

Australian weekly

Week beginning 17 August 2009

- Australia: greater scope for consumer resilience.
- Australian data: August RBA Board meeting minutes & June Westpac-MI Leading Index due.
- New Zealand: producer prices, external migration & credit card spending data.
- US Fed speak: Fed Chairman Bernanke at annual Jackson Hole symposium.
- US data: regional factory surveys, producer prices, housing starts, permits & existing home sales due.
- Key economic & financial forecasts.

Information contained in this report was current as at 14 August 2009

Australia: greater scope for consumer resilience

In a clear shift of the policy bias, the August RBA Board meeting Statement replaced the phrase in the all important final paragraph "some scope for further easing of monetary policy" that was in the July Statement, with "the present accommodative setting of monetary policy is appropriate". That shift from an easing bias to neutral was taken a step further in the August Statement on Monetary Policy (SoMP), with the key introduction section's final paragraph noting "with the cash rate at an unusually low level and the global economy stabilising, movement towards a more normal setting of monetary policy could be expected at some point if further signs of a durable recovery emerge."

In identifying the risks to the Australian outlook, the August SoMP highlighted the key domestic risk is that private sector demand will weaken from its robust 2009H1 pace in H2 led by the consumer, due to the withdrawal of the H1 fiscal transfers boosters and, presumably, a softening in confidence. The SoMP noted "Domestically, the main downside risk is that some of the recent improvement in economic indicators simply reflects changes in the timing of overall spending, partly due to fiscal measures, and that over the second half of the year private sector demand will weaken again." Our view of the likely dynamics in the domestic economy points to a slowing in consumer spending growth in 2009H2, with the annualised growth pace of consumption slowing from a robust 3% in H1 to around 0.5% in H2.

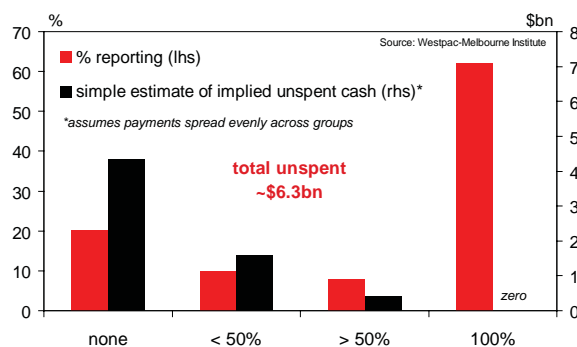
Naturally, the key to whether this H2 stalling of consumption growth eventuates will be the reaction of households to the curtailment of fiscal payments with the dropping out of the H1 one-off transfers boosters, and the impact on households of the recession-like contraction in aggregate hours worked (which have fallen almost 3%/yr to July despite only a 0.1%/yr fall in trend total employment) and therefore incomes. While the income hit from the end of fiscal transfers and reduced labour utilisation via hours worked is essentially 'baked in the cake', the extent of the impact this will have on consumption growth will hinge on: (i) notional savings 'reserves' households have accumulated from the \$21.4bn of Federal Government one-off payments since November 2008; and (ii) the willingness of households to draw on these savings reserves to maintain consumption levels.

In a further effort to quantify how much of the \$21.4bn in payments are sitting in a notional reserve, our August Westpac-Melbourne Institute Consumer Sentiment Survey included a special question asking respondents what proportion of the one-off fiscal payments from the Federal Government over the last six to twelve months they had spent. Responses were classed between four categories: (i) none; (ii) less than 50%; (iii) more than 50%; and (iv) 100%.

The Survey found that of those that had received a payment, 62.2% said they had spent all of it, 7.8% said they had spent more than half, 9.8% said they had spent less than half, and 20.2% reported spending none at all. From these results we derived roughly how much of the payments may still be sitting in a notional savings reserve. We assumed payments were evenly spread across the recipients, and that their actual spending was normally distributed around the range mid-points. In other words, those responding that they had spent "less than 50%" were assumed to have spent 25%, and those saying they had spent "more than 50%" were assumed to have spent 75% of their payments. The bottom line from this analysis was an implied unspent portion of the stimulus of \$6.3bn, or almost 30% of the \$21.4bn total.

