

WEEKLY ECONOMIC BRIEF – 30 April 2010

Key Points

- *Standard & Poors downgrades Greek, Portuguese and Spanish credit ratings*
- *Asia continues to lead the global recovery, with the Korean and Singaporean economies expanding strongly in Q1*
- *Inflationary pressures in Australia increase, leading to increased speculation that the RBA will hike at its May meeting*

The Standard & Poors (S&P) downgrade of Greek, Portuguese and Spanish credit ratings ensured sovereign debt concerns remained the dominant theme in asset markets this week. S&P downgraded Greece's credit rating to junk status, cutting the rating from BBB+ to BB+. Portugal and Spain retained their investment grade status, with their ratings cut to A- (from A+) and AA (from A-), respectively. As the situation intensified, the Greek government formally requested that the €45bn IMF/EU aid package be activated. The developments led to a flight to quality assets after EU member states, in particular Germany, showed opposition to passing the package. However, sentiment improved towards the end of the week following reports that the EU member states are close to passing the package. Financial markets finished the week relatively flat, with the exception of the peripheral European markets.

Incoming economic data continues to point to recovery within the US economy. New home sales rose by nearly 27 percent as the expiration of the tax credit for first homebuyers draws closer and poor weather conditions hampered activity at the start of the year. Mortgage demand has also been increasing recently, with applications in April rising to their highest level in six months. However, with vacancy rates elevated, pricing pressure remains soft, with the S&P Case Shiller house price index falling in February. Prospects for business investment continue to improve, driven by the strong recovery in profitability, with core non-defence capital goods orders rising by 1.3 percent in the March quarter. The Conference Board measure of consumer confidence rose strongly in April, but remains significantly below its long-run average. While activity has been improving, the Federal Reserve reaffirmed its view that the slack within the economy is *"likely to warrant exceptionally low levels of the federal funds rates for an extended period."*

While Greece's financial woes have weighed on European markets, the incoming economic dataflow points to an improvement in activity in the region. Euro area industrial new orders for February were stronger than forecast following the weather-related decline in January, while the German IFO survey surprised commentators, with the expectations component now only slightly below its series high.

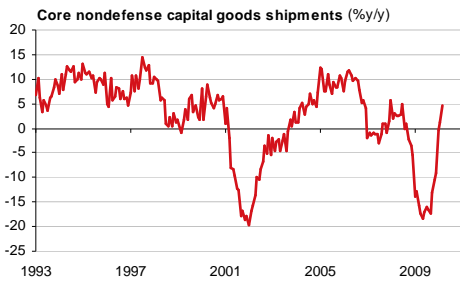
The UK economy continues to lag the global recovery after poor weather conditions and the increase in the Value-Added Tax (VAT) weighed on activity in the March quarter. Real GDP rose for the second consecutive quarter, expanding by 0.2 percent, but remains 5.6 percent below its cyclical peak. In contrast, the Asian region continues to lead the global upswing, with GDP growth in both Singapore and Korea exceeding expectations in the March quarter. Real GDP in Singapore rose by 8 percent over the quarter, following a fall in the December quarter, while the Korean economy expanded by 1.8 percent due to strong growth in exports and government consumption.

The recovery within Australia led to rising inflationary pressures during the March quarter, with headline consumer price inflation accelerating to the top end of the Reserve Bank of Australia's (RBA) 2-3 percent inflation target band. Consumer prices rose by 0.9 percent over the quarter to 2.9 percent annually, while underlying measures of inflation increased by 0.8 percent for the quarter but fell to around 3 percent in year-ended terms. This outcome was stronger than expected by the market and the RBA, leading the market to raise the probability of an RBA rate increase at next week's meeting to greater than 50%.

