

# Australian weekly

week beginning 13 July 2009

- No more rate cuts by RBA, but prolonged delay before rate rises.
- Westpac-MI Leading Index - an update on economic outlook.
- Australian data: trade prices, NAB Jun business survey.
- NZ data: retail sales, Q2 CPI.
- China: Q2 GDP, full range of monthly updates.
- US data: FOMC meeting minutes, PPI & CPI, retail, industrial prod'n, housing updates.
- Key economic & financial forecasts.

Information contained in this report was current as at 10 July 2009

# No more rate cuts by the RBA, but prolonged delay before rates rise

The events of this week have persuaded us that the prospects for further rate cuts in Australia have diminished to the point where we have revised our forecasts to eliminate rate cuts from our view. We now expect that rates have bottomed out and expect that the next move by the RBA will be to increase rates although we do not expect that move until early in 2011.

However the uncertainties that central banks will be facing in 2010 as they balance potential cyclical upswings in certain sectors; ongoing weakness in others; and major structural constraints on growth make the outlook for 2010 particularly uncertain.

This view that rates have bottomed out is despite the Reserve Bank maintaining a very explicit easing bias. The Governor's Statement following the July 7 Board Meeting includes the following comment: "the outlook for inflation allows some scope for further easing of monetary policy, if needed".

The events of the last week that motivated this change of view have been:

1) The 9.3% surge in Consumer Sentiment to 109.4. That followed a 12.7% jump in June to register the largest 2 month increase in Sentiment since the Survey began in 1975. As we discussed this extraordinary increase is reflecting expectations that the economy will avoid recession and the impact of the Government's two fiscal payments of \$8.4bn in December and \$12.5bn in March/May.

There will be no more large handouts and it is possible that the June quarter national accounts will print negative growth, thereby reviving speculation of a recession. Accordingly we expect that there will be some retreat in confidence but because the starting point will be so much higher it is expected to settle at much higher levels than previously anticipated. That points to an improvement in the underlying momentum of the consumer.

2) The evidence that the interest rate cuts are working was further emphasised in the housing finance data released for May. The number of loans to Owner Occupiers grew in annual terms by 23.5% up from 13% in April. In value terms the increases were 36.3% up from 27.8%. Now, we have been aware of the sharp increase in housing lending for the last six months but it appeared to be centred around an unsustainable surge in loans to First Home Buyers. FHB's (number of loans) are up 105% from the August low but will inevitably slow once the increased grant is phased out from September. However the evidence is now strong that the recovery in housing is broadening. The number of loans to Upgraders is now up by 20% in 2009 while the value of loans to investors increased by 18% in the last 3 months. Anecdotal evidence is that banks are facing real strains in processing the current surge in loan applications.

Today we are releasing the results of a separate survey (see Chart 1) which we conducted in conjunction with the Westpac MI Consumer Sentiment survey. In the survey we asked respondents about the outlook for house prices. When we conducted a similar survey in May we found that 32% of respondents expected house prices to rise while today's survey indicates a sharp increase in that proportion to 52%.

Of more crucial importance to us were the reactions of those in the 35-54 age bracket (Upgraders and investors are concentrated in that group) where in May only 28% expected prices to rise compared to 53% in today's survey. That result is significant in that it indicates

that the broadening of the housing recovery from FHB's to upgraders and investors is much more likely if these groups are confident about house prices. Scepticism about the sustainability of the housing surge given the inevitable withdrawal of FHB's has been largely allayed with the recent strengthening of finance approvals and the sharp increase in confidence about prices in the 35-54 age group.

In previous cycles the sector to respond first to rate cuts has been housing. The aggressive cuts in mortgage rates which the banks have implemented (385bp's in response to the 425bp cut in the cash rate) have clearly supported the housing market. The Reserve Bank could reasonably question whether, given this response, there is any need to further stimulate the sector.

Certainly, rate cuts will also lower the bank bill rate and therefore benefit funding costs of business and banks but we expect that the current contraction in business loans is being driven by widening credit spreads; credit constraints; weak confidence and the income and profit contraction caused by the fall in the terms of trade. A rate cut is unlikely to markedly change that situation and indeed, could adversely affect consumer confidence if households did not benefit from a cut as we saw in April. In fact, given the current momentum in housing, there is even some risk of overstimulating that sector.

3) The Governor's Statement following the Reserve Bank's Board meeting showed a significant increase in the Bank's optimism relative to the June Board meeting. On the global economy the Bank noted that "Downside risks to the outlook have diminished"; in referring to the global recovery the June comment was, "slower when it does occur" whereas in July it was, "likely to be slow at first".

Economic conditions are described as "not been as weak as expected a few months ago", financial market confidence was no longer described as "fragile". House prices were described as "tending to rise".

In June China was described as "turnaround" and in July was described as "strengthened considerably". In that regard we expect that quarterly annualised growth in China for the June quarter will print at around 15% when released next Thursday.

