Zenith Monthly Economic Report

February 2011



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)	2.70	Dec-10	5.00	Dec-10	2.70	Dec-10
USA	0.25	-0.75 (Nov-08)	1.50	Dec-10	9.00	Jan-10	2.80	Dec-10
Japan	0.10	-0.20 (Nov-08)	0.00	Dec-10	4.90	Dec-10	5.30	Dec-10
UK	0.50	-0.50 (Feb-09)	4.80	Dec-10	7.90	Dec-10	1.70	Dec-10
China	5.81	+0.25 (Dec-10)	4.60	Dec-10	NA	NA	9.80	Dec-10

AUSTRALIAN ECONOMIC COMMENTARY

At their first meeting in 2011, the RBA board left interest rates on hold at 4.75% as expected. The decision was made adopt a 'wait and see' approach to the economic impact of Queensland's wild weather. The floods have dampened the nation's expectations for economic growth this year, with lost revenue expected to wipe 1% from the annual GDP. The costs of the clean up are estimated to be close to \$6bn. Industries hardest hit include mining, agriculture, transportation and tourism, with mining being the largest contributor to Queensland's output last financial year.

The floods have had flow on effects to other economic indicators, dampening both consumer and business confidence. Australia remains very much a tale of two economies. The Australian Performance of Manufacturing Index (PMI) rose in January to 46.7, with a high Australian dollar and soft domestic demand putting pressure on the sector which remains in contraction mode. Retail sales remained fairly flat in December, the peak season for this sector. Given the strong outlook for employment and wages growth this year, we would expect to see retail sales pick up this year as consumers regain confidence, however this could be short lived as the macro-economic environment remains uncertain both domestically and abroad.

Adding further risks to inflation, the oil price has been slowly and steadily rising, finally crossing the \$100 mark again as the political situation in the Middle East heats up. If sustained, this rise will add significant cost pressures to manufacturing, product transport and tourism which are typically passed onto consumers. In this manner, rising oil prices can impact the household budget significantly, creating another inflationary pressure. This effect is worst in the developing world, where food and fuel can comprise the majority of the average household budget.

GLOBAL ECONOMIC COMMENTARY

Inflation woes are gripping global markets, but for different reasons in different regions. Highlighting the divergence of economic outlooks in the emerging and developed economies, we see the emerging nations battling inflationary pressures derived from strong organic growth, whereas developed nations are struggling with the need to balance rising inflation and cost pressures against the need to keep rates low to encourage growth.

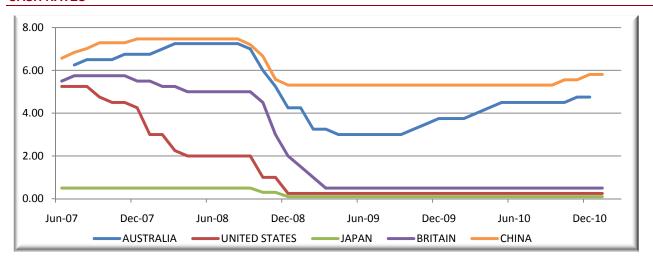
The Chinese economy grew faster than expected in the final quarter of 2010, expanding at an annual rate of 9.8%. Inflation figures eased slightly with the CPI falling to 4.6%, although price pressures are continuing to mount. Adding to fuel to the fire are soaring commodities prices and their impact on the costs of building and infrastructure projects. After the US Federal Reserve launched the second round of quantitative easing, commodities prices have risen further, leaving emerging countries battling severe domestic inflation issues as well as asset price bubbles. The People's Bank of China announced that it is lifting the reserve requirement for commercial banks by 50 basis points, a quick follow through on its last 50 basis point hike in the month prior. This also follows the central bank's ruling on increasing its deposit and lending rates. Rising inflation and excess liquidity have prompted the people's bank to raise the reserve ratio six times in 2010. China's commercial banks are now required to keep 19% of their funds in storage. China's PMI, the bellwether for industrial activity declined in January, retreated to a five month low. Although it remains in expansionary territory, this may help alleviate fears of an overheated economy.

The European Central Bank and the Bank of England both elected to keep their rates on hold during the first meeting of 2011. Both face rising inflationary pressures which should dictate a move towards higher interest rates. However they are also struggling to keep their respective economies afloat in light of lingering problems with regional sovereign debt and sharp economic slowdowns as austerity measures take hold, reflected in England's weak GDP figures and rising unemployment.

