

The Week Ahead

- QIV capex data, and 2011/12 expectations the major Australian data release next week. Wages data to show pickup.
- US housing data likely to show weather driven moderation. Durable goods orders to affirm ongoing investment surge.

The continuing recovery in Australian housing finance data was the major economic data point this week. The November rate rise from the RBA was unable to contain the continued recovery in demand for mortgages and investor finance which has been underway for the past six months. The otherwise quiet week in Australia was dominated by the RBA, with the release of the February minutes and a speech from Assistant Governor (Economic) Philip Lowe.

Assistant Governor Lowe outlined some of the RBA's thinking around two key issues currently impacting the economy: high and rising commodity prices, and the apparent conservatism of consumers. Between the lines were hints at the implications for monetary policy. The relative price changes brought about by rising commodity prices mean that subdued price growth in other parts of the economy are needed to maintain low overall inflation. At present the prices of many retail items like clothing and electronics are falling, much to the chagrin of retailers. If this trend were to abate, the RBA would be looking for price growth to moderate in other sectors in order to keep inflation within the target band.

On the consumer side, the Assistant Governor Lowe highlighted that the RBA's view on the economic outlook involved households maintaining their current high savings rates. The RBA's expectation is that household spending will grow in line with incomes. Signs that the savings rate was deteriorating would see an interest rate response, given the RBA's growth and inflation outlook is already uncomfortably high courtesy of the oncoming surge in business investment.

Australia's business investment challenge will come back into the frame next week with the release of the QIV capex data. A massive expansion in capex, led by the mining sector, is planned for 2010/11, and will strain the economy's capacity – particularly in the construction sector. Of particular interest in the QIV 2010 release will be the first estimate of 2011/12 investment plans. A further expansion in investment intentions is likely to ring alarm bells at Martin Place. The famously *long and variable lags* with which monetary policy has its greatest effects mean that a decision on rates at the March 2011 meeting won't be having its full impact on the economy until QI-QIII 2012. It is for this reason that the 2011/12 investment intentions of firms will be an important consideration for monetary policy over coming months. Construction work done data for QIV is also released next week.

High levels of business investment, particularly construction, are set to underpin continued demand for labour. The labour market is already tight, and the unemployment rate is set to crash through the 5.0% level in coming months if the supply of workers does not rise. The inflationary impacts of wage pressures will also be of concern for the RBA. The QIV Wage Price Index and Average Weekly Earnings data – both due next week – are likely to show a further rise in wage growth.

A number of countries will release QIV GDP outcomes next week. The second estimate of US QIV GDP is due on Friday. A minor upward revision is expected, lifting the annualised rate of growth in QIV to 3.3%. The US economy has been growing very strongly over the past 18 months. The advance (1st) estimate of QIV 2010 GDP had annual growth at 2.8%. By comparison, Australia's pace of annual GDP growth in QIII 2010 was only 2.7%. Germany is another economy where GDP growth is outpacing Australia. Germany's GDP grew at a 4.0% annual pace in QIV 2010 according to the initial estimate. That outcome is expected to remain when the final estimate of Germany's QIV 2010 GDP is released on Thursday. An update to UK QIV GDP is released on Friday. UK GDP fell -0.5% in the initial QIV 2010 release.

Also in the UK, minutes from the Bank of England's (BoE) 10 February meeting will be published on Wednesday. The recent quarterly inflation report – in which the BoE lifted their inflation outlook – has heightened expectations of a potential rate hike in the near future. With inflation risks "skewed to the upside" many analysts have brought forward expectations of a May rate hike, with a risk the BoE could lift rates as early as next month.

A wave of US partial data is released later in the week. There is a distinct housing market theme, starting with the Case-Shiller home price index on Tuesday, Existing home sales data for January due on Wednesday, and New home sales data on Thursday. Both of the homes sales readings are expected to be negatively impacted by the unseasonably severe winter weather. US Durable Goods orders data is published on Thursday

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Australian Economic Perspective

NSW – Economic Overview

- Recent economic growth measures have NSW performing relatively well compared to the other States.
- Comparatively weak residential construction activity over the past five years is a negative, and it may not change.
- Jobs and non-residential construction activity have been robust.
- State government financial outcomes have been relatively sound, debt is under control and the AAA rating is stable.
- Growth should moderate in the coming year as households react to expected higher interest rates

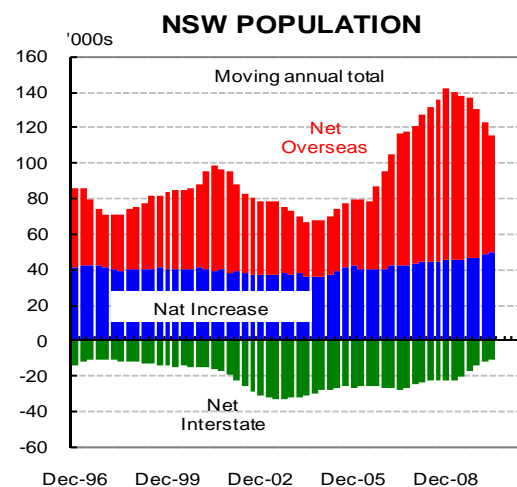
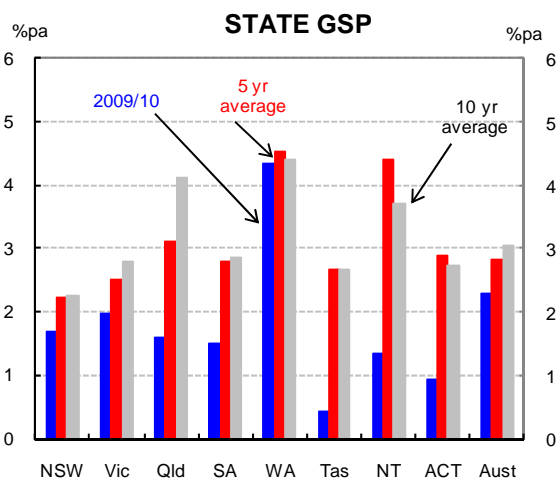
Summary

This note concentrates on economic issues. The recent data on jobs and spending has NSW performing relatively well. In our view it is likely to resume its longer term growth rate of Gross State Product (GSP) of 2.25%pa over the next few years.

The economic positives for NSW flow from its size – it represents just under one third of the nation’s GDP and population- its strong export outcomes and its status as a financial and professional services centre. These factors are not likely to change in the medium term. They can and should be exploited further.

In terms of NSW’s economic outlook there needs to be a focus on areas where its economic performance must be significantly better. One of them, in our view, is new residential construction. Strong population growth, mainly through higher immigration, has not been matched by sufficient new residential construction through the metropolitan and regional areas. The result is relatively highly priced housing and strong growth in residential rents. NSW households end up spending proportionately more on housing services. It means less for consumption, investment and saving. Another negative is the underperformance in transport planning and delivery. It is becoming an issue for the companies that want to invest, expand and provide the new jobs.

The financial position of the NSW Government was updated in the mid year review and is given in Table 2. The public sector is forecast to run small operating surpluses over the next few years. The revenue position, and outlook, has been greatly assisted by comparatively strong jobs growth, lifting payroll tax, and a healthy turnover in the housing market, adding to stamp duties. NSW has a small net debt position of around \$12bn or just under 3% of Gross State Product. The international ratings agencies have NSW classified as AAA and stable, the highest rating. Fortunately NSW, like the other States and Territories, avoided the recessions that gripped other developed nations and caused significant increases in public sector debt levels.

