

WEEKLY ECONOMIC BRIEF – 1 February 2010

Key Points

- *Equity markets continue to sell off as concerns regarding the sustainability of the recovery persist*
- *The US economy expands by 5.7 percent annualised in the December quarter, as the inventory cycle turns*
- *The UK economy emerges from recession, rising 0.1 percent in the December quarter*

Investor sentiment continues to be weighed down by ongoing concerns regarding Greece's ability to repay its debt and further allegations that Chinese officials have ordered banks to curb loan growth. The MSCI World Index (in local currency) extended last week's losses, falling by 2.1 percent to its lowest level since November, while bond markets continued to rally. The gilts market underperformed most other developed markets after Standard and Poor's stated that it no longer classifies the UK as one of the world's most stable and low-risk banking systems. The report led to yields on ten-year government gilts rising by 5.7bps, and reversed the rally that followed the weak GDP report. The US dollar continued to benefit from the rise in risk aversion, with the dollar rallying against the major currencies. Commodity prices continued to edge lower, falling by nearly 4 percent, and oil prices remained below US\$73 per barrel.

At their first meeting of 2010, the Fed elected to leave the target Fed Funds unchanged at 0 to 0.25 percent. In the accompanying statement, the Fed reiterated that it believes that the recovery is on track although one member dissented to the commitment to keep interest rates at "exceptionally low levels" for an extended period.

The US economy expanded faster than market commentators had forecast, growing at a 5.7 percent annual rate in the December quarter. The turnaround in the inventory cycle added 3.4 percentage points to growth in the December quarter, as firms better align production and sales. Household consumption remains subdued, rising by 2 percent annualised. Business investment expanded for the first time since June 2008, as the contraction in non-residential construction was offset by the 13.3 percent annualised gain in producers' equipment and software expenditure. Furthermore, forward looking indicators point to the continued recovery in capital expenditure, with core nondefense capital goods orders rising in December. The external sector also contributed to the strong outturn in real GDP growth, adding 0.5 percentage points annualised as export growth rose faster than import growth.

The housing market within the US continues to stage a tepid recovery, with dwelling investment rising by 5.5 percent annualised in the December quarter. House prices also continue to post modest sequential gains, with the Case-Shiller 20-city composite rising by 0.2 percent in November and the FHFA measure increasing by 0.7 percent. Overall however, activity indicators remain weak, with new and existing home sales falling sharply in December and soft mortgage applications at the end of January.

As the recovery becomes more ingrained, sentiment within in the US economy has been improving. The Chicago PMI beat market expectations for January; led by improvements in the inventories and employment indices. Consumer confidence has also been recovering, with the Conference Board measure of consumer confidence rising in January and the second print of the January University of Michigan consumer sentiment survey being revised modestly higher. However, with confidence indicators well-below their historical averages, sentiment within the economy remains fragile.

European data releases over the week continue to suggest that the economy is recovering. French consumption of manufactured goods was significantly above expectations in December, rising by 2.1 percent while French business surveys also continue to recover. Business confidence within Germany and Italy also rose in January as conditions continue to improve. The headline confidence index in the euro area increased strongly in January and is now at its highest level since June 2008. While activity indicators have been improving, the labour market remains soft, with the unemployment rate elevated at around 10 percent. Slack within the labour market has helped to contain inflationary pressures, with inflation in the euro area and Germany rising by less than expected in January.

After six consecutive quarters of negative GDP growth, the UK economy finally emerged from recession in the December quarter. The economy expanded 0.1 percent, which was below market expectations of a 0.4 percent rise. Activity within the services sector was lacklustre, rising by 0.1 percent, but appears to be inconsistent with strong pick up in the services PMI survey during the quarter. Market commentators are expecting that the preliminary estimate will be revised higher in the subsequent national accounts releases, with the expenditure break-down to be released on the 26th of February.

The Asian region continues to lead the global recovery, recording strong industrial production growth and solid trade flows in December. Taiwanese industrial production (IP) rose 5.1 percent on a seasonally adjusted basis in December, and follows a 6.5 percent monthly gain in November. Japanese IP increased by 2.2 percent in December and is now positive on an annual basis.

Consistent with recovering industrial production in the Asian region, Japanese real exports rose by 2.8 percent in December to be nearly 9 percent higher over the quarter. Given the 2.2 percent increase in real imports over the quarter, net exports are expected to make a strong contribution to GDP growth in the December quarter. Other components of the Japanese economy have also been improving, with real household spending rising by 2.1 percent in December compared to one year ago, and the unemployment rate edging down in December.