The question mark that hangs over the sustainability of the US recovery and persistent threats of contagion coming from Europe's lingering sovereign debt crisis have prevented major developed country central banks from withdrawing monetary stimulus. This further exacerbates the dichotomy between the developed and emerging country central banks. Liquidity injections by the US Federal Reserve in addition to the currency devaluation through quantitative easing have resulted in rising inflationary pressures in emerging economies. This year we can expect to see most nations in the developed world leave interest rates on hold and those in emerging nations continue to lift them. US economic data continues to surprise on the upside, with strengthening manufacturing, services, employment and retail sales figures all providing a promising start to the new year.



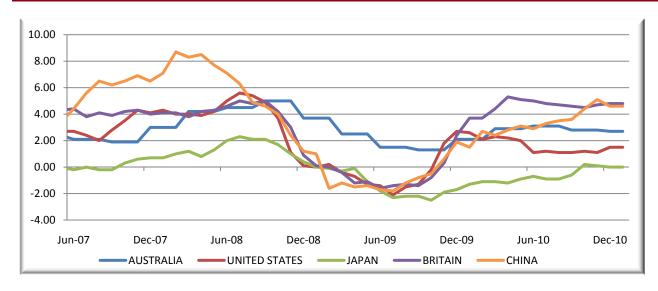
CASH RATES



At their first meeting in 2011, Australia's central bank kept rates on hold. The RBA adopted a wait and see approach to monitor the effect of Queensland's floods on the economy, in particular its potential outcome on GDP and inflation. Whilst 1% is expected to be cut from the GDP this year, destruction of key farming land and crops will raise food prices and add to cost of living pressures. The combination of both will mean that rates are likely to be kept on hold. Australia remains highly attractive to international investors with strong yields on cash and bonds.

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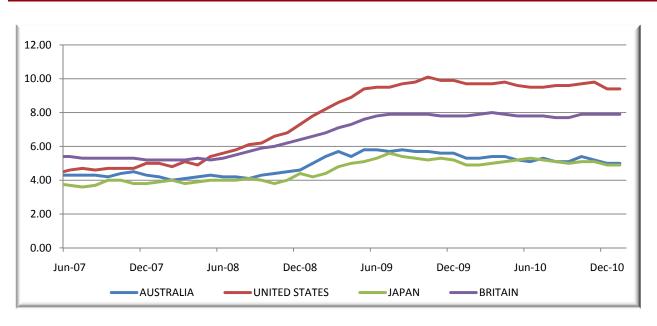
INFLATION RATES (ANNUALISED)



Australia's inflation remains within the long term target range of 2-3%. Inflation rates remain high at 4.8% in the UK despite the low growth— GDP sits at just 1.7%- as speculation continues to mount whether the Bank of England will move on rates. The timing of this will be a difficult strategic move, as raising rates could also lower growth. Inflation remains fairly static in the US despite the continued improvement in economic data driven by strengthening manufacturing and sales figures. China's inflation rate rose higher to 4.6%, despite two successive rate rises. Chinese inflationary pressures are derived from the housing boom, domestic consumption and infrastructure projects and will be a key measure to monitor this year. Further monetary tightening policies are expected to help counter the effects, which is not necessarily ideal for Australia's resources industry. After briefly reaching positive territory last month, Japan's inflation rate has fallen back to zero.

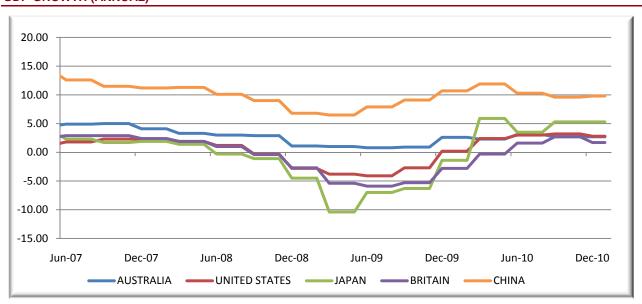


UNEMPLOYMENT RATES



Australia's unemployment rate dropped further to 5.0%, edging closer to capacity. Falling unemployment was the trend last month globally, with the US and Japan experiencing falls. The US data showed a fall but the number of new jobs created fell well short of expectations, prompting more suspicious economists to suggest that the improving unemployment figures simply reflected a lower amount of job seekers. The UK went against the trend, with unemployment rising to 7.9%. It is predicted to rise higher as austerity measures are implemented, with expectations that 1.6 million jobs will be lost going forward. Japan's unemployment rate fell to 4.9% although this remains well above the historical average of 2.6%.

