

AUSTRALIAN ECONOMICS

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AWAITING JACKSON HOLE

- **Both RBA Governor Stevens and Deputy Governor Battelino failed to validate current market pricing for aggressive interest rate cuts this week.** At this stage, the RBA remains in wait and see mode, with the Governor suggesting that it is best to "sit still" during periods of financial market turbulence. In addition, while the risks to the domestic economy have clearly shifted to the downside, with likely flow through to wages and inflation, the RBA remains concerned about structural drivers of inflation such as weak productivity. As such, while we cannot rule out the possibility of interest rate cuts given the now softer domestic/global environment, any monetary policy easing will not be particularly early or aggressive. The main potential domestic trigger for looser policy remains a significant deterioration in labour market conditions.
- **The widening 'two-speed' gap in the Australian economy** between resources-related activity and the rest of the economy was graphically illustrated this week by Q2's 'construction work done' data. This came in a disappointing 0.7% q/q, but the growth was wholly driven by engineering activity (such as resources, transport and infrastructure construction), which was up 5.9% q/q and 21.2% y/y. Much of this activity was in Queensland and presumably related to flood reconstruction works in that state. In contrast, national residential construction activity fell 4.1% q/q and 7.6% y/y, while non-residential construction fell 6.1% q/q and -23.2% y/y.
- **Some relative stability returned to financial markets earlier in the week**, as markets await the outcome of the Jackson Hole Economic Policy Symposium of central bankers and in particular Fed Chairman Bernanke's speech. Equities rallied and US Treasuries sold off, although there was some retracement on Thursday night and into the local Friday session.
- **The major question for markets is whether Bernanke will indicate any further prospect of a policy stimulus by the Fed** (remembering that it was at this event last year that he first signalled the Fed's intention to undertake a second round of quantitative easing). While Bernanke will most likely lay out the possible options available to the Fed, we think **any further stimulus is unlikely at this point**. Not only is there greater division amongst the FOMC than this time last year, but it's also unclear if further asset purchases would be effective in stimulating macroeconomic activity. By contrast, the QE may be more effective in the Eurozone, simply to buy a bit of time and to manage long end interest rates. In that environment, it makes even more sense for the Fed not to do it themselves, as the US would almost certainly benefit from some of the additional liquidity. **Perhaps the more interesting speech tonight will be that of ECB President Trichet**, who will have the opportunity to lay out a new financial roadmap for Europe.
- **Our *In Focus* article this week (produced by our highly competent NZ Economics team) is on fiscal sustainability.** It uses two simple metrics to examine the sustainability of sovereign debt in some key countries. The first one is the primary gap, which focuses on the latest fiscal balance and what it means for net debt. The second metric is the long-term average primary fiscal surplus required to return net debt to 60 percent of GDP. Some indebted nations such as Greece and Italy look okay on the former measure, due to current austerity measures, as long as interest rates (bailout rates in Greece's case!) stay reasonable. But looking at the latter measure highlights the extreme medium-term challenges they face, given their high debt levels. The need for action in the US is highlighted by the former metric, reflecting their very high current deficit, but they have more flexibility according to the latter.

THE WEEK AHEAD

- In **Australia** next week the data calendar starts to warm up. We will get building approvals, private sector credit, house prices and retail sales for July, plus the Q2 private capital expenditure (capex) data.
- **In the US**, we will get an update on industrial activity from the Dallas Fed Survey, the Chicago PMI, factory orders and the all-important ISM manufacturing survey. Household and labour market indicators will include personal income, consumer confidence, ADP employment and non-farm payrolls. Pending home sales and the Case Shiller house price series will give an update on the US housing market.
- In **Japan** we will get the unemployment rate, retail trade, industrial production, vehicle production and housing starts for July, plus vehicle sales for August.
- **China** will see the release of the key PMI manufacturing survey for August.
- In the **Eurozone** we will see consumer confidence, unemployment and the PPI for July, plus a CPI estimate for August and an August PMI reading for manufacturing. **Germany** will publish Q2 GDP, PMI manufacturing (August), unemployment and retail sales (for July).
- The **UK** will get mortgage approvals (July) and consumer confidence and the PMI manufacturing for August.
- **New Zealand** will publish its monthly building permits, business confidence and commodity prices.

RBA "SITTING STILL" FOR TIME BEING

In two RBA communications this week, the central bank sought to outline how the RBA's thinking has evolved over the past year and attempted to down market expectations for aggressive interest rate cuts. The first was a speech from RBA Deputy Governor Ric Battelino entitled 'The RBA's Thinking on the Economy Over the Past Year' and the second was RBA Governor Glenn Stevens' semi-annual testimony to the House of Representatives Standing Committee on Economics.

The key takeaways for monetary policy that we have taken from the two speeches are:

- **The RBA remains in "wait and see" mode as it attempts to balance the impact of various forces affecting the Australian economic outlook at present.** The RBA remains confronted with the uncomfortable combination of slower growth in the non-mining economy and higher inflation.
- **Near-term rate cuts (ie. in September) appear highly unlikely in the absence of a nasty global credit event.** Indeed Governor Stevens explicitly stated that it is "*useful to sit still*" during periods of global turbulence. In addition, while financial conditions (including the high currency) are exerting "*some restraint*", the RBA sees this as appropriate given that inflation has bottomed and is heading upwards.
- **The RBA's monetary policy decisions will, as usual, continue to be informed by the evolution of its domestic growth and inflation forecasts. The balance of risks on this front has clearly shifted to the downside.** Governor Stevens on Friday was mindful that "*it would be reasonable to anticipate that a decline in confidence arising from the recent events internationally may well dampen demand somewhat compared to the outlook set out in the Statement on Monetary Policy published in early August.*" The RBA's forecasts are also well above our own. The RBA's latest forecast was for Australian GDP growth of 4.5% y/y by Q2 2012, well above ANZ's forecast of 2.8% y/y.

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- A lowering of the RBA's growth/demand forecasts should in turn see its currently high inflation forecasts also move moderately lower: *"That, together with the increased visibility of structural change in the economy, may also condition wage bargaining and price setting. If these forces persist, they may act to lessen the upward trend in inflation pressures that appeared to be in prospect."*
- **That said, it is not clear that such downgrade to the RBA's outlook would be sufficiently ameliorate its inflation concerns. The RBA remains concerned about the strong administered price rises ahead and the inflationary consequences of weak Australian productivity.** Slow productivity is pushing up unit labour costs at a rate faster than was consistent with the inflation target. This has important policy implications; at the very least it makes it difficult for the RBA to push its near-term inflation forecasts down without a notable mark down in its wages (and labour market) forecasts. But, importantly for the medium-term, it also suggests that, without a sharp increase in productivity, via either a higher unemployment rate or a strong 'jobless recovery' (ie. GDP growth recovering much faster than employment), high inflation is at risk of becoming more embedded in the Australian economy. The policy prescription here may well be that we would need to become accustomed a higher average level of interest rates than we experienced on average over the first stage of the commodity boom.
- **In addition to further dislocation in global financial markets and/or a deterioration in the global growth outlook, the labour market remains the most likely near-term trigger for looser domestic monetary policy.** Neither Battellino nor Stevens made reference to the recent rise in the Australian unemployment rate to 5.1%, mainly because we suspect the RBA is very comfortable with an unemployment rate at around these levels. The RBA's tolerance for a rise to towards 5½% however, may be low, should it be (a) driven by job losses rather than a rise in the participation rate and (b) accompanied by a notable deterioration in the leading indicators of employment, including the ANZ job ads series.

