WEEKLY ECONOMIC BRIEF – 28 May 2010

Key Points

- ***Italian and UK governments announce additional austerity measures***
- ***European sentiment indicators remain relatively stable in May***
- ***Private investment in Australia weaker than expected in the March quarter***

Financial markets remain fragile due to ongoing European sovereign default concerns and political speculation within Asia. The general rise in risk aversion, aggravated by emerging strains in the Spanish banking system and rising tensions between North and South Korea, has impacted banks' willingness to lend to one another. However, investor sentiment has been supported by the announcement of additional fiscal consolidation measures by the Italian and UK governments, and Chinese officials rebuffing reports that the government may review its investments in European government bonds. Yields on ten-year government bonds rose and the MSCI World Index (local currency) closed the week 1.9 percent higher, although global equity prices have fallen 7.5 percent since the start of May. The recovery within commodity prices supported the Australian dollar, with the dollar closing at US$0.84.

Despite the uncertainty in financial markets, the OECD upgraded its world growth forecasts and expects global growth of 4.6 percent in 2010. Expected growth in OECD countries has been revised higher from 1.9 percent to 2.7 percent and despite the ongoing European sovereign default concerns, the euro area is expected to expand by 1.2 percent in 2010, compared to the November forecast of 0.9 percent growth.

The recovery in UK economic activity in the March quarter was stronger than initially reported, with the economy expanding by 1.2 percent qsaar (revised from 0.8 percent qsaar). US economic growth in the March quarter was surprisingly revised down from 3.2 percent qsaar to 3.0 percent qsaar following weaker final sales.

The turmoil in financial markets has had a mixed impact on sentiment indicators within the euro area. Services sector PMIs generally pushed higher in May while manufacturing PMIs declined but remain at a level consistent with growth. Business confidence in Germany and France was generally unchanged in May, while Italian business confidence rose to its highest level since mid-2008 as the weaker Euro benefitted exporters. Consumer sentiment indicators have only posted modest declines but incoming economic data points to a weak euro area consumer. German household consumption fell by nearly one percent in the March quarter while there was a sharp pullback in French consumption of manufactured goods in April.

Fiscal stimulus continued to support the Australian economy in the March quarter, with construction work done by the public sector rising by nearly 12 percent. Private sector investment in the March quarter is likely to be weaker than initial expectations following a 3.4 percent fall in private engineering construction and a 6.0 percent decline in machinery and equipment expenditure. Firms have downgraded their capital expenditure (capex) intentions for the 2010-11 financial year, with average realisation ratios implying nominal capex growth of 23 percent, down from 27 percent in the first estimate. Mining companies lowered their investment intentions slightly, with capex expected to increase by 59 percent next financial year, compared to earlier forecasts of 64 percent growth. However, the majority of the survey was conducted prior to the announcement of the Resource Super Profits Tax and the recent turmoil in financial markets.

Table 1. Financial market movements, 20/05/2010 to 27/05/2010[1]

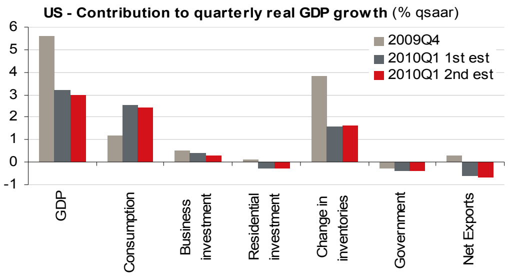
	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	1.9%	-	-
US	2.9%	14.8 bps	-
Japan	-3.9%	-1.0 bps	-1.5%
UK	2.4%	4.9 bps	1.5%
Germany	1.2%	1.9 bps	0.0%
Australia	1.5%	-1.5 bps	3.8%

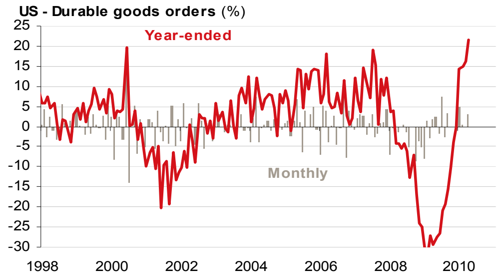
The Weekly Economic Brief is issued by QIC Limited ACN 130 539 123 ("QIC") and is compiled by QIC's Economics & Research Team. For further information about the contents of this document please contact Matthew Peter (Tel +61 7 3020 7060), Drew Klease (Tel +61 7 3020 7059) or Jemma Andrew (Tel +61 7 3020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

