

## ECONOMIC STATISTICS SUMMARY

Country	Cash Rate		Inflation Rate (%)		Unemployment Rate (%)		GDP Annual Growth (%)	
	Latest	Last Change	Latest	Change	Latest	Change	Past Year	Change
Australia	4.75	+0.25 (Nov-10)	3.60	↑ 0.30	4.90	↔	1.00	↔
USA	0.25	-0.75 (Nov-08)	3.60	↔	9.10	↓ 0.10	1.60	↓ 0.70
Japan	0.10	-0.20 (Nov-08)	0.20	↓ 0.10	4.60	↑ 0.10	-1.00	↔
UK	0.50	-0.50 (Feb-09)	5.00	↔	7.70	↔	0.70	↓ 0.90
China	6.56	+0.25 (Jul-11)	6.50	↑ 0.10	NA		9.50	↔

## AUSTRALIAN ECONOMIC COMMENTARY

On August 2, the RBA Board held its restrictive stance on monetary policy, leaving the cash rate on hold at 4.75% for the eighth consecutive meeting. Most financial indicators suggested keeping interest rates on hold given the Australian economy was torn between slower credit growth, declining house prices and higher medium term inflation expectations. In this economic environment, it appears that the RBA is in a very difficult position to balance out interest rate decisions between offshore economic pressures and elevating levels of domestic inflation.

Australian economic data released throughout the month showed the continuation of a two-speed economy as the mining sector outperformed the retail, construction and manufacturing sectors. Inflation for the June quarter jumped the most since 2008 on the back of strengthening commodity prices, tipping the scales in favour of a future interest rate hike. Shortly after the inflation data release, the AUD/USD exchange rate reached \$1.1062, a fresh 30-year high. Despite the fear of rising medium term inflation expectations as evidenced by a rise in the forward looking Australian Producer Price Index, sluggish US and European economic growth coupled with sovereign debt problems helped delay the RBA's decision to hike interest rates.

The housing market performed dismally in June after the number of new home sales dropped sharply by 8.7% - the most in five years since May 2006. This has further supported the RBA's stance on current monetary policy. Softness in the housing market was also confirmed as building approvals unexpectedly dropped 3.5% in June. Retail trade was also weak, falling 0.1% in June as the rising cost of living (food, electricity and petrol) left consumers less in their pocket for discretionary spending. Despite the flurry of poor economic data, Australia posted over a \$2 billion trade surplus in June, highlighting the country's biggest surplus last financial year in over 40 years. Although rare, this has been largely led by China and Japan's strong demand for Australian resources.

