

MONTHLY ECONOMIC OUTLOOK

July 2009

Wednesday, 8 July 2009

- The RBA, this month, held interest rates steady for the third month running. The central bank's decision was supported by ongoing signs of a stabilisation in the global economy and a continued improvement in financial markets. Meanwhile, growth in China, Australia's number one trading partner, has strengthened, providing another pillar of support for the Australian economy.
- Indeed, as noted by the RBA, the Australian economy has "not been as weak as expected a few months ago". Housing, in particular, remains a ray of light with substantial gains in housing finance, house prices tending to rise and residential construction activity likely to improve further this year. Meanwhile, the fiscal stimulus and historically low mortgage rates are still providing support to overall economy activity.
- But despite these glimmers of hope, the current global economic backdrop is still very weak. Indeed, this year is expected to be the worst for the global economy since WWII. Credit conditions remain tight. Global unemployment rates are also still edging higher (including for Australia) and business spending is being pared back sharply.
- So economic and financial conditions remain vulnerable to any potential adverse events. Accordingly, the RBA continued to retain an easing bias this month, stating there is still "some scope for further easing of monetary policy, if needed". It clearly implies that further interest rate cuts still can't be ruled out. But we believe that the RBA is done cutting rates and the next move in rates will be a hike, but not until next year.
- This month, our special feature article is on the US economic outlook. The US economy remains a weak spot in the global landscape, having first entered a recession at the end of 2007. But it is showing signs of improvement. We think activity in the US economy is bottoming and nearing a turning point. The US recovery may be slow but the US is likely to be the first among the major economies to come out of global financial crisis. The data has for several months now supported this view, with the slowdown in the housing and labour markets becoming less intense.

Table of Contents

Special Article – US Economy	Page 2 - 7	Commodity Markets	Page 12
Australian Economic Data	Page 8 - 9	- Oil	
- Housing Finance		- Gold & Base Metals	
- New Motor Vehicle Sales		Share Markets	Page 12
- Private Sector Credit		- Australia	
- Retail Sales		- International	
- Building Approvals		Recent Australian Data	Page 13
- International Trade Balance		Upcoming Data & Events	Page 13
- Consumer Confidence		Forecasts	Page 14
- ANZ Job Advertisements		St.George Contacts Listing	Page 15
Interest Rates	Page 10		
- Central Bank Outlook			
- Bond Yields			
Currency Markets	Page 11		
- Australian Dollar			
- Global Currencies			

SPECIAL FEATURE ARTICLE – US ECONOMIC OUTLOOK

The US economy remains a weak spot in the global landscape. The US was the first among the major economies to enter a recession near the end of 2007. It is still yet to exit the downturn. However, we think the downturn is no longer intensifying. A dim light appeared in recent months with improved economic data. However, the recovery is likely to be long and drawn out and the outlook is still characterised by considerable uncertainty.

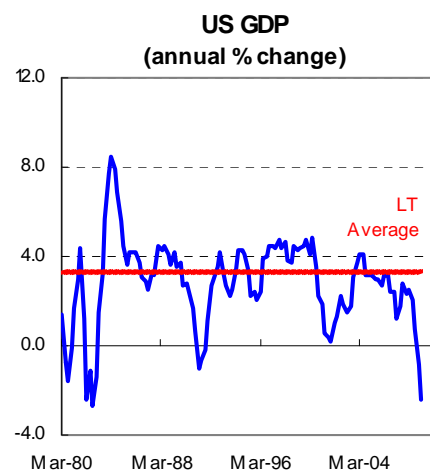
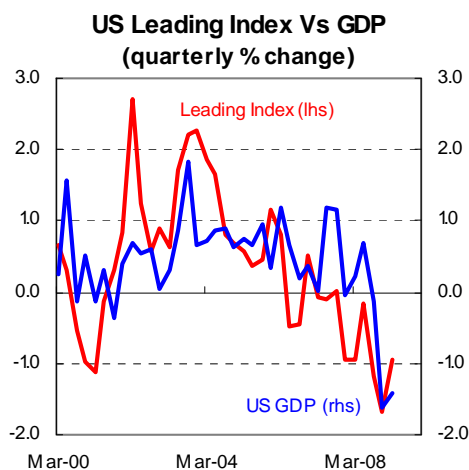
Economic Activity:

A recession is typically defined as two or more consecutive quarters of negative growth. But in the US, the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) determines when a recession has occurred. It notes that, "A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income and other indicators. A recession begins when the economy reaches a peak of activity and ends when the economy reaches its trough". The NBER declared that the US economy reached a peak in December 2007 and entered a recession thereafter. This means that the US has been in recessionary territory for more than 1½-years. It also means that the duration of the current recession surpasses recent slowdowns in the US economy. In fact, it is the longest since that of the 1930s, which lasted around 3½ years from August 1929 to March 1933.

On an equivalent measurement basis to Australia, GDP in the US was shown to drop for the third consecutive time in the March quarter. GDP fell by 0.1% in the Q3 2008 and the contraction then deepened further by 1.6% in Q4 2008 and 1.4% in Q1 2009. This brings the US economy down 2.5% from a year ago in Q1, which marks the largest annual fall since the early 1980s. Comparatively, in Australia, there has only been one quarter of negative growth in the current cycle. GDP is also still in positive territory (+0.4% y/y) in Australia, although it is the weakest annual pace since only the early 1990s, the time of the last recession.

An improvement in various economic indicators since the March quarter suggests that the slowdown in economic activity is bottoming or has bottomed. It means that the US recession should start to ease. The consensus view is that the US could move out of this recession towards the end of this year. A further contraction of 0.5% is expected for the Q2 2009 and growth is then expected to resume (+0.1% q/q) in Q3 2009. For 2009, GDP of -2.7% is expected and +2.0% for 2010 is anticipated.

The Conference Board's Leading Index (which consists of ten indicators including stock prices, consumer expectations, building permits, initial jobless claims and manufacturing orders) posted sharp gains of 1.1% and 1.2%, respectively, in April and May. The last time this index had increased was in June last year, prior to the collapse of Lehman Brothers and the escalation of the financial crisis. There is a reasonable correlation between this index and GDP.

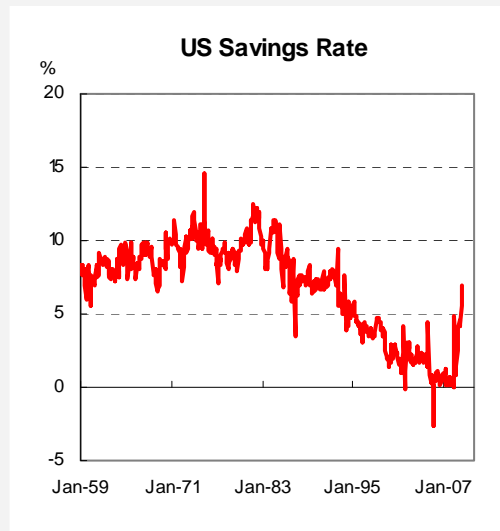
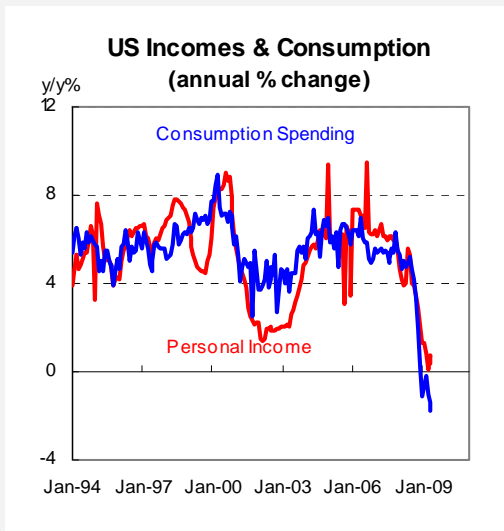


Personal Income:

The government’s fiscal stimulus has helped provide support to earnings. The US fiscal stimulus, enacted in February 2009, gives for one-time payments of \$US250 to eligible individuals receiving social security, supplemental security income, veterans benefits and railroad retirement benefits. These transfer payments have given a short-term boost to incomes. Real disposable income rose for the second straight month in May, by 1.4%, after a 0.7% increase in April. But, at the same time, the personal savings rate jumped to a more than 15-year high of 6.9%, showing consumer cautiousness amid ongoing job losses, lower household wealth and tight credit.

