QIC Outlook
Market & Economic
Dynamic Investment Solutions

WEEKLY ECONOMIC BRIEF – 1 March 2010

Key Points

- ***Global bond markets rally as concerns over Greek sovereign debt re-emerge***
- ***Japanese activity indicators continue to improve in January***
- ***Australian business investment expected to make a strong contribution to GDP in the December quarter***

An increase in risk drove market prices over the week as investor concern over the sustainability of the global economic recovery resurfaced. Bond markets rallied in response to weaker US economic data and comments by rating agencies that further downgrades of Greece's credit rating are possible. German financial markets were particularly affected, with ten-year government bond yields rallying by 18bps and the DAX falling by over 2 percent. The sell-offs in other major equity markets were more modest, with the MSCI World Index (in local currency) closing 0.5 percent lower. Currencies and commodity prices also reflected the rise in risk, with the yen and US dollar rallying against most of the majors, although the US dollar was flat against the euro, and the CRB index falling by around 1 percent.

US economic data releases over the week were generally soft, with consumer sentiment pulling back sharply in February, core non-defence durable goods orders for January declining while initial jobless claims rose to their highest level since mid-November. Furthermore, new home sales in January fell to their lowest level since records began in the 1960s, although adverse weather conditions may have had an impact of activity. Revisions to inventories and fixed investment in the national accounts led to real GDP growth in the December quarter being revised marginally higher to 5.9 percent, qsaar from 5.7 percent.

The momentum behind the recovery in the euro area slowed, with indicators pointing to a soft, gradual recovery in 2010. The German IFO index eased back slightly in February and remains slightly below its long-run average. French consumption spending declined sharply in January following the conclusion of the car scrappage scheme in December and French consumer confidence edged lower in February.

As expected by forecasters, real GDP growth in the UK for the December quarter was revised higher to 0.3 percent. Total consumption was a significant contributor to growth, with public consumption contributing 0.3 percentage points to growth and the car scrappage scheme leading to household expenditure expanding at its fastest pace since 2008Q1. Real GDP growth is expected to pick-up in the March quarter, but the UK economy is forecast to underperform other developed economies during 2010.

In contrast, the data from Asia shows the region continues to lead the global recovery. The economies of Thailand, Taiwan, Malaysia and Hong Kong all posted quarterly real GDP growth rates in excess of 2 percent for the December quarter. Favourable government policy, the recovery in household consumption and the improvement in trade flows were the main contributors to the expansions. The recovery in Asia has also boosted activity in Japan, with real exports rising by more than 40 percent over the year to January. Industrial production also increased strongly, to be up nearly 20 percent over the year to January, while retail sales posted their first annual rise since September 2008.

Australia is also set to record another quarter of positive growth in the December quarter, with private investment recovering and the government ramping up its investment program. Private capital expenditure (capex) rose 5.5 percent as business conditions improved and firms took advantage of favourable government policy. Business investment is expected to rise strongly in the national accounts, with a 12 percent increase in machinery and equipment expenditure more than offsetting a 1.8 percent decline in private engineering construction. Government investment should also record robust growth after public construction rose 14 percent over the quarter as the government continues to roll out its schools building program. The growth in public and private investment growth should contribute to the economy expanding by 0.9 percent in the December quarter. As the recovery continues into 2010, prospects for future investment have also improved, with firms upgrading their capex intentions for the current financial year. More importantly, the first estimate for the 2010/11 financial year suggests capex growth of around 20 percent as the construction of large-scale mining projects commences.

The Australian wage price index posted its softest quarterly growth since the 2000 downturn, rising by 0.6 percent in the December quarter, to be 3.0 percent higher over the year. The data is consistent with last year's rise in the unemployment rate and the decision to keep the minimum wage unchanged over the quarter. Subdued wage growth should help to contain inflation over the first half of 2010.

The Weekly Economic Brief is compiled each Monday by QIC's Economics team. For further information about the contents of this document please contact Matthew Peter (Tel 61 7 3020 7060), Drew Klease (Tel 61 7 3020 7059) or Jemma Andrew (Tel 61 7 3020 7000).