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FISCAL SUSTAINABILITY

SUMMARY

- We calculate two simple metrics to examine the sustainability of sovereign debt in some key countries. The first one is the primary gap, which focuses on the latest fiscal balance and what it means for net debt. The second metric is the long-term average primary fiscal surplus required to return net debt to 60 percent of GDP.
- Some indebted nations such as Greece and Italy look okay on the former measure, due to current austerity measures, as long as interest rates (bailout rates in Greece's case!) stay reasonable. But looking at the latter measure highlights the extreme medium-term challenges they face, given their high debt levels. The need for action in the US is highlighted by the former metric, reflecting their very high current deficit, but they have more flexibility according to the latter

Fiscal sustainability is a term with no clear definition. Any fiscal position is sustainable until the market decides it is not, and unlike corporations, governments seldom go bust. They have the monopoly power to raise taxes and cut spending, though both are judged in the court of public opinion.

With fiscal challenges at the forefront of market woes and Europe the centre of attention, it is appropriate to look at sustainability measures.

There are numerous challenges assessing fiscal sustainability.

- It requires consistent data. We rely on OECD information from their 2011 Economic Outlook. This may be somewhat dated but is the most consistent across nations available – though the OECD warn that data definitions vary across countries. Note that the OECD definition of government covers the general government.
- What measure of sustainability is appropriate? The literature is awash with such metrics. We have chosen two. The "primary gap" measures the adjustment in the primary balance required to stabilise the net debt position. That is, if the "primary gap" is positive, the net debt position is improving, and vice versa. This keeps you solvent, but doesn't answer the question of longer term sustainability. We therefore also look at the primary balance required to return net debt to a "sustainable" position. We define this, for illustrative purposes, as the lower of current levels or 60 percent of GDP. We include the former because some countries have net debt lower than 60 percent of GDP but markets are mindful of rising trajectories.
- Both measures depend on the interaction between real interest rates and growth. High growth and low interest rates lessen the pressure on the primary balance. Conversely, having interest rates above the growth rate can quickly develop into a debt spiral. Both our measures capture this interaction.

PRIMARY GAP

We turn first to the primary gap. The highlighted lines in the tables show where we think various nations' trend growth rates broadly reside, and reasonable assumptions for real 10-year interest rates (assuming the situation doesn't blow up). Italy looks okay for now, its saviour being its existing positive primary balance (i.e. it has a fiscal surplus before interest payments). However, this comes with a caveat: the combination of slow growth (Italy has had an average annual growth rate of not much more than 1 percent for the past two decades) and high real yields – recall the market pushed Italian nominal 10 year yields to 6.5 percent (say

4.5 percent real) – makes the situation unsustainable, with the primary gap negative for some not improbable growth/interest rate combinations.

ITALY					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	-2.7	-1.7	-0.7	0.3	1.3
4.00	-1.7	-0.7	0.3	1.3	2.3
3.00	-0.7	0.3	1.3	2.3	3.3
2.00	0.3	1.3	2.3	3.3	4.3
1.00	1.3	2.3	3.3	4.3	5.3
0.00	2.3	3.3	4.3	5.3	6.3

% of GDP: primary balance 2011: +2.3%. Net govt debt 2011: 100.6%

The US position (see below) is unsustainable by virtue of its current large primary deficit. The interaction of various real yields (even negative) does not change this proposition. This highlights the imperative of authorities undertaking fiscal consolidation.

US					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	-10.6	-9.8	-9.1	-8.3	-7.6
4.00	-9.8	-9.1	-8.3	-7.6	-6.8
3.00	-9.1	-8.3	-7.6	-6.8	-6.1
2.00	-8.3	-7.6	-6.8	-6.1	-5.4
1.00	-7.6	-6.8	-6.1	-5.4	-4.6
0.00	-6.8	-6.1	-5.4	-4.6	-3.9
-1.00	-6.1	-5.4	-4.6	-3.9	-3.1

% of GDP: Primary balance 2011: -6.8%. Net Govt debt 2011: 74.8%

Were Greece to pay market interest rates (around 15 percent) for any length of time their debt levels would quickly explode, which is of course why Greece has had two bailouts. But the table below shows that even with generous bailout terms to prevent Greek net debt growing as a proportion of GDP (not even taking into account the massive economic contraction currently occurring due to the severe austerity measures).

GREECE					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	-3.7	-2.4	-1.2	0.1	1.3
4.00	-2.4	-1.2	0.1	1.3	2.6
3.00	-1.2	0.1	1.3	2.6	3.8
2.00	0.1	1.3	2.6	3.8	5.1
1.00	1.3	2.6	3.8	5.1	6.3
0.00	2.6	3.8	5.1	6.3	7.6

% of GDP: Primary balance 2011: 2.6%. Net govt debt 2011: 124.8%

The UK mirrors the US. Their current fiscal deficit is so large that no realistic combination of interest rates and growth can absorb it in one year. Hence the stringent fiscal austerity measures we've seen in recent times, with more to come.

UK					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	-7.5	-6.9	-6.3	-5.7	-5.0
4.00	-6.9	-6.3	-5.7	-5.0	-4.4
3.00	-6.3	-5.7	-5.0	-4.4	-3.8
2.00	-5.7	-5.0	-4.4	-3.8	-3.2
1.00	-5.0	-4.4	-3.8	-3.2	-2.5
0.00	-4.4	-3.8	-3.2	-2.5	-1.9

% of GDP: Primary balance 2011: -1.4%. Net Govt debt 2011: 60.2%

France's current primary deficit is not so bad, but even at current lows real 10 year interest rates are high enough to see their net debt position deteriorate in the near term. That is, the primary gap is negative in virtually all scenarios.

FRANCE					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	-4.4	-3.8	-3.2	-2.6	-2.0
4.00	-3.8	-3.2	-2.6	-2.0	-1.4
3.00	-3.2	-2.6	-2.0	-1.4	-0.8
2.00	-2.6	-2.0	-1.4	-0.8	-0.2
1.00	-2.0	-1.4	-0.8	-0.2	0.4
0.00	-1.4	-0.8	-0.2	0.4	1.0

% of GDP: Primary balance 2011: -1.4%. Net Govt debt 2011: 60.2%

Spain's net debt position is also set to deteriorate, even if the market gives them generous borrowing terms. They also seem an unlikely candidate for growing their way out of trouble.

