Australian weekly

Week beginning 3 August 2009

- Australia: RBA Governor's speech points to first rate hike in second half of next year – but no sooner.
- RBA on hold this week but Statement to eliminate easing bias.
- RBA Statement on Monetary Policy to revise up growth & inflation forecasts.
- Australian data: retail sales, house prices, trade balance & labour force due.
- New Zealand data: labour market in focus this week.
- Central bank meetings: ECB & BoE this week.
- US data: ISM factory & non-manufacturing reports: non farm payrolls.
- Key economic & financial forecasts.

Information contained in this report was current as at 31 July 2009

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RBA Governor's speech points to first rate hike in second half of next year – but no sooner

Things are moving quickly on the interest rate scene for Australia. The market is now priced for around 200 bp's of rate hikes through 2010 starting with a first move in December this year. Markets were given considerable support for their view from a speech which was delivered by the RBA Governor on July 28. In that speech the common themes of previous RBA speeches – output gaps; rising unemployment; global recession and contracting business investment – were replaced with – the need for central banks to contain inflationary expectations; risks of housing bubbles; China optimism; consumer confidence at or above long term averages.

Adding further to the bearish rate assessment was the Governor's performance in the Q and A session. He was given the opportunity to question the value of Sentiment Indexes but chose to endorse them when significant moves print. He allowed himself latitude to not need to wait until the unemployment rate starts to fall before he can raise rates (previous beginnings to tightening cycles – August 1994; November 1999; May 2002 – all occurred after the unemployment rate had peaked – August 1993; April 1997; October 2001 resp).

My question was "rates bottomed out at 4.75% following the last global recession (1993) and now at 3% following the current global recession. Are rates necessarily much lower this time since 'neutral' will be significantly lower because household debt to income ratios are now 3 times higher today than they were in 1993?" He acknowledged that neutral may have changed; was a useful concept but not observable and did shift around – also affected by changes in the relationship between the target rate and lending rates.

Markets interpreted the speech as indicating that the Governor thinks he is closer to raising rates than he thought he had been in previous speeches. That is a reasonable interpretation of the speech but I do not believe it is signalling an imminent tightening and as such data/circumstances can change which could temper the Governor's current position.

The first development that is required by markets will be in the Governor's Statement next week. That Statement will follow the RBA Board meeting on August 4 when the decision to hold rates steady should be the result. In previous Statements there has been a clause, "scope for further easing of monetary policy". That has been almost mandatory since the Bank has been forecasting that inflation will fall to 1.5% in 2011 – a central bank that is forecasting that inflation will fall below the bottom of the target band should see scope to ease.

However on August 7 we will see the Bank's next Statement on Monetary Policy in which it will have the opportunity to adjust its forecasts. Current forecasts of most interest will be growth in 2009 and 2010 and inflation in 2011. The Bank currently has –1% in 2009 and 2% in 2010 for growth, with inflation at 1.5% in 2011. We would expect the forecasts to be revised to be very close to our own growth forecasts of 0.6% in 2009 and 3% in 2010 (see last week's Weekly).

Because growth is still below trend we have only slightly revised up our inflation forecast in 2011 from 2% to 2.3% and kept the 2010 forecast at 2%. The Bank is very likely to revise up its 2011 inflation forecast to 2.25% eliminating the need to maintain the easing bias. That upward revision of the forecast will probably have been made internally before the Board meeting – the new inflation/growth forecast should be part of the Staff's advice to the Board and therefore be factored into the Governor's Statement.

Those revisions to forecasts will probably placate markets although we believe that growth and inflation forecasts would need to be higher still to justify current market pricing. If the Bank does adopt a much higher growth and inflation forecast than we currently expect then the probability of earlier rate hikes would increase.

In last week's Weekly we discussed our revisions to growth but did not bring forward our timing of the first rate hike from our long held view that it would be delayed to early 2011. The thinking was that the Bank would be anxious to hold rates steady for as long as possible to ensure a sustainable recovery. Even our higher revised forecasts still have growth below trend in 2010 prior to trend growth in 2011. However our reading of the RBA Governor this week clearly depicts an official who will have little patience in waiting once the appropriate conditions have been achieved. That points to some modest 'early' hikes of two 25 bp's in the second half of 2010.

We do not expect that the unemployment rate will have confirmed a peak by then but do expect that employment growth will return to positive territory by the December quarter next year. In the first half of 2010 we expect that employment will still be contracting or stagnant at best. In that environment it seems extremely unlikely that the RBA will be tightening.

We are certainly not convinced by the argument of 'taking back' around 100 bp's of the easing since the last two easings in February and April were 'emergency' easings and the need for them has not eventuated. The world economy is still a very dangerous place. The Australian economy will still hardly grow in 2009. The real 'emergency' easing was planned to coincide with the sharp deterioration in the unemployment rate which was expected to unfold in the second half of 2009. That has not happened and is unlikely to happen so there has been no need for an 'emergency' easing and therefore no need to unwind it.

