

The Week Ahead

- Cyclone Yasi carved a devastating path of destruction across most of North Queensland this week.
- Next week's January labour force figures are the first of the disaster-affected data flow to come through.
- RBA Governor Glenn Stevens will detail the RBA's views in his semi-annual Parliamentary testimony next Friday.
- Tonight's US non-farm payrolls to set the tone for markets in the week ahead.

Australia's economy has been battered by natural disasters through the course of December and January. Floods across five states inflicted significant damage on mines, crops, businesses, residences and on Brisbane – the third largest capital city. February has also begun in disastrous circumstances, with Category 5 Cyclone Yasi crossing the North Queensland coast on Wednesday.

Thankfully the most devastating impacts of the cyclone occurred away from major population centres. But this is of little solace to those communities that weathered the full force of the storm. Such was the ferocity of the storm that that significant swathes of major centres like Townsville – 150-200kms south of the major impact zone – are likely to remain without power for the next few days.

In 2006 Cyclone Larry devastated the town of Innisfail, and wiped out crops in major banana producing areas. That production has been wiped out again. Yasi's size, relative to Larry, is likely to see a larger area of crop damage. Spikes in fruit and vegetable prices are likely to arise from the recent spate of natural disasters. The banana price impact from Cyclone Larry boosted the CPI by 0.6%pts in QII 2006. Rises in some other fruits were experienced as demand switched away from bananas.

There are a number of food producing regions that have been impacted by the floods and the cyclone. The subsequent supply disruptions may limit the capacity for other fruit and vegetable products – if also short on supply – to absorb the impact of lost banana supplies. This may result in a larger, broader-based inflation impact from the current disruption. In addition, the current disruptions are likely to occur at a time of already elevated inflation expectations, and in an economy with less spare capacity than in 2006. These factors are likely to jangle the RBA's nerves, particularly given the larger reconstruction task and larger mining construction boom now facing the economy.

The first flood-affected data will come through this week with the release of the January labour force figures. Consumer sentiment figures for February could also take a hit, with the cyclone activity potentially impacting on confidence. Retail sales figures for December are likely to show a decent increase, though sales for the year have disappointed relative to other components of household spending.

The week ahead in Australia culminates with RBA Governor Glenn Stevens' semi-annual appearance before the House of Representatives Standing Committee on Economics. Governor Stevens' testimony will no doubt contain significant mention of the RBA's estimates of the economic impacts of recent natural disasters. The upgrading of the RBA's growth outlook – which clearly strengthens the case for further rate rises – in today's Statement on Monetary Policy is also likely to be discussed. Michael Workman and John Peters review the RBA's February Statement on Monetary Policy from page two.

Labour force outcomes for New Zealand were released last week. Our New Zealand economist, Chris Tennent-Brown, reviews the weaker than expected outcome from page four. The Real Estate Institute of New Zealand's January housing market report is the key data release across the Tasman in the week ahead.

US non-farm payroll data for January is scheduled for release overnight, and will set the tone for markets over the start of next week. The Bank of England will announce its rates decision next Thursday. We are expecting no change. Elsewhere on the central bank front, the European Central Bank will publish its monthly report for February.

China's trade figures are scheduled for release next Thursday, providing fodder for markets. The usual monthly data deluge will be skipped in January, with the monthly figures published with the February data to account for the Chinese New Year affect.

Michael Blythe Chief Economist T. +612 9118 1101 E. michael.blythe@cba.com.au

Michael Workman Senior Economist T. +612 9118 1019 E. michael.workman@cba.com.au

John Peters Senior Economist T. +612 9117 0112 E. john.peters@cba.com.au

James McIntyre Economist T. +612 9118 1100 E. james.mcintyre@cba.com.au

Peter Dragicevich FX Economist T. +612 9118 1107 E. peter.dragicevich@cba.com.au

Chris Tennent-Brown CBA NZ Economist T. +64 9374 8819 E. chris.tennent-brown@asbbank.co.nz



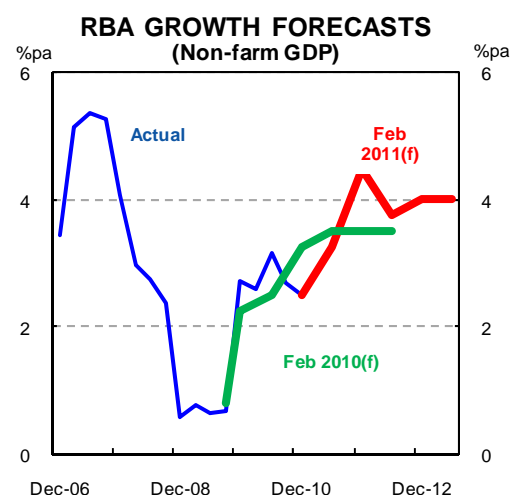
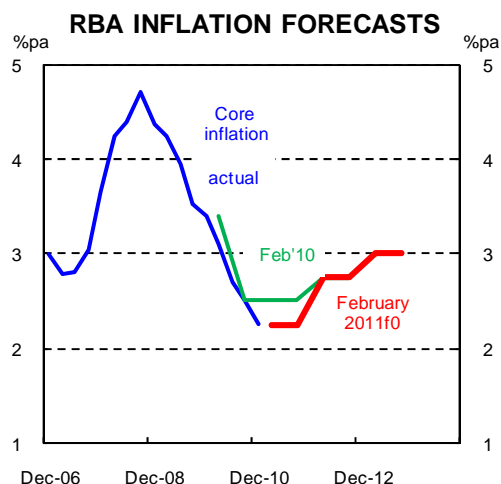
Australian Economic Perspective

RBA Statement on Monetary Policy(SMP), February 2011

- **2011 GDP growth** forecast raised by 0.5% to 4.25%. 2012 forecast of 4%pa unchanged.
- **2011 Underlying inflation** forecast unchanged at 2¼%. But headline CPI forecast raised slightly to 3%pa (was 2¼%).
- **Revised the terms of trade** higher because of higher mineral, energy and rural export prices forecasts. It will mean a bigger boost to national incomes.
- Medium term outlook for economy broadly unchanged. Strong mining investment and higher terms of trade will boost national income and demand.
- RBA sees expansionary shock from terms of trade at 50 year highs, limited spare capacity, tight labour markets and rising wages as ingredients for higher medium-term inflation risks. So tightening bias remains in place.
- Reconstruction after Queensland floods are expected to offset near term weakness and boost 2011 GDP growth.
- RBA notes that downside risks to Asian growth have eased and China, India most of East Asia are now growing at a sustainable pace.
- Downside risks to domestic growth centre on delays to planned mining projects and whether subdued consumer retail spending continues.
- In our view, the RBA will lift the cash rate, to a cyclical peak of 5.75%, in early 2012 - with next RBA 0.25% move likely at the May RBA Board meeting.

The RBA sees developments in the international economy as remaining favourable for Australia's medium term growth outlook. It has revised its terms of trade forecasts higher because of stronger than expected rises in export commodity prices. Australia's nominal GDP growth which is currently near 10%pa is likely to stay elevated as a result. The nominal economy drives growth in profits, investment and taxes over the next few years. It means that the unemployment rate should push below 4.5% over the coming year.

