

ECONOMIC STATISTICS SUMMARY

Country	Cash Rate		Inflation Rate (%)		Unemployment Rate (%)		GDP Annual Growth (%)	
	Latest	Last Change	Latest	Month	Latest	Month	Past Year	Last Update
Australia	4.50	+0.25 (Apr-2010)	3.10	Aug-10	5.10	Sep-10	3.30	Aug-10
USA	0.25	-0.75 (Nov-2008)	1.40	Aug-10	9.60	Aug-10	3.00	Aug-10
Japan	0.10	-0.20 (Nov-2008)	-0.90	Aug-10	5.30	Jun-10	2.00	Aug-10
UK	0.50	-0.50 (Feb-2009)	4.80	Aug-10	7.80	Jun-10	1.70	Aug-10
China	5.31	-0.27 (Nov-2008)	3.30	Aug-10	NA	NA	10.3	Jun-10

AUSTRALIAN ECONOMIC COMMENTARY

On September 7, the RBA again agreed to leave the cash rate unchanged at 4.5%. The RBA board stated that in the context of moderating global growth, it was prudent to leave interest rates on hold. It is however, widely tipped that they will raise rates before the year's end. With the effects of expansionary policy now diminishing, the domestic economy is starting to show evidence of strengthening from within. Annual GDP growth rose after better than expected Q2 figures. Better still, GDP figures show that sectors which have struggled through turbulent economic conditions now have some spring in their step with the change of seasons. For once, growth in consumer spending (up 1.6% for the quarter) and construction paved the way. Underpinning the increased spending is the news that unemployment dropped even further to just 5.1%.

After waiting weeks in anticipation, a new Australian minority federal government was installed. As economic policy did not differ greatly between either side, it was not perceived that the election would cause significant economic or market impacts. However, Labor joining forces with a number of independents of different political persuasions has created a degree of uncertainty about future policy decisions. Almost immediately, fears of the resources tax resurged. Uncertainty looms over the format of the new tax – will it be the original or the 'watered down' version preferred by the industry? And how will the tax impact on business and consumer confidence?

Last month, Australia's trade surplus hit a record high of 3.54bn. This month, the surplus was more subdued than expected at 1.9bn. Widely reported in the media as a narrowing surplus and therefore a disappointing result, it is important to remember that this figure is historically strong. The previous figure highlighted Australia's dependence on our Asian trading partners' insatiable commodities appetite. The most recent data is actually more promising for the domestic outlook. The surplus narrowed in part, because imports lifted 2%. The news that Australia is importing more goods underpins other economic indicators that we are beginning to increase consumption. This means that we are expanding domestically, suggesting less dependence on China for our growth.

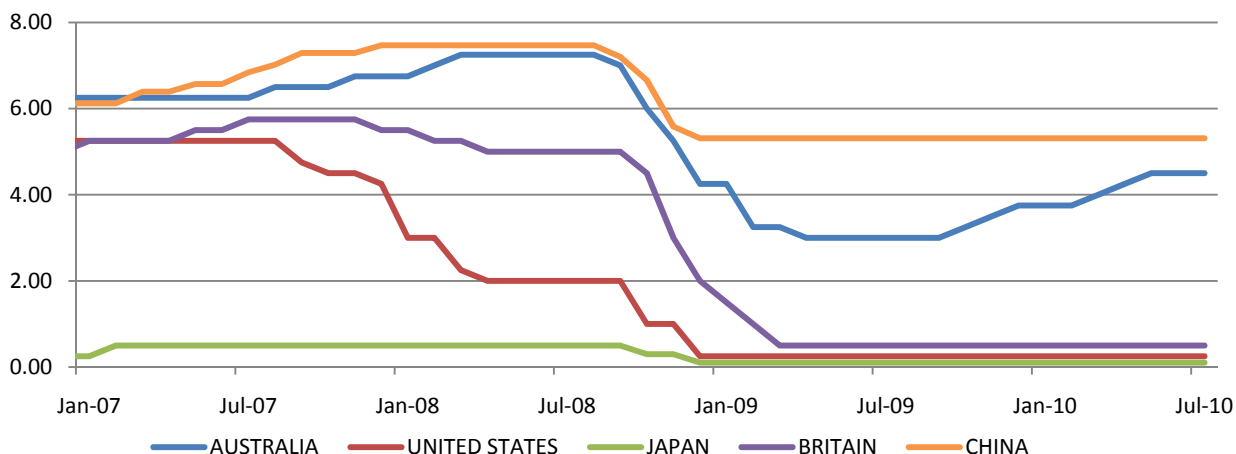
GLOBAL ECONOMIC COMMENTARY

The longer term global outlook remains a key concern. European indicators were mixed, as concerns over the banking sector hit the headlines again with fears that stress testing underplayed exposures to high risk borrowers. Europe's largest economy, Germany, led the way with a 17.7% rise in manufacturing orders for the year, whilst growth in the PIIGS (Portugal, Italy, Ireland, Greece and Spain) contracted sharply. Robust industrial results and increasing consumer confidence (at a 29 month high) are key features of the Eurozone outlook, although the European Central Bank is likely to leave rates on hold at their next meeting, particularly as unemployment remains high.

