

AUSTRALIA & NEW ZEALAND WEEKLY

John Edwards
Chief Economist

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

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available online at:-

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Jobs, interest rates in Australia, NZ

Wages growth crucial

RBA Governor Ian Macfarlane and his successor Glenn Stevens may have more to say about it when they meet the House Economics Committee Friday, but there's little doubt Australia's new jobs surge comes at an inconvenient time for the Reserve Bank of Australia. Australia added 153,000 jobs in the three months to July, taking the unemployment rate down to a thirty year record 4.8% and the participation rate up to an all time high (at least for peace time) of 65%. The July employment gain was announced in the same week as firm gain in housing lending for June and – after many disappointments – an 8% increase in export values for the month. We remain sceptical given two recent rate increases, some moderation in global growth and a continuing slump in NSW but if the surge in jobs does indeed portend an upswing in demand and especially if it is associated with an acceleration of wages growth, there would not be just one tightening to come in addition to the 25bp moves of May and August, but several.

The market focus now has to be on the second quarter wage price index out Wednesday. The interesting aspect of this series is that the trend in recent quarters is not up. On the contrary, it is ever so slightly down, from an annual rate of growth of private sector wages of just over 4% in the September quarter to just under 4% to the March quarter this year. Despite persistently low unemployment and despite rapid growth in employment, despite very rapid increases in wages in some regions and trades of particularly acute shortages, wages growth overall has been remarkably moderate. In the last few years most quarterly changes in the private sector series have been pretty close to 1%, which is our forecast for the number Wednesday. The public sector bounces around depending on the timing of large scale bargaining rounds. We assume a 1% outcome there, and a total private plus public outcome of 1% for the June quarter. The annual outcome for the year to June would be just under the 4% gain to March.

If we are right the market will rally and we will leave in place our view that the current cash rate of 6% is the peak. The RBA would leave in place its view that the June quarter's core inflation rate is the peak. We will also leave in place our view that the Australian dollar will retreat into the fourth quarter. If the increase is solidly above 1%, however, we may be looking at an altogether more dramatic final phase in the central bank tightening episode which began four years ago.

While Australia pondered its own job surge last week, New Zealand's June quarter employment report offered a hopeful example of coping with labour shortages. With an increase of 1% June

quarter jobs growth in New Zealand was a little stronger than we expected and a little stronger than the Reserve Bank of New Zealand would wish to see. Full time employment rose a formidable 1.5%, while the unemployment rate fell another notch to 3.6%. The overall increase is shade less than the 1.1% gain in the first quarter, but much stronger than the second half of last year. Even as the unemployment rate fell the participation rate rose to a new record high of 68.8%

Yet even with a very low unemployment rate the June quarter increase in the private sector wage cost index was 0.6%, leaving private sector ordinary time wages growth at 3% for the year to June. Driven by an agreement in the education sector the public sector was a bit stronger to give a 0.7% increase for wages overall. This took the overall increase to 3.3% compared to 3.2% last time for ordinary time. Including overtime the increases were also steady. The annual rate for private and public combined and including overtime fell from 3.3% to 3.2%. It is quite evident that New Zealand wages growth is not accelerating.

With an unemployment rate more than 1% below Australia's and participation nearly 4% higher the labour market story in New Zealand is exceptionally interesting. In the last six years New Zealand has added over 300,000 people to its workforce, the biggest increase and the fastest rate of growth of any similar period in the last twenty years. All up since the expansion began eight years ago another 400,000 jobs have been created – an increase of just under one quarter. It's been a splendid performance, but as last week's population numbers from Statistics New Zealand remind us, it cannot continue. New Zealand's population is getting older, and sooner or later the growth of the workforce will dramatically slow. The number of people aged 65 and over increased just under 20% in the last decade. By contrast the number of children aged 14 or under grew just 1.9%. Those trends will continue. Participation by both men and women has been growing quarter after quarter. Sooner or later participation also has to top out. Productivity growth will then become more central to New Zealand's overall growth composition.

