

# AUSTRALIAN ECONOMICS

## AUSTRALIAN ECONOMICS WEEKLY

5 AUGUST 2011

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### CONTRIBUTORS

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

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

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

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

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

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

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

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

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

### GLOBAL RISKS INTENSIFY AGAIN

- **Global financial markets have moved savagely** amidst a loss of confidence in G3 policy-makers, concerns about the solvency of key Eurozone economies, and the continued deterioration in the G3 economic growth pulse.
- In response to these heightened global risks, **the RBA left its official policy rate unchanged at Tuesday's Board meeting.** The RBA did consider raising interest rates, given it has now upgraded its short-term inflation outlook, with underlying inflation now expected to rise above the RBA's 2 to 3% target band to 3¼% by year-end.
- The market, led by offshore developments, has swung sharply, from the expectation of possible rate rises in the short-term to now pricing in more than 100bps of policy easing over the next twelve months. **Today's *Statement on Monetary Policy* from the RBA suggests that the hurdle for a rate cut remains high.** We would likely need to see a severe disruption to global credit markets and a 20%+ fall in local equity markets and Australian export commodity prices to see the RBA reverse its policy course.
- **The most likely scenario for the moment remains for the RBA to remain on hold for an extended period.** Should the downside risks to the global economy abate, the next move in interest rates would still likely be up, although not for some time. But until we receive greater clarity on how exactly European leaders will respond to this latest leg of the sovereign debt crisis, local markets are likely to continue to price with significant easings discounted.

### THE WEEK AHEAD

- **Market focus will largely be on policy responses to the European debt situation in the coming week,** as well as movements in Italian and Spanish bond yields. Current economic data will be less relevant, with markets ignoring good economic data and punishing bad economic data.
- In **Australia**, we are forecasting 10K jobs were created in July. This should be sufficient to keep the unemployment rate unchanged at 4.9%, although there is a risk of a small tick upwards. This is consistent with earlier softening in the ANZ Job Advertisement Series, with the July edition of the report to be released on Monday. The NAB monthly business survey and housing finance data will also be released.
- In the **US**, attention will be on the FOMC monetary policy meeting. Bernanke, in his speech and question time following the decision, will most likely be asked about the chances of further quantitative easing. Retail sales and inventories data and the University of Michigan consumer confidence will also be released.
- In Asia, the **Chinese** data dump of trade, PPI, CPI industrial production and retail sales will be released. In **Japan**, a host of data will come out including the balance of payments, consumer confidence, industrial production and machine tool orders.
- In Europe, **Euro-zone** and **UK** industrial production as well as **German** balance of payments and CPI data will largely be overshadowed by policy responses to the fiscal debt problems.

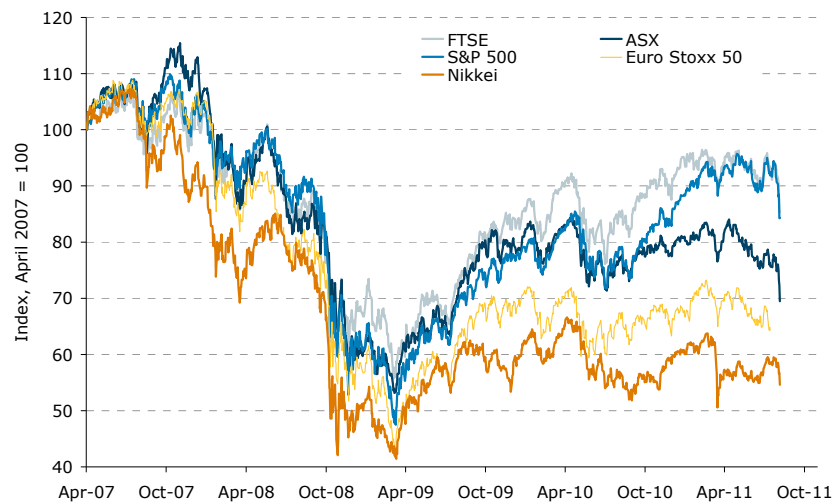
Ivan Colhoun  
Head of Australian  
Economics and  
Property Research  
+61 2 9227 1780  
Ivan.Colhoun@anz.com

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

## GLOBAL RISKS INTENSIFY AGAIN

Global financial markets have moved savagely amidst a loss of confidence in G3 policy-makers, concerns about the solvency of key Eurozone economies, and the continued deterioration in the G3 economic growth pulse (see Figure 1).

FIGURE 1: GLOBAL EQUITY MARKETS



Sources: Bloomberg and ANZ

At the heart of current developments lies the question of the sustainability of key European sovereign debt liabilities. With a US debt default averted at the eleventh hour, markets have shifted focus again to Europe, and specifically to Italy, which is the third largest sovereign bond issuer in the world with a government debt burden of around 120% of GDP. The Italian 10-year government bond yield is currently trading at around 6.1%. Given the size of Italy's debt burden, a rise in these yields to 7.0% would see the debt burden keep rising (ie. not stabilise) over the medium-term. The ability of the Italian government to meet such ballooning debt repayments is questionable, which is why this situation has fast-tracked beyond a liquidity risk to a solvency risk.

Markets are becoming increasingly concerned that this will now quickly develop into another GFC type event. The onus is now on European policy makers to assure markets that they will act as the lender of last resort. There are many ways in which this could be done, although the development of a long-term facility for 'troubled' assets, similar to the US Tarp program developed during the GFC for financial institutions, would be the probably be the most welcome of options. Whether the political will to provide this type of support within the Euro zone is the critical question.

Any sign of the long-awaited improvement in the G3 data flow could also prove to be, at least a temporary, circuit breaker for markets. Tonight's non-farm payrolls looks even more crucial than usual. The market is expecting a rebound of +85k in July, following the highly disappointing results of June (+18k) and May (+25k).