South Korean GDP growth was softer than expected in the December quarter, rising by 0.2 percent after expanding by 3.2 percent in the previous quarter. Household and government consumption declined as stimulus was withdrawn, however fixed capital investment remains strong. The strength in investment reinforces the view that the economy is a self-sustaining path to recovery.

Australian consumer inflation data was slightly stronger than market expectations, rising by 0.6 percent in the December quarter to be 2.1 percent higher over the year. Core inflation, according to the average of the weighted median and trimmed mean measure, increased by 0.65 percent in the December quarter. Core inflation is now 3.4 percent higher over the year, and above the RBA's November forecast of 3¼ percent year ended growth and the 2-3 percent target band. Indeed, core inflation is also above the RBA's forecast of growth in the December quarter. Given the underlying inflationary pressures within the economy, the market expects the RBA to raise the cash rate by 25bps at tomorrow's meeting, and to raise interest rates to reach 4.75 percent by the end of the year.

As the global economy progresses through the initial recovery phase, the IMF has reviewed its GDP growth forecasts for 2010 and 2011. The IMF has upgraded its 2010 global growth forecast from 3.1 percent to 3.9 percent, and expects the world economy to expand by 4.3 percent in 2011. The latest IMF forecasts are reported in table 2 below.

Table 1. Financial market movements, 22/01/2010 to 29/01/2010

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	-2.1%	-	-
US	-1.6%	-2.3 bps	-
Japan	-3.7%	-0.5 bps	-0.5%
UK	-2.2%	-1.0 bps	-0.8%
Germany	-1.5%	-1.9 bps	-2.0%
Australia	-3.8%	-5.2 bps	-1.9%

Table 2: 2009 to 2011 real GDP growth forecasts

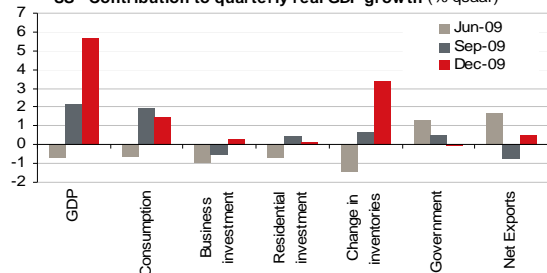
Real GDP growth forecasts % annual average	QIC			Consensus - Jan 10*		IMF - Jan 10		
	2009	2010	2011	2010	2011	2009	2010	2011
World	-0.7	4.1	4.0	4.0	4.0	-0.8	3.9	4.3
Advanced	-3.1	2.4	2.4	2.2	2.5	-3.2	2.1	2.4
US	-2.4	3.5	2.4	2.9	3.1	-2.5	2.7	2.4
Japan	-5.2	1.8	1.9	1.3	1.5	-5.3	1.7	2.2
Euro area	-3.8	1.2	1.7	1.3	1.6	-3.9	1.0	1.6
Germany	-4.7	1.9	1.5	1.8	1.6	-4.8	1.5	1.9
France	-2.3	1.0	1.4	1.4	1.6	-2.3	1.4	1.7
UK	-4.8	1.4	2.4	1.5	2.2	-4.8	1.3	2.7
Emerging & developing	2.1	6.0	5.8	6.1	6.0	2.1	6.0	6.3
Developing Asia	6.9	9.2	8.0	8.3	8.1	6.5	8.4	8.4
China	8.7	10.8	9.2	9.7	9.1	8.7	10.0	9.7
India	6.5	7.7	6.9	7.8	n/a	5.6	7.7	7.8
Western Hemisphere	-2.2	3.1	3.8	3.9	3.8	-2.3	3.7	3.8
Brazil	-0.7	3.7	4.6	5.4	4.5	-0.4	4.7	3.7
Central & Eastern Europe	-4.3	3.1	4.0	2.2	3.5	-4.3	2.0	3.7
Russia	-8.8	3.5	3.2	4.1	4.5	-9.0	3.6	3.4

* Consensus aggregate forecasts computed by QIC using underlying country GDP forecasts and IMF PPP weights

