

**ECONOMIC STATISTICS SUMMARY**

Country	Cash Rate		Inflation Rate (%)		Unemployment Rate (%)		GDP Annual Growth (%)	
	Latest	Last Change	Latest	Month	Latest	Month	Past Year	Last Update
Australia	4.75	+0.25 (Nov-10)	2.80	↓ Oct-10	5.10	Sep-10	3.30	↔Aug-10
USA	0.25	-0.75 (Nov-08)	1.10	↓ Oct-10	9.60	Sep-10	3.10	↑Sep-10
Japan	0.10	-0.20 (Nov-08)	-0.60	↑ Oct-10	5.10	Sep-10	2.40	↔Aug-10
UK	0.50	-0.50 (Feb-09)	4.60	↓ Oct-10	7.80	Aug-10	2.80	↑Sep-10
China	5.56	+0.25 (Oct-10)	3.60	↑ Oct-10	NA	NA	9.60	↓Sep-10

**AUSTRALIAN ECONOMIC COMMENTARY**

On November 3, amidst the excitement of the Melbourne Cup, the RBA snuck in a rate rise of 25 basis points, finally raising the official cash rate to 4.75%. This followed months of speculation that they would raise rates. The RBA decision was intended as a pre-emptive move to head off inflation *before* it rises. Whilst growth figures remain on trend, other indicators such as wages growth are starting to rise. Moreover, the commodities boom continues and Australia's terms of trade are likely to remain high in the foreseeable future. All of this amounts to an economy that has been contained, but is likely to boil over soon. By moving early, the RBA hopes to avoid an expansionary shock.

Other indicators for the domestic economy remain strong overall. In September, we saw the sixth consecutive trade surplus with another surge in export earnings which will no doubt boost profits, employment and investment spending. Early indicators suggest that commodity prices will remain strong, sustaining the high terms of trade. That said, softer than expected retail figures will almost certainly reduce the risk of further rate hikes this year. Factoring in falling building approvals and cooling house prices, we can see a pattern of low domestic demand countered against high offshore demand. This is the opposite to the Chinese expansion which is largely derived from internal demand. This data suggests that we are still very much an economy running at two different speeds.

**GLOBAL ECONOMIC COMMENTARY**

This month the US Fed decided to 'print more money' embarking on a second round of quantitative easing measures, colloquially dubbed 'QE2'. Whilst economists are enjoying throwing lots of sailing analogies into the breeze, this is a risky strategy. The primary aim of the measure which involves US\$900bn of asset repurchases, is in simple terms, to head off deflation by artificially inflating asset prices. It may well achieve this aim and having already raised the Dow Jones to a two year high. But the \$900bn dollar question is - will raising asset prices actually stimulate the economy?

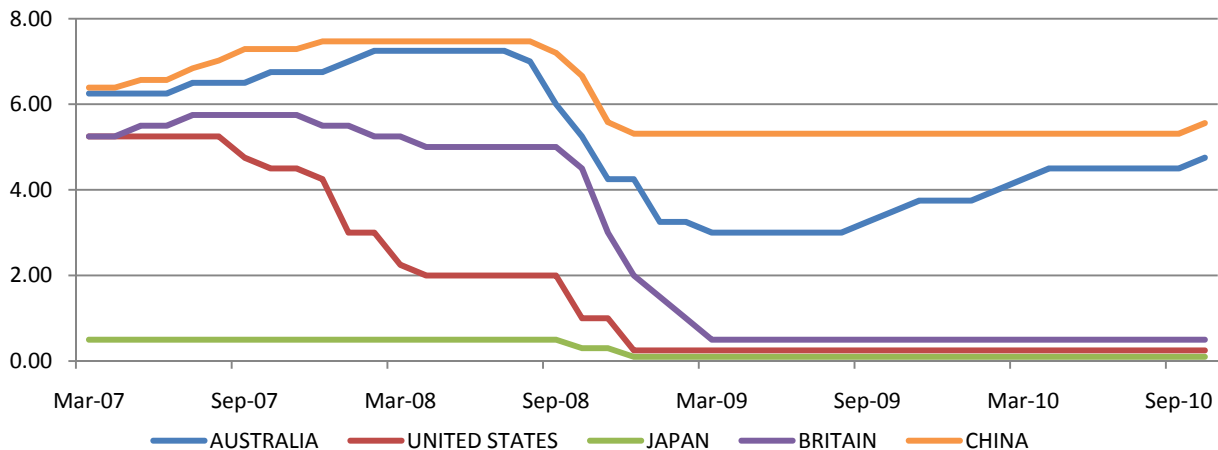
Some economists have likened these measures to revving the boat's engine, but the boat goes nowhere. This is probably a sound analogy. Raising asset prices may induce homeowners into refinancing homes, and purchasing risk assets such as equities. In other words, it creates an illusion of wealth. This 'wealth effect' encourages consumers to spend and increases consumer and business confidence. This is what the Fed wants - a jumpstart to the economy. But let's not forget that the bursting housing bubble that precipitated the GFC was also built on artificially inflated asset prices. House prices rose sharply on the back of cheap and easily available credit which led consumers and corporations to leverage themselves to dangerously high levels, without the driver of underlying strong economic growth. Will this create another bubble that bursts?

