Economics@ANZ

ANZ Australian economics weekly

The return of volatility

27 July 2007

Inside:

Economic wrap........................2
Data preview 5
Market matters 6
Economy in focus 8
ANZ forecasts 11
What to watch 13
Contacts..............................14

Authors:

Tony Pearson
Head of Australian Economics
+61 3 9273 5083
Tony.Pearson@anz.com

Mark Rodrigues
Senior Economist, Australia
+61 3 9273 6286
Mark.Rodrigues@anz.com

Cherelle Murphy
Senior Economist, Markets
+61 3 9273 1995
Cherelle.Murphy@anz.com

Riki Polygenis
Senior Economist, Australia (acting)
+61 3 9273 4060
Riki.Polygenis@anz.com

Amber Rabinov
Economist, Australia
+61 3 9273 4853
Amber.Rabinov@anz.com

Wain Yuen
Economist, Industry
+61 3 9273 6295
Wain.Yuen@anz.com

Our Vision:

For Economics@ANZ to be the most respected, sought-after and commercially valued source of economics research and information on Australia, New Zealand, the Pacific and Asia.

Economic wrap

- Inflation took centre stage this week, with both consumer price inflation and producer price inflation stronger than expected in the June quarter.
- These figures were high enough to prompt a significant shift in financial market pricing, with the market now expecting a 58% chance of a rate hike in August.
- While we agree that the next move in interest rates will be up, we do not believe the case is sufficiently compelling to warrant a move in August.

Market matters

- Interest rate markets reacted savagely to the stronger than expected June quarter CPI data released on Wednesday.
- The A$ reached a fresh 18-year high following the release of the CPI data, but was knocked violently lower later in the week as the correction in global equity markets caused a flight to safety.
- The large fall in global stock markets at the end of the week also caused a sharp correction in the Australian stock market.

Economy in focus — Global demand lifts rural prices

Our spotlight on key issues and developments in the Australian economy.

- This week's piece examines Australia's production of rural commodities. With all the hype surrounding the once-in-a-generation boom in the prices of industrial commodities such as iron ore, coal, and base metals, it is often overlooked that rural commodities have in recent years been enjoying significant price rises of their own.

New publications from Economics@ANZ

Available at www.anz.com/go/economics

- Early Warning Indicator, July 2007.

ANZ services

ANZ provides a wide range of financial services and products for your business. For information, please contact your ANZ Relationship Manager.

Our dedicated Markets Advisors are able to assist you with all your financial risk management requirements. For further information:

Bart Thomson	02 9226 6908	thomsonb@anz.com	
David McKean	02 9226 6926	mckeand@anz.com	
NSW / ACT	02 9227 1226	WA	08 9323 8497
Vic / Tas	03 9095 0233	SA/NT	08 8218 8600
Qld	07 3228 3592		

For other publications by Economics@ANZ, please see our website www.anz.com/go/economics or contact your ANZ Relationship Manager.

Riki Polygenis
Senior Economist, Australia (acting)

Economic wrap

To hike or not to hike?

Inflation took centre stage this week, with both consumer price inflation and producer price inflation stronger than expected in the June quarter. The figures were high enough to prompt a significant shift in financial market pricing, with the market now expecting a 58% chance of a rate hike in August. We agree that the Reserve Bank will tighten monetary policy at some point. But we do not believe the case is sufficiently compelling to warrant a move in August.

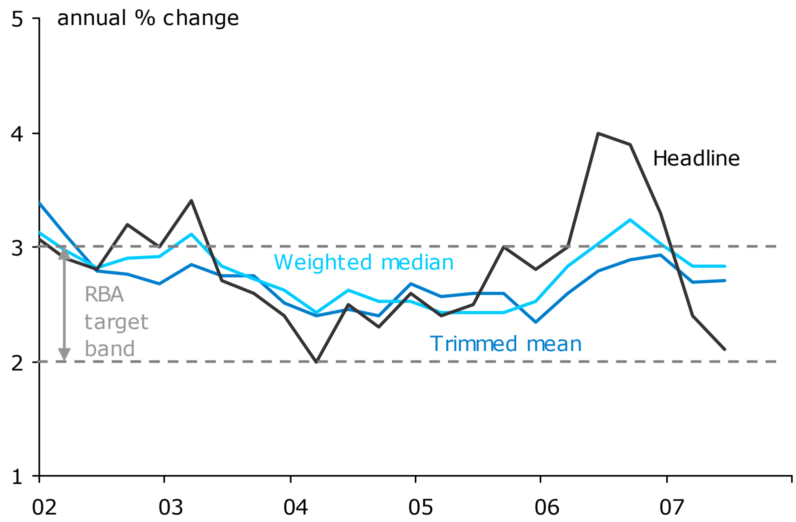
Headline and underlying consumer price inflation picked up in the June quarter

Inflation shoots up

After two quarters of negligible inflation, the headline consumer price index jumped by 1.2% in the June quarter. The increase was broad-based across categories, with the main drivers the volatile fuel and fruit and vegetable components, which together contributed 0.53ppts to the headline CPI. There were also significant increases in rents, house purchase costs, furniture and furnishings, hospital and medical services and financial and insurance services. Despite the high quarterly figure, the annual rate of inflation actually fell to 2.1%, down from 2.4% last quarter.

Perhaps more concerning from a monetary policy perspective, the RBA's statistical measures of underlying inflation – the trimmed mean and weighted median – both picked up to 0.9% in the quarter. This compares with the rates of 0.5% in the previous two quarters for the trimmed mean and rates of 0.5% and 0.6% for the weighted median. While lower than the peak of over 3% in the September quarter 2006, the annual rate of underlying inflation remains uncomfortably high in the top half of the Reserve Bank's target band at 2.7% for the trimmed mean and 2.8% for the weighted median. These core measures are considered a better guide to ongoing or persistent inflationary pressures in the economy and hence the future path of monetary policy.

