

WEEKLY ECONOMIC BRIEF – 14 May 2010

Key Points

- *European Commission and the IMF unveil a €750bn Greek stabilisation package*
- *The US economy adds 290,000 jobs in April, driven by strong employment growth in the private sector*
- *The Australian government presents the 2010-11 budget and projects the Federal budget will return to surplus in 2012-13*

Financial markets partly reversed their recent trajectory following the announcement of a €750bn Greek stabilisation fund on the weekend. Under the arrangement, the European Commission and the IMF will provide up to €60bn and €250bn, respectively, in loans to Greece with a further €440bn in loans and guarantees from the euro area members. Furthermore, the European Central Bank will conduct sterilised interventions in the euro area public and private debt markets as well as reactivate the temporary swap lines with the Federal Reserve. The news was well-received by investors, with the MSCI World Index (local currency) rising by 4.5 percent and yields on German ten-year government bonds increasing by nearly 16bps. Over the week, spreads on ten-year Greek government bonds to German ten-year government bonds halved to 441bps, with similar proportional movements in Spanish and Portuguese spreads. Despite the attempts by authorities to stabilise markets, the Euro remained under pressure, losing ground against the major currencies.

Markets also received support from the generally positive economic data in developed markets. The US economy created 290,000 jobs in April, the majority of which came from the private sector rather than from temporary Census-related employment. As employment opportunities increase, more workers are returning to the workforce, with the increase in the participation rate leading to the unemployment rate ticking up from 9.7 percent to 9.9 percent.

Euro area GDP surprised on the upside, with the economy expanding by 0.2 percent in the March quarter. Germany, France and Spain recorded subdued growth, Italy recovered strongly while growth was surprisingly robust in Portugal. The Greek economy continued to contract while there was renewed weakness in a number of Eastern European economies.

Within the UK, the Conservative Party and the Liberal Democrats formed the UK's first coalition government since World War II, led by the Conservative leader David Cameron. The new Prime Minister faces a fragile economy, with the unemployment rate for the March quarter at a sixteen-year high. Despite upward revisions to the Bank of England's inflation outlook, inflation over the medium term is forecast to remain below the 2 percent target, reinforcing our belief that rates will remain on hold for an extended period.

Incoming Chinese economic data for April were mixed, with slower industrial production (IP) growth and rising inflation. Retail sales rose in April while urban fixed asset investment was also stronger than expected. Rising food prices and residence costs continue to place upward pressure on inflation, with year-ended consumer inflation rising to 2.8 percent. Upstream pricing pressures also continue to build, with producer price inflation rising to 6.8 percent. Rising inflation and the momentum building within the property market has led some commentators to bring forward their tightening expectations to June, which is in line with our forecast.

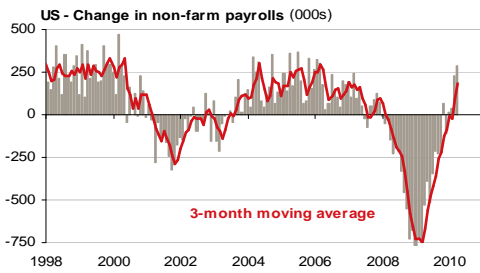
The aggressive tightening by the Reserve Bank of Australia (RBA) led to a pullback in demand for finance in the March quarter, with housing financing (ex-refinancing) by owner-occupied applicants falling by 7 percent. In contrast, higher interest rates haven't deterred investors, with investor finance rising by nearly 4.5 percent.

The strength within Australia's labour market continued in April, with the economy creating 33,700 jobs and the unemployment rate holding steady at 5.4 percent following an upward revision to March. The composition of the labour market continues to restructure, with full-time positions rising by 37,500 jobs while part-time employment fell for the third consecutive month. The ongoing recovery within the domestic economy and the rising terms of trade led the RBA to revise its GDP and inflation forecasts higher, with the economy expected to grow above trend in 2011 and 2012. The strong economic performance of the Australian economy is one of the catalysts behind the Australian Treasury bringing forward its estimate of when the Federal Budget will return to surplus. The Treasury now estimates that the budget deficit will return to surplus in 2012-13, three years earlier than its previous projection.

