ECONOMICS & MARKETS RESEARCH
ANZ AUSTRALIAN ECONOMICS TOOLBOX

28 MAY 2010

INSIDE

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AUSTRALIAN GROWTH MOMENTUM FORECAST TO SLOW IN Q1 2010

- This week in Australia saw the release of softer than expected partial indicators of activity in the lead up to next week's Q1 GDP result. Construction work done rose by 1.9% in the March quarter on the back of a 0.4% decline in engineering work done and a soft 0.9% increase in residential work done. Weakness in these components was offset by strong non-residential building work, rising 8.6%. The public sector was also a major driver of the aggregate rise in construction work done, and helped to offset falls in private sector work. Meanwhile, new private capital expenditure data also disappointed, declining 0.2% to print far below market expectations of a 2.5% rise. Combined with softness in retail sales in the quarter, this week's numbers suggest that GDP grew by 0.4% in Q1, with annual growth in activity set to ease to 2.3%.

- Over the past two decades the Australian household gearing ratio (i.e., mortgage debt to housing assets) has risen sharply. A recent paper from Luci Ellis of the RBA highlights that this largely reflects an increase in the number of older persons borrowing, particularly those aged over 55. This trend is likely to continue owing to Australia's ageing population. This trend shouldn't be seen as worrisome as this age group is well placed to meet its future debt obligations — not only is this age cohort the wealthiest they also have superior discretionary purchasing power as they have fewer dependants.

THE WEEK AHEAD

- It will be a very busy week for **Australian dataflow.** The market's main focus will be Tuesday's RBA interest rate announcement and the release on Wednesday of Q1 GDP. We will see the release of some partial indicators in the lead up to the GDP result including the current account balance, company profits and inventories, and government spending. In addition, we'll also receive retail sales, international trade, building approvals and private sector credit data for April.
- In the **US**, market will be closed on Monday for Memorial Day. The main data events next week will be the release of the ISM manufacturing survey on Tuesday, and non-farm payrolls numbers and the unemployment rate on Friday. Also due out are construction spending, pending home sales and factory orders figures, as well as an array of Fed speeches.
- The **European** dataflow will speed up next week. In the **Euro zone**, there is a raft of data including the second estimate of Q1 GDP, flash CPI, producer prices, PMI surveys, consumer confidence, the unemployment rate and retail sales. Another quiet week in **Germany**, the market will focus on the PMI manufacturing and services surveys, retail sales and the unemployment rate for May. Next week, **UK** markets will be closed on Monday for the Spring Bank holiday. Key economic releases include GFK consumer confidence survey, mortgage approvals, Nationwide house prices and the PMI surveys of manufacturing, services and construction.
- It will be a slower week for **Japanese** data. Markets will monitor industrial production and the PMI on Monday, vehicle sales on Tuesday and capital spending on Wednesday. Another very quiet week for **Chinese** data, with the only releases being the official and HSBC PMI manufacturing surveys for May..

IN FOCUS

WALK, THEN RUN

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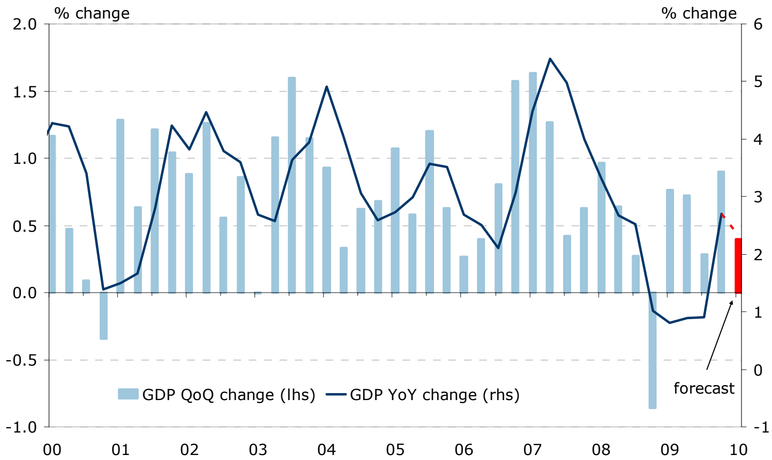
Next week is one of the busiest for Australian economic data. A host of partial indicators will be released in the lead up to GDP – the Balance of Payments, Company Profits and Inventories and Government expenditure – culminating with Q1 GDP itself on Wednesday. We'll also receive retail sales, international trade and private sector credit data for April. In between this data rush, the RBA will be meeting with markets keenly waiting to see the Central Bank's concerns (or lack thereof) over recent financial market dislocation.

The dataflow is expected to show the Australian economy had a sound but unspectacular start to the year. This easing in momentum is unsurprising, with the impact of last year's fiscal stimulus beginning to fade and higher interest rates starting to impede household demand. At this stage, we expect the economy grew by around 0.4% in Q1 with yearly growth expected to ease slightly to 2.3%.

FIGURE 1: GDP GROWTH SET TO SLOW IN Q1

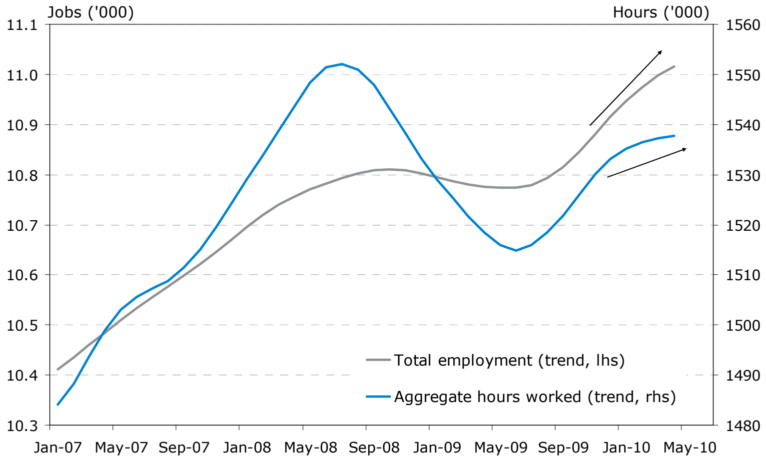


Source: ANZ and ABS.

Growth across the expenditure side of the national accounts is expected to be solid, but narrowly based. Strong public investment, an inventory rebuild and an acceleration in exports are likely to drive activity. The biggest components of private demand – consumer spending, dwelling investment and private business expected – all appear to have had a subdued start to the year.

Barring any major upside surprises in Monday's corporate profits data, the income side of Q1 GDP is likely to be a little softer than the expenditure side. Largely this is due to labour income. For while employment has been strong and wages growth relatively high, average hours worked has remained relatively stable.

FIGURE 2: RECOVERY IN HOURS WORKED HAS LAGGED JOBS GROWTH



Source: ANZ and ABS.

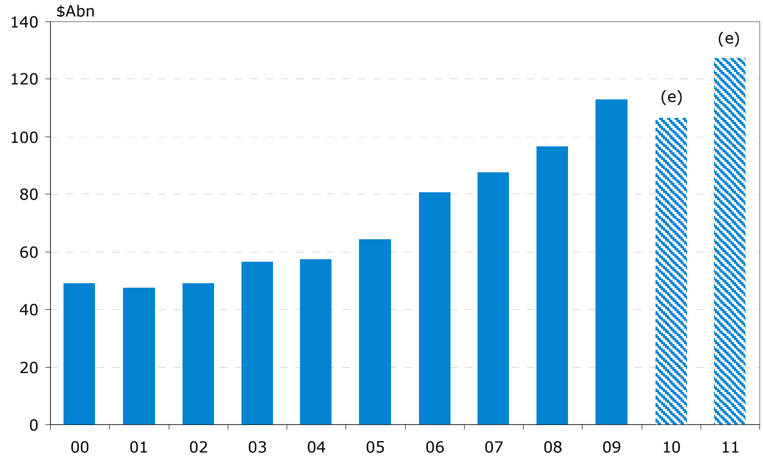
IN FOCUS

The absence of a pick up in hours worked will weigh on growth in Q1. But it also suggests that firms are positioning for an upturn and that, by having this extra labour on hand, can 'turn on the tap' and accelerate output growth quickly if required in the year ahead. That said, this 'extra pool' of labour (in terms of latent hours) may also impede new employment growth in the coming months, limiting further falls in the unemployment rate for now.