John Edwards

Weekly Calendar

Week commencing Monday August 14, 2006

Country/ Region	Event or Economic Release	Period	HSBC	Market F'casts Cons	Range	Actual Previous
Monday August 14, 2006						
NZ	Retail Sales (Jun)	Month	Jun	0.5%	-	1.27%
CHI	Retail Sales (03:00 BST)	Year	Jul	14.2%	-	13.9%
GER	GDP (07:00 BST)	Quarter	Q2, flash	0.7%	0.9%	0.4%
		Year		1.7%	1.9%	1.4%
UK	PPI (09:30 BST)	Input (sa) month	Jul	0.9%	0.9%	-0.2%
		Year		9.2%	8.6%	10.9%
		Output (nsa) month		0.2%	0.4%	0.1%
		Year		2.7%	2.9%	3.3%
EMU	GDP (10:00 BST)	Core output year		2.7%	2.7%	2.9%
		Quarter	Q2, flash	0.7%	0.8%	0.6%
		Year		2.1%	2.3%	2.0%
Tuesday August 15, 2006						
UK	RICS house prices (00:30 BST)	Prices rising / falling	Jul	+30	+30	+28
JPN	Tertiary industry index (00:50 BST)	Month	Jun	-0.1%	-0.1%	0.5%
		Year		2.4%	-	3.3%
CHI	Industrial Production	Year	Jul	19.3%	-	19.5%
UK	CPI (09:30 BST)	RPI - month	Jul	-0.1%	-0.1%	0.4%
		RPI - year		3.2%	3.2%	3.3%
		RPIX		3.0%	3.0%	3.1%
		CPI - year		2.4%	2.4%	2.5%
US	PPI (13:30 BST)	Headline	Jul			
		Month		0.3%	0.3%	0.5%
		Year		4.3%	4.3%	4.9%
		Core				
		Month		0.3%	0.2%	0.2%
		Year		1.8%	1.7%	1.9%
US	Empire manufacturing (13:30 BST)	Month	Aug	13.0	14.9	15.6
Wednesday August 16, 2006						
AU	Westpac August Consumer Confidence					
AU	Wage Price Index	Year		4%	-	4%
		Q2		1%	-	0.9%
CHI	Fixed asset investment (03:00 BST)	Year	Jul	30.0%	-	31.3%
UK	Bank of England minutes (09:30 BST)		Aug			
UK	Unemployment (09:30 BST)	<i>Claimant count</i>	Jun/Jul			
		Change (000s)		5.0	5.0	5.9
		Rate		3.0%	3.0%	3.0%
		<i>ILO</i>				
		Rate		5.4%	-	5.4%
UK	Average earnings (09:30 BST)	Headline	Jun	4.2%	4.1%	4.1%
		Ex. Bonus		4.0%	-	3.8%
NOR	Norges Bank rate announcement (13:00 BST)		Aug			
US	CPI (13:30 BST)	Headline	Jul			
		Month		0.4%	0.4%	0.2%
		Year		4.1%	4.2%	4.3%
		Core				
		Month		0.3%	0.3%	0.3%
		Year		2.8%	2.8%	2.6%
US	Housing starts (13:30 BST)	Month ('000)	Jul	1760	1810	1850
US	Industrial production (14:15 BST)	Month	Jul	0.6%	0.45	0.8%
		Cap Utilisation		82.7%	82.6%	82.4%

Weekly Calendar (continued)

