ECONOMIC STATISTICS SUMMARY

	Cash Rate		Inflation Rate (%)		Unemployment Rate (%)		GDP Annual Growth (%)	
Country	Latest	Last Change	Latest	Change	Latest	Change	Past Year	Change
Australia	4.75	+0.25 (Nov-10)	2.70	No update	5.00	No update	2.70	↔
USA	0.25	-0.75 (Nov-08)	1.60	↑ 0.10	8.90	↓0.10	2.70	↓ 0.10
Japan	0.10	-0.20 (Nov-08)	0.10	↑ 0.10	4.90	No update	2.20	↓ 3.10
UK	0.50	-0.50 (Feb-09)	5.10	↑ 0.30	7.90	No update	1.50	↓ 0.20
China	6.06	+0.25 (Feb-11)	4.90	↑ 0.30	NA		9.80	↔

AUSTRALIAN ECONOMIC COMMENTARY

On March 1, the RBA board left interest rates on hold at 4.75%. The key to this decision is their view that inflation should remain within its target band throughout the year. A high exchange rate and strong competition has helped offset a rise in utility prices according to the RBA Governor, Glenn Stevens. Furthermore, leading indicators for employment suggested that it would continue to improve slowly, whilst wages growth should stabilise. The overall picture is that the Australia economy is well balanced, and that the current monetary policy is appropriate. The RBA expects economic growth to reach 4.25% by the end of the year, fuelled by business expansion and investment.

Retail and construction remain the weak points in an otherwise stellar economy. Many retail categories continue to suffer from the price deflation caused by excessive discounting. There is no doubt that the Australian consumer continues to exercise impressive restraint after the GFC, which also gives the RBA board confidence that households are deleveraging. It appears that Australia's two-speed economy is a result of a delayed downturn in the sectors that were cushioned by stimulus spending at the height of the GFC. In fact government spending contributed to GDP growth, again helping to compensate for soft consumer and household consumption. Yet as the RBA have suggested, perhaps a two speed economy is not necessarily a bad idea as the weaker sectors help moderate growth and reduce inflationary pressures.

