



ECONOMICS & MARKETS RESEARCH

ANZ AUSTRALIAN ECONOMICS TOOLBOX

4 JUNE 2010

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AUSTRALIAN ECONOMIC ACTIVITY SOFTENS IN H1 2010

- The **RBA kept the cash rate unchanged at 4.50% this week** as unanimously expected by the market. The central bank now appears to have a neutral policy bias, with Governor Stevens presenting a balanced Statement to accompany the decision. While the Statement was largely focussed on global developments, it did appear a little more cautious around the domestic outlook. Nonetheless, it remains convinced that a very strong terms of trade will support Australia, and believes that the current setting of monetary policy is appropriate *"for the near term."* Our core forecast is for two further rate hikes in H2 to bring the cash rate to 5% by year end. However, the risk is that the RBA keeps policy on hold for an extended period of time given the risks from the European debt crisis and a potential slowing in China.
- **Real GDP expanded by 0.5% in Q1 2010** (+2.7% YoY) after an upwardly revised 1.1% increase in Q4 2009. The public sector continued to be the dominant contributor to activity in the quarter, although a rotation in the drivers of growth towards private dwelling investment and engineering construction is expected from H2 2010.
- The April data flow was mixed this week. **Retail trade rose by 0.6% in the month**, and March sales growth was revised higher to 0.8%. While the headline April figures appear solid, most of the growth was concentrated in food sales, with discretionary (retail ex-food) sales rising by just 0.1% MoM and 1.2% YoY as consumers become more cautious with their spending. Meanwhile, **building approvals dived 14.8% in April** on the back of a 13.5% drop in private sector detached house approvals. Although monthly data tend to be volatile, the outlook for residential construction is dimming as recent RBA rate hikes combined with the withdrawal of first homebuyers weigh on the housing market.
- **The Australian trade position returned to surplus in April** due to strong rises in bulk commodities prices. The small surplus of \$134mn was driven by an 11% rise in the value of exports and no change in the value of imports. The result highlights the significant boost that Australia will receive from its rising terms of trade this year, with coal and iron ore prices on track for further increases in Q3. It is likely that additional trade surpluses will be achieved in coming months before a forecast private investment boom boosts import demand.

THE WEEK AHEAD

- Following a very busy run, the **Australian dataflow** will slow down next week. The market's main focus will be Thursday's employment data. Monday will see the release of ANZ Job Advertisements data for May, while consumer and business confidence figures will be released on Wednesday.
- The **New Zealand** market will be closed Monday for the Queen's birthday. Thursday's RBNZ official cash rate decision will be closely watched, with markets (and ANZ) expecting the RBNZ to start normalising rates, with a 25bp rise in the OCR to 2.75%.
- The main **US** data events next week will be Thursday's release of the trade balance, and Friday's release of advanced retail sales and University of Michigan consumer confidence. Also due out is Fed's Beige Book, wholesale and business inventories, and the monthly budget statement. A number of Fed speeches are scheduled, with Fed Chairman Bernanke to testify at the House Budget Committee on Wednesday.
- The **European** dataflow will be busy next week. In the **Euro zone**, the market is not expecting any change in interest rates following the ECB's monetary policy meeting. In **Germany**, the market awaits the release of factory orders, industrial production and CPI data. Next week, **UK** markets will turn their attention to BoE rate announcement. Other key economic releases include the PPI and industrial production data for April.
- The **Japanese** dataflow will pick up next week. Attention will focus on the second estimate of Q1 GDP on Thursday, as well as Tuesday's release of the current account and the trade balance. It will be a busy week for **Chinese** data. Markets will monitor the release PPI, CPI, retail sales and industrial production on Friday. Also scheduled for release is the trade balance on Thursday.

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SOFTER GROWTH FOR NOW, BUT THE OUTLOOK IS STILL BRIGHT

This week's national accounts data showed that economic growth slowed from the above-trend pace of growth seen in Q4 last year (1.1%QoQ) to 0.5%QoQ, which is more sustainable in the context of keeping inflation within target.

A key feature of this week's GDP data is that the economy is still reliant upon the Government sector for growth. Over the past year, public sector investment rose by 40% while private sector investment in non-residential buildings (-15%), engineering structures (-2.0%) and residential housing (1.7%) were weak. Private-sector investment in plant and equipment was flat, but this was mostly because of the strong 10.1% increase in Q4, which was due to the Federal Government's investment allowance. We saw some payback in Q1 2010 from this (-5.7%), but the fact it did not fully offset the Q4 rise might suggest that the underlying trend in investment is turning up.

We will see the impact of another aspect of fiscal policy (the First Home Buyers Grant) on housing construction in coming quarters, as last year's big pickup in residential building approvals converts into real construction activity. This expected pickup in construction activity is also due to the cut in interest rates in 2008/2009.