Indeed, the performance of average hours encapsulates the short-term downside risks and the larger upside potential of the Australia economy. In the same way that firms are accumulating workers they also appear to be accumulating inventories (with a pick up in capital goods imports in Q1 not appearing to have been passed through to final business investment in the quarter). This is typical behaviour in the early stages of a business investment boom.

And the surveys do strongly indicate this investment boom is coming. This week's Capital Expenditure (Capex) data showed a small downgrade to investment intentions in 2009-10 but a further upgrade to already strong investment intentions for 2010-11. This is led by mining with the Capex survey implying a rise in investment in this sector of over 40% next fiscal year. While the proposed Resource Super Profits Tax (RSPT) may be creating uncertainty over some projects, we feel it is unlikely to completely derail the expected 2010-11 investment boom, given most projects for that year should already be locked in. The Capex survey also suggested a very solid rise in investment in the manufacturing sector next year, while the outlook for remaining sectors is flat.

FIGURE 3: PRIVATE SECTOR CAPEX EXPECTED TO REACH NEW HIGHS



Source: ANZ and ABS.

This expected investment boom is forecast to drive Australian economic growth to above-trend rates in 2010-11. But in the short-term, it does appear that we are set for a mid-cycle pause. Unsurprising, given the speed at which the RBA has returned interest rates to 'average levels' and the renewed volatility sweeping global financial markets. This is likely to be highlighted in next week's April data, with both retail sales and building approvals likely to print relatively soft.

In this environment we expect the RBA to stay firmly on hold, not just next Tuesday but for the next couple of months at least. While the Bank will be watching offshore events carefully, we suspect they will remain confident of Australia's longer-term growth outlook. So, like the economy, we expect the RBA will pause for now, but that its trajectory is firmly on the up.

IN FOCUS

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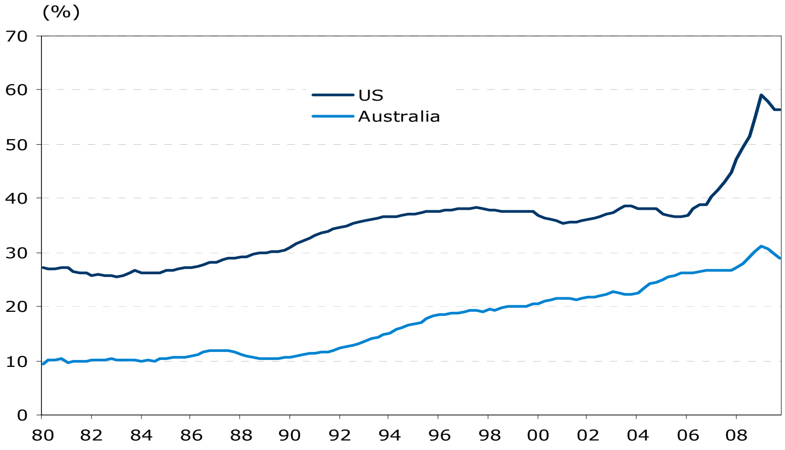
AGEING AND ITS IMPACT ON THE AUSTRALIAN RESIDENTIAL PROPERTY MARKET

On the same day (18 May 2010) Ken Henry provided his annual debrief on the Commonwealth Budget to the Australian Business Economists, Luci Ellis from the RBA presented a paper "*Recent developments in the housing market and its financing*" to the Financial Review Residential Property Conference. The latter didn't get nearly as much media attention. This is a shame as the paper highlighted a couple of important structural changes occurring in the Australian residential property market. These are reasonably significant in the context of the national housing market and the overall financial stability of the Australian economy. Both of which are particularly pertinent in the post-GFC world.

Most are aware that at the aggregate level, there has been a sizable pick-up in the Australian household gearing ratio (defined as household debt/total assets) over the past twenty years. This is largely owing to a rise in mortgage debt relative to housing assets. In relation to the latter, there has been an increase of almost 50% over the past decade, from 20% in 2000 to around 30% by end of 2009 (see Figure 4).

FIGURE 4: LEVERAGE ON THE HOUSING STOCK (MORTGAGE DEBT AS % OF HOUSING ASSETS)



Source: ANZ, RBA, and US Federal Reserve

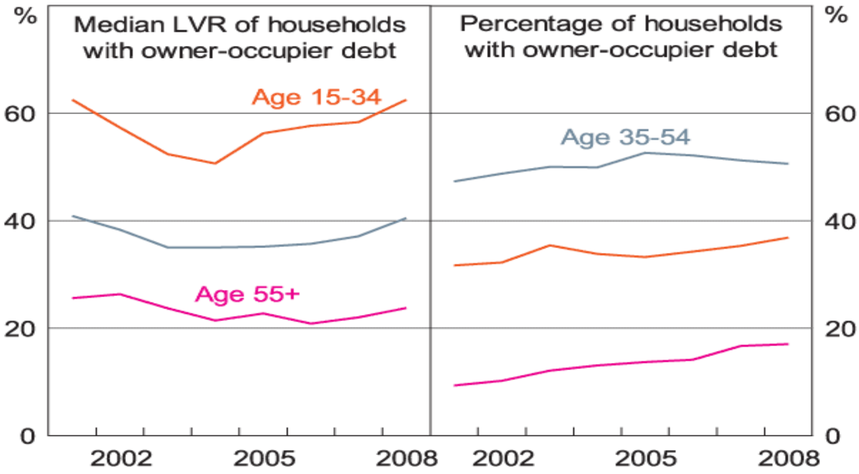
At face value this increase may seem a tad alarming, particularly if the trend continues. However, at the macro level, the Australian household gearing ratio appears relatively conservative when compared to other countries. Moreover, if we look at the factors driving this trend, there doesn't seem much to be worried about.

At the disaggregated level (using HILDA data), Luci Ellis shows that the loan-to-valuation ratio (LVR), or the gearing ratio, for various age cohorts hasn't changed much over the past decade (see Figure 5). This begs the question as to why the aggregate gearing ratio has increased. The data show that it's because a greater share of persons over the age of 55 are now holding a mortgage. That is, the increase in the aggregate ratio is simply because more people are borrowing (particularly those over the age of 55). It is not because individuals are borrowing more.

So why are more people over 55 holding a mortgage, and is this problematic? The answer to the first part seems partly owing to Australia's ageing population. We broke down Australia's population into five different age cohorts and looked at how this distribution changed over the past decade (see Figure 6). Over this time the 55-64 age bracket grew rapidly (its share rose 3 percentage points to 16.5 per cent), while other groups held their ground or went backwards. This development likely reflects the baby boomers reaching maturity. With such rapid growth some change in the characteristics of this cohort is to be expected. Indeed, one might expect some of the traits of the younger cohort flowing into this age group. Figure 5 shows that a high proportion of the cohort below the 55-64 bracket holds a mortgage. Thus, it should be no surprise that the proportion of 55-64 holding a mortgage is on the rise. Furthermore, this trend is likely to continue with further ageing.

