ANZ RESEARCH

AUSTRALIAN ECONOMICS

AUSTRALIAN ECONOMICS WEEKLY

15 JULY 2011

INSIDE

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MID-CYCLE SLOWDOWN IN THE NON-RESOURCES SECTORS DEEPENS

- Our *In Focus* article this week examines some of the structural changes that are occurring in the Australian economy at present, including the drivers of those changes. For the past eighteen months or so, Australian policy makers have argued that **a two-speed economy is required to keep a cap on inflationary pressures generated from the current record high terms of trade and forthcoming mining investment boom**. The RBA has repeatedly pointed out that some sectors in the non-mining economy will have to slow below trend to allow the mining sector, with its unprecedented investment plans, to grow above trend. Such structural change in an economy is never smooth. But it becomes even more complicated when it is set against a backdrop of, in Australia's current case, natural disasters (the Queensland floods) and a separate structural change in household behaviour (balance sheet repair). A continued fragile global environment in the advanced economies of the world also doesn't help. We have previously argued that the above factors would all contribute to a more volatile growth path this time around, relative to previous cycles. But even so, **the recent slowdown in the non-mining sectors of the economy now appears to be deepening by more than previously expected.**
- In light of this bigger than anticipated loss of momentum in the non-resource sectors of the economy and especially in the labour market, we expect the **RBA will not need to raise the cash rate again before early 2012**. The market is now pricing in rate cuts in 2011 (a dramatic change from a couple of weeks ago). This seems to reflect the market factoring the possibility of large cuts in interest rates should European and US sovereign debt concerns become disorderly. Barring such an eventuality, we continue to give the benefit of the doubt to a slow further tightening cycle in the medium term, but acknowledge that a further softening in domestic conditions could open up the possibility that rates could now have peaked in the current cycle. We continue to monitor the emerging slight downward trend in job advertising, which historically has provided a very reliable guide to Australian interest rate trends.

THE WEEK AHEAD

- In **Australia**, next week will be a quiet week for data. Data releases include DEWR's skilled vacancies (July) and import and export prices (Q2). On Tuesday the RBA releases the minutes from the last Board meeting (July). The Minutes will shed more light on the Board's decision to keep rates on hold again this month and on the apparent change in its outlook for the economy.
- In the **US**, the key data release will be the Philly Fed index. The market is expecting a strong bounce back from -7.7 in June to +4.5 in July. Other US data include housing starts, building permits and existing home sales. The US housing market has remained in the doldrums in 2011 thus far. Housing is an important cog in the US economy (as it is in Australia's) due to the large size of the construction industry.
- In the **Euro zone**, industrial new orders and consumer confidence will be released, but the focus for markets is more likely to be on the resolution of Greece's debts. German PPI and the ZEW survey are also key releases. In the **UK**, the BoE minutes and retail sales will be released. Market pricing for any move from the BoE has been pushed out, as it has for most other developed economies.
- In Asia, there are no major releases, with only the **Japanese** trade balance for June.
- In **New Zealand**, CPI for Q2 and the latest performance of services index will be watched closely, following the Q1 GDP release last week (which was better than expected). The market is expecting New Zealand's inflation rate to rise to 5.1% y/y.

IN FOCUS

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THE AUSTRALIAN OUTLOOK

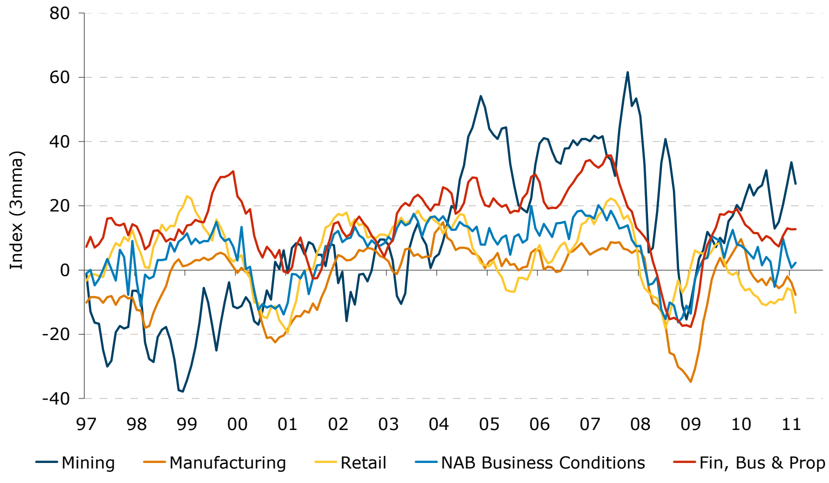
HIGH FREQUENCY DATA CONTINUES TO WEAKEN

For the past eighteen months or so, Australian policy makers have argued that a two-speed economy is required to keep a cap on inflationary pressures generated from the current record high terms of trade and forthcoming mining investment boom. The RBA has repeatedly pointed out that some sectors in the non-mining economy will have to slow below trend to allow the mining sector, with its unprecedented investment plans, to grow above trend. Such accommodation, it is argued, is the 'least cost' means by which the Australian economy can undergo the structural changes that the emergence of China (and India) demands.

Structural change in an economy is never smooth. It becomes even more complicated when it is set against a backdrop of, in Australia's current case, natural disasters (the Queensland floods) and a separate structural change in household behaviour (balance sheet repair). A continued fragile global environment in the advanced economies of the world also doesn't help. ANZ has argued that the above factors would all contribute to a more volatile growth path relative to previous cycles.

Nevertheless, the recent slowdown in the non-mining sectors of the Australian economy now appears to have been deeper than expected. This has been demonstrated by the marked slowdown in Australian employment growth over the last couple of months. And the NAB business survey this week showed that conditions in the retail industry deteriorated sharply in June to the lowest level since the collapse of Lehman Brothers in 2008 (Figure 1).

FIGURE 1: BUSINESS CONDITIONS – MAJOR INDUSTRIES



Source: NAB.