## THE RBA'S NEW STARTING POINT

Against this uncertain backdrop, local markets are pricing for an aggressive RBA easing cycle, with 125bps of cuts now priced by April 2012. Today's Statement on Monetary Policy from the RBA suggests that the hurdle for a rate cut remains high. Nevertheless, the possibility of a near-term easing cannot be discounted given the global environment. We expect we would need to see the following developments to prompt the RBA to cut rates:

- A severe disruption to global credit markets that would severely reduce the ability of Australian corporates (especially banks) to access wholesale funding markets, and

- A 20%+ fall in global and local equity markets and Australian export commodity prices.

Together, these effects would threaten significant local job losses and a jump in the unemployment rate. As happened in the GFC, the RBA would likely pre-empt these real economy threats via an aggressive policy easing. As with the GFC, we would also expect to see the A\$ provide a further crucial circuit breaker, via a sharp correction downwards.

At this point, it is useful to note some key differences between Australia's position now relative to our position going into the GFC:

- Local growth and inflation are both lower, although the unemployment rate is now higher.
- The mining investment pipeline is now more advanced, and is being largely internally funded.
- Aggregate household and corporate gearing are similarly placed relative to the pre-GFC.
- Household savings are higher and the current account deficit is smaller. This, together with 'derisking' of the banking sector's funding profile, means the Australian financial system's funding gap (ie. call on international capital markets) is lower.
- Government savings are lower, potentially limiting the largesse of any fiscal response, if required.

In the absence of a GFC-type event, and indeed in a best-case scenario whereby markets soon stabilise and G3 growth continues, it is clear that the RBA's focus would return to Australia's domestic inflation risks. With the RBA now forecasting inflation to be at or above its target band over the entire forecast period, the bias would still be to raise rates. Indeed, in normal circumstances, this inflation outlook would suggest an urgency to move in the short term. The August Meeting Minutes and this Statement confirm that the RBA considered tightening this month, but financial market uncertainty stayed its hand.

We are highly alert to the risks of a second GFC. The course of Italian and Spanish bond yields, European banking stocks and global equity markets will drive Australian interest rate pricing in the days and weeks ahead. Should the downside risks to the global economy abate, the next move in interest rates would still likely be up, though the timeframe is becoming increasingly impossible to quantify. Intensification of this phase of market weakness to the degree noted above would likely see the RBA cut rates. Given the diametrically opposed implications of these forces we are changing our forecast for cash rates to remain unchanged for the foreseeable future. The behaviour of equity markets and Italian bond yields will determine whether the next move in rates is emergency cuts, or whether the RBA can return to focusing on its inflation concerns. For now, we would expect the market to continue to price with significant easings discounted.

Today's quarterly Statement on Monetary Policy (SoMP) from the RBA was finalised yesterday and has thus captured around half of the deepening crisis of global financial markets in the past few days. Nevertheless, against this backdrop of heightened market turbulence, it is useful to assess the RBA's starting point.

The RBA's new view (forecasts below) is presented below. The main changes are:

- The RBA has raised its end-2011 underlying inflation forecasts, slightly but importantly, to above its 2 to 3% target band, to 3¼% by the end of 2011. This is why the Bank's board considered and would have tightened in August in the absence of the increased global uncertainties. Underlying inflation is then forecast to ease slightly to 3% and maintain this high level before rising again to 3¼% by end-2013.
- The RBA has made a modest downgrade to its growth and employment forecasts over 2011-12. This downgrade has been made on the basis of a slower post-flood recovery in coal exports as well as a weaker consumer spending. The RBA continues to look for above-trend economic growth over 2012-13, with the resources sector expected to contribute around two-thirds

of GDP growth over the next few years (i.e. an increasingly narrowly based expansion). We expect there is significant scope for disappointment on the RBA's short-term growth forecasts. ANZ is forecasting economic growth to average around 1% in 2011, compared with the RBA's 2.0% forecast.

FIGURE 2: RBA FORECASTS

RBA's Growth and Inflation Forecasts (a)						
	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13	Dec-13
<b>GDP growth</b>						
Aug-11	1¼	3¼	4½	3¾	3¾	3¾
May-11	2½	4¼	4¼	3¾	3¾	3¾
ANZ	¼	¾	3	3½	3¾	3¾
<b>Non-farm GDP growth</b>						
Aug-11	1	3¼	4½	3¾	3¾	3¾
May-11	2½	4½	4	3¾	3¾	3¾
ANZ	0	¾	3	3½	3¾	3¾
<b>CPI inflation (inc carbon price)</b>						
Aug-11	3.6	3½	2½	3½	3¾	3¼
ANZ	3.6	3¼	2	3¾	3¾	3¼
<b>CPI inflation (excl carbon price)</b>						
Aug-11	3.6	3½	2½	3	3	3¼
May-11	3½	3¼	2½	3	3	3¼
ANZ	3.6	3¼	2	3	3	3
<b>Underlying inflation (inc carbon price)</b>						
Aug-11	2¾	3¼	3	3¼	3¼	3¼
ANZ	2.7	3	2¾	3½	3½	3¼
<b>Underlying inflation (ex-carbon price)</b>						
Aug-11	2¾	3¼	3	3	3	3¼
May-11	2½	3	3	3	3	3¼
ANZ	2¾	3	2¾	3	3	3

(a) Technical assumptions include A\$ at US\$1.07, TWI at 78 and Tapis crude oil at US\$126 per barrel

