

Week Commencing May 07, 2007



AUSTRALIA & NEW ZEALAND WEEKLY

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The RBA and the Budget

A big cut in the surplus is out

Coming four days before Tuesday's federal Budget Friday's RBA *Statement on Monetary Policy* made it plain that a stimulatory fiscal policy is out of the question. The RBA lowered its 2007 inflation forecast from 2.75% to 2.5%, but underlined the risks of higher inflation (with the implied possibility of rate increases) into 2008. The Bank emphasised that Australia is now operating near the limits of its capacity, a point strongly made also by Treasury Secretary Ken Henry eight weeks ago. Commodity prices are high and will remain high, unemployment is at a thirty year low, and in the fourth quarter of this year the Australian economy will begin the seventeenth consecutive year of expansion. The Bank acknowledged that underlying inflation has recently moderated, and despite vigorous employment growth wages growth has not yet accelerated. But the Bank is wary of the risks and plainly signalled its readiness to tighten if necessary. It believes that non farm output growth last year was around 3.5% and that the "momentum" of stronger growth has carried through into 2007. It noted credit growth has been strong, especially for business. It believes the global economy is and will remain in good shape, with the US merely recording "more moderate growth" and the rest of the world barely slowing. The Australian economy is and "will continue to operate at a position close to full utilisation of resources". As it remarked, "inflation is forecast to return to the top half of the target during 2008", a circumstance which could well see further tightening.

For the Treasurer and Tuesday's federal budget the message is quite clear - an expansionary fiscal policy will sharply increase the risks of further cash rate increases. The secretary of the Treasury made the same point and just as clearly in his March speech to his officials. Using the change in the underlying surplus from one year to the next as the best summary measure of the fiscal impulse imparted to the economy, we expect to see the Treasurer report an underlying surplus of \$14 billion for 2006/07, and project a surplus of \$10bn for 2007/08. That is on the cusp of what is sensible in an economy in which the unemployment rate, as the Secretary of the Treasury said eight weeks ago, is already very close to the point at which wage inflation accelerates. Our view remains that no further cash rate increase is likely this year, but there is no doubt where the bias lies. If the reduction of the surplus between the fiscal years is revealed on Tuesday night to be \$7 billion or \$8 billion or more, we think the risk of another tightening this year will sharply increase.

Export problems persist

Weakness where least expected

Friday's March trade numbers continued the perplexing pattern in Australian exports evident now for most of the last five years. Exports were down 4% in the month. This was enough to wipe out most of the gains this year and return the level of seasonally adjusted exports to just above where they were at the end of last year – and well below where they were in June. Australian dollar commodity prices have increased a little since June, so the export decline could be even bigger in volumes than in values. As Friday's figures make plain, the failure is not where one might expect. Manufactured exports appear to have risen quite strongly in March. So too (and surprisingly) rural exports. The weakness was once again in energy, metals and minerals. Cyclones on the north west coast again cut back iron ore shipments, and metals and mineral fuels exports again fell. It's remarkable but true that over the last five years the volume of manufactured exports has increased faster than the volume of metals, minerals and energy exports, a phenomenon which underlines the extent to which the response to the boom in commodity prices has been hampered by Australia's lack of capacity. No doubt the immense volumes of investment over the last three years will ultimately show up as substantial and persistent increases in export volumes and output of metals, minerals and energy. But it's been a long time coming, and as the March numbers indicate, it hasn't yet arrived.

New Zealand's decisive week

Wages, jobs

This is a big week for the New Zealand market, with the March quarter labour cost index out this morning and the March quarter household employment survey out Thursday. We expect to see a 1% increase in salary and ordinary time wages for the quarter, taking the annual rate to 3.6%. That remains well below the Australian rate but it will be quite enough to strengthen the central bank's conviction that a cash rate of 7.75% is entirely right. We expect to see a gain of 5000 jobs or 0.2% over the quarter – a very much smaller rate of increase than is evident in Australia, but better than the previous two quarters and again enough to reassure the RBNZ that last month's tightening was correct. We ourselves agree with Finance Minister Michael Cullen that most of the impact of the tightening has to be felt through the exchange rate, and that this is a most unfortunate characteristic of the New Zealand economy. The RBNZ shares this view, but can't do much about it. Is there is to be, for example, a levy on home mortgages, it is actually Dr Cullen's responsibility to legislate it.