GDP GROWTH (ANNUAL)

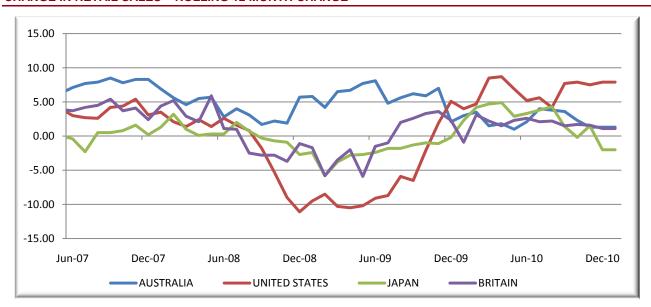


Queensland's weather has watered down GDP growth expectations, with predictions that it will fall 1% this year. Most of the risk to GDP growth is on the downside, with the mining industry set to take a hit from the floods, whilst fears of a Chinese slowdown gain momentum. The Chinese economy grew faster than expected in the final quarter of 2010, expanding at an annual rate of 9.8%. Coupled with rising inflation figures, further monetary tightening is a distinct possibility which could have significant flow on effects to our resources industry.

At the other extreme, the British economy continues to contract recording an annual GDP of just 1.7%. Coupled with rising unemployment and inflation, the near term outlook is concerning. The US continues to surprise. Growth in the services sector was the fastest in five years, suggesting the economy is finding a more solid start to the year. This pick up mirrored a similar acceleration in manufacturing in January. Both sectors make very significant contributions to GDP, so the expectations for the next round of data will be high.



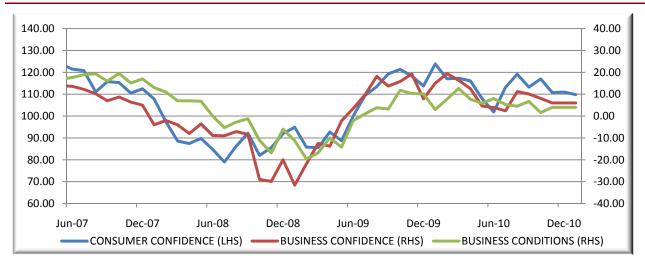
CHANGE IN RETAIL SALES - ROLLING 12 MONTH CHANGE



Australian sales figures for December were lower than expected, with disappointing numbers during what should be their busiest season. Sales increased marginally to a seasonally adjusted 0.2%, well under the expected 0.5% rise. A number of key retailers have warned of earnings downgrades and that the environment for retail will remain challenging.

In Britain the unusually early winter weather made a difficult Christmas worse. With mounting concerns about the impact of spending cuts and the wider economy, sales growth remained weak rising just 0.3% on annual like-for-like basis. Despite an equally cold December, the US Christmas season finally brought some much needed cheer for retailers with sales rising 4.2%, beating Wall Street's expectations of 2.7%. Consumer spending contributes significantly to US GDP and the Christmas surge lifted the fourth quarter GDP to an above trend 3.2%, a very promising sign that the US consumer is back.

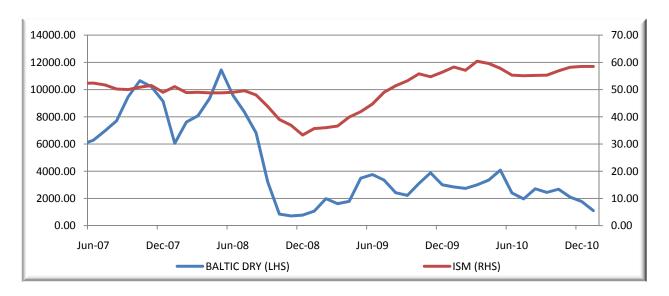
CONSUMER & BUSINESS CONFIDENCE / CONDITIONS



Business conditions improved marginally in December but business confidence continued to fall for the fourth consecutive month. Most of the decline could be attributed to sentiment in Queensland, where the impact of the floods weighed heavily on its crucial mining, transport, agricultural and tourism industries. The underlying survey data was consistent with domestic demand running at an annual rate of around 3% in the fourth quarter of last year, and implies that activity will be slower in the first quarter of 2011. Additionally, proposed legislative changes to the mineral resources rent tax (MRRT), a flood levy and now the potential for a carbon tax have added further uncertainty to business conditions.

Consumer confidence fell again last month. A lot of the same uncertainty weighing on business confidence is also impacting the Australian consumer. Domestic key concerns include the risk of rising food prices, additional taxes, oil and inflation whilst ongoing issues within the global economy include the lingering sovereign debt crisis, worldwide inflationary pressures and an ever growing fear that China is slowing down.

