Zenith Monthly Economic Report

December 2010

Zenith Investment Partners Pty Ltd

ECONOMIC STATISTICS SUMMARY

	Cash Rate		Inflation Rate (%)		Unemployment Rate (%)		GDP Annual Growth (%)	
Country	**Latest**	**Last Change**	**Latest**	**Month**	**Latest**	**Month**	**Past Year**	**Last Update**
Australia	4.75	+0.25 (Nov-10)	2.80	↔ Oct-10	5.20	↓ Nov-10	2.70	↓ Nov-10
USA	0.25	-0.75 (Nov-08)	1.20	↑ Nov-10	9.80	↑ Nov-10	3.20	↑ Nov-10
Japan	0.10	-0.20 (Nov-08)	0.20	↑ Nov-10	5.10	↑ Nov-10	4.40	↑ Nov-10
UK	0.50	-0.50 (Feb-09)	4.50	↓ Nov-10	7.70	↔ Nov-10	2.80	↑ Sep-10
China	5.56	+0.25 (Oct-10)	4.40	↑ Nov-10	NA	NA	9.60	↓ Sep-10

AUSTRALIAN ECONOMIC COMMENTARY

On December 7, the RBA board left interest rates on hold at 4.75% as expected. After the 25 bps rise last month, banks lifted their rates to average of 40 bps, effectively eliminating any need for a follow-up rate rise. Furthermore, weaker than expected economic data released last week showed the Australian economy slightly losing momentum. The Australian economy grew by just 0.2% in the September quarter. This was enough to generate a fall in the annual GDP to just 2.7%, well below predictions.

However, inflation appears to be on the rise despite the RBA's best intentions. The TD-Securities Melbourne Institute monthly inflation data showed the largest monthly increase since May, lifting the annual rate to 3.9%, well above the RBA's long term target. The RBA Board also noted the continued deleveraging of Australian households, with more cautious spending behaviour in the face of a rising interest rate environment. This continues to be reflected in the poor outlook for retail, particularly the consumer discretionary sector. An unexpected fall in sales by 1.1% in October added to these concerns heading into the busiest retail season of the year.

Other domestic indicators looked strong, with the labour market resurging. The unemployment rate fell from 5.4% to just 5.2%. The tightening jobs market is also leading to wages growth, which has risen to 7.2% on an annual basis. This will no doubt exert inflationary pressure in the near future. If unemployment falls below 5%, this would almost certainly trigger another cash rate increase. Furthermore, severe flooding in the eastern states could raise food prices, adding to the inflation risk. Because as the RBA suggested, we remain part of a world economy that faces an uncertain and volatile road ahead.

GLOBAL ECONOMIC COMMENTARY

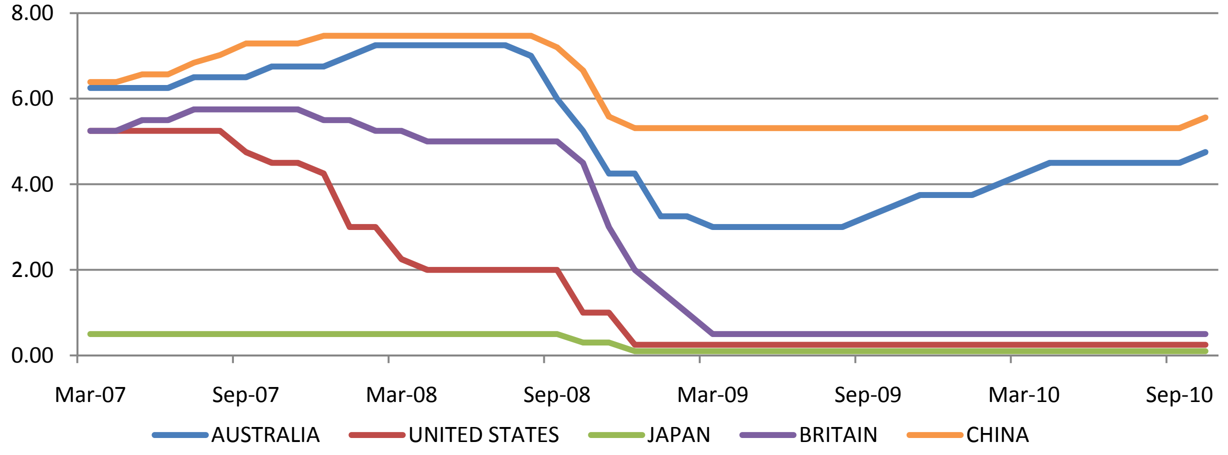
The European Sovereign debt crisis hit the headlines again, as this time Ireland became the focus of global concerns by becoming the second of the PIIGS to require an IMF/EU funded bailout. The EU & IMF delivered an 85bn euro rescue package just in time for Christmas. The Irish government has announced a record austerity budget, targeting 6bn euro in spending cuts and tax hikes. Meanwhile, the European Central Bank stepped up its repurchases of government debt in order to try and avoid the contagion effect on the entire Eurozone.