Annual rate of headline inflation eases



Source: Australian Bureau of Statistics

Whether or not this will prompt a near-term rate hike is a close call.

But is it enough to induce a rate hike?

The arguments for and against a rate rise in August are explored below:

Arguments for:

- The higher 0.9% reading for underlying inflation could point to the rebound in underlying inflationary pressures.
- Price rises were broad-based across a wide range of goods and services in the quarter and there are reasons to believe that some of the forces pushing up inflation in the June quarter will continue into coming quarters. These include higher rents in line with record low vacancy rates, higher fuel prices due to high world crude oil prices (although this will be partly offset by the

higher A$) and further increases in fruit and vegetable prices as recent floods and frosts impact on production.

- The underlying strength of the economy, notwithstanding the somewhat weaker partial data in recent months, implies that the economy could easily withstand another rate rise, although this is not to say that particular parts of the economy will not be feeling the pain. The strong economic outlook also raises the risk of higher inflation further out.
- Recent tax cuts worth approximately $5bn will have further boosted household incomes from 1 July.
- High inflation numbers – even one offs – could raise the risk that inflationary expectations will rise. This is particularly the case at the moment when the price of non-discretionary goods or 'necessities' have been increasing at a faster rate than the overall rate of inflation over the past few years. These are the goods that are most visible to households as they are purchased on a regular basis, such as bread, milk, petrol, rent, healthcare costs and the like. In contrast, it is largely discretionary items such as furniture and electronic goods that have been growing at a slower rate. Households purchase these on a less frequent basis and lower prices for these goods may not have the same impact on the average household's perception of the rate of inflation.
- August may be the last opportunity for the RBA to raise rates until after the federal election. While RBA Governor Glenn Stevens has indicated that it would not hesitate to raise rates in an election year if the need arose, hiking rates during the election campaign itself would be too much of a stretch. If the federal election is held as late as December, the next opportunity for the RBA to alter monetary policy is in February, which is more than six months away.
- In June, RBA Governor Glenn Stevens indicated that softer quarterly inflation rates had lowered the starting point from which any future pickup in inflation would occur and thereby afforded the RBA some extra time to assess trends in demand. The higher inflation numbers in June mean this is no longer the case.

Arguments against:

- It will prove difficult for the RBA to justify hiking rates when the annual rate of both headline and underlying inflation is within the mandated target band of 2 to 3%, the headline rate of inflation is right at the bottom of the band, and the annual rate of both headline and underlying inflation is on a declining trend.
- Interest rates are already into restrictive territory. Central banks need to be careful not to overdo it when they are near the peak of the cycle.
- There are numerous reasons to be careful about reading too much into one quarter's worth of figures:
    - As Governor Glenn Stevens said in June, 'it is usually hazardous to base a story heavily on any one quarter's statistics, as these data can display considerable volatility over short periods.' Admittedly, Stevens was referring to National Accounts data when making that statement, but the point remains. So while the 0.9% increase in underlying inflation may seem alarming at first glance, it must be considered in the context of the previous increases of 0.5% and 0.6%. It is possible that some of the upside surprise in the June quarter was payback for the downside surprises in the previous two quarters. As such, another quarter's worth of inflation figures will be necessary to determine whether underlying inflationary pressures have really re-accelerated.
    - While statistical measures of underlying inflation aim to glean a more accurate picture of ongoing or persistent price pressures in the economy by trying to remove the impact of volatile items, they are not entirely devoid of noise. They can be influenced by sharp movements in CPI components which have a large weight in the total CPI index such as fuel. Our calculations suggest that core inflation would have been 0.1ppt lower without the sharp increase in fuel prices
- It is ultimately *forecasts* of the inflation outlook that matter for interest rates as monetary policy affects the economy with a lag of up to eighteen months.

There is sufficient uncertainty surrounding the outlook for inflation to keep the RBA on the sidelines for the moment.

- While there are factors which raise the risks to the inflation outlook as mentioned above, there are also downside risks. The high level of the A$ will be a moderating influence on inflation going forward. Also, the key driver of non-tradables inflation, namely unit labour costs, are likely to remain moderate as wages remain well-behaved.
- We are seeing evidence that the supply side of the economy is starting to expand which should help contain inflationary pressures.
- Other than the inflation figures, the only other new economic information since June have been partial indicators pointing to softer growth such as retail sales and dwelling construction approvals.
- The RBA may wish to tread carefully given the uncertainty surrounding the outlook for the US economy. There is increasing concern about the potential fallout from the downturn in the US sub-prime mortgage market and the impact on the US and global economies. Movements overnight on global financial markets are a timely reminder of these risks.
- While RBA Governor Glenn Stevens is on the record as saying the RBA would not shy away from hiking in an election year, the burden of proof necessary to do so will be especially high. It is worth noting here also that the final decision on monetary policy is ultimately made by the Reserve Bank Board, and it would not be unprecedented for it to argue for more time to assess the balance of risks, especially when the case for a hike is so finely balanced.

Our view is that the probability of an August rate hike is less than 50%

Less than 50/50

It will be a close call as to whether the RBA will raise rates in August. On balance, we don't believe they will pull the trigger.