The biggest problem in the US is still unemployment. Raising asset prices may not create the economic growth that stimulates employment. Could employment be better stimulated by increasing education, infrastructure projects and lowering payroll taxes? Unfortunately many US corporations still have too much spare capacity and as they and households continue to slowly deleverage and repair their balance sheets, jobs will not magically appear. That said recent jobs data showed a significant rise this month which may be the beginning of an improvement. On the upside, the Fed has at least allowed the flexibility to tailor the extent of the repurchasing program as new economic data emerges.

In Europe and the UK, the news remains less positive as governments continue with austerity measures to reign in spending. The British finance minister announced massive public spending cuts; the welfare budget is to be cut by a further £7 billion and taxes will be raised. In France strikes and demonstrations have been the order of the day, as the government plans to increase the retirement age in order to reduce its pension costs. At the upcoming European Summit it is expected that the German and French leaders will propose measures to ensure that more indebted countries do not threaten the stability of the Euro.

China finally lifted its interest rates – an event three years in the making – in response to ongoing inflationary pressures. Equity markets fell on fears that this could be the start of interest rate hikes that will curb growth in the world's second largest economy. However, China is more than likely seeking to contain its housing bubble after other measures failed to dampen the housing market.

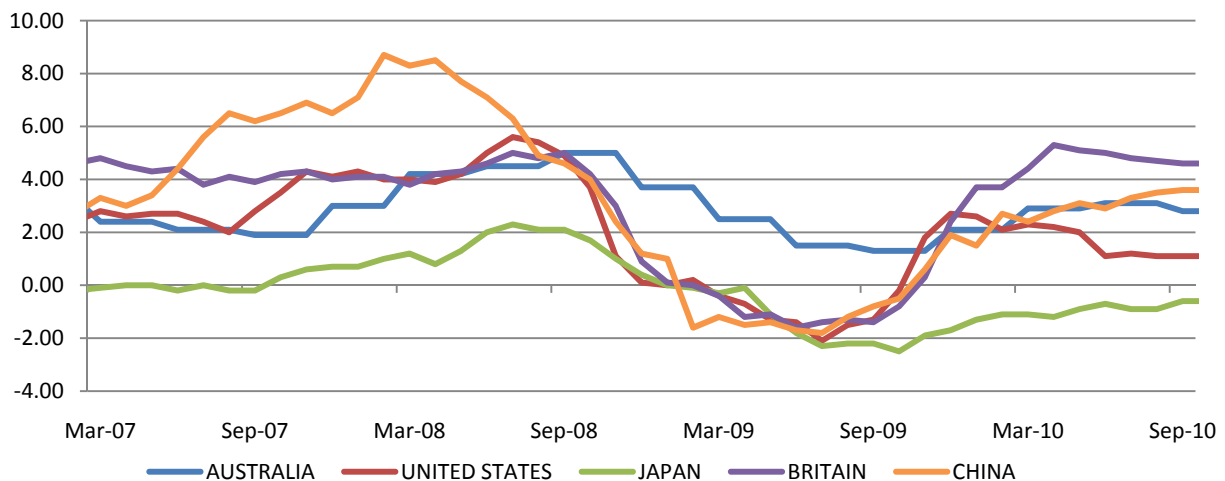
**CASH RATES**



After months and indeed, years of flat cash rates, we finally saw two rates rise! Both Australia and China lifted their cash rates this month, reflecting both strong growth prospects and inflationary concerns in our respective economies. China lifted rates for the first time in three years in a move designed to prevent a housing bubble, rather than to materially impact currency markets. Other measures to cool the housing market have clearly failed with prices, sales and new building approvals all rising.