[1] Source: Bloomberg

Table 2: Economic charts[2]

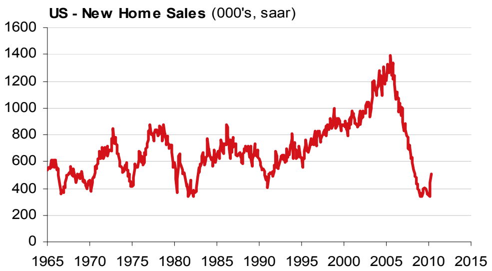
United States

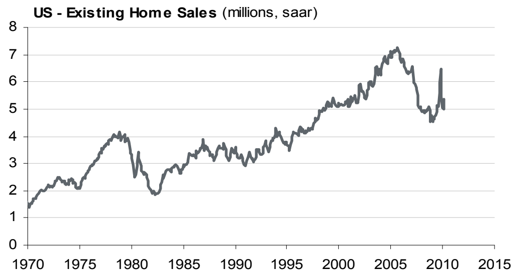




US - National accounts (27 May)	Dec-09	Mar-10 (P)	Mar-10	*Mkt f'cast*
Real GDP (sa, q/q, %)	1.4	0.8	0.8	-
Real GDP (qsaar, %)	5.6	3.2	3.0	*3.4*
Household consumption (qsaar, %)	1.6	3.6	3.5	*3.8*
Government consumption & investment (qsaar, %)	-1.3	-1.8	-1.9	-
Business investment (qsaar, %)	5.0	0.7	0.1	-
Producers equipment and software expenditure (qsaar,	19.0	13.4	12.7	-
Non-residential structures (qsaar, %)	-18.1	-14.0	-15.3	-
Residential investment (qsaar, %)	3.8	-10.9	-10.7	-
Inventories (% pt contribution, qsaar)	3.8	1.6	1.7	-
Net exports (% pt contribution, qsaar)	0.3	-0.6	-0.7	-
Exports (qsaar, %)	22.8	5.8	7.2	-
Imports (qsaar, %)	15.8	8.9	10.4	-
GDP deflator (sa, qar %)	0.5	0.9	1.0	*0.9*
PCE deflator (sa, qar %)	2.5	1.5	1.5	-

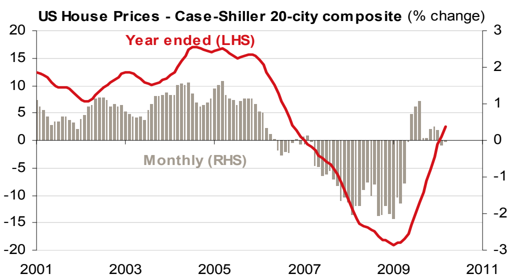
US - Durable goods (26 May)	Feb-10	Mar-10	Apr-10	*Mkt f'cast*
Durable goods (% m/m)				
Orders	0.5	0.0	2.9	*1.3*
Shipments	-1.5	2.1	1.4	-
Capital goods (% m/m)				
Orders	6.9	-5.8	7.4	-
Shipments	0.6	1.9	-0.4	-
Core non-defense capital goods (% mm)				
Orders	3.0	6.5	-2.4	-
Shipments	2.3	2.3	0.2	-

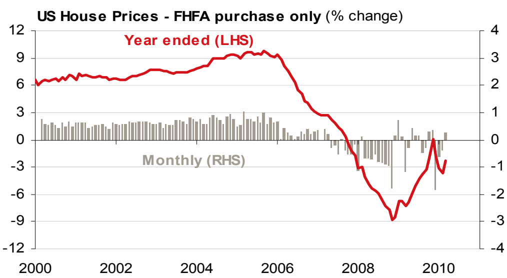




US - New home sales (26 May)	Feb-10	Mar-10	Apr-10	*Mkt f'cast*
New home sales (000s, saar)	338	439	504	*425.0*
% m/m	-3.2	29.9	14.8	-
% y/y	-8.6	25.4	47.8	-
Units of new homes available for sale (000s, ar)	232	227	211	-
Months' supply	8.2	6.2	5.0	-