However, as spending by the Government sector eases off in the second half of this year, the private sector is expected to step forward to prop up domestic activity. We expect the main drivers of growth to be:

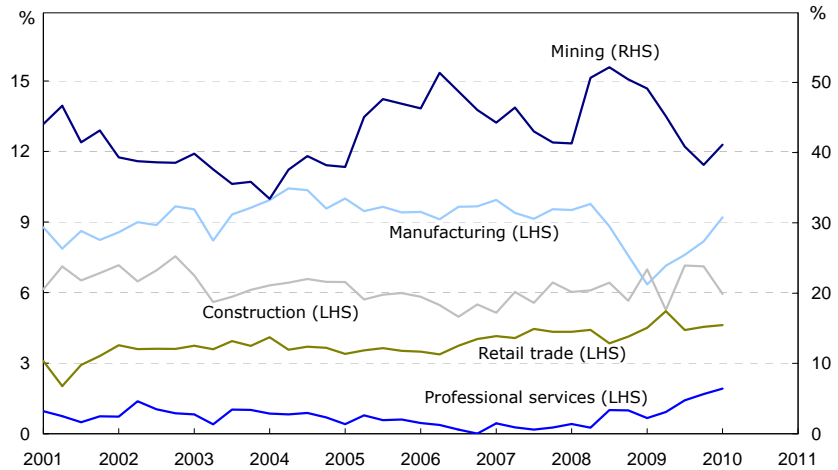
- Residential building investment;
- Business investment, led by mining;
- Some broad restocking as the upswing matures;
- Profit growth;
- and to a lesser extent, consumer spending.

The pipeline of residential construction work to be done is healthy and suggests that dwelling investment should make a reasonable contribution to growth in coming quarters. Beyond that we expect some easing in housing activity. Although recent building approval data has been highly volatile, there appears to be trend slowing. This is hardly surprising given the housing sector is facing the dual headwinds of rising interest rates and the phasing down of the First Home Buyers Grant.

The latest Capex survey suggests that the economy should see a reasonably seamless transition from public sector-led growth to private sector-led growth. The outlook for mining investment looks promising on the back of the large iron ore and coal contract price increases negotiated in the March quarter. Indeed, this week's trade data showed the impact of this, with the trade balance moving from a deficit of \$2.0bn in March to a surplus of \$134m in April. Away from mining, investment intentions look significantly more modest, but nonetheless positive.

Private-sector profit growth was disappointing (+0.5%QoQ) in the March quarter after last quarter's strong (5.0%) gain. Moreover, the national accounts measure of corporate profits may stay weak for a few more quarters until the global economic recovery gathers more strength. However, the starting point for earnings growth is generally good. Operating margins seem to be around average levels in both construction and manufacturing (Figure 1). In retail trade, they have been steadily increasing since 2006, although they are just below their peak of 5.2% in Q1 last year. Margins in professional services are at their highest level in the past 10 years.

FIGURE 1: CORPORATE OPERATING MARGINS

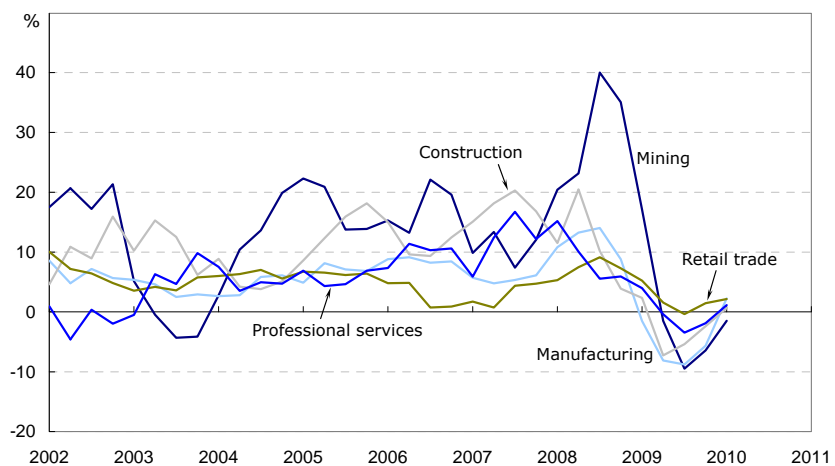


Source: ABS Cat 5676.0 and ANZ

In mining, operating margins are well below their peak during the middle of 2009, but the large price rises in both iron ore and coal will provide a substantial lift next quarter. Mining has much wider operating margins than other industries because it is more capital intensive and less labour intensive. After non-cash expense items are included in the calculation, the margins would be closer aligned.

The reason for the relatively good margin performance is due to firms keeping a tight lid on expenses. All industries cut overall expenses during the downturn, apart from retail trade which saw flat growth. However, as the economic recovery takes hold expenses are beginning to rise. While they are rising from a low base, it will be important for firms to closely manage growth in expenses as demand continues to pick up.

FIGURE 2: OPERATING EXPENSES (4 QUARTER ENDED GROWTH)



Source: ABS Cat 5676.0 and ANZ

Indeed, sustained profit growth will be the key to employment growth and investment going forward and we expect it to turn up as the terms of trade continue to rise.

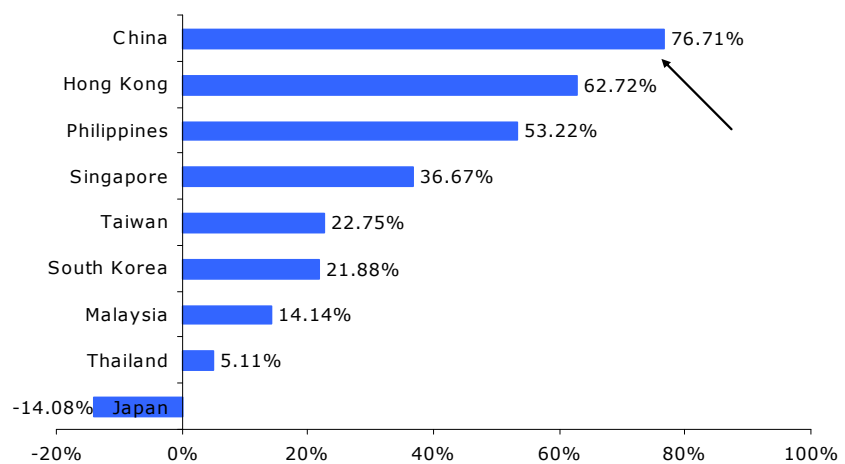
Overall our forecasts are for GDP growth to reach 2.9% by year end, 3.8% by Q2 next year and 4.0% by the end of 2011. We expect growth maintain a robust 4% pace until the end of 2012, when growth slows marginally to 3.8%.

