

ECONOMIC STATISTICS SUMMARY

Country	Cash Rate		Inflation Rate (%)		Unemployment Rate (%)		GDP Annual Growth (%)	
	Jul-10	Last Change	Latest	Month	Latest	Month	Past Year	Last Update
Australia	4.50	+0.25 (Apr-2010)	2.75	Jul-10	5.20	Aug-10	2.70	Mar-10
USA	0.25	-0.75 (Nov-2008)	1.05	Jun-10	9.50	Jun-10	3.30	Jun-10
Japan	0.10	-0.20 (Nov-2008)	0.70	Jun-10	5.30	Jun-10	4.60	Jun-10
UK	0.50	-0.50 (Feb-2009)	5.00	Jun-10	7.80	Jun-10	1.10	Jun-10
China	5.31	-0.27 (Nov-2008)	2.90	Jun-10	NA	NA	10.3	Jun-10

AUSTRALIAN ECONOMIC COMMENTARY

On August 3, the RBA agreed to leave the cash rate unchanged at 4.5%. Underpinning this decision was the decline in inflation rates to 2.75%; the lowest rate in three years. The RBA board stated that they expected Australian growth to remain on trend and that inflation would remain within its long term target range. The effects of expansionary policy are now diminishing, but there has been improvement in wages growth, an improved labour market and stable unemployment figures, and moderate increases in household consumption. However, they believe that the global economy's recovery remains fragile in many developed nations, particularly the US, and remains uncertain in Europe, due to planned fiscal contraction. This prompted their decision to leave interest rates unchanged around their long term historical average.

This week, the terms of trade showed a significant improvement for Australia. Terms of trade is a ratio which measures how much is imported per export. Exports lifted 7%, bringing Australia's trade surplus to 3.54bn. This represents a record high, and is double the expected amount. Much of this surplus derives from a massive 80% increase in iron ore exports. Asian countries take up 40% of Australia's exports, highlighting how domestic growth has leveraged off the emerging economies, their demand for commodities and resilience to the impact of the GFC. Commodities prices remain very high, boding well for the Australian economy.

However, these figures also highlight Australia's 'two-speed' economy; the record surplus is not only due to rising iron ore exports, but also due to flat import figures which indicate a low demand for goods from consumers and business. Retail spending figures remain the weakest point. Australian Industry Groups surveys, covering industries such as retail, hospitality, entertainment and transport, show a clear majority of firms are suffering falling sales, reinforcing the disparity between resources and non-resources sectors. Of interest, one third of Australia's exports are comprised of just two commodities – iron ore and coal – which are fuelling China's massive industrialisation. It follows then, that a major issue for domestic investors to watch will be the extent of China's intended slowdown.

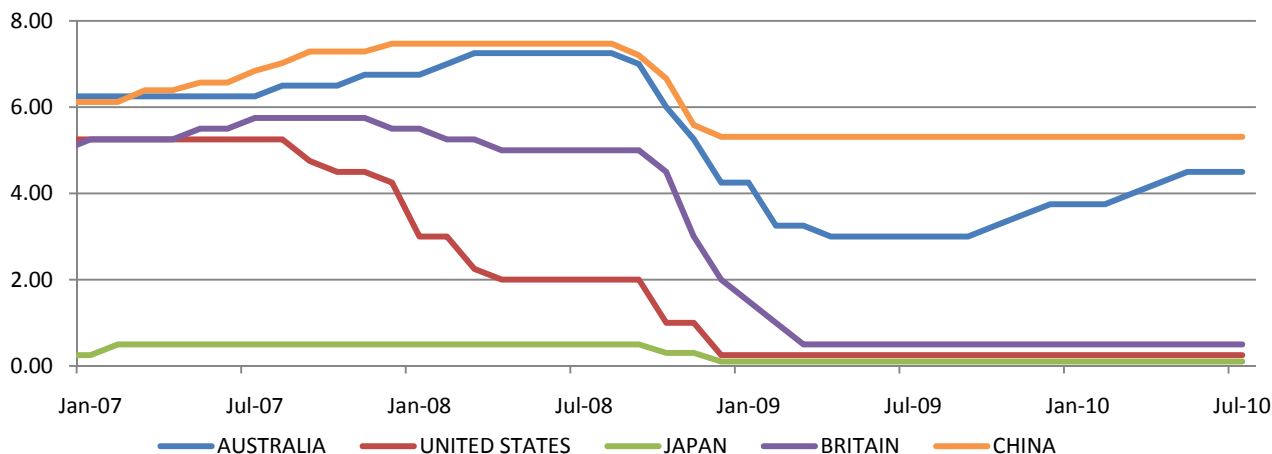
GLOBAL ECONOMIC COMMENTARY

The global economic outlook is also running at two speeds, with the contrast between emerging and developed countries remaining distinct. Weak growth was recorded in developed nations hit hardest by the GFC, whilst emerging economies in Asia and Latin America continued their strong growth. We saw this with the continuing uncertainties over European sovereign debt. In late July, stress testing of the European banks revealed mixed results. Encouragingly only 7 out of 91 banks failed; however, 21 banks only just made it over the line. Certainly, this disclosure has calmed fears of a second global financial crisis in the short term. However, the longer term outlook remains concerning, with the 'Club Med' nations facing high and increasing debt to GDP ratios, likely to result in future fiscal contractions.