US - Existing home sales (24 May)	Feb-10	Mar-10	Apr-10	*Mkt f'cast*
Exisitng home sales (000s, saar)	5,010	5,360	5,770	*5,620*
% m/m	-0.8	7.0	7.6	-
% y/y	6.8	16.3	22.8	-
Units of exisitng homes available for sale (000s, ar)	3,531	3,626	4,044	-
Months' supply	8.5	8.1	8.4	-



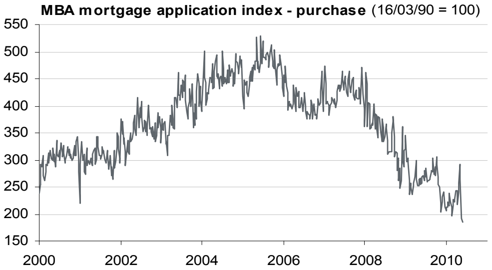


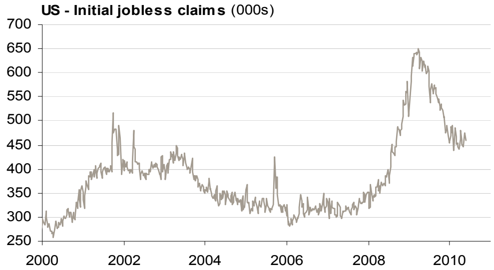
US - S&P/Case Shiller House Prices (25 May)	Jan-10	Feb-10	Mar-10	*Mkt f'cast*
S&P/Case Shiller 20-city composite (sa, Jan 2000 = 10(	146.2	146.0	145.9	-
% m/m	0.3	-0.1	0.0	-
% y/y	-0.7	0.7	2.4	-

US - FHFA House Prices (25 May)	Jan-10	Feb-10	Mar-10	*Mkt f'cast*
FHFA Purchase Only Index (sa, Jan 1991 = 100)	194.1	193.4	193.9	-
% m/m	-0.6	-0.4	0.3	*0.0*
% y/y	-3.2	-3.7	-2.2	-

[2] Source: FactSet

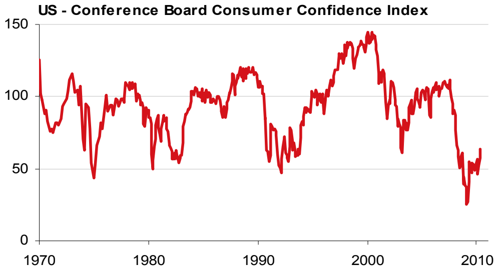
United States (con'd)

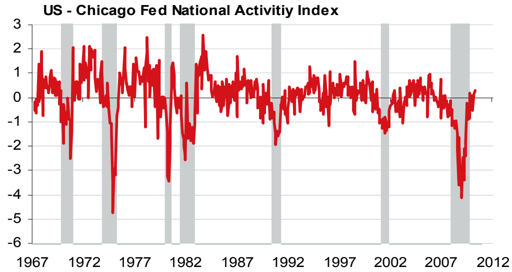




US - Mortgage applications (26 May)	07-05-10	14-05-10	21-05-10	*Mkt f'cast*
Purchase index	263.6	192.1	185.7	-
% w/w	-9.5	-27.1	-3.3	-
Refinancing index	2,430.8	2,783.0	3,257.4	-
% w/w	14.8	14.5	17.0	-
Composite index	578.1	569.2	633.5	-
% w/w	3.9	-1.5	11.3	-

US - Initial claims (27 May)	7/5/10	14/5/10	21/5/10	*Mkt f'cast*
Continuing claims (000s)	4656.0	4607.0	-	-
Continuing claims (000s, 4wk moving average)	4648.8	4637.3	-	-
Initial jobless claims (000s)	446.0	474.0	460.0	*455.0*
Initial jobless claims (000s, 4wk moving average)	450.5	454.3	456.5	-



