

## MONETARY POLICY IN FOCUS: AUSTRALIA

Cash Rate (%)		Change in GDP (%)		Inflation Rate (%)		Unempl. Rate (%)		Consumer Confidence (%)		Business Confidence (%)		Change in Retail Sales (%)		Change in Building Approvals (%)	
May .10	Apr .10	Q4 .09	Q3 .09	Q4 .09	Q3 .09	Apr .10	Mar .10	Apr .10	Mar .10	Apr .10	Mar .10	Feb .10	Jan .10	Mar .10	Feb .10
4.50	4.25	0.90	0.28	2.11	1.26	5.30	5.30	116.08	117.29	11.9	15.9	3.43	2.89	43.6	38.4

### SUMMARY:

The RBA Board met on Tuesday, 4 May and decided to increase the official cash rate by 0.25% to 4.50% (in line with consensus). RBA Governor Glenn Stevens has stated "Domestic borrowing costs have returned to average levels" leading to the expectation that the RBA may slow its monetary stimulus for the time being. The RBA anticipated the rate of inflation to be at a level lower than at present which Stevens indicated as being "In the upper half" of the RBA's target range of 2% - 3%. The issue of rising inflation and domestic growth may force the RBA to make a further short-term cash rate adjustment however market consensus indicates a cash rate adjustment in June to be less likely.

### Facts and Figures:

**Unemployment** – The unemployment rate remained at 5.30% in April. A rise in full-time employment, up 37,500 people to 7.736 million was offset by a fall in part-time employment, down 3,900 people to 3.290 million. This was the eighth consecutive month Australia has seen a rise in the number of people employed full-time.

**Consumer Confidence** – Confidence declined marginally in April by 1% to 116.08 from 117.29 March. The domestic consumer was able to absorb the most recent 0.25% cash rate adjustment with only a slight decline in confidence. Consumers maintain a level of optimism given the improvement in labour market conditions, a strengthening housing market and a gradual improvement in the domestic equity market.

**Building Approvals** – Approvals increased significantly in March fuelled by the expansion in multi-unit developments with only a minor contribution to the headline figure generated from private sector housing approvals. The spike in approvals, albeit skewed to unit/apartment developments, may alleviate some of the supply side issues that are contributing to the increase in house prices nationally.

**Business Confidence** – Business confidence and conditions both declined during the period. Confidence declined predominantly in the retail, transportation and construction sectors with each illustrating a greater level of interest rate sensitivity. An increase in the level of labour costs has also attributed to the decline in confidence and bottom line.

## MONETARY POLICY IN FOCUS: GLOBAL

	Cash Rate		Inflation Rate (%)		Unemployment Rate (%)		Change in GDP (%)	
	May .10	Apr .10	Q1 10	Q4 09	Apr .10	Mar .10	Q1 10	Q4 09
USA	0.25	0.25	2.36	1.46	9.90	9.70	0.80	1.36
Japan	0.10	0.10	-1.16	-2.03	5.00 (Mar .10)	4.90 (Feb .10)	0.94 (Q4 09)	-0.14 (Q3 09)
UK	0.50	0.50	3.95	0.63	4.70	5.00	0.20	0.44
China	5.31	5.31	2.20*	0.70*	N/A	N/A	11.90*	8.70*

\* China's Inflation and GDP are calculated on a year on year basis.

