

## WEEKLY ECONOMIC BRIEF – 23 July 2010

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### Key Points

- *Federal Reserve Chairman Bernanke refers to the economic outlook as “unusually uncertain”*
  - *US consumer confidence and inflation soft as the pace of economic recovery moderates*
  - *Euro area sentiment indicators rise in July, despite ongoing uncertainty in financial markets*
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After last week's positive start to the reporting season, investor sentiment was weighed down early in the week following disappointing results from Citigroup and Bank of America, soft US consumer confidence and inflation data and a downbeat testimony by the Federal Reserve Chairman to Congress. However, risk appetite improved on Thursday after UPS and Caterpillar beat earnings expectations and euro area sentiment indicators rose, leaving equity markets flat over the week. US ten-year government bond prices had rallied earlier in the week, but the positive news flow pared the fall in yields to 6bps. Commodity prices rose and contributed to the Australian dollar closing the week at US\$0.89.

In his testimony to Congress, Federal Reserve Chairman Bernanke acknowledged that the economic outlook is “unusually uncertain” but that the Fed is prepared to undertake further policy stimulus, if warranted. The volatility in financial markets and uncertainty over the US economy's recovery weighed on US consumer confidence in July, with the University of Michigan measure of sentiment falling to its lowest level since August 2009. Labour market conditions remain weak, causing US legislators to extend emergency unemployment compensation as excess capacity within the labour market persists. The slack within the economy continues to exert downward pressure on prices, with consumer prices falling 0.1 percent in June. Core prices were firmer than expected, rising by 0.2 percent in June but year-ended core inflation remains at its lowest level since the mid-1960s. Prospects within the housing market remain weak, with housing starts remaining near historical lows and homebuilder sentiment continuing to fall in July, although existing home sales fell by less than expected in June and house prices rose in May.

Euro area sentiment indicators remain resilient to the recent turmoil in financial markets, with the manufacturing and services PMI surveys rising in July and consumer confidence reaching its highest level in two years. The economic recovery and the weak exchange rate led to a strong rise in industrial new orders in May, although construction output remains soft.

UK household consumption shows signs of improvement, with retail sales rising by 0.7 percent in June, to be nearly 2 percent higher over the quarter. Policymakers however, remain concerned about the downside risks to growth, with the minutes from the UK's Monetary Policy Committee meeting in July revealing that some members argued that domestic and overseas growth prospects had weakened over the month in response to accelerated fiscal consolidation and financial market uncertainty. The members argued that while inflation over the remainder of 2010 would likely be higher than forecast in May, the additional excess capacity would exert further downward pressure on prices in the medium term. Overall however, it was judged that the current stance of monetary policy was appropriate.

In contrast, the minutes from the Reserve Bank of Australia's (RBA) July meeting highlight the dichotomy between Australia and other developed economies. While the ongoing uncertainty in financial markets stemming from the European debt crisis will likely impact US and European growth, domestically, the RBA believes the recovery should remain strong as growth transitions from the public sector to private demand. The recovery in Australia should exert upward pressure on prices, although, contrary to our forecast, the RBA expects underlying inflation to moderate in the June quarter. Rising inflation should lead the RBA to tighten monetary policy, with the market expecting the cash rate to reach 4.75 percent by the end of the year.

Table 1. Financial market movements, 15 - 22 July 2010

Equity markets	Level	Change
MSCI World Index (local currency)	801.9	-0.3%
US - S&P 500	1093.7	-0.3%
Japan - Nikkei	9220.9	-4.8%
UK - FTSE 100	5313.8	2.0%
Germany - DAX	6142.2	-0.1%
France - CAC	3600.6	0.5%
Australia - S&P/ASX 200	4374.7	-1.5%
Fixed interest (10 yr sovereign yields)	Yield	Change
US	2.94%	-5.8 bps
Japan	1.07%	-2.5 bps
UK	3.36%	-1.4 bps
Germany	2.67%	1.2 bps
Australia	5.14%	4.0 bps
Foreign exchange (against USD, NY close)	Rate	Change
Yen	86.95	0.6%
Euro	1.29	0.1%
Sterling	1.53	-0.6%
Australian dollar	0.89	1.8%
Commodity markets	Level	Change
WTI oil price (US\$/barrel)	79.03	3.0%
CRB index	266.86	1.0%
Other	Level	Change
VIX	24.63	-2.0%