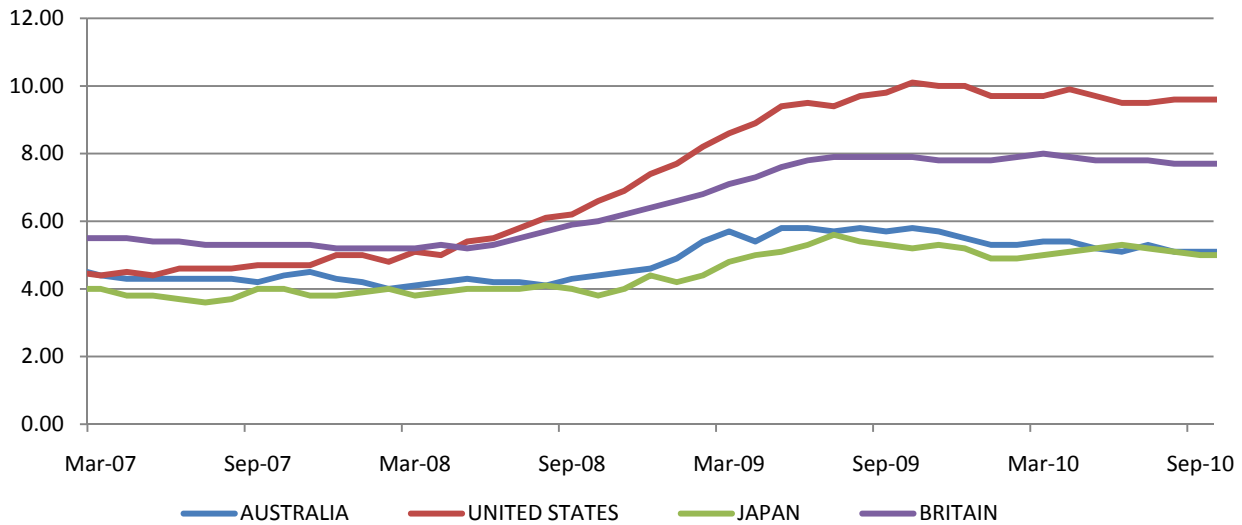
The graph beautifully illustrates the two-speed world economy. The emerging world (China) & Australia are juxtaposed against the developed world with higher and rising rates. The US will leave rates on hold almost indefinitely as deflation becomes a very serious risk. The central banks of Japan and England are also expected to leave rates on hold. Australian rates are tipped to continue rising well into next year, although the magnitude will depend on GDP, inflation and unemployment figures. As a result of these higher rates, Australia offers international investors stronger yields on cash and bonds. Australia's bond market accounts for a substantial portion of international bond portfolios. Higher domestic rates will also support the Australian Dollar's rise against the US dollar.

**INFLATION RATES (ANNUALISED)**



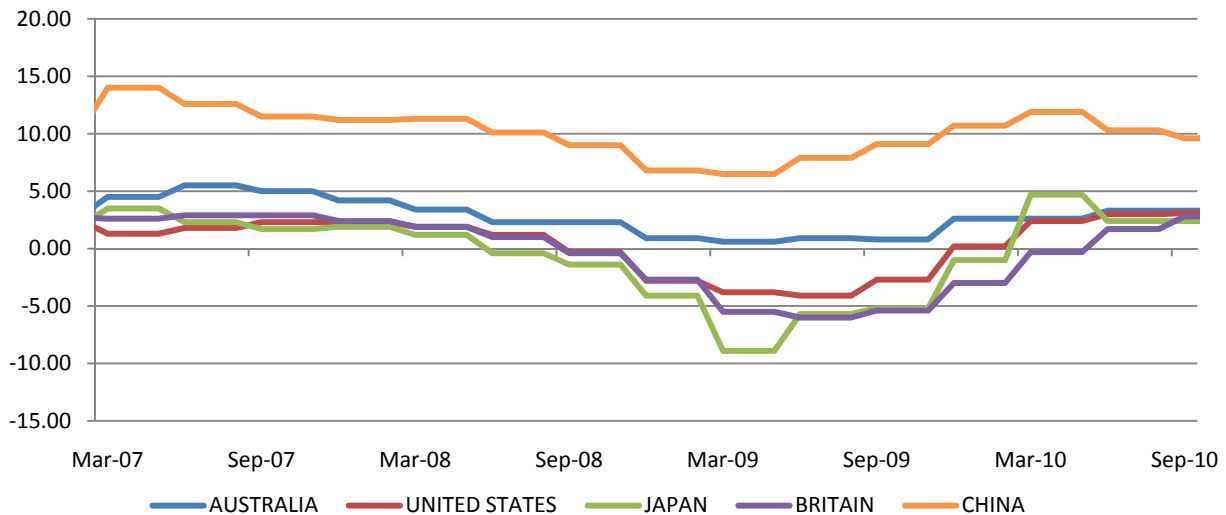
Updated inflation figures show that Australia's inflation is falling and remains within the long term target range. Inflation rates have also fallen in the UK and the US which now hovers at just 1.10%, edging nearer to a deflationary environment. Will sailing the QE2 prevent this? China's inflation rate rose to 3.6%, one of the elements prompting the unexpected rate rise although inflationary pressures are more likely secondary to the housing boom itself and China's increasing consumption.