Economic data from the US remains mixed, but generally slows sluggish signs of improvement with better ISM data and stronger leading indicators. However, despite implementing the QE2 measures last month, the inflation rate remains at its lowest point since 1964 and unemployment data remains a point of major concern. The upside of devaluing the dollar is that it is driving demand for American made goods in the faster growing markets of China and Brazil. This is lifting growth in factories and propelling the recovery forward. Holiday season sales are also rising and contributing positively to the data, with recent Thanksgiving sales accelerating the cheer of retail markets heading towards the Christmas season.

China remains the star of the world economy, although like Australia, the downside is that inflation is becoming more of an issue. Wages growth is also increasing, and will likely place profit margins under strain in the industrial sector. Recently, it was revealed on Wikileaks that China's next premier questioned the validity of Chinese GDP data. He suggested that using variables like electricity consumption, rail cargo volumes and bank leading to derive the data is inaccurate and misleading. This is interesting as economists have long since suggested the same thing! Predictions for 2011 suggest that the CPI will reach 5.3%, whilst most global investment banks predict growth will slow but remain very high, with estimates ranging from 8-9%. A more sustainable growth rate is a definite positive for their economy, and for our own.

And last but not least, the UK showed weak evidence of picking up with improving reports on consumer spending and manufacturing, with the pound rising against the dollar as demand for British assets increases amidst the European sovereign debt crisis. Year on year sales data improved 0.7% in November, on the back of a 0.8% gain in October. Manufacturing output rose by nearly double the predicted amount, boding well for a stronger year ahead.

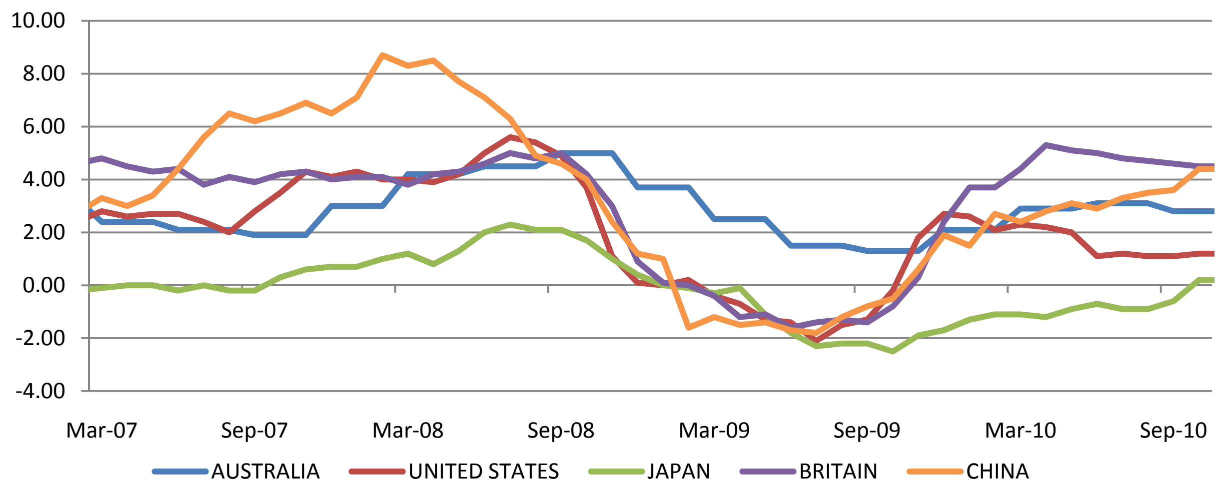
CASH RATES



After a surprise rates rise last month, Australia's central bank kept rates on hold. The RBA expressed the sentiment that rates are about right at the moment, given the state of the global economy and its influence on our own. Last month China also lifted rates for the first time in three years in a move designed to prevent a housing bubble. Many Australians, particularly those in the resources sector, are keeping a close eye on the magnitude of China's slowdown. However it should be noted that measures to cool their overheated economy are prudent, as rampant uncontrolled growth will create asset bubbles. Slower growth is more sustainable in the long term.

