Grupo Santander</b>	3.7	3.2	3.6	3.0	6.1	4.9	na	na	3.7	2.8	3.7	3.5	-79.0	-85.0	3.8	4.1	3.9	4.2
<b>AFI</b>	3.6	3.2	3.5	2.9	6.1	5.3	na	na	3.6	3.1	na	na	-79.3	-82.2	3.7	3.7	3.8	3.9
<b>Banesto</b>	3.6	3.1	3.4	3.2	6.4	4.7	2.8	2.0	3.8	2.9	na	na	na	na	3.7	3.7	3.9	3.5
<b>BBVA</b>	3.6	3.3	3.5	3.2	6.0	4.9	3.6	3.2	3.7	2.7	3.5	3.5	-76.9	-82.9	3.8	4.1	4.3	4.4
<b>Caja Madrid</b>	3.6	3.3	3.6	3.1	6.0	4.6	2.4	1.9	3.6	2.7	3.2	3.0	-78.1	-84.6	3.7	3.4	3.8	3.3
<b>CEPREDE</b>	3.6	3.2	3.6	3.2	6.2	5.4	3.0	2.8	3.7	3.1	3.4	3.4	-88.8	-99.2	3.5	3.9	4.1	4.5
<b>IFL-Univers Carlos III</b>	3.6	3.4	3.6	3.6	5.9	5.5	4.0	4.7	3.6	2.7	3.0	3.2	-78.7	-88.2	3.7	4.1	4.2	4.4
<b>Instituto de Credito Oficial</b>	3.6	3.2	3.6	3.2	6.0	4.9	4.0	3.5	3.7	2.9	3.3	3.2	-77.8	-83.7	3.7	4.2	4.2	4.5
<b>La Caixa</b>	3.6	3.2	3.5	3.0	6.1	5.2	3.4	2.5	3.7	2.8	3.0	2.9	-84.9	-85.7	3.7	3.9	3.7	4.2
<b>HSBC</b>	3.5	2.5	3.4	2.8	5.7	3.6	3.5	2.1	3.9	2.8	3.2	3.3	-87.6	-88.0	3.6	3.4	3.7	3.6
<b>UBS</b>	3.5	2.9	3.4	2.8	5.6	2.4	2.6	2.1	3.8	3.2	na	na	-84.0	-72.4	3.5	3.8	3.9	3.7
<b>ING Financial Markets</b>	3.4	2.7	3.2	2.2	5.7	3.5	3.8	2.0	3.7	2.9	na	na	na	na	3.8	3.8	3.6	3.8
<b>Inst L R Klein (Gauss)</b>	3.4	3.0	3.7	3.6	5.8	4.3	3.2	2.8	3.9	2.9	3.5	3.2	-72.0	-68.2	3.8	4.2	4.3	4.4
<b>Econ Intelligence Unit</b>	3.4	2.7	3.6	2.6	5.0	2.8	na	na	3.5	2.7	na	na	na	na	na	na	na	na
<b>Consensus (Mean)</b>	3.6	3.1	3.5	3.0	5.9	4.4	3.4	2.7	3.7	2.9	3.3	3.2	-80.6	-84.7	3.7	3.9	4.0	4.0
<b>Last Month's Mean</b>	3.5	3.0	3.5	3.0	5.9	4.4	3.1	2.5	3.8	3.0	3.3	3.3	-81.7	-86.9				
<b>3 Months Ago</b>	3.3	2.9	3.7	3.1	5.8	4.4	2.3	2.0	3.7	3.0	3.2	3.2	-80.8	-87.0				
<b>High</b>	3.7	3.4	3.7	3.6	6.4	5.5	4.0	4.7	3.9	3.2	3.7	3.5	-72.0	-68.2	3.8	4.2	4.3	4.5
<b>Low</b>	3.4	2.5	3.2	2.2	5.0	2.4	2.4	1.9	3.5	2.7	3.0	2.9	-88.8	-99.2	3.5	3.4	3.6	3.3
<b>Standard Deviation</b>	0.1	0.3	0.1	0.4	0.3	1.0	0.6	0.8	0.1	0.2	0.2	0.2	4.6	7.9	0.1	0.3	0.2	0.4
<b>Comparison Forecasts</b>																		
<b>Eur Commission (May '06)</b>	3.1	2.8	3.7	3.1	5.3	4.1												
<b>IMF (Sep. '06)</b>	3.4	3.0	3.6	3.4	5.3	4.1												
<b>OECD (May '06)</b>	3.3	3.0	3.8	3.5	6.3	5.0												

❖ Macroeconomic forecasts remain strong and relatively unchanged this month, with 2006 and 2007 GDP expectations both up by 0.1 percentage points. Industrial production forecasts, meanwhile, have also moved higher following strong growth during the summer.