**UNEMPLOYMENT RATES**



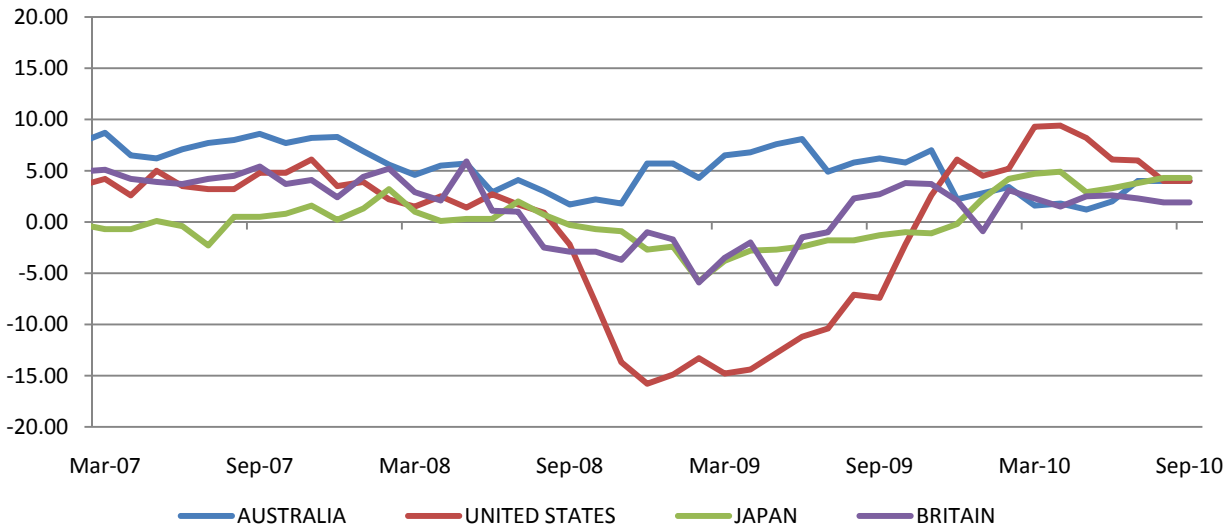
Australia's unemployment remains near its long term capacity at 5.1%. There is no doubt this figure factored into the RBA's decision to raise rates this month. In their QE2 announcement, the US Fed admitted that the progress made in the unemployment stakes was disappointingly slow. A day later non-farm payroll data showed the largest rise since May, with additional 150,000 jobs added through non-government hiring. The UK's unemployment rate remains high at 7.8% but the government's massive public spending cuts, coupled with a higher tax rate, are likely to cost 1.6 million British jobs pushing the rate higher at the next announcement. Japan's peak unemployment rate of 5.6% in July 2009 remains stable at 5.1%. This is still high in historical terms - the capacity rate is around 2.0%.

