

WEEKLY ECONOMIC BRIEF – 25 January 2010

Key Points

- *Equity markets sell off in response to the Volcker Rule*
- *US housing market activity remains soft, although forward looking indicators point to improvement*
- *The Chinese economy expands by an estimated 2.5 percent in the December quarter*

Risk aversion increased during the week, partly due to a US bank regulatory proposal aimed at curbing risk-taking by banks. On Thursday, President Obama announced measures to limit the size and trading activities of financial institutions. Under the Volcker Rule, banks will be unable to invest in or sponsor hedge funds or private equity firms that are unrelated to servicing their customers. Equity markets reacted negatively, with the US S&P 500 financial sector falling by 5.2 percent over the week. Overall global equity markets closed the week lower, with the MSCI World Index (in local currency) falling by 3.3 percent and the S&P 500 declining by 3.9 percent.

The Volcker Rule and ongoing concerns regarding the durability of the recovery, led the bond market to extend last week's rally. The Australian bond market outperformed other markets, with yields falling by 15bps, as the market rallied on Monday in response to the US data released the previous week. The higher than expected UK December inflation outcome muted the rally within the gilts market, with markets expecting the Bank of England to tighten rates more aggressively.

The US dollar also benefited from the rise in risk aversion, with the dollar strengthening against all major currencies, with the exception of the yen. The Australian dollar fell to US\$0.90, commodity prices fell by 2 percent and oil fell to around US\$74 per barrel.

Indicators within the US housing market remain soft, with the NAHB index of home-builder sentiment declining for the second consecutive month and poor weather conditions stalling housing starts in December. However, some indicators point to a tepid recovery, with building permits rising strongly in December and mortgage applications increasing in January.

Manufacturing sentiment within Europe continues to improve, with the euro area and Germany manufacturing PMIs rising in January. In contrast, the services sector PMI survey slipped in January, although the current level is still consistent with the continued expansion in the sector.

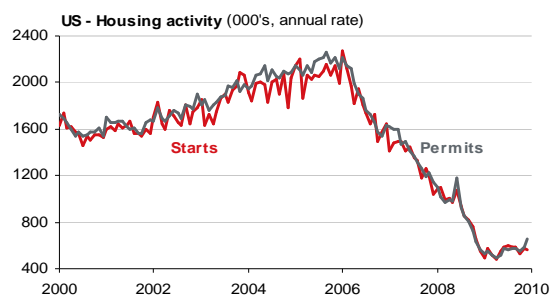
Retail sales indicators continue to point to a tepid recovery in household spending globally. UK retail volumes rose a softer than expect 0.3 percent in December and Canadian volumes fell by 1 percent in November. The exception has been New Zealand, with retail values increasing by 0.8 percent in November. Consumer spending has also remained strong in Australia and is consistent with the recovery in consumer confidence. In January the Westpac/Melbourne Institute consumer sentiment index rose by 5.6 percent and is now only 3.7 pts below its series peak in May 2007.

Incoming Chinese data confirms that the economy is expanding strongly. Real GDP increased by an estimated 2.5 percent in the December quarter, to be 10.7 percent higher than one year ago. Activity within the industrial sector was softer than expected, with year-ended growth in industrial production slipping from 19.2 percent in November to 18.5 percent in December. Furthermore, urban fixed asset investment rose 30.5 percent in 2009, compared to 32.1 percent in the first eleven months of the year. The policy driven expansion in growth has increased inflationary pressures within China. Headline inflation rose from 0.6 percent in November to 1.9 percent in December, which was above the 1.4 percent increase forecast by the market. Officials have become increasingly concerned about the inflationary impact of excess liquidity within the system, and this week reportedly asked some banks to restrict credit growth in a bid to stop the economy from overheating.