The short term negative impacts from the Queensland floods will be offset by the positive effects that flow from reconstruction over 2011 and 2012.





Growth forecasts

2011 GDP at 4.25%.

The Bank's central forecast for the economy over the next few years is largely unchanged from the November SMP. However, the RBA notes that the recent floods will have a material effect on the near term profile of GDP, with growth in the December and March quarters notably lower than would otherwise have been the case, followed by a strong recovery in the June quarter as coal production picks up and the rebuilding effort gets under way. Over the four quarters to December 2011, GDP is expected to increase by 4¼ per cent. Beyond 2011, GDP is forecast to grow by 3¾–4 per cent.

Mining investment and income boost.

This medium-term outlook continues to reflect the expected strong growth in mining investment and high commodity prices, which have been providing a substantial boost to incomes in Australia. With GDP growth expected to be above trend over much of the forecast horizon, pressures on capacity are likely to emerge in parts of the economy as the structural adjustment to the large change in relative prices takes place. The substantial increase in the price of Australia's exports has meant that the real exchange rate is higher than it would otherwise have been, and this is contributing to differences in growth prospects across industries.

Labour market and wages

Jobs market robust.

The RBA says the labour market continues to be strong, with employment increasing by nearly 200,000 persons in H1 2010, the participation rate increasing, and the unemployment rate ending the year at 5 per cent. The RBA sees continued solid employment growth over 2011, though most likely at a slower pace. The Bank sees the unemployment rate dipping from its current rate of 5 per cent to 4½ per cent by mid 2013. The RBA notes the jobs market is tightest for some mining-related and skilled occupations.

The RBA observed that wages growth increased over 2010, consistent with the strengthening in labour market conditions. This pick-up reflected stronger wage growth in the private sector, following low outcomes in 2009, and continued solid growth of public-sector wages. The RBA also noted "labour costs appear to have grown at around their average pace over 2010". Looking ahead, the RBA sees a gradual increase in wage growth as the jobs market tightens further.

Inflation

Meanwhile, on the inflation front, the RBA said that while "the exchange rate appreciation and soft retail spending are expected to continue to place downward pressure on the prices of many consumer durables, the floods have temporarily boosted the prices of some commodities". In terms of headline inflation, the floods are expected to add around ¼ percentage point to CPI inflation in the March quarter – mainly through higher fruit and vegetable prices – with much of this being reversed in the June quarter. This estimate excludes any impact from Cyclone Yasi. The RBA's call on the medium-term outlook for inflation is broadly unchanged from the November SMP. In underlying terms, the RBA expects the CPI to be around 2½ per cent later in 2011, before picking up gradually to 3 per cent by late 2012.

Table 1: RBA GDP & INFLATION FORECASTS*, Annual % change

(November 2010 SMP forecasts, where revised, in brackets)

	<i>Latest 2010a</i>	Dec 10	June 11	Dec 11	June 12	Dec 12	June 13
GDP(QII)	2.7	2¾ (3½)	3¼ (3½)	4½(3¾)	3¾	4	4
Non-farm GDP(QII)	2.5	2½(3¼)	3¼(3¾)	4½(3¾)	3¾	4	4
CPI inflation (QIII)	2.7	2.7	2½(2¾)	3(2¾)	2¾	3	3
Underlying CPI (QIII)	2.4	2¼(2½)	2¼ (2½)	2¾	2¾	3	3

*RBA Technical assumptions: AUD/USD at USD1.00, AUD TWI at 74, WTI oil prices at USD96 per barrel. Cash at market pricing on 3 February.

John Peters Senior Economist T. +612 9117 0112 E. john.peters@cba.com.au

Michael Workman Senior Economist T. +612 9118 1019 E. michael.workman@cba.com.au



New Zealand Economic Perspective

Data disappointment reaches a crescendo as NZ labour market worsens.

- Employment weaker than expected, falling 0.5%; unemployment rate lifting to 6.8%.
- Recovery in jobs growth falters in H2 2010 on patchy economic recovery and low business confidence.
- RBNZ to leave OCR on hold until September to support fledgling economic recovery.

Unemployment increases to 6.8%.

Thursday's QIV household Labour Force Survey showed New Zealand employment unexpectedly fell 0.5% over the quarter, and the unemployment rate lifted from 6.4% to 6.8%. The decline in QIV was weaker than early indicators suggested, with employment intentions suggesting that employment should have been much stronger over the second half of 2010 compared to what transpired. However, the Quarterly Employment Survey (released Tuesday) foreshadowed a decline in employment with full-time equivalent employees falling 1% and hours paid falling 0.2% (seasonally-adjusted).

The pace of wage inflation remains modest.

Wage growth measures (captured in the QIV Labour Cost Index and Quarterly Employment Surveys released on Tuesday) were in line with market expectations, with both the labour cost index and the average hourly earnings increasing 0.6% over QIV (private sector, ordinary time). Wage growth has picked up from very low levels over the second half of 2010. This follows a period of very rapid deceleration in wage growth, as many firms looked to control wage costs through wage freezes during the recession.

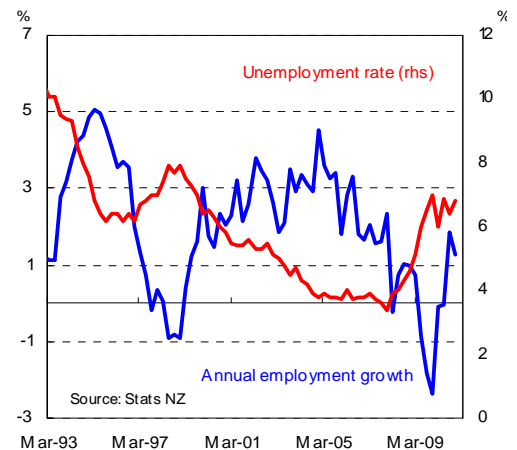
The recent pick up in wage growth also follows the lift in activity and labour demand over the past year. However, the pace of wage inflation remains modest. The annual pace of wage growth continues to run under 2% per annum. Firms continue to struggle with weak domestic demand, rising costs and poor profitability. In addition, the elevated unemployment rate and limited labour shortages in most industries will likely keep increases in wages muted over the next year.

Looking through the volatility of the HLFS survey, underlying pace of recovery slowing.

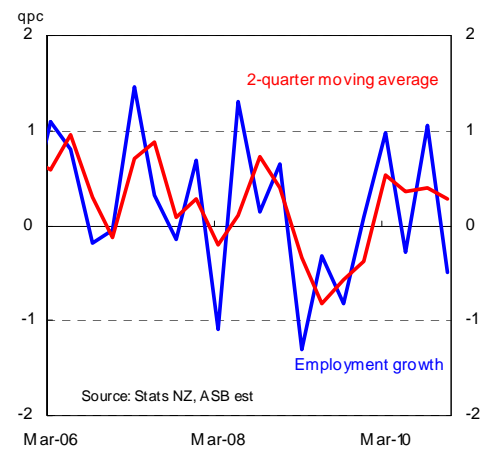
The sharp decline in employment continues a particularly choppy run of data in the Household Labour Force Survey, and we expect the QIV result is likely to be overstating the weakness in the labour market. Nonetheless, taking a look at the average rate of employment growth over the past two quarters, it is clear that momentum in the recovery waned over the second half of 2010. This has also been reinforced by the slower growth in hours worked over the second half of 2010, following a strong recovery over the first half of the year.

