

WEEKLY ECONOMIC BRIEF – 9 July 2010

Key Points

- *Global equity markets rise 4.2 percent over the week as the IMF revises its 2010 global growth forecast higher*
- *US economy sheds 125,000 jobs in June as temporary Census employment unwinds*
- *Australia's economy creates 45,900 jobs in June with the unemployment rate steady at 5.1 percent*

Equity markets unwound some of their recent falls this week after the IMF revised its global growth outlook and European regulators released details of the upcoming bank stress tests. The IMF revised its 2010 world growth forecast 0.4 percentage points higher to 4.6 percent due to the strong economic performance during the first half of the year and left the 2011 growth forecast unchanged at 4.3 percent. The Committee of European Banking Supervisors confirmed that it will release the bank stress tests on July 23, with market participants and the European Central Bank satisfied with the coverage of the region's banking industry. Global equity market closed the week over 4 percent higher and yields on ten-year government bonds rose. Volatility within equity markets subsided, with the VIX falling 22 percent. Commodity prices edged higher, which together with the robust Australian labour market report, led to the Australian dollar closing the week at US\$0.87.

Incoming data continue to point to a moderation in the US economy's recovery. The economy shed 125,000 jobs in June, driven by a 225,000 unwind in temporary Census employment. Private non-farm payrolls rose by less than expected, with 83,000 jobs created in June. The unemployment rate fell from 9.7 percent to 9.5 percent, although the improvement was driven by a fall in the participation rate as discouraged workers left the work force. Furthermore, employment compensation weakened, driven by fall in average workweek and hourly earnings. The momentum within the services sector recovery is starting to wane, with the June non-manufacturing ISM survey falling by more than expected, although it remains at a level consistent with expansion. However, on a more positive note, initial jobless claims fell and high frequency retail sales data were strong. The outlook for business investment is also robust, with core non-defence capital goods shipments rising in May, consistent with double-digit growth equipment and software investment in the June quarter.

Euro area data for May were generally positive, with rising retail sales and strong growth in German industrial production and trade flows. Consistent with the resilience shown in other sentiment indicators, the second print of the June euro area services PMI was revised higher and remains near its cyclical high. In the UK however, the momentum behind the services sector recovery is starting to wane, with the June services PMI falling 1pt to 54.4.

Strong growth within the Asia region and the corresponding upward pressure on prices led to the central banks of India and Malaysia hiking policy rates, with double-digit inflation leading the Reserve Bank of India to hike intra-meeting. However, the momentum behind Japan's recovery is starting to wane, with machine orders falling 9 percent in May.

In contrast to other advanced economies, Australia continues to record robust employment growth. The economy added 45,900 jobs in June, with 185,000 jobs created so far this year. The unemployment rate was unchanged from May at 5.1 percent while the participation rate ticked up 0.1 percentage point to 65.2 percent. Elsewhere within the economy, the external sector posted its third largest trade surplus on record. Total exports rose 6 percent, with surging commodity prices leading to the value of coal and metal ore exports rising 9.7 percent and 2.8 percent, respectively. The rising terms of trade, which are driving an improvement in the trade balance, will provide a substantial boost to national income and demand and place upward pressure on prices, with the Reserve Bank of Australia (RBA) expecting headline consumer prices to increase above 3 percent in the near term. The RBA left interest rates unchanged at 4.5 percent at its July meeting, *"pending further information about international and local conditions for demand and prices."*

Table 1. Financial market movements, 1 – 8 July 2010

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	4.2%	-	-
US	4.2%	8.4 bps	-
Japan	3.7%	8.0 bps	-0.9%
UK	6.2%	5.7 bps	0.1%
Germany	3.0%	6.6 bps	1.7%
Australia	2.8%	3.8 bps	3.8%