Key points to note from this week's economic data releases are:

- The final commodities **producer price index** increased by 1.0% in the June quarter, following roughly flat outcomes in the previous two quarters. The intermediate price index rose by 1.7% in the quarter (3.4% over the year) and the preliminary price index posted an increase of 1.9% in the quarter (3.3% over the year).
- The **consumer price index** rose by 1.2% in the June quarter. Despite the higher quarterly outcome, the annual rate of consumer price inflation eased to 2.1%. The RBA's statistical measures of underlying inflation – the trimmed mean and weighted median – increased to 0.9% in the quarter. The annual rate of underlying inflation was unchanged at 2¾% (2.7% for the trimmed mean and 2.8% for the weighted median).
- The **DEWR Skilled Vacancies** Index fell by 0.1% in July to be 5.7% lower over the year. In the month, vacancies fell for professionals (-3.5%) and associate professionals (- 2.3%), while vacancies for trades increased (2.1%).

Amber Rabinov
Economist, Australia

Dr. Alex Joiner
Economist, International

Data preview

31st July: Building Approvals (Jun)

ANZ forecast: +8.0% MoM, -0.2% YoY, Last: -5.6% MoM, -7.2% YoY

The pace of building approvals has slowed over the past few months, with June quarter numbers thus far down on figures for the March quarter. Although it does not appear that interest rates have imposed any renewed constraint on approvals (particularly as expectations of a rate rise waned over the latter half of the June quarter), the speculative building sector still appears reluctant to invest heavily, most likely due to concerns regarding profit margins in an environment of rising construction costs and only moderate house price growth. This is despite the market balance moving further into shortage. However, short-term factors will be the major drivers of the building approvals result in the month of June, with the number of approvals forecast to rebound 8% after the sharp 5.6% drop experienced in May. ***(AR)***

31st July: RBA Private Sector Credit (Jun)

ANZ forecast: +1.1% MoM, +14.5% YoY, Last: +1.2% MoM, +14.6% YoY

Private sector credit growth has boomed in 2007, driven by vigorous demand for business credit and solid growth in household credit. The trend in household credit growth is likely to continue in June, with a fall in personal credit finance approvals in recent months likely to be largely offset by a pick up in housing credit finance approvals. However, a slight pull back in business credit is expected following robust growth experienced over the past five months and given softer business credit approvals of late. In aggregate, we forecast private sector credit to grow 1.1% in April, taking through the year growth down a notch to 14.5%. ***(AR)***

1st August: Retail Trade (Jun & Jun Qtr)

Jun (nominal): ANZ forecast: +1.2% MoM, Last: -0.1% MoM

Jun qtr (real): ANZ forecast: +0.4%, Last: +2.0% QoQ

Jun qtr (prices): ANZ forecast: +0.6%, Last: +0.2%

Australian shoppers appear to have taken a breather thus far in the June quarter, with retail sales falling by an average of over 0.2% per month in April and May. However, we are likely to see a strong rebound in retail sales in June. This expectation is supported by evidence from partial indicators: personal credit growth has been strong, tracking close to 12% in annual terms; annual growth in employment has averaged 3% over the past six months and will be boosting aggregate incomes; and consumer confidence has tracked well above its long-term average since the beginning of the year. Petrol prices were also contained in the month of June, rising just 0.4%, and remain below the peaks of 2006. With regards to volume and prices data for the June quarter, we expect prices to rise by 0.6%, in line with higher general consumer price inflation, implying that retail volumes are likely to have risen just 0.4% in the quarter. ***(AR)***

1st August: International Trade in Goods & Services (Jun)

Trade balance: ANZ forecast: -$1.3bn, Last: -$0.8bn

It is expected that the trade balance will deteriorate in June due to a contraction in exports and despite only moderate growth in imports. With commodity price growth slowing, much of the growth in resources exports will have to come via increased volumes. However, due to flooding and storms interrupting coal exports from the Hunter Valley, the overall volume of resources exports will contract markedly in the month. Rural exports will again be depressed with the positive impact of recent rains on production not flowing through to exports for some time. The strong Australian dollar is keeping a lid on the price of imported goods and keeping the overall value of imports in check, even though volumes are likely to have increased. Preliminary data suggest that merchandise imports expanded by 1.0% in the month in balance of payments terms. ***(AJ)***

Cherelle Murphy
Senior Economist, Markets

Market matters

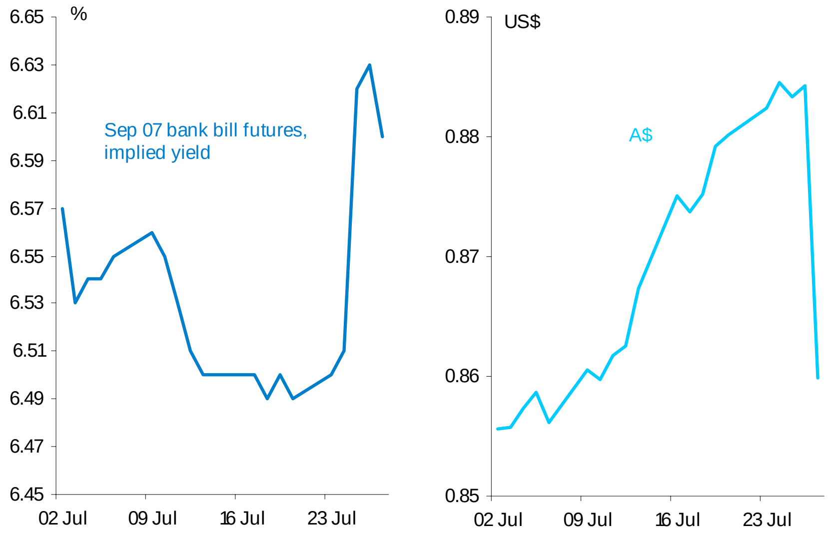
CPI lifts bond yields

Interest rate markets reacted savagely to the stronger than expected June quarter CPI data released on Wednesday. Yields jumped across the curve, particularly at the front end. Markets now see an increased likelihood of a rate hike in August. The implied yield on the September bank bill futures contract rose 11bps while the yield on the three-year bond jumped 10bps, the largest daily increase in nine months. Many economic forecasters also changed their view, with 20 out of 25 expecting a rate hike in August after the CPI data, according to Bloomberg. In a survey taken just three weeks ago, only 10 of 27 forecasters had expected a rate hike by the end of the year.