Table 1. Financial market movements, 06/05/2010 to 13/05/2010

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	2.6%	-	-
US	2.6%	13.2 bps	-
Japan	-0.7%	3.7 bps	-0.6%
UK	3.3%	4.2 bps	-1.8%
Germany	5.8%	14.7 bps	-1.2%
Australia	1.7%	-0.2 bps	0.6%

United States



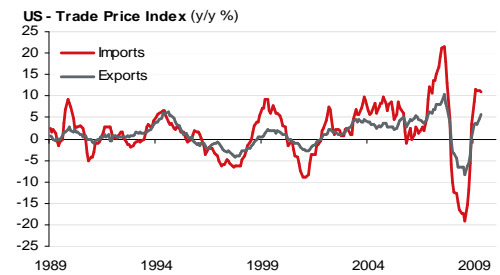
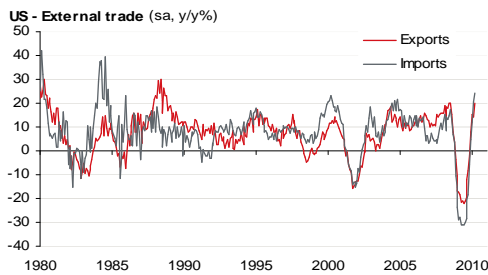
US - Non-farm payrolls (7 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
Non-farm payrolls (Monthly change, 000's)				
Total	39.0	230.0	290.0	190.0
Revisions	75.0	68.0	0.0	-
Private	62.0	174.0	231.0	-
Goods	-28.0	55.0	65.0	-
Natural resources & mining	7.0	10.0	7.0	-
Construction	-51.0	26.0	14.0	-
Manufacturing	16.0	19.0	44.0	20.0
Services	67.0	175.0	225.0	-
Private	90.0	119.0	166.0	-
Trade, transportation & utilities	1.0	33.0	-3.0	-
Information	-6.0	-12.0	-3.0	-
Financial activities	-7.0	-20.0	3.0	-
Professional & Business	56.0	13.0	80.0	-
Temporary help services	35.9	32.4	26.2	-
Education & health	30.0	54.0	35.0	-
Leisure & hospitality	23.0	41.0	45.0	-
Other private	-7.0	10.0	9.0	-
Govt services	-23.0	56.0	59.0	-



US - Household survey (7 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
Employment - household survey (% m/m)	0.2	0.2	0.4	-
Labour force (% m/m)	0.2	0.3	0.5	-
Unemployment rate (%)	9.7	9.7	9.9	9.7
Participation rate (%)	64.8	64.9	65.2	-
Hours worked	33.2	33.3	33.4	-
Average hourly earnings (% m/m)	0.1	-0.1	0.3	0.1
Average hourly earnings (% y/y)	2.4	2.1	2.3	1.8

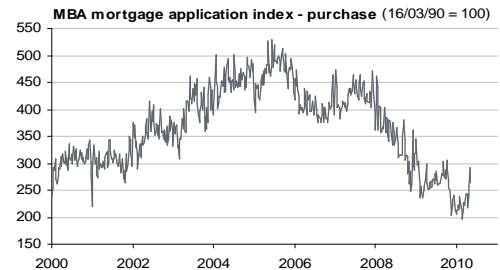
US - Initial claims (13 May)	23/4/10	30/4/10	7/5/10	Mkt fcast
Continuing claims (000s)	4615.0	4627.0	-	-
Continuing claims (000s, 4wk moving average)	4654.3	4639.5	-	-
Initial jobless claims (000s)	451.0	448.0	444.0	440.0
Initial jobless claims (000s, 4wk moving average)	463.3	459.5	450.5	-

US - Consumer credit (7 May)	Jan-10	Feb-10	Mar-10	Mkt fcast
Consumer credit (change, US\$bns)	6.5	-6.2	2.0	-3.9



US - Trade balance (12 May)	Jan-10	Feb-10	Mar-10	Mkt fcast
Trade balance (US\$b)	-37.0	-39.4	-40.4	-40.5
Goods balance (Census basis, US\$b)	-48.1	-49.9	-51.4	-
Real Goods (Census basis, US\$b)	-40.9	-42.3	-43.8	-
Nominal exports (%m/m)	-0.2	0.3	3.2	-
Nominal imports (%m/m)	-1.8	1.6	3.1	-
Nominal goods exports (BOP basis, %m/m)	-0.9	0.0	4.5	-
Nominal goods imports (BOP basis, %m/m)	-2.2	1.2	4.0	-
Real goods exports (Census basis, % m/m)	-1.4	0.8	3.4	-
Real goods exports (Census basis, % y/y)	14.3	12.1	16.9	-
Real goods imports (Census basis, %m/m)	-3.1	1.6	3.5	-
Real goods imports (Census basis, %y/y)	2.4	10.6	14.2	-

