

# AUSTRALIAN ECONOMICS

## AUSTRALIAN ECONOMICS WEEKLY

19 AUGUST 2011

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### CONTRIBUTORS

**Warren Hogan**  
Chief Economist,  
+61 2 9227 1562  
Warren.Hogan@anz.com

**Ivan Colhoun**  
Head of Australian  
Economics and Property  
Research  
+61 2 9227 1780  
Ivan.Colhoun@anz.com

**Katie Dean**  
Head of Australian  
Economics  
+61 3 9273 1381  
Katie.Dean@anz.com

**Riki Polygenis**  
Senior Economist  
+61 3 9273 4060  
Riki.Polygenis@anz.com

**Julie Toth**  
Senior Economist  
+61 3 9273 6252  
Julie.Toth@anz.com

**David Cannington**  
Economist  
+61 3 9273 4274  
David.Cannington@anz.com

**Andrew McManus**  
Analyst  
+61 2 9227 1742  
Andrew.McManus@anz.com

**Dylan Eades**  
Analyst  
+61 3 9273 2708  
Dylan.Eades@anz.com

**Pat O'Sullivan**  
Analyst  
+61 2 9273 3133  
Pat.O'Sullivan@anz.com

### CONTINUING GLOBAL INSTABILITY INCREASE THE RISKS TO GROWTH

- **Global financial markets remain extremely volatile this week**, with continuing concerns about sovereign debt and the banking system in Europe, a poor run of data from the US and downgraded global forecasts from several major banks. Markets now need a solid circuit breaker of good news to move back into a more optimistic mood.
- **The Australian economy is now tracking much more weakly** outside of the seemingly impervious resources sector (but even there, continuing volatility in global commodity prices is no doubt causing some worry). This was highlighted by the RBA in its August meeting's minutes, released this week. Although the minutes pre-dated the most recent period of global financial market turmoil, the RBA noted that it chose not to tighten rates in order to address inflation (which is above target) due to (1) downside risks from a slowing global economy and from a jumpy financial market environment and (2) clear evidence of restraint in the Australian economy, among both households and most non-resources businesses. Developments since then are likely to have heightened the local mood of caution and restraint even further.
- Against this background, our *In Focus* article this week takes a more detailed look at current trends in the giant services sector, which is the engine room of jobs growth for the Australian economy. The services collectively generated 96% of our net employment gains over the past year, so evidence of their slowing presents significant upside risks to the unemployment rate. Jobs growth is already slowing across many key services sectors, with the forward indicators pointing to even softer growth ahead.

### THE WEEK AHEAD

- In **Australia** next week the data calendar is relatively quiet. Construction work done for Q2 will also be released, the first of the Q2 GDP partial indicators. RBA Governor Stevens and Deputy Governor Battellino will speak. We expect much of their attention will be on recent international developments. Domestically, productivity seems to be of key interest to the RBA at present, after it was mentioned several times in the August minutes and was a central theme at the RBA's annual conference held earlier this week (15-16 August). A paper published in that conference highlighted that wages growth in excess of 3.5% remains inconsistent with the RBA's inflation target, given the low rates of labour productivity growth apparent across the economy.
- **US** durable goods orders and the Richmond Fed manufacturing index are potentially market moving. The degree of confidence lost due to US fiscal and debt ceiling concerns will continue to be watched for in the July US data, given this week's disastrous Philly Fed survey. The second reading of Q2 GDP will also be released.
- There are limited data releases in Asia next week, **Japanese** machine tool orders and CPI will be the focus.
- In Europe, **Eurozone** industrial new orders, **German** ZEW, IFO surveys of businesses and consumers and Q2 GDP for the **UK** will all be released. Markets will be looking for policy responses to sluggish growth and plans to counter debt concerns.
- In **New Zealand**, trade and retail sales data will be released. Like for Australia, export prices are likely to boost national income while consumption growth remains below long term trend levels as households deleverage.

Julie Toth  
Senior Economist  
+61 3 9273 6252  
Julie.Toth@anz.com

## THE SERVICES SECTORS: THE HEART OF THE MULTI-SPEED DILEMMA

While much has been made lately of the divergence between mining and the rest of the economy, there are also some important divergences elsewhere. The variation in trends and influences across the services sectors is becoming increasingly evident, as the drivers of growth become increasingly narrowly based.

### KEY POINTS

- Collectively, the services sectors account for over half of economic output and three quarters of employment. Importantly, **96% of net employment gains in 2010-11 (year to May 2011) came from services**. The services recovered from the GFC relatively well, with 6.8% growth in output between (GFC affected) Q1 2008 and (flood affected) Q1 2011, compared with 4.3% for total GDP and 3.9% for non-farm GDP.
- Services can be roughly divided into a core group of **relatively stable sectors** (health, education and government services) and a larger group of **market-based sectors** that are susceptible to various economic cycles. One in four workers are now employed in the 'stable' services sectors while half are employed in the more cyclical, vulnerable services.
- **The outlook across the services for the remainder of 2011 is generally flat or weakening**, in line with ongoing weakness in private consumption and business investment (the two main drivers of cyclical services spending). From 2012, some of the more cyclical services sectors are expected to benefit from a stronger local spending profile and/or from spin-off activity generated by the resources-related investment boom.
- This weakening outlook for the services sectors will create yet another headwind for aggregate growth in Australia for the remainder of 2011. The importance of services in generating jobs growth means **this weakness will put upward pressure on the unemployment rate**.

FIGURE 1: COMPOSITION AND GROWTH OF SERVICES VS NON-SERVICES SECTORS

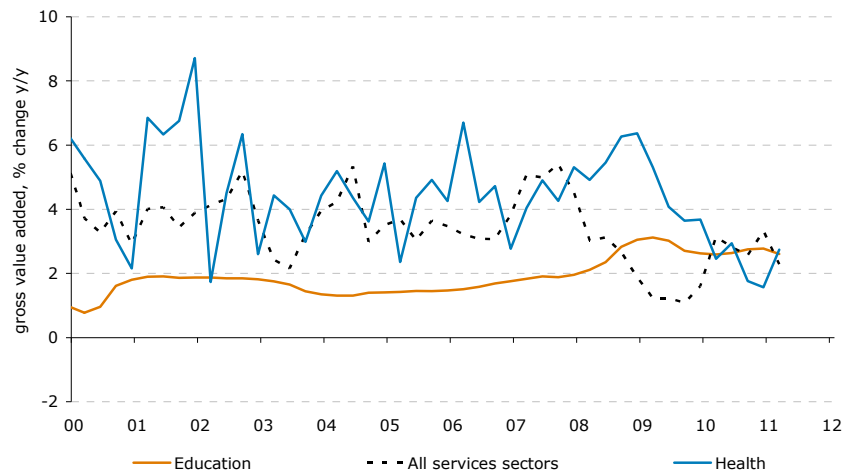
SERVICES	% OF GDP*	% OF EMPLOYMENT#	GDP % CHANGE, Q1 2008 TO Q1 2011
Health, education and public sector admin.	14.5	25.3	8.6
Retail and wholesale trade	8.5	17.8	3.7
Hospitality, arts and recreation	2.8	8.9	-0.3
Transport, IT, media and telecommunications	7.8	7.0	2.2
Finance and insurance	10.4	3.7	7.4
Professional, real estate and admin. services	11.4	12.8	13.1
<b>All services sectors</b>	<b>57.0</b>	<b>76.0</b>	<b>6.8</b>
<b>NON-SERVICES</b>			
Agriculture	2.5	3.0	25.4
Mining ( <i>badly affected by floods in Q1 2011</i> )	9.2	1.9	-0.3
Manufacturing	8.5	8.6	-6.9
Construction	7.3	9.2	9.7
Utilities	2.0	1.3	9.0
<b>All non-services sectors</b>	<b>29.5</b>	<b>24.0</b>	<b>2.4</b>

\* Average share of GDP, Q1 2010 to Q1 2011. Industry sectors do not sum to 100 due to other items in the national accounts including net taxes, ownership of dwellings and statistical discrepancy. # May 2011. Source: ABS.