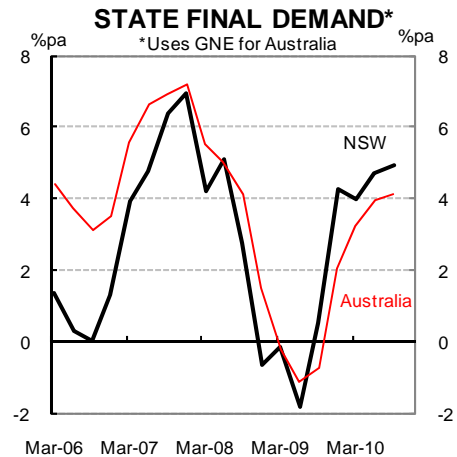




Growth and construction

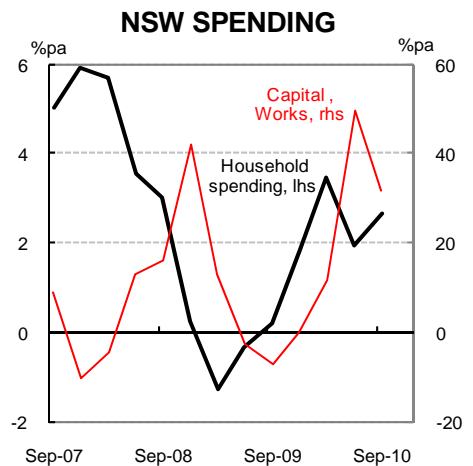
NSW grew by 4.9% in year to September.

The main quarterly measure of State growth, real State Final Demand (SFD) has NSW expanding by a strong 4.9% over the year to September. That's well above its average for the past five years of 2.7%. The SFD data corresponds to the national Gross National Expenditure (GNE) series. GNE for Australia has averaged 3.7% over the past five years. NSW tends to average weaker spending growth than the national figure. The "miners", Queensland, Western Australia and the Northern Territory, have much higher growth than NSW and Victoria, and lift the national outcomes.



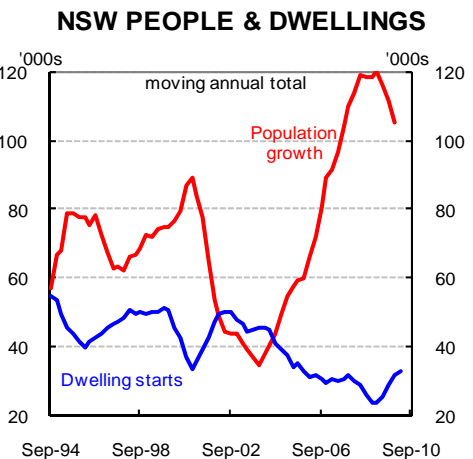
NSW recovered more quickly.

NSW has recovered slightly quicker than the national economy since the North American Financial Crisis (NAFC). It appears to be related to the much lower mortgage rates for households which released more funds to be spent elsewhere. Direct Government handouts to households also lifted their spending. NSW non-residential construction rose strongly over 2009 and 2010, driven mainly by federally funded construction of school and health buildings.



Residential construction weaker.

Residential construction in NSW was relatively weak for a prolonged period following the 2000 Olympics. Since 2003 stronger population growth has accentuated the undersupply of new dwellings nationally and particularly in NSW. Residential rents have been rising by more than five percent per year over that period as demand grew. The pick-up in NSW residential construction will soon peak, judging by the approvals data. The forecasted higher interest rates will also be a negative for new construction.



Undersupply of dwellings.

It is difficult to see the undersupply of new dwellings in NSW being overcome, especially in the inner-city areas. Local residents, and most local councils, make it difficult to bring on new medium density apartments. The result is likely to be above-inflation growth in rents. We expect jobs growth to stay relatively firm in the major cities over the next few years. Business surveys indicate that demand for labour should remain an issue for the next few years. Demand for rental dwellings is forecast to remain relatively firm.



Retail and car sales

Retail spending volatile over past year.

Retail spending in NSW has been more volatile than the national figures through the past year. Annual growth in NSW was significantly higher at the start of 2010, but ended lower. Even though NSW had enjoyed relatively stronger full-time jobs growth than the other States over the period. The non-retail part of NSW and national household spending figures is much stronger than traditional retail activity.

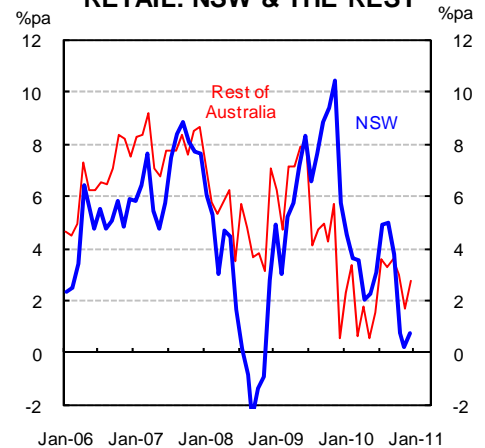
Services spending firm.

But it appears that higher outlays for services, like utilities, health, education, restaurants and mortgages, mean less funds are available for retail. However, lower imported goods prices across retail, and other areas, might mean consumers can spend less on retail than they had previously. At the same time, consumers have been saving more. Income and savings growth, on the ABS measures, has been relatively solid over the past year.

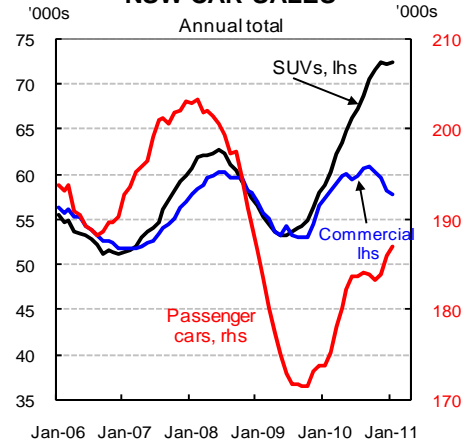
Strong AUD lowers imported car prices.

Car sales in NSW demonstrate the uneven pattern of household spending growth over the past year. In contrast to traditional retail, new car sales have been improving. They were helped by the Federal Government's investment allowance which boosted the commercial and SUV segments. Lately, passenger car sales have moved appreciably higher than a year ago. The strong Australian dollar (AUD) has helped to lift car sales. It has reduced imported car, and goods, prices. It could be that consumers are using the savings on imported goods to buy non-retail services.

RETAIL: NSW & THE REST



NSW CAR SALES



Resilient NSW labour markets

Jobs growth firm.