**GDP GROWTH (ANNUAL)**



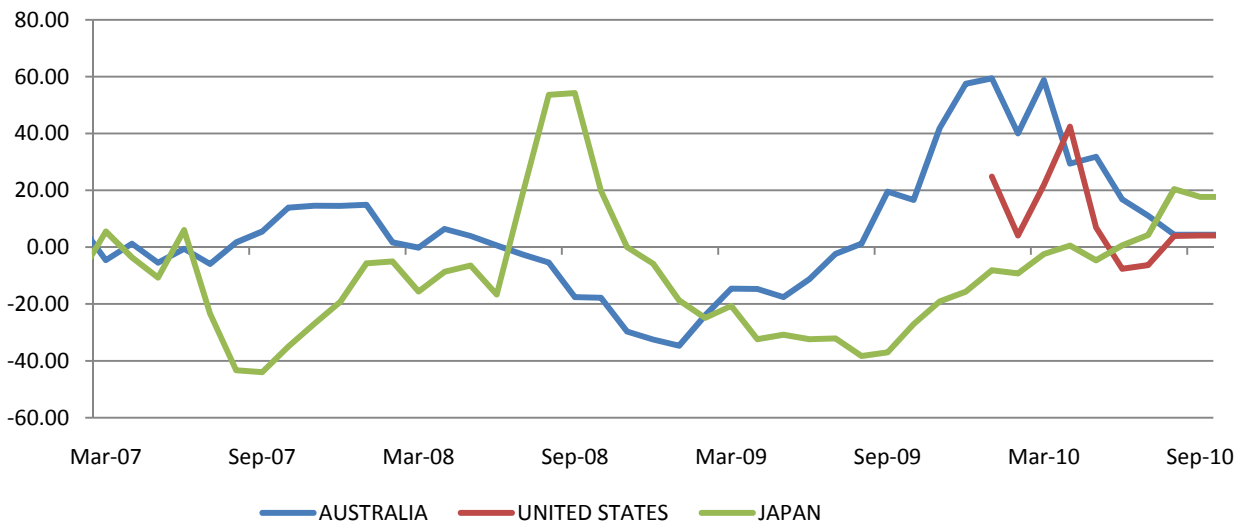
Australia remains one of the best performing economies post the global financial crisis. This largely due to the resources boom as consumer caution remains high in the face of rising interest rates. Prospects for our ongoing growth remain strong as China continues to expand despite fiscal contraction policies. Even with increased infrastructure and stimulus spending, US growth is still tipped to slow. Like Europe and the UK, future growth will be largely slow and incremental. Britain's quarterly GDP grew 0.8% in Q3, down from the rate of 1.1% in Q2. Given the growth predictions for the developed world, exposure to emerging market investments may be the best way to achieve higher levels of growth in the medium to longer term, although investors should be aware of the associated systemic risks.

**CHANGE IN RETAIL SALES – ROLLING 12 MONTH CHANGE**



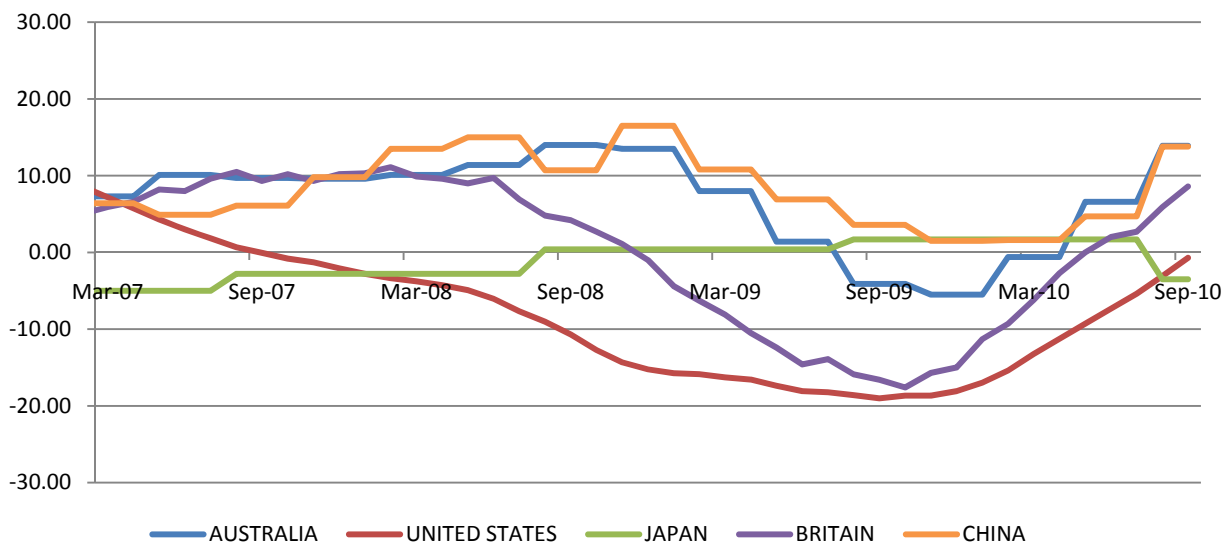
Australian retail sales lifted marginally in September to 0.3%, but this was below expectations of 0.5% which disappointed the market. This sector is still struggling due to consumer caution. With the Australian dollar reaching parity with the USD, consumers are heading on-line for retail bargains which allow them to take advantage of more rapid currency changes. This only compounds the problem. British retail sales fell unexpectedly for a second month adding to fears that British consumers are reigning in expenditures as fiscal austerity measures begin to be implemented. In the US, yearly comparable store-store figures rose a weak 2.6%.