Table 1. Financial market movements, 15/01/2010 to 22/01/2010

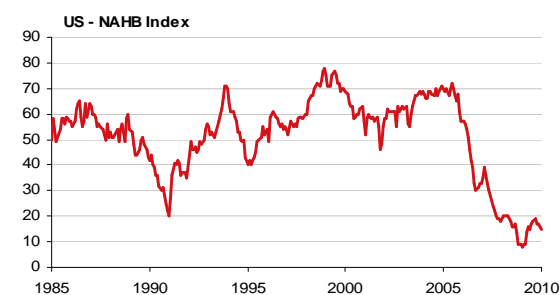
	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	-3.3%	-	-
US	-3.9%	-6.7 bps	-
Japan	-3.6%	0.0 bps	1.1%
UK	-2.8%	-1.7 bps	-0.9%
Germany	-3.1%	-4.7 bps	-1.7%
Australia	-3.0%	-15.4 bps	-2.4%

US



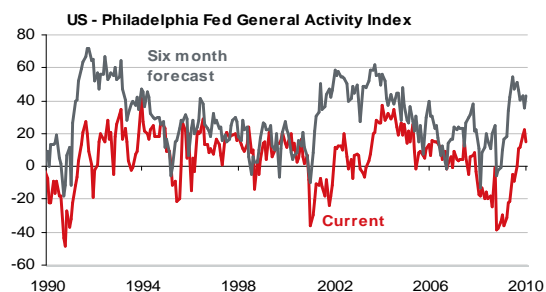
US - Housing starts (20 Jan)	Oct-09	Nov-09	Dec-09	Mkt fcast
Housing starts (saar, 000s)	524.0	580.0	557.0	580.0
Housing starts (sa, m/m%)	-10.6	10.7	-4.0	-
Housing starts (sa, y/y%)	-31.3	-11.5	0.2	-

US - Housing permits (20 Jan)	Oct-09	Nov-09	Dec-09	Mkt fcast
Housing permits (saar, 000s)	551.0	589.0	653.0	580.0
Housing permits (sa, m/m%)	-4.2	6.9	10.9	-
Housing permits (sa, y/y%)	-24.4	-6.5	15.8	-

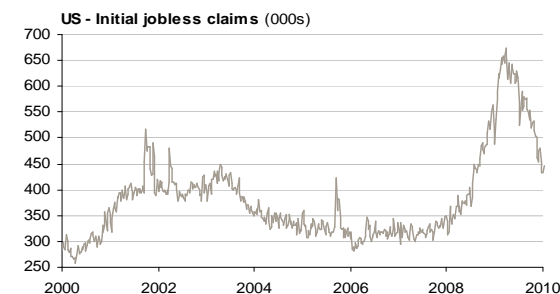


US - NAHB Housing Market Index (19 Jan)	Nov-09	Dec-09	Jan-10	Mkt fcast
NAHB (index)	17.0	16.0	15.0	17.0

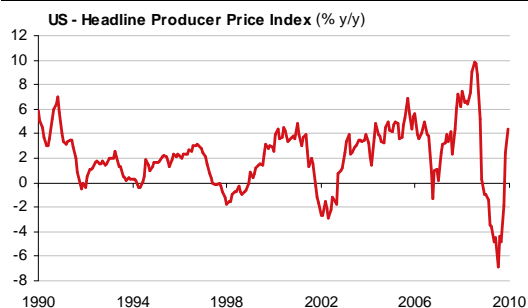
US - Mortgage applications (22 Jan)	01-01-10	08-01-10	15-01-10	Mkt fcast
Purchase index	212.1	213.8	223.0	-
% w/w	3.6	0.8	4.3	-
Refinancing index	1976.9	2407.9	2663.8	-
% w/w	-1.6	21.8	10.6	-
Composite index	462.2	527.8	575.9	-
% w/w	0.5	14.2	9.1	-