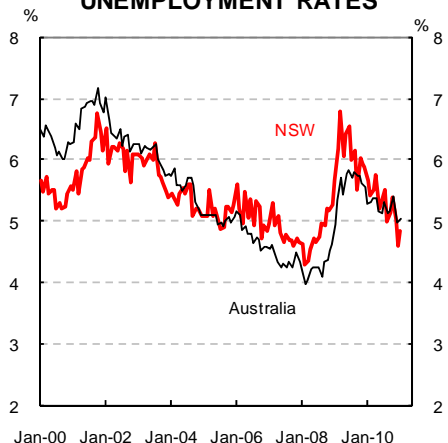
Underscoring the NSW economy's very solid performance in the wake of the NAFC has been the robust labour market conditions. From a cyclical low point of 4.2% in February 2008, NSW unemployment rose to 6.8% by March 2009, as the GFC impacted. However, by December 2010, NSW's unemployment rate had fallen to 4.6%. Further falls are likely in 2011 and 2012 as the national economy and NSW accelerate further.

Unemployment rate to fall.

So a NSW unemployment rate in the low 4s is probably not too far away. This is likely to boost NSW consumer confidence and spending in the coming year. Over 2010, jobs growth was around 3.7% with 130,000 new jobs created (with nearly 100,000 of those jobs being full-time positions). Rebounding equity prices and superannuation balances should also help boost consumer spending later in H11 2011 and 2012.

The post NAFC aggressive stimulatory monetary and fiscal policies helped underpin NSW growth and helped boost business and

UNEMPLOYMENT RATES





consumer confidence over 2009 and 2010. In 2011 and 2012, we see NSW final demand accelerating further, powered by revived consumer spending, strong dwelling and business investment as well as ongoing solid public infrastructure spending.

NSW Wages

Despite strengthening NSW labour market conditions, the latest available data suggest that NSW's broad based wages remained modest and well in check. The QIII wage cost index (WCI) showed NSW total wage costs running at an annual 3.5% rate, a touch shy of the national rate of increase of 3.6%pa. This was somewhat below the annual rates of 3.8-3.9%pa in Queensland, Western Australia, the ACT, and Northern Territory. Public sector wages growth is now marginally higher than for the private sector, after a period of wider divergence.

Sydney CPI

In 2010, the All groups CPI rose in all capital cities. Sydney's CPI rose a relatively modest 2.4% in the year to QIV 2010, compared with the national annual rate of increase of 2.7%pa. The largest positive movement was recorded in Melbourne (+3.1%pa) and Brisbane (+3.0%pa) due to relatively higher increases in housing, alcohol and tobacco and transportation. Canberra (+2.1%pa) recorded the smallest positive movement. The most significant contributor to Sydney's lift in the CPI in QIV was the increase in house purchase prices (+1.1%). Rents also recorded increases in all cities, including Sydney. Falling clothes prices of 3.0% in Sydney in QIV helped offset the solid increases in house purchase prices and rental costs in Sydney.

Population growth

The latest comprehensive ABS population data (released for QII 2010) showed strong, albeit moderating, population growth figures across the states (including NSW) and the nation. NSW's population growth in the year to June 2010 was 1.5%. It also demonstrates one of the reasons why Australia avoided the housing market implosions and meltdowns that are still crippling the housing sectors in the advanced G-7 economies, and many of their economic satellites, particularly in Europe (i.e. Ireland and Spain).

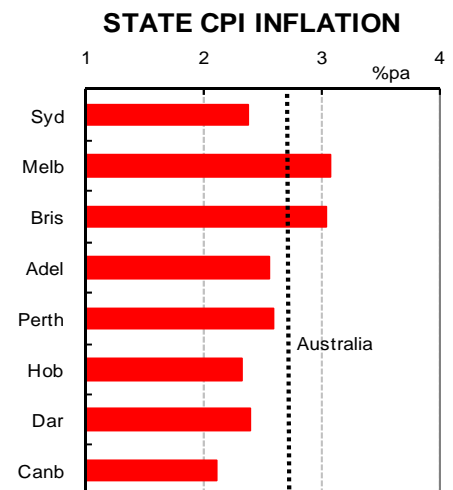
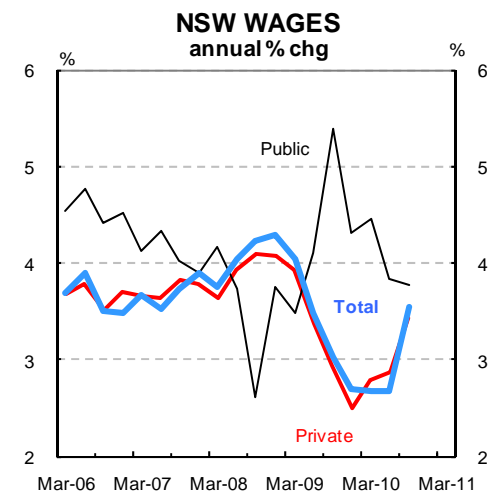
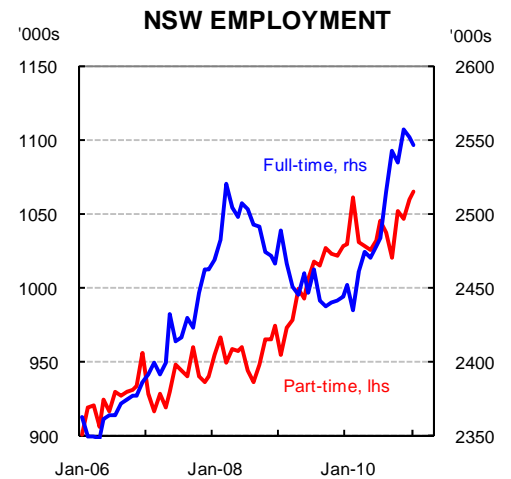
Australia's (& NSW's) strong population growth in recent years and weak new residential construction over 2002 to 2009 resulted in a significant undersupply of dwellings. This undersupply has created pent-up demand pressures that were released as the RBA cut interest rates through 2008 and 2009. So, while

Wages growth at 3.5%pa.

Sydney CPI at 2.4% in 2010.

Population growth lifted by migration.

Population and house prices.





the US and UK witnessed 30% falls in house prices from 2007 to 2009, as their unemployment rates rose and the housing markets went into oversupply, Australian (and NSW) house prices recorded 20% rises. On our estimates, underlying annual housing demand is around 185,000-195,000, while new construction has been accelerating in the past year. The gap between underlying demand and supply is still significant (around 30,000).

Net overseas migration to remain at high levels.

Net overseas migration was boosted substantially by the Federal Government from 2002, due to fears of widespread labour shortages which could lead to inflationary wages growth. The Global Financial Crisis (GFC) calmed these fears temporarily. But the re-emergence of the mining boom will most probably require net overseas migration maintained at around the 250,000 level in coming years. The major impact from this strong population growth will be ongoing upward pressures on housing costs via rising house prices and rents, especially in Sydney where vacancy rates are already at record lows.