Table 1. Financial market movements, 19/02/2010 to 26/02/2010

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	-0.5%	-	-
US	-0.4%	-16.1 bps	-
Japan	0.0%	-3.5 bps	2.9%
UK	-0.1%	-14.1 bps	-1.5%
Germany	-2.2%	-18.4 bps	0.1%
Australia	0.1%	-13.0 bps	-0.4%

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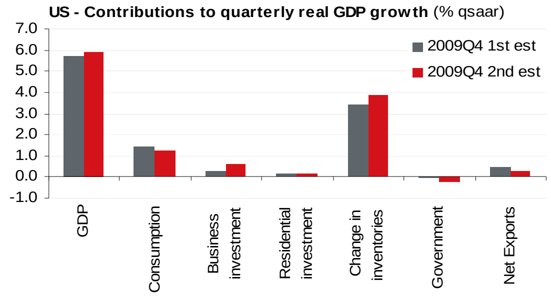
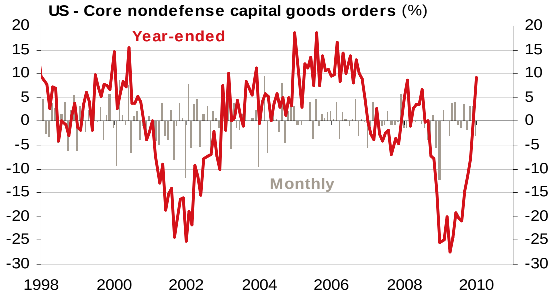
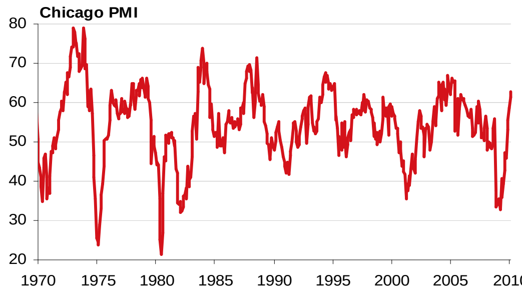
United States

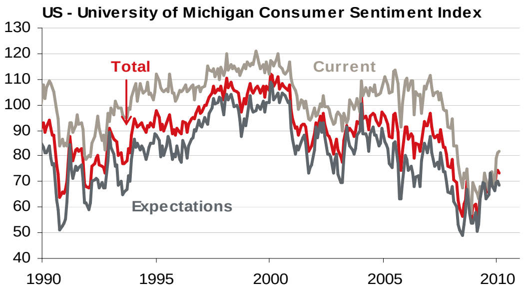




US - National accounts (29 Jan)	09Q3	09Q4 1st	09Q4 2nd	*Mkt f'cast*
Real GDP (qsaar, %)	2.2	5.7	5.9	*5.7*
Real GDP (sa, q/q%)	0.6	1.40	1.45	-
Household consumption (sa, qsaar%)	2.8	2.0	1.7	-
Government consumption & investment (sa, qsaar%)	2.7	-0.2	-1.2	-
Business investment (sa, qsaar%)	-5.9	2.9	6.5	-
Inventories (qsaar, % pt contribution)	0.7	3.4	3.9	-
Residential investment (sa, qsaar%)	18.9	5.7	5.0	-
Net exports (qsaar, % pt contribution)	-0.8	0.5	0.3	-
Exports (sa, qsaar%)	17.8	18.1	22.4	-
Imports (sa, qsaar%)	21.3	10.5	15.3	-

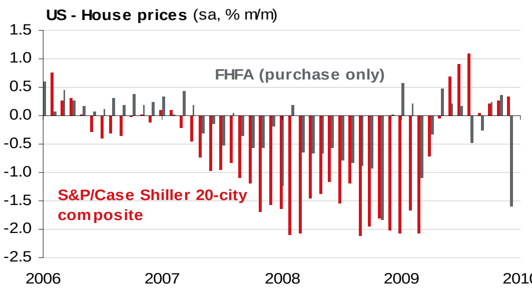
US - Factory Orders & Shipments (25 Feb)	Nov-09	Dec-09	Jan-10	*M'kt f'cast*
Factory Orders (% m/m)	1.0	1.0	-	-
Durable goods	-0.4	1.9	3.0	*1.5*
Non-durable goods	2.2	1.0	-	-
Capital goods orders (% m/m)	-3.2	2.2	6.6	-
Core non-defense capital goods orders	3.2	3.3	-2.9	-
Shipments (% m/m)	1.6	1.9	-	-
Durable goods	0.8	2.4	-0.2	-
Non-durable goods	2.2	1.0	-	-
Capital goods shipments (% m/m)	0.6	3.0	-2.9	-
Core non-defense capital goods shipments	1.6	2.4	-1.5	-
Manufacturing inventories (% m/m)	0.2	-0.1	-	-
Inventory to shipments ratio	1.3	1.3	-	-

