Quarterly Economic Report

October 2012

BankSA

Summary

- Quantitative easing by central banks was a key focus for financial markets in the September quarter, and helped support financial market sentiment. The Federal Reserve announced it would purchase mortgage backed securities (MBS) at a pace of $40 billion a month until there is a substantial improvement in the labour market, providing a strong commitment to support the US economy. The action should help keep down mortgage rates, but there are still some downside risks to the outlook.
- Concerns in Europe also subsided, after European Central Bank (ECB) president Mario Draghi pledged to do “whatever it takes to preserve the euro” and announced a plan for unlimited purchases of sovereign bonds. The measures are steps in the right direction and alleviated fears of an imminent euro zone breakup. However, there remains the issue of addressing the fiscal problems, as highlighted by the situation in Spain. Pressure is mounting on the Spanish government to ask for external assistance.
- The news from China is suggesting that the current slowdown has extended through to the September quarter. There also remains considerable uncertainty about the outlook. While there remains plenty of scope for fiscal and monetary stimulus, authorities are treading cautiously and unwilling to reinflate the property market or “overinvest”. The lingering problems in Europe will also continue to weigh on export growth.
- Share markets and most commodities rallied on the easing of monetary policy from central banks globally. Despite monetary stimulus, the weakening outlook for global growth and ongoing debt problems in Europe has kept bond yields close to record lows.
- The Australian economy grew a modest 0.6% in the June quarter, taking the annual rate down to 3.7% for the year to June, which is above the trend rate of growth. Government spending, household consumption, net exports and non-dwelling construction contributed to growth in the quarter. More recent data has indicated economic growth entered a slower phase in the September quarter, which should see the growth data soften.
- The Reserve Bank of Australia (RBA) cut official interest rates by another 25 basis points in October. The RBA was notably more downbeat on the global economy, particularly China. The RBA said it expects the terms of trade will “probably decline further”, but remain at high levels on a historical comparison. The RBA’s statement indicates it is leaving room for another possible rate cut in coming months.
- The AUD is trading at a similar level to three months ago, currently around US$1.02. Despite softer domestic economic data, the RBA in an easing cycle and falling commodity prices, the Aussie dollar has remained resilient. News the US Fed will engage in QE3 has weighed on the US dollar, also providing support for the Aussie and the still relatively high yields in Australia have attracted currency inflows.
- This quarter’s feature article is entitled “The US Economy – Recovery on Track?”

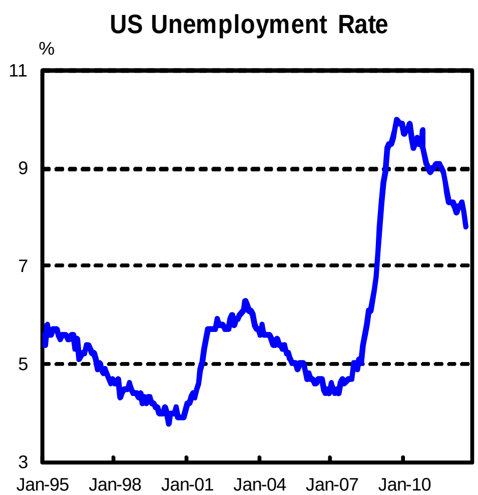
Contents

Special Feature Article

The US Economy – Recovery on Track?

Introduction

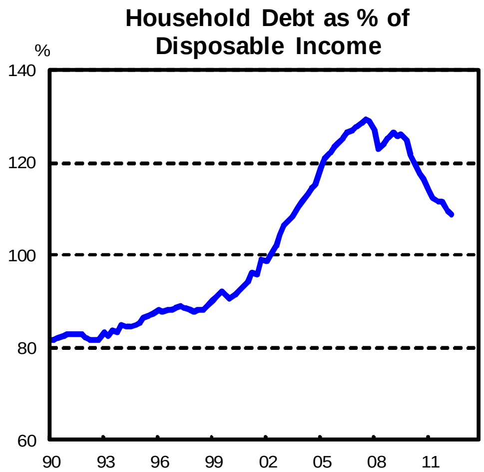
After emerging from recession in 2008-2009, the US economy's road to recovery has been rough. Growth has been anaemic - the US economy grew at just 1.8% in 2011, a pace below trend and insufficient to reduce the unemployment rate to an acceptable level. The unemployment rate has fallen since it peaked in late 2009 at 10.0%, but it remains stubbornly high at close to 8%, and continues to be a major concern for US policymakers.



Treading Water

The collapse of the US housing market and resulting Global Financial Crisis left the US economy with a large overhang of debt. A major factor behind the sluggish US recovery is the continued "deleveraging" of debt by the private sector.

Stung by large falls in house prices and losses in share markets, householders are undergoing the difficult process of reducing their debt levels and are learning to live within their means. Over the last few years, household debt levels, as a proportion of incomes, have fallen to well below their peak, but they remain at historically high levels (see chart below). The reduced appetite for debt indicates that consumption growth is unlikely to exceed growth in incomes. Unfortunately, income growth has been soft thanks to a still high unemployment rate. In real terms (after accounting for inflation), wages have barely grown over the past year. The fact that US consumers are living within their means is a positive long-term development, but it also indicates household consumption is not contributing as much to growth as it did in the past.



It's all Politics

The political environment is a major issue generating significant uncertainty for businesses and households. The US political landscape has become highly polarised, and has been exacerbated by the upcoming presidential election on 6 November 2012. This suggests any resolution on dealing with the issues facing US public finances will be a difficult task.

- **The Debt Ceiling**

An example of the problems facing the US political process was the lengthy debate in mid-2011 to increase the debt ceiling, which is the legislated limit for US federal debt. The delay by Congress raised the possibility of a default on US debt. This in turn helped trigger a downgrade by Standard and Poor's of the US credit rating from AAA to AA+ in August 2011. The US Treasury Department has said it expects the current debt ceiling of US$16.39 trillion to be reached towards the end of this year.

- **The "Fiscal Cliff"**

Another concern for markets is the upcoming "fiscal cliff". The "fiscal cliff" refers to a number of tax cuts that are due to expire and spending cuts that kick in at the beginning of next year. These automatic adjustments would impose a 4 to 5% drag on the US economy in 2013 if nothing is done.

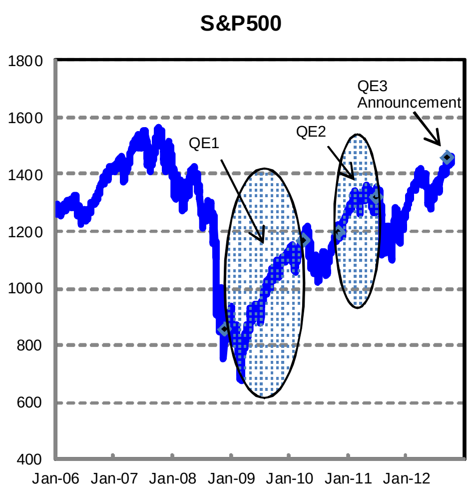
Apart from avoiding the fiscal cliff and raising the debt ceiling, there is a need to address the long-term issues of reforming entitlements and taxes as these threaten to further blowout federal debt.