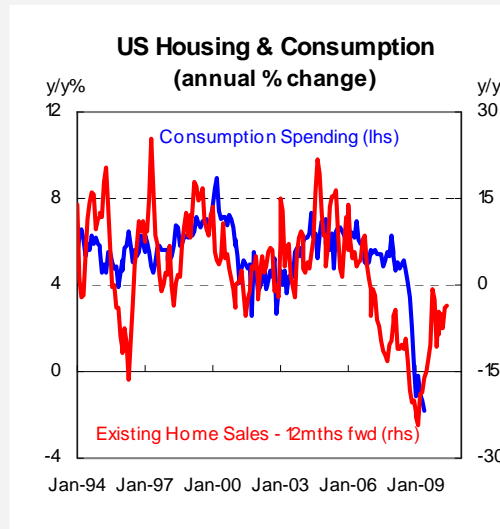
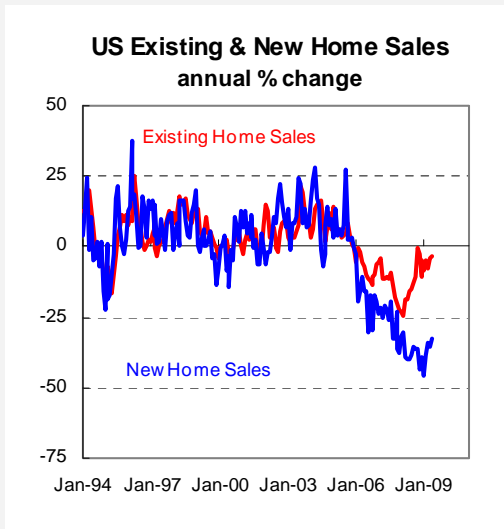
Consumer Spending:

With the savings rate running at a more than 15-year high, it is no surprise then that consumer spending has underperformed growth in incomes. Spending rose just 0.3% in May, after a flat outcome in April. From a year ago, spending is down 1.8%, while incomes are up 0.3%. The path of the consumer is key for where the US economy is heading as consumer spending consists of around 70% of GDP. The tight correlation between housing and consumer spending, in turn, indicates that housing will be key for a recovery in this sector and, thus, the overall US economy.



Housing market:

The latest US housing data has indicated that the rate of decline is moderating. Home sales measures are even suggesting that housing could have reached its trough, although at a very weak level. Existing home sales posted good gains in three out of the last four months to May. The annual rate of contraction, of 3.6%, is now well above the low of 24.4% touched in February last year. The slowing in new home sales also appears to have moderated [-32.8% y/y versus -45.9% touched in January].



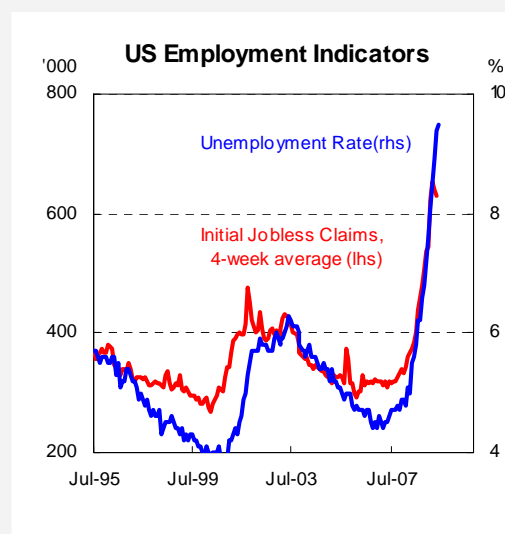
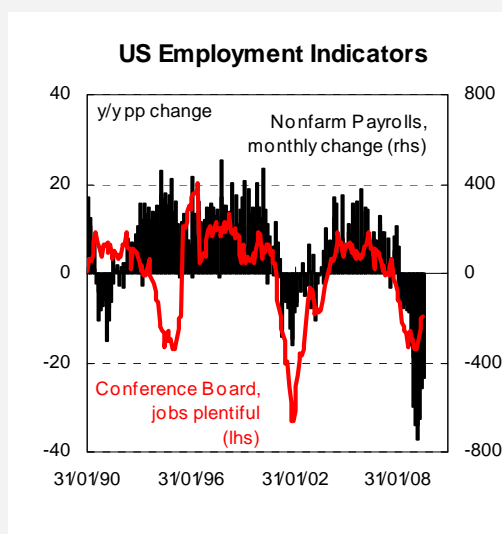
In terms of prices, S&P/Case-Shiller's 20-Composite Index continues to show declines, but at more moderate rates. The latest report (for April) noted a moderation in price falls with the y/y drop of 18.1% off the recent low of 19.0% in January.

The construction side of housing has been lagging behind demand but still looks to be reaching a bottom. Housing starts jumped 17.2% in May, with the annual rate of contraction (45.2%) off from the low of 54.9% touched in January. Building permits also rose substantially in May (by 4.0%), pointing towards further gains for starts. A forward-looking indicator of permits is the NAHB Builders Sentiment Index. It is still well below the benchmark 50 level separating builder optimism from pessimism. But the index has held above its record low of 8 points touched in January, averaging 15 points in the last three months.

Labour Market:

Private sector employers cut 467k jobs in June, extending the stream of consecutive losses seen since January 2008. Since that time, a total of 6.5 million jobs have been lost. The unemployment rate now stands at 9.5%, the highest it has been since August 1983. More job losses are likely in store for the US. As a leading indicator of employment, initial jobless claims are still running at very high levels of above 600k. In the five years prior to the recession, i.e. 2003 – 2007, claims had been almost half this level, at near 350k. However, like other data, some improvement has also been evident in initial jobless claims (refer to bottom right chart). Consensus expectations are for the unemployment rate to average 9.2% this year and close to 10% next year.

While the overall picture still appears deary, the monthly breakdown of the employment data reveals some encouraging developments. In the last three months, job losses have average 436k per month. It is well below the average 622k per month loss seen throughout the six months to March. The latter period was just after the collapse of Lehman Brothers in September 2008 and is widely seen as the period of most pronounced weakness in the global economy.