SPAIN					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	-2.9	-2.7	-2.3	-1.8	-1.3
4.00	-2.5	-2.3	-1.8	-1.3	-0.9
3.00	-2.0	-1.8	-1.3	-0.9	-0.4
2.00	-1.6	-1.3	-0.9	-0.4	0.0
1.00	-1.1	-0.9	-0.4	0.0	0.5
0.00	-0.7	-0.4	0.0	0.5	0.9

% of GDP: Primary balance 2011: -0.9%. Net Govt debt 2011: 45.7%

New Zealand looks bad in a primary gap table because of its recent hefty earthquake-related deficit. Net debt is inevitably going to grow over coming years. However, the saviour, as we will see, is its current low net debt position.¹

NEW ZEALAND					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	-4.5	-4.4	-4.4	-4.3	-4.3
4.00	-4.4	-4.4	-4.3	-4.3	-4.3
3.00	-4.4	-4.3	-4.3	-4.3	-4.2
2.00	-4.3	-4.3	-4.3	-4.2	-4.2
1.00	-4.3	-4.3	-4.2	-4.2	-4.1
0.00	-4.3	-4.2	-4.2	-4.1	-4.1

% of GDP: Primary balance 2011: -4.3%. Net govt debt 2011: 4.2%

SUSTAINABILITY

The primary gap is a partial measure, focusing on the adjustment required to stabilise the debt burden. It's fair to say that markets' focus at present is at least equally much on the stock of debt. We now turn to simple analysis of the average primary balance that would be required to get net debt down to a "sustainable" position in ten years. For argument's sake we define "sustainable" as the lower of 60 percent of GDP or current levels.

Italy (over) faces an uphill battle. Even if they were to manage average growth of 2 percent over the next ten years (which would out-do recent history, when they were busily borrowing), at real interest rates north of 3 percent some pretty hefty primary surpluses are required. And at a time of a rapidly ageing population. The maths is not pretty.

ITALY					
Average primary balance required over next decade for sustainable net debt					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	8.3	7.4	6.6	5.7	4.9
4.00	7.4	6.6	5.7	4.9	4.1
3.00	6.6	5.7	4.9	4.1	3.2
2.00	5.7	4.9	4.1	3.2	2.4
1.00	4.9	4.1	3.2	2.4	1.6
0.00	4.1	3.2	2.4	1.6	0.8

% of GDP: Primary balance 2011: +2.3%. Net Govt debt 2011: 100.6%

The numbers for the US are not as ugly. Given the safe-haven status of US Treasuries, borrowing costs are likely to remain very low. At growth of say 2 percent, the government needs to run a roughly balanced budget to return net debt to a more sustainable level over the next decade. But a caveat – this analysis gives the average primary budget balance required over the next ten years. The latest US primary deficit was 7 percent of GDP in 2011. This is a very slow ship to turn. In practice,

¹ The OECD measure nets out the assets of the NZ Super Fund.

achieving primary balance over the next 10 years will require some very large surpluses in the second half of the next decade.

If, for example, we use the OECD forecast of net US debt of 80.7 percent of GDP in 2012, and not unrealistically assume the US will take until 2016 to stop adding to its net debt, they would need a whopping primary surplus of 4.3 percent of GDP the following five years to hit the 60 percent net debt target by 2021. If, on the other hand, the 2012 jump in debt is built in, but we generously assume the US manages to stop increasing their net debt as a percent of GDP in 2013, and start reducing it the following year, they would need a primary surplus of 1.1 percent of GDP over the following 8 years to hit the target.

US					
Average primary balance required over next decade for sustainable net debt					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	4.9	4.2	3.5	2.8	2.2
4.00	4.2	3.5	2.8	2.2	1.5
3.00	3.5	2.8	2.2	1.5	0.8
2.00	2.8	2.2	1.5	0.8	0.1
1.00	2.2	1.5	0.8	0.1	-0.6
0.00	1.5	0.8	0.1	-0.6	-1.2

% of GDP: Primary balance 2011: -6.8%. Net Govt debt 2011: 74.8%

The UK and France find themselves in a similar position. Their long-run situation is not so bad, but both countries need to turn around their current deficits quickly. And again, a massive challenge in both countries is the unfavourable demographic challenge coming with the looming wave of retiring baby boomers.

UK					
Average primary balance required over next decade for sustainable net debt					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	3.3	2.7	2.1	1.5	0.9
4.00	2.7	2.1	1.5	0.9	0.2
3.00	2.1	1.5	0.9	0.2	-0.4
2.00	1.5	0.9	0.2	-0.4	-1.0
1.00	0.9	0.2	-0.4	-1.0	-1.6
0.00	0.2	-0.4	-1.0	-1.6	-2.2

% of GDP: Primary balance 2011: -1.4%. Net Govt debt 2011: 60.2%

FRANCE					
Average primary balance required over next decade for sustainable net debt					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	3.0	2.4	1.8	1.2	0.6
4.00	2.4	1.8	1.2	0.6	0.0
3.00	1.8	1.2	0.6	0.0	-0.6
2.00	1.2	0.6	0.0	-0.6	-1.2
1.00	0.6	0.0	-0.6	-1.2	-1.8
0.00	0.0	-0.6	-1.2	-1.8	-2.4

% of GDP: Primary balance 2011: -1.4%. Net Govt debt 2011: 60.2%

Greece's position is not sustainable. To stabilise their net debt levels would require massive surpluses, even at very low interest rates. And bailout support will run out well before then.

GREECE					
Average primary balance required over next decade for sustainable net debt					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	11.4	10.4	9.4	8.4	7.4
4.00	10.4	9.4	8.4	7.4	6.5
3.00	9.4	8.4	7.4	6.5	5.5
2.00	8.4	7.4	6.5	5.5	4.6
1.00	7.4	6.5	5.5	4.6	3.7
0.00	6.5	5.5	4.6	3.7	2.7

% of GDP: Primary balance 2011: 2.6%. Net gov't debt 2011: 124.8%

Spain needs to deliver surpluses over coming years as well. Like most of the countries we're looking at, they have not had a surplus since 2007. The main risk for Spain is a sustained increase in their borrowing costs.

SPAIN					
Average primary balance required over next decade for sustainable net debt					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	2.3	1.8	1.4	0.9	0.5
4.00	1.8	1.4	0.9	0.5	0.0
3.00	1.4	0.9	0.5	0.0	-0.5
2.00	0.9	0.5	0.0	-0.5	-0.9
1.00	0.5	0.0	-0.5	-0.9	-1.4
0.00	0.0	-0.5	-0.9	-1.4	-1.8

% of GDP: Primary balance 2011: -0.9%. Net Govt debt 2011: 45.7%

Finally, New Zealand's net debt position is good, and so a balanced budget on average is sufficient. But given the challenges of earthquake repair over the next few

years, this means decent surpluses are required further out. And New Zealand faces significant demographic challenges too.