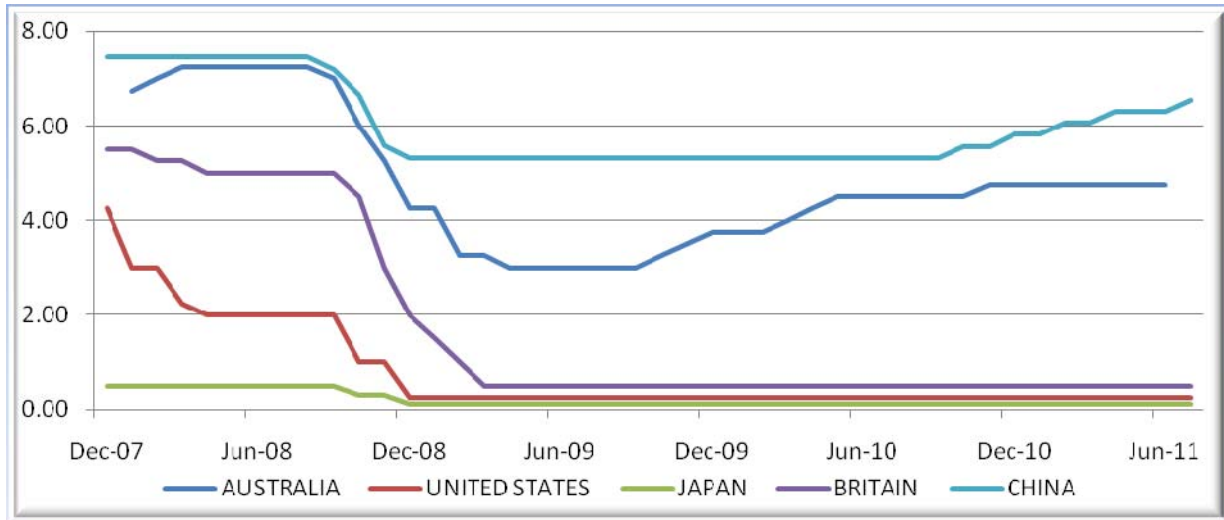
## GLOBAL ECONOMIC COMMENTARY

Since the European bailout package was passed, the European debt crisis has not escaped the spotlight. Credit rating agencies Moody's and S&P cut Greece's credit rating by several notches in late July. Further to the downgrade, attention shifted to France where fears of the country's AAA rating downgrade was questioned in light of its liquidity. To the market's relief, France's safest credit rating was affirmed by the credit rating agencies. Although the economic situation in the Eurozone is looking bleak, inflation is stubbornly above the ECB target of 2.00%. In July, the ECB reacted by raising interest rates to 1.50% from 1.25% as was broadly expected. While it is expected that another rate hike may occur to reduce upside price risks, an unexpected drop in July inflation, lingering debt problems and sluggish growth should keep interest rates on hold for quite some time.

Question marks on whether the US debt ceiling would be raised deeply concerned financial markets. The failure to raise the debt ceiling would result in the US Treasury running out of cash and defaulting on its debt payments. This would trigger panic in financial markets similar to perhaps what was seen in the 2008 Global Financial Crisis. However, the self-inflicted default was avoided and the US senate was successful in passing the bill to cut spending and raised the debt ceiling. It was not enough however to avoid a long-term credit rating downgrade from AAA to AA+ by Standard & Poor's. Essentially, this raises the cost of borrowing and slows the rate of growth of the US economy. Adding to the doom and gloom was the release of poor US economic data which pointed to the real possibility of the economy falling back into recession. In recent weeks, these turn of events have produced enormous volatility in global stock markets. Nevertheless, it was comforting to know that the US pledged to keep interest rates on hold until at least mid-2013 as this will give the economy a chance to bounce back.

The potential for the US to dip back into recession has negatively affected sentiment in Asia. Countries such as China and Japan are feeling economic pressures. The latest **Chinese** GDP data showed that the economy gradually slowed down and grew at 9.50% in the June quarter. This was particularly consistent with a cool down in manufacturing as the Purchasing Manufacturing Index hit a 28-month low. Inflation also ticked up 0.10%, mainly caused by spiralling out of control food prices. On the contrary, in spite of a slight increase in unemployment and inflation, **Japan** has demonstrated a recovery as exports declined less than expected in June. The Bank of Japan also announced to increase their Asset Purchase Program to ¥50 trillion from ¥10 trillion to curb the currency's rise in order to alleviate the pain on exporters and the economy.