**HOUSING APPROVALS – ROLLING 12 MONTH CHANGE**



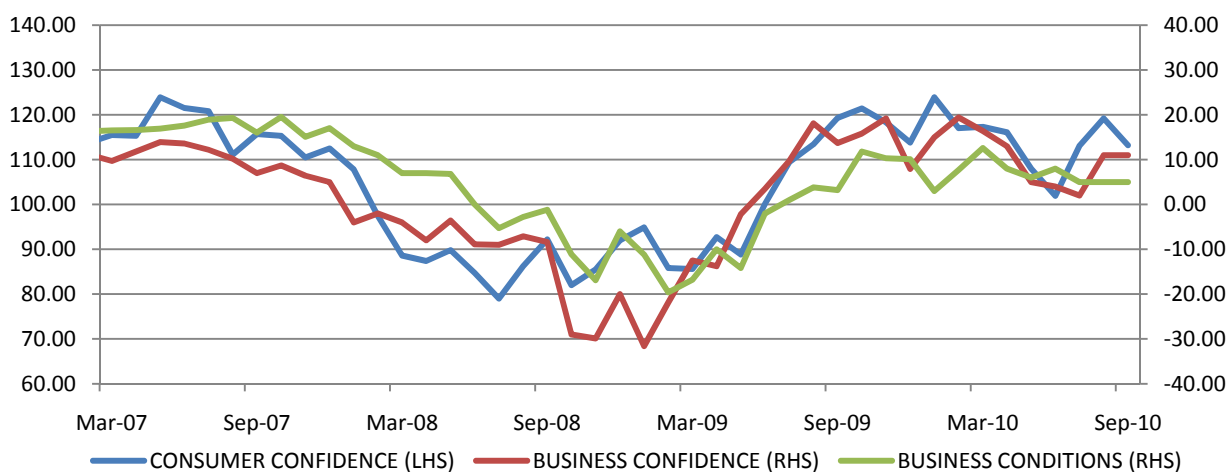
Domestic building approvals fell 6.6% in Q3 against consensus expectations of a rise with approvals down 11.6% for the year. Much of the decline can be attributed to falls in the demand for units, apartments and townhouses, although there were falls across the board in private houses and public dwellings. This data precedes the most recent rate rise which may further dampen the next round of results and does not bode well for the construction and building industries going forward.

**HOUSING PRICES – ROLLING 12 MONTH PRICE CHANGE**



Australia and China’s housing prices remain consistently high, reflecting higher levels of growth, unemployment and consumer confidence. The chart illustrates a very close correlation between Australian and Chinese property prices, highlighting the strength of both economies. US house prices remain in negative territory. Will QE2 see house prices rise, and encourage US home owners to re-finance? This would definitely provide stimulus to the banks and financial sector.

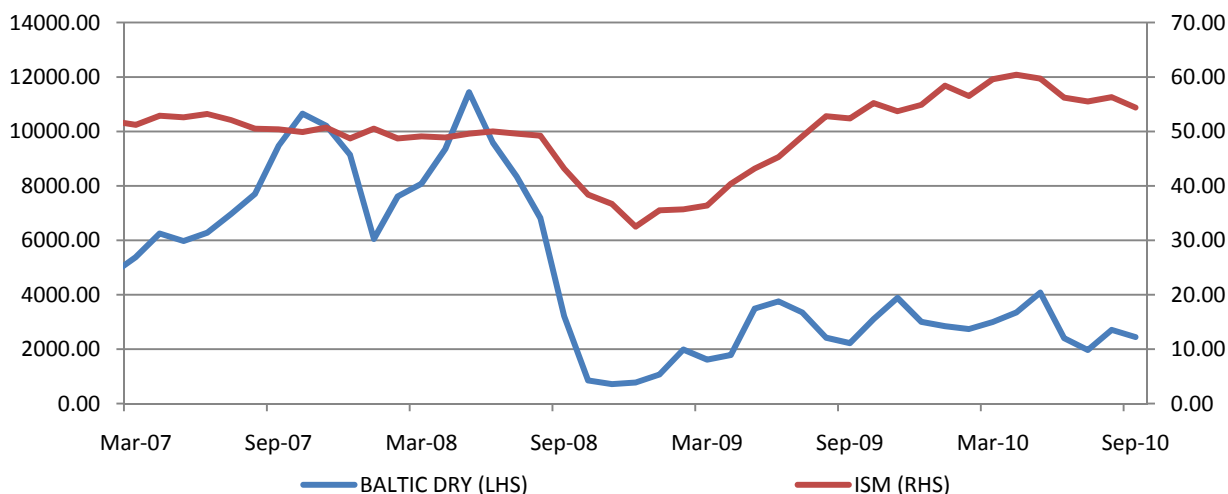
**CONSUMER & BUSINESS CONFIDENCE / CONDITIONS**