US economic indicators also remain mixed but suggest a lacklustre second half. Fears of an upcoming deceleration and a 'double-dip' recession are never far away in the minds of investors. Optimistic economists suggest that the strong recent performance from major US corporations will soon result in more jobs, expansions and increased mergers and acquisitions activity. This will of course have a positive flow on effect to retail consumption. This week President Obama announced a USD\$50 billion spending package on infrastructure. The package was not touted as "stimulus" spending, but rather the first of a series of "economic initiatives".

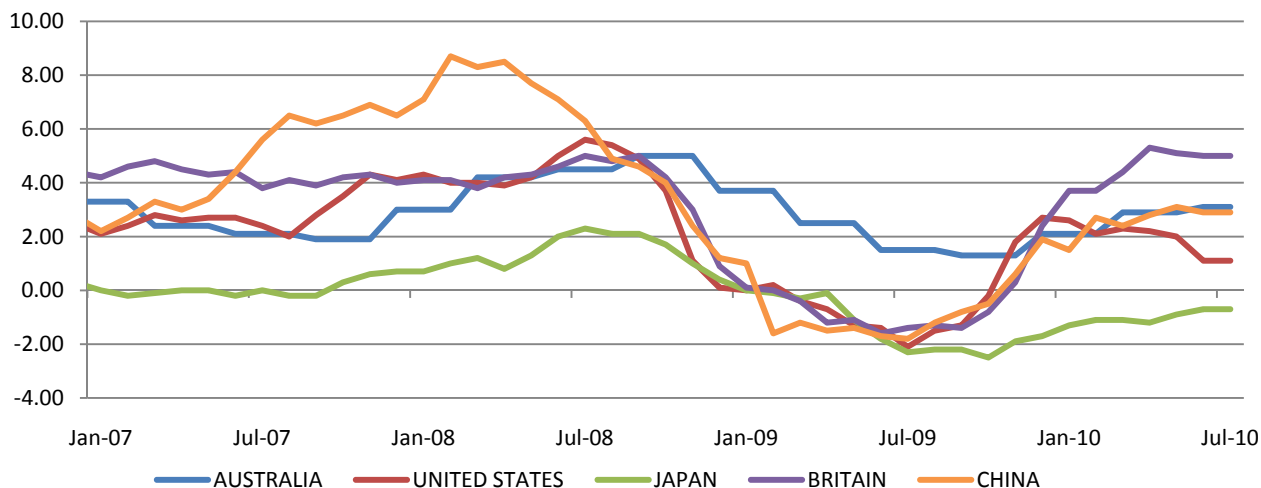
Call it what you like, but other economic data tells a different story. The manufacturing led US recovery is almost certainly nearing completion, despite remaining in expansionary territory. A strong reduction in new manufacturing orders is highly significant. Housing indicators remain in negative territory and the unemployment rate continued to rise following the end of the US census hiring boom. A major reinvigoration in retail spending activity and restoration in confidence will not occur without a significant improvement in the labour market. Jobs growth is the key to a sustained recovery in the US, and will underpin consumer confidence and restore retail spending. However, downturns in leading growth indicators such as the ECRI and the Baltic Dry, suggest that this is not on the horizon.