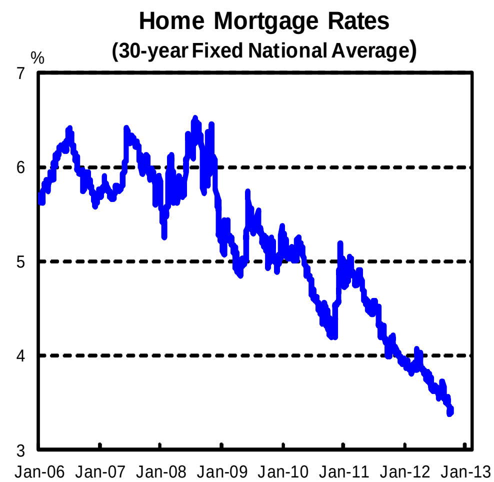
The Debate on Quantitative Easing

On 13 September, the Federal Reserve announced the purchase of mortgage-backed securities at a pace of $40 billion per month. The action, dubbed "QE3", is intended to reduce longer-term interest rates by increasing demand for those securities. It follows quantitative easings (QE1 and QE2) delivered in 2008 and in 2010 respectively, which included the purchase of US Treasury securities and mortgage-backed securities.

Borrowing rates in the US economy are more closely tied to long-term interest rates. Therefore lower long-term rates should support areas of the economy that are in need of relief or stimulus. In theory, quantitative easing also works by increasing money supply, which leads to rising asset prices. This helps boost wealth and confidence and therefore supports spending.

Quantitative easing is not without criticism. Sceptics of quantitative easing say that it simply boosts inflation without any benefit to the real economy. Another criticism is that central bank bond purchases keep government bond yields artificially low, providing a disincentive for governments to get their finances in order.



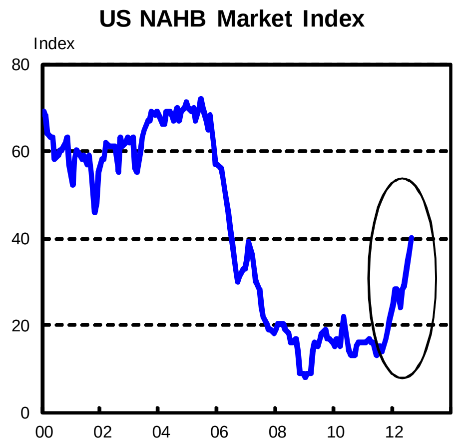


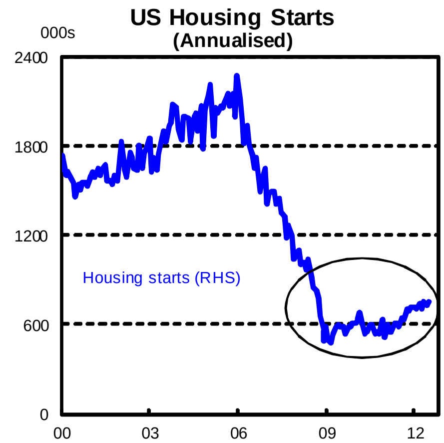
Equity markets have rallied (see chart above left) and long-term interest rates have fallen in step with QE1 and QE2. However, the debate on QE is on whether or not it supports real economic growth. Lower interest rates will have a limited impact on the economy when there remains a reluctance to borrow by the private sector and while lending standards remain tight. Despite the criticism, any QE is likely better than no QE at all. Further, the few empirical studies to date on asset purchases by central banks have generally revealed a positive impact on the real economy.

A Glimmer of Hope – the US Housing Market

An encouraging sign for the US economy is some improvement in the housing market after three to four years of stagnation. House prices are stabilising. The S&P/Case Shiller house price index rose 1.2% in the year to July, the strongest annual growth since August 2010. Furthermore, confidence in the housing market is at its highest since 2006 according to the US National Association of Home Builders.

The prospect of rising house prices suggests that potential home buyers may start to wade back into the market, particularly with housing affordability close to record highs. There are also other encouraging signs for the housing market. The announcement of QE3 is already bringing down mortgage rates. The average rate for 30-year and 15-year fixed rate mortgages have recently hit record lows. Residential construction is also beginning to pick up and although activity is well below earlier years, it should start contributing to growth. A recovery in housing will not only boost confidence in the household sector, it should also provide support to businesses and employment.





A key risk factor for the housing market is a continued reluctance to lend by the banking sector. US banks are in much better shape than prior to the GFC – they have cleaned up their balance sheets, recapitalised, and recent earnings growth has been positive. However, lending conditions for mortgages remain tight. According to the Senior Loan Officer Opinion Survey (a quarterly survey by the Federal Reserve), lending standards for mortgages have hardly eased since the GFC, and likely reflects the large proportion of troubled mortgages that remain among loans outstanding.

A major downside risk to the US housing sector is if the problems in Europe intensify. This could lead to an escalation of stress in financial markets and further restrict lending.

Outlook

Four years after the collapse of Lehman Brothers, there remain many challenges for the US economy and the political issues are a dark cloud over the outlook. We believe that the US can avoid going over the "fiscal cliff", but fiscal policy is still likely to drag on growth and the uncertainty is weighing on spending and hiring decisions by firms. The other risk to the US economy lies with the global backdrop. A weakening outlook for China and Europe is weighing on export growth, which helped support the US recovery over 2010-2011.

Despite these uncertainties, there are some positive signs. The US housing market may finally be on the mend and rising share markets will boost confidence. Additionally, stimulus from the Fed should also provide some limited support. We expect the US to post growth in 2012 and 2013, but given the global environment and prevailing uncertainties, it will most likely remain below trend.

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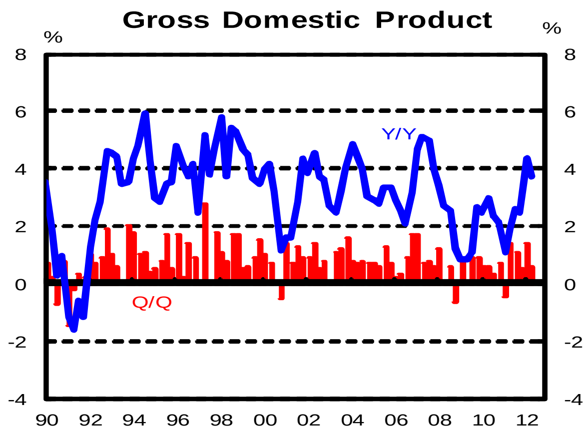
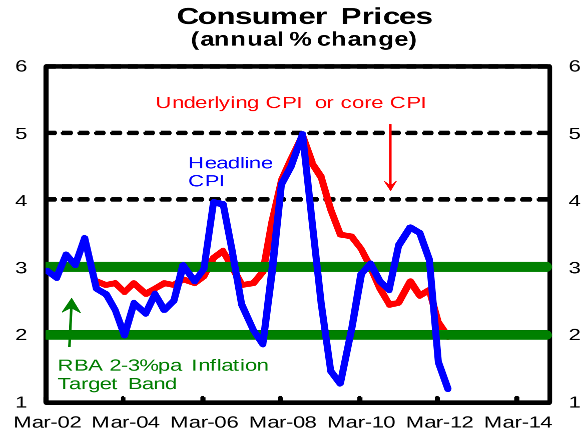
Recent Australian Economic Data