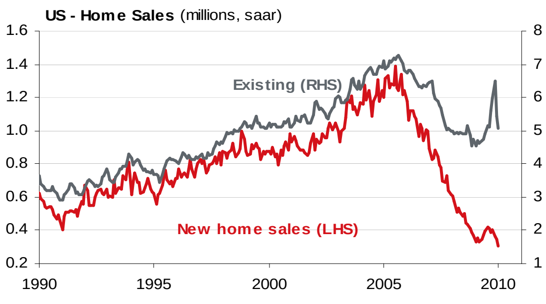




US - Chicago PMI (26 Feb)	Dec-09	Jan-10	Feb-10	*M'kt f'cast*
PMI	58.7	61.5	62.6	*59.7*
Production	64.2	66.6	65.2	-
New orders	64.4	66.4	62.2	-
Orders backlog	52.0	54.3	58.5	-
Inventories	38.6	48.7	42.4	-
Employment	47.6	59.8	53.0	-
Supplier deliveries	57.0	55.3	62.6	-

US - University of Michigan sentiment (26 Feb)	Jan-10	Feb-10 (P)	Feb-10 (F)	*M'kt f'cast*
Consumer Sentiment Index	74.4	73.7	73.6	73.9
Current Conditions Index	81.1	84.1	81.8	-
Consumer Expectations Index	70.1	66.9	68.4	-
1 Year Inflation Expectations (median)	2.8	2.7	2.7	-
5 Year Inflation Expectations (median)	2.9	2.8	2.7	-





US - S&P/Case Shiller House Prices (23 Feb)	Oct-09	Nov-09	Dec-09	*Mkt f'cast*
S&P/Case Shiller 20-city composite (sa, Jan 2000 = 100)	145.0	145.4	145.9	-
% m/m	0.2	0.3	0.3	0.1
% y/y	-7.3	-5.3	-3.1	-3.1

US - Existing home sales (26 Feb)	Nov-09	Dec-09	Jan-10	*M'kt f'cast*
Existing home sales (saar, 000s)	6490	5440	5050	*5500.0*
Existing home sales (sa, m/m%)	8.5	-16.2	-7.2	-
Existing home sales (sa, y/y%)	43.3	14.8	11.5	-

US - FHFA House Prices (26 Feb)	Oct-09	Nov-09	Dec-09	*Mkt f'cast*
FHFA Purchase Only Index (sa, Jan 1991 = 100)	198.6	199.3	196.1	-
% m/m	0.2	0.4	-1.6	*0.4*
% y/y	-2.1	0.1	-1.5	-

US - New home sales (24 Feb)	Nov-09	Dec-09	Jan-10	*M'kt f'cast*
New home sales (saar, 000s)	362.0	348.0	309.0	*353.0*
New home sales (sa, m/m%)	-9.5	-3.9	-11.2	-
New home sales (sa, y/y%)	-7.2	-7.0	-6.1	-

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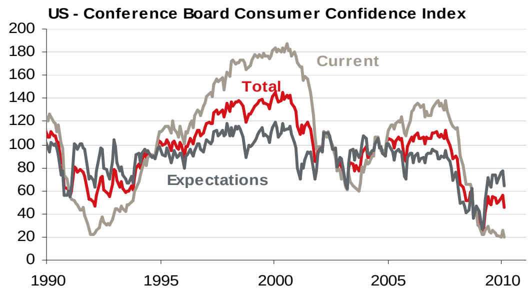
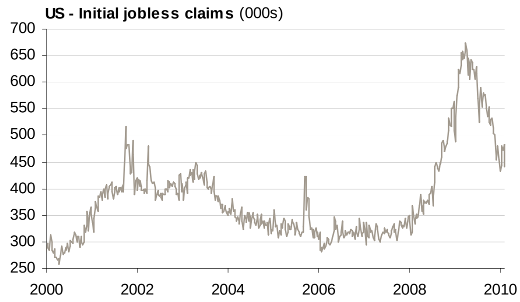
United States (con'd)



