

## WEEKLY ECONOMIC BRIEF – 18 June 2010

### Key Points

- **Moody's downgrades Greece's sovereign credit rating to junk status**
- **Inflationary pressures in the US and UK moderate in May while pricing pressures intensify in emerging Asia**
- **Reserve Bank of Australia on hold pending financial market developments and the June quarter inflation report**

The MSCI World Index closed the week 2.8 percent higher as investor sentiment improved. Nonetheless, the Index remains 8.4 percent below its April peak when concerns surrounding the European sovereign debt crisis intensified. The turnaround in risk appetite saw commodity prices rise by around 3 percent, equity market volatility fall and the US dollar lose ground against the major currencies. Yields on US and UK ten-year government bonds fell following the moderation in May inflation data and weak US retail sales while Greek ten-year government bond yields rose after Moody's downgraded Greece's sovereign credit rating to junk status.

Incoming US data flow continues to highlight the dichotomy between the housing market and manufacturing sector. The housing market remains fragile following the April expiration of the tax credit for first homeowners, with May housing starts and permits falling by more than expected and home builder sentiment declining sharply in June. Activity within the manufacturing sector continues to recover, with industrial production rising by 1.2 percent in May. Capacity utilisation increased by one percentage point, although it remains substantially below its long-run average. Manufacturing business surveys for June were mixed, with the Empire State survey rising and the Philadelphia Fed survey falling, but both indicators remain consistent with growth.

The higher US dollar dampened import and producer prices in May, although year-ended growth rates remain elevated. Excess capacity within the US economy and the fall in oil prices contributed to a decline in consumer prices over the month, while year-ended growth in headline CPI fell to 2.0 percent and growth in core CPI remained unchanged at 0.8 percent; its lowest annual rate since the mid-1960s. Year-ended inflation rates also moderated in the UK, but at 3.4 percent, headline inflation is well-above the Bank of England's 2 percent target. However, over the medium term, UK inflation is expected to fall below the BOE's target rate as the transitory impacts of the Sterling depreciation, rebound in commodity prices, and the increase in the Value-Added Tax rate fade. Similar to the UK, the depreciation of the Euro and higher commodity prices has led to a pick-up in inflation within the euro area, with year-ended headline prices rising from 0.9 percent in February to 1.6 percent in May.

Incoming economic data continues to point to robust growth within the Asia region. Indian industrial production rose solidly in April while double-digit inflation sparked speculation that the Reserve Bank of India may move to higher interest rates before their July 27 meeting. Incoming data points to strong domestic demand in China, with elevated urban fixed asset investment, strong retail sales and robust loan growth in May. The ongoing recovery within activity has placed upward pressure on prices, with year-ended growth in consumer prices rising to 3.1 percent in May and growth in producer prices rising to 7.1 per cent.

The Reserve Bank of Australia released the minutes from its June Board meeting where the cash rate was left on hold at 4.5 percent. The Board members noted the uncertainty surrounding European sovereign default risk but also that the outlook for Australia in the medium-term was positive given the movements in commodity prices and Australia's links to Asia's recovery. After raising the inflation outlook in last month's Statement of Monetary Policy, the Board remains concerned about upward pressure on prices, noting the recent depreciation of the Australian dollar and that "*recent data for prices and wages suggested that the disinflationary forces in the economy were not quite as strong as previously expected.*" Nonetheless, the Board sees the current level of monetary policy as appropriate which affords them the flexibility to monitor financial market developments and the June quarter inflation report which is due to be released in late July.