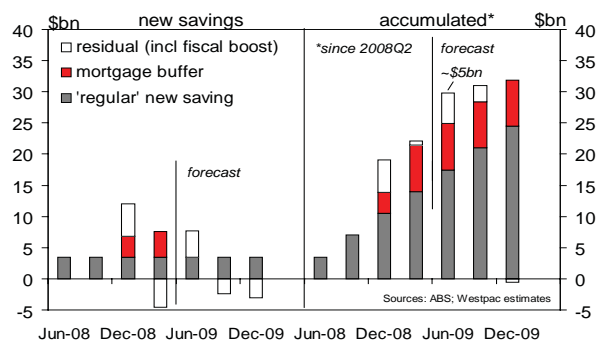
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

Fiscal stimulus: how much spent?



This result dovetails neatly with estimates we have compiled using official ABS statistics. Specifically, assuming a baseline for 'regular' new savings, and that 90% of the reduction in minimum mortgage repayments was absorbed in higher principal repayments (ie, 90% of mortgagees maintained monthly mortgage repayments as rates were reduced), we have backed out a 'residual' estimate of saved fiscal payments. Accumulating these measures from mid-2008 suggested the unspent stimulus at the end of June 2009 was around \$5bn.

Households: estimated reserves



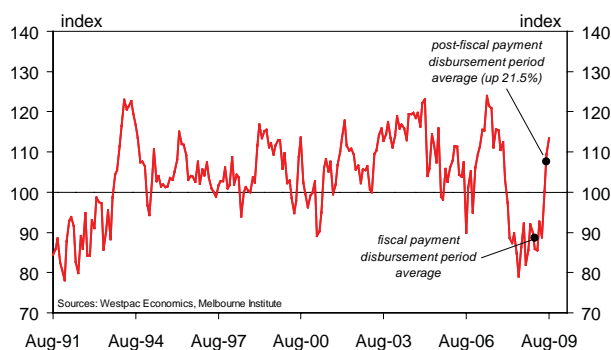
While these estimates may be rough, the clear implication is that there is still a substantial unspent portion of the stimulus – equivalent to 3% to 3½% of quarterly consumer spending, or 9% to 10% of quarterly retail sales. What consumers choose to do with these savings reserves remains to be seen. However, our calculations show there is scope for a sizeable drawdown over the second half of 2009, allowing consumers to maintain spending at high levels despite a fall back in disposable income as the fiscal policy boosters drop out.

As to the willingness of consumers to tap these savings reserves to maintain consumption, this will largely depend on levels of consumer confidence, in particular their perceived job security.

The signs from our Westpac-Melbourne Institute Consumer Sentiment Survey to date are encouragingly upbeat. With 95% of the fiscal payments disbursed by the end of May, we have now seen three months of survey data (with this week's Survey for August) without fiscal transfer boosters. It would have been logical to have expected some 'let down' in consumer confidence gauges with the end of the handouts, weighing on indexes over June to August,

relative to the period of disbursement from November 2008 to May 2009. However, any downdraft this may have had on confidence levels has clearly been more than offset by the improving global and Australian economic outlook.

Consumer Sentiment



The aggregate Westpac-Melbourne Institute Consumer Sentiment Index averaged 88.6 in the November 2008 to May 2009 transfers disbursement period, but has subsequently risen to average 107.6 from June to August, up 21.5%, with the August read of 113.4 the highest since October 2007. Opinions on the twelve month outlook for family finances have risen from a disbursement period average of 104.8 to a post-disbursement average of 117.4 – up 12.0%. The key driver of this improvement in confidence has been opinions on the economic outlook, both medium and long term.

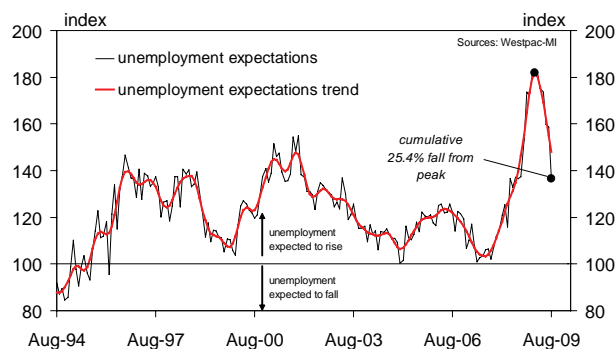
The improvement in opinions on the five year economic outlook from the disbursement period average to the post-disbursement period average has been 21.7%, neatly matching the aggregate Index improvement. The August index level for this component was 123.1, up 45.2% from a February 2009 low to a record high. The improvement in opinions on the twelve month economic outlook has been particularly strong at 63.5%. The August index for this component was 113.3, up 112.9% from a March 2009 low to its highest since December 2007. Opinions on whether it is a good time to buy major household items have also improved markedly, rising 17.5% from their disbursement period average to their post-disbursement period average. The August index for this key lead indicator of consumer spending was 126.9, up 78.6% from an October 2008 low to its highest since July 2007.