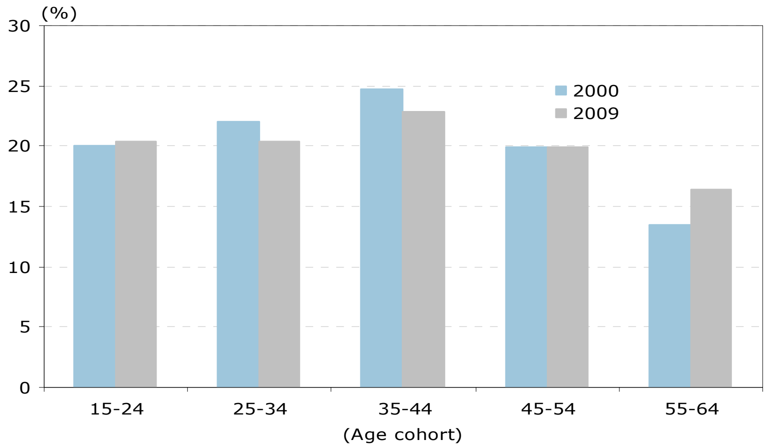
IN FOCUS

FIGURE 5: MORTGAGE DEBT (INCIDENCE AND LVR BY AGE GROUP)



Source: HILDA Release 8.0

FIGURE 6: DISTRIBUTION OF POPULATION BY AGE COHORT



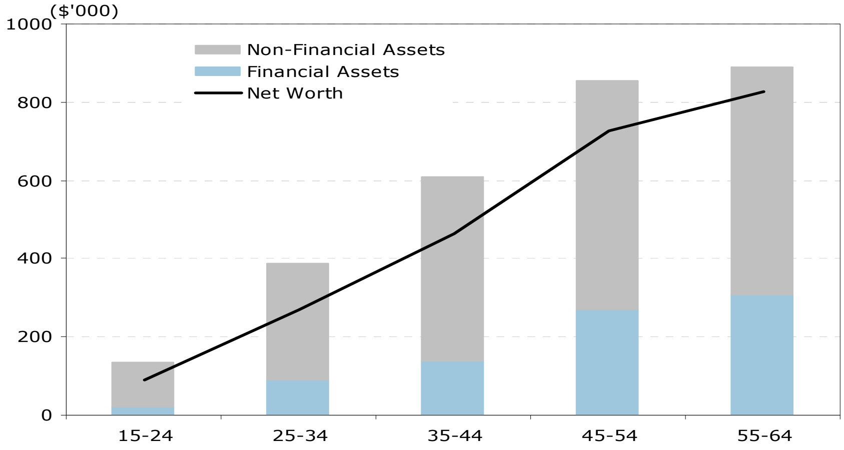
Source: ABS and ANZ

So should we be concerned about such a trend? There are a couple of reasons to think not. First, this cohort is the wealthiest of all (see Figure 7). This suggests that the proportion of debt used to finance a property purchase is likely to be lower than other age groups – the HILDA data show that LVR for this group is around 20 per cent (see Figure 5). This means this cohort has a fair chunk of equity invested into residential property and hence the mortgagor has a sizable buffer against any negative valuation change.

Second, this age cohort probably has the best ability to meet its debt obligations. Their debt servicing costs (interest + principal) as a portion of income are likely to be the lowest as their gearing ratio is well below the others. Although the ABS doesn't have interest payment data by age split, its *Household Expenditure Survey* has information on the weekly spend on housing costs (which includes spending on interest payments, rent, rates, repairs etc). These data indicate the 55-64 age group spend far less of their income on housing. In addition, this age group has fewer dependants. The proportion of persons in this group that are a couple only is easily the highest (see Figure 8). This suggests that this group has more of its income available to meet its debt repayments. Thus, this group seems well placed to service its liabilities.

IN FOCUS

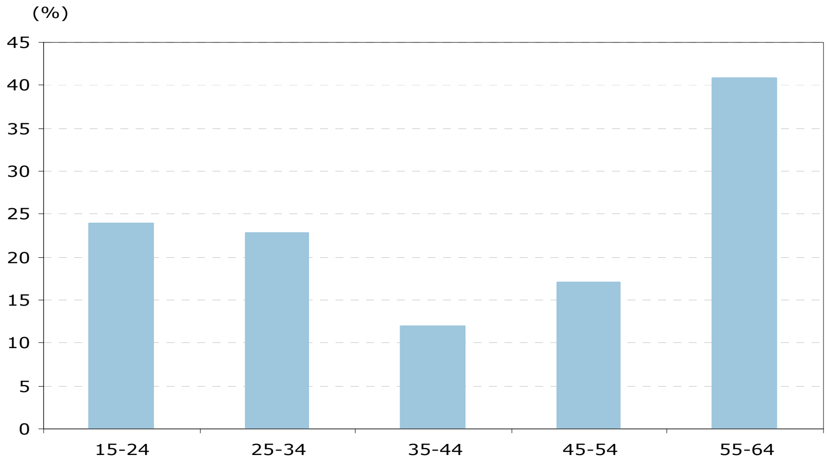
FIGURE 7: ASSETS AND NET WORTH BY AGE (AS AT JUNE 2006)



Source: ABS and ANZ

In sum, it seems the pick up in the aggregate household gearing ratio doesn't pose any systemic threat to Australia's financial system. That said, a higher incidence of debt for the overall Australian economy suggests that it is more likely to be vulnerable to shocks and to changes in interest rates.

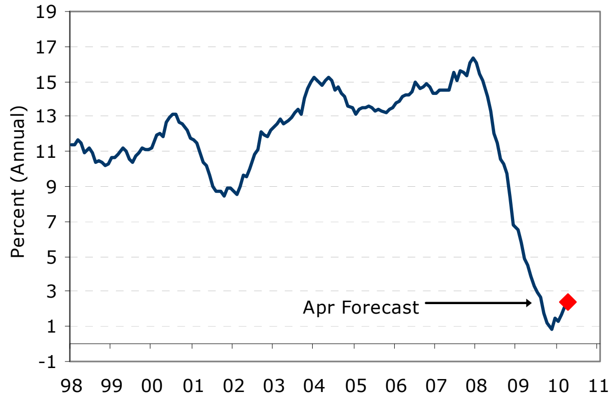
FIGURE 8: INCIDENCE OF COUPLE ONLY BY AGE (AS AT JUNE 2008)



Source: ABS and ANZ

DATA PREVIEWS

Chart 1: Private Sector Credit (Apr)



31 May: Private Sector Credit (Apr)

ANZ: 0.5% MoM, 2.4% YoY

Market: 0.5% MoM, 2.4% YoY

Last: 0.5% MoM, 2.1% YoY

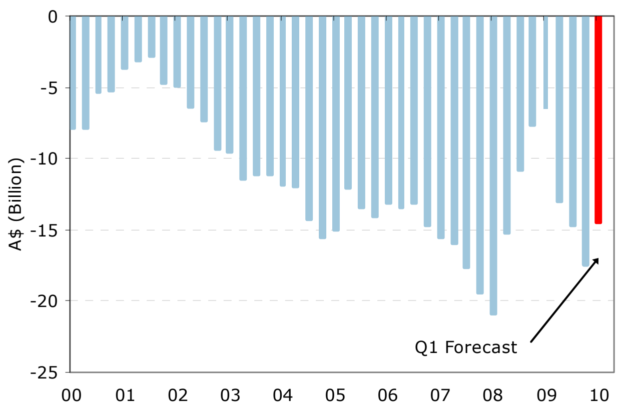
Total private sector credit growth is likely to expand again in April as the business sector continues to increase use of intermediated credit, while household credit growth is expected to remain stable, driven largely by finance for housing.

Looking forward, we expect to see continued increases in business intermediated credit growth as current market volatility impacts business appetite for non-intermediated credit.

While house purchases will continue to fuel household credit growth for sometime yet, we expect housing credit growth for owner-occupiers to slow with deteriorating housing affordability (due to higher property prices and interest rates). With an outlook for solid growth in house prices, we expect investors will continue to take out an increasing share of housing credit into 2010.