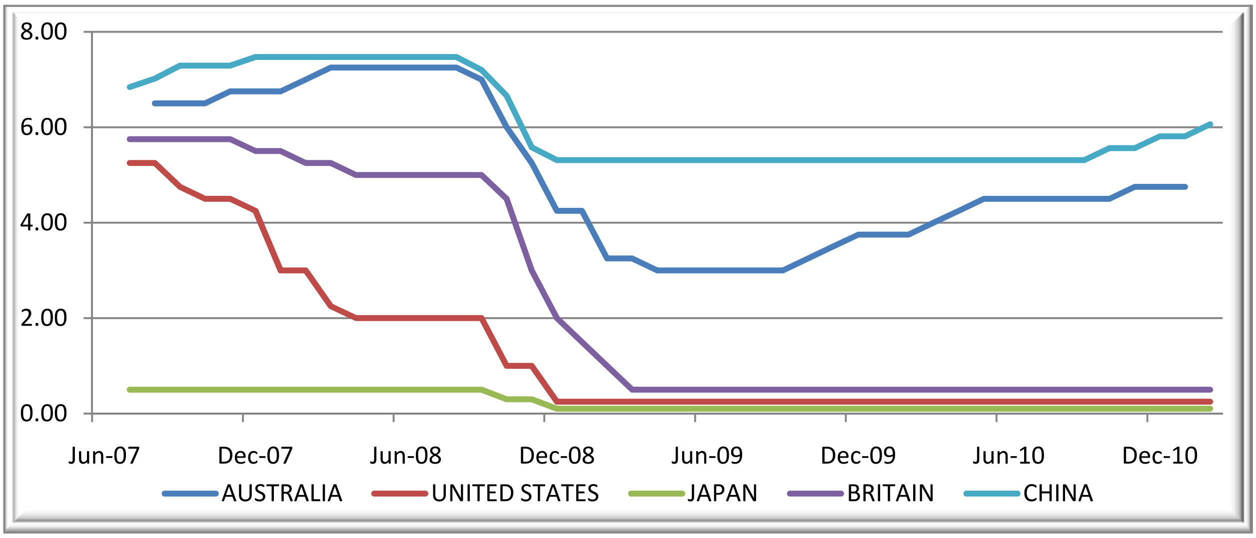
GLOBAL ECONOMIC COMMENTARY

Unfortunately, other economies are not quite as well balanced. **China** provides the ideal illustration. After several years of strong economic growth fuelled by increasing urbanisation, inflation is increasingly becoming a key concern. China's central bank increased rates by 25 basis points again, reaching 6.06%. The Chinese economy also grew faster than expected in the last quarter of 2010 and its prospects continue to look strong with annual growth expected to reach 8.5% in 2011. Yet if inflation continues to rise beyond 5%, it could result in tighter monetary policy settings that threaten growth. Interestingly China's PMI, the bellwether for industrial activity, slipped to its lowest pace in six months, reflecting how increased input costs driven by inflation act as a natural hedge to slow economic activity.

More positive short term data emerged from the **US** this month. Private sector employers added more jobs than expected finally lowering the unemployment rate under 9.0%. This bodes well for improvements in the labour market with manufacturing companies also looking to hire. And most impressively, the US manufacturing sector grew at its fastest rate in seven years during February. Manufacturing continues to outperform other sectors, leading the recovery with 19 consecutive months of growth. The ISM manufacturing index hit 61.4 – its highest level since December 1983! However, high unemployment figures are still the thorn in the side of the recovery for some time. Companies remain reluctant to hire, preferring temporary over permanent hires, whilst cash strapped state and local governments shed jobs. Whilst the short term recovery is on track, the longer term outlook for the US economy presents a frightening prospect when we look at the budget deficit. Persistent deficits may result in the total reaching a record $US 1.65 trillion in 2011. The large deficit may cause real interest rates to rise with the effect of slowing down the economy and putting pressure on the US Federal Reserve to loosen monetary policy. But the cash rate is already at 0.25% leaving the government with little room to move.

The outlook for the **UK** economy remains fragile. Despite a recent pick up in retail sales, consumer spending remains under pressure from high inflation and reduced earnings. Furthermore, confidence remains weak and households remain heavily indebted. Low GDP growth coupled with high inflation and unemployment does not bode well for the medium term outlook. Worse still, due to the UK's strong trade relationships with **Ireland**, a further downturn in the Irish economy could have significant effects on Britain and the country's banks may not receive capital injections given the newly elected government. In fact the European sovereign debt crisis just won't end, as fresh fears over **Portugal**'s future hit the headlines. Yields on Portuguese Government bonds climbed to 7.63%. As bonds are a debt instrument, this means the government is borrowing at a rate above 7% and economists estimate that at such high levels the Government will be unable to meet their debt repayment obligations. They continue to struggle with high debt levels, a large budget deficit and a weak economy that is likely to tip back into recession later this year as austerity packages are implemented. However, there is significant opposition from Germany to the idea of expanding the EU-IMF bailout fund.