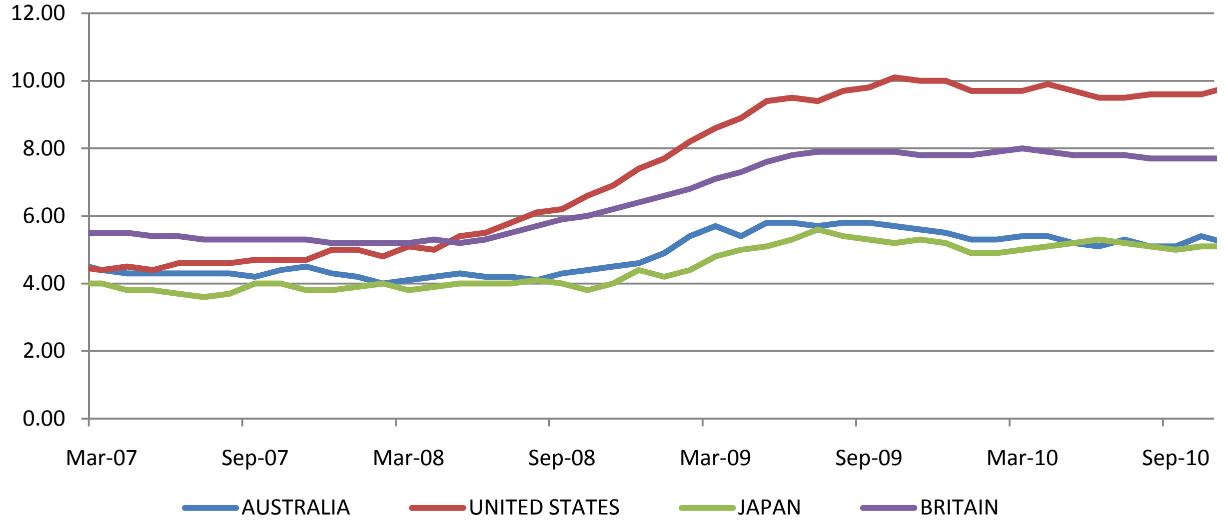
As illustrated, the state of developed world remains a concern. The US will leave rates on hold almost indefinitely whilst deflation becomes a very serious risk. The central banks of Japan and England are also expected to leave rates on hold. Australian rates will almost certainly rise next year, although the timing and magnitude will strongly depend on the strength of underlying economic data. As a result of both the higher cash rates and our better growth prospects, Australia provides an attractive market for international investors with stronger yields on cash and bonds, as well stronger opportunities in equity markets.

INFLATION RATES (ANNUALISED)