### SUMMARY:

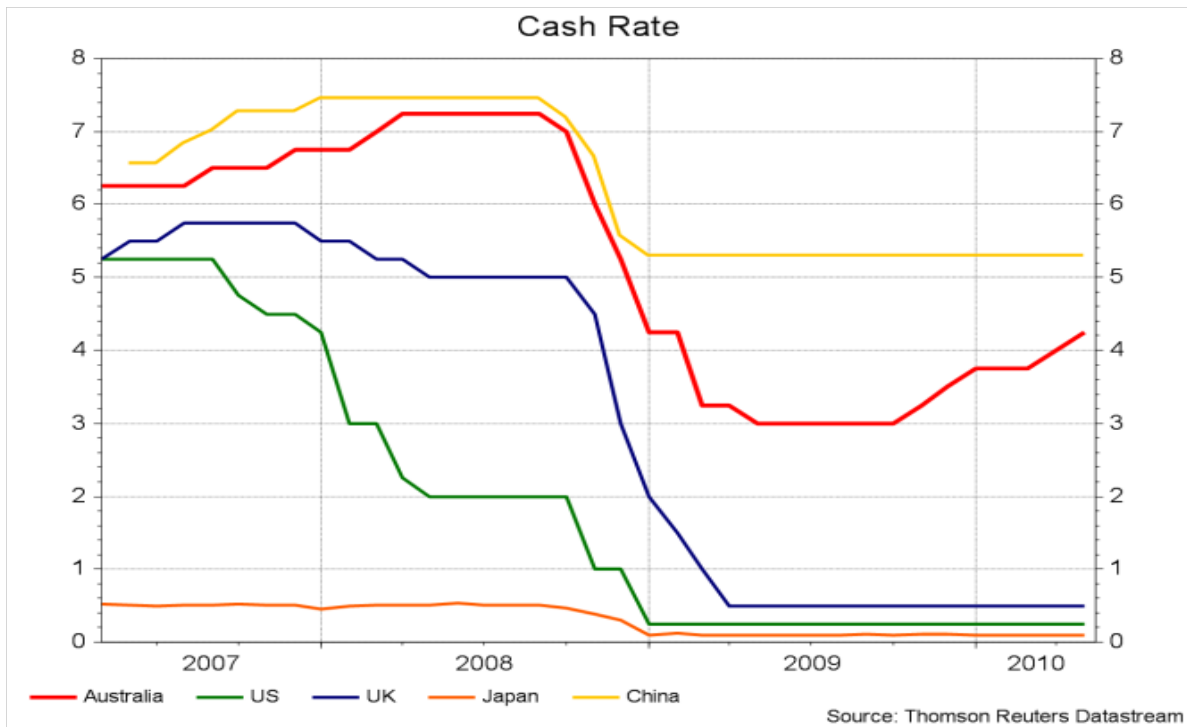
The US economic recovery continues to gather pace during the period with an increase in retail sales (0.40%) and industrial production (0.80%) exceeding forecasts. The Federal Reserve (the Fed) has indicated that the nation's level of unemployment at 9.9% (approx. 15 million Americans) coupled with the local consumer deleveraging and businesses reluctant to re-hire will continue to place downward pressure on GDP growth over the short term. Furthermore, the Fed has reiterated their position to maintain the cash rate at 0.25% for the foreseeable future pending a sustained level of durable growth in the local economy.

Japan's economic recovery continued during the period supported by an improvement in 3-month forward machinery orders which are a strong signal of growth. Japan's deflation concerns are abating as producer prices declined by 0.20 in April from a year earlier, the slowest decline since they began falling more than a year ago. Japan's economy has been estimated to have expanded at an annual pace of 5.5% in the three months to March 31 as global demand for Japanese made products continues. The Bank of Japan has maintained the overnight call rate at 0.10%.

The **UK** economy recorded a growth in Q1 GDP of 0.20% well below market estimates that predicted growth of 0.40%. Elections have been run and won with a Coalition Government being formed led by David Cameron. The incumbent party has commenced the enormous task of reducing Government debt while avoiding a double dip recession. During the period, a positive statistic emerged as export orders from UK manufacturers increased, the first improvement in over 2 years, supported by a weaker pound. The Bank of England decided not to alter the asset purchase program and has kept interest rates on hold at 0.5%.