US economic indicators remain mixed. The US economy recovered weakly during the first half of the year, but early indicators suggest a lacklustre second half. The July corporate reporting season revealed strong earnings results from major corporations, rebounding profits and an excess of cash on balance sheets. Whilst this resulted in market surges, other economic indicators tell a different story. There are suggestions that the recovery is losing momentum post federal financial stimulus with poor retail figures, and manufacturing expected to slow. The US recovery has been manufacturing-led with inventory re-stocking playing a significant role; however, indications suggest that this is nearing completion and will signal the end of the above trend expansion. Housing indicators have also turned down after the house buyer's tax credit expired. A major reinvigoration in retail spending activity and restoration in confidence is unlikely to occur without a significant improvement in the labour market which remains elusive. Jobs growth will be the key to a more sustainable recovery in the US, underpinning consumer confidence and restoring retail spending. Temporary hiring for the US census may have artificially inflated employment figures with new jobless benefits data released showing claims have risen 4.1%. On the upside, the ISM non-manufacturing index (services) rose to 54.3 from 53.8, staying in expansionary territory.

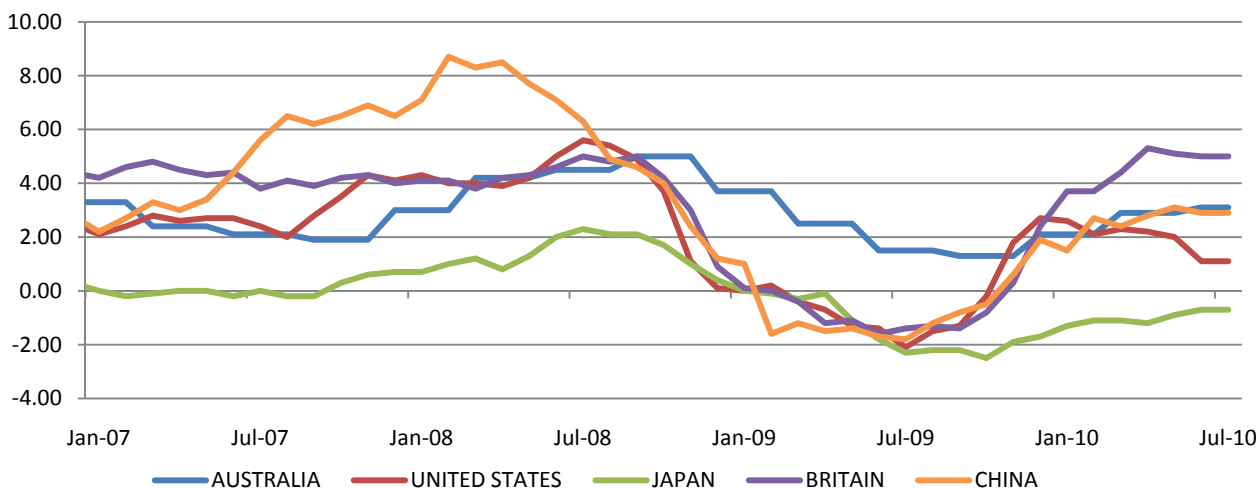
The UK and Japan both show improvement, slowly coming out of recession with improved GDP growth in the UK and the negative inflation in Japan now heading into positive territory. Overall, the developed world remains cautionary.