NEW ZEALAND					
Average primary balance required over next decade for sustainable net debt					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	1.00	2.00	3.00	4.00
5.00	0.2	0.2	0.1	0.1	0.0
4.00	0.2	0.1	0.1	0.0	0.0
3.00	0.1	0.1	0.0	0.0	0.0
2.00	0.1	0.0	0.0	0.0	-0.1
1.00	0.0	0.0	0.0	-0.1	-0.1
0.00	0.0	0.0	-0.1	-0.1	-0.2

% of GDP: Primary balance 2011: -4.3%. Net govt debt 2011: 4.2%

THE UPSHOT

This analysis is deliberately simplistic, to highlight various themes impacting on fiscal solvency. There are many complicating factors:

- As alluded to with the US scenarios, our sustainable-in-ten-years analysis assumes that countries can start reducing their net debt from next year. Quickly turning around the fiscal position is difficult given lags in fiscal policy. As such, a near-term deterioration in the net debt position in many countries is a done deal. OECD forecasts for 2012 show rising net public debt for most key nations including US: +5.8%, UK: +4.7%, NZ: +5.5%, Greece: +5.0%, Spain: +3.3%, France: +2.6%. In practice, then, the job at hand is even tougher than our numbers indicate.
- There are other dynamics at play. Our financial conditions index (see last week's Market Focus) showed that financial conditions are proving a heavy drag on growth for the likes of Italy, whereas the US is experiencing looser conditions, which are providing a useful economic buffer.
- As mentioned, demographics are deeply unfavourable for government debt in nearly all Western nations.
- What interest rate will be payable, and what funds available, for some of these nations is becoming a political question rather than a market one. The risks around politics are impossible to measure!
- Our debt sustainability measure gives an average primary balance required over the next decade. But many countries are starting from a position of a large primary deficit. The rate of change in the deficit has a large impact on GDP growth. Severe austerity can cause a marked reduction in GDP growth that can cause the debt to GDP ratio to blow out even more than a bit more spending might have done. But too slow fiscal consolidation risks undermining credibility with markets. It can be difficult to strike the right balance between the two, even ignoring the short-termism inherent in a democratic political system.
- What is clear is that for countries with significant debt stocks, when the real interest rate on that debt starts to outpace GDP growth, you're fighting an uphill battle. Maintaining market confidence is therefore of primary importance. Any debt position is sustainable as long as markets are in a relaxed, generous mood. But when the tide goes out, some nations can find themselves a long way from their towel.

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DATA WRAP

- **Construction work done** grew by 0.7% in Q2, with the gap between engineering construction (15.2% q/q) and building work done (-4.9% q/q) widening further. Within total building work, both residential (-4.1%) and non-residential construction (-6.1%) declined, with the latter largely driven by falls in public construction as government stimulus efforts (eg. the schools building program) winds up. Queensland reconstruction is particularly evident in these data, with Queensland engineering construction activity up 25.8%q/q and 43.5% y/y. The timing of this surge fits the usual pattern of disaster reconstruction, with further related activity growth expected through Q3 and Q4 2011.
- The **Conference Board Leading Index** weakened by 0.8% in June following a 0.1% decline in May.
- The **CBAHIA House Affordability Index** improved slightly to 56.2 from 55.7 in Q2.

DATA PREVIEW

BUILDING APPROVALS



30 AUG: BUILDING APPROVALS (JUL)

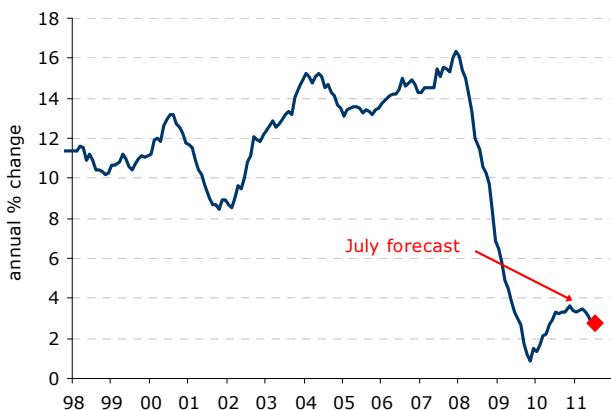
ANZ: +3.3% m/m, -11.7% y/y

Market: +2.0% m/m

Last: -3.5% m/m, -15.5% y/y

Following three consecutive months of negative growth building approvals are expected to show positive monthly growth in July. With the likelihood of interest rate hikes easing through July and market fundamentals continuing to exert pressure on the undersupply of housing, pent up construction plans are expected to flow through July building approvals. Building approvals for houses should post a moderate improvement in July, while approvals for the volatile apartment sector are also expected to increase following two months of negative growth. (DC)

PRIVATE SECTOR CREDIT



31 AUG: PRIVATE SECTOR CREDIT (JUL)

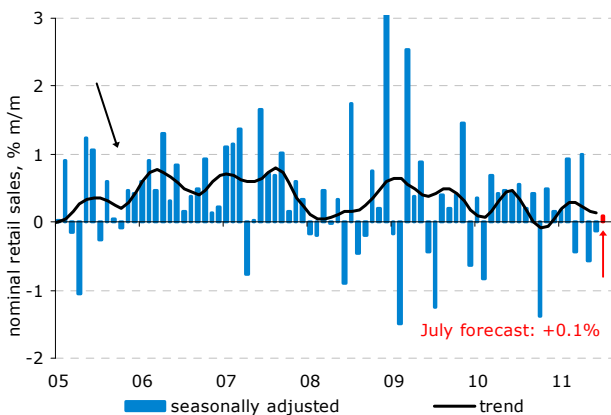
ANZ: +0.3% m/m, +2.8% y/y

Market: +0.2% m/m

Last: -0.1% m/m, +2.7% y/y

Private sector credit is expected to post a moderate monthly increase of 0.3% in July with annual growth edging higher to 2.8%. Business credit is expected to post weak growth reflecting increasingly uncertain global economic conditions and soft domestic household activity. Subdued housing market activity is expected to keep housing credit growth soft, while equity market volatility and weak household spending is expected to continue to weigh on personal credit growth. (DC)

RETAIL TRADE



1 SEPTEMBER: RETAIL TRADE (JULY)

ANZ: +0.1% m/m, +0.9% y/y

Market: +0.3% m/m

Last: -0.1% m/m, +1.4% y/y

This year has seen a run of bad months for retail sales growth, alleviated only by Easter's surprise boost in April. In real terms, retail sales has been growing by 1%/y/y or less since Q4 last year (and just 0.6%/y/y in Q2 2011).