Source: Bloomberg

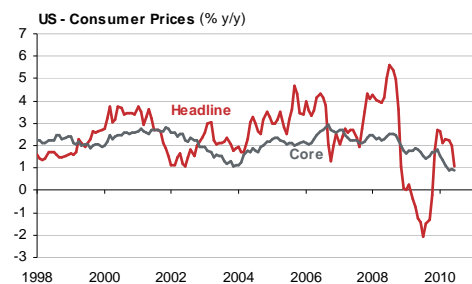
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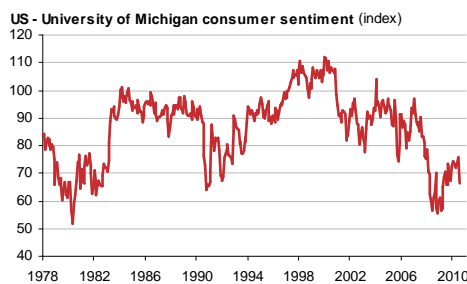
<sup>1</sup> Source: FactSet

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

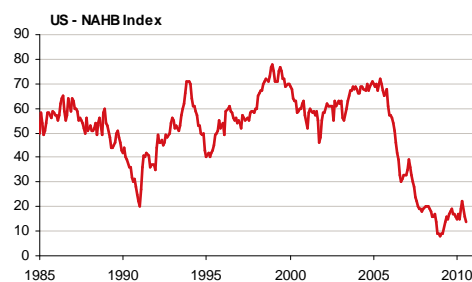
United States



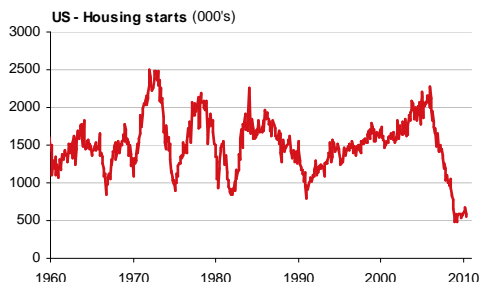
US - Consumer price index (16 July)	Apr-10	May-10	Jun-10	Mkt fcast
Headline (% m/m)	-0.1	-0.2	-0.1	-0.1
Headline (% y/y)	2.2	2.0	1.1	1.2
Core (% m/m)	0.0	0.1	0.2	0.1
Core (% y/y)	0.9	0.9	0.9	0.9
Food and Beverages (% m/m)	0.2	0.0	0.0	-
Housing (% m/m)	-0.1	0.0	-0.1	-
Apparel (% m/m)	-0.7	0.2	0.8	-
Transportation (% m/m)	-0.5	-1.2	-1.0	-
Medical Care (% m/m)	0.2	0.1	0.3	-
Recreation (% m/m)	0.3	0.0	0.1	-
Education and Communication (% m/m)	0.2	0.1	0.1	-
Other Goods and Services (% m/m)	0.0	0.2	0.4	-
Special Indexes: Energy (% m/m)	-1.4	-2.9	-2.9	-



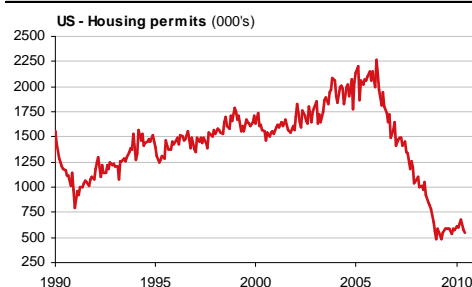
US - University of Michigan (16 July)	May-10	Jun-10	Jul-10	Mkt fcast
Consumer sentiment index	73.6	76.0	66.5	74.0
Current conditions index	81.0	85.6	75.5	-
Consumer expectations index	68.8	69.8	60.6	-
Inflation expectations - 1 year	3.2	2.8	2.9	-
Inflation expectations - 5 year	2.9	2.8	2.9	-



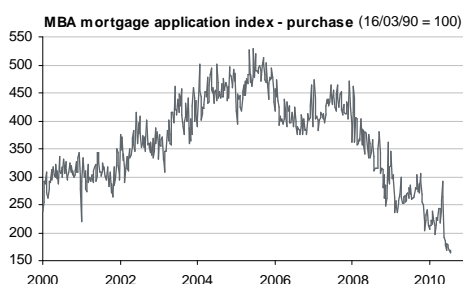
US - NAHB (19 July)	May-10	Jun-10	Jul-10	Mkt fcast
NAHB Housing market index	22.0	16.0	14.0	16.0
Single family sales (sa, index)	23.0	17.0	15.0	-
Single family sales 6mnths expectations (sa, index)	27.0	22.0	21.0	-
Traffic of prospective buyers (sa, index)	16.0	13.0	10.0	-



