

AUSTRALIA & NEW ZEALAND WEEKLY

John Edwards
Chief Economist

Phone: +612 9255 2744
john.k.edwards@hsbc.com.au

Australia & New Zealand research is
available online at:-

www.hsbc.com.au

www.hsbcnet.com

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure Appendix, and with the Disclaimer, that form part of it.

In this week's issue

**Deceptive GDP
slowdown** See page 2

Cyclones, lumpy capex mean
small Australian Q1 GDP gain

**NZ economy falls into
line** See page 4

RBNZ's Bollard can't complain

Weekly Calendar See page 5

Monthly Calendar See page 6

**Disclaimer &
Disclosures**

Deceptive GDP slowdown

Cyclones, lumpy capex mean small Australian Q1 GDP gain

The volume of Australian exports probably fell in the first quarter of this year and business investment probably increased only a little, two outcomes suggesting Wednesday's first quarter GDP outcome will be quite low. We look for an increase of only 0.5%, taking four quarter growth down to 2.6% from 2.7% last time. This is below the trend outcome of the last fifteen years and surely below potential output. It may well be interpreted as an assurance that no further rate increases are likely this year, and that Treasurer Peter Costello's tax cuts beginning next month are well timed. But a low GDP increase will be deceptive. There were over 44,000 additional jobs in the quarter, the biggest increase in nine months. Some of the weakness in export volumes was due to cyclones, which hampered iron ore shipments in both January and March. To the extent weather played a part, we expect export volumes to rebound in the current quarter. Indeed, that was already evident in the 5% gain in exports for the month of April alone. Business investment is always uneven in its impact on any one quarter, and the likely flat outcome for the March quarter increases the likelihood it will be quite firm in the current quarter. Household consumption growth fell through 2004 but flattened out last year and will be supported by tax cuts, higher employment and rising incomes through this year. Housing construction contracted in the last two quarters of last year and we expect to see a small contraction in March quarter, but by the second half it may be making a small contribution to growth. There are good grounds to expect stronger growth in the current quarter, which will then be sustained by stronger exports.

The GDP numbers will illustrate the wide geographic differences already evident in Australia's growth. Last week's business investment numbers showed that spending is rising strongly in mining, but has paused in the rest of the economy. The April export numbers were better balanced, with exports increasing in services and manufacturing as well as mining. The big increases, however, were in mining output. The same distinctions are evident in employment growth, which is growing strongly in Western Australia but not in NSW.

The low GDP result will be joined by a high current account deficit. The value of exports rose faster than the value of imports in the first quarter, narrowing the trade deficit to \$4.3 billion from \$4.7 billion in the December quarter. The net income deficit probably continued its trend increase, however, so we expect to see tomorrow's first quarter current account deficit come in at \$14.8 billion compared to \$14.4 billion last time. It's not the biggest deficit on record but it will remind us that when it comes to helping the rest of the world deal with its savings glut Australia does more than its share. With global attention likely to return to the increasing US current account deficit once US growth begins to slow, we doubt Australia's own current account deficit will

escape notice. In the meantime we should expect the wider current account deficit and slow Q1 output growth in Australia, contrasted with the increasing probability of an end-June Federal Reserve tightening, to weigh on the Australian dollar.

The Reserve Bank board meeting Tuesday has no reason to think seriously about another rate rise. By August, however, the underlying strength of the economy will be more apparent, and the late July publication of the second quarter consumer price index may provide a rationale for another tightening.

NZ economy falls into line

RBNZ's Bollard can't complain

For the first time in some years Thursday's *Monetary Policy Statement* from the Reserve Bank of New Zealand won't need to complain about the direction of the economy. From the point of view of RBNZ Governor Alan Bollard, it's going pretty well. Last week's housing approvals for April were down again, a trend apparent since the beginning of the year. In seasonally adjusted terms the drop was quite marked. Exports by contrast were up in trend terms for April, continuing the improvement evident since the middle of last year. Employment was flat in the last quarter of last year, but gained in the first quarter of this year. The threatened recession has been averted. Meanwhile the New Zealand dollar has depreciated 15% compared to where it was a year ago, raising the chance that New Zealand can indeed shift the balance of growth from home building and household consumption to exports over the coming year.