The most convincing evidence of the economic recovery at this stage is the 30% increase in the value of new finance approvals. However 75% of that increase has been due to First Home Buyers and while our survey work does point to the recovery broadening it would be prudent for the Bank to assess the sustainability of the housing recovery by waiting to assess the impact of the inevitable winddown of the FHB's when the increased grant is phased out by year's end.

History tells us what a sequence of rate hikes can do to a housing market where debt levels are getting stretched. Recall the impact on the housing market of the consecutive 25 bp's hikes in November and December 2003. Prices fell in Sydney; new lending fell 20% nationally; and the next rate hike was not required until March 2005. The unemployment rate was only 5.8%; Consumer Sentiment Index was 114; housing credit growth was running at 20% and global growth was 3.6%. That compares with our current estimates by year's end of 7.5% in unemployment; 90–100 for the CSI; housing credit growth of 7% and global growth at –1.3%.

The current cash rate (3%) is not necessarily that far from 'neutral'. Household debt/income ratio now stands at around 170% compared to 60% in 1993 when rates last bottomed out following a global recession. At that time the cash rate was 4.75% compared to the current 3%. Of course the Bank waited until the unemployment rate was falling; housing credit growth had exceeded 20%; and GDP growth prospects were 4% plus. The impact on household disposable incomes of a rate hike will be three times greater with the higher debt/income ratio. Just as the 425 bp rate cut had a much more stimulatory effect on incomes so the reversal would be just as significant. The previous peak in rates of 7.25% seems very unlikely to be exceeded in this upcycle – even the 6.25% rate peak in 2000 might be too high.

Even if the market does not understand this we hope that the RBA appreciates the potency of their policy instrument.

Bill Evans, Chief Economist

Data wrap

Jun dwelling approvals

- Dwelling approvals rebounded 9.3% in June with May's sharp 12.5% drop revised up to an 11% fall. The result was in line with our forecast 9% gain but slightly above the consensus forecast of an 8% rise.
- Despite the recovery, approvals are still "only" 18% above their late 2008 lows; a disappointing result given the 60%+ surge in housing finance approvals for the construction and purchase of newly built dwellings. Securing finance remains a key factor inhibiting the upturn.
- The strongest momentum continues to come from the private sector houses, up another 4.9% in June with trend approvals rising at a 33% annual rate over 2009H1. In contrast, approvals for private other houses – which includes the large scale apartment developments most affected by financing problems – rebounded 27.7% in June but are still 57% below their average level in 2008.
- By state, private sector house approvals dipped 1.6% in NSW, rose 2.2% in Vic and 0.6% in Qld, rebounded 8.7% in SA after a 13.2% drop in May, and jumped a remarkable 24.8% in WA. Trend growth continues to run at a steady 2-2.5% monthly rate in the large eastern states. The jump in WA is notable as the west has seen a markedly weaker housing market over the last year.
- Also of note, the value of non-res building approvals spiked 94.5% in June on a surge in education building approvals. "Phase 2" of the Govt's fiscal stimulus strategy – the ramp-up in infrastructure work – would appear to be underway.

Jun private credit

- Credit to the private sector was basically flat in Q2 with a slight 0.1% rise in June following a 0.1% dip in May and a 0.1% up-tick in April. The June result was right in line with consensus expectations.
- Business credit continues to contract, falling another 0.5% in June, on a par with the rate of contraction in the previous six months.
- Housing credit rose 0.6%mth, in line with the average pace over the last nine months. Through the year growth is bottoming out in the 7 to 7.5%yr range. Within this, credit to Investors continues to lag owner-occupiers.
- Going forward, the housing upswing should see housing credit growth consolidate, with some upside if households become less concerned about paying down existing debt. However, business credit is likely to remain weak as reduced spending combines with tighter lending standards.

Jul TD–MI inflation gauge

- The TD–Melbourne Institute inflation gauge jumped 0.9% in July (largest monthly increase in its 7 year history) following a 0.4% rise in June and 0.3% fall in May. Sources of higher prices noted included communications, utilities and council rates. These were minimally offset by price falls in fruit and vegetables, financial services, and audio visual and computing equipment. Several of the main sources of strong price pressures were stronger than usual seasonal increases in items that we already have accounted for in our preliminary Q3 headline CPI forecast of 0.9%qtr (vs Q2's 0.5%qtr), such as council rates, electricity, gas and water charges, with utilities items facing significant one-off jumps. With the 0.9% rise in the gauge stronger than the 0.4% rise of a year earlier, annual growth in the gauge rebounded to 1.9%yr from 1.4%yr previously.
- With the spike in the July gauge, 3mth growth spiked also to 1.01% from 0.13% previously, the highest since March. This implies a markedly higher quarterly headline inflation pace in Q3 than Q2, consistent with our forecasts. Still, even with our Q3 headline CPI forecast of 0.9%qtr, this would allow a fall in annual headline inflation to 1.2%yr from 1.5%yr currently.
- The detail of the July inflation gauge showed some broadening of price pressures, but not excessively. Prices rose in 32 items (vs 30 prev), were unchanged in 46 items (vs 40 prev) and fell in 12 items (vs 20 prev). This gave a net balance of 20 price increases, up from a net 10 previously. Still, this was below the net balance from a year ago (+26 rises net in Jul-08). The 6mth moving average of this net balance edged higher, but only to +15 from +14.2, down from a peak of +22.5 in Dec-08.