Week commencing Monday August 14, 2006

Country/ Region	Event or Economic Release	Period	HSBC	Market F'casts Cons	Range	Actual Previous	
Thursday August 17, 2006							
AU	Melbourne Institute Consumer Inflation Expectations for August						
AU	Reserve Bank of Australia July Bulletin						
AU	Average Weekly Wages (May)						
UK	Retail sales (09:30 BST)	Month	Jul	0.3%	0.2%	-	0.9%
		Year		4.6%	4.5%	-	3.7%
EMU	CPI (10:00 BST)	Year	Jul	2.5%	2.5%	-	2.5%
EMU	Industrial production (10:00 BST)	Month	Jun	0.0%	0.0%	-	1.6%
		Year		4.4%	4.4%	-	4.8%
US	Jobless claims (13:30 BST)	Week ('000)	Wk 12	315	-	-	319
			Aug				
US	Leading indicators (15:00 BST)	Month	Jul	0.2%	0.1%	-	0.1%
US	Philadelphia Fed (17:00 BST)	Month	Aug	10.0	8.3	-	6.0
Friday August 18, 2006							
AU	RBA Governor Macfarlane Speaks: House Economics Committee						
NZ	Visitor Arrivals (Jul)						
GER	PPI (07:00 BST)	Month	Jul	0.1%	0.4%	-	0.3%
		Year		5.6%	6.0%	-	6.1%
US	University of Michigan confidence (14:45 BST)	Month	Aug, prelim	83.0	84.0	-	84.7
During the Week							
CHI	Money supply	M1	Jul	13.5%	-	-	13.9%
		M2		18.0%	-	-	18.4%

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 August 21, 2006

Monday August 21, 06	Tuesday August 22, 06	Wednesday August 23, 06	Thursday August 24, 06	Friday August 25, 06
		AU Westpac MI Leading Index For June AU DEWR Skilled Vacancies (AUG) UK U.K. CBI August Industrial Trends US Richmond Fed Manufact. Index (AUG) US ABC Consumer Confidence (AUG 22) US MBA Mortgage Applications (AUG 19) JN Machine Tool Orders (JUL F)	AU Australia House Price (2Q) NZ Trade Balance (JUL) UK Total Business Investment (2Q P) US Existing Home Sales (JUL) US Durable Goods Orders (JUL) US Continuing Claims (AUG 13)	NZ Food Prices (JUL) UK GDP (2Q P) US New Home Sales (JUL) JN National Consumer Prices (JUL)
Monday August 28, 06	Tuesday August 29, 06	Wednesday August 30, 06	Thursday August 31, 06	Friday September 01, 06
EC Euro-Zone M3 (JUL)	AU Conference Board Australia June Leading Index JPN Jobless Rate (JUL) JPN Overall Hhold spending (JUL)	AU Construction Work Done (2Q) AU Retail Sales (JUL) NZ Building Permits (JUL) NZ NBNZ Business Confidence (AUG) UK Mortgage Approvals(JUL) UK CBI August Distributive Trades Report US Consumer Confidence (AUG) US Minutes of Aug. 8 FOMC Meeting US ABC Consumer Confidence (AUG 29) US MBA Mortgage Applications (AUG 26) US ADP Employment Change (SEP 1) US GDP Annualized (2Q P) US GDP Price Index (2Q P) US Personal Consumption (2Q P) US Core PCE (2Q P) JPN Retail Trade (JUL)	AU Private Sector Credit (JUL) AU Private Sector Credit (JUL) AU Private Capital Expenditure (2Q) AU Housing Industry Association July New Home Sales UK GfK Consumer Confidence Survey (AUG) US Personal Income (JUL) US Personal Spending (JUL) US PCE Deflator (JUL) US Initial Jobless Claims (AUG 27) US Continuing Claims (AUG 20) JPN Industrial Production (JUL P) JPN Housing Starts (JUL) JPN Construction Orders (JUL) EC Euro-Zone GDP (2Q P) EC ECB Announces Interest Rates (AUG)	AU AiG Performance of Mfg Index (AUG) AU Current Account Deficit (2Q) UK PMI Manufacturing (survey) (AUG) US Factory Orders (JUL) US Chicago Purchasing Manager (AUG) US Bernanke Speaks to Clemson University Leadership Program US Change in Nonfarm Payrolls (AUG) US Unemployment Rate (AUG) US Average Hourly Earnings (AUG) US U. of Michigan Confidence (AUG F) EC PMI Manufacturing (survey) (AUG) EC Euro-Zone Unemployment Rate (JUL)