CASH RATES



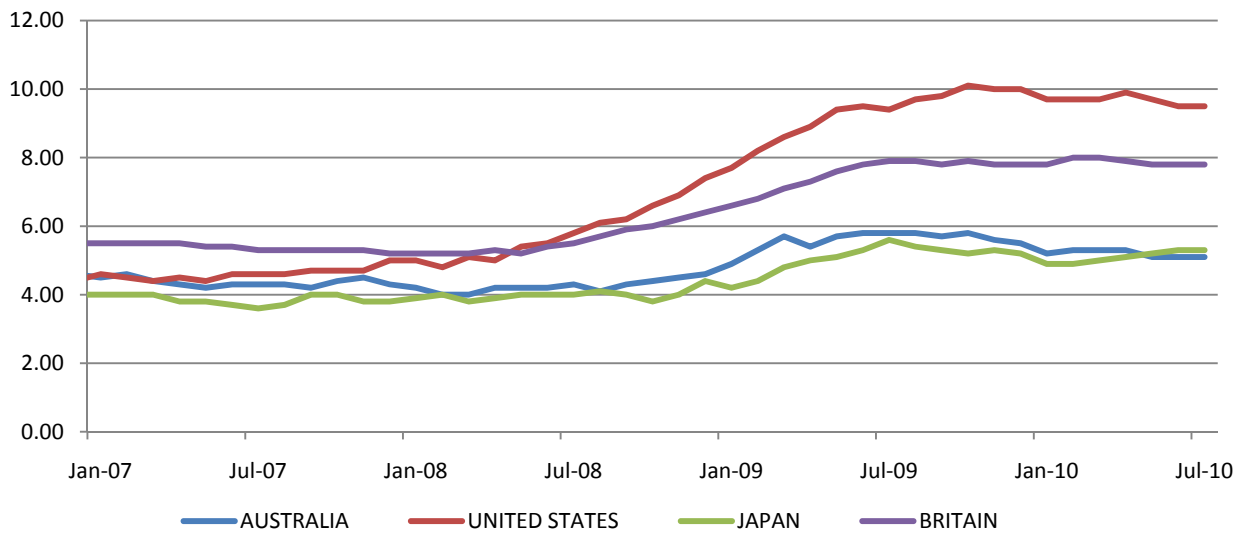
Again, most major economies left their cash rates on hold. The US is expected to leave rates on hold until at least the second half of 2011. High Australian and Chinese rates reflect ongoing strong growth in both economies. Australia remains one of the few developed countries to have lifted rates post the GFC. With Australian rates now sitting around their long term averages, and growth rates on trend, rates should remain stable around the 4.5-5.0% level. This means Australia remains attractive to international investors, offering stronger yields on cash and bonds, and supporting the Australian Dollar which is rising against the US dollar.

INFLATION RATES (ANNUALISED)



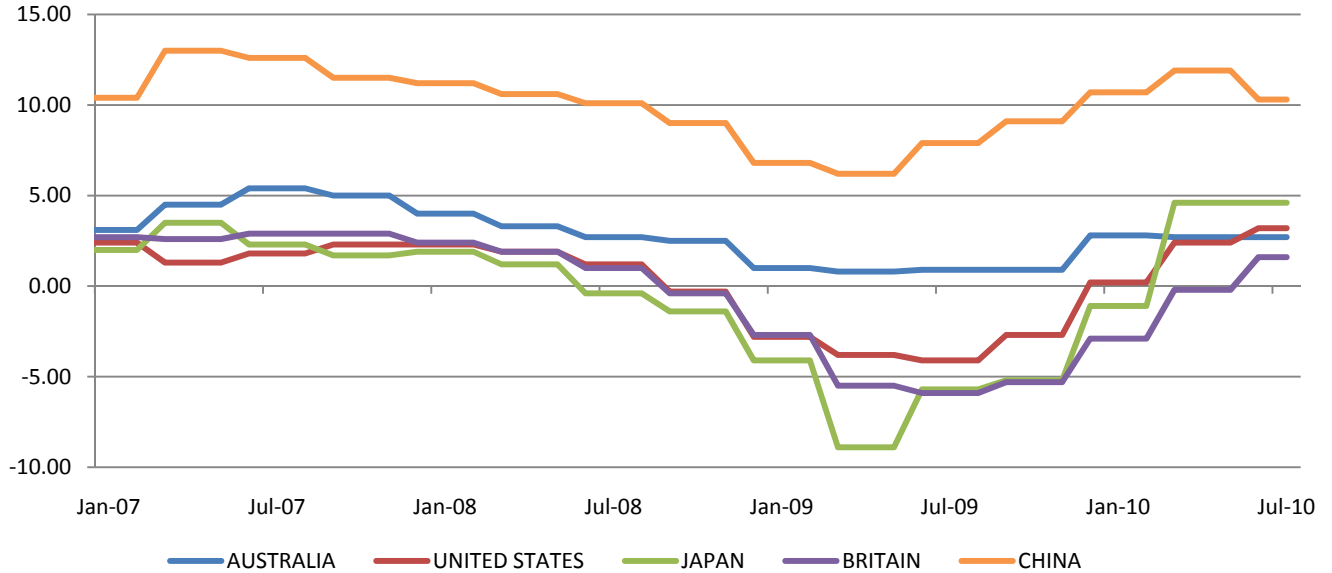
The Australian inflation rate declined this month to 2.75% but remained within the target range. The US dropped from 2% to 1%. Japan remains in deflation, with a now rising yen expected to adversely contribute by lowering import costs. UK rates remain comparatively high, well above their long term target of 2%. Interestingly, China's inflation rate is declining, dropping from 3.10% to 2.90% this month. This may represent the first effects of fiscal contraction policy. Globally, inflation is trending upwards but as it remains at moderate levels, we do not expect that interest rates will rise.

