

## WEEKLY ECONOMIC BRIEF – 11 June 2010

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### Key Points

- *Concerns over public finances in Hungary escalate*
  - *The US unemployment rate falls from 9.9% to 9.7%, but weak private sector employment*
  - *Strong gains in employment in Australia pushes the unemployment rate down to 5.2%*
- 

Global equity markets continue to decline, falling 1.6 per cent over the past week. Mounting concerns around European sovereign debt, combined with disappointingly weak private employment growth in the US, weighed on the market. Equities in Hungary underperformed, tumbling 4.2 per cent following comments by the new vice president that Hungary “has a slim chance to avoid the Greek situation” due to its public finances being in a worse condition than the government understood when it took office in May. Since then, however, the government has distanced itself from the comments and allayed default fears by releasing a 29-point fiscal plan to try to meet its budget deficit target of 3.8 per cent of GDP in 2010. Sovereign debt fears continued elsewhere in Europe, with Spanish public servants protesting against the government’s austerity measures and Fitch, a ratings agency, noting that the UK government faces challenges in reducing its borrowing. Furthermore, the German government released its 2011 budget, which contained spending cuts and tax increases to lower the deficit under 3 per cent of GDP by 2013. The ongoing concerns about sovereign debt within the region saw the euro decline 0.4 per cent against the US dollar, falling below 1.20 for the first time since early 2006.

While financial markets have been in turmoil, incoming euro area data points to ongoing recovery within the region, with German factory orders and industrial production, Italian industrial production and French manufacturing production rising in April. The European Central Bank (ECB) also revised higher its 2010 real GDP growth projections to 0.7-1.3 per cent (from 0.4-1.2 per cent), but lowered its 2011 projection to 0.2-2.2 per cent (from 0.5-2.5 per cent). Not surprisingly, the ECB left the repo rate unchanged at 1.0 per cent at its meeting on Thursday and extended the long-term refinancing operations into the September quarter, while the Bank of England (BOE) left the bank rate unchanged at 0.5 per cent.

In contrast to the ECB and BOE, New Zealand joined the ranks of other commodity exporting countries by moving away from emergency policy settings and tightening the cash rate by 25bps to 2.75 per cent, in line with market expectations. The central banks of Australia, Canada, Norway and Brazil have already moved to higher interest rates as the rising terms of trade boosts national incomes and inflation. Indeed, Brazil continued its tightening phase, with the central bank raising the Selic rate by 75bps to 10.25 per cent.

Developments within the US also weighed on investor sentiment, with a weaker-than-expected labour market report for May raising concerns about the sustainability of the US economic recovery and the oil spill continuing in the Gulf of Mexico. Although non-farm payroll employment rose by a strong 431,000 in May, private sector employment was weak as 410,000 of the jobs created related to temporary hires for the 2010 Census. The unemployment rate in the US fell back to its year-to-date average, falling from 9.9 per cent to 9.7 per cent, driven by a fall in the participation rate. Yields on US government bonds fell sharply following the labour market report to be down 4.5 basis points over the week.

The Australian labour market continues to recover solidly, creating 26,900 jobs in May. A transition from part-time to full-time employment continues to occur, lifting the aggregate number of hours worked by 2.9 per cent over the month. The increase in employment, coupled with a fall in the participation rate, caused the unemployment rate to fall to 5.2 per cent from 5.4 per cent in April. The solid labour market report, combined with a strong gain in Chinese exports during May, helped the Australian dollar recover to 85 US cents after trading as low as 81 US cents on Monday.

While labour market conditions recover, consumer and business confidence fell sharply for the second consecutive month as higher interest rates, uncertainty surrounding the Resource Super Profits Tax and disruptions in global financial markets weighed on sentiment. However, sentiment indicators remain broadly in line with their long-term historic averages, consistent with trend growth in the economy.