Table 1. Financial market movements, 10/06/2010 to 17/06/2010

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	2.8%	-	-
US	2.7%	-13.1 bps	-
Japan	4.8%	1.9 bps	0.4%
UK	2.4%	-7.7 bps	0.7%
Germany	2.8%	5.3 bps	2.2%
Australia	2.1%	1.3 bps	2.2%

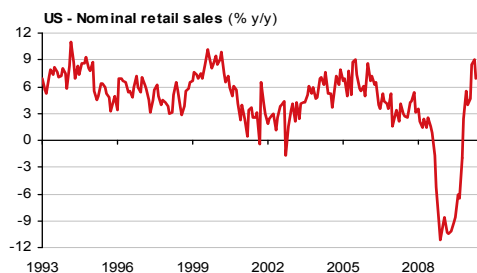
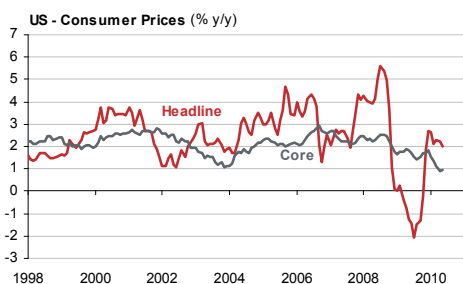
Source: Bloomberg

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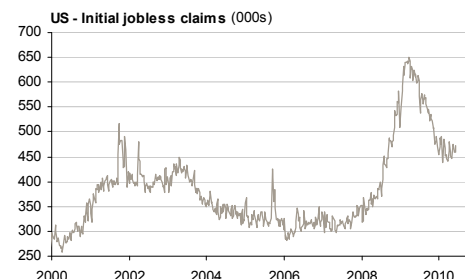
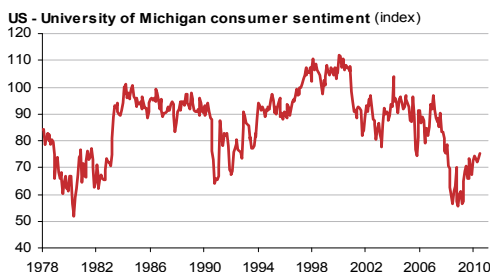
Table 2: Economic charts<sup>2</sup>

United States



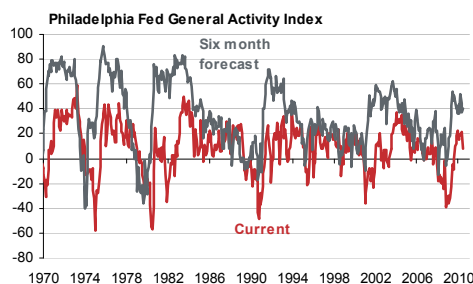
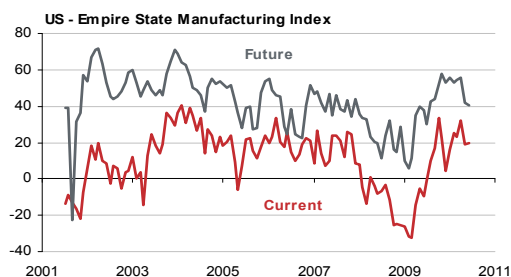
US - CPI (17 June)	Mar-10	Apr-10	May-10	Mkt fcast
Headline (% m/m)	0.1	-0.1	-0.2	-0.2
Headline (% y/y)	2.3	2.2	2.0	2.0
Core (% m/m)	0.0	0.0	0.1	0.1
Core (% y/y)	1.1	0.9	0.9	0.9
Other Goods and Services (% m/m)	0.1	0.0	0.2	-
Special Indexes: Energy (% m/m)	0.0	-1.4	-2.9	-

US - Retail sales (11 June)	Mar-10	Apr-10	May-10	Mkt fcast
Retail sales (% y/y)	8.5	9.0	6.9	-
Retail sales (% m/m)	2.1	0.6	-1.2	0.2
Ex autos	1.2	0.6	-1.1	0.1
Ex autos and gas	1.2	0.6	-0.8	-
Control	0.7	-0.1	-0.3	-
Motor Vehicle & Parts Dealers	6.6	0.6	-1.7	-
Furniture, Home Furn., Electronics, Appliances	0.4	-1.3	0.8	-
Building Materials, Garden Equip., Supply Stores	8.1	8.4	-9.3	-
Retail sales revisions (ppts. % m/m)	0.5	0.1	-	-