We believe that the Bank may now have a tactical difficulty. Positive rhetoric which precedes a clear easing bias appears a little confusing. But as soon as the Bank removes such an explicit bias markets are likely to rush to price in imminent rate hikes. Accordingly we expect that this bias will be retained for some time.

4) The employment data was in line with our expectations. However we recently lowered our target peak in the unemployment rate to around 8% in late 2010 from about 9% in early 2011. Our end 2009 forecast level has been reduced from 7.8% to 7.5%. There was nothing in this week's numbers to prompt a further change but we have clearly lowered our assessment of the intensity of the increase in the unemployment rate over the cycle. The most powerful and still relevant argument supporting more rate cuts is the recognition that the Bank needs to be seen to be acting when the unemployment rate is surging.

However if housing is responding strongly and underlying momentum amongst consumers has strengthened then the Bank will be comfortable to resist rate cuts given our expected profile for unemployment.

**THE OUTLOOK**

We now think that the balance of risks favour steady rates despite the explicit easing bias being retained by the Bank for some time. But the forces that make this a fine call are likely to ensure that the case for rate hikes through 2009 and 2010 will remain weak.

There are still risks that the curtailment of the Government's fiscal handout policies (\$21bn over 6 months) will have a much larger impact on confidence and spending than we currently expect. The print of negative GDP growth for the June quarter and/or September quarter could revive fears of a recession which would impact consumer confidence. While the rise in the unemployment rate might be more moderate than previously expected due to labour hoarding, the rise in the "underemployment rate" and the associated contraction in hours worked might sufficiently constrain household income to substantially weaken consumer spending.

While housing is expected to be strengthening the business investment cycle will continue to turn down through 2009 and 2010. The negative income and profit shock from the recent sharp reduction in the terms of trade will continue to constrain business investment and employment. Excess capacity in the capital stock and the labour market will contain any inflation pressures.

The other risks relate to the global economy. The two key factors relate to the US consumer and the state of the global financial system. Both those factors point to a weak global economy in both 2009 and 2010. While the brutal contractions of 2008H4 and 2009H1 will not be repeated the world economy is likely to remain weak for an extended period. The US consumer will be faced with further increases in unemployment and little relief on their diminishing wealth.

Deleveraging of balance sheets has much further to run. The implications for banks' balance sheets of the deep recession is yet to surface. Huge further writedowns on consumer loans; commercial property; prime mortgages; and commercial loans are still ahead in both the US and Europe. Availability of credit to finance economic recovery in the US, Europe and Japan will be further complicated by the demands governments will make on global savings.

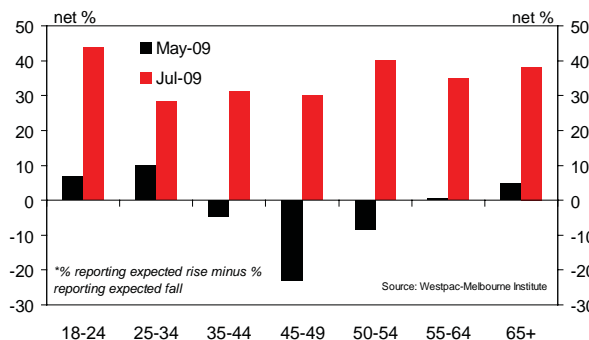
In 2010 the Reserve Bank will be dealing with those global uncertainties while at the same time coping with a strong cyclical upswing in housing and extended downturn in business investment and employment. That will create considerable uncertainty on the policy front. The normal timing of rate hikes is likely to be delayed as the Bank grapples with these issues. While the current recovery pace in housing might normally argue for a start to the tightening cycle some time around mid 2010 we expect that there will be considerable delays until these uncertainties clear. Other policies to contain any excesses in housing market are likely to evolve.

With our new expected low point of 3% in the RBA cash rate we continue to expect that the first upward move will not be until early in 2011.

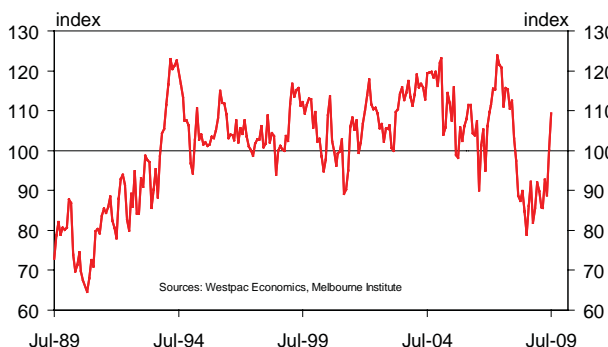
While we assess that the balance of risks now favour steady rates in Australia the environment of extreme uncertainty described above points to an extended period of steady rates in Australia with rate hikes being delayed until early 2011 when the RBA will quickly move back to neutral through 2011.