**China** has encountered its first trade deficit in over 6 years in March of US\$7.24 billion which is expected to narrow over the coming months as demand from the euro region and the US expands. The rate of inflation has continued to increase on a year on year basis with great concern revolving around the increase in food and the rapid appreciation in house prices. The Peoples' Bank of China (PBC) aims to contain the level of inflation at approximately 3% YoY. In addition, the PBC has increased the required reserve ratio held by large and small banks by 0.50% in an effort to contain property prices, while avoiding the use of a cash rate adjustment that will affect the entire economy. The PBC has maintained the cash rate at 5.31%.

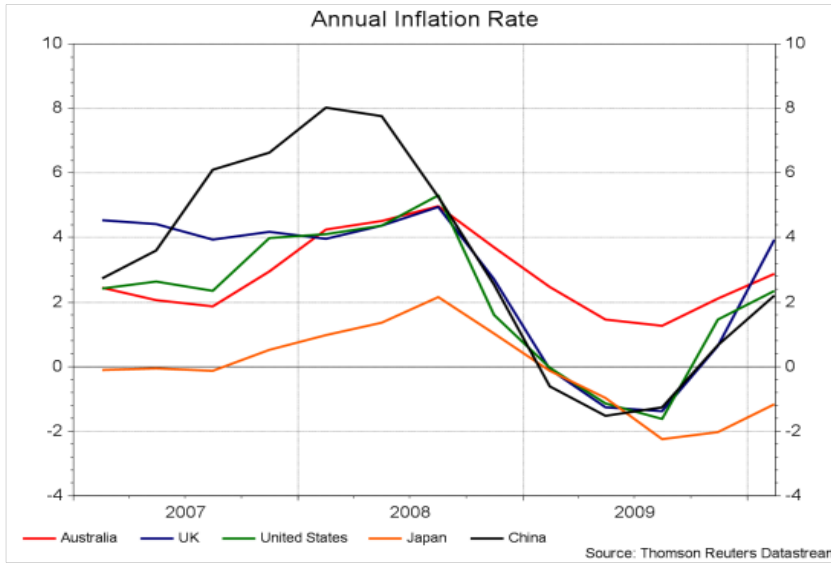
**CASH RATE**



- The RBA increased the cash rate by 0.25% to 4.50% in May.
- US, UK, China and Japan left their respective cash rates unchanged.

**ECONOMIC INDICATORS**

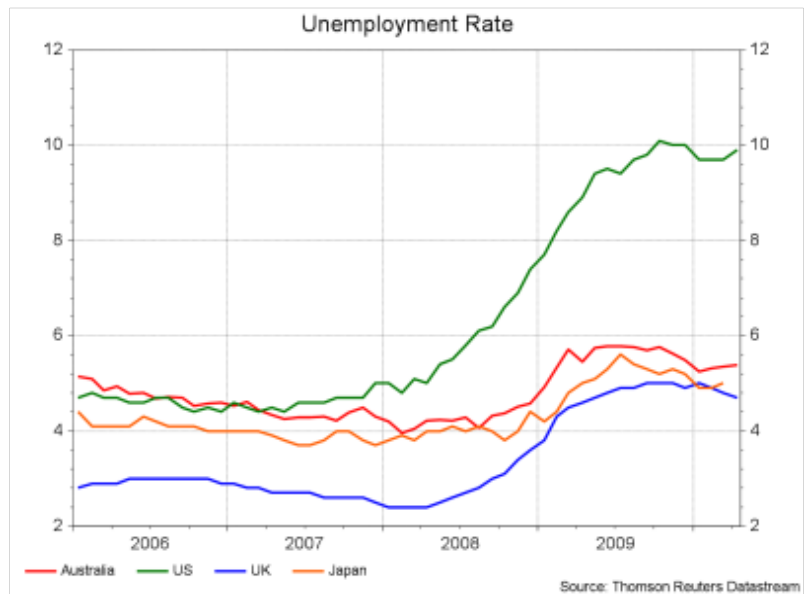
**ANNUAL INFLATION RATE (UPDATED QUARTERLY)**



- Australia's inflation rate increased by 2.90% in Q1.
- Japan's inflation rate decreased by -1.16% in Q1.
- UK inflation increased by 3.95% in Q1.
- US inflation increase by 2.361% in Q1.
- China's inflation has spiked by 2.20% in Q1.