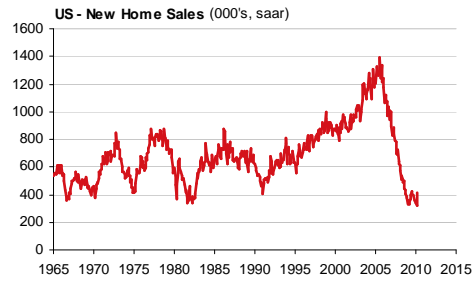
Table 1. Financial market movements, 22/04/2010 to 29/04/2010

| | Equity markets | Fixed interest (10 yr sovereign yields) | Exchange Rates (against USD, NY close) |
|-----------------------------------|----------------|--|---|
| MSCI World Index (local currency) | -0.6% | - | - |
| US | -0.2% | -4.8 bps | - |
| Japan | -0.2% | -3.2 bps | -0.6% |
| UK | -0.8% | -3.7 bps | -0.3% |
| Germany | -0.4% | 1.0 bps | -0.4% |
| Australia | -2.5% | -6.8 bps | 0.0% |

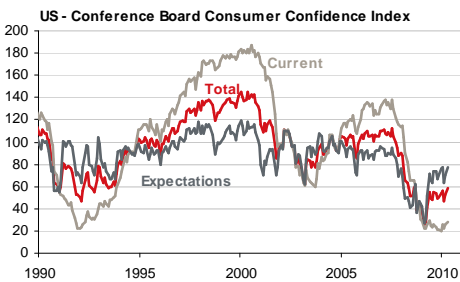
United States



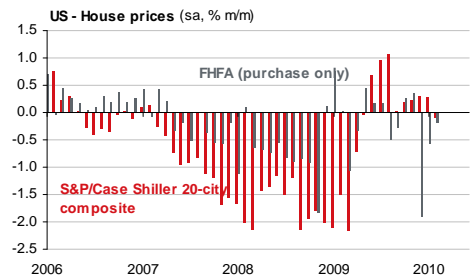
| US - Durable goods (23 April) | Jan-10 | Feb-10 | Mar-10 | Mkt f'cast |
|---------------------------------------|--------|--------|--------|------------|
| Durable goods (% m/m) | | | | |
| Orders | 3.8 | 1.1 | -1.3 | 0.2 |
| Shipments | -0.1 | -0.5 | 1.2 | - |
| Capital goods (% m/m) | | | | |
| Orders | 7.8 | 4.1 | -7.0 | - |
| Shipments | -2.4 | -0.1 | 2.2 | - |
| Core non-defense capital goods (% mm) | | | | |
| Orders | -4.4 | 2.1 | 4.0 | - |
| Shipments | -1.9 | 1.5 | 2.2 | - |



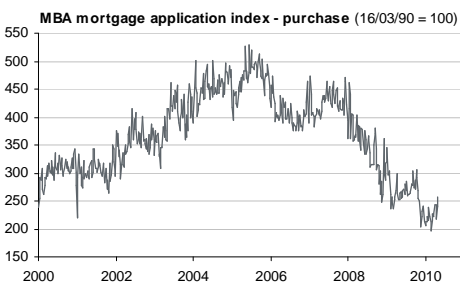
| US - New home sales (23 April) | Jan-10 | Feb-10 | Mar-10 | Mkt f'cast |
|--|--------|--------|--------|------------|
| New home sales (000s, saar) | 338 | 324 | 411 | 325.0 |
| % m/m | -4.2 | -4.1 | 26.9 | - |
| % y/y | 2.7 | -8.5 | 23.8 | - |
| Units of new homes available for sale (000s, ar) | 232 | 233 | 228 | - |
| Months' supply | 8.2 | 8.6 | 6.7 | - |



| US - Conference Board Confidence (27 April) | Feb-10 | Mar-10 | Apr-10 | Mkt f'cast |
|---|--------|--------|--------|------------|
| Consumer Confidence Index | 46.4 | 52.3 | 57.9 | 53.5 |
| Present Situation (40%) | 21.7 | 25.2 | 28.6 | - |
| Expectations (60%) | 62.9 | 70.4 | 77.4 | - |
| <i>Present Business Conditions</i> | | | | |
| Good | 6.8 | 8.5 | 9.1 | - |
| Normal | 48.1 | 49.4 | 50.7 | - |
| Bad | 45.1 | 42.1 | 40.2 | - |
| <i>Present Employment Conditions</i> | | | | |
| Jobs plentiful | 4.0 | 4.0 | 4.8 | - |
| Jobs not so plentiful | 48.7 | 49.7 | 50.2 | - |
| Jobs hard to get | 47.3 | 46.3 | 45.0 | - |



