

WEEKLY ECONOMIC BRIEF – 11 January 2010

Key Points

- *Global equity markets continue to advance*
- *Economic data continues to improve, led by business activity indicators*
- *The Australian economy continues to outperform, with retail sales and dwelling approvals rising strongly in November*

Global equity markets continue to advance, with the MSCI World Index (in local currency terms) rising by 2.5 per cent over the week. Equity markets have been buoyed by further evidence that the economic recovery is gaining traction, particularly within the business sector. The Chinese market underperformed, falling by 2.5 percent, as tightening prospects increased in response to the PBoC selling 3-month bills at a higher interest rate (4 basis points) for the first time since August. As global activity recovers, commodity prices edged higher, with the price of WTI oil closing above US\$80 per barrel for the first time in two months. The turnaround in prices led to commodity currencies strengthening, with the Australian dollar closing the week at US\$0.92.

US non-farm payrolls were weaker than expected in December, falling by 85k after rising modestly in November. The unemployment rate was steady at 10 percent. Forward looking indicators however, point to an economy in the early stages of recovery, with employment of temporary help services rising strongly for the third consecutive month. Indeed business confidence has been picking-up, with the ISM manufacturing index rising to its highest level since early 2006 in December and the ISM non-manufacturing index rising above 50. Factory orders have also continued to pick up, rising by 1 percent in November.

The euro area household sector remains under pressure, with the unemployment rate reaching 10 percent in November. The weak labour market conditions contributed to retail sales volumes declining by 1.1 per cent over the month. Inflation remains subdued, with euro area consumer prices up 0.9 per cent over the year to December and producer prices in the euro area down 4.4 per cent over the year to November. Business confidence and industrial production within the region continues to gradually improve.

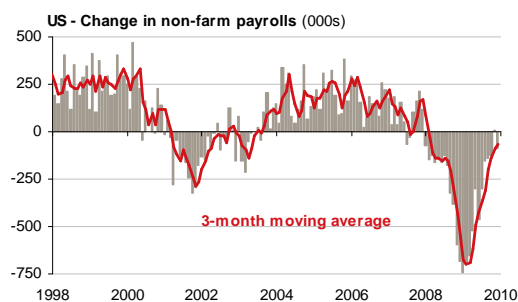
UK business confidence has picked-up strongly in recent months and is consistent with solid growth in the December quarter. The housing market continues to recover, with mortgage approvals rising further in November. Halifax house prices advanced 0.9 per cent in December, bringing the recovery in prices since May to almost 10 per cent. Nevertheless, prices remain about 15 per cent below their late 2007 peak.

The Australian economy continues to outperform most other advanced economies. Retail sales rose a strong 1.4 per cent in November, while dwelling approvals increased a further 5.9 per cent. The trade deficit narrowed from \$2.1 billion to \$1.7 billion in November as imports fell by more than exports.

Table 1. Financial market movements, 01/01/2010 to 08/01/2010

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	2.5%	-	-
US	2.7%	-0.5 bps	-
Japan	2.4%	7.0 bps	0.4%
UK	2.2%	4.8 bps	-0.8%
Germany	1.3%	-0.2 bps	0.6%
Australia	0.9%	3.8 bps	3.0%

