

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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www.hsbcnet.com

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RBA to tighten Wednesday

That will probably be it

The feeble report for Australian September retail sales and the weaker US housing, manufacturing and consumer confidence data have encouraged doubts in the market, but we think a 25 basis point tightening announced by the RBA Wednesday morning is locked in. After all, RBA Governor Glenn Stevens did pointedly say last month that the third quarter inflation numbers would be important in the RBA board decision Tuesday, and those numbers showed only a very modest decline in quarterly core inflation and an increase in the annual rate. We also know that Mr. Stevens thinks the global expansion is robust, that the US slowdown will be manageable, and that the evident strength of Australian employment growth is at odds with the low output growth reported in the national accounts. Most importantly, we know Mr. Stevens thinks that resisting the current upsurge in inflation is his first priority.

Uncertainty over the speed and size the US slowdown will, however, discourage the RBA from offering any hint on the next move, either in the release announcing the 25bp Wednesday or in the *Statement on Monetary Policy* next Monday. Wednesday's move will be the eighth successive tightening since May 2002, and at 6.25% the cash rate will be restrictive. For the RBA any further move depends on the flow of data, and there will be a good deal before the next decision. Next month would certainly be too soon to move again and there is no January meeting, so the issue will not arise before the board meeting on the 1st of February next year.

In addition to the more frequent indicators we will by then have seen the final release for US third quarter GDP and (the day before the board meeting) the preliminary GDP release for the fourth quarter. In Australia we will have seen employment for October, November and December, the business investment survey and third quarter investment numbers on November 30, plus third quarter GDP on December 6 and the fourth quarter consumer price index on January 24. These major releases will be in addition to the regular reports on building approvals, credit growth and retail trade, all of which are now relevant to the next decision. Our guess is that the global economic mood will be a little less cheerful by late January, and that the Australian data will point to only a very modest improvement in growth. Fourth quarter headline inflation will again be down, and the core could also moderate. It would then be well into the middle of 2007 before the RBA seriously contemplated another change in the cash rate.

Big week for NZ

Wages, jobs to influence RBNZ

It's almost unanimously the view that having passed up the opportunity to tighten last month RBNZ Governor Alan Bollard is hardly likely to tighten next month. We agree, but run of numbers must be troubling Dr Bollard. Since he announced October 26 that inflation pressures are abating we have seen September dwellings consents rise 6.1% on the prior month and just short of 17% on the same month a year earlier. This was the third successive monthly increase, and it sits oddly with the RBNZ projection that the residential construction will contract by 6% in the year to March 2007 and be flat for the following two years. Business confidence has reached an eighteen month high, though business investment, too, is projected by the RBNZ to tumble this year and again next year. September exports were up 20% on a year earlier, though export volumes are projected to increase only 2.6% in the year to March 2007. Inward migration, which supports the housing market, has been quite firm. We aren't confident that the NZ economy is following the RBNZ script. It is certainly true that headline inflation is heading lower. As Dr Bollard pointed out in the cash rate review, however, this mostly reflects the decline in the petrol price. There is a weighted median inflation measure published by Statistics New Zealand, but the RBNZ does not appear to attach importance to it.

These considerations make this a big week for the New Zealand economy. During it we see the only really important local data between now and the RBNZ cash rate review and Monetary Policy Statement December 7. Today's labour cost index is particularly crucial. The September quarter increase in this series, which is not seasonally adjusted, is more often than not markedly higher than June. There is also a slow trend increase in labour costs, unsurprising given very low unemployment, a firm economy, and reasonable productivity growth. We expect to see a 0.8% increase in the quarterly result for both private sector employees and for all employees. This would be a bigger outcome than the June quarter, which saw a 0.63% increase for the private sector and 0.7% for all employees. But since a big increase from last September drops out, the annual rate of increase would fall for all employees from 3.3% to 3% and remain roughly the same at 3% for private sector employees. The risk is that the outcomes will be stronger. A quarterly 1% increase for example would see the market pricing in a higher risk of a December rate increase, and rightly so.

After falling through most of 2005, New Zealand employment increased in the first half of this year. We would be surprised if the increase did not persist into the third quarter. We expect to see

a jobs gain of 50,000 over the quarter in Thursday's household survey, with the unemployment rate rising slightly to 3.7% (from 3.6%) on increased participation. The risk for that number is that jobs growth will be higher and unemployment lower, which would also increase the risk of a move December 7. As we have often pointed out, New Zealand's only problem is that it is doing too well.