US - University of Michigan (11 June)	Apr-10	May-10	Jun-10	Mkt fcast
Consumer sentiment index	72.2	73.6	75.5	74.5
Current conditions index	81	81	82.9	-
Consumer expectations index	66.5	68.8	70.7	-
Inflation expectations - 1 year	2.9	3.2	2.8	-
Inflation expectations - 5 year	2.7	2.9	2.7	-

US - Initial claims (17 June)	28/5/10	4/6/10	11/6/10	Mkt fcast
Continuing claims (000s)	4483.0	4571.0	-	-
Continuing claims (000s, 4wk moving average)	4622.8	4601.5	-	-
Initial jobless claims (000s)	459.0	460.0	472.0	450.0
Initial jobless claims (000s, 4wk moving average)	460.5	464.0	463.5	-

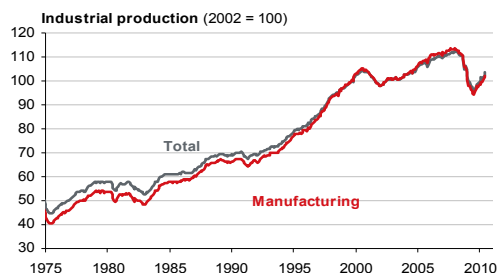


US - Empire State Survey (15 June)	Apr-10	May-10	Jun-10	Mkt fcast
General Business Condition (sa, index)	31.9	19.1	19.6	20.0
New Orders (sa, index)	29.5	14.3	17.5	-
Shipments (sa, index)	32.1	11.3	19.7	-
Delivery Time (sa, index)	2.5	-6.6	9.9	-
Inventories (sa, index)	11.4	1.3	-1.2	-
Unfilled Orders (sa, index)	-3.8	-7.9	-1.2	-
Prices Paid (sa, index)	41.8	44.7	27.2	-
Prices Received (sa, index)	6.3	5.3	4.9	-
Employment (sa, index)	20.3	22.4	12.4	-
Average Workweek (sa, index)	13.9	0.0	8.6	-

US - Philly Fed Survey (17 June)	Apr-10	May-10	Jun-10	Mkt fcast
Business activity	20.2	21.4	8.0	20.0
New Orders	13.9	6.1	9.0	-
Shipments	5.6	15.8	14.2	-
Unfilled Orders	-0.9	-3.0	-0.1	-
Delivery times	5.4	-1.2	6.8	-
Inventories	2.0	-7.9	4.6	-
Prices Paid	42.7	35.5	10.0	-
Prices Received	1.0	3.5	-6.5	-
Number of Employees	7.3	3.2	-1.5	-
Average employee workweek	8.3	7.0	-1.5	-

<sup>2</sup> Source: FactSet

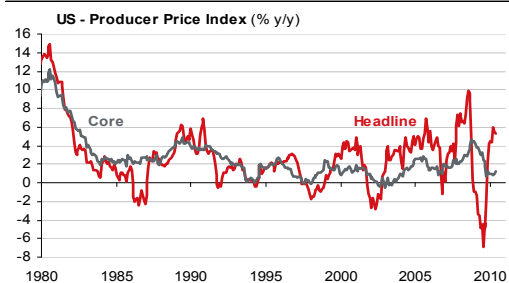
## United States (con'd)



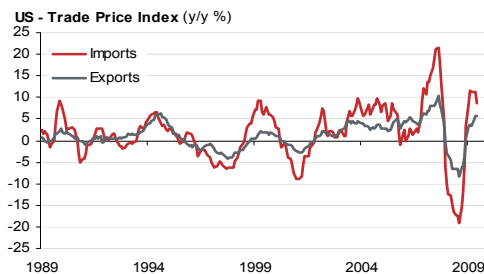
US - Industrial production (16 June)	Mar-10	Apr-10	May-10	Mkt fcast
Industrial production (sa, m/m%)	0.3	0.7	1.2	0.9
Industrial production (sa, y/y%)	3.9	5.2	7.6	-
Industrial production ex motor vehicles (sa, m/m%)	0.3	0.8	1.1	-
Industrial production ex motor vehicles (sa, y/y%)	3.1	4.5	6.5	-
Manufacturing production (sa, m/m%)	1.2	0.9	0.9	-
Mining production (sa, m/m%)	1.2	1.5	-0.2	-
Utilities production (sa, m/m%)	-6.2	-1.3	4.8	-
Capacity utilisation (sa, %)	73.1	73.7	74.7	74.5