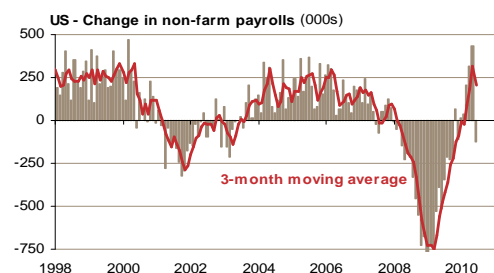
Source: Bloomberg

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Table 2: Economic charts²

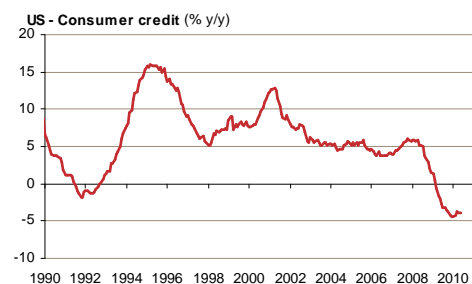
United States



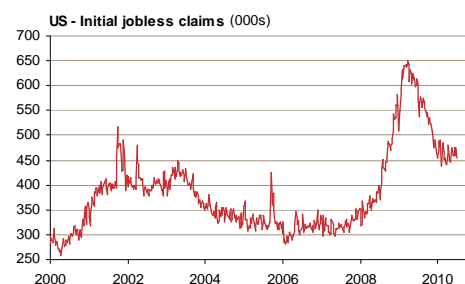
US - Non-farm payrolls (2 July)	Apr-10	May-10	Jun-10	Mkt fcast
Non-farm payrolls (Monthly change, 000's)				
Total	313.0	433.0	-125.0	-110.0
Revisions (from original release)	23.0	2.0	0.0	-
Private	241.0	33.0	83.0	110.0
Goods	67.0	13.0	-8.0	-
Natural resources & mining	7.0	11.0	5.0	-
Construction	22.0	-30.0	-22.0	-
Manufacturing	38.0	32.0	9.0	-
Services	246.0	420.0	-117.0	-
Private	174.0	20.0	91.0	-
Temporary help services	23.3	31.1	20.5	-
Education & health	28.0	20.0	22.0	-
Leisure & hospitality	36.0	-8.0	37.0	-
Other private	12.0	3.0	2.0	-
Govt services	72.0	400.0	-208.0	-



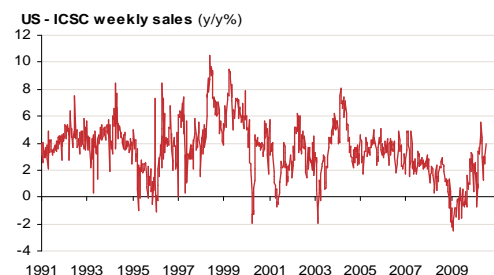
US - Household survey (2 July)	Apr-10	May-10	Jun-10	Mkt fcast
Employment - household survey (% m/m)	0.4	0.0	-0.2	-
Labour force (% m/m)	0.5	-0.2	-0.4	-
Unemployment rate (%)	9.9	9.7	9.5	9.8
Participation rate (%)	65.2	65.0	64.7	-
Hours worked	34.1	34.2	34.1	-
Average hourly earnings (% m/m)	0.3	0.3	0.0	-
Average hourly earnings (% y/y)	2.3	2.4	2.3	-



US - Consumer credit (8 July)	Mar-10	Apr-10	May-10	Mkt fcast
Consumer credit outstanding (sa, change, \$USbns)	-5.2	-14.9	-9.1	-2.0
Consumer credit outstanding (sa, y/y%)	-3.8	-3.9	-3.9	-



US - Initial claims (8 July)	18/6/10	25/6/10	2/7/10	Mkt fcast
Continuing claims (000s)	4637.0	4413.0	-	-
Continuing claims (000s, 4wk moving average)	4572.8	4554.0	-	-
Initial jobless claims (000s)	459.0	475.0	454.0	460.0
Initial jobless claims (000s, 4wk moving average)	463.3	467.3	466.0	-



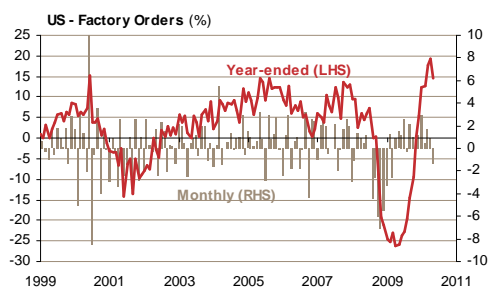
US - ICSC Chain Store sales (7 July)	18-06-10	25-06-10	02-07-10	Mkt fcast
ICSC Chain store sales, w/w%	-0.5	2.1	1.0	-
ICSC Chain store sales, y/y%	2.5	3.0	3.9	-



US - Redbook Retail sales (7 July)	18-06-10	25-06-10	02-07-10	Mkt fcast
Redbook index, weekly total, m/m%	-0.4	-0.6	-0.5	-
Redbook index, weekly total, y/y%	3.2	2.5	3.1	-