US

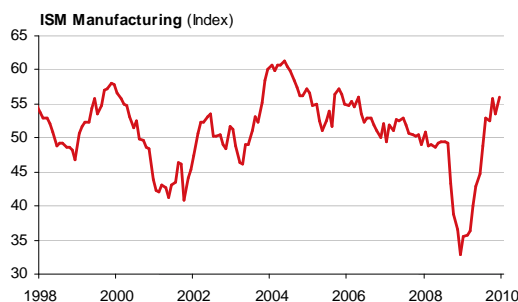


US - Non-farm payrolls (8 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Total	-127.0	4.0	-85.0	0.0
Revisions	-16.0	15.0	-	-
Private	-163.0	0.0	-64.0	-
Goods	-109.0	-58.0	-81.0	-
Natural resources & mining	-5.0	4.0	-1.0	-
Construction	-56.0	-27.0	-53.0	-
Manufacturing	-48.0	-35.0	-27.0	-
Services	-18.0	62.0	-4.0	-
Private	-54.0	58.0	17.0	-
Trade, transportation & utilities	-59.0	-32.0	-37.0	-
Information	-2.0	-14.0	-6.0	-
Financial activities	-6.0	-6.0	4.0	-
Professional & Business	33.0	89.0	50.0	-
Temporary help services	44.3	55.2	46.5	-
Education & health	36.0	37.0	35.0	-
Leisure & hospitality	-42.0	-13.0	-25.0	-
Other private	-14.0	-3.0	-4.0	-
Govt services	36.0	4.0	-21.0	-

US - Household survey (8 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Employment - household survey (% m/m)	-0.4	0.1	-0.4	-
Labour force (% m/m)	0.0	-0.1	-0.4	-
Unemployment rate (%)	10.1	10.0	10.0	10.0
Participation rate (%)	65.0	64.9	64.6	-
Hours worked	33.0	33.2	33.2	-
Average hourly earnings (% m/m)	0.32	0.16	0.16	-
Average hourly earnings (% y/y)	2.52	2.34	2.17	-

US - ADP private employment (6 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Non-farm employment monthly change (000s)	-195.0	-169.0	-84.0	-75.0

US - Initial jobless claims (7 Jan)	18-12-09	25-12-09	01-01-10	Mkt f'cast
Continued claims (sa, 000s)	4981	4802	-	-
Continued claims (sa, 000s, 4wk moving ave)	5101	5006	-	-
Initial claims (sa, 000s)	454	433	434	439.0
Initial claims (sa, 000s, 4wk moving ave)	466	461	450	-

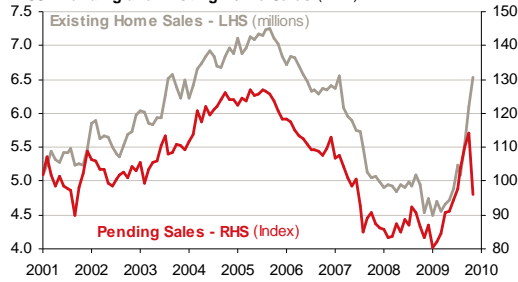


US - Manufacturing ISM (4 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Composite	55.7	53.6	55.9	54.3
Production (25%)	63.3	59.9	61.8	-
New Orders (30%)	58.5	60.3	65.5	-
Order Backlog	53.5	52.0	50.0	-
Supplier Deliveries (15%)	56.9	55.7	56.6	-
Mfg Inventories (10%)	46.9	41.3	43.4	-
Customer Inventories	38.5	37.0	35.0	-
Employment (20%)	53.1	50.8	52.0	-
Mfg prices	65.0	55.0	61.5	-
New export Orders	55.5	56.0	54.5	-
Mfg imports	51.0	51.5	55.0	-

US - Non-manufacturing ISM (6 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Composite	50.6	48.7	50.1	50.5
Business activity (25%)	55.2	49.6	53.7	-
New Orders (25%)	55.6	55.1	52.1	-
Order Backlog	54	49	48	-
New export orders	53.5	54.5	46	-
Inventory change	43	45.5	51.5	-
Inventory sentiment	63.5	61.5	61.0	-
Imports	46.0	46.0	52.5	-
Prices paid	53.0	57.8	58.7	-
Employment (25%)	41.1	41.6	44.0	-
Supplier deliveries (25%)	50.5	48.5	50.5	-

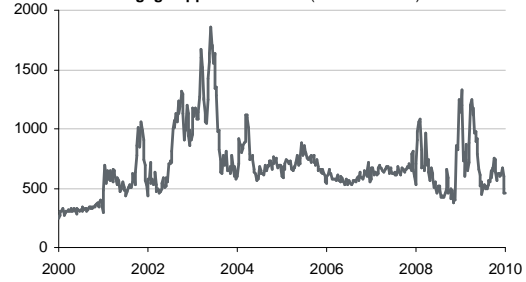
US (continued)

US - Pending and Existing Home Sales (saar)