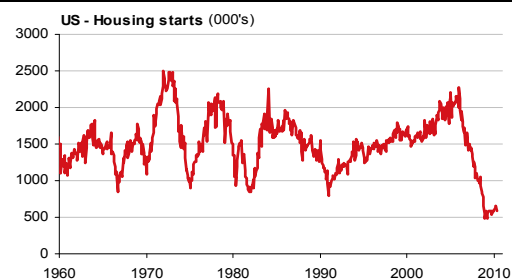
US - Business inventories (11 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Total business inventories (sa, m/m%)	0.6	0.7	0.4	0.5
Total business inventories (sa, y/y%)	-6.5	-4.5	-2.8	-
Business inventories/sales (sa, ratio)	1.26	1.23	1.23	-



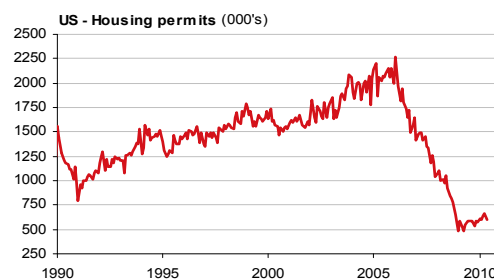
US - Producer Price Index (16 June)	Mar-10	Apr-10	May-10	Mkt fcast
PPI (% m/m)	0.7	-0.1	-0.3	-0.5
PPI (% y/y)	6.0	5.5	5.3	4.9
Core PPI (% m/m)	0.1	0.2	0.2	0.1
Core PPI (% y/y)	0.9	1.0	1.3	1.1
Intermediate goods (% m/m)	0.6	0.8	0.4	-
Intermediate goods (% y/y)	7.7	8.6	8.5	-
Core intermediate goods (% m/m)	0.7	1.1	0.3	-
Core intermediate goods (% y/y)	4.0	5.6	6.1	-
Crude goods (% m/m)	3.2	-1.2	-2.8	-
Crude goods (% y/y)	33.4	28.8	21.2	-
Core Crude goods (% m/m)	6.0	4.0	-1.6	-
Core Crude goods (% y/y)	44.5	49.5	40.8	-



US - Trade prices (15 June)	Mar-10	Apr-10	May-10	Mkt fcast
Import prices (nsa, m/m%)	0.4	1.1	-0.6	-1.2
Import prices (nsa, y/y%)	11.2	11.2	8.6	7.9
Export prices (nsa, m/m%)	0.7	1.2	0.7	-
Export prices (nsa, y/y%)	4.9	5.6	5.8	-

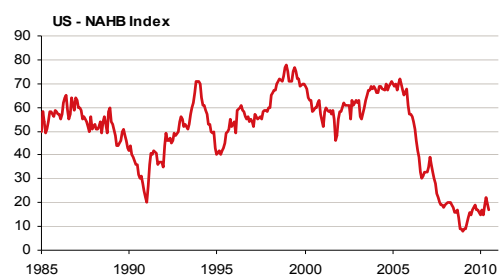


US - Housing starts (16 June)	Mar-10	Apr-10	May-10	Mkt fcast
Housing starts (000s, saar)	634	659	593	648.0
% m/m	4.8	3.9	-10.0	-
% y/y	21.9	38.2	7.8	-