Higher interest rates continue to have a marked impact on the demand for housing finance, with the number of mortgage approvals falling by nearly two per cent in April. On a value basis, owner occupied finance re-financing rose for the first time since June last year but remains 17 per cent lower than one year ago. In contrast, investors continue to enter the market, with investor financing 26 per cent higher in year-ended terms.

Table 1. Financial market movements, 3/06/2010 to 10/06/2010

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	-1.6%	-	-
US	-1.4%	-4.5 bps	-
Japan	-3.7%	-7.4 bps	1.1%
UK	-1.5%	-2.4 bps	0.8%
Germany	0.0%	-6.6 bps	-0.4%
Australia	-1.1%	-7.9 bps	1.3%

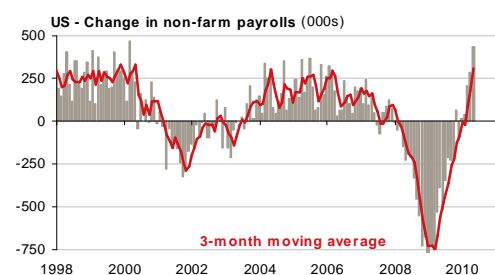
Source: Bloomberg

The Weekly Economic Brief is issued by QIC Limited ACN 130 539 123 ("QIC") and is compiled by QIC's Economics & Research Team. For further information about the contents of this document please contact Matthew Peter (Tel +61 7 3020 7060), Drew Klease (Tel +61 7 3020 7059) or Jemma Andrew (Tel +61 7 3020 7000).

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Table 2: Economic charts<sup>2</sup>

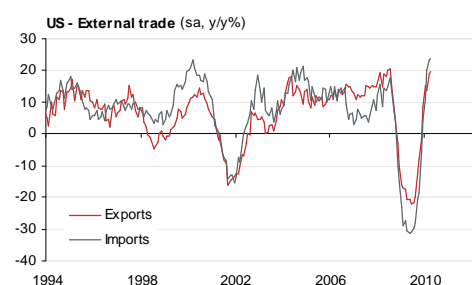
United States



US - Non-farm payrolls (4 June)	Mar-10	Apr-10	May-10	Mkt fcast
Non-farm payrolls (Monthly change, 000's)				
Total	208.0	290.0	431.0	511.0
Revisions (from original release)	46.0	0.0	0.0	-
Private	158.0	218.0	41.0	-
Goods	57.0	62.0	4.0	-
Natural resources & mining	11.0	8.0	10.0	-
Construction	27.0	14.0	-35.0	-
Manufacturing	19.0	40.0	29.0	-
Services	151.0	228.0	427.0	-
Private	101.0	156.0	37.0	-
Trade, transportation & utilities	47.0	7.0	6.0	-
Information	-11.0	0.0	0.0	-
Financial activities	-19.0	2.0	-12.0	-
Professional & Business	1.0	73.0	22.0	-
Temporary help services	32.3	26.6	31.0	-
Education & health	49.0	28.0	17.0	-
Leisure & hospitality	23.0	35.0	2.0	-
Other private	11.0	11.0	2.0	-
Govt services	50.0	72.0	390.0	-

US - Household survey (4 June)	Mar-10	Apr-10	May-10	Mkt fcast
Employment - household survey (% m/m)	0.2	0.4	0.0	-
Labour force (% m/m)	0.3	0.5	-0.2	-
Unemployment rate (%)	9.7	9.9	9.7	9.8
Participation rate (%)	64.9	65.2	65.0	-
Hours worked	33.3	33.4	33.5	-
Average hourly earnings (% m/m)	-0.1	0.3	0.2	-

US - Jobless claims (June 10)	21/5/10	28/5/10	4/6/10	Mkt fcast
Continuing claims (000s)	4717.0	4462.0	-	-
Continuing claims (000s, 4wk moving average)	4666.8	4617.5	-	-
Initial jobless claims (000s)	463.0	459.0	456.0	450.0
Initial jobless claims (000s, 4wk moving average)	457.3	460.5	463.0	-

