AUSTRALIAN ECONOMICS

AUSTRALIAN ECONOMICS WEEKLY

12 AUGUST 2011

INSIDE

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

GLOBAL INSTABILITY HEIGHTENS RISKS TO DOMESTIC ECONOMY

- **Global financial markets remain extremely volatile.** At the heart of this turbulence lies Europe's sovereign debt problems, coupled with (related) ongoing concerns about the US, European and global growth outlooks. Policy actions by the European Central Bank (purchasing Italian and French sovereign bonds) and the FOMC (see below) this week have so far had some success in calming markets, but more remains to be done.
- Internationally this week, the weekly US initial jobless claims data grabbed market attention (under 400,000 claimants for the first time since April). While policy announcements will again be at the forefront next week, we think **this renewed focus on some positive data is a good sign for markets**. We maintain the view that the US will avoid a recession and look for annualised growth of 2.5% to 3.0% in the second half of 2011. The FOMC assured markets that the 0-0.25% Fed funds rate will stay in place until mid-2013. This is aimed at anchoring bond yields and restoring investor and business confidence in an extremely volatile and jumpy environment.
- Heightened international financial market distress has occurred at a time when **Australian economic prospects were already looking weaker than previously expected.** Prior to recent market moves, we had slightly shaved down our forecasts for Australian growth in both 2011 and 2012, partly reflecting our higher A$ assumptions but also due to a further narrowing of the growth base. We have since made further modest downward revisions. We now expect GDP growth of just 0.7% in 2011. We do however still look for a rebound in GDP growth to 3.2% in 2012, albeit driven almost entirely by resources-related investment and commodity exports.
- In our *In Focus* article this week, **we examine the implications of this global backdrop for monetary policy in Australia**, by asking three key questions:

  1. Do recent financial market moves provide sufficient downside risk to the local economy, and especially to the channel of credit, to warrant an emergency easing?
  2. Is monetary policy already too tight for current conditions? and
  3. Has the previously high outlook for inflation moderated significantly to warrant lower interest rates?

THE WEEK AHEAD

- In **Australia**, the RBA minutes on Tuesday will be the focus for local markets. The minutes pre-date the most recent outbreak of market volatility but will nevertheless provide more detail on the RBA's current thinking. Wages data will be released for Q2. We expect the Wage Price Index to have accelerated marginally to 3.9% y/y in Q2 (from 3.8% in Q1).
- **US** data is again likely to be the focus for global markets next week. Manufacturing data to be released include the Empire Fed and Philly Fed manufacturing indices, industrial production and capacity utilisation. Housing market data will include housing starts and building permits. Monthly PPI and CPI data (July) will also be released. The CPI will be the main focus in **Canada.**
- In Europe, **Eurozone** GDP for Q2 will be a key focus given the interrelationship between sovereign debt concerns and the soft growth outlook. Monthly trade and the CPI will also be released. Preliminary Q2 GDP data for **Germany** will also be of interest, plus the German PPI.
- **UK** data next week will include the CPI, unemployment and retail sales. The BoE minutes will also be released. We expect the BoE to stay on hold until mid 2013.
- In Asia, there will be limited market moving data next week. **Japanese** Q2 GDP and July trade data will be the major releases. No data are due for released from China.

IN FOCUS

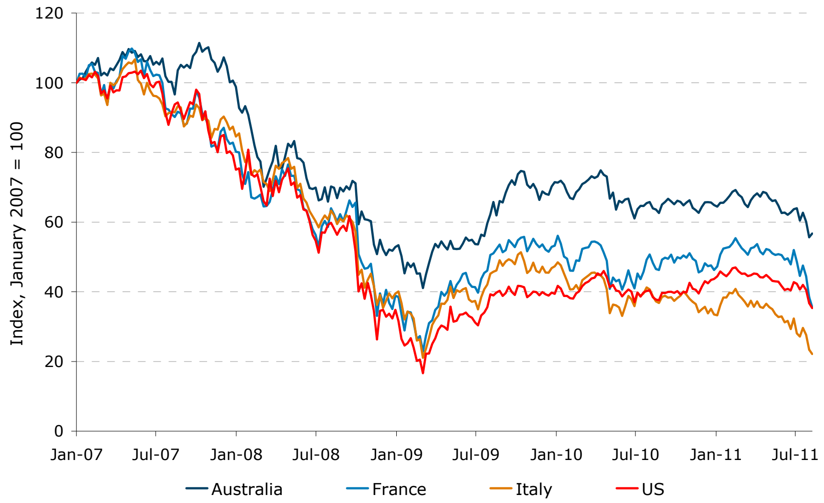
Katie Dean
Head of Australian Economics
+61 3 9273 1381
Katie.Dean@anz.com

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

RECENT MARKET DEVELOPMENTS AND THE RBA

As we write, global financial markets remain extremely volatile. At the heart of this turbulence lies the European sovereign debt problems. Policy actions by the European Central Bank this week, through the direct purchase of Italian and Spanish sovereign bonds, have so far met with some success in calming markets. Italian and Spanish 10-year yields have dropped by over 100 bps and shifted concern (perhaps temporarily) from the solvency of these European countries to the capacity of the European banking sector to weather any significant write-down in the value of its large European sovereign debt holdings. This has driven a sharp run on European, especially French, bank equity prices. The credit spreads of these financial institutions are also widening sharply. The threat of contagion, in particular concerns that a European financial institutional may ultimately need to be bailed out (eg. Lehman Brothers Mark II) is driving the sharp losses and volatility across US and Australian bourses.

FIGURE 1: GLOBAL FINANCIAL SECTOR SHARE PRICES (AS OF 12 AUGUST)



Sources: Bloomberg and ANZ

A resolution to this crisis is not yet clear, given the difficulty in reaching a timely political consensus in Europe. It appears that what markets now want to see is for:

(a) the ECB to set in place a mechanism to remain an active buyer of European sovereign debt to ensure future national solvency; and

(b) government action to support the European (and particularly French) banking system, through either a direct capital injection or the development of a US-style TARP program.

Note that this would simply shift the burden of sovereign debt back to the national governments, weighing on debt obligations and risking national solvency further. A co-ordinated response between governments and the ECB is therefore crucial. As we wait for this policy response, the one thing we know for sure is that perceptions of European growth prospects (outside of Germany perhaps) will remain poor for a long time to come.