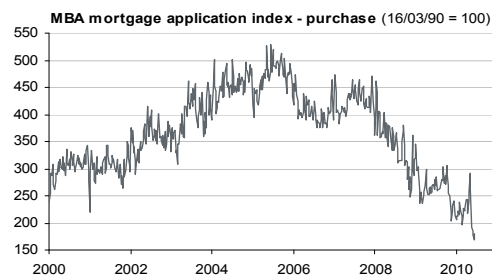


US - Building permits (16 June)	Mar-10	Apr-10	May-10	Mkt fcast
Building permits (000s, saar)	685	610	574	625.0
% m/m	5.4	-10.9	-5.9	-
% y/y	31.2	16.6	4.4	-

## United States (con'd)

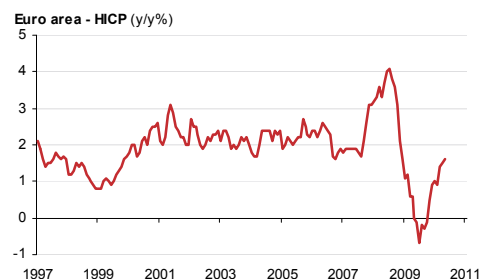


US - NAHB (15 June)	Apr-10	May-10	Jun-10	Mkt fcast
NAHB Housing market index	19.0	22.0	17.0	21.0
Single family sales (sa, index)	20.0	23.0	17.0	-
Single family sales 6mths expectations (sa, index)	25.0	27.0	23.0	-
Traffic of prospective buyers (sa, index)	13.0	16.0	14.0	-

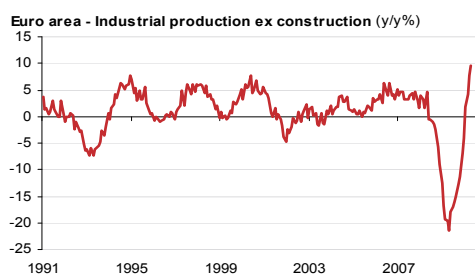


US - Mortgage applications (16 June)	28-05-10	04-06-10	11-06-10	Mkt fcast
Purchase index	178.0	167.8	180.0	-
% w/w	-4.1	-5.7	7.3	-
Refinancing index	3,336.9	2,859.5	3,461.5	-
% w/w	2.4	-14.3	21.1	-
Composite index	639.0	560.9	659.9	-
% w/w	0.9	-12.2	17.7	-

## Euro area



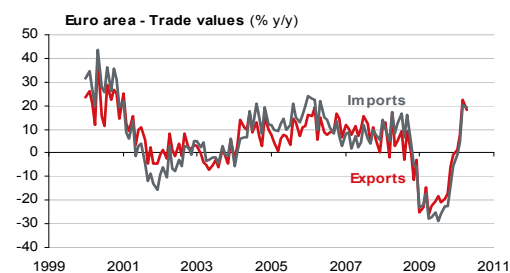
Euro area - HICP (16 June)	Mar-10	Apr-10	May-10	Mkt fcast
Headline inflation (nsa, m/m%)	0.9	0.4	0.1	0.1
Headline inflation (nsa, y/y%)	1.4	1.5	1.6	1.6
Core inflation (nsa, m/m%)	0.8	0.3	0.1	-
Core inflation (nsa, y/y%)	1.0	0.8	0.8	-



Euro area - Industrial production (14 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Industrial production ex construction (sa, m/m%)	0.8	1.5	0.8	0.5
Industrial production ex construction (nsa, y/y%)	4.1	7.7	9.5	8.7

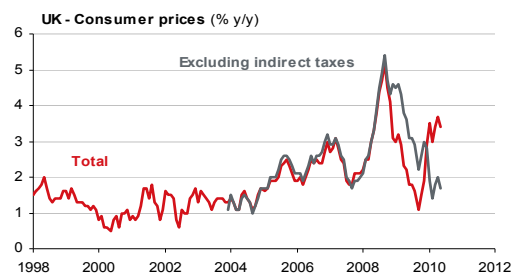


Euro area - Employment (15 June)	Sep-09	Dec-09	Mar-10	Mkt fcast
Employment (sa, q/q%)	-0.5	-0.2	0.0	-
Employment (sa, y/y%)	-2.2	-2.1	-1.3	-