Personal credit is expected to soften into 2010 as consumers continue to remain wary of taking on additional personal debt in the face of increasing debt servicing costs. (DC)

Chart 2: Current Account Balance (Q1)



31 May: Current Account Balance (Q1)

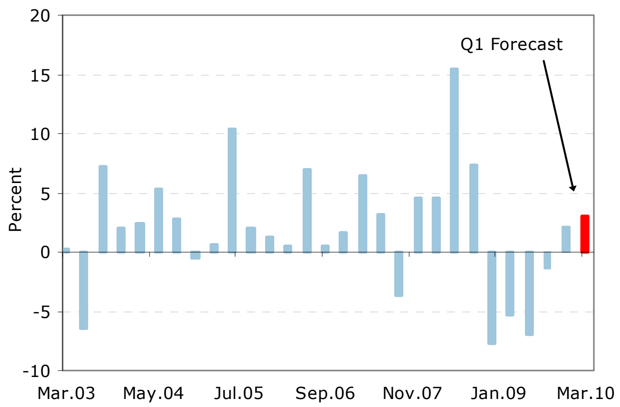
ANZ: -A$14.5bn QoQ

Market: -A$16.250bn QoQ

Last: A$17.459bn QoQ

We expect the current account deficit to fall to A$14.5bn in Q1 2010 from A$17.5bn in Q4 2009. The turnaround is due to a A$4.1bn improvement in the trade deficit. The income deficit should offset this to some extent and rise by A$A1.3bn. As a percentage of GDP the current account deficit should fall from 5.4% to 4.5%.

Chart 3: Company Operating Profit (Q1)



31 May: Company Operating Profit (Q1)

ANZ: 3.0% QoQ

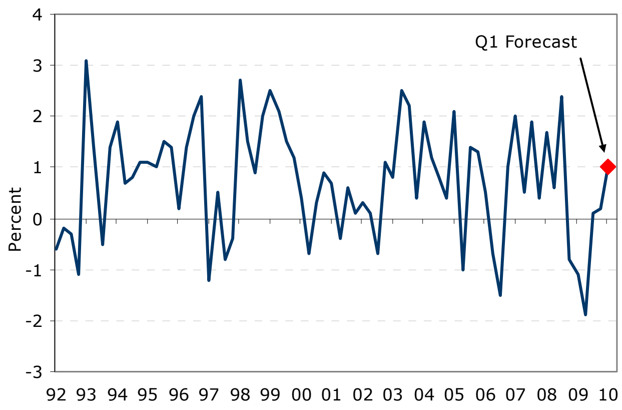
Market: 3.0% QoQ

Last: 2.2% QoQ

Corporate profits should post another solid rise following last quarter's 2.2% gain on the back of stronger demand and continued cost cutting by firms. We expect a 3.0% gain in the quarter. Going forward next quarter should see an even larger rise as the large rise in contract iron ore and coal prices impact the value of inventories and produced exports.

DATA PREVIEWS

Chart 4: Inventories (Q1)



31 May: Inventories (Q1)

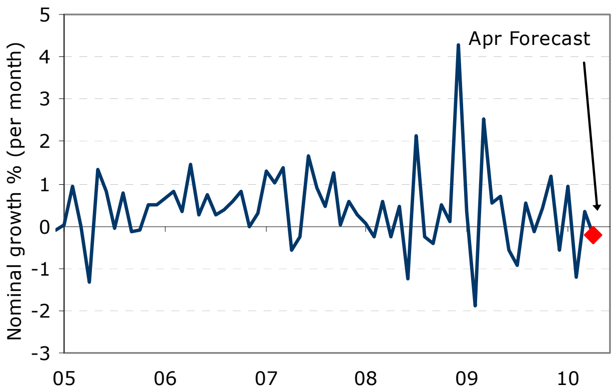
ANZ: 1.0% QoQ

Market: 0.5% QoQ

Last: 0.2% QoQ

Australia's good economic performance throughout 2009 drove a relatively shallow inventory cycle during the global recession. Indeed, inventories posted modest gains in both Q3 2009 (0.1%) and Q4 2009 (0.2%) following the downturn. We expect inventories to rise by 1% in real terms during Q1 2010 as the economic recovery continues to raise demand for production. Inventories in Q2 2010 should post solid growth as well, but weaker demand towards the end of the quarter could lead firms to trim growth in H2 2010.

Chart 5: Retail Sales (Apr)



1 June: Retail Sales (Apr)

ANZ: -0.2% MoM, 0.5 YoY

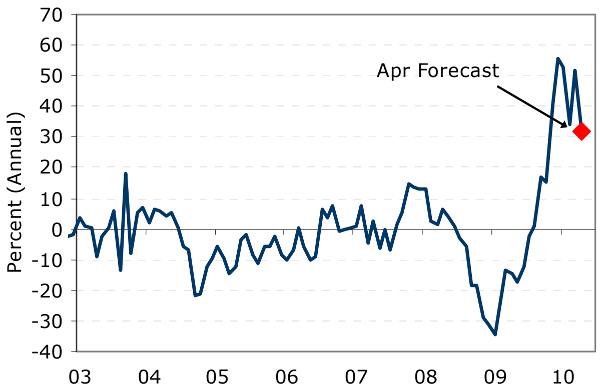
Market: 0.3% QoQ

Last: 0.3% MoM, 1.2% YoY

Last month's data were disappointing, with only a modest 0.3% increase following February's 1.2% plunge. Anecdotal reports suggest that April was another difficult month for retailers. In the month, positive jobs data (33.7k new jobs) was offset by falls in consumer confidence (-1.0%) and on equity markets (-1.7%). Combined with a second-consecutive interest rate rise to 4.25% and petrol prices remaining elevated, these factors point to a weak retail trade outcome. We estimate that the value of sales declined by 0.2% in April.

DATA PREVIEWS

Chart 6: Building Approvals (Apr)



1 June: Building Approvals (Apr)

ANZ: -6.3% MoM, 31.9% YoY

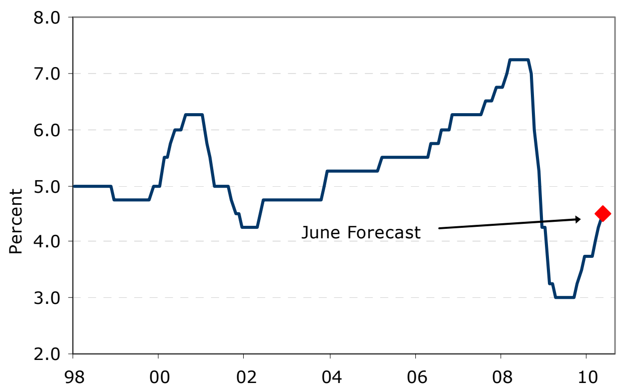
Market: -5.0% MoM, 33.9% YoY

Last: 15.3% MoM, 51.6% YoY

Trend growth in building approvals is expected to continue to moderate in April as the latest round of interest rate hikes impacts on residential housing construction decisions.

Building approvals are likely to be lower in April, mainly due to a pullback in approvals of the volatile 'other dwellings' sector after posting a strong increase in March. Detached housing approvals are forecast to continue to post stable growth in April, however we expect activity to moderate over the next few months on the back of the recent tightening of monetary policy.

Chart 7: RBA Cash Rate



1 June: RBA Cash Rate

ANZ: 4.5%

Market: 4.5%

Last: 4.5%

The RBA is expected to keep interest rates unchanged at 4.5% at its June meeting. The focus will be on whether the Bank uses the accompanying Statement to counter or validate recent market pricing, which in recent weeks has implied a greater chance of a rate cut than rise by year-end. We look for the RBA to adopt a neutral bias in its Statement. The Board will most likely emphasise the need to closely watch the developments in financial markets and may even note that, with rates now around average levels, the Bank has sufficient flexibility to respond should the situation deteriorate significantly. But such 'reassurance' would also probably be accompanied by the Board re-iterating the potentially inflationary consequences of sustained commodity booms. Such a message would imply that rates are firmly on hold for now. But provided the situation in Europe does not take a much bigger turn for the worse, we still look for further rate rises before year-end.