WHAT NOW FOR THE RBA?

Heightened international financial market distress has occurred at a time when Australian economic prospects were already looking weaker than previously expected. Prior to recent market moves, we had slightly shaved our forecasts for Australian growth in both 2011 and 2012, partly reflecting our higher A$ assumptions but also due to a further narrowing of the growth base. We have since made further modest downward revisions to consumer spending and profitability to reflect the recent destruction of share market wealth and heightened uncertainty. This includes a forecast that real consumer spending will be negative in Q3 2011. Our forecasts are

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now for GDP growth of just 0.7% in 2011. We do however still look for a rebound to 3.2% in 2012, albeit driven almost entirely by resource investment and commodity exports.

Against this backdrop, the outlook for monetary policy in Australia relies on three key questions:

1. Do recent financial market moves provide sufficient downside risk to the local economy, and especially to the channel of credit, to warrant an emergency easing?

2. Is monetary policy already too tight for current conditions? and

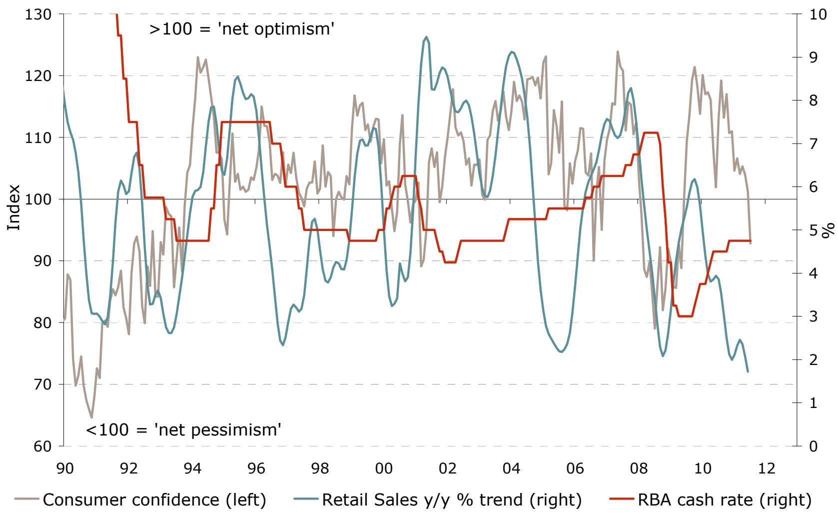
3. Has the previously high outlook for inflation moderated significantly to warrant lower interest rates?

On question 1, our answer is, not yet. Last week we said we would need to see equities fall another 20% - amazingly, compared to last Friday, the All Ordinaries is UP around 100 points or 2.5%, though some major inter-week volatility has obviously occurred. Equity markets are around 18% below their mid April highs. But more importantly for the RBA than the wealth effects from a disorderly stock market correction would be any disruption to the flow of credit in the Australian economy. It is important to note that Australia’s call on wholesale funding markets has been greatly reduced. Of concern however is the beginnings of a significant widening in credit spreads in European funding markets. If continued this threatens the flow of credit once more. As such, the performance of equity markets, and especially financial stocks, funding markets and Italian and Spanish bond yields remain the key items we are monitoring for signs that the financial markets will more significantly impact the real economy.

Now to question 2 about the current state of the local economy. On a range of metrics, it could easily be argued that current monetary policy settings are currently too tight.

- Figure 2 shows that retail sales is well below levels that preceded previous ‘rate-cutting’ cycles. That said, it is useful to note that similar sharp drops in consumer sentiment have not always prompted a policy response. And of course, as we have written previously, consumer spending outside of retailing is stronger than retail spending, albeit still relatively soft.

FIGURE 2: RETAIL SPENDING, CONSUMER CONFIDENCE AND RBA CASH RATE



Source: ABS, WB/MI, RBA

- Figure 3 shows capacity utilisation is currently well below previous episodes when the standard variable home loan rate has been at current levels.

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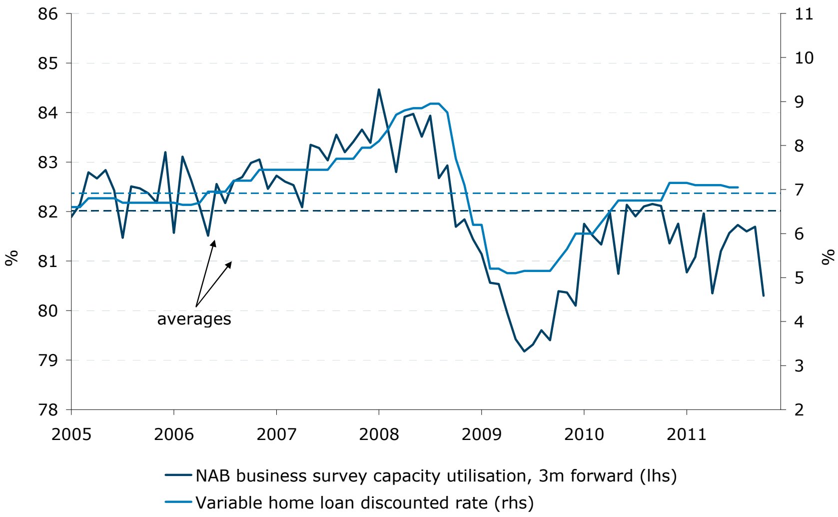
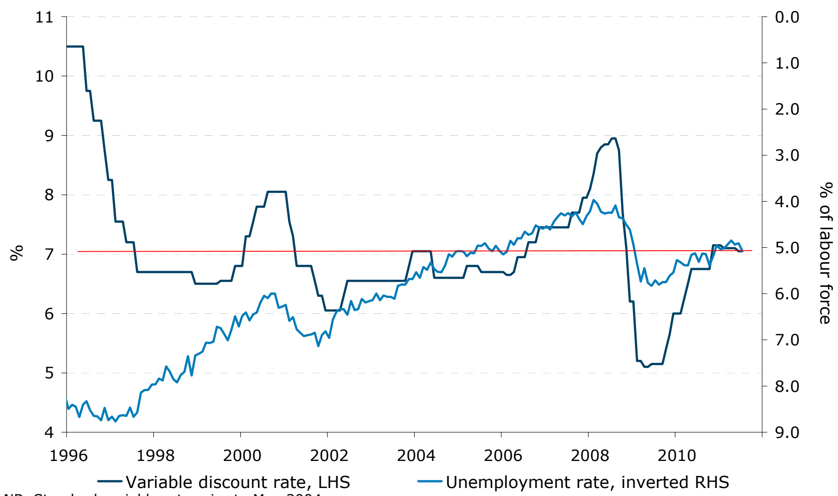
FIGURE 3: NAB CAPACITY UTILISATION VS STANDARD VARIABLE RATE



Source: RBA and NAB

- Figure 4 similarly shows the unemployment rate is also *slightly* higher than in previous episodes when the standard variable home loan rate has been at current levels.