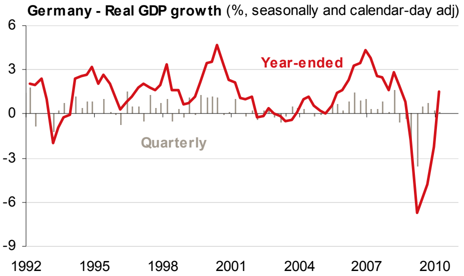


US - Conference Board Confidence (25 May)	Mar-10	Apr-10	May-10	*Mkt f'cast*
Consumer Confidence Index	52.3	57.7	63.3	*58.5*
Present Situation (40%)	25.2	28.2	30.2	-
Expectations (60%)	70.4	77.4	85.3	-
Present Business Conditions				
Good	8.5	8.9	10.0	-
Normal	49.4	51.1	50.7	-
Bad	42.1	40.0	39.3	-
Present Employment Conditions				
Jobs plentiful	4.0	4.7	4.6	-
Jobs not so plentiful	49.7	50.5	51.8	-
Jobs hard to get	46.3	44.8	43.6	-

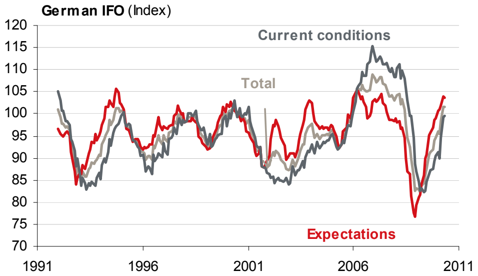
US - Chicago Fed National Activity Index (24 May)	Feb-10	Mar-10	Apr-10	*Mkt f'cast*
National activity index	-0.52	0.13	0.29	-
National activity index (3mma)	-0.29	-0.09	-0.03	-

Euro area

Germany - Real GDP growth (%, seasonally and calendar-day adj)



German IFO (Index)



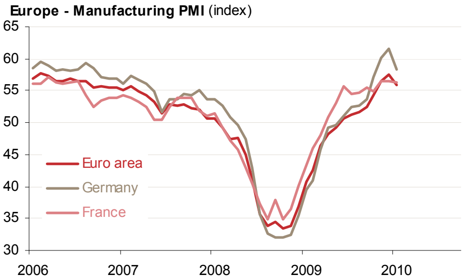
Germany - National Accounts (21 May)	Sep-09	Dec-09	Mar-10	*Mkt f'cast*
Gross Domestic Product (sa, q/q%)	0.7	0.2	0.2	*0.2*
Gross Domestic Product (sa, y/y%)	-4.8	-2.2	1.5	*1.5*
Consumption Expenditure (sa, q/q%)				
Private	-1.3	-0.2	-0.8	-
Households	-1.4	-0.2	-0.9	-
General Government	0.7	-0.2	1.1	-
Trade Balance of Goods and Services (sa, q/q%)				
Exports	3.2	2.3	2.6	-
Imports	4.7	-1.6	6.1	-
Gross Capital Formation (sa, q/q%)				
Gross Fixed Capital Formation	0.8	-1.0	-1.6	-
Machinery Equipment	0.6	-1.5	0.8	-
Construction	0.6	-1.0	-3.8	-
Other Products	3.0	1.6	-0.5	-
Inventories (%pt contribution)	1.5	-1.2	1.9	-
Gross Domestic Demand (sa, q/q%)	1.3	-1.5	1.5	-

Germany - IFO Survey (21 May)	Mar-10	Apr-10	May-10	*Mkt f'cast*
IFO - Business climate index (sa, index)	98.2	101.6	101.5	*101.9*
IFO - Business conditions (sa, index)	94.6	99.3	99.4	*100.0*
IFO - Business expectations (sa, index)	102.0	104.0	103.7	*103.5*