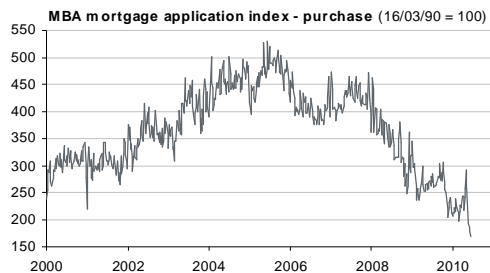


US - Trade balance (10 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Trade balance (US\$b)	-40.1	-40.0	-40.3	-40.0
Goods balance (Census basis, US\$b)	-50.8	-51.2	-51.8	-
Real Goods (Census basis, US\$b)	-43.2	-44.1	-44.3	-
Nominal exports (%m/m)	-0.1	3.8	-0.7	-
Nominal imports (%m/m)	2.8	2.9	-0.4	-
Nominal goods exports (BOP basis, %m/m)	-0.2	5.0	-1.1	-
Nominal goods imports (BOP basis, %m/m)	2.8	3.8	-0.6	-
Real goods exports (Census basis, % m/m)	0.6	3.8	-2.5	-
Real goods exports (Census basis, % y/y)	12.2	16.5	18.3	-
Real goods imports (Census basis, %m/m)	3.2	3.3	-1.5	-
Real goods imports (Census basis, %y/y)	10.7	13.5	14.7	-

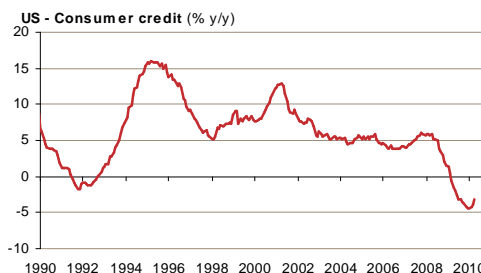
US - Wholesale inventories (9 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Wholesale inventories (sa, m/m%)	0.6	0.7	0.4	0.5
Wholesale inventories (sa, y/y%)	-7.5	-5.0	-3.2	-
Wholesale trade (sa, m/m%)	1.2	2.6	0.7	-
Wholesale trade (sa, y/y%)	10.1	16.0	16.3	-
Wholesale inventories/sales (sa, ratio)	1.16	1.14	1.13	-

<sup>2</sup> Source: FactSet

## United States (continued)

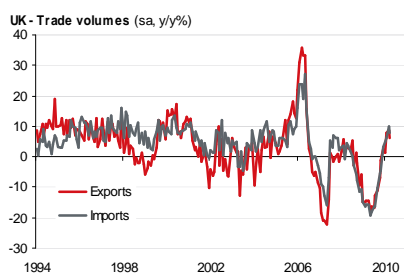


US - Mortgage applications (9 June)	21-05-10	28-05-10	04-06-10	Mkt f'cast
Purchase index	185.7	178.0	167.8	-
% w/w	-3.3	-4.1	-5.7	-
Refinancing index	3,257.4	3,336.9	2,859.5	-
% w/w	17.0	2.4	-14.3	-
Composite index	633.5	639.0	560.9	-
% w/w	11.3	0.9	-12.2	-



US - Consumer credit (7 June)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Consumer credit outstanding (sa, change, \$USbns)	-7.7	-5.4	1.0	-1.0
Consumer credit outstanding (sa, y/y%)	-4.2	-3.8	-3.2	-