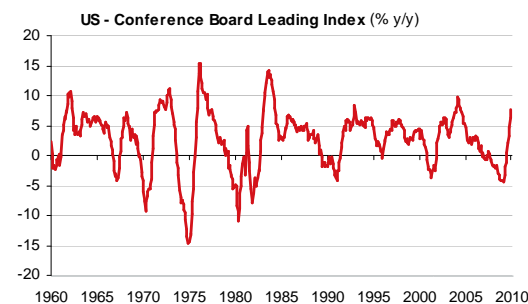
US - Philly Fed Survey (21 Jan)	Nov-09	Dec-09	Jan-10	Mkt fcast
Business activity	18.8	22.5	15.2	18.4
New Orders	13.1	8.3	3.2	-
Shipments	14.5	14.9	11	-
Unfilled Orders	-4.3	1.7	3.6	-
Delivery times	-9.4	4.1	6.6	-
Inventories	-17.4	-5.7	-1.6	-
Prices Paid	22.6	36.6	33.2	-
Prices Received	-3.1	1.4	2.7	-
Number of Employees	-2.2	4.5	6.1	-
Average employee workweek	0.3	6.3	4.2	-



US - Initial claims (21 Jan)	01-01-10	08-01-10	15-01-10	Mkt fcast
Continued claims (sa, 000s)	4617.0	4599.0	-	-
Continued claims (sa, 000s, 4wk moving ave)	4860.3	4750.5	-	-
Initial claims (sa, 000s)	433.0	446.0	482.0	440.0
Initial claims (sa, 000s, 4wk moving ave)	449.8	441.3	448.3	-



US - PPI	Oct-09	Nov-09	Dec-09	Mkt fcast
PPI (% m/m)	0.3	1.8	0.2	-
PPI (% y/y)	-1.9	2.4	4.4	-
Core PPI (% m/m)	-0.6	0.5	0.0	-
Core PPI (% y/y)	0.7	1.2	0.9	-
Intermediate goods (% m/m)	0.3	1.4	0.5	-
Intermediate goods (% y/y)	-7.5	-1.6	3.0	-
Core intermediate goods (% m/m)	-0.2	0.3	0.5	-



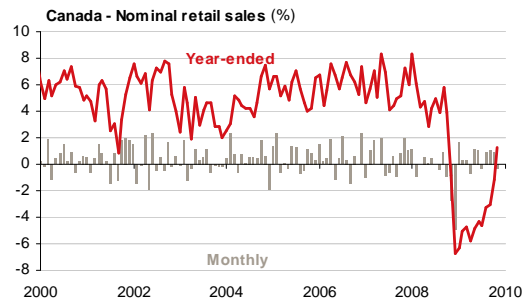
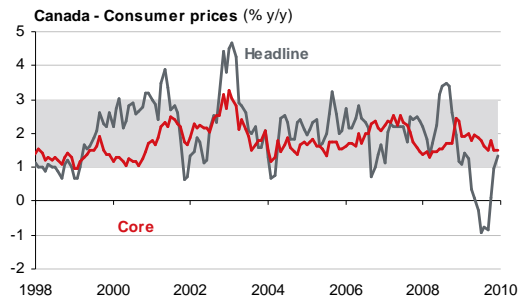
US - Leading indicators (21 Jan)	Oct-09	Nov-09	Dec-09	Mkt fcast
Leading indicators (m/m%)	0.3	1.0	1.1	0.7
Leading indicators (y/y%)	4.6	6.3	7.7	-

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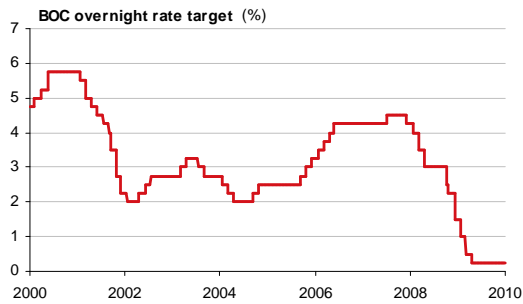