Gross Domestic Product



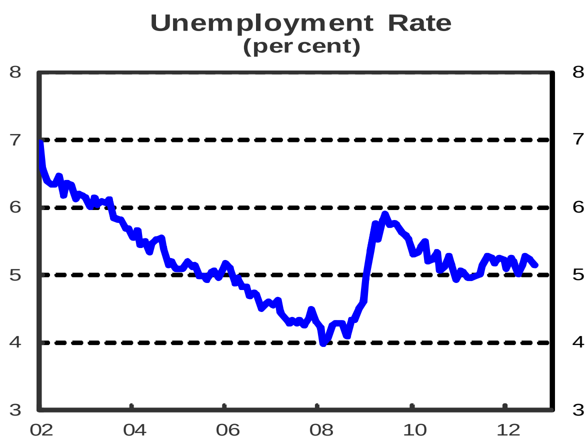
The Australian economy grew by a modest 0.6% in the June quarter, taking the annual rate in the year to June to an above trend 3.7%. The largest contributor to growth for the quarter was government spending, although this is likely to prove temporary. This was followed by household consumption, net exports and non-dwelling construction. Meanwhile, dwelling investment detracted from growth. Despite the positive result, we expect growth to soften in coming quarters, although it should remain close to trend. By State, the strongest economic growth was seen in Queensland and Western Australia over the June quarter.

Consumer Price Index



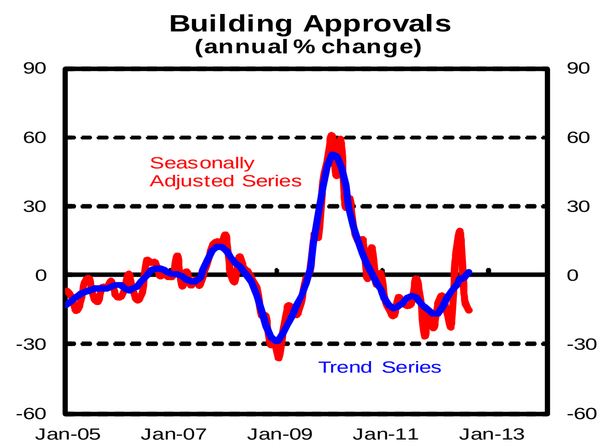
Headline inflation rose 0.5% in the June quarter, which was stronger than the 0.1% rise in the March quarter. The rise was due to the fall in the Australian dollar, which boosted import prices and a stabilisation in fruit and veggie prices as the impact of the Queensland floods waned. Underlying inflation rose 0.6% in the June quarter, giving an annual rate of 2.0%, which is at the bottom of the RBA's 2-3% inflation target. Tradeables inflation rose 0.7% in the quarter, as the Australian dollar fell. Non-tradeables inflation rose a modest 0.4% for the quarter, suggesting that domestic price pressures are easing.

Labour Force



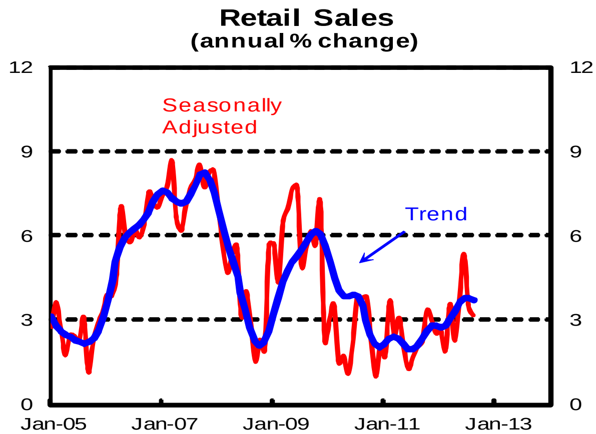
Jobs fell by 8.8k in August, suggesting some of the strength seen earlier in the year is fading. In the year to August, 62.1k new jobs were created. Despite the fall in jobs in August, the unemployment rate fell to a three-month low of 5.1% from 5.2% in July. The decline in the unemployment rate reflects a lower participation rate. In August the participation rate fell to 65.0%, its lowest in more than 5 years, as fewer people searched for work. We expect the labour market to soften further, which should start to see the unemployment rate edged higher later this year.

Building Approvals



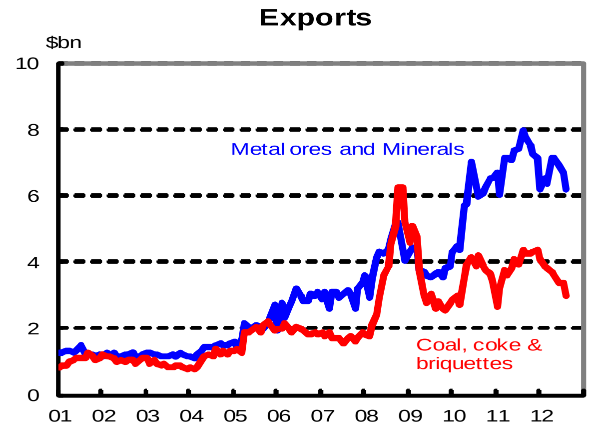
Building approvals rose 6.4% in August following a 21.2% decline in the previous month. The data has been extremely volatile over the past few months and as a result it has been difficult to gauge the overall picture for dwelling investment. In the year to August, building approvals are down 15.4%, indicating it is still too early to signal a pickup in residential construction.

Retail Sales



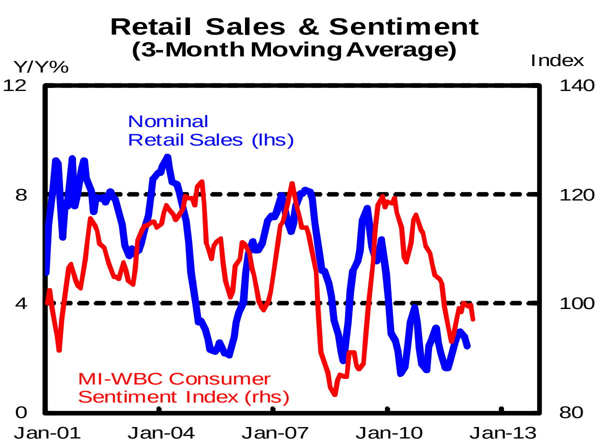
Retail spending rose by a modest 0.2% in August to be up 3.2% on a year ago. The annual pace of growth in retail spending has slipped back to levels seen earlier in the year. This is despite the RBA rate cuts delivered since November last year, and indicates that consumers are still concerned about the economic outlook and job security.