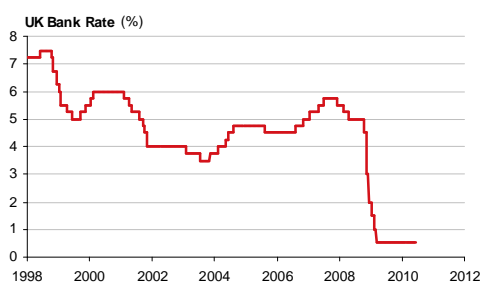
## United Kingdom



UK - Trade balance (9 June)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Visible trade balance (sa, values)	-6.3	-7.3	-7.3	-7.0
Trade balance (sa, values)	-2.0	-3.2	-3.3	-3.0
Export volumes (sa, m/m%)	7.2	-0.5	-0.5	-
Export volumes (sa, y/y%)	7.8	8.6	6.1	-
Export volumes ex oil & erractics (sa, m/m%)	6.2	-1.3	1.8	-
Export volumes ex oil & erractics (sa, y/y%)	6.6	9.8	8.5	-
Import volumes (sa, m/m%)	-1.1	2.1	-0.7	-
Import volumes (sa, y/y%)	6.4	9.9	7.8	-
Import volumes ex oil & erractics (sa, m/m%)	-2.2	3.2	-1.8	-
Import volumes ex oil & erractics (sa, y/y%)	5.6	14.7	8.5	-
Export prices (sa, m/m%)	0.8	2.7	-0.2	-
Export prices (sa, y/y%)	5.1	5.6	7.5	-
Import prices (sa, m/m%)	1.0	2.9	0.2	-
Import prices (sa, y/y%)	3.5	4.7	6.1	-

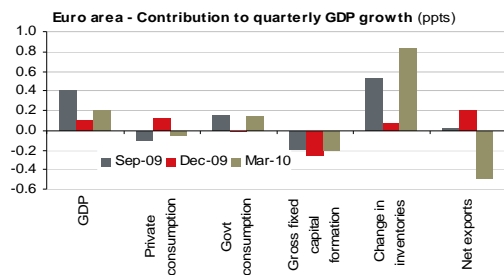


UK - BRC Retail Sales (8 June)	Mar-10	Apr-10	May-10	Mkt f'cast
Like-for-like retail sales (y/y%)	4.4	-2.3	0.8	-
All store retail sales (y/y%)	6.6	-0.2	3.0	-



UK - Bank rate (June 10)	Apr-10	May-10	Jun-10	Mkt f'cast
Refinancing rate (%)	0.5	0.5	0.5	0.5

## Euro area



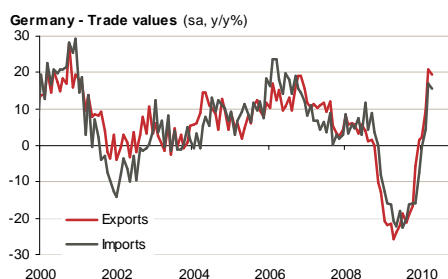
Euro area - National accounts (4 June)	Sep-09	Dec-09	Mar-10	Mkt f'cast
GDP (sa, q/q%)	0.4	0.1	0.2	0.2
Households and NPISH final consumption expenditure	-0.2	0.2	-0.1	-
Government consumption	0.7	0.0	0.6	-
Gross fixed capital formation	-1	-1.3	-1.1	-
Changes in inventories & acquisitions less disposals	0.5	0.1	0.8	-
Net exports (ppt contribution)	0.0	0.2	-0.5	-
Exports	2.8	1.7	2.5	-
Imports	2.8	1.2	4.0	-



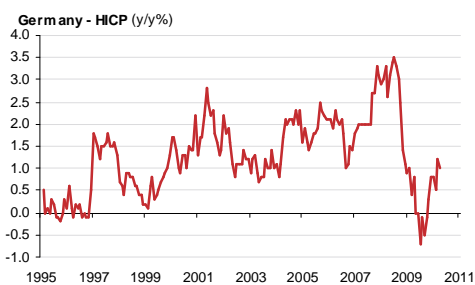
Germany - Industrial production (8 June)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Industrial production (sa, m/m%)	-0.2	4.3	0.9	0.7
Industrial production (sa, y/y%)	5.2	9.0	13.2	12.4