**Bill Evans, Chief Economist**

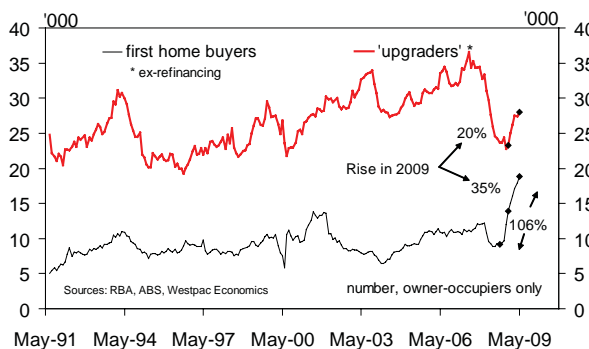
**House price expectations by age group**



**Consumer Sentiment**



**Finance upswing broadly based in 2009**



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

# Data wrap

## Jun TD–MI inflation gauge

- The TD–MI inflation gauge rose 0.4% in June following a 0.3% fall in May. Higher prices included private motoring (largely petrol), insurance services, and fruit & vegetables.
- The 3mth growth rate at +0.13% is well down from the +1.33% pace recorded in the 3 months to March. On the surface, this suggests a very weak Q2 headline CPI pace. However, we caution that the gauge was well wide of the mark in Q1. The signals from the gauge that we have greater faith in are evidence that underlying inflation in Q2 will be significantly softer than Q1's temporarily strong 1.1%qtr.

## Jun ANZ job ads

- Newspaper job ads rose 0.9% in June after a 1.0% fall previously, and have essentially stabilised over the past four months. However, internet job ads were less encouraging, falling 7.2% after a minor 0.2% fall previously, their 14th consecutive fall.
- This saw total job ads fall 6.7% after a 0.2% fall previously, their 14th consecutive fall. The total trends remained in steep decline at –4.5mth and –52.1%yr (vs –6.0mth and –50.4%yr prev).
- Our interpretation of the job is that they are currently consistent with annual jobs growth deteriorating towards –2%yr in late 2009/early 2010, slightly below our forecast that sees annual jobs growth bottoming out around –1.6%yr at end-2009.

## Jul Westpac–MI Consumer Sentiment

- The Westpac Melbourne Institute Consumer Sentiment Index increased by 9.3% in July from 100.1 in June to 109.4 in July. Indeed, the Index has jumped 23.2% over two months, the largest 2 month increase in since the survey began in 1975.
- The rise in July is despite no boost from the traditional drivers of confidence. The stand out force must be the huge financial handouts introduced by the Government. The unexpected resilience of the employment figures has also played a role.

## May housing finance

- The housing finance recovery extended into May in response to the lowest variable mortgage rates in 41 years and the boost to the First Home Buyer scheme. Lending to owner-occupiers rose 2.2% in May and (ex-refinancing) by 41% since September.
- The detail confirms that: (1) first home buyers (FHBs) are leading the way for now; (2) the recovery became more broadly based

in 2009, with lending to upgraders and investors showing strong gains; (3) non-banks have been back lending in 2009; and (4) rising demand for housing stock has translated into a leap in finance for the construction of new dwellings.

## Jun labour force

- Total employment fell –21.4k in June, with annual trend growth falling to –0.09%yr. Weakness was again in full-time as employers hoard labour and cut hours worked. Full-time employment fell 21.9k, with annual trend growth now –1.44%yr.
- Lower participation (65.3% vs 65.4%) saw a smaller than expected rise in the unemployment rate (5.8% vs 5.7%), but its uptrend continued.
- Turning points in some of our labour demand leading indicators, and the strong prevalence of labour hoarding, recently saw us bring forward and raise the low point for annual jobs growth this cycle to –1.6%yr in 4Q2009. The trend developments in June with continued full-time underperformance remain consistent with this revised outlook, which sees the unemployment rate rise to around 7½% by end 2009.

## Jul WBC–MI unemployment expectations

- Consumers' unemployment expectations recorded their fifth consecutive improvement in July. The index fell 0.8% in July to 158.61 after a 7.9% fall previously, for a cumulative fall of 13.4% from their February peak.
- Consequently, their trend deviation from their full history average (our preferred measure that leads turning points in annual employment growth by seven months) fell for the fourth consecutive month. At current levels this continues to imply a rapid deterioration in annual jobs growth through 2H2009. However, in turning down from a high point in March, this measure also supports our recently revised employment outlook that sees annual jobs growth troughing in 4Q2009.

## Jul MI inflation expectations

- Coinciding with the recent rapid recovery in consumer confidence, and a backdrop of renewed upward pressure on petrol prices, consumers' inflationary expectations saw their second straight rise in July, with the median expectation rising to 3.2% from 2.8%, the highest since November 2008. The median expectation of managers and professionals also bounced, rising to 3.3% from 2.6%, continuing their uptrend also since March.

