

AUSTRALIA & NEW ZEALAND WEEKLY

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The RBA board meets

Interesting discussion, no change

RBA Governor Glenn Stevens won't ask his board to endorse another tightening Tuesday, but we think a 25bp increase remains a lively possibility for the November meeting. It's true that the output growth numbers have been feeble, but they are feeble in all the areas where stronger growth should be expected – mining output, exports, and demand in the big industrial states of NSW and Victoria. It's also true that headline inflation will be well down in the October 25 third quarter CPI release, largely because petrol was cheaper and banana prices were unchanged over the quarter. Even if the headline measure tumbles to 0.6% from 1.6% last time, however, the annual headline rate at 2.7% would still be above the mid point of the 2% to 3% target band. Given the slight tendency of these core rates to lag the headline rate, and the very low readings (0.6%) the third quarter number will replace, the annual readings for the trimmed mean and weighted median will likely be higher and the quarterly results only a little lower than last time. Both annual results will likely be well above 2.5%, and perhaps above 3%. At least in principle the RBA looks at inflation twelve to eighteen months ahead rather than three months behind, but the past numbers are important in forecasting the future numbers. They also give the RBA a clear rationale for tightening if it thinks the case is supported on other grounds. The most relevant considerations will be the continuing strength of employment, indications that housing construction is reviving, and firm credit growth. Mr. Stevens and his colleagues will be bothered by the likely US slowdown but are probably quite sceptical of predictions of a US recession. There is quite a bit of data to go between now and then, but the case for a tightening should not be underestimated.

This week we expect to see modest August retail trade growth of 0.5%, and a 2% increase in residential building approvals for the same month compared to over 8% for the last reading. We also expect to see Australia record the first monthly trade surplus.

NZ Q2 GDP pleases RBNZ

But Q3 may not

At 0.5% on the production measure Friday's New Zealand second quarter GDP was a touch above the outcome it expected, but the composition would have been extremely pleasing to the Reserve Bank of New Zealand. Domestic demand dropped 1.7%, led by a 5.6% fall in business investment, a 7.2% fall in residential construction and a 0.5% fall in household consumption. Those numbers are in line with RBNZ projections for the year to next March. So too the 4.7% bounce in export volumes for the quarter, and the 1.3% fall in imports. This is rebalancing from domestic demand to exports, with a vengeance. It is exactly the change in composition the Bank has sought for several years, and the overall four quarter growth slowdown to 1.9% (the same as Australia's over the period) was also in line with the RBNZ expectation and wishes.

On these numbers the risk of another increase in the 7.25% cash rate vanishes. But the numbers are not the whole story. As Statistics New Zealand pointed out, the big drop in business investment was caused by a decline in transport equipment and a corresponding decline in imports. But these are lumpy and volatile transactions which depend on the accident of timing of, for example, Air New Zealand plane imports. The fall in residential construction continues, but perhaps not much longer. Residential construction consents have bottomed out and are rising in trend terms, as confirmed in the August numbers published at the same time as the national accounts. In due course construction will also pick up or at least stop falling. Finally, the decline in household consumption was strongly influenced by the decline in used car sales - another lumpy item unlikely to be quickly repeated. These are all reasons to think the fall in domestic demand in the June quarter has been moderated in the third quarter - leaving another rate increase still a reasonable chance.

As we reported last week, there is a considerable gap between the generally lively economy portrayed by the most recent data and evident in the experience of our clients, and the extremely sharp slowdown in household consumption and business investment projected by the RBNZ. Those RBNZ numbers are not strictly speaking forecasts. They are intended to show what must happen if inflation is to be brought back comfortably within the target band over an 18 month time

frame. On the Q2 numbers the RBNZ projections are tracking very well but the Bank too must have reservations about the following three quarters to the end of its March forecasting year.