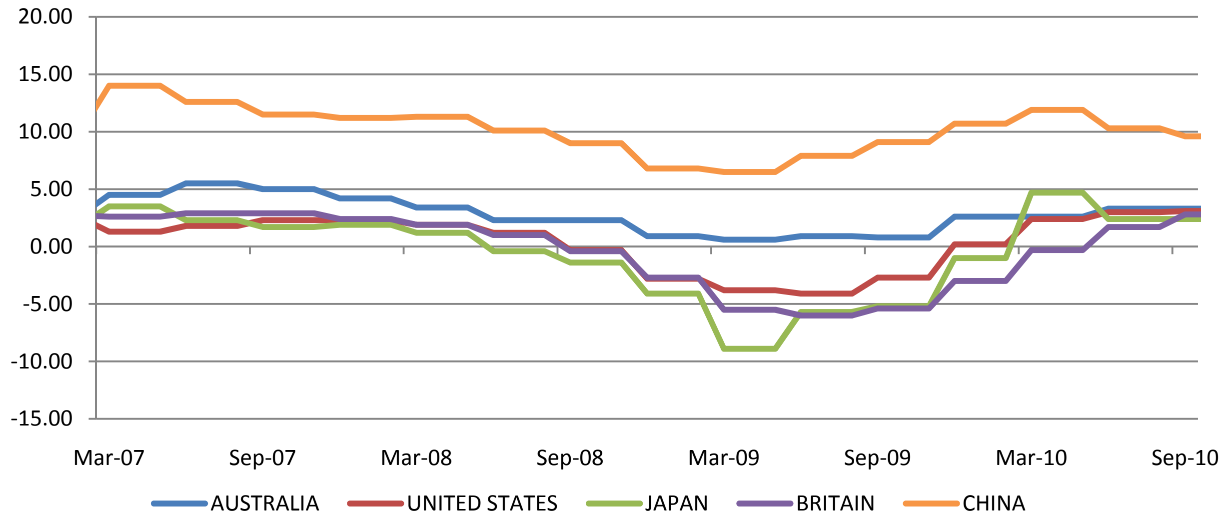
Australia's inflation remains within the long term target range of 2-3%. Inflation rates have fallen in the UK from a high base. Conversely, inflation has risen slightly in the US to 1.20%, edging away from a deflationary environment after the recent announcement of quantitative easing measures. China's inflation rate rose even further to 4.4%, despite the unexpected rate rise last month. Chinese inflationary pressures are more than likely secondary to the housing boom and increasing domestic consumption. Japan has finally returned from a deflationary environment, with the land of the rising sun reaching 0.2% this month – just barely over the line.

UNEMPLOYMENT RATES



Australia's unemployment rate decreased to just 5.2% as 400,000 new jobs were added over the year. However rising unemployment was the trend of the month globally, with the US and Japan experiencing rate rises. The UK's unemployment rate remains relatively high at 7.7% after a small fall last month but the government's austerity package, which includes spending cuts coupled with a higher tax rate, is likely to cost 1.6 million British jobs. Japan's peak unemployment rate remains stable at 5.1%. This is still very high in historical terms.

GDP GROWTH (ANNUAL)

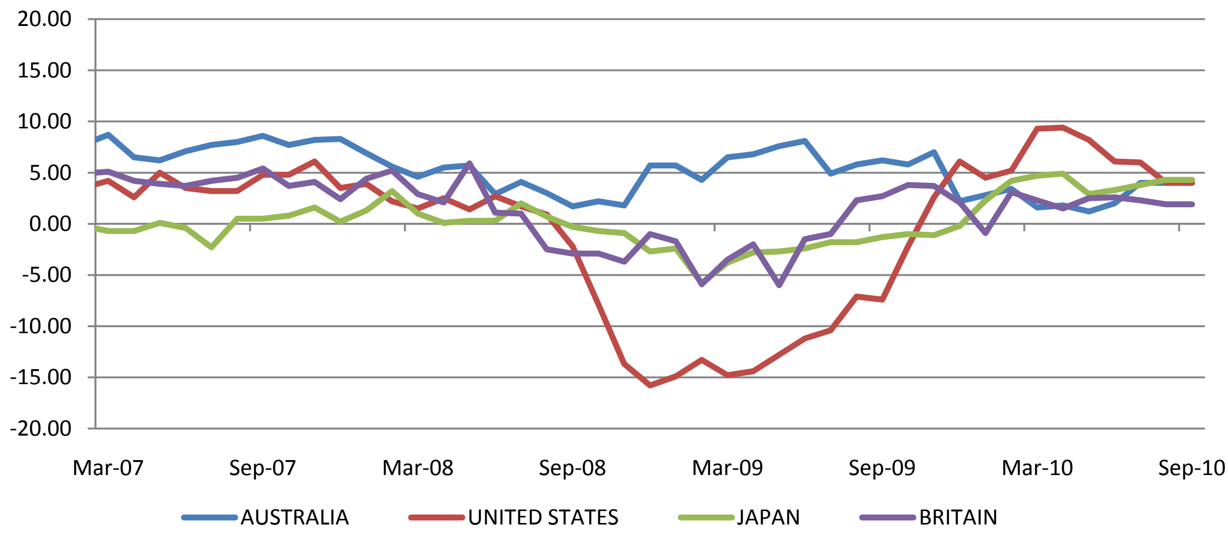


Australia's annual GDP figures produced a surprise result this month. The release showed GDP growth had fallen from 3.3% to just 2.7%, despite our strong economic performance post the global financial crisis. Whilst the resources boom continues, we can surmise that this is drop due to the two speed economy. Consumer caution remains high in the face of rising interest rates and the Australian household continues to deleverage, which does not bode well for spending in the near term. Prospects for our ongoing growth remain strong as China continues to expand, but at a slower rate. This is a positive as the slowdown will promote more sustainable growth.