Round-up of local data released last week

Date	Release	Previous	Latest	Mkt f/c
Tue 28	RBA Governor Stevens speech	–	–	–
	RBA Assistant Governor Edey speech	–	–	–
	Q2 NAB business survey	–	–	–
Thu 30	Jun dwelling approvals	–11.0%	9.3%	8.0%
Fri 31	Jun private credit	–0.1%	0.1%	0.1%
	Jul TD–MI inflation gauge	0.4%	0.9%	–

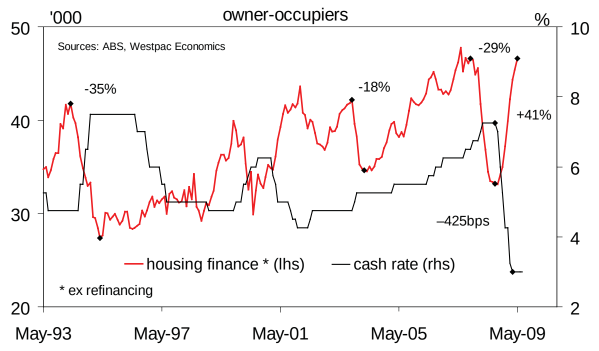
Data previews

Aus RBA policy announcement

Aug 4, Last: 3.00%, WBC f/c: 3.00%
Mkt f/c: 3.00%, Range: 3.00%

- The RBA, after leaving rates unchanged at the last three monthly meetings, is expected to keep the cash rate at 3.00%. Signs of any further shift in the tone of the associated press release will be the focus for markets.
- While there is scope for additional monetary easing, aided by a downward trend in inflation, that appears unlikely to be necessary. Aggressive rate cuts and the substantial fiscal stimulus have cushioned the downturn. There has been a return of confidence, housing finance has rebounded sharply, the business conditions index was far less negative in June and global conditions are stabilising.
- The quarterly Monetary Policy Statement will be released on Friday. Markets will be closely watching for any changes to the economic forecasts - both activity and inflation.

Housing finance at historic high

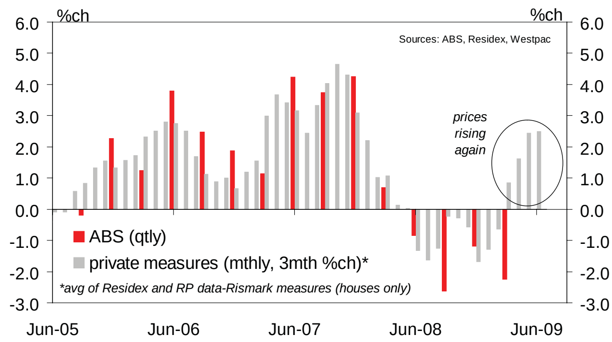


Aus Q2 house price index

Aug 4, Last: –2.2%, WBC f/c: 2.5%
Mkt f/c: 1.9%, Range: 0.5% to 3.0%

- The official ABS measure showed house prices down 2.2% in Q1 to be 6.7% lower through the year. However, the estimate has been widely criticised for over-stating price weakness, particularly due to its narrow definition (it only counts detached houses and excludes the townhouses, terraces and units, which have seen much stronger price gains over the last six to nine months). Private sector measures suggested a slight rise for house prices in Q1 in the range of flat to ½%, and stronger gains for units (ranging from ½ to 2%).
- The same private sector measures point to a solid gain in house prices in Q2, ranging from +2.4%qtr to +3.4%qtr. Overall we expect the official ABS measure to record a 2.5% rise, with clear risks of upward revisions to previous estimates.