This improvement in consumer confidence measures has also been associated with a marked rise in consumers' perceived job security over the last six months, as the unemployment rate uptrend has proved to be more gradual than was initially feared as employers have focussed on reducing labour inputs through lowering hours worked rather than outright job shedding. This phenomenon has been embodied in offsetting gains in part-time employment to the full-time fall, for a net fall of only 0.1% in the trend level of total employment in the twelve months to July 2009. However, over the same period, aggregate hours worked of all employed persons have trended almost 3% lower. While this fall in aggregate hours worked is still a 'recession-like' outcome, and historically well correlated coincidentally with domestic final demand growth, the improvement in job security suggests an increased probability of consumers who

are labour market insiders (ie, in employment) choosing to tap their accumulated savings to maintain spending levels through 2009H2.

The Westpac-Melbourne Institute Unemployment Expectations Index surveys consumers' expectations as to whether they expect unemployment to rise, stay the same, or fall over the coming twelve months. An index greater than 100 indicates more respondents are expecting unemployment to rise, and vice-versa, so a fall in the index represents an improvement in consumers' perceived job security. This index (with the latest reading for August) has now fallen for six consecutive months, from a February 2009 peak of 183.1 to an August level of 136.5 – a cumulative 25.4% improvement in 'job security'.

Westpac-MI unemployment expectations



Aside from the positive for job security from the improved economic outlook and milder than expected uptrend in the official unemployment rate, this rise in job security has also probably been driven by what consumers have observed in the 'real world' experiences of their family and friends. One would imagine it is far easier to notice as you leave for work in the mornings that your neighbour has lost his or her job, and their car is still in the driveway, adding to insecurity over the permanence of your own job, than to notice if your neighbour's hours have been reduced instead.

In conclusion, surveyed consumer responses on the proportion of the one-off fiscal payments spent have allowed us to back out an estimate that around 30% of the \$21.4bn in payments are sitting in a notional savings 'reserve' of households. This is in line with estimates we have compiled using official ABS statistics, and suggests there is scope for a sizeable drawdown of savings over the second half of 2009, allowing consumers to maintain spending at high levels despite a fall back in disposable income from the recession-like decline in hours worked and the dropping out of the temporary fiscal boosters. Clearly improving measures of consumer confidence and in particular, job security, suggest an increasing likelihood of consumers choosing to tap these savings reserves, in turn implying risks of a less pronounced slowing in consumer spending growth in 2009H2 from 2009H1 than our forecasts currently expect.

Matthew Hassan, Senior Economist &
Anthony Thompson, Senior Economist

Data wrap

Jun housing finance

- The housing finance recovery extended into June in response to the lowest variable mortgage rates in 41 years and the boost to the First Home Buyer scheme.
- Lending to owner-occupiers, up for nine consecutive months, increased by 1.1% in June. New lending (ie ex-refinancing) is up 43% from the low of last August.
- Strength in June was evident in the upgrader market. Indeed, lending to first home buyers declined and is likely to lose further altitude in coming months.
- Rising demand for housing stock has translated into a leap in finance for the construction of new dwellings. Lending for this rose by 2.8% in June and is up 63% from August.
- This points to housing construction, which was a major drag on growth over the first half of this year, beginning to make a significant contribution from late 2009.
- Investor finance eased in June. However, the decline of 1.8% was modest following an 18% rebound over the previous three months.

Jul NAB survey

- Monthly business surveys can be volatile so it is encouraging to see a repeat of the more positive tone evident in the June survey.
- Conditions at a reading of around +1pt suggest that annual domestic demand growth is stabilising.
- The period ahead will be one of transition for the retail sector - with the end of the one-off cash payments by the Commonwealth to households.
- The NAB survey reports that there were significant falls in retail & wholesale.
- However, the survey reports that this step down in retailing was offset by stronger conditions in manufacturing, construction & finance.
- Confidence is back in the optimistic zone, mirroring the rebound in consumer sentiment.
- This could suggest that - while business is in the process of responding to the negative income shock from the global downturn (& associated decline in commodity prices) - the cuts to investment, hiring & inventories may not be as aggressive as previously appeared likely.