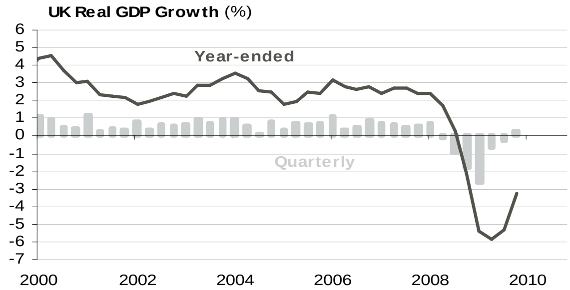


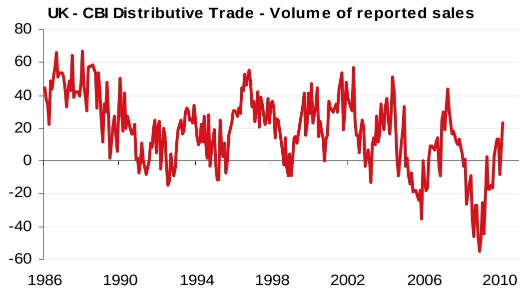
US - Consumer Confidence Index (23 Feb)	Dec-09	Jan-10	Feb-10	*M'kt f'cast*
Consumer Confidence Index	53.6	56.5	46.0	*54.8*
Present Situation (40%)	20.2	25.2	19.4	-
Expectations (60%)	75.9	77.3	63.8	-
Present Business Conditions				-
Good	7.5	8.5	6.2	-
Normal	46.8	46.8	47.5	-
Bad	45.7	44.7	46.3	-
Present Employment Conditions				-
Jobs plentiful	3.1	4.4	3.6	-
Jobs not so plentiful	48.8	49.1	48.7	-
Jobs hard to get	48.1	46.5	47.7	-

US - Initial jobless claims (25 Feb)	05-02-10	12-02-10	19-02-10	*M'kt f'cast*
Continuing claims (000s)	4611.0	4617.0		-
Continuing claims (000s, 4wk moving average)	4596.5	4600.8		-
Initial jobless claims (000s)	442.0	474.0	496.0	*460.0*
Initial jobless claims (000s, 4wk moving average)	469.0	467.8	473.8	-

US - Mortgage applications (24 Feb)	05-02-10	12-02-10	19-02-10	*M'kt f'cast*
Purchase index	221.2	212.3	196.8	-
% w/w	-7.0	-4.0	-7.3	-
Refinancing index	2893.9	2860.1	2605.3	-
% w/w	1.4	-1.2	-8.9	-
Composite index	613.1	600.5	549.5	-
% w/w	-1.2	-2.1	-8.5	-

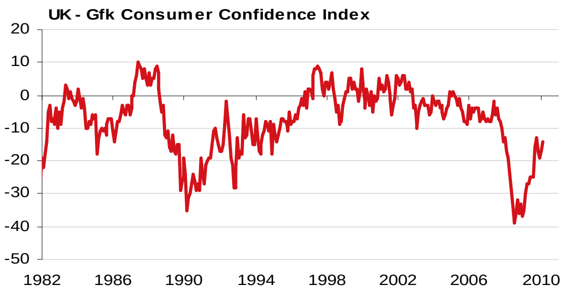
United Kingdom

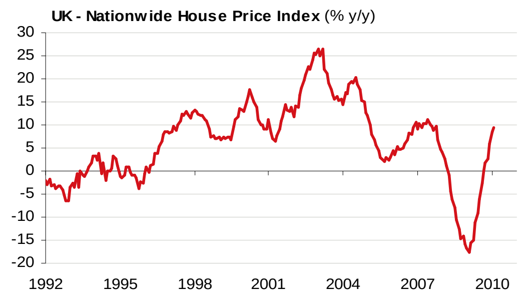




UK - National accounts (26 Feb)	Jun-09	Sep-09	Dec-09	*M'kt F'cast*
Real GDP (sa, q/q%)	-0.6	-0.3	0.3	*0.2*
Real GDP (sa, y/y%)	-5.9	-5.3	-3.3	*-3.1*
Household consumption (sa, q/q%)	-0.9	0.1	0.4	-
Government consumption (sa, q/q%)	0.8	0.4	1.2	-
Capital formation (sa, q/q%)	-6.1	1.6	-3.1	-
Inventories (sa, %pt contribution)	0.5	-0.3	0.5	-
Net exports (sa, %pt contribution)	0.4	-0.3	-0.2	-
Exports (sa, q/q%)	-1.6	0.1	3.7	-
Imports (sa, q/q%)	-2.8	1.3	4.1	-

UK - CBI Distributive trades (25 Feb)	Dec-09	Jan-10	Feb-10	*M'kt F'cast*
Reported orders (net balance)	7.0	-8.0	12.0	-
Reported sales (net balance)	13.0	-8.0	23.0	-
Reported stocks/sales (net balance)	7.0	13.0	14.0	-