Reflecting this slowdown, the trend unemployment rate estimated by StatsNZ has

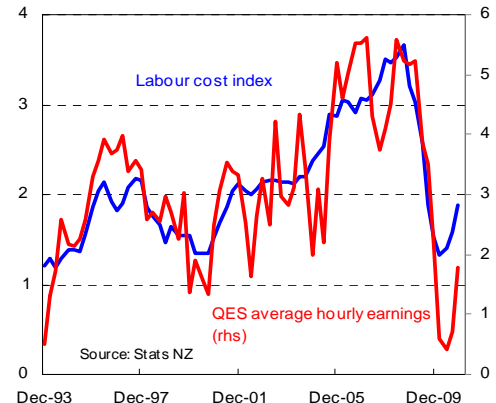
EMPLOYMENT & UNEMPLOYMENT



QUARTERLY EMPLOYMENT GROWTH



NZ ANNUAL WAGE GROWTH (private sector ordinary time)





increased over the second half of the year to 6.7% from a low of 6.3% in QII.

Alternatively, simply taking a two-quarter moving average of the unemployment rate smoothes right through the see-saw pattern of the past year and suggests the true unemployment rate has simply remained steady around 6.6% over the past year. This is consistent with a tepid recovery in jobs growth merely keeping up pace with the increase in the labour force over the past year.

Lift in unemployment rate adds to run of weaker data.

The disappointing result for QIV is in keeping with the recent run of disappointing economic data, in particular the unexpected contraction in GDP over QIII. Labour market data suggest that firms remain particularly cautious and reluctant to increase numbers amidst current economic uncertainty. Indeed, the solid growth in total hours worked, up 2.9%, points to growing labour demand. However, this has yet to flow through to increased jobs, with employment up just 1.3% on year-ago levels.

It appears businesses prefer to increase existing staff workloads rather than increase the number of employees.

Patchy economic performances weighs on confidence and hiring.

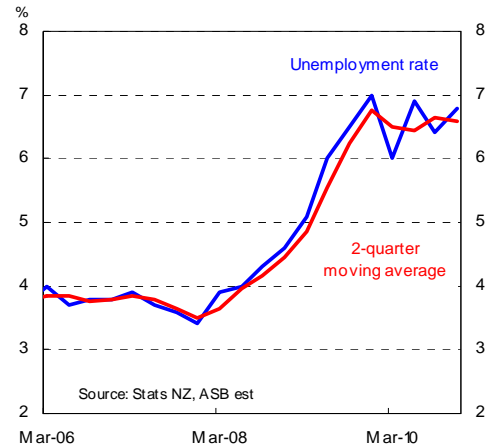
The participation rate declined over QIV, to 67.9% from 68.3%. The decline in participation is typical when employment falls and mitigates the increase in the unemployment rate. As the labour market recovery regains traction over 2011, the participation rate is likely to also lift once again.

The QIV labour market data proved weaker than expected (although was more in line with the weakness signaled by the QES survey). With the result adding to the run of underwhelming data, it is clear the economic recovery has been very patchy and struggled to keep traction over the second half of 2010.

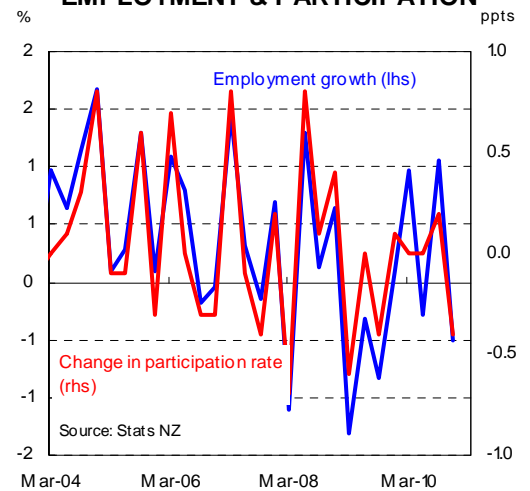
Nonetheless, there are clear signs that underlying labour demand is lifting, and is likely to flow through to increased employment over 2011 as business confidence recovers.

But for the time being, low and stimulatory interest rates are required to help the economic recovery gather momentum, and we do not expect the RBNZ to lift interest rates until September 2011.

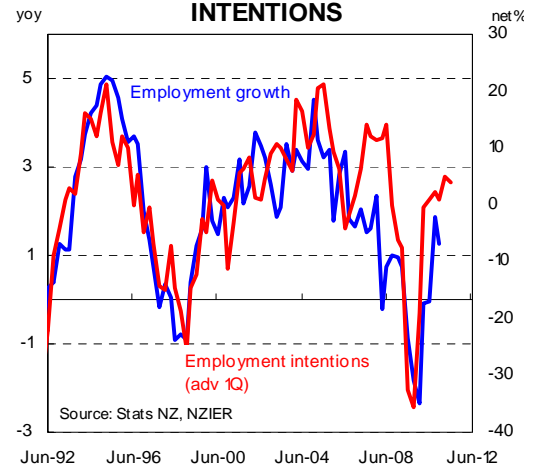
UNEMPLOYMENT RATE



EMPLOYMENT & PARTICIPATION



EMPLOYMENT & EMPLOYMENT INTENTIONS





The Week Ahead

Calendar - Australasia, Japan and China

Date	Time		Event	Period	Unit	Last	Forecast	
	AEST	Econ					Market	CBA
Mon 7 Feb	10.30	AU	AiG Performance of Construction Index	Jan	Index	43.8	~	~
	11.30	AU	ANZ Job Advertisements	Jan	m%ch	2.0	~	~
	11.30	AU	Retail Sales s.a.	Dec	m%ch	0.3	0.5	0.5
	11.30	AU	Retail Sales (ex inflation)	QIV	q%ch	0.7	-0.3	-0.5
	16.00	JN	Coincident Index	Dec P	Index	102.4	103.2	~
	16.00	JN	Leading Index	Dec P	Index	100.6	101.4	~
	16.30	AU	Foreign Reserves	Jan	AUD\$bn	41.6	~	~
Tues 8 Feb	10.50	JN	Japan Money Stock M2	Jan	y%ch	2.3	~	~
	10.50	JN	Current Account	Dec	¥bn	926.2	~	~
	10.50	JN	Adjusted Current Account	Dec	¥bn	1145.1	~	~
	10.50	JN	Current Account	Dec	y%ch	-15.7	~	~
	10.50	JN	Trade Balance – BOP Basis	Dec	¥bn	259.7	~	~
Wed 9 Feb	08.45	NZ	NZ Card Spending	Jan	m%ch	-0.9	~	~
	10.00	NZ	QV House Prices	Jan	y%ch	-0.9	~	~
	10.30	AU	Westpac Consumer Confidence	Feb	Index	104.6	~	~
	13.30	CH	China HSBC Services PMI	Jan	Index	53.1	~	~
	16.00	JN	Consumer Confidence	Jan	Index	40.2	~	~
	17.00	JN	Machine Tool Orders	Jan P	y%ch	64.0	~	~
Thu 10 Feb	10.50	JN	Housing Loans	QIV	y%ch	3.6	~	~
	10.50	JN	Machine Orders	Dec	m%ch	-3.0	~	~
	11.30	AU	Employment Change	Jan	'000	2.3	15.0	25.0
	11.30	AU	Unemployment Rate	Jan	%	5.00	5.0	5.0
	11.30	AU	Full-Time Employment Change	Jan	'000	1.7	~	~
	11.30	AU	Part-Time Employment Change	Jan	'000	0.6	~	~
	11.30	AU	Participation Rate	Jan	%	65.8	65.8	65.9
	13.00	CH	Trade Balance	Jan	US\$bn	13.08	~	~
	13.00	CH	Exports	Jan	y%ch	17.9	~	~
13.00	CH	Imports	Jan	y%ch	25.6	~	~	
Fri 11 Feb	08.45	NZ	Food Prices	Jan	m%ch	-0.8	~	~
	08.45	NZ	REINZ House Sales	Jan	y%ch	-11.3	~	~