Trade Balance



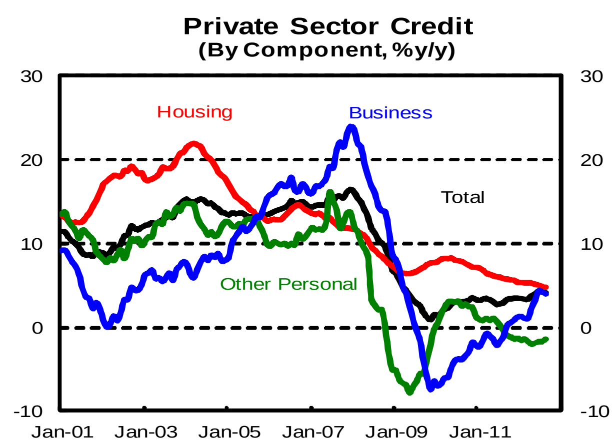
The trade balance posted a $2.0 billion deficit in August, the largest monthly trade deficit since March 2008. Australia's trade position has faced the double whammy of a strong Australian dollar and falling commodity prices. The deterioration reflected a 3.3% decline in exports, while imports fell by a smaller 1.3%. Exports have now fallen for three consecutive months, led by metal ores & minerals and coal, coke & briquettes exports. Although commodity prices have partially recovered, we don't expect the trade account to return to surplus anytime soon.

Consumer Sentiment



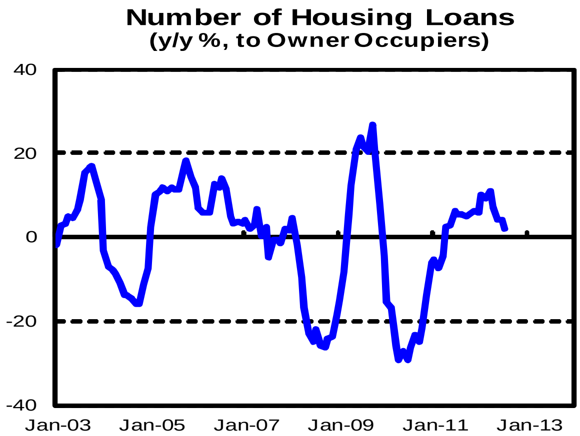
Consumer sentiment gained 1.0% in October. This saw the index rise to 99.2 in October, with the index below 100 indicating more respondents are pessimistic than optimistic, for the eighth consecutive month, despite the RBA lowering official interest rates five times in the past year. The 'time to buy a dwelling' component surged to its highest since September 2009, suggesting recent rate cuts from the RBA are starting to impact consumer sentiment.

Private Sector Credit



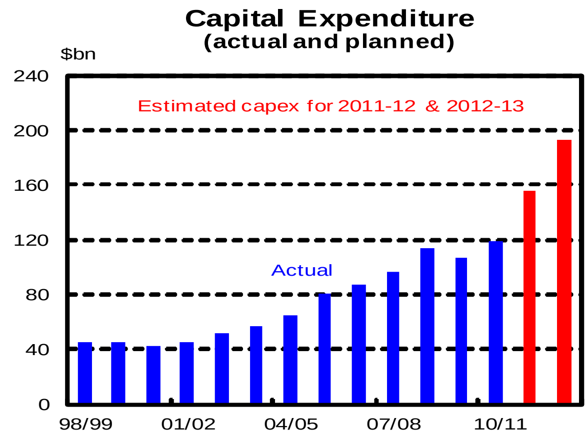
Financial conservatism maintained its grip on the economy as total credit rose only 0.2% in August for growth of just 4.1% over the year. Lending to business declined for the first time since January falling 0.1% in August. This is hardly a sign of robust economic activity. Consumers continue to pay down their personal debt. August saw a further 0.3% reduction in credit outstanding for 'other personal' purposes.

Housing Finance



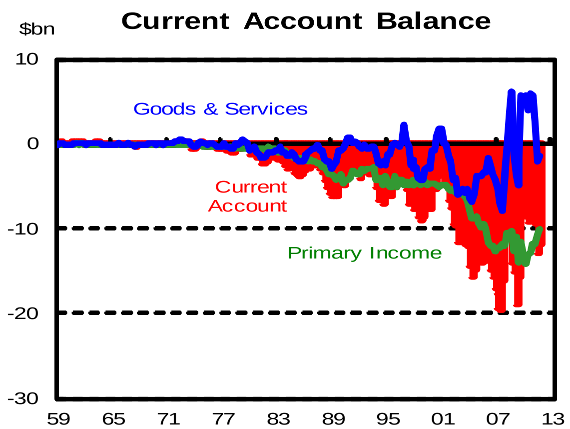
The number of home loans for owner occupation fell 1.0% in July. For the year to July, housing finance for owner occupiers is up 2.0%, down from a recent peak of 10.7% growth in the year to March, and the slowest annual rate since April 2011. First home buyers as a proportion of all home buyers increased to 19.2% in July. The value of home loans to investors fell 2.7% in July, taking the annual growth rate for investor home loans down to 5.1%. The decline in housing finance indicates that conditions in the housing sector remain difficult despite interest rate cuts from the RBA since November 2011, and with borrowing costs now below average.

Capital Expenditure



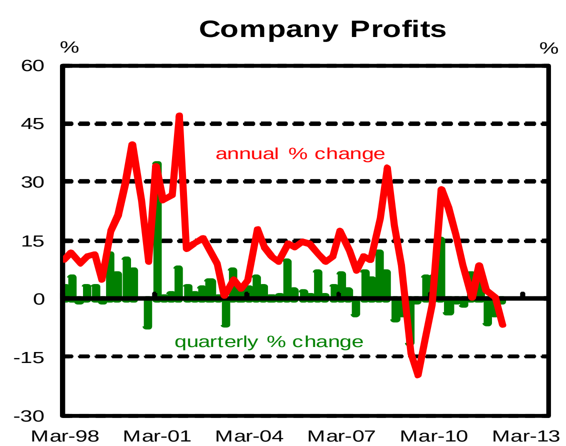
Business investment remained solid in the June quarter, with a 3.4% increase in capital expenditure. For the year to June, capital expenditure rose 27.4%. Capital expenditure in the mining sector rose 72.3% over the year to June. Capital spending plans for 2012-13 remain firm at this stage, with businesses expecting capital investment to rise by almost 25% over the previous financial year. The June quarter figures on capital expenditure, however, predate the recent declines in iron ore prices and possibly before announcements from Australia's largest miners regarding the shelving of projects.

Current Account



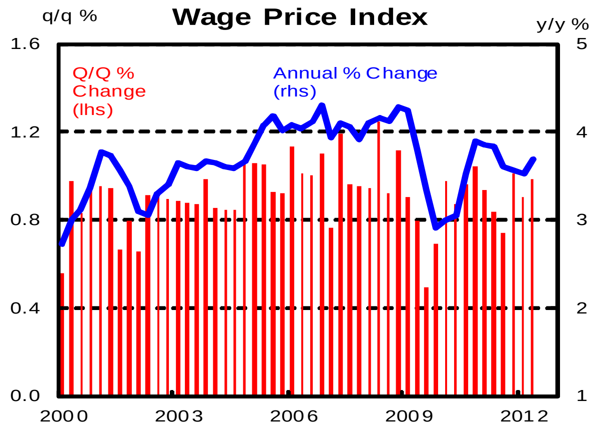
The current account deficit narrowed by $1.2bn to $11.8bn in the June quarter. The improvement reflected a partial recovery of exports from temporary weather disruptions in the March quarter. The June current account deficit was the second consecutive quarterly deficit, reflecting the impact of the high Australian dollar and likely softer global demand. The other component of the current account balance is the net primary income balance. The primary income deficit improved marginally in the quarter.