Consumer confidence rose by 3.3% this month, in line with expectations. This reverses an earlier trend that saw it fall 17.8% over the last six months on basis of global economic uncertainty and consecutive rate rises. The rise in confidence can be attributed to a surprise decision to keep cash rates on hold in October alongside the AUDs rise to parity and strong jobs data. Next month’s data may well show confidence waning, as auction clearance rates fell significantly after this month’s rate rise.

Business conditions improved in September, although confidence fell slightly. The fall in confidence is likely to reflect concerns surrounding the global economy. The survey breakdown shows that conditions in mining remain strong, whereas the outlook is far less positive for manufacturing and retail. This is no great surprise given that the economic data suggests exactly the same outlook!

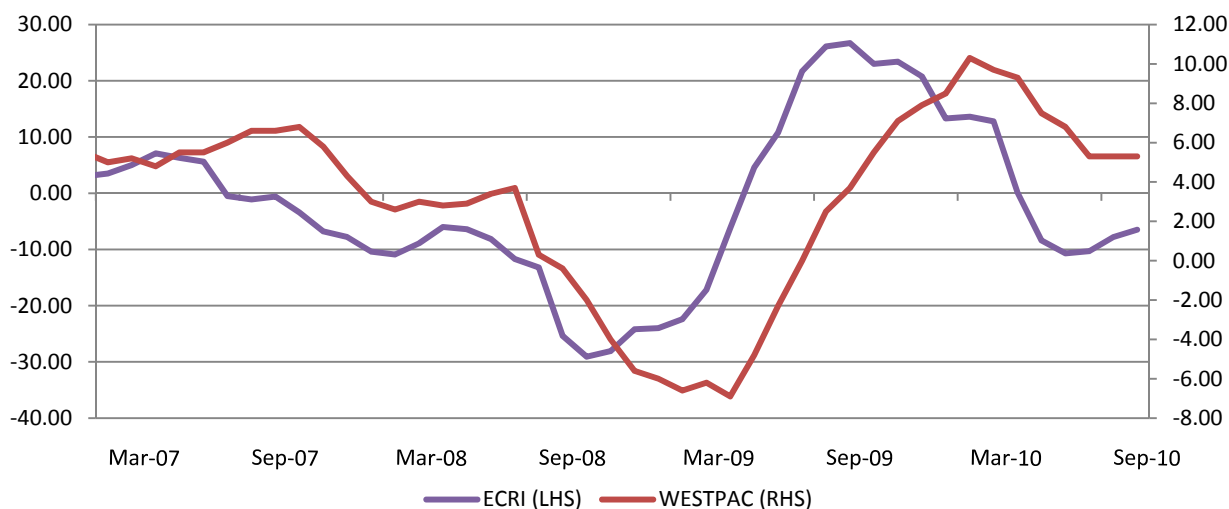
**LEADING INDICATORS – BALTIC DRY INDEX & ISM MANUFACTURING SURVEY**



The Baltic Dry Index (BDI) tracks international shipping prices for various dry bulk cargoes. As the supply of ships is relatively inelastic, the BDI indirectly measures global supply and demand for shipped bulk commodities such as coal, iron ore and building materials. Since it measures demand for raw materials, it is regarded as a leading economic indicator of future growth. Minor incremental rises in the index to the mid 2500s suggests increasing a gradual increase in demand for commodities and gently improving global growth, a positive for Australia's commodity-driven economy.