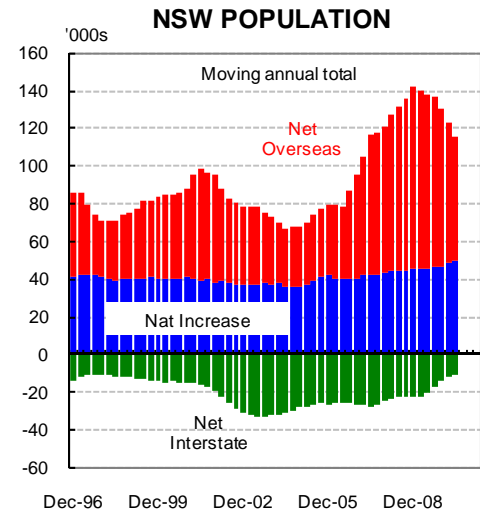


Table 1: NSW ECONOMIC PROJECTIONS

CBA forecasts	2009-10 actual	2010-11f	2010-12f	Comment
Real Gross State Product (GSP)%	1.7	2¼	2¼	Growth around trend
Employment Growth % June	1.7	2.8	1¾	Jobs growth firm
Unemployment Rate % June	5.4	5¾	5½	Sliding unemployment rate
CPI (Sydney) %pa	2.9	2½	2¾	Moderate inflation
Wages Price Index %pa	3.0	3¼	3½	Wages growth edging higher
Exports \$bn annual	31.2	37	42	Exports rising
Dwelling starts, '000s annual	31.8	34	31	Dwelling construction modest
Population growth %pa June	1.5	1¼	1¼	Population growth moderate
CBA median house price Sydney \$000s	733	750	770	Subdued housing market

Table 2: NSW FISCAL PROJECTIONS

NSW Fiscal Projections	2008-09 Outcomes	2009-10 Estimates	2010-11 Estimates Mid Year	2011-12 Estimates	2012-13 Estimates
Total Revenue \$mn	49,663	56,333	56,535	60,030	62,260
Total Expenses \$mn	50,560	55,339	56,369	59,855	61,828
Operating Balance (GFS)\$mn	(897)	994	167	176	432
Fiscal Balance* \$mn	(3,275)	(3,267)	(4,346)	(2,478)	(1,675)
Net Debt \$mn	8,108	9,364	12,153	13,609	14,788
Net Debt % GSP	2.5%	2.3%	2.8%	2.9%	3.0%
Capital Works Spending \$bn	13.3	16.6	16.7	15.7	14.7

* Net Lending/Borrowing including capital expenditures. Source: NSW Government, mid-year update.

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New Zealand Economic Perspective

Households end 2010 with wallets firmly shut.

- Retail sales were weak over the second half of 2010, reflecting the many headwinds facing the household sector.
- Retail data adds to the recent run of underwhelming data, indicating little urgency for the OCR to increase.

Retail spending weak over H2 2010.

The QIV Retail Trade Survey confirmed weakness in retail spending over the second half 2010. Part of the weak result is due to the change in classification of the retail categories used by StatsNZ. But overall, the weakness in retail spending reflects the headwinds facing the New Zealand household sector at present.

The 0.4% decline in retail sales volumes over QIV was broadly in line with market expectations. Under the new classification for retail sales categories, retail sales in the previous quarter shows little sign of the pre-GST spend-up that was seen under the old classification. In sum, retail spending was very weak over the second half of 2010.

Low home sales impacting some areas of retail.

Leaving aside the issues over the change in classification used by StatsNZ, the weakness in retail spending over the second half of 2010 is likely to be the result of weak housing market activity and low number of new houses being built over this period. In particular, the low level of house sales is likely to have driven the substantial -9.4% decline in sales volumes of furniture, floor coverings, houseware and textiles, as well as hardware, building and garden supplies. With fewer people moving houses, and the current low level of residential construction, there is less need to purchase items in these categories.

Recovery in vehicle sales may have run out of steam.

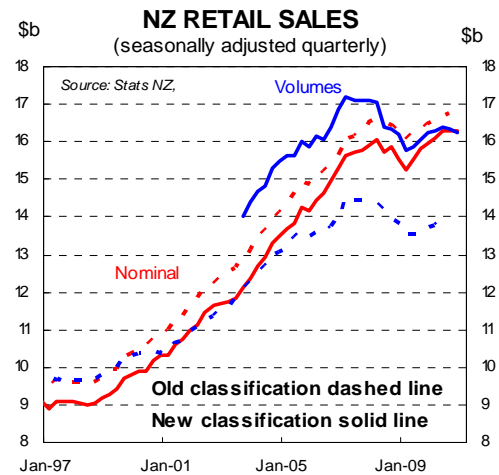
Other areas of spending were also weak over QIV. The 8.2% decline in sales of motor vehicle and parts almost reversed the strength seen earlier in 2010. The low levels of vehicle registrations over December and January calls into question the sustainability of the recovery in vehicle sales.

Small increase in retail prices in line with CPI data.

Retail prices increased 0.3% over QIV, in line with the estimated increase in both total and tradable CPI excluding the GST increase over that period. Weak demand was reflected in declines in the price of recreational goods, clothing and electronics. The high level of the NZ dollar over the second half of 2010 is likely to have increased the scope for retailers to discount. These price declines were offset by a 3.8% increase in petrol prices over QIV.

Decline in retail sales over the December month broad-based.

Over the December month, the 1.2% decline in retail sales was broad-based, the overall drop driven by declines in sales of supermarket and grocery stores, hardware, building and garden supplies and motor vehicle and parts.



Results

Quarterly volumes

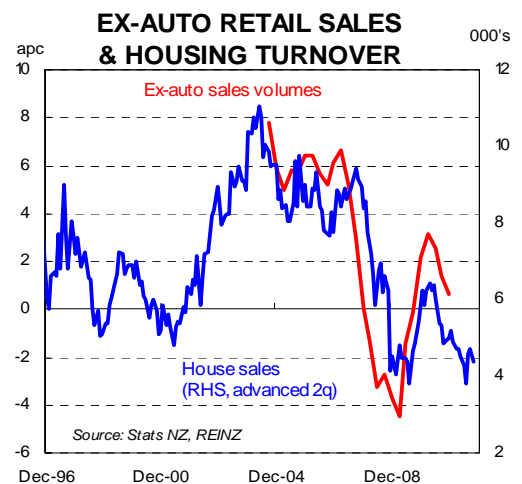
- Total -0.4% qoq (CBA f/c -0.5%, market -0.5%)
- Ex auto 0% qoq (CBA f/c -0.7%)

December month nominal

- Total -1.1% mom (CBA f/c +0.5%, market -0.4%)
- Ex auto -1.2% mom (CBA f/c +0.2%, market -0.3%)

Retail sales in the previous quarter was revised down due to the new classification of categories used by StatsNZ:

- Total retail sales volumes declined 0.4%, much lower than the 0.7% increase under the old classification.
- Ex-auto sales volume was flat, lower than the 0.9% increase under the old classification.





Retail sales particularly weak in Wellington, Waikato and Canterbury.

Looking at the sales trends across the regions in recent months, the weakness in retail spending looks to have been more acute in Waikato, Wellington and Canterbury, while, the sales trend in the Auckland region has been flat in recent months.

Some signs of improvement over early 2011....

Looking ahead, January Electronic Cards Transactions data showed a lift from a weak December month, providing an encouraging sign for retail activity in early 2011. In addition, recent business surveys suggest retailers are optimistic of a recovery in sales over the coming year.

...but consumer confidence dips.

In contrast, the Roy Morgan consumer confidence Survey for February was weak, following an up tick in January. Headline consumer confidence dipped from January's 117.1 to 108.2 in February, indicating the rebound in sentiment was short-lived.