DATA PREVIEWS

2 June: Gross Domestic Product (Q1)

ANZ: 0.4% QoQ, 2.3% YoY

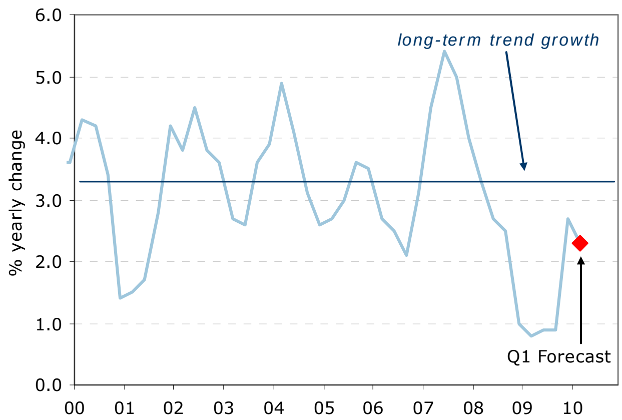
Market: 0.6% QoQ, 2.6% YoY

Last: 0.9% QoQ, 2.7% YoY

We expect the economy grew by around 0.4% in Q1. This is a slowdown from Q4's strong 0.9% growth and will see the yearly rate of growth ease slightly to 2.43%. At this stage, we expect growth to be strongest in the expenditure side of the national accounts, with strong public investment, a turnaround in net exports and an inventory rebuild. This should more than offset subdued consumption, a pull-back in private business investment (following a very strong Q4) and slower dwelling investment. On the income side, the kick to GDP from strong employment and higher wages will be somewhat muted by stable hours worked. So total compensation of employees will be more modest than the simple employment data would suggest. Profits should be robust, mainly benefiting from stronger exports. But overall we do expect the income side of the national accounts to print a little softer than the expenditure side.

Some loss of momentum in GDP growth in Q1 is not unexpected. Policy stimulus is being wound back and the private sector is not yet fully able to take over. But this will come soon with the Q1 Capex survey confirming a very strong investment pipeline. An investment boom should see GDP growth accelerate to above-trend rates in 2011.

Chart 8: Gross Domestic Product (Q1)



3 June: Trade Balance (Apr)

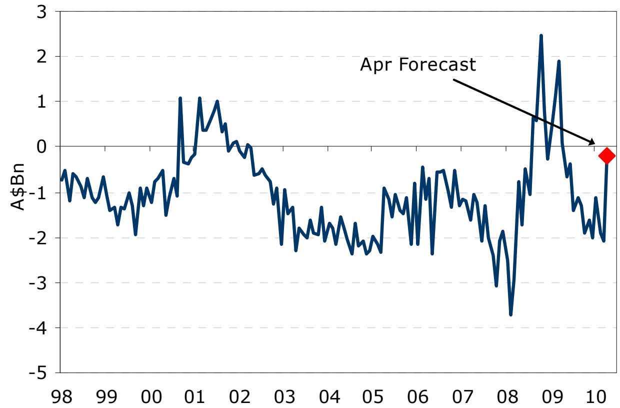
ANZ: -$200m MoM

Market: -$800m MoM

Last: - $2082m MoM

The increase in contract iron ore and coal prices during the month will drive a sharp turnaround in the trade balance of around $1.8bn. We expect a strong rebound in exports and a slight fall in imports as the key drivers of the turnaround.

Chart 9: Trade Balance (Apr)



DATA & EVENT CALENDAR

Date	Country	Data/Event	ANZ	Market	Last	GMT
28 May - 4 Jun	GE	Retail Sales MoM – (Apr)	nf	0.5%	-1.6%	-
		Retail Sales YoY – (Apr)	nf	na	2.7%	-
30 May – 1 Jun	EU	**ECB's Trichet, Nowotny Speak at OENB Spring Conference**	-	-	-	-
31 May	NZ	NBNZ Business Confidence – (May)	nf	na	49.5	03:00
	AU	TD Securities Inflation MoM – (May)	nf	na	0.4%	00:30
		TD Securities Inflation YoY – (May)	nf	na	2.9%	00:30
		HIA New Home Sales MoM – (Apr)	nf	na	0.9%	01:00
		Private Sector Credit MoM – (Apr)	0.5%	0.5%	0.5%	01:30
		Private Sector Credit YoY – (Apr)	2.4%	2.4%	2.1%	01:30
		Current Account Balance – (Q1)	-14500M	-16250M	-17459M	01:30
		Australia Net Exports Contribution to GDP – (Q1) (ppts)	0.3	-0.2	-1.3	01:30
		Company Operating Profit QoQ – (Q1)	3.0%	3.0%	2.2%	01:30
		Inventories – (Q1)	1.0%	0.5%	0.2%	01:30
		Rismark Australia Median House Price – (May)	nf	na	450.0K	01:30
	JP	Nomura/JMMA Manufacturing PMI – (May)	nf	na	53.5	23:15
		Industrial Production MoM – (Apr P)	nf	2.5%	1.2%	23:50
		Industrial Production YoY – (Apr P)	nf	27.4%	31.8%	23:50
		Labor Cash Earnings YoY – (Apr)	nf	0.8%	1.0%	01:30
		Vehicle Production YoY – (Apr)	nf	na	71.2%	04:00
		Housing Starts YoY – (Apr)	nf	6.6%	-2.4%	05:00
		Annualized Housing Starts – (Apr)	nf	0.840M	0.854M	05:00
		Construction Orders YoY – (Apr)	nf	na	42.3%	05:00
	EU	Euro-Zone M3 sa YoY – (Apr)	nf	-0.2%	-0.1%	08:00
		Euro-Zone M3 sa 3 mth avg – (Apr)	nf	-0.2%	-0.1%	08:00
		Business Climate Indicator – (May)	nf	na	0.23	09:00
		Euro-Zone Industrial Confidence – (May)	nf	-5	-7	09:00
		Euro-Zone Consumer Confidence – (May F)	nf	-18	-18	09:00
		Euro-Zone Economic Confidence – (May)	nf	101.0	100.6	09:00
		Euro-Zone CPI Estimate YoY – (May)	nf	1.7%	1.5%	09:00
		Euro-zone Services Confidence – (May)	nf	na	5	09:00
		ECB's Trichet speaks at Korea Conference	**-**	**-**	**-**	**00:25**
	UK	**Markets closed for bank holiday**	**-**	**-**	**-**	**-**
		Hometrack Housing Survey MoM – (May)	nf	na	0.2%	23:01
		Hometrack Housing Survey YoY – (May)	nf	na	1.8%	23:01