FIGURE 4: UNEMPLOYMENT RATE VS STANDARD VARIABLE RATE



NB. Standard variable rate prior to May 2004

Source: RBA and ABS

These charts may be compelling in isolation, but need to be set against the outlook for growth and the intention of policy. Policy that is a little on the tight side now is not a problem if economic growth and inflation is expected to be higher in the future.

- Aggregate economic growth is still expected to pick up next year, driven by strong business investment. Figure 5 shows the value of work in the pipeline. An important distinction now is that the investment pipeline is more advanced than prior to the 2008 global financial crisis. Recent market turmoil has therefore not altered our core business investment view.
- And the inflation outlook is still high. Figure 6 shows the RBA's latest inflation forecasts. Even if we see downside risks to the RBA's short-term inflation

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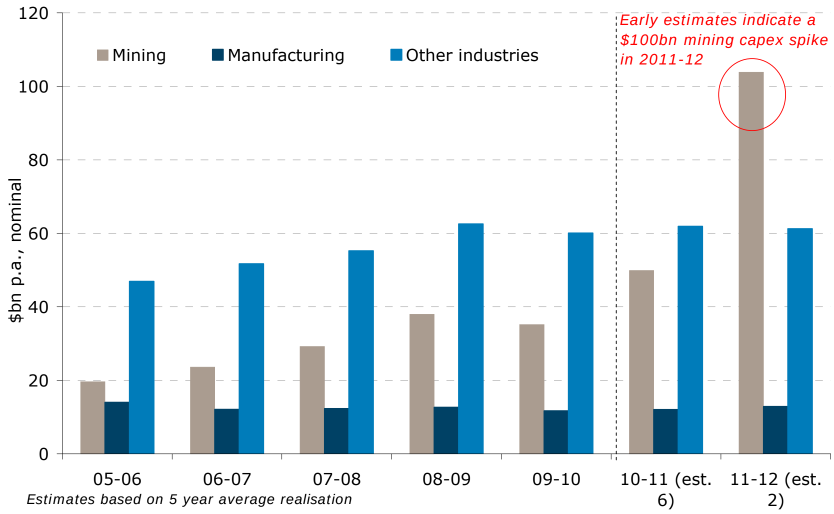
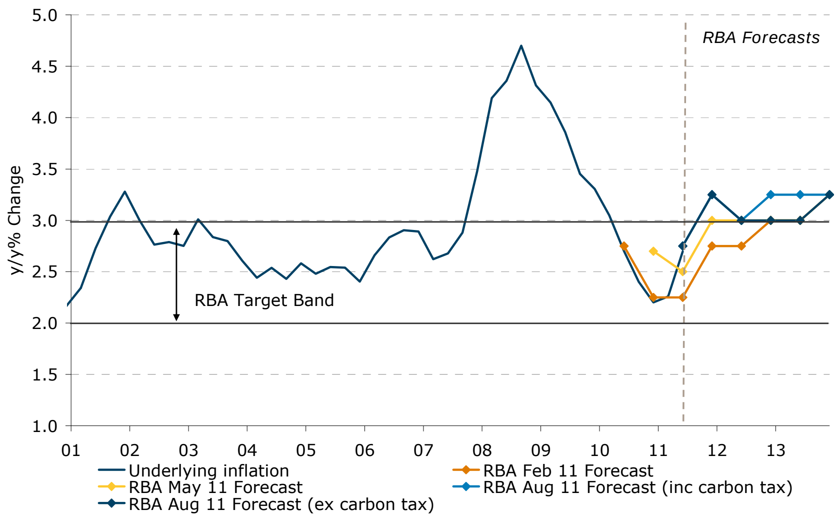
view, we still struggle to see underlying inflation staying convincingly below the RBA's 2 to 3% target band from now until 2013.

FIGURE 5: VALUE OF WORK IN THE PIPELINE



Source: ABS

FIGURE 6: RBA INFLATION FORECASTS



Sources: RBA and ANZ.

This brings us to the ultimate question for policy-makers now: has the non-mining sector deteriorated significantly, perhaps because of a weaker than expected starting point, to warrant an easing of policy?

The most critical indicator to watch will be employment. This week's July labour force data was a disappointment. The economy lost 100 jobs last month, despite a likely modest boost to overall employment by the temporary hire of Census workers. This saw the unemployment rate rise to 5.1% and employment growth remain at a relatively anaemic 3,000 per month in trend terms. This jump in the unemployment rate would not be outside the bound of RBA expectations; we suspect the RBA would be content for the unemployment rate to drift up a little toward 5.25-5.5% to moderate wages pressures and temper inflation.

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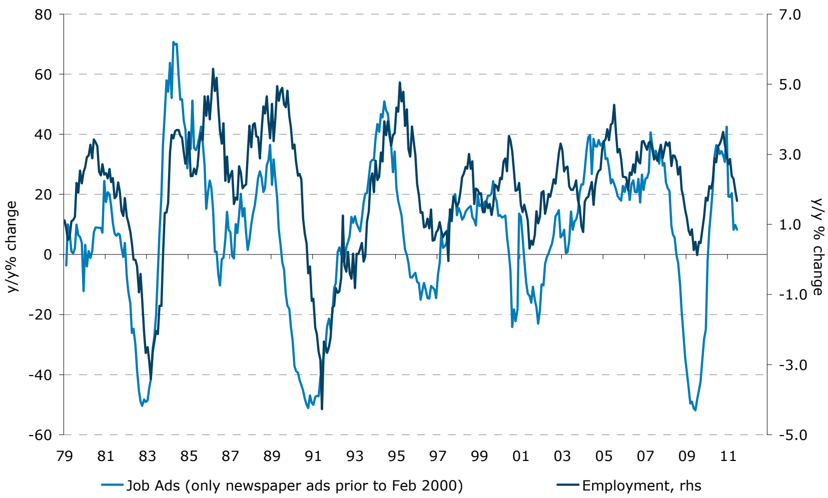
But, employment growth has slowed measurably in recent months – the four month moving average has now turned negative for the first time since August 2009. Figure 7 shows that the ANZ Job Advertisements Series is pointing to continued soft employment outcomes in the next few months.