Consumers typically feel most confident in January, and the decline in February is not as stark once the results are seasonally adjusted. Nonetheless, the fact that the rebound in consumer confidence has not been sustained is concerning, as consumer confidence provides a useful indication of households' willingness to spend. In particular, there has been a sharp decline in respondents' perceptions of their own financial situation relative to a year ago. This suggests that the caution shown by households in late 2010 will continue in early 2011.

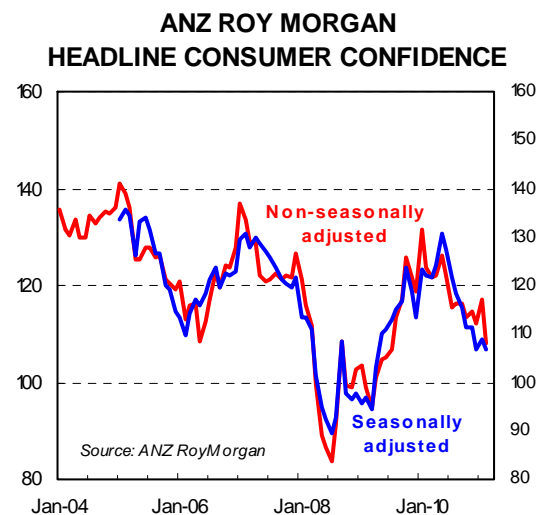
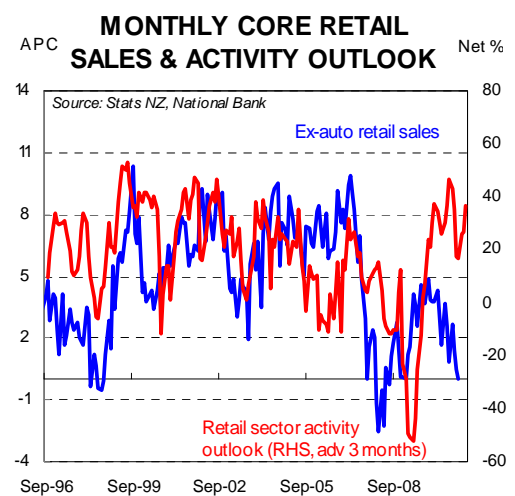
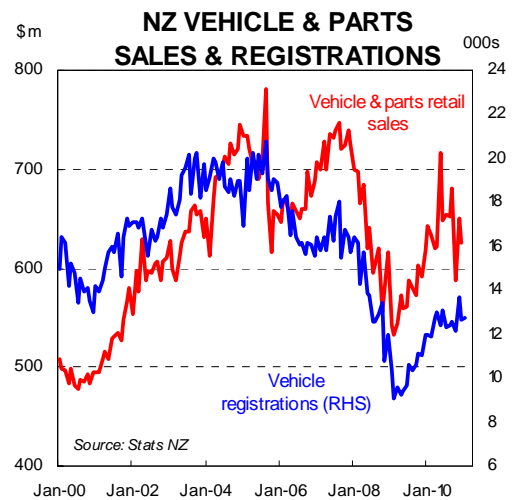
The household sector continues to face headwinds in the form of weak housing market activity, slowing recovery in the labour market and increases in petrol prices. These factors are weighing on consumer confidence and add to the caution households feel in regards to discretionary spending. There remains little urgency for the RBNZ to lift the OCR, and we see September as the earliest meeting for the RBNZ to resume its tightening policy.

RBNZ on hold for the foreseeable future.

Changes to the Retail Trade Survey.

From now on Statistics NZ will only publish retail sales on a quarterly basis. Anybody closely tracking the economy and retail sector will have to fall back on the monthly Electronic Cards Transactions (ECT) figures. We have found the ECT to be a poor predictor of the old quarterly retail sales data. The monthly retail sales survey, although volatile, was superior.

Interestingly, Statistics NZ has also revised the ECT so they fit slightly better with the new quarterly retail sales figures. Overall, we feel the changes to the Retail Trade Survey means the immediate understanding of what is happening in the retail sector is likely to be lower in the future. Therefore, quarterly retail sales releases could generate more financial market volatility than they have in the past.





The Week Ahead

Calendar - Australasia, Japan and China

Date	Time		Event	Period	Unit	Last	Forecast	
	AEST	Econ					Market	CBA
21 Feb	08:30	NZ	Performance Services Index	Jan	Index	52.5	~	~
	10:30	AU	CBAHIA House Affordability	QIV	Index	54.4	~	~
	13:00	NZ	Credit Card Spending sa	Jan	m%ch	-1.4	~	~
	13:00	NZ	Credit Card Spending	Jan	y%ch	2	~	~
	15:30	JN	All Industry Activity Index	Dec	m%ch	-0.1	~	~
22 Feb	13:00	NZ	RBNZ 2yr Inflation Expectation	QI	%	2.6	~	~
23 Feb	10:50	JN	Merchandise Trade Balance Total	Jan	¥bn	725.9	170.9	~
	10:50	JN	Adjusted Merchandise Trade Balance	Jan	¥bn	707.3	845.0	~
	10:50	JN	Merchandise Trade Exports	Jan	y%ch	12.9	8.3	~
	10:50	JN	Merchandise Trade Imports	Jan	y%ch	10.6	8.8	~
	11:30	AU	Construction Work Done	QIV	q%ch	-2.1	~	~
	11:30	AU	Wage Cost Index	QIV	q%ch	1.1	~	0.9
	11:30	AU	Wage Cost Index	QIV	y%ch	3.5	~	3.8
	12:00	JN	Small Business Confidence	Feb	Index	45.8	~	~
24 Feb	10:00	AU	Conference Board Leading Index	Dec	Index	0.3	~	~
	11:30	AU	Private Capital Expenditure	QIV	q%ch	6.2	~	5.0
	11:30	AU	Average Weekly Wages	Nov	q%ch	0.4	~	1.4
	11:30	AU	Average Weekly Wages	Nov	y%ch	4.5	~	3.8
25 Feb	10:30	JN	Tokyo CPI	Feb	y%ch	-0.1	-0.2	~
	10:30	JN	Tokyo CPI Ex-Fresh Food	Feb	y%ch	-0.2	-0.3	~
	10:30	JN	Tokyo CPI Ex Food, Energy	Feb	y%ch	-0.3	-0.3	~
	10:30	JN	National CPI	Jan	y%ch	~	-0.1	~
	10:30	JN	National CPI Ex-Fresh Food	Jan	y%ch	~	-0.3	~
	10:30	JN	National CPI Ex Food, Energy	Jan	y%ch	-0.7	-0.6	~
	12:35	CH	MNI Business Condition Survey	Feb	Index	61.11	~	~
	13:00	NZ	Money Supply M3	Jan	y%ch	1.8	~	~