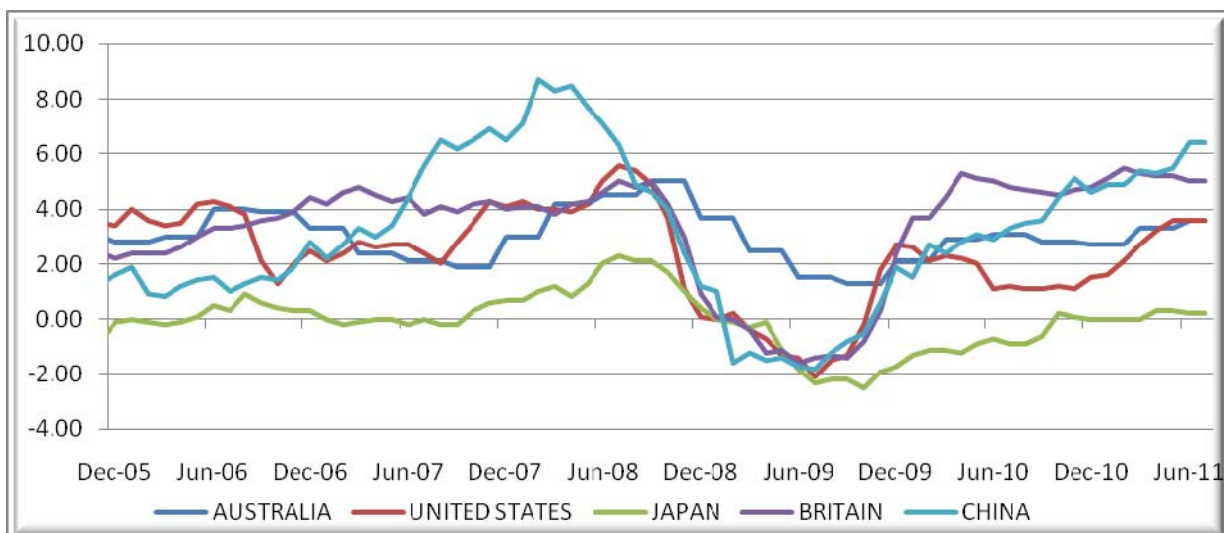
**CASH RATES**



In the absence of any changes in monetary policy, central banks have left interest rates on hold given the fragile state of the global economy and concerns over global economic growth, particularly in Europe and the US. However, this was not the case with Europe as the ECB raised rates by 0.25% in July to combat inflationary pressures.

In Australia, most financial indicators suggested the RBA to exert a degree of restraint on monetary policy in August whereas China showed no restraint on raising rates in July to control spiralling inflation. Economic growth in the US has failed to meet the expectations of the FOMC up until this point. In response, the US Federal Reserve has pledged to keep interest rates at a record low for at least two years to stimulate the economy.

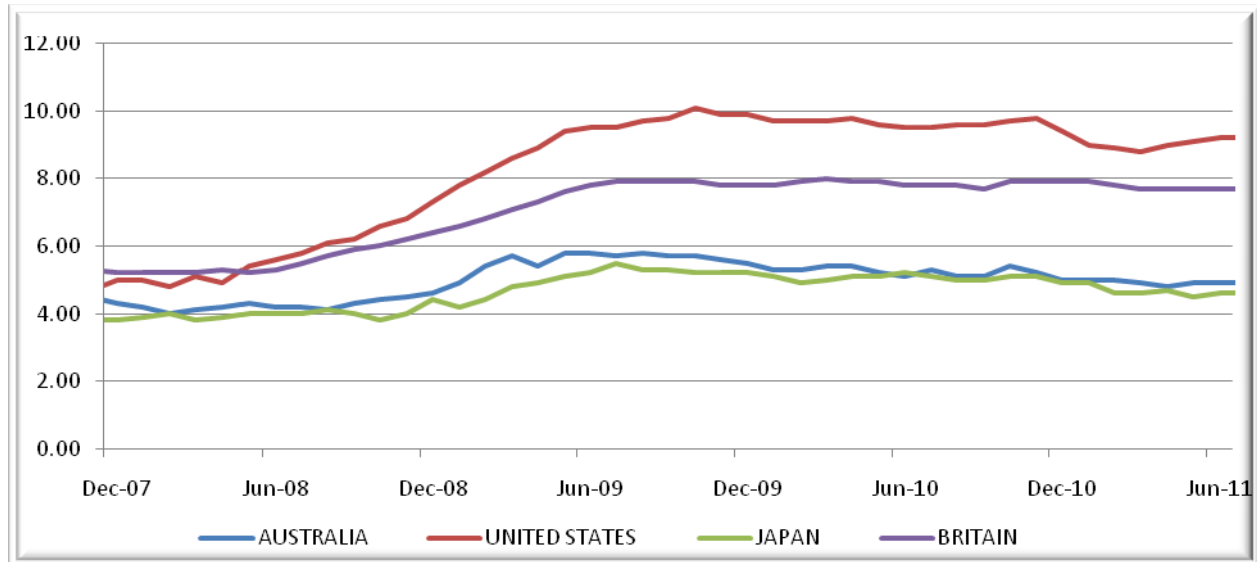
**INFLATION RATES (ANNUALISED)**



Inflation in Australia for the June quarter rose more than forecast – climbing above the average 2-3% inflation band the RBA targets over the cycle. Natural disasters have had a flow-on-effect to restrict supply with commodity and energy prices remaining at elevated levels. In contrast, inflation remains a key concern in China as the CPI accelerated in July, with soaring food prices (particularly pork) being the primary driver.