Company Profits



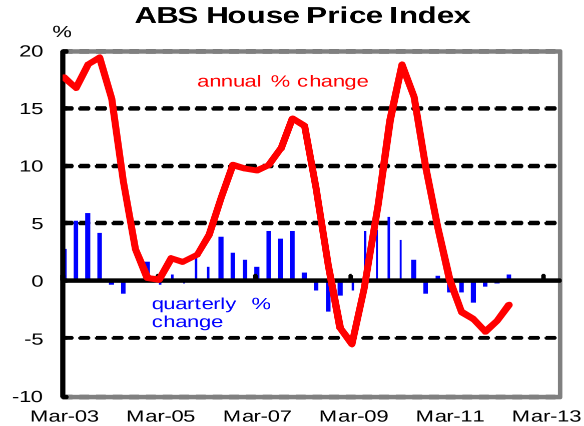
Company gross operating profits slipped 0.7% in the June quarter, the third consecutive quarterly decline. For the year to June, company profits are down 6.5%. The quarterly result varied considerably across industry sectors, ranging from arts and recreation services profits (-14.3%) to the professional and scientific services sector (+20.3%). Mining profits (which accounted for 31.9% of gross operating profits earned) fell 1.0% for the quarter, the third consecutive quarterly decline. In this context, the recent decline in commodity prices in Australian dollar terms has negative implications for national income, taxation and economic growth.

Wage Price Index



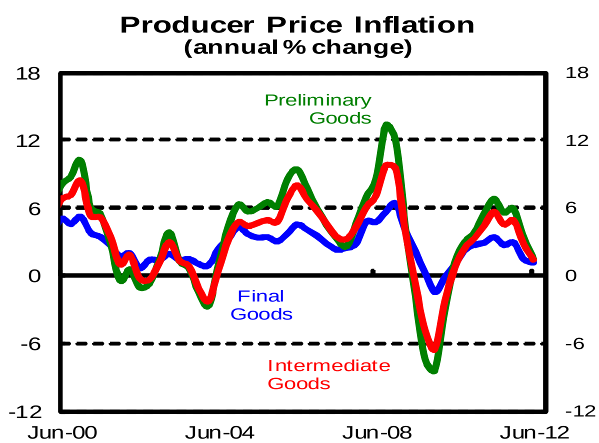
The wage cost index rose a strong 1.0% in the June quarter. This took the annual rate up to 3.7% from 3.5% in the year to March, indicating wage growth remains firm, but well contained. The State breakdown revealed continued strong growth in Western Australia, with growth of 4.8% in the year to the June quarter, while all the other States and territories were below 4%. By industry, the mining sector saw strong growth, followed by the wholesale industry and professional, scientific & technical services. We expect subdued job growth in coming months, which suggests the risk of widespread wage pressures is small.

House Price Index



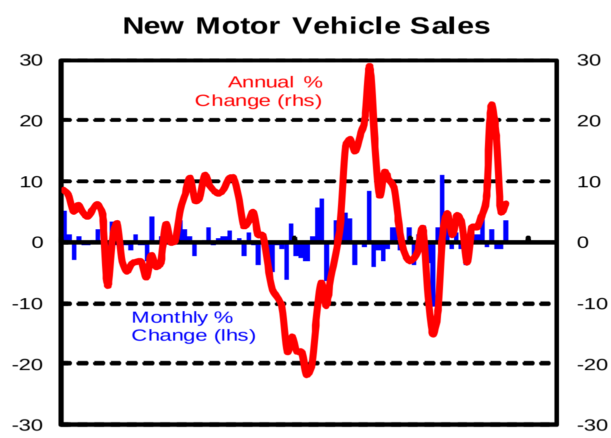
House prices staged a turnaround in the June quarter, according to the ABS. Its measure of house prices rose 0.5%. For the year to the June quarter, ABS house prices fell 2.1%. This was, however, an improvement from the 3.5% decline in the year to the March quarter. The breakdown, however, revealed an uneven performance across different capital cities. Darwin, Sydney, Perth, Adelaide and Brisbane all recorded increases in the June quarter, while house prices in Canberra, Melbourne and Hobart declined. More recent data from RP Data-Rismark indicate that dwelling prices are 1.4% higher in September, and down 1.2% in the year.

Producer Prices



Prices received by producers at the final stage of production rose 0.5% in the June quarter. For the year to the June quarter, producer price inflation came in at 1.1%. A 3.3% decline in the value of the Australian dollar (AUD) on a trade weighted basis over the June quarter added to inflationary pressures. The rise in the prices of imported goods was consistently higher than for domestic goods. Within the 0.5% rise in final stage goods prices, domestic goods prices rose 0.3% while imported goods prices rose 1.9%. On a year-on-year basis, producer price inflation is running at sub-2.0% across all stages of production. Intermediate stage goods prices are running at 1.4% inflation as are the prices for preliminary stage goods.

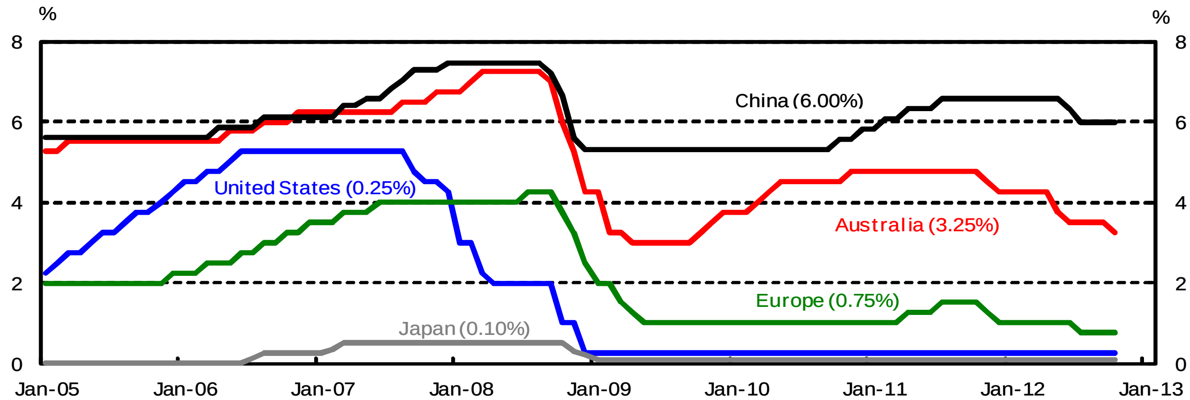
New Motor Vehicle Sales



New motor vehicle sales rose 3.6% in August, taking annual growth from 5.1% to 6.4%. It was the strongest monthly increase in five months, although August's outcome followed two consecutive months of decline. However, soft consumer sentiment is suggesting that consumers will still be cautious in their spending habits, given growing uncertainty about the economic outlook. These worries may keep consumers from making large scale purchases such as new cars.