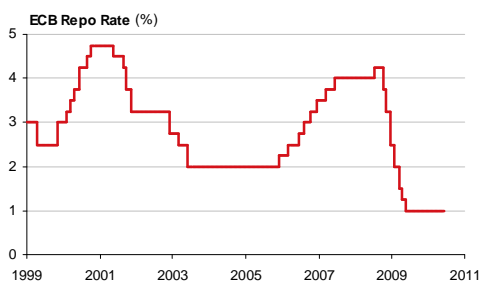
Germany - Factory orders (7 June)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Factory orders (sa, volumes, m/m%)	0.0	5.1	2.8	-0.4
Factory orders (sa, volumes, y/y%)	24.6	26.2	29.8	25.4
Domestic orders (sa, volumes, m/m%)	-1.7	5.6	2.9	-
Domestic orders (sa, volumes, y/y%)	18.9	23.0	26.1	-
Foreign orders (sa, volumes, m/m%)	1.7	4.7	2.8	-
Foreign orders (sa, volumes, y/y%)	30.1	29.0	33.1	-



Germany - Trade balance (8 June)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Trade balance (sa, €bns)	12.1	13.0	13.1	15.0
Exports (sa, m/m%)	5.1	10.8	-5.9	-
Exports (sa, y/y%)	9.4	20.7	19.3	-
Imports (sa, m/m%)	0.3	11.4	-7.3	-
Imports (sa, y/y%)	4.2	16.5	15.7	-



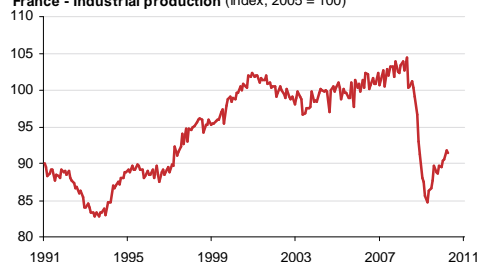
Germany - Inflation (June 10)	Mar-10	Apr-10	May-10	Mkt f'cast
Headline inflation (nsa, m/m%)	0.6	-0.1	0.1	0.1
Headline inflation (nsa, y/y%)	1.2	1.0	1.2	1.2



Euro area - Refinancing rate (June 10)	Apr-10	May-10	Jun-10	Mkt f'cast
Refinancing rate (%)	1.0	1.0	1.0	1.0

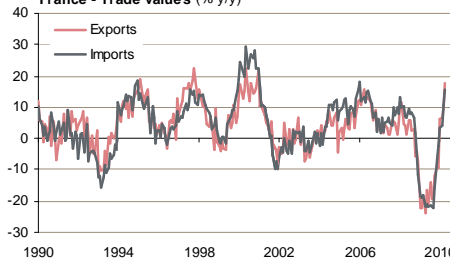
## Euro area (continued)

France - Industrial production (index, 2005 = 100)



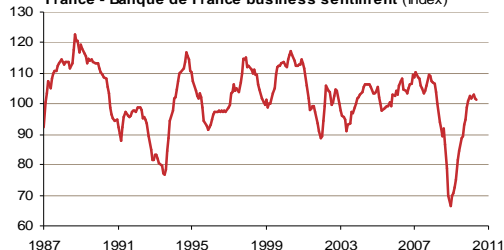
France - Industrial production (June 10)	Feb-10	Mar-10	Apr-10	Mkt fcast
Industrial production (sa, m/m%)	0.1	1.3	-0.3	0.3
Industrial production (sa, y/y%)	3.4	7.1	7.9	7.2

France - Trade values (% y/y)



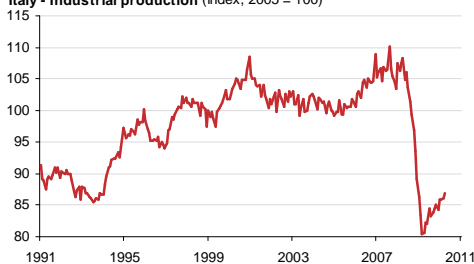
France - Trade balance (8 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Trade balance (sa, €bns)	-3.3	-4.4	-4.2	-4.1
Exports (values, sa, m/m%)	0.8	2.5	1.0	-
Exports (values, sa, y/y%)	6.8	10.1	17.6	-
Imports (values, sa, m/m%)	-0.3	5.6	0.4	-
Imports (values, sa, y/y%)	4.2	10.8	15.7	-