UK - GfK consumer confidence (26 Feb)	Dec-09	Jan-10	Feb-10	*M'kt F'cast*
Consumer confidence (net balance)	-19.0	-17.0	-14.0	*-17.0*

UK - Nationwide house prices (26 Feb)	Dec-09	Jan-10	Feb-10	*M'kt F'cast*
Nationwide house prices (sa, m/m%)	0.4	1.4	-1.0	*0.4*
Nationwide house prices (sa, y/y%)	5.9	8.7	9.3	*11*

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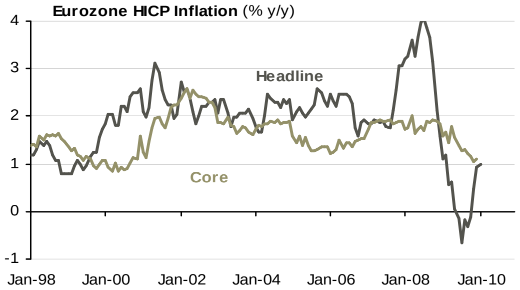
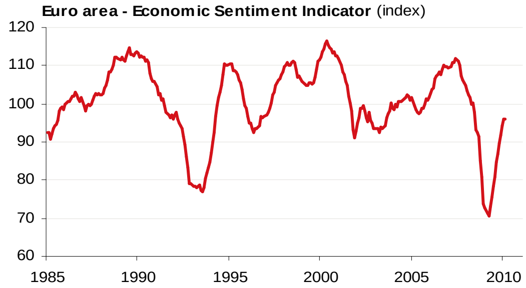
Euro area

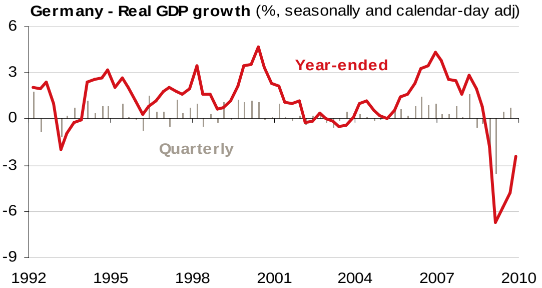


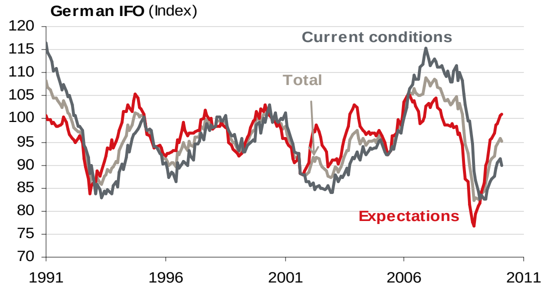


Euro area - CPI (26 Feb)	Nov-09	Dec-09	Jan-10	M'kt F'cast
HICP (nsa, m/m%)	0.1	0.3	-0.8	*-0.8*
HICP (nsa, y/y%)	0.5	0.9	1.0	*1.0*
Core HICP (nsa, m/m%)	-0.1	0.5	-1.5	-
Core HICP (nsa, y/y%)	1.0	1.1	0.9	*1.0*

Euro area - Economic sentiment (25 Feb)	Dec-09	Jan-10	Feb-10	M'kt F'cast
Economic Sentiment Indicator (Index)	94.1	96.0	95.9	*96.4*
Industrial Confidence Indicator (40%)	-16.0	-13.8	-12.7	*-13.0*
Services Indicator (30%)	-2.5	-0.8	0.9	*-1.0*
Consumer Confidence Indicator (20%)	-16.1	-15.8	-17.4	*-17.0*
Retail Trade Confidence Indicator (5%)	-10	-5	-8.6	-
Construction Confidence Indicator (5%)	-28.3	-29.1	-28.6	-

Euro area - Industrial new orders (24 Feb)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Industrial new orders (sa, m/m%)	-2.1	2.7	0.8	*-1.0*
Industrial new orders (sa, y/y%)	-14.5	-0.6	9.5	*7.6*