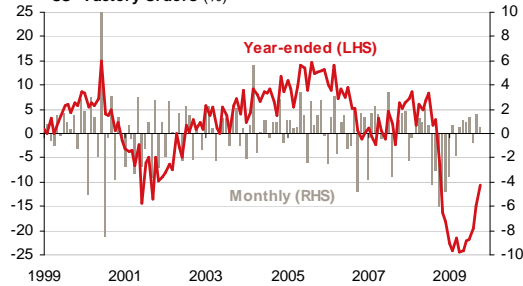
US - Pending home sales (5 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Index	110.0	114.3	96.0	-
% m/m	6.0	3.9	-16.0	-2.0
% y/y	21.0	32.0	15.5	31.0

MBA mortgage application index (16/03/90 = 100)



US - Mortgage applications (6 Jan)	18-12-09	25-12-09	01-01-10	Mkt f'cast
Purchase index	213.3	204.7	212.1	
% w/w	-	-4.0	3.6	
Refinancing index	2,889.9	2,008.9	1,976.9	
% w/w	-	-30.48548	-1.59291	
Composite index	595.8	460.1	462.2	
% w/w	-10.7	-22.8	0.5	

US - Factory Orders (%)



US - Factory Orders & Shipments (5 Jan)	Oct-09	Nov-09 P	Nov-09	Mkt f'cast
Factory Orders (% m/m)	0.8	-	1.1	0.5
Durable goods	-0.7	1.0	0.2	-
Non-durable goods	2.2	-	1.8	-
Shipments (% m/m)	1.5	-	1.0	-
Durable goods	0.7	0.8	0.2	-
Non-durable goods	2.2	-	1.8	-
Capital goods shipments (% m/m)	-0.6	2.7	0.2	-
Core non-defense capital goods shipments	1.6	-0.2	1.1	-
Manufacturing inventories (% m/m)	0.6	-	0.2	-
Inventory to shipments ratio	1.34	-	1.32	-

UK

UK - Mortgage applications (000s)



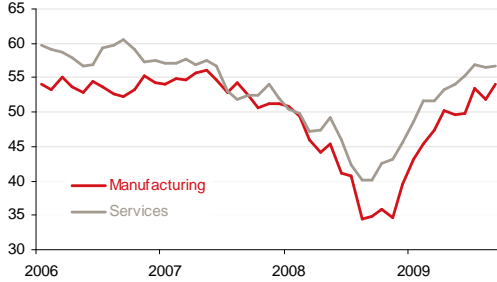
UK - Mortgage approvals (4 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Mortgage approvals (000s)	56.4	57.7	60.5	58.0

UK - Halifax House Price Index (% y/y)



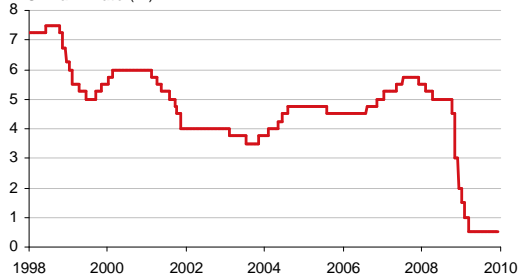
UK - Halifax house prices (7 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
% m/m	1.1	1.3	0.9	1.0
% y/y	-1.7	1.7	5.6	-

UK - PMI (index)



UK - PMI Surveys	Oct-09	Nov-09	Dec-09	Mkt f'cast
Manufacturing PMI (index)	53.4	51.8	54.1	52.0
Services PMI (index)	56.9	56.6	56.8	56.8

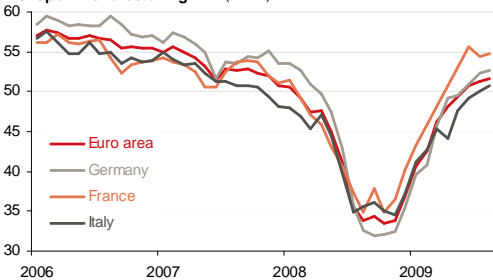
UK Bank Rate (%)



UK - BOE Bank Rate (7 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Bank rate (%)	0.5	0.5	0.5	0.5