US - Housing starts (20 July)	Apr-10	May-10	Jun-10	Mkt fcast
Housing starts (000s, saar)	679	578	549	576.0
% m/m	7.1	-14.9	-5.0	-
% y/y	42.3	5.1	-5.8	-



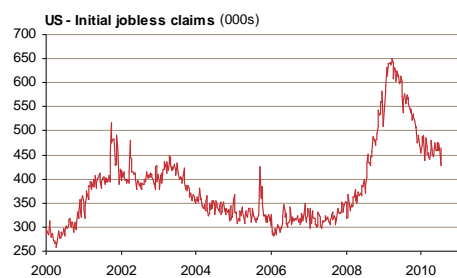
US - Building permits (20 July)	Apr-10	May-10	Jun-10	Mkt fcast
Building permits (000s, saar)	610	574	586	575.0
% m/m	-10.9	-5.9	2.1	-
% y/y	16.6	4.4	-2.3	-



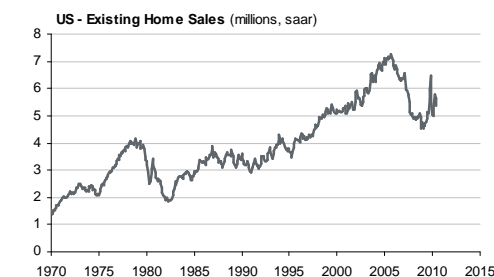
US - Mortgage applications (21 July)	02-07-10	09-07-10	16-07-10	Mkt fcast
Purchase index	168.6	163.3	168.9	-
% w/w	-2.0	-3.1	3.4	-
Refinancing index	3,944.6	3,831.2	4,161.9	-
% w/w	9.2	-2.9	8.6	-
Composite index	721.5	700.3	753.5	-
% w/w	6.7	-2.9	7.6	-

<sup>2</sup> Source: FactSet

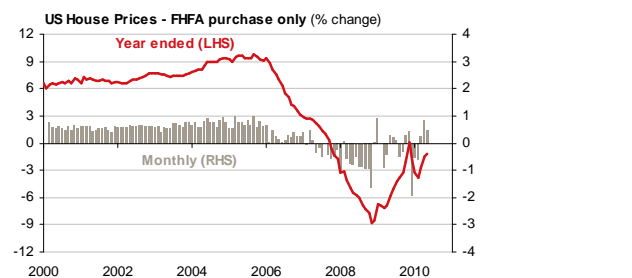
## United States (con'd)



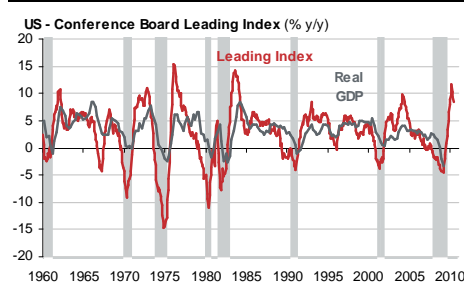
US - Initial claims (22 July)	2/7/10	9/7/10	16/7/10	Mkt f'cast
Continuing claims (000s)	4710.0	4487.0	-	-
Continuing claims (000s, 4wk moving average)	4588.5	4567.0	-	-
Initial jobless claims (000s)	458.0	427.0	464.0	445.0
Initial jobless claims (000s, 4wk moving average)	467.0	454.8	456.0	-



US - Existing home sales (22 July)	Apr-10	May-10	Jun-10	Mkt f'cast
Existing home sales (000s, saar)	5,790	5,660	5,370	5,100
% m/m	8.0	-2.2	-5.1	-
% y/y	23.2	19.2	9.8	-
Units of existing homes available for sale (000s, ar)	4,029	3,893	3,992	-
Months' supply	8.4	8.3	8.9	-

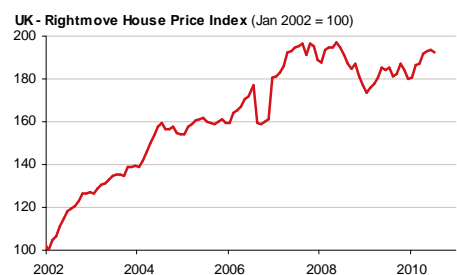


US - FHFA House Prices (22 July)	Mar-10	Apr-10	May-10	Mkt f'cast
FHFA Purchase Only Index (sa, Jan 1991 = 100)	193.4	195.1	196.0	-
% m/m	0.2	0.9	0.5	-0.2
% y/y	-2.7	-1.4	-1.2	-