France - Banque de France business sentiment (Index)



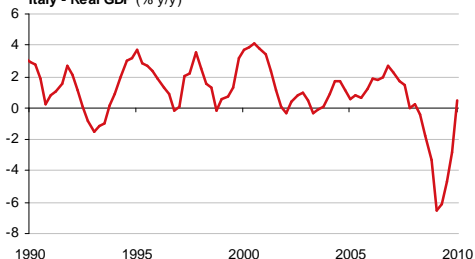
France - Banque de France business sentiment (8 Ju)	Mar-10	Apr-10	May-10	Mkt fcast
Business sentiment (index)	103.0	101.9	101.3	102.0

Italy - Industrial production (index, 2005 = 100)



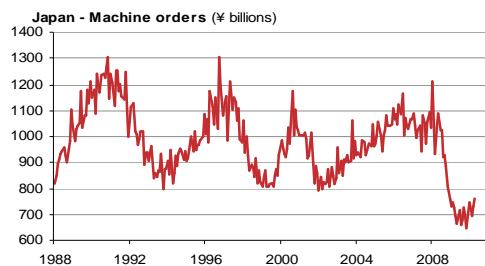
Italy - Industrial production (June 10)	Feb-10	Mar-10	Apr-10	Mkt fcast
Industrial production (sa, m/m%)	0.0	0.2	1.0	-
Industrial production (sa, y/y%)	2.9	9.2	8.7	-

Italy - Real GDP (% y/y)

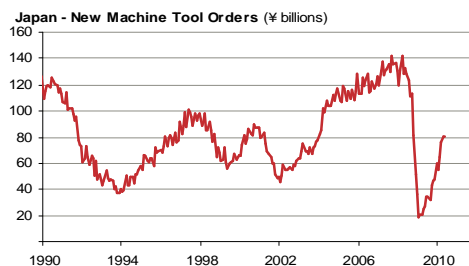


Italy - National accounts (June 10)	Dec-09	Mar-10 P	Mar-10 F	Mkt fcast
Real GDP (sa, % y/y)	-2.8	0.6	0.5	0.6
Real GDP (sa, % q/q)	-0.1	0.5	0.4	0.5
Household consumption (sa, % q/q)	-0.1	-	0.0	-
Government consumption (sa, % q/q)	-0.2	-	-0.5	-
Gross fixed capital formation (sa, % q/q)	0.4	-	0.6	-
Change in inventories (sa, ppt contribution)	1.1	-	-0.1	-
Net exports (sa, ppt contribution)	-0.9	-	0.4	-
Exports (sa, % q/q)	-0.4	-	5.3	-
Imports (sa, % q/q)	3.4	-	3.3	-

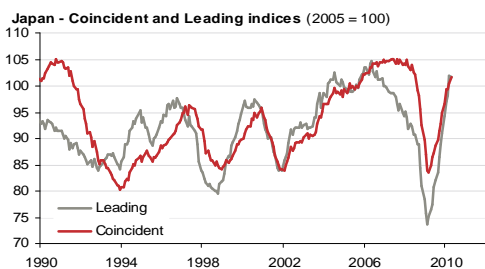
## Japan



Japan - Machine orders (9 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Machinery orders ex volatiles (sa, m/m%)	-3.8	5.4	4.0	1.7
Machinery orders ex volatiles (sa, y/y%)	-7.0	0.8	9.6	7.3