| US - S&P/Case Shiller House Prices (27 April) | Dec-09 | Jan-10 | Feb-10 | Mkt f'cast |
|---|--------|--------|--------|------------|
| S&P/Case Shiller 20-city (sa, Jan 2000 = 100) | 145.8 | 146.2 | 146.1 | - |
| % m/m | 0.3 | 0.3 | -0.1 | - |
| % y/y | -3.1 | -0.7 | 0.7 | 1.3 |



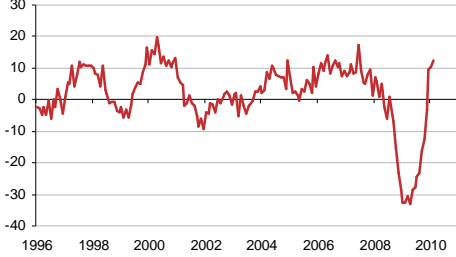
| US - Mortgage applications (28 April) | 09-04-10 | 16-04-10 | 23-04-10 | Mkt f'cast |
|---------------------------------------|----------|----------|----------|------------|
| Purchase index | 218.0 | 240.1 | 257.9 | - |
| % w/w | -10.5 | 10.1 | 7.4 | - |
| Refinancing index | 2,047.1 | 2,371.0 | 2,161.8 | - |
| % w/w | -9.0 | 15.8 | -8.8 | - |
| Composite index | 484.6 | 550.5 | 534.6 | - |
| % w/w | -9.6 | 13.6 | -2.9 | - |



| US - Initial claims (29 April) | 9/4/10 | 16/4/10 | 23/4/10 | Mkt f'cast |
|---|--------|---------|---------|------------|
| Continuing claims (000s) | 4663.0 | 4645.0 | - | - |
| Continuing claims (000s, 4wk moving average) | 4648.0 | 4639.0 | - | - |
| Initial jobless claims (000s) | 480.0 | 459.0 | 448.0 | 445.0 |
| Initial jobless claims (000s, 4wk moving average) | 457.5 | 461.0 | 462.5 | - |

Euro area

Euro area - Industrial new orders (y/y%)



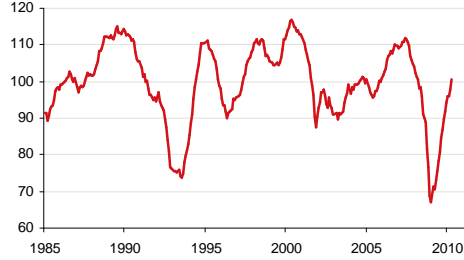
| Euro area - Industrial new orders (23 April) | Dec-09 | Jan-10 | Feb-10 | Mkt f'cast |
|--|--------|--------|--------|------------|
| Industrial new orders (sa, m/m%) | 0.6 | -1.6 | 1.5 | - |
| Industrial new orders (sa, y/y%) | 9.7 | 10.4 | 12.2 | 11.2 |

Euro area - M3 money supply (y/y%)



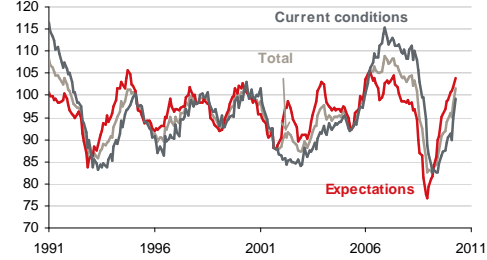
| Euro area - M3 (29 April) | Jan-10 | Feb-10 | Mar-10 | Mkt f'cast |
|---------------------------|--------|--------|--------|------------|
| M3 money growth (y/y%) | 0.1 | -0.3 | -0.1 | -0.1 |