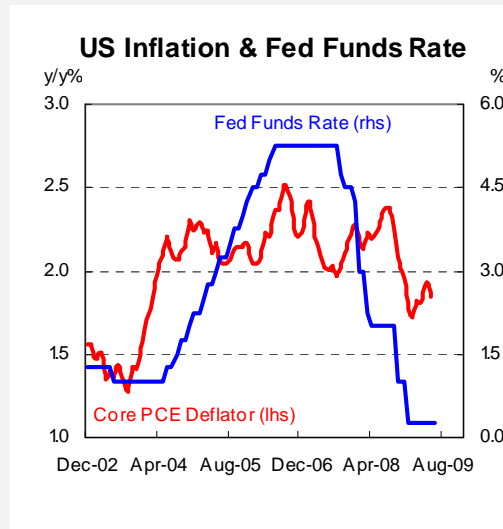
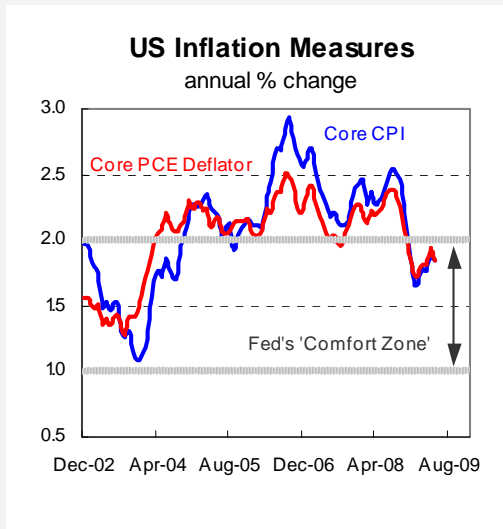
Business Spending:

Businesses, curtailed by the fragile economic environment and tight credit conditions, have cut back on fixed investment and staffing. The Fed recently noted, however that businesses appear to be making progress in bringing inventory stocks into better alignment with sales.

Inflation:

Very weak economic conditions have caused inflation to fall to well within the Fed's 'comfort zone' of 1-2%. Core consumer prices are running at a 1.8% annual pace, well below the 2%-plus rates seen since 2004. Although the prices of energy and other commodities have recently risen, the Fed expects 'substantial resource slack' to dampen cost pressures and for inflation to remain subdued for some time. Fed officials have also sought to dampen concerns over potential inflationary pressures due to the substantial macroeconomic stimulus measures in place. San Francisco Governor, Janet Yellen (an FOMC voting member) has said that the "predominant risk" is that inflation will "be too low, not too high over the next several years". But at the same time

she said that there is also an unlikely possibility of deflation if the economy fails to recover soon.



Monetary Policy:

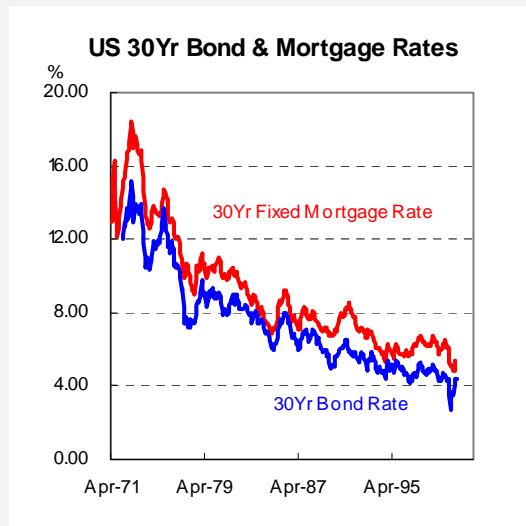
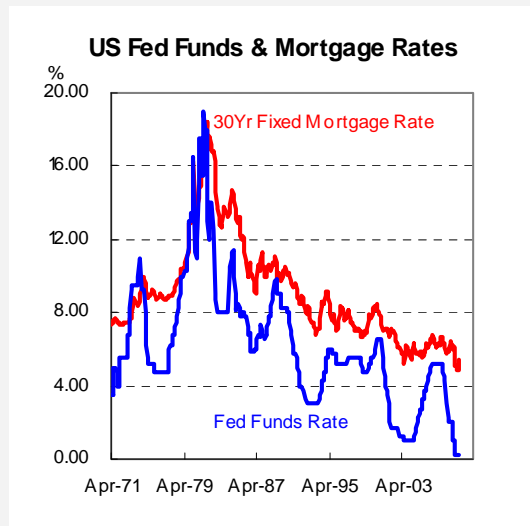
The US Federal Reserve was the first among the major economies to ease monetary policy. The Fed funds rate was first cut in 2007, around two years after the US housing sector peaked towards the end of 2005. From a high of 5.25% in September 2007, rates have been cut to a record low range of just 0%-0.25% in December 2008. They have been maintained at this level ever since.

In its most recent Federal Open Market Committee (FOMC) statement last month, the Fed provided no indication to change the current level of rates in the near future. It said that bleak economic conditions and the likelihood that inflation will remain subdued for some time are "likely to warrant exceptionally low levels of the federal funds rate for an extended period".

Fed funds futures are, however, pricing in around a 30% chance of a 50bp rate hike and a 55% chance of a 25bp rate hike from the Fed by the end of the year. We, however, believe that it could be too soon for the Fed to start hiking rates this year. Moreover, any adverse developments could always block the path to improvement, so a recovery is still not set in concrete.

Top Fed officials have also sought to dampen such speculation for rate hikes in the US. Yellen recently said that market expectations for an imminent rate increase were "jumping the gun". She said, "It's not outside the realm of possibilities that the fed funds rate could stay at zero for the next couple of years".

The Fed has been constrained in terms of the effectiveness of monetary policy in comparison to some other economies. A large proportion of mortgage rates in the US are based on fixed rates. Decreases in the Fed funds rate have not had a significant downward effect on average mortgage



rates. The Fed has cut interest rates by 500bp–525bp since September 2007, but the 30-year mortgage rate has only dropped by 115bp since then. Thirty-year mortgage rates follow closely movements in the 30-year bond rate and this has only declined 57bp since September 2007.

With monetary policy not as effective as it could be, it encouraged the Fed to adopt alternative measures that included quantitative and qualitative easing. These measures have expanded; in March, the Fed increased its purchases of agency mortgage-backed securities by \$US750bn to \$US1.25 trillion and its purchase of agency debt by \$US100bn to \$US200bn. The Fed said that these purchases are aimed at giving support to the mortgage and housing markets and are to be fully carried out by the end of the year. In March, the Fed also announced an additional move to help unblock credit markets by purchasing up to \$US300bn of US Treasury debt by September. The Fed has not made changes to the outright purchase programs for Treasuries, agencies or mortgage-backed securities (MBS) since March.

Fiscal Policy:

The US fiscal stimulus (worth \$US787bn) is estimated to boost annual GDP growth by 1.0% this year and ¼% next year, according to IMF estimates. It complements the highly accommodative monetary policy measures currently in place. Given the stimulus measures, the Congressional Budget Office expects the US federal deficit for 2008-09 to be around 13.0% of GDP, which is more than double the prior record level. The deficit in 2009-10 is expected to stand at 9½% of GDP. These proportions are well above the 2007-2008 average of just 2¼%.

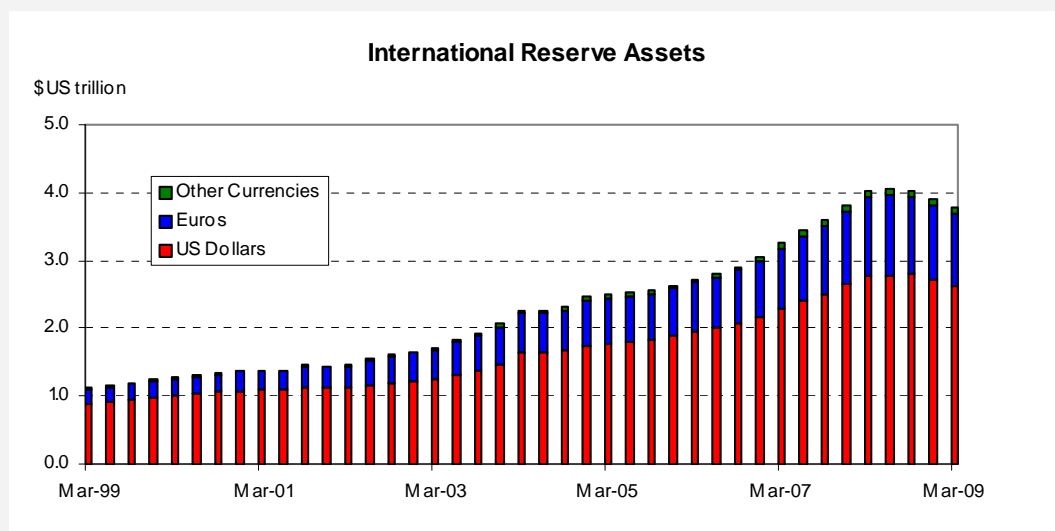
There have recently been rumours of a second economic stimulus package in the US, sparking worries that all may not be well in the US. But White House officials have sought to dampen down such speculation, stating that it is still too early to assess the full effects of the first package.