US - Trade prices (13 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
Import prices (nsa, m/m%)	-0.1	0.5	0.9	0.8
Import prices (nsa, y/y%)	11.3	11.3	11.1	11.3
Export prices (nsa, m/m%)	-0.3	0.7	1.2	-
Export prices (nsa, y/y%)	3.4	4.9	5.7	-



US - Wholesale inventories (11 May)	Jan-10	Feb-10	Mar-10	Mkt fcast
Wholesale inventories (sa, m/m%)	0.1	0.6	0.4	0.5
Wholesale inventories (sa, y/y%)	-9.6	-7.5	-5.3	-
Wholesale trade (sa, m/m%)	0.9	1.2	2.4	-
Wholesale trade (sa, y/y%)	9.9	10.1	15.8	-
Wholesale inventories/sales (sa, ratio)	1.16	1.16	1.13	-

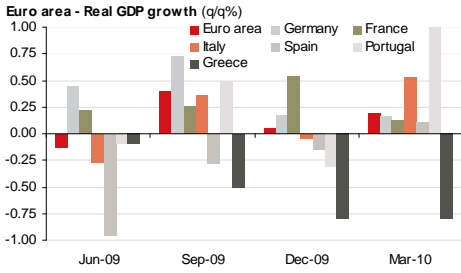
US - Mortgage applications (12 May)	23-04-10	30-04-10	07-05-10	Mkt fcast
Purchase index	257.9	291.3	263.6	-
% w/w	7.4	13.0	-9.5	-
Refinancing index	2,161.8	2,117.3	2,430.8	-
% w/w	-8.8	-2.1	14.8	-
Composite index	534.6	556.2	578.1	-
% w/w	-2.9	4.0	3.9	-

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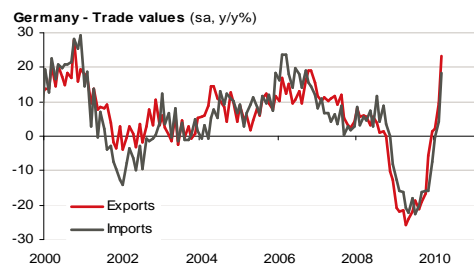
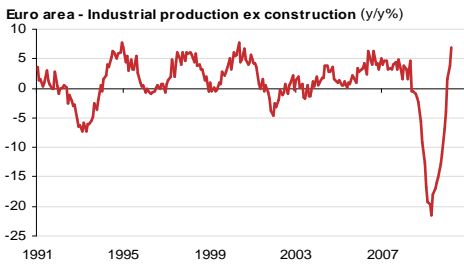


Euro area



Euro area - Real GDP (12 May)	Sep-09	Dec-09	Mar-10	Mkt f'cast
Euro area (sa, q/q%)	0.4	0.0	0.2	0.1
Germany (sa, q/q%)	0.7	0.2	0.2	0.0
France (sa, q/q%)	0.3	0.5	0.1	0.3
Italy (sa, q/q%)	0.4	-0.1	0.5	0.4
Spain (sa, q/q%)	-0.3	-0.1	0.1	0.1
Portugal (sa, q/q%)	0.5	-0.3	1.0	-
Greece (sa, q/q%)	-0.5	-0.8	-0.8	-0.8
Belguim (sa, q/q%)	0.7	0.3	0.1	0.1
Austria (sa, q/q%)	0.7	0.3	0.0	-
The Netherlands (sa, q/q%)	0.6	0.4	0.2	-
Cyprus (sa, q/q%)	-0.8	-0.4	-0.2	-
Latvia (sa, q/q%)	-4.0	-2.9	0.3	-
Lithuania (sa, q/q%)	1.0	1.3	-4.1	-
Hungary (sa, q/q%)	-0.6	0.2	0.9	-
Romania (sa, q/q%)	0.1	-1.5	-0.3	-
Slovakia (sa, q/q%)	1.2	1.7	0.8	-