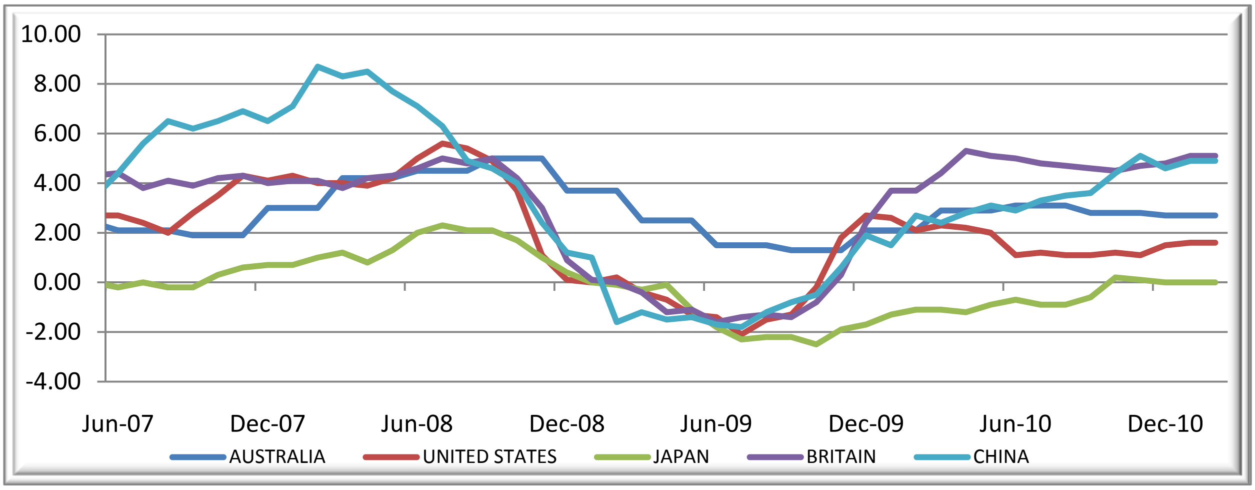
CASH RATES



Australia's central bank kept rates on hold again, with the board confident that inflation is under control for the medium term. The two speed economy has effectively kept inflationary pressures at bay.

China's central bank lifted rates by 25 basis points again to reach 6.06% in response to ongoing inflationary fears. After the release of a statement from the European Central Bank (ECB) stating that strong vigilance was warranted to contain inflation, European markets fell on fears that a rate hike was imminent. Unfortunately both Ireland and the peripheral Eurozone countries are not well equipped to withstand the pressures of rising interest rates and the ensuing cost inflation and higher lending rates. Rising oil prices may trigger the ECB to move even earlier.

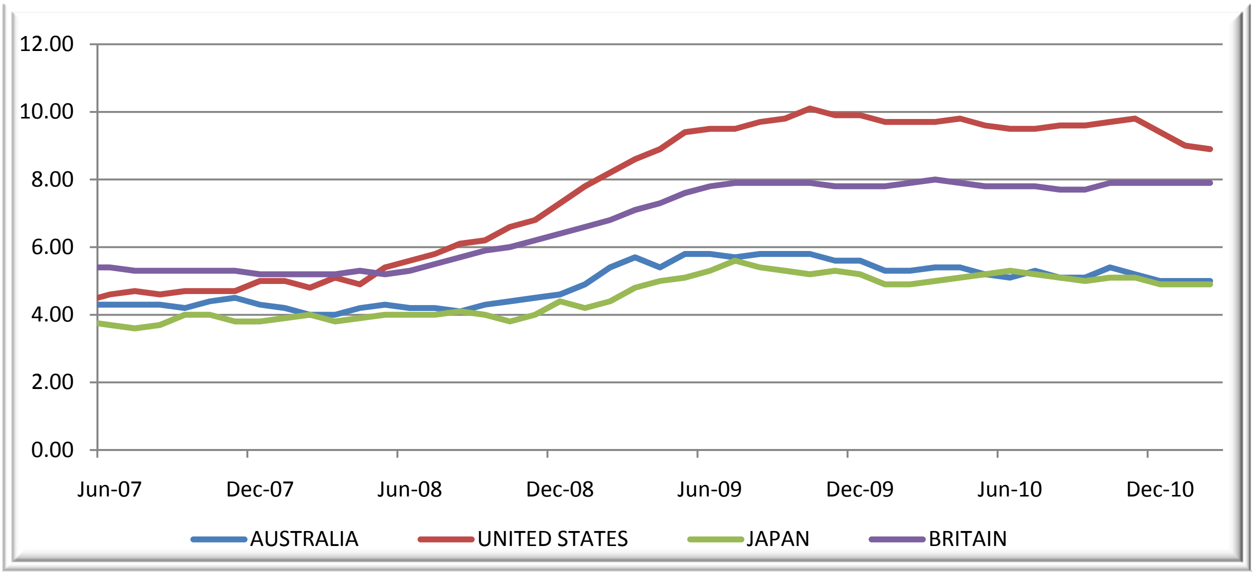
INFLATION RATES (ANNUALISED)



Australia's inflation rate remains at 2.7%, sitting comfortably within the long term target range of 2-3%.