CASH RATES



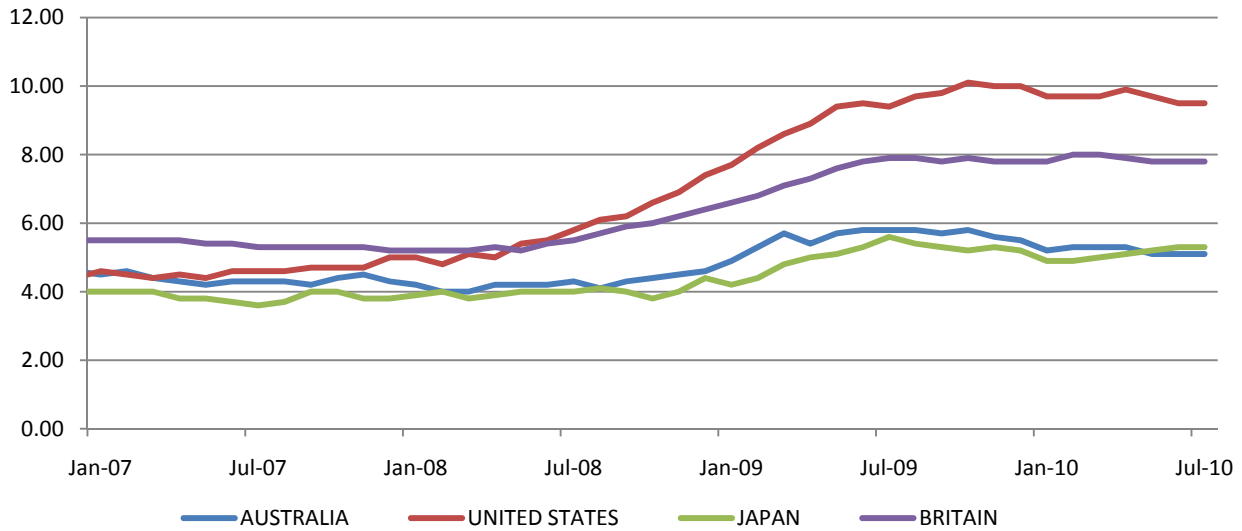
Globally, cash rates were left on hold, reflecting the ongoing uncertainty of global growth projections. The US is expected to leave rates on hold until at least the second half of 2011. Furthermore, the central banks of Japan and England are also expected to leave rates on hold. Australia still remains one of the few developed countries to have lifted rates post the GFC. With Australian rates now sitting around their long term averages, and growth rates on trend, rates should remain stable around the 4.5-5.0% level. It is widely tipped that Australian rates will increase later this year. As a result, Australia offers international investors stronger yields on cash and bonds. Australia's bond market accounts for a substantial portion of international bond portfolios. In contrast, fears of US recession saw yields on 10 year treasury bonds reach record lows of around 2.5%. The higher domestic interest rates will also support the Australian Dollar's rise against the US dollar.

INFLATION RATES (ANNUALISED)



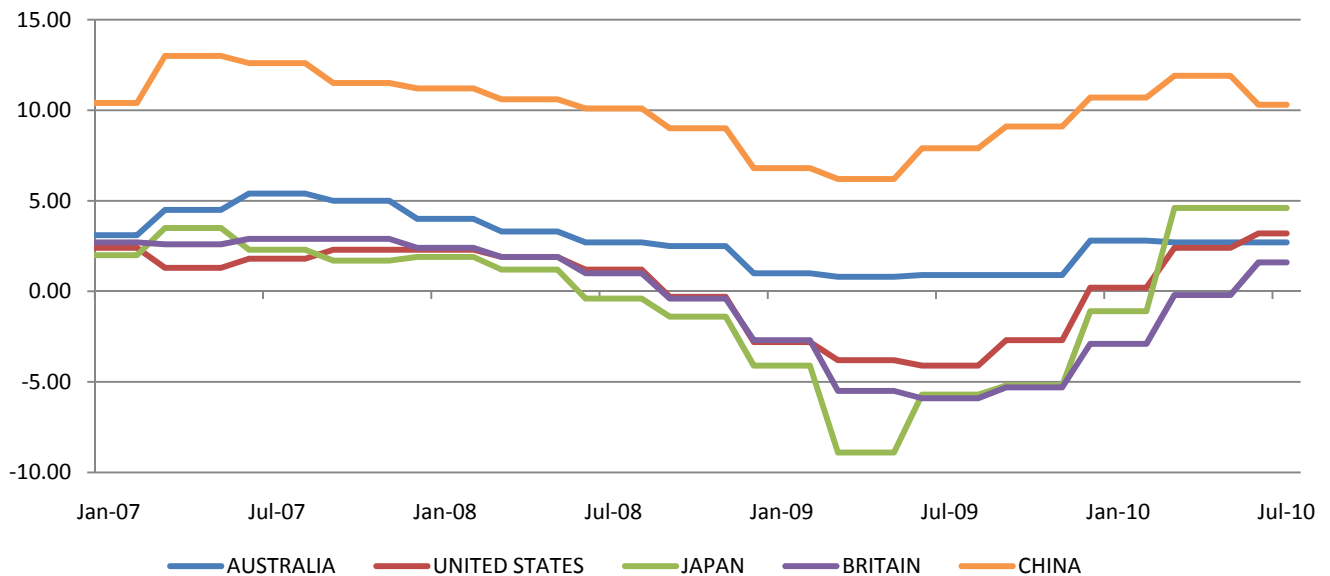
The Australian inflation rates remain within the long term targeted range. The US has declined down to 1.40%. Japan remains in a deflationary environment despite the rising yen hitting 15 year highs against the USD, making their exports less competitive. As the Euro and USD slide, the yen rises by default and export growth will continue to slow. UK rates remain comparatively high at 4.8%, well above their long term target of 2.0%. China's inflation rate remains stable at around 3.3%. Globally, inflation is trending upwards but as it remains at moderate levels, we do not expect that interest rates will rise or materially impact investment decisions.