The 10-year bond yield was 11bps lower over the week

At the long end of the yield curve, 10-year bond yields rose 3bps following the CPI but then were taken down again at the end of the week by a sharp correction on equity markets and higher US Treasury yields. The 10-year bond yield was 11bps lower over the week, while the three-year yield was broadly unchanged. This caused a flattening in the yield curve to -31bps from -19bps.

Rates markets move to price in an August rate hike while the $A dips



Source: ANZ Investment Bank and Bloomberg

In line with the movements in rates markets, we agree that there is an increased chance of higher inflation and therefore higher short-end rates down the track. However, as argued above, we do not believe the RBA board will hike rates following their August 7 meeting. Therefore, we think the front end of the yield curve has overreacted and sold off too far. If we are correct and the RBA disappoints the market on August 8, the market will rally strongly, causing a fall in yields. September and December 2007 bank bill futures could rally around 15bps. We also expect the yield curve to steepen in this situation, and the -31bps could narrow to around -18bps basis points after the RBA's meeting.

Inflation fears also buoy the A$, temporarily

Currency markets reacted to the CPI data by pushing the A$ higher in an already well bid market. The A$ reached a fresh 18-year high, just above 0.8870 following the CPI data. But the A$ was knocked violently lower as the correction in global equity markets caused a flight to safety, resulting in negative sentiment towards carry trades and therefore the A$ among other high yielding currencies.

The weakness in the A$ came despite a poorly performing US$ which traded close to a 3½ year low on the US$ Index. The US$ was downtrodden following softer US housing data and worries about the ongoing impact of sub-prime mortgage delinquencies. News of the ramifications continued this week with the US's largest mortgage lender, Countrywide Financial, downgrading its full-year guidance on the basis of pressures in both sub-prime and prime mortgages.

The A$ managed to rebound from its lows against the NZ$ later in the week even though both currencies dipped against the US$. The A$/NZ$ rallied above 1.1155 from 1.0916. A widely anticipated rate hike from the Reserve Bank of New Zealand was accompanied by a statement suggesting this was likely to be the last hike for some time. The outlook for Australian and New Zealand monetary policy now looks quite different and it is likely that the RBA will eventually start to close the gap between its 6.25% policy rate and the NZ equivalent which is now at 8.25%. Accordingly, we expect the A$/NZ$ will continue to climb over the coming 12 months.

We expect the A$/NZ$ will continue to climb over the coming 12 months

We think it will be difficult for the A$ to find further strength against the US$ in the current environment. The wobbles on Thursday night showed how vulnerable the A$ is to risk aversion and how far it can tumble from an overbought position. Although there may be some technically-based buying left in the market and exporters may also be forced to buy again to replace their cover, we expect it would take fresh news to push the A$ to a new higher trading range. Further, we think the market may get nervous about the call for an August rate hike from the RBA. This may put some downward pressure on the A$ over the next two weeks. We maintain our forecast for the A$ at US$0.87 by the end of the current quarter.

Australian stocks plummet in late week sell-off

A large fall in global stock markets at the end of the week caused a sharp correction in the Australian stock market on Friday. The ASX 200 was down more than 300 points over the week, its largest weekly fall since the index was established in 1992. Despite the falls in the index, it was still up over 7% this year so far.

Although the sell-off was sparked by global factors, local factors have also been at play

Although the sell-off was sparked by global factors, and particularly worries about the impact of the downturn in US housing, local factors have also been at play. As noted above, markets have brought forward their expectations of a rate hike from the Reserve Bank and the sharp appreciation of the A$ has started to impact exporters' earnings. Santos was the latest company to announce a squeeze on profits from the appreciating currency. The company said June quarter sales revenue had been impacted by the surging A$ which has seen realised oil prices drop 10% in A$ terms.

However it was not all bad news, with firms in the resource sector delivering upbeat production reports. BHP Billiton for example released an upbeat FY07 production report underpinned by strong demand, particularly from key Asian markets. Its share price however, ended lower over the week.

Tony Pearson
Head of Australian Economics

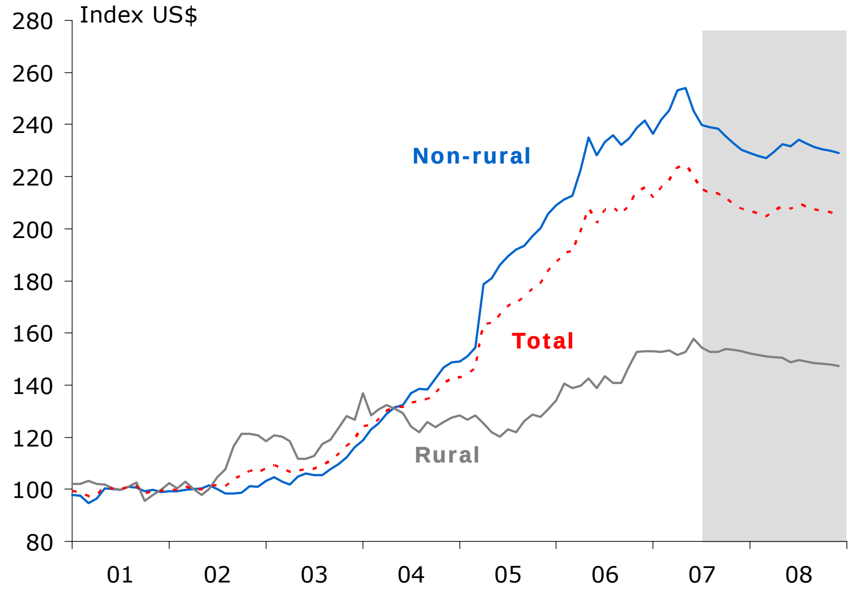
Economy in focus — Global demand lifts rural prices

