

MONETARY POLICY IN FOCUS: AUSTRALIA

Cash Rate (%)		Change in GDP (%)		Inflation Rate (%)		Unempl. Rate (%)		Consumer Confidence (%)		Business Confidence (%)		Change in Retail Sales (%)		Change in Building Approvals (%)	
Aug .09	Jul .09	Q1 .09	Q4 .08	Q2 .09	Q1 .09	Jul .09	Jun .09	Jul .09	Jun .09	Q2 .09	Q1 .09	Jun .09	May .09	Jun .09	May .09
3.00	3.00	0.38	-0.56	1.46	2.47	5.80	5.80	109.39	100.06	-19.9	-40.0	7.48	7.96	-2.70	-12.90

SUMMARY:

The RBA Board met on Tuesday, 4th August and decided to leave the official cash rate unchanged (in line with consensus) at 3.00%. RBA Governor Glenn Stevens stated "Economic conditions in Australia have been stronger than expected a few months ago"... "Suggesting the risk of a severe contraction in the Australian economy has abated". The RBA has indicated that the current monetary policy settings are "Appropriate given the economy's circumstances". The Board will continue to monitor the domestic economy based on growth prospects and achieving the inflation target.

The rate of unemployment remained at 5.80% (below consensus of 6.00%) in July due partly to employers introducing accommodative conditions for employees with regards to days & hours worked, fearing the cost in re-hiring upon a rebound in the local economy. The level of cyclical unemployment (a lack of demand for labour based on the business cycle) and discouraged workers (due to the current economic climate) also increased during July, as illustrated by a drop in the participation rate. A drop in the participation rate will embellish the raw statistical data used to calculate the unemployment rate, and generate an understated unemployment figure. The level of unemployment in Australia is estimated to peak at 7.5%.

Consumer confidence rose significantly in July as the domestic consumer continues to defy the global economic slowdown with high retail sales, an increase in personal wealth (based on a record low official cash rate) and a stable unemployment rate has buoyed the local consumer. Retail sales figures for July are high (in comparison to other developed nations); however a decline of 0.50% from June and expectations of further contractions in the 2nd half of 2009 as the government stimulus fades and the expected rise in unemployment eventuates.

The global outlook as viewed by the RBA is one of mild improvement. Global financial market sentiment has improved considerably since September 2008 (collapse of Lehman Brothers), while liquidity in global credit markets has improved slightly, liquidity issues are however still present. Credit market illiquidity has forced companies to tap equity markets in an effort to improve balance sheets.

The growth outlook for the domestic economy based on the RBA is for slight growth (0.50%) for the remainder of 2009 with growth firming in 2010. The optimistic outlook indicates the country may avoid a technical recession, exemplified by an improved trade deficit to \$441 million in June, solid export growth and flat imports, a rise in house prices (+4.2%) in the June quarter, high retail sales, and a stable unemployment rate. The positive domestic economic outlook is still highly hinged to the prospects of our major trading partner, China which has enacted a significant level of fiscal and monetary measures to promote domestic growth, with a growth target of 8% year on year for 2009.

MONETARY POLICY IN FOCUS: GLOBAL

	Cash Rate		Inflation Rate		Unempl. Rate		Change in GDP (%)	
	Aug .09	Jul .09	Q2 09	Q1 09	Jul .09	Jun .09	Q2 09	Q1 09
USA	0.25	0.25	-1.15	-0.04	9.40	9.50	-0.26	-1.65
Japan	0.10	0.10	-0.98	-0.13	5.40 (Jun)	5.20 (May)	-3.76 (Jun)	-3.57 (May)
UK	0.50	0.50	-1.27	-0.08	4.80 (Jun)	4.70 (May)	-0.80	-2.40
China	5.31	5.31	-1.50*	-0.60	N/A	N/A	7.10*	6.10*

* China's Inflation and GDP are calculated on a year on year basis.

SUMMARY:

The US economy has stabilised in Q2 with improvements in financial conditions, stabilisation in consumer spending and tentative indications of a levelling out of activity in the housing sector. All the marked improvements are a result of the monetary and fiscal stimulus, measures to support credit markets, and diminishing financial stresses. The decline in GDP during the quarter at a decreasing rate is in accordance with Federal Reserve estimates of positive growth, with expectations of growth in the second half of 2009. Unemployment improved slightly to 9.40% with the number of job lay-offs declining during June.

The Federal Reserve decided to maintain the cash rate at 0.00% to 0.25%, with a long-term focus of maintaining this range until growth and economic prosperity eventuates.