While the US is not experiencing spiralling inflation rates like China, they are riddled with their own problems on promoting economic growth and reducing unemployment. For the US and the UK, the inflation rate remained unchanged. In contrast, Japan's inflation rate increased at a slower rate but suffered from higher commodity prices.

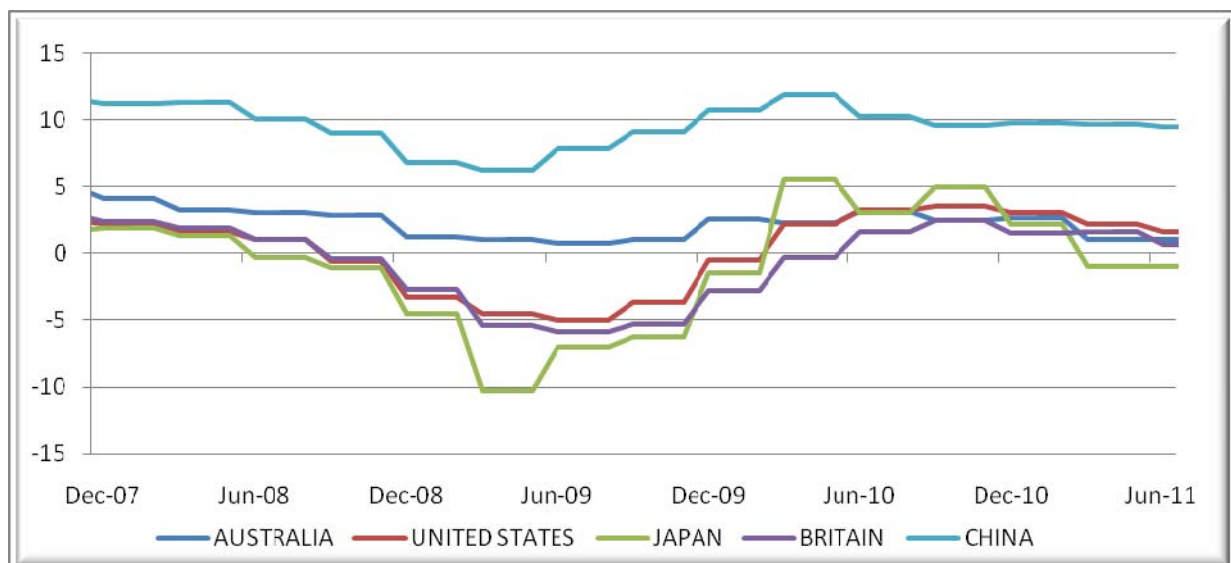
### UNEMPLOYMENT RATES



Although the US unemployment rate fell 0.1% in June, this rate still remains high relative to other developed countries. As the US suffers from what seems to be a stagnant job market, a lower participation rate was the main cause for the fall. The loss of US public sector jobs continue to keep the unemployment rate high as highlighted by government budget cuts. Not surprisingly, this was mitigated by the creation of private sector jobs in the manufacturing and services sectors thanks to a weak US dollar.