Financial Markets:

Conditions in financial markets have generally improved in recent months. The bank stress tests, conducted by the Federal Reserve and the Treasury have been a turning point for the financial sector. These tests have increased transparency and confidence in the major financial institutions. The IMF, however, stressed recently that close monitoring of the financial system should continue with regular stress tests to assess any potential weakness.

US Dollar:

There have recently been concerns surrounding the US dollar's status as a reserve currency. China, which holds more US dollar assets than any other country, has requested a debate on the reserve currency at this week's G8 meeting. Previously, in the annual financial stability report the People's Bank of China's (PBoC) had argued that it was a serious flaw that one currency should tower over all other. "To avoid the shortcomings of sovereign credit currencies acting as reserve currencies, we need to create an...international reserve currency that can maintain the long-term stability of its value". It follows calls made in March by PBoC Governor Zhou Xiaochuan in March to use Special Drawing Rights (the international reserve asset created by the



IMF in 1969, which is based on a basket of key international currencies) as a super-sovereign reserve currency. Russia and Brazil have echoed China's debate for a new reserve currency.

Of the total \$US4.1 trillion in allocated international reserve assets, 65.0% (\$US2.6 trillion) are held in US dollars, 25.9% (\$US1.1 trillion) in euros and the remaining in other currencies.

A G8 source, however, has indicated that the group of eight leading industrialised nations are showing little concern for the US dollar's dominance as a reserve currency. The source stated that, "there is pretty broad consensus with the G8 that this is not the time to experiment with reserve currencies, however, attractive it might seem".

Concerns surrounding the US dollar's status as a reserve currency and improved risk appetites have kept the USD under water. But we don't think that the USD will remain unequivocally weak in coming months. It's because we expect the US economy to be the first among the major countries to exit the global financial crisis.

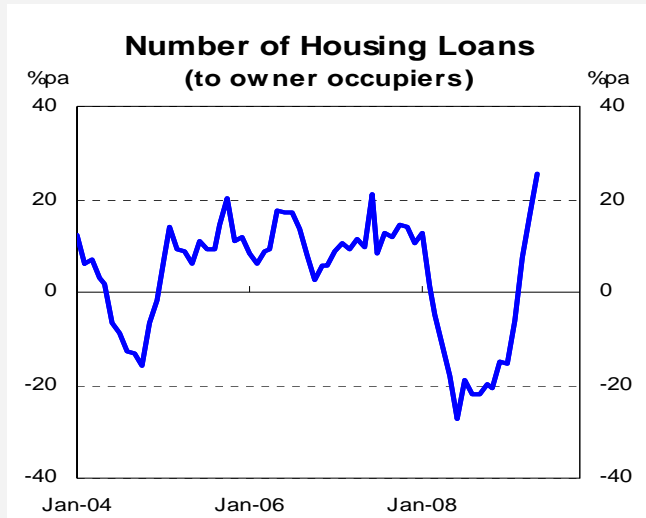
Credit Rating:

The large sums of US government borrowing to help pull the US economy out of the recession have raised concerns of a downgrade to the US government's AAA credit rating. Addressing these worries, Moody's issued a statement last month stating that the US triple-A rating is safe and that it has a stable outlook on the US (i.e. a change is not expected over the next 18 months).

Moody's, however, cautioned that there were risks that could lead to a downgrade. These include the US being unable to bring public debt back to a downward trajectory and if the US were unable to raise a significant amount of debt at low cost. It said that the latter event could occur if the Greenback was "severely challenged as the main international reserve currency". But it also noted that there was currently a "remote risk" of the latter occurring.

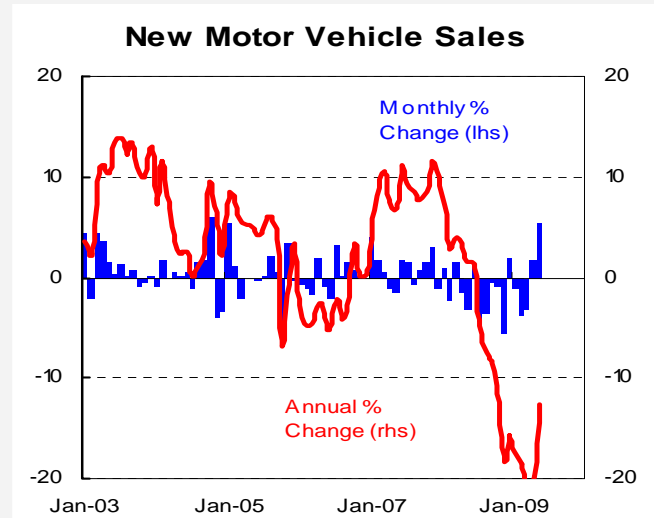
Australian Economic Data

Housing Finance



Residential lending continues to recover strongly. The number of new home loans to owner-occupiers rose for the eight consecutive month in May. Home loans were up 2.2% and are 33.3% higher since they started increasing in October 2008. The value of new owner occupied home loans increased 2.4% in the month, also marking the eight straight monthly gain. From September, this series is up 42.1%. Investor finance rose for the third straight month by 2.4% to be up 1.3% on a year ago.

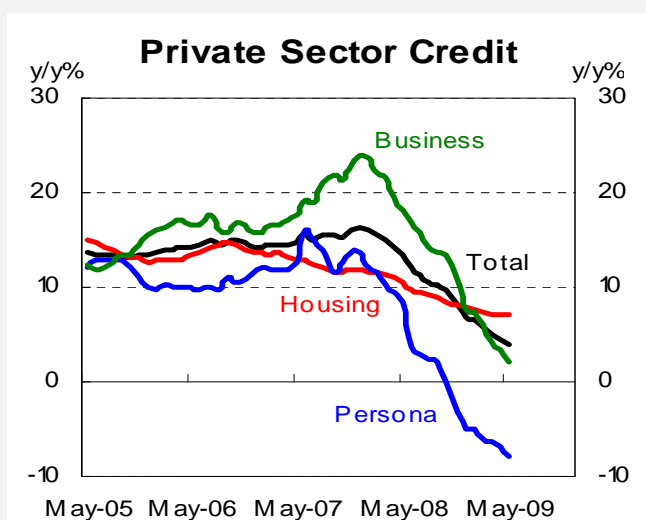
New Motor Vehicle Sales



Sales of new motor vehicles jumped 5.4% in May with SUVs higher by 6.4% and passenger vehicles up 2.9%. It marks the second consecutive month of good gains. In April, total vehicle sales rose by 1.7%. Prior to this, around the period that is acknowledged as the weakest point for the global economy, vehicle sales had declined sharply for eight out of nine months. From a year ago, vehicle sales are still lower, by 12.6%.