The forward indicators suggest July was another flat month for retailers. In particular, consumer confidence was down again (a third consecutive month of decline), the ASX All Ordinaries (and therefore household wealth) lost value (a fourth consecutive month to end lower) employment growth slowed and the unemployment rate ticked up above 5.0%. ANZ's Small Business Sales Trends data for July also points to another flat month at best for small local retailers, while at the big end of discretionary retailing, the reporting season suggests sales are looking no better. And the continuing rise in Australian resident holiday departures suggests more Australian families than ever before decided to spend their July school holidays - and dollars - abroad.



DATA PREVIEW

Flat sales growth in July (we expect a small increase at best) would see annual nominal sales growth fall to 0.8%/y. This would keep nominal sales growth well under current inflation estimates and would produce the sector's worst annual sales growth rate since the GST was introduced in 2000. Monthly trend growth is barely positive and sliding toward zero. (JT)

1 SEPTEMBER: CAPITAL EXPENDITURE (Q2)

ANZ: +3.0% q/q, +16.2% y/y

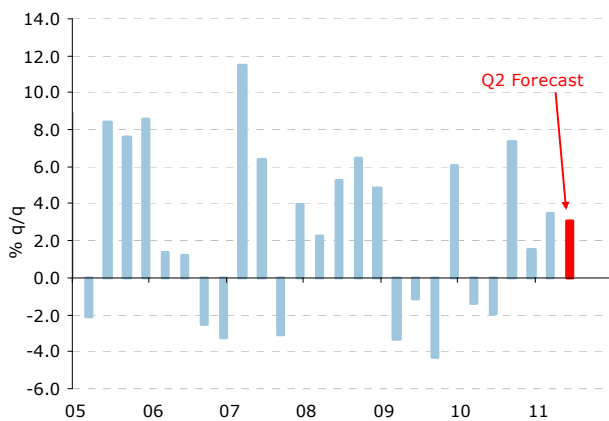
Market: +4.3% q/q

Last: +3.4%, +10.6% y/y

We expect to see a deceleration in private sector capital expenditure (Capex) in Q2, relative to Q1. Total capex will remain robust largely (or even solely) due to mining sector investment. Capex by the mining sector is likely to have picked up pace in Q2 (after Q1's flood-affected data), with last week's data on construction work done indicating that private sector engineering work grew by 6.4% q/q in Q2 (and 27.5% y/y). But outside the mining sector, capex is contracting in manufacturing and slowing across the services sectors. Private non-residential building activity contracted in Q2 and in each of the three preceding quarters, while vehicle and other equipment imports continued to be disrupted by the Japanese earthquake (a downside risk to this forecast).

As always, the more interesting part of the capex release will be the expectations, with the third estimate of capex for 2011-12 due to be released also. Applying an average five year realisation ratio, estimate two implied growth of 43.6% y/y in total capex for 2011-12, up from 40% in estimate one. All of this growth will come from mining capex, with non-mining capex expectations broadly flat for 2011-12. (JT)

CAPITAL EXPENDITURE (Q2)



DATA & EVENT CALENDAR

WEEK STARTING 29 AUGUST

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
27-29 Aug	CH	Leading Index	JUL	--	--	101.76	--	--
1 - 7 Sep	JN	Official Reserve Assets	AUG	--	--	\$1150.9B	--	--
1 - 8 Sep	UK	Halifax House Price 3Mths/Year	AUG	--	--	-2.6%	--	--
1 - 8 Sep	UK	Halifax House Prices sa m/m	AUG	--	--	0.3%	--	--
Monday	AU	HIA New Home Sales m/m	JUL	--	--	-8.7%	01:00	11:00
29-Aug	EU	Trichet, Juncker, Rehn at EU Parliament on Debt Crisis					13:00	23:00
		ECB Announces Bond Purchases					13:30	23:30
		ECB Calls for Bids in 7-Day Main Refinancing Tender					13:30	23:30
	GE	Consumer Price Index m/m	AUG P	-0.1%	--	0.4%	00:00	10:00
		Consumer Price Index y/y	AUG P	2.3%	--	2.4%	00:00	10:00
		CPI - EU Harmonised m/m	AUG P	-0.1%	--	0.5%	00:00	10:00
		CPI - EU Harmonised y/y	AUG P	2.5%	--	2.6%	00:00	10:00
		CPI - Baden Wuerttemberg m/m	AUG	--	--	0.5%	00:00	10:00
		CPI - Baden Wuerttemberg y/y	AUG	--	--	2.7%	00:00	10:00
		CPI - North Rhine-West. m/m	AUG	--	--	0.4%	00:00	10:00
		CPI - North Rhine-West. y/y	AUG	--	--	2.7%	00:00	10:00
		CPI - Saxony m/m	AUG	--	--	0.4%	07:00	17:00
		CPI - Saxony y/y	AUG	--	--	2.5%	07:00	17:00
		CPI - Brandenburg m/m	AUG	--	--	0.5%	08:00	18:00
		CPI - Brandenburg y/y	AUG	--	--	2.2%	08:00	18:00
		CPI - Hesse m/m	AUG	--	--	0.5%	08:00	18:00
		CPI - Hesse y/y	AUG	--	--	2.2%	08:00	18:00
		CPI - Bavaria m/m	AUG	--	--	0.5%	10:00	20:00
		CPI - Bavaria y/y	AUG	--	--	2.3%	10:00	20:00
	UK	Summer Bank Holiday						
		Lloyds Business Barometer	AUG	--	--	19	23:01	09:01
	US	PCE Core m/m	JUL	0.2%	--	0.1%	12:30	22:30
		PCE Core y/y	JUL	1.4%	--	1.3%	12:30	22:30
		PCE Deflator y/y	JUL	2.6%	--	2.6%	12:30	22:30
		Personal Income	JUL	0.3%	--	0.1%	12:30	22:30
		Personal Spending	JUL	0.4%	--	-0.2%	12:30	22:30
		Pending Home Sales m/m	JUL	-0.3%	--	2.4%	14:00	00:00
		Pending Home Sales y/y	JUL	--	--	17.3%	14:00	00:00
		Dallas Fed Manf. Activity	AUG	-8	--	-2	14:30	00:30
Tuesday	NZ	Building Permits m/m	JUL	--	--	-1.4%	22:45	08:45
30-Aug	AU	Building Approvals m/m	JUL	2.0%	3.3%	-3.5%	01:30	11:30
		Building Approvals y/y	JUL	-12.6%	-11.7%	-15.5%	01:30	11:30
	JN	Small Business Confidence	AUG	--	--	47.1	14:00	00:00
		Jobless Rate	JUL	4.6%	--	4.6%	23:30	09:30
		Job-To-Applicant Ratio	JUL	0.64	--	0.63	23:30	09:30
		Overall Hhold Spending y/y	JUL	-3.5%	--	-4.2%	23:30	09:30
		Large Retailers' Sales	JUL	-0.2%	--	-0.5%	23:50	09:50
		Retail Trade m/m sa	JUL	0.5%	--	2.9%	23:50	09:50
		Retail Trade y/y	JUL	1.5%	--	1.2%	23:50	09:50
	EU	Business Climate Indicator	AUG	0.3	--	0.45	09:00	19:00
		Euro-Zone Consumer Confidence	AUG F	-16.6	--	-16.6	09:00	19:00
		Euro-Zone Economic Confidence	AUG	102	--	103.2	09:00	19:00
		Euro-Zone Indust. Confidence	AUG	-0.5	--	1.1	09:00	19:00
		Euro-zone Services Confidence	AUG	--	--	7.9	09:00	19:00
		ECB Announces Allotment in 7-Day Main Refinancing Tender					09:15	19:15
		ECB Announces Allotment in 7-Day Term Deposits					11:00	21:00
		ECB Calls for Bids in 3-Month Tender					13:30	23:30
	UK	M4 Ex OFCs 3M Annualised	JUL	--	--	0.8%	08:30	18:30
		M4 Money Supply m/m	JUL	--	--	-0.5%	08:30	18:30
		M4 Money Supply y/y	JUL	--	--	-0.7%	08:30	18:30
		Mortgage Approvals	JUL	--	--	48.4K	08:30	18:30
		Net Consumer Credit	JUL	--	--	0.4B	08:30	18:30
		Net Lending Sec. on Dwellings	JUL	--	--	-0.1B	08:30	18:30
		GfK Consumer Confidence Survey	AUG	-31	--	-30	23:01	09:01