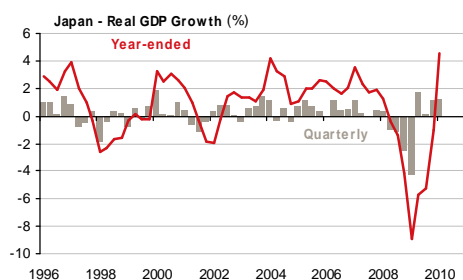
Japan - Machine tool orders (9 June)	Mar-10	Apr-10	May-10	Mkt fcast
Machine tool new orders (y/y%)	262.2	220.9	191.8	-



Japan - Coincident index (8 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Coincident index (index, 2005 = 100)	99.4	100.5	101.6	102.5
Leading index (index, 2005 = 100)	98.1	101.9	101.7	102.5

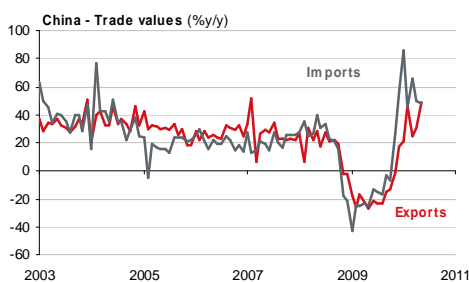


Japan - M2 money supply (8 June)	Mar-10	Apr-10	May-10	Mkt fcast
M2 money supply (sa, y/y%)	2.7	2.9	3.1	2.8



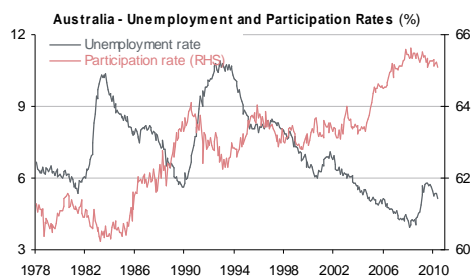
Japan - National accounts (10 June)	Dec-09	Mar-10 P	Mar-10 F	Mkt fcast
Real GDP (sa, % y/y)	-1.4	4.2	4.2	
Real GDP (sa, % q/q)	1.1	1.2	1.2	1.0
Household consumption (sa, % q/q)	0.7	0.3	0.4	
Government consumption (sa, % q/q)	0.7	0.5	0.4	
Government investment (sa, % q/q)	-0.9	-1.7	-0.5	
Business investment (sa, % q/q)	1.1	1.0	0.6	
Residential investment (sa, % q/q)	-2.6	0.3	0.4	
Change in inventories (ppt contribution)	-0.2	0.2	0.1	
Net exports (ppt contribution)	0.7	0.7	0.7	
Exports (sa, % q/q)	5.8	6.9	6.9	
Imports (sa, % q/q)	1.0	2.3	2.3	

## China



China - International trade (June 10)	Mar-10	Apr-10	May-10	Mkt fcast
Export values (y/y%)	24.2	30.5	48.5	
Import values (y/y%)	66.0	49.7	48.3	

## Australia



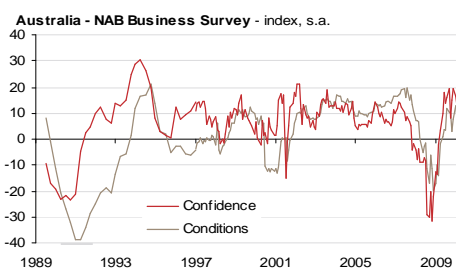
Australia - Labour Force Survey (10 June)	Mar-10	Apr-10	May-10	Mkt fcast
Employment (sa, m/m%)	0.3	0.3	0.2	-
Employment (sa, y/y%)	2.1	2.2	2.6	-
Employment (sa, change, 000s)	30.0	35.3	26.9	20.0
Full-time employment (sa, change, 000s)	40.2	40.1	36.4	-
Part-time employment (sa, change, 000s)	-10.2	-4.8	-9.4	-
Hours worked (sa, m/m%)	-0.5	-0.8	2.9	-
Hours worked (sa, m/m%)	1.5	0.5	4.2	-
Unemployment rate (sa, %)	5.4	5.4	5.2	5.4
Participation rate (sa, %)	65.2	65.2	65.1	65.2