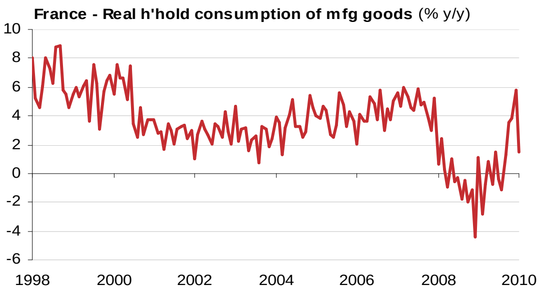


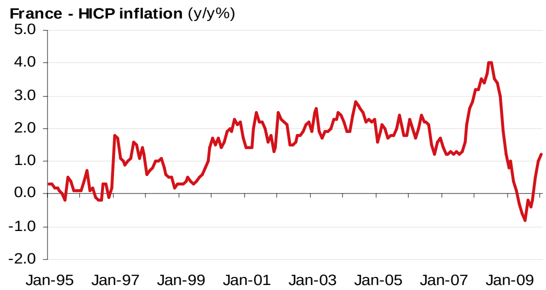


Germany - GDP (24 Feb)	Jun-09	Sep-09	Dec-09	M'kt F'cast
Gross Domestic Product (sa, q/q%)	0.4	0.7	0.0	*0.0*
Gross domestic product (sa, y/y%)	-5.8	-4.8	-2.4	*-2.7*
Consumption Expenditure				
Households (sa, q/q%)	0.9	-1.0	-1.0	-
General Government (sa, q/q%)	0.5	1.2	-0.6	-
Net exports (sa, %pt contribution)	1.8	-0.6	2.0	-
Exports (sa, q/q%)	-0.7	3.4	3.0	-
Imports (sa, q/q%)	-5.1	5.2	-1.8	-
Inventories (sa, % pt contribution)	-2.0	1.5	-1.2	-
Gross Fixed Capital Formation (sa, q/q%)	0.8	0.9	-0.7	-
Machinery Equipment (sa, q/q%)	-0.5	0.8	-1.5	-
Construction (sa, q/q%)	1.4	0.7	-0.5	-
Other Products (sa, q/q%)	2.7	3.1	2.7	-

Germany - IFO Index (23 February)	Dec-09	Jan-10	Feb-10	M'kt F'cast
Business climate index (sa, index)	94.6	95.8	95.2	*96.1*
Business conditions index (sa, index)	90.4	91.2	89.8	*91.9*
Business expectations index (sa, index)	98.9	100.6	100.9	*100.5*

Germany - Unemployment rate (25 Feb)	Dec-09	Jan-10	Feb-10	M'kt F'cast
Unemployment rate (sa, %)	8.1	8.1	8.2	*8.2*





France - Consumption of manufactured goods (2	Nov-09	Dec-09	Jan-10	M'kt F'cast
Consumption of manufactured goods (sa, m/m%)	1.0	1.3	-2.7	*-1.1*
Consumption of manufactured goods (sa, y/y%)	3.9	5.8	1.5	*3.6*

France - HICP (23 February)	Nov-09	Dec-09	Jan-10	M'kt F'cast
HICP (nsa, y/y%)	0.5	1.0	1.2	*1.3*

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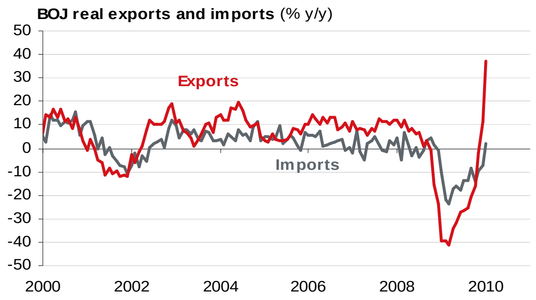
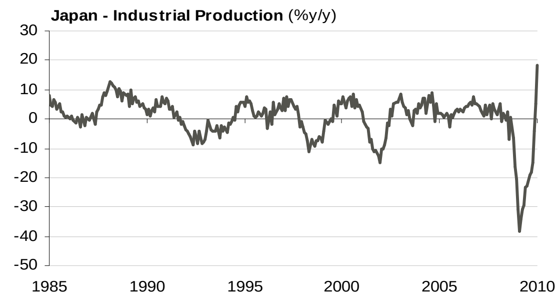
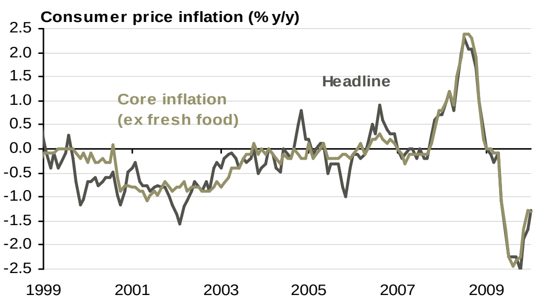
Japan