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CHINA'S PROPERTY MARKET

In the aftermath of the Global Financial Crisis, portfolio inflows into Asia have soared and this has coincided with a rapid increase in certain asset prices. This has sparked concern about asset bubbles forming, as some prices appear to have overshot fundamentals. One asset class gaining attention is residential property, particularly in China where house prices have risen sharply. Our China economics team, led by economist Li-Gang Liu, recently published "*China's property market: A Bubble or Boom*" which provides a detailed look at recent trends and potential developments in China's residential property market. In this piece, we provide a short summary of some of their findings and then consider the implications of a house price correction. In addition, we also consider the implications of the Chinese government's efforts to cool property demand.

FIGURE 3: HOUSE PRICE CHANGES, 5 YEARS (%) CHINA VS. REST OF ASIA

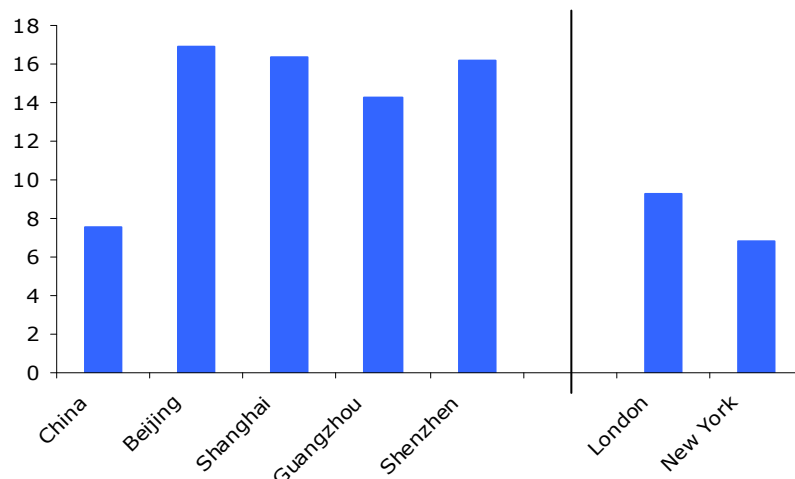


Source: Global Property Guide, ANZ

The only way is up

Over the past five years house prices in China have appreciated by nearly 80%, the fastest growth among its Asian peers (Figure 3). A quick check against various valuation benchmarks suggest that property prices in China are becoming stretched, namely: rental yields are low (or conversely the P/E ratio is high); and house price to income ratios are high in both an absolute and relative sense (Figure 4). Generally speaking, a house price to income ratio in excess of 5 times is regarded as expensive.

FIGURE 4: HOUSE PRICE INCOME RATIO



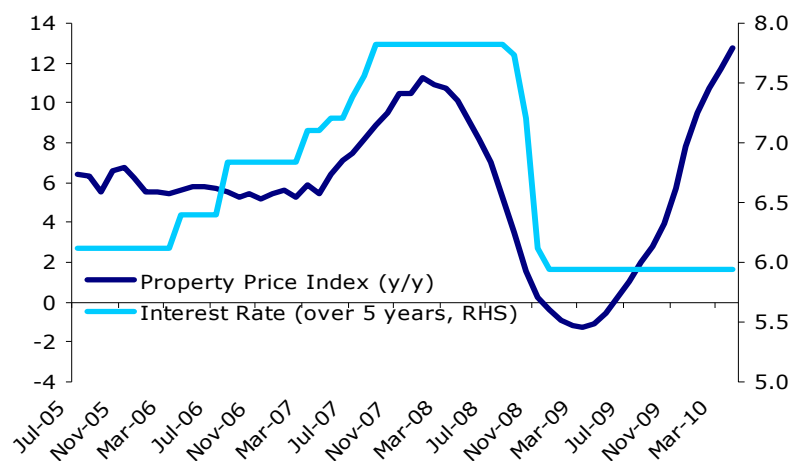
Source: ANZ

Our China team points out that these price gains are being largely driven by fundamental forces, rather than speculation. In particular, they highlight that there is no evidence of an excess supply in the housing market, with developers extremely attuned to matching new supply with demand. The rapid price growth largely reflects the infancy of the “private” property market and the massive shift in population from rural to urban — price growth in major cities has outstripped rural price increases. Our China team expects the urbanisation trend to continue. Over the next 15 years they estimate that over 350 million will be added to China’s urban population, more than three times the increase since 1990. This should underpin firm demand for housing and thus prices for some time.

Policy to keep prices in check

Although the rise in house prices reflects fundamentals, our China team believes future house price growth needs to be reined in as a continuation of this trend could lead to speculation. To this end, the Chinese government announced on 15 April a number of measures to cool interest in the property market, namely: (i) increasing second-home down payments from 40 to 50%; (ii) second home mortgage loan rates must be at least 110% of the benchmark rate; and (iii) down payments for first homes larger than 90 square meters must be at least 30%. In addition, our China team thinks the government will need to adopt a couple more measures in the near term to dampen demand. First, phase out the subsidy to mortgage rates to first-time home buyers. Second, increase interest rates – the property market is sensitive to changes in interest rates as mortgage rates are variable (Figure 5).