DATA & EVENT CALENDAR

Date	Country	Data / Event	ANZ	Market	Last	GMT
31 May Cont	US	**Markets closed for Memorial Day**	-	-	-	-
		Fed's Bernanke speaks at Korea Conference	-	-	-	**00:25**
		Fed's Evans Speaks to Media at Bank of Korea Conference	-	-	-	**01:10**
		Fed's Plosser Speaks at Bank of Korea Conference	-	-	-	**09:30**
	CA	Gross Domestic Product MoM – (Mar)	nf	0.5%	0.3%	12:30
		Quarterly GDP Annualized – (Q1)	nf	5.8%	5.0%	12:30
		Industrial Product Price MoM – (Apr)	nf	-0.3%	-0.4%	12:30
		Raw Materials Price Index MoM – (Apr)	nf	1.0%	0.8%	12:30
1 June	AU	AIG Performance of Manufacturing Index – (May)	nf	na	59.8	23:30
		Retail Sales sa MoM – (Apr)	-0.2%	0.3%	0.3%	01:30
		Building Approvals MoM – (Apr)	-6.3%	-5.0%	15.3%	01:30
		Building Approvals YoY – (Apr)	31.9%	33.9%	51.6%	01:30
		RBA CASH TARGET	**4.50%**	**4.50%**	**4.50%**	**04:30**
		RBA Commodity Index SDR YoY – (May)	nf	na	29.4%	06:30
	JP	Loans & Discounts Corp YoY – (Apr)	nf	na	-3.2%	23:50
		Vehicle Sales YoY – (May)	nf	na	33.5%	05:00
	CH	PMI Manufacturing – (May)	nf	54.5	55.7	01:00
		HSBC Manufacturing PMI – (May)	nf	na	55.4	02:30
	EU	PMI Manufacturing – (May F)	nf	55.9	55.9	08:00
		Euro-Zone Unemployment Rate – (Apr)	nf	10.1%	10.0%	09:00
	GE	Unemployment Change – (May)	nf	-15K	-68K	07:55
		Unemployment Rate sa – (May)	nf	7.8%	7.8%	07:55
		PMI Manufacturing – (May F)	nf	58.3	58.3	07:55
	UK	PMI Manufacturing – (May)	nf	57.5	58.0	08:30
	US	ISM Manufacturing – (May)	nf	59.4	60.4	14:00
		ISM Prices Paid – (May)	nf	73.0	78.0	14:00
		Construction Spending MoM – (Apr)	nf	0.0%	0.2%	14:00
		Dallas Fed Manufacturing Activity – (May)	nf	na	21.1%	14:30
		ABC Consumer Confidence – (May 30)	nf	na	-45	21:00
		Fed's Evans, Noyer Speak at Bank of Korea Conference	-	-	-	**02:25**
	CA	**Bank of Canada Rate decision**	**nf**	**0.50%**	**0.25%**	**13:00**
02-04 June	UK	Nationwide House prices sa MoM – (May)	nf	0.4%	0.2%	-
		Nationwide House prices nsa YoY – (May)	nf	9.7%	1.8%	-

DATA & EVENT CALENDAR

Date	Country	Data/Event	ANZ	Market	Last	GMT
2 June	NZ	ANZ Commodity Price – (May)	nf	na	4.9%	03:00
	AU	Gross Domestic Product QoQ – (Q1)	0.4%	0.6%	0.9%	01:30
		Gross Domestic Product YoY – (Q1)	2.3%	2.6%	2.7%	01:30
		AOFM auctions $500mn of Feb 2017 bonds	-	-	-	-
	JP	Monetary Base YoY – (May)	nf	na	2.9%	23:50
	EU	Euro-Zone PPI MoM – (Apr)	nf	0.7%	0.6%	09:00
		Euro-Zone PPI YoY – (Apr)	nf	2.6%	0.9%	09:00
	UK	Net Consumer Credit – (Apr)	nf	0.4B	0.3B	08:30
		Net Lending Secured on Dwellings – (Apr)	nf	0.7B	0.3B	08:30
		Mortgage Approvals – (Apr)	nf	49.5K	48.9K	08:30
		M4 Money Supply MoM – (Apr F)	nf	na	0.0%	08:30
		M4 Money Supply YoY – (Apr F)	nf	na	3.3%	08:30
		PMI Construction – (Apr F)	nf	57.8	58.2	08:30
	US	MBA Mortgage Applications – (28 May)	nf	na	11.3%	11:00
		Challenger Job Cuts YoY – (Apr)	nf	na	-71.1%	11:30
		Pending Home Sales MoM – (Apr)	nf	6.0%	5.3%	14:00
		Pending Home Sales YoY – (May)	nf	na	23.5%	14:00
		Domestic Vehicle Sales – (May)	nf	8.90M	8.78M	21:00
		Total Vehicle Sales – (May)	nf	11.40M	11.21M	21:00
3 June	AU	AIG Performance of Service Index – (May)	nf	na	52.3	23:30
		Trade Balance – (Apr)	-200M	-800M	-2082M	01:30
	JP	Capital Spending – (Q1)	nf	-9.6%	-17.3%	23:50
		Capital Spending excluding software – (Q1)	nf	-2.7%	-18.5%	23:50
		Japan Buying Foreign Stocks – (May 28)	nf	na	¥271.1B	23:50
		Japan Buying Foreign Bonds – (May 28)	nf	na	¥1044.8B	23:50
		Foreign Buying Japan Stocks – (May 28)	nf	na	-¥434.7B	23:50
		Foreign Buying Japan Bonds – (May 28)	nf	na	¥45.9B	23:50
		BOJ Board Member Suda to Speak in Wakayama City	**-**	**-**	**-**	**01:30**
	EU	PMI Services – (May F)	nf	56.0	56.0	08:00
		PMI Composite – (May F)	nf	na	56.2	08:00
		Euro-Zone Retail Sales (MoM) – (Apr)	nf	0.1%	0.0%	09:00
		Euro-Zone Retail Sales (YoY) – (Apr)	nf	na	0.0%	09:00
	GE	PMI Services – (May F)	nf	53.7	53.7	07:55
	UK	PMI Services – (May)	nf	55.6	55.3	08:30
		Official Reserves (Changes) – (May)	nf	na	$561M	08:30
	US	ADP Employment Change – (May)	nf	58K	32K	12:15

DATA & EVENT CALENDAR

Date	Country	Data/Event	ANZ	Market	Last	GMT
3 June Cont	US	Non-farm Productivity – (Q1 F)	nf	3.6%	3.6%	12:30
		Unit Labor Costs – (Q1 F)	nf	-1.6%	-1.6%	12:30
		Initial Jobless Claims – (May 29)	nf	450K	460K	12:30
		Continuing Claims – (May 22)	nf	na	4607K	12:30
		Factory Orders – (Apr)	nf	1.3%	1.1%	14:00
		ISM Non-Manufacturing. Composite – (May)	nf	55.9	55.4	14:00
		ICSC Chain Store Sales YoY – (May)	nf	na	0.8%	14:30
		Fed's Lockhart to Speaks at Atlanta College	-	-	-	**11:30**
		Fed's Bernanke Speaks in Detroit	-	-	-	**15:15**
		Fed's Rosengren Speaks in Massachusetts	-	-	-	**16:15**
		Fed's Hoenig Speaks in Oklahoma	-	-	-	**17:15**
4 June	AU	**AOFM auctions $700mn of April 2015 bonds**	-	-	-	-
	EU	Euro-Zone Gross Fixed Capital Expenditure QoQ – (Q1 P)	nf	-1.3%	-1.3%	09:00
		Euro-Zone Govt Expenditure QoQ – (Q1 P)	nf	0.3%	-0.1%	09:00
		Euro-Zone Household Consumption QoQ – (Q1 P)	nf	-0.1%	0.0%	09:00
		Euro-Zone GDP sa QoQ – (Q1 P)	nf	0.2%	0.2%	09:00
		Euro-Zone GDP sa YoY – (Q1 P)	nf	0.5%	0.5%	09:00
	UK	New Car Registrations YoY – (May)	nf	na	11.5%	-
	US	Change in Nonfarm Payrolls – (May)	nf	500K	290K	12:30
		Change in Private Payrolls – (May)	nf	218K	231K	12:30
		Change in Manufacturing Payrolls – (May)	nf	35K	44K	12:30
		Unemployment Rate – (May)	nf	9.8%	9.9%	12:30
		Avg Hourly Earning MoM All Employees – (May)	nf	0.1%	0.0%	12:30
		Avg Hourly Earning YoY All Employees – (May)	nf	na	1.6%	12:30
		Avg Weekly Hours All Employees – (May)	nf	34.1	34.1	12:30
		Treasury's Geithner Attends G-20 Meeting in South Korea	-	-	-	**04:00**
		Fed's Lockhart to Speak in Alabama	-	-	-	**13:30**
	CA	Unemployment Rate – (May)	nf	8.0%	8.1%	11:00
		Participation Rate – (May)	nf	na	67.2	11:00
		Net Change in Employment – (May)	nf	20.0K	108.7K	11:00
		Full Time Employment Change – (May)	nf	na	43.8	11:00
		Part Time Employment Change – (May)	nf	na	64.8	11:00
		Building Permits MoM – (Apr)	nf	-1.5%	12.2%	12:30
		Ivey Purchasing Managers Index – (May)	nf	59.5	58.7	14:00