Aug Westpac-MI Consumer Sentiment

- The Westpac-Melbourne Institute Consumer Sentiment Index increased by 3.7% in August from 109.4 in July to 113.4 in August.
- The Index is now up 27.8% since May, the biggest three month gain since the survey began in 1975, and by a wide margin. Indeed, the only comparable surges in sentiment were seen coming out of the recessions of the early 80s and the early 90s - and both of these still left sentiment in pessimistic territory overall, with the Index below 100. The current surge by contrast has seen sentiment rise back into solidly optimistic territory. It is up a staggering 43.6% from its 2008 low to its highest in nearly two years, and remarkably is only 1.6% below its 2007 average.

- Notably, the report showed no impact from the main negative in the month - the RBA's clear shift from an easing bias to a neutral stance with indications that rates may need to rise.

Q2 wage price index

- The headline Wage Price Index was exactly as expected in Q2, rising 0.8%qtr allowing a further fall in annual growth to 3.8%yr from 4.2%, the lowest since 2006Q3, approaching its full history average pace of 3.6%yr.
- The annual WPI rate remains elevated by the public sector, where unchanged annual growth at 4.5% continues to reflect a 2008Q4 1.4%qtr spike from delayed decisions on collective agreements. This highlights wage bill pressure on State Government Budgets.
- The slowdown in private sector wage growth continues in response to the weakness in labour demand, as expected by the RBA. The private sector WPI rose 0.7%qtr taking annual growth to 3.5%yr from 4.1%, the lowest since 2004Q4, and now in line with its full history average pace of 3.5%yr.
- While aggregate jobs growth has surprised with its resilience, the weakness in labour demand indicators such as job ads, and the recession-like near-3% fall in aggregate hours worked, argues for further wage growth moderation ahead.
- The broader WPI measure of total hourly rates of pay including bonuses also continued to ease, with the private sector rate slowing to 3.6%yr from 3.7%, the lowest since 2007Q1, well down from a peak of 4.9%yr in 2008Q1, and back on its full history average pace.

Aug WBC-MI unemployment expectations

- Consumers' unemployment expectations recorded their sixth consecutive fall in August, and their largest fall of the period, continuing their rapid downtrend since peaking in February. The unemployment expectations index fell 13.9% in August to 136.52 after a 0.8% fall previously, for a cumulative 25.4% fall from their February peak. We find a smoothed trend deviation from their full history average provides a seven month lead for annual employment growth. This deviation measure fell for the fifth consecutive month, to 20.4% in August from 30.2% in July, the lowest since October 2008.
- With our deviation measure of unemployment expectations peaking in March 2009, the data remains consistent with our revised employment outlook that has annual jobs growth bottoming out seven months later, in 2009Q4. That peak initially appeared consistent with a rapid deterioration in annual jobs growth in the interim through 2009H2. However, with the more gradual uptrend in the unemployment rate than was expected (as employers reduce labour inputs via cuts in hours worked rather than outright job cuts), consumers' labour market opinions have been adjusting to this reality. Their August deviation measure is now at a level consistent with annual jobs growth at around -0.75% seven months later, in 2010Q1. Consequently, we retain our view that sees jobs growth bottom out at -1.0%yr in 2009Q4 (through-year quarterly average basis), then begin recovering to -0.9%yr in 2010Q1, with our end-2010Q1 (or March) forecast at -0.7%yr.
- Additionally, the continued rapid downtrend in consumers' unemployment expectations represents a marked improvement

Data wrap

in job security. This should support consumer confidence and therefore spending as household incomes come under pressure through H2 from the recession-like near-3%yr fall in aggregate hours worked and the end of the government handouts to households that clearly boosted H1 consumption. This fundamental turn to improving job security argues for diminishing risk of a substantial let down in consumer spending through 2009H2.

Aug MI inflation expectations

- With broadly improving consumer confidence in the Australian economic outlook, consumers' inflation expectations have continued to trend higher. The median inflation expectation rose to 3.5% in August from 3.2%, the highest since October 2008. Their trend rose to 3.25% from 3.02%, up from a March low of 2.27% and the highest since November 2008. The median expectation of managers and professionals rose to 3.5% from 3.3%, taking their trend to 3.19% from 2.86%, the highest since November 2008. The detail showed the rise in August price expectations was driven by a fall in the proportions expecting prices to fall (from 3.2% to 2.3% of respondents) or remain the same (from 17.2% to 14.5%), and a fall in the proportion responding "don't know" (from 9.9% to 7.1%), with a corresponding rise in the proportion expecting prices to rise (from 69.6% to 76.1%). Consequently, the trend net balance expecting higher prices overall rose to 70.0% from 65.1%, the highest net since September 2008. However, with the majority of those moving into the 'prices to rise' camp nominating a 2% or 3% increase, the proportion expecting inflation within the 2% to 3% target band jumped to 17.1% from 12.8% (well above 12mth average of 10.4%), the highest since September 2007.