Euro area - Economic Sentiment Indicator (index)



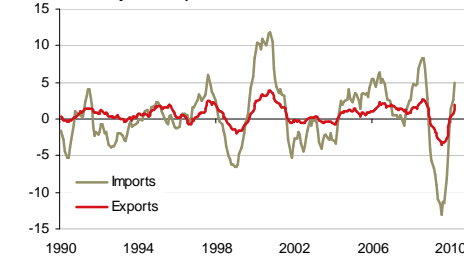
| Euro area - Economic Sentiment (29 April) | Feb-10 | Mar-10 | Apr-10 | Mkt f'cast |
|---|--------|--------|--------|------------|
| Economic Sentiment Indicator (Index) | 95.9 | 97.9 | 100.6 | 99.4 |
| Industrial Confidence Indicator (40%) | -12.8 | -9.9 | -7.3 | -8.0 |
| Services Indicator (30%) | 0.8 | 1.3 | 5.4 | 3.0 |
| Consumer Confidence Indicator (20%) | -17.4 | -17.3 | -15.0 | -15.0 |
| Retail Trade Confidence Indicator (5%) | -8.5 | -6.3 | -1.3 | - |
| Construction Confidence Indicator (5%) | -28.5 | -24.6 | -24.6 | - |

German IFO (Index)



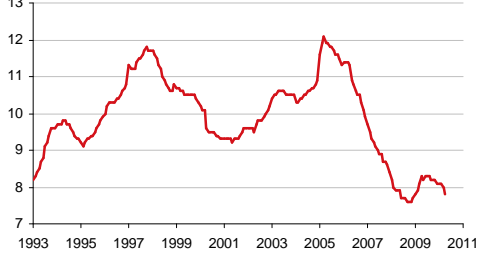
| Germany - IFO Survey (23 April) | Feb-10 | Mar-10 | Apr-10 | Mkt f'cast |
|--|--------|--------|--------|------------|
| IFO - Business climate index (sa, index) | 95.3 | 98.2 | 101.6 | 98.7 |
| IFO - Business conditions (sa, index) | 89.9 | 94.5 | 99.3 | 95.3 |
| IFO - Business expectations (sa, index) | 100.9 | 102.0 | 104.0 | 102.1 |

Germany - Trade prices (y/y%)



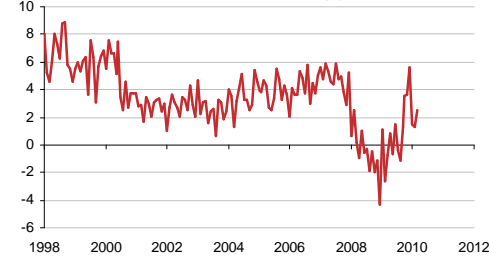
| Germany - Trade prices (27 April) | Jan-10 | Feb-10 | Mar-10 | Mkt f'cast |
|-----------------------------------|--------|--------|--------|------------|
| Import price index (m/m%) | 1.7 | 1.0 | 1.7 | 1.1 |
| Import price index (y/y%) | 1.4 | 2.6 | 4.9 | 4.2 |
| Export price index (m/m%) | 0.6 | 0.4 | 0.8 | - |
| Export price index (y/y%) | 0.4 | 0.8 | 2.0 | - |

Germany - Unemployment rate (%)