Calendar – North America & Europe

Please note all days and times are UK time, not local release day/times

Date	UK		Event	Period	Unit	Last	Forecast	
	Time	Econ					Market	CBA
Mon 7 Feb	11:00	GE	Factory Orders sa	Dec	m%ch	5.2	-2.0	~
	13:30	CA	Building Permits	Dec	m%ch	-11.2	~	~
	20:00	US	Consumer Credit	Dec	US\$bn	1.35	2.00	~
Tues 8 Feb	00:01	UK	RICS House Price Balance	Jan	%	-39.0	-37.0	~
	11:00	GE	Industrial Production sa	Dec	m%ch	-0.70	0.0	~
		UK	Halifax House Prices sa	Jan	m%ch	-1.30	-0.30	~
	13:15	CA	Housing Starts	Jan	'000	171.5	173.5	~
	22:00	US	ABC Consumer Confidence	6 Feb	Index	-41	~	~
Wed 9 Feb	07:00	GE	Exports sa	Dec	m%ch	0.50	0.8	~
	07:00	GE	Imports sa	Dec	m%ch	4.10	0.5	~
	07:00	GE	Current Account	Dec	€bn	12.0	14.0	~
	07:00	GE	Trade Balance	Dec	€bn	12.9	11.0	~
	09:30	UK	Visible Trade Balance	Dec	£mn	-8736	-8809	~
	09:30	UK	Trade Balance Non EU	Dec	£mn	-5028	-4900	~
	09:30	UK	Total Trade Balance	Dec	£mn	-4123	-4055	~
Thu 10 Feb	09:00	EC	ECB Publishes Monthly Report	Feb				
	09:30	UK	Industrial Production	Dec	m%ch	0.40	0.4	~
	09:30	UK	Manufacturing Production	Dec	m%ch	0.60	0.4	~
	12:00	UK	BOE Asset Purchase Target	Feb	£bn	200	200	~
	12:00	UK	BOE rate announcement	10 Feb	%	0.5	0.5	0.5
		UK	NIESR GDP Estimate	Jan	q%ch	0.5	~	~
	13:30	US	Initial Jobless Claims	5 Feb	'000	415	410	~
	13:30	US	Continuing Claims	29 Jan	'000	3925	~	~
	15:00	US	Wholesale Inventories	Dec	m%ch	-0.2	0.80	~
	19:00	US	Monthly Budget Statement	Jan	US\$bn	-80.0	-59.0	~
Fri 11 Feb	07:00	GE	Consumer Price Index	Jan F	m%ch	1.00	-0.5	~
	07:00	GE	CPI - EU Harmonised	Jan F	m%ch	1.20	-0.5	~
	09:30	UK	PPI Input NSA	Jan	y%ch	12.50	~	~
	09:30	UK	PPI Output n.s.a.	Jn	y%ch	4.20	4.3	~
	09:30	UK	PPI Output Core NSA	Jn	y%ch	2.90	~	~
	13:30	CA	International Merchandise Trade	Dec	C\$bn	-0.1	-0.5	~
	13:30	US	Trade Balance	Dec	US\$bn	-38.3	-40.5	~
	14:55	US	University of Michigan Confidence	Feb P	Index	74.2	74.5	~



Calendar – Key Events To Watch

Australia and New Zealand

Monday 7 February

AU Retail sales, Dec, m%ch, (f) 0.5 (0.3 prev)

AU Real retail sales, QIV, q%ch, (f)-0.5 (0.7 prev)

Retail sales rose 0.3% in December, up from the revised 0.8% fall in November. Despite a robust labour market, retail conditions remain soft. Spending appetites are likely to have been dampened following the recent increases in borrowing costs and continued post-GFC consumer caution.

Anecdotal evidence of increased online purchases, brought on by the strong AUD, are likely providing a further headwind to retail sales figures. But, CBA's credit card data continues to show a small lift. We expect retail sales to have increased by 0.5% (MoM) in December.

The quarterly sales volume data will also be released. We expect retail volumes to have fallen in QIV, down 0.5%.

Wednesday 9 February

AU Consumer confidence, Feb, Index, (104.6 prev)

Australian consumer confidence has softened. Although the 5.7% decline in January pushed sentiment to a six-month low. The January result was somewhat expected following the recent rise in borrowing costs and the devastating Queensland floods. Signs of consumer caution have appeared throughout the economy. Retail sales increased only 0.3% in November, while the QIII national accounts indicated that the household savings ratio lifted to 10.2%. Additionally, only 2,300 jobs were created in December. But, the underlying strength in the Australia economy is likely to place a floor on any significant drop in consumer confidence.

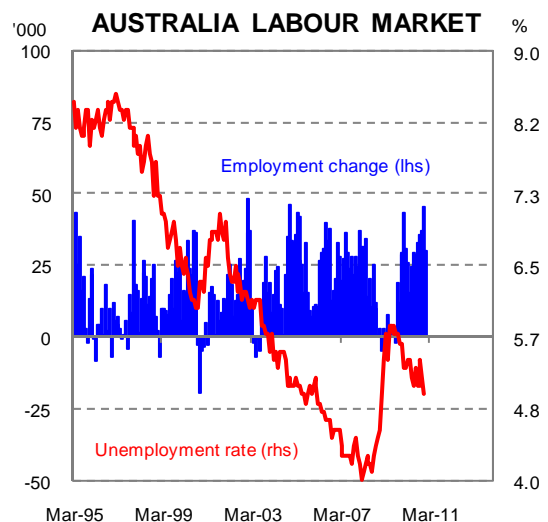
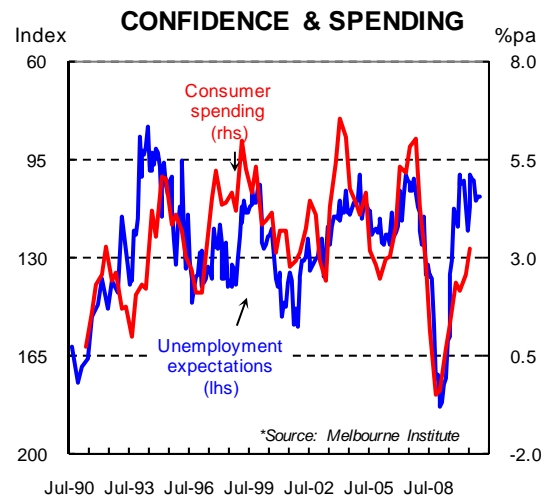
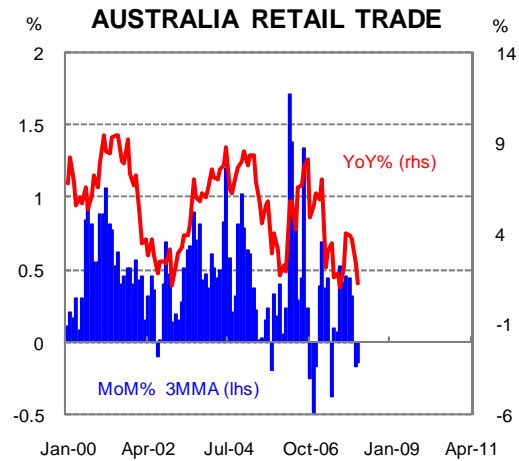
Thursday 10 February