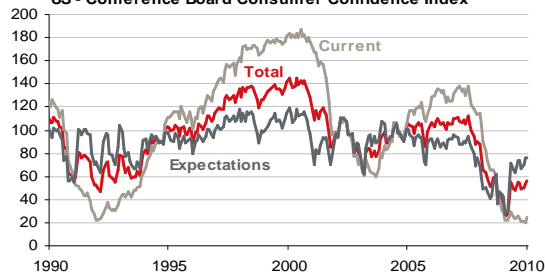
Note - Consensus aggregates may not be directly comparable to QIC aggregates since Consensus forecasts are not reported for all countries

US

US - Contribution to quarterly real GDP growth (% qsaar)



US - Conference Board Consumer Confidence Index

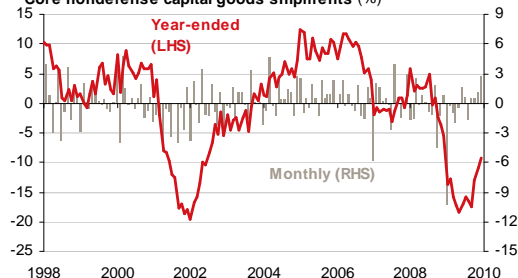


US - National accounts (29 Jan)	Jun-09	Sep-09	Dec-09	Mkt f'cast
Real GDP (qsaar, %)	-0.7	2.2	5.7	4.6
Real GDP (sa, q/q%)	-0.2	0.6	1.4	-
Household consumption (sa, q/q%)	-0.2	0.7	0.5	-
Government consumption & investment (sa, q/q%)	1.6	0.7	0.0	-
Business investment (sa, q/q%)	-2.5	-1.5	0.7	-
Non-residential structures (sa, q/q%)	-4.6	-5.0	-4.1	-
Producers equipment and software expenditure	-1.2	0.4	3.2	-
Inventories (% pt contribution, q)	-0.4	0.2	0.8	-
Residential investment (sa, q/q%)	-6.4	4.4	1.4	-
Net exports (% pt contribution)	0.4	-0.2	0.1	-
Exports (sa, q/q%)	-1.0	4.2	4.2	-
Imports (sa, q/q%)	-3.9	4.9	2.5	-
GDP deflator (sa, q/q%)	0.5	0.5	0.5	1.3

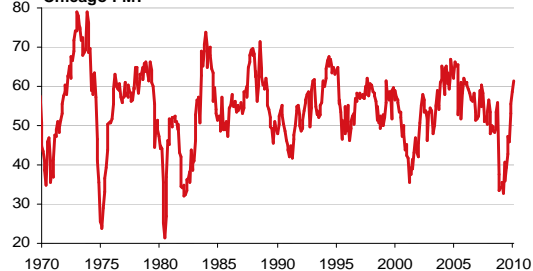
US - Conference Board (26 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Consumer Confidence Index	50.6	53.6	55.9	53.5
Present Situation (40%)	21.2	20.2	25.0	-
Expectations (60%)	70.3	75.9	76.5	-
Present Business Conditions				
Good	8.1	7.5	9.0	-
Normal	47.4	46.8	44.9	-
Bad	44.5	45.7	46.1	-
Present Employment Conditions				
Jobs plentiful	3.1	3.1	4.3	-
Jobs not so plentiful	47.7	48.8	48.3	-
Jobs hard to get	49.2	48.1	47.4	-

US - University of Michigan confidence (29 Jan)	Dec-09	Jan-10 P	Jan-10 F	Mkt f'cast
Consumer sentiment (index)	73.4	72.8	74.4	73.0
Current expectations (index)	79.1	81.0	81.1	-
Future expectations (index)	69.7	67.5	70.1	-

Core nondefense capital goods shipments (%)



Chicago PMI



Factory Orders & Shipments	Oct-09	Nov-09	Dec-09	Mkt f'cast
Factory Orders (% m/m)	0.8	0.6	-	-
Durable goods	-0.1	-0.7	0.6	-
Non-durable goods	1.6	1.8	-	-
Capital goods orders (% m/m)	-1.5	-2.0	-1.7	-
Core non-defense capital goods orders	-1.8	2.7	1.8	-
Shipments (% m/m)	0.9	1.0	-	-
Durable goods	0.2	0.2	3.5	-
Non-durable goods	1.6	1.8	-	-
Capital goods shipments (% m/m)	-1.5	0.2	3.4	-
Core non-defense capital goods shipments	0.5	1.1	2.8	-
Manufacturing inventories (% m/m)	0.4	0.2	-	-
Inventory to shipments ratio	1.3	1.3	-	-