UNEMPLOYMENT RATES



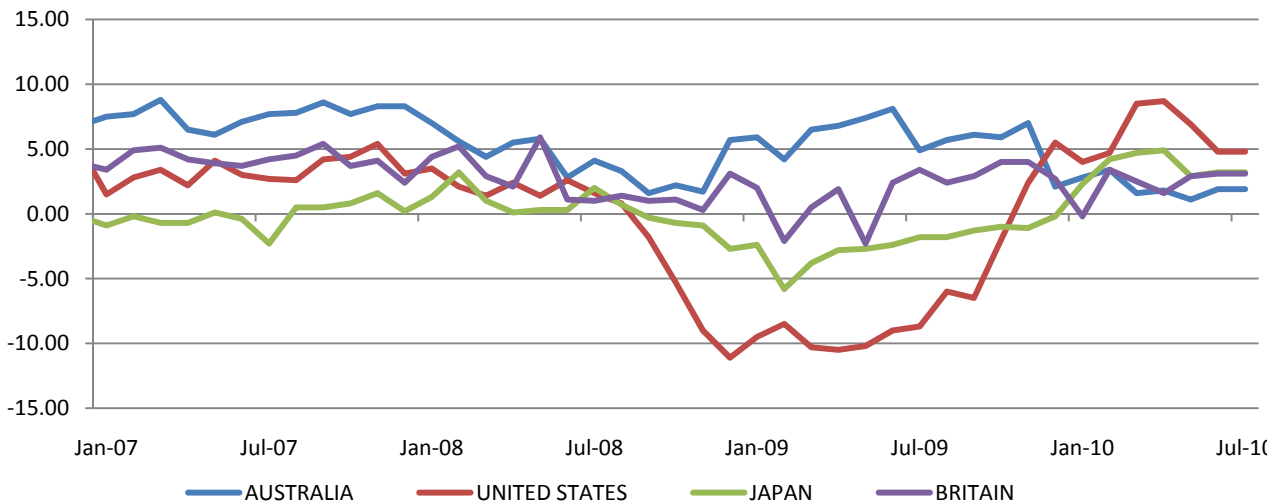
Australia's unemployment rate dipped even further to 5.1%, reflecting an increase in full time jobs and continued strength in the labour force. Temporary hiring for the US Census distorted previous US unemployment figures, so the most recent figures were expected to be high. Surprisingly, markets reacted well to the higher unemployment figures, as the rise was not as high as expected! Unemployment rates are expected to keep rising for the next few months as more US workers rejoin the search for work. The UK's unemployment rate remains high at 7.8%. Whilst Japan's unemployment rate looks comparable to Australia's, it is worth noting that the peak of 5.6% in July 2009 represents the highest unemployment rate ever recorded in Japan, so the current 5.3% is very high relative to history.

GDP GROWTH (ANNUAL)



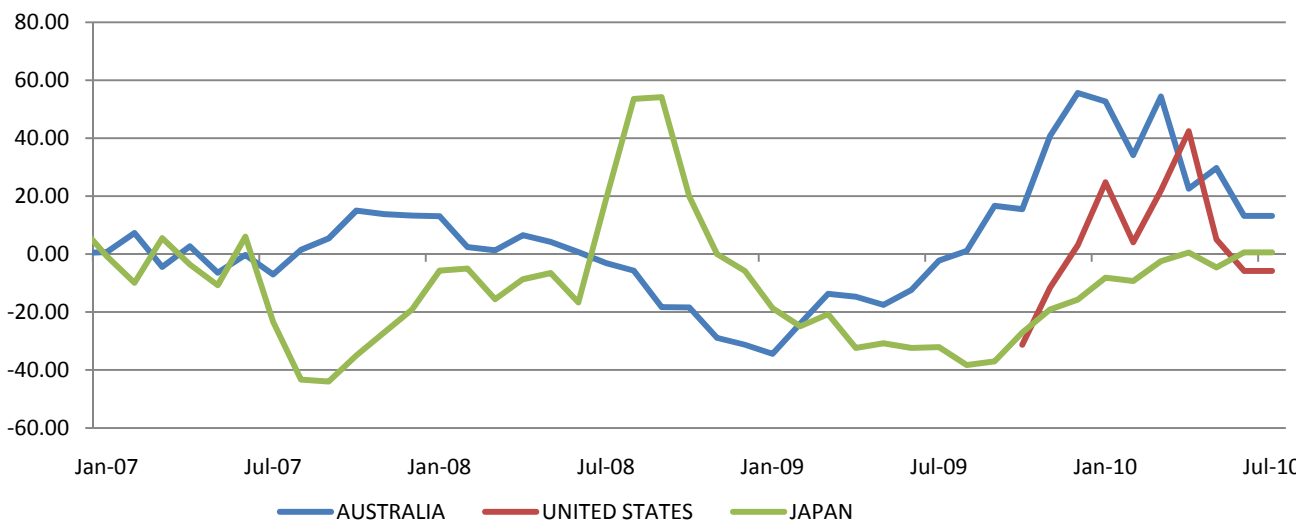
Annual GDP growth rose in Australia after better than expected Q2 growth figures. The rise was reflected in stronger consumer spending, a sign of abating caution amongst the Australian public. Despite recent announcements of further 'economic incentives' such as infrastructure spending, US growth is tipped to reduce over the coming months. US growth predictions have been revised downwards to 1.6% from 2.4% continuing the US's lacklustre recovery and sparking more fears of a double-dip recession. In Q2, the British economy grew 1.1% - its fastest growth rate in four years.