At this point, it is important to revisit our outlook for 2011-12. Is the recent slew of weaker domestic data consistent with our expectation for heightened volatility and a multi-speed economy (ie. a mid-cycle slowdown)? Or, are recent developments signs of a more troubling period ahead?

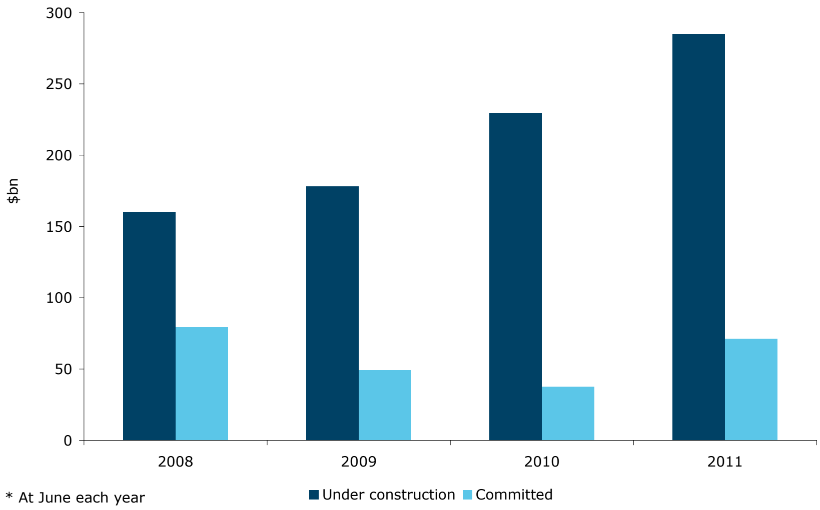
WHEN A BOOM DOESN'T LOOK OR FEEL LIKE A BOOM

For now, we maintain our forecast for weak economic growth in 2011 (GDP: +0.9%) to be followed by a rebound in growth (to 3.3%) in 2012. Both of these forecasts are below consensus (2.0% in 2011 and 4.0% in 2012) and less strong than we previously expected. This is mainly, we expect, because (a) we are less confident about the non-mining sector over 2011, and (b) we do not expect mining investment to print strongly until very late 2011 and 2012.

Key features of our outlook are:

- **A generally supportive backdrop for those parts of the global economy important to Australia.** To be sure, prospects for a genuine recovery in the US economy over 2012 are wavering and European sovereign debt issues will continue to haunt both European economic growth prospects as well as global financial markets. But for Australia's top export destination, China, our core view remains for a 'soft landing'. Our Chinese economics team remains optimistic and is looking for Chinese economic growth to average 9.5-9.6% over 2011 and 2012.
- **A minor cyclical correction in the terms of trade.** We expect the terms of trade will peak in 2011, but we look for only a modest correction in 2012. Ongoing supply constraints and further robust demand (out of China and increasingly India) will continue to keep bulk commodity prices near record highs. Another cyclical upturn in the US (via either additional policy stimulus or otherwise) may also give commodity prices a late-cycle lift. Whilst our Commodity Research team does forecast about a 20% correction in coking coal prices over 2012, iron ore prices and thermal coal prices are expected to remain near recent peaks. Given tight supply, our Commodity Research team does not see a broad-based turn in bulk commodity prices until 2014.
- **Australian growth will remain very narrowly based.** Strong mining investment remains the key driver of economic growth in 2012. Despite the re-emergence of global economic uncertainties, and now local uncertainties over the carbon tax, the Australian investment pipeline is intact, and indeed has, again, strengthened. The Deloitte Access Economics Investment Monitor for the June quarter, released this week, showed yet another increase in the value of projects, by 8.4% over the last quarter, to $831.7bn (62% of annual GDP!). **The value of 'definite' projects (those classed as under construction or committed to commence soon), jumped by 24% in the last quarter to $357.4bn (27% of annual GDP).** Two major LNG projects in Queensland and Western Australia have driven most of this quarterly rise. Deloitte Access Economics data shows that 65% of investment plans are in infrastructure and resources projects.

FIGURE 2: VALUE OF INVESTMENT PROJECTS UNDER CONSTRUCTION AND COMMITTED

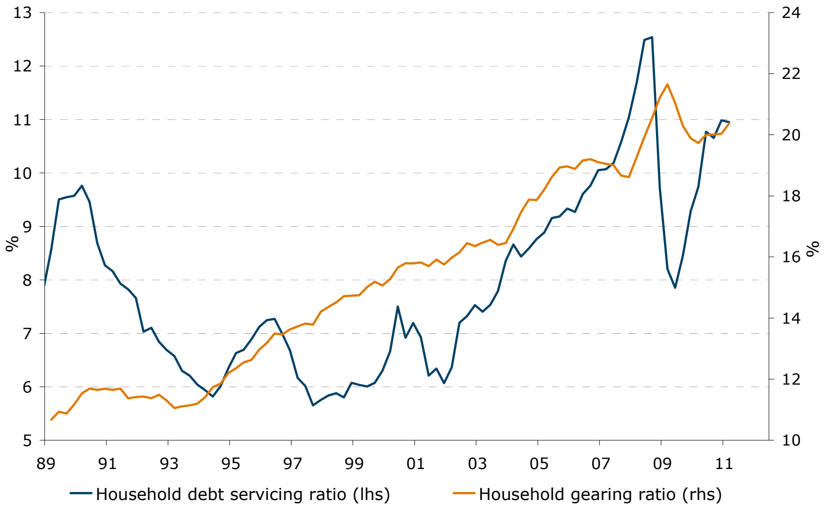


Source: Deloitte Access Economics.