❖ The second quarter current account deficit of €20.1bn was an improvement on the €24.5bn shortfall in the first three months of the year, although the deficit was still a massive 8.2% of GDP. A booming domestic economy, underpinned by negative real interest rates, has been the key factor behind the large deficit.



Historical Data				
* % change on previous year	2002	2003	2004	2005
<b>Gross Domestic Product*</b>	2.7	3.0	3.2	3.5
<b>Household Consumption*</b>	2.8	2.8	4.2	4.2
<b>Gross Fixed Investment*</b>	3.4	5.9	5.0	7.0
<b>Industrial Production*</b>	0.1	1.6	1.8	0.1
<b>Consumer Prices*</b>	3.5	3.0	3.0	3.4
<b>Salary Cost per Hour*</b>	4.1	4.3	3.5	3.2
<b>Current Account, Euro bn</b>	-23.8	-27.5	-44.2	-66.6
<b>3 mth Euro, % (end yr)</b>	2.9	2.1	2.2	2.5
<b>10 Yr Spanish Govt Bond Yield, % (end yr)</b>	4.2	4.3	3.7	3.3

Nominal GDP - Euro904.3bn (2005). Popn - 43.1mn (mid-year, 2005). \$/Euro Exch. Rate - 1.244 (av., 2005).

Quarterly Consensus Forecasts										
Historical Data and Forecasts (bold italics) From Survey of September 11, 2006										
	2006				2007				2008	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>Gross Domestic Product</b>	3.6	3.7	3.6	3.4	3.3	3.1	3.0	3.0	2.9	2.8
<b>Consumer</b>										







Forecasts for the countries in Western Europe, the Middle East and Africa shown on the next two pages were provided by the following leading economic forecasters:

Bank Austria Creditanstalt  
Economist Intelligence Unit  
Moody's Economy.com

Bank Leumi  
Forecaster ECOSA

D&B  
Handelsbanken Markets  
Oxford - LBS

*e = consensus estimate based on latest survey*

AUSTRIA	Population - 8.2mn (2005, mid-year) Nominal GDP - US\$306.6bn (2005)	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year)	0.9	1.1	2.4	2.0	2.9	2.2
	Industrial Production (% change on previous year)	0.7	4.1	6.1	4.3	6.1	4.0
	Consumer Prices (% change on previous year)	1.8	1.3	2.1	2.3	1.8	1.8
	Current Account (US Dollar bn)	0.7	-0.5	0.4	3.8	4.1	2.8

BELGIUM	Population - 10.4mn (2005, mid-year) Nominal GDP - US\$371.5bn (2005)	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year)	1.5	0.9	2.4	1.5	2.5	2.1
	Industrial Production (% change on previous year)	1.2	0.7	3.1	-0.2	3.9	2.2
	Consumer Prices (% change on previous year)	1.6	1.6	2.1	2.8	2.2	1.9
	Current Account (US Dollar bn)	11.7	12.7	12.2	10.1	7.8	9.7

DENMARK	Population - 5.4mn (2005, mid-year) Nominal GDP - US\$259.2bn (2005)	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year)	0.5	0.7	1.9	3.2	2.8	2.2
	Manufacturing Production (% change on previous year)	1.0	-0.7	-0.3	1.7	2.4	1.7
	Consumer Prices (% change on previous year)	2.4	2.1	1.2	1.8	2.0	2.0
	Current Account (US Dollar bn)	5.0	6.1	6.0	7.7	5.2	5.5