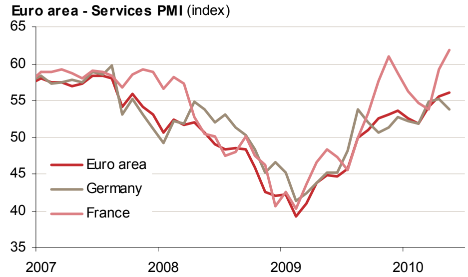
Germany - HICP (27 May)	Mar-10	Apr-10	May-10	*Mkt f'cast*
Headline inflation (nsa, m/m%)	0.6	-0.1	0.1	*0.1*
Headline inflation (nsa, y/y%)	1.2	1.0	1.2	*1.2*

Euro area - Industrial new orders (25 May)	Jan-10	Feb-10	Mar-10	*Mkt f'cast*
Industrial new orders (sa, m/m%)	-1.5	1.9	5.2	*2.5*
Industrial new orders (sa, y/y%)	10.3	12.5	19.2	*15.0*

Europe - Manufacturing PMI (index)



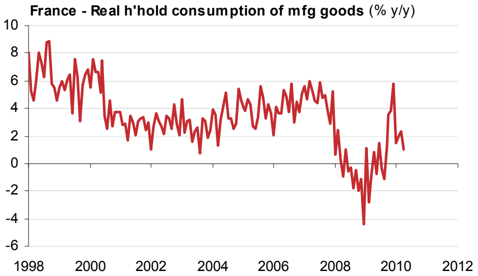
Euro area - Services PMI (index)



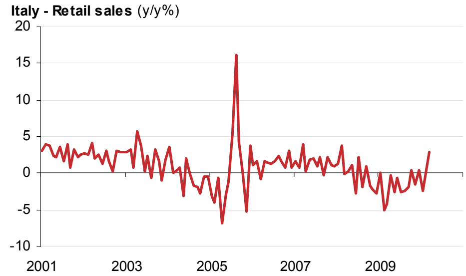
Euro area - Manufacturing PMI (21 May)	Mar-10	Apr-10	May-10	*Mkt f'cast*
Euro area	56.6	57.6	55.9	*57.4*
Germany	60.2	61.5	58.3	*55.6*
France	56.5	56.6	56.2	*56.7*

Euro area - Services PMI (21 May)	Mar-10	Apr-10	May-10	*Mkt f'cast*
Euro area	54.1	55.6	56.0	*55.6*
Germany	54.9	55.2	53.7	*55.4*
France	53.8	59.2	61.9	*59.0*

France - Real h'hold consumption of mfg goods (% y/y)



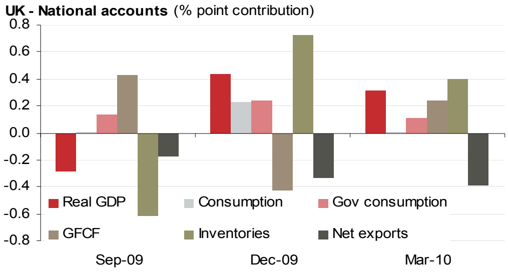
Italy - Retail sales (y/y%)

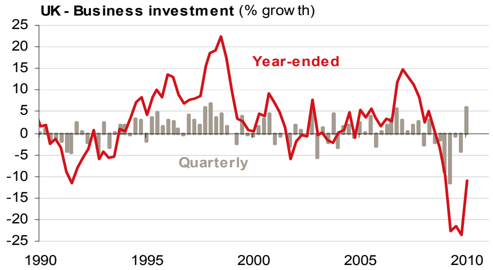


France - Manufactured goods consumption (26 May)	Feb-10	Mar-10	Apr-10	*Mkt f'cast*
Consumption of manufactured goods (sa, m/m%)	-1.6	1.6	-1.2	*-0.5*
Consumption of manufactured goods (sa, y/y%)	1.9	2.3	1.1	*1.4*

Italy - Retail sales (25 May)	Jan-10	Feb-10	Mar-10	*Mkt f'cast*
Retail sales (sa, m/m%)	-0.5	0.1	0.5	*0.1*
Retail sales (sa, y/y%)	-2.4	-0.4	2.9	*-0.5*