LEADING INDICATORS - BALTIC DRY INDEX & ISM MANUFACTURING SURVEY

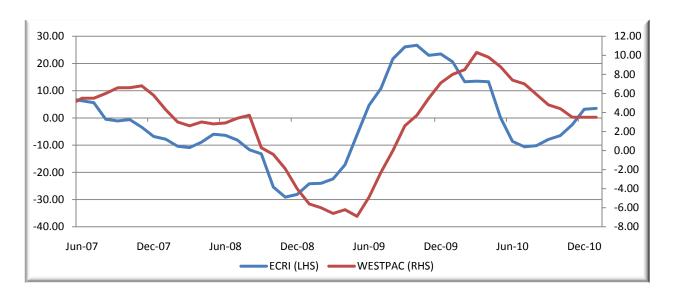


The Baltic Dry Index (BDI) tracks international shipping prices for various dry bulk cargoes. As the supply of ships is relatively inelastic, the BDI indirectly measures global supply and demand for shipped bulk commodities such as coal, iron ore and building materials. Since it measures demand for raw materials, it is regarded as a leading economic indicator of future growth. Over the last quarter a clear downward trend has been established, with levels now reaching a two year low. Whilst the Baltic Dry Index can often be used as a proxy for global growth, the BDI decline is paradoxically due to increased growth. With commodity prices hitting record highs, raw materials are becoming too expensive which can render projects uneconomic. Ultimately reduced demand leads to downward pressure on prices. This can hedge against inflation, a key concern for emerging nations who were the original drivers of upward pressure on commodities prices.

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 most recent figures show a turnaround from the plateau last quarter, as the ISM reached 60.8, its highest point in a year and a definite upside surprise. The breakdown of survey results showed that the rise was predominantly driven by new orders, which is very promising news. This data is in line with our expectations that production will ramp up this year, with capital expenditure and sales both growing strongly. A weaker USD and demand for American goods in emerging markets will continue to be the key drivers of 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 growth. However, the index continues to fall, with the latest data from November indicating at growth rate of 3.5%, just above the index's long term trend of 3.2%. The index has fallen dramatically over the six months to November after hitting 7.4% in June last year. The impact of the floods and the impending reconstruction phase will distort the growth profile of the economy this year, with growth expected to be well below trend in the first half of the year, and above trend in the second half as the rebuilding program gains momentum.

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 continued its rise into the new year, this time reaching weakly positive territory. This trend is a sign that the economic situation in the US is steadily improving, albeit slowly.

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DATA SOURCE: BLOOMBERG



BLOOMBERG DATA SERIES

CHART	BLOOMBERG DATA SERIES				
	Australia RBA Cash Rate Target				
	Federal Funds Target Rate US				
	Bank Of Japan Target Rate of Unsecured Overnight Call Rate Expected				
CASH RATES	UK Bank of England Official Bank Rate				
	China 1 Year Best Lending Rates				
	ECB Main Refinancing Rate				
	Australia CPI All Groups Goods Component YoY				
	US CPI Urban Consumers YoY NSA				
СРІ	Japan CPI Nationwide YoY				
	China CPI YoY				
	UK RPI YoY NSA				
	Australia GDP SA YoY				
	GDP US Chained 2005 Dollars YoY SA				
GDP	Japan GDP Real Chained NSA YoY%				
	UK GDP Chained GDP at Market Prices YoY				
	China GDP Constant Price YoY				
	US Unemployment Rate Total in Labor Force Seasonally Adjusted				
	Australia Labor Force Unemployment Rate SA				
UNEMPLOYMENT	Japan Unemployment Rate SA				
	UK Unemployment ILO Unemployment Rate SA				
	Australia Retail Sales YoY SA				
DETAIL 041 FO	US Adjusted Retail & Food Services Sales Total Yearly % Change SA				
RETAIL SALES	Japan Retail Trade YoY NSA				
	UK Retail Sales All Retailing Sales Per Week Chained Volume YoY SA				
	Australia House Price Index Established Homes YoY 2003-2004=100				
	S&P/Case-Shiller Composite-20 City Home Price Index YoY (US)				
HOUSE/LAND PRICES	Japan Land Prices Nationwide All YoY%				
	UK Nationwide House Prices All Houses YoY NSA				
	China Land Transaction Price YoY				
	Australia Building Approvals Dwellings YoY				
HOUSING APPROVALS	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				
HOUSEHOLD CONSUMPTION	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				
	Baltic Dry Index				
LEADING INDICATORS	ISM Manufacturing PMI SA Australia Weetras Leading Index Appublished Growth YoV%				
	Australia Westpac Leading Index Annualised Growth YoY%				
	ECRI Weekly Leading Index Growth Rate				

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