Week Commencing October 9, 2006

HSBC

AUSTRALIA & NEW ZEALAND WEEKLY

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In this week's issue

RBA's Glen Stevens speaks out

Australia's prospects

Speaking Wednesday on his assessment of "economic conditions and prospects", newly appointed RBA Governor Glenn Stevens will be quite clear. This after all is his style, and there is anyway no mystery in Australia's economy circumstances.

He may well concede that entering the first month of the sixteen year of uninterrupted economic expansion, Australia's growth appears comparatively feeble. At 1.9% in the year to June growth was well below the 3.6% average of the whole upswing, and the lowest four quarter outcome since the unexpected collapse in housing construction at the turn of this decade. Other than that accident, growth to June was the lowest since coming out of recession in 1991.

But while acknowledging slower recorded growth Mr. Stevens may also point out that there are plenty of signs of vigour. Unemployment is down to 4.9% of the workforce, and Australia has added 300,000 jobs over the last ten months – two thirds of them full time. Retail sales growth was 5.6% in the year to August, a very much better performance than last year. Export volumes have been disappointing, but the value of exports was up 19% in the year to August and some improvement in volumes will follow. Driven by a big downturn in the volatile apartment sector, August residential building approvals were well down on the preceding month. Even so it was the second successive month to record an increase on the same month a year ago, and this after more than two years of decline. This suggests the big increase in dwelling construction recorded in the June quarter may mark recovery in the sector. The biggest question mark on the Australian economic outlook is now business investment, which was weak in the March and June quarters after several years of extraordinarily rapid growth. Given the capacity constraints experienced in mining, however, we think the RBA will be sticking with its view that the inevitable slowdown in business investment will be fairly gentle.

The RBA has always been very sensitive to the US outlook, and Mr. Stevens in particular has in the past been bothered by both US fiscal deficits and US house price inflation. But he will be well aware that though personal consumption still accounted for over half of output growth over the last year, business investment and exports made big contributions and dwelling construction has been declining since the middle of last year. He would also be well aware that despite median house prices now falling in the US and the sharp fall in housing starts compared to year ago, household consumption is still quite firm. And while the Bank is always attentive to US growth, Mr. Steven's predecessor Ian Macfarlane pointed out several times over the last couple of years that the global upswing is unusually broadly based. The US still matters, but not as much as it did.

Most of the news since the August *Statement on Monetary Policy* and the House Economics Committee hearing on the 18th of that month would have pleased the RBA. Activity indicators have been moderately firm but not at all exuberant, the US indicators have been consistent with a slowdown but not a recession, and above all the global oil price has come down by roughly one fifth.

We doubt, however, that Mr. Stevens will say anything which could be interpreted as ruling out a 25 bp rate increase after the November board meeting. The RBA thinks Australia is already producing close to capacity and in this respect it would put more weight on full time jobs growth than the weakness of second quarter GDP. It's true the oil price change alone guarantees a modest outcome from the September quarter consumer price index released October 25. But as we argued last week the core rate is likely to remain around 3% because the September quarter 2005 increase which drops out of the annual calculation was quite low. And though the quarterly rate will be well down on the 1.6% recorded last time, the headline annual rate will almost certainly be over 3% from 4% last time. Contemporary inflation will matter less to the RBA than trends in wages growth. So far wages growth has been around 4%, which as the RBA itself says is not excessively quick. The next wages number is not until November 15, well after the board meeting. The RBA makes a point of tracking wages growth with employers however and so anything Mr. Stevens says about wages on Wednesday night would be particularly telling.

He will speak plainly, but after only a few weeks in the top job Mr. Stevens is unlikely to broach the wider issue of the deterioration in Australia's economic performance since the turn of the decade. In the last six years average economic growth and the average growth of GDP per head have slipped to half of the average of the previous six years. Average growth in output per hour worked has fallen less than half of the average growth of the previous six years. The volume of exports last financial year was up only 4% on the volume five years earlier. There are grave issues here, and it is not sufficient answer to say that Australia must for the next couple of decades accept outcomes in both GDP and productivity which would have been unacceptable in the last couple of decades. Happy enough to cheer along the expansion, this persistent deterioration in performance is something on which the RBA, Treasury and the Treasurer have little to say.