Conversely, inflation rose in the US, China, Japan and the UK. The continued rise of the oil price due to tensions in the Middle East will only add to inflationary pressures that are already manifesting in the form of high foods prices and high commodities prices. Rising inflation rates in the face of falling growth rates in a number of countries is problematic, as rising inflation is typically met with tightening of monetary policies, which can restrict growth, creating a viscous circle.

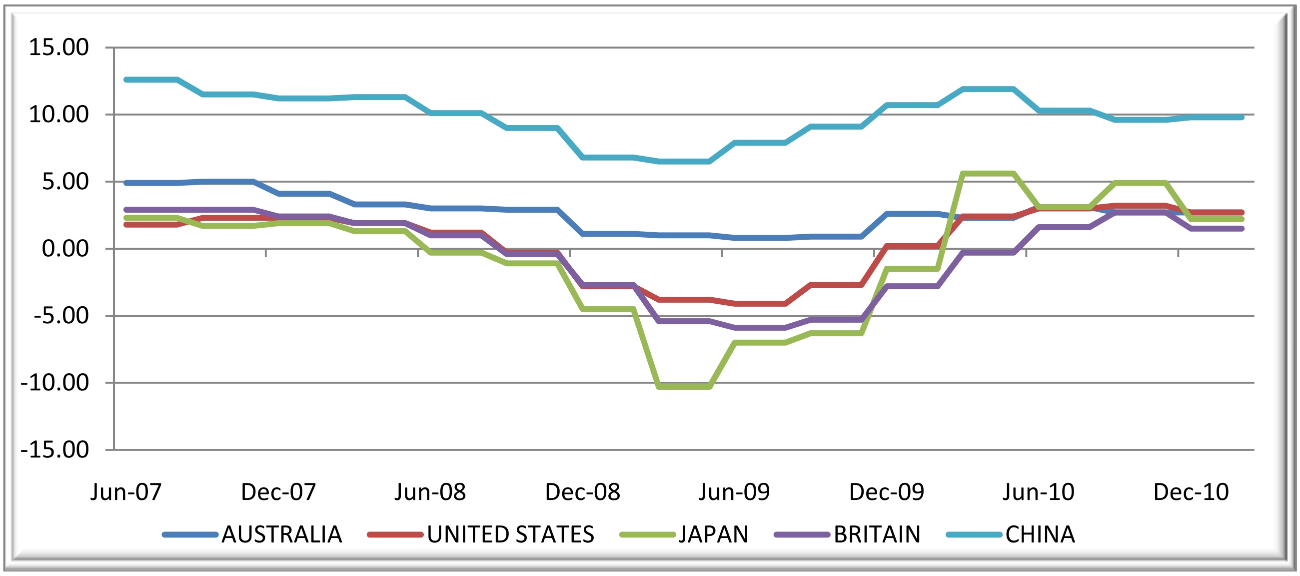
UNEMPLOYMENT RATES



Whilst US unemployment fell slightly to 8.90% in early March, it has been 9.0% or higher since May 2009 – the longest period of elevated unemployment since monthly began after the WWII. This figure must always be treated with caution as it reflects the number of job seekers, rather than actual unemployment data.

Unemployment data for the other nations has not been updated yet. The UK's unemployment rate is predicted to rise as the public sector continues to shed jobs in the face of public sector cutbacks. Japan's unemployment rate remains at 4.9%, well above the historical average of 2.6%.