Sources: Bloomberg and ANZ

- The RBA's now slightly softer growth view probably explains why the RBA's medium-term inflation forecasts remain unchanged, despite the higher starting point. Importantly for the inflation outlook, the RBA expects the unemployment rate to remain steady around current levels for an extended period, before only gradually falling towards the end of its forecast period (ie. the unemployment rate is at risk of rising slightly in the short-term and is unlikely to fall to 4.5% before end 2013).
- The RBA's categorisation of the balance of risks has changed notably since the May SoMP. The global risks have shifted to the downside and the risks to both Australian growth and inflation are now considered balanced. In May, the RBA saw the risks to global growth as balanced and the risks to domestic inflation as being tilted to the upside. The behaviour of households (not the income of households) is seen as the biggest risk to the domestic economy (ie. will the savings ratio increase or decrease).
- Today's SoMP repeats that the RBA considered raising interest rates at the August policy meeting, but that the shift in the balance of risks to the global economy played the biggest role in the decision to stay on hold.
- Perhaps the most important phrase in today's Statement is the last sentence in the Overview. "In what is a challenging environment, the Board is committed to ensuring that inflation remains consistent with the 2-3% medium-term target that has served the Australian economy well over the past two decades." This addresses commentary after the Tuesday meeting that suggested that the RBA had abandoned its inflation target. This sentence suggests that the RBA still very much believes the most important role it can play amongst the current unprecedented events buffeting the Australian economy (including the increasing divergence across sectors) is price stability. In other words, it remains above-all an inflation-targeting central bank, with policy set for aggregate, not sectoral economic conditions.

## DATA WRAP

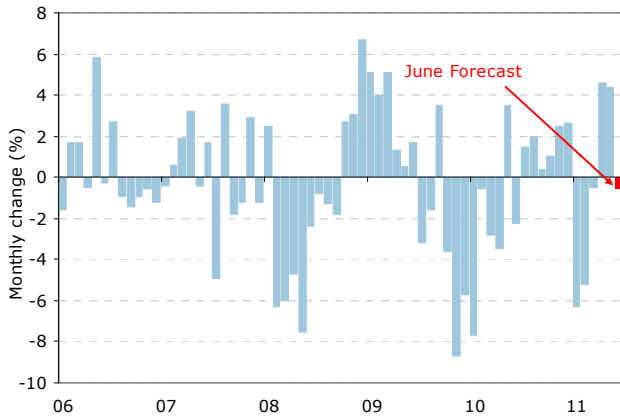
Andrew McManus  
Analyst  
+61 2 92271742  
Andrew.McManus@anz.com

## DATA WRAP

- **RBA left the official cash rate at 4.75%.** The Board discussed raising interest rates in light of the problematic inflation outlook. The decision to remain on hold was based primarily on heightened uncertainties in global financial markets.
- **Retail trade** nominal sales fell 0.1% m/m in June, to be up just 1.4%y/y (seas. adj.). Food retailers (non-discretionary) rose 0.4% m/m, while the non-food retailers (discretionary) continue to underperform (-0.5% m/m). Trend growth fell to 0.1% m/m and 1.7% y/y, the weakest annual trend growth rate in the history of this data series (dating back to 1983). Real retail sales (volumes) grew by just 0.3% q/q and 0.6%y/y in Q2.
- **Residential building approvals** fell 3.5% in June with weaker approvals in both house and other residential dwellings. Private sector house approvals fell by 3.2% in the month and are now 8.4% lower in the six months to June. Non-residential building approvals increased 1.3% in June but remain 16.4% lower in annual terms.
- The ABS **house price index** fell by 0.1% in the June quarter, to be 1.9% lower than a year ago. The biggest yearly falls have been in Perth (-4.1% y/y), Brisbane (-3.6% y/y) and Darwin (-3.0% y/y).
- Australia's **trade surplus** narrowed by A\$647m to A\$2.052Bn in June. Exports fell by 0.1% m/m largely due to a A\$894m (55% m/m) fall in non-monetary gold exports. Meanwhile, imports grew by 2.6% m/m. Excluding fuel imports and volatile items (non-monetary gold and imports of civil aircraft) our core measure of the trade balance actually rose by A\$532mn in June. The May trade surplus was upwardly revised by A\$366m. Our preliminary estimates suggest net exports will make no contribution to growth in Q2, despite subtracting 2.4ppts from Q1 growth.
- **AiG Performance of Construction Index** rose 0.3 points to 36.1 in July. New orders fell 0.6 points to 31.6, input prices rose to 1 point to 69.7 points and selling prices fell 6.3 points to 36.1.
- The **AiG Performance of Services Index** rose by 0.3 points to 48.8 in July. The components were mixed; new orders slipped 1 point to 50.3, inventories rose by 4 points to 51.6 and employment rose 5.7 points to 51.1.
- The **TDS/MI Inflation** gauge rose 0.3% in July to be 3.2% higher in annual terms.
- **HIA New Home Sales** fell 8.7% in June due to falls in both unit sales (-8.2% m/m) and non-unit sales (-8.8% m/m). The largest falls were in Victoria (-10.0% m/m) and Queensland (-17.0% m/m).