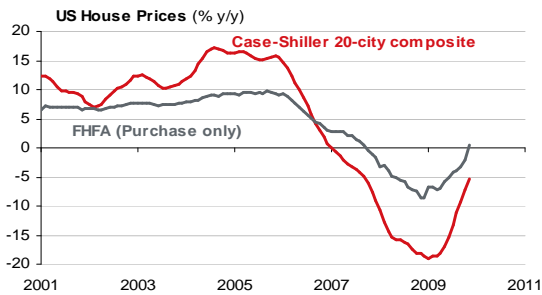
US - Chicago PMI (29 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
PMI (index)	55.5	58.7	61.5	57.0
Production (sa)	59.0	64.2	66.6	-
New orders (sa)	62.0	64.4	66.4	-
Orders backlog (sa)	47.3	52.0	54.3	-
Inventories (sa)	34.8	38.6	48.7	-
Employment (sa)	42.4	47.6	59.8	-
Supplier deliveries (sa)	57.8	57.0	55.3	-

QIC

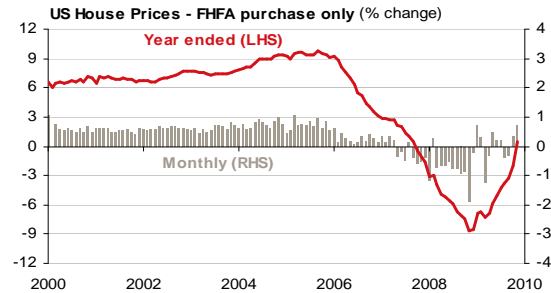
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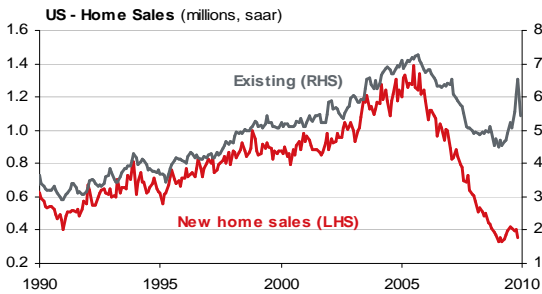
US (con'd)



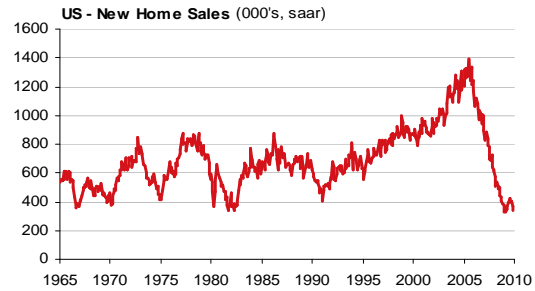
US - S&P/Case Shiller House Prices (26 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
S&P/Case Shiller 20-city composite (sa, Jan 2000 = 100)	144.8	145.1	145.5	-
% m/m	0.1	0.3	0.2	0.3
% y/y	-9.3	-7.3	-5.3	-5.0



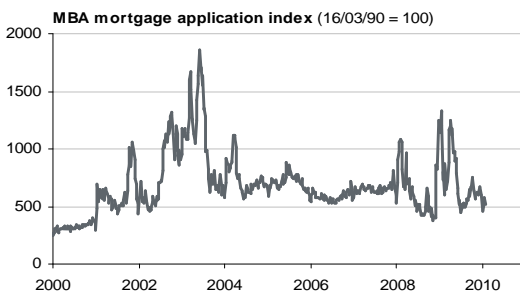
US - FHFA House Prices (26 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
FHFA Purchase Only Index (sa, Jan 1991 = 100)	198.2	198.9	200.4	-
% m/m	-0.3	0.4	0.7	0.5
% y/y	-3.2	-2.0	0.5	-



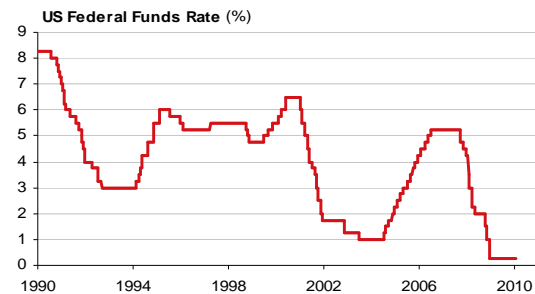
US - Existing home sales (25 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Housing starts (saar, 000s)	6090.0	6540.0	5450.0	-
Housing starts (sa, m/m%)	9.9	7.4	-16.7	-9.8
Housing starts (sa, y/y%)	23.3	44.1	15.0	-