France - National Accounts (12 May)	Sep-09	Dec-09	Mar-10	Mkt f'cast
Gross Domestic Product (sa, q/q%)	0.3	0.5	0.1	0.3
Total Consumption Expenditure (sa, q/q%)	0.4	0.9	0.0	-
Private	0.3	0.9	0.0	-
Households	0.3	1.0	0.0	-
Non-Profit Institutions	0.4	0.4	0.7	-
General Government	0.8	0.7	0.1	-
Collective	0.9	0.5	0.3	-
Individual	0.7	0.7	0.0	-
Trade Balance of Goods and Services (sa, %pt contr)	0.9	1.5	2.9	-
Exports (sa, q/q%)	1.7	0.4	3.9	-
Imports (sa, q/q%)	0.2	2.6	2.0	-
Gross Fixed Capital Formation (sa, q/q%)	-4.4	-2.3	-0.7	-
Financial Companies	-0.5	-0.1	-1.2	-
General Government	-1.7	-1.5	-0.6	-
Households	-1.3	-1.2	-0.9	-
Non-Financial Companies	3.2	1.6	3.1	-
Non-Profit Institutions	-	-	-	-



Euro area - Industrial production (12 May)	Jan-10	Feb-10	Mar-10	Mkt f'cast
Industrial production ex construction (sa, m/m%)	1.9	0.7	1.3	1.0
Industrial production ex construction (sa, y/y%)	1.6	3.9	6.9	6.5

Germany - Industrial production (7 May)	Jan-10	Feb-10	Mar-10	Mkt f'cast
Industrial production (sa, m/m%)	0.1	-0.2	4.0	1.5
Industrial production (sa, y/y%)	2.1	5.2	8.6	6.4

France - Industrial production (10 May)	Jan-10	Feb-10	Mar-10	Mkt f'cast
Industrial production (sa, m/m%)	1.2	0.0	1.0	0.3
Industrial production (sa, y/y%)	2.5	3.1	6.2	5.2

Italy - Industrial production (10 May)	Jan-10	Feb-10	Mar-10	Mkt f'cast
Industrial production (sa, m/m%)	1.9	0.0	-0.1	1.0
Industrial production (sa, y/y%)	-3.4	2.9	8.7	10.8

Germany - Trade balance (10 May)	Jan-10	Feb-10	Mar-10	Mkt f'cast
Trade balance (sa, €bns)	8.8	12.1	13.3	-
Exports (sa, m/m%)	-6.5	5.1	10.7	-
Exports (sa, y/y%)	-0.1	9.6	23.3	-
Imports (sa, m/m%)	5.6	0.3	11.0	-
Imports (sa, y/y%)	-1.7	4.3	18.3	-

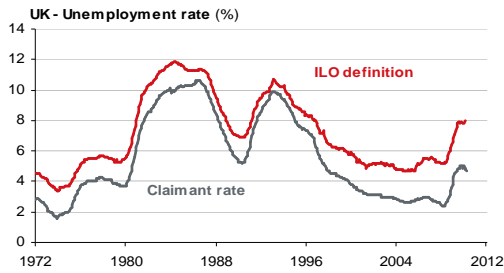
France - Banque de France business sentiment (12 M)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Business sentiment (index)	102.7	103.5	102.4	104.0

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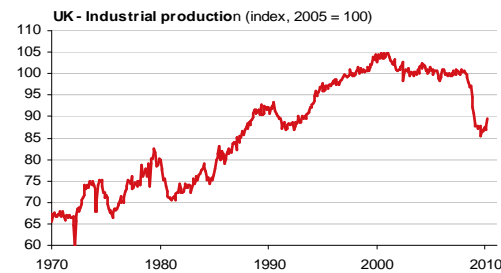
United Kingdom



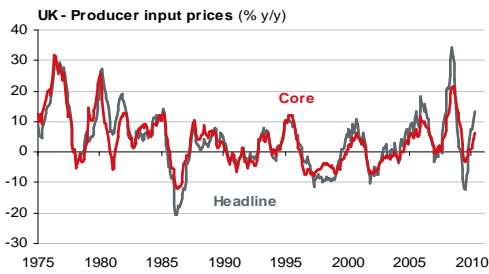
UK - Labour market (12 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
Change in claimant count (000s)	-40.1	-32.7	-27.1	-20.0
Claimant count rate (%)	4.9	4.8	4.7	4.8
ILO unemployment rate (3m, %)	8	8.0	-	8.0
Average earnings inc bonus (3m, % yoy)	2.1	4.0	-	2.1
Average earnings exc bonus (3m, %yoy)	1.8	1.9	-	-