## Round-up of local data released last week

Date	Release	Previous	Latest	Mkt f/c
Mon 6	Jun TD–MI inflation gauge	–0.3%	0.4%	–
	Jun ANZ job ads	–0.2%	–6.7%	–
Tue 7	RBA policy announcement	3.00%	3.00%	3.00%
Wed 8	Jul Westpac–MI Consumer Sentiment	100.1	109.4	–
	May housing finance	1.8%	2.2%	1.3%
Thu 9	Jun employment chg, '000	–8.5	–21.4	–20
	Jun unemployment rate	5.7%	5.8%	5.9%
	Jul WBC–MI unemployment expectations	–7.9%	–0.8%	–
	Jul MI inflation expectations	2.8%	3.2%	–

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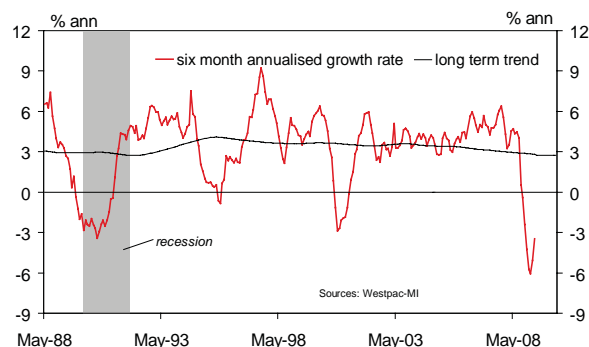
# Data previews

## Aus May Westpac-MI Leading Index

Jul 15, Last: -3.5% annualised

- The annualised growth rate of the *Westpac-Melbourne Institute Leading Index*, which indicates the likely pace of economic activity three to nine months into the future, was -3.5% in April, still well below its long term trend of 2.8%, consistent with continued economic contraction, but greatly improved on the -5.1% recorded in March.
- The monthly components were mixed in May: equity markets continued to rally, albeit at a slower pace (ASX up 1%); the money supply grew a solid 1.2% rise after a similar gain in March; but dwelling approvals posted a surprisingly sharp 12.5% drop after three months of solid gains; and the slide in US industrial production re-accelerated, falling 1.1% in May after a milder 0.7% drop in April.

## Westpac-MI Leading Index

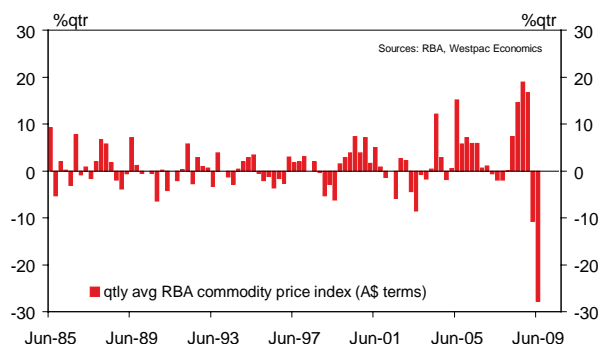


## Aus Q2 international trade price indexes

Jul 17, Export: Last: -4.6%, WBC f/c: -18%, Mkt f/c: -16%  
Import: Last: -2.8%, WBC f/c: -6%, Mkt f/c: -6%

- Q1 export prices fell 4.6%qtr, their first fall since 2007, cutting annual growth to 42.8% from a peak of 54.9% previously. Weaker global commodity prices came home to roost without any significant valuation offset from the AUD, whose weakness through 2H2008 had supported prices last year. The AUD MTWI fell 0.6%, but with residual effects from 2H08 currency weakness, core import prices rose 1.8%qtr. But with food -3% and mineral fuels -32.5%, the overall MPI fell 2.8%qtr.
- Q2 will see a big hit to export prices from USD bulks prices plus a higher AUD. The RBA commodity price index plunged 17.7%qtr in USD terms (led by non-rural ex-base metals) and the AUD/USD rose 14.4%qtr. We forecast -18%qtr for the XPI. With the MTWI up 10.2%qtr, we expect a 7.9% fall in core import prices. But some offset from a 12% rise in petroleum prices tempers the overall MPI forecast to -6%qtr.

## XPI: bulks & strong AUD savage Q2 prices

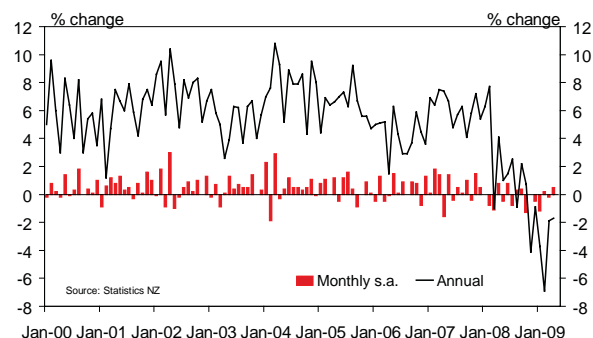


## NZ May retail sales

Jul 13, Last: 0.5%, WBC f/c: 0.5% mkt f/c: 0.2%

- Total sales are expected to post their second consecutive monthly gain including a solid 1.0% increase in core sales. The April 1 tax cut, lower interest rates and surging net migration appear to have given spending a lift in the April / May period. Consumer confidence rose in May.
- Flat petrol prices and a likely dip in car sales in May are expected to see total sales under perform core sales.
- Some of the gloss may be taken off any strong print for retail sales in May, given the pullback in electronic transaction data for June.