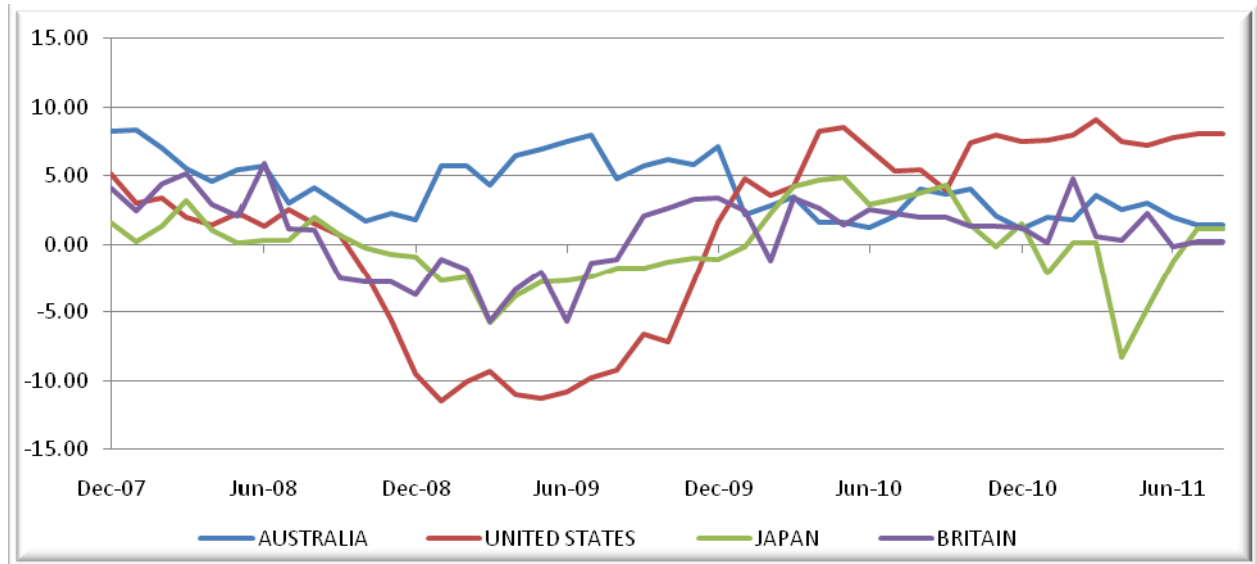
Unemployment rates in Australia and in the UK remained unchanged. Japan on the other hand experienced a 0.1% rise in the unemployment rate in the midst of an economic recovery.

### GDP GROWTH (ANNUAL)



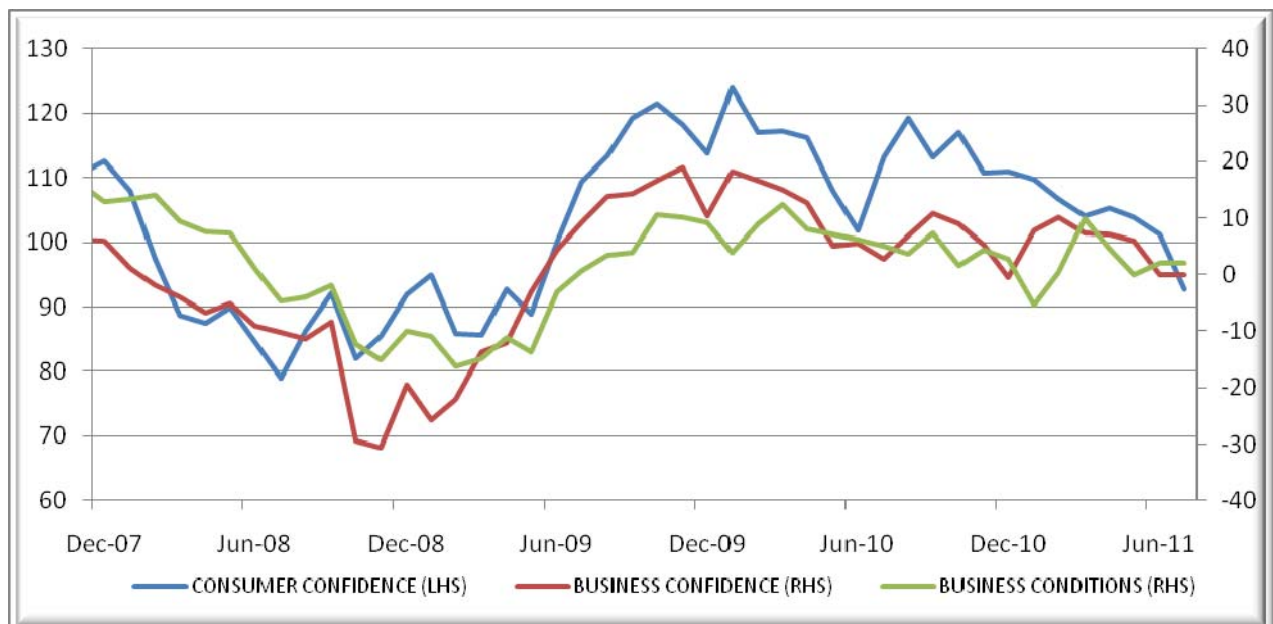
Maintaining economic growth has been a struggling effort for developed countries since the beginning of 2011. The trend has reflected positive, but declining rates of GDP growth (except for Japan which has shown negative GDP growth rates). While this may point to signs of a recession (typically defined as two consecutive quarters of a decline in economic growth), the US debt downgrade by ratings agency Standard & Poor's provides a real possibility of the US dipping back into one. Considering most other financial indicators such as high unemployment and a weak US housing market, this is likely to hinder economic growth in other countries. It is said that when the US sneezes, the rest of the world catches a cold. The US and UK GDP growth rates have fallen while Australia, Japan and China have shown no changes in economic growth rates.