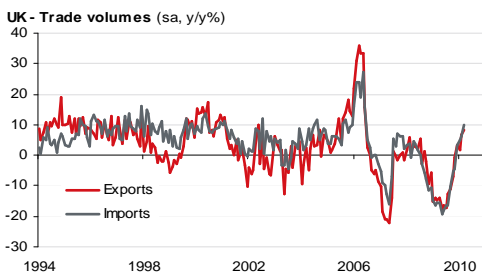
UK - BRC Retail Sales (11 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
Like-for-like retail sales (y/y%)	2.2	4.4	-2.3	-
All store retail sales (y/y%)	4.5	6.6	-0.2	-



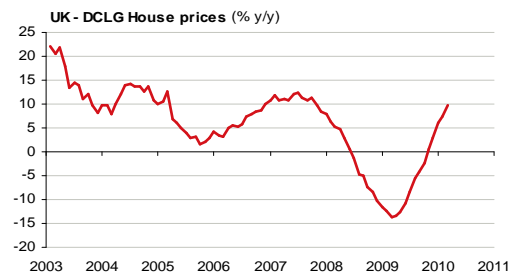
UK - Industrial production (11 May)	Jan-10	Feb-10	Mar-10	Mkt fcast
IP (% m/m)	-0.6	0.9	1.9	0.3
IP (% y/y)	-1.7	-0.2	1.9	0.6
Broad Industry Groups (% m/m)				
Mining and Quarrying incl. Oil & Gas Extraction	1.7	-0.4	2.3	-
Electricity, Gas and Water Supply	1.9	-1.8	-0.9	-
Oil and Gas Extraction	1.5	-1.3	2.4	-
Manufacturing	-1.1	1.4	2.3	0.4
Main Industrial Groupings (% m/m)				
Consumer Durables	-2.4	0.5	1.3	-
Consumer Non-Durables	0.0	0.4	1.5	-
Capital Goods	-0.7	1.2	2.7	-
Intermediate Goods & Energy	-0.7	1.0	2.1	-



UK - Producer price inflation (7 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
Input (nsa, % m/m)	0.7	3.8	0.6	1.0
Input (nsa, % y/y)	7.6	10.3	13.1	13.1
Core input (sa, % m/m)	0.8	1.3	0.9	-
Core input (nsa, % m/m)	0.5	2.5	-0.1	-
Core input (nsa, % y/y)	2.3	4.3	6.4	-
Output (nsa, % m/m)	0.3	0.9	1.4	0.5
Output (nsa, % y/y)	4.2	5.0	5.7	4.8
Core output (nsa, % m/m)	0.4	0.8	1.1	0.3
Core output (nsa, % y/y)	3.0	3.7	4.4	3.5



UK - Trade balance (13 May)	Jan-10	Feb-10	Mar-10	Mkt fcast
Visible trade balance (sa, values)	-8.0	-6.3	-7.5	-6.4
Trade balance (sa, values)	-3.8	-2.2	-3.7	-2.5
Export volumes (sa, m/m%)	-7.4	7.1	-0.5	-
Export volumes (sa, y/y%)	1.8	6.7	8.3	-
Export volumes ex oil & erratics (sa, m/m%)	-6.1	6.5	-1.8	-
Export volumes ex oil & erratics (sa, y/y%)	4.1	6.5	9.9	-
Import volumes (sa, m/m%)	-1.4	-1.2	2.8	-
Import volumes (sa, y/y%)	5.1	6.1	9.9	-
Import volumes ex oil & erratics (sa, m/m%)	-0.1	-1.8	3.5	-
Import volumes ex oil & erratics (sa, y/y%)	8.9	6.0	14.5	-
Export prices (sa, m/m%)	0.6	0.7	2.9	-
Export prices (sa, y/y%)	3.8	5.1	5.8	-
Import prices (sa, m/m%)	0.8	0.8	2.7	-
Import prices (sa, y/y%)	2.5	3.2	4.3	-