UNEMPLOYMENT RATES



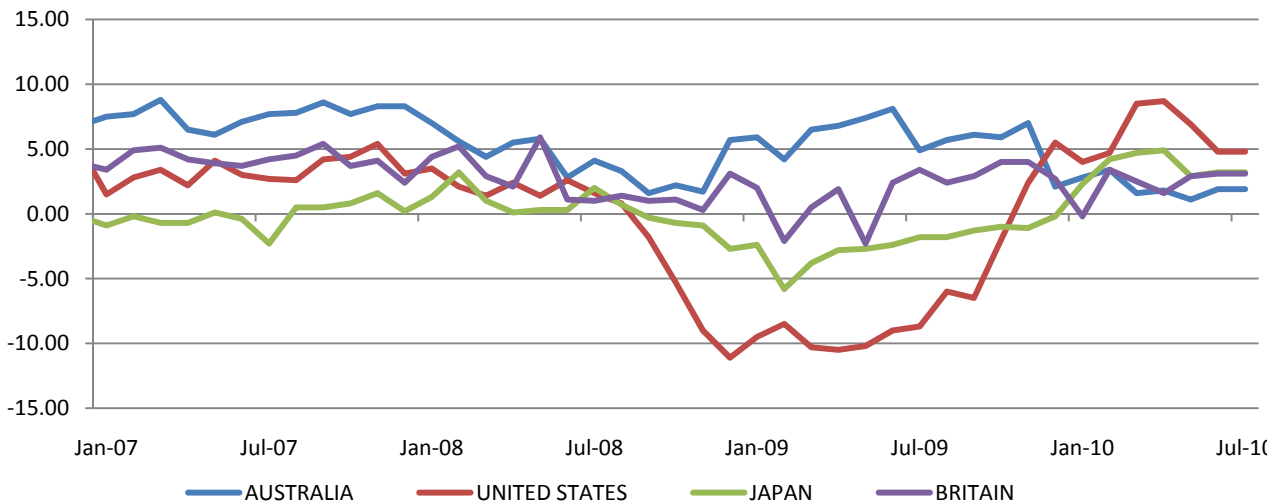
Australia, at 5.2%, is approaching full employment capacity. Temporary hiring for the US Census has distorted the overall trend over the past few months, with the Treasury Secretary warning that unemployment rates are likely to rise for the next two months. The UK's unemployment rate remained flat, whilst Japan's unemployment hit a 7 month high.

GDP GROWTH (ANNUAL)



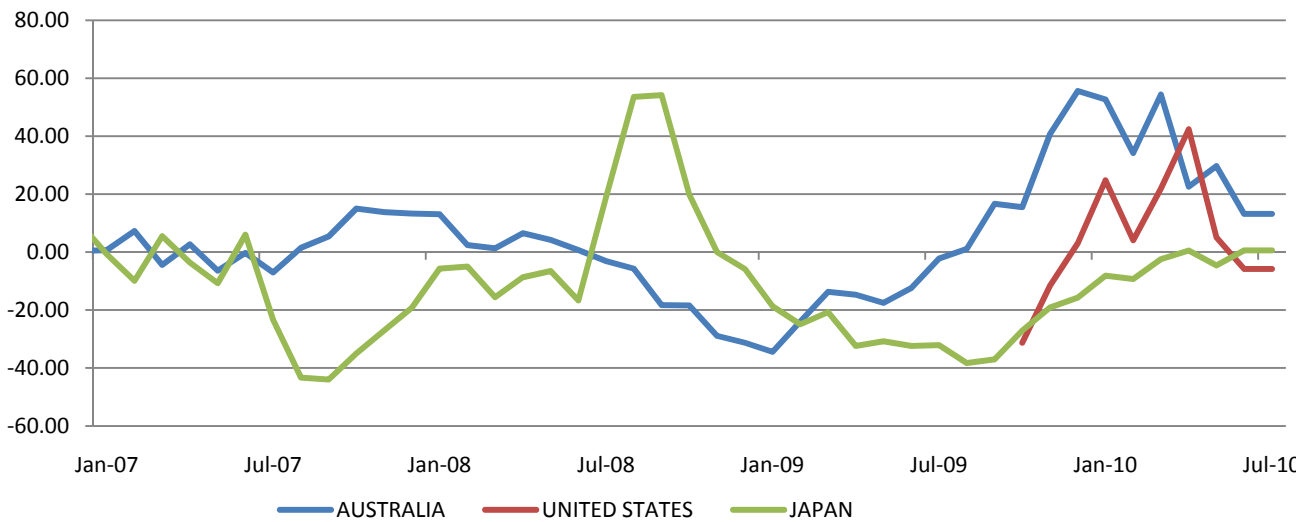
Annual GDP growth remained flat in Australia, as the figures have not been updated since the March quarter. Conversely, growth is beginning to rise in the US and Japan. China's growth has moderated over the last 6 months in response to government contraction policies, declining to 10.35%. The graph illustrates that this is still a disproportionately high rate in comparison to the other nations. China's early decline in the rate of growth is a trend to watch – this could indicate the start of a slowdown that could negatively impact the Australian economy.