FIGURE 5: CHINA HOUSE PRICE AND INTEREST RATE



Source: ANZ

What if there is a house price correction?

So what are the implications of a house price correction for the Chinese economy? We emphasise this is not something we are forecasting, rather it is a scenario worth looking at. Such an exercise seems pertinent given China’s importance to global growth prospects. And it is particularly relevant for Australia, as our economic fortunes are closely tied to developments in China.

In general, a house price correction will have an impact on an economy through two main channels, namely the financial/banking sector and the household sector. We consider each sector in turn.

There are a couple of reasons not to be overly-worried about a house price correction on China’s financial (or banking) sector.

- In China, the loan-to-valuation ratio of mortgages must be at least 80%. As there is no mortgage insurance in China, a minimum down-payment of 20% is required. This suggests that the banking system has a reasonable buffer to withstand a reasonably sharp decline in property prices.

- The mortgage finance industry in China is relatively new, having only been established in 1999. As a consequence, mortgages account for around 12 to 13% of banks' total loans. In Australia (like many other advanced economies), the corresponding ratio is around 60%. Even if we include lending to property developers in the Chinese statistics, the ratio would still not be nearly as high as in Australia. This suggests China's banks have a lower exposure to housing market developments compared to banks in advanced economies, and is an additional reason to think that banks are unlikely to be adversely affected by a fall in house prices.

The household sector is the other main channel through which a fall in house prices could hurt the economy. In particular, how lower property values might act as a drag on household spending. In our opinion, the impact of a house price correction on Chinese households isn't likely to be as significant as that for an advanced economy. Indeed, household balance sheets in China are far less leveraged compared to their advanced economy counterparts: household debt to GDP in China is around 25%, well below that of Australia, the US and the UK which are all over 100%; and the household debt to income ratio in China is around 44% which again is much lower than Australia, the US and the UK (which are all over 130%). The lower gearing ratio suggests that Chinese households will be less vulnerable to a negative shock.

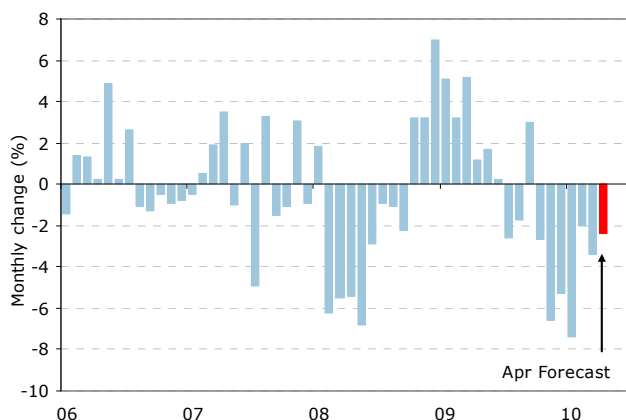
That said, even if household spending were to be dented by a house price correction, the impact on the overall economy wouldn't be as severe as that for an advanced economy. This is because the household sector in China accounts for around one-third of GDP, whereas in most advanced economies household spending accounts for about two-thirds of GDP.

In sum, we think a house price correction in China would likely spook investors and undoubtedly roil global financial markets. In particular, equity markets and the Australian dollar would likely come under some selling pressure. That said, we think the implications for real activity in China from a house price correction would be modest. Thus, the impact on the Australia economy would be limited.

Finally, efforts by the Chinese government to cool housing demand should result in construction activity slowing. In turn, demand for commodities will weaken and with it Australia's terms of trade. This is not necessarily a negative for our economy. Indeed, some cooling in Chinese demand seems necessary to ensure that its long-term economic expansion runs at a more sustainable pace. This should also ensure that Australia's growth trajectory runs more smoothly, as it will not be subject to big swings in its terms of trade.

DATA PREVIEWS

Chart 1: Housing Finance (Apr)



9 June: Housing Finance (Apr)

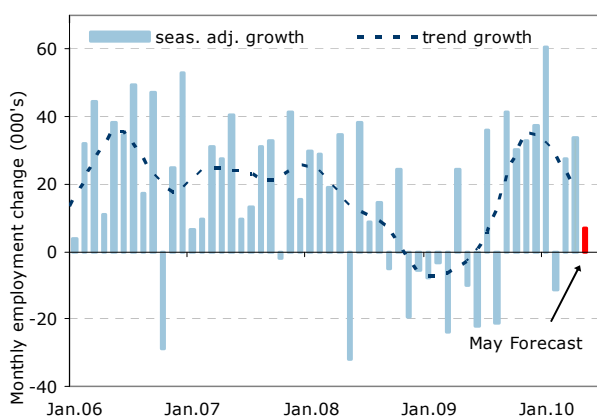
ANZ: -2.4% MoM, -26.0% YoY

Market: -2.0% MoM

Last: -3.4% MoM, -26.0% YoY

Housing finance approvals are expected to be slightly weaker again in April as consecutive March and April RBA rate hikes weigh on demand for housing finance. The data are expected to reflect a continued decline in finance commitments (in both value and number) for the owner-occupier segment of the market (especially for first homebuyers), while finance commitments for the investor segment are also expected to be weaker. Construction loan approvals, having fallen more than 26% since October 2009, are also expected to be softer in April. This outcome will provide further evidence that the heat generated in the housing market over 2009 and the momentum taken into early 2010 is slowly fading as expansionary policy settings are removed.