House prices: ABS vs private measures

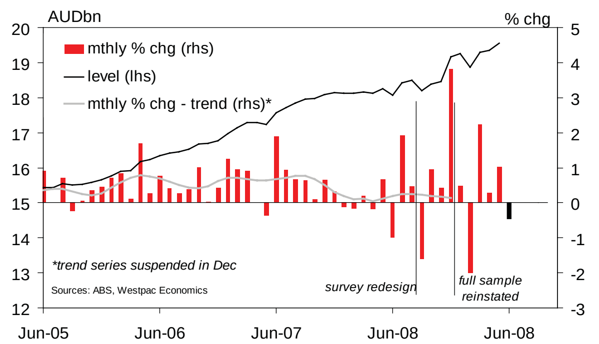


Aus Jun retail trade

Aug 4, Last: 1.0% (sa, trend series suspended), WBC f/c: –0.5%
Mkt f/c: 0.5%, Range: –1.0% to 1.7%

- Retail sales posted another solid 1.0% rise in May after a 0.3% gain in April and a 2.2% jump in March. Sales are up 7.1%yr and are 5.9% higher than their November level last year (i.e. prior to fiscal stimulus payments).
- The month to month impact of fiscal stimulus payments remains uncertain with the risk of a sharp reversal as payments wind-down. We saw just such a pull-back when the boost from the first round of payments dropped out in Feb (sales fell 2.2%mth). However, industry reports suggest sales held up well through Q2. A big lift in in consumer sentiment would also have helped sustain demand – sentiment surged 23% between May and July. Overall we expect a slight 0.5% pull-back for the month, reflecting their elevated starting point and a minor wind-down in fiscal payments.

Monthly retail sales



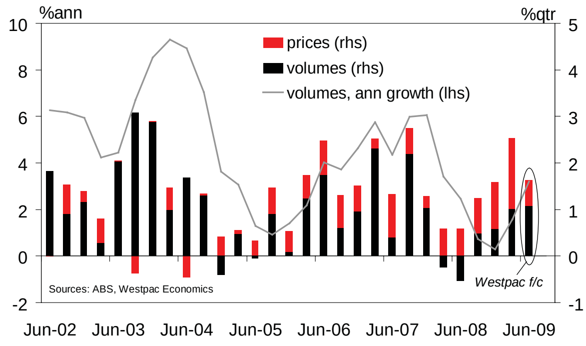
Data previews

Aus Q2 real retail sales

Aug 4, Last: 1.0%, WBC f/c: 1.1%
Mkt f/c: 1.3%, Range: 1.0% to 2.0%

- Real retail sales rose 1% in Q1, after a 0.6% gain in 2009Q4, a 0.5% gain in Q3 and declines in the first two quarters of 2008.
- Even with a soft June month, nominal sales are forecast to be up 1.6% for Q2 as a whole; extending the strong gains in Q1 (+2.5%qtr) and Q4 (+1.6%qtr). Retail components of the CPI point to a more subdued price component in the quarter: assumed at +0.6%qtr vs +1.5% in Q1 (mainly on weaker food prices).
- Overall, this gives 1.1%qtr gain Q2 real retail sales. Risks around the number are mixed. There is clearly upside risk to nominal sales if the expected slight wind-down in the policy boost to sales does not come through. However, there is also some downside to real sales if the moderation in retail prices is milder than anticipated.

Q2 retail sales: volumes and prices

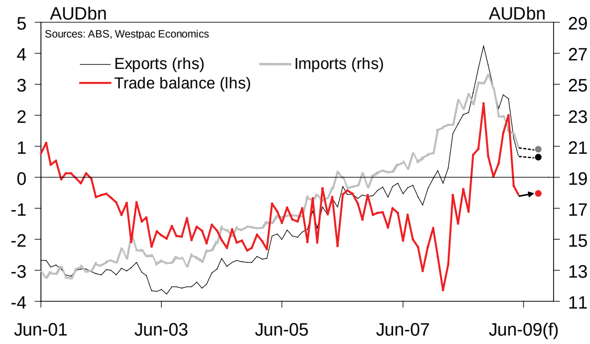


Aus Jun international trade balance, AUDbn

Aug 5, Last: –$0.56bn, WBC f/c: –$0.5bn
Mkt f/c: –$0.8bn, Range: –$1.8bn to –$0.35bn

- The trade deficit rose to $556mn in May from $282mn. Exports saw further price-led weakness, although their 5.2% fall in a month when the RBA AUD commodity price index plunged 8.3% implied continued resilience in volumes. The weakness in export prices leaves total exports trending down at –3.0%mth with non-rural trend growth –4.5%mth despite volumes growth. Imports fell 3.8% with a 7% AUD rise weighing on prices, continuing their downtrend (–1.9%mth).
- Non-rural export volumes are expected to remain firm in June but with further price weakness (RBA NR index fell 5%), we look for –1.4% for non-rural exports. Rural volumes and prices were weaker, but a large s.a. boost gives a net 2% rise, tempering the total export fall to –0.5%mth. Merchandise import data implies an offsetting –0.7% for goods, with total imports –0.7% also, narrowing the deficit slightly to $500mn.