FIVE WEEKS AT A GLANCE

Monday	Tuesday	Wednesday	Thursday	Friday
7 June GE: Factory Orders (Apr) US: Consumer Credit (Apr)	**8 June** NZ: Manufacturing Activity (Q1) JP: Current Account Total (Apr), Trade Balance (Apr) GE: Trade Balance (Apr), Imports (Apr), Exports (Apr), Current Account (Apr), Industrial Production (Apr) US: ABC Consumer Confidence (Jun 6) CA: Housing Starts (May)	**9 June** AU: Home Loans (Apr), NAB Business Confidence (May), Value of Loans (Apr) JP: Machine Orders (Apr) GE: Total Trade Balance (Apr) US: MBA Mortgage Applications (Jun5), Wholesale Inventories (Apr), Fed's Beige Book	**10 June** NZ: **RBNZ Official Cash Rate,** Business PMI (May) AU: Employment Change (May), UE Rate (May), Participation Rate (May) JP: GDP (Q1), CH: Trade Balance (May), EU: **ECB Announces Interest Rates** GE: CPI (May F) UK: **BoE ANNOUNCES RATES** US: Trade Balance (Apr), **Monthly Budget Statement (May)**	**11 June** NZ: Food Prices (May) CH: PPI (May),CPI (May), Retail Sales (May), Industrial Production (May), UK: PPI (May), Industrial Production (Apr), Manu Production (Apr) US: Retail Sales Less Autos (May), Business Inventories (Apr) CA: Capacity Utilization Rate (Q1)
14 June JP: BSI Large All Industry (Q2), BSI Large Manuf (Q2) EU: Euro-Zone Ind. Prod. (Apr)	**15 June** NZ: Retail Sales (Apr) AU: **RBA Board's June Policy Meeting Minutes** JP: Industrial Prod. (Apr) EU: Employment (May), ZEW Survey (Jun) GE: ZEW Survey (Jun) UK: CPI (May), RPI (May), US Import Price Index (May), Empire Manufacturing (Jun), NAHB Housing Market Index (Jun) CA: Manuf Sales (Apr)	**16 June** NZ: House Sales (May) AU: Westpac Leading Index (Apr), Dwelling Starts (Q1) JP: BOJ Target Rate EU: CPI (May) UK : Jobless Claims Change (May), ILO UE Rate (May) US: MBA Mortgage Applications (Jun 11), PPI (May), Housing Starts (May), Industrial Production (May),	**17 June** NZ: ANZ Consumer Confidence (Jun) AU: RBA Foreign Exchange Transactions (May) JP: Tertiary Industry Index (Apr) UK: Retail Sales (May) US: CPI (May), Leading Indicators (May), Initial Jobless Claims (Jun 12), Current Account Balance (Q1)	**18 June** JP: **BoJ Monetary Policy Meeting Minutes for May** EU: **ECB Publishes June Monthly Report** GE: Producer Prices (May) UK: M4 Money Supply (May P) CA: Leading Indicators (May)
21 June NZ: Visitor Arrivals (May) AU: New Motor Vehicle Sales (May) JP: All Industry Activity Index (Apr) EU: PMI Services (Jun), PMI Manuf (Jun), PMI Composite (Jun) UK: Rightmove House Prices (Jun)	**22 June** NZ: Credit Card Spending (May) JP: Merchnds Trade Balance Total (May) EU: Consumer Confidence (Jun A), Current A/C (Apr) GE : IFO Business Climate (Jun), IFO Expectations (Jun) US: Existing Home Sales (May) CA: CPI (May)	**23 June** NZ: Current Account Balance (Q1) UK: **Bank of England Minutes**, BBA Loans for House Purchase (May) US: **FOMC Rate Decision,** New Home Sales (May) CA: Retail Sales (Apr)	**24 June** NZ: GDP (Q1) AU: Conference Board Leading Index (Apr) US: Durable Goods Orders (May), Initial Jobless Claims (Jun 19),	**25 June** NZ: Trade Balance (May) JP: CPI (May) CH: Industrial Profits (May) EU: Industrial New Orders (Apr) US : GDP (Q1), Personal Consumption (Q1)
28 June NZ: NBNZ Business Confidence (Jun), Building Permits (May) JP: Jobless Rate (May), Industrial Production (May) GE: CPI (Jun) UK: Nat'wide House prices sa (Jun) US: Personal Income (May),	**29 June** NZ: Money Supply M3 (May) JP: Vehicle Production (May) EU: Consumer confidence (Jun) US: Consumer Confidence (Jun) CA: Industrial Product Price (May)	**30 June** AU: DEWR Skilled Vacancies (Jun), Private Sector Credit (May), AiG Performance of Mfg Index (Jun) JP: Housing Starts (May), Tankan Lge Manufacturers Index (Q2) EU: CPI (Jun) GE: UE Rate (Jun) UK: GDP (Q1) CA: GDP (Apr)	**1 July** NZ: ANZ Commodity Price (Jun) AU: Building Approvals (May), Retail Sales (May) JP: Vehicle Sales (Jun) CH: PMI Manuf (Jun) EU: PMI Manuf (Jun) GE: PMI Manuf (Jun) UK: PMI Manuf (Jun) US: ISM Manufacturing (Jun), Pending home sales (May)	**2 July** EU: PPI (May), Unemployment Rate (May) UK: PMI Construction (Jun) US: Change in Nonfarm Payrolls (Jun), Unemployment Rate (Jun), Factory Orders (May)
5 July NZ: NZIER Business Opinion Survey (Q2) AU: TD Securities Inflation (Jun), ANZ Job Advertisements (Jun) EU: Retail Sales (May) GE: PMI Services (Jun) UK: PMI Services (Jun) CA: Consumer Confidence (Jun)	**6 July** AU: **RBA CASH TARGET**, Trade Balance (May) JP: Machine Orders (May), Current Account (May), Trade Balance (May), Bank Lending (Jun) EU: PMI Services (Jun), PMI Composite (Jun) US : ISM Non-Manf. Composite (Jun), ABC Consumer Confidence (Jul 4)	**7 July** EU: GDP (Q1) GE: Factory Orders (May) US: MBA Mortgage Applications (Jul 2), Challenger Job Cuts (Jun)	**8 July** AU: UE Rate (Jun), Participation Rate (Jun) EU: **ECB Announces Interest Rates** GE: Industrial Production (May), Trade Balance (May), Current Account (May) UK: **BOE ANNOUNCES RATES**, Industrial Production (May) US: Initial Jobless Claims (Jul 3) CA: Consumer Prices (Jun)	**9 July** JP: Domestic CGPI (Jun) CH: Business Climate Index (Q2) GE: CPI UK: PPI US: Wholesale Inventories (May)