Output growth is certainly feeble overall, as will be demonstrated in the March quarter GDP number out June 23. But this was, after all, Dr Bollard's objective. Not the least of his concerns is the current account deficit. Since it is edging out to 9% of GDP and net foreign liabilities are rising to 90% of GDP, the IMF shares his concern. Published one day before the first quarter national accounts, the first quarter balance of payments will confirm that New Zealand's external deficit is right up there with Iceland, Spain, Australia, and the United States. The RBNZ is mostly focused on expected inflation, but it also wants to slow import growth. We expect Thursday's Statement will again say that the 7.25% cash rate is unlikely to be increased, but over the course of this year it is unlikely to be cut. Our money remains on a fourth quarter rate cut.

John Edwards

Weekly Calendar

Week commencing Monday June 05, 2006

Country/ Region	Event or Economic Release	Period	HSBC	Market Fcasts		Range	Actual Previous
				Cons			
Monday June 05, 2006							
AU	TD Securities Inflation M/M%	May					
AU	ANZ Job Advertisements	May					-5%
AU	Company Operating Profit Q/Q%	Q1					
JPN	MoF corporate survey (05:50BST)	Private Capital Expenditure	Q1	7.0%	-	-	9.5%
UK	PMI Services (09:30 BST)	Index	May	58.7	59.0	-	59.7
US	ISM non-manufacturing (15:00 BST)	Month	May	61.0	60.2	-	63.0
Tuesday June 06, 2006							
AU	Reserve Bank June Policy-setting Meeting						
AU	Current Account	Q1	-14.8bn	-14.8bn	-	-	-14.4bn
AU	Home Loans	Apr					
UK	BRC sales monitor (00:01 BST)	Like for like	May	3.5%	2.4%	-	6.8%
EMU	PMI services (09:00 BST)	Index	May	58.2	58.5	-	58.3
Wednesday June 07, 2006							
AU	Gross Domestic Product Q/Q	Q/Q	Q1	0.5%	0.85%	-	0.5%
		Y/Y		2.6%	2.9%	-	2.7%
AU	RBA rate announcement (00:30 BST / 09:30 EST)			5.75%	5.75%	-	5.75%
JPN	Leading indicators (06:00 BST)	Leading DI	Apr, prelim	50.0%	-	-	54.5%
		Coincident DI		66.7%	-	-	10.0%
EMU	Retail Sales (10:00 BST)	Month	Apr	0.9%	0.8%	-	-0.8%
		Year		2.4%	2.4%	-	0.2%
GER	Factory orders (11:00 BST)		Apr				
US	Consumer credit (20:00 BST)	Month (USDbn)	Apr	3.0	4.0	-	2.5
Thursday June 08, 2006							
AU	Unemployment rate		May	5.1%	5.1%	-	5.1%
AU	Change in employment		May	9,000	11,250	-	-3,200
NZ	RBNZ Monetary Policy Statement		(Jun 8)	7.25%	7.25%	-	7.25%
UK	Industrial production (09:30 BST)	Industrial	Apr				
		Month		0.6%	0.3%	-	0.7%
		Year		0.3%	0.0%	-	0.3%
		Manufacturing					
		Month		0.6%	0.3%	-	0.7%
		Year		1.0%	0.7%	-	1.1%
UK	Bank of England rate announcement (12:00 BST)						
EMU	ECB rate announcement meeting and press conference (12:45 BST)						
US	Jobless claims (13:30 BST)	Week ('000)	Wk 3 June	320	-	-	329
US	Wholesale inventories (15:00 BST)	Month	Apr	0.5%	0.5%	-	0.2%
Friday June 09, 2006							
JPN	Machine orders (06:00 BST)	Month	Apr	3.5%	-	-	-5.2%
		Year		4.8%	-	-	-1.6%
GER	Trade balance (07:00 BST)	EURbn	Apr	14.0	11.0	-	14.3
UK	Trade in goods and services (09:30 BST)	Global (GBPbn)	Apr	-5.2	-5.9	-	-5.5
		Non-EU25 (GBPbn)		-2.5	-2.5	-	-2.6
GER	Industrial production (11:00 BST)	Month	Apr	1.9%	2.4%	-	-2.4%
		Year		4.3%	4.6%	-	3.9%
US	Trade balance (13:30 BST)	Month (USDbn)	Apr	-65.0	-64.8	-	-62.0