RBA Governor Parliamentary Testimony

- Mr Glenn Stevens reiterates that rates will rise some time but we are not having a housing bubble and growth remains fragile. The RBA Governor, Glen Stevens, testimony before the House of Representatives Standing Committee on Economics today was a factual recap of recent global and domestic events. In brief, the comments summarised the views expressed in the RBA Statement on Monetary Policy (SoMP), released last Friday, 7th August.

- A very long Q&A session followed and a number of key points were addressed – that rates have to rise, we are a long way from neutral but he highlighted near term growth fragility. In our view, this means that a rate increase will be delayed until next year. And just to emphasis that he is not in a rush, he later stated "I did not say there is housing bubble".
- He was questioned on the possibility of rates rising while unemployment was rising. He had clear message – rates will most likely need to be raised at some point from current very low levels. The Governor stressed that the current "emergency setting of monetary policy" will not be needed when the emergency has passed. However, he would not be drawn directly on the likely timing or speed.
- When questioned, the Governor was careful not to give too specific an answer to the question of neutrality. He noted, however, that the neutral rate is not constant but he also stressed that neutral is "probably noticeably higher than 3%"; "a good deal away from where the cash rate is now".
- The Governor's response to the question on growth provided the clearest hint that the first move in rates is more likely to be in 2010. He pointed to the growth forecasts published in the SoMP highlighting that they imply "sluggish output" in the June and September quarters. He added that it was "even possible that there will be a negative quarter in the next couple of quarters", although there is a high level of uncertainty. It would be awkward to raise rates then have to explain the action as the economy contracts, albeit temporarily.
- In regards to questions on an Australian housing bubble, the Governor answered "I didn't say that there is a housing bubble – that was other people.". The Governor did, however, give the appearance that he wishes to avoid a bubble and removing "emergency settings" in a timely fashion is one way to reduce such risks. He is surprised at the high level of house prices – but has no simple answer as to why that is the case. He tended to agree that "supply bottlenecks" are a concern. Those in the market who are arguing an Australian housing bubble is driving the need to raise rates early and aggressively may have to re-think their argument.

Round-up of local data released last week

Date	Release	Previous	Latest	Mkt f/c
Mon 10	Jun housing finance, no	2.2%	1.1%	1.8%
Tue 11	Jul NAB survey	-2	+1	-
Wed 12	Aug Westpac-MI Consumer Sentiment	109.4	113.4	-
	Q2 wage price index %qtr	0.8%	0.8%	0.8%
Thu 13	Aug WBC-MI unemployment expectations	-0.8%	-13.9%	-
	Aug MI inflation expectations	3.2%	3.5%	-
Fri 14	RBA Governor Parliamentary Testimony	-	-	-

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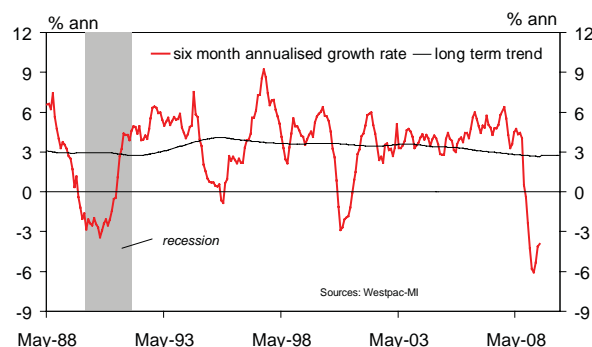
Data previews

Aus Jun Westpac-MI Leading Index

Aug 19, Last: -3.9% annualised

- The annualised growth rate of the *Westpac-Melbourne Institute Leading Index*, which indicates the likely pace of economic activity three to nine months into the future, was -3.9% in May, up strongly on its February low point but still well below its long term trend of 2.6%.
- Most monthly components improved in June: the equity market rally continued, albeit at a slower pace (ASX up 3.6% in the month but up 10%+ since then); the money supply expanded 0.7%, down a touch on previous months; but dwelling approvals snapped back smartly, rising 9.3% in June after the surprisingly sharp 11% drop in May; and the slide in US industrial production moderated, down 0.4% in June after 1.2% drop in May and average monthly declines of 1.1% over the previous three months.