FIGURE 7: ANZ JOB ADS VS EMPLOYMENT



Sources: ABS and ANZ.

Indeed, if current softer monthly employment outcomes are maintained, then the unemployment rate could rise to around 5½% by the end of the year. Some scenarios for unemployment are presented in the table below.[1] Without a early rebound in the labour market, this will place increasing pressure on the RBA given the Bank has set monetary policy under the assumption that the unemployment rate will remain stable for some time before falling towards the end of the forecast horizon (in 2013). A weaker outcome than current RBA forecasts (ie. a jump above 5.25% in coming months) would help alleviate the RBA's concerns about the medium-term inflation outlook and suggest that the domestic economy was slowing more as we entered the current period of instability. It would significantly increase the chance that the next move in rates would be a modest easing cycle for domestic macroeconomic reasons.

FIGURE 8: UNEMPLOYMENT RATE AND EMPLOYMENT CHANGE SCENARIOS

	Unemployment Rate*	
Employment change scenarios	Aug-11	Dec-11
10K per month	5.1	5.1
5K per month	5.1	5.3
3K per month (current trend rate)	5.1	5.4
0K per month	5.2	5.5
-5K per month	5.2	5.7

* Assumes monthly employment growth sustained at 0.09% m/m and participation rate unchanged at 65.6%. See footnote below.

Sources: ABS and ANZ.

[1] Note that these scenarios assume that the current monthly rate of population growth (0.09% m/m) is sustained and the unemployment rate is unchanged at 65.6%. Note that this participation rate assumption exaggerates movements in the unemployment rate, as weaker employment outcomes are usually accompanied by a (partly) offsetting fall in the participation rate due to the discouraged worker effect.

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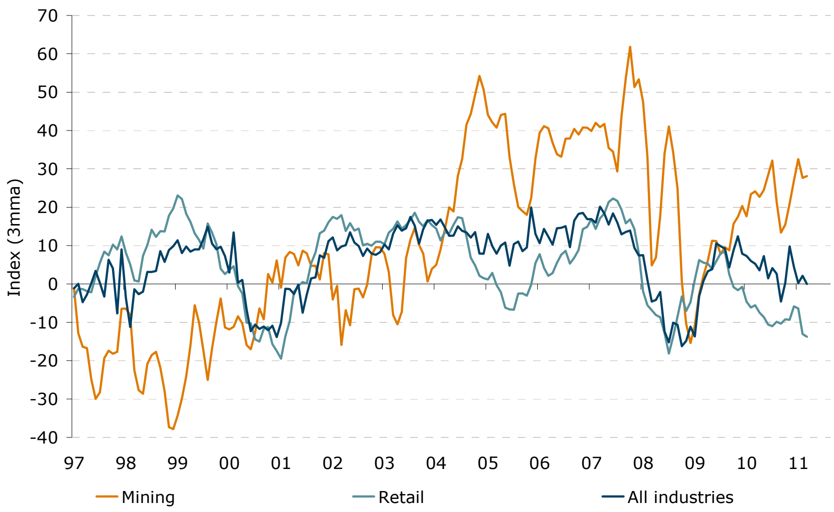
Figure 9 provides another perspective on the current two-speed nature of the Australian economy. It shows that the current weak conditions in the retail sector are approaching levels seen during the GFC. In contrast, mining business conditions remain very elevated, while all industries remain right on 'neutral' on average. What's particularly interesting is that overall business conditions do not mirror the drop in retail conditions evident during the GFC. While they are softer than in 2007-08 (suggesting that policy may be a bit tight for the local economy), they are not confirming an exceptionally weak performance by the economy. Together, this suggests, barring further mayhem and weakness in offshore equity and funding markets, that the best outcome for Australian interest rates on domestic conditions is a modest easing cycle after the unemployment rate ticks up a little bit more. In the near term, however, we can expect the markets to continue to trade with significantly more easing than this priced in for global risks.

FIGURE 9: BUSINESS CONDITIONS IN SELECTED SECTORS



Source: NAB.

DATA WRAP

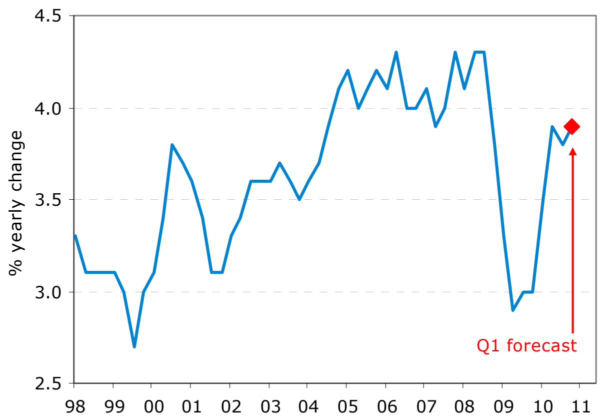
Andrew McManus
Analyst
+61 2 92271742
Andrew.McManus@anz.com

DATA WRAP

- Australian **employment** continued to lose momentum in July, declining by 0.1K compared with expectations for a 10K rise. This left employment growing at only 3,000 per month in trend terms. This saw the **unemployment** rate rise to 5.1% after remaining unchanged at 4.9% for four consecutive months. The **participation rate** remained at 65.6%.
- **The ANZ Job Advertisement Series** recorded a further slight decline in July, with the number of jobs advertised online and in newspapers dropping 0.7% m/m. This has left the trend for job advertising in slight decline for four successive months. Historically, declining trends for job advertising have been consistent with rising unemployment, though the trend to date is quite modest.
- **NAB Business conditions** fell in July to -1, indicating net negative conditions (sub-zero). Confidence improved slightly in July, but it remains weak, at just +2 points. Capacity utilisation and retail prices (but not labour costs) both indicated an easing in inflationary pressures.
- The number of owner-occupier **housing finance** commitments was flat (+0.0%) in June (+1.3% higher ex-refin.) to be 5.7% higher over the year. The value of total housing finance commitments was 1.4% lower in June (-1.0% ex-refin.) to be 0.5% below year earlier levels. Within this, owner-occupier approvals were unchanged (+0.0%) and investor approvals were 4.4% lower in the month.
- The **Westpac Consumer Confidence Index** fell for a fourth consecutive month, down 3.5% to 89.6 (a 2-year low). The fall was predominantly in the expectations series and mainly in the economy 1-year ahead index. The Current conditions series actually rose slightly.
- The **Melbourne Institute consumer inflation expectations** rose 2.7% in August. This is down from 3.4% in July. Wage expectations fell to 5.8% from 6.2% in July.