## RELATIVELY STABLE SERVICES SECTORS

The steady giants of the services sectors are **health, education and public administration**. They are less directly vulnerable to housing, business, consumption or other cycles than are other industries. They are driven instead by demographics, government policy and changes in income, wealth and social expectations, all of which tend to change relatively slowly. Technological change is also important, especially in health services.

FIGURE 2: OUTPUT GROWTH, RELATIVELY STABLE SERVICES SECTORS



Source: ABS.

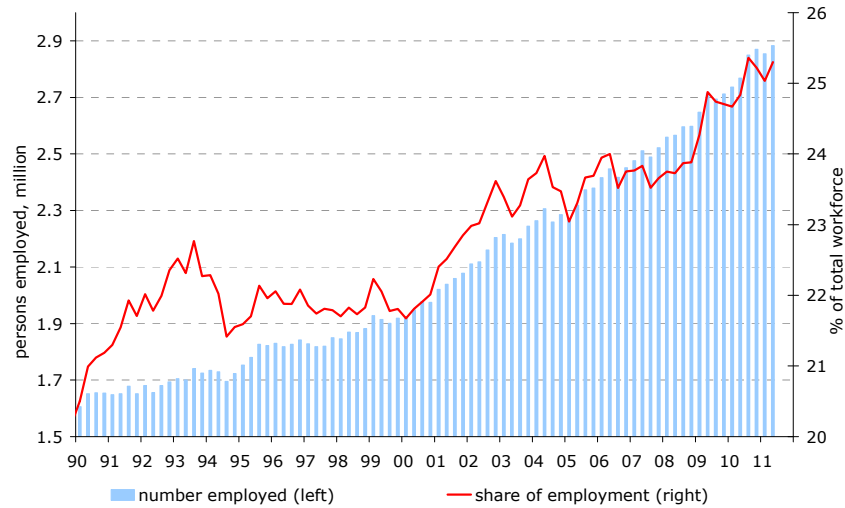
Health, education (and to a lesser extent public administration) have **consistently expanded over several decades**, in terms of output but especially in **employment**. These three collectively accounted for around 14% of GDP (by value added production) and a quarter of all employment by 2011 (see figure 3). The increasing share of employment that is now based in these industries is an important structural shift in the economy. It implies that more of the employed workforce is potentially 'shielded' from (or at least is less directly vulnerable to) the effects of business and other cycles. This is perhaps another reason why the Australian labour market did not suffer the degree of job cuts during the GFC downturn that the fall in GDP might have implied (other reasons include the cut to hours instead of headcount seen across many industries and the boost to consumption that was quickly put in place via fiscal spending and interest rate cuts).

A related structural issue is **productivity**, and especially labour productivity. This varies considerably across sectors of the economy, depending on the mix of labour, skills and capital required (see figure 4 below). Health and education tend to be labour-intensive industries and therefore have a lower labour productivity value than many other sectors, notwithstanding the high average skill level required in both of these sectors<sup>1</sup>. Their growing share of the economy and employment may therefore be contributing, in a structural sense, to the apparent slowdown in national aggregate

<sup>1</sup> Indeed, in his recent paper discussing Australian productivity trends, the Grattan Institute's Saul Eslake notes that labour productivity estimates in health and education may be an 'apparent anomaly' arising from the way in which labour and capital inputs are measured, and difficulties in accurately measuring the value of outputs in these industries, and should be interpreted 'more cautiously'.

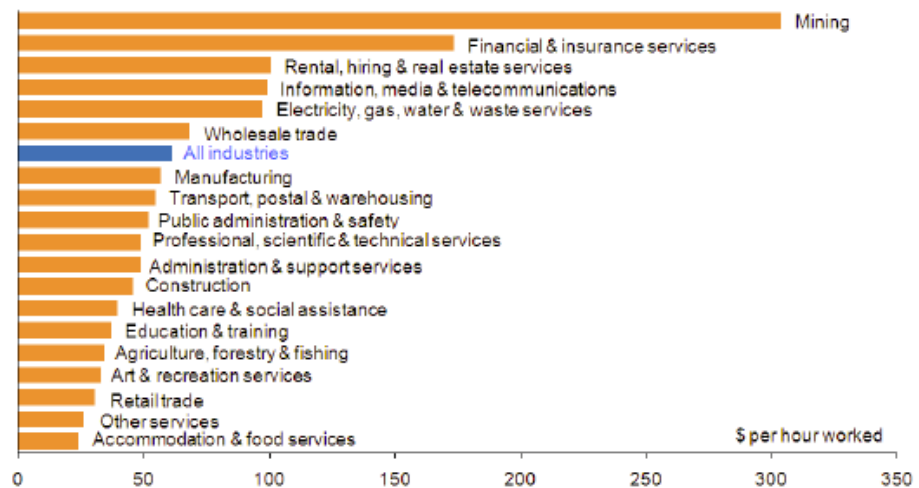
labour productivity growth observed over the past decade (along with other, unrelated factors).<sup>2</sup> Thus while a larger share of employment based in these sectors may help to stabilise the workforce, it may also reduce aggregate productivity measures.

**FIGURE 3: EMPLOYMENT IN THE RELATIVELY STABLE SERVICES SECTORS**



Source: ABS.

**FIGURE 4: LABOUR PRODUCTIVITY\* BY SECTOR**



\* gross value added per hour worked, annual average for 2009-10.  
Source: Eslake, 2011, based on ABS data.

Looking at these sectors individually, **health services** (including aged and social welfare services) has been Australia’s jobs juggernaut in recent years. It is now Australia’s single largest employing sector. It has not experienced negative annual growth in output since 1998 (one negative quarter only) and has not experienced negative annual growth in employment since 2003 (two consecutive negative

<sup>2</sup> Saul Eslake, 2011, “Productivity”, Paper presented to the annual policy conference of the RBA, 15-16 August 2011.

quarters). Growth in health employment accelerated to an average of 5.9% y/y over the past two years, compared with an average of 2.1% y/y for total employment. Health now employs 11.3% of the total workforce, up from 9.3% in 2000 and 8.2% in 1990. Demographics, incomes and social changes all line up in favour of continuing steady growth in this very large sector of the economy.

**Education** has not experienced negative annual growth since 1985. Education employment fell during the GFC fallout in 2009, mainly due to a decline in international student numbers in tertiary education, but these jobs have since been reclaimed. As of May 2011, a record 246,000 people were employed in tertiary education (up 9.5% y/y) and 886,000 were employed across all education services (up 5.3% y/y). The high AUD, student visa eligibility changes and negative publicity in India have affected some parts of the education sector that rely heavily on international students. But a strong economic outlook in the Asian countries which are the predominant source countries and a rising birthrate in Australia in recent years (albeit off very low rates in the 1990s) means total demand for education services remains robust.