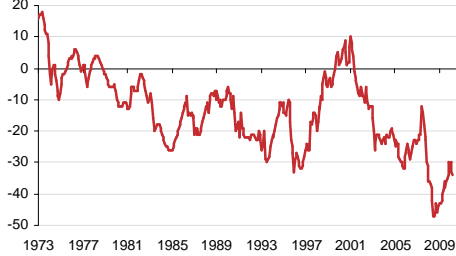
| Germany - Labour market (29 April) | Feb-10 | Mar-10 | Apr-10 | Mkt f'cast |
|------------------------------------|--------|--------|--------|------------|
| Unemployment rate (sa, %) | 8.1 | 8.0 | 7.8 | 8.0 |
| Employment (sa, 000s, change) | -1.0 | 10.0 | - | - |
| Employment (sa, m/m%) | 0.0 | 0.0 | - | - |
| Employment (sa, y/y%) | -0.3 | -0.2 | - | - |

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



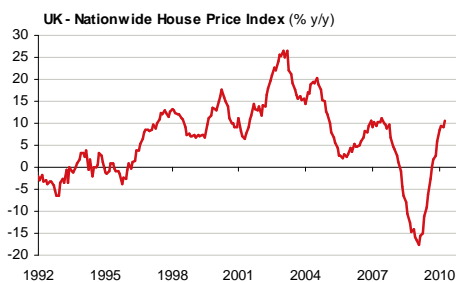
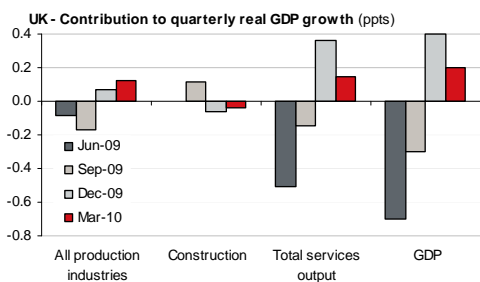
| France - Manufactured goods consumption (23 April) | Jan-10 | Feb-10 | Mar-10 | Mkt f'cast |
|--|--------|--------|--------|------------|
| Consumption of manufactured goods (sa, m/m%) | -2.5 | -1.4 | 1.2 | 0.8 |
| Consumption of manufactured goods (sa, y/y%) | 1.5 | 1.3 | 2.5 | 2.1 |

France - Consumer confidence (net balance)



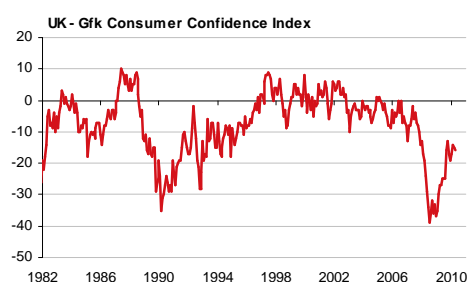
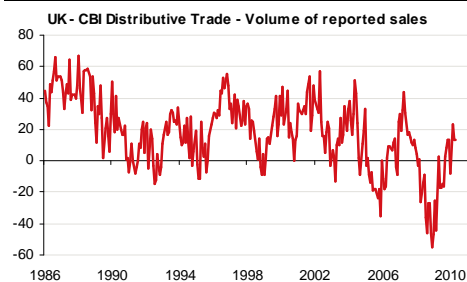
| France - INSEE consumer confidence (27 April) | Feb-10 | Mar-10 | Apr-10 | Mkt f'cast |
|---|--------|--------|--------|------------|
| Consumer confidence (net balance, sa) | -33.0 | -34.0 | -36.5 | -33.0 |