IN FOCUS

- **Households will remain cautious, constrained and absent.** The recent sharp slowdown in the retail sector reflects a multitude of factors, including a more rapid pace of household balance sheet repair, relatively tight financial conditions (with the debt servicing ratio now back near 11% - Figure 3) and the higher A$, which has seen widely publicised leakage of some household spending offshore, either through increased offshore internet purchases or higher overseas travel. We don't expect either of these factors to reverse quickly. Indeed, we expect a further consolidation in household gearing ratios (the ratio of debt to assets), a further rise in the household savings ratio, and for the A$ to remain above parity well into 2012.

FIGURE 3: HOUSEHOLD DEBT SERVICING AND HOUSEHOLD GEARING RATIOS



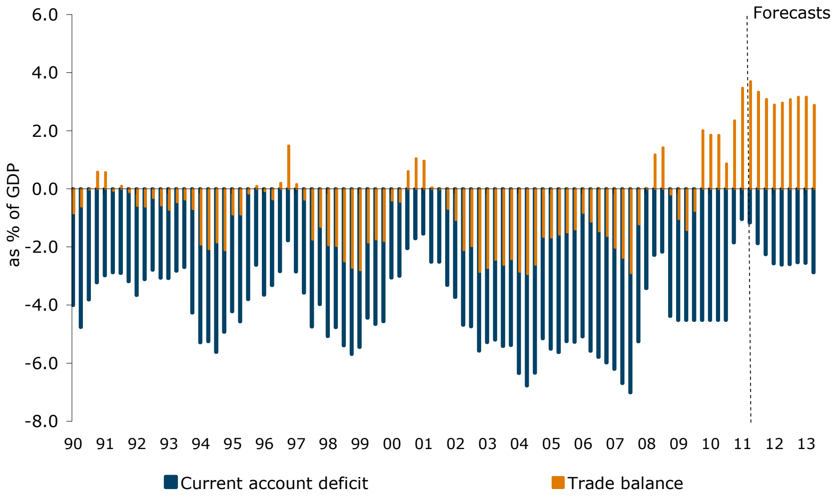
Source: ABS, ANZ

- **Narrowly-based growth will limit employment growth.** This has already become evident in the recent marked slowing in employment growth. We remain confident that the sheer scale of the mining investment pipeline will generate employment gains beyond mining (whether it be by creating demand in related industries or drawing employees out of other industries into mining). Our forecast is still for the unemployment rate to fall gradually from 4.9% to 4.5% by end 2013. That said, the extent to which these 'new' jobs emerge may not exactly match the timing of the 'lost' jobs (eg. in tourism, retailing, manufacturing). This raises the risk of not just more volatile employment growth, but a temporary rise in the unemployment rate in the short term.
- **Steadily rising inflation.** Despite a recent downgrade to our economic growth and employment forecasts, underlying inflation is still expected to reach the top of the target band by late 2012 (even excluding first and second-round impacts of the carbon tax). While softer consumer demand will limit demand-pull inflationary pressures (particularly for retail goods), higher cost-pull inflation will persist stemming from relatively solid wage growth and higher import prices (as the AUD depreciates modestly and global manufactured prices track upwards). Continued strong growth in non-interest rate sensitive components of the CPI such as education and health, as well as higher rental growth, will also be adding to inflationary pressures. The major downside risk to our forecasts remains the continued outperformance of the AUD, although the disinflationary effect of earlier exchange rate appreciation will still not provide the same offset it has over the past 12 months.
- **A current account surplus?** The record terms of trade combined with an increase in export capacity (including the recovery in coal exports following the Queensland floods) is expected to drive very large trade surpluses in Australia over 2012-13. This will see the current account deficit shrink notably, to around 2% of GDP. Indeed, given the scale of

IN FOCUS

the trade surpluses, and with household savings elevated, we believe there is a chance Australia could print a current account surplus at some stage. This would be a highly unusual situation for Australia in the midst of an investment boom, but again highlights the significant boost to national income that is flowing via our terms of trade.

FIGURE 4: AUSTRALIAN CURRENT ACCOUNT BALANCE



Source: ABS and ANZ

- **A low volatility central bank.** Our outlook provides little compelling evidence for a short-term move from the RBA. We continue to expect that the next move in interest rates will be up, although not until early 2012 with a gradual tightening cycle to unfold from there.

WHAT WOULD CHANGE OUR VIEW?

This core 2012 outlook appears relatively benign, albeit with continuing considerable divergence in economic performance by sector and indeed is little changed from the picture that we have been presenting since the start of the year. What could change our view?

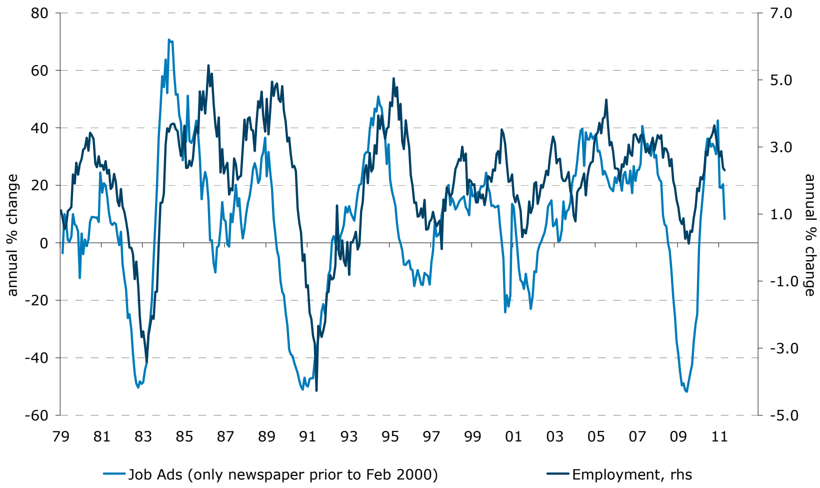
- **A global shock.** It goes without saying that this is the major risk facing Australia's current narrowly-based growth outlook. In particular, we would note that the legacy of China's fiscal stimulus – high levels of local government debt – now restricts China's ability to respond to such a shock. Unlike the GFC then, Australia may not be blessed with the sharp rebound in commodity markets that categorised the last sharp global slowdown. **Moreover, weaker government balance sheets locally means that monetary policy (and the A$) would need to do more of the heavy lifting** to support the Australian economy in the event of anything going wrong. Ultimately, this would be good news for the rates-sensitive sectors of the economy (eg. retail!), but the initial damage to the labour market and household and corporate incomes would likely to be greater this time around.