² Source: FactSet

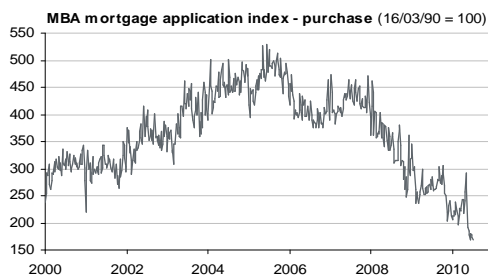
United States (con'd)



US - Factory Orders & Shipments (2 July)	Mar-10	Apr-10	May-10	Mkt fcast
Factory Orders (% m/m)	1.7	1.0	-1.4	0.5
Durable goods	0.1	2.9	-0.6	-
Non-durable goods	3.1	-0.6	-2.1	-
Capital goods orders (% m/m)	-5.7	6.3	-1.5	-
Core non-defense capital goods orders	6.7	-2.8	3.9	-
Shipments (% m/m)	2.6	0.6	-1.3	-
Durable goods	2.1	2.0	-0.3	-
Non-durable goods	3.1	-0.6	-2.1	-
Capital goods shipments (% m/m)	1.9	-0.4	-0.7	-
Core non-defense capital goods shipments	2.3	0.4	1.4	-
Manufacturing inventories (% m/m)	0.5	0.6	-0.4	-
Inventory to shipments ratio	1.24	1.24	1.3	-

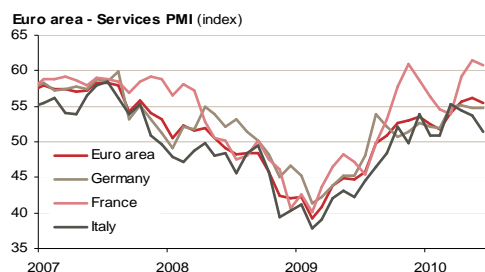


US - Non-manufacturing ISM (6 July)	Apr-10	May-10	Jun-10	Mkt fcast
Composite	55.4	55.4	53.8	55.0
Business activity (25%)	60.3	61.1	58.1	-
New Orders (25%)	58.2	57.1	54.4	-
Order Backlog	49.5	56.0	55.5	-
New export orders	57.0	53.5	48.0	-
Inventory change	54.5	62.5	58.5	-
Inventory sentiment	53.5	60.5	59.0	-
Imports	56.5	56.5	48.0	-
Prices paid	64.7	60.6	53.8	-
Employment (25%)	49.5	50.4	49.7	-
Supplier deliveries (25%)	53.5	53.0	53.0	-



US - Mortgage applications (7 July)	18-06-10	25-06-10	02-07-10	Mkt fcast
Purchase index	177.9	172.1	168.6	-
% w/w	-1.2	-3.3	-2.0	-
Refinancing index	3,208.5	3,613.1	3,944.6	-
% w/w	-7.3	12.6	9.2	-
Composite index	621.2	675.9	721.5	-
% w/w	-5.9	8.8	6.7	-

Euro area

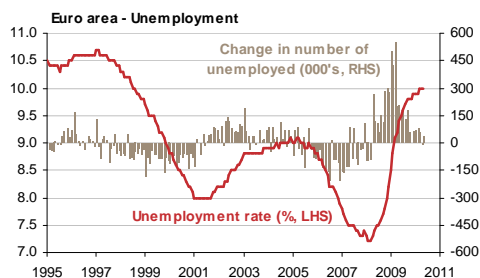


Euro area - Services PMI (5 July)	May-10	Jun-10 (P)	Jun-10 (F)	Mkt fcast
Euro area	56.2	55.4	55.5	55.4
Germany	54.8	54.6	54.8	54.6
France	61.4	61.6	60.8	61.6
Italy	53.7	-	51.5	53.6



Euro area - Retail sales (5 July)	Mar-10	Apr-10	May-10	Mkt fcast
Retail sales (sa, m/m%)	0.7	-0.9	0.2	0.3
Retail sales (nsa, y/y%)	1.6	-0.5	0.3	-0.3

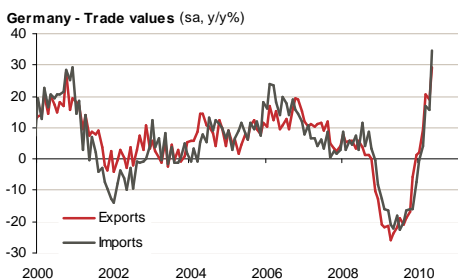
Euro area (con'd)