Westpac-MI Leading Index

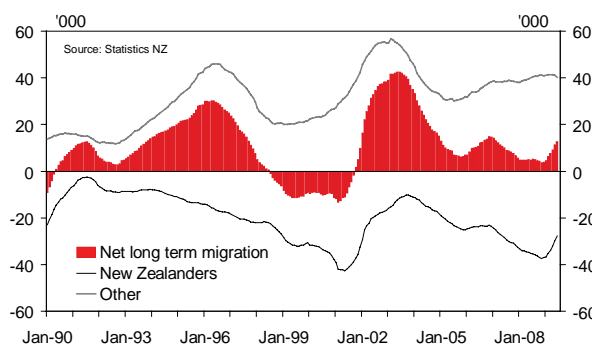


NZ Jul external migration ann.

Aug 21, Last: 12,500, WBC f/c: 14,300

- The trend in NZ net migration is rising sharply on the back of lower departures to Australia. We expect this momentum to continue for some months, underpinning the NZ economy and the housing market in particular.
- In June, we saw an unexpected drop in PLT arrivals of foreigners in the under-49 age brackets from a range of countries. For now, we are putting this down to monthly volatility.
- We expect annual net migration of around 14,300 in July, versus 12,500 in June. We are forecasting 25,000+ per annum by mid 2010, but this will depend crucially on the relative performance of the NZ and Australian economies.
- Weekly data suggest visitor arrivals remain relatively weak, which may be a swine flu impact, as well as the general economic malaise affecting our tourism markets.

NZ net migration



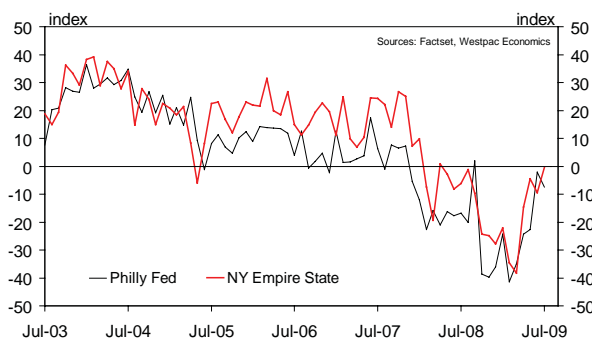
US August NY and Philly Fed surveys

Aug 17, New York Fed: Last: -0.6, WBC f/c: 5.0

Aug 20, Philadelphia Fed: Last: -7.5, WBC f/c: -1.0

- These surveys helped kick off the cliched "green shoots of recovery" story that emerged in March-April, though the reality is that despite the recent higher readings (NY sharply higher in July, Philly in June), both remain at levels consistent with declining output, albeit at a much slower pace than in Q1. That compares with 3 consecutive months of industrial expansion recorded by the Richmond Fed survey.
- Without local agents it is difficult to forecast these surveys of just 100 bosses. However, based on previous patterns, we expect the Philly Fed to correct higher in Aug, to just shy of neutral 0, but the NY Fed to climb to a new high, above 0.
- These outcomes would be broadly consistent with the gradual stabilisation in factory output now apparent across a range of indicators.

US regional manufacturing surveys



Data previews

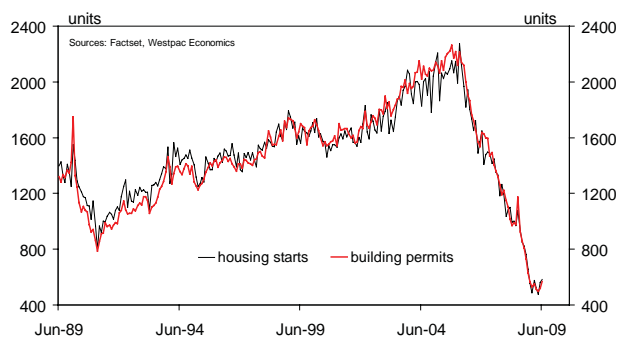
US July housing starts and permits

Aug 18, Starts: Last: 3.6%, WBC f/c: 10.0%

Aug 18, Permits: Last: 8.7%, WBC f/c: 2.0%

- On a range of indicators, housing has shown clear signs of turnaround after several years of tumbling prices and activity. Single family house starts have not posted a fall since January, and surged 14.4% in June; that strength looks to be sustainable with new home sales now up three months running including an 11% spike in June.
- In July, construction jobs fell by 76k, way down on the 100+ losses up until April, and homebuilder confidence rose to a 10 month high. These factors point to a further rise in single family house starts. Also multiple starts dropped 26% in Jun and have been extraordinarily volatile this year so far, so a July multiples bounce would add to the headline starts rise. In contrast, July permits might be constrained by a pull-back in multiples after a 19% June jump.