EGYPT	Population - 74.0mn (2005, mid-year) Nominal GDP - US\$93.6bn (2005) <sup>1</sup>	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year) <sup>1</sup>	3.2	3.1	4.2	4.9	5.7	5.7
	Consumer Prices (% change on previous year)	2.7	4.5	11.3	4.9	7.3	5.3
	Current Account (US Dollar bn)	0.6	3.7	3.9	2.8 <i>e</i>	2.8	2.7

<sup>1</sup> year(s) ending June 30

FINLAND	Population - 5.2mn (2005, mid-year) Nominal GDP - US\$196.2bn (2005)	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year)	1.6	1.9	3.3	3.0	4.0	2.7
	Industrial Production (% change on previous year)	2.0	1.5	4.8	-2.0	5.5	2.8
	Consumer Prices (% change on previous year)	1.6	0.9	0.2	0.6	1.5	1.7
	Current Account (US Dollar bn)	13.8	10.6	14.7	10.0	8.8	9.0

GREECE	Population - 11.1mn (2005, mid-year) Nominal GDP - US\$225.6bn (2005)	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year)	3.8	4.8	4.7	3.7	3.6	3.3
	Industrial Production (% change on previous year)	0.8	0.3	1.2	-0.9	1.8	2.6
	Consumer Prices (% change on previous year)	3.6	3.5	2.9	3.5	3.3	3.0

<b>IRELAND</b>	Population - 4.1mn (2005, mid-year) Nominal GDP - US\$200.8bn (2005)	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year)	6.0	4.3	4.3	5.5	5.2	5.0
	Industrial Production (% change on previous year)	7.3	4.8	0.5	3.0	4.6	4.1
	Consumer Prices (% change on previous year)	4.6	3.5	2.2	2.5	3.6	3.0
	Current Account (US Dollar bn)	-1.2	0.0	-1.1	-5.2	-6.2	-7.0

<b>ISRAEL</b>	Population - 6.7mn (2005, mid-year) Nominal GDP - US\$129.8bn (2005)	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year)	-0.9	1.5	4.8	5.2	3.9	3.9
	Industrial Production (% change on previous year)	-1.9	-0.3	6.9	3.6	5.2	4.7
	Consumer Prices (% change on previous year)	5.7	0.7	-0.4	1.3	2.5	2.3
	Current Account (US Dollar bn)	-0.7	1.7	3.2	3.8	2.5	2.6

<b>NIGERIA</b>	Popn - 131.5mn (2005, mid-year) Nominal GDP - US\$94.8bn (2005)	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year)	1.5	10.7	6.0	6.9	5.3	6.0
	Consumer Prices (% change on previous year)	13.7	14.0	19.4	13.5	10.2	10.0
	Current Account (US Dollar bn)	1.1	9.5	12.3	12.6 e	21.3	21.4

<b>PORTUGAL</b>	Population - 10.4mn (2005, mid-year) Nominal GDP - US\$183.6bn (2005)	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year)	0.8	-1.1	1.2	0.4	1.2	1.3
	Industrial Production (% change on previous year)	-0.4	0.1	-2.6	0.1	0.8	1.5
	Consumer Prices (% change on previous year)	3.6	3.3	2.4	2.3	2.4	2.2
	Current Account (US Dollar bn)	-10.0	-9.2	-12.9	-17.0	-14.7	-13.7

<b>SAUDI ARABIA</b>	Popn - 24.6mn (2005, mid-year) Nominal GDP - US\$309.8bn (2005)	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year)	0.1	7.7	5.3	6.5	5.9	4.2
	Consumer Prices (% change on previous year)	0.2	0.6	0.3	0.7	1.3	1.4
	Current Account (US Dollar bn)	11.9	28.0	51.9	87.1	110.6	106.9