DATA PREVIEW

WAGE PRICE INDEX (Q2)



17 AUGUST: WAGE PRICE INDEX (Q2)

ANZ: 0.9% q/q, 3.9% y/y

Market: 1.0% q/q, 4.0% y/y

Last: 0.8%, 3.8% y/y

After a surprisingly soft outcome in Q1, growth in the wage price index is expected to have picked up slightly. This is in line with relatively tight labour market conditions and the further moderate fall in the unemployment rate to below 5% over the first half of 2011. Nevertheless, we expect the step up in wage growth to be moderate, with pressures still relatively confined to industries exposed to or competing with the mining and infrastructure construction sectors. The recent slowdown in public sector wage growth is expected to have continued into Q2 given tighter government fiscal positions and cost containment policies. Recent higher inflation outcomes, especially for essentials and items purchased on a regular basis, can also be expected to feed into wage pressures. However this is more likely an issue for the second half of the year given the lags involved.

On this forecast, the annual rate of wage growth will tick up to 3.9%. This is above the rate considered consistent with the RBA's inflation target. While 4% WPI growth was once considered the line in the sand for acceptable wage inflation, poor productivity growth of late means that wages growth now needs to be somewhat lower. Nevertheless, recent softer employment outcomes and a potential uptick in the unemployment rate in coming months suggests that these inflation risks may now start to dissipate, particularly if current financial market instability continues. **(RP)**

DATA & EVENT CALENDAR

WEEK STARTING 15 AUGUST

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
14-Aug	UK	Rightmove House Prices m/m	AUG	- -	- -	-1.6%	23:01	09:01
		Rightmove House Prices y/y	AUG	- -	- -	0.1%	23:01	09:01
12-15 AUG	CH	Actual FDI y/y	JUL	- -	- -	2.8%	- -	- -
		Money Supply - M0 y/y	JUL	- -	- -	14.4%	- -	- -
		Money Supply - M1 y/y	JUL	13.5%	- -	13.1%	- -	- -
		Money Supply - M2 y/y	JUL	15.8%	15.8%	15.9%	- -	- -
		New Yuan Loans	JUL	550.0B	500.B	633.9B	- -	- -
15-17 AUG	UK	Nationwide Consumer Confidence	JUL	- -	- -	51	- -	- -
15-19 AUG	JN	Nationwide Dept. Sales y/y	JUL	- -	- -	0.3%	- -	- -
		Tokyo Dept. Store Sales y/y	JUL	- -	- -	0.4%	- -	- -
Monday	NZ	Performance Services Index	JUL	- -	- -	54.7	22:30	08:30
15-Aug	AU	New Motor Vehicle Sales m/m	JUL	- -	- -	1.3%	01:30	11:30
		New Motor Vehicle Sales y/y	JUL	- -	- -	-11.5%	01:30	11:30
	JN	GDP Annualized	2Q P	-2.5%	- -	-3.5%	23:50	09:50
		GDP Deflator y/y	2Q P	-1.7%	- -	-1.9%	23:50	09:50
		Gross Domestic Product q/q	2Q P	-0.6%	- -	-0.9%	23:50	09:50
		Nominal GDP q/q	2Q P	-1.4%	- -	-1.3%	23:50	09:50
	EU	ECB Announces Bond Purchases					13:30	23:30
		ECB Calls for Bids in 7-Day Main Refinancing Tender					13:30	23:30
	US	Empire Manufacturing	AUG	0.5	- -	-3.76	12:30	22:30
		Net Long-term TIC Flows	JUN	- -	- -	$23.6B	13:00	23:00
		Total Net TIC Flows	JUN	- -	- -	-$67.5B	13:00	23:00
		NAHB Housing Market Index	AUG	15	- -	15	14:00	00:00
		Fed's Lockhart (non-voter) Speaks on Economy in Florence, Alabama					**17:25**	**03:25**
Tuesday	NZ	**Fonterra Global Dairy Auction**						
16-Aug	AU	**Reserve Bank's Board August Minutes**					**01:30**	**11:30**
	JN	Tokyo Condominium Sales y/y	JUL	- -	-1.3%	-32.9%	04:00	14:00
	CH	**Conference Board China June Leading Economic Index**					**02:00**	**12:00**
	EU	Euro-Zone GDP sa q/q	2Q A	0.3%	- -	0.8%	09:00	19:00
		Euro-Zone GDP sa y/y	2Q A	1.8%	- -	2.5%	09:00	19:00
		Euro-Zone Trade Balance	JUN	- -	- -	0.0B	09:00	19:00
		Euro-Zone Trade Balance sa	JUN	- -	- -	-0.6B	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
		Merkel to Discuss Debt Crisis with Sarkozy in Paris					14:00	12:00
	GE	GDP nsa y/y	2Q P	3.2%	- -	5.2%	06:00	16:00
		GDP sa q/q	2Q P	0.5%	- -	1.5%	06:00	16:00
		GDP wda y/y	2Q P	2.9%	- -	4.9%	06:00	16:00
	UK	Core CPI y/y	JUL	3.0%	- -	2.8%	08:30	18:30
		CPI m/m	JUL	-0.2%	- -	-0.1%	08:30	18:30
		CPI y/y	JUL	4.4%	- -	4.2%	08:30	18:30
		DCLG UK House Prices y/y	JUN	- -	- -	-1.6%	08:30	18:30
		Retail Price Index	JUL	- -	- -	235.2	08:30	18:30
		RPI m/m	JUL	-0.2%	- -	0.0%	08:30	18:30
		RPI y/y	JUL	5.0%	- -	5.0%	08:30	18:30
		RPI Ex Mort Int.Payments y/y	JUL	5.1%	- -	5.0%	08:30	18:30
	US	Building Permits	JUL	606K	- -	617K	12:30	22:30
		Building Permits m/m	JUL	-1.9%	- -	2.5%	12:30	22:30
		Housing Starts	JUL	608K	- -	629K	12:30	22:30
		Housing Starts m/m	JUL	-0.033	- -	- -	12:30	22:30
		Import Price Index m/m	JUL	-0.1%	- -	-0.5%	12:30	22:30
		Import Price Index y/y	JUL	13.4%	- -	13.6%	12:30	22:30
		Fed Official Bertsch (non-voter) Testifies on Bank Supervision					**13:00**	**23:00**
		Capacity Utilization	JUL	76.9%	- -	76.7%	13:15	23:15
		Industrial Production	JUL	0.5%	- -	0.2%	13:15	23:15
	CA	Manufacturing Sales m/m	JUN	-0.5%	- -	-0.8%	12:30	22:30