**Public administration** (federal, state and local government administration, safety, justice and defence) is the smallest of these three 'stable' sectors, but it still accounts for 4.8% of GDP (by output) and 6.3% of employment. This makes it about the same size as the transport sector in terms of output and slightly larger than either retail or wholesale trade. Public services activity is vulnerable to political cycles and changes in policy (including periodic rounds of job cuts), but it is nevertheless more stable than other, predominantly private-sector, services and industries. With government budgets under pressure at both federal and state levels however, it is difficult to see much growth coming from public sector spending or activity in the medium term.

### CYCLICAL SERVICES SECTORS

**Around half of all Australian workers are employed in mainly private sector (market-based) services sectors.** These sectors are closely aligned with the various consumption, investment and construction cycles that affect our economy.

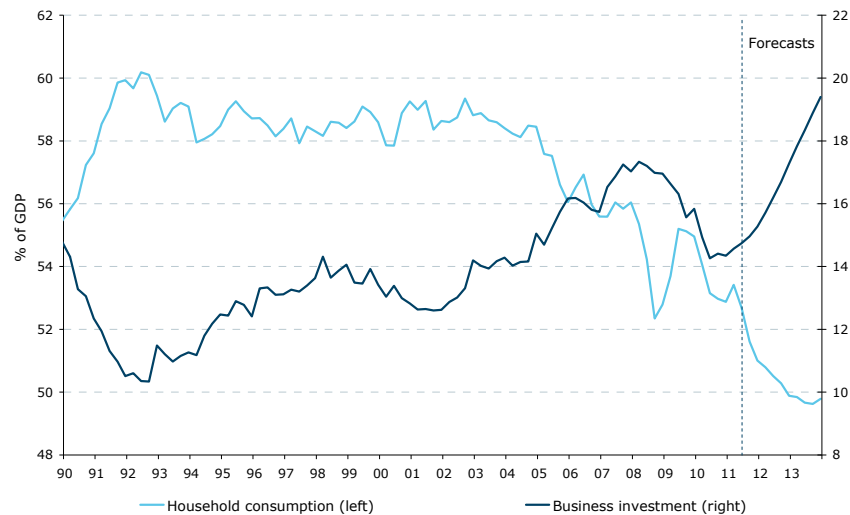
Services that are relatively more exposed to changing **consumer preferences** include retail and its supply chain (wholesale, transport, media), hospitality, recreation and personal services. The **housing cycle** directly affects real estate services and parts of professional services, while the **business investment cycle** has a direct impact upon freight transport, IT, media, telecommunications, finance, insurance, professional and administrative services. These cycles overlap and often run counter to each other. Individual businesses in each sector will feel the influence of consumer and/or business cycles, depending on the structure of their core customer base at any given time.

**Right now, the Australian economy has conflicting forces arising from these major cycles.** Private household consumption is declining as a driver of growth, housing construction is subdued, while private business investment is surging ahead. This is most clearly evident when expressed as a share of GDP (see figure 5). This pattern is **favouring services that are more closely aligned with the business investment cycle**, and especially with the resources-related investment that is currently underpinning Australia's growth outlook. Professional services (accounting, consulting and legal), finance, insurance, IT and freight transport are benefiting from this mining-related investment uplift.

On other side of the ledger, **services that are more focussed on household consumption are doing it tough**, most visibly retail services, but also the wholesalers, distributors and manufacturers that supply them (see figure 6). Hospitality services (accommodation, restaurants and cafes) have been hit by declining tourism (due to the high AUD and the poor economic environment in developed world source countries), but anecdotal evidence and some mixed data indicate restaurant

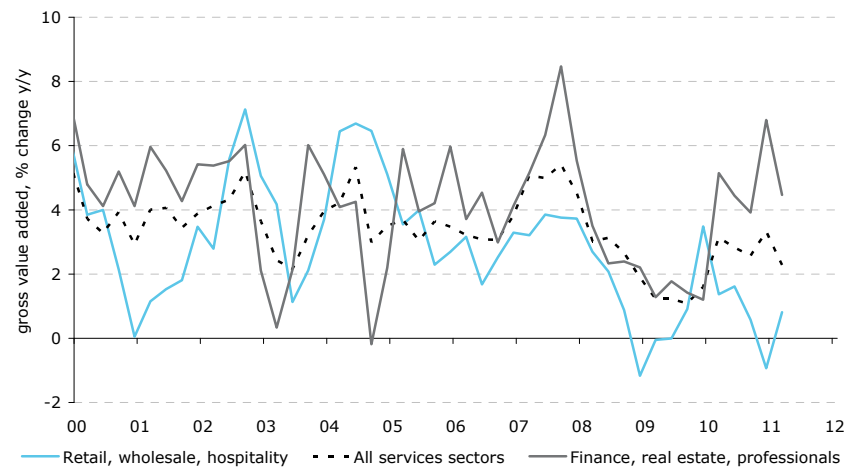
and food services are getting reasonable local patronage. Similarly in arts and recreational services and personal services, growth is patchy across Australia but generally stronger than retail trade. Australian consumers are saving more instead of spending, but they are also favouring services over goods, to the benefit of those outside retailing.

**FIGURE 5: PRIVATE CONSUMPTION AND INVESTMENT, SHARES OF GDP**



Source: ABS.

**FIGURE 6: OUTPUT GROWTH, RELATIVELY CYCLICAL SERVICES SECTORS**



Source: ABS.

**ACTIVITY OUTLOOK FOR THE SERVICES SECTORS**

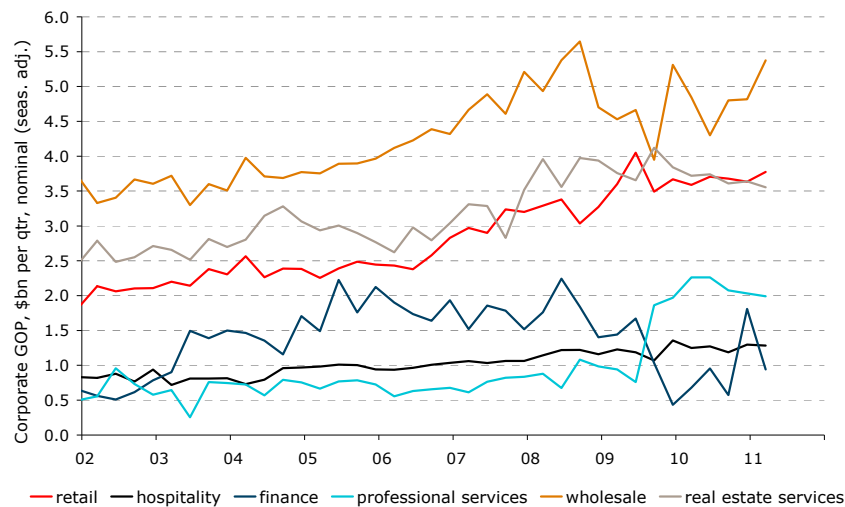
Although the services sectors dominate the economy, there is a paucity of timely, forward-looking data available for many of its largest sectors. **The available data are not, on the whole, looking positive at present, with profits, investment intentions and business conditions all softening as we headed into 2011-12.**

Profits ratios in the services that are vulnerable to various economic cycles are often thin (particularly when compared with the dominant mining sector). In sectors such as retail that are currently under intense competitive pressure, profit margins appear to have fallen through 2010-11, from an annual average profit to sales ratio of 6.2%



through 2009, to 5.6% in 2010-11 (to the March quarter). Profit ratios tend to be higher in finance, real estate services and professional services than in retail or wholesale services, but some downward trend is evident in these sectors also, most notably in professional services. This sector has seen its industry-wide profit ratio drop from a recent high of 10% in 2009-10 to 7% in 2010-11. In aggregate, nominal corporate profits in several major services sectors were flat or declined in 2010-11 and all are below their own nominal peaks (see figure 7).