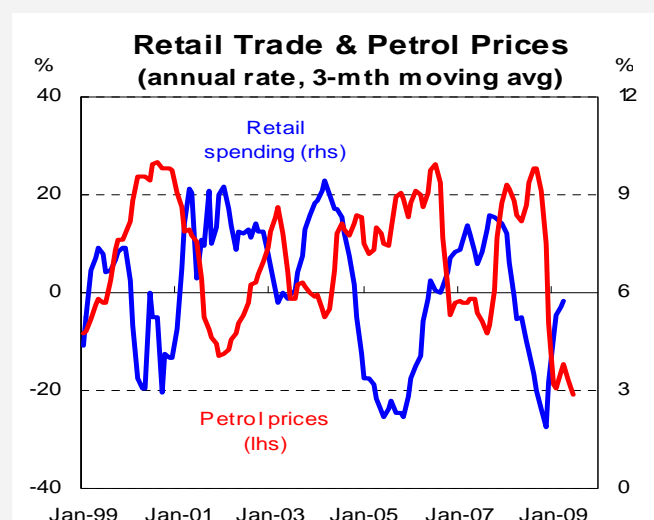
New car sales have been supported by the small business investment allowance and low interest rates.

Private Sector Credit



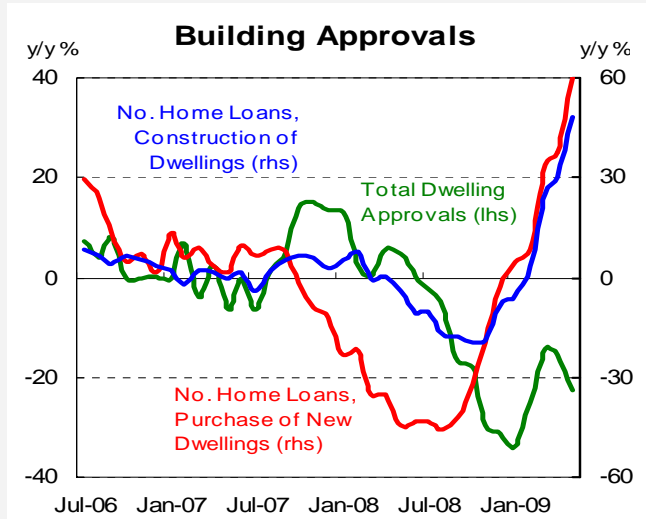
Credit to the private sector edged 0.1% lower in May. The annual rate slowed to 3.9%, from 4.5% previously, and from the recent high of 16.4% in December 2007. It is the lowest annual rate since October 1993. Business (-0.7% m/m) and personal credit (-0.6% m/m) fell again but housing (+0.5% m/m) continued to rise, underpinned by low interest rates and the first-home-owners grant (FHOG).

Retail Sales



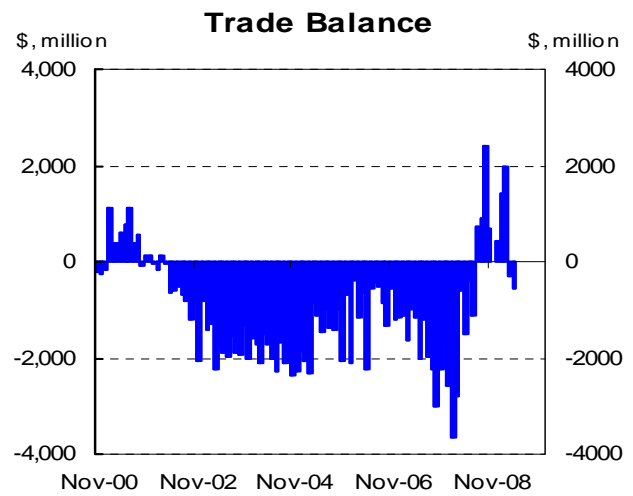
Retail sales jumped 1.0% in May, marking the seventh out of the last eight months in which spending has improved. The annual rate has continued to scale higher, at 7.1%, it is now the fastest pace in 17 months. This strength has been on the back of lower interest rates, the government cash handouts, lower petrol prices and the improvement in the share market.

Building Approvals



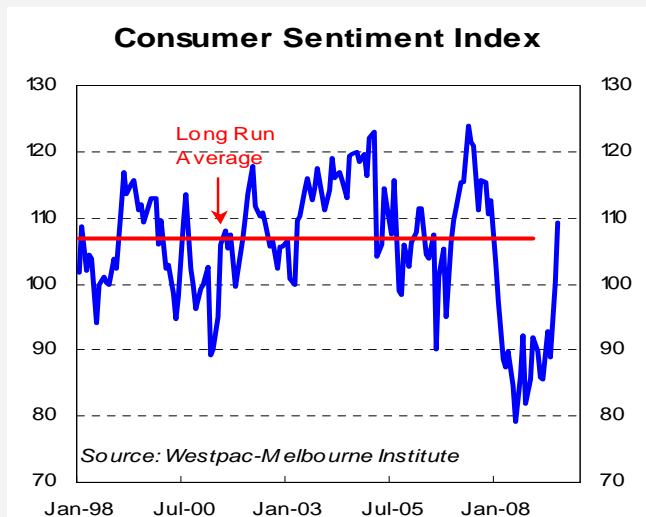
The number of dwelling units approved dropped 12.5% in May, to be a significant 22.4% lower over the year. The fall, however, follows large gains in the prior three months, in the 4.0%-9.0% range. Moreover, the drop was concentrated in the volatile 'other private sector dwellings' component (which includes flats, units or apartments and townhouses). The fundamentals, i.e. very low interest rates, the large housing shortage and the FHOG still suggest support for approvals.

International Trade Balance



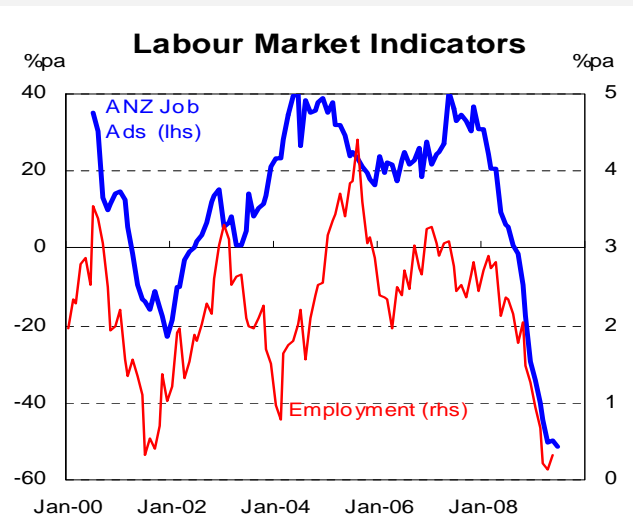
Australia's trade balance posted the second consecutive deficit in May, of \$556mn. It was also larger than April's deficit of \$282mn (which was revised higher from \$91mn). The expansion in the deficit reflected a 5.2% fall in exports, which was larger than the 3.8% drop in imports. Lower prices for key commodity exports, such as iron ore and coal were partly to blame. The AUD in trade-weighted terms also appreciated almost 6% over May – dampening Australia's export competitiveness.

Consumer Sentiment Index



The WMI consumer confidence index posted a surprising jump of 9.3% in July. The index is now up 23.2% over the last two months, which is the biggest back-to-back gain on record. The index also stands well above 100 (at 109.4), which reveals the optimists outnumber the pessimists. In a good sign for retailers, the component measuring if now is a good time to buy major household items surged 9.5%.