**CHANGE IN RETAIL SALES – ROLLING 12 MONTH CHANGE**



Retail sales across developed countries experienced sluggish growth. Interestingly, consumers are becoming cautious about spending as they attempt to increase savings rates in this uncertain economic environment. This was particularly evident in Australia when retail sales declined 0.1% in June following the previous month's sharp drop. It appears that a strong Australian dollar continues to place Australian retailers under pressure. Despite Japan's struggles to revive its economy, retail sales are showing signs of stabilising; rising 1.1% in June (the biggest increase since November 2010) post March's disaster. Britain also showed a modest turnaround, increasing sales by 0.7% while in the US, sales were flat.

**CONSUMER & BUSINESS CONFIDENCE / CONDITIONS**

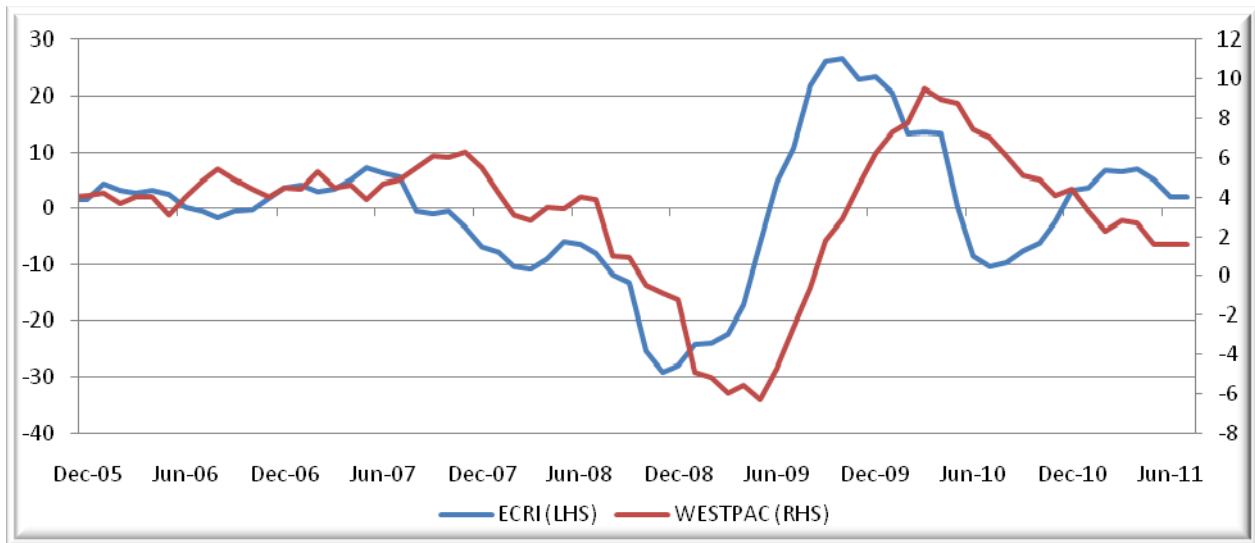


Consumer sentiment plummeted in July and was the weakest reading since May 2009 after resurfacing European debt problems and global economic headwinds dented consumer confidence. Previously mentioned, Australian households have been extremely cautious in spending and this trend may likely continue for some period based on current policies.

Spilling over from uncertain global economic growth, business conditions remained fragile throughout July as the index declined below trend as measured by the NAB business conditions index.

The NAB business confidence index showed no improvement, muted by dwindling credit growth and reduced demand for goods and services impacting retail, construction, and manufacturing. It was however surprising that the decline in business confidence was not as steep post the carbon tax scheme announcement.