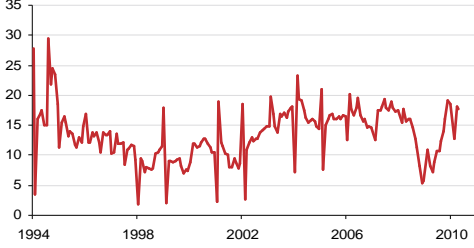
UK - DCLG House prices (13 May)	Jan-10	Feb-10	Mar-10	Mkt fcast
DCLG house prices (index)	174.3	171.4	172.8	-
DCLG house prices (nsa, m/m%)	3.4	-1.7	0.8	-
DCLG house prices (nsa, 3m/3m%)	2.3	2.2	2.9	-
DCLG house prices (nsa, y/y%)	6.2	7.3	9.7	-

UK - Halifax house prices (7 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
Halifax house prices (index)	539.5	545.1	544.4	-
Halifax house prices (nsa, m/m%)	-1.6	1.0	-0.1	-
Halifax house prices (nsa, 3m/3m%)	1.7	0.6	-0.5	-
Halifax house prices (nsa, y/y%)	4.1	6.9	8.7	-

UK - RICS House Prices (11 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
RICS house price balance (net balance)	17.6	9.2	17.2	10.0

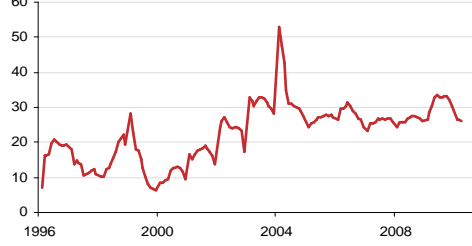
China

China - Industrial production (y/y%)



China - Industrial production (11 May)	Jan-Feb ave	Mar-10	Apr-10	Mkt f'cast
Industrial production (nsa, y/y%)	20.7	18.1	17.8	18.5

China - Urban fixed asset investment (cumulative ytd, y/y%)



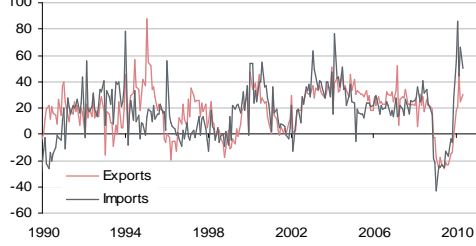
China - Urban fixed asset investment (11 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Urban fixed asset investment (cumulative ytd, y/y%)	26.6	26.4	26.1	26.0

China - Retail sales (y/y%)



China - Retail sales (11 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Retail sales (y/y%)	22.1	18.0	18.5	18.2

China - Trade values (y/y%)



China - Trade values (10 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Trade balance (US\$bns)	7.6	-7.2	1.7	-0.6
Export values (y/y%)	45.7	24.3	30.5	28.9
Import values (y/y%)	44.7	66.0	49.7	51.5

China - CPI (y/y%)



China - Consumer Price (11 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
CPI (y/y%)	2.7	2.4	2.8	2.7

China - PPI (y/y%)



China - Producer Price (11 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
PPI (y/y%)	5.4	5.9	6.8	6.5

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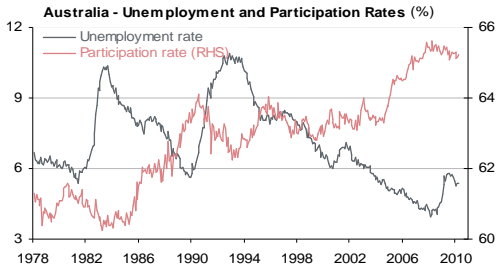
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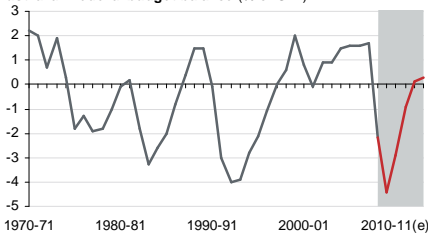
Australia



Australia - Labour Force Survey (13 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Employment (sa, m/m%)	-0.1	0.3	0.3	-
Employment (sa, y/y%)	1.6	2.1	2.2	-
Employment (sa, change, 000s)	-11.3	27.7	33.7	22.5
Full-time employment (sa, change, 000s)	4.9	37.4	37.5	-
Part-time employment (sa, change, 000s)	-16.1	-9.7	-3.9	-
Hours worked (sa, m/m%)	2.3	-0.8	-0.5	-
Hours worked (sa, y/y%)	1.9	1.5	0.5	-
Unemployment rate (sa, %)	5.3	5.4	5.4	5.3
Participation rate (sa, %)	65.1	65.2	65.2	65.1