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Tuesday	US	Fed's Evans Speaks to CNBC					12:00	22:00
30-Aug cont.		S&P/CaseShiller Home Price Ind	JUN	--	--	139.87	13:00	23:00
		S&P/Case-Shiller US HPI	2Q	--	--	125.41	13:00	23:00
		S&P/Case-Shiller US HPI y/y	2Q	--	--	-5.1%	13:00	23:00
		S&P/CS 20 City m/m sa	JUN	0.0%	--	-0.1%	13:00	23:00
		S&P/CS Composite-20 y/y	JUN	-4.8%	--	-4.5%	13:00	23:00
		Consumer Confidence	AUG	52	--	59.5	14:00	00:00
		Fed's Kocherlakota Speaks on Economy in Bismarck, North Dakota					16:15	02:15
		Minutes of FOMC Meeting					18:00	04:00
	CA	Current Account (BOP)	2Q	-\$13.8B	--	-\$8.9B	12:30	22:30
		Industrial Product Price m/m	JUL	--	--	-0.3%	12:30	22:30
		Raw Materials Price Index m/m	JUL	--	--	-2.2%	12:30	22:30
Wednesday	NZ	NBNZ Activity Outlook	AUG	--	--	43.7	01:00	11:00
31-Aug		NBNZ Business Confidence	AUG	--	--	47.6	01:00	11:00
		Money Supply M3 y/y	JUL	--	--	7.3%	03:00	13:00
	AU	RPData-Rismark House Px Raw	JUL	--	--	-0.6%	00:30	10:30
		RPData-Rismark House Px S.A	JUL	--	--	-0.2%	00:30	10:30
		Private Sector Credit m/m	JUL	0.2%	0.3%	-0.1%	01:30	11:30
		Private Sector Credit y/y	JUL	2.7%	2.8%	2.7%	01:30	11:30
		AOFM Auctions A\$700 million of July 2022 Bonds						
	JN	Markit/JMMA Manufacturing PMI	AUG	--	--	52.1	23:15	09:15
		Industrial Production m/m	JUL P	1.4%	--	3.8%	23:50	09:50
		Industrial Production y/y	JUL P	-1.9%	--	-1.7%	23:50	09:50
		Loans & Discounts Corp y/y	JUL	--	--	-1.8%	23:50	09:50
		Labor Cash Earnings y/y	JUL	--	--	-0.7%	01:30	11:30
		Vehicle Production y/y	JUL	--	--	-13.9%	04:00	14:00
		Annualized Housing Starts	JUL	0.829M	--	0.817M	05:00	15:00
		Construction Orders y/y	JUL	--	--	6.0%	05:00	15:00
		Housing Starts y/y	JUL	4.2%	--	5.8%	05:00	15:00
	EU	Euro-Zone CPI Estimate y/y	AUG	2.5%	--	2.5%	09:00	19:00
		Euro-Zone Unemployment Rate	JUL	9.9%	--	9.9%	09:00	19:00
		ECB Announces Allotment in 3-Month Tender					09:15	19:15
	GE	Unemployment Change (000's)	AUG	-10K	--	-11K	07:55	17:55
		Unemployment Rate (s.a)	AUG	7.0%	--	7.0%	07:55	17:55
	US	MBA Mortgage Applications	Aug-11	--	--	-2.4%	11:00	21:00
		Challenger Job Cuts y/y	AUG	--	--	59.4%	11:30	21:30
		ADP Employment Change	AUG	103K	--	114K	12:15	22:15
		Chicago Purchasing Manager	AUG	53.8	--	58.8	13:45	23:45
		Factory Orders	JUL	1.4%	--	-0.8%	14:00	00:00
		NAPM-Milwaukee	AUG	--	--	57.6	14:00	00:00
		Fed's Lockhart Speaks on Economy in Lafayette, Louisiana					16:30	02:30
	CA	Gross Domestic Product m/m	JUN	0.0%	--	-0.3%	12:30	22:30
		Gross Domestic Product y/y	JUN	--	--	2.2%	12:30	22:30
		Quarterly GDP Annualized	2Q	0.0%	--	3.9%	12:30	22:30
		Teranet/National Bank HP Index	JUN	--	--	142.27	13:00	23:00
		Teranet/National Bank HPI m/m	JUN	--	--	1.3%	13:00	23:00
		Teranet/National Bank HPI y/y	JUN	--	--	4.4%	13:00	23:00
Thursday	NZ	Terms of Trade Index q/q	2Q	--	--	0.9%	22:45	08:45
1-Sep		ANZ Commodity Price	AUG	--	--	-0.1%	01:00	11:00
	AU	AiG Performance of Mfg Index	AUG	--	--	43.4	23:30	09:30
		Private Capital Expenditure	2Q	4.3%	3.0%	3.4%	01:30	11:30
		Retail Sales sa m/m	JUL	0.3%	0.1%	-0.1%	01:30	11:30
		RBA Commodity Index SDR y/y	AUG	--	--	27.6%	06:30	16:30
		RBA Commodity Price Index Au	AUG	--	--	108.3	06:30	16:30
	JN	Foreign Buying Japan Bonds	Aug-11	--	--	-¥75.1B	23:50	09:50
		Foreign Buying Japan Stocks	Aug-11	--	--	-¥334.9B	23:50	09:50
		Japan Buying Foreign Bonds	Aug-11	--	--	¥179.1B	23:50	09:50
		Japan Buying Foreign Stocks	Aug-11	--	--	¥77.3B	23:50	09:50
		Vehicle Sales y/y	AUG	--	--	-27.6%	05:00	15:00
	CH	PMI Manufacturing	AUG	51	51.8	50.7	01:00	11:00
		HSBC Manufacturing PMI	AUG	--	--	49.3	02:30	12:30