United Kingdom



| UK - Production GDP (23 April) | Sep-09 | Dec-09 | Mar-10 | Mkt f'cast |
|---|--------|--------|--------|------------|
| Agriculture, Forestry and Fishery (sa, q/q%) | -1.7 | -1.4 | -1.1 | - |
| Mining & quarrying (sa, q/q%) | -6.0 | 0.3 | -0.7 | - |
| Manufacturing (sa, q/q%) | -0.3 | 0.8 | 0.7 | - |
| Electricity, gas & water supply (sa, q/q%) | 0.2 | -2.7 | 2.5 | - |
| All production industries (sa, q/q%) | -1.0 | 0.4 | 0.7 | - |
| Construction (sa, q/q%) | 1.9 | -1.0 | -0.7 | - |
| Distribution, hotels & catering; repairs (sa, q/q%) | 1.1 | 1.9 | -0.7 | - |
| Transport storage & communication (sa, q/q%) | 0.8 | 0.6 | 0.7 | - |
| Business services & finance (sa, q/q%) | -1.2 | 0.4 | 0.6 | - |
| Government & other services (sa, q/q%) | -0.1 | -0.1 | 0.0 | - |
| Total services output (sa, q/q%) | -0.2 | 0.5 | 0.2 | - |
| GDP (sa, q/q%) | -0.3 | 0.4 | 0.2 | 0.4 |
| GDP (sa, y/y%) | -5.3 | -3.1 | -0.3 | -0.1 |
| GVA ex oil (sa, q/q%) | -0.1 | 0.4 | 0.2 | - |

| UK - Nationwide house prices (29 April) | Feb-10 | Mar-10 | Apr-10 | Mkt f'cast |
|---|--------|--------|--------|------------|
| Nationwide house prices (index) | 327.2 | 330.6 | 334.0 | - |
| Nationwide house prices (nsa, m/m%) | -1.0 | 1.0 | 1.0 | 0.4 |
| Nationwide house prices (nsa, 3m/3m%) | 1.7 | 1.5 | 1.1 | - |
| Nationwide house prices (nsa, y/y%) | 9.3 | 9.1 | 10.6 | 9.7 |

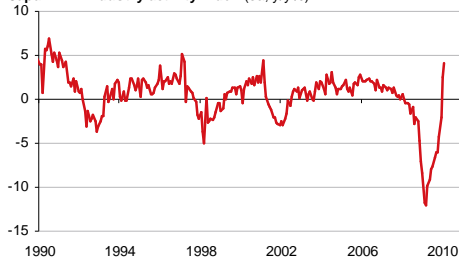


| UK - CBI Distributive Trades (27 April) | Feb-10 | Mar-10 | Apr-10 | Mkt f'cast |
|---|--------|--------|--------|------------|
| Expected Orders (net balance) | -3.0 | 15.0 | 6.0 | - |
| Expected Sales (net balance) | -1.0 | 16.0 | 14.0 | - |
| Expected Stocks/Sales (net balance) | 9.0 | 9.0 | 2.0 | - |
| Reported Orders (net balance) | 12.0 | 7.0 | 1.0 | - |
| Reported Sales (net balance) | 23.0 | 13.0 | 13.0 | - |
| Reported Stocks/Sales (net balance) | 14.0 | 6.0 | 6.0 | - |

| UK - Gfk Consumer confidenc (29 April) | Feb-10 | Mar-10 | Apr-10 | Mkt f'cast |
|--|--------|--------|--------|------------|
| GfK consumer confidence (net balance) | -14.0 | -15.0 | -16.0 | -15.0 |

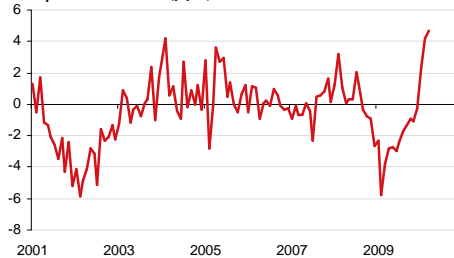
Japan

Japan - All industry activity index (sa, y/y%)



| Japan - All industry activity index (23 April) | Dec-09 | Jan-10 | Feb-10 | Mkt f'cast |
|--|--------|--------|--------|------------|
| All industrial activity index (sa, m/m%) | -0.3 | 3.4 | -2.3 | -1.6 |
| All industrial activity index (sa, y/y%) | -2.1 | 2.5 | 4.1 | - |