AU Employment change, Jan, '000, (f) 25 (2.3 prev)

AU Unemployment rate, Jan, %, (f) 5.0 (5.0 prev)

AU Participation rate, Jan, %, (f) 65.9 (65.8 prev)

The Australian labour market added fewer jobs than expected in December, expanding by a modest 2,300. Markets had been expecting a 25,000 increase. The "correction" in December came after an exceptionally strong 2010 calendar year. Over 360,000 jobs were created in the year, with the annual jobs growth rate exceeding 3% since August. Significantly, the underlying strength in the Australian economy has pushed the participation rate to record levels. CBA's forward indicators continue to point to jobs growth of at least 25,000 over the coming months, while slower population growth is likely to result in an unemployment rate below 5% in 2011.





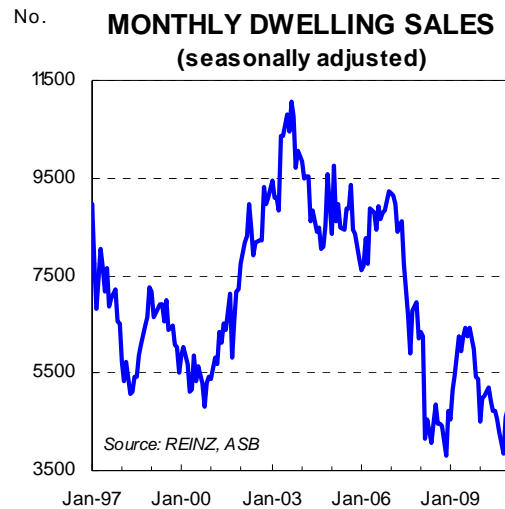
Friday 11 February

NZ REINZ housing market report, Jan

Housing activity has picked up in November and December from extremely weak levels in October. However, despite this improvement, the market remains frail, with turnover, prices, and days to sell all weaker than year-ago levels.

The housing market is typically quiet over December and January, which makes interpreting data slightly more difficult. But, we expect the caution shown by households in late 2010 will continue in early 2011. The amount of inventory on the market remains quite high relative to turnover, and the housing market remains tipped in favour of buyers.

The fundamentals for housing remain weak: migration is low and affordability is still stretched. In addition, while mortgage rates are low, they are significantly higher than early 2009, and are expected to rise slowly over the year ahead. We continue to expect softness in prices over the months ahead, with prices remaining down on year-ago levels, and around 5% off the 2007 peak.





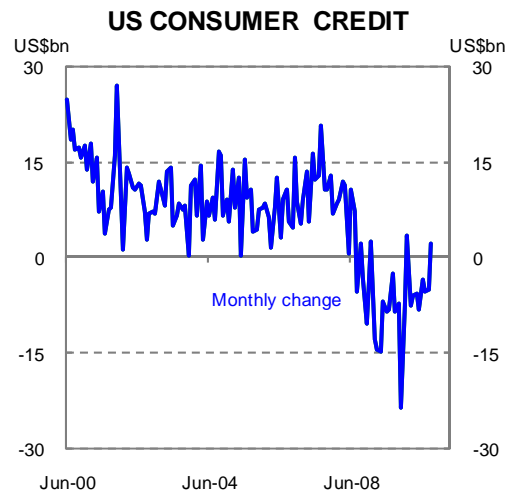
International

Monday 7 February

US Consumer credit, Dec, US\$bn, (1.35 prev)

In November, US consumer credit rose by US\$1.35bn. It was the second consecutive monthly increase, and was again led by a lift in non-revolving credit (such as government held student loans). Although consumer credit appears to be rebounding, even with the inclusion of the positive October and November increases, consumer borrowing has reduced by \$156.8bn since October 2008.

The uncertainty over the US economy has made US consumers more cautious. November marked the 27th consecutive month in which credit card borrowing had fallen. The sluggish US labour market is likely to weigh on any significant gains in consumer credit. The market is expecting a modest US\$2.0bn lift in December.

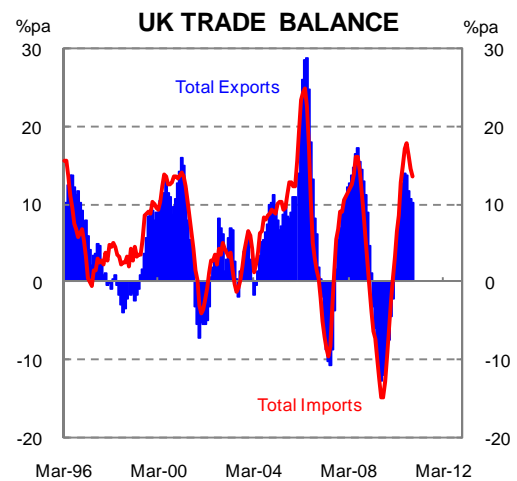


Wednesday 9 February

UK Trade balance, Dec, £bn, (8.736 prev)

The UK's visible trade deficit widened to a record £8.74bn in November. Although exports rose to £23.64bn, imports also lifted, surging to a record £32.38bn. The rise in imports was driven by a strong increase in oil.

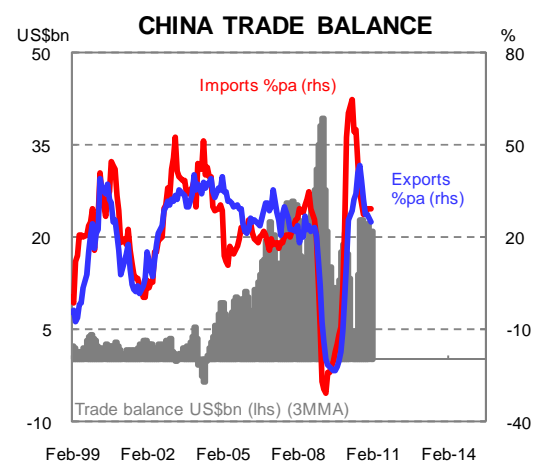
The relative weakness of the GBP continues to support UK exports, which have risen by 32% in the past 18 months. But, the patchy economic recovery in a number of the UK's trading partners is limiting export growth. In contrast, the recovery in UK domestic demand continues to place upward pressure on imports. Imports have risen by 21% in the past year. Market expectations are for the UK visible trade deficit to widen further, moving to £8.81bn in December.