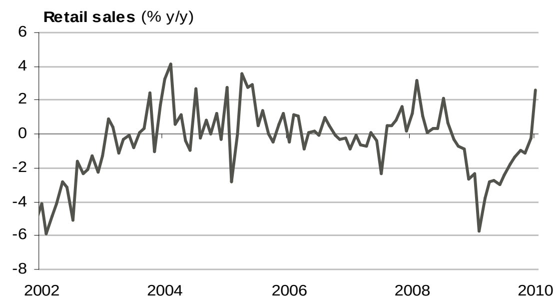




Japan - External trade (24 Feb)	Nov-09	Dec-09	Jan-10	*M'kt f'cast*
Trade Balance (sa, ¥ bn)	553.5	655.9	728.4	*544.5*
Export values (sa, % m/m)	5.5	4.5	8.6	-
Import values (sa, % m/m)	7.4	2.9	8.2	-
Export values (nsa, % y/y)	-6.3	12.0	40.9	-
Import values (nsa, % y/y)	-16.7	-5.5	8.6	-
BOJ real exports (sa, % m/m)	0.5	2.9	1.5	-
BOJ real imports (sa, % m/m)	5.0	-0.1	1.8	-
Export volumes (nsa, % y/y)	-1.5	14.7	41.4	-
Import volumes (nsa, % y/y)	-2.1	-0.8	1.7	-

Japan - Industrial production (26 Feb)	Nov-09	Dec-09	Jan-10	*M'kt f'cast*
Industrial production (sa, m/m%)	2.2	1.9	2.5	*1.0*
Industrial production (sa, y/y%)	-5.5	5.2	19.8	*16.5*





Japan - Consumer prices (26 Feb)	Dec-09	Jan-10	Feb-10	*M'kt f'cast*
National CPI (nsa, y/y%)	-1.3	-1.3	-	*-1.4*
National CPI ex food and energy (nsa, y/y%)	-1.2	-1.2	-	*-1.2*
Tokyo CPI (nsa, y/y%)	-2.2	-2.1	-1.8	*-2.0*
Tokyo CPI ex food and energy (nsa, y/y%)	-1.5	-1.4	-1.3	*-1.5*

Japan - Retail sales (26 Feb)	Nov-09	Dec-09	Jan-10	*M'kt f'cast*
Retail sales (sa, m/m%)	0.0	-1.1	2.9	*0.3*
Retail sales (sa, y/y%)	-1.1	-0.3	2.6	*-0.2*

Japan - Housing starts (26 Feb)	Nov-09	Dec-09	Jan-10	*M'kt f'cast*
Housing starts (nsa, y/y%)	-19.1	-15.7	-8.1	*-11.6*

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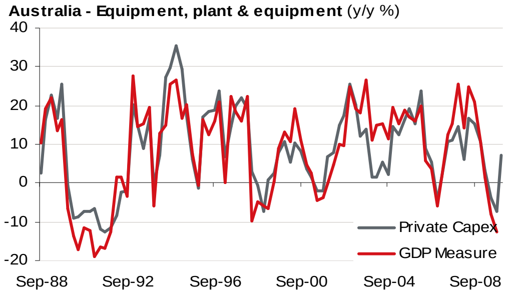
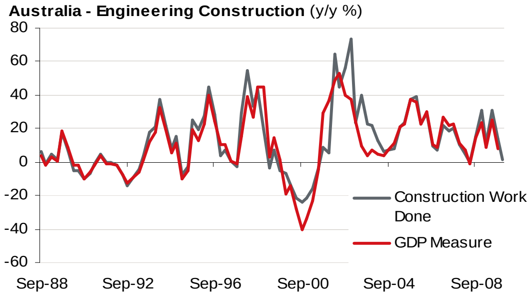
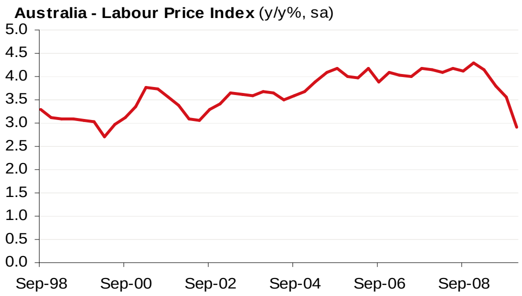
Australia