Chart 2: Employment Change (May)



10 June: Labour Force (May)

Employment growth

ANZ: +7K

Market: +15K

Last: +33.7K

Unemployment rate

ANZ: 5.4%

Market: 5.4%

Last: 5.4%

Participation rate

ANZ: 65.2%

Market: 65.2%

Last: 65.2%

Solid labour demand over the past eight months has seen employment growth step up to an annual pace of 2.2%. In particular, full-time employment growth has been strong, especially over the past three months, but growth in aggregate hours worked has not kept pace. This suggests to us that firms may have built up a sufficient pool of 'extra labour' on hand which could impede jobs growth and limit a further decline in the unemployment rate over coming months. Given these trends, our forecast for the May labour force release is for net employment growth of 7,000 in the month. We expect to see the participation rate remain steady at 65.2% after rising 0.1 ppts in April; this would be sufficient to keep the unemployment rate unchanged at 5.4%.

DATA & EVENT CALENDAR

Date	Country	Data/Event	ANZ	Market	Last	GMT
6 June	NZ	QV House Prices YoY - (May)	nf	na	6.1%	12:00
7 June	NZ	Market closed for Queen's Birthday holiday	-	-	-	-
		New Zealand Manpower Survey - (Q3)	nf	na	17%	15:01
	AU	AIG Performance of Construction Index - (May)	nf	na	55.8	23:30
		ANZ Job Advertisements MoM - (May)	nf	na	-1.2%	01:30
		Foreign Reserves - (May)	nf	na	44.0B	06:30
	JP	Official Reserve Assets - (May)	nf	na	\$1046.9B	23:50
	EU	Sentix Investor Confidence - (Jun)	nf	na	-6.4	08:30
	GE	Factory Orders sa MoM - (Apr)	nf	-0.2%	5.0%	10:00
		Factory Orders nsa YoY - (Apr)	nf	25.2%	26.1%	10:00
	US	Consumer Credit - (Apr)	nf	\$0.0B	\$2.0B	19:00
		NY Fed's Potter Speaks in Connecticut	-	-	-	12:00
		Fed's Yellen Gives Welcome Remarks at Asia Conference in San Francisco	-	-	-	21:00
8-10 June	EU	ECB's Trichet at IIF Conference in Vienna	-	-	-	-
8 June	NZ	Manufacturing Activity - (Q1)	nf	na	0.7%	22:45
	JP	Current Account Total - (Apr)	nf	¥1286.5B	¥2534.2B	23:50
		Adjusted Current Account Total - (Apr)	nf	¥1460.0B	¥1773.1B	23:50
		Trade Balance (BoP Basis) - (Apr)	nf	¥872.3B	¥1074.7B	23:50
		Bank Lending YoY - (May)	nf	na	-1.8%	23:50
		Bank Lending Banks YoY - (May)	nf	na	-1.8%	23:50
		Bank Lending Banks Adjust YoY - (May)	nf	na	-1.7%	23:50
		Japan Money Stock M2 YoY - (May)	nf	2.8%	2.9%	23:50
		Japan Money Stock M3 YoY - (May)	nf	2.1%	2.2%	23:50
		Bankruptcies YoY - (May)	nf	na	-13.2%	04:30
		Leading Index CI - (Apr P)	nf	102.5	102.7	05:00
		Coincident Index CI - (Apr P)	nf	102.4	101.5	05:00
		Eco Watchers Survey: Current - (May)	nf	na	49.8	06:00
		Eco Watchers Survey: Outlook - (May)	nf	na	49.9	06:00
	CH	China Manpower Survey - (Q3)	nf	na	17%	16:01
	GE	Germany Manpower Employment Outlook - (Q3)	-	-	-	22:01
		Trade Balance - (Apr)	nf	15.0B	17.2B	06:00
		Current Account (Euro) - (Apr)	nf	14.0B	18.0B	06:00
		Imports sa MoM - (Apr)	nf	na	11.4%	06:00
		Exports sa MoM - (Apr)	nf	-4.0%	10.8%	06:00

DATA & EVENT CALENDAR

Date	Country	Data/Event	ANZ	Market	Last	GMT	
8 June Cont	GE	Industrial Production sa MoM - (Apr)	nf	0.6%	4.0%	10:00	
		Industrial Production nsa wda YoY - (Apr)	nf	11.8%	8.6%	10:00	
	UK	BRC May Retail Sales Monitor - (May)	-	-	-	23:01	
	US	NFIB Small Business Optimism - (Jun)	nf	na	90.6	11:30	
		IBD/TIPP Economic Optimism - (Jun)	nf	na	48.7	14:00	
		ABC Consumer Confidence - (Jun 6)	nf	na	-44	21:00	
		Fed's Duke speaks in Florida	-	-	-	12:25	
		Fed's Evans speaks in Chicago	-	-	-	13:10	
		Fed's Bernanke interviewed in Washington	-	-	-	23:55	
		CA	Housing Starts - (May)	nf	205.0K	200.7K	12:15
	9 June	AU	Westpac Consumer Confidence MoM -(Jun)	nf	na	-7.0%	00:30
			Westpac Cons. Confidence Index -(Jun)	nf	na	108.0	00:30
			Housing Finance (no. of approvals) MoM -(Apr)	-2.4%	-2.0%	-3.4%	01:30
		Investment Lending MoM -(Apr)	nf	na	3.0%	01:30	
		Value of Loans MoM -(Apr)	nf	na	-3.4%	01:30	
		NAB Business Conditions -(May)	nf	na	8	01:30	
		NAB Business Confidence -(May)	nf	na	13	01:30	
		RBA's Stevens speaks in Sydney	-	-	-	03:00	
		AOFM auctions \$500 mn of July 2022 bonds	-	-	-	-	
JP		Machine Orders MoM - (Apr)	nf	0.6%	5.4%	23:50	
		Machine Orders YoY - (Apr)	nf	6.1%	1.2%	23:50	
		Machine Tool Orders YoY - (May P)	nf	na	220.9%	06:00	
UK		BRC May Shop Price Index	-	-	-	23:01	
		Nationwide Consumer Confidence - (May)	nf	na	74	23:01	
	Visible Trade Balance GBP/Mn - (Apr)	nf	-£7100	-£7522	08:30		
	Trade Balance Non EU GBP/Mn - (Apr)	nf	-£3900	-£4103	08:30		
	Total Trade Balance GBP/Mln - (Apr)	nf	na	-£3683	08:30		
US	MBA Mortgage Applications - (Jun 4)	nf	na	0.9%	11:00		
	Wholesale Inventories - (Apr)	nf	0.7%	0.4%	14:00		
	Fed's Bernanke Testifies on Economy at US House Budget Committee	-	-	-	14:00		
	NY Fed's Sack speaks in New York	-	-	-	16:00		
	Fed Releases Beige Book Economic Report	-	-	-	18:00		
	Fed's Bernanke speaks in Virginia	-	-	-	20:00		
	Fed's Hoenig speaks in Kansas City	-	-	-	23:00		