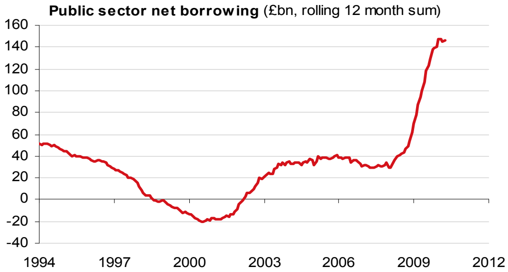
United Kingdom

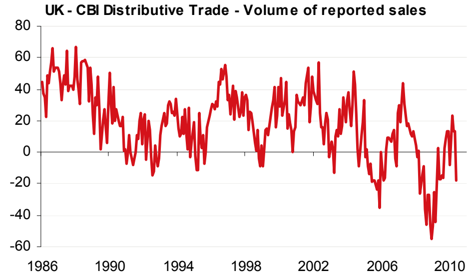




UK - National Accounts (25 May)	Sep-09	Dec-09	Mar-10	*Mkt f'cast*
Real GDP (sa, q/q%)	-0.3	0.4	0.3	*0.3*
Real GDP (sa, y/y%)	-5.3	-3.1	-0.2	*-0.2*
Household consumption (sa, q/q%)	0.0	0.4	0.0	-
Non-profit consumption (sa, q/q%)	-1.6	-1.4	-2.5	-
Government consumption (sa, q/q%)	0.6	1.0	0.5	-
Gross fixed capital formation (sa, q/q%)	2.8	-2.7	1.5	-
Inventories (sa, %pt contribution)	-0.6	0.7	0.4	-
Net exports (sa, %pt contribution)	-0.2	-0.3	-0.4	-
Exports (sa, q/q%)	0.6	3.8	0.0	-
Imports (sa, q/q%)	1.2	4.7	1.4	-

UK - Business investment (21 May)	Sep-09	Dec-09	Mar-10	*Mkt f'cast*
Business investment	-0.8	-4.3	6.0	*-0.6*
Manunfacturing	-11.4	-5.0	-0.9	-
Private	-11.9	-5.2	-1.0	-
Public	-115.4	200.0	50.0	-
Non-manunfacturing	0.4	-4.3	6.7	-
Private other production	4.0	10.9	0.9	-
Private construction	9.2	-23.2	27.9	-
Private distribution services	-2.9	-1.2	3.2	-
Private other services	0.1	-8.5	9.3	-
Public	-1.4	0.6	-3.1	-



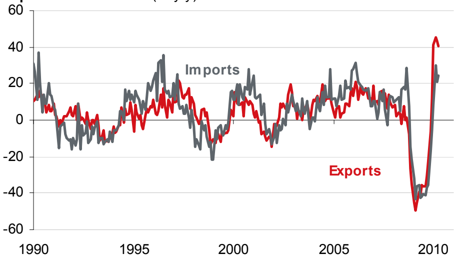


UK - Public finances (21 May)	Feb-10	Mar-10	Apr-10	*Mkt f'cast*
Public sector current budget (nsa £ bn)	-3.0	-8.3	-9.3	-
Public sector net investment (nsa £ bn)	5.7	9.6	0.7	-
Public sector net borrowing (nsa £ bn)	8.7	18.0	10.0	*10.9*
% of GDP (rolling 4qtr avg)	-	10.4	-	-
PSNB ex financial interventions (nsa £ bn)	-	30.2	-	-
% of GDP (rolling 4qtr avg)	-	11.1	-	-
Public sector net debt (nsa £ bn)	865.1	890.0	893.4	-
% of GDP	60.5	62.0	62.1	-
PSND ex fin interventions (nsa £ bn)	-	772	-	-
% of GDP	-	53.8	-	-
Public sector cash requirement (nsa £ bn)	8.2	25.6	8.8	*7.0*

UK - CBI Distributive Trades (27 May)	Mar-10	Apr-10	May-10	*Mkt f'cast*
Expected Orders (net balance)	15.0	6.0	8.0	-
Expected Sales (net balance)	16.0	14.0	17.0	-
Expected Stocks/Sales (net balance)	9.0	2.0	3.0	-
Reported Sales (net balance)	13.0	13.0	-18.0	-
Reported Stocks/Sales (net balance)	6.0	6.0	13.0	-