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Wednesday	NZ	Producer Prices- Inputs q/q	2Q	1.0%	1.2%	2.2%	22:45	08:45
17-Aug		Producer Prices- Outputs q/q	2Q	0.8%	0.8%	1.7%	22:45	08:45
	AU	**AOFM Auctions A$700m of April 2020 Bonds**						
		Westpac Leading Index m/m	JUN	- -	- -	-0.1%	00:30	10:30
		DEWR Internet Skilled Vacancies m/m	JUL	- -	- -	0.0%	01:00	11:00
		Wage Cost Index q/q	2Q	1.0%	0.9%	0.8%	01:30	11:30
		Wage Cost Index y/y	2Q	4.0%	3.9%	3.8%	01:30	11:30
	EU	ECB Euro-Zone Current Account sa	JUN	- -	- -	-5.2B	08:00	18:00
		Euro-Zone Current Accountnsa	JUN	- -	- -	-18.3B	08:00	18:00
		Euro-Zone CPI - Core y/y	JUL	1.7%	- -	1.6%	09:00	19:00
		Euro-Zone CPI m/m	JUL	-0.6%	- -	0.0%	09:00	19:00
		Euro-Zone CPI y/y	JUL	2.5%	- -	2.5%	09:00	19:00
	UK	Average Weekly Earnings 3M/y/y	JUN	2.3%	- -	2.3%	08:30	18:30
		Claimant Count Rate	JUL	4.7%	- -	4.7%	08:30	18:30
		ILO Unemployment Rate (3mths)	JUN	7.7%	- -	7.7%	08:30	18:30
		Jobless Claims Change	JUL	20.0K	- -	24.5K	08:30	18:30
		Weekly Earnings exBonus 3M/y/y	JUN	2.3%	- -	2.1%	08:30	18:30
		Bank of England Minutes					**08:30**	**18:30**
	US	MBA Mortgage Applications	Aug-11	- -	- -	21.7%	11:00	21:00
		PPI Ex Food & Energy m/m	JUL	0.2%	- -	0.3%	12:30	22:30
		PPI Ex Food & Energy y/y	JUL	2.3%	- -	2.4%	12:30	22:30
		Producer Price Index m/m	JUL	0.1%	- -	-0.4%	12:30	22:30
		Producer Price Index y/y	JUL	7.0%	- -	7.0%	12:30	22:30
		Fed's Fisher (voter) Speaks at Event in Midland, Texas					**17:20**	**03:20**
	CA	Int'l Securities Transactions	JUN	- -	- -	15.400B	12:30	22:30
Thursday	AU	Average Weekly Wages q/q	MAY	1.0%	- -	1.0%	01:30	11:30
18-Aug		Average Weekly Wages y/y	MAY	4.0%	- -	3.8%	01:30	11:30
		RBA Foreign Exchange Transactn	JUL	- -	- -	1280M	01:30	11:30
	JN	Adjusted Merchnds Trade Bal.	JUL	-¥131.9B	- -	-¥191.2B	23:50	09:50
		Merchnds Trade Balance Total	JUL	¥69.3B	- -	¥68.6B	23:50	09:50
		Merchnds Trade Exports y/y	JUL	-2.6	- -	-1.6	23:50	09:50
		Merchnds Trade Imports y/y	JUL	11	- -	9.8	23:50	09:50
		Foreign Buying Japan Bonds	Aug-11	- -	- -	¥44.8B	23:50	09:50
		Foreign Buying Japan Stocks	Aug-11	- -	- -	-¥389.9B	23:50	09:50
		Japan Buying Foreign Bonds	Aug-11	- -	- -	-¥318.9B	23:50	09:50
		Japan Buying Foreign Stocks	Aug-11	- -	- -	¥145.4B	23:50	09:50
		Coincident Index CI	JUN F	- -	- -	108.6	05:00	15:00
		Leading Index CI	JUN F	- -	- -	103.2	05:00	15:00
		Nationwide Dept. Sales y/y	JUL	- -		0.3	05:00	15:00
		Tokyo Dept. Store Sales y/y	JUL	- -		0.4	05:00	15:00
	EU	Construction Output sa m/m	JUN	- -	- -	-1.1%	09:00	19:00
		Construction Output WDA y/y	JUN	- -	- -	-1.9%	09:00	19:00
	UK	Retail Sales Ex Auto Fuelm/m	JUL	0.2%	- -	0.8%	08:30	18:30
		Retail Sales Ex Auto Fuely/y	JUL	- -	- -	0.2%	08:30	18:30
		Retail Sales w/Auto Fuel m/m	JUL	0.3%	- -	0.7%	08:30	18:30
		Retail Sales w/Auto Fuel y/y	JUL	0.3%	- -	0.4%	08:30	18:30
	US	Consumer Price Index m/m	JUL	0.2%	- -	-0.2%	12:30	22:30
		Consumer Price Index y/y	JUL	3.3%	- -	3.6%	12:30	22:30
		Consumer Price Index nsa	JUL	- -	- -	225.722	12:30	22:30
		Continuing Claims	Aug-11	- -	- -	- -	12:30	22:30
		CPI Core Index sa	JUL	- -	- -	224.958	12:30	22:30
		CPI Ex Food & Energy m/m	JUL	0.2%	- -	0.3%	12:30	22:30
		CPI Ex Food & Energy y/y	JUL	1.7%	- -	1.6%	12:30	22:30
		Initial Jobless Claims	Aug-11	- -	- -	- -	12:30	22:30
		Fed's Dudley (voter) to Speak in Newark, NJ					**12:35**	**22:35**
		Bloomberg Consumer Comfort	Aug-11	- -	- -	-49.1	13:45	23:45
		Bloomberg Economic Expectations	AUG	- -	- -	-22	13:45	23:45
		Existing Home Sales	JUL	4.90M	- -	4.77M	14:00	00:00
		Existing Home Sales m/m	JUL	2.7%	- -	-0.8%	14:00	00:00
		Leading Indicators	JUL	0.2%	- -	0.3%	14:00	00:00
		Philadelphia Fed.	AUG	4	- -	3.2	14:00	00:00
		Fed's Dudley (voter) to Tour Jersey City, New Jersey					**18:30**	**04:30**
		US Auctions 5-year TIPS						
	CA	Leading Indicators m/m	JUL	- -	- -	0.2%	12:30	22:30
		Wholesale Sales m/m	JUN	- -	- -	1.9%	12:30	22:30