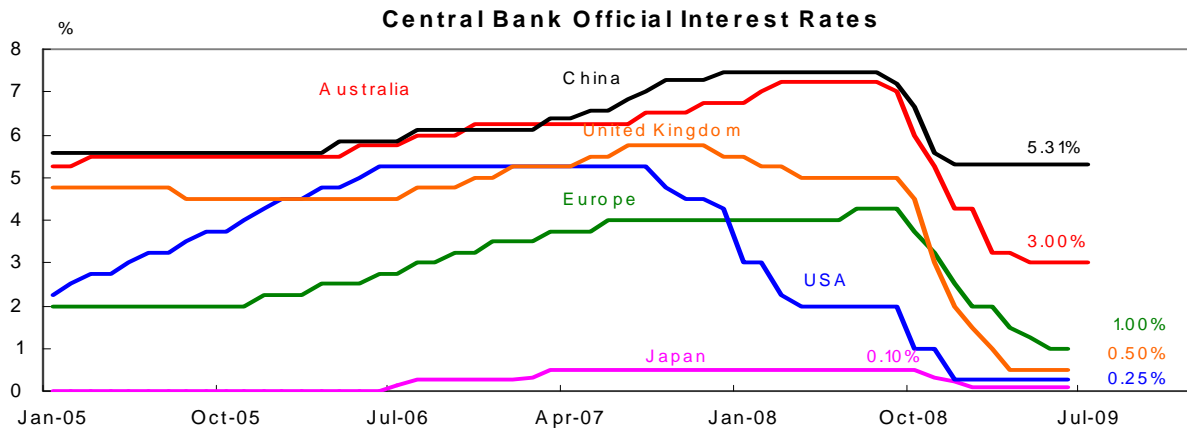
ANZ Job Advertisements



ANZ job ads fell by 6.7% in June, marking the 14th consecutive month of falls (-51.4% y/y). The decline reflected lower ads on the internet (-7.2%) and was cushioned modestly by higher newspaper job ads (+0.9%). The continued deterioration in the trend in job ads suggests that the unemployment rate (currently at 5.7%) has further to rise.

Interest Rate Markets

Central Bank Outlook

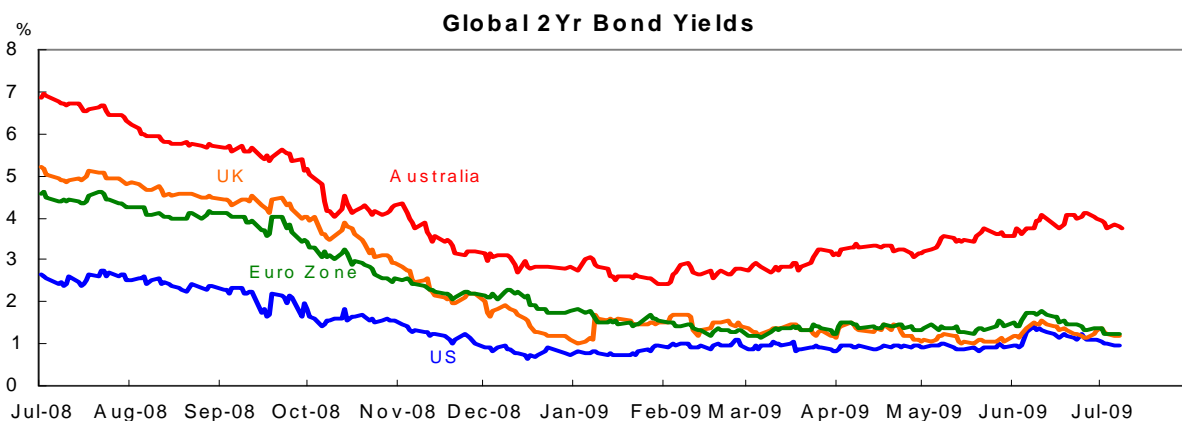


The RBA kept rates steady at 3% for the third month in a row in July. It explained that global economic conditions are stabilising, financial market conditions have improved, growth in China has strengthened considerably and there are tentative signs that the US economy is approaching a turning point. Meanwhile, the domestic economy has not been as weak as expected a few months ago. Stronger housing credit demand points to a pick up in dwelling activity later this year and house prices are tending to increase. The RBA also noted that despite the recent small increases, market and mortgage rates are at very low levels by historical standards. Meanwhile, business loan rates are below average and the effects of all these changes will still be flowing through for some time yet.

But the RBA also cautioned that credit conditions remain tight and the impact of the hefty macroeconomic stimulus in place is likely to be initially sluggish. Locally, output is still listless and the demand for labour has deteriorated. The RBA continued to retain an easing bias, stating, "...the outlook for inflation allows some scope for further easing of monetary policy, if needed." While we still can't fully rule out more rate cuts, our view is that the RBA will leave interest rates on hold at 3.00% before raising them around mid next year.

Elsewhere, major central banks kept rates steady at very accommodative levels. But markets are still anticipating some chance of a rate hike in the US before the end of this year. We continue to believe that markets are pricing in too strong a recovery and too soon and that the Fed is unlikely to be hiking rates so soon.

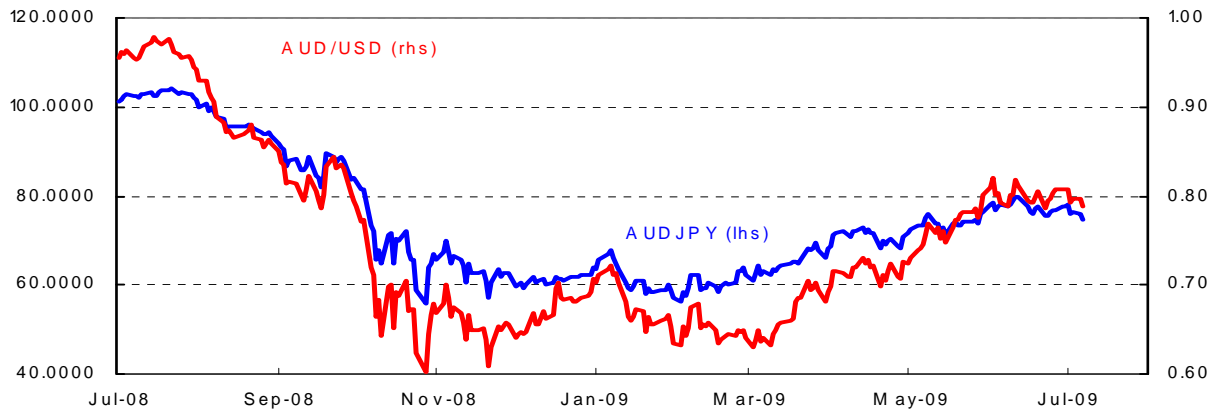
Bond Yields



US 2-year treasury debt yields fell 35bp over the past month. Yields were pressured lower in recent sessions as markets reassess the likely strength of the global recovery, especially after some weaker than expected US economic data (e.g. payrolls). Elsewhere, yields fell or posted more subdued increases. UK yields fell by 16bp and Aussie yields gained 6bp. Eurozone yields (-51bp) fell sharply with the region a weak spot among the other major economies.