# DATA PREVIEW

## HOUSING FINANCE

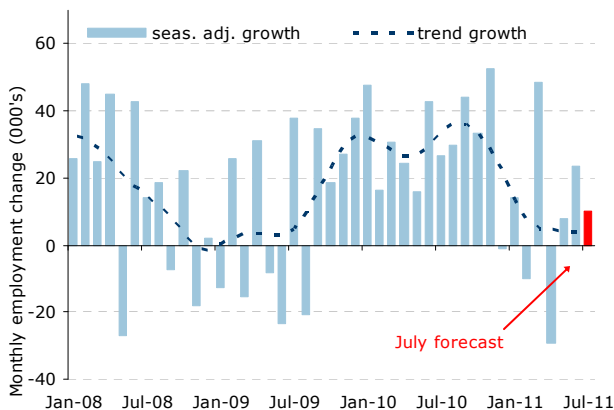


## 9 AUGUST: HOUSING FINANCE (JUNE)

**ANZ:** -0.6% m/m, +5.7% y/y  
**Market:** +0.8% m/m, +4.4% y/y  
**Last:** +4.4% m/m, +5.7% y/y

Following a solid increase in April and May, housing finance is expected to be slightly lower in June. House prices continued to soften in June, while housing market activity remained weak with low auction clearance rates and rising days on market. Combined with mixed economic conditions and global financial market uncertainty, weak sentiment should continue to weigh on housing finance and housing market activity for some months yet. (DC)

## EMPLOYMENT



## 11 AUGUST: LABOUR FORCE (JUL)

### Employment:

**ANZ:** +10.0K  
**Market:** +10.0k  
**Last:** +23.4K

### Unemployment Rate:

**ANZ:** 4.9%  
**Market:** 4.9%  
**Last:** 4.9%

### Participation Rate:

**ANZ:** 65.6%  
**Market:** 65.6%  
**Last:** 65.6%

Employment is expected to have increased by a relatively modest 10K in July. While just enough to keep the unemployment rate unchanged at 4.9%, the annual pace of growth will continue to ease to 1.9% y/y, in line with the gradual slowdown in forward-looking indicators of labour demand such as ANZ job advertisements approximately 3 months ago. (Note that leading indicators have weakened more sharply in recent months, foreshadowing softer employment outcomes between August and October).

Our unemployment rate forecast is highly dependent on developments in the participation rate. This forecast assumes that the participation rate remains unchanged at 65.57%. A small rise to just 65.6% could easily see the unemployment rate tick up to 5% on these figures.

We estimate that the Census conducted by the ABS has added approximately 5K jobs in July. The impact in August will be slightly larger, as employment in the Census processing centres (as well as the collectors who started in July) come into the mix. In 2006, the ABS estimate that around 82.5% of the 40,000 Census workers already had a job, and therefore employment was only boosted in August 2006 by 7000. They failed to provide an estimate for July 2006. (RP)



## DATA &amp; EVENT CALENDAR

## WEEK STARTING 8 AUGUST

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
6-Aug	US	Fed's Lockhart (non-voter) Gives Commencement Speech in Athens, Ga.					13:30	23:30
7-Aug	UK	Lloyds Employment Confidence	JUL	--	--	-50	23:01	09:01
8-Aug	NZ	QV House Prices y/y	JUL	--	-0.6%	-0.9%	00:00	10:00
	AU	ANZ Job Advertisements m/m	JUL	--	--	3.7%	01:30	11:30
		Foreign Reserves	JUL	--	--	A\$41.1B	06:30	16:30
	JN	Adjusted Current Account Total	JUN	¥966.1B	--	¥391.0B	23:50	09:50
		Current Account Balance y/y	JUN	-34.1%	--	-51.7%	23:50	09:50
		Current Account Total	JUN	¥680.0B	--	¥590.7B	23:50	09:50
		Trade Balance - BOP Basis	JUN	¥127.5B	--	-¥772.7B	23:50	09:50
		Bankruptcies y/y	JUL	--	--	1.5%	04:30	14:30
		<b>Bank of Japan Monthly Economic Report</b>					05:00	15:00
		Eco Watchers Survey: Current	JUL	--	--	49.6	05:00	15:00
		Eco Watchers Survey: Outlook	JUL	--	--	49	05:00	15:00
	EU	Sentix Investor Confidence	AUG	--	--	5.3	08:30	18:30
		ECB Announces Bond Purchases					13:30	23:30
		ECB Calls for Bids in 1-Month Tender					13:30	23:30
		ECB Calls for Bids in 7-Day Main Refinancing Tender					13:30	23:30
	UK	BRC Sales Like-For-Like y/y	JUL	--	--	-0.6%	23:01	09:01
		RICS House Price Balance				-27.0%	23:01	09:01
09-16 AUG	GE	Wholesale Price Index m/m	JUL	--	--	-0.6%		
		Wholesale price Index y/y	JUL	--	--	8.5%		
		RICS House Price Balance	JUL	--	--	-27.0%	23:01	09:01
Tuesday	NZ	NZ Card Spending - Retail m/m	JUL	0.5%	0.4%	1.2%	22:45	08:45
9-Aug		NZ Card Spending - Total m/m	JUL	0.5%	0.5%	0.8%	22:45	08:45
	AU	Home Loans m/m	JUN	0.8%	-0.6%	4.4%	01:30	11:30
		Investment Lending	JUN	--	--	4.4%	01:30	11:30
		Owner-Occupied Home Loan Value m/m	JUN	--	--	2.2%	01:30	11:30
		NAB Business Conditions	JUL	--	--	2	01:30	11:30
		NAB Business Confidence	JUL	--	--	0	01:30	11:30
	JN	Japan Money Stock M2 y/y	JUL	2.9%	--	2.9%	23:50	09:50
		Japan Money Stock M3 y/y	JUL	2.2%	--	2.2%	23:50	09:50
		Consumer Confidence	JUL	37	--	35.3	05:00	15:00
		Machine Tool Orders y/y	JUL P	--	--	53.5%	06:00	16:00
	CH	Consumer Price Index y/y	JUL	6.4%	6.5%	6.4%	02:00	12:00
		Fixed Assets Inv Excl. Rural YTD y/y	JUL	25.5%	--	25.6%	02:00	12:00
		Industrial Production y/y	JUL	14.7%	--	15.1%	02:00	12:00
		Industrial Production YTD y/y	JUL	14.3%	--	14.3%	02:00	12:00
		Producer Price Index y/y	JUL	7.4%	7.6%	7.1%	02:00	12:00
		Retail Sales y/y	JUL	17.7%	--	17.7%	02:00	12:00
		Retail Sales YTD y/y	JUL	17.0%	--	16.8%	02:00	12:00
	EU	ECB's Reserve Maintenance Period Ends					00:00	10:00
		ECB Announces Allotment in 1-Month Tender					09:15	19:15
		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
	GE	Current Account	JUN	--	--	6.9B	06:00	16:00
		Exports sa m/m	JUN	-1.0%	--	4.4%	06:00	16:00
		Imports sa m/m	JUN	-2.0%	--	3.8%	06:00	16:00
		Trade Balance	JUN	14.0B	--	14.8B	06:00	16:00
	UK	NIESR GDP Estimate	JUL	--	--	0.1%	00:00	10:00
		Industrial Production m/m	JUN	0.4%	--	0.9%	08:30	18:30
		Industrial Production y/y	JUN	0.2%	--	-0.8%	08:30	18:30
		Manufacturing Production m/m	JUN	0.2%	--	1.8%	08:30	18:30
		Manufacturing Production y/y	JUN	2.9%	--	2.8%	08:30	18:30
		Total Trade Balance GBP/Mln	JUN	--	--	-£4060	08:30	18:30
		Trade Balance Non EU GBP/Mn	JUN	--	--	-£5109	08:30	18:30
		Visible Trade Balance GBP/Mn	JUN	-£8100	--	-£8478	08:30	18:30
	US	<b>Treasury Auctions 3-Year Notes</b>						
		NFIB Small Business Optimism	JUL	--	--	90.8	11:30	21:30
		Nonfarm Productivity	2Q P	-0.8%	--	1.8%	12:30	22:30
		Unit Labor Costs	2Q P	2.3%	--	0.7%	12:30	22:30
		IBD/TIPP Economic Optimism	AUG	--	--	41.4	14:00	00:00
		<b>FOMC Rate Decision</b>	Aug-09	0.3%	--	0.3%	18:15	04:15