Canada



Canada - CPI (20 Jan)	Oct-09	Nov-09	Dec-09	Mkt fcast
CPI (nsa, m/m%)	-0.1	0.5	-0.3	-0.1
CPI (nsa, y/y%)	0.1	1.0	1.3	1.6
Core consumer price index (nsa, m/m%)	0.1	0.4	-0.3	-0.3
Core consumer price index (nsa, y/y%)	1.8	1.5	1.5	1.5
<i>Special aggregates</i>				
All-items excluding food (nsa, m/m%)	0.0	0.4	-0.6	-
All-items excluding food and energy (nsa, m/m%)	0.2	0.2	-0.4	-
All-items excluding eight of the most volatile component	0.2	0.4	-0.4	-
Goods (nsa, m/m%)	-0.4	1.5	-0.9	-
Services (nsa, m/m%)	0.2	-0.2	0.0	-
Energy (nsa, m/m%)	-1.9	2.8	-1.6	-

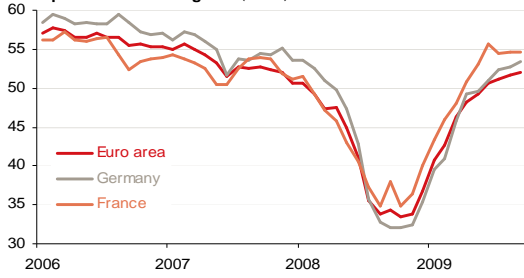
Canada - Retail sales (22 Jan)	Sep-09	Oct-09	Nov-09	Mkt fcast
Total Retail Sales (% m/m)	1.1	1.0	-0.3	-0.2
Total ex. Vehicle & Parts Dealers (% m/m)	1.1	0.3	0.0	0.5
Automotive (% m/m)	1.3	3.4	-0.2	-
Furniture, Home Furnishings & Electronics Stores (%)	0.9	0.3	1.1	-
Building & Outdoor Home Supplies Stores (% m/m)	-0.2	1.0	1.1	-
Food & Beverage Stores (% m/m)	0.8	-1.0	0.7	-
Clothing & Accessories Stores (% m/m)	0.1	1.9	-3.6	-
Miscellaneous Retailers (% m/m)	2.5	0.0	-0.5	-
Real retail sales (% m/m)	1.2	0.8	-1.0	-
Total Retail Sales (% y/y)	-3.1	-1.2	1.2	-
Real retail sales (% y/y)	-0.3	0.2	0.7	-



Canada - Overnight rate (19 Jan)	Nov-09	Dec-09	Jan-10	Mkt fcast
Overnight rate (%)	0.25	0.25	0.25	0.25

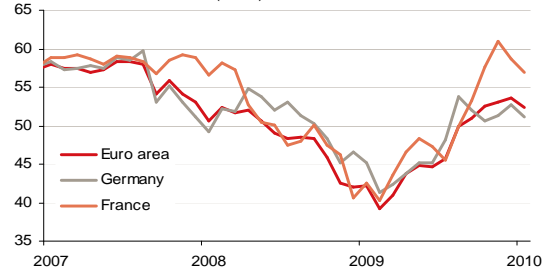
Euro area

Europe - Manufacturing PMI (index)



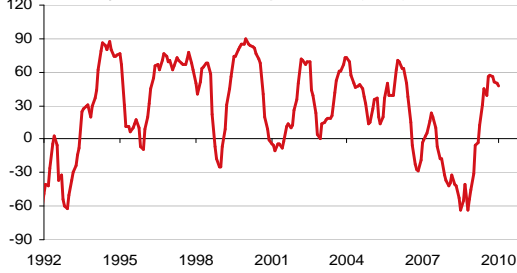
Euro area - Manufacturing PMI (21 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Euro area PMI (index)	51.2	51.6	52.0	51.9
Germany PMI (index)	52.4	52.7	53.4	52.9
France PMI (index)	54.4	54.7	54.7	54.7

Euro area - Services PMI (index)