John Edwards

Weekly Calendar

Week commencing Monday October 2, 2006

Country/ Region	Event or Economic Release	Period	HSBC	Market F'casts Cons	Range	Actual Previous	
Monday October 2, 2006							
AU	Labor Day Public Holiday in NSW, SA and ACT; Queen's Birthday Public Holiday in WA						
US	ISM manufacturing (15:00 BST)	Index	Sep	52.5	53.5	-	54.5
		Prices paid		68	68	-	73
US	Pending home sales (15:00 BST)	Month	Aug	-0.5%	-0.1%	-	-7.0%
UK	PMI manufacturing (09:30 BST)	Index	Sep	52.7	52.8	-	53.1
JN	BoJ Tankan survey (00:50 BST)		Q3				
EMU	PMI manufacturing (09:00 BST)	Index	Sep	56.3	56.4	-	56.5
Tuesday October 3, 2006							
AU	RBA Board Meeting			6%	6%	-	6%
AU	AiG Performance of Mfg Index		Sep				
AU	Retail Sales		Aug	0.5%	-	-	0.6%
AU	Building		Aug	2.0%	-	-	8.3%
NZ	ANZ Commodity Price		Sep				
UK	Bank of England mortgage equity withdrawal (09:30 BST)	MEW (GBP bn)	Q2	12.75	-	-	12.50
JN	Monetary base (00:50 BST)	Year	Sep	-20.0%	-	-	-20.2%
EMU	Unemployment (10:00 BST)	Rate	Aug				
EMU	PPI (10:00 BST)	Year	Aug	5.7%	5.7%	-	5.9%
		Month		0.2%	0.2%	-	0.6%
Wednesday October 4, 2006							
AU	RBA Cash Rate Announcement			6%	6%	-	6%
AU	Trade Balance		Aug	+500m			-588m
US	ADP national employment report (13:15 BST)		Sep				
US	ISM non-manufacturing (15:00 BST)	Month	Sep	54.5	56.0	-	57.0
US	Factory orders (15:00 BST)	Month	Aug	-0.2%	0.5%	-	-0.6%
UK	PMI services (09:30 BST)	Index	Sep	56.4	56.2	-	56.7
EMU	Retail sales (10:00 BST)	Month	Aug	0.7%	0.6%	-	0.6%
		Year		2.1%	2.0%	-	2.5%
EMU	PMI services (09:00 BST)	Index	Sep	56.9	57.0	-	57.1
Thursday October 5, 2006							
AU	AiG Performance of Service Idx		Sep				
US	Initial jobless claims (13:30 BST)	Week	Sep 30	315	-	-	316
UK	Bank of England rate announcement (12:00 BST)		Oct				
EMU	ECB meeting and press conference (12:45 BST)		Oct				
Friday October 6, 2006							
US	Non-farm payrolls (13:30 BST)	Non-farm payrolls (\$000s)	Sep	100	123	-	128
		Unemployment		4.7%	4.7%	-	4.7%
		Avg hourly earnings					
		Month		0.3%	0.3%	-	0.1%
		Year		4.0%	4.0%	-	3.9%

Australia & New Zealand Weekly

US	Consumer credit (20:00 BST)	Month (USDbn)	Aug	6.0	4.5	-	5.5
UK	Industrial production (09:30 BST)	Industrial production	Aug				
		Month		0.1%	0.1%	-	0.2%
		Year		0.9%	0.8%	-	-0.4%
		Manufacturing Production					
		Month		0.2%	0.1%	-	0.2%
		Year		1.5%	1.4%	0	1.0%
JN	Leading indicators (06:00 BST)	Leading DI	Aug	50.0%	-	-	40.0%
		Coincident DI		60.0%	-	-	83.3%

During the week

UK	HBOS house prices	Month	Sep	0.6%	0.8%	-	1.0%
		3M/Year		7.1%	7.9%	-	8.2%

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 October 9, 2006

Monday October 9, 06	Tuesday October 10, 06	Wednesday October 11, 06	Thursday October 12, 06	Friday October 13, 06
AU ANZ Job Advertisements (Sep) UK PPI. (Sep) UK DCLG UK House Prices (Aug)	AU National Australia Bank's September Business Survey NZ NZIER Business Opinion Survey (3Q) UK BRC September Retail Sales Monitor JN Machine Orders (Aug)	AU Home Loans (Aug) US MBA Mortgage Applications (Oct 7) US ABC Consumer Confidence (Oct 10) EC Euro-Zone GDP (2Q F) EC European Commission GDP Forecasts (Table)	AU Westpac October Consumer Confidence AU Employment (Sep) NZ ANZ-Business NZ PMI (Sep) US Trade Balance (Aug) US Jobless Claims (Oct 8) US Minutes of Sep. 20 FOMC Meeting JN Current Account Total (Aug) JN Adjusted Current Account Total (Aug) JN Consumer Confidence (Sep) JN BoJ Monetary Policy Meeting EC ECB Publishes Oct. Monthly Report	NZ Retail Sales (Aug) US U. of Michigan Confidence (Oct P) US Fed's Beige Book US Retail Sales Less Autos (Sep) JN Domestic CGPI (Sep) JN BOJ Target Rate (Oct 13) JN Industrial Production (Aug F) JN BoJ Monthly Report
Monday October 16, 06	Tuesday October 17, 06	Wednesday October 18, 06	Thursday October 19, 06	Friday October 20, 06
US Empire Manufacturing (OCT)	UK RICS House Price Balance (SEP) UK CPI (SEP) US Bernanke Speaks to Bankers' Annual Convention in Phoenix US Producer Price Index (SEP) US Industrial Production (SEP) US Capacity Utilization (Sep) JN Tertiary Industry Index (AUG) EC Euro-Zone CPI (SEP) EC Euro-Zone Ind. Prod. sa (AUG) EC ZEW Survey (Econ. Sentiment) (OCT)	UK Bank of England Minutes US Fed's Bies Speaks to Bankers' Annual Convention in Phoenix US ABC Consumer Confidence (OCT 17) US MBA Mortgage Applications (OCT 14) US Consumer Price Index (SEP) US Housing Starts (SEP) US Building Permits (SEP) JN BoJ Monetary Policy Meeting Minutes for September JN Machine Tool Orders (SEP F)	AU Westpac MI Leading Index For August AU Reserve Bank of Australia September Bulletin UK Retail Sales (SEP) US Initial Jobless Claims (OCT 15) US Continuing Claims (OCT 8)	AU New Motor Vehicle Sales (SEP) AU Export price index (3Q) AU Import price index (3Q) NZ Visitor Arrivals (SEP) NZ Credit Card Spending, Outstandings for September UK GDP (3Q A) US Leading Indicators (SEP) US Philadelphia Fed. (OCT)