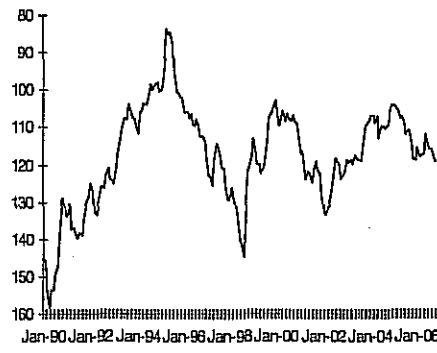
<b>SOUTH AFRICA</b>	Popn - 47.4mn (2005, mid-year) Nominal GDP - US\$239.5bn (2005)	Historical Data				Consensus Forecasts	
		2002	2003	2004	2005	2006	2007
	Gross Domestic Product (% change on previous year)	3.7	3.0	4.5	4.9	4.5	4.6
	Manufacturing Production (% change on previous year)	4.5	-1.8	4.2	3.6	5.4	6.2
	Consumer Prices (% change on previous year)	9.2	5.8	1.4	3.4	4.7	4.8
	Current Account (US Dollar bn)	0.7	-2.3	-7.4	-10.1	-12.6	-10.1

Foreign Exchange Rates

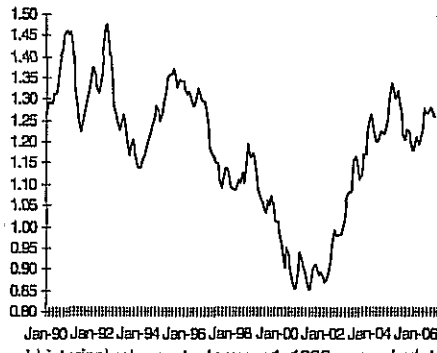
All US\$ rates are amounts of currency per dollar, except the UK pound and the euro which are reciprocals. A positive (+) sign for the % change implies an appreciation of the currency against the US Dollar and vice versa.

	Historical Data				Latest Spot Rate (Oct. 9)	Consensus Forecasts					
	Rates at end of:					Forecast End Jan. 2007	Percent Change	Forecast End Oct. 2007	Percent Change	Forecast End Oct. 2008	Percent Change
	2002	2003	2004	2005							
<b>Rates per US Dollar<sup>1</sup></b>											
Canadian Dollar	1.580	1.292	1.204	1.165	1.122	1.125	-0.2	1.134	-1.0	1.133	-0.9
Egyptian Pound	4.630	6.153	6.131	5.739	5.739	5.785	-0.8	5.851	-1.9	6.035	-4.9
European Euro	1.049	1.263	1.362	1.180	1.260	1.296	+2.8	1.303	+3.3	1.296	+2.9
Israeli Shekel	4.737	4.379	4.308	4.603	4.258	4.405	-3.3	4.463	-4.6	4.538	-6.2
Japanese Yen	119.9	107.1	104.1	118.0	119.1	112.7	+5.7	107.0	+11.4	103.8	+14.7
Nigerian Naira	126.4	136.5	132.4	129.0	128.3	129.8	-1.2	132.1	-2.9	135.6	-5.4
Saudi Arabian Riyal	3.745	3.750	3.750	3.745	3.750	3.749	0.0	3.749	0.0	3.749	0.0
South African Rand	8.640	6.640	5.630	6.325	7.839	7.575	+3.5	7.521	+4.2	7.734	+1.4
United Kingdom Pound	1.612	1.785	1.931	1.722	1.865	1.894	+1.5	1.870	+0.2	1.851	-0.8
<b>Rates per Euro</b>											
Danish Krone	7.427	7.525	7.447	7.461	7.456	7.457	0.0	7.456	0.0	7.450	+0.1
Norwegian Krone	7.305	8.436	8.227	7.987	8.409	8.030	+4.7	7.851	+7.1	7.923	+6.1
Swedish Krona	9.254	9.080	9.010	9.389	9.299	9.149	+1.6	9.023	+3.1	8.980	+3.5
Swiss Franc	1.454	1.562	1.541	1.550	1.589	1.570	+1.2	1.546	+2.8	1.517	+4.8

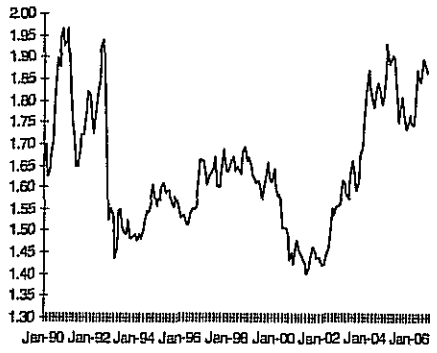
Yen per US\$



US\$ per Euro<sup>1</sup>



US\$ per UK Pound



<sup>1</sup> historical rates up to January 1, 1999, are calculated as "synthetic" euro exchange rates based on a weighted average of the eleven original component currencies.