Japan's economic condition has stabilised due to an increase in public investment, and improvements in exports and production. Consumer spending and incomes declined during the period, reflecting an increase in the unemployment rate. In line with the US, Japan's economic recovery is expected to commence in the second half of 2009. The recovery will be supported by the positive effects of measures to stabilise the financial system including the fiscal and monetary policy measures introduced plus a global economic recovery amongst major trading nations and improvements in conditions in global financial markets. The Japan's central bank decided to maintain the overnight call rate at 0.10 for the foreseeable future, with the primary objective to facilitate the return of Japan's economy to a sustainable growth path with price stability.

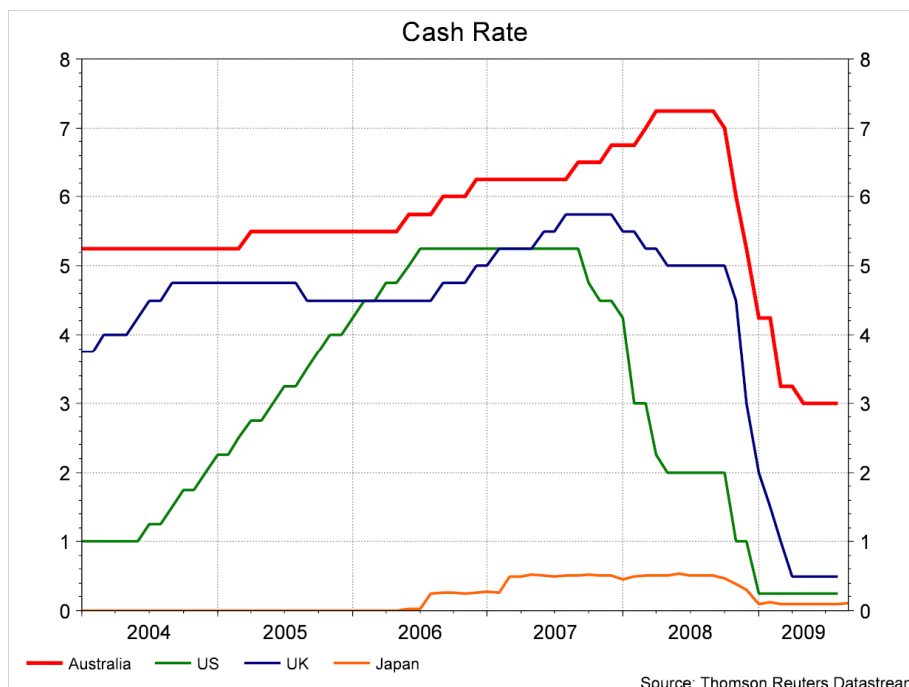
The **UK** economic condition according to the Bank of England (BOE) is worse than first thought, prompting an increase to the quantitative easing policy (via the purchases government and corporate bonds in an effort to boost the amount of capital in the economy) by £50 billion, to a total of £170 billion since inception. The domestic economy during the second quarter declined at a decreasing rate quarter on quarter, with a rise in unemployment and a continued decline inflation. The Bank of England has maintained the Bank Rate at 0.50% for the foreseeable future.

The **Chinese** economy continues to generate strong growth output (albeit below consensus estimates) during the period. Industrial output 10.8% in the year to July (below consensus 11.7%), capital spending in the first seven months rose 32.9% (below consensus 34%), while exports bucked the trend during the period declining by 23% (consensus 24.8%). The Chinese Premier Wen Jiabo has reiterated the point of "proactive" fiscal policy and "appropriately loose" monetary stance until the economic recovery eventuates.

The Chinese Government has set a year on year growth target of 8% for 2009, with consensus estimates indicating the target will be achieved. Inflationary pressure, as a result of the magnitude of fiscal stimulus and monetary easing in place, is seen as medium term concern with economic stability and prosperous growth of most concern to the Chinese Government and People's Bank of China (PBC). The PBC has maintained the cash rate at 5.31%.

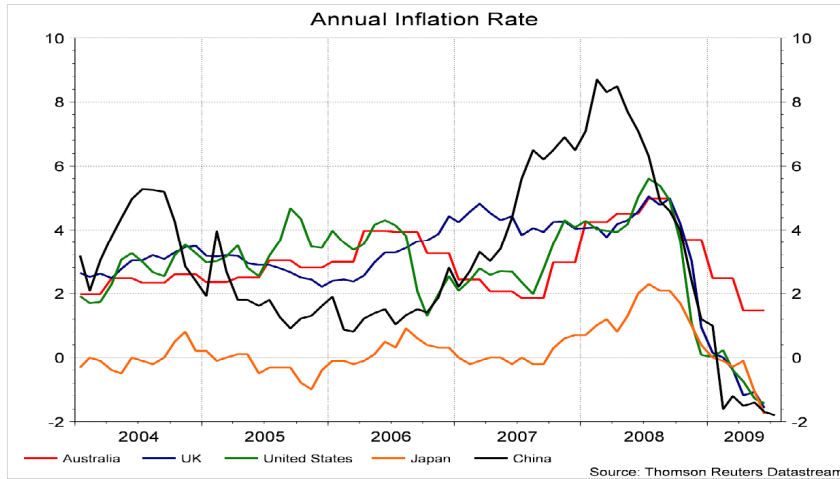
CASH RATE

- The RBA left the cash rate unchanged at 3.0%.
- US, UK, China and Japan left their respective cash rates unchanged.