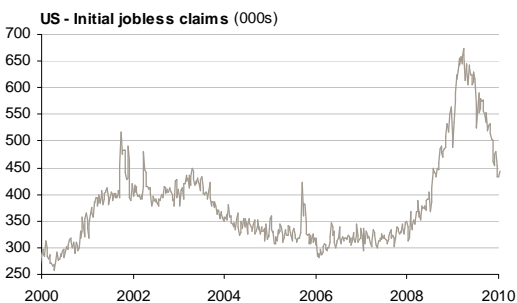
US - New home sales (27 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
New home sales (saar, 000s)	408.0	370.0	342.0	-
New home sales (sa, m/m%)	4.3	-9.3	-7.6	4.2
New home sales (sa, y/y%)	-0.2	-5.1	-8.6	-



US - MBA mortgage applications (27 Jan)	08-01-10	15-01-10	22-01-10	Mkt f'cast
Purchase index	213.8	223.0	215.6	-
% w/w	0.8	4.3	-3.3	-
Refinancing index	2407.9	2663.8	2260.4	-
% w/w	21.8	10.6	-15.1	-
Composite index	527.8	575.9	513.0	-
% w/w	14.2	9.1	-10.9	-



US - Fed Funds rate (27 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Fed funds rate (%)	0-0.25	0-0.25	0-0.25	0-0.25



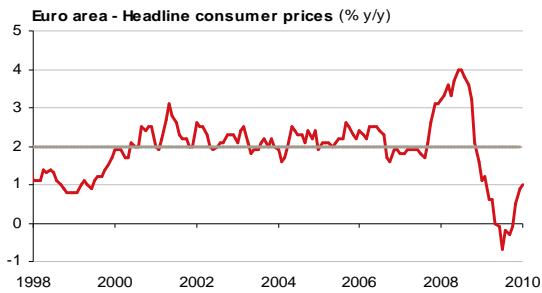
US - Initial jobless claims (28 Jan)	08-01-10	15-01-10	22-01-10	Mkt f'cast
Continuing claims (000s)	4659	4602	-	-
Continuing claims (000s, 4wk moving average)	4764	4669	-	-
Initial jobless claims (000s)	444	478	470	450
Initial jobless claims (000s, 4wk moving average)	441	447	456	-

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Euro area

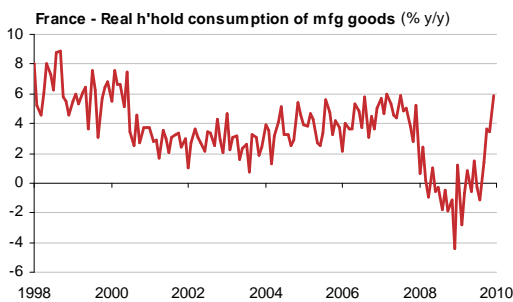


Euro area - HICP inflation (29 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
HICP inflation (nsa, y/y%)	0.5	0.9	1.0	1.2

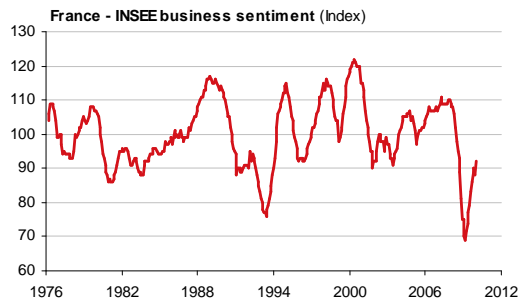
Germany - Harmonized CPI	Nov-09	Dec-09	Jan-10	Mkt f'cast
Headline (% m/m)	-0.2	0.9	-0.7	-0.4
Headline (% y/y)	0.3	0.8	0.7	1.0