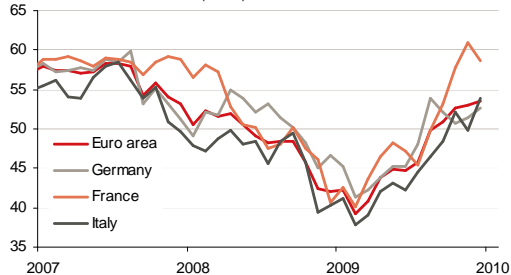
Euro area

Euro area - Manufacturing PMI (index)



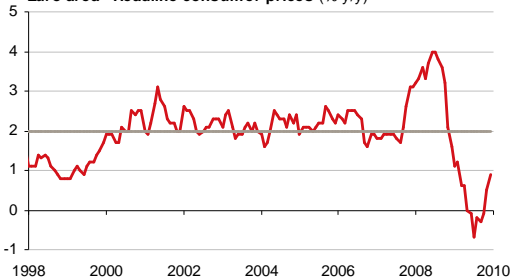
Euro area - Manufacturing PMI (4 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Euro area	50.7	51.2	51.6	51.6
Germany	51.0	52.4	52.7	53.1
France	55.6	54.4	54.7	54.4
Italy	49.2	50.1	50.8	56.9

Euro area - Services PMI (index)



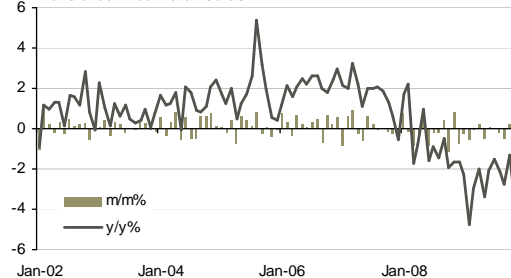
Euro area - Services PMI (6 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Euro area	52.6	53.0	53.6	53.7
Germany	50.7	51.4	52.7	53.1
France	57.7	60.9	58.7	60.1
Italy	52.2	49.8	53.9	-

Euro area - Headline consumer prices (% y/y)



Euro area - HICP (5 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
HICP (nsa, y/y%)	-0.1	0.5	0.9	0.9

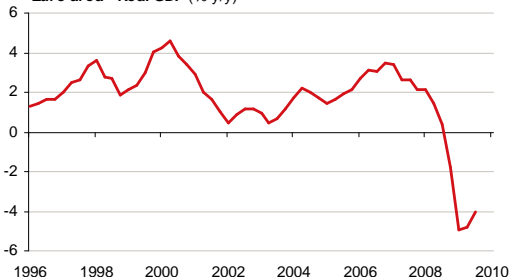
Euro area - real retail sales



Euro area - Retail sales (7 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Retail volumes (sa, m/m%)	-0.5	0.2	-1.1	-
Retail volumes (sa, y/y%)	-2.9	-1.6	-3.5	-

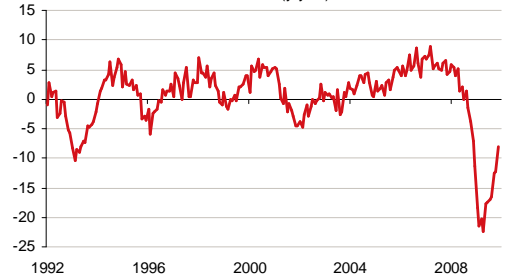
Euro area - Labour market (8 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Unemployment rate (%)	9.8	9.9	10.0	9.9

Euro area - Real GDP (% y/y)



Euro area - National accounts	Jun-09	Sep-09 P	Sep-09 F	Mkt f'cast
GDP (sa, % q/q)	-0.2	0.4	0.4	0.4
Households and NPISH final consumption	0.0	-0.2	-0.1	-
Government consumption	0.6	0.5	0.6	-
Gross fixed capital formation	-1.7	-0.4	-0.8	-
Changes in inventories (ppt contribution)	-0.6	0.3	0.5	-
Net exports (ppt contribution)	0.6	0.1	0.1	-
Exports	-1.3	2.9	3.1	-
Imports	-2.9	2.6	3.0	-