Thursday 10 February

CH Trade balance, Jan, US\$bn, (13.08 prev)

China's trade balance underperformed market expectations in December, coming in at US\$13.1bn, down from US\$22.9bn in November. The December result was the smallest trade surplus since April 2010. In the year to December, China's exports rose 17.9%, while imports lifted 25.6% (to US\$154.2bn). While the December trade figures highlight continued demand for China's goods, the data reflects even more robust domestic Chinese demand. As domestic consumption trends higher in China over coming years, demand for imports is likely to follow. The market is expecting China's trade balance to fall to US\$10.2bn in January.

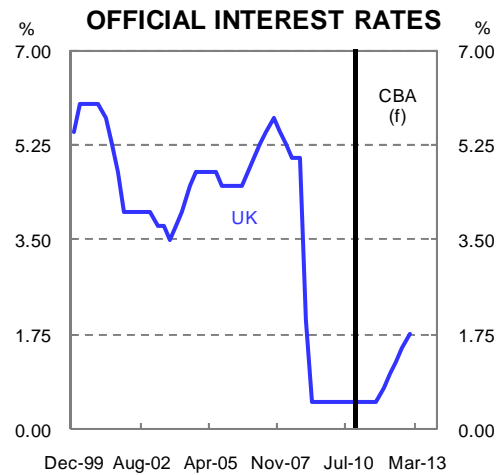




Thursday 10 February

UK BOE announces rates, Feb, %, (f) 0.5 (0.5 prev)

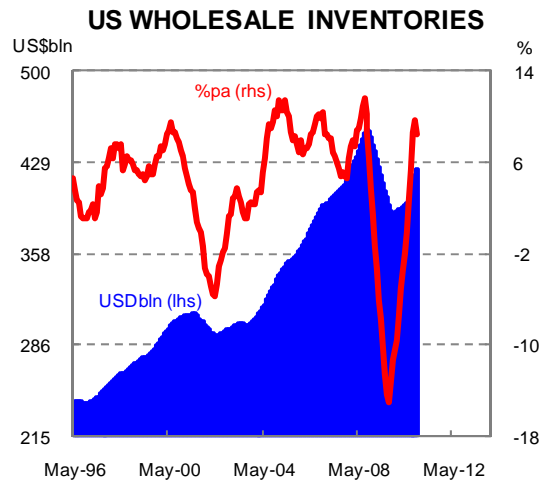
The Bank of England (BoE) is expected to remain on hold at its February policy meeting. The BoE has kept interest rates at 0.5% since March 2009. We continue to forecast BoE policy tightening to commence in QIV 2011. But, risks of earlier rate increases are present. UK inflation, currently 3.7%, has tracked above the BoE's 2% target since December 2009. Elevated UK inflation appears to be making the BoE uncomfortable. The BoE January policy meeting minutes indicated that two Monetary Policy Committee members voted for a rate rise, and that the committee had considered the case for monetary tightening. The minutes also stated that members now believe the risks to UK inflation in the medium-term had shifted upwards. The 12-month Overnight Index Swap market is pricing in 73bpts worth of BoE rate rises.



Thursday 10 February

US Wholesale inventories, Dec, m%ch, (-0.2 prev)

Wholesale inventories unexpectedly fell in November. The 0.2% (MoM) fall was the first monthly decline since December 2009. While inventory rebuilding was a major driver of the early stages of the US economic recovery, there appears to have been a shift into consumption driven growth. US personal consumption rose 4.4% (annualised) in QIV, the strongest increase since QIV 2006. Inventory draw downs, brought on by stronger than expected sales, subtracted 3.7 percentage points from the strong US QIV (3.1% saar) GDP growth.

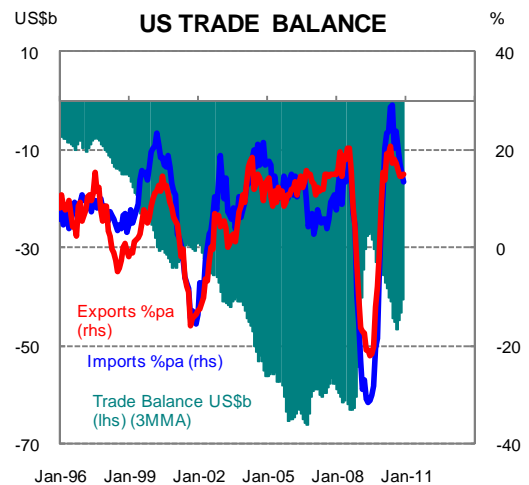


In November wholesale sales rose to the strongest level since September 2008, up 1.9% in the month. As a result the inventory to sales ratio dropped to 1.15 months in November, just above the record low (1.13 months) reached in April. The market is anticipating a rebound in inventories in December, rising by 0.8% in the month.

Friday 11 February

US Trade balance, Dec, US\$bn, (-38.3 prev)

The US trade deficit narrowed in November, down to US\$38.3bn. Increased global demand and the relatively weak USD helped lift US exports to US\$159.6bn, the highest level since August 2008. US exports have now increased by 28.6% from the April 2009 low. Significantly, exports to China reached a new record in November (US\$9.48bn).

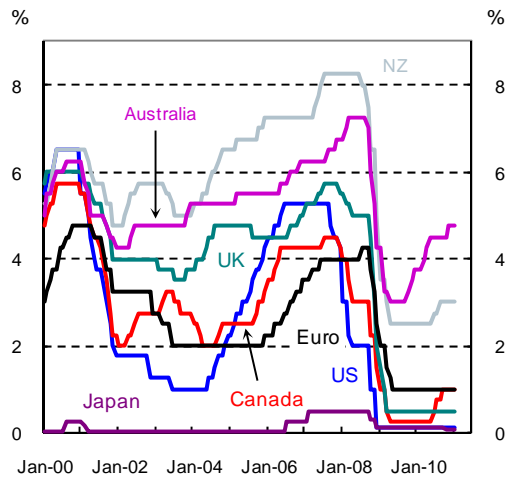


However, the improving US economy continues to place upward pressure on imports. Imports increased to US\$198bn in November, up 13.6% from a year earlier. As the US economic recovery continues to gather momentum, imports are likely to rise further. The US trade deficit is anticipated to widen over 2011. The trade deficit remains some 42% (or US\$28bn) off its August 2008 peak. Market expectations are for the US trade deficit to widen to US\$40.5bn in December.