John Edwards

Weekly Calendar

Week commencing Monday October 9, 2006

Country/ Region	Event or Economic Release		Period	HSBC	Market F'casts Cons	Range	Actual Previous
Monday October 9, 2006							
AU	ANZ Job Advertisements		Sep			-	-0.6%
JPY	Public Holiday						
UK	PPI (09:30 BST)	Input (sa) month	Sep	-0.7%	-1.0%	-	-1.2%
		Year		6.9%	6.4%	-	7.5%
		Output (nsa) month		0.1%	0.1%	-	0.0%
		Year		2.0%	2.0%	-	2.6%
		Core output year		1.8%	1.9%	-	2.0%
UK	ODPM house prices (09:30 BST)	Year	Aug	7.0%	6.5%	-	6.0%
GER	Industrial production (11:00 BST)	Month	Aug	0.1%	0.2%	-	1.2%
		Year		5.8%	5.9%	-	4.7%
Tuesday October 10, 2006							
AU	National Australia Bank's September Business Survey						
NZ	NZIER Business Opinion Survey		3Q				
JPY	Machine orders (06:00 BST)	Month	Aug	11.4%	-	-	-16.7%
		Year		4.0%	-	-	-1.2%
UK	BRC sales monitor (11:00 BST)	Like-for-like (% Yr)	Sep	3.0%	-	-	2.5%
Wednesday October 11, 2006							
AU	AU Home Loans (Aug)			1%	-	-	0.9%
EMU	GDP (10:00 BST)	Quarter	Q2, final	0.9%	0.9%	-	0.9%
		Year		2.6%	2.6%	-	2.6%
US	FOMC minutes (19:00 BST)		20 Sep				
Thursday October 12, 2006							
AU	Westpac October Consumer Confidence						
AU	Employment (Sep)	('000)		5	-	-	23.4
NZ	NZ ANZ-Business NZ PMI (Sep)						
JPY	Consumer confidence (06:00 BST)	DI	Sep	45.0	-	-	47.6
JPY	Current account balance (00:50 BST)	N.S.A	Aug	1353.0	-	-	1809.6
UK	BCC economic survey (11:00 BST)		Q3				
US	Trade balance (13:30 BST)	Month (USDbn)	Aug	-67.5	-66.5	-	-68.0
US	Jobless claims (13:30 BST)	Week ('000)	Wk 7 Oct	310	-	-	302
US	Beige Book (19:00 BST)						
Friday October 13, 2006							
NZ	Retail Sales (Aug)			0.3%	-	-	0.5%
JPY	BoJ rate announcement		Oct				
JPY	Industrial production (05:30 BST)	Month	Aug, final	1.9%	-	-	1.9%
		Year		6.0%	-	-	6.0%
US	Retail sales (13:30 BST)	Month	Sep	-0.2%	0.3%	-	0.2%
		Ex-autos		-0.2%	0.1%	-	0.2%
US	University of Michigan confidence (14:45 BST)	Month	Oct, prelim	86.5	86.0	-	85.4
US	Business inventories (15:00 BST)	Month	Aug	0.5%	0.5%	-	0.6%
During the week							
CHI	Trade balance	USDbn	Sep	15.0	-	-	18.8

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 16, 2006

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)
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)

Weekly Calendar (continued)

Week commencing Monday October 16, 2006

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 US Personal Income (SEP) US Personal Spending (SEP) US PCE Deflator (SEP) JN Jobless Rate (SEP) JN Overall Hhold Spending (SEP) JN BoJ Monetary Policy Meeting JN BoJ Monetary Policy Announcement JN Housing Starts (SEP)	AU AiG Performance of Mfg Index (OCT) AU Building Approvals (SEP) AU Building Approvals (SEP) UK PMI Manufacturing (survey)(OCT) US Employment Cost Index (3Q) US Consumer Confidence (OCT) US Chicago Purchasing Manager (OCT) US MBA Mortgage Applications (OCT 28) 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) UK PMI Services (survey) (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 EC PMI Services (survey) OCT) EC Euro-zone October Services PMI
Monday November 6, 06	**Tuesday November 7, 06**	**Wednesday November 8, 06**	**Thursday November 9, 06**	**Friday November 10, 06**
AU TD Securities Inflation (OCT) AU ANZ Job Advertisements (OCT) NZ Labor Cost Private Sector (3Q) UK HBOS Plc house prices (OCT) UK Industrial Production (SEP) EC Euro-Zone PPI (SEP)	AU Reserve Bank November Policy-Setting Meeting UK Land Registry House Price (3Q) UK BRC October Retail Sales Monitor	AU RBA Cash Target (NOV) AU AiG Perf of Construction Index (OCT) AU Home Loans (SEP) AU Investment Lending (SEP) UK Bank of England's Monetary Policy Committee Meets UK BRC October Shop Price Index US Consumer Credit (SEP) US ABC Consumer Confidence (NOV 6) US MBA Mortgage Applications (NOV 4)	AU Employment Change (OCT) NZ Unemployment Rate (3Q) UK BOE Announces Rates (NOV 10) JN Machine Tool Orders (OCT P) EC ECB Publishes Nov Monthly Report	US Trade Balance (SEP) US Import Price Index (OCT) US Initial Jobless Claims (NOV 5) US Continuing Claims (OCT 29) US U. of Michigan Confidence (NOV P) JN Machine Orders (SEP) EC ECB's Stark, Noyer, Others Speak at Conference on Monetarism

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