**FIGURE 7: AGGREGATE PROFITS (NOMINAL), SELECTED SERVICES SECTORS**



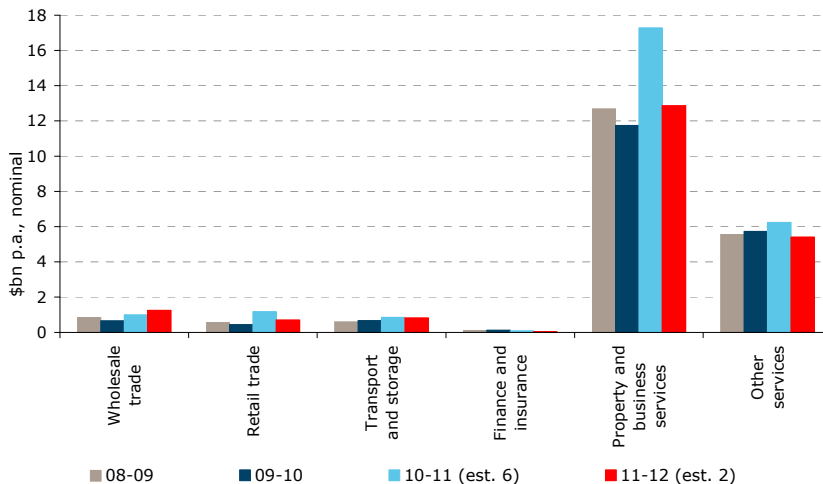
Source: ABS.

**This indication of flat profits (at best) does not augur well for these sectors' ability to invest and expand in the short to medium term.** Estimates of private capital investment (Capex) for 2010-11 indicates a rise of 37% from 2009-10's low point (down 5% that year) for the services that are included in the Capex survey. The same survey however, points to a fall of 21% for 2011-12 for these sectors. Property and business services is the largest services sector in the capex survey. Forward intentions indicate a decline of 25% in intended investment in 2011-12, while retailers intend to invest 40% less in 2011-12 compared with 2010-11. This compares with an increase of 108% for the mining sector's capex intentions in 2011-12 and growth of 6.7% for manufacturing's intended capex in 2011-12.

The business surveys indicate **business conditions were deteriorating** going into 2011-12 across the main market-based (cyclical) services sectors. The nab survey indicates that a gap has existed for some time between the depressed consumer oriented retail and wholesale services versus the more buoyant business oriented finance, business, property and transport services sectors (see figure 9).

The AiG Performance of Services survey indicates a similar pattern of declining conditions in July (see figure 10), with five of the nine services sectors surveyed indicating a decrease in activity in July. New orders for services as a whole in the AiG's survey has been unchanged for the past four months, at just under 50 points (the cut-off score for net expansion).

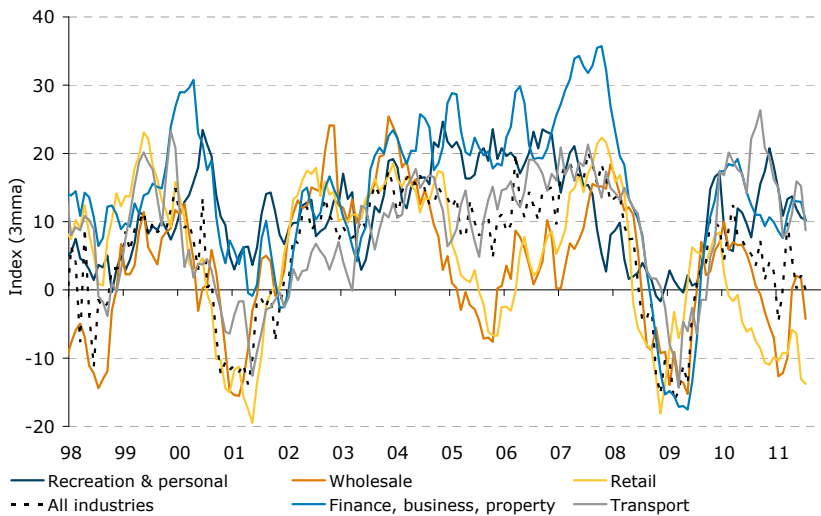
FIGURE 8: CAPITAL EXPENDITURE INTENTIONS, MAJOR SERVICES SECTORS



Estimates based on 5 year average realisation ratios

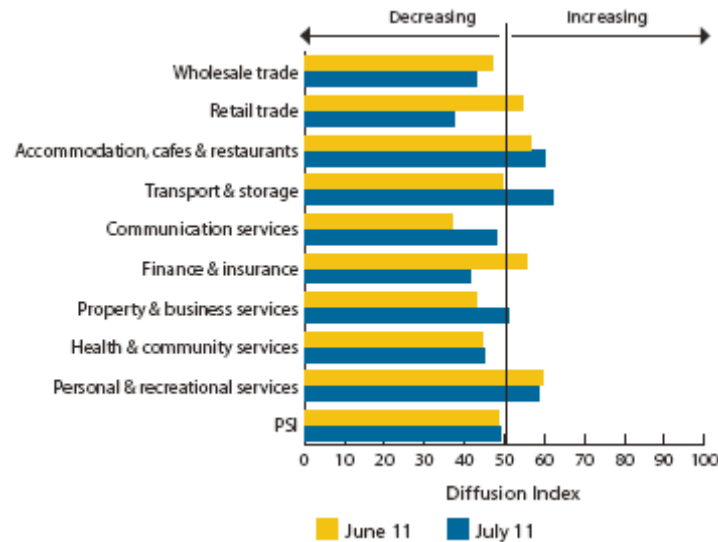
Source: ABS, ANZ

FIGURE 9: BUSINESS CONDITIONS, MARKET-BASED SERVICES SECTORS



Source: nab

FIGURE 10: BUSINESS CONDITIONS, SELECTED SERVICES SECTORS



Source: AiG, Performance of Services Index.

#### EMPLOYMENT OUTLOOK FOR THE SERVICES SECTORS

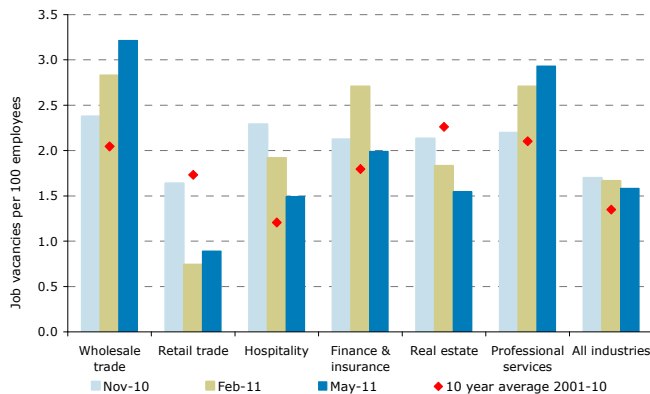
Services have been the big drivers of jobs growth in the Australian economy over the past year (and indeed, over several decades). In the year to May 2011, 246,000 of the 255,000 jobs added to the economy (96%) were in services, with about half in each of the 'stable' services (health, education and government) and half in market-based services. Even more starkly, over the three years since the GFC (May 2008 to May 2011), 99% of the 592,000 net jobs added to the economy were in the services sectors (52% in the stable sectors and 46% in the market-oriented sectors). Outside services, mining (+50,000 jobs), utilities (+27,000) and construction (+70,000) also experienced excellent jobs growth over the three years to May 2011, but these were almost exactly balanced by the loss of 102,000 jobs in manufacturing and 37,000 in agriculture.