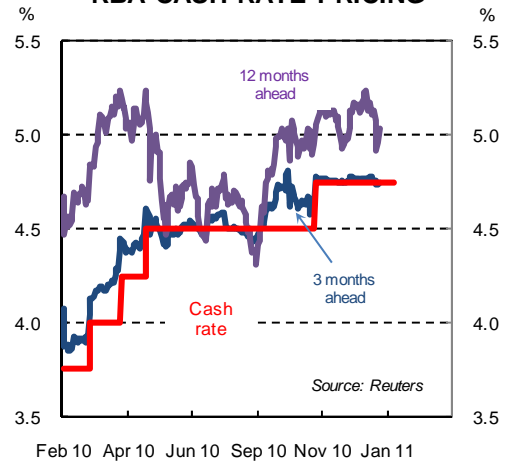


Monetary Policy

OFFICIAL INTEREST RATES



RBA CASH RATE PRICING



Country	Last Move	Next Meeting and Forecast	CBA View								
Australia (RBA)	25bp rise to 4.75% on 7 November 2010.	<p>■ 1 March, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>4.75%</td> <td>5.00%</td> <td>5.25%</td> <td>5.50%</td> </tr> </table>	Mar '11	Jun '11	Sep '11	Dec '11	4.75%	5.00%	5.25%	5.50%	The RBA has normalised monetary policy, and has begun a shift to contractionary rates to head off inflationary pressures. We expect rates to reach 5.50% by QIV 2011.
Mar '11	Jun '11	Sep '11	Dec '11								
4.75%	5.00%	5.25%	5.50%								
US (FOMC)	75-100bp cut to 0.25% on 16 December 2008.	<p>■ 16 March, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>0-0.25%</td> <td>0-0.25%</td> <td>0-0.25%</td> <td>0.50%</td> </tr> </table>	Mar '11	Jun '11	Sep '11	Dec '11	0-0.25%	0-0.25%	0-0.25%	0.50%	The Fed has announced a further \$600bn QE program in addition to reinvesting maturing funds into Treasury purchases. We do not expect the first Fed Funds hike until QIV 2011.
Mar '11	Jun '11	Sep '11	Dec '11								
0-0.25%	0-0.25%	0-0.25%	0.50%								
Eurozone (ECB)	25bp cut to 1.00% on 7 May 2009.	<p>■ 3 March, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Sep '11</td> </tr> <tr> <td>1.00%</td> <td>1.00%</td> <td>1.00%</td> <td>1.00%</td> </tr> </table>	Mar '11	Jun '11	Sep '11	Sep '11	1.00%	1.00%	1.00%	1.00%	The ECB is likely to keep rates on hold for longer, reflecting the challenges confronting Eurozone governments. We expect the first hike in Q1 2012.
Mar '11	Jun '11	Sep '11	Sep '11								
1.00%	1.00%	1.00%	1.00%								
UK (MPC)	50bp cut to 0.5% on 5 March 2009.	<p>■ 10 February, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>0.50%</td> <td>0.50%</td> <td>0.50%</td> <td>0.75%</td> </tr> </table>	Mar '11	Jun '11	Sep '11	Dec '11	0.50%	0.50%	0.50%	0.75%	The BoE is less concerned about the near term inflationary pressures. Significant spare capacity is expected to dull the pickup during recovery. We expect the first move in QIV 2011.
Mar '11	Jun '11	Sep '11	Dec '11								
0.50%	0.50%	0.50%	0.75%								
NZ (RBNZ)	25bp rise to 3.00% on 29 July 2010.	<p>■ 10 March, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>3.00%</td> <td>3.00%</td> <td>3.25%</td> <td>3.50%</td> </tr> </table>	Mar '11	Jun '11	Sep '11	Dec '11	3.00%	3.00%	3.25%	3.50%	The RBNZ has paused its tightening cycle, and we now expect the Bank to remain on hold over the coming months. We expect the tightening cycle to resume in QIII 2011, with the OCR eventually peaking at 4.5%.
Mar '11	Jun '11	Sep '11	Dec '11								
3.00%	3.00%	3.25%	3.50%								
Canada (BoC)	25bp rise to 1.00% on 8 September 2010.	<p>■ 1 March, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>1.00%</td> <td>1.25%</td> <td>1.50%</td> <td>1.75%</td> </tr> </table>	Mar '11	Jun '11	Sep '11	Dec '11	1.00%	1.25%	1.50%	1.75%	The Canadian economy is recovering, and the BoC has begun to remove stimulus. We expect a slow and steady removal of policy accommodation to ensue.
Mar '11	Jun '11	Sep '11	Dec '11								
1.00%	1.25%	1.50%	1.75%								
Japan (BoJ)	0-10bp cut to 0-0.1% on 5 October 2010.	<p>■ 15 February, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>0-0.10%</td> <td>0-0.10%</td> <td>0-0.10%</td> <td>0-0.10%</td> </tr> </table>	Mar '11	Jun '11	Sep '11	Dec '11	0-0.10%	0-0.10%	0-0.10%	0-0.10%	With the Japanese economy continuing to battle deflation the Bank of Japan is undertaking additional quantitative easing measures. Rates are unlikely to change anytime soon.
Mar '11	Jun '11	Sep '11	Dec '11								
0-0.10%	0-0.10%	0-0.10%	0-0.10%								



Forecasts - Economic

	Fiscal Years						Calendar Years						
	2006/07 (a)	2007/08 (a)	2008/09 (a)	2009/10 (a)	2010/11 (f)	2011/12 (f)	2005 (a)	2006 (a)	2007 (a)	2008 (a)	2009 (a)	2010 (f)	2011 (f)
Economic Activity													
Private final demand	4.6	6.4	0.1	0.7	4.0	5.0	4.7	3.4	7.2	3.1	-0.7	2.2	5.3
<i>Of which: Household spending</i>	4.3	4.7	0.2	2.1	3.3	3.1	3.7	3.1	5.6	1.9	1.0	2.7	3.5
Dwelling investment	1.9	1.2	-1.9	2.1	3.7	4.3	-3.4	-3.0	3.0	2.1	-4.2	4.7	5.1
Business investment	8.2	15.8	1.4	-4.9	7.1	12.1	15.9	8.5	16.0	9.5	-5.3	0.0	12.1
Public final demand	4.2	4.2	3.6	6.7	2.9	-0.7	4.3	3.7	3.4	6.3	1.6	8.8	-1.3
Domestic final demand	4.5	5.9	0.9	2.1	3.7	3.6	4.6	3.5	6.3	3.8	-0.1	3.7	3.7
Inventories (contrib to GDP)	0.3	0.0	-0.4	0.3	0.0	0.3	0.0	-0.4	0.6	-0.3	-0.4	0.3	0.4
GNE	4.8	5.9	0.4	2.4	3.7	3.9	4.6	3.0	7.0	3.5	-0.6	4.0	4.1
Exports	2.5	4.0	2.6	5.3	3.6	6.9	2.8	2.3	2.5	4.7	2.9	5.1	4.4
Imports	9.1	14.6	-3.3	5.0	9.7	7.5	9.0	7.0	12.2	11.5	-9.0	12.9	9.4
<i>Net exports (contrib to GDP)</i>	-1.2	-2.1	1.4	0.1	-1.4	-0.2	-1.0	-0.8	-1.9	-1.5	2.8	-1.6	-1.2
GDP	3.6	3.8	1.4	2.2	2.8	3.7	3.2	2.5	4.6	2.6	1.3	2.7	3.2
Prices & Wages													
CPI	2.9	3.4	3.1	2.3	3.0	3.2	2.7	3.5	2.3	4.4	1.8	2.9	3.2
Underlying CPI	2.7	3.7	4.3	3.2	2.7	3.1	2.5	2.8	2.9	4.4	3.7	2.8	3.0
AWOTE	3.6	4.9	5.5	5.6	4.0	4.2	5.3	3.4	4.8	4.8	5.7	4.8	4.1
WPI	4.1	4.1	4.1	3.0	3.8	4.0	4.0	4.2	4.0	4.2	3.6	3.3	4.0
Real h/hold disposable income	8.2	2.9	8.5	1.0	5.4	2.8	3.8	5.7	6.4	4.8	5.8	2.7	4.3
Labour Market													
Employment	3.1	3.0	1.6	1.4	3.1	2.0	3.5	2.6	3.1	2.8	0.7	2.7	2.5
Unemployment rate	4.5	4.2	4.9	5.5	5.1	4.7	5.0	4.8	4.4	4.3	5.6	5.2	4.9
External Accounts													
Current Account: \$bn	-61.3	-74.5	-38.4	-54.1	-32.4	-48.3	-54.6	-55.2	-70.2	-55.2	-52.9	-38.0	-38.0
% of GDP	-5.6	-6.3	-3.1	-4.2	-2.3	-3.2	-5.7	-5.3	-6.2	-4.5	-4.2	-2.8	-2.6