CHANGE IN RETAIL SALES – ROLLING 12 MONTH CHANGE



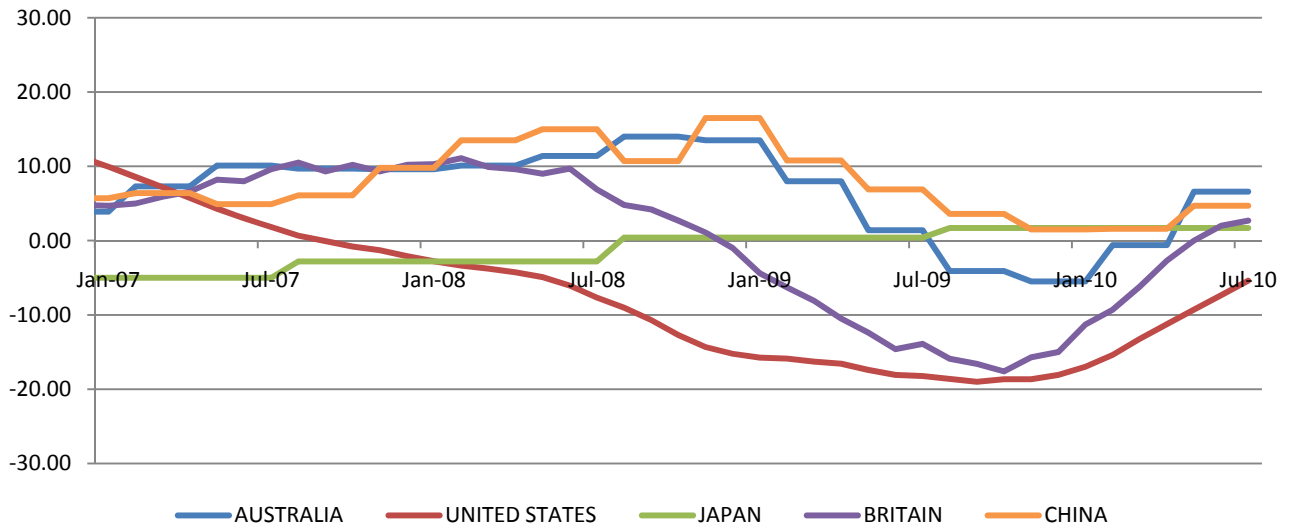
US retail sales continue to fall after an initially strong recovery. This seems to correlate with poor US employment data. Australian retail spending continues to remain flat after recent falls; yet another indicator that the retail sector is struggling. The fall more than likely reflects the end of the stimulus package which artificially inflated sales figures. A component of the weak sales figures may be due to improved consumer saving practices. Spending in the UK has remained static with a small boost over the last month as the soccer-mad nation splurged on World Cup memorabilia. Japan's retail spending has improved dramatically over the last 18 months, suggesting further economic recovery despite moderating over the last quarter.

HOUSING APPROVALS – ROLLING 12 MONTH CHANGE



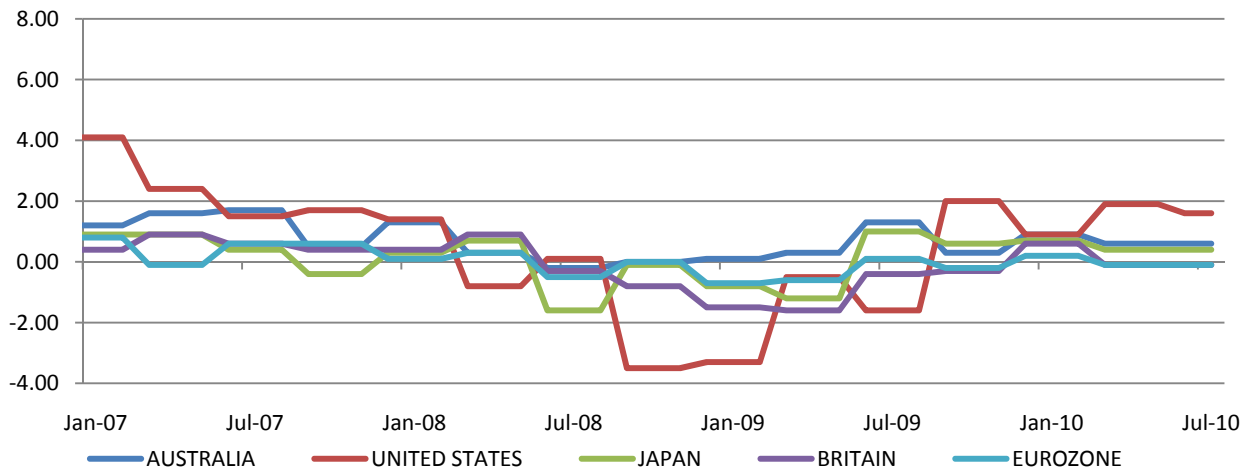
Housing approval numbers in Australia remained flat after falling for the last quarter; construction remains one of the weaker sectors of our economy. Japan recently hit negative numbers but has risen strongly to weakly positive territory, suggesting a fragile recovery in this sector. Clearly building activity is strongly correlated to growth. US building approvals had a dramatic rise and fall in Q1 mirroring the Australia data, suggesting a strong but unsustainable recovery. The US figures may also be linked to expiry of their home owners' tax credit scheme. US approvals have fallen sharply from 5.1 to -5.8 in just one month – another worrying sign.