West Texas Intermediate, US\$ per barrel		
Range 1985-2006 Spot Rate (Oct. 9)	77.0 - 10.4 60.0	
October Survey	Forecast for	
	End Jan. 2007	End Oct. 2007
Mean Forecast	63.9	62.6
High	78.0	78.0
Low	53.8	50.0
Standard Deviation	5.1	6.1
No. of Forecasts	69	69

**Prices on a Downward Trend Despite OPEC's Call to Cut Output**  
 After more than a year of high oil prices, excess supply conditions have dampened the surge in crude oil futures. Observers estimate that US gasoline prices tumbled by more than 20% over the past two months. In an effort to support prices, some OPEC member countries are considering a cut in production. However, no formal agreement has been announced, and the size of the proposed cut is still subject to debate. Consequently, oil prices have remained subdued following the news, with the price of West Texas Intermediate standing at US\$60.0 on our survey date. Debate over Iran's nuclear program, though, coupled with North Korea's first nuclear test and disruption to Nigerian supplies have lifted geopolitical concerns and could well

continued from page 3

France											
* % change over previous year	Historical				Consensus Forecasts						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>
Gross Domestic Product*	1.1	1.1	2.0	1.2	2.3	2.0	2.0	2.1	2.1	2.0	2.1
Household Consumption*	2.3	2.3	2.5	2.2	2.7	2.3	2.2	2.3	2.2	2.2	2.2
Business Investment*	-2.9	0.3	4.2	3.7	4.0	3.7	3.5	3.8	4.0	3.1	3.2
Industrial Production*	-1.7	-1.0	2.4	0.0	1.8	1.6	1.9	2.2	2.3	2.0	2.2
Consumer Prices*	1.9	2.1	2.2	1.7	1.9	1.6	1.7	1.8	1.8	1.8	1.9
Current Account Balance (Euro bn)	15.4	7.0	-5.6	-27.0	-26.8	-25.6	-27.0	-26.8	-26.7	-22.6	-19.3
10 Year Treasury Bond Yield, % <sup>2</sup>	4.2	4.4	3.7	3.3	3.9 <sup>3</sup>	4.0 <sup>4</sup>	4.2	4.4	4.4	4.4	4.5

United Kingdom											
* % change over previous year	Historical				Consensus Forecasts						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>
Gross Domestic Product*	2.1	2.7	3.3	1.9	2.6	2.4	2.3	2.2	2.1	2.1	2.3
Household Consumption*	3.6	3.0	3.5	1.4	2.2	2.3	2.3	2.2	2.0	2.0	2.2
Gross Fixed Investment*	3.7	0.4	6.0	2.7	4.8	3.1	2.2	2.3	2.6	2.9	2.9
Manufacturing Production*	-2.6	0.2	2.0	-1.1	1.0	1.2	1.4	1.1	0.8	1.0	1.1
Retail Prices (underlying rate)*	2.2	2.8	2.2	2.3	2.8	2.7	2.5	2.5	2.5	2.6	2.6
Consumer Prices*	1.3	1.4	1.3	2.1	2.3	2.2	2.0	2.0	2.0	2.0	2.0
Current Account Balance (£ bn)	-16.5	-14.9	-19.3	-27.4	-31.6	-34.4	-37.5	-35.2	-32.9	-26.8	-25.5
10 Year Treasury Bond Yield, % <sup>2</sup>	4.4	4.8	4.5	4.1	4.7 <sup>3</sup>	4.7 <sup>4</sup>	4.7	4.7	4.6	4.5	4.7