DATA & EVENT CALENDAR

Date	Country	Data/Event	ANZ	Market	Last	GMT	
10 – 11 June	CH	Money Supply M0 YoY – (May)	nf	na	15.8%	-	
		Money Supply M1 YoY – (May)	nf	29.5%	31.3%	-	
		Money Supply M2 YoY – (May)	nf	21.0%	21.5%	-	
		New Yuan Loans – (May)	nf	600.0B	774.0B	-	
10 – 12 June	CH	China NDRC Housing Prices – (May)	nf	11.5	12.8	-	
10 June	NZ	RBNZ Official Cash Rate	2.75%	2.75%	2.50%	21:00	
		Business NZ PMI – (May)	nf	na	58.9	22:30	
		Terms of Trade Index QoQ – (Q1)	nf	na	5.7%	22:45	
		NZ Card Spending MoM – (May)	nf	na	-1.7	22:45	
		Food Prices MoM – (May)	nf	na	-0.5%	22:45	
	AU	Consumer Inflation Expectation – (Jun)	nf	na	3.6%	01:00	
		Employment Change – (May)	7K	15K	33.7K	01:30	
		Unemployment Rate – (May)	5.4%	5.4%	5.4%	01:30	
		Participation Rate – (May)	65.2%	65.2%	65.2%	01:30	
		Full Time Employment Change – (May)	nf	na	37.5K	01:30	
		Part Time Employment Change – (May)	nf	na	-3.9K	01:30	
			RBA Bulletin – (Q2)	-	-	-	01:30
	JP	Gross Domestic Product QoQ – (Q1 F)	nf	1.0%	1.2%	23:50	
		GDP Annualized – (Q1 F)	nf	4.2%	4.9%	23:50	
		Nominal GDP (QoQ) – (Q1 F)	nf	1.0%	1.2%	23:50	
		GDP Deflator YoY – (Q1 F)	nf	-3.0%	-3.0%	23:50	
		Domestic CGPI MoM – (May)	nf	0.2%	0.4%	23:50	
		Domestic CGPI YoY – (May)	nf	0.3%	-0.2%	23:50	
		Japan Buying Foreign Stocks – (Jun 4)	nf	na	¥275.9B	23:50	
		Japan Buying Foreign Bonds – (Jun 4)	nf	na	¥1174.9B	23:50	
		Foreign Buying Japan Stocks – (Jun 4)	nf	na	-¥80.6B	23:50	
		Foreign Buying Japan Bonds – (Jun 4)	nf	na	¥62.4B	23:50	
	CH	Consumer Confidence – (May)	nf	na	42.1	23:50	
		Consumer Confidence Households – (May)	nf	na	42.0	23:50	
		Trade Balance USD – (May)	8.4B	\$8.2B	\$1.68B	-	
	EU	Exports YoY – (May)	33.0%	32.0%	30.5%	-	
		Imports YoY – (May)	45.5%	44.4%	49.7%	-	
ECB Announces Interest Rates		1.00%	1.00%	1.00%	11:45		
		Trichet speaks at ECB Monthly News Conference	-	-	-	12:30	