Even with increased infrastructure and stimulus spending, the US is tipped to grow slowly heading into 2011. Recent annual GDP figures showed growth rising to 3.2%, surprisingly well above Australian data. In fact, despite the gloom surrounding the US economy, the surprises are typically on the upside.

The growth figures in the UK remained unchanged. Given the growth predictions for the developed world, exposure to emerging market investments is still the best option to exploit relatively growth high in the medium to longer term, although investors should be aware of the valuations and associated systemic and political risks.

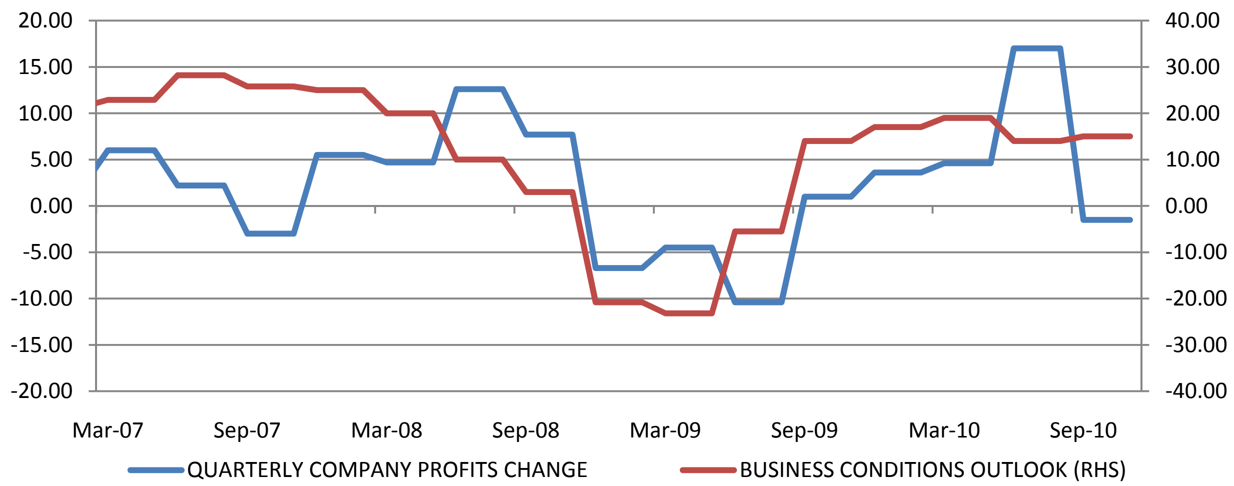
CHANGE IN RETAIL SALES – ROLLING 12 MONTH CHANGE



The same old story continues in the retail sector, with retail sales falling another 1% in October. Consumer caution is definitely the new black. On-line retailers are still thriving with the strong dollar, and domestic retailers who incorporate internet sales and are adapting to the structural shifts in this sector show much stronger earnings profiles.

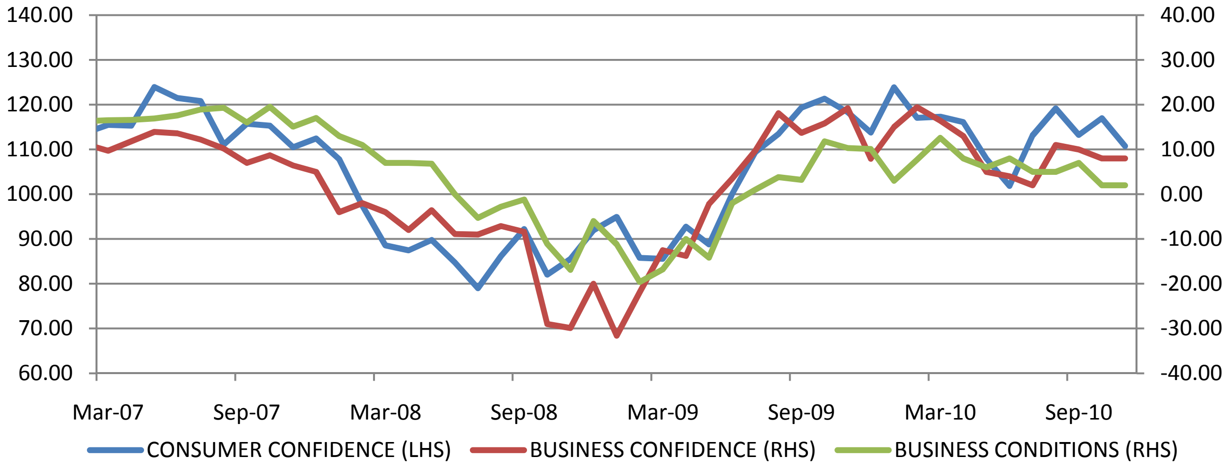
Year on year British retail sales figures showed their second consecutive increase despite fears that British consumers will reigning in expenditures in the face of strong fiscal austerity measures. In the US, yearly comparable store-store figures rose a weak 2.6%. It will be interesting to see what effect the Christmas season has this year – will it be naughty or nice?