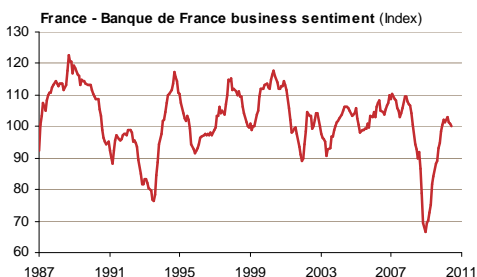
Euro area - Labour market (2 July)	Mar-10	Apr-10	May-10	Mkt f'cast
Unemployment rate (sa, %)	10.0	10.0	10.0	10.1
Unemployment (sa, change, 000s)	55.0	-6.0	35.0	-
Unemployment (sa, m/m%)	0.4	0.0	0.2	-
Unemployment (sa, y/y%)	9.5	7.9	6.7	-



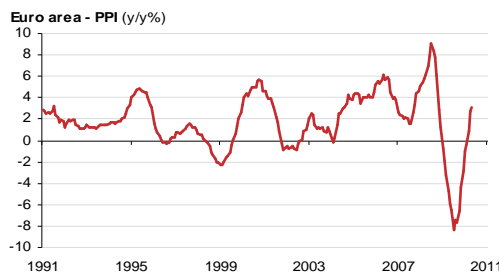
Germany - Factory orders (7 July)	Mar-10	Apr-10	May-10	Mkt f'cast
Factory orders (sa, volumes, m/m%)	5.1	3.2	-0.5	0.3
Factory orders (sa, volumes, y/y%)	26.2	30.2	24.4	24.9
Domestic orders (sa, volumes, m/m%)	5.6	2.9	-0.6	-
Domestic orders (sa, volumes, y/y%)	23.0	26.1	19.9	-
Foreign orders (sa, volumes, m/m%)	4.7	3.5	-0.3	-
Foreign orders (sa, volumes, y/y%)	29.0	34.0	28.6	-



Germany - Trade balance (8 July)	Mar-10	Apr-10	May-10	Mkt f'cast
Trade balance (sa, €bns)	13.0	13.1	9.7	13.5
Exports (sa, m/m%)	10.8	-6.3	9.2	-
Exports (sa, y/y%)	20.7	18.9	29.2	-
Imports (sa, m/m%)	11.4	-7.2	14.8	-
Imports (sa, y/y%)	17.0	15.7	34.6	-



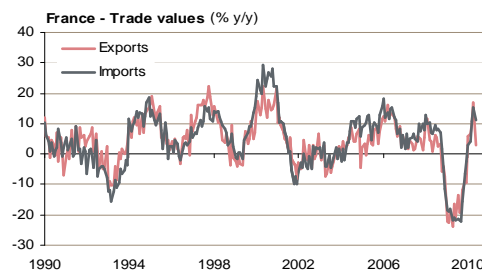
France - Banque de France business sentiment (8 Ju	Apr-10	May-10	Jun-10	Mkt f'cast
Business sentiment (index)	101.5	101.0	100.2	100.0



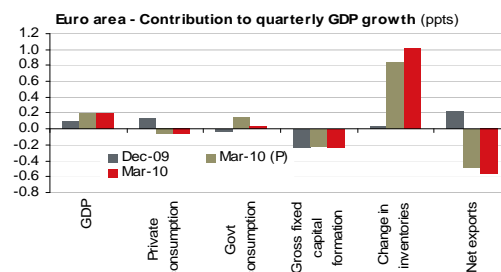
Euro area - PPI (2 July)	Mar-10	Apr-10	May-10	Mkt f'cast
Headline PPI (nsa, m/m%)	0.6	1.0	0.3	0.3
Headline PPI (nsa, y/y%)	0.9	2.8	3.1	3.1



Germany - Industrial production (8 July)	Mar-10	Apr-10	May-10	Mkt f'cast
Industrial production (sa, m/m%)	3.7	1.2	2.6	0.9
Industrial production (sa, y/y%)	9.1	14.0	12.4	9.3



France - Trade balance (7 July)	Mar-10	Apr-10	May-10	Mkt f'cast
Trade balance (sa, €bns)	-4.5	-4.3	-5.5	-3.9
Exports (values, sa, m/m%)	2.8	0.7	-5.2	-
Exports (values, sa, y/y%)	9.8	17.1	3.0	-
Imports (values, sa, m/m%)	5.5	0.0	-1.1	-
Imports (values, sa, y/y%)	10.6	15.2	11.1	-