ISM Manufacturing surveys its member companies to rate US manufacturing activity levels. Typically fluctuations in manufacturing greatly impact the GDP, so this survey is a leading indicator of economic turnarounds. It is highly valued as the earliest data figure released each month. Values over 50 indicate expansion; values below 50 indicate economic contraction. The ISM has increased 58.3% over the past 18 months, highlighting the manufacturing-led US recovery. This month's figures exceeded expectations with a rise, reversing the trend of previous months. Importantly at 56.90, it remains in expansionary territory.

**LEADING INDICATORS - WESTPAC LEADING INDICATOR (AUST) & ECRI WEEKLY LEADING GROWTH RATE (US)**



The Westpac Leading Index indicates the likely pace of economic growth 3 to 9 months into the future. The chart continues to illustrate Australia is likely to experience strong and ongoing economic growth, a view which is clearly subscribed to by the RBA board. After a peak of 10.3 in March this year, it continues to fall down to 5.3, reaching more sustainable levels.

The ECRI Weekly Leading Growth Rate is a predictor of economic growth in the US. It is the earliest economic figure released each week and is therefore closely monitored. As illustrated, the ECRI continues to slowly rise back towards an even keel, reaching -6.50 after a low of -11.84. The QE2 package should surely see this rise continue if US consumer sentiment improves.

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**DATA SOURCE: BLOOMBERG**

## BLOOMBERG DATA SERIES

CHART	BLOOMBERG DATA SERIES
<b>CASH RATES</b>	Australia RBA Cash Rate Target
	Federal Funds Target Rate US
	Bank Of Japan Target Rate of Unsecured Overnight Call Rate Expected
	UK Bank of England Official Bank Rate
	China 1 Year Best Lending Rates
	ECB Main Refinancing Rate
<b>CPI</b>	Australia CPI All Groups Goods Component YoY
	US CPI Urban Consumers YoY NSA
	Japan CPI Nationwide YoY
	China CPI YoY
	UK RPI YoY NSA
<b>GDP</b>	Australia GDP SA YoY
	GDP US Chained 2005 Dollars YoY SA
	Japan GDP Real Chained NSA YoY%
	UK GDP Chained GDP at Market Prices YoY
	China GDP Constant Price YoY
<b>UNEMPLOYMENT</b>	US Unemployment Rate Total in Labor Force Seasonally Adjusted
	Australia Labor Force Unemployment Rate SA
	Japan Unemployment Rate SA
	UK Unemployment ILO Unemployment Rate SA
<b>RETAIL SALES</b>	Australia Retail Sales YoY SA
	US Adjusted Retail & Food Services Sales Total Yearly % Change SA
	Japan Retail Trade YoY NSA
	UK Retail Sales All Retailing Sales Per Week Chained Volume YoY SA
<b>HOUSE/LAND PRICES</b>	Australia House Price Index Established Homes YoY 2003-2004=100
	S&P/Case-Shiller Composite-20 City Home Price Index YoY (US)
	Japan Land Prices Nationwide All YoY%
	UK Nationwide House Prices All Houses YoY NSA
	China Land Transaction Price YoY
<b>HOUSING APPROVALS</b>	Australia Building Approvals Dwellings YoY
	US New Privately Owned Housing Units Started by Structure Total SAAR YOY
	Japan Housing Starts YoY NSA
<b>HOUSEHOLD CONSUMPTION</b>	Australia GDP Final Consumption Expenditure Households QoQ SA
	Eurostat GDP Constant 2000 Prices Eurozone Household Consumption Expenditure QoQ
	Japan GDP Chained Real Private Consumption QoQ% SA
	UK GDP Final Consumption Expenditure Chained Prices Household Expenditure QoQ
	GDP US Personal Consumption Chained 2005 Dollars % Change SAAR
<b>COMPANY PROFITS &amp; BUSINESS OUTLOOK</b>	Australia Comp Gross Operating Profit QoQ Chg Seasonally Adjusted
	National Quarterly Business Survey Business Confidence Outlook SA
<b>CONSUMER &amp; BUSINESS CONFIDENCE</b>	Westpac-Melbourne Institute Consumer Confidence Consumer Sentiment
	National Australia Bank Business Indicators Business Confidence SA
<b>LEADING INDICATORS</b>	Baltic Dry Index
	ISM Manufacturing PMI SA
	Australia Westpac Leading Index Annualised Growth YoY%
	ECRI Weekly Leading Index Growth Rate

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