DATA & EVENT CALENDAR

Date	Country	Data/Event	ANZ	Market	Last	GMT
10 June Cont	GE	Consumer Price Index MoM – (May F)	nf	0.1%	0.1%	06:00
		Consumer Price Index YoY – (May F)	nf	1.2%	1.2%	06:00
		CPI - EU Harmonised MoM – (May F)	nf	0.1%	0.1%	06:00
		CPI - EU Harmonised YoY – (May F)	nf	1.2%	1.2%	06:00
	UK	BOE ANNOUNCES RATES	0.50%	0.50%	0.50%	11:00
		BOE Asset Purchase Target	200B	200B	200B	11:00
	US	Trade Balance – (Apr)	nf	-\$41.0B	-\$40.4B	12:30
		Initial Jobless Claims – (Jun 5)	nf	447K	453K	12:30
		Continuing Claims – (May 29)	nf	na	4666K	12:30
		Monthly Budget Statement – (May)	nf	-\$140.0B	-	18:00
	CA	New Housing Price Index MoM – (Apr)	nf	0.3%	0.3%	12:30
		Int'l Merchandise Trade – (Apr)	nf	0.7B	0.3B	12:30
11 June	NZ	Food Prices MoM – (May)	nf	na	-0.5%	22:45
	CH	Producer Price Index YoY – (May)	6.9%	6.7%	6.8%	02:00
		Purchasing Price Index YoY – (May)	nf	na	12.0%	02:00
		Consumer Price Index YoY – (May)	3.1%	3.0%	2.8%	02:00
		Retail Sales (YoY) – (May)	18.6%	18.6%	18.5%	02:00
		Retail Sales YTD YoY – (May)	nf	18.2%	18.1%	02:00
		Industrial Production (YoY) – (May)	17.6%	17.0%	17.8%	02:00
		Industrial Production YTD YoY – (May)	nf	18.6%	19.1%	02:00
		Fixed Assets Inv Urban YTD YoY – (May)	26.0%	25.7%	26.1%	02:00
	UK	PPI Input nsa MoM – (May)	nf	na	0.6%	08:30
		PPI Input nsa YoY – (May)	nf	na	13.1%	08:30
		PPI Output nsa (MoM) – (May)	nf	0.5%	1.4%	08:30
		PPI Output nsa (YoY) – (May)	nf	5.8%	5.7%	08:30
		PPI Output Core nsa MoM – (May)	nf	na	1.1%	08:30
		PPI Output Core nsa YoY – (May)	nf	na	4.4%	08:30
		Industrial Production MoM – (Apr)	nf	0.4%	2.0%	08:30
		Industrial Production YoY – (Apr)	nf	2.4%	2.0%	08:30
		Manufacturing Production MoM – (Apr)	nf	0.5%	2.3%	08:30
		Manufacturing Production YoY – (Apr)	nf	4.0%	3.3%	08:30
		BOE Releases Inflation Attitudes Survey	-	-	-	08:30
		NIESR GDP Estimate – (May)	nf	na	0.5%	-
US	Advance Retail Sales MoM – (May)	nf	0.2%	0.4%	12:30	
	Retail Sales Less Autos MoM – (May)	nf	0.1%	0.4%	12:30	
	Retail Sales Ex Auto & Gas MoM – (May)	nf	0.3%	0.4%	12:30	

DATA & EVENT CALENDAR

Date	Country	Data/Event	ANZ	Market	Last	GMT
11 June Cont	US	U. of Michigan Consumer Confidence – (Jun P)	nf	74.9	73.6	13:55
		Business Inventories – (Apr)	nf	0.6%	0.4%	14:00
		Fed's Plosser speaks in Pennsylvania	-	-	-	12:20
		Fed's Kocherlakota speaks in Minneapolis	-	-	-	16:00
	CA	Capacity Utilization Rate – (Q1)	nf	73.1%	70.9%	12:30

FIVE WEEKS AT A GLANCE

Monday	Tuesday	Wednesday	Thursday	Friday
<p>14 June JP: BSI Large All Industry (Q2), BSI Large Manuf (Q2) EU: Euro-Zone Ind. Prod. (Apr)</p>	<p>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)</p>	<p>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),</p>	<p>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)</p>	<p>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)</p>
<p>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)</p>	<p>22 June NZ: Credit Card Spending (May) JP: Merchnd's 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)</p>	<p>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)</p>	<p>24 June NZ: GDP (Q1) AU: Conference Board Leading Index (Apr) US: Durable Goods Orders (May), Initial Jobless Claims (Jun 19),</p>	<p>25 June NZ: Trade Balance (May) JP: CPI (May) CH: Industrial Profits (May) EU: Industrial New Orders (Apr) US: GDP (Q1), Personal Consumption (Q1)</p>
<p>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),</p>	<p>29 June NZ: Money Supply M3 (May) JP: Vehicle Production (May) EU: Consumer confidence (Jun) US: Consumer Confidence (Jun) CA: Industrial Product Price (May)</p>	<p>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)</p>	<p>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)</p>	<p>2 July EU: PPI (May), Unemployment Rate (May) UK: PMI Construction (Jun) US: Change in Nonfarm Payrolls (Jun), Unemployment Rate (Jun), Factory Orders (May)</p>
<p>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)</p>	<p>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)</p>	<p>7 July EU: GDP (Q1) GE: Factory Orders (May) US: MBA Mortgage Applications (Jul 2), Challenger Job Cuts (Jun)</p>	<p>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</p>	<p>9 July JP: Domestic CGPI (Jun) CH: Business Climate Index (Q2) GE: CPI UK: PPI US: Wholesale Inventories (May)</p>
<p>12 July UK: RICS House Price Balance (Jun)</p>	<p>13 July NZ: Food Prices (Jun) AU: Home Loans (May), Value of Loans (May) JP: Industrial Production (Jun), Capacity Utilization (Jun) EU: ZEW Survey (Econ. Sentiment) (Jul) GE: ZEW Survey (Econ. Sentiment) (Jul) UK: CPI (Jun), RPI (Jun) US: Trade Balance (May), Monthly Budget Statement (Jun)</p>	<p>14 July NZ: Retail Sales (Apr), REINZ House Sales (Jun) AU: NAB Business Confidence (Jun) EU: CPI (Jun) UK: Jobless Claims Change (Jun) US: MBA Mortgage Applications (Jul 9), Import Price Index (Jun), Advance Retail Sales (Jun), Business Inventories (May)</p>	<p>15 July NZ: Business PMI (Jun) AU: Westpac Consumer Confidence (Jul), DEWR Skilled Vacancies (Jul) JP: BOJ Target Rate CH: GDP (Q2), PPI (Jun) CPI (Jun) Retail Sales (Jun) Industrial Production (Jun) US: PPI (Jun), Initial Jobless Claims (Jul 10), Industrial Production (Jun)</p>	<p>16 July NZ: Consumer Prices (Q2) AU: New Motor Vehicle Sales (Jun) JP: Tertiary Industry Index (Apr) EU: Trade Balance (May) US: CPI (Jun), U. of Michigan Confidence (Jul) CA: Leading Indicators (Jun)</p>