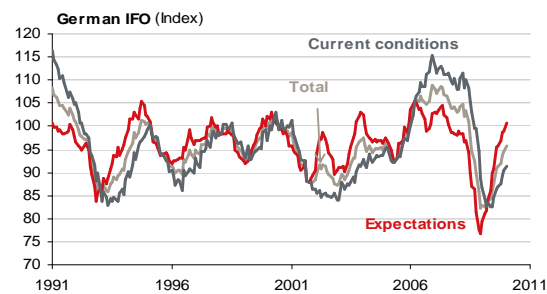
Euro area - Unemployment (29 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Unemployment rate (sa, %)	9.9	9.9	10.0	10.1
Unemployed (sa, change, 000s)	153.0	93.0	87.0	-
Unemployed (sa, y/y%)	25.9	23.7	21.5	-



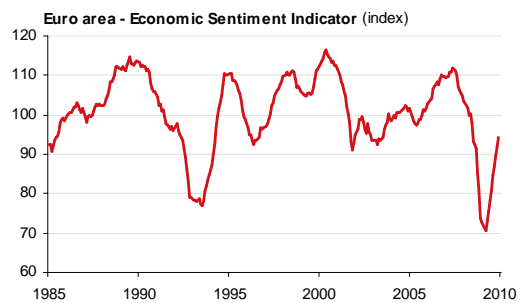
France - Goods consumption (26 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Manufactured goods consumption (sa, m/m%)	0.9	0.1	2.1	0.6
Manufactured goods consumption (sa, y/y%)	3.6	3.5	5.9	3.8



France - INSEE Survey (26 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Business climate indicator (index)	90.0	88.0	92.0	-
General outlook	-9.0	-11.0	-4.0	-

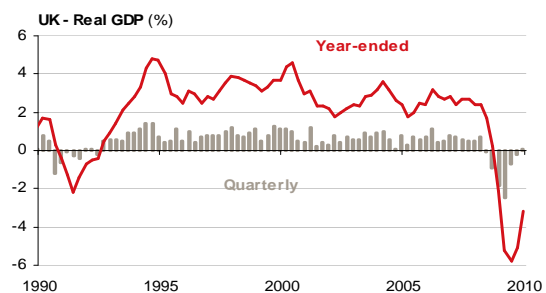


Germany - IFO Survey (26 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Business sector (sa, 2000=100)	93.8	94.6	95.8	95.1
Business conditions index, (sa, 2000=100)	89.2	90.4	91.2	91.3
Business expectations index (sa, 2000=100)	98.7	98.9	100.6	99.1

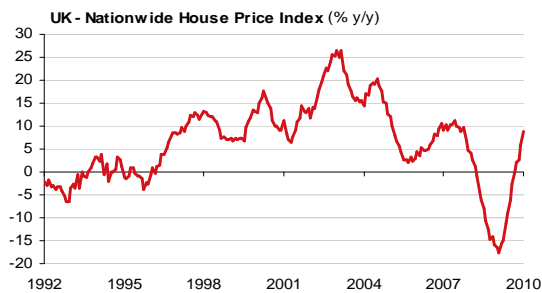


Euro area - Economic sentiment (28 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Economic sentiment indicator	89.6	91.9	94.1	92.3

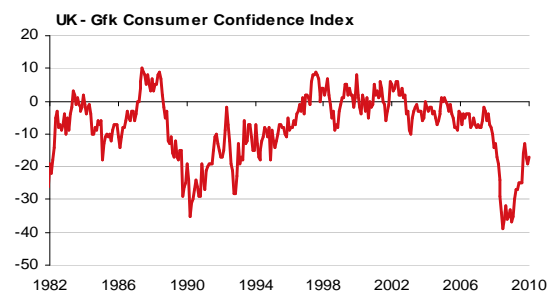
UK



UK - Real GDP (26 Jan)	Jun-09	Sep-09	Dec-09	Mkt f'cast
GDP (sa, q/q%)	-0.7	-0.2	0.1	0.4
GDP (sa, y/y%)	-5.8	-5.1	-3.2	-3.0
GVA ex oil	-0.6	0.0	0.2	-
Agriculture, Forestry and Fishery	-2.4	-2.8	-0.6	-
Mining & quarrying	-1.0	-5.7	1.0	-
Manufacturing	-0.2	-0.2	0.4	-
Electricity, gas & water supply	-2.8	0.2	-3.3	-
All production industries	-0.6	-0.9	0.1	-
Construction	0.5	1.9	0.0	-
Distribution, hotels & catering; repairs	-0.5	0.7	0.4	-
Transport storage & communication	-1.9	0.7	0.0	-
Business services & finance	-1.2	-0.8	0.0	-
Government & other services	-0.1	-0.2	0.1	-
Total services output	-0.8	-0.2	0.1	-