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Thursday	EU	ECB's Stark Speaks in Alpbach, Austria					07:30	17:30
1-Sep cont		PMI Manufacturing	AUG F	49.7	--	49.7	08:00	18:00
		ECB's Nowotny Speaks in Alpbach, Austria					12:15	22:15
	GE	Capital Investment	2Q	--	--	5.0%	06:00	16:00
		Construction Investment	2Q	--	--	6.2%	06:00	16:00
		Domestic Demand	2Q	--	--	1.1%	06:00	16:00
		Exports	2Q	--	--	2.3%	06:00	16:00
		GDPnsa y/y	2Q F	--	--	--	06:00	16:00
		GDP sa q/q	2Q F	0.1%	--	0.1%	06:00	16:00
		GDP wda y/y	2Q F	2.8%	--	--	06:00	16:00
		Government Spending	2Q	--	--	1.3%	06:00	16:00
		Imports	2Q	--	--	1.5%	06:00	16:00
		Private Consumption	2Q	--	--	0.4%	06:00	16:00
		PMI Manufacturing	AUG F	52	--	52	07:55	17:55
	UK	PMI Manufacturing	AUG	49.5	--	49.1	08:30	18:30
	US	ICSC Chain Store Sales y/y	AUG	--	--	4.6%	00:00	10:00
		RBC Consumer Outlook Index	SEP	--	--	40.2	12:00	22:00
		Continuing Claims	Aug-11	--	--	3641K	12:30	22:30
		Initial Jobless Claims	Aug-11	--	--	417K	12:30	22:30
		Nonfarm Productivity	2Q F	-0.5%	--	-0.3%	12:30	22:30
		Unit Labor Costs	2Q F	2.3%	--	2.2%	12:30	22:30
		Bloomberg Consumer Comfort	Aug-11	--	--	-47	13:45	23:45
		Construction Spending m/m	JUL	0.1%	--	0.2%	14:00	00:00
		ISM Manufacturing	AUG	48.5	--	50.9	14:00	00:00
		ISM Prices Paid	AUG	55	--	59	14:00	00:00
		Fed's Duke Speaks on Housing at Fed Conference in Washington					16:00	02:00
		Domestic Vehicle Sales	AUG	9.40M	--	9.62M	21:00	07:00
		Total Vehicle Sales	AUG	11.95M	--	12.20M	21:00	07:00
Friday	AU	AOFM Auctions A\$1 billion of July 2017 Bonds						
2-Sep	JN	Capital Spending	2Q	2.0%	--	3.3%	23:50	09:50
		Capital Spending excl Sftwre	2Q	0.9%	--	4.2%	23:50	09:50
		Monetary Base y/y	AUG	--	--	15.0%	23:50	09:50
	EU	Euro-Zone PPI m/m	JUL	0.5%	--	0.0%	09:00	19:00
		Euro-Zone PPI y/y	JUL	6.2%	--	5.9%	09:00	19:00
	GE	Retail Sales m/m	JUL	-1.5%	--	4.5%	--	--
		Retail Sales y/y	JUL	--	--	-1.0%	--	--
	UK	PMI Construction	AUG	--	--	53.5	08:30	18:30
		Nationwide House Prices sa m/m	JUL	--	--	0.2%	--	--
		Nationwide House Prices nsa y/y	JUL	--	--	-0.4%	--	--
	US	Avg Hourly Earning m/m All Emp	AUG	0.2%	--	0.4%	12:30	22:30
		Avg Hourly Earning y/y All Emp	AUG	2.3%	--	2.3%	12:30	22:30
		Avg Weekly Hours All Employees	AUG	34.3	--	34.3	12:30	22:30
		Change in Manufact. Payrolls	AUG	0K	--	24K	12:30	22:30
		Change in Nonfarm Payrolls	AUG	95K	--	117K	12:30	22:30
		Change in Private Payrolls	AUG	128K	--	154K	12:30	22:30
		Chg in Household Survey Empl	AUG	--	--	-38	12:30	22:30
		Underemployment Rate (U6)	AUG	--	--	16.1%	12:30	22:30
		Unemployment Rate	AUG	9.1%	--	9.1%	12:30	22:30
3-Sep	CH	China Non-manufacturing PMI	AUG	--	--	59.6	01:00	11:00