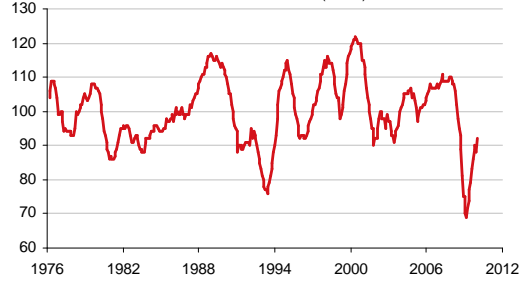
Euro area - Services PMI (21 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Euro area PMI (index)	53.0	53.6	52.3	53.8
Germany PMI (index)	51.4	52.7	51.2	53.0
France PMI (index)	60.9	58.7	57.0	59.0

Germany - ZEW Economic Expectations (Index)



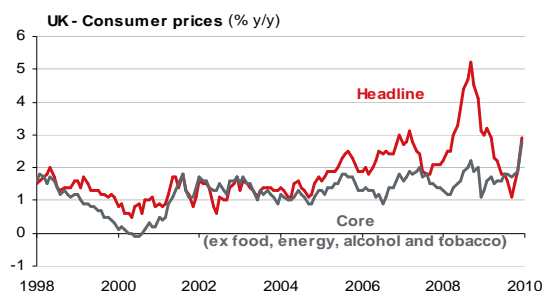
Germany - ZEW Survey (19 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Expectations component (index)	51.1	50.4	47.2	50.0
Current conditions (index)	-65.6	-60.6	-56.6	-56.2

France - INSEE business sentiment (Index)

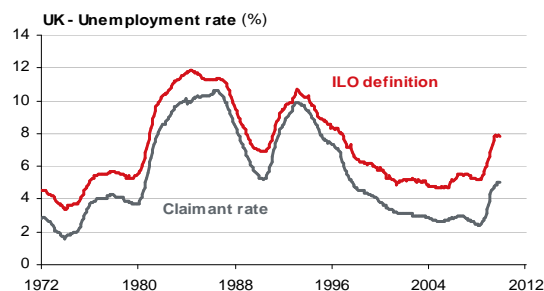


France - INSEE Business sentiment (22 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Business confidence indicator (index)	90.0	88.0	92.0	90.0
Production outlook indicator (index)	-9.0	-11.0	-4.0	-11.0

UK

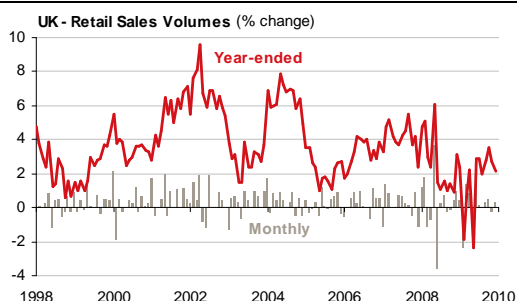


UK - Consumer price inflation (19 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Consumer price index (m/m%)	0.2	0.3	0.6	0.2
Consumer price index (y/y%)	1.5	1.9	2.9	2.5
Ex indirect taxes (y/y%)	2.6	3.0	2.8	
All items excluding				
Energy (m/m%)	0.2	0.2	0.6	-
Energy, food, alcoholic beverages & tobacco (m/m)	0.2	0.1	0.7	-
Energy, food, alcoholic beverages & tobacco (y/y%)	1.8	1.9	2.8	2.3
Energy & unprocessed food (m/m%)	0.1	0.1	0.6	-
Seasonal food (m/m%)	0.1	0.2	0.5	-
Retail price index (m/m%)	0.3	0.3	0.6	-
Retail price index (y/y%)	-0.8	0.3	2.4	2.1

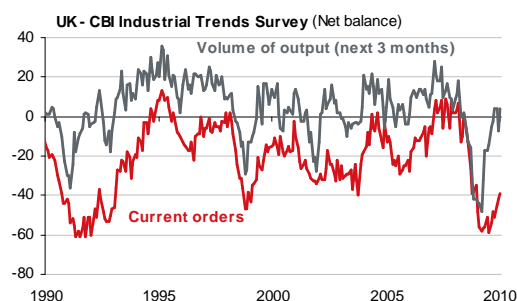


UK - Labour market (20 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Change in claimant count (000s)	5.9	-10.8	-15.2	-3.8
Claimant count rate (%)	5.0	5.0	5.0	5.0
ILO unemployment rate (3m, %)	7.9	7.8	-	8.0
Average earnings inc bonus (3m, % yoy)	1.5	1.6	-	-