Price led NR X fall largely offsets M fall

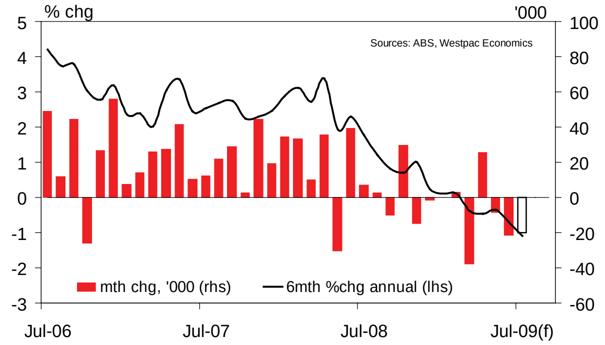


Aus Jul employment chg

Aug 6, Last: –21.4k, WBC f/c: –20k
Mkt f/c: –18k, Range: –30k to flat

- After several months of resilient surprises, employment fell 21.4k in June, with weakness again concentrated in full-time jobs (–21.9k) but part-time supported by labour hoarding as employers cut hours worked. Still, total employment trend growth slowed to –0.09%yr (weakest since Mar-93), trend full-time jobs fell 6.9k (10th straight fall) and annual full-time trend growth fell to –1.44%yr (weakest since Nov-92).
- While job ads of late have shown tentative signs of finding a low base, they remain at a detrended level consistent with further near-term jobs weakness to take growth to –1½%yr at end-09. We expect employment to fall 20k in July, taking annual trend growth to –0.3%yr. However, recent gains in our short-term labour demand indicator (a composite of business survey employment responses) suggest risks of a more resilient result.

Aust jobs: further deterioration ahead



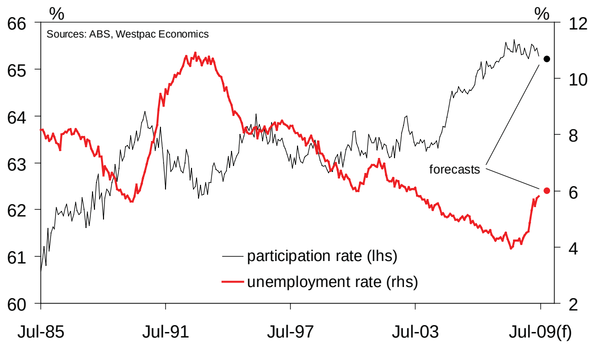
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known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

Aus Jul unemployment rate

Aug 6, Last: 5.8%, WBC f/c: 6.0%
Mkt f/c: 6.0%, Range: 5.9% to 6.2%

- With more pronounced jobs weakness in June and the unemployment rate trending higher, the participation rate fell to 65.3% from 65.4%. This offset some of the impact of the employment fall on the unemployment rate, which rose to 5.8% from 5.7%. The trend rate rose to 5.8% also, the highest since Aug-03, up from a trough of 4.1% in Mar-08.
- Our forecast of further jobs weakness in July, and the higher unemployment rate last month, argues for some further edging down in the July participation rate. We forecast 65.2% (–0.1ppts). But as was seen last month, this would only partially offset the forecast 20k jobs decline, lifting the unemployment rate to 6.0% (+0.2ppts), the highest since Jul-03. However, with risks to the upside for our jobs f/c, risks to our unemployment rate f/c are to the downside.

Unemployment and participation rates

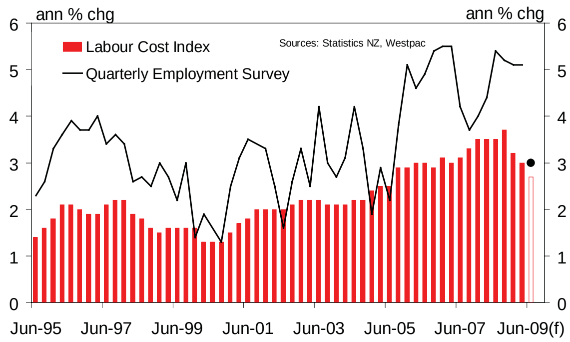


NZ Q2 wage growth

Aug 4, LCI pvt ord time – Last: 0.5%, WBC f/c: 0.4%, Mkt f/c: 0.5%
Aug 4, QES pvt ord time – Last: 1.1%, WBC f/c: 0.0%, Mkt f/c: 0.8%

- LCI wage inflation has been moderating rapidly since Q4 2008. We expect the moderating trend to continue as the employment market weakens and inflation expectations fall. The news wires report LCI private sector ordinary time wages, but the RBNZ focuses on LCI private sector all salary and wage rates, so this is arguably more important. We are picking 0.4% for the RBNZ's key measure.
- The QES wage measure has not moderated at all, probably because it is not adjusted for compositional shifts in the workforce. We are picking something of a catch-up this quarter. However, this series is so volatile on a quarterly basis that it would be hard to read much into almost any outturn. We expect a small negative for the QES measure of hours paid.