US - Leading indicator (22 July)	Apr-10	May-10	Jun-10	Mkt f'cast
Leading indicator (sa, index, 2004=100)	109.5	110.0	109.8	-
Leading indicator (sa, m/m%)	-0.1	0.5	-0.2	-0.3
Leading indicator (sa, y/y%)	10.4	9.3	8.4	-

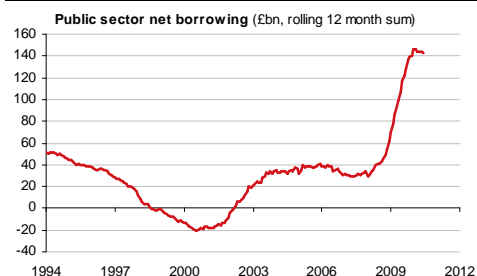
## United Kingdom



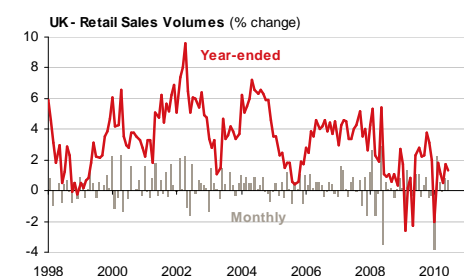
UK - Rightmove house prices (19 July)	May-10	Jun-10	Jul-10	Mkt f'cast
Rightmove house prices (index)	192.9	193.5	192.3	-
Rightmove house prices (nsa, m/m%)	0.7	0.3	-0.6	-
Rightmove house prices (nsa, 3m/3m%)	4.3	4.3	2.4	-
Rightmove house prices (nsa, y/y%)	4.3	5.0	3.7	-



UK - M4 money supply (20 July)	Apr-10	May-10	Jun-10	Mkt f'cast
M4 money supply (y/y%)	3.2	2.8	3.0	2.9



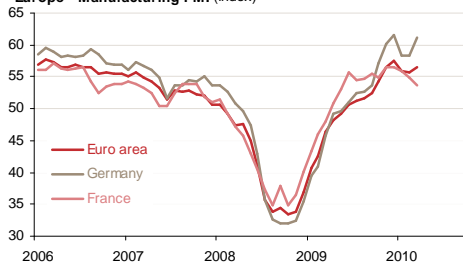
UK - Public finances (20 July)	Apr-10	May-10	Jun-10	Mkt f'cast
Public sector current budget (nsa £ bn)	-7.0	-14.9	-12.6	-
Public sector net investment (nsa £ bn)	1.7	2.1	1.9	-
Public sector net borrowing (nsa £ bn)	8.7	17.1	14.5	13.0
PSNB ex financial interventions (nsa £ bn)	-	-	15.2	-
Public sector net debt (nsa £ bn)	892.7	905.0	926.9	-
% of GDP	62.0	62.6	63.9	-
PSNB ex fin interventions (nsa £ bn)	-	-	813.7	-
% of GDP	-	-	56.1	-
Public sector cash requirement (nsa £ bn)	6.5	14.1	20.9	16.0



UK - Retail sales (22 July)	Apr-10	May-10	Jun-10	Mkt f'cast
All retailing incl. auto fuel (sa, volumes, m/m%)	-0.1	0.8	0.7	0.5
All retailing incl. auto fuel (sa, volumes, y/y%)	0.5	1.7	1.3	1.0
All retailing ex. auto fuel (sa, volumes, m/m%)	-0.3	0.7	1.0	0.6
All retailing ex. auto fuel (sa, volumes, y/y%)	1.6	2.9	3.1	2.4
Predominantly Food Stores (sa, vols, m/m%)	0.3	0.8	0.6	-
Predominantly Non-Food Stores (sa, vols, m/m%)	-0.6	0.6	1.2	-
Non-Specialised Stores (sa, vols, m/m%)	2.0	1.8	1.5	-
Textile, Clothing, and Footwear Stores (sa, vols, m/m%)	0.9	-1.2	1.0	-
Household Goods Stores (sa, vols, m/m%)	-2.1	1.9	1.6	-