UK - Rightmove house prices (18 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Rightmove house prices (nsa, m/m%)	-1.7	-2.2	0.3	-
Rightmove house prices (nsa, 3m/3m%)	0.5	0.5	-1.0	-
Rightmove house prices (nsa, y/y%)	1.5	1.7	4.0	-

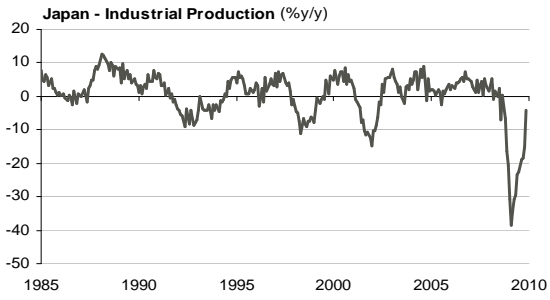


UK - Retail sales (22 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
All Retailing (sa, volumes, m/m%)	0.6	-0.3	0.3	0.4
All Retailing (sa, volumes, y/y%)	3.5	2.7	2.1	3.0
Predominantly Food Stores (sa, volumes, m/m%)	-0.2	0.4	0.3	-
Predominantly Non-Food Stores (sa, volumes, m/m%)	1.2	-1.1	0.1	-
Non-Specialised Stores (sa, volumes, m/m%)	3.5	-4.2	-1	-
Textile, Clothing, and Footwear Stores (sa, volume	1.7	-1.9	-0.1	-
Household Goods Stores (sa, volumes, m/m%)	1.5	0.3	0.5	-
Other Stores (sa, volumes, m/m%)	-0.9	0.3	0.7	-
Non-Store Retailing and Repair (sa, volumes, m/m%)	-0.1	2.9	2.8	-



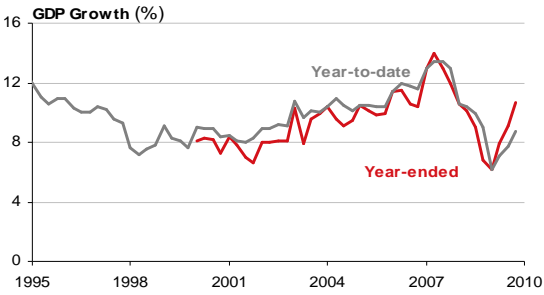
UK - CBI Industrial Trends (21 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Current - Orders	-45.0	-42.0	-39.0	-
Current - Export orders	-37.0	-41.0	-33.0	-
Current - Stocks	20.0	15.0	13.0	-
Next three months - Output	4.0	-7.0	4.0	-
Next three months - Prices	-7.0	-6.0	8.0	-

Japan

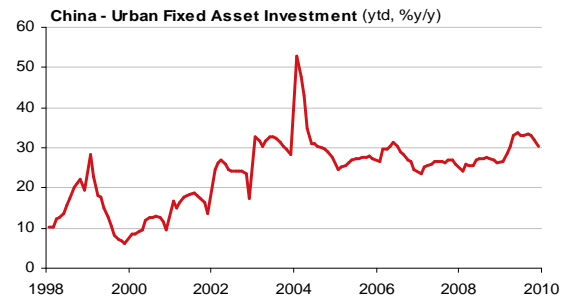


Japan - Industrial production (18 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Industrial production (sa, m/m%)	2.1	0.5	2.2	-
Industrial production (sa, y/y%)	-17.3	-14.0	-5.5	-