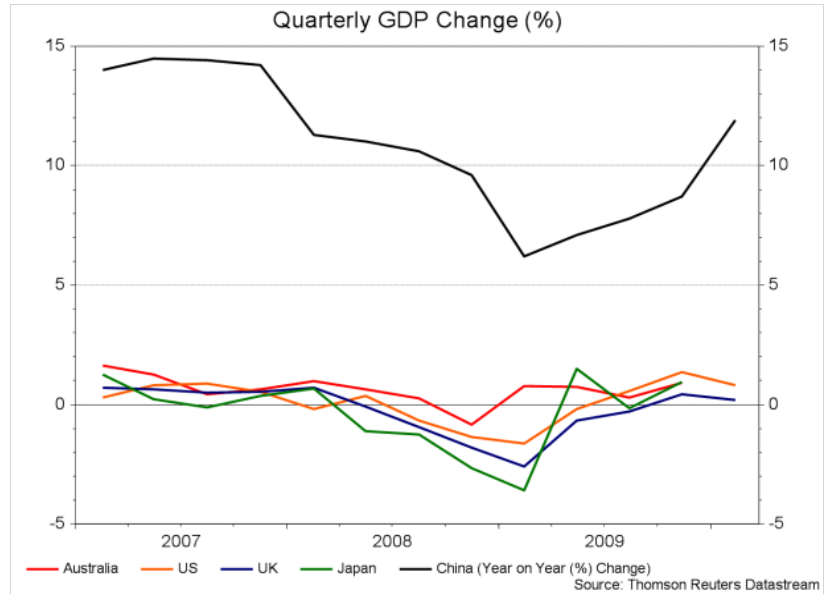
**UNEMPLOYMENT RATE**

- Australian unemployment rate remained steady at 5.30% in April.
- US unemployment rate increased to 9.90% in April.
- UK unemployment improved to 4.70% in April.
- Japan's unemployment rate increased to 5.00% in March.

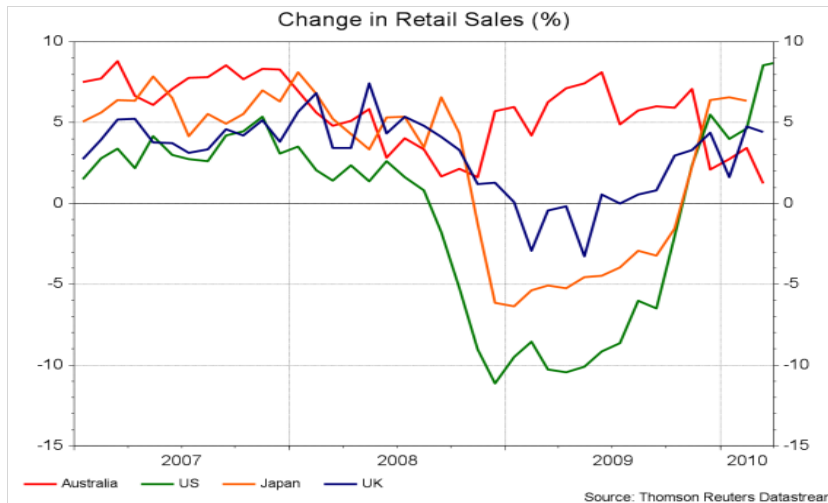


**QUARTERLY GDP CHANGE (UPDATED QUARTERLY)**

- US GDP marginally improved in Q1 by 0.80%.
- UK GDP rose by 0.20% in Q1 below market expectations.
- Japan's GDP rose by 0.94% in Q4.
- China recorded a year-on-year growth in GDP of 11.90% in Q1.
- Australia's GDP rose by 0.90% in Q4.