Forecasts - Financial

End Period	Interest Rates					Exchange Rates				
	Cash Rate	90-day Bank Bill	180-day Bank Bill	3-year Bond	10-year Bond	USD versus AUD	JPY	EUR	GBP	NZD
Jun-07	6.25	6.44	6.59	6.47	6.26	0.85	123.2	1.35	2.01	0.77
Sep-07	6.50	6.89	6.99	6.42	6.15	0.89	114.8	1.43	2.05	0.76
Dec-07	6.75	7.24	7.36	6.80	6.33	0.88	111.7	1.46	1.98	0.77
Mar-08	7.25	7.86	7.96	6.16	6.05	0.91	99.7	1.58	1.98	0.79
Jun-08	7.25	7.84	7.96	6.72	6.45	0.96	106.2	1.58	1.99	0.76
Sep-08	7.00	7.32	7.04	5.07	5.40	0.79	106.1	1.41	1.78	0.67
Dec-08	4.25	4.15	0.00	3.29	3.99	0.70	90.7	1.40	1.46	0.58
Mar-09	3.25	3.14	3.06	3.37	4.42	0.69	99.0	1.33	1.43	0.56
Jun-09	3.00	3.19	3.31	4.75	5.52	0.81	96.4	1.40	1.65	0.65
Sep-09	3.00	3.38	3.78	5.04	5.36	0.88	89.7	1.46	1.60	0.72
Dec-09	3.75	4.28	4.47	5.06	5.64	0.90	93.0	1.43	1.62	0.72
Mar-10	4.00	4.49	4.76	5.39	5.78	0.92	93.4	1.35	1.52	0.71
Jun-10	4.50	4.92	5.00	4.56	5.09	0.84	88.4	1.22	1.49	0.68
Sep-10	4.50	5.01	5.20	4.82	4.96	0.97	83.5	1.36	1.57	0.73
Dec-10	4.75	5.04	5.23	5.30	5.55	1.02	81.1	1.34	1.56	0.78
Mar-11	4.75	5.00	5.40	5.25	5.50	1.02	85.0	1.40	1.62	0.76
Jun-11	5.00	5.30	5.60	5.50	5.60	0.99	86.0	1.45	1.70	0.75
Sep-11	5.25	5.60	5.70	5.65	5.70	0.94	87.0	1.42	1.68	0.72
Dec-11	5.50	5.80	5.90	5.75	5.75	0.92	88.0	1.40	1.65	0.71

Forecast

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Economics: Perspective

Research

Commodities		Telephone	Email Address
Luke Mathews	Agri Commodities	+612 9118 1098	luke.mathews@cba.com.au
Lachlan Shaw	Mining & Energy Commodities	+613 9675 8618	lachlan.shaw@cba.com.au

Economics		Telephone	Email Address
Michael Blythe	Chief Economist	+612 9118 1101	michael.blythe@cba.com.au
Michael Workman	Senior Economist	+612 9118 1019	michael.workman@cba.com.au
John Peters	Senior Economist	+612 9117 0112	john.peters@cba.com.au
James McIntyre	Economist	+612 9118 1100	james.mcintyre@cba.com.au

Fixed Income		Telephone	Email Address
Adam Donaldson	Head of Debt Research	+612 9118 1095	adam.donaldson@cba.com.au
Philip Brown	Fixed Income Quantitative Strategist	+612 9118 1090	philip.brown@cba.com.au
Alex Stanley	Associate Analyst, Fixed Income	+612 9118 1125	alex.stanley@cba.com.au
Michael Bors	Credit Research Analyst	+612 9118 1108	borsma@cba.com.au
Steve Shoobert	Credit Research Analyst	+612 9118 1096	steve.shoobert@cba.com.au
Winnie Chee	Securitised Product	+612 9118 1104	winnie.chee@cba.com.au
Tally Dewan	Quantitative Analyst	+612 9118 1105	tally.dewan@cba.com.au
Kevin Ward	Database Manager	+612 9118 1960	kevin.ward@cba.com.au

Foreign Exchange		Telephone	Email Address
Richard Grace	Chief Currency Strategist	+612 9117 0080	richard.grace@cba.com.au
Joseph Capurso	Currency Strategist	+612 9118 1106	joseph.capurso@cba.com.au
Peter Dragicevich	FX Economist	+612 9118 1107	peter.dragicevich@cba.com.au
Andy Ji	Asian Currency Strategist	+65 6349 7056	andy.ji@cba.com.au

Delivery Channels & Publications		Telephone	Email Address
Monica Eley	Internet/Intranet	+612 9118 1097	monica.eley@cba.com.au
Ai-Quynh Mac	Information Services	+612 9118 1102	maca@cba.com.au

New Zealand		Telephone	Email Address
Chris Tennent-Brown	CBA NZ Economist	+64 9374 8819	chris.tennent-brown@asb.co.nz
Nick Tuffley	ASB Chief Economist	+64 9374 8604	nick.tuffley@asb.co.nz
Jane Turner	Economist	+64 9374 8185	jane.turner@asb.co.nz
Christina Leung	Economist	+64 9369 4421	christina.leung@asb.co.nz

Sales

Institutional	Telephone	Equities	Telephone
Syd FX	+612 9117 0190	Syd	+612 9118 1446
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Japan Desk	+612 9117 0025	NY	+1212 336 7749
Melb	+613 9675 6815		
	+613 9675 7495	Corporate	Telephone
	+613 9675 6618	NSW	+612 9117 0377
	+613 9675 7757	VIC	+612 9675 7737
Lon FX	+44 20 7329 6266	SA	+618 8206 4155
Debt & Derivatives	+44 20 7329 6444	WA	+618 9482 6044
Corporate	+44 20 7710 3905	QLD	+617 3015 4525
HK	+852 2844 7538	NZ	+64 9375 5738
Sing	+65 6349 7077	Metals Desk	+612 9117 0069
NY	+1212 336 7739	Agri Desk (Corp)	+612 9117 0157
		Agri Desk	+612 9117 0145