John Edwards

Weekly Calendar

Week commencing Monday November 06, 2006

Country/ Region	Event or Economic Release		Period	HSBC	Market F'casts Cons	Range	Actual Previous
Monday November 06, 2006							
AU	TD Securities Inflation			-	-	-	0%
AU	ANZ Job Advertisements		Oct	-	-	-	0.3%
NZ	Labor Cost Private Sector		3Q	0.8%	0.8%	-	0.6%
EMU	PMI services (09:00 BST)	Index	Oct	57.5	57.0	-	56.7
UK	Industrial production (09:3 BST)	Industrial	Sep				
		Month		0.3%	0.4%	-	0.1%
		Year		0.6%	0.8%	-	0.7%
		Manufacturing	Sep				
		Month		0.0%	0.2%	-	0.4%
		Year		2.1%	2.3%	-	1.5%
EMU	PPI (10:00 BST)	Month	Sep	-0.5%	-0.1%	-	0.1%
		Year		4.7%	5.0%	-	5.7%
Tuesday November 07, 2006							
AU	Reserve Bank November Policy-Setting Meeting						
GER	Industrial production (11:00 BST)	Month	Sep	-0.2%	0.2%	-	1.9%
		Year		5.9%	6.2%	-	7.2%
UK	BRC sales monitor (11:00 BST)	Like-for-like (%Yr)	Oct	2.0%	2.0%	-	2.4%
US	Consumer credit (20:00 BST)	Month (USDbn)	Sep	0.0	5.5	-	5.0
Wednesday November 08, 2006							
AU	AU RBA Cash Target (22:30 BST)	Cash rate target	Nov	6.25%	6.25%	-	6.00%
AU	AiG Perf of Construction Index		Oct	-	-	-	53.1
AU	Home Loans		Sep	-4.0%	-3.0%	-	-1.0%
AU	Investment Lending		Sep	-	-	-	-1.4%
Thursday November 09, 2006							
AU	AU Employment Change	(000's)	Oct	5	10	-	31.4
NZ	Unemployment Rate		3Q	3.7%	3.7%	-	3.6%
UK	Bank of England rate announcement (12:00 BST)	Bank rate	Nov	5.00%	5.00%	-	4.75%
US	Trade balance (13:30 BST)	Month (USDbn)	Sep	-68.0	-65.8	-	-69.9
US	Jobless claims (13:30 BST)	Week (000's)	Wk 4 Nov	340	-	-	327
US	University of Michigan confidence (15:00 BST)	Month	Nov, prelim	94.0	93.3	-	93.6
Friday November 10, 2006							
US	Public holiday Veteran's Day						

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 November 13, 2006

Monday November 13, 06	Tuesday November 14, 06	Wednesday November 15, 06	Thursday November 16, 06	Friday November 17, 06
AU Reserve Bank Quarterly Monetary Policy Statement NZ ANZ Job Vacancies (3Q) UK PPI (OCT) JN Domestic CGPI (OCT) JN Export Price Index (OCT) JN Import Price Index (OCT) JN Current Account Total (SEP) JN Industrial Production (SEP F) JN Capacity Utilization (SEP F) JN Consumer Confidence (OCT)	NZ Producer Prices - (3Q) UK CPI (OCT) JN Gross Domestic Product (3Q P) EC Euro-Zone GDP (3Q A) EC ZEW Survey (Econ. Sentiment) (NOV)	AU Westpac November Consumer Confidence AU Wage Price Index (3Q) AU Australia House Price (3Q) NZ Retail Sales (SEP) US Producer Price Index (OCT) US Advance Retail Sales (OCT) US Business Inventories (SEP) US Fed's Poole Speaks to CFA Society in Wilmington, Delaware US Minutes of Oct. 24 FOMC Meeting US ABC Consumer Confidence (NOV 13) US MBA Mortgage Applications (NOV 11) JN BoJ Monetary Policy Meeting	AU Australia's November Consumer Inflation Expectations UK RICS House Price Balance (OCT) UK Retail Sales (OCT) US Empire Manufacturing (NOV) JN BOJ Target Rate (Nov 16) JN Machine Tool Orders (OCT F) EC Euro-Zone CPI (OCT)	US Consumer Price Index (OCT) US Initial Jobless Claims (NOV 12) US Continuing Claims (NOV 5) US Industrial Production (OCT) US Capacity Utilization (OCT) US Fed's Poole Speaks at Cato Institute Monetary Conference US Philadelphia Fed. (NOV) US NAHB Housing Market Index (NOV) EC Euro-Zone Ind. Prod (SEP)
Monday November 20, 06	Tuesday November 21, 06	Wednesday November 22, 06	Thursday November 23, 06	Friday November 24, 06
	AU New Motor Vehicle Sales (OCT) NZ Visitor Arrivals (OCT) UK U.K. CBI November Industrial Trends Survey US Fed's Fisher Speaks in Berlin on German Economy's Prospects JN BoJ Monetary Policy Meeting Minutes for October	AU DEWR Skilled Vacancies (NOV) AU Westpac MI September Leading Index UK Bank of England Minutes US Fed's Lacker Speaks to Richmond Economists' Group JN Merchnds Trade Balance Total (OCT) EC Industrial New Orders SA (SEP)	UK Total Business Investment (3Q P) US Initial Jobless Claims (NOV 19) US U. of Michigan Confidence (NOV F) EC ECB Euro-Zone Current Account (SEP)	NZ Trade Balance (OCT) UK GDP (3Q P)