The big question for the economy going forward is **to what extent can services sector employment continue to expand at this sort of pace?**

In aggregate, we think it unlikely that the recent pace in jobs growth across the services sectors can be sustained. Indeed, employment growth in many of the larger services sectors has already slowed in H1 2011. Wages data released last week also supports the view that the labour market has not tightened in the larger services sectors, with the size of wage increases easing across most relevant sectors and professions in Q2 2011.

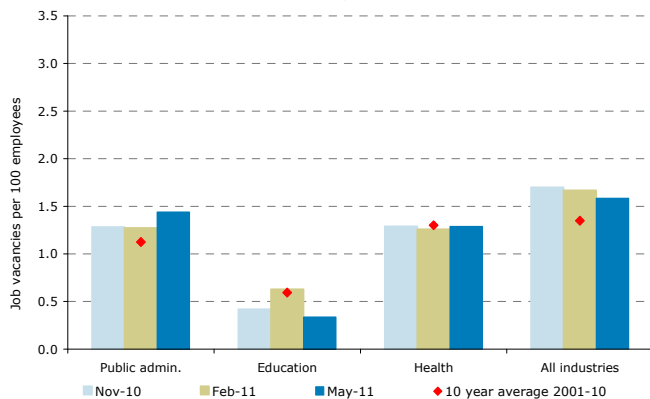
The forward indicators are pointing to a further slowing in jobs growth in services, as is the fact that population growth has slowed. In particular job vacancies data is decelerating for the economy as a whole. The more detailed data indicates this is happening in several of the larger employing services sectors, including finance and insurance, retail trade, real estate and education. Vacancy rates in health services have not shifted much this year, but remain a touch below the industry's long-term average. In professional services and wholesale trade, vacancy rates appear to have increased in May 2011 (latest available data) and are now well above industry averages. The public sector vacancy rate is also up. This could indicate a period of greater turnover and/or genuine net jobs growth in these sectors (see figures 11 and 12).

**FIGURE 11: VACANCY RATES, MAJOR CYCLICAL SERVICES SECTORS**



Sources: ANZ, ABS

**FIGURE 12: VACANCY RATES, RELATIVELY STABLE SERVICES SECTORS**



Sources: ANZ, ABS

## DATA WRAP

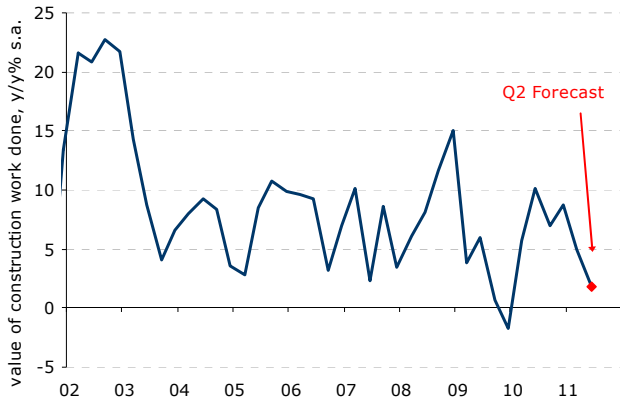
Andrew McManus  
Analyst  
+61 2 92271742  
Andrew.McManus@anz.com

## DATA WRAP

- The **RBA minutes** for the 2 August meeting pre-dated much of the recent market volatility. The Board considered tightening monetary policy further as underlying inflation had begun to pick up and the Bank's central forecast was that inflation would rise above the target band during the forecast period. However, the downside risks to growth had risen and the degree of restraint (whether voluntary or involuntary) from households had also flowed through into many economic indicators.
- The **wage price index** came in on expectations at 0.9% q/q, although private sector wages were surprisingly soft at 0.75% q/q. Public sector wage growth picked up modestly to 0.92% q/q. Despite softening slightly in Q2, annual wage growth of 3.8% against a backdrop of poor productivity could still be considered above that consistent with the RBA's inflation target. However the slowdown in employment and forward-looking indicators of labour demand suggest that (a) growth concerns will dominate for the time being; and (b) there may be downside risks to the RBA's current wages/inflation forecasts.
- **Average weekly earnings** data came in above market expectations. Ordinary full time earnings (AWOTE) increased 1.2% q/q and 4.4% y/y. This series is affected by compositional change, so the fact that it was stronger than the WPI measure may reflect a shift in composition of employment towards higher paying industries (and away from lower paying ones like retail, hospitality etc).
- **DEWR Internet Skilled Vacancies** fell by 0.8% m/m in July, while the June vacancies were downwardly revised to -0.7 m/m. This is in line with the trend in the ANZ Job Advertisements Series.
- **New motor vehicle sales** rose by 8.6% m/m in July to be 0.9% higher than a year ago. The rise in sales was widespread across all states and territories.
- The **Westpac Leading Index** rose by 0.1% in June. The real corporate gross operating surplus component was the major driver of the slight rise.

# DATA PREVIEW

## CONSTRUCTION WORK DONE (Q2)



### 24 AUGUST: CONSTRUCTION WORK DONE (Q2)

**ANZ: +1.6% q/q, +1.9% y/y**

**Market: +1.0% q/q**

**Last: +0.7%, +4.9% y/y**

Growth in construction work done has held up over the last two quarters due to expanding engineering construction, with other building work (residential and non-residential) declining in both quarters. Indeed, in Q1 - a period when many large-scale projects were disrupted by inclement weather across the country - the value of engineering construction work done surged ahead by 15.5% y/y, while other non-residential building work contracted by 16.6% y/y and residential construction work expanded slowly (+1.9%q/q).

We expect to see a similar pattern in the Q2 construction data, as the 'two speed' gap widens between escalating resources-related engineering construction versus flat residential and non-residential building activity. Public sector engineering activity may also add to engineering construction in Q2, as Queensland pushes on with rebuilding its damaged transport infrastructure (primarily roads and rail). (JT)