Currency Markets

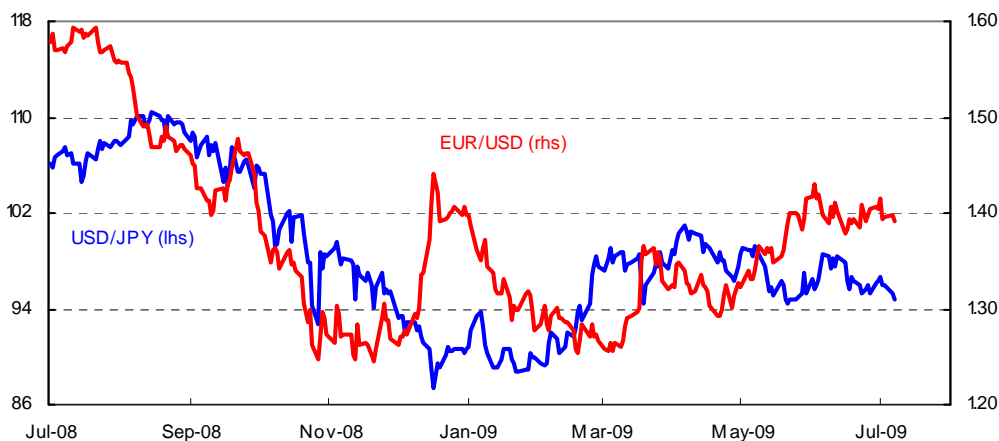
Australian Dollar



The AUD was very little changed compared to a month ago, although there was still considerable volatility during the month. The currency is now trading just below 80 US cents. Risk appetites are steering the near term direction of the AUD. As a reflection of risk appetites, the domestic share market is also hardly changed from a month ago. The current level of the AUD, nonetheless, remains much higher than the five-year low of 60 US cents in October last year and matches levels seen just prior to the escalation of the financial crisis over September and October 2008.

Looking ahead, we expect the AUD to grind higher gradually to finish this year at around 83 US cents. Interest rate differentials (i.e. the gap between Australian and other countries' interest rates) are still favourable for the AUD. This is because domestic rates remain much higher than that of other major countries (see page 10). Moreover, we believe that the RBA is done cutting rates. Also, as we move closer to the anticipated recovery in the global economy later this year, risk appetites should improve further. This should help provide stronger support for the domestic currency. Developments in China, Australia's number one trading partner, are also positive for the AUD. The current view is that China has passed its weakest point and the RBA has even expressed it believes there is a considerable strengthening underway in the Chinese economy.

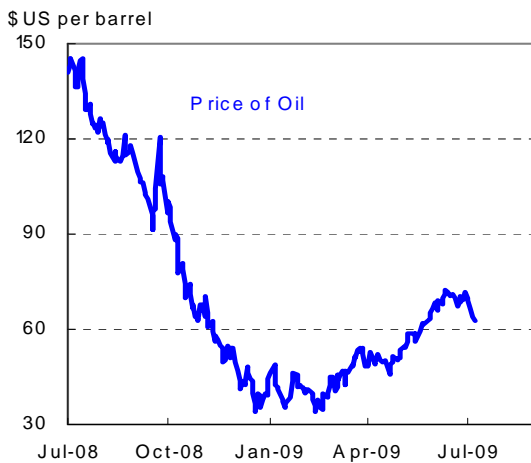
Global Currencies



The depreciation in the US dollar stabilised over the last month compared to prior months. Risk aversion, as measured by the VIX volatility index, posted much more subdued gains compared to prior months. So the unwinding of safe-haven and repatriation flows into the USD (a safe haven currency) tapered off. Further, the USD was dogged by remarks made by China and others that the USD should be dropped as the reserve currency. We don't believe that the USD will remain undeniably weak. It is because we expect the US to be the first among the major economies to recover. Over the past month, the USD fell 0.9% against GBP, fell 3.8% against the JPY but rose 1.4% against the EUR.

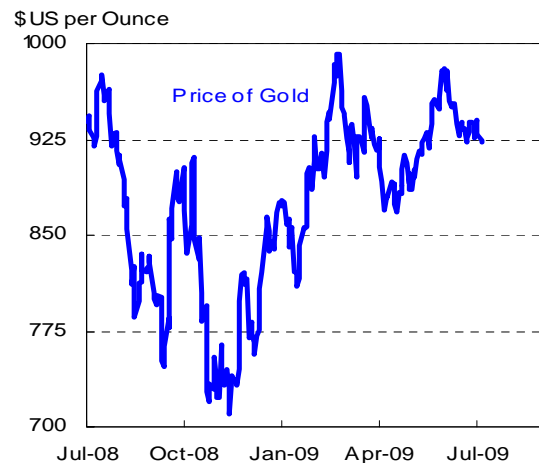
Commodity Markets

Oil



The oil price erased prior gains in the month as markets reassessed the strength of the anticipated global economic recovery. Oil is currently trading just above \$US62 per barrel, which is \$US5.50 lower (or off 8.1%) from a month ago (albeit still at a eight-month high). However, the US Energy Information Administration (EIA) recently raised its outlook for global oil demand.

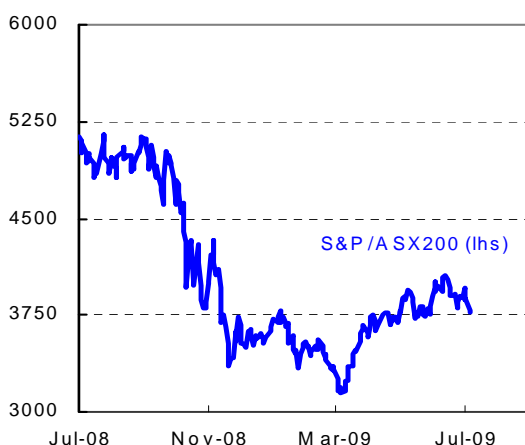
Gold & Base Metals



The price of gold fell \$32 (or 3.3%) over the past month. The weakness in the USD tapered out over the month, so this has hampered further gains in gold. Further, some of the fears surrounding future inflation in the US were dampened modestly. Meanwhile, the LME index (a basket of base metal prices) rose just 0.1% over the last month, outperforming oil and gold.

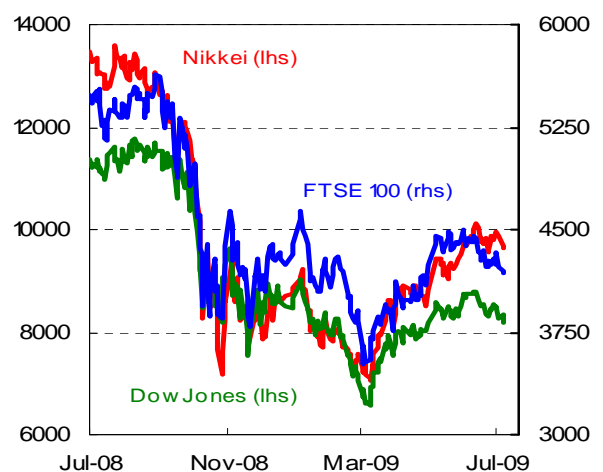
Share Markets

Australia



The S&P/ASX200 unwound prior gains by falling 5.1% over the past month. It still, however remains much higher than the March lows (by around 18%). Sectors that fell heavily in the month were materials (-13.7%), utilities (-8.6%), energy (-8.6%) and industrials (-7.0%). Sectors that rose the most were health (+3.4%) and telco stocks (+3.5%).

International Markets



The US Dow Jones fell by 6.8% over the past month, after a strong rally since March. Recent weak US data has caused investors to reassess the strength of the expected US recovery. Other major equity markets also posted falls with the UK FTSE down 5.7%, the German Dax lower by 9.4% and the Nikkei down 1.2%.