- **Failure to see a recovery in Queensland.** Flood impacts aside, Queensland may well prove Australia's bellwether economy in this cycle. With disproportionately large mining and tourism industries, it is being buffeted significantly by two of the biggest (conflicting) shocks hitting Australia: a strong investment pipeline on one hand, and the negative impact of the higher A$ and more constrained consumer on the other. As the benefits of strong mining investment start to flow, we would expect to see an improvement in the Queensland economic data flow. Failure to see this improvement over the next six months would prompt a re-assessment of our aggregate Australian view.

IN FOCUS

- **A meaningful downturn in job ads.** With the structural change occurring in the retailing sector, we cannot rely on data from this sector alone to tell us about the overall Australian economy. ANZ job ads remain one of the earliest indicators of developments in the non-mining economy. Job ads have flattened in recent months (see Figure 5 below). A further fall in the short-term would not be unexpected, given uncertainty about the global environment and the carbon tax. But a continued fall into Q4 would raise questions about how much longer the non-mining economy can continue to await the benefits of strong mining investment.

FIGURE 5: ANZ JOB ADS VS EMPLOYMENT



Source: ABS and ANZ

DATA WRAP

DATA WRAP

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- The **NAB Business Confidence Index** fell 6 points to 0 in June, recording its fourth consecutive decline. NAB business conditions improved slightly (+2 pts), but remain weak at 2. Debate over the carbon tax, the high Australian dollar and increasing international economic uncertainty appear to have weighed heavily on sentiment. Indeed, business confidence is now sitting well below its 10-year average of 6.7 points. Encouragingly, the employment index increased by 3 points to 5 and is now sitting above its 10-year average. This contrasts with a range of recent labour market indicators (e.g. ANZ job ads) so needs to be closely watched to see if this improvement is sustained. Trading conditions also strengthened, rising 3 points to 4. Meanwhile, the forward orders index fell by a further 2 points to -4. Profitability remained steady but at -1 it remains at depressed levels and some 7 points below its 10-year average.
- The **Westpac Consumer Confidence Index** again fell in July to 98.2 (last: 101.2). While the carbon tax likely added to uncertainty, it is a further sign of the soft patch currently in Australia and weakness in discretionary spending.
- The number of owner-occupier **housing finance** commitments increased 4.4% in May (1.1% higher ex-refin.) to be 4.0% higher over the year. The value of total housing finance commitments was up 2.9% in May (+0.9% ex-refinancing) to be 0.8% below year earlier levels. Within this, owner-occupier approvals were up 2.2% and investor approvals were 4.4% higher in the month.
- The **Melbourne Institute Consumer Inflation Expectations** rose marginally to 3.4% y/y in July. Wage expectations have remained reasonably steady over the last 3 months.

DATA & EVENT CALENDAR

WEEK STARTING 18 JULY

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
17-Jul	UK	Rightmove House Prices m/m	JUL	- -	- -	0.6%	23:01	09:01
		Rightmove House Prices y/y	JUL	- -	- -	1.1%	23:01	09:01
Monday	NZ	Performance Services Index	JUN	- -	- -	52.8	22:30	08:30
18-Jul		Consumer Prices q/q	Q2	0.8%	0.8%	0.8%	22:45	08:45
		Consumer Prices y/y	Q2	5.1%	5.1%	4.5%	22:45	08:45
	AU	New Motor Vehicle Sales m/m	JUN	- -	- -	-7.6%	01:30	11:30
		New Motor Vehicle Sales y/y	JUN	- -	- -	-14.5%	01:30	11:30
	JN	**Marine Day Public Holiday**						
	EU	ECB Announces Bond Purchases					13:30	23:30
		ECB Calls for Bids in 7-Day Main Refinancing Tender					13:30	23:30
	US	Net Long-term TIC Flows	MAY	- -	- -	$30.6B	13:00	23:00
		Total Net TIC Flows	MAY	- -	- -	$68.2B	13:00	23:00
		NAHB Housing Market Index	JUL	15	- -	13	14:00	00:00
	CA	Int'l Securities Transactions	MAY	- -	- -	8.220B	12:30	22:30
Tuesday	NZ	Fonterra Global Dairy Auction						
19-Jul	AU	**RBA Board Minutes (July)**					**01:30**	**11:30**
		International Merchandise Imports	JUN	- -	- -	$18.76B	01:00	11:00
	JN	Nationwide Dept. Sales y/y	JUN	- -	- -	-2.4	05:30	15:30
		Tokyo Dept. Store Sales y/y	JUN	- -	- -	-4.3	05:30	15:30
	EU	Construction Output sa m/m	MAY	- -	- -	0.7%	09:00	19:00
		Construction Output WDA y/y	MAY	- -	- -	-2.0%	09:00	19:00
		ZEW Survey (Econ. Sentiment)	JUL	- -	- -	-5.9	09:00	19:00
		ECB Announces Allotment in 7-Day Main Refinancing Tender					09:15	19:15
		ECB Announces Allotment in 7-Day Term Deposits					11:00	21:00
	GE	ZEW Survey (Current Situation)	JUL	85.3	- -	87.6	09:00	19:00
		ZEW Survey (Econ. Sentiment)	JUL	-11	- -	-9	09:00	19:00
	US	Building Permits	JUN	600K	- -	609K	12:30	22:30
		Building Permits m/m	JUN	-1.5%	- -	8.7%	12:30	22:30
		Housing Starts	JUN	575K	- -	560K	12:30	22:30
		Housing Starts m/m	JUN	2.7%	- -	- -	12:30	22:30
		Fed's Hoenig (non-voter) Speaks on Monetary Policy and Agriculture					**23:30**	**09:30**
	CA	Leading Indicators m/m	JUN	- -	- -	1.0%	12:30	22:30
		Bank of Canada Rate Decision	Jul-19	1.0%	- -	1.0%	13:00	23:00
		Bank of Canada Interest Rate Announcement					**13:00**	**23:00**
Wednesday	AU	Westpac Leading Index m/m	MAY	- -	- -	0.2%	00:30	10:30
20-Jul		DEWR Skilled Vacancies m/m	JUL	- -	- -	-2.0%	01:00	11:00
		Building Activity (ABS)	MAR	- -	- -	- -	01:00	11:00
		AOFM Auctions A$700m of April 2020 Bonds						
	JN	**BOJ Deputy Governor Yamaguchi speaks in Matsumoto City**					**01:30**	**11:30**
		Coincident Index CI	MAY F	- -	- -	106	05:00	15:00
		Leading Index CI	MAY F	- -	- -	99.8	05:00	15:00
		Convenience Store Sales y/y	JUN	- -	- -	5.7%	07:00	17:00
	CH	Conference Board China July Leading Economic Index					02:00	12:00
	EU	Euro-Zone Consumer Confidence	JUL A	-10.5	- -	-9.8	14:00	00:00
	GE	Producer Prices m/m	JUN	0.0%	- -	0.0%	06:00	16:00
		Producer Prices y/y	JUN	5.5%	- -	6.1%	06:00	16:00
	UK	**Bank of England Minutes**					**08:30**	**18:30**
		Nationwide Consumer Confidence	JUN	50	- -	55	23:01	09:01
	US	MBA Mortgage Applications	Jul-15	- -	- -	-5.1%	11:00	21:00
		Existing Home Sales	JUN	4.94M	- -	4.81M	14:00	00:00
		Existing Home Sales m/m	JUN	2.6%	- -	-3.8%	14:00	00:00
		Fed's Sack (non-voter) Speaks to Money Marketeers in New York					**22:15**	**08:15**
	CA	Wholesale Sales m/m	MAY	- -	- -	-0.1%	12:30	22:30
		Bank of Canada Publishes its Monetary Policy Report					**14:30**	**00:30**