CHANGE IN RETAIL SALES – ROLLING 12 MONTH CHANGE



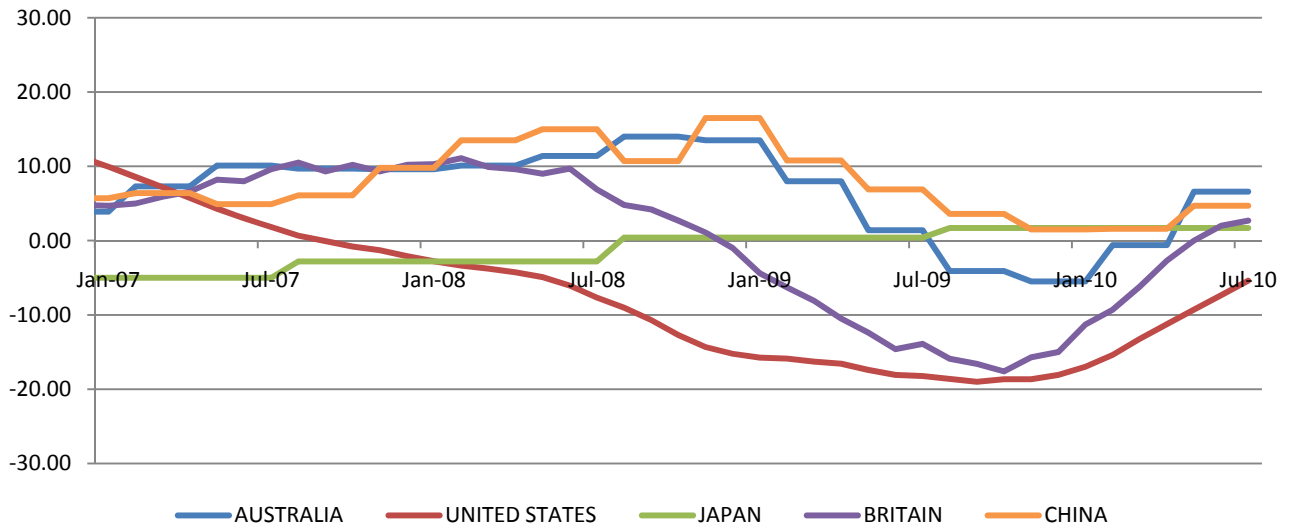
A surprise pick up in retail sales and household consumption spending added strength to domestic growth during Q2. This reverses the trend of previous months, when retail was the weakest point in an otherwise stellar economy. US retail sales continue to show only an anaemic recovery, with sales sitting well below the worst figures from previous economic recoveries. This correlates strongly with the poor US employment data; people are not spending because they lack confidence in the state of the economy. The sentiment of the US consumer remains fragile. Japan's improved retail spending has moderated over the last quarter.