CENTRAL BANK RELEASES FOR 2010

JANUARY	FEBRUARY	MARCH	APRIL
6th – FOMC Minutes 7th – BoE 14th - ECB 19th – BoC 20th – BoE Minutes 25-26th – BoJ 27th – FOMC 28th - RBNZ	2nd - RBA 4th – BoE 4th – ECB 5th – RBA MP Statement 16th – RBA Minutes 17th – BoE Minutes 17th – FOMC Minutes 17-18th – BoJ 18th - ECB 23rd – BoJ Minutes	2nd – BoC 2nd - RBA 4th – BoE 4th – ECB 11th – RBNZ 11th – RBNZ MP Statement 11th - SNB 16th – FOMC 16th – RBA Minutes 17th – BoE Minutes 16-17th – BoJ 18th - ECB 23rd – BoJ Minutes	6th - RBA 6-7th – BoJ 8th – BoE 8th - ECB 12th – BoJ Minutes 20th – BoC 20th - RBA 21st – BoE Minutes 22nd – ECB 28th – FOMC 29th - RBNZ 30th - BoJ
MAY	**JUNE**	**JULY**	**AUGUST**
4th - RBA 6th – ECB 7th – RBA MP Statement 10th – BoE 10th – BoJ Minutes 18th – RBA Minutes 19th – BoE Minutes 20th - ECB 20-21st – BoJ 26th – BoJ Minutes	1st – BoC 1st - RBA 10th – BoE 10th – ECB 10th – RBNZ 10th – RBNZ MP Statement 14-15th – BoJ 15th – RBA Minutes 17th - SNB 18th – BoJ Minutes 23rd – BoE Minutes 23rd - FOMC 24th - ECB	6th - RBA 8th – BoE 8th – ECB 20th – RBA Minutes 20th – BoC 21st - BoE Minutes 22nd – ECB 29th - RBNZ	3rd - RBA 5th – BoE 5th – ECB 6th – RBA MP Statement 10th – FOMC 17th – RBA Minutes 18th – BoE Minutes
SEPTEMBER	**OCTOBER**	**NOVEMBER**	**DECEMBER**
2nd – ECB 7th - RBA 8th – BoC 9th – BoE 16th – ECB 16th – RBNZ 16th – RBNZ MP Statement 16th - SNB 21st – RBA Minutes 21st - FOMC 22nd – BoE Minutes	5th - RBA 7th – BoE 7th – ECB 19th – RBA Minutes 19th – BoC 20th – BoE Minutes 21st – ECB 28th - RBNZ	2nd - RBA 3rd - FOMC 4th – BoE 4th – ECB 5th – RBA MP Statement 16th – RBA Minutes 17th – BoE Minutes 18th - ECB	2nd – ECB 7th - RBA 9th – BoE 9th – RBNZ 9th – RBNZ MP Statement 14th - FOMC 16th – ECB 16th - SNB 21st – RBA Minutes 22nd – BoE Minutes

***Notes:** Entries are the dates of central bank interest rate announcements for 2010, unless specified as minutes or otherwise.
Dates are indicative only and are subject to change by central bank authorities.
BoJ data are available only to June.
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		2009	2010 F	2011 F	2012 F
Economic activity (annual % change)					
Private final demand		1.1	3.1	5.3	4.9
Household consumption		2.2	2.4	2.7	2.8
Dwelling investment		-4.4	8.9	5.0	1.7
Business investment		-0.7	3.3	13.8	11.9
Public demand		3.1	9.6	3.8	2.1
Domestic final demand		1.6	4.5	4.9	4.2
Inventories (contribution to GDP)		-0.5	0.5	0.0	0.0
Gross National Expenditure (GNE)		1.0	5.1	4.9	4.2
Exports		0.5	4.8	6.1	7.4
Imports		-7.7	13.6	10.5	10.3
Net Exports (contribution to GDP)		1.8	-1.9	-1.2	-1.0
Gross Domestic Product (GDP)		**1.3**	**2.9**	**3.9**	**3.4**
Prices and wages (annual % change)					
Inflation:	Headline CPI	1.8	2.8	2.9	3.1
	Underlying *	3.7	2.8	2.8	3.1
Wages		3.6	3.6	4.0	4.0
Labour market					
Employment (annual % change)		0.3	2.0	2.0	1.9
Unemployment rate (annual average %)		5.6	5.4	5.2	5.1
External sector					
Current account balance:	A$bn	-51.7	-49.9	-47.8	-61.4
	% of GDP	-4.1	-3.7	-3.3	-4.0

* Average of RBA weighted median and trimmed mean statistical measure.

AUSTRALIAN INTEREST RATES	CURRENT	JUN 10 F	SEP 10 F	DEC 10 F	MAR 11 F	JUN 11 F
RBA cash rate	4.50	4.50	4.75	5.00	5.25	5.50
90 day bill	4.88	4.80	5.00	5.30	5.60	6.00
3 year bond	4.79	4.70	4.90	5.10	5.50	5.70
10 year bond	5.43	5.30	5.40	5.50	5.70	5.80
3s10s yield curve	0.64	0.60	0.50	0.40	0.20	0.10
3 year swap	5.22	5.10	5.30	5.50	5.90	6.10
10 year swap	5.95	5.80	5.95	6.05	6.25	6.35

INTERNATIONAL INTEREST RATES	CURRENT	JUN 10 F	SEP 10 F	DEC 10 F	MAR 11 F	JUN 11 F
RBNZ cash rate	2.50	2.75	3.25	3.50	3.75	4.25
NZ 90 day bill	2.99	3.07	3.67	3.75	4.17	4.67
US Fed funds note	0.25	0.25	0.25	0.25	0.25	0.25
US 2 year note	0.85	0.80	0.80	1.00	1.20	1.50
US 10 year note	3.33	4.20	4.10	4.00	3.80	3.80
Japan call rate	0.10	0.10	0.10	0.10	0.10	0.10
ECB refinance rate	1.00	1.00	1.00	1.00	1.00	1.00
UK repo rate	0.50	0.50	0.50	0.50	0.50	0.50

For additional information on interest rates please refer to ANZ's *Interest Rate Strategy Weekly*.

FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	JUN 10 F	SEP 10 F	DEC 10 F	MAR 11 F	JUN 11 F
Australian exchange rates						
A$/US$	0.8497	0.84	0.88	0.90	0.92	0.94
NZ$/US$	0.6814	0.68	0.70	0.71	0.72	0.73
A$/¥	77.42	78.1	83.6	86.4	89.2	92.1
A$/€	0.6908	0.68	0.73	0.76	0.81	0.84
A$/£	0.5842	0.59	0.63	0.63	0.62	0.62
A$/NZ$	1.2470	1.24	1.26	1.27	1.28	1.29
A$/C$	0.8933	0.85	0.87	0.87	0.88	0.88
A$/CHF	0.9826	0.97	1.03	1.07	1.11	1.16
A$/CNY	5.8040	5.66	5.86	5.91	5.97	6.06
A$ Trade weighted index	66.30	67.2	70.2	71.5	72.7	74.1
International cross rates						
US$/¥	91.12	93.0	95.0	96.0	97.0	98.0
€/US$	1.2301	1.23	1.21	1.18	1.14	1.12
€/¥	112.08	114	115	113	111	110
£/US$	1.4542	1.42	1.40	1.44	1.48	1.52
€/£	0.8459	0.87	0.86	0.82	0.77	0.74
US$/C$	1.0513	1.01	0.99	0.97	0.96	0.94
US$/CHF	1.1564	1.15	1.17	1.19	1.21	1.23
US$ index	86.61	86.7	87.9	88.9	90.6	91.3
Asia exchange rates						
US$/CNY	6.8306	6.74	6.66	6.57	6.49	6.45
US$/HKD	7.7863	7.76	7.76	7.75	7.75	7.75
US$/IDR	9185	9500	9300	9000	8900	8850
US$/INR	46.62	45.5	45.0	44.0	43.5	43.0
US$/KRW	1196	1175	1125	1100	1050	1000
US$/MYR	3.2930	3.30	3.20	3.20	3.00	3.00
US$/PHP	46.227	45.2	45.0	44.0	44.0	43.5
US$/SGD	1.4018	1.38	1.37	1.36	1.35	1.34
US$/THB	32.550	32.50	32.50	32.50	32.00	32.00
US$/TWD	32.023	31.90	31.50	30.50	30.00	30.00
US$/VND	18970	19000	19000	19000	19000	20000
Pacific exchange rates						
PGK/US$	0.3450	0.381	0.395	0.386	0.372	0.358
FJD/US$	0.4993	0.497	0.507	0.508	0.514	0.517

IMPORTANT NOTICE

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