LCI & QES wages, private sector ord time

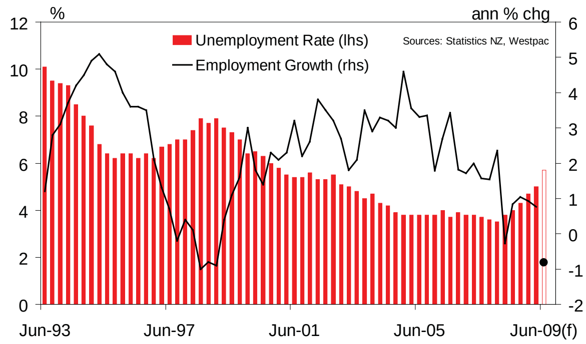


NZ Q2 HLFS employment and unemployment

Aug 6, Employment – Last: -1.1%, WBC f/c: –0.4%, Mkt f/c: –0.8%
Unemployment – Last: 5.0%, WBC f/c: 5.7%, Mkt f/c: 5.6%

- Unemployment is now the most reliable labour market indicator, and should garner most market attention. We predict the biggest quarterly increase in unemployment since 1991.
- Employment growth in the HLFS has been extremely volatile for the past two years, and has exhibited strong negative autocorrelation (strong follows weak in a spiky pattern). Our forecast reflects a continuation of that pattern, with Q2 incorporating an element of payback from Q1's very weak result. Adding to the case for a less-weak outcome, employment intentions in the NZIER survey improved from -36 to -19 in Q2. We are stunned to find our forecast is top-of-market – if anything, the risks lie to the upside of our forecast.
- Any surprise in employment will likely be matched by a surprise in the participation rate.

NZ Employment and Unemployment

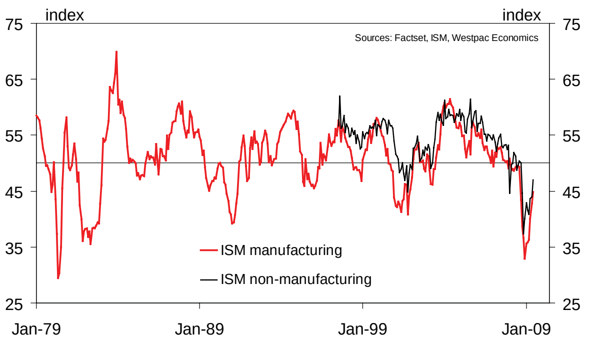


US July ISM factory and non-manufacturing reports

Aug 3, Factory: Last: 44.8, WBC f/c: 47.0
Aug 5, Non-manuf: Last: 47.0, WBC f/c: 47.0

- Since late Q1, most US business surveys have shown varying degrees of improvement, as fears of economic Armageddon around the turn of the year have been replaced by "normal" recession concerns. Mid year, some regional surveys rose close to neutral (indicating activity bottoming out) and one (Richmond Fed), has been in expansionary mode for 3 months.
- The ISM factory index bottomed below 33 in Dec but steadily recovered to almost 45 in June (still consistent with industrial contraction). That trend should continue in July, though June's durable orders decline suggests 50 is still a bridge too far.
- The June non-factory headline (essentially a confidence survey) jumped a sharp 3 points so we expect it to hold that level in July rather than rising further, partly due to higher oil prices.

US ISMs: staging a fight back!

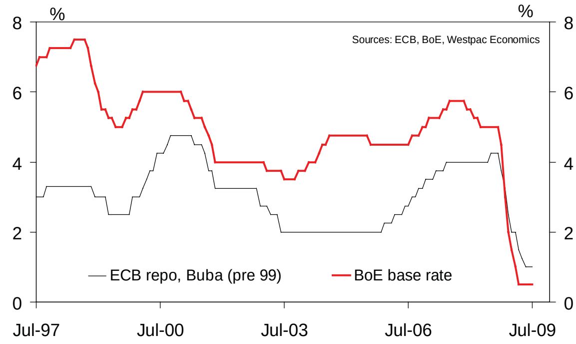


Bank of England and European Central Bank

Aug 6, BoE: Last: 0.5%, WBC f/c: 0.5%
Aug 6, ECB: Last: 1.0%, WBC f/c: 1.0%

- The BoE policy committee unanimously voted to keep rates on hold at 0.50% in July and left the quantitative easing program unchanged, with £13bn of £125bn still to be spent before the August meeting. With the economy still contracting in Q2, we expect the final £25bn of QE will be spent in Aug, plus an agreement with Treasury for a potential further £50bn (taking QE to a total £200bn), though no commitment to spend the last £50bn just yet.
- The ECB will provide an update on its €60bn covered bond purchase program, but with the economy believed to be contracting at a lower pace, we do not expect any further quasi-QE programs to be announced, and the prospect of a further rate cut has diminished sharply.