Euro area - Trade balance (15 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Trade balance (sa, €bns)	2.4	.0	1.4	1.5
Exports (sa, m/m%)	3.5	9.8	-2.4	-
Exports (nsa, y/y%)	7.4	22.7	18.1	-
Imports (sa, m/m%)	2.1	12.2	-3.5	-
Imports (nsa, y/y%)	4.6	20.3	19.3	-

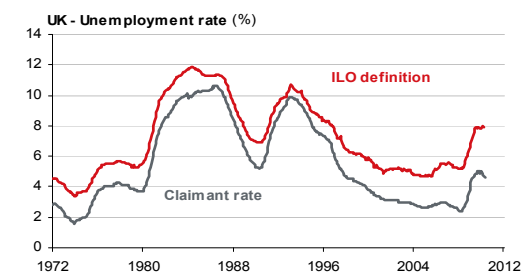
## United Kingdom



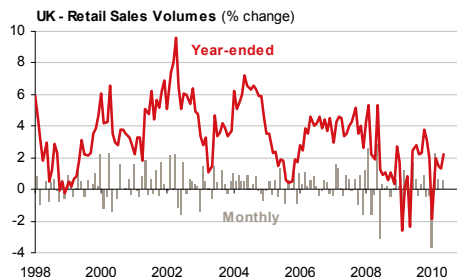
UK - Price Inflation (15 June)	Mar-10	Apr-10	May-10	Mkt fcast
Headline CPI (nsa, m/m%)	0.6	0.6	0.2	0.4
Headline CPI (nsa, y/y%)	3.4	3.7	3.4	3.5
CPI ex energy (nsa, m/m%)	0.5	0.5	0.3	-
CPI ex energy (nsa, y/y%)	2.9	3.2	2.9	-
CPI ex energy, food, alcohol & tobacco (nsa, m/m%)	0.6	0.5	0.3	-
CPI ex energy, food, alcohol & tobacco (nsa, y/y%)	3.0	3.1	2.9	2.9
Retail price inflation (nsa, m/m%)	0.7	1.0	0.4	-
Retail price inflation (nsa, y/y%)	4.4	5.3	5.1	5.0
Retail price inflation ex mortgage interest (nsa, m/m%)	0.7	1.0	0.4	-
Retail price inflation ex mortgage interest (nsa, y/y%)	4.8	5.4	5.1	-



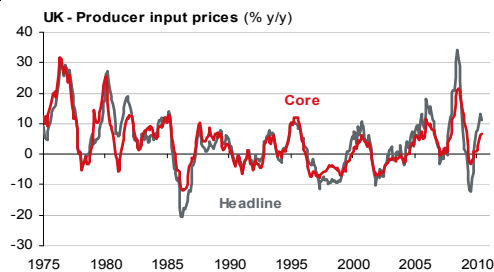
UK - Industrial production (11 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
IP (% m/m)	1.0	1.9	-0.3	0.4
IP (% y/y)	0.1	2.6	2.1	2.2
<b>Broad Industry Groups (% m/m)</b>				
Mining and Quarrying incl. Oil & Gas Extraction	-0.4	2.6	0.0	-
Electricity, Gas and Water Supply	-2.0	-0.7	-0.6	-
Oil and Gas Extraction	-1.3	2.7	-0.3	-
Manufacturing	1.6	2.2	-0.3	-



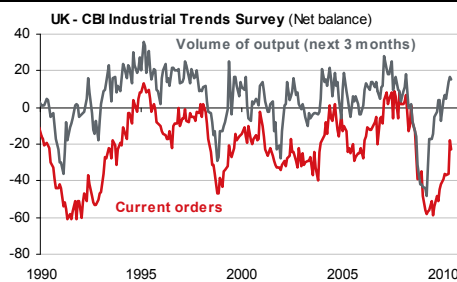
UK - Labour market (16 June)	Mar-10	Apr-10	May-10	Mkt fcast
Change in claimant count (000s)	-32.7	-32	-30.9	-20.0
Claimant count rate (%)	4.8	4.7	4.6	4.7
ILO unemployment rate (3m, %)	8	7.9	-	8.0
Average earnings inc bonus (3m, % yoy)	4.3	4.2	-	-
Average earnings inc bonus (3m, % yoy)	2	1.9	-	-