Japan

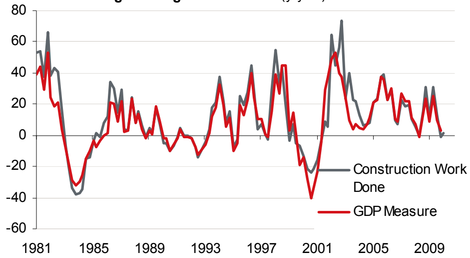
Japan - Trade values (% y/y)



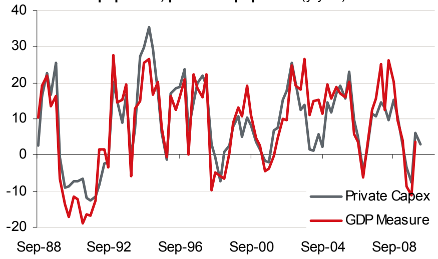
Japan - External trade (27 May)	Feb-10	Mar-10	Apr-10	*Mkt f'cast*
Export values (nsa, % y/y)	45.4	43.5	40.4	-
Import values (nsa, % y/y)	30.0	21.1	24.2	-

Australia

Australia - Engineering Construction (y/y %)



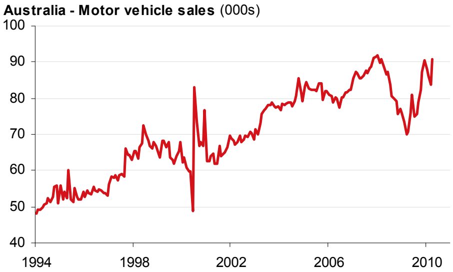
Australia - Equipment, plant & equipment (y/y %)



Australia - Construction work done (26 May)	Sep-09	Dec-09	Mar-10	*Mkt f'cast*
Construction work done - total (sa, q/q%)	0.9	-0.2	1.9	*4.0*
Construction work done - total (sa, y/y%)	5.0	0.7	5.6	-
Private (sa, q/q%)	-3.3	-1.6	-2.2	-
Public (sa, q/q%)	13.1	3.4	11.8	-
Building work done - total (sa, q/q%)	0.2	4.3	4.4	-
Building work done - total (sa, y/y%)	-6.4	-2.0	4.8	
Private (sa, q/q%)	-2.6	-0.5	-1.2	-
Public (sa, q/q%)	20.0	30.8	27.9	-
Engineering construction - total (sa, q/q%)	1.4	-4.1	-0.4	-
Engineering construction - total (sa, y/y%)	17.7	3.4	6.4	-
Private (sa, q/q%)	-4.0	-2.9	-3.4	-
Public (sa, q/q%)	11.0	-6.0	4.2	-

Australia - Private capex (27 May)	Sep-09	Dec-09	Mar-10	*Mkt f'cast*
Private capital expenditure (sa, q/q%)	-4.4	6.1	-0.2	*2.5*
Private capital expenditure (sa, y/y%)	-2.8	-2.8	1.0	-
Mining industries (sa, q/q%)	-2.0	-0.5	2.6	-
Manufacturing industries (sa, q/q%)	-10.2	12.0	-14.7	-
Other selected industries (sa, q/q%)	-4.7	8.8	1.1	-
Building and structures (sa, q/q%)	-8.2	-0.6	6.7	-
Equipment, plant and machinery (sa, q/q%)	-0.5	12.5	-6.0	-

Australia - Motor vehicle sales (000s)



Australia - Motor vehicle sales (24 May)	Feb-10	Mar-10	Apr-10	*Mkt f'cast*
Motor vehicle sales (sa, m/m%)	-1.8	-2.8	8.4	-
Motor vehicle sales (sa, y/y%)	17.4	19.6	28.7	-
Passenger vehicle sales (sa, m/m%)	0.3	0.7	7.8	-
Passenger vehicle sales (sa, y/y%)	12.7	20.3	27.9	-
Sports utility vehicles (sa, m/m%)	-0.1	-6.2	16.1	-
Sports utility vehicles (sa, y/y%)	32.3	30.4	46.5	-
Other vehicle sales (sa, m/m%)	-8.7	-8.6	1.9	-
Other vehicle sales (sa, y/y%)	16.8	7.8	14.0	-