HOUSING PRICES – ROLLING 12 MONTH PRICE CHANGE



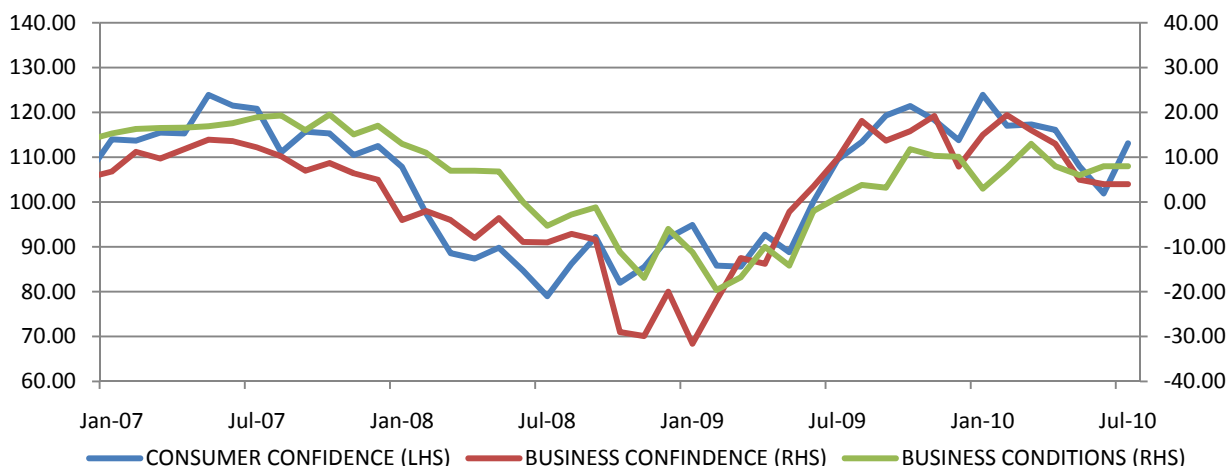
Australia and China's housing prices remain consistently high, reflecting higher levels of growth, unemployment and consumer confidence. The chart illustrates a very close correlation between Australian and Chinese property prices, highlighting the strength of both economies. Surprisingly, US house prices continue to gently rise which goes against the other economic trends. UK prices have pulled back after significant rises, which correlates with their high inflation rates. They are now approaching a more moderate range.

HOUSEHOLD CONSUMPTION – QTR ON QTR CHANGE IN HOUSEHOLD EXPENDITURE



Household consumption continues to remain flat globally, as consumers pay down debt, particularly in the US. This reflects a cautionary approach from households worldwide with a move towards saving not spending. Certainly sovereign debt concerns are limiting consumption in Europe, a trend that has continued worldwide.

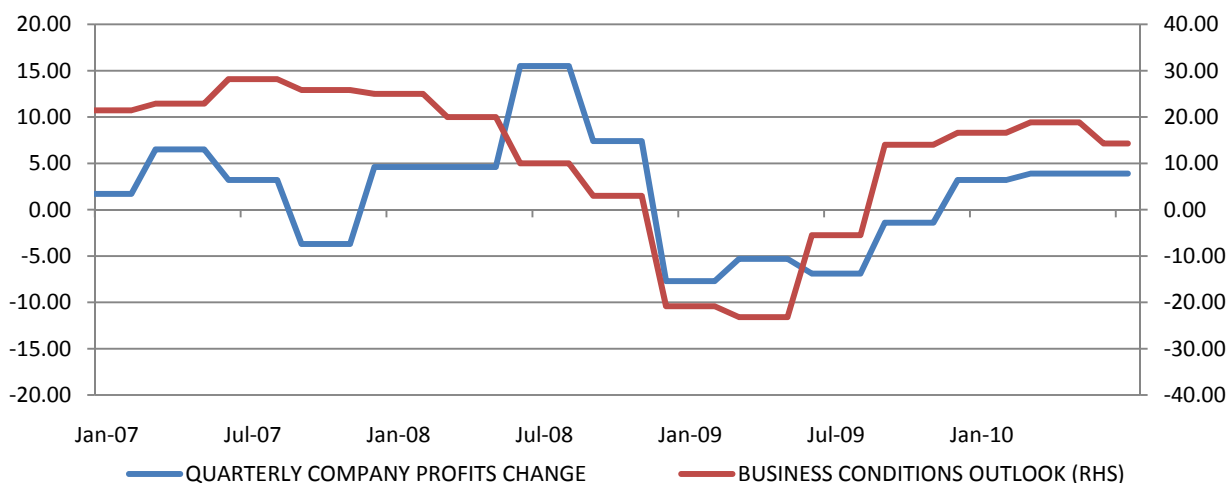
CONSUMER & BUSINESS CONFIDENCE / CONDITIONS



Consumer confidence figures continue to rebound strongly rising nearly 12 index points. We have seen a dramatic improvement on news of steady cash rates and strong economic data, particularly low unemployment rates. This reversed a trend that saw it falling 17.8% over the last six months on basis of global economic uncertainty.