Monthly Economic Calendar...(continued)

Week commencing August 07, 2006

Monday September 04, 06	Tuesday September 05, 06	Wednesday September 06, 06	Thursday September 07, 06	Friday September 08, 06
AU TD Securities Inflation (AUG) AU ANZ Job Advertisements (AUG) AU Building Approvals (JUL) AU Company Operating Profit (2Q) AU Inventories (2Q) NZ ANZ Commodity Price (AUG) JN Capital Spending (2Q) UK PMI Construction (survey) (AUG) EC Euro-Zone PPI (JUL)	AU Reserve Bank September Policy-Setting Meeting AU AiG Performance of Service Idx (AUG) AU Westpac-ACCI 3rd-Qtr Survey of Industrial Trends UK PMI Services (survey) (AUG) UK BRC August Retail Sales Monitor EC Euro-zone August Composite PMI EC Euro-Zone Retail Sales (JUL)	AU RBA Cash Target (SEP) AU Gross Domestic Product (2Q) AU Gross Domestic Product (2Q) UK Nationwide Consumer Confidence (AUG) UK Bank of England's Monetary Policy Committee Meets UK Industrial Production (JUL) UK Industrial Production (JUL) UK Manufacturing Production (JUL) US ABC Consumer Confidence (SEP 5) US MBA Mortgage Applications (SEP 2) US Nonfarm Productivity (2Q F) US Unit Labor Costs (2Q F)	AU Employment Change (AUG) AU Unemployment Rate (AUG) AU Participation Rate (AUG) UK NIESR GDP Estimate (AUG) UK BOE Announces Rates (SEP 8) US ISM Non-Manufacturing (AUG) US Fed's Beige Book US Initial Jobless Claims (SEP 3) JN BoJ Monetary Policy Meeting JN Machine Tool Orders (AUG P) EC ECB Publishes Sep. Monthly Report	AU Home Loans (JUL) AU Trade Balance (JUL) AU Exports (JUL) AU Imports (JUL) JN Bank Lending (AUG) JN BoJ Target Rate (SEP 8) JN BoJ Monthly Report EC Euro-Zone OECD Leading Ind. (JUL)
Monday September 11, 06	Tuesday September 12, 06	Wednesday September 13, 06	Thursday September 14, 06	Friday September 15, 06
UK PPI Input NSA (Aug) UK Trade Balance Non EU25 GBP/Mn (Jul) UK DCLG UK House Prices (Jul) JN Gross Domestic Product (2Q F) JN Machine Orders (Jul)	AU National Australia Bank's August Business Survey UK CPI (Aug) US Trade Balance US Fed's Kohn Speaks at Payments Conference in Las Vegas US Fed's Poole Speaks at NABE Annual Meeting in Boston JN Consumer Confidence (Aug) EC Euro-zone Current Account (2Q)	AU Westpac September Consumer Confidence NZ Retail Sales (Jul) US Fed's Yellen Speaks on Economic Outlook in Emeryville JN Current Account Total (Jul) JN Industrial Production (Jul F) JN Capacity Utilization (Jul F) JN BoJ Monetary Policy Meeting Minutes	NZ RBNZ Official Cash Rate (Sep 14) NZ ANZ-Business NZ PMI (Aug) UK Retail Sales (Aug) UK RICS House Price Balance (Aug) US Import Price Index (Aug) US Advance Retail Sales (Aug) US Initial Jobless Claims (Sep 10) US Continuing Claims (Sep 3) JN Machine Tool Orders (Aug F)	NZ Manufacturing Activity (2Q) US Business Inventories (Jul) US Consumer Price Index (Aug) US Empire Manufacturing (Sep) US Industrial Production (Aug) US Capacity Utilization (Aug) US U. of Michigan Confidence (Sep P) EC Euro-Zone CPI (Aug) EC Euro-Zone CPI (Aug) EC Euro-Zone CPI – Core (Aug) EC Euro-Zone Trade Balance (Jul) EC Euro-Zone Trade Balance sa (Jul)

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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