## DATA &amp; EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST	
10-12 AUG	NZ	REINZ House Sales y/y	JUL	--	15.0%	14.2%			
		REINZ Housing Price Index	JUL	--	--	3229			
		REINZ Housing Price Index m/m	JUL	--	1.0%	1.3%			
10-15 AUG	CH	Actual FDI y/y	JUL	--	--	2.8%			
10-17 AUG	UK	Nationwide Consumer Confidence	JUL	--	--	51			
	CA	Housing Starts	JUL	193.2K	--	200.8K	12:15	22:15	
Wednesday 10-Aug	AU	Westpac Consumer Confidence Index	AUG	--	--	92.8	00:30	10:30	
		Westpac Consumer Confidence sa m/m	AUG	--	--	-8.3%	00:30	10:30	
		<b>OAFM Auctions \$700 million of May 2021 Bonds</b>							
	JN	<b>BOJ to Publish Minutes of July 11-12 Board Meeting</b>						23:50	09:50
		Domestic CGPI m/m	JUL	0.0%	--	-0.1%	23:50	09:50	
		Domestic CGPI y/y	JUL	2.6%	--	2.5%	23:50	09:50	
		Housing Loans y/y	2Q	--	--	2.7%	23:50	09:50	
		Tertiary Industry Index m/m	JUN	0.9%	--	0.9%	23:50	09:50	
	CH	Exports y/y	JUL	17.2%	20.2%	17.9%	02:00	12:00	
		Imports y/y	JUL	22.9%	27.6%	19.3%	02:00	12:00	
		Trade Balance	JUL	\$26.90B	\$25.80B	\$22.27B	02:00	12:00	
	GE	Consumer Price Index m/m	JUL F	0.4%	--	0.4%	06:00	16:00	
		Consumer Price Index y/y	JUL F	2.4%	--	2.4%	06:00	16:00	
		CPI - EU Harmonised m/m	JUL F	0.5%	--	0.5%	06:00	16:00	
		CPI - EU Harmonised y/y	JUL F	2.6%	--	2.6%	06:00	16:00	
	UK	Bank of England Inflation Report					09:30	19:30	
		Bank of England Releases Quarterly Inflation Report					09:30	19:30	
	US	<b>Treasury Auctions 10-Year Notes</b>							
		MBA Mortgage Applications	Aug-05	--	--	7.1%	11:00	21:00	
		Wholesale Inventories	JUN	1.0%	--	1.8%	14:00	00:00	
		Monthly Budget Statement	Jul	-\$140.0B		-50.2B	18:00	04:00	
11-15 AUG	CH	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%	--	15.9%			
		New Yuan Loans	JUL	550.0B	500.0B	633.9B			
Thursday 11-Aug	NZ	Business NZ PMI	JUL	--	52	54.3	22:30	08:30	
		ANZ Consumer Confidence Index	AUG	--	--	109.4	01:00	11:00	
		ANZ Consumer Confidence m/m	AUG	--	--	-2.8%	01:00	11:00	
	AU	Consumer Inflation Expectation	AUG	--	--	3.4%	01:00	11:00	
		Employment Change	JUL	10.0K	10.0K	23.4K	01:30	11:30	
		Full Time Employment Change	JUL	--	--	59.0K	01:30	11:30	
		Part Time Employment Change	JUL	--	--	-35.6K	01:30	11:30	
		Participation Rate	JUL	65.6%	65.6%	65.6%	01:30	11:30	
		Unemployment Rate	JUL	4.9%	4.9%	4.9%	01:30	11:30	
	JN	Machine Orders m/m	JUN	2.0%	--	3.0%	23:50	09:50	
		Machine Orders y/y	JUN	11.5%	--	10.5%	23:50	09:50	
	EU	ECB Publishes Aug. Monthly Report					08:00	18:00	
	US	<b>Treasury Auctions 30 Year Bonds</b>							
		Continuing Claims	Jul-30	--	--	--	12:30	22:30	
		Initial Jobless Claims	Aug-05	--	--	400K	12:30	22:30	
		Trade Balance	JUN	-\$47.5B	--	-\$50.2B	12:30	22:30	
	CA	Int'l Merchandise Trade	JUN	-1.0B	--	-0.8B	12:30	22:30	
		New Housing Price Index m/m	JUN	--	--	0.4%	12:30	22:30	
		New Housing Price Index y/y	JUN	--	--	1.9%	12:30	22:30	
Friday 12-Aug	NZ	Non Resident Bond Holdings	JUL	--	--	61.4%	03:00	13:00	
		Capacity Utilization m/m	JUN	--	--	12.8%	04:30	14:30	
		Industrial Production m/m	JUN F	--	--	3.9%	04:30	14:30	
		Industrial Production y/y	JUN F	--	--	-1.6%	04:30	14:30	
	AU	<b>OAFM Auctions 700 million of October 2014 Bonds</b>							
	EU	Euro-Zone Ind. Prod. sa m/m	JUN	0.2%	--	0.3%	09:00	19:00	
		Euro-Zone Ind. Prod. wda y/y	JUN	--	--	4.5%	09:00	19:00	
	US	Advance Retail Sales	JUL	0.4%	--	0.1%	12:30	22:30	
		Retail Sales Ex Auto & Gas	JUL	0.2%	--	0.2%	12:30	22:30	
		Retail Sales Less Autos	JUL	0.2%	--	0.0%	12:30	22:30	
		U. of Michigan Confidence	AUG P	63.2	--	63.7	13:55	23:55	
		Business Inventories	JUN	0.6%	--	1.0%	14:00	00:00	
		<b>Fed's Dudley (voter) to Speak on Regional Economy in New York</b>						14:00	00:00

## FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>8 AUGUST</b> NZ: House prices (Jul) AU: ANZ Job Ads (Jul) JP: Eco Watchers Survey (Jul), CA (Jun), Trade (Jun), <b>BOJ Monthly Report</b> EU: Sentix Investor Confidence (Aug) UK: RICS House Prices (Jul)	<b>9 AUGUST</b> NZ: Card Spending (Jul) AU: NAB Business Confidence (Jul), Housing Finance (Jun) JP: Consumer Confidence (Jul), M2 (Jul), M3 (Jul) CH: CPI (Jul), PPI (Jul), Retail Sales (Jul), Ind. Prod'n (Jul), fixed assets GE: Trade (Jun), CA (Jun) UK: IP (Jun), Trade (Jun), Manufacturing Production (Jun), NIESR GDP (Jul) US: NFIB Small Business Optimism (Jul), Unit Labour Costs (Q2 P), <b>FOMC Rates Decision</b> CA: Housing Starts (Jul)	<b>10 AUGUST</b> (10-12 Aug) NZ: house sales (Jul), house price index (Jul) AU: Consumer Confidence (Aug) JP: Domestic CGPI (Jul), house loans (Q2), tertiary ind. Index (Jun) <b>BOJ minutes (Jul)</b> CH: Trade (Jul) GE: CPI UK: <b>BoE inflation report</b> US: JOLTS Job Openings (Jun), Monthly Budget Statement (Jul)	<b>11 AUGUST</b> NZ: Business NZ PMI (Jul) AU: Employment (Jul) JP: Machine Tool Orders (Jun) CH: PPI (Jul), CPI (Jul), Retail Sales (Jul), IP (Jul) EU: <b>ECB Publishes Monthly Report</b> US: Trade (Jun) CA: New House Price Index (Jun), Merchandise Trade (Jun)	<b>12 AUGUST</b> NZ: Real Retail Sales (Q2) JP: IP (Jun F) EU: IP (Jun) US: Retail Sales (Jul), Uni. Of Michigan Confidence (Aug P), Business Inventories (Jun)
<b>15 AUGUST</b> 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)	<b>16 AUGUST</b> AU: <b>RBA Minutes</b> 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)	<b>17 AUGUST</b> NZ: PPI (Q2) AU: WPI (Q2) EU: Current Account (Jun), CPI (Jul) UK: <b>BoE Minutes</b> (Jul), Unemployment (Jun), Jobless Claims Change (Jul) US: PPI (Jul)	<b>18 AUGUST</b> 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)	<b>19 AUGUST</b> NZ: Net Migration (Jul), Credit Card Spending (Jul) JP: All Industry Activity Index (Jun) GE: PPI (Jul) CA: CPI (Jul)
<b>22 AUGUST</b> US: Chicago Fed Activity Index (Jul)	<b>23 AUGUST</b> JP: Machine Tool Orders (Jul F) EU: ZEW Survey (Aug), Consumer Confidence (Aug A) GE: ZEW Survey (Aug) US: Richmond Fed Manufacturing Index (Aug), New Homes Sales (Jul) CA: Retail Sales (Jun)	<b>24 AUGUST</b> NZ: Trade Balance (Jul) AU: Construction Work Done (Q2) EU: Ind. New Orders (Jun) GE: IFO (Aug) US: Durable & Capital Goods Orders (Jul)	<b>25 AUGUST</b> NZ: Food Prices (Jul), Retail Sales (Q2)	<b>26 AUGUST</b> JP: CPI (Jul), Tokyo CPI (Aug) GE: GfK Consumer Confidence (Sep) UK: GDP (Q2 P) US: GDP (Q2 S), Personal Consumption (Q2 S), Core PCE (Q2 S), Univ. of Michigan Consumer Confidence (Aug F)
<b>29 AUGUST</b> AU: HIA New Home Sales (Jul) GE: CPI (Aug P) US: Personal Income (Jul), PCE core (Jul), Pending Home Sales (Jul), Dallas Fed Manufacturing Activity (Aug)	<b>30 AUGUST</b> NZ: Building Permits (Jul) JP: Jobless Rate (Jul), Retail Trade (Jul) EU: Consumer Confidence (Aug) UK: Mortgage Approvals (Jul), GfK Consumer Confidence (Aug) US: Case Shiller House Prices (Jun), Consumer Confidence (Aug), <b>FOMC Minutes</b>	<b>31 AUGUST</b> NZ: NBNZ Business Confidence (Aug) AU: RP-Data Rismark House Prices (Jul), Private Credit (Jul) JP: IP (Jul P), Vehicle Production (Jul), Housing Starts (Jul) EU: Unemployment (Aug), CPI est. (Aug) GE: Unemployment (Aug) US: ADP employment (Aug), Chicago PMI (Aug), Factory Orders (Jul) CA: GDP (Q2)	<b>1 SEPTEMBER</b> NZ: Commodity prices (Aug), ToT (Q2) AU: CAPEX (Q2), Retail Sales (Jul), AiG PMI (Aug) JP: Vehicle Sales (Aug) CH: PMI Manuf. (Aug) EU: PMI Manuf. (Aug F), <b>ECB's Stark &amp; Nowotny Speak</b> GE: GDP (Q2), PMI Manuf. (Aug F) UK: PMI Manuf. (Aug) US: ISM Manuf. (Aug), ICSC Chain Store Sales (Aug)	<b>2 SEPTEMBER</b> JP: Capital Spending (Q2) EU: PPI (Jul) UK: PMI Con. (Aug) US: Payrolls (Aug)
<b>5 SEPTEMBER</b> AU: AiG Perf. Services (Aug), TD Inflation expectations (Aug), ANZ Job Ads (Aug), Company Profits and Inventories (Q2) EU: PMI Services (Aug F), Retail Sales (Jul) GE: PMI Services (Aug) UK: PMI Services (Aug) US & CA: <b>Labor Day Holiday</b>	<b>6 SEPTEMBER</b> AU: CA (Q2), <b>RBA rates decision</b> EU: GDP (Q2 P) GE: Factory Orders (Jul) US: ISM non-manufacturing (Aug)	<b>7 SEPTEMBER</b> AU: AiG Perf. Construction (Aug), Housing Finance (Jul), GDP (Q2) JP: <b>BoJ rates decision</b> GE: IP (Jul) UK: IP (Jul) US: <b>Fed's Beige Book</b> CA: <b>BoC rates decision</b>	<b>8 SEPTEMBER</b> NZ: Manufacturing Activity (Q2) AU: Employment (Aug), Trade (Aug) JP: CA (Jul), Trade (Jul), Machine Orders (Jul) EU: <b>ECB rates decision, ECB's Trichet Speaks</b> , GE: CA (Jul), Trade (Jul) UK: <b>BoE rates decision</b> US: Trade (Jul) CA: Building Permits (Jul), Trade (Jul), New House Prices (Jul)	<b>9 SEPTEMBER</b> NZ: Card Spending (Aug) JP: GDP (Q2), Consumer Confidence (Aug) CH: CPI (Aug), PPI (Aug), IP (Aug), Retail Sales (Aug) GE: CPI (Aug F) UK: PPI (Aug), Trade (Aug) CA: Employment (Aug)