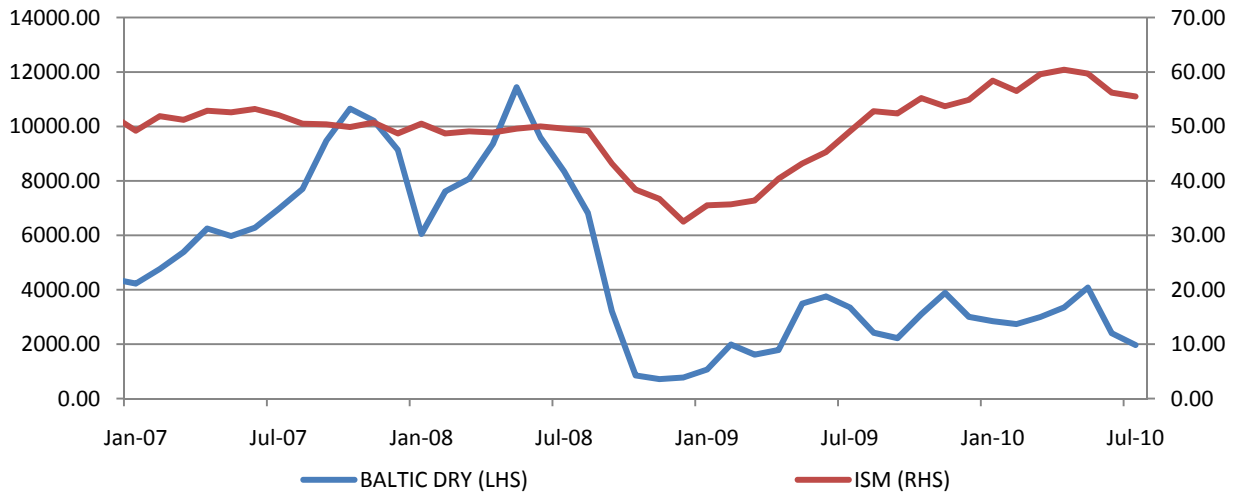
Business conditions and business confidence data remained exactly the same this month. Previously, business data has been mixed with business conditions improving, but confidence declining. Whilst Australia's overall economy remains strong, the downturns in confidence are more likely reflect concerns about the global economy.

COMPANY PROFITS – QUARTER ON QUARTERLY PROFIT CHANGE & BUSINESS CONFIDENCE OUTLOOK



Both parameters remained unchanged. This trend is consistent after an initial rise around one year prior. Both data sets have not been updated since March. The new figures are expected soon.

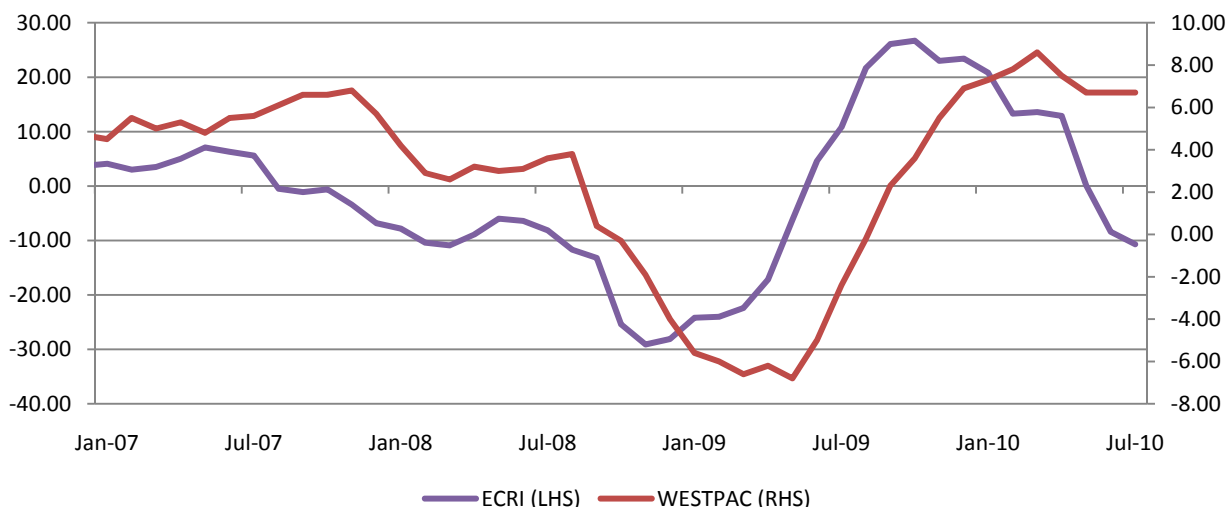
LEADING INDICATORS – BALTIC DRY INDEX & ISM MANUFACTURING SURVEY



The Baltic Dry Index (BDI) tracks international shipping prices for various dry bulk cargoes. As the supply of ships is relatively inelastic, the BDI indirectly measures global supply and demand for shipped bulk commodities such as coal, iron ore and building materials. Since it measures demand for raw materials, it is regarded as a leading economic indicator of future growth. During 2008, strong growth pushed the index to record highs, and then record lows in quick succession as the impact of the GFC took hold. It is now closer to historical levels, suggesting reduced demand for commodities and by implication, reduced growth. The most recent data shows a slight increase in the index.