US housing starts & permits



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 17					
Jpn	Q2 GDP %saar	-14.2%	3.9%	4.1%	Dramatic shift in net X cont. plus fiscal support drives return to growth.
Sing	Jul NODX %yr	-11.0%	-11.5%	-	Roughly consistent with neighbouring countries ex pharma distortion.
Php	Jun overseas remittances %yr	3.7%	-	-	Surprisingly resilient thus far: is home-help a non-discretionary item?
Eur	Jun trade balance, €bn sa	0.8	-	-	In surplus for two months as imports fell faster than still weak exports.
UK	Aug 'Rightmove' house prices	0.6%	-	-	Index of England/Wales vendor asking prices firmed to -3.1%yr.
US	Aug NY Fed Empire manufacturing index	-0.6	2.2	5.0	Expected to move into positive territory in August, a fresh cycle high.
	Jun TIC data USDbn	-19.8	17.5	-	Net long term TIC flows.
	Aug NAHB housing market index	17	18	-	Housing has shown clear signs of turnaround, lifting index to 10mth high.
Tue 18					
Aus	Aug RBA meeting minutes	-	-	-	Statement dropped easing bias; to provide further colour to Aug SoMP.
Eur	Aug ZEW Survey economic sentiment	39.5	-	-	Expectations fell in July for first time since Oct-08, impacted by ...
Ger	Aug ZEW Survey economic sentiment	39.5	46.5	-	... slippage in equities and pullback in optimism about global recovery.
UK	Jul CPI %yr	1.8%	1.5%	-	Sub-2% target with favourable base effects & less impact from £ fall.
US	Jul PPI	1.8%	-0.2%	-	Sharp deceleration on energy price base effects.
	Jul PPI core	0.5%	0.1%	-	Upstream pressures meek with capacity utilisation at post war lows.
	Jul housing starts	3.6%	2.7%	10.0%	Recovery underway; new home sales up 3 mths; likely multiples bounce.
	Jul building permits	8.7%	2.3%	2.0%	July permits likely constrained by multiples pullback after June surge.
Wed 19					
Aus	Jun Westpac-MI Leading Index	-3.9%	-	-	Growth up strongly from Feb low but still well below 2.6% LR trend.
	RBA Asst Gov Edey speaking (9:20 AEST)	-	-	-	"Examining the Impact of the GFC on Retail Financial Services in Aust".
	Treasury Sec. Henry speaking (13:30 AEST)	-	-	-	"Implications of the Tax Review" to Australian Economic Forum.
	RBA Asst Gov Lowe speaking (13:30 AEST)	-	-	-	"Reforming Policy" to Australian Economic Forum.
NZ	Q2 producer output prices	-1.4%	-0.5%	-0.5%	A stronger NZD to weigh on selling price.
	Q2 producer input prices	-2.5%	-1.0%	0.5%	Electricity and fuel prices to drive costs higher.
Jpn	Jun all-industry activity index	0.7%	0.2%	-	Loses impact with release time post Monday's GDP.
Eur	Jun current account balance, €bn sa	-1.2	-	-	In deficit since March last year despite recent trade surpluses.
Ger	Jul producer prices %yr	-4.6%	-6.4%	-	Weakest since late-60s, but base effects should soon soften decline.
UK	Aug Bank of England minutes	-	-	-	Extended QE program & noted "the trough in output is close at hand".
	Aug CBI industrial trends survey	-	-	-	Jul results mixed with total orders slipping, but export orders less weak.
Can	Jul CPI %yr	-0.3%	-0.8%	-	Turned negative due to gasoline base effects. Jun core CPI was 1.9%yr.
	Jul leading indicators	-0.1%	0.2%	-	Rate of decline has eased markedly last 2mths implying H2 stabilisation.
Thu 20					
Aus	Jul merchandise imports, AUDbn	15.7	-	-	Rose 6.4% in Jun, translating to -0.1% sa, tempering trend decline.
	RBA Richards speaking (head of analysis)	-	-	-	"Australia's Housing Challenges" to Aust Economic Forum (14:00 AEST).
	Aug RBA monthly bulletin	-	-	-	Can include recent RBA Research articles.
Twn	Q2 GDP %yr	-10.3%	-	-	Relevant peers recorded major improvements in Q2.
Php	BSP policy decision	4.00%	4.00%	4.00%	On hold, with regional trade and domestic demand stabilising.
UK	Jul retail sales	1.2%	0.3%	-	Strong June result had detail consistent with a hot weather boost.
	Jul public finances PSNCR £bn	19.0	-	-	The black hole that is UK public finances.
US	Initial jobless claims w/e 15/8	558k	553k	-	Still at the tail end of Jul/Aug seasonal quagmire: interpret cautiously.
	Jul leading indicators	0.7%	0.6%	-	ECRI weekly index is pointing north.
	Aug Philadelphia Fed index	-7.5	-2.0	-1.0	Stabilisation in factory output argues for further rise towards neutral.
Can	Jun wholesale sales	-0.3%	-0.2%	-	May decline was 8th consecutive drop, but also the smallest fall.
Fri 21					
NZ	Jul external migration ann.	12,500	-	14,300	Strong upward trend in net migration expected to reassert itself.
	Jul credit card transactions	0.2%	-	-	Moderate rise expected in July, as consumer confidence returns.
Eur	Aug PMI manufacturing, advance	46.3	47.5	-	Both these surveys approaching neutral levels, indicating Euroland
	Aug PMI services, advance	45.7	46.3	-	economy still contracting in early Q3, but at a slower pace than Q2.
US	Jul existing home sales	3.6%	2.3%	-	Pending sales data points to a further rise.
	Fedspeak	-	-	-	Bernanke at KC Fed's annual Jackson Hole symposium.