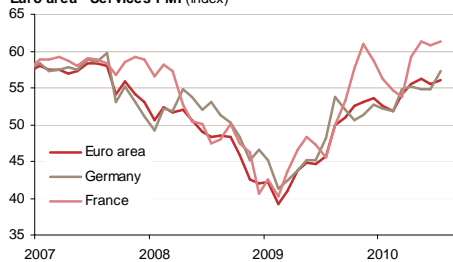
## Euro area

**Euro area - Manufacturing PMI (index)**



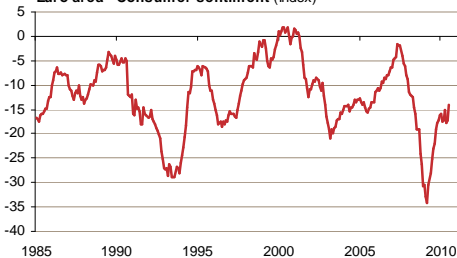
Euro area - Manufacturing PMI (22 July)	May-10	Jun-10	Jul-10	Mkt fcast
Euro area	55.8	55.6	56.5	55.1
Germany	58.4	58.4	61.2	58.0
France	55.8	54.8	53.7	54.1

**Euro area - Services PMI (index)**



Euro area - Services PMI (22 July)	May-10	Jun-10	Jul-10	Mkt fcast
Euro area	56.2	55.5	56.0	55.0
Germany	54.8	54.8	57.3	54.5
France	61.4	60.8	61.3	60.0

**Euro area - Consumer sentiment (Index)**



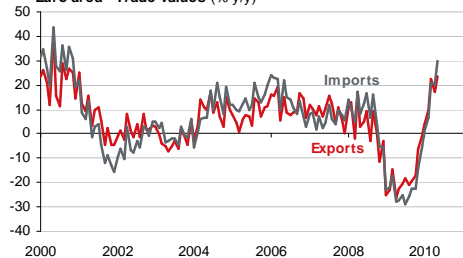
Euro area - Economic Sentiment (22 July)	May-10	Jun-10	Jul-10	Mkt fcast
Consumer Confidence Indicator	-18	-17	-14	-17

**France - INSEE business sentiment (Index)**



France - INSEE business confidence (22 July)	May-10	Jun-10	Jul-10	Mkt fcast
Business confidence indicator (index)	97.0	96.0	98.0	94.0
Production outlook indicator (net balance)	-3.0	-4.0	-2.0	-6.0
Own company production outlook (net balance)	3.0	-7.0	-9.0	-7.0

**Euro area - Trade values (% y/y)**



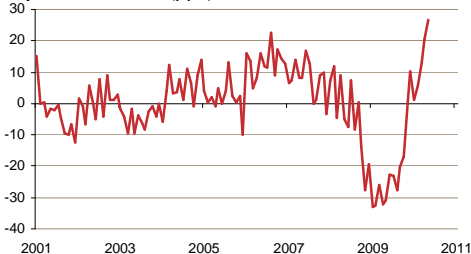
Euro area - Trade balance (16 July)	Mar-10	Apr-10	May-10	Mkt fcast
Trade balance (sa, €bns)	0.3	0.1	-3.0	-
Exports (sa, m/m%)	8.2	-3.1	1.6	-
Exports (nsa, y/y%)	22.6	17.4	23.5	-
Imports (sa, m/m%)	10.2	-3.0	4.2	-
Imports (nsa, y/y%)	20.8	20.1	29.8	-

**Euro area - Construction output (index, 2005 = 100)**



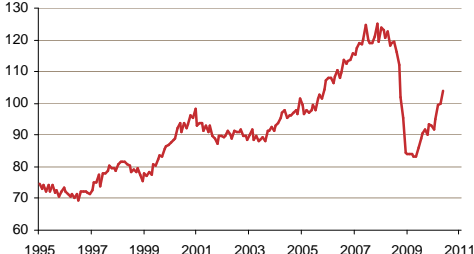
Euro area - Construction output (19 July)	Mar-10	Apr-10	May-10	Mkt fcast
Construction output (sa, m/m%)	6.6	-0.4	-1.0	-
Construction output (nsa, y/y%)	-5.5	-5.7	-6.3	-
Building construction (sa, m/m%)	7.2	-2.0	-1.0	-
Building construction (nsa, y/y%)	-2.7	-5.7	-5.3	-
Civil engineering works (sa, m/m%)	1.1	3.4	-3.1	-
Civil engineering works (nsa, y/y%)	-13.5	-5.9	-9.9	-

**Italy - Industrial orders (y/y%)**



Italy - Industrial orders (20 July)	Mar-10	Apr-10	May-10	Mkt fcast
Industrial orders (sa, m/m%)	1.3	4.8	3.2	0.2
Industrial orders (y/y%)	13.1	20.6	26.6	19.2

**Euro area - Industrial new orders (index, 2000=100)**



Euro area - Industrial new orders (22 July)	Mar-10	Apr-10	May-10	Mkt fcast
Industrial new orders (sa, m/m%)	4.9	0.6	3.8	-0.1
Industrial new orders (sa, y/y%)	18.3	20.5	24.6	20.0