HOUSING APPROVALS – ROLLING 12 MONTH CHANGE



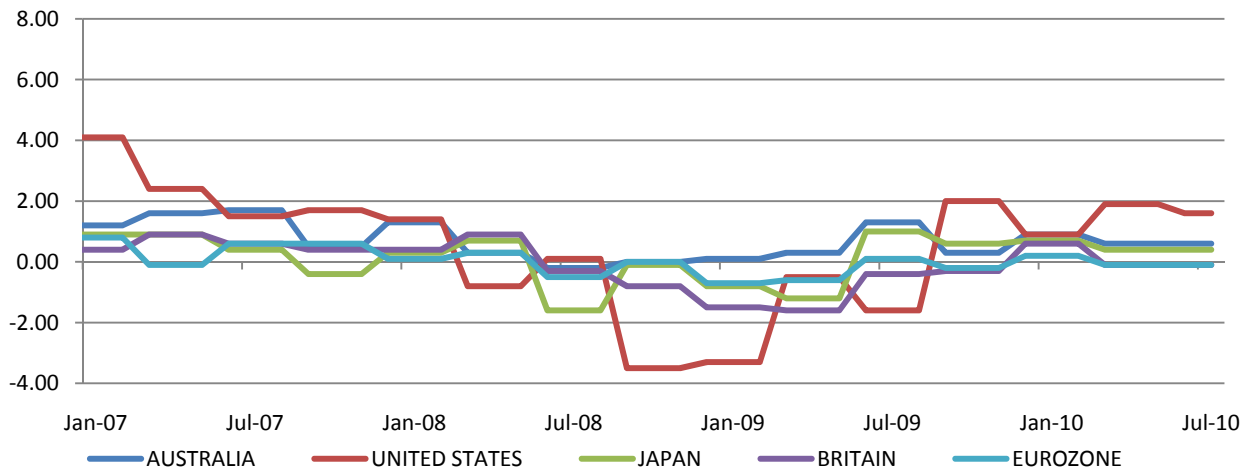
Whilst construction has remained one of the weaker sectors of the Australian economy, towards the end of August building approval figures rose alongside retail spending. This is impressive news, suggesting returning consumer confidence and increasing consumption of discretionary items. Japan recently hit negative numbers but has risen strongly to weakly positive territory, suggesting a fragile recovery in this sector. Construction activity is highly cyclical, and a good indicator of overall economic strength. US building approvals had a dramatic rise and fall in Q1 mirroring the Australia data, suggesting a strong but unsustainable recovery. Both Australian and US figures may also be linked to the expiry of home owners grant schemes.

HOUSING PRICES – ROLLING 12 MONTH PRICE CHANGE



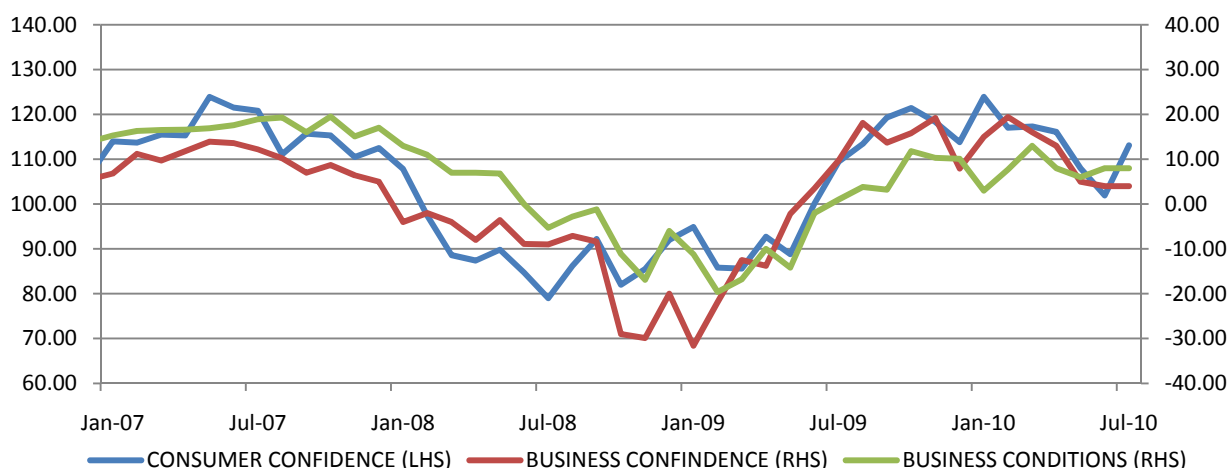
Australia and China's housing prices remain consistently high, reflecting higher levels of growth, unemployment and consumer confidence. The chart illustrates a very close correlation between Australian and Chinese property prices, highlighting the strength of both economies. Of note is the news that domestic housing loan approvals have fallen sharply. We will have to wait and see if this impacts on house prices. US house prices remain in negative territory, unable to grow until the employment rate improves substantially. UK prices have pulled back after significant rises, which correlates with their high inflation rates.

HOUSEHOLD CONSUMPTION – QTR ON QTR CHANGE IN HOUSEHOLD EXPENDITURE



Household consumption remains flat globally. Consumers continue to pay down debt and save money. Sovereign debt concerns are limiting consumption in Europe, a trend that has continued worldwide. Until global growth and employment data improves, we are unlikely to see a change in consumption for some time. If Australia's reserve bank lifts the cash rate towards the end of the year, this may adversely affect both consumption and retail spending.