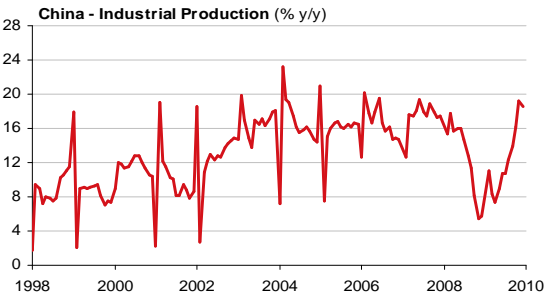
China



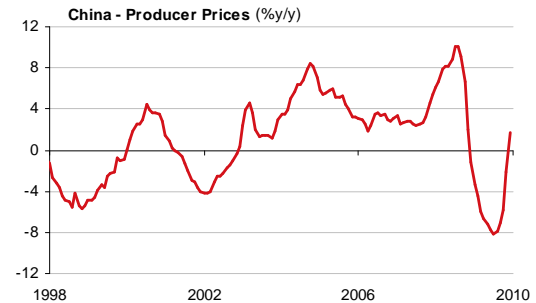
China - Real GDP (21 Jan)	Jun-09	Sep-09	Dec-09	Mkt f'cast
Real GDP (ytd, %)	7.9	9.1	10.7	10.5
Real GDP (y/y%)	7.1	7.7	8.7	8.5



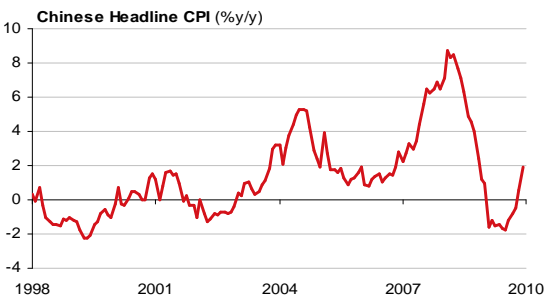
China - Urban fixed asset investment (21 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Urban fixed asset investment (YTD, %)	33.1	32.1	30.5	31.5



China - Industrial production (21 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Industrial production (y/y%)	16.1	19.2	18.5	19.6



China - PPI (21 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
PPI (y/y%)	-5.8	-2.1	1.7	0.7

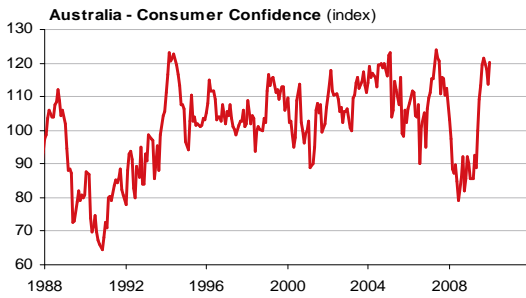


China - CPI (21 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
CPI (y/y%)	-0.5	0.6	1.9	1.4

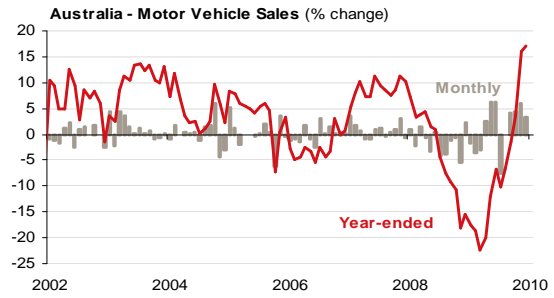


China - Retail sales (21 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Retail sales (y/y%)	16.2	15.8	17.5	16.3
Real retail sales (y/y%, deflated by CPI)	16.8	15.1	15.3	-