ISM Manufacturing surveys its member companies to rate US manufacturing activity levels. Typically, fluctuations in manufacturing greatly impact the GDP, so this survey is a leading indicator of economic turnarounds. It is highly valued as the earliest data figure released each month. Values over 50 indicate expansion; values below 50 indicate economic contraction. The ISM has increased 58.3% over the past 18 months, highlighting the manufacturing-led US recovery. However, it is thought that inventory re-stocking has played a significant role in the upturn and, as this nears completion, the above trend expansion in manufacturing will cease. We have already seen the start of this in the most recent figures, which have shown three successive months of decline. On the upside, it currently sits at 55.5 still indicating economic expansion.

LEADING INDICATORS - WESTPAC LEADING INDICATOR (AUST) & ECRI WEEKLY LEADING GROWTH RATE (US)



The Westpac Leading Index indicates the likely pace of economic growth 3 to 9 months into the future. The chart illustrates Australia is likely to experience strong and ongoing economic growth, after demonstrating a dramatic turnaround over the last year, rising from a low of -6% after the GFC brought fears of a recession. It has pulled back somewhat from its recent high of 8.6, but remains a strong indicator of a positive domestic outlook.

ECRI Weekly Leading Growth Rate is a predictor of economic growth in the US. It is highly valued as the earliest economic figure released each week. As illustrated, it has dropped dramatically over the last year and has now hit -10.7. Historically, values under 10 are a very strong predictor of recession.

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DATA SOURCE: BLOOMBERG

BLOOMBERG DATA SERIES

CHART	BLOOMBERG DATA SERIES
CASH RATES	Australia RBA Cash Rate Target
	Federal Funds Target Rate US
	Bank Of Japan Target Rate of Unsecured Overnight Call Rate Expected
	UK Bank of England Official Bank Rate
	China 1 Year Best Lending Rates
	ECB Main Refinancing Rate
CPI	Australia CPI All Groups Goods Component YoY
	US CPI Urban Consumers YoY NSA
	Japan CPI Nationwide YoY
	China CPI YoY
	UK RPI YoY NSA
GDP	Australia GDP SA YoY
	GDP US Chained 2005 Dollars YoY SA
	Japan GDP Real Chained NSA YoY%
	UK GDP Chained GDP at Market Prices YoY
	China GDP Constant Price YoY
UNEMPLOYMENT	US Unemployment Rate Total in Labor Force Seasonally Adjusted
	Australia Labor Force Unemployment Rate SA
	Japan Unemployment Rate SA
	UK Unemployment ILO Unemployment Rate SA
	Australia Labor Force Unemployment Rate SA
RETAIL SALES	Australia Retail Sales YoY SA
	US Adjusted Retail & Food Services Sales Total Yearly % Change SA
	Japan Retail Trade YoY NSA
	UK Retail Sales All Retailing Sales Per Week Chained Volume YoY SA
HOUSE/LAND PRICES	Australia House Price Index Established Homes YoY 2003-2004=100
	S&P/Case-Shiller Composite-20 City Home Price Index YoY (US)
	Japan Land Prices Nationwide All YoY%
	UK Nationwide House Prices All Houses YoY NSA
HOUSING APPROVALS	China Land Transaction Price YoY
	Australia Building Approvals Dwellings YoY
	US New Privately Owned Housing Units Started by Structure Total SAAR YOY
HOUSEHOLD CONSUMPTION	Japan Housing Starts YoY NSA
	Australia GDP Final Consumption Expenditure Households QoQ SA
	Eurostat GDP Constant 2000 Prices Eurozone Household Consumption Expenditure QoQ
	Japan GDP Chained Real Private Consumption QoQ% SA
	UK GDP Final Consumption Expenditure Chained Prices Household Expenditure QoQ
COMPANY PROFITS & BUSINESS OUTLOOK	GDP US Personal Consumption Chained 2005 Dollars % Change SAAR
	Australia Comp Gross Operating Profit QoQ Chg Seasonally Adjusted
	National Quarterly Business Survey Business Confidence Outlook SA
CONSUMER & BUSINESS CONFIDENCE	Westpac-Melbourne Institute Consumer Confidence Consumer Sentiment
	National Australia Bank Business Indicators Business Confidence SA
LEADING INDICATORS	Baltic Dry Index
	ISM Manufacturing PMI SA
	Australia Westpac Leading Index Annualised Growth YoY%
	ECRI Weekly Leading Index Growth Rate

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