Source:- Dow Jones, Reuters, Bloomberg
Notes:- p=preliminary, r=revised, n.f.=not forecast, n.s.a.=not seasonally adjusted, ann.=annualised, bn=billion, m=million

Monthly Economic Calendar

Week commencing June 12, 2006

Monday June 12, 06	Tuesday June 13, 06	Wednesday June 14, 06	Thursday June 15, 06	Friday June 16, 06
JPN GDP Annualized (1Q) JPN Current Account Total (Apr) UK PPI (May)	AU National Australia Bank's May Business Survey NZ Retail Sales (Apr) JPN Industrial Production (Apr) UK CPI (May) US Producer Price Index (May) US Retail Sales (May)	AU Westpac June Consumer Confidence JPN BoJ Monetary Policy Meeting US Consumer Price Index (May)	NZ ANZ-Business NZ PMI (May) US Fed's Beige Book US Initial Jobless Claims (Jun 11) US Empire Manufacturing (Jun) US Industrial Production (May) UK RICS House Price Balance (May) UK Retail Sales (May) JPN BoJ Monetary Policy Announcement EC Euro-Zone CPI (May)	NZ Manufacturing Activity (1Q) US Philadelphia Fed (Jun) US Current Account Balance (1Q) US U. of Michigan Confidence (Jun P)
Monday June 19, 06	Tuesday June 20, 06	Wednesday June 21, 06	Thursday June 22, 06	Friday June 23, 06
	JPN BoJ Monetary Policy Meeting Minutes US Housing Starts (May)	NZ Visitor Arrivals (May) UK Bank of England Minutes	AU Dwelling Starts (Q1) NZ Current Account Balance (Q1) JPN Merchants Trade Balance Total (May) US Initial Jobless Claims (Jun 18)	NZ Gross Domestic Product Q/Q (Q1) US Durable Goods Orders (May)
Monday June 26, 06	Tuesday June 27, 06	Wednesday June 28, 06	Thursday June 29, 06	Friday June 30, 06
EC Euro-Zone Current Account (Apr)	US New Home Sales (May)	US Existing Home Sales (May) US Richmond Fed Manufact. Index (Jun) US Consumer Confidence (Jun) NZ Trade Balance (May) JPN Retail Trade M/M SA (May P)	JPN Industrial Production M/M (May P) US GDP Annualized (Q1 F) US Initial Jobless Claims (Jun 25) US Fed's Open Market Committee	AU Private Sector Credit M/M (May) US FOMC Rate Decision Expected (Jun 30) US Personal Income (May) US Personal Spending (May) US PCE Deflator (May) US U. of Michigan Confidence (Jun F) NZ Building Permits M/M (May) JPN Tokyo Consumer Prices Y/Y (Jun) JPN Construction Orders Y/Y (May) UK GDP Q/Q (Q1 F) UK Current Account (Q1)

Monthly Economic Calendar (continued)

Week commencing June 12, 2006

Monday July 03, 06	Tuesday July 04, 06	Wednesday July 05, 06	Thursday July 06, 06	Friday July 07, 06
AU Retail Sales (May) AU Building Approvals M/M (May) EC PMI Manufacturing (survey) (Jun) UK PMI Manufacturing (survey) (Jun)	AU Reserve Bank July Policy-Setting Meeting US ISM Manufacturing (Jun)	AU RBA Cash Target (Jun) UK Bank of England's Monetary Policy Committee Meets	US Factory Orders (May) UK Industrial Production M/M (May) US Initial Jobless Claims (Jul 2) UK BoE Announces Rates (July 7) EC ECB Announces Interest Rates (Jul)	US ISM Non-Manufacturing (Jun) US Nonfarm Payrolls (Jun)