Australia - ANZ Job Ads (10 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
ANZ Job Ads (sa, m/m%)	19.1	1.8	-1.2	-
ANZ Job Ads (sa, y/y%)	-2.3	8.0	14.9	-
Internet job ads (sa, m/m%)	19.6	2.0	-1.3	-
Internet job ads (sa, y/y%)	-3.3	7.3	14.7	-
Newspaper job ads (sa, m/m%)	13.1	-1.0	-0.7	-
Newspaper job ads (sa, y/y%)	14.9	20.1	17.6	-

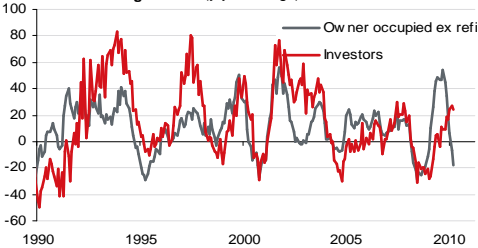
Australia - Federal budget balance (% of GDP)



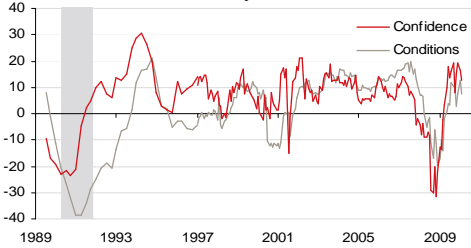
Source: Australian Treasury

Australian Treasury Budget Forecasts (11 May)	Australian Treasury					QIC Economics & Research				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Real GDP (annual average % change)	2.0	3.3	4.0	3.0	3.0	2.4	3.9	3.9	4.0	3.7
Consumer price inflation (year-ended growth)	3.3	2.5	2.5	-	-	2.9	2.8	2.7	2.9	2.9
Unemployment rate (% , June quarter)	5.3	5.0	4.8	-	-	5.3	5.1	4.8	4.6	4.6
Budget balance (% of GDP)	-4.4	-2.9	-0.9	0.1	0.3	-4.0	-2.9	-1.4	-0.3	0.0

Australia - Housing finance (y/y% change)



Australia - NAB Business Survey - index, s.a.



Australia - Housing finance (12 May)	Jan-10	Feb-10	Mar-10	Mkt f'cast
Housing finance (number, sa, m/m%)	-7.4	-2.0	-3.4	-3.0
Housing finance (number, sa, y/y%)	-11.9	-16.4	-23.3	-
Housing finance ex refinancing (values, sa, m/m%)	-2.0	-3.6	-1.7	-
Housing finance ex refinancing (values, sa, y/y%)	12.2	3.6	-5.1	-
Housing construction (number, sa, m/m%)	-3.9	-3.9	0.0	-
Housing construction (number, sa, y/y%)	43.9	28.8	0.0	-
Owner occupied finance ex refinancing (values, sa, m)	-4.4	-5.3	-4.5	-
Owner occupied finance ex refinancing (values, sa, y/)	6.3	-6.6	-17.6	-
Investor financing (values, sa, m/m%)	2.6	-0.8	3.0	-
Investor financing (values, sa, y/y%)	24.2	26.6	24.0	-
First home buyers (% of applicants)	20.5	18.1	16.1	-

Australia - Business confidence (10 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Business conditions (sa, net balance)	7.7	12.6	7.7	-
Business confidence (sa, net balance)	19.4	16.4	12.5	-
Trading conditions (sa, net balance)	7.9	14.5	7.2	-
Profitability (sa, net balance)	6.9	9.8	7.1	-
Employment (sa, net balance)	4.5	11.5	7.9	-
Forward orders (sa, net balance)	5.8	9.5	2.4	-
Stocks (sa, net balance)	-3.5	3.8	7.0	-
Labour costs (nsa, q/q%)	0.7	1.1	1.3	-
Final prices paid (nsa, q/q%)	0.4	0.1	0.1	-
Capacity Utilisation (sa, %)	80.6	82.1	82.0	-

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