Italy											
* % change over previous year	Historical				Consensus Forecasts						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>
Gross Domestic Product*	0.3	0.1	0.9	0.1	1.6	1.2	1.4	1.5	1.4	1.6	1.5
Household Consumption*	0.2	1.0	0.5	0.1	1.6	1.3	1.5	1.5	1.6	1.6	1.5
Gross Fixed Investment*	4.0	-1.5	1.9	-0.4	3.0	1.8	1.6	1.6	1.4	1.9	1.8
Industrial Production*	-1.6	-0.5	-0.6	-0.8	1.9	1.0	1.2	1.2	1.3	1.4	1.4
Consumer Prices*	2.5	2.7	2.2	2.0	2.2	1.9	2.0	1.9	2.0	2.0	2.1
Current Account Balance (Euro bn)	-10.0	-17.4	-12.5	-22.1	-28.2	-26.3	-19.0	-15.4	-9.6	-9.5	-10.2
10 Year Treasury Bond Yield, % <sup>2</sup>	4.3	4.5	3.8	3.5	4.1 <sup>3</sup>	4.1 <sup>4</sup>	4.5	4.6	4.4	4.4	4.5

Canada											
* % change over previous year	Historical				Consensus Forecasts						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>
Gross Domestic Product*	2.9	1.8	3.3	2.9	2.8	2.6	2.9	3.0	2.9	2.8	2.5
Personal Expenditure*	3.6	3.0	3.3	3.9	3.9	3.1	2.9	2.9	2.7	2.6	2.3
Machinery & Eqpt Investment*	-2.8	7.9	10.3	10.5	9.3	8.0	6.0	5.0	4.4	3.9	3.5
Industrial Production*	2.1	0.2	1.8	1.0	0.8	1.7	2.3	2.6	2.6	2.8	2.7
Consumer Prices*	2.3	2.7	1.8	2.2	2.1	1.8	2.0	2.0	2.0	2.0	2.0
Current Account Balance (C\$ bn)	19.8	14.1	27.6	31.8	22.1	16.5	17.5	18.6	20.6	21.1	23.8
10 Year Treasury Bond Yield, % <sup>2</sup>	4.7	4.8	4.3	4.0	4.1 <sup>3</sup>	4.2 <sup>4</sup>	4.8	5.0	5.0	5.1	5.2

Euro zone											
* % change over previous year	Historical				Consensus Forecasts						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>
Gross Domestic Product*	0.9	0.8	1.7	1.5	2.6	1.9	1.9	2.0	2.0	1.9	1.9
Private Consumption*	0.9	1.2	1.3	1.4	1.9	1.5	1.7	1.8	1.8	1.8	1.7
Gross Fixed Capital Formation*	-1.6	1.0	1.7	2.8	4.3	3.3	2.6	2.5	2.4	2.4	2.3
Industrial Production*	-0.5	0.3	2.0	1.2	3.3	2.0	1.8	2.1	2.0	1.8	1.9
Consumer Prices*	2.3	2.1	2.1	2.2	2.3	2.2	1.9	1.9	1.9	1.9	1.9
Current Account Balance (Euro bn)	53.2	31.9	46.8	-23.5	-31.3	-20.8	-16.8	-15.7	-14.0	-16.3	-18.6

## The Netherlands

* % change over previous year	Historical				Consensus Forecasts						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>
Gross Domestic Product*	0.1	0.3	2.0	1.5	2.9	2.8	2.2	2.5	2.5	2.2	1.8
Private Consumption*	0.9	-0.2	0.6	0.7	-0.4	2.2	1.6	2.0	2.1	2.2	1.6
Gross Fixed Investment*	-4.5	-1.5	-0.8	3.6	4.1	4.2	2.7	3.0	2.9	2.3	2.1
Manufacturing Production*	0.1	-1.1	1.6	0.2	2.1	2.5	1.9	2.5	2.4	1.9	1.5
Consumer Prices*	3.3	2.1	1.2	1.7	1.4	2.0	2.0	1.8	1.8	2.0	1.9
Current Account Balance (Euro bn)	11.6	26.0	43.6	33.4	35.6	35.1	38.6	42.9	41.3	40.8	39.3
10 Year Treasury Bond Yield, % <sup>2</sup>	4.2	4.3	3.7	3.3	3.9 <sup>3</sup>	4.0 <sup>4</sup>	4.3	4.3	4.5	4.5	4.4