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<p>29 AUGUST GE: CPI (Aug P) US: Personal Income (Jul), Core PCE (Jul), Pending Home Sales (Jul), Dallas Fed Manufacturing Activity (Aug)</p>	<p>30 AUGUST NZ : Building Permits (Jul) AU: Building Approvals (Ju;) JP : Jobless Rate (Jul), Retail Trade (Jul) EU : Consumer Confidence (Aug F), Eco, Ind and Services Confidence (Aug) UK : Mortgage Approvals (Jul), GfK Consumer Confidence (Aug) US : Case Shiller House Prices (Jun), Consumer Confidence (Aug), FOMC Minutes, Fed's Evans and Kocherlakota Speak</p>	<p>31 AUGUST 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), Fed's Lockhart Speaks CA : GDP (Q2)</p>	<p>1 SEPTEMBER 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), ECB's Stark & Nowotny GE: GDP (Q2), PMI Manuf. (Aug F) UK: PMI Manuf. (Aug) US: ISM Manuf. (Aug), ICSC Chain Store Sales (Aug), Fed's Duke Speaks</p>	<p>2 SEPTEMBER JP: Capital Spending (Q2) EU: PPI (Jul) GE: Retail Sales (Jul) UK: PMI Construction. (Aug) US: Non – farm Payrolls (Aug), Unemployment Rate (Aug)</p>
<p>5 SEPTEMBER 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: Labor Day Holiday</p>	<p>6 SEPTEMBER AU: CA (Q2), RBA rates decision EU: GDP (Q2 P) GE: Factory Orders (Jul) US: ISM non-manufacturing (Aug), Fed's Kocherlakota Speaks</p>	<p>7 SEPTEMBER AU: AiG Perf. Construction (Aug), Housing Finance (Jul), GDP (Q2) JP: BoJ rates decision GE: Ind Production (Jul) UK: Ind Production (Jul), Manufac Production (Jul), NIESR GDP Estimate (Aug) US: Fed's Beige Book, Fed's Evans and Williams Speak CA: BoC rates decision</p>	<p>8 SEPTEMBER NZ: Manufacturing Activity (Q2) AU: Employment (Aug), Trade (Aug) JP: CA (Jul), Trade (Jul), Machine Orders (Jul) EU: ECB rates decision, ECB's Trichet Speaks, GE: Current Account (Jul), Trade (Jul) UK: BoE rates decision US: Trade (Jul), Fed Chairman Bernanke Speaks CA: Building Permits (Jul), Trade (Jul),</p>	<p>9 SEPTEMBER 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), Housing Starts (Aug)</p>
<p>12 SEPTEMBER JN: BoJ minutes, BSI large manufacturing (Q3) CH: Mid-Autumn Festival Holiday UK: RICS House Prices (Aug) US: Fed's Fisher Speaks</p>	<p>13 SEPTEMBER 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)</p>	<p>14 SEPTEMBER AU: Westpac Consumer Confidence (Sep), DEWR Internet Skilled Vacancies (Aug) JP: Industrial Production (Jul F) EU: Industrial Production (Jul) UK: Jobless Claims Change (Aug), Unemployment (Jul) US: PPI (Aug), Retail Sales (Aug), Bus Inv (Jul)</p>	<p>15 SEPTEMBER NZ: RBNZ cash rate decision EU: ECB's Praet Moderates Panel, Trichet Speaks, CPI (Aug), Employment (Q2) UK: Retail Sales (Aug) US: CPI (Aug), Current Account (Q2), Empire Fed Manuf. (Sep), Philly Fed (Sep), Industrial Production (Aug)</p>	<p>16 SEPTEMBER NZ: ANZ Consumer Confidence (Sep) EU: Finance ministers and Central Bankers meet, Current Account (Jul), Trade (Jul) US: TIC flows, Uni of Michigan Confidence (Sep P)</p>
<p>19 SEPTEMBER NZ: Westpac Consumer Confidence (Q3), Perf. Of Services Index (Aug) AU: ABARES Australian Commodities Report JP: Respect for the Aged Holiday EU: Constrn Output (Jul) US: NAHB Housing Market Index (Sep)</p>	<p>20 SEPTEMBER AU: RBA minutes JN: Leading Index (Jul F) EU: ZEW Survey (Sep), PPI (Aug) US: Housing Starts (Aug), Building Permits (Aug), FOMC Rates Decision CA: Leading Indicators (Aug), Wholesale Sales (Jul)</p>	<p>21 SEPTEMBER NZ: CA (Q2), Net Migration (Aug), Credit Card Spending (Aug) JP: Trade (Aug) UK: BoE minutes US: Existing Home Sales (Aug) CA: CPI (Aug)</p>	<p>22 SEPTEMBER NZ: GDP (Q2) EU: Industrial New Orders (Jul) US: House Price Index (Jul), Leading Indicators (Aug) CA: Retail Sales (Jul)</p>	<p>23 SEPTEMBER AU: RBA Financial Stability Review CH: MNI September Flash Business Sentiment Survey JP: Autumnal Equinox Day Holiday UK: BBA Loans for House Purchase (Aug)</p>
<p>26 SEPTEMBER NZ: Trade Balance (Aug) GE: IFO Survey (Sep) US: Chicago Fed Activity Index (Aug), New Home Sales (Aug), Dallas Fed Survey (Sep), Fed's Raskin Speaks</p>	<p>27 SEPTEMBER CH: Industrial Profits (Aug) GE: Import Price Index (Aug) US: Case-Shiller (Jul), Consumer Confidence (Sep), Richmond Fed (Sep)</p>	<p>28 SEPTEMBER GE: GfK Consumer Confidence (Oct), CPI (Sep P) US: Capital & Durable Goods Orders (Aug)</p>	<p>29 SEPTEMBER JN: Retail Trade (Aug) EU: Consumer Confidence (Sep F), Eco, Ind & Services Confidence (Sep) UK: Consumer Credit (Aug), Mortgage Approvals (Aug), GfK Consumer Confidence (Sep) US: GDP (Q2 T), Personal Consumption (Q2 T), Pending Home Sales (Aug), Fed's Rosengren and Plosser Speak</p>	<p>30 SEPTEMBER NZ: Building Permits (Aug), NBNZ Business Confidence (Sep) AU: Private Credit (Aug) JN: Jobless Rate (Aug), CPI (Aug), Tokyo CPI (Sep), Ind Production (Aug P), Vehicle Prodn (Aug), Housing Starts (Aug) EU: Flash CPI (Sep) US: Personal income & Spending (Aug), Core PCE (Aug), Chicago PMI (Sep), Univ of Michigan Confidence (Sep F) CA: GDP (Jul)</p>

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
Economic activity (annual % change)				
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
Gross Domestic Product (GDP)	2.7	0.7	2.9	3.8
Prices and wages (annual % change)				
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
Labour market				
Employment (annual % change)	2.7	1.8	1.1	2.2
Unemployment rate (annual average %)	5.2	5.1	5.4	5.1
External sector				
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	4.84	4.90	4.90	4.90	4.90	4.90
3 year bond	3.81	4.00	3.70	3.80	4.00	4.20
10 year bond	4.41	4.20	4.40	4.40	4.50	4.70
3s10s yield curve	0.60	0.20	0.70	0.60	0.50	0.50
3 year swap	4.37	4.35	4.10	4.20	4.40	4.60
10 year swap	5.14	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	2.92	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	0.21	0.20	0.20	0.20	0.20	0.20
US 10 year note	2.25	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
Australian exchange rates						
A\$/US\$	1.05	1.10	1.12	1.12	1.12	1.14
NZ\$/US\$	0.83	0.88	0.91	0.92	0.93	0.93
A\$/¥	80.9	82.5	84.0	84.0	80.6	82.1
A\$/€	0.73	0.75	0.75	0.74	0.74	0.74
A\$/£	0.64	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	0.83	0.99	1.03	1.05	1.08	1.12
A\$/CNY	6.70	7.02	7.06	6.97	6.88	6.92
A\$ Trade weighted index	75.0	78.0	78.6	77.8	76.7	77.2
International cross rates						
US\$/¥	77.2	75.0	75.0	75.0	72.0	72.0
€/US\$	1.44	1.47	1.50	1.52	1.52	1.55
€/¥	111	110	113	114	109	112
£/US\$	1.63	1.65	1.65	1.68	1.68	1.70
€/£	0.88	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	0.79	0.90	0.92	0.94	0.96	0.98
US\$ index	74.0	77.4	78.6	80.4	80.1	80.5
Asia exchange rates						
US\$/CNY	6.39	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	8571	8400	8200	7900	7700	7500
US\$/INR	46.1	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	42.5	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	30.00	29.60	29.30	28.90	28.60	28.20
US\$/TWD	29.03	28.70	28.40	28.10	27.80	27.50
US\$/VND	20829	20800	20800	21400	21400	21400
Pacific exchange rates						
PGK/US\$	0.446	0.385	0.378	0.372	0.366	0.366
FJD/US\$	0.571	0.548	0.538	0.530	0.522	0.522

IMPORTANT NOTICE

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