Calendar – North America & Europe

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

Date	Time			Period	Unit	Last	Forecast	
	UK	Econ	Event				Market	CBA
21 Feb	00:01	UK	Rightmove House Prices	Feb	m%ch	0.3	~	~
	09:00	EC	PMI Composite	Feb A	Index	57	~	~
	09:00	GE	IFO - Expectations	Feb	Index	107.8	~	~
	09:00	EC	PMI Manufacturing	Feb A	Index	57.3	57.0	~
	09:00	EC	PMI Services	Feb A	Index	55.9	56.0	~
22 Feb	09:30	UK	Public Finances (PSNCR)	Jan	£bn	25.5	~	~
	13:30	CA	Retail Sales Less Autos	Dec	m%ch	1.0	1.0	~
	14:00	US	S&P/CaseShiller Home Price Index	Dec	Index	143.85	~	~
	14:00	US	S&P/CS 20 City sa	Dec	m%ch	-0.54	-0.5	~
	14:00	US	S&P/CS Composite-20	Dec	y%ch	-1.59	-2.3	~
	15:00	US	Consumer Confidence	Feb	Index	65.6	63.0	~
23 Feb	09:30	UK	Bank of England Minutes	Feb				
	10:00	EC	Industrial New Orders sa	Dec	m%ch	2.1	~	~
	14:00	CA	Teranet/National Bank HPI	Dec	m%ch	-0.2	~	~
	15:00	US	Existing Home Sales	Jan	m%ch	12.3	-1.5	~
24 Feb	07:00	GE	GfK Consumer Confidence Survey	Mar	Index	5.7	~	~
	07:00	GE	GDP sa	QIV F	q%ch	0.4	~	~
	10:00	EC	Euro-Zone Consumer Confidence	Feb F	Index	-11.2	~	~
	10:00	EC	Euro-Zone Economic Confidence	Feb	Index	106.5	106.8	~
	13:30	US	Cap Goods Orders Non-defence Ex Air	Jan	m%ch	1.4	-0.9	~
	13:30	US	Cap Goods Ship Non-defence Ex Air	Jan	m%ch	1.7	~	~
	13:30	US	Durable Goods Orders	Jan	m%ch	-2.3	3.0	~
	13:30	US	Durables Ex Transportation	Jan	m%ch	0.8	0.4	~
	13:30	US	Initial Jobless Claims	19 Feb	'000	410	403	~
	13:30	US	Continuing Claims	12 Feb	'000	3911	~	~
	15:00	US	House Price Index	Dec	m%ch	0.0	~	~
25 Feb	00:01	UK	GfK Consumer Confidence Survey	Feb	Index	-29	~	~
	09:30	UK	GDP	QIV P	q%ch	-0.5	-0.5	~
	09:30	UK	Total Business Investment	QIV P	q%ch	3.1	~	~
	13:30	US	GDP	QIV S	q%ch saar	3.2	3.30	~
	13:30	US	Core PCE	QIV S	q%ch saar	0.4	0.40	~
	13:30	US	Personal Consumption	QIV S	q%ch saar	4.4	4.3	~



Calendar – Key Events To Watch

Australia and New Zealand

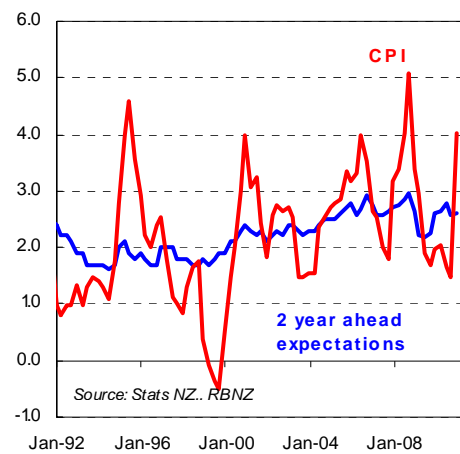
Tuesday 22 February

NZ RBNZ inflation expectations, QI, %, (2.6 prev)

The RBNZ uses the two-year ahead inflation expectations measure as a gauge of medium-term inflation pressures in the NZ economy. The CPI spiked in Q4, boosted by the increase in GST at the beginning of October. This brought the annual rate of inflation to 4.0%, well above the top of the RBNZ's target band. Given the Policy Targets Agreement allows the RBNZ to look through the direct effects of major Government policy changes, such as GST increases, its key concern is how households and businesses will react to the spike in headline CPI. The RBNZ has assumed that the effects on medium-term inflation expectations will be muted going forward.

The RBNZ two-year inflation expectations measure will reveal whether the spike in CPI risks flowing through to changes in wage and price setting behaviour. This measure has remained steady around 2.6% in recent quarters, suggesting inflation pressures remain contained.

APC INFLATION EXPECTATIONS & CPI



Wednesday 23 February

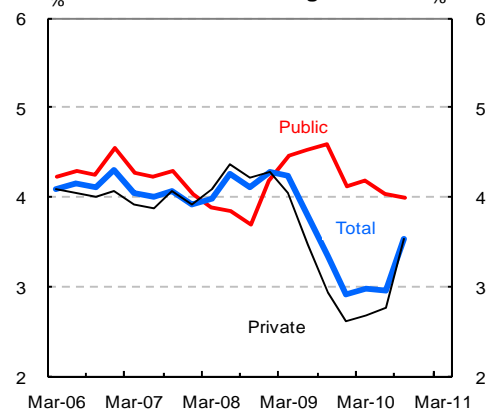
AU Wage Price Index, QIV, q/y%ch, (f) 0.9/3.8 (1.1/3.5 prev)

Thursday 24 February

AU Average Weekly Earnings, Nov, q/y%ch, (f) 1.4/3.8 (0.4/4.5 prev)

Wage growth in Australia eased during the global financial crisis. Annual wage growth had peaked at 4.4% in QIV 2008, before falling back to 2.8% in QIV 2009. The falls were driven largely by a moderation in private sector wages. As market anxiety eased and economic fundamentals returned to focus, Australian wage growth has again begun to gather momentum. QIII 2010 annual wage growth was 3.5% (up 1.1% QoQ). Wage growth in QIII was the highest in almost two years. In QIII quarterly private sector wage growth (1.2% QoQ) exceeding public sector wage growth (0.9% QoQ) for the first time since QII 2008. We expect the underlying strength in Australia's labour market to feed into further wage pressures in 2011. We are projecting a 3.8% increase in the wage price index in QIV (YoY), while average weekly earnings are forecasted to have lifted by 3.8% in the year to November.

WAGES COST INDEX
 annual % change





Thursday 24 February

AU Private capital expenditure, QIV, q%ch, (f) 5.0 (6.2 prev)

New capital spending increased by 6.2% in QIII. The lift in QIII was dominated by the robust 13.4% increase in buildings and structures. In contrast, machinery and equipment declined by 1.1% in the quarter. Mining investment was the standout category in QIII investment spending, up 15.6% in the quarter, and moving above pre-financial crisis levels. The volume of capital spending was 8.6% higher in QIII relative to a year earlier, but remains some 1.2% off the record set in QIV 2008. The future picture, as illustrated by the capex survey remains positive. The fourth estimate of 2010/11 capex expectations was surveyed at \$123.9bn, up 19.5% from the equivalent estimate the previous year. Despite some downgrades, mining investment is still expected to remain buoyant, lifting by 60.6% in 2010/11. The February data will provide the first look at investment intentions for 2011/12. While we expect capital expenditure to have remained robust in QIV, we are anticipating some moderation, rising by 5% in the quarter.