ECONOMIC INDICATORS

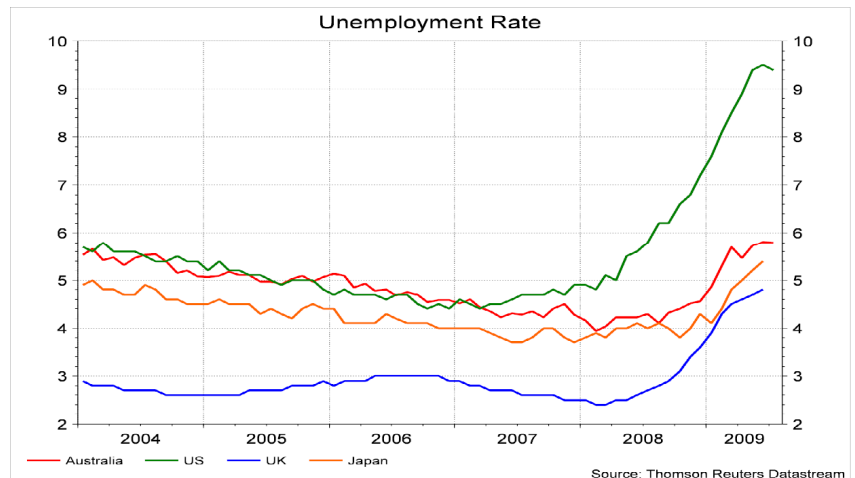
ANNUAL INFLATION RATE (UPDATED QUARTERLY)



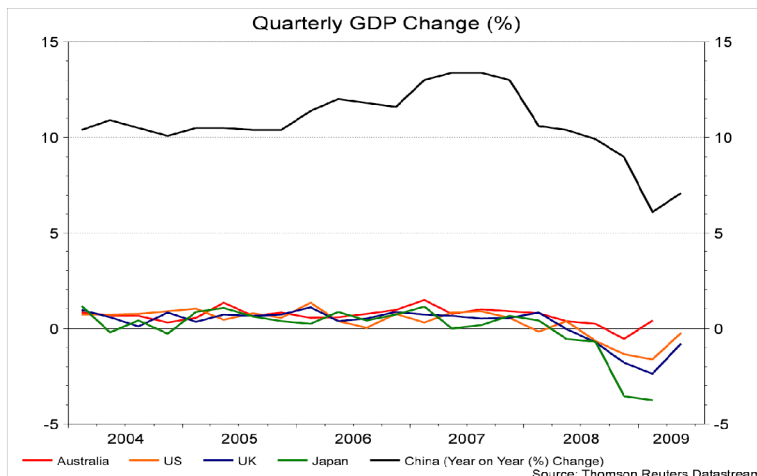
- Australia's inflation rate declined to an annual rate of 1.46% during Q2.
- Japan's inflation rate decreased during Q2 to -0.98%.
- UK inflation figures declined from -0.08% to -1.27% in Q2.
- US inflation declined to -1.15% during Q2.

UNEMPLOYMENT RATE

- Australian unemployment remained stable at 5.80% in July.
- US unemployment declined to 9.40% in July.
- UK unemployment rose to 4.80% in June.
- Japan unemployment rose by 0.20% to 5.40% during June.

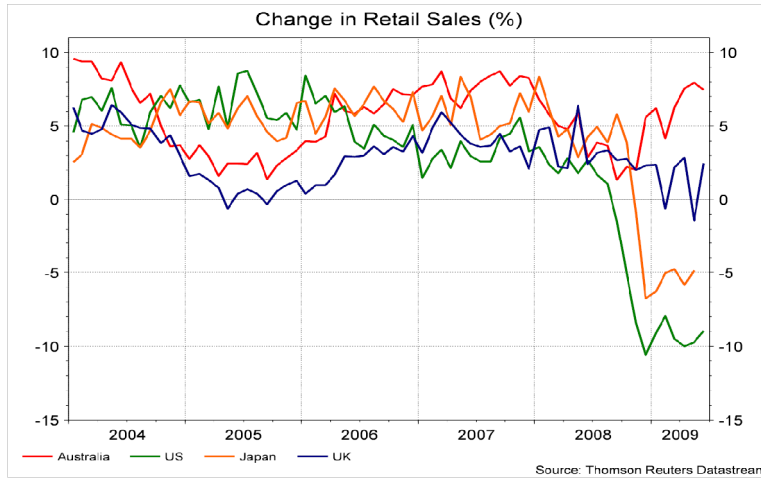


QUARTERLY GDP CHANGE (UPDATED QUARTERLY)