## Norway

* % change over previous year	Historical				Consensus Forecasts						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>
Gross Dom Prod (Mainland)*	1.6	0.4	3.7	4.0	3.5	2.8	2.3	2.2	2.3	2.4	2.4
Private Consumption*	2.9	2.7	4.6	3.6	3.7	3.1	2.9	3.0	3.0	2.8	2.8
Gross Fixed Investment*	-1.0	0.2	8.1	10.9	6.9	3.2	0.4	0.4	1.4	2.1	2.2
Manufacturing Production*	-0.9	-4.2	1.4	3.1	3.2	1.4	0.9	1.3	1.3	1.2	1.2
Consumer Prices*	1.3	2.5	0.5	1.5	2.2	1.7	1.9	2.2	2.2	2.2	2.2
Current Account Balance (Nkr bn)	194	204	233	317	391	378	281	262	250	244	236
10 Year Treasury Bond Yield, % <sup>2</sup>	5.8	4.5	4.1	3.6	4.3 <sup>3</sup>	4.4 <sup>4</sup>	4.9	4.7	4.7	4.9	5.0

## Spain

* % change over previous year	Historical				Consensus Forecasts						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>
Gross Domestic Product*	2.7	3.0	3.2	3.5	3.6	3.1	2.7	2.3	2.1	2.2	2.4
Household Consumption*	2.8	2.8	4.2	4.2	3.5	3.0	2.7	2.2	2.1	2.2	2.4
Gross Fixed Investment*	3.4	5.9	5.0	7.0	5.9	4.4	3.9	3.2	2.6	2.2	2.6
Industrial Production*	0.1	1.6	1.8	0.1	3.4	2.7	2.2	1.8	1.8	1.9	2.2
Consumer Prices*	3.5	3.0	3.0	3.4	3.7	2.9	2.7	2.6	2.5	2.5	2.5
Current Account Balance (Euro bn)	-23.8	-27.5	-44.2	-66.6	-80.6	-84.7	-89.5	-90.5	-90.6	-87.9	-91.5
10 Year Treasury Bond Yield, % <sup>2</sup>	4.2	4.3	3.7	3.3	4.0 <sup>3</sup>	4.0 <sup>4</sup>	4.2	4.3	4.4	4.3	4.3

## Sweden

* % change over previous year	Historical				Consensus Forecasts						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>
Gross Domestic Product*	2.0	1.8	3.3	2.7	4.2	3.0	2.4	2.1	2.3	2.4	2.3
Household Consumption*	1.5	1.8	1.8	2.4	3.3	3.0	2.4	1.8	2.1	2.2	2.1
Gross Fixed Investment*	-2.6	1.1	5.1	8.5	8.2	4.7	2.6	2.6	2.8	3.1	3.0
Mining & Manufacturing Production*	1.3	2.5	3.2	1.6	5.0	3.8	2.7	2.7	3.2	3.7	3.4
Consumer Prices*	2.2	1.9	0.4	0.5	1.5	2.0	1.9	1.8	1.8	1.9	1.9
Current Account (Skr bn)	121	181	176	171	184	184	180	165	168	173	165
10 Year Treasury Bond Yield, % <sup>2</sup>	4.6	4.8	4.0	3.3	4.0 <sup>3</sup>	4.2 <sup>4</sup>	4.1	4.1	4.1	4.3	4.3

## Switzerland

* % change over previous year	Historical				Consensus Forecasts						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012-2016 <sup>1</sup>
Gross Domestic Product*	0.3	-0.2	2.3	1.9	2.9	2.0	1.7	1.7	1.7	1.6	1.6
Private Consumption*	0.0	0.8	1.5	1.3	1.9	1.8	1.6	1.5	1.6	1.5	1.5
Gross Fixed Investment*	0.2	-1.4	4.5	3.1	4.4	3.1	2.7	2.3	3.1	3.0	3.0
Industrial Production*	-5.1	0.1	4.4	2.7	5.7	3.6	3.0	2.7	2.5	2.5	2.4
Consumer Prices*	0.6	0.6	0.8	1.2	1.2	1.2	1.2	1.5	1.4	1.4	1.4
Current Account Balance (SwFr bn)	36.3	58.1	60.5	67.7	67.4	66.7	76.1	85.2	86.5	88.3	90.9
10 Year Treasury Bond Yield, % <sup>2</sup>	2.2	2.6	2.3	1.9	2.6 <sup>3</sup>	2.8 <sup>4</sup>	2.8	3.1	3.1	3.1	3.1