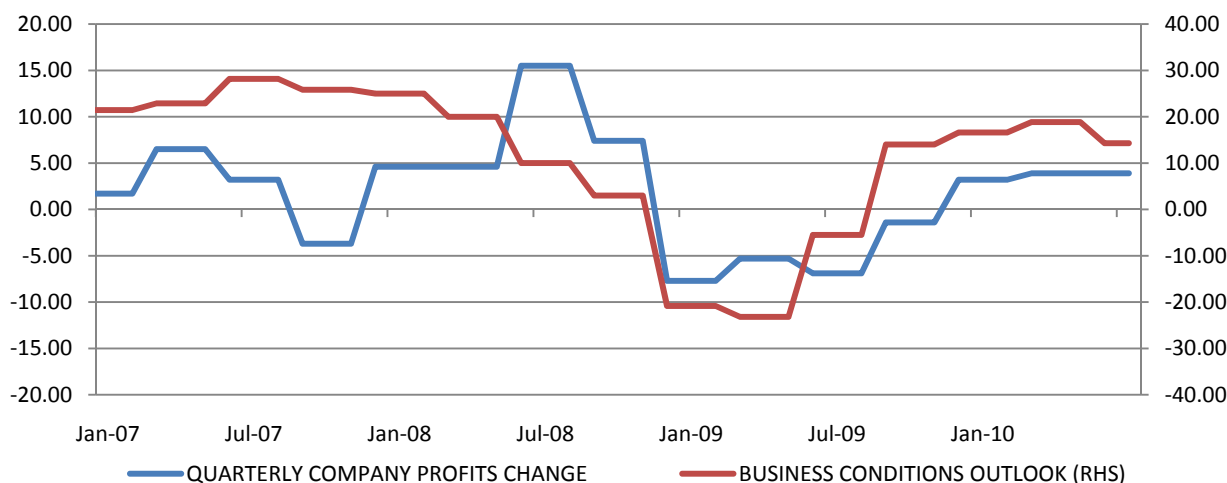
CONSUMER & BUSINESS CONFIDENCE / CONDITIONS



Consumer confidence figures rose 5.4% in August on the basis of steady cash rates and strong economic data, particularly low unemployment rates. This reverses an earlier trend that saw it fall 17.8% over the last six months on basis of global economic uncertainty and consecutive rate rises.

Business conditions and business confidence continue to fall, despite positive economic data. Again, the downturn predominantly reflects concerns about the global economy. Manufacturing, construction and retail show the lowest levels of confidence, with correspondingly poor business conditions reflected in poor sales results and weak profits. These surveys also showed a rebound in mining sector confidence after the improvements to the resources rent tax.

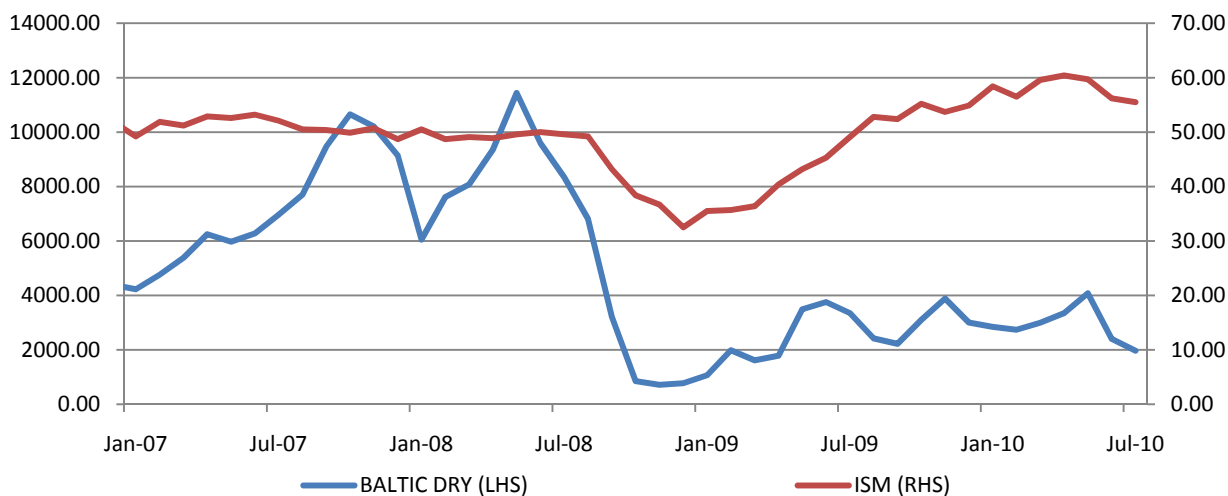
COMPANY PROFITS – QUARTER ON QUARTERLY PROFIT CHANGE & BUSINESS CONFIDENCE OUTLOOK



The business confidence outlook declined in the June quarter, although it remains in positive territory. Month by month results indicate that sentiment fell heavily in May during the turbulence on European financial markets and associated declines in Australian equity prices. Mining was of course most affected, due to the proposed super profits tax. Overall confidence is still strongest in mining, manufacturing and finance, and weakest in construction, recreation and the retail sectors. It will be interesting to see how this compares to the Q3 data which will incorporate business sentiment after the federal election.