COMPANY PROFITS QUARTERLY CHANGE & BUSINESS CONDITIONS OUTLOOK



Quarterly company profits change data showed a sharp and surprising fall. After reaching a peak of 18.90, the data hit a low of -1.50. This is clearly inconsistent with the rest of the buoyant Australian economic data. After breaking down the data into its components, we can see that Mining and Manufacturing are doing well, whilst retail and construction are performing poorly. This is yet another example of the strong divergence in the Australian economy. The business conditions outlook is yet to be updated.

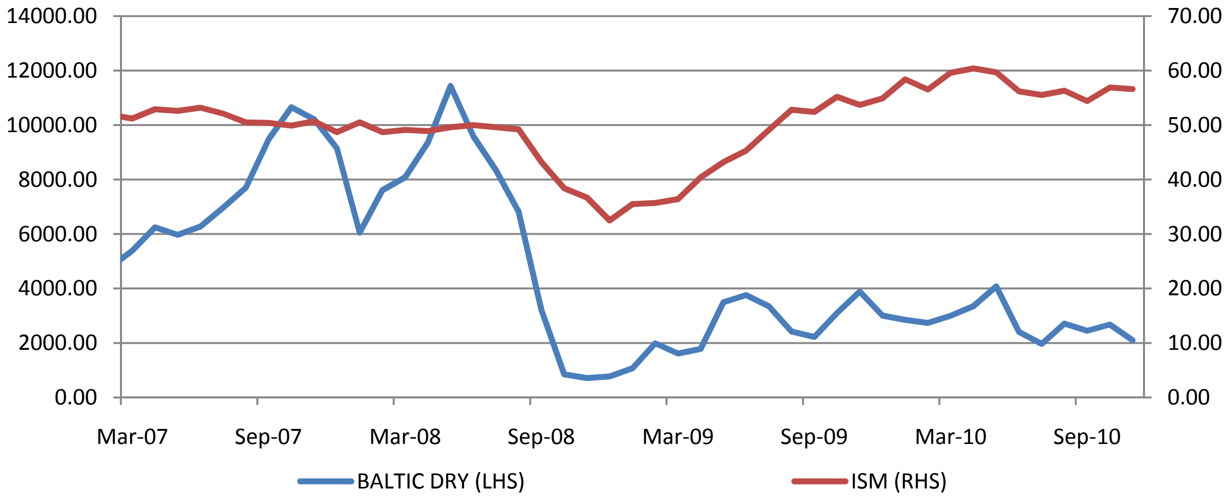
CONSUMER & BUSINESS CONFIDENCE / CONDITIONS



Consumer confidence fell slightly in the most recent data. This is probably due to the rate hike in November, and concerns the European sovereign debt crisis will engulf other nations as other economic data remains positive and wages growth is strong. The record number of job advertisements in the ANZ survey was released after this data, so this may stimulate consumer confidence in the next set of data.

Business conditions and confidence numbers also fell, reversing recent positive trends. The fall in confidence is likely to reflect recent concerns surrounding the global economy, as well as the proposed legislative changes on the domestic front. With changes to the mineral resource rent tax (MRRT) and the banking sector looming, a degree of uncertainty surrounds some of Australia's largest and most successful sectors.