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Thursday	NZ	Net Migration sa	JUN	- -	-200	-360	22:45	08:45
21-Jul		Credit Card Spending y/y	JUN	- -	4.7%	5.1%	03:00	13:00
		Credit Card Spending sa m/m	JUN	- -	0.9%	0.6%	03:00	13:00
	AU	NAB Business Confidence	2Q	- -	- -	11	01:30	11:30
		RBA Foreign Exchange Transaction	JUN	- -	- -	601M	01:30	11:30
	JN	Adjusted Merchnds Trade Bal.	JUN	-¥282.2B	- -	-¥474.6B	23:50	09:50
		Merchnds Trade Balance Total	JUN	-¥175.3B	- -	-¥855.8B	23:50	09:50
		Merchnds Trade Exports y/y	JUN	-4.7	- -	-10.3	23:50	09:50
		Merchnds Trade Imports y/y	JUN	11.1	- -	12.3	23:50	09:50
		All Industry Activity Index m/m	MAY	1.7%	- -	1.5%	04:30	14:30
	CH	HSBC Flash China Manufacturing PMI	JUL	- -	- -	50.1	02:30	12:30
	EU	ECB Euro-Zone Current Account sa	MAY	- -	- -	-5.1B	08:00	18:00
		Euro-Zone Current Account nsa	MAY	- -	- -	-6.5B	08:00	18:00
		PMI Composite	JUL A	- -	- -	53.3	08:00	18:00
		PMI Manufacturing	JUL A	51.5	- -	52	08:00	18:00
		PMI Services	JUL A	53.3	- -	53.7	08:00	18:00
		Bank of Portugal Releases Monthly Statistical Report					**10:00**	**20:00**
	GE	PMI Manufacturing	JUL A	54	- -	54.6	07:30	17:30
		PMI Services	JUL A	56.1	- -	56.7	07:30	17:30
	UK	PSNB ex Interventions	JUN	12.8B	- -	17.4B	08:30	18:30
		Public Finances (PSNCR)	JUN	- -	- -	11.1B	08:30	18:30
		Public Sector Net Borrowing	JUN	- -	- -	15.2B	08:30	18:30
		Retail Sales Ex Auto Fuel m/m	JUN	0.7%	- -	-1.6%	08:30	18:30
		Retail Sales Ex Auto Fuel y/y	JUN	-0.1%	- -	0.0%	08:30	18:30
		Retail Sales w/Auto Fuel m/m	JUN	0.5%	- -	-1.4%	08:30	18:30
		Retail Sales w/Auto Fuel y/y	JUN	0.3%	- -	0.2%	08:30	18:30
	US	**Treasury Auctions 10-Year Tips**						
		Continuing Claims	Jul-09	- -	- -	3727K	12:30	22:30
		Fed's Evans (voter) Speaks to Reporters in Chicago					**12:30**	**22:30**
		Initial Jobless Claims	Jul-16	405K	- -	405K	12:30	22:30
		Fed's Bernanke (voter) Testifies on Dodd-Frank Anniversary					**14:00**	**00:00**
		House Price Index m/m	MAY	- -	- -	0.8%	14:00	00:00
		Leading Indicators	JUN	0.2%	- -	0.8%	14:00	00:00
		Philadelphia Fed.	JUL	4.5	- -	-7.7	14:00	00:00
Friday	AU	Export price index q/q	Q2	5.0%	7.4%	5.2%	01:30	11:30
22-Jul		Import price index q/q	Q2	-1.1%	1.3%	1.4%	01:30	11:30
		AOFM Auctions A$700m of June 2016 Bonds						
	JN	Supermarket Sales y/y	JUN	- -	- -	-1.4%	05:00	15:00
	EU	Industrial New Ordersnsa y/y	MAY	10.3%	- -	9.0%	09:00	19:00
		Industrial New Orders sa m/m	MAY	1.0%	- -	0.8%	09:00	19:00
	GE	IFO - Business Climate	JUL	113.6	- -	114.5	08:00	18:00
		IFO - Current Assessment	JUL	122.2	- -	123.3	08:00	18:00
		IFO - Expectations	JUL	105	- -	106.3	08:00	18:00
	CA	Bank Canada CPI Core m/m	JUN	-0.1%	- -	0.5%	11:00	21:00
		Bank Canada CPI Core y/y	JUN	1.8%	- -	1.8%	11:00	21:00
		Consumer Price Index	JUN	- -	- -	120.6	11:00	21:00
		Consumer Price Index m/m	JUN	-0.2%	- -	0.7%	11:00	21:00
		Consumer Price Index y/y	JUN	3.6%	- -	3.7%	11:00	21:00
		Retail Sales Less Autos m/m	MAY	- -	- -	0.0%	12:30	22:30
		Retail Sales m/m	MAY	- -	- -	0.3%	12:30	22:30