Pleasing lift in rural commodity prices

Rural commodities have enjoyed significant price rises in recent years

With all the hype surrounding the once-in-a-generation boom in the prices of industrial commodities such as iron ore, coal, and base metals, it is often overlooked that rural commodities have in recent years been enjoying significant price rises of their own. Over the past five years the rural segment of the RBA Index of Commodity Prices has lifted by around 50% in US$ terms. This is not as spectacular as the rise in non-rural commodity prices – which have lifted by a factor of 2.5 – but it is still a very worthwhile gain for rural producers.

US$ price increases have been solid for rural commodities, although not as spectacular as for non-rural resources



Source: Reserve Bank of Australia

Rural prices in US$ are now at the highest level since the Reserve Bank series was first compiled in July 1982

Rural prices in aggregate are now at the highest level since the Reserve Bank series was first compiled in July 1982. And a further piece of good news is that we expect prices to remain at around the current high levels for at least the next 18 months. This will please rural producers struggling to get back on their feet after the drought, for it holds out the prospect that a rebound in production volumes combined with still high prices will deliver a very substantial boost to rural revenues over the coming year.

The reasons for the strong price performance of rural commodities are more varied than for non-rural commodities.

Higher rural prices have reflected a variety of factors

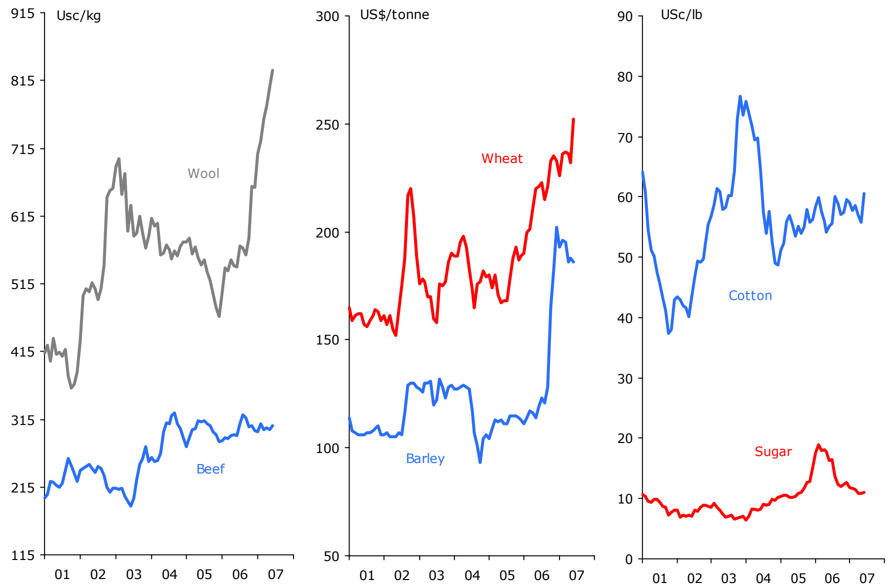
For the non-rural commodities the story is straightforward. An unexpectedly strong rebound in global activity from 2001, in large part due to an acceleration in growth of developing countries such as China, led to demand for industrial commodities outstripping supply. The lead times for producers to increase supply are long, such that the environment of excess demand has persisted for a number of years.

For rural commodities there are more complexities to the story. In some cases strong demand from developing countries such as China has been a factor. For many commodities poor seasonal conditions in recent years both in Australia and globally have led to a shortage of supply. Changes in use have been a factor for some grains, with the growth of synthetic fuel production (ie. ethanol). And for beef the closure of key global markets due to health scares have provided opportunities for Australian producers. The stories for the top six exported rural commodities are worth exploring in a little more detail.

Wheat (ASW, US$/tonne)

The world price of wheat has increased by 50% since the middle of 2005. This has in part reflected a strong rise in world consumption in recent years, due mainly to increased demand for animal feedstock in Europe and growing interest in industrial use particularly for ethanol production. This has overlaid with reduced production and a fall in stocks due to poor seasonal conditions in a number of countries in 2006-07. Global production is expected to rebound in 2007-08 with the return of more normal seasonal conditions, other than in China (the world's largest producer), where adverse weather and a reduction in sown area are expected to lead to a small decrease in output. Consumption is expected to increase to broadly match production in 2007-08, which will keep stocks at low levels, and help to underpin prices at their current high level.

Prices for key rural exports are generally stronger



Sources: Datastream, Reuters, MLA Weekly, The Age

Barley (Portland CCC rep, US$/tonne)

Barley prices have also increased sharply, with US$ prices rising by around two thirds over the 18 months to June 2007. As for wheat, this in part reflected poor seasonal conditions and reduced production in 2006-07. But beyond that, rising global demand for grains such as wheat and corn as feedstock for ethanol production has lifted the prices more broadly of other categories of grains through substitution. In addition, global demand for malting barley has been strong in line with global beer consumption. Overall prices for barley are expected to remain firm in 2007-08.