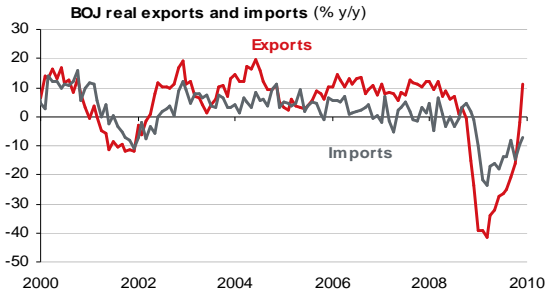


UK - Nationwide house prices (29 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Nationwide house prices (sa, m/m%)	0.6	0.5	1.2	0.3
Nationwide house prices (sa, y/y%)	2.7	5.9	8.7	7.3

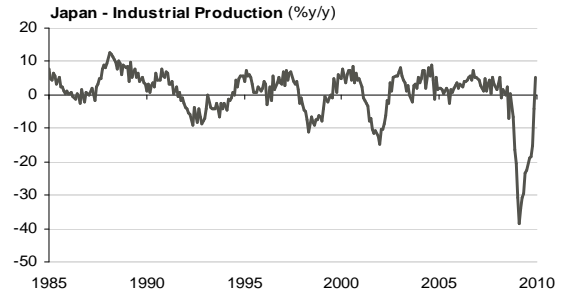


UK - GfK consumer sentiment (29 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
GfK consumer confidence index (net balance)	-17.0	-19.0	-17.0	-18.0

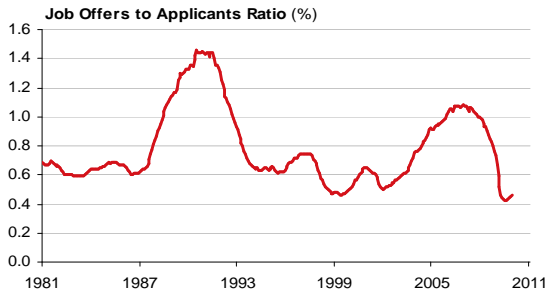
Japan



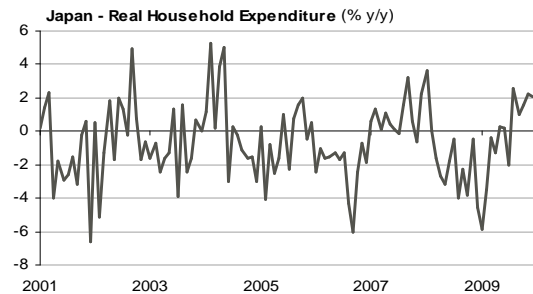
Japan - External trade (Jan 27)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Trade Balance (sa, ¥ bn)	486.7	516.8	522.8	633.3
Export values (sa, % m/m)	4.3	4.7	2.5	-
Import values (sa, % m/m)	1.0	4.6	2.6	-
Export values (nsa, % y/y)	-23.2	-6.3	12.1	-
Import values (nsa, % y/y)	-35.6	-16.8	-5.5	-
BOJ real exports (sa, % m/m)	3.3	0.5	2.8	-
BOJ real imports (sa, % m/m)	-6.5	4.9	0.0	-
Export volumes (nsa, % y/y)	-13.0	-1.5	14.8	-
Import volumes (nsa, % y/y)	-11.7	-2.1	-0.8	-



Japan - Industrial production (29 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Industrial production (sa, m/m%)	0.5	2.2	2.2	2.5
Industrial production (sa, y/y%)	-14.0	-5.5	5.4	5.7



Japan - Labour market (29 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Unemployment rate (%)	5.1	5.2	5.1	5.3
Job-to-applicant ratio	0.44	0.45	0.46	0.46

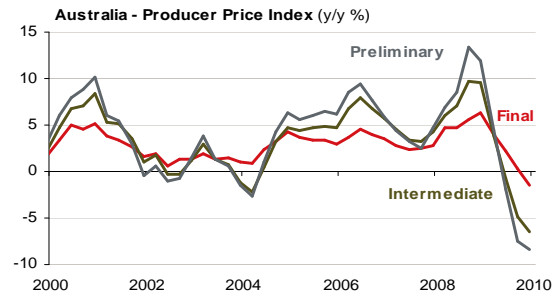
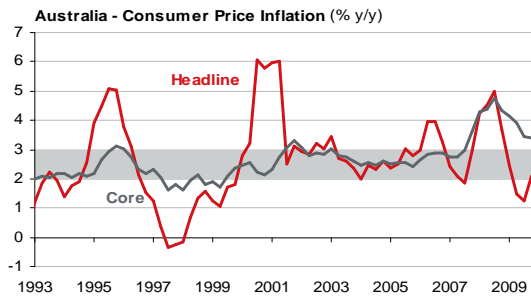