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
18 JULY NZ: CPI (Q2), Performance of Services Index (Jul) JP: **Marine Day Holiday** US: NAHB Housing Market Index (Jul), TIC Flows (May)	19 JULY AU: **RBA Board Minutes** EU: Construction Output (May), ZEW Survey (Jul) GE: ZEW Survey (Jul) US: Housing Starts (Jun), Building Permits (Jun), **Fed's Hoenig Speaks** CA: **BoC rates decision**	20 JULY AU: Westpac leading Index (May) EU: Consumer Confidence (Jul A) GE: PPI (Jun) UK: **BoE Minutes** US: Existing Home Sales (Jun) CA: Wholesale Sales (May), **Monetary Policy Report**	21 JULY NZ: Net migration (Jun), Credit Card Spending (Jun) CH: HSBC Flash PMI (Jul) JP: Trade (Jun) EU: Current Account (May), PMI (Jul A) GE: PM Manufacturing & Services (Jul A) UK : Retail Sales (Jun) US: **Fed's Evans speaks**, Leading Indicators (Jun), Philly Fed Index (Jul)	22 JULY AU: Trade price index (Q2) EU: Industrial New Orders (May) GE: IFO (Jul) CA: CPI (Jun), Retail Sales (May)
25 JULY AU: PPI (Q2), **RBA's Edey speaks** US: Chicago Fed Activity Index (Jun), Dallas Fed Manufacturing Index (Jul)	26 JULY NZ: Trade (Jun) AU: **RBA's Glenn Stevens Speaks** GE: GfK Consumer Confidence (Aug) UK: GDP (Q2 A) US: Case Shiller House Prices (May), Consumer Confidence (Jul), Richmond Fed (Jul), New Home Sales (Jun)	27 JULY NZ: Business Confidence (Jul) AU: CPI (Q2) GE: CPI (Jul P) US: **Fed's Beige Book**, Durable Goods Orders (Jun), Capital Goods Orders (Jun)	28 JULY NZ: **RBNZ Cash Rate decision** JP: Retail Sales (Jun) EU: Consumer Confidence (Jul F), Economics, Indust., & Services Confidence (Jul) GE: Unemployment Rate (Jul) UK: Gfk Consumer Confidence Survey (Jul), Net Consumer Credit (Jun), Mortgage Approvals (Jun) US: Pending Home Sales (Jun) **Fed's Williams Speaks**	29 JULY NZ: Building Permits (Jun) AU: RP Rismark House Prices (Jun), Private Sector Credit (Jun) JP: Manufacturing PMI (Jul), Jobless Rate (Jun), CPI (Jun), IP (Jun P), Vehicle Production (Jun), Housing Starts (Jun), EU: CPI estimate (Jul) UK: Mortgage Approvals (Jun) US: WCI (Q2), GDP (Q2 A), Core PCE Q@ A) **Fed's Bullard and Lockhart Speak** CA: GDP (May)
1 AUGUST CH: PMI Manufacturing (Jul), EU: PMI Manufacturing (Jul F), Unemployment (Jun) GE: PMI Manufacturing (Jul F) UK: PMI Manufacturing (Jul) US: ISM Manufacturing (Jul), Construction Spending (Jun)	2 AUGUST NZ: Private Wages (Q2) AU: Trade (Q2), Building Approvals (Jun), House Price Index (Q2), **RBA Cash Rate** EU: Eurozone PPI (Jun) GE : Retail Sales (Jun) UK: PMI Construction (Jul) US: Personal Income and Spending (Jun), PCE Core Deflator (Jun)	3 AUGUST AU: Retail Sales (Jun), Trade (Jun) CH: Non-manufacturing PMI (Jul) EU: PMI Services and Composite (Jul F), Retail Sales (Jun) GE: PMI Services (Jul F) UK: PMI Services (Jul) US: ADP Employment (Jul), ISM non-manufacturing (Jul), Factory orders (Jun), Challenger Job Cuts (Jul)	4 AUGUST NZ: Employment (Q2) EU: **ECB Announces Rates, Trichet Speaks** GE: Factory Orders (Jun), Import Price Index (Jun) UK: **BoE Announces Rates** US: ICSC chain store sales (Jul),	5 AUGUST AU: **RBA's SoMP** JP: **BoJ Target Rate** GE: Industrial Production (Jun) UK: PPI (Jul) US: Payrolls (Jul), Unemployment (Jul) Consumer Credit (Jun) CA: Employment (Jul), Building Permits (Jun), Ivey PMI (Jul)
8 AUGUST AU: TD Securities Inflation (Jul), ANZ Job Ads (Jul) JP: Eco Watchers Survey (Jul), CA (Jun), Trade (Jun) EU: Sentix Investor Confidence (Aug) UK: RICS House Prices (Jul)	9 AUGUST NZ: Card Spending (Jul) AU: NAB Business Confidence (Jul), Housing Finance (Jun) JP: Consumer Confidence (Jul) GE: Trade (Jun), CA (Jun) UK: IP (Jun), Trade (Jun), Manufacturing Production (Jun), NIESR GDP (Jul) US: NFIB Small Business Optimism (Jul), Unit Labour Costs (Q2 P), **FOMC Rates Decision** CA: Housing Starts (Jul)	10 AUGUST AU: Consumer Confidence (Aug), Real Retail Sales (Q2) JP: Domestic CGPI (Jul) CH: Trade (Jul) GE: CPI UK: **BoE inflation report** US: JOLTS Job Openings (Jun), Momthly Budget Statement (Jul)	11 AUGUST NZ: Business NZ PMI (Jul) AU: Employment (Jul) JP: Machine Tool Orders (Jun) CH: PPI (Jul), CPI (Jul), Retail Sales (Jul), IP (Jul) EU: **ECB Publishes Monthly Report** US: Trade (Jun) CA: New House Price Index (Jun), Merchandise Trade (Jun)	12 AUGUST NZ: Real Retail Sales (Q2) JP: IP (Jun F) EU: IP (Jun) US: Retail Sales (Jul), Uni. Of Michigan Confidence (Aug P), Business Inventories (Jun)
15 AUGUST NZ: Performance of Services Index (Jul) AU: Motor Sales (Jul) JP: GDP (Q2 P) US: Empire Manufacturing (Aug), TIC Flows (Jun), NAHB Housing Market Index (Aug)	16 AUGUST AU: **RBA Minutes** EU: GDP (Q2 A), Trade (Jun) GE: GDP (Q2 P) UK: CPI (Jul) US: Import Prices (Jul), Housing Starts (Jul), Building Permits (Jul), IP (Jul) CA: Manufacturing Sales (Jun)	17 AUGUST NZ: PPI (Q2) AU: WPI (Q2) EU: Current Account (Jun), CPI (Jul) UK: **BoE Minutes** (Jul), Unemployment (Jun), Jobless Claims Change (Jul) US: PPI (Jul)	18 AUGUST AU: AWOTE (May) JP: Trade (Jul) EU: Construction Output (Jun) UK: Retail Sales (Jul) US: CPI (Jul), Philly Fed (Aug), Existing Home Sales (Jul) CA: Wholesale Sales (Jun)	19 AUGUST NZ: Net Migration (Jul), Credit Card Spending (Jul) GE: PPI (Jul) CA: CPI (Jul)