- US and UK GDP declined at a decreasing rate in Q2 to -0.26% and -0.80% respectively.
- Japan's economic concerns continued with GDP declining -3.76% during Q1.
- Year on year GDP growth increased to 7.10% in China during the period.
- Australia's GDP rose by 0.38% in Q1.

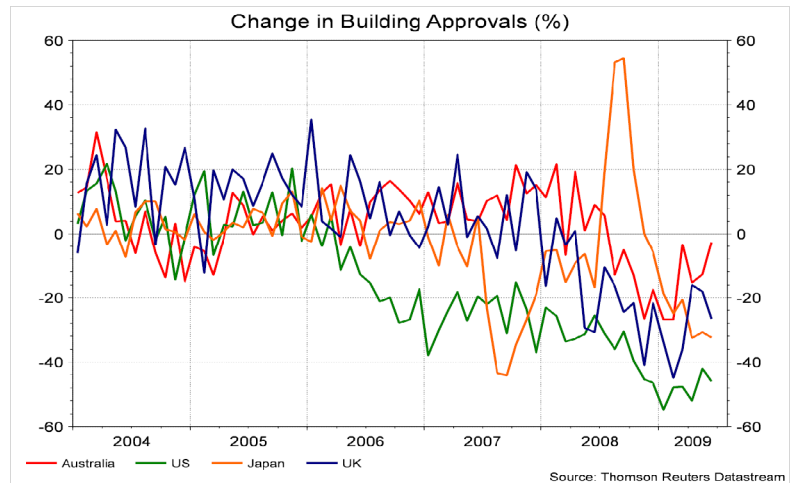
CHANGE IN RETAIL SALES



- Australian retail sales declined by 0.48% to 7.48% in June.
- Japan's retail sales declined by -0.29% during the period.
- US retail sales marginally improved to -9% during the period.
- UK retail figures increased dramatically to 2.84% during the period

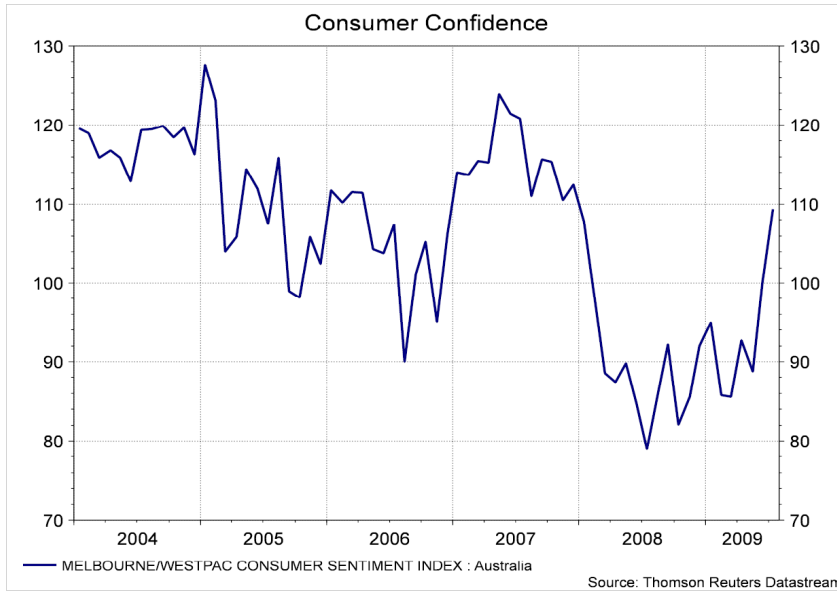
CHANGE IN BUILDING APPROVALS

- Australian building approvals improved to -2.7% in June from -12.9% in May.
- US and Japan building approvals declined marginally in June to -43.1% and -32.40% respectively during the month.
- UK building approvals declined significantly in June to -26.7%.



SENTIMENT INDICATORS

CONSUMER CONFIDENCE (UPDATED QUARTERLY)



- Australian Consumer confidence has risen for a second consecutive month to be 109 in May.

BUSINESS CONFIDENCE (UPDATED QUARTERLY)

- Domestic business confidence declined at a decreasing rate in Q2 to -19.9.
- Business confidence improving may be the catalyst to halt the rate of unemployment.



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Data Source: Thomson Reuters

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