Interest Rate Markets

Central Bank Outlook



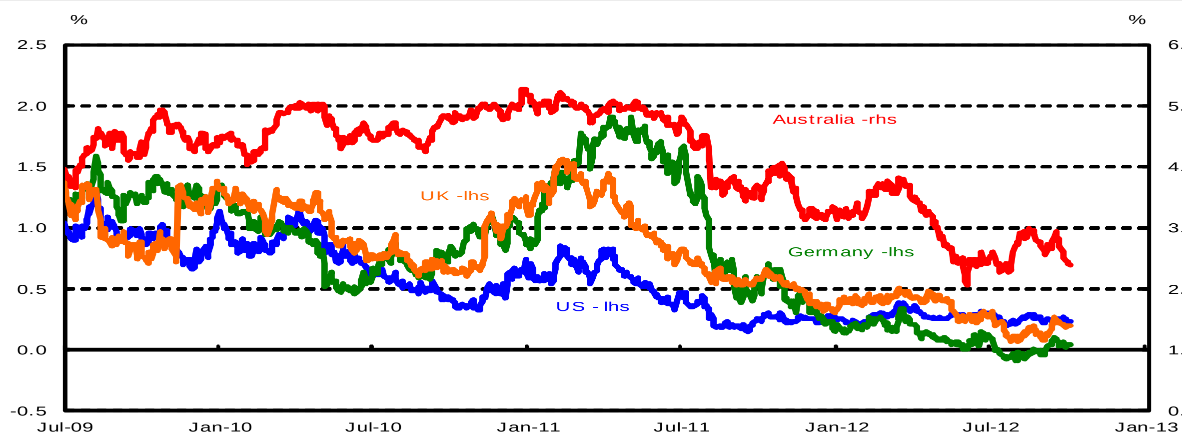
After four months of leaving the cash rate on hold, the RBA lowered the official cash rate by 25 basis points to 3.25% in October. The RBA's statement was notably more downbeat on the global economy with China singled out as the main region of concern. Although there were few signals that another cut was imminent, the RBA has left the door open to move again. Given we expect the run of economic data will be soft, we expect the RBA to cut rates once again in November.

With little room to move on interest rates, the US Federal Reserve recently announced it would embark on QE3 with the aim of improving the labour market. The Fed announced it will purchase an additional US$40 billion per month in agency mortgage-backed securities, while continuing to extend the average maturity of its holdings of securities through 'Operation Twist'. The Fed also extended its near zero interest rate commitment from the end of 2014 to mid-2015.

Concerns Japan's fledgling economic recovery is faltering saw the Bank of Japan increase its asset purchases by ¥10 trillion to ¥80 trillion in September. With official interest rates at 0-0.10%, the Bank of Japan is using increased in asset purchases to boost monetary stimulus.

The ECB left official interest rates unchanged at 0.75% in early October, after announcing a bond purchase program in early September. The bond purchase program is designed to lower bond yields for peripheral Euro zone economies through ECB buying of sovereign bonds. This program suggests ECB chief Draghi may be delivering on his "whatever it takes" commitment.

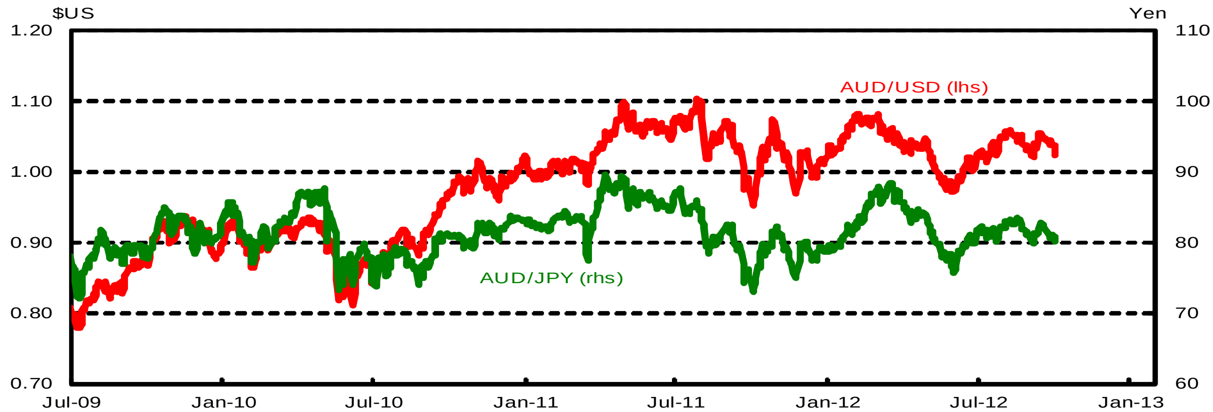
Global 2 Year Bond Yields



Global bonds continued to rally over the past quarter, pushing bond yields to new lows. Demand for bonds was driven by safe haven flows given concerns about the outlook for global economic growth and ongoing nervousness about the Euro zone. The largest move in 2-year bond yields was seen in Australia, where expectations of lower official interest rates drove yields lower. Additionally, global demand for relatively higher yielding bonds has bid up prices. German bond yields moved into negative territory earlier in the quarter, reflecting safe haven flows out of peripheral Euro zone bonds and into German bonds, but have since moved up to 0.04%. Eurozone concerns are currently centred around whether Spain will seek a bailout.

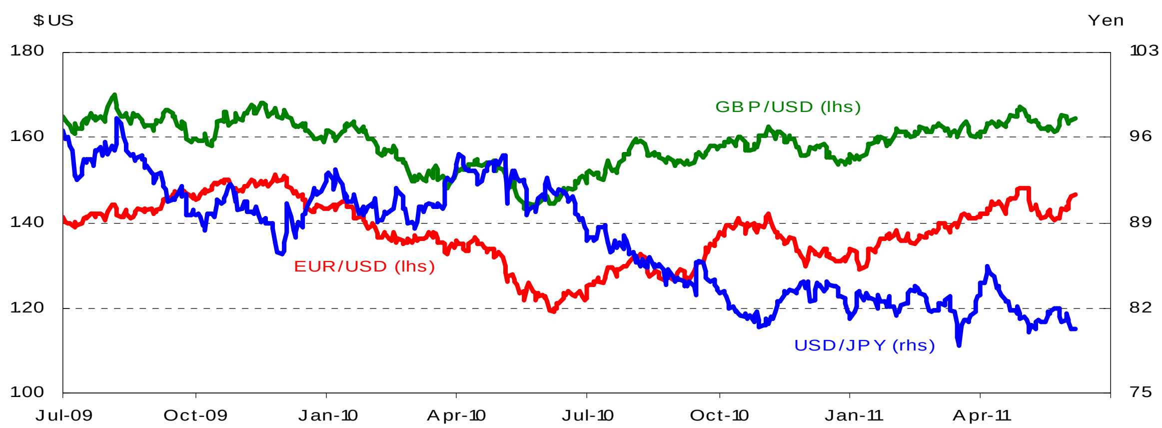
Currency Markets

Australian Dollar



The Aussie had a volatile quarter against the US dollar. The announcement of QE3 and heightened concerns about the US economy as the fiscal cliff approaches, weighed on the US dollar. This has boosted the Aussie earlier in the quarter, however, the Aussie lost ground against the USD last week following the rate cut from the RBA. It has finished only slightly below where it begun the quarter, proving resilient in the face of falling commodity prices and concerns about the outlook for global economic growth. The Aussie has fallen further against the yen over the past quarter, with the yen benefiting from safe haven flows. Additionally, news of quantitative easing from the Bank of Japan failed to match that of the US and hence did not drive the yen down to the same extent. In trade weighted terms the Aussie dollar has gained 1.4% over the quarter.