LEADING INDICATORS – BALTIC DRY INDEX & ISM MANUFACTURING SURVEY

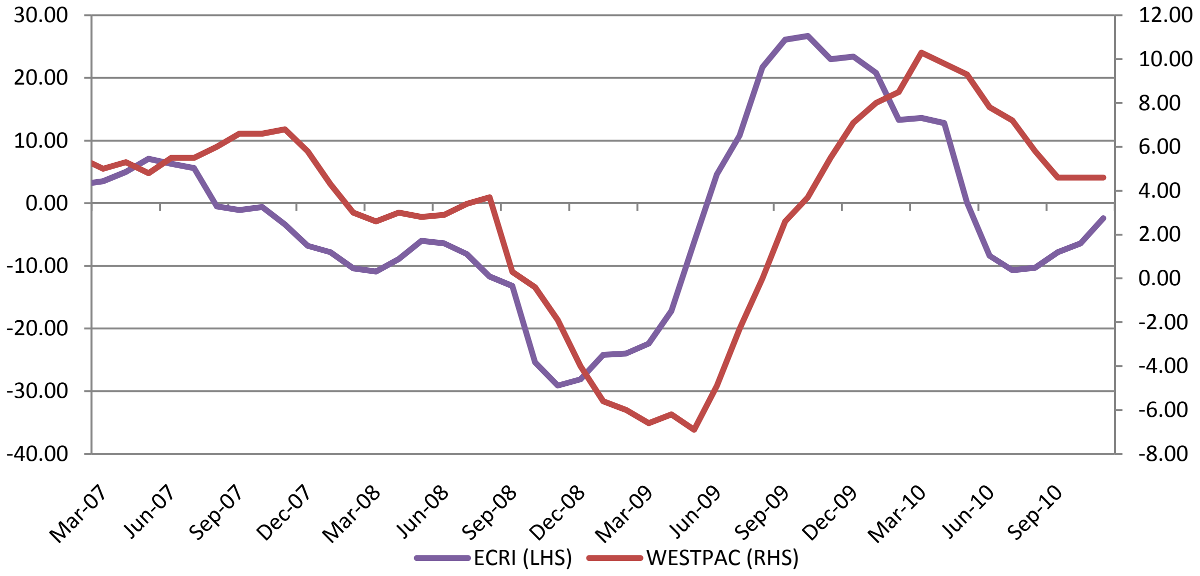


The Baltic Dry Index (BDI) tracks international shipping prices for various dry bulk cargoes. As the supply of ships is relatively inelastic, the BDI indirectly measures global supply and demand for shipped bulk commodities such as coal, iron ore and building materials. Since it measures demand for raw materials, it is regarded as a leading economic indicator of future growth. After minor incremental rises in the index to the mid 2500s suggested a gradual increase in demand for commodities, this trend has recently reversed, suggesting another pull back in global growth. No doubt the return of sovereign debt woes in Europe are adding fuel to the concerning global outlook.

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. This month's figures fell slightly to 56.60, remaining in expansionary territory. In a very positive sign for the US economy, 'new orders' grew for the 17th consecutive month.

Purchasing managers are intending to ramp up production next year, anticipating business capital expenditure will rise by 15% and sales growth by 5%. A weakening dollar and demand for American-made goods in faster-growing markets such as China and Brazil are lifting growth at factories, driving the recovery. Holiday-season sales gains at retailers indicate services also are contributing to the 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. Overall, the chart remains in positive territory illustrating Australia is likely to experience ongoing economic growth. However, the index continues to fall, reaching a low of 4.60 this month, which correlates with weaker than expected GDP growth. This may be due to the influence of our retail and construction industries, and a slight weakening in sentiment for Chinese growth projections.

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. As illustrated, the ECRI this month continued its rise back towards positive territory, hitting -2.40 after this years' low of -11.84. Will QE2's implementation continue this rise? Perhaps the coming Christmas season will bring some cheer!

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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
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
	China Land Transaction Price YoY
HOUSING APPROVALS	Australia Building Approvals Dwellings YoY
	US New Privately Owned Housing Units Started by Structure Total SAAR YOY
	Japan Housing Starts YoY NSA
HOUSEHOLD CONSUMPTION	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
	GDP US Personal Consumption Chained 2005 Dollars % Change SAAR
COMPANY PROFITS & BUSINESS OUTLOOK	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