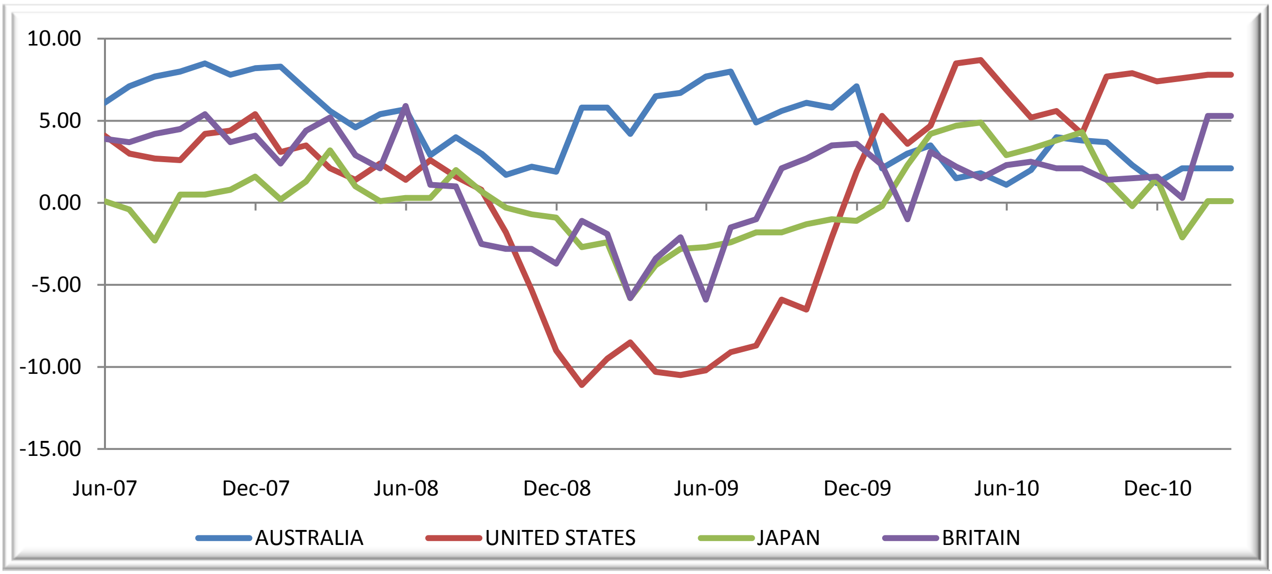
GDP GROWTH (ANNUAL)



Australia's economy grew 0.7% in the last quarter of 2010. Companies added to inventories and machinery, whilst consumers continued to rein in their spending. This rise followed a minor gain of just 0.1% in the third quarter. This means that the annual GDP growth remained steady at 2.7%. Damage from natural disasters is expected to reduce GDP growth for the first half of the year with estimates ranging between 0.5 and 1.0%.

The Chinese economy grew faster than expected in the final quarter of 2010, expanding at an annual rate of 9.8%. Combining this growth with high inflation means that monetary policy tightening is a distinct possibility and could impact our resources industry. In the other nations, GDP growth fell as inflation rose. The British economy contracted, recording an annual GDP of 1.5%. Annual growth in the US also contracted 0.10% based on data from last quarter, although other economic indicators suggest a strong start to the year with improved employment and manufacturing data. Japan recorded a significant fall of 3.10% to 2.20%.