Recent Australian Data

Red – Indicates the result was **weaker** than consensus expectations

Blue – Indicates the result was **stronger** than consensus expectations

Black – Indicates the result was **in line** with consensus expectations

<p>July 2009 WMI Consumer Confidence +9.3%, Previous 12.7% 8/7</p> <p>June 2009 ANZ Job Ads -6.7%, Previous -0.2% 6/7 TD-MI Inflation 0.4%, Previous -0.3% 6/7 WMI Consumer Confidence +12.7%, Previous -4.3% 10/6</p> <p>May 2009 Housing Finance +2.2%, Consensus +1.0% 8/7 Trade Balance -\$556mn, Consensus -\$180mn 2/7 Building Approvals -12.5%, Consensus 3.0% 1/7 Retail Sales +1.0%, Consensus +0.5% 1/7 RBA Credit -0.1%, Consensus +0.2% 30/6 Vehicle Sales +5.4%, +1.7% 22/6 Employment Change -1.7k, Consensus -30k 11/6 ANZ Job Advertisements -0.2%, Previous -7.5% 9/6 NAB Business Confidence -14, Previous -18 9/6 TD-MI Inflation -0.3%, Previous 0.0% 1/6</p> <p>April 2009 Housing Finance +0.9%, Consensus +1.5% 10/6 Trade Balance -\$91mn, Consensus +\$1.4bn 4/6 Building Approvals +5.1%, Consensus +2.0% 2/6 Retail Trade +0.3%, Consensus +0.5% 1/6 RBA Credit +0.1%, Consensus +0.3% 29/5 New Motor Vehicle Sales +0.9%, Previous -3.3% 21/5</p>	<p>Employment Change +27.3k, Consensus -25k 7/5 ANZ Job Advertisements -7.5% m/m, Previous -8.5% 4/5 TD-MI Inflation Gauge 0.0% m/m, Previous +0.7% 4/5</p> <p>March 2009 GDP +0.4%, Consensus +0.2% 3/6 Current Account -4.6bn, Consensus -5.5bn 2/6 Inventories -1.2%, Consensus -1.4% 1/6 Company Profits -7.2%, Consensus -4.5%, 1/6 CAPEX -8.9%, Consensus -5.0% 28/5 Wage Cost Index +0.8%, Consensus +0.8%, 20/5 Housing Finance +4.9%, Consensus +4.5% 12/5 Trade Balance \$2.5bn, Consensus \$1.9bn 6/5 Retail Sales (Volumes) +1.0% q/q, Consensus +0.8% 6/5 Retail Sales (Nominal) +2.2% m/m, Consensus +0.5% 6/5 Building Approvals +3.5%, Consensus +2.3% 5/5 ABS House Price Index -2.2% q/q, Consensus 0.0% 4/5 RBA Credit +0.1%, Consensus +0.3% 30/4 CPI +0.1% q/q, Consensus +0.5% 22/4 PPI -0.4% q/q, Consensus +0.6% 20/4 NAB Business Confidence -17, previous -20 14/4 Employment -34.7k m/m, Consensus -25k 9/4 ANZ Job Ads -8.5% m/m, Previous -10.4% 6/4 TD-MI Inflation -0.1% m/m, Previous +0.7% 6/4 WMI Consumer Confid. -0.2% m/m, Previous -4.6% 11/3</p>
--	--

Upcoming Data and Events – Australia & US

Australian Data / Events Underlined

<p>July 9 <u>AU WMI Inflation Expectations, July</u> <u>AU Employment, June</u></p> <p>July 10 US Trade Balance, May US Import Prices, June US UoM Consumer Confidence, July</p> <p>July 13 <u>AU Lending Finance, May</u> US Monthly Budget Stmt, June</p> <p>July 14 <u>AU NAB Business Survey, June</u> US PPI, June US Retail Sales, June</p>	<p>July 15 US CPI, June US Empire Mfg Index, July US Industrial Production, June US FOMC Policy Minutes, June</p> <p>July 16 <u>AU RBA Monthly Bulletin</u> US NET TIC Flows, May US Philadelphia Fed Index, July US NAHB Housing Market Index, July</p> <p>July 17 AU Import & Export Prices, JuneQ</p> <p>July 20 <u>AU PPI, JuneQ</u></p>	<p>US Leading Indicators, June</p> <p>July 21 <u>AU New Motor Vehicle Sales, June</u> <u>AU RBA Board Meeting Minutes, July</u> US Fed Chairman Bernanke Testimony</p> <p>July 22 <u>AU DEWR Skilled Vacancies, July</u> <u>AU Inflation, June Quarter</u> US House Price Index, May</p> <p>July 23 US Existing Home Sales, June</p> <p>July 24 US UoM Consumer Confidence (f), July</p>
---	--	--

Forecasts

End Period:	2008		2009				2010	
	Q3	Q4	Q1	Q2	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
RBA Cash, %	7.00	4.25	3.25	3.00	3.00	3.00	3.25	3.25
3 Year Bond, %	5.09	3.90	3.40	4.56	4.05	4.25	4.75	5.35
10 Year Bond, %	5.40	3.99	4.42	5.52	5.70	5.80	5.90	6.00
AUD/USD	0.7924	0.7073	0.6913	0.8064	0.8000	0.8300	0.8500	0.8600
USD/JPY	106.11	90.60	98.96	96.36	104.00	106.00	107.00	108.00
EUR/USD	1.4092	1.3978	1.3250	1.4033	1.3900	1.3800	1.3800	1.3800
GBP/USD	1.7805	1.4626	1.4323	1.6458	1.7000	1.7200	1.7400	1.7600
USD/CHF	1.0644	1.0669	1.1394	1.0859	1.1200	1.1300	1.1400	1.1500
USD/CAD	1.1221	1.2165	1.2602	1.1623	1.1500	1.1600	1.1650	1.1700
NZD/USD	0.6698	0.5835	0.5595	0.6457	0.6700	0.6900	0.7000	0.7100
USD/CNY	6.8460	6.8225	6.8339	6.8305	6.8200	6.8100	6.8000	6.7900
USD/SGD	1.4354	1.4303	1.5529	1.4474	1.5000	1.4900	1.4800	1.4700
AUD/EUR	0.5623	0.5055	0.5217	0.5746	0.5755	0.6014	0.6159	0.6232
AUD/JPY	84.08	64.03	68.41	77.70	83.20	87.98	90.95	92.88
AUD/GBP	0.4451	0.4835	0.4827	0.4990	0.4706	0.4826	0.4885	0.4886
AUD/CHF	0.8892	0.7549	0.7877	0.8757	0.8960	0.9379	0.9690	0.9890
AUD/CAD	0.8435	0.8604	0.8712	0.9373	0.9200	0.9628	0.9903	1.0062
AUD/NZD	1.1830	1.2109	1.2356	1.2787	1.1940	1.2029	1.2143	1.2113
AUD/CNY	5.4248	4.8256	4.7243	5.5081	5.4560	5.6523	5.7800	5.8394
AUD/SGD	1.1374	1.0117	1.0528	1.1672	1.2000	1.2367	1.2580	1.2642

Source: Bloomberg for historical data. AUD cross exchange rates have been rounded.

St.George Contact Listing

Economics & Strategy:

Chief Economist	Besa Deda	dedab@stgeorge.com.au	(02) 9320 5854
Senior Economist	Jo Heffernan	heffernanj@stgeorge.com.au	(02) 9320 5751
Treasury Economist	Amanda Tan	tanam@stgeorge.com.au	(02) 9320 5816

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St. George has a contract to supply Information, the supply of the Information is made under that contract and St. George's agreed terms of supply apply. St. George does not represent or guarantee that the Information is accurate or free from errors or omissions and St. George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St. George products and details are available. St. George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St. George owns copyright in the Information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St. George.