Monthly Economic Calendar...(continued)

Week commencing October 9, 2006

Monday October 23, 06	Tuesday October 24, 06	Wednesday October 25, 06	Thursday October 26, 06	Friday October 27, 06
AU Producer Price Index (3Q)	EC ECB Euro-Zone Current Account (Aug) EC Industrial new Orders SA (Aug)	AU DEWR Skilled Vacancies (Oct) AU Consumer Prices (3Q) NZ Consumer Prices (3Q) US Richmond Fed Manufact Index (Oct) US ABC Consumer Confidence (Oct 23) US MBA Mortgage Applications (Oct 21) US Fed's Open Market Committee Meets on Interest Rates, Economy JN Merchnds Trade Balance Total (Sept)	NZ RBNZ Official Cash Rate (Oct 26) UK BBA releases Sep UK Mortgage lending Figures US Existing Home Sales (Sep) US FOMC Rate Decision Expected (Oct 26) US Durable Goods Orders (Sep) US Initial Jobless Claims (Oct 22)	NZ Trade Balance (Sep) NZ RBNZ Assistant Governor Don Abel Speaks in Sydney US New Home Slaes (Sep) US GDP Annualised (3Q A) US GDP Price Index (3Q A) US Personal Consumption (3Q A) US Core PCE QoQ (3Q A) US U. of Michigan Confidence (Oct F) JN National Consumer Prices (SA) (Sep) JN Retail Trade MoM SA (Sep)
Monday October 30, 06	Tuesday October 31, 06	Wednesday November 1, 06	Thursday November 2, 06	Friday November 3, 06
NZ Building Permits (SEP) NZ NBNZ Business Confidence UK Mortgage Approvals (SEP) JN Industrial Production (SEP P)	AU Private Sector Credit (SEP) AU Housing Industry Association September New Home Sales JN Jobless Rate (SEP) JN Overall Hhold Spending (SEP) JN BoJ Monetary Policy Meeting JN BoJ Monetary Policy Announcement JN Housing Starts (SEP) US Personal Income (SEP) US Personal Spending (SEP) US PCE Deflator (SEP)	AU AiG Performance of Mfg Index (OCT) AU Building Approvals (SEP) AU Building Approvals (SEP) US Employment Cost Index (3Q) US Consumer Confidence (OCT) US Chicago Purchasing Manager (OCT) US MBA Mortgage Applications (OCT 28) UK PMI Manufacturing (survey)(OCT) EC PMI Manufacturing (survey) (OCT)	AU Treasury Secretary Ken Henry speaks Melbourne AU Trade Balance (SEP) AU Retail Sales (SEP) NZ ANZ Commodity Price (OCT) US ISM Manufacturing (OCT) US ISM Prices Paid (OCT) US Pending Home Sales (SEP) US Bernanke Speaks to Opportunity Finance Network in Washington EC ECB Announces Interest Rates (NOV)	AU AiG Performance of Service Idx (OCT) US Nonfarm Productivity (3Q P) US Unit Labor Costs (3Q P) US Initial Jobless Claims (OCT 29) US Continuing Claims OCT 22) US Factory Orders SEP) US Dallas Fed's Fisher Speaks to Economists in New York UK PMI Services (survey)(OCT) EC PMI Services (survey) (OCT) EC Euro-zone October Services PMI

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