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	0.7	2.6	4.6	4.8
Household consumption	1.6	2.4	1.8	1.7
Dwelling investment	-4.6	7.4	5.0	1.7
Business investment	-0.8	1.7	13.3	14.9
Public demand	3.3	11.4	4.0	1.9
Domestic final demand	1.3	4.6	4.4	4.1
Inventories (contribution to GDP)	-0.5	0.6	0.0	-0.1
Gross National Expenditure (GNE)	0.7	5.2	4.4	4.0
Exports	1.4	2.1	6.0	7.3
Imports	-7.8	14.3	11.1	10.8
Net Exports (contribution to GDP)	2.0	-2.5	-1.3	-1.2
Gross Domestic Product (GDP)	1.3	2.9	3.7	3.9
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	4.2
Labour market				
Employment (annual % change)	0.3	2.4	2.3	1.9
Unemployment rate (annual average %)	5.6	5.1	4.5	4.4
External sector				
Current account balance: A\$bn	-51.7	-58.7	-67.9	-93.4
% of GDP	-4.1	-4.3	-4.6	-6.0

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

AUSTRALIAN INTEREST RATES	CURRENT	SEP 10 F	DEC 10 F	MAR 11 F	JUN 11 F	SEP 11 F
RBA cash rate	4.50	4.75	5.00	5.25	5.50	5.75
90 day bill	4.83	5.00	5.30	5.60	6.00	6.00
3 year bond	4.78	4.90	5.10	5.50	5.70	6.00
10 year bond	5.43	5.40	5.50	5.70	5.80	6.00
3s10s yield curve	0.65	0.50	0.40	0.20	0.10	0.00
3 year swap	5.20	5.30	5.50	5.90	6.10	6.40
10 year swap	5.92	5.95	6.05	6.25	6.35	6.55
INTERNATIONAL INTEREST RATES	CURRENT	SEP 10 F	DEC 10 F	MAR 11 F	JUN 11 F	SEP 11 F
RBNZ cash rate	2.50	3.25	3.50	3.75	4.25	4.75
NZ 90 day bill	3.00	3.67	3.75	4.17	4.67	5.17
US Fed funds note	0.25	0.25	0.25	0.25	0.25	0.50
US 2 year note	0.81	0.80	1.00	1.20	1.50	2.00
US 10 year note	3.36	4.10	4.00	3.80	3.80	4.00
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	0.75

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



FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	SEP 10 F	DEC 10 F	MAR 11 F	JUN 11 F	SEP 11 F
Australian exchange rates						
A\$/US\$	0.8434	0.88	0.90	0.92	0.94	0.94
NZ\$/US\$	0.6838	0.70	0.71	0.72	0.73	0.73
A\$/¥	78.15	83.6	86.4	89.2	92.1	94.0
A\$/€	0.6931	0.73	0.76	0.81	0.84	0.84
A\$/£	0.5771	0.63	0.63	0.62	0.62	0.61
A\$/NZ\$	1.2332	1.26	1.27	1.28	1.29	1.29
A\$/C\$	0.8786	0.87	0.87	0.88	0.88	0.90
A\$/CHF	0.9742	1.03	1.07	1.11	1.16	1.18
A\$/CNY	5.7601	5.92	5.97	6.03	6.16	6.12
A\$ Trade weighted index	67.60	71.5	73.8	75.9	77.1	76.9
International cross rates						
US\$/¥	92.66	95.0	96.0	97.0	98.0	100.0
€/US\$	1.2170	1.21	1.18	1.14	1.12	1.12
€/¥	112.77	115	113	111	110	112
£/US\$	1.4616	1.40	1.44	1.48	1.52	1.54
€/£	0.8326	0.86	0.82	0.77	0.74	0.73
US\$/C\$	1.0417	0.99	0.97	0.96	0.94	0.96
US\$/CHF	1.1551	1.17	1.19	1.21	1.23	1.25
US\$ index	87.20	87.9	89.0	90.7	91.4	91.8
Asia exchange rates						
US\$/CNY	6.8293	6.73	6.63	6.55	6.55	6.51
US\$/HKD	7.7915	7.78	7.75	7.75	7.75	7.75
US\$/IDR	9190	9500	9900	10000	9700	9500
US\$/INR	46.72	48.7	50.4	50.7	49.0	48.5
US\$/KRW	1199	1270	1345	1390	1320	1275
US\$/MYR	3.2766	3.35	3.45	3.50	3.40	3.35
US\$/PHP	46.435	47.3	48.8	49.5	48.0	47.3
US\$/SGD	1.4039	1.43	1.47	1.50	1.45	1.43
US\$/THB	32.590	32.90	33.90	34.30	33.50	33.00
US\$/TWD	32.157	32.50	33.30	33.70	32.70	32.20
US\$/VND	18990	19000	19000	19000	20000	20000
Pacific exchange rates						
PGK/US\$	0.3550	0.395	0.386	0.372	0.358	0.34
FJD/US\$	0.4970	0.507	0.508	0.514	0.517	0.51

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