## DATA &amp; EVENT CALENDAR

## WEEK STARTING 22 AUGUST

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST	
22-Aug	JN	Supermarket Sales y/y	JUL	--	--	0.1%	05:00	15:00	
		Convenience Store Sales y/y	JUL	--	--	9.0%	07:00	17:00	
	EU	<b>ECB Announces Bond Purchases</b>					<b>13:30</b>	<b>23:30</b>	
		<b>ECB Calls for Bids in 7-Day Main Refinancing Tender</b>					<b>13:30</b>	<b>23:30</b>	
	US	Chicago Fed National Activity Index	JUL	-0.48	--	-0.46	12:30	22:30	
		MBA Mortgage Foreclosures	2Q	--	--	4.5%	14:00	00:00	
		Mortgage Delinquencies	2Q	--	--	8.3%	14:00	00:00	
Tuesday	NZ	RBNZ 2yr Inflation Expectation	3Q	--	--	3.0%	03:00	13:00	
23-Aug	AU	<b>RBA Deputy Governor Battellino speaks in Sydney</b>					<b>04:00</b>	<b>14:00</b>	
		<b>AOFM Auctions A\$100m of August 2020 TIPS</b>							
		<b>AOFM Auctions A\$100m of September 2025 TIPS</b>							
	JN	Machine Tool Orders y/y	JUL F	--	--	34.6%	06:00	16:00	
	CH	HSBC Flash China Manufacturing PMI	AUG	--	--	48.9	02:30	12:30	
	EU	PMI Composite	AUG A	50.0	--	51.1	08:00	18:00	
		PMI Manufacturing	AUG A	49.5	--	50.4	08:00	18:00	
		PMI Services	AUG A	51.0	--	51.6	08:00	18:00	
		ZEW Survey (Econ. Sentiment)	AUG	--	--	-7	09:00	19:00	
		<b>ECB Announces Allotment in 7-Day Main Refinancing Tender</b>					<b>09:15</b>	<b>19:15</b>	
		<b>ECB Announces Allotment in 7-Day Term Deposits</b>					<b>11:00</b>	<b>21:00</b>	
		Euro-Zone Consumer Confidence	AUG A	-12	--	-11.2	14:00	00:00	
	GE	PMI Manufacturing	AUG A	51	--	52	07:30	17:30	
		PMI Services	AUG A	52	--	52.9	07:30	17:30	
		ZEW Survey (Current Situation)	AUG	85	--	90.6	09:00	19:00	
		ZEW Survey (Econ. Sentiment)	AUG	-25	--	-15.1	09:00	19:00	
	UK	BBA Loans for House Purchase	JUL	--	--	31747	08:30	18:30	
		CBI Trends Selling Prices	AUG	--	--	4	10:00	20:00	
		CBI Trends Total Orders	AUG	--	--	-10	10:00	20:00	
	US	Greenspan Speaks at Washington Convention Center					04:00	14:00	
		New Home Sales	JUL	315K	--	312K	14:00	00:00	
		New Home Sales m/m	JUL	1.0%	--	-1.0%	14:00	00:00	
		Richmond Fed Manufacturing Index	AUG	-8	--	-1	14:00	00:00	
		<b>US Treasury Auctions 2-year Notes</b>							
	CA	Retail Sales Less Autos m/m	JUN	0.3%	--	0.5%	12:30	22:30	
		Retail Sales m/m	JUN	0.6%	--	0.1%	12:30	22:30	
Wednesday 24-Aug	NZ	Exports	JUL	3.85B	3.78B	3.97B	22:45	08:45	
		Imports	JUL	3.90B	3.95B	3.74B	22:45	08:45	
		Trade Balance	JUL	-100m	-170m	230m	22:45	08:45	
		Trade Balance 12 Mth YTD	JUL	1104m	1040m	1021m	22:45	08:45	
	AU	Conference Board Leading Index	JUN	--	--	-0.1%	00:00	10:00	
Construction Work Done q/q		2Q	1.0%	1.6%	0.7%	01:30	11:30		
		<b>AOFM Auctions A\$700m of January 2018 Bonds</b>							
	JN	Corp Service Price Index y/y	JUL	--	--	-0.7%	23:50	09:50	
	EU	Industrial New Ordersnsa y/y	JUN	--	--	15.5%	09:00	19:00	
		Industrial New Orders sa m/m	JUN	0.0%	--	3.6%	09:00	19:00	
	GE	Ifo - Business Climate	AUG	111.2	--	112.9	08:00	18:00	
		Ifo - Current Assessment	AUG	120.1	--	121.4	08:00	18:00	
		Ifo - Expectations	AUG	103.2	--	105	08:00	18:00	
	UK	Nationwide Consumer Confidence	JUL	46	--	51	23:01	09:01	
	US	MBA Mortgage Applications	Aug-11	--	--	4.1%	11:00	21:00	
		Cap Goods Orders Nondef Ex Air	JUL	--	--	-0.4%	12:30	22:30	
		Cap Goods Ship Nondef Ex Air	JUL	--	--	1.0%	12:30	22:30	
		Durable Goods Orders	JUL	2.0%	--	-1.9%	12:30	22:30	
		Durables Ex Transportation	JUL	-0.6%	--	0.4%	12:30	22:30	
		House Price Index m/m	JUN	0.2%	--	0.4%	14:00	00:00	
		House Price Purchase Index q/q	2Q	--	--	-2.5%	14:00	00:00	
			<b>US Treasury Auctions 5-year Notes</b>						

## DATA &amp; EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST	
25-28 AUG	CH	Leading Index	JUL	--	--	101.76	--	--	
25-31 AUG	UK	Nat'wide House prices nsa y/y	AUG	--	--	-0.4%	--	--	
		Nat'wide House prices sa m/m	AUG	--	--	0.2%	--	--	
25 Aug - 1 Sep	GE	Import Price Index m/m	JUL	0.3%	--	-0.6%	--	--	
		Import Price Index y/y	JUL	7.0%	--	6.5%	--	--	
Thursday 25-Aug	NZ	Food Prices m/m	JUL	--	1.0%	1.4%	22:45	08:45	
		Retail Sales Ex Inflation q/q	2Q	--	0.9%	0.9%	22:45	08:45	
	AU	CBA HIA House Affordability	2Q	--	--	55.7	01:00	11:00	
	JN	Foreign Buying Japan Bonds	Aug-11	--	--	¥217.6B	23:50	09:50	
		Foreign Buying Japan Stocks	Aug-11	--	--	-¥400.9B	23:50	09:50	
		Japan Buying Foreign Bonds	Aug-11	--	--	-¥350.5B	23:50	09:50	
		Japan Buying Foreign Stocks	Aug-11	--	--	¥139.0B	23:50	09:50	
	GE	GfK Consumer Confidence Survey	SEP	5.2	--	5.4	06:00	16:00	
	UK	CBI Reported Sales	AUG	--	--	-5	10:00	20:00	
		<b>Bank of England's Weale Speaks in Doncaster, England</b>						<b>11:00</b>	<b>21:00</b>
	US	Continuing Claims	Aug-11	--	--	3702K	12:30	22:30	
		Initial Jobless Claims	Aug-11	--	--	408K	12:30	22:30	
		Bloomberg Consumer Comfort	Aug-11	--	--	-48.3	13:45	23:45	
		<b>US Treasury Auctions 7-year Notes</b>							
26 Aug - 2 Sep	GE	Retail Sales m/m	JUL	--	--	4.5%	--	--	
		Retail Sales y/y	JUL	--	--	-1.0%	--	--	
Friday 26-Aug	AU	<b>RBA Governor Stevens appears before House of Reps Economics Committee</b>						23:30	09:30
		<b>AOFM Auctions A\$700m of February 2017 Bonds</b>							
	JN	Natl CPI Ex Food, Energy y/y	JUL	-0.6%	--	-0.8%	23:30	09:30	
		Natl CPI Ex-Fresh Food y/y	JUL	-0.1%	--	-0.2%	23:30	09:30	
		Natl CPI y/y	JUL	0.0%	--	-0.4%	23:30	09:30	
		Tokyo CPI Ex Food, Energy y/y	AUG	-0.6%	--	0.3%	23:30	09:30	
		Tokyo CPI Ex-Fresh Food y/y	AUG	-0.1%	--	0.4%	23:30	09:30	
		Tokyo CPI y/y	AUG	-0.2%	--	0.5%	23:30	09:30	
	CH	MNI August Business Condition Survey					01:35	11:35	
	EU	Euro-Zone M3 sa y/y	JUL	2.2%	--	2.1%	08:00	18:00	
		Euro-Zone M3 sa 3 mth ave.	JUL	--	--	2.2%	08:00	18:00	
		<b>ECB's Trichet Speaking at Jackson Hole Conference</b>						<b>16:25</b>	<b>02:25</b>
	UK	GDP q/q	2Q P	0.2%	--	0.2%	08:30	18:30	
		GDP y/y	2Q P	0.7%	--	0.7%	08:30	18:30	
		Index of Services (3mth/3mth)	JUN	--	--	1.2%	08:30	18:30	
		Index of Services m/m	JUN	--	--	1.6%	08:30	18:30	
	US	Core PCE q/q	2Q S	2.1%	--	2.1%	12:30	22:30	
		GDP Price Index	2Q S	2.3%	--	2.3%	12:30	22:30	
		GDP q/q (Annualized)	2Q S	1.1%	--	1.3%	12:30	22:30	
		Personal Consumption	2Q S	0.2%	--	0.1%	12:30	22:30	
		U. of Michigan Confidence	AUG F	56.0	--	54.9	13:55	23:55	
		<b>Fed Chairman Bernanke (voter) Gives Speech at Jackson Hole, Wyoming</b>						<b>14:00</b>	<b>00:00</b>
27-Aug	CH	Industrial Profits YTD y/y	JUL	--	--	28.7%	02:00	12:00	

# FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>22 AUGUST</b> US: Chicago Fed Activity Index (Jul)	<b>23 AUGUST</b> AU: <b>RBA's Battellino Speaks</b> JP : Machine Tool Orders (Jul F) EU : ZEW Survey (Aug), Consumer Confidence (Aug A) GE : ZEW Survey (Aug) US : Richmond Fed Manufacturing Index (Aug), New Homes Sales (Jul) CA : Retail Sales (Jun)	<b>24 AUGUST</b> NZ: Trade Balance (Jul) AU : Construction Work Done (Q2) EU: Ind. New Orders (Jun) GE : IFO (Aug) US : Durable & Capital Goods Orders (Jul)	<b>25 AUGUST</b> NZ: Food Prices (Jul), Retail Sales (Q2)	<b>26 AUGUST</b> AU: <b>RBA's Stevens speaks</b> JP: CPI (Jul), Tokyo CPI (Aug) GE: GfK Consumer Confidence (Sep) UK: GDP (Q2 P) US: GDP (Q2 S), Personal Consumption (Q2 S), Core PCE (Q2 S), Univ. of Michigan Consumer Confidence (Aug F)
<b>29 AUGUST</b> AU: HIA New Home Sakes (Jul) GE: CPI (Aug P) US: Personal Income (Jul), PCE core (Jul), Pending Home Sales (Jul), Dallas Fed Manufacturing Activity (Aug)	<b>30 AUGUST</b> NZ : Building Permits (Jul) JP : Jobless Rate (Jul), Retail Trade (Jul) EU : Consumer Confidence (Aug) UK : Mortgage Approvals (Jul), GfK Consumer Confidence (Aug) US : Case Shiller House Prices (Jun), Consumer Confidence (Aug), <b>FOMC Minutes</b>	<b>31 AUGUST</b> NZ: NBNZ Business Confidence (Aug) AU : RP-Data Rismark House Prices (Jul), Private Credit (Jul) JP : IP (Jul P), Vehicle Production (Jul), Housing Starts (Jul) EU : Unemployment (Aug), CPI est. (Aug) GE : Unemployment (Aug) US : ADP employment (Aug), Chicago PMI (Aug), Factory Orders (Jul) CA : GDP (Q2)	<b>1 SEPTEMBER</b> NZ: Commodity prices (Aug), ToT (Q2) AU: CAPEX (Q2), Retail Sales (Jul), AiG PMI (Aug) JP: Vehicle Sales (Aug) CH: PMI Manuf. (Aug) EU: PMI Manuf. (Aug F), <b>ECB's Stark &amp; Nowotny Speak</b> GE: GDP (Q2), PMI Manuf. (Aug F) UK: PMI Manuf. (Aug) US: ISM Manuf. (Aug), ICSC Chain Store Sales (Aug)	<b>2 SEPTEMBER</b> JP: Capital Spending (Q2) EU: PPI (Jul) UK: PMI Con. (Aug) US: Payrolls (Aug)
<b>5 SEPTEMBER</b> AU: AiG Perf. Services (Aug), TD Inflation expectations (Aug), ANZ Job Ads (Aug), Company Profits and Inventories (Q2) EU: PMI Services (Aug F), Retail Sales (Jul) GE: PMI Services (Aug) UK: PMI Services (Aug) US & CA: <b>Labor Day Holiday</b>	<b>6 SEPTEMBER</b> AU: CA (Q2), <b>RBA rates decision</b> EU: GDP (Q2 P) GE: Factory Orders (Jul) US: ISM non-manufacturing (Aug)	<b>7 SEPTEMBER</b> AU: AiG Perf. Construction (Aug), Housing Finance (Jul), GDP (Q2) JP: <b>BoJ rates decision</b> GE: IP (Jul) UK: IP (Jul) US: <b>Fed's Beige Book</b> CA: <b>BoC rates decision</b>	<b>8 SEPTEMBER</b> NZ: Manufacturing Activity (Q2) AU: Employment (Aug), Trade (Aug) JP: CA (Jul), Trade (Jul), Machine Orders (Jul) EU: <b>ECB rates decision, ECB's Trichet Speaks</b> , GE: CA (Jul), Trade (Jul) UK: <b>BoE rates decision</b> US: Trade (Jul) CA: Building Permits (Jul), Trade (Jul), New House Prices (Jul)	<b>9 SEPTEMBER</b> NZ: Card Spending (Aug) JP: GDP (Q2), Consumer Confidence (Aug) CH: CPI (Aug), PPI (Aug), IP (Aug), Retail Sales (Aug) GE: CPI (Aug F) UK: PPI (Aug), Trade (Aug) CA: Employment (Aug)
<b>12 SEPTEMBER</b> JN: <b>BoJ minutes</b> , BSI large manufacturing (Q3) CH: <b>Mid-Autumn Festival Holiday</b> UK: RICS House Prices (Aug) US: <b>Fed's Fisher Speaks</b>	<b>13 SEPTEMBER</b> NZ: Food Prices (Aug) AU: NAB Business Confidence (Aug), ABARES Australian Crop Report UK: CPI (Aug) US: NFIB Small Business Survey (Aug), Monthly Budget Statement (Aug)	<b>14 SEPTEMBER</b> AU: Westpac Consumer Confidence (Sep), DEWR Internet Skilled Vacancies (Aug) JP: Industrial Production (Jul F) EU: Industrial Production (Jul) UK: Claimant count rate (Aug) US: PPI (Aug), Retail Sales (Aug), Business Inventories (Jul)	<b>15 SEPTEMBER</b> NZ: <b>RBNZ cash rate decision</b> EU: <b>ECB's Praet Moderates Panel, Trichet Speaks</b> , CPI (Aug), Employment (Q2) UK: Retail Sales (Aug) US: CPI (Aug), CA (Q2), Empire Fed Manuf. (Sep), Philly Fed (Sep), Industrial Production (Aug)	<b>16 SEPTEMBER</b> NZ: ANZ Consumer Confidence (Sep) EU: <b>Finance ministers and Central Bankers meet</b> , CA (Jul), Trade (Jul) US: TIC flows, Uni of Michigan Confidence (Sep P)
<b>19 SEPTEMBER</b> NZ: Westpac Consumer Confidence (Q3), Perf. Of Services Index (Aug) AU: ABARES Australian Commodities Report JP: <b>Respect for the Aged Holiday</b> EU: Construction Output (Jul) US: NAHB Housing Market Index (Sep)	<b>20 SEPTEMBER</b> AU: <b>RBA minutes</b> JN: Leading Index (Jul F) EU: ZEW Survey (Sep), PPI (Aug) US: Housing Starts (Aug), Building Permits (Aug), <b>FOMC Rates Decision</b> CA: Leading Indicators (Aug), Wholesale Sales (Jul)	<b>21 SEPTEMBER</b> NZ: CA (Q2), Net Migration (Aug), Credit Card Spending (Aug) JP: Trade (Aug) UK: <b>BoE minutes</b> US: Existing Home Sales (Aug) CA: CPI (Aug)	<b>22 SEPTEMBER</b> NZ: GDP (Q2) EU: Industrial New Orders (Jul) US: House Price Index (Jul), Leading Indicators (Aug) CA: Retail Sales (Jul)	<b>23 SEPTEMBER</b> AU: <b>RBA Financial Stability Review</b> CH: MNI September Flash Business Sentiment Survey JP: <b>Autumnal Equinox Day Holiday</b> UK: BBA Loans for House Purchase (Aug)