Global Currencies

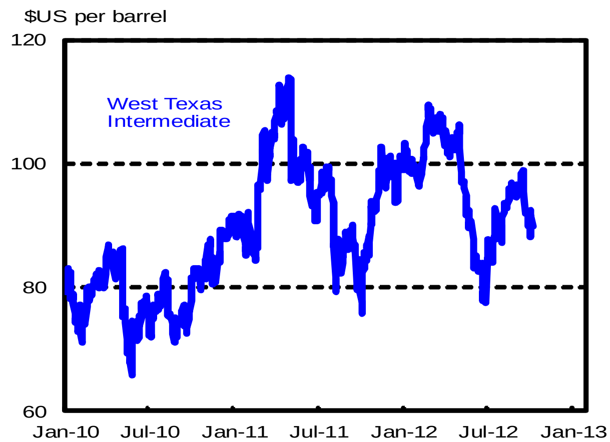


The US dollar weakened against a basket of currencies over the September quarter amid expectations of quantitative easing from the Federal Reserve and the subsequent announcement on 13 September. An alleviation of concerns in Europe further calmed financial markets, and the improvement in risk sentiment also weighed on the US dollar. The US dollar index fell 2.1%. Meanwhile, EUR rose in the quarter, as a plan announced by ECB president Mario Draghi to intervene in bond markets and a conditional approval by the German constitutional court of the ESM bailout fund alleviated the risk of an imminent euro break up. The easing of European concerns was also supportive of GBP, due to the UK's close ties to the euro zone region.

In other currencies, the Japanese yen strengthened in the September quarter, despite the Bank of Japan (BoJ) also increasing bond purchases. However, monetary easing measures by the BoJ were seen as less aggressive than QE3 by the Fed.

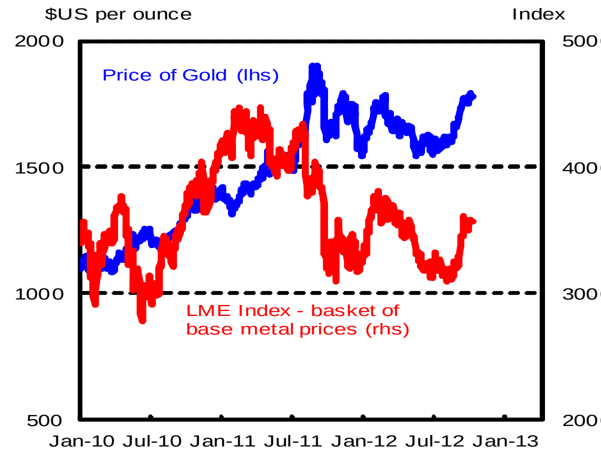
Commodity Markets

Oil



Announcements of bond purchase programs by the ECB and the Fed were supportive of oil prices - the WTI oil price partially recovered to US$99 on 14 September. However, concerns about the softening global growth outlook remained and weighed on oil prices, particularly later in quarter. The WTI oil price rose 8.5% in the September quarter, but remains down on its peak of earlier this year.

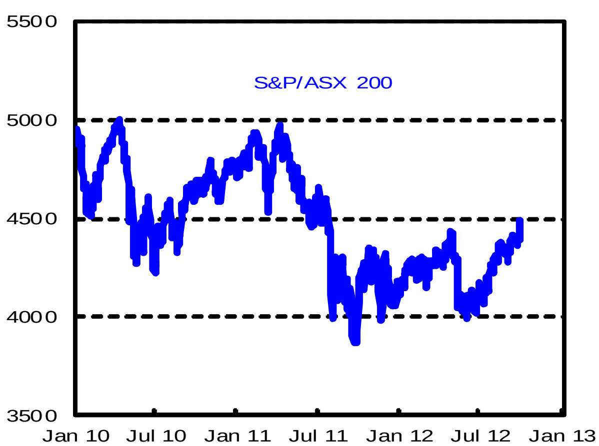
Gold & Base Metals



The prospect of quantitative easing from the Federal Reserve saw commodity prices rally sharply, as it aims to support growth and put downward pressure on the US dollar. The London Metals (LMEX) Index rose 9.1%, while gold prices rose 10.9% in the September quarter. Bulk commodity prices however, came under pressure as the slowdown in Chinese growth raised concerns about future demand for steel.

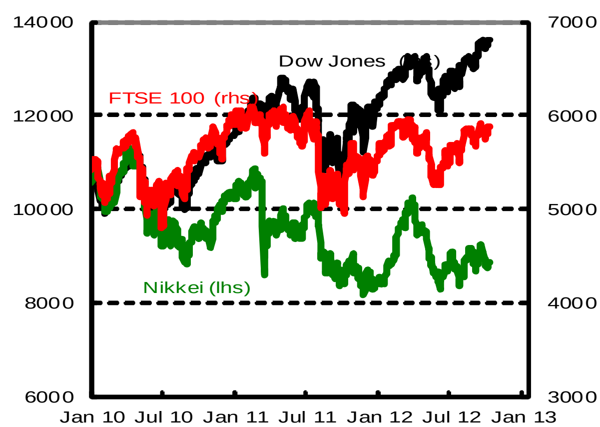
Share Markets

Australia



Expectations of interest rate cuts from the RBA have been supportive of Australian shares. The RBA's October rate cut, which took some investors by surprise, supported sentiment. This has seen the ASX200 outperform the US sharemarket in the September quarter - the ASX200 gained 7.8%. The announcement of QE3 from the US Federal Reserve boosted stockmarkets globally, with the increased money supply seen benefiting stocks.

International Markets



The easing of concerns regarding the Euro zone over the past quarter has benefited global stocks. ECB President Draghi promised to do "whatever it takes", and later followed this up with the announcement of an ECB bond buying program to lower yields in peripheral Euro zone economies. Sentiment towards stocks improved in recent months given news the US will embark on QE3. Over the quarter, the Dow rose 6.6% to touch a five-year high in recent days and the UK FTSE gained 3.7%.

Recent Australian Economic Data

Red – Indicates the result was weaker than consensus expectations

Blue – Indicates the result was stronger than consensus expectations

Black – Indicates the result was **in line** with consensus expectations

All data is for month-on-month unless otherwise specified. The source for consensus forecasts is Bloomberg.