## NZ nominal retail sales



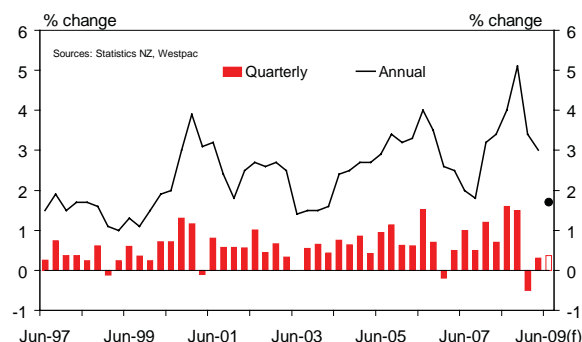
# Data previews

## NZ Q2 CPI

Jul 16, Last: 0.3%, WBC f/c: 0.4%, mkt f/c: 0.5%

- We expect annual inflation to drop again, down to 1.7% in Q2 from 3.0% in Q1. We see annual CPI inflation bottoming out at 0.9% in Q3 2009, but remaining below 2% through 2010 given the usual lag between economic activity and consumer prices.
- For Q2, a feature will be flat food prices. Food prices have lifted 1.5% per quarter on average over the past 3 years reflecting the massive run up in world prices. This inflation is expected to end in Q2.
- Fuel and electricity prices will add to the CPI in Q2, while declines are expected in education (thanks to early childhood subsidy changes), domestic airfares and house construction costs. The latter three are expected to see non-tradeable inflation post its smallest quarterly increases since 2001.

## CPI inflation



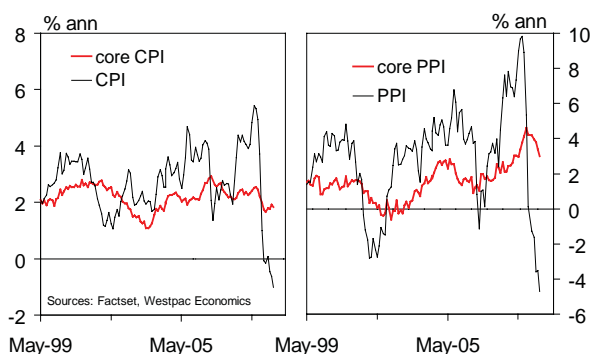
## US June inflation indicators

Jul 14, PPI headline Last: 0.2%, WBC f/c: 1.0%

Jul 15, CPI headline Last: 0.1%, WBC f/c: 0.5%

- The headline PPI peaked at 9.9%yr in July 2008 but turned negative in Dec and was down -5.0%yr by May. The monthly PPI fell from Aug to Dec last year, but has posted four rises in five months so far this year. In June, the upswing in energy prices should push the PPI headline sharply higher, but the core rate should be constrained to flat by auto price discounts. Our 1.0% PPI headline rise would see the annual rate fall to -5.3%yr.
- The annual CPI turned negative in March, and the monthly data has trended about flat since then after a temporary spike in Jan-Feb. In June, a moderate further jump in retail gasoline prices will be the key driver of the 0.5% rise we forecast for the headline CPI. The annual rate should fall to -1.7%yr. The core rate is expected to round to 0.2% (from 0.1% in May), as some of May's downside surprises correct higher.

## US inflation

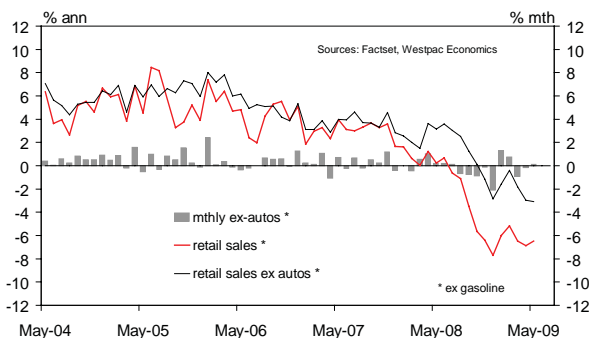


## US June retail sales

Jul 14, Last: 0.5%, WBC f/c: 0.3%

- Retail sales rose 0.5% in May, but 0.4ppts of that was due to higher gasoline sales, mostly reflecting higher prices (though volumes were up too). Auto sales also rose in May but core retailing (ex gasoline and autos) rose just 0.1%, after a 1% fall over the prior two months.
- Gasoline prices rose further in June. Although industry auto sales fell in June, fleet sales were reportedly very weak which means retail auto sales probably rose, though price discounting will have lowered the dollar value of the sales. Weekly retail reports through June were lacklustre and wet weather in many parts will have "dampened" retail activity. Consumer confidence fell on a range of measures later in the month.
- Tying these factors together, we expect a 0.3% rise in both headline and ex auto sales, but flat core retailing in June.