Cotton (Liverpool Cotlook "A" index, USc/lb)

The recent price performance of cotton has not been as spectacular as that for grains. The most recent peak in prices was in late 2003 as a result of reduced production and decreased stocks. A subsequent rebound in production and stocks has led to some retracement of prices. More recently these trends have been exacerbated by reduced import demand from China as a result of new sliding duties on imports and increased domestic production, combined with high cotton stocks in the USA. But there are good prospects for higher prices in 2007-08. Global production is expected to remain broadly unchanged, while consumption is expected to rise in China, India and Pakistan in response to increased production of clothing and textiles, and as cotton is substituted for higher priced oil-based synthetic fibres. Australian production of cotton fell sharply in 2006-07 and is expected to be further reduced in 2007-08 due to a shortage of water for irrigation.

Beef (95 CL Bull, USc/kg)

Australian beef prices rose strongly over the year to mid 2004 to historical highs and have subsequently remained at this higher level. The reason was simple –

Japan (and subsequently other countries) banned the importation of American beef at the end of 2003 after BSE (mad cow disease) was discovered in the USA, opening up new markets to exports of Australian beef. These bans are now being eased although sales of US beef remain modest. Offshore demand for Australian beef is expected to remain firm. Australian production will decline as herds are rebuilt on improved seasonal conditions. Together these factors should ensure prices remain well supported.

Sugar (New York Spot No 11, USc/lb)

World sugar prices rose spectacularly through 2004 and 2005, tripling in price from trough to peak. This was a response to a fall in global production coupled with continued solid demand. A subsequent strong rebound in production has more than offset a continued steady increase in consumption, such that about half the price gain has been lost. Unfortunately this softening trend is expected to continue into 2007-08 in response to increased global production, despite increased demand for sugar for ethanol production and higher consumption in Asia as incomes rise. Returns to Australian producers will be supported by higher production volumes in 2007-08 as the industry recovers from the 2006 cyclones, but this is not expected to be sufficient to fully compensate for lower prices.

Wool (Eastern market indicator, USc/kg)

Wool prices have increased strongly since early 2005, reflecting reductions in supply and falling stocks, partly due to the drought but also consistent with a decade long trend of falling production. This has been coupled with increased demand from China (Australia's largest market). Production is expected to fall further in 2007-08 as reduced flock size continues to weigh on output. Nevertheless, prices are expected to ease from their highs as cheaper synthetic fibres are substituted for wool.

Strong A$ erodes benefits

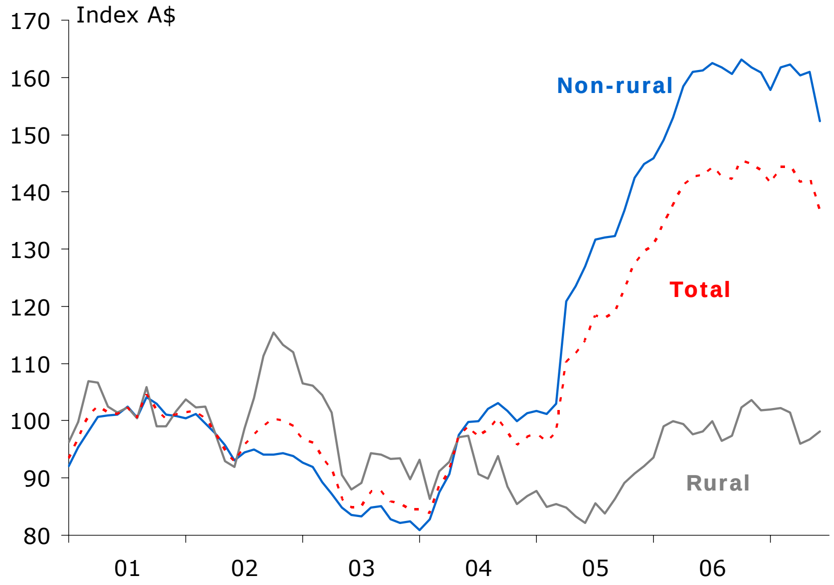
Unfortunately the rising A$ has eroded some of these gains

All this is good for the rural sector but there is one blackspot in this generally favourable environment, and that is the continued appreciation of the A$. Since the low of US0.4780 in 2001 the A$ has appreciated to over UAS0.88 at time of writing, an increase of 85% over six years. This has offset much of the gain in prices in US$ for those producers who did not hedge the foreign exchange risk. Since mid 2005 the overall index of rural commodity prices has risen by 31% in US$, but the increase in A$ has been a much lower 19%.

A better year ahead for the rural sector

Nevertheless, in aggregate rural producers should enjoy much improved incomes over the next year as still favourable A$ returns combine with significant increases in production.

A$ rural prices are broadly unchanged over the 2000s



Source: Reserve Bank of Australia

Economic and financial market forecasts

Australian economic indicators	2006	2007f	2008f	2009f
Economic activity (annual % change)				
Private final demand	3.8	5.0	4.4	4.5
Household consumption	3.1	4.3	4.0	3.9
Dwelling investment	-1.5	4.8	4.9	12.2
Business investment	8.6	8.2	5.3	3.4
Public demand	5.5	2.3	4.8	4.1
Domestic final demand	4.1	4.5	4.4	4.4
Inventories (contribution to GDP)	-0.6	0.6	-0.1	0.0
Gross National Expenditure (GNE)	3.5	5.0	4.3	4.4
Exports	3.4	5.0	8.1	6.5
Imports	7.6	11.3	8.2	5.5
Net Exports (contribution to GDP)	-1.0	-1.6	-0.5	-0.1
Gross Domestic Product (GDP)	**2.7**	**4.1**	**4.0**	**4.1**
Prices and wages (annual % change)				
Inflation: Headline CPI	3.5	2.3	2.7	2.7
Underlying*	2.9	2.8	2.7	2.7
Wages	4.0	4.1	4.2	4.2
Labour market				
Employment (annual % change)	2.1	3.0	2.9	2.0
Unemployment rate (%)	4.8	4.4	3.9	3.8
External sector				
Current account balance: A$ bn	-54.9	-61.7	-62.5	-67.9
% of GDP	-5.5	-5.7	-5.3	-5.4

*Average of RBA weighted median and trimmed mean statistical measures.