## 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 Minutes 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
<b>Economic activity (annual % change)</b>				
Private final demand	2.0	3.6	4.7	6.1
Household consumption	2.8	2.0	1.5	2.1
Dwelling investment	4.0	3.4	-1.9	7.6
Business investment	-0.7	10.5	17.5	17.4
Public demand	9.0	3.1	3.1	2.0
Domestic final demand	3.6	3.5	4.3	5.1
Inventories (contribution to GDP)	0.4	-0.2	0.0	0.0
Gross National Expenditure (GNE)	4.1	3.3	4.3	5.1
Exports	5.3	-1.4	12.2	10.3
Imports	13.3	11.3	14.6	12.1
Net Exports (contribution to GDP)	-1.6	-3.0	-1.0	-0.9
<b>Gross Domestic Product (GDP)</b>	<b>2.7</b>	<b>0.7</b>	<b>2.9</b>	<b>3.8</b>
<b>Prices and wages (annual % change)</b>				
Inflation:				
Headline CPI	2.8	3.4	2.7	3.6
Underlying*	2.6	2.7	2.9	3.4
Wages:	3.3	3.8	3.7	4.1
<b>Labour market</b>				
Employment (annual % change)	2.7	1.8	1.1	2.2
Unemployment rate (annual average %)	5.2	5.1	5.4	5.1
<b>External sector</b>				
Terms of trade (annual % change)	16.4	16.6	4.6	-3.7
Current account balance: A\$bn	-34.6	-31.0	-23.3	-43.1
% of GDP	-2.6	-2.2	-1.5	-2.7

\* 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	4.75	4.75	4.75
90 day bill	4.81	4.90	4.90	4.90	4.90	4.90
3 year bond	3.54	4.00	3.70	3.80	4.00	4.20
10 year bond	4.23	4.20	4.40	4.40	4.50	4.70
3s10s yield curve	0.68	0.20	0.70	0.60	0.50	0.50
3 year swap	4.14	4.35	4.10	4.20	4.40	4.60
10 year swap	5.02	4.78	4.98	4.95	5.05	5.25

INTERNATIONAL INTEREST RATES	CURRENT	SEP 11F	DEC 11F	MAR 12F	JUN 12F	SEP 12F
RBNZ cash rate	2.50	3.00	3.25	3.50	3.75	4.00
NZ 90 day bill	2.89	3.18	3.45	3.86	3.96	4.36
US Fed funds note	0.25	0.25	0.25	0.25	0.25	0.25
US 2 year note	0.19	0.20	0.20	0.20	0.20	0.20
US 10 year note	2.03	2.10	2.10	2.20	2.40	2.70
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	1.50	1.50
UK repo rate	0.50	0.50	0.50	0.50	0.50	0.50

## FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	SEP 11F	DEC 11F	MAR 12F	JUN 12F	SEP 12F
<b>Australian exchange rates</b>						
A\$/US\$	1.04	1.10	1.12	1.12	1.12	1.14
NZ\$/US\$	0.82	0.88	0.91	0.92	0.93	0.93
A\$/¥	79.3	82.5	84.0	84.0	80.6	82.1
A\$/€	0.72	0.75	0.75	0.74	0.74	0.74
A\$/£	0.63	0.67	0.68	0.67	0.67	0.67
A\$/NZ\$	1.26	1.25	1.23	1.22	1.20	1.23
A\$/C\$	1.03	1.05	1.08	1.10	1.11	1.15
A\$/CHF	0.82	0.99	1.03	1.05	1.08	1.12
A\$/CNY	6.63	7.02	7.06	6.97	6.88	6.92
A\$ Trade weighted index	75.3	78.0	78.6	77.8	76.7	77.2
<b>International cross rates</b>						
US\$/¥	76.5	75.0	75.0	75.0	72.0	72.0
€/US\$	1.43	1.47	1.50	1.52	1.52	1.55
€/¥	110	110	113	114	109	112
£/US\$	1.65	1.65	1.65	1.68	1.68	1.70
€/£	0.87	0.89	0.91	0.90	0.90	0.91
US\$/C\$	0.99	0.95	0.96	0.98	0.99	1.01
US\$/CHF	0.80	0.90	0.92	0.94	0.96	0.98
US\$ index	74.3	77.4	78.6	80.4	80.1	80.5
<b>Asia exchange rates</b>						
US\$/CNY	6.40	6.38	6.30	6.22	6.14	6.07
US\$/HKD	7.80	7.80	7.80	7.80	7.80	7.80
US\$/IDR	8561	8400	8200	7900	7700	7500
US\$/INR	45.7	44.1	42.9	41.8	40.6	39.5
US\$/KRW	1082	1040	1020	990	970	950
US\$/MYR	2.99	2.96	2.92	2.88	2.83	2.79
US\$/PHP	42.6	42.1	41.4	40.8	40.2	39.6
US\$/SGD	1.21	1.20	1.18	1.17	1.15	1.13
US\$/THB	29.88	29.60	29.30	28.90	28.60	28.20
US\$/TWD	29.01	28.70	28.40	28.10	27.80	27.50
US\$/VND	20812	20600	20600	21400	21400	21400
<b>Pacific exchange rates</b>						
PGK/US\$	0.446	0.385	0.378	0.372	0.366	0.366
FJD/US\$	0.569	0.548	0.538	0.530	0.522	0.522

**IMPORTANT NOTICE**

**Australia and New Zealand Group Limited is represented in:**

**AUSTRALIA**

Australia and New Zealand Banking Group Limited  
 ABN 11 005 357 522  
 ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands  
 Victoria 3008, Australia  
 Telephone +61 3 9273 5555 Fax +61 3 9273 5711

**UNITED STATES OF AMERICA**

ANZ Securities, Inc. is a member of FINRA ([www.finra.org](http://www.finra.org)) and registered with the SEC.  
 277 Park Avenue, 31<sup>st</sup> Floor, New York, NY 10172,  
 United States of America  
 Tel: +1 212 801 9160 Fax: +1 212 801 9163

**UNITED KINGDOM BY:**

Australia and New Zealand Banking Group Limited  
 ABN 11 005 357 522  
 40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom  
 Telephone +44 20 3229 2121 Fax +44 20 7378 2378

**NEW ZEALAND BY:**

ANZ National Bank Limited  
 Level 7, 1-9 Victoria Street, Wellington, New Zealand  
 Telephone +64 4 802 2000

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