## US retail sales



# Data previews

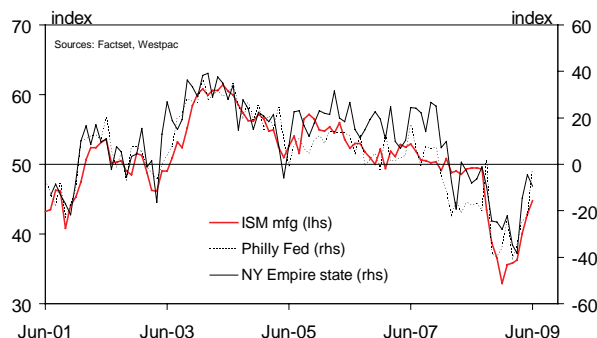
## US July NY and Philly Fed surveys

Jul 15, New York Fed: Last: **-9.4**, WBC f/c: **2.0**

Jul 16, Philadelphia Fed: Last: **-2.2**, WBC f/c: **-8.0**

- These surveys helped kick off the cliched "green shoots of recovery" story that emerged in March-April, though the reality is that despite the recent higher readings (NY sharply higher in May, Philly in June), both remain at levels consistent with declining output, albeit at a much slower pace than in Q1.
- Without local agents on the ground it is difficult to forecast these regional surveys of just 100 business people. However, based on previous patterns, we would expect the Philly Fed to correct partially lower in July (as NY Fed did in June), but the NY Fed to climb to a new high, probably above 0 (note that Richmond Fed was above 0 in both May and June).
- These outcomes would be broadly consistent with the gradual but persistent up-trend in the national ISM manufacturing (which is still some way from indicating industrial sector growth).

## US manufacturing

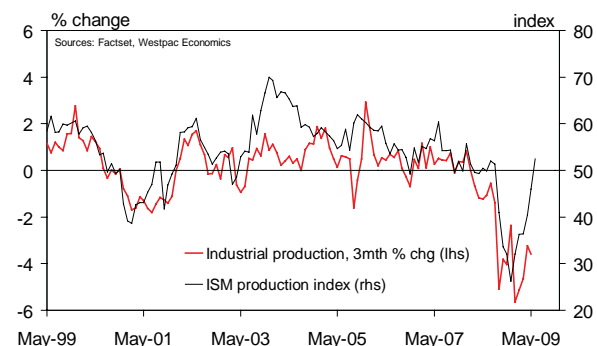


## US June industrial production to drop again

Jul 15, Last: **-1.1%**, WBC f/c: **-0.9%**

- Since the beginning of last year, industrial production has posted just one monthly gain (in Oct 2008). Around the turn of this year these declines were especially steep (averaging 1.6% in Q4-Q1), although so far in Q2 the average decline has been just 0.9%, consistent with survey evidence pointing to a moderating pace of decline in factory output.
- Indications ahead of the June result point to ongoing contraction, but with some upside risk. Hours worked in factories fell 1.2% last month (less than in May though the auto sector was very weak); primary industries and the utilities also recorded falling hours. But the business surveys mostly improved further.
- These factors point to a fall in industrial production of around 0.9% in June, but risks are skewed towards a smaller decline.

## US industrial production



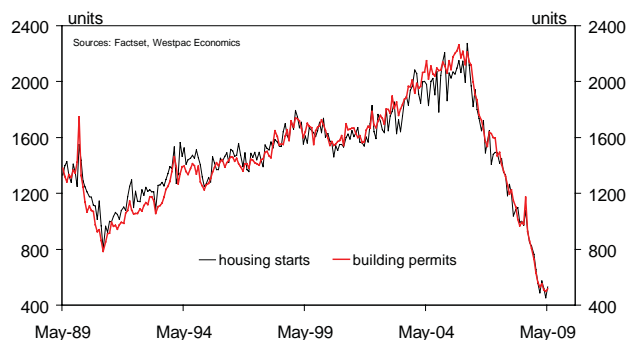
## US June housing starts and permits

Jul 17, Starts: Last: **17.2%**, WBC f/c: **-10.0%**

Jul 17, Permits: Last: **4.0%**, WBC f/c: **1.0%**

- On a range of indicators, housing has shown tentative signs of bottoming out after several years of tumbling prices and activity. Single family house starts have not posted a fall since January, and total starts surged 17% in May, due to ongoing volatility on the multiples side (up 62% in the month).
- Single family housing permits posted gains in Feb and April-May (well in excess of their Mar decline), further evidence of bottoming out. Indeed May's single family permits annualised pace of 406k was a little higher than starts on 401k, suggesting limited scope for a (single family) starts downswing in June.
- However, homebuilder confidence slipped somewhat in June, and new home sales are not yet trending higher. Hence we expect single family starts and permits to level off. Multiple starts will fall sharply, but multiple permits are due to bounce.