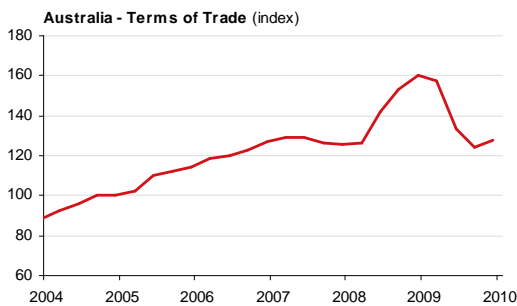
Australia



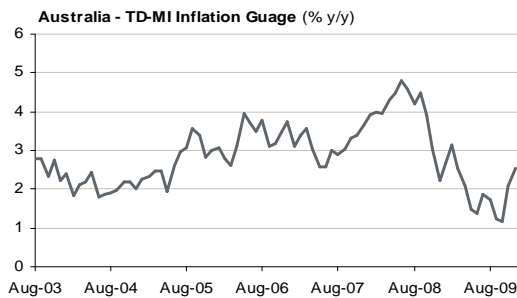
Aust - Consumer confidence (20 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Consumer confidence (sa, index)	118.3	113.8	120.1	-
Consumer confidence (sa, m/m%)	-2.5	-3.8	5.6	-
Consumer confidence (sa, y/y%)	38.3	23.7	33.6	-
Conditions (sa, index)	111.3	109.0	116.2	-
Unemployment (sa, index)	115.5	119.1	100.6	-



Aust - Motor vehicle sales (21 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Total motor vehicle sales (sa, m/m%)	4.5	5.9	3.3	-
Total motor vehicle sales (sa, y/y%)	3.6	16.1	17.2	-
Passenger vehicle sales (sa, m/m%)	1.0	1.2	-1.6	-
4WD sales (sa, m/m%)	6.7	15.3	3.8	-
Other vehicle sales (sa, m/m%)	12.1	9.6	14.2	-

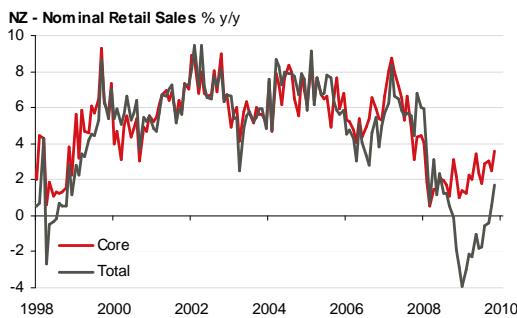


Australia - Trade Prices (22 January)	Jun-09	Sep-09	Dec-09	Mkt f'cast
Export price index (nsa, q/q%)	-20.6	-9.6	-1.7	-3.5
Export price index (nsa, y/y%)	-0.2	-20.7	-32.7	-
Import price index (nsa, q/q%)	-6.4	-3.0	-4.3	-2.0
Import price index (nsa, y/y%)	5.9	-2.3	-15.5	-
Terms of trade (nsa, q/q%)	-15.2	-6.8	2.8	-
Terms of trade (nsa, y/y%)	-5.7	-18.9	-20.3	-

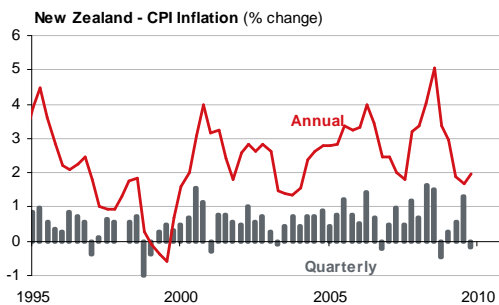


Australia - TD Inflation Gauge (18 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
TD Securities inflation gauge (nsa, m/m%)	-0.3	0.3	0.3	-
TD Securities inflation gauge (nsa, y/y%)	1.2	2.1	2.5	-

New Zealand



New Zealand - Retail sales (20 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Retail sales (sa, m/m%)	0.2	0.1	0.8	0.5
Retail sales (sa, y/y%)	-0.4	0.6	1.7	-
Core retail sales (sa, m/m%)	0.0	0.5	0.8	0.3
Core retail sales (sa, y/y%)	3.0	2.5	3.6	-



New Zealand - CPI (19 Jan)	Jun-09	Sep-09	Dec-09	Mkt f'cast
Headline CPI (nsa, q/q%)	0.6	1.3	-0.2	0.0
Headline CPI (nsa, y/y%)	1.9	1.7	2.0	2.1
Tradeables (nsa, q/q%)	0.8	1.6	-0.5	-
Non-tradeables (nsa, q/q%)	0.5	1.0	0.1	-