UK - Retail sales (17 June)	Mar-10	Apr-10	May-10	Mkt fcast
All retailing incl. auto fuel (sa, volumes, m/m%)	0.7	0.0	0.6	0.1
All retailing incl. auto fuel (sa, volumes, y/y%)	1.5	1.3	2.2	2.0
All retailing ex. auto fuel (sa, volumes, m/m%)	0.5	-0.1	0.5	0.1
All retailing ex. auto fuel (sa, volumes, y/y%)	3.1	2.4	3.4	0.9
Predominantly Food Stores (sa, volumes, m/m%)	0.1	0.1	1.0	-
Predominantly Non-Food Stores (sa, volumes, m/m)	0.7	0.0	0.0	-
Non-Specialised Stores (sa, volumes, m/m%)	0.7	1.8	1.2	-
Textile, Clothing, and Footwear Stores (sa, volume	-0.6	1.4	-1.3	-
Household Goods Stores (sa, volumes, m/m%)	1.9	-2.1	1.7	-
Other Stores (sa, volumes, m/m%)	1.2	-0.9	-0.8	-

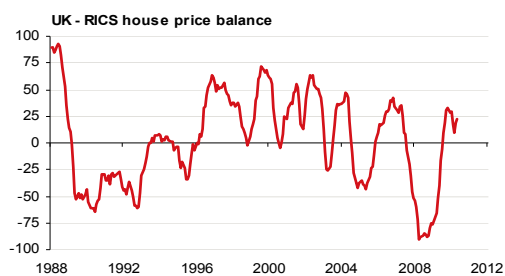


UK - Producer price inflation (11 June)	Mar-10	Apr-10	May-10	Mkt fcast
Input (nsa, % m/m)	3.9	0.5	-0.6	-1.0
Input (nsa, % y/y)	10.5	13.1	11.2	10.7
Core input (sa, % m/m)	1.3	0.7	0.1	-
Core input (nsa, % m/m)	2.5	-0.3	0.6	-
Core input (nsa, % y/y)	4.4	6.3	6.8	-
Output (nsa, % m/m)	0.9	1.6	0.3	0.5
Output (nsa, % y/y)	5.0	5.9	5.7	5.8
Core output (nsa, % m/m)	0.8	1.2	0.1	0.4
Core output (nsa, % y/y)	3.7	4.5	4.4	4.7

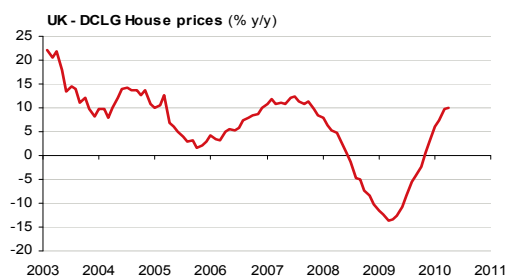


UK - CBI Industrial Trends (17 June)	Apr-10	May-10	Jun-10	Mkt fcast
Current orders (net balance)	-36.0	-18.0	-23.0	-
Current export orders (net balance)	-16.0	3.0	-2.0	-
Current stocks (net balance)	10.0	10.0	11.0	-
Next three months output (net balance)	14.0	17.0	15.0	-
Next three months prices (net balance)	16.0	14.0	9.0	-

## United Kingdom (con'd)

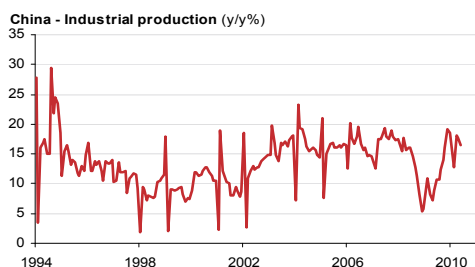


UK - RICS House Prices (15 June)	Mar-10	Apr-10	May-10	Mkt fcast
RICS house price balance (net balance)	9.6	18.7	21.8	15.0