## US housing starts & permits



# Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 13</b>					
NZ	May retail sales	0.5%	0.2%	0.5%	Solid gains expected driven by core sales.
Jpn	Jun consumer confidence	36.3	–	–	Global sentiment has bounced, Japan's households lagging the move.
Chn	Jun trade balance USD/bn	13.4	15.7	–	Both sides of the trade accounts showing signs of life.
	Jun M2 money supply	25.7%	26.5%	–	Reports of strong loan creation continuing through June.
Eur	May industrial production	–1.9%	1.0%	2.0%	IP bounce in Germany suggests Eurozone gain likely.
Ger	Jul ZEW economic sentiment	44.8	48.0	44.0	Weaker Sentix survey suggests investor pessimism renewed in Jul.
US	Jun Federal budget \$bn	–57.9	–	–	The monthly deficit expansion is now well underway.
Can	Q2 Bank of Canada loan officer survey	–	–	–	Update on credit markets.
	Q2 business outlook survey	–22	–	–	Future sales index.
<b>Tue 14</b>					
Aus	Jun NAB business survey	–14	–	–	Conditions moved broadly sideways since Oct. Confidence rebounded.
Sing	Q2 GDP advance %yr	–10.1%	–5.2%	–	Should jump on pharma-led manufacturing rebound.
Eur	Jun CPI final %yr	–0.1% a	–0.1%	–0.1%	Core rate was 1.5% yr in May.
	Jun BRC retail monitor %yr	–0.8%	–	–	Same store sales measure fell sharply in May confirming distorted Apr.
UK	Jun RICS house price balance %	–44.1%	–40.0%	–	Surveys much less negative on UK house price outlook.
	May house prices %yr	–13.0%	–	–	Lesser watched, dated DCLG (government) measure.
US	Jun CPI %yr	2.2%	1.8%	1.8%	Base effects and recent sterling upswing to pull CPI below target again.
	Jun PPI	0.2%	0.8%	1.0%	June's ready oil price rise will impact on headline PPI but core pressures remain benign, especially given auto discounting.
	Jun PPI core	–0.1%	0.1%	0.0%	
	Jun retail sales	0.5%	0.5%	0.3%	Auto sales and gasoline prices likely to boost headline sales but weekly stats and poor weather suggest core retailing ex autos/gas at best flat.
	Jun retail sales ex autos	0.5%	0.5%	0.3%	
US	Jul IBD/TIPP economic optimism	50.8	–	49.0	Latest surveys point to confidence slipping in recent weeks.
	May business inventories	–1.1%	–1.0%	–1.0%	Guide to extent of drag from inventories on Q2 GDP growth.
Can	May auto sales	0.0%	–	1.0%	StatCan guidance for 1% May gain.
<b>Wed 15</b>					
Aus	May Westpac–MI Leading Index	–3.1%	–	–	Improved notably in Apr but big fall in dwelling apps to impact in May.
Jpn	Bank of Japan meeting	0.1%	0.1%	0.1%	No move in rates; no shift in other measures either.
Thai	Bank of Thailand meeting	1.25%	1.25%	1.25%	Economy is struggling, but external developments have improved.
UK	Jun unemployment change '000	39	42	45	Trend deterioration slowing by May outcome overstated improvement.
US	Jun CPI	0.1%	0.6%	0.5%	Gasoline prices will be a significant positive plus there is risk of reversal of many of may's downside surprises (esp to rents, food).
	Jun CPI core	0.1%	0.1%	0.2%	
	Jul NY Fed "Empire State" index	–9.4	–5.0	2.0	Forecasting first positive reading since April last year.
	Jun industrial production	–1.1%	–0.6%	–0.9%	Factory hours worked down 1.2%, but business surveys less weak.
US	Jun 24 FOMC meeting minutes	–	–	–	More detail re how improved Fed officials see market/eco conditions.
	Can	May manufacturing shipments	–0.1%	–	–
<b>Thu 16</b>					
Aus	Jul RBA Bulletin				
NZ	Q2 CPI %qtr	0.3%	0.5%	0.4%	Fuel and electricity up, food price inflation finally cools.
	Jun food prices	0.3%	–	–	Annual food price inflation to continue easing.
Jpn	May tertiary activity index	2.2%	–	–	Non-manuf hurting as discretionary spending declines.
Chn	Q2 GDP %yr	6.1%	7.8%	–	Official comments have raised bar. Mkt f/c equal to 18%saar.
US	Initial jobless claims w/e 11/7	565k	530k	585k	Downward distortions from fewer auto sector summer layoffs.
	May TIC data \$bn	11.2	–	–	Net long term TIC flows.
	Jul Philadelphia Fed index	–2.2	–5.0	–8.0	Too sharp an improvement in June, likely to be reversed somewhat.
	Jul NAHB housing market index	15	16	15	Recent upswing stalling.
<b>Fri 17</b>					
Aus	Q2 export price index %qtr	–4.6%	–16%	–18%	17.7%qtr USD commodity price fall and 14.4%qtr AUD/USD surge.
	Q2 import price index %qtr	–2.8%	–6%	–6%	Core prices –7.9% with 10.2% MTWI jump; offset from petroleum +12%.
Chn	Jun industrial value-added %yr	8.9%	9.5%	–	On a solid uptrend as investment boom creates upstream demand.
	Jun retail sales %yr	15.2%	15.2%	–	Real sales to remain elevated.
	Jun consumer prices %yr	–1.4%	–1.3%	–	Oil pricing changes to flow through partially in June update.
	Jun producer prices %yr	–7.2%	–7.4%	–	Decline will arrest as base effects catch up through Q3.
	Jun fixed investment %ytd	32.9%	34.0%	–	Real investment running close to decade highs.
Sing	Jun NODX %yr	–12.1%	–	–	IP is running a little stronger at present, implying some improvement.
Eur	May trade balance €bn sa	–0.3	–	–	Persistent deficits since early 2008.
US	Jun housing starts	17.2%	–0.8%	–10.0%	Multiples volatility will drive the headline starts fall and single family start upswing to stall. Permits gain all in multiples.
	Jun housing permits	4.0%	0.4%	1.0%	
Can	Jun CPI %yr	0.1%	–	–0.2%	CPI likely to turn negative due base effects. May core CPI was 2.0% yr.
	Jun leading index	–0.1%	–	–	Has not posted gain since Aug last year.