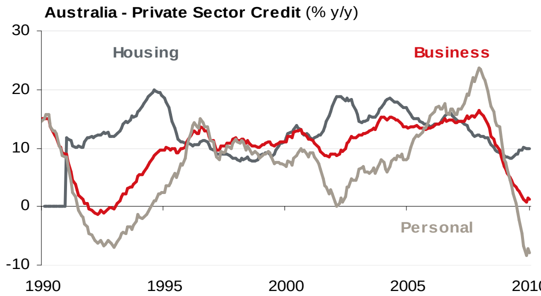




Australia - Private capital expenditure (25 Feb)	Jun-09	Sep-09	Dec-09	*M'kt f'cast*
Private capital expenditure (sa, q/q%)	2.3	-5.2	5.5	*2.0*
Private capital expenditure (sa, y/y%)	8.2	-2.7	-2.3	-
Building and structures (sa, q/q%)	1.2	-7.9	-1.7	-
Machinery, plant & equipment (sa, q/q%)	3.4	-2.5	12.4	-

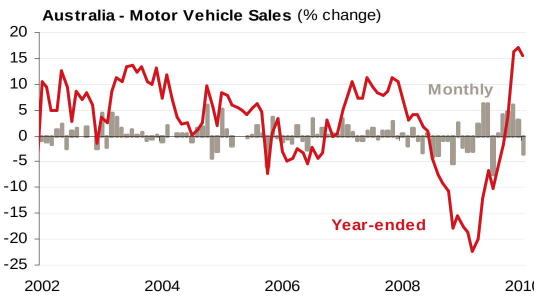
Australia - Construction work done (24 Feb)	Jun-09	Sep-09	Dec-09	*M'kt f'cast*
Construction work done (sa, q/q%)	3.6	1.6	2.6	-
Construction work done (sa, y/y%)	10.1	5.4	3.9	-
Government work done (sa, q/q%)	4.3	13.4	14.4	-
Government work done (sa, y/y%)	28.4	32.7	42.0	-
Private work done (sa, q/q%)	3.4	-2.3	-2.1	-
Private work done (sa, y/y%)	5.0	-2.5	-7.5	-
Engineering construction (sa, q/q%)	11.0	2.7	-0.5	-
Building construction (sa, q/q%)	-3.6	0.5	6.1	-
Residential construction (sa, q/q%)	-1.4	3.0	-2.9	-
Non-residential construction (sa, q/q%)	-6.4	-2.9	18.6	-





Australia - Wage price index (24 Feb)	Jun-09	Sep-09	Dec-09	*M'kt f'cast*
Total hourly rates of pay ex. Bonuses				
Australia - all sectors (sa, q/q%)	0.8	0.7	0.6	*0.8*
Australia - all sectors (sa, y/y%)	3.8	3.6	2.9	*3.1*
Private sector (sa, q/q%)	0.6	0.6	0.6	-
Private sector (sa, y/y%)	3.5	3.1	2.5	-
Public sector (sa, q/q%)	1.1	1.0	1.0	-
Public sector (sa, y/y%)	4.5	4.6	4.1	-

Australia - Private sector credit (26 Feb)	Nov-09	Dec-09	Jan-10	*M'kt f'cast*
Private sector credit (sa, m/m%)	0.1	0.3	0.4	*0.2*
Private sector credit (sa, y/y%)	0.8	1.5	1.3	*1.1*
Housing sector credit (sa, m/m%)	0.7	0.7	0.7	-
Housing sector credit (sa, y/y%)	8.1	8.2	8.2	-
Owner-occupied credit (sa, m/m%)	0.8	0.7	0.7	-
Investor housing credit (sa, m/m%)	0.6	0.5	0.6	-
Other personal credit (sa, m/m%)	0.5	0.7	0.5	-
Business sector credit (sa, m/m%)	-1.0	-0.3	-0.1	-
M3 (sa, m/m%)	-0.2	-0.6	0.3	-
Broad money (sa, m/m%)	-0.1	-0.7	0.3	-



Australia - Motor vehicle sales (22 Feb)	Nov-09	Dec-09	Jan-10	*M'kt f'cast*
Motor vehicle sales (sa, m/m%)	5.9	3.1	-3.4	-
Motor vehicle sales (sa, y/y%)	16.2	17.0	15.6	-
Passenger sales (sa, m/m%)	1.0	-1.7	4.0	-
Sports utility sales (sa, m/m%)	15.6	3.3	-4.7	-
Other vehicles (sa, m/m%)	9.8	14.0	-17.4	-

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