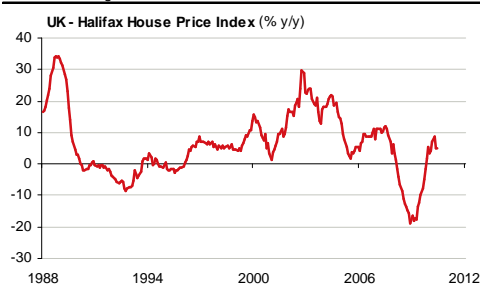


Euro area - National accounts (7 July)	Dec-09	Mar-10 (P)	Mar-10 (F)	Mkt f'cast
GDP (sa, q/q%)	0.1	0.2	0.2	0.2
Households & NPISH final consumption expenditure	0.2	-0.1	-0.1	-
Government consumption	-0.2	0.6	0.2	-
Gross fixed capital formation	-1.2	-1.1	-1.2	-
Changes in inventories & acquisitions less disposal	0.0	0.8	1.0	-
Net exports (ppt contribution)	0.2	-0.5	-0.6	-
Exports	1.8	2.5	2.1	-
Imports	1.2	4.0	3.8	-

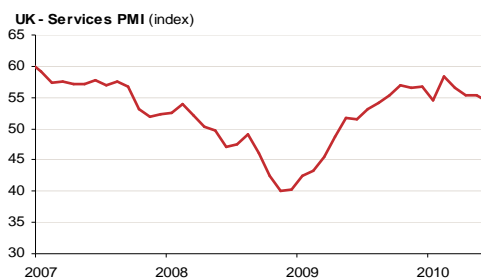
United Kingdom



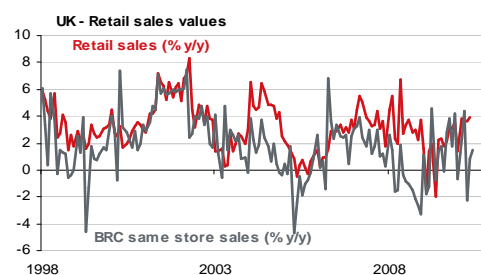
UK - Industrial production (8 July)	Mar-10	Apr-10	May-10	Mkt f'cast
IP (% m/m)	1.7	-0.7	0.8	0.4
IP (% y/y)	2.3	0.9	2.5	3.1
Broad Industry Groups (% m/m)				
Mining and Quarrying incl. Oil & Gas Extraction	1.6	-0.4	2.5	-
Electricity, Gas and Water Supply	-1.2	-0.5	1.4	-
Oil and Gas Extraction	1.7	-0.2	2.5	-
Manufacturing	2.3	-0.8	0.3	-



UK - Halifax house prices (8 July)	Apr-10	May-10	Jun-10	Mkt f'cast
Halifax house prices (index)	544.4	541.4	537.9	-
Halifax house prices (nsa, m/m%)	-0.1	-0.6	-0.6	-
Halifax house prices (nsa, 3m/3m%)	-0.5	-0.2	-0.6	-
Halifax house prices (nsa, y/y%)	8.7	5.1	4.9	-

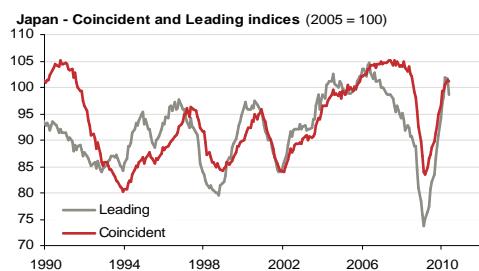


UK - Services PMI (5 July)	Apr-10	May-10	Jun-10	Mkt f'cast
Services PMI	55.3	55.4	54.4	55.0



UK - BRC Retail Sales (7 July)	Apr-10	May-10	Jun-10	Mkt f'cast
Like-for-like retail sales (y/y%)	-2.3	0.8	1.5	-

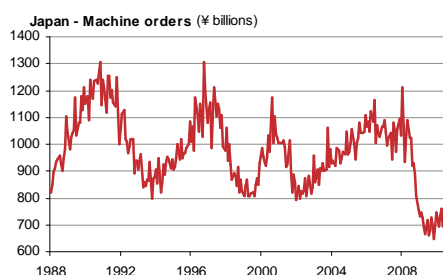
Japan



Japan - Coincident index (6 July)	Mar-10	Apr-10	May-10	Mkt f'cast
Coincident index (index, 2005 = 100)	100.5	101.3	101.2	101.2
Leading index (index, 2005 = 100)	101.9	101.7	98.7	98.9