# Economic & financial forecasts

## Interest rate forecasts

	Latest (Jul 10)	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
Cash	3.00	3.00	3.00	3.00	3.00	3.00
90 Day Bill	3.12	3.20	3.20	3.20	3.20	3.30
3 Year Swap	4.50	4.60	4.40	4.25	4.75	5.50
10 Year Bond	5.31	5.50	5.20	5.50	5.60	5.75
10 Year Spread to US (bps)	193	210	195	175	135	125

## International

Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.38	3.50	3.25	3.75	4.25	4.75
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.00

## New Zealand

Cash	2.50	2.50	2.50	2.50	2.50	3.00
90 day bill	2.81	2.80	2.80	2.80	2.80	3.60
2 year swap	3.68	3.90	4.10	4.30	4.60	5.00
10 Year Bond	5.60	5.80	5.90	6.00	6.10	6.20
10 Year spread to US	222	240	265	225	185	170

## Exchange rate forecasts

	Latest (Jul 10)	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
AUD/USD	0.7822	0.76	0.74	0.77	0.80	0.82
NZD/USD	0.6294	0.60	0.59	0.62	0.65	0.68
USD/JPY	92.87	92	90	93	96	99
EUR/USD	1.3971	1.38	1.36	1.39	1.42	1.45
AUD/NZD	1.2428	1.27	1.25	1.24	1.23	1.21

## Australian economic growth forecasts

	2008		2009				2010		Calendar years			
	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	2007	2008	2009f	2010f	
% change												
GDP	0.2	-0.6	0.4	-0.4	-0.7	-0.2	0.4	4.0	2.3	-0.6	1.0	
ann chg	2.2	0.8	0.4	-0.4	-1.3	-1.0	-0.9	-	-	-	-	
Unemployment rate	4.2	4.5	5.3	5.7	6.6	7.3	7.7	4.4	4.3	6.2	7.9	
CPI headline	1.2	-0.3	0.1	0.7	0.4	0.6	0.6	-	-	-	-	
ann chg	5.0	3.7	2.5	1.7	0.9	1.8	2.3	3.0	3.7	1.8	2.4	
CPI core	1.2	0.7	1.1	0.7	0.7	0.6	0.5	-	-	-	-	
ann chg	4.7	4.3	4.2	3.8	3.2	3.1	2.5	3.6	4.3	3.1	2.0	

## New Zealand economic growth forecasts

	2008		2009				Calendar years					
	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f	2007	2008	2009f	2010f	
GDP % qtr	-0.2	-0.5	-1.0	-1.0	-0.4	0.2	0.1	-	-	-	-	
Annual avg change	2.5	1.6	0.2	-1.0	-2.0	-2.4	-2.1	3.2	0.2	-2.1	2.6	
Unemployment rate %	4.0	4.3	4.7	5.0	5.7	6.3	6.7	3.5	4.7	6.7	6.5	
CPI %qtr	1.6	1.5	-0.5	0.3	0.4	0.7	0.6	-	-	-	-	
Annual change	4.0	5.1	3.4	3.0	1.7	0.9	2.0	3.2	3.4	2.0	1.2	

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.