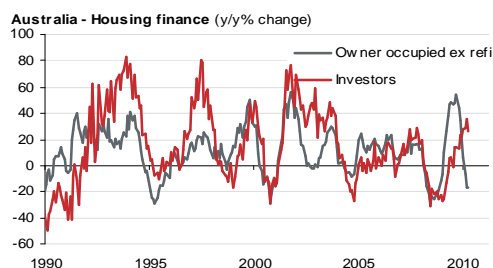
Australia - ANZ Job Ads (7 June)	Mar-10	Apr-10	May-10	Mkt fcast
ANZ Job Ads (sa, m/m%)	1.8	-1.2	4.3	-
ANZ Job Ads (sa, y/y%)	8.0	15.0	21.7	-
Internet job ads (sa, m/m%)	2.0	-1.3	5.0	-
Internet job ads (sa, y/y%)	7.3	14.7	22.3	-
Newspaper job ads (sa, m/m%)	-1.0	0.4	-6.5	-
Newspaper job ads (sa, y/y%)	20.1	18.9	13.2	-



Australia - Consumer confidence (9 June)	Apr-10	May-10	Jun-10	Mkt fcast
Consumer sentiment index (sa, index)	116.1	108.0	101.9	-
Consumer sentiment index (sa, m/m%)	-1.0	-7.0	-5.7	-
Consumer sentiment index (sa, y/y%)	25.2	21.6	1.8	-
Current conditions (sa, index)	111.8	110.7	101.0	-
Expectations (sa, index)	118.9	106.1	102.4	-
Economic conditions				
Next 12 months (sa, index)	125.1	103.4	106.4	-
Next 5 years (sa, index)	118.4	105.8	96.3	-
Family finances				
Last 12 months (sa, index)	91.3	93.6	77.1	-
Next 12 months (sa, index)	113.2	109.1	104.6	-
Time to buy a				
Major household items (sa, index)	132.4	127.8	125.0	-
Consumer sentiment index				
Home ownership, own fully (sa, index)	118.0	108.5	102.4	-
Home ownership, with mortgage (sa, index)	115.9	106.5	99.9	-
Home ownership, renting (sa, index)	112.9	109.0	103.7	-



Australia - Business confidence (8 June)	Mar-10	Apr-10	May-10	Mkt fcast
Business conditions (sa, net balance)	12.6	7.7	5.8	-
Business confidence (sa, net balance)	16.4	12.5	4.6	-
Trading conditions (sa, net balance)	14.5	7.2	8.0	-
Profitability (sa, net balance)	9.8	7.1	1.4	-
Employment (sa, net balance)	11.5	7.9	6.9	-
Forward orders (sa, net balance)	9.5	2.4	-0.6	-
Stocks (sa, net balance)	3.8	7.0	-2.0	-
Labour costs (nsa, q/q%)	1.1	1.3	1.0	-
Final prices paid (nsa, q/q%)	0.1	0.1	0.4	-
Capacity Utilisation (sa, %)	82.1	82.0	81.7	-



Australia - Housing finance (9 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Housing finance (number, sa, m/m%)	-1.7	-2.9	-1.8	-2.0
Housing finance (number, sa, y/y%)	-16.4	-22.6	-25.3	-
Housing finance ex refinancing (values, sa, m/m%)	-3.4	1.1	1.6	-
Housing finance ex refinancing (values, sa, y/y%)	4.9	-0.3	-2.9	-
Owner occupied finance ex refi (values, sa, m/m%)	-5.1	-3.9	1.9	-
Owner occupied finance ex refi (values, sa, y/y%)	-6.5	-16.9	-17.2	-
Investor financing (values, sa, m/m%)	-0.8	8.5	1.3	-
Investor financing (values, sa, y/y%)	28.4	35.2	26.0	-
First home buyers (% of applicants)	18.1	15.9	16.3	-