October

WBC-MI Consumer Confidence Oct 1.0% Previous 1.6% 10/10

September

NAB Business Conditions Sep -3 Previous 0 9/10

NAB Business Confidence Sep 0 Previous -3 9/10

ANZ Job Ads Sep -2.8% Previous -2.4% 8/10

AiG Performance of Construction Index Sep 30.9 Prev 32.2 5/10

AiG Performance of Services Sep 41.9 Previous 42.4 3/10

RP Data-Rismark House Prices Sep 1.4% Prev 0.0% 2/10

TD-MI Inflation Sep 0.2% Previous 0.6% 1/10

AiG Performance of Manufacturing Sep 44.1 Previous 45.3 1/10

WBC-MI Consumer Confidence Sep 1.6% Previous -2.5% 12/9

August

Building Approvals Aug 6.4% Consensus 4.7% 4/10

Retail Sales Aug 0.2% Consensus 0.4% 4/10

Trade Balance Aug -$2.0bn Consensus -$0.7bn 3/10

Private Sector Credit Aug 0.2% Consensus 0.3% 28/9

ABS Job Vacancies Aug Q 4.2% Previous -5.4% 27/9

New Motor Vehicle Sales Aug 3.6% Previous -1.1% 17/9

NAB Business Conditions Aug 1 Previous -3 11/9

NAB Business Confidence Aug -2 Previous 3 11/9

AiG Performance of Construction Index Aug 32.2 Prev 32.6 7/9

Employment Aug -8.8k Consensus 5.0k 6/9

Unemployment Rate Aug 5.1% Consensus 5.3% 6/9

TD-MI Inflation Aug 0.6% Previous 0.2% 3/9

RP Data-Rismark House Prices Aug 0.0% Previous 0.6% 3/9

AiG Manufacturing PMI Aug 45.3 Previous 40.3 3/9

ANZ Job Ads Aug -2.3% Previous -0.8% 3/9

WBC-MI Consumer Confidence Aug -2.5% Previous 3.7% 15/8

July

Housing Finance Jul -1.0% Consensus 0.0% 10/9

Trade Balance Jul -$556mn Consensus -$300mn 7/9

Retail Sales Jul -0.8% Consensus 0.2% 3/9

Private Sector Credit Jul 0.2% Consensus 0.4% 31/8

Building Approvals Jul –17.3% Consensus -5.0% 30/8

NAB Business Conditions Jul -3 Previous -1 14/8

NAB Business Confidence Jul 4 Previous -3 14/8

New Motor Vehicle Sales Jul -0.8% Previous -1.0% 14/8

Employment Jul 14.0k Consensus 10.0k 9/8

Unemployment Rate Aug 5.2% Consensus 5.3% 9/8

AiG Performance of Construction Index Jul 32.6 Prev 34.8 7/8

ANZ Job Ads Jul -0.8% Previous -1.1% 6/8

TD-MI Inflation Jul 0.2% Previous -0.2% 6/8

AiG Performance of Services Jul 46.5 Previous 48.8 3/8

AiG Performance of Manufacturing Jul 40.3 Previous 47.2 1/8

RP Data-Rismark House Prices Jul 0.6% Previous 1.0% 1/8

June

Dwelling Starts Q2 4.6% Previous 3.0% 12/9

Gross Domestic Product Q2 0.6% Consensus 0.7% 5/9

Current Account Q2 -$11.8bn Consensus -$12.2bn 4/9

Private Capital Expenditure Q2 3.4% Consensus 3.0% 30/8

Construction Work Done Q2 -0.2% Consensus 0.5% 29/8

CBA/HIA Housing Affordability Q2 62.5 Previous 61.8 23/8

Wage Cost Index Q2 1.0% Consensus 0.9% 15/8

Housing Finance Jun 1.3% Consensus 2.0% 8/8

Retail Sales Jun 1.0% Consensus 0.7% 2/8

Retail Sales Volumes Q2 1.4% Consensus 0.9% 2/8

Trade Balance Jun $9mn Consensus -$375mn 2/8

ABS House Prices Q2 0.5% Consensus -0.5% 1/8

Upcoming Data and Events – Australia, China & US

Australian Data / Events Underlined

October 10

AU WBC-MI Consumer Confidence Oct

US Federal Reserve Beige Book

October 11

AU Consumer Inflation Expectations Oct

AU Employment Sep

AU RBA's Ellis speaks

US Trade Aug

October 12

US Producer Prices Sep

US UoM Consumer Confidence Oct

CH Trade Balance Sep

October 15

AU New Motor Vehicle Sales Sep

AU Housing Finance Aug

US Empire Manufacturing Index Oct

US Retail Sales Sep

CH CPI Sep

CH PPI Sep

October 16

AU RBA Board Minutes Oct Meeting

US Consumer Prices Sep

US Industrial Production Sep

October 17

AU Westpac Leading Index Aug

US Housing Starts Sep

US Building Permits Sep

October 18

AU NAB Business Confidence Q3

RBA Assistant Governor Edey speaks

US Philadelphia Fed Survey Oct

US Leading Indicators Sep

CH GDP Q3

Forecasts

	2011		2012			2013		
End Period:	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**
RBA Cash Rate, %	4.75	4.25	4.25	3.50	3.50	3.00	3.00	3.00
90 Day BBSW, %	4.77	4.47	4.34	3.49	3.37	3.10	3.40	3.45
3 Year Bond, %	3.62	3.13	3.98	2.40	2.40	2.30	2.40	2.70
10 Year Bond, %	4.22	3.67	3.48	3.04	3.00	3.10	3.20	3.40
AUD/USD	0.9662	1.0209	1.0346	1.0238	1.0378	1.0200	1.0200	1.0300
USD/JPY	77.06	76.91	82.87	79.79	77.96	80.00	82.00	84.00
EUR/USD	1.3387	1.2961	1.3343	1.2667	1.2860	1.2700	1.2900	1.2900
GBP/USD	1.5584	1.5543	1.6008	1.5707	1.6167	1.5800	1.5900	1.6000
USD/CHF	0.9082	0.9381	0.9025	0.9485	0.9398	0.9500	0.9500	0.9400
USD/CAD	1.0503	1.0213	0.9987	1.0166	0.9837	1.0000	1.0100	1.0100
NZD/USD	0.7614	0.7772	0.8187	0.8013	0.8301	0.8200	0.8300	0.8300
USD/CNY	6.3812	6.2949	6.2985	6.3540	6.2847	6.1500	6.1000	6.0500
USD/SGD	1.3073	1.2966	1.2577	1.2651	1.2274	1.2200	1.2100	1.2100
AUD/EUR	0.7220	0.7877	0.7754	0.8082	0.8070	0.8031	0.7907	0.7984
AUD/JPY	74.5	78.52	85.74	81.69	80.91	81.60	83.64	86.52
AUD/GBP	0.6200	0.6568	0.6463	0.6518	0.6419	0.6456	0.6415	0.6438
AUD/CHF	0.8780	0.9577	0.9337	0.9711	0.9753	0.9690	0.9690	0.9682
AUD/CAD	1.0150	1.0426	1.0333	1.0408	1.0209	1.0200	1.0302	1.0403
AUD/NZD	1.2690	1.3136	1.2637	1.2777	1.2502	1.2439	1.2289	1.2410
AUD/CNY	6.1660	6.4265	6.5164	6.5052	6.5223	6.2730	6.2220	6.2315
AUD/SGD	1.2630	1.3237	1.3012	1.2952	1.2738	1.2444	1.2342	1.2463

Source:
Bloomberg for historical data

Notes:
i) Cash rate and bond rate forecasts are effective 9 October 2012
ii) Exchange rate forecasts are effective 9 October 2012; AUD forecasts upgraded across the profile on 9 October 2012
iii) AUD cross exchange rates forecasts have been rounded

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