Weekly Calendar (continued)

Week commencing Monday November 13, 2006

Monday November 27, 06	Tuesday November 28, 06	Wednesday November 29, 06	Thursday November 30, 06	Friday December 1, 06
AU Housing Industry Association New Home Sales (OCT) NZ NBNZ Business Confidence (NOV) UK Nat'wide House prices (NOV)	JN Retail Trade (OCT)	AU Trade Balance (OCT) NZ Building Permits (OCT) UK Mortgage Approvals (OCT) US ABC Consumer Confidence (NOV 27) US MBA Mortgage Applications (NOV 25) US Durable Goods Orders (OCT) US Consumer Confidence (NOV) US Existing Home Sales (OCT) US Richmond Fed Manufact. Index (NOV) US S&P/ CaseShiller Home Price (SEP) JN Industrial Production (OCT P)	AU Retail Sales (OCT) AU Private Sector Credit (OCT) AU Private Capital Expenditure (3Q) US New Home Sales (OCT) US Fed's Beige Book JN Housing Starts (OCT) EC Euro-Zone Indust. Confidence (NOV) EC Euro-Zone CPI Estimate (NOV)	AU AiG Performance of Mfg Index (NOV) UK PMI Manufacturing (survey) (NOV) US Personal Income (OCT) US Personal Spending (OCT) US PCE Core (OCT) US Initial Jobless Claims (NOV 26) US Continuing Claims (NOV 19) US Chicago Purchasing Manager (NOV) JN Jobless Rate (OCT) EC PMI Manufacturing (survey) (NOV)
Monday December 04, 06	Tuesday December 05, 06	Wednesday December 06, 06	Thursday December 07, 06	Friday December 08, 06
AU TD Securities (NOV) AU Building Approvals (OCT) AU ANZ Job Advertisements (NOV) AU Company Operating Profit (3Q) AU Inventories (3Q) AU Building (OCT) NZ ANZ Commodity Price (NOV) JN Capital Spending (3Q) EC Euro-Zone PPI (OCT)	AU Reserve Bank December Policy-Setting Meeting AU AiG Performance of Service Idx (NOV) AU Westpac-ACCI Industrial Survey (4Q) AU Current Account Deficit (3Q) UK PMI Services (survey) (NOV) UK BRC November Retail Sales Monitor US Pending Home Sales (OCT) EC PMI Services (survey) (NOV)	AU RBA Cash Target (DEC) AU Gross Domestic Product (3Q) AU Gross Domestic Product (3Q) UK Nationwide Consumer Confidence (DEC) UK Bank of England's Monetary Policy Committee Meets UK Industrial Production (OCT) US Nonfarm Productivity (3Q F) US Unit Labor Costs (3Q F) US Factory Orders (OCT) US ISM Non-Manufacturing (NOV) US ABC Consumer Confidence (DEC 4) US MBA Mortgage Applications (DEC 2)	AU Unemployment Rate (NOV) NZ RBNZ Official Cash Rate (DEC 7) UK NIESR GDP Estimate (NOV) UK BOE Announces Rates (DEC 8) EC ECB Announces Interest Rates (DEC)	AU Home Loans (OCT) AU Investment Lending (OCT) US Initial Jobless Claims (DEC 3) US Continuing Claims (NOV 26) US Consumer Credit (OCT) JN Gross Domestic Product (3Q F)

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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