Australian interest rates	Current	Sep 07f	Dec 07f	Mar 08f	Jun 08f	Sep 08f
RBA cash rate	6.25	6.25	6.25	6.50	6.75	6.75
90 day bill	6.56	6.43	6.43	6.68	6.93	6.93
3 year bond	6.31	6.30	6.65	6.75	6.60	6.60
10 year bond	5.97	6.05	6.25	6.35	6.30	6.40
3s10s yield curve	-0.35	-0.25	-0.40	-0.40	-0.30	-0.20
3 year swap	6.85	6.75	7.12	7.22	7.05	7.05
10 year swap	6.73	6.70	6.90	6.95	6.90	7.00
International interest rates						
RBNZ cash rate	8.25	8.25	8.25	8.25	8.25	8.25
NZ 90 day bill	8.54	8.45	8.40	8.40	8.40	8.40
US Fed funds note	5.25	5.25	5.25	5.25	5.25	5.25
US 2 year note	4.55	4.90	5.10	5.15	5.25	5.50
US 10 year note	4.77	5.10	5.00	5.00	5.10	5.30
Japan call rate	0.50	0.75	0.75	1.00	1.00	1.25
ECB refinance rate	4.00	4.25	4.50	4.50	4.50	4.50
UK repo rate	5.75	5.75	6.00	6.00	5.75	5.75

For additional information on interest rates please refer to ANZ's *Interest rate strategy weekly*.

Foreign exchange rates	Current	Sep 07f	Dec 07f	Mar 08f	Jun 08f	Sep 08f
Australia and NZ exchange rates						
A$/US$	0.8595	0.87	0.88	0.89	0.86	0.83
NZ$/US$	0.7750	0.77	0.73	0.70	0.66	0.64
A$/¥	101.97	107.9	110.9	113.0	108.4	102.9
A$/€	0.6262	0.62	0.63	0.65	0.64	0.63
A$/£	0.4213	0.43	0.44	0.45	0.44	0.43
A$/NZ$	1.109	1.13	1.21	1.27	1.30	1.30
A$/CA$	0.9113	0.92	0.93	0.95	0.95	0.93
A$/CHF	1.0352	1.04	1.04	1.08	1.06	1.04
A$/CNY	6.500	6.51	6.51	6.50	6.21	5.92
A$ Trade weighted index	69.80	69.8	70.9	72.1	69.8	67.3
International cross rates						
US$/¥	118.6	124	126	127	126	124
€/US$	1.373	1.40	1.39	1.36	1.34	1.32
€/¥	162.8	174	175	173	169	164
£/US$	2.040	2.02	1.99	1.96	1.94	1.92
€/£	0.6728	0.69	0.70	0.69	0.69	0.69
US$/CA$	1.060	1.06	1.06	1.07	1.10	1.12
US$/CHF	1.204	1.19	1.18	1.21	1.23	1.25
US$ index	80.60	80.2	80.7	82.2	83.2	84.1
Asia exchange rates						
US$/CNY	7.562	7.49	7.40	7.31	7.22	7.13
US$/HKD	7.822	7.80	7.81	7.81	7.81	7.80
US$/IDR	9250	8800	8600	8625	8650	8675
US$/INR	40.52	39.9	39.5	39.4	39.3	39.1
US$/KRW	923.1	912	911	910	911	912
US$/MYR	3.466	3.41	3.39	3.38	3.37	3.35
US$/PHP	45.87	45.5	45.0	46.8	48.5	50.3
US$/SGD	1.516	1.50	1.50	1.50	1.49	1.49
US$/THB	30.15	34.0	34.5	34.0	33.5	33.0
US$/TWD	32.89	32.83	32.50	32.25	32.00	31.75
US$/VND	16143	16150	16200	16156	16185	16214
Pacific exchange rates						
PGK/US$	0.3387	0.33	0.33	0.32	0.32	0.32
FJD/US$	0.6258	0.64	0.63	0.63	0.61	0.60

For additional information on foreign exchange rates please refer to ANZ's *FX Weekly*.