Japan - Household spending (29 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Real household spending (y/y%)	1.6	2.2	2.1	1.6



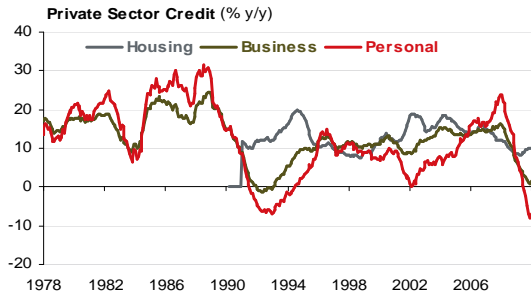
Japan - CPI (29 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Nationwide CPI (y/y%)	-1.9	-1.7	-	-1.7
Nationwide CPI (ex food and energy, y/y%)	-1.0	-1.2	-	-1.1
Tokyo CPI (y/y%)	-2.2	-2.2	-2.1	-2.1
Tokyo CPI (ex food and energy, y/y%)	-1.3	-1.5	-1.4	-1.4

Australia



Australia - CPI (27 Jan)	Jun-09	Sep-09	Dec-09	Mkt f'cast
Headline CPI (nsa, q/q%)	0.5	1.0	0.5	0.4
Headline CPI (nsa, y/y%)	1.5	1.3	2.1	2.0
Core CPI (nsa, q/q%)	0.9	0.8	0.7	0.6
Core CPI (nsa, y/y%)	3.9	3.5	3.4	-
Trimmed mean (nsa, q/q%)	0.9	0.8	0.6	0.6
Trimmed mean (nsa, y/y%)	3.6	3.2	3.2	-
Weighted median (nsa, q/q%)	0.8	0.8	0.7	0.6
Weighted median (nsa, y/y%)	4.2	3.7	3.6	-

Australia - PPI (25 Jan)	Jun-09	Sep-09	Dec-09	Mkt f'cast
Final headline PPI (nsa, q/q%)	-0.8	0.1	-0.4	0.2
Final headline PPI (nsa, y/y%)	2.1	0.2	-1.5	-
Final domestic PPI (nsa, q/q%)	0.0	1.0	0.3	-
Final import PPI (nsa, q/q%)	-5.9	-5.1	-5.2	-
Intermediate headline PPI (nsa, q/q%)	-1.9	-0.6	-0.9	-
Intermediate headline PPI (nsa, y/y%)	-0.8	-4.9	-6.5	-
Intermediate domestic PPI (nsa, q/q%)	-1.1	-0.6	-0.4	-
Intermediate import PPI (nsa, q/q%)	-7.9	-1.0	-3.9	-
Preliminary headline PPI (nsa, q/q%)	-2.7	-0.5	-0.8	-
Preliminary headline PPI (nsa, y/y%)	-1.9	-7.5	-8.4	-
Preliminary domestic PPI (nsa, q/q%)	-2.0	-0.9	-0.3	-
Preliminary import PPI (nsa, q/q%)	-7.5	2.2	-3.2	-



Australia - Private sector credit (29 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Private sector credit (sa, m/m%)	-0.1	0.1	0.3	0.1
Private sector credit (sa, y/y%)	1.2	0.9	1.5	1.1
Housing credit (sa, m/m%)	0.8	0.7	0.7	-
Housing credit (sa, y/y%)	8.0	8.1	8.2	-
Owner-occupied credit (sa, m/m%)	0.9	0.8	0.7	-
Investor housing credit (sa, m/m%)	0.5	0.6	0.5	-
Other personal credit (sa, m/m%)	0.5	0.5	0.7	-
Business credit (sa, m/m%)	-1.4	-1.0	-0.2	-
M3 (sa, m/m%)	-0.2	-0.2	-0.6	-
Broad money (sa, m/m%)	-0.2	-0.1	-0.7	-

New Zealand



NZ - Cash rate (Jan 28)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Cash rate (%)	2.5	2.5	2.5	2.5