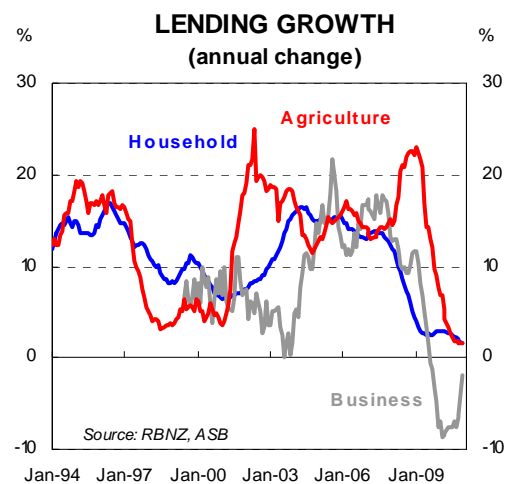
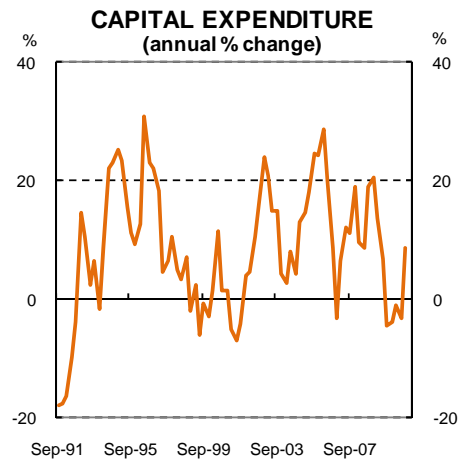
Friday 25 February

NZ RBNZ credit aggregates

- Household, Jan, y%ch, (1.6 prev)
- Business, Jan, y%ch, (-2.0 prev)

Lending figures are likely to garner additional interest over the next few months, particularly as the RBNZ has consistently noted its concern for the weakness in business credit appetites, despite the stimulatory interest rates. In December month saw a large improvement in business lending, and this is likely to provide some cautious encouragement to the RBNZ. However, these statistics are notoriously volatile. The RBNZ will want to see a matched improvement in business investment before it's convinced the economic recovery is gaining traction.

Meanwhile, household credit growth remains extremely low, reflecting the weakness in the housing market. This weakness reinforces the likelihood the RBNZ will remain on hold for some time. Mortgage lending contracted in December for the first time in 20-years of history: a repeat in January would suggest rate hikes are even further away.





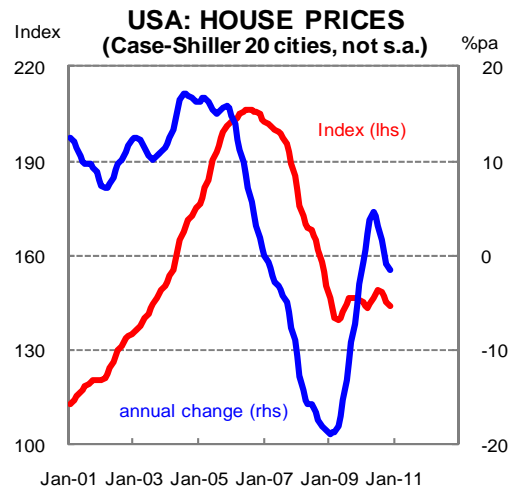
International

Tuesday 22 February

US S&P/Case-Shiller home price index, Dec, (143.8 prev)

The S&P/Case-Shiller index of home values in 20 cities declined 1.6% in the year to November, the largest year-on-year fall since December 2009. The November annual declines were broad based. Values in 16 of the 20 cities in the index declined, with the 7.9% fall in Atlanta the most pronounced.

Mounting home foreclosures which are coming onto the market will only add to an already burgeoning overhang of unsold properties. The combination of greater sales stock and slack in the US labour market are likely to keep sustained downward pressure on US house prices over the course of the year.

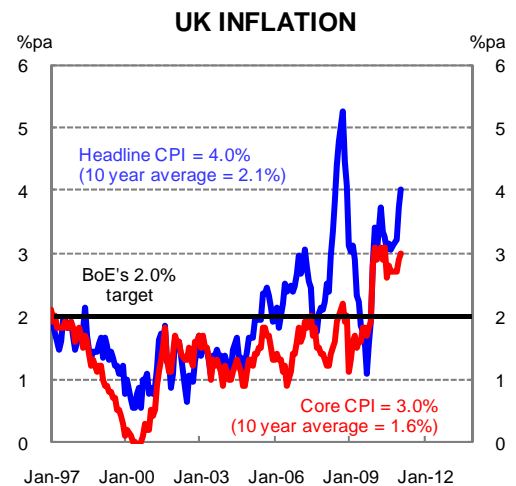


Wednesday 23 February

UK Bank of England policy meeting minutes, Feb

As expected the Bank of England (BoE) remained on hold at its February policy meeting. The BoE has left its base rate at 0.5% since March 2009. Our forecasts have the BoE commencing policy tightening in QIV 2011. But, there is a risk of an earlier BoE rate rise. UK inflation continues to be elevated, rising to 4.0% (YoY) in January. UK inflation has exceeded the BoE's 2% target since December 2009.

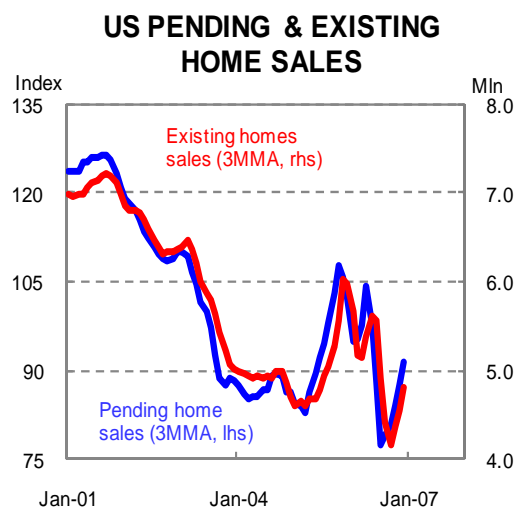
The minutes of the January BoE policy meeting were decidedly more hawkish and identified that a second Monetary Policy Committee member pushed for a lift in the Bank rate. Markets will be interested to see whether the tone of the BoE's inflation outlook has again shifted, particularly as the February *Quarterly Inflation Report* attempted to dampen market expectations of extensive Bank rate increases. The report stressed that significant downside risks to the UK economy remain in play.



Wednesday 23 February

US Existing home sales, Jan, m%ch, (12.3. prev)

Existing home sales lifted by 12% in December (MoM), to an annual rate of 5.28 million. The increase in existing home sales towards the end of 2010 appears to have been driven by the improving US economic outlook and the likely follow through in higher borrowing costs. As mortgages in the US are generally 30-year fixed loans, potential buyers can be induced to bring forward purchases with the prospect of future higher borrowing costs looming. The expiration of the home buyer's tax credit stimulus measure is another factor that is likely to have pushed up purchases, particularly by returning buyers enticed back into the market by lower prices. Movements in pending home sales tend to lead existing home sales. The index of pending home sales has rebounded by 24% from its post stimulus lows. Market expectations are for existing home sales to have consolidated in January, down 1.5%.