Economic & financial forecasts

Interest rate forecasts

	Latest (Aug 14)	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
Cash	3.00	3.00	3.00	3.25	3.50	3.75
90 Day Bill	3.30	3.35	3.40	3.75	4.00	4.25
3 Year Swap	5.28	5.10	5.25	6.00	6.50	6.75
10 Year Bond	5.62	5.40	5.50	5.80	6.25	6.25
10 Year Spread to US (bps)	203	190	210	205	225	200

International

Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.59	3.50	3.40	3.75	4.00	4.25
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.00

New Zealand

Cash	2.50	2.50	2.50	2.50	2.50	3.00
90 day bill	2.80	2.80	2.80	2.80	2.90	3.60
2 year swap	4.17	3.90	4.10	4.30	4.60	5.00
10 Year Bond	5.89	5.80	5.90	6.00	6.10	6.20
10 Year spread to US	230	230	250	225	210	195

Exchange rate forecasts

	Latest (Aug 14)	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
AUD/USD	0.8400	0.86	0.80	0.83	0.85	0.87
NZD/USD	0.6788	0.69	0.63	0.67	0.69	0.71
USD/JPY	95.13	97	92	94	96	99
EUR/USD	1.4265	1.46	1.40	1.42	1.44	1.46
AUD/NZD	1.2376	1.25	1.27	1.24	1.23	1.22

Australian economic growth forecasts

	2008		2009		2010			Calendar years			
	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	2007	2008	2009f	2010f
% change											
GDP	0.2	-0.6	0.4	0.4(f)	-0.5	0.3	0.3	4.0	2.3	0.2	1.8
ann chg	2.2	0.8	0.4	0.5(f)	-0.2	0.7	0.6	-	-	-	-
Unemployment rate	4.2	4.5	5.3	5.7	6.0	6.7	7.1	4.4	4.3	5.9	7.3
CPI headline	1.2	-0.3	0.1	0.5	0.9	0.4	0.4	-	-	-	-
ann chg	5.0	3.7	2.5	1.5	1.2	1.9	2.2	3.0	3.7	1.9	2.0
CPI core	1.2	0.7	1.1	0.8	0.8	0.6	0.5	-	-	-	-
ann chg	4.7	4.3	4.2	3.9	3.5	3.4	2.8	3.6	4.3	3.4	2.0

New Zealand economic growth forecasts

	2008		2009		Calendar years						
	Q2	Q3	Q4	Q1	Q2e	Q3f	Q4f	2007	2008	2009f	2010f
GDP % qtr	-0.2	-0.5	-1.0	-1.0	-0.4	0.2	0.1	-	-	-	-
Annual avg change	2.5	1.6	0.2	-1.0	-2.0	-2.4	-2.1	3.2	0.2	-2.1	2.6
Unemployment rate %	4.0	4.3	4.7	5.0	6.0	6.3	6.7	3.5	4.7	6.7	6.5
CPI %qtr	1.6	1.5	-0.5	0.3	0.6	0.7	0.6	-	-	-	-
Annual change	4.0	5.1	3.4	3.0	1.9	1.1	2.1	3.2	3.4	2.0	1.2

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.