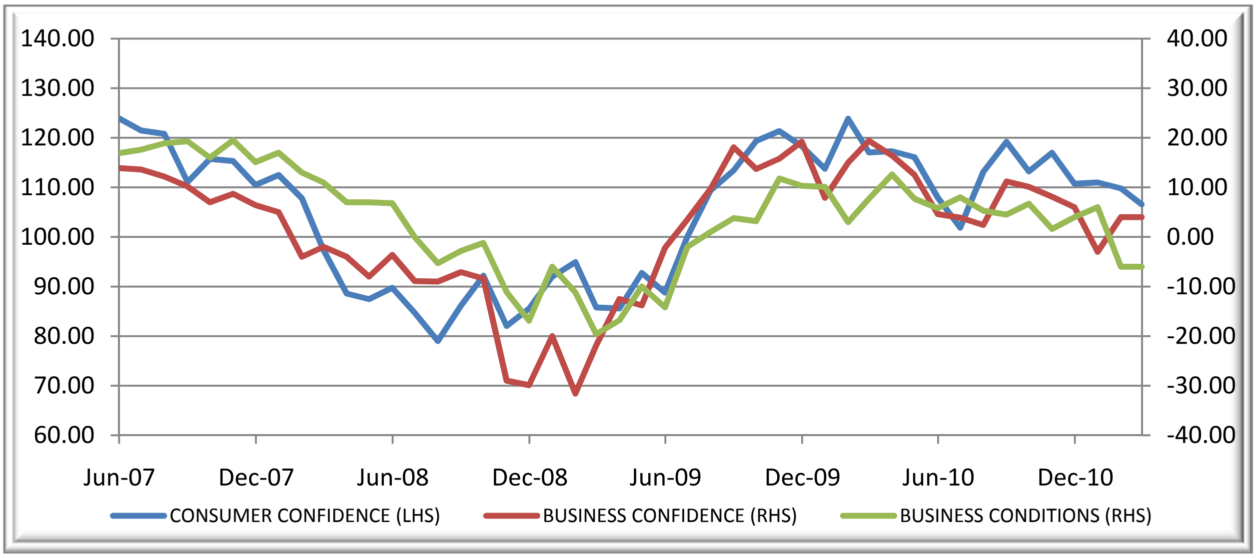
CHANGE IN RETAIL SALES – ROLLING 12 MONTH CHANGE



Retail sales data provided an upside surprise in January, with total sales rising 0.4% to $20.4bn, slightly above analyst forecasts. Some retail associations have suggested that the Queensland floods resulted in a surge of panic grocery buying, and that the increase does not reflect a true rise in underlying demand.

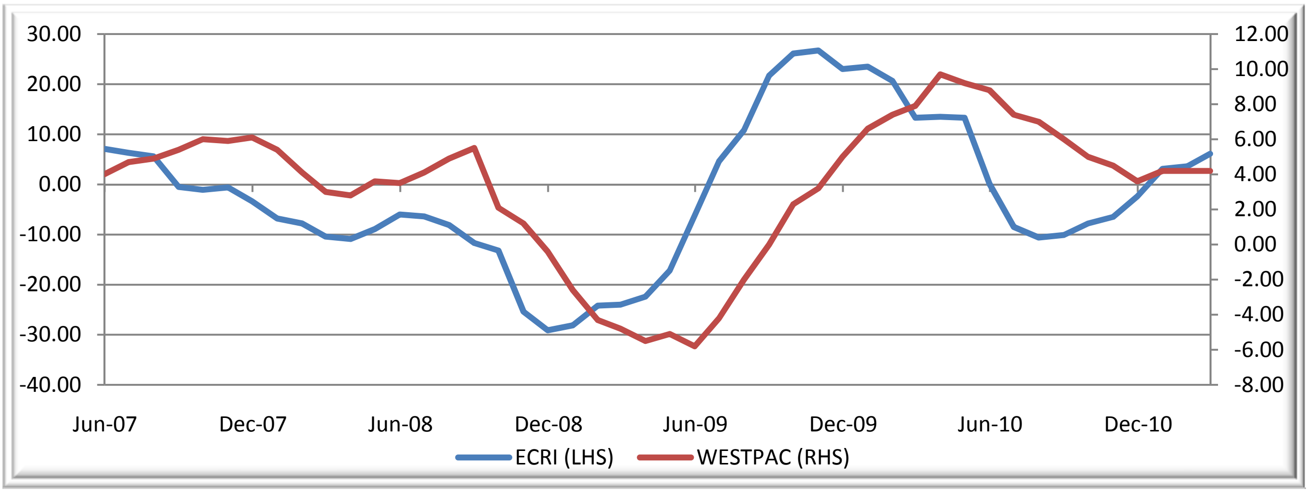
In the US, the small increase in retail sales did not meet forecast expectations, suggesting that it will be difficult for last quarter's pick up to be maintained as long as unemployment remains high. UK retail sales rebounded after a dismal Christmas period, and year on year sales volumes were up 5.3% in January – the biggest annual increase for more than six years. However, with shoppers buying before the VAT rose from 17.5% to 20% in January, February sales data should provide greater accuracy with regard to the underlying sales trends.