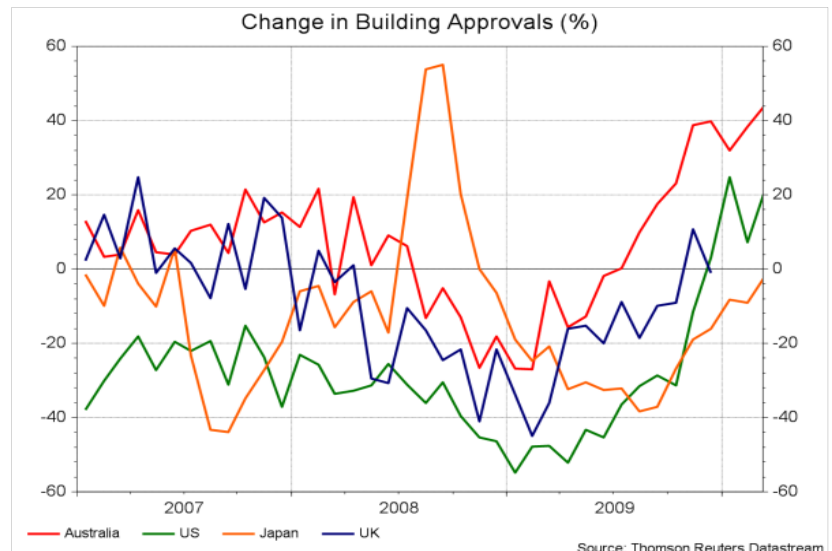
**CHANGE IN RETAIL SALES**



- US retail sales have increased dramatically by 8.82% in April.
- Japan's retail spending increased in March by 4.74%.
- Retail spending in the UK increased by 2.18% in March.
- Australian retail spending rose marginally in March by 1.25%.

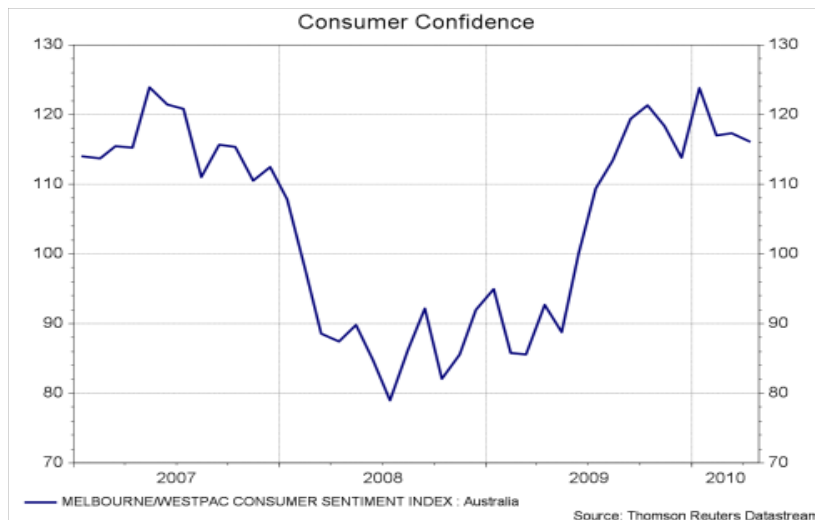
**CHANGE IN BUILDING APPROVALS**

- Australian building approvals increased by 43.6% in March from 38.4% in February.
- Japan building approvals have declined at a decreasing rate by -2.5% in March.
- US building approvals improved dramatically in March by 20.2%.
- UK building approvals declined in December by -0.96%



**SENTIMENT INDICATORS**

**CONSUMER CONFIDENCE (UPDATED QUARTERLY)**




- Australian consumer confidence declined in April to 116.08 from 117.29 in March.

**BUSINESS CONFIDENCE (UPDATED QUARTERLY)**

- Business confidence declined in April to 11.9 from 15.9 in March.



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**Data Source: Thomson Reuters**

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