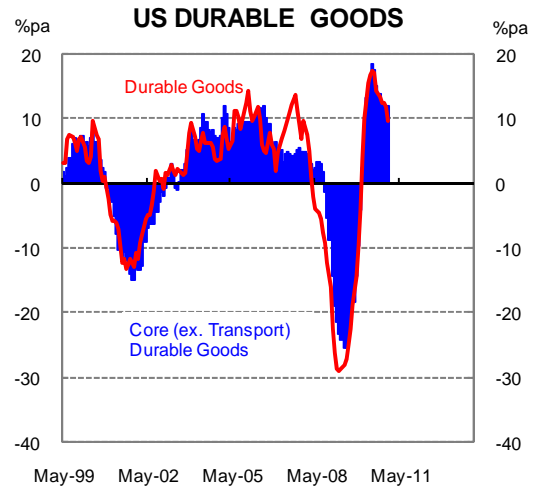




Thursday 24 February

US Durable goods orders, Jan, %, (-2.3prev)

In December, durable goods orders fell, down 2.3%. The falls were attributed to the volatile demand for commercial aircraft. But, core durable goods orders continue to trend higher, rising 0.8% in the month, following on from the 4.5% lift in November. The November result was the strongest since March. Core durable goods orders have rebounded by 26% from their April 2009 lows. Non-defense capital goods (ex transport), often used as a proxy for future business investment, increased by an annual rate of 9% in QIV. US firms continue to show a desire to invest, in an effort to maintain their economic capacity. The upward trend in durable goods orders is likely to continue. The market is expecting a 3.0% rise in January.

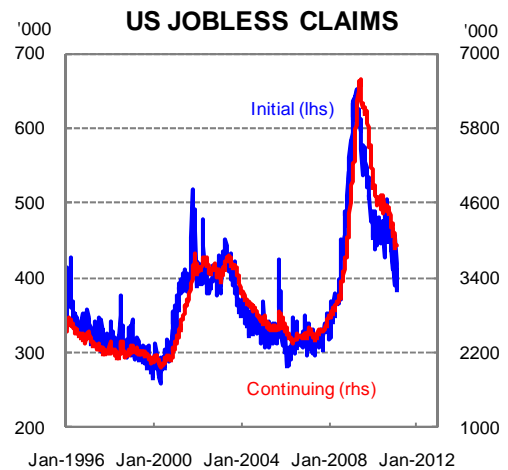


Thursday 24 February

US Initial jobless claims, 19 Feb, '000, (410prev)

US Continuing claims, 12 Feb, '000, (3911 prev)

In the week ended 4 February, US initial jobless claims fell to a fresh cyclical low of 383,000. The four week moving average has fallen to 418,000. In the week ended 5 February continuing jobless claims were 3.911 million. The level of continuing claims are now 18% lower compared to a year earlier. Despite showing signs of improvement, the US labour market remains sluggish. The Federal Open Market Committee remains concerned by the lack of sustained job creation in the US economy. As a result, it appears highly likely that the Federal Reserve will complete its asset purchase program, designed to boost the pace of the US economic recovery.



Friday 25 February

UK GDP, QIV P, q/y%ch, (-0.5/1.7 prev)

UK economic growth momentum consolidated further in QIV. According to the first estimate of QIV GDP growth, the UK economy contracted by 0.5% in the December quarter. The negative QIV result appears to have been driven by the adverse weather experienced in the UK towards 2010 year-end. The services sector, which accounts for close to three quarters of the UK economy, shrunk by 0.5% in the quarter, while construction contracted by 3.3%. The shining light in QIV was the 1.9% lift in industrial production. Despite the negative QIV result, the UK economy expanded by 1.4% in 2010. The annual economic expansion experienced by the UK in 2010 was the first since 2007.

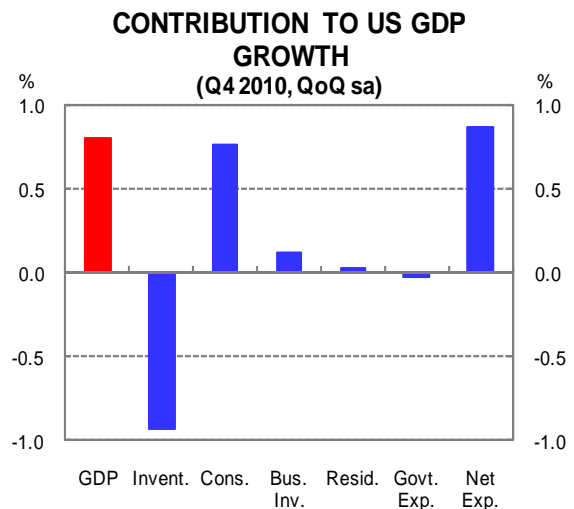




Friday 25 February

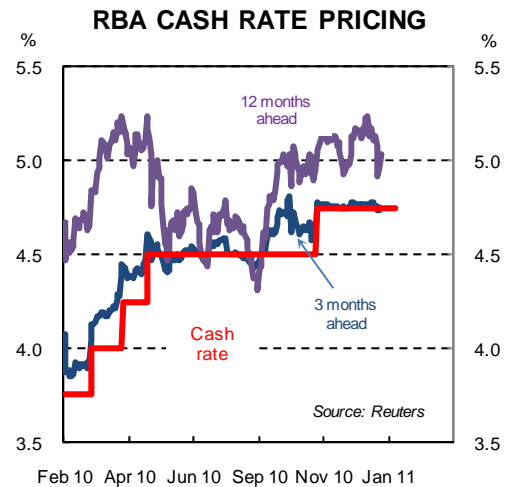
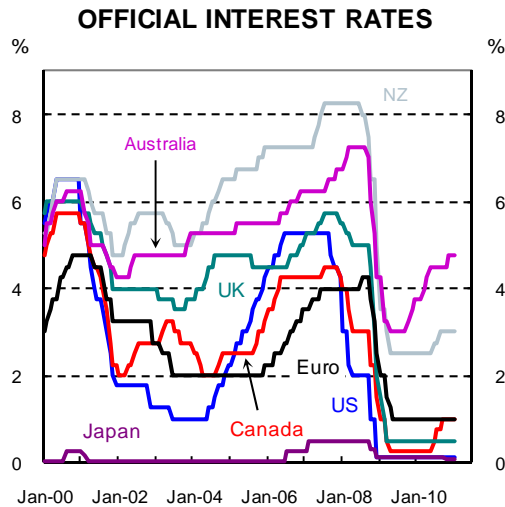
US GDP, QIV S, q%ch saar, (3.1 prev)

The US economy expanded in QIV, growing by an annual rate of 3.1%. The acceleration in GDP growth was driven by a surge in consumption. Personal consumption was up 4.4% (annualized) in QIV. The relatively weak USD and improving global economy helped US exports climb, narrowing the trade deficit, adding 3.4 points to growth in QIV. The drawdown in inventories was a drag on the QIV result. Excluding inventories, the US economy expanded by 7.1% (annualised) in QIV, the highest since 1984. Over 2010, the US economy grew by 2.9%, rebounding from the 2.6% contraction in 2009. The 2010 result was the strongest since 2005. Looking ahead, the decision by the US Federal Government to continue the previous administrations tax cuts, and an improving labour market, are likely to add to the already buoyant consumer sector. Consumption is significant as it accounts for some 70% of the US economy. The restock of inventories is also likely to add to further economic expansion. The market expects the first estimate of QIV GDP to be lifted slightly, now showing a 3.3% (annualized) rate of growth in the US economy.





Monetary Policy



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 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>0.50%</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 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>0-0.10%</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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