CONSUMER & BUSINESS CONFIDENCE / CONDITIONS



Business conditions fell over the past few months, whilst surprisingly business confidence lifted. Consumer confidence continues to fall, with uncertainty over the domestic and global economies the main theme impacting the Australian consumer. Despite a robust economy that has been well insulated by China's growth and an enviable position relative to the global economy, it is clear that Australians remained concerned. Key downside risks include the impact of the floods, rising food prices, additional taxes, oil price surges and global inflationary pressures that could prompt a dramatic tightening in policy settings and threaten growth. Retail and other economic data echoes the cautious consumer sentiment that prevails.

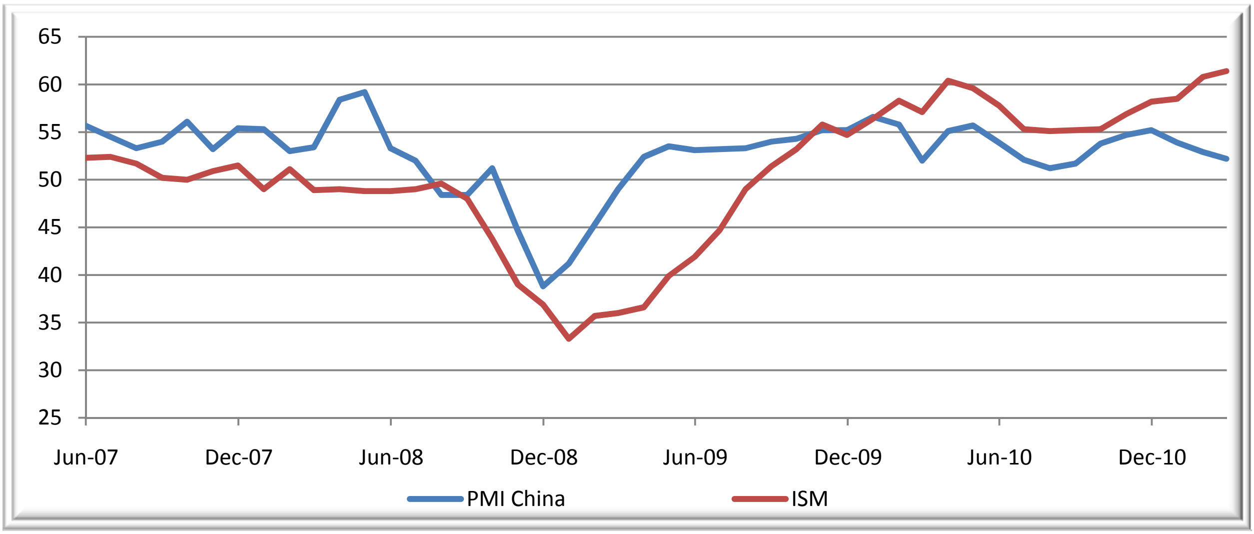
LEADING INDICATORS - WESTPAC LEADING INDICATOR (AUST) & ECRI WEEKLY LEADING GROWTH RATE (US)



The Westpac Leading Index indicates the likely pace of economic growth 3 to 9 months into the future. The index has levelled out at a sustainable level of around 4%, above the index's long term trend of 3.2%.

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. The ECRI continues to rise from a low base, mirroring the other positive data trends from the US and boding well for the recovery.