Company operating profits rose for the third straight quarter, lifting by 18.9% in Q2. Impressively, profits rose in 9 out of the 15 industry sectors, with mining a clear leader, up 62.7%. However, the data is positively skewed by the miners. If we excluded the mining sector, profits would have only risen 3.0%. This highlights how much our economy depends on mining. And over the year to June 2010, operating profits actually fell 3%. This was the first decline in company profits since records began.

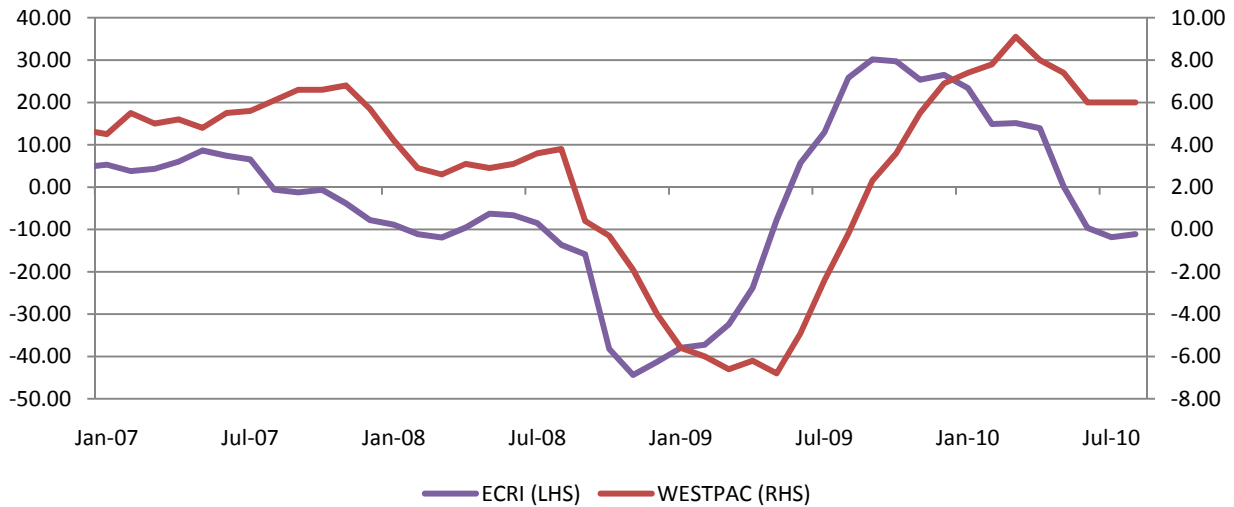
LEADING INDICATORS – BALTIC DRY INDEX & ISM MANUFACTURING SURVEY



Two concerning trends are displayed. 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 continued falls suggest dwindling demand for commodities and in turn, dwindling global growth prospects.

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. Whilst the current figure of 56.3 still indicates an expansionary economic environment, the trend is becoming clear. Inventory re-stocking is thought to be nearing completion, signalling that the above trend expansion in manufacturing will cease. And again, whilst the figures are positive, further analysis of the components shows that new orders are declining – also a worrying trend.

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 chart continues to illustrate Australia is likely to experience ongoing economic growth, and that the future looks bright. Whilst it has peaked this year, in absolute terms it remains high at 6.00, well above the long term predicted growth rate of 3.0%.

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, it continues to decline despite a recent pull back on the strength of the US manufacturing figures. Values under 10 are a very strong predictor of recession; it currently sits at -10.10 after rising from a recent low of -11.84. With positive trends like these, who says the US economy is all doom and gloom?

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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
HOUSING APPROVALS	China Land Transaction Price YoY
	Australia Building Approvals Dwellings YoY
	US New Privately Owned Housing Units Started by Structure Total SAAR YOY
HOUSEHOLD CONSUMPTION	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
COMPANY PROFITS & BUSINESS OUTLOOK	GDP US Personal Consumption Chained 2005 Dollars % Change SAAR
	Australia Comp Gross Operating Profit QoQ Chg Seasonally Adjusted
CONSUMER & BUSINESS CONFIDENCE	National Quarterly Business Survey Business Confidence Outlook SA
	Westpac-Melbourne Institute Consumer Confidence Consumer Sentiment
LEADING INDICATORS	National Australia Bank Business Indicators Business Confidence SA
	Baltic Dry Index
	ISM Manufacturing PMI SA
	Australia Westpac Leading Index Annualised Growth YoY%
	ECRI Weekly Leading Index Growth Rate

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