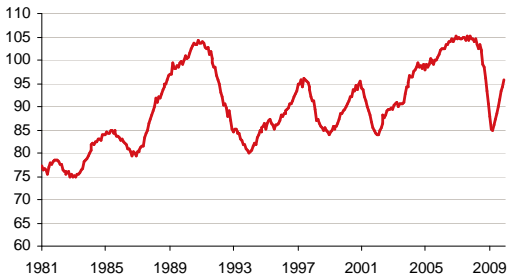
German Industrial Production (y/y %)



Germany - Industrial production (8 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Industrial production (sa, m/m%)	3.0	-1.7	0.7	1.0
Industrial production (sa, 3m/3m%)	3.4	2.9	2.9	-
Industrial production (sa, y/y%)	-12.6	-12.3	-8.0	-7.8

Japan

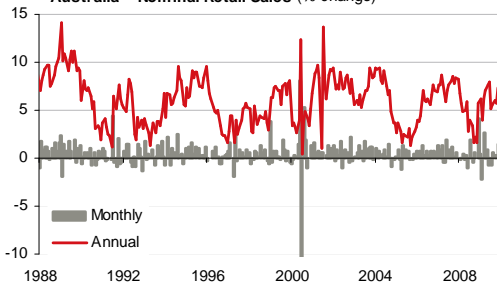
Japan - Coincident index (index)



Japan - Leading index (8 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Coincident index (index)	93.2	94.3	95.9	-
Leading index (index)	87.5	89.4	91.2	-

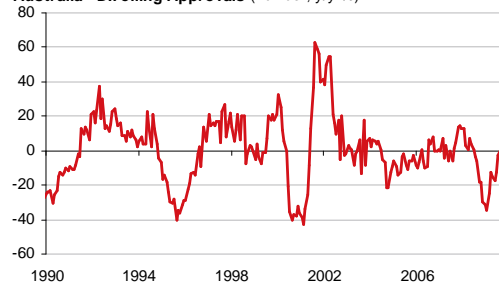
Australia

Australia - Nominal Retail Sales (% change)



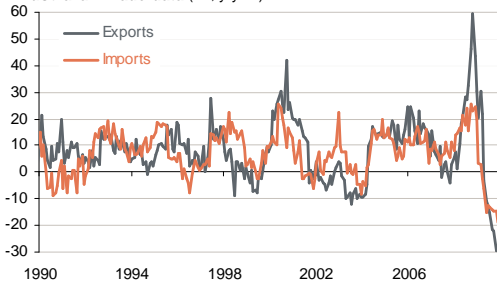
Australia - Retail sales (7 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Retail sales (sa, m/m%)	0.0	0.4	1.4	0.1
Retail sales (sa, y/y%)	6.1	5.8	7.3	-
Food sales (sa, m/m%)	0.1	0.1	1.6	-
Department store sales (sa, m/m%)	-2.1	2.1	1.1	-
Clothing sales (sa, m/m%)	-0.8	-0.2	2.5	-
Household goods (sa, m/m%)	-0.5	0.3	1.7	-

Australia - Dwelling Approvals (number, y/y %)



Australia - Dwelling consents (6 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Dwelling approvals (sa, m/m%)	7.6	-1.8	5.9	3.0
Dwelling approvals (sa, y/y%)	17.3	14.1	33.3	28.0
Housing approvals (sa, m/m%)	0.9	5.5	-2.0	-
Other approvals (sa, m/m%)	29.0	-19.9	31.8	-
Private approvals (sa, m/m%)	8.4	-2.8	4.5	-

Australia - Trade data (sa, y/y %)



Australia - Trade balance (7 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Trade balance (sa, \$bns)	-1.5	-2.1	-1.7	-1.8
Exports (sa, m/m%)	4.1	-3.7	-1.5	-
Exports (sa, y/y%)	-22.1	-29.7	-27.5	-
Imports (sa, m/m%)	5.2	-0.6	-3.1	-
Imports (sa, y/y%)	-14.4	-14.4	-18.7	-