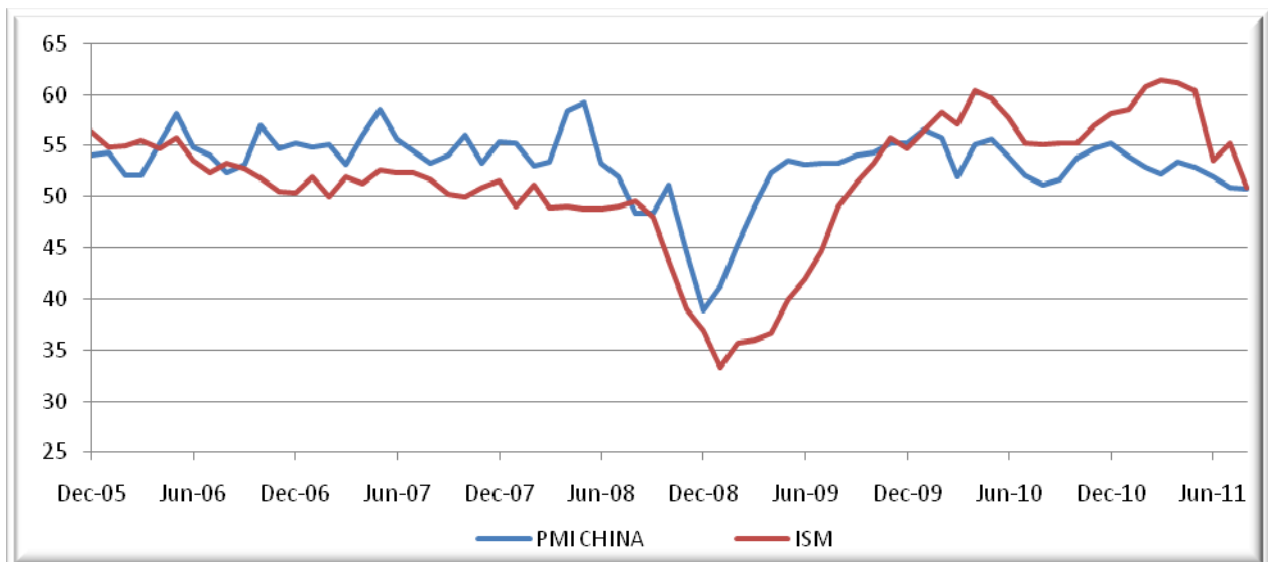
**LEADING INDICATORS - WESTPAC LEADING INDICATOR (AUST) & ECRI WEEKLY LEADING GROWTH RATE (US)**



The Westpac Leading Index indicates the likely pace of economic growth 3 to 9 months into the future. The index fell to the lowest reading since September 2009 and is trending below the long term average of 3%. However, Westpac forecasts growth to be higher but still below trend in the second half of 2011.

In contrast, the ECRI stabilised around levels of 1.5 to 2 after its decline since early 2011. The ECRI Weekly Leading Growth Rate is a predictor of economic growth in the US. It is the earliest economic figure released each week and is therefore closely monitored.