The research analyst(s) who prepared this report certifies (y) that the views expressed herein accurately reflect the research analyst's(s') personal views about the subject security(ies) and issuer(s) and that no part of his/her/their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

Disclaimer

The research analyst(s) who prepared this report certifies(y) that the views expressed herein accurately reflect the research analyst's(s') personal views about the subject security(ies) and issuer(s) and that no part of his/her/their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

In this publication, HSBC Group means HSBC Bank plc, its subsidiaries and associate undertakings, and any of their branches.

This document is issued in Australia by HSBC Bank Australia Limited (ABN 48 006 434 162) AFSL No. 232595 and HSBC Bank plc – Sydney Branch (ABN 98 067 329 015) AFSL 232596 (together "HBAU") for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). It makes no representations that the products or services mentioned in this document are available to persons in Australia or anywhere else or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

It is issued in New Zealand on behalf of The Hongkong and Shanghai Banking Corporation Limited and is being provided to recipients otherwise than as a member of the "public" under the Securities Act 1978 (the Act). By accepting this document in New Zealand each recipient is deemed to have acknowledged that the recipient is a person whose principal business is the investment of money or the recipient in the course of and for the purposes of the recipient's business habitually invest money in terms of section 3(2)(iii) of the Act. All recipients are prohibited from copying or distributing any material in this document to any person and in particular should not distribute any material in this document to any member of the public in New Zealand in terms of the Act.

Any distribution of this document in the United Kingdom is intended for persons of a kind described in Articles 11(3) of the Financial Services Act 1986 (Investment Advertisements)(Exemptions) Order 1966 (as amended). The protection afforded by the regulatory regime in the United Kingdom are available only to those dealing with a representative of HSBC Bank plc in the United Kingdom.

Any distribution of this document in the United States is intended solely for "major US institutional investors" (as defined in Rule 15a-6 of the US Securities Exchange Act of 1934). Such recipients should note that any transactions effected on their behalf will be undertaken through HSBC Securities (USA) Inc. in the United States. Each major US institutional investor that receives this document by such act agrees that it shall not distribute or provide a copy of this document to any other person.

This document is not and should not be construed as an offer to sell, purchase or subscribe for any investment or a solicitation of such an offer.

The information in this document is derived from sources HBAU believes to be reliable but which have not been independently verified. All charts and graphs are from publicly available sources or proprietary data. HBAU makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of any information. HBAU is not responsible for errors of transmission of factual or analytical data, nor shall it be liable for damages arising out of any person's reliance upon any information in this document. The opinions in this document constitute the present judgement of HBAU and are subject to change without notice.

A member of the HSBC Group and its affiliates and/or their officers, directors and employees may have positions in any securities or instruments or related investments mentioned in this document and may from time to time add to or dispose of any such securities instruments or investments. A member of the HSBC Group and its affiliates may act as market maker or have assumed an underwriting commitment in the securities or instruments of any companies, or in any securities or instruments or related investments, mentioned in this document; or may sell or buy them on a principal basis. Brokerage or fees may be earned by a member of the HSBC Group or its affiliates in respect of any business transacted by them in all or any of the securities or instruments referred to in this document. A member of the HSBC Group may also perform or seek to perform banking or underwriting services for or relating to any companies mentioned in this document.

This document is intended to be distributed in its entirety. It may not be further distributed in whole or in part for any purpose.

Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

© Copyright. HSBC Bank Australia Ltd 2004, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Bank Australia Ltd. (May 2004)

HSBC Bank Australia Limited

HSBC Centre
580 George Street
Sydney, NSW 2000
Australia
Telephone: +61 2 9006 5888
Fax: +61 2 9255 2205
Website: www.hsbc.com.au

The Hongkong and Shanghai Banking Corporation Limited

1 Queen Street
Auckland
New Zealand
Telephone: +64 9 308 8888
Fax: +64 9 918 8699
Website: www.markets.hsbc.com