What to watch — 4 weeks from Monday 30 July 2007

Mon 30 July	Tues 31 July	Wed 1 August	Thur 2 August	Fri 3 August
	11.30 ABS, **Building Approvals (Jun)** *ANZ forecast: +8.0% MoM, -0.2% YoY* *Last: -5.6% MoM, -7.2% YoY* **RBA Private Sector Credit (Jun)** *ANZ forecast: +1.1% MoM, +14.5% YoY* *Last: +1.2% MoM, +14.6% YoY* NAB Quarterly Business Survey (Jun Qtr) HIA New Home Sales (Jun)	9.30 Ai Group-PwC PMI (Jul) 11.30 ABS, **Retail Sales (Jun)** *ANZ forecast:* *Jun: (nom.) +1.2%* *Jun Qtr: (nom.) +1.0%* *Jun Qtr: (real) +0.4%* *Jun Qtr: (price) +0.6%* *Last:* *May: (nom.) -0.1%* *Mar Qtr: (nom.) +2.1%* *Mar Qtr: (real) +2.0%* *Mar Qtr: (price) +0.1%* ABS, **International Trade in Goods & Services (Jun)** *Trade balance:* *ANZ forecast: -$1.3bn* *Last: -$0.8bn* 16.30 RBA Commodity Price Index (Jul)		9.30 Ai Group-CBA PSI (Jun) 10.30 TD-MI Inflation Gauge (Jul)
Mon 6 August	**Tues 7 August**	**Wed 8 August**	**Thur 9 August**	**Fri 10 August**
11.30 **ANZ Job Advertisements series (Jul)**		9.30 **RBA interest rate decision (Aug)** Ai Group Performance of Construction Index (Jul) 11.30 ABS, **House Price Indexes (Jun Qtr)** ABS, **Housing Finance (Jun)**	11.30 ABS, **Labour Force (Jul)**	
Mon 13 August	**Tues 14 August**	**Wed 15 August**	**Thur 16 August**	**Fri 17 August**
11.30 **RBA Quarterly Statement on Monetary Policy (Aug)**	11:30 NAB Business Survey (Jul)	10.30 WBC-MI Consumer Sentiment (Aug) 11.30 ABS, **Wage Price Index (Jun Qtr)**	10.30 MI-WBC Consumer Inflation Expectations (Aug 11.30 ABS, Average Weekly Wages (Jun Qtr)	10.00 **RBA Governor Stevens testifies to parliamentary committee** 11.30 ABS, Merchandise Imports (Jul)
Mon 20 August	**Tues 21 August**	**Wed 22 August**	**Thur 23 August**	**Fri 24 August**
		10.30 WBC Leading Index (Jun) 11.00 DEWR Skilled Vacancies (Aug) 11.30 ABS, New Motor Vehicle Sales (Jul)		

ANZ Research

Economics@ANZ

Saul Eslake Chief Economist +61 3 9273 6251 Saul.Eslake@anz.com	**Fiona Allen** Business Manager +61 3 9273 6224 Fiona.Allen@anz.com			
Tony Pearson Head of Australian Economics +61 3 9273 5083 Tony.Pearson@anz.com	**Mark Rodrigues** Senior Economist, Industry +61 3 9273 6286 Mark.Rodrigues@anz.com	**Wain Yuen** Economist, Industry +61 3 9273 6295 Wain.Yuen@anz.com	**Riki Polygenis** Senior Economist (Acting), Australia +61 3 9273 4060 Riki.Polygenis@anz.com	**Amber Rabinov** Economist, Australia +61 3 9273 4853 Amber.Rabinov@anz.com
Amy Auster Head of International Economics +61 3 9273 5417 Amy.Auster@anz.com	**Katie Dean** Senior Economist, International +61 3 9273 1381 Katie.Dean@anz.com	**Jasmine Robinson** Senior Economist, International +61 3 9273 6289 Jasmine.Robinson@anz.com	**Dr. Alex Joiner** Economist, International +61 3 9273 6123 Alex.Joiner@anz.com	
Paul Braddick Head of Financial System Analysis +61 3 9273 5987 Paul.Braddick@anz.com	**Ange Montalti** Senior Economist, Financial System Analysis +61 3 9273 6288 Ange.Montalti@anz.com			
Warren Hogan Head of Markets Research +61 2 9227 1562 Warren.Hogan@anz.com	**Cherelle Murphy** Senior Economist, Markets +61 3 9273 1995 Cherelle.Murphy@anz.com			

ANZ Investment Bank

Warren Hogan Head of Markets Research +61 2 9227 1562 Warren.Hogan@anz.com	**Sally Auld** Senior Interest Rate Strategist +61 2 9227 1809 Sally.Auld@anz.com	**Tony Morriss** Senior Currency Strategist +61 2 9226 6757 Anthony.Morriss@anz.com	**Cherelle Murphy** Senior Economist, Markets +61 3 9273 1995 Cherelle.Murphy@anz.com
David Croy Strategist +44 20 7378 2070 croyd@anz.com	**Patricia Gacis** Market Strategist +61 2 9227 1272 Patricia.Gacis@anz.com		
Sarah Percy-Dove Head of Credit Research +61 2 9227 1142 Sarah.Percy-Dove@anz.com	**John Manning** Senior Credit Analyst +61 2 9227 1493 John.Manning@anz.com	**Bradley Bugg** Senior Credit Analyst +61 2 9227 1693 Bradley.Bugg@anz.com	

Research & Information Services

Mary Yaxley Head of Research & Information Services +61 3 9273 6265 Mary.Yaxley@anz.com	**Marilla Rough** Senior Information Officer +61 3 9273 6263 Marilla.Rough@anz.com	**Manesha Jayasuriya** Information Officer +61 3 9273 4121 Manesha.Jayasuriya@anz.com

ANZ New Zealand

Cameron Bagrie Chief Economist +64 4 802 2212 bagriec@anz.com	**Khoon Goh** Senior Economist +64 4 802 2357 gohk@anz.com	**Philip Borkin** Economist +64 4 802 2199 borkinp@anz.com
Sean Comber Economist +64 4 802 2286 combers@anz.com	**Steve Edwards** Economist +64 4 802 2217 edwards1@anz.com	**Kevin Wilson** Rural Economist +64 4 802 2361 Kevin.Wilson@nbnz.co.nz

Important Notice

Australia and New Zealand Banking Group Limited is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11 005 357 522

10th Floor 100 Queen Street, Melbourne 3000, Australia

Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom

Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of NASD and SIPC)

6th Floor 1177 Avenue of the Americas

New York, NY 10036, United States of America

Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND by:

ANZ National Bank Limited

Level 7, 1-9 Victoria Street, Wellington, New Zealand

Telephone +64 4 802 2000