# CENTRAL BANK RELEASES FOR 2011

JANUARY	FEBRUARY	MARCH	APRIL
5th – FOMC Minutes 13th – BoE 13th – ECB 25th – BoJ 26th – FOMC 26th – BoE Minutes 27th – RBNZ 28th – BoJ Minutes	1st – RBA 3rd – ECB 4th – RBA MP Statement 10th – BoE 15th – RBA Minutes 15th – BoJ 22nd – BoJ Minutes 23rd – BoE Minutes	1st – RBA 1st – BoC 3rd – ECB 10th – RBNZ 10th – RBNZ MP Statement 10th – BoE 15th – BoJ 15th – RBA Minutes 15th – FOMC 17th – SNB 18th – BoJ Minutes 23rd – BoE Minutes	5th – RBA 7th – BoJ 7th – BoE 7th – ECB 12th – BoJ Minutes 12th – BoC 19th – RBA Minutes 20th – BoE Minutes 27th – FOMC 28th – RBNZ 28th – BoJ
may	june	July	august
3rd – RBA 6th – RBA MP Statement 5th – BoE 5th – ECB 9th – BoJ Minutes 17th – RBA Minutes 18th – BoE Minutes 20th – BoJ 25th – BoJ Minutes 31st – BoC	7th – RBA 9th – RBNZ 9th – RBNZ MP Statement 9th – BoE 9th – ECB 14th – BoJ 16th – SNB 17th – BoJ Minutes 21st – RBA Minutes 22nd – BoE Minutes 22nd – FOMC	5th – RBA 7th – ECB 7th – BoE 12th – BoJ 13th – FOMC Minutes 15th – BoJ Minutes 19th – RBA Minutes 19th – BoC 20th – BoE Minutes 28th – RBNZ	2nd – RBA 4th – ECB 4th – BoE 5th – BoJ 9th – FOMC 10th – BoJ Minutes 16th – RBA Minutes 17th – BoE Minutes 30th – FOMC Minutes
September	october	november	december
6th – RBA 7th – BoJ 7th – BoC 8th – ECB 8th – BoE 12th – BoJ Minutes 15th – RBNZ 28th – RBNZ MP Statement 15th – SNB 20th – RBA Minutes 20th – FOMC 21st – BoE Minutes	4th – RBA 6th – ECB 6th – BoE 7th – BoJ 11th – FOMC Minutes 13th – BoJ Minutes 18th – RBA Minutes 19th – BoE Minutes 25th – BoC 27th – RBNZ 27th – BoJ	1st – RBA 1st – BoJ Minutes 2nd – FOMC 3rd – ECB 10th – BoE 16th – BoJ 18th – RBA Minutes 21st – BoJ Minutes 22nd – FOMC Minutes 23rd – BoE Minutes	6th – RBA 6th – BoC 8th – RBNZ 8th – RBNZ MP Statement 8th – ECB 8th – BoE 13th – FOMC 15th – SNB 20th – RBA Minutes 21st – BoJ 21st – BoE Minutes 27th – BoJ Minutes