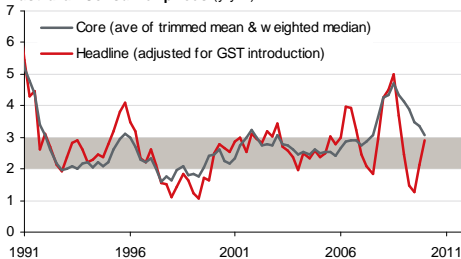
Japan - Retail sales (y/y%)



| Japan - Retail sales (28 April) | Jan-10 | Feb-10 | Mar-10 | Mkt f'cast |
|---------------------------------|--------|--------|--------|------------|
| Retail sales (sa, m/m%) | 2.0 | 0.9 | 0.8 | -0.6 |
| Retail sales (nsa, y/y%) | 2.3 | 4.2 | 4.7 | 3.6 |

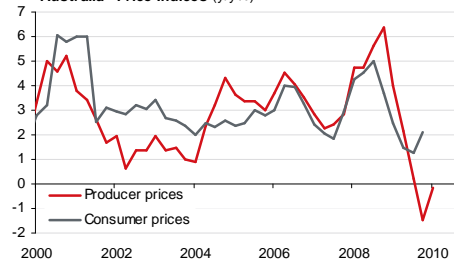
Australia

Australia - Consumer prices (y/y%)



| Australia - Consumer prices (28 April) | Sep-09 | Dec-09 | Mar-10 | Mkt f'cast |
|---|--------|--------|--------|------------|
| Headline (q/q%) | 1.0 | 0.5 | 0.9 | 0.8 |
| Headline (y/y%) | 1.3 | 2.1 | 2.9 | 2.8 |
| Trimmed mean (q/q%) | 0.8 | 0.6 | 0.8 | - |
| Trimmed mean (y/y%) | 3.2 | 3.2 | 3.0 | - |
| Weighted median (q/q%) | 0.8 | 0.7 | 0.8 | - |
| Weighted median (y/y%) | 3.7 | 3.6 | 3.1 | - |
| Headline ex housing & financial & insurance services (q/q%) | 0.4 | 0.4 | 0.6 | - |
| Headline ex volatile items (q/q%) | 1.0 | 0.5 | 0.8 | - |
| Non tradables (q/q%) | 1.5 | 0.8 | 1.5 | - |
| Tradables (q/q%) | 0.2 | 0.1 | 0.2 | - |

Australia - Price Indices (y/y%)



| Australia - Producer Prices (27 April) | Sep-09 | Dec-09 | Mar-10 | Mkt f'cast |
|--|--------|--------|--------|------------|
| Final stage headline (q/q%) | 0.1 | -0.4 | 1.0 | 0.6 |
| Final stage headline (y/y%) | 0.2 | -1.5 | -0.1 | -0.6 |
| Domestic (q/q%) | 1.0 | 0.3 | 1.0 | - |
| Imported (q/q%) | -5.1 | -5.2 | 1.4 | - |
| Intermediate stage headline (q/q%) | -0.6 | -0.9 | 1.2 | - |
| Domestic (q/q%) | -0.6 | -0.4 | 1.3 | - |
| Imported (q/q%) | -1.0 | -3.9 | 0.4 | - |
| Preliminary stage headline (q/q%) | -0.5 | -0.8 | 1.0 | - |
| Domestic (q/q%) | -0.9 | -0.3 | 1.1 | - |
| Imported (q/q%) | 2.2 | -3.2 | 0.1 | - |

Australia - Terms of Trade - Goods (index)



| Australia - Trade prices - Goods (23 April) | Sep-09 | Dec-09 | Mar-10 | Mkt f'cast |
|---|--------|--------|--------|------------|
| Terms of trade - goods (q/q%) | -6.8 | 2.8 | 3.5 | - |
| Terms of trade - goods (y/y%) | -18.9 | -20.3 | -15.9 | - |
| Export prices (q/q%) | -9.6 | -1.7 | 3.8 | 3.9 |
| Export prices (y/y%) | -20.7 | -32.7 | -26.8 | - |
| Import prices (q/q%) | -3.0 | -4.3 | 0.3 | -1.4 |
| Import prices (y/y%) | -2.3 | -15.5 | -12.9 | - |