CENTRAL BANK RELEASES FOR 2011

JANUARY	FEBRUARY	MARCH	APRIL
5th – FOMC Minutes 13th – BoE 13th - ECB 25th – BoJ 26th – FOMC 26th – BoE Minutes 27th - RBNZ 28th – BoJ Minutes	1st – RBA 3rd – ECB 4th – RBA MP Statement 10th - BoE 15th – RBA Minutes 15th – BoJ 22nd – BoJ Minutes 23rd – BoE Minutes	1st - RBA 1st – BoC 3rd – ECB 10th – RBNZ 10th – RBNZ MP Statement 10th - BoE 15th – BoJ 15th – RBA Mintues 15th – FOMC 17th – SNB 18th – BoJ Minutes 23rd – BoE Minutes	5th – RBA 7th – BoJ 7th – BoE 7th – ECB 12th – BoJ Minutes 12th – BoC 19th – RBA Minutes 20th – BoE Minutes 27th – FOMC 28th – RBNZ 28th – BoJ
MAY	**JUNE**	**JULY**	**AUGUST**
3rd – RBA 6th – RBA MP Statement 5th – BoE 5th – ECB 9th – BoJ Minutes 17th – RBA Minutes 18th – BoE Minutes 20th – BoJ 25th – BoJ Minutes 31st – BoC	7th – RBA 9th – RBNZ 9th - RBNZ MP Statement 9th – BoE 9th - ECB 14th – BoJ 16th – SNB 17th – BoJ Minutes 21st – RBA Minutes 22nd– BoE Minutes 22nd - FOMC	5th – RBA 7th – ECB 7th – BoE 12th – BoJ 13th – FOMC Minutes 15th – BoJ Minutes 19th – RBA Minutes 19th – BoC 20th – BoE Minutes 28th - RBNZ	2nd – RBA 4th – ECB 4th – BoE 5th – BoJ 9th – FOMC 10th – BoJ Minutes 16th – RBA Minutes 17th – BoE Minutes 30th – FOMC Minutes
SEPTEMBER	**OCTOBER**	**NOVEMBER**	**DECEMBER**
6th – RBA 7th – BoJ 7th – BoC 8th – ECB 8th – BoE 12th – BoJ Minutes 15th - RBNZ 28th - RBNZ MP Statement 15th – SNB 20th – RBA Minutes 20th – FOMC 21st – BoE Minutes	4th – RBA 6th – ECB 6th – BoE 7th – BoJ 11th – FOMC Minutes 13th – BoJ Minutes 18th – RBA Minutes 19th – BoE Minutes 25th – BoC 27th - RBNZ 27th – BoJ	1st – RBA 1st – BoJ Minutes 2nd – FOMC 3rd – ECB 10th – BoE 16th – BoJ 18th – RBA Minutes 21st – BoJ Minutes 22nd – FOMC Minutes 23rd – BoE Minutes	6th – RBA 6th – BoC 8th - RBNZ 8th - RBNZ MP Statement 8th – ECB 8th – BoE 13th – FOMC 15th – SNB 20th – RBA Minutes 21st – BoJ 21st – BoE Minutes 27th – BoJ Minutes

***Notes:** Entries are the dates of central bank interest rate announcements for 2011, unless specified as minutes or otherwise.
Dates are indicative only and are subject to change by central bank authorities.
Key: BoC: Bank of Canada, BoJ: Bank of Japan, BoE: Bank of England, ECB: European Central Bank, FOMC: Federal Open Market Committee, RBA: Reserve Bank of Australia, RBNZ: Reserve Bank of New Zealand, SNB: Swiss National Bank.
Source: Central bank websites.