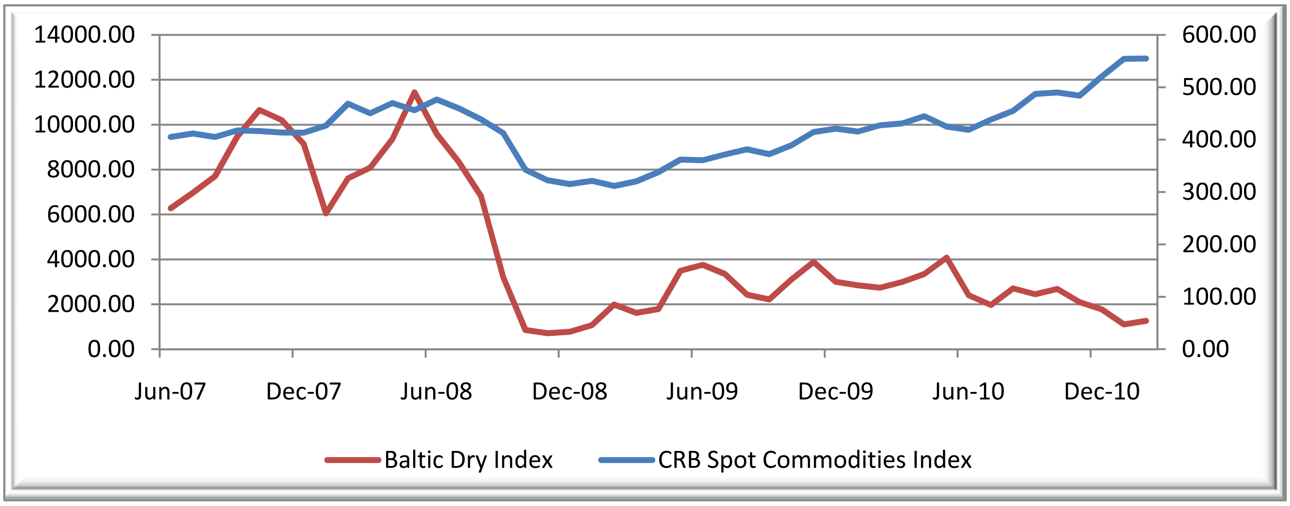
LEADING INDICATORS – MANUFACTURING DATA: ISM (US) AND PMI (CHINA)



The ISM Manufacturing Survey asks its member companies to contribute data that rates US manufacturing activity levels. Fluctuations in manufacturing often have significant effect on GDP as this sector contributes around 11% to the GDP total. Very positive manufacturing data emerged from the US last month with the ISM growing at its fastest rate in seven years to reach a peak of 61.4. This is the equal highest level since December 1983, boding well for the recovery and hopefully improving future employment figures. This rise may be driven by the devaluation of the US currency making exported goods cheaper for its trading partners.

The PMI (Purchasing Managers Index) is China's manufacturing Index. This is leading indicator is often regarded as the bellwether for industrial activity in the People's Republic. Like the ISM, values over 50 indicate economic expansion; values below 50 indicate economic contraction. The PMI slipped to its lowest pace in six months, reflecting how increased input costs driven by inflation act as a natural hedge to slow economic activity. It will be interesting to see if this downward trend is maintained in the months going forward.

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.

Over the last quarter a clear downward trend has been established. The Baltic Dry Index can often be used as a proxy for global growth, so on the surface the downward trend is a key concern, particularly for the resources driven Australian economy.

By positioning the BDI against the CRB Spot Commodities Index we see a more accurate picture. This 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. The CRB Index reflects that commodity prices have reached historical highs and strong demand remains.

So why is there such a wide divergence between the two indices? Remember that the BDI acts as a proxy for the supply and demand of bulk commodities. As the prices of raw materials rises dramatically, projects become less economical and are delayed causing the BDI to fall, although the underlying demand remains high.

To a lesser extent, floods in Queensland have also negatively impacted the supply of various shipped commodities, particularly iron ore and coal.

Author:

Angela Burmeister
Investment Analyst

Zenith Investment Partners

(03) 9642 3320
angela.burmeister@zenithpartners.com.au

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
	CRB Spot Commodities Index
	ISM Manufacturing PMI SA
	Manufacturing PMI China
	Australia Westpac Leading Index Annualised Growth YoY%
	ECRI Weekly Leading Index Growth Rate