UK - DCLG House prices (15 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
DCLG house prices (index)	171.4	172.8	174.4	-
DCLG house prices (nsa, m/m%)	-1.7	0.8	0.9	-
DCLG house prices (nsa, 3m/3m%)	2.2	2.9	1.4	-
DCLG house prices (nsa, y/y%)	7.3	9.7	10.1	-

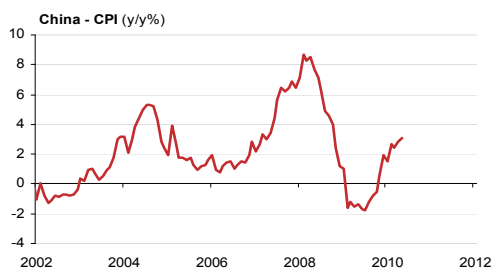
## China



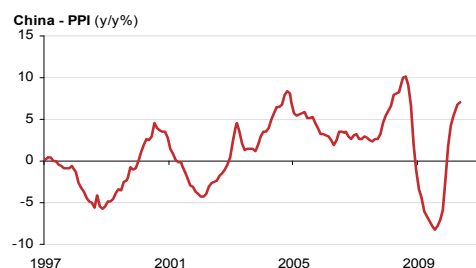
China - Industrial production (11 June)	Mar-10	Apr-10	May-10	Mkt fcast
Industrial production (nsa, y/y%)	18.1	17.8	16.5	17.0



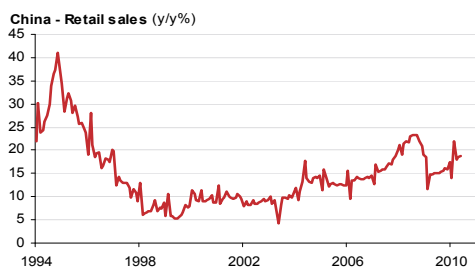
China - Urban fixed asset investment (11 June)	Mar-10	Apr-10	May-10	Mkt fcast
Urban fixed asset investment (cumulative ytd, y/y%)	26.4	26.1	25.9	25.7



China - Consumer Price (11 June)	Mar-10	Apr-10	May-10	Mkt fcast
CPI (y/y%)	2.4	2.8	3.1	3.0



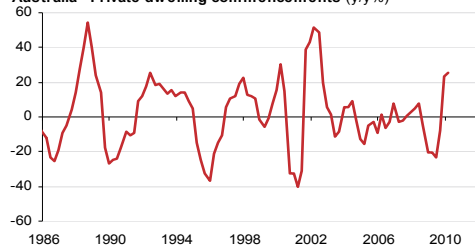
China - Producer Price (15 June)	Mar-10	Apr-10	May-10	Mkt fcast
PPI (y/y%)	5.9	6.8	7.1	6.8



China - Retail sales (11 June)	Mar-10	Apr-10	May-10	Mkt fcast
Retail sales (y/y%)	18.0	18.5	18.7	18.5

## Australia

Australia - Private dwelling commencements (y/y%)



Australia - Westpac leading index (y/y%)



Australia - Dwelling starts (16 June)	Sep-09	Dec-09	Mar-10	Mkt fcast
Dwelling starts (sa, number, q/q%)	10.9	16.8	4.3	7.0
Dwelling starts (sa, number, y/y%)	-5.2	27.8	34.7	-
Private housing starts (sa, number, q/q%)	9.3	14.2	-2.4	-
Private housing starts (sa, number, y/y%)	3.9	29.7	29.4	-
Private other res. building starts (sa, number, q/q%)	10.9	20.6	7.9	-
Private other res. building starts (sa, number, y/y%)	-31.7	8.4	17.4	-

Australia - Westpac leading index (16 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Leading index (sa, m/m%)	0.6	1.0	0.0	-
Leading index (sa, y/y%)	5.5	7.1	7.1	-