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Friday	NZ	Net Migration sa	JUL	- -	-200	-340	22:45	08:45
19-Aug		Visitor Arrivals	JUL	- -	5.0%	-5.1%	22:45	08:45
		Credit Card Spending y/y	JUL	- -	6.2%	4.5%	03:00	13:00
		Credit Card Spending sa m/m	JUL	- -	0.5%	0.4%	03:00	13:00
	AU	**AOFM Auctions A$700m of June 2016 Bonds**						
	JN	All Industry Activity Index m/m	JUN	2.2%	- -	2.0%	04:30	14:30
	CH	MNI August Flash Business Sentiment Survey					01:35	11:35
	GE	Producer Prices m/m	JUL	0.1%	- -	0.1%	06:00	16:00
		Producer Prices y/y	JUL	5.3%	- -	5.6%	06:00	16:00
	UK	PSNB ex Interventions	JUL	1.0B	- -	14.0B	08:30	18:30
		Public Finances (PSNCR)	JUL	- -	- -	21.0B	08:30	18:30
		Public Sector Net Borrowing	JUL	0.5B	- -	12.0B	08:30	18:30
	US	**Fed's Dudley (voter) to Speak in Lyndhurst, NJ**					**12:30**	**22:30**
		Fed's Dudley (voter) to Tour Box Manufacturer in Paterson, NJ					**14:45**	**00:45**
		Fed's Pianalto (non-voter) speaks on economy in Columbus, Ohio					**17:45**	**03:45**
	CA	Bank Canada CPI Core m/m	JUL	0.2%	- -	-0.6%	11:00	21:00
		Bank Canada CPI Core y/y	JUL	1.6%	- -	1.3%	11:00	21:00
		Consumer Price Index	JUL	- -	- -	119.8	11:00	21:00
		Consumer Price Index m/m	JUL	0.2%	- -	-0.7%	11:00	21:00
		Consumer Price Index y/y	JUL	2.8%	- -	3.1%	11:00	21:00

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
15 AUGUST NZ: Performance of Services Index (Jul) AU: Motor Sales (Jul) JP: GDP (Q2 P) US: Empire Manufacturing (Aug), TIC Flows (Jun), NAHB Housing Market Index (Aug)	16 AUGUST AU: **RBA Minutes** EU: GDP (Q2 A), Trade (Jun) GE: GDP (Q2 P) UK: CPI (Jul), RPI (Jul) US: Import Prices (Jul), Housing Starts (Jul), Building Permits (Jul), IP (Jul) CA: Manufacturing Sales (Jun)	17 AUGUST NZ: PPI (Q2), Fonterrra dairy auction AU: WPI (Q2) EU: Current Account (Jun), CPI (Jul) UK: **BoE Minutes** (Jul), Unemployment (Jun), Jobless Claims Change (Jul) US: PPI (Jul)	18 AUGUST AU: AWOTE (May) JP: Trade (Jul) EU: Construction Output (Jun) UK: Retail Sales (Jul) US: CPI (Jul), Philly Fed (Aug), Existing Home Sales (Jul), Leading Indicators (Jul) CA: Wholesale Sales (Jun)	19 AUGUST NZ: Net Migration (Jul), Credit Card Spending (Jul) JP: All Industry Activity Index (Jun) GE: PPI (Jul) CA: CPI (Jul)
22 AUGUST US: Chicago Fed Activity Index (Jul)	23 AUGUST AU: **RBA's Battellino Speaks** 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)	24 AUGUST NZ: Trade Balance (Jul) AU : Construction Work Done (Q2) EU : Ind. New Orders (Jun) GE : IFO (Aug) US : Durable & Capital Goods Orders (Jul)	25 AUGUST NZ: Food Prices (Jul), Retail Sales (Q2)	26 AUGUST AU: **RBA's Stevens speaks** 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)
29 AUGUST 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)	30 AUGUST 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), **FOMC Minutes**	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) CA : GDP (Q2)	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 Speak** GE: GDP (Q2), PMI Manuf. (Aug F) UK: PMI Manuf. (Aug) US: ISM Manuf. (Aug), ICSC Chain Store Sales (Aug)	2 SEPTEMBER JP: Capital Spending (Q2) EU: PPI (Jul) UK:PMI Con. (Aug) US: Payrolls (Aug)
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**	6 SEPTEMBER AU: CA (Q2), **RBA rates decision** EU: GDP (Q2 P) GE: Factory Orders (Jul) US: ISM non-manufacturing (Aug)	7 SEPTEMBER AU: AiG Perf. Construction (Aug), Housing Finance (Jul), GDP (Q2) JP: **BoJ rates decision** GE: IP (Jul) UK: IP (Jul) US: **Fed's Beige Book** CA: **BoC rates decision**	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: CA (Jul), Trade (Jul) UK: **BoE rates decision** US: Trade (Jul) CA: Building Permits (Jul), Trade (Jul), New House Prices (Jul)	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)
12 SEPTEMBER JN: **BoJ minutes**, BSI large manufacturing (Q3) CH: **Mid-Autumn Festival Holiday** UK: RICS House Prices (Aug) US: **Fed's Fisher Speaks**	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)	14 SEPTEMBER 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)	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), CA (Q2), Empire Fed Manuf. (Sep), Philly Fed (Sep), Industrial Production (Aug)	16 SEPTEMBER NZ: ANZ Consumer Confidence (Sep) EU: **Finance ministers and Central Bankers meet,** CA (Jul), Trade (Jul) US: TIC flows, Uni of Michigan Confidence (Sep 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 Mintues 15th – FOMC 17th – SNB 18th – BoJ Minutes 23rd – BoE Minutes	5th – RBA 7th – BoJ 7th – BoE 7th – ECB 12th – BoJ Minutes 12th – BoC 19th – RBA Minutes 20th – BoE Minutes 27th – FOMC 28th – RBNZ 28th – BoJ