ECB and BoE policy rates

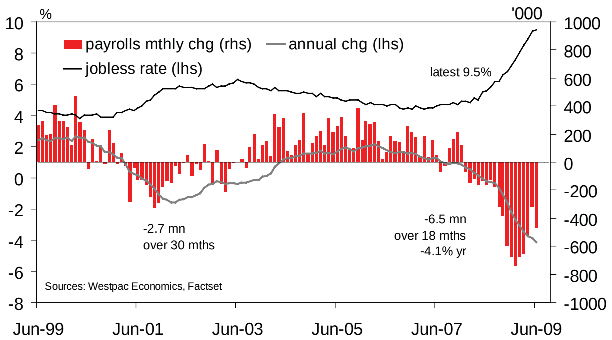


US July non-farm payrolls to fall by 270k

Aug 7, Payrolls: Last: –467k, WBC f/c: –270k
Aug 7, Unemployment: Last: 9.5%, WBC f/c: 9.7%

- June's 467k payrolls decline was steeper than May's 322k which had overstated the extent of improvement in the labour market mid Q2. We expect July's payrolls report to correct the other way, because of shifting timing of auto sector layoffs to earlier in the year which will positively impact the July seas. adj. result. This distortion caused wild swings in initial claims recently.
- Such a sharp improvement in July will mask a steadier underlying diminishment in the pace of US job shedding, consistent with the slower pace of contraction in the economy.
- However the jobless rate will rise further due to a rebound in labour force participation and another household survey job loss of 300-400k. Sharply weaker consumer job market confidence also points to a higher unemployment rate, up 0.2 pts to 9.7%.

US jobs market: losses moderating



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 3					
Aus	Bank holiday in NSW	–	–	–	Markets open. Westpac Economics out of commission.
	Jul AiG PMI	38.4	–	–	Well in contraction zone. Up 6pts from the six months to April.
	Jul ANZ job ads	–6.7%	–	–	Downtrend at –4.5%mth & –52.1%yr implies 2H09 jobs weakness.
Jpn	Jun labour earnings %yr	–2.5%	–	–	Major drag on consumption. Reflects both job cuts and lower hours.
Chn	Jul CLSA PMI	51.8	–	52.4	NBS PMI out over the weekend. Expect further gains in orders/output.
Kor	Jul consumer prices %yr	2.0%	1.7%	–	Lagged response to weakness in Q4/Q1, with energy price add-in.
Eur	Jul PMI factory final	46.0 a	46.0	45.5	Not normally revised but Jul result was suspiciously strong.
Ger	Jun retail sales	–1.3%	0.3%	–0.2%	Tentative date, due 3-7/8.
UK	Jul PMI factory	47.0	47.7	48.0	Pace of contraction continues to diminish.
US	Jul ISM factory	44.8	46.5	47.0	Regional surveys mostly point to a firmer outcome. See text box.
	Jun construction spending	–0.9%	–0.6%	0.2%	Housing component turning, so risk of rise, dependent on revisions.
	Jul auto sales mn annualised	9.7	9.9	9.7	Orders data hint at another soft sales month in July.
Tue 4					
Aus	RBA policy announcement	3.00%	3.00%	3.00%	Rates widely expected to be unchanged - as at last three meetings.
	Jun retail sales	1.0%	0.5%	–0.5%	Reflecting high starting point and a minor wind-down in fiscal boosts.
	Q2 real retail sales	1.0%	1.3%	1.1%	Another solid rise courtesy of massive policy injections to disp income.
	Q2 house prices	–2.2%	1.9%	2.5%	Has significantly understated price appreciation since late 2008.
NZ	Q2 labour cost index private ord time	0.5%	0.5%	0.4%	Easing in line with employment and inflation expectations.
	Q2 QES private sector ord time	1.1%	0.8%	0.0%	Catch-up after earlier strength.
	Jul ANZ commodity price index	0.2%	–	–	Mild increase in world prices expected, prices down in NZD terms.
Sing	Jul PMI	51.1	–	–	Electronics segment running in the mid 50s, reflecting bounce in tech.
Eur	Jun PPI %yr	–5.8%	–6.6%	–6.8%	Base effects will pull annual rate lower until August.
UK	Jul PMI construction	44.5	45.1	45.0	Stalled improvement since May.
US	Jun core PCE deflator	0.1%	0.2%	0.2%	Quarterly totals for income/spending will be released as part of Q2
	Jun personal income	1.4%	–1.0%	–1.2%	GDP report on 31/7 so less interest in these monthly figures than
	Jul personal spending	0.1%	0.2%	0.4%	is usually the case.
	Jun pending home sales	0.1%	0.6%	2.0%	Housing is clearly turning the corner.
	Fedspeak	–	–	–	Governor Tarullo on bank regulation.
Wed 5					
Aus	Jun international trade balance, AUDbn	–0.56	–0.8	–0.5	Weak NR X prices, rural vols & prices for 0.5% X fall; M -0.7% on prices.
Idr	BI policy decision	6.75%	6.50%	6.50%	Easing cycle probably over after this meeting, regardless of decision.
Eur	Jul PMI services final	45.6 a	45.6	45.6	Not usually revised much.
	Jun retail sales	–0.4%	0.3%	0.2%	June retail PMI was marginally higher.
UK	Jul consumer confidence	58	58	59	Nationwide BS index.
	Jul PMI services	51.6	51.8	51.0	Third month of very modest expansion.
	Jun industrial production	–0.6%	flat	0.2%	PMI suggests factory output uptrend unlikely just yet.
	Jul BRC shop price index %yr	0.7%	–	–	High street inflation has slowed consistently since March.
US	Jul corporate layoff announcements	–	–	–	Guide to lab mkt but not other lab mkt data.
	Jul ADP private payrolls change	–473k	–335k	–	Accurately warned of weaker payrolls outcome in June.
	Jun factory orders	1.2%	flat	–2.0%	Durables component known down 2.5%.
	Jul ISM non-manufacturing	47.0	48.0	47.0	June's jump quite steep, so just steady in July.
Thu 6					
Aus	Jul employment chg	–21.4k	–18k	–20k	Job ads imply 2H09 weakness, but bus. surveys imply some upside risk.
	Jul unemployment rate	5.8%	6.0%	6.0%	Jobs fall partially offset by 0.1ppt participation fall, but risk to downside.
NZ	Q2 HLFS employment	–1.1%	–0.5%	–0.4%	An element of payback from Q1, surveyed employment intentions up.
	Q2 HLFS unemployment	5.0%	5.7%	5.7%	This would be the biggest unemployment increase since 1991.
Jpn	Jun leading index	76.9	79.7	–	Modest gains of late, but woeful CapU won't go away in a hurry.
Eur	ECB rate decision	1.0%	1.0%	1.0%	Diminishing chance of a further cut/new unconventional measures.
Ger	Jun factory orders	4.4%	0.8%	–2.2%	Too soon for sustained orders revival but trend bottoming out.
UK	BoE rate decision	0.5%	0.5%	0.5%	A further £25bn of QE, plus another £50bn agreed with Treasury.
US	Initial jobless claims w/e 1/8	584k	595k	590k	Unwind of distortion from auto sector shutdowns mostly complete.
	Jul chain store sales %yr	–5.1%	–	–	Often different message to weekly retail stats.
Can	Jun building permits	14.8%	1.0%	–	Very volatile series but underlying trend seems to be turning positive.
Fri 7					
Aus	Aug RBA Statement on Monetary Policy	–	–	–	Recent data/speeches imply GDP/inflation forecasts to be revised up.
Ger	Jun industrial production	3.7%	0.5%	–2.5%	Industrial upswing is not yet underway but output is bottoming out.
UK	Jul PPI %yr	0.1%	–0.3%	–	Core output measure. Not a source of inflationary concern.
US	Jul non-farm payrolls change	–467k	–345k	–270k	Job shedding continues but at slower pace. Jobless rate to keep rising
	Jul unemployment rate %	9.5%	9.6%	9.7%	into 2010, but less steeply. See text box.
	Jun consumer credit $bn	–3.2	–3.7	–	Still very constrained.
Can	Jul employment change	–7k	–20k	–15k	Jobs being shed at much slower pace.
	Jul Ivey PMI nsa	58.2	55.0	54.0	Usually weakens in July so surprise gain would be clear sign of strength.