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# CONSENSUS FORECASTS: WORLD ECONOMIC ACTIVITY

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October Survey	Real GDP % increase			Consumer Prices % increase			Current Account Balance, US\$bn		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
Belgium	1.5	2.5	2.1	2.8	2.2	1.9	10.1	7.8	9.7
Canada	2.9	2.8	2.6	2.2	2.1	1.8	26.2	19.5	14.6
France	1.2	2.3	2.0	1.7	1.9	1.6	-33.6	-33.6	-33.3
Germany	0.9	2.2	1.2	2.0	1.8	2.3	115.3	107.6	115.7
Italy	0.1	1.6	1.2	2.0	2.2	1.9	-27.5	-35.4	-34.2
Japan	2.6	2.8	2.2	-0.3	0.3	0.5	166.1	158.3	166.4
Netherlands	1.5	2.9	2.8	1.7	1.4	2.0	41.6	44.6	45.6
Norway	4.0	3.5	2.8	1.5	2.2	1.7	49.2	60.9	61.9
Spain	3.5	3.6	3.1	3.4	3.7	2.9	-83.0	-101.0	-110.0
Sweden	2.7	4.2	3.0	0.5	1.5	2.0	22.9	24.8	26.3
Switzerland	1.9	2.9	2.0	1.2	1.2	1.2	54.3	53.7	55.7
United Kingdom	1.9	2.6	2.4	2.1	2.3	2.2	-49.8	-58.0	-64.8
United States	3.2	3.4	2.6	3.4	3.5	2.5	-792	-855	-847
North America <sup>1</sup>	3.2	3.3	2.6	3.3	3.4	2.5	-766	-835	-832
Western Europe <sup>2</sup>	1.6	2.6	2.0	2.0	2.1	2.1	81.0	49.2	51.9
European Union <sup>2</sup>	1.7	2.7	2.2	2.1	2.2	2.2	-48.2	-94.1	-95.7
Euro zone <sup>2</sup>	1.5	2.6	1.9	2.2	2.3	2.2	-29.3	-39.2	-27.0
Asia Pacific <sup>3</sup>	5.1	5.3	4.6	1.6	2.0	2.0	370	379	376
Eastern Europe <sup>4</sup>	6.0	6.2	5.4	7.5	7.1	6.6	24.4	36.6	22.9
Latin America <sup>5</sup>	4.2	4.7	4.0	5.7	4.8	5.1	38.8	42.4	23.5
Other Countries <sup>6</sup>	5.7	5.1	4.6	3.3	4.0	3.8	96.2	124.7	123.5
<b>Total</b>	<b>3.4</b>	<b>3.8</b>	<b>3.2</b>	<b>2.8</b>	<b>2.9</b>	<b>2.6</b>			

Regional totals, as well as the grand total for GDP growth and inflation, are weighted averages calculated using 2005 GDP weights, converted at average 2005 exchange rates. Current account forecasts given in national currencies on pages 7-24 have been converted using consensus exchange rate forecasts for the purposes of comparison. <sup>1</sup>USA and Canada. <sup>2</sup>The Euro zone aggregate is taken from our panel's latest forecasts (pages 18-19). The Euro zone current account data and forecasts are based on extra-euro zone data, i.e., they are compiled from an aggregate of the Euro zone member states' transactions only with nonresidents of the Euro zone. The European Union data includes the Euro zone countries listed on page 18 plus Denmark, Sweden and the United Kingdom, as well as May 2004 entrants the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia (data taken from Eastern Europe Consensus Forecasts). Western Europe comprises the Euro zone plus Denmark, Sweden and the United Kingdom, along with Norway and Switzerland. <sup>3</sup>Survey results for Japan plus fourteen other countries taken from *Asia Pacific Consensus Forecasts*. <sup>4</sup>Nineteen countries, including eight European Union countries taken from the latest issue of *Eastern Europe Consensus Forecasts*. <sup>5</sup>Fourteen countries taken from the latest issue of *Latin American Consensus Forecasts* (Inflation figures are on a December/December basis). <sup>6</sup>Egypt, Israel, Nigeria, Saudi Arabia and South Africa.

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