**LEADING INDICATORS – MANUFACTURING DATA: ISM (US) AND PMI (CHINA)**

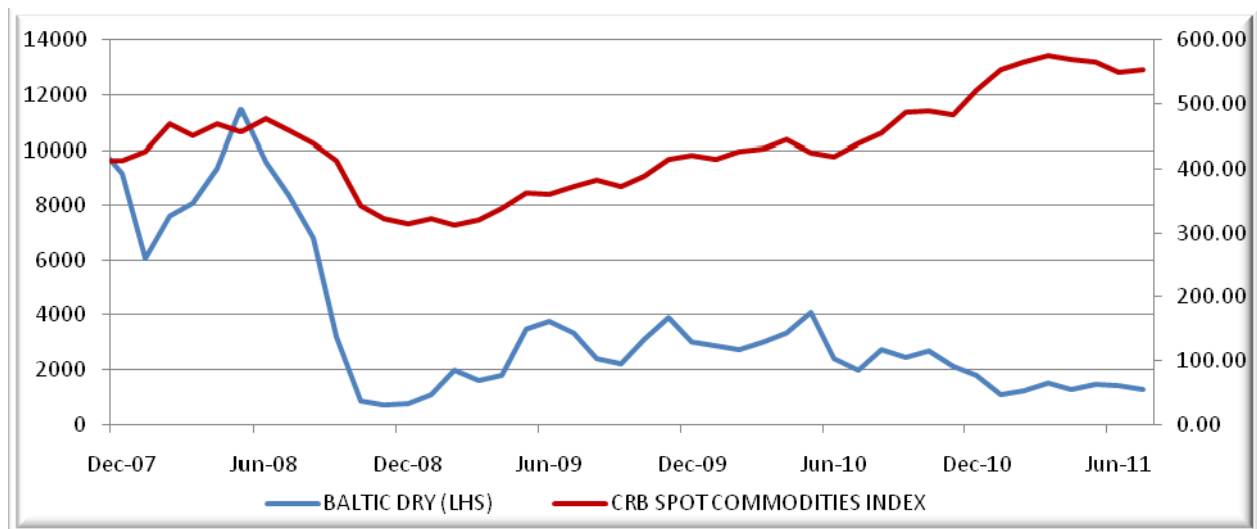




Global manufacturing generally shrank in Asia and Europe. The expansion in US manufacturing unexpectedly slowed down in July and showed signs of almost contracting as the index fell to 50.9 (a reading below 50 indicates contraction) from 55.3 in June. This was the lowest reading in two years, reflecting weak demand for manufactured goods despite a rise in private sector manufacturing jobs and a weak US dollar. In response to a weak demand for goods, manufacturing firms have cut back on orders indicating the poor state of economic health the US is currently in.

As the ISM and the PMI converge towards levels of contraction in manufacturing, China's manufacturing growth pulled back in July at a slower pace than expected, falling from 50.9 in June to 50.7 in July - a 28-month low. It is clear that high Chinese interest rates are subduing manufacturing growth and the broad economy. However, it is still remarkable that the economy was able to maintain strong levels of GDP growth of 9.50% in the past year.

**LEADING INDICATORS – BALTIC DRY INDEX & CRB SPOT COMMODITIES INDEX**



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. The cost of transporting bulk cargoes was 42% lower compared to last fiscal year with the index floating around the 1250 level.

The CRB Spot Commodities Index measures spot price movements for 22 basic commodities which are highly sensitive to changes in the economic cycle. As such, it serves as an early indicator of impending changes in business activity. While commodity prices have been bullish since post GFC, the index has flattened out, and is likely to see further falls on concerns of a recession in the US and lacklustre global economic growth.

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**DATA SOURCE: BLOOMBERG**

## BLOOMBERG DATA SERIES

CHART	BLOOMBERG DATA SERIES
<b>CASH RATES</b>	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
<b>CPI</b>	Australia CPI All Groups Goods Component YoY
	US CPI Urban Consumers YoY NSA
	Japan CPI Nationwide YoY
	China CPI YoY
	UK RPI YoY NSA
<b>GDP</b>	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
<b>UNEMPLOYMENT</b>	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
<b>RETAIL SALES</b>	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
<b>HOUSE/LAND PRICES</b>	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
<b>HOUSING APPROVALS</b>	China Land Transaction Price YoY
	Australia Building Approvals Dwellings YoY
<b>HOUSEHOLD CONSUMPTION</b>	US New Privately Owned Housing Units Started by Structure Total SAAR YOY
	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
<b>COMPANY PROFITS &amp; BUSINESS OUTLOOK</b>	GDP US Personal Consumption Chained 2005 Dollars % Change SAAR
	Australia Comp Gross Operating Profit QoQ Chg Seasonally Adjusted
<b>CONSUMER &amp; BUSINESS CONFIDENCE</b>	National Quarterly Business Survey Business Confidence Outlook SA
	Westpac-Melbourne Institute Consumer Confidence Consumer Sentiment
<b>LEADING INDICATORS</b>	National Australia Bank Business Indicators Business Confidence SA
	Baltic Dry Index
	CRB Spot Commodities Index
	ISM Manufacturing PMI SA
	Manufacturing PMI China
	Australia Westpac Leading Index Annualised Growth YoY%
ECRI Weekly Leading Index Growth Rate	

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