may	june	July	august
3rd – RBA 6th – RBA MP Statement 5th – BoE 5th – ECB 9th – BoJ Minutes 17th – RBA Minutes 18th – BoE Minutes 20th – BoJ 25th – BoJ Minutes 31st – BoC	7th – RBA 9th – RBNZ 9th - RBNZ MP Statement 9th – BoE 9th - ECB 14th – BoJ 16th – SNB 17th – BoJ Minutes 21st – RBA Minutes 22nd– BoE Minutes 22nd - FOMC	5th – RBA 7th – ECB 7th – BoE 12th – BoJ 13th – FOMC Minutes 15th – BoJ Minutes 19th – RBA Minutes 19th – BoC 20th – BoE Minutes 28th - RBNZ	2nd – RBA 4th – ECB 4th – BoE 5th – BoJ 9th – FOMC 10th – BoJ Minutes 16th – RBA Minutes 17th – BoE Minutes 30th – FOMC Minutes

September	october	november	december
6th – RBA 7th – BoJ 7th – BoC 8th – ECB 8th – BoE 12th – BoJ Minutes 15th - RBNZ 28th - RBNZ MP Statement 15th – SNB 20th – RBA Minutes 20th – FOMC 21st – BoE Minutes	4th – RBA 6th – ECB 6th – BoE 7th – BoJ 11th – FOMC Minutes 13th – BoJ Minutes 18th – RBA Minutes 19th – BoE Minutes 25th – BoC 27th - RBNZ 27th – BoJ	1st – RBA 1st – BoJ Minutes 2nd – FOMC 3rd – ECB 10th – BoE 16th – BoJ 18th – RBA Minutes 21st – BoJ Minutes 22nd – FOMC Minutes 23rd – BoE Minutes	6th – RBA 6th – BoC 8th - RBNZ 8th - RBNZ MP Statement 8th – ECB 8th – BoE 13th – FOMC 15th – SNB 20th – RBA Minutes 21st – BoJ 21st – BoE Minutes 27th – BoJ Minutes

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

FORECASTS

AUSTRALIAN ECONOMIC INDICATORS		2010	2011F	2012F	2013F
Economic activity (annual % change)					
Private final demand		2.0	3.5	4.3	5.8
Household consumption		2.8	1.9	1.3	1.9
Dwelling investment		4.0	3.4	-1.9	7.6
Business investment		-0.7	10.5	16.6	16.4
Public demand		9.0	3.1	3.1	2.0
Domestic final demand		3.6	3.4	4.1	4.9
Inventories (contribution to GDP)		0.4	-0.2	0.0	0.0
Gross National Expenditure (GNE)		4.1	3.3	4.1	4.8
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**	**3.1**	**3.7**
Prices and wages (annual % change)					
Inflation:	Headline CPI	2.8	3.4	2.7	3.6
	Underlying*	2.6	2.7	3.0	3.5
Wages:		3.3	3.8	4.1	4.3
Labour market					
Employment (annual % change)		2.7	2.1	1.8	2.1
Unemployment rate (annual average %)		5.2	4.7	4.5	4.7
External sector					
Terms of trade (annual % change)		16.4	17.3	4.9	-3.6
Current account balance:	A$bn	-34.6	-29.0	-19.8	-38.9
	% of GDP	-2.6	-2.0	-1.3	-2.4

* 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	4.83	4.90	4.90	4.90	4.90	4.90
3 year bond	3.72	4.00	3.70	3.80	4.00	4.20
10 year bond	4.40	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	4.20	4.35	4.10	4.20	4.40	4.60
10 year swap	5.09	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	2.96	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	0.18	0.20	0.20	0.20	0.20	0.20
US 10 year note	2.28	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$/US$	1.03	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$/¥	79.0	82.5	84.0	84.0	80.6	82.1
A$/€	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$	1.25	1.25	1.23	1.22	1.20	1.23
A$/C$	1.02	1.05	1.08	1.10	1.11	1.15
A$/CHF	0.78	0.99	1.03	1.05	1.08	1.12
A$/CNY	6.58	7.02	7.06	6.97	6.88	6.92
A$ Trade weighted index	73.8	78.0	78.6	77.8	76.7	77.2
International cross rates						
US$/¥	76.8	75.0	75.0	75.0	72.0	72.0
€/US$	1.42	1.47	1.50	1.52	1.52	1.55
€/¥	109	110	113	114	109	112
£/US$	1.62	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$/CHF	0.76	0.90	0.92	0.94	0.96	0.98
US$ index	74.7	77.4	78.6	80.4	80.1	80.5
Asia exchange rates						
US$/CNY	6.40	6.38	6.30	6.22	6.14	6.07
US$/HKD	7.79	7.80	7.80	7.80	7.80	7.80
US$/IDR	8557	8400	8200	7900	7700	7500
US$/INR	45.3	44.1	42.9	41.8	40.6	39.5
US$/KRW	1081	1040	1020	990	970	950
US$/MYR	3.00	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$/THB	29.96	29.60	29.30	28.90	28.60	28.20
US$/TWD	28.97	28.70	28.40	28.10	27.80	27.50
US$/VND	20797	20600	20600	21400	21400	21400
Pacific exchange rates						
PGK/US$	0.446	0.385	0.378	0.372	0.366	0.366
FJD/US$	0.586	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 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

UNITED STATES OF AMERICA

ANZ Securities, Inc. is a member of FINRA (www.finra.org) and registered with the SEC.

277 Park Avenue, 31st Floor, New York, NY 10172,

United States of America

Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND BY:

ANZ National Bank Limited

Level 7, 1-9 Victoria Street, Wellington, New Zealand

Telephone +64 4 802 2000