**\*Notes:** Entries are the dates of central bank interest rate announcements for 2011, unless specified as minutes or otherwise.

Dates are indicative only and are subject to change by central bank authorities.

**Key:** BoC: Bank of Canada, BoJ: Bank of Japan, BoE: Bank of England, ECB: European Central Bank, FOMC: Federal Open Market Committee, RBA: Reserve Bank of Australia, RBNZ: Reserve Bank of New Zealand, SNB: Swiss National Bank.

**Source:** Central bank websites.

## FORECASTS

AUSTRALIAN ECONOMIC INDICATORS	2010	2011F	2012F	2013F
<b>Economic activity (annual % change)</b>				
Private final demand	2.0	3.7	4.6	5.8
Household consumption	2.8	2.2	1.8	1.9
Dwelling investment	4.0	3.4	-1.9	7.6
Business investment	-0.7	10.1	16.3	16.4
Public demand	9.0	3.1	3.1	2.0
Domestic final demand	3.6	3.5	4.2	4.9
Inventories (contribution to GDP)	0.4	-0.2	0.0	0.0
Gross National Expenditure (GNE)	4.1	3.4	4.2	4.8
Exports	5.3	-1.4	12.1	10.3
Imports	13.3	11.3	14.6	12.1
Net Exports (contribution to GDP)	-1.6	-3.0	-1.0	-0.9
<b>Gross Domestic Product (GDP)</b>	<b>2.7</b>	<b>0.7</b>	<b>3.2</b>	<b>3.7</b>
<b>Prices and wages (annual % change)</b>				
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
<b>Labour market</b>				
Employment (annual % change)	2.7	2.1	1.8	2.1
Unemployment rate (annual average %)	5.2	4.9	4.8	4.6
<b>External sector</b>				
Terms of trade (annual % change)	16.6	17.0	4.9	-3.6
Current account balance: A\$bn	-34.6	-33.0	-39.1	-66.1
% of GDP	-2.6	-2.3	-2.6	-4.1

\* 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	4.88	4.90	4.90	4.90	4.90	4.90
3 year bond	3.70	4.50	4.20	4.20	4.50	4.60
10 year bond	4.52	4.70	4.80	4.80	5.00	5.10
3s10s yield curve	0.82	0.20	0.60	0.60	0.50	0.50
3 year swap	4.20	4.85	4.55	4.58	4.88	5.00
10 year swap	5.21	5.28	5.38	5.35	5.55	5.65

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	2.79	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	0.27	0.30	0.50	0.60	0.80	0.90
US 10 year note	2.38	2.60	2.70	2.80	3.00	3.10
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	1.75	2.00
UK repo rate	0.50	0.50	0.50	0.75	1.00	1.25

## FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	SEP 11F	DEC 11F	MAR 12F	JUN 12F	SEP 12F
<b>Australian exchange rates</b>						
A\$/US\$	1.05	1.10	1.12	1.12	1.12	1.14
NZ\$/US\$	0.84	0.88	0.91	0.92	0.93	0.93
A\$/¥	82.1	82.5	84.0	84.0	80.6	82.1
A\$/€	0.74	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\$	1.25	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	0.80	0.99	1.03	1.05	1.08	1.12
A\$/CNY	6.74	7.02	7.06	6.97	6.88	6.92
A\$ Trade weighted index	76.7	78.0	78.6	77.8	76.7	77.2
<b>International cross rates</b>						
US\$/¥	78.6	75.0	75.0	75.0	72.0	72.0
€/US\$	1.41	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
€/£	0.87	0.89	0.91	0.90	0.90	0.91
US\$/C\$	0.98	0.95	0.96	0.98	0.99	1.01
US\$/CHF	0.77	0.90	0.92	0.94	0.96	0.98
US\$ index	75.2	77.4	78.6	80.4	80.1	80.5
<b>Asia exchange rates</b>						
US\$/CNY	6.44	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	8556	8400	8200	7900	7700	7500
US\$/INR	44.8	44.1	42.9	41.8	40.6	39.5
US\$/KRW	1067	1040	1020	990	970	950
US\$/MYR	3.01	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	1.22	1.20	1.18	1.17	1.15	1.13
US\$/THB	29.93	29.60	29.30	28.90	28.60	28.20
US\$/TWD	29.00	28.70	28.40	28.10	27.80	27.50
US\$/VND	20605	20600	20600	21400	21400	21400
<b>Pacific exchange rates</b>						
PGK/US\$	0.446	0.385	0.378	0.372	0.366	0.366
FJD/US\$	0.586	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](http://www.finra.org)) and registered with the SEC.  
 277 Park Avenue, 31<sup>st</sup> Floor, New York, NY 10172,  
 United States of America  
 Tel: +1 212 801 9160 Fax: +1 212 801 9163

### NEW ZEALAND BY:

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

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