Economic & financial forecasts

Interest rate forecasts

	Latest (Jul 31)	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
Cash	3.00	3.00	3.00	3.00	3.00	3.25
90 Day Bill	3.17	3.20	3.20	3.20	3.25	3.50
3 Year Swap	5.11	5.00	4.25	5.00	6.00	6.75
10 Year Bond	5.61	5.40	5.10	5.65	6.25	6.25
10 Year Spread to US (bps)	199	190	170	190	225	200
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.63	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	2.80	3.60
2 year swap	3.88	3.90	4.10	4.30	4.30	5.00
10 Year Bond	5.74	5.80	5.90	6.00	6.00	6.25
10 Year spread to US	212	230	250	225	200	200

Exchange rate forecasts

	Latest (Jul 31)	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
AUD/USD	0.8297	0.76	0.74	0.77	0.80	0.82
NZD/USD	0.6567	0.60	0.59	0.62	0.65	0.68
USD/JPY	95.24	92	90	93	96	99
EUR/USD	1.4142	1.38	1.36	1.39	1.42	1.45
AUD/NZD	1.2635	1.27	1.25	1.24	1.23	1.21

Australian economic growth forecasts

	2008		2009				2010	Calendar years			
% change	**Q3**	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**2007**	**2008**	**2009f**	**2010f**
GDP	0.2	–0.6	0.4	0.2(f)	–0.3	0.3	0.3	4.0	2.3	0.2	1.8
ann chg	2.2	0.8	0.4	0.2(f)	–0.2	0.6	0.6	–	–	–	–
Unemployment rate	4.2	4.5	5.3	5.7	6.6	7.3	7.7	4.4	4.3	6.2	7.9
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	5.7	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.