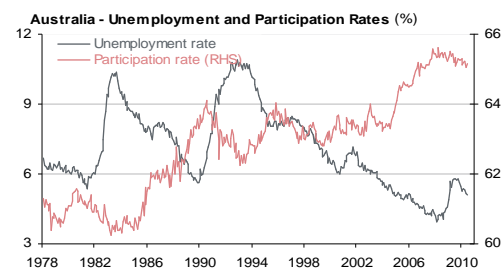


Japan - M2 money supply (j)	Apr-10	May-10	Jun-10	Mkt f'cast
M2 money supply (sa, y/y%)	2.9	3.1	2.9	-

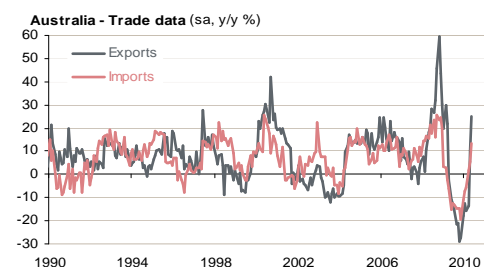


Japan - Machine orders (8 July)	Mar-10	Apr-10	May-10	Mkt f'cast
Machinery orders ex volatiles (sa, m/m%)	5.4	4.0	-9.1	-3.0
Machinery orders ex volatiles (sa, y/y%)	0.8	9.6	4.0	10.8

Australia



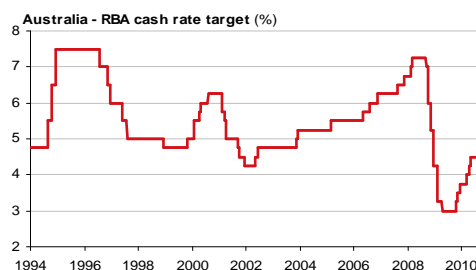
Australia - Labour Force Survey (8 July)	Apr-10	May-10	Jun-10	Mkt fcast
Employment (sa, m/m%)	0.3	0.2	0.4	-
Employment (sa, y/y%)	2.2	2.5	3.3	-
Employment (sa, change, 000s)	35.8	22.8	45.9	15.0
Full-time employment (sa, change, 000s)	40.3	31.9	18.4	-
Part-time employment (sa, change, 000s)	-4.5	-9.1	27.5	-
Hours worked (sa, m/m%)	-0.8	2.8	-0.4	-
Hours worked (sa, m/m%)	0.5	4.1	3.2	-
Unemployment rate (sa, %)	5.3	5.1	5.2	-
Participation rate (sa, %)	65.2	65.1	65.2	65.1



Australia - Trade balance (6 July)	Mar-10	Apr-10	May-10	Mkt fcast
Trade balance (sa, values, \$bns)	-1.8	1.1	1.6	0.5
Exports (sa, values, m/m%)	0.9	13.6	6.0	-
Exports (sa, values, y/y%)	-13.4	10.2	25.0	-
Imports (sa, values, m/m%)	3.5	-0.4	3.9	-
Imports (sa, values, y/y%)	1.6	5.3	13.4	-



Australia - ANZ Job Ads (5 July)	Apr-10	May-10	Jun-10	Mkt fcast
ANZ Job Ads (sa, m/m%)	-1.2	4.3	1.2	-
ANZ Job Ads (sa, y/y%)	15.0	21.7	32.6	-
Internet job ads (sa, m/m%)	-1.3	3.3	3.0	-
Internet job ads (sa, y/y%)	14.7	20.3	34.0	-
Newspaper job ads (sa, m/m%)	-0.6	-4.4	-1.6	-
Newspaper job ads (sa, y/y%)	17.8	14.7	12.8	-



Australia - Cash rate (6 July)	May-10	Jun-10	Jul-10	Mkt fcast
Cash rate (%)	4.50	4.50	4.50	4.5

Australia - TD-MI Inflation Gauge (5 July)	Apr-10	May-10	Jun-10	Mkt fcast
TD-MI monthly inflation gauge (m/m%)	0.4	0.5	0.3	-
TD-MI monthly inflation gauge (y/y%)	2.9	3.7	3.6	-