FORECASTS

AUSTRALIAN ECONOMIC INDICATORS		2010	2011F	2012F	2013F
Economic activity (annual % change)					
Private final demand		2.0	3.7	4.5	6.1
Household consumption		2.8	2.5	2.4	2.7
Dwelling investment		4.0	3.4	-1.9	7.6
Business investment		-0.7	9.3	14.0	15.9
Public demand		9.0	3.3	3.2	2.0
Domestic final demand		3.6	3.6	4.2	5.1
Inventories (contribution to GDP)		0.4	-0.2	0.0	0.0
Gross National Expenditure (GNE)		4.1	3.4	4.2	5.1
Exports		5.3	-0.4	13.2	10.6
Imports		13.3	11.6	15.7	9.7
Net Exports (contribution to GDP)		-1.6	-2.8	-1.0	-0.1
Gross Domestic Product (GDP)		**2.7**	**0.9**	**3.3**	**4.2**
Prices and wages (annual % change)					
Inflation:	Headline CPI	2.8	3.3	3.1	3.7
	Underlying*	2.6	2.5	3.2	3.5
Wages		3.3	3.8	4.1	4.3
Labour market					
Employment (annual % change)		2.7	2.1	2.0	2.2
Unemployment rate (annual average %)		5.2	4.9	4.8	4.5
External sector					
Terms of trade (annual % change)		16.6	18.6	2.9	-2.0
Current account balance:	A$bn	-34.6	-25.3	-36.2	-43.9
	% of GDP	-2.6	-1.8	-2.3	-2.6

* Average of RBA weighted median and trimmed mean statistical measure

AUSTRALIAN INTEREST RATES *	CURRENT	SEP 11F	DEC 11F	MAR 12F	JUN 12F	SEP 12F
RBA cash rate *	**4.75**	**4.75**	**4.75**	**5.00**	**5.00**	**5.25**
90 day bill	5.00	4.95	4.95	5.20	5.20	5.45
3 year bond	4.41	5.00	5.30	5.65	5.75	6.05
10 year bond	4.95	5.40	5.70	5.90	6.00	6.20
3s10s yield curve	0.54	0.40	0.40	0.25	0.25	0.15
3 year swap	4.85	5.35	5.65	6.03	6.13	6.45
10 year swap	5.59	5.98	6.28	6.45	6.55	6.75

INTERNATIONAL INTEREST RATES	CURRENT	SEP 11F	DEC 11F	MAR 12F	JUN 12F	SEP 12F
RBNZ cash rate	2.50	2.50	2.75	3.25	3.50	3.75
NZ 90 day bill	2.64	2.69	3.14	3.67	3.75	4.17
US Fed funds note	0.25	0.25	0.25	0.75	1.50	2.00
US 2 year note	0.37	0.60	1.00	1.30	1.80	2.30
US 10 year note	2.97	3.30	3.60	3.80	4.10	4.30
Japan call rate	0.10	0.10	0.10	0.10	0.10	0.10
ECB refinance rate	1.50	1.50	1.50	1.50	1.75	2.00
UK repo rate	0.50	0.50	0.50	0.75	1.00	1.25

FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	SEP 11F	DEC 11F	MAR 12F	JUN 12F	SEP 12F
Australian exchange rates						
A$/US$	1.07	1.08	1.08	1.06	1.03	1.01
NZ$/US$	0.84	0.80	0.81	0.79	0.77	0.75
A$/¥	85.0	91.8	94.0	94.3	93.7	93.9
A$/€	0.76	0.79	0.80	0.80	0.76	0.74
A$/£	0.66	0.68	0.69	0.68	0.66	0.64
A$/NZ$	1.27	1.35	1.33	1.34	1.34	1.35
A$/C$	1.03	1.03	1.04	1.04	1.02	1.02
A$/CHF	0.87	0.97	0.99	1.00	0.99	0.99
A$/CNY	6.94	6.89	6.80	6.59	6.32	6.13
A$ Trade weighted index	77.4	80.2	80.8	79.3	76.8	75.1
International cross rates						
US$/¥	79.2	85.0	87.0	89.0	91.0	93.0
€/US$	1.42	1.37	1.35	1.33	1.35	1.37
€/¥	112	116	117	118	123	127
£/US$	1.62	1.59	1.56	1.55	1.57	1.58
€/£	0.88	0.86	0.87	0.86	0.86	0.87
US$/C$	0.96	0.95	0.96	0.98	0.99	1.01
US$/CHF	0.81	0.90	0.92	0.94	0.96	0.98
US$ index	75.1	77.4	78.6	80.4	80.1	80.5
Asia exchange rates						
US$/CNY	6.46	6.38	6.30	6.22	6.14	6.07
US$/HKD	7.79	7.78	7.80	7.80	7.80	7.80
US$/IDR	8539	8704	8704	8573	8445	8318
US$/INR	44.5	46.0	46.6	45.9	45.2	44.6
US$/KRW	1057	1118	1137	1120	1103	1087
US$/MYR	3.00	3.08	3.10	3.07	3.04	3.02
US$/PHP	42.9	44.4	44.9	44.5	44.1	43.7
US$/SGD	1.22	1.25	1.26	1.25	1.24	1.23
US$/THB	30.10	31.10	31.40	31.20	31.10	30.90
US$/TWD	28.87	29.40	29.70	29.40	29.10	28.90
US$/VND	20573	20800	20800	21400	21400	21400
Pacific exchange rates						
PGK/US$	0.441	0.385	0.378	0.372	0.366	0.366
FJD/US$	0.572	0.548	0.538	0.530	0.522	0.522

IMPORTANT NOTICE

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