John Edwards

Weekly Calendar

Week commencing Monday May 07, 2007

Country/ Region	Event or Economic Release		Period	HSBC	Market F'casts Cons	Actual Previous	
Monday May 07, 2007							
AU	AiG Perf of construction index		Apr			51.1%	
AU	ANZ job advertisements		Apr			1.9%	
NZ	Labor cost private sector		Q1	1.0%	0.9%	0.9%	
GER	Factory orders (11:00 BST)	Month	Mar	-1.7%	-0.9%	3.9%	
		Year	Mar	8.8%	9.6%	9.5%	
US	Consumer credit (20:00 BST)	Month	Mar	4.0	4.6	3.0	
		(USDbn)					
Tuesday May 08, 2007							
AU	Retail sales		Mar	0.6%	0.5%	0.9%	
AU	Building approvals		Mar	-2.0%	-5.0%	10.6%	
AU	Federal government budget						
GER	Industrial production (11:00 BST)	Month	Mar	-1.0%	-0.2%	0.9%	
		Year		7.3%	7.8%	7.6%	
US	Wholesale inventories (15:00 BST)	Month	Mar	0.4%	0.4%	0.5%	
Wednesday May 09, 2007							
AU	House price index		Q1		1.2%	0.9%	
US	FOMC rate announcement (19:15 BST)	Fed funds	May	5.25%	5.25%	5.25%	
Thursday May 10, 2007							
AU	Employment Change		Apr	7k	12.5k	10.5k	
NZ	Unemployment Rate		Q1	3.7%	3.8%	3.7%	
UK	Industrial production (09:30 BST)						
		Industrial Production	Month	Mar	0.4%	0.3%	-0.2%
			Year		0.0%	-0.1%	0.3%
		Manufacturing Production	Month	Mar	0.4%	0.4%	-0.6%
			Year		0.8%	0.8%	1.2%
UK	Trade in goods and services (09:30 BST)	Global	Mar	-6.8	-6.7	-6.8	
		(GBPbn)					
		Non-EU27		-4.1	-4.2	-4.1	
		(GBPbn)					
UK	Bank of England rate announcement (12:00 BST)	Bank rate	May	5.50%	5.50%	5.25%	
EMU	ECB meeting and press conference	Repo rate	May	3.75%	3.75%	3.75%	
	12:45 BST – Rate announcement						
	13:30 BST – Press conference						
US	Trade balance (13:30 BST)	Month	Mar	-60.5	-59.9	-58.4	
		(USDbn)					
US	Initial jobless claims (13:30 BST)	Week	Wk 5	320	-	305	
		(000's)	May				

Weekly Calendar (continued)

Week commencing Monday May 07, 2007

Country/ Region	Event or Economic Release		Period	HSBC	Market F'casts Cons	Actual Previous
Friday May 11, 2007						
AU	Home Loans		Mar	1.0%	1.4%	0.3%
AU	Investment Lending		Mar			
NZ	ANZ – Business NZ PMI		Apr			
US	PPI (13:30 BST)	Headline	Month	0.6%	0.5%	1.0%
			Year	3.0%	2.9%	3.2%
		Core	Month	0.2%	0.2%	0.0%
			Year	1.9%	1.9%	1.7%
US	Retail sales (13:30 BST)		Month	0.3%	0.3%	0.7%
			Ex-autos	0.5%	0.4%	0.8%
			Ex-autos & gasoline	0.1%	-	0.4%
US	Business inventories (15:00 BST)		Month	0.3%	0.2%	0.3%

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 Monday May 14, 2007

Monday May 14, 07	Tuesday May 15, 07	Wednesday May 16, 07	Thursday May 17, 07	Friday May 18, 07
<p>NZ Retail Sales (MAR) UK DCLG UK House Prices (MAR) JN Current Account Total (MAR) EC Euro-Zone Ind. Prod. (MAR)</p>	<p>UK RICS House Price Balance (APR) UK CPI (APR) US Consumer Price Index NSA (APR) US Bernanke Speaks at Atlanta Fed Financial Markets Conference US Empire Manufacturing (MAY) US Net Long-term TIC Flows (MAR) JN Machine Orders (MAR) EC Euro-Zone GDP (1Q A)</p>	<p>AU Westpac Consumer Confidence (MAY) AU Imports (APR) AU Wage Price Index (1Q) UK Bank of England Quarterly Inflation Report US NAHB Housing Market Index (MAY) US ABC Consumer Confidence (MAY 14) US Fed's Geithner Speaks at Atlanta Fed Conference on Derivatives US MBA Mortgage Applications (MAY 12) US Housing Starts (APR) US Building Permits (APR) US Industrial Production (APR) JN BoJ Monetary Policy Meeting JN Industrial Production (MAR F) JN Consumer Confidence (APR) EC Euro-Zone CPI (APR)</p>	<p>US Initial Jobless Claims (MAY 13) US Continuing Claims (MAY 6) US Bernanke Speaks at Chicago Fed Banking Conference JN BoJ Target Rate (MAY 17) JN BOJ Monthly Report</p>	<p>UK Retail Sales (APR) US Philadelphia Fed. (MAY)</p>
Monday May 21, 07	Tuesday May 22, 07	Wednesday May 23, 07	Thursday May 24, 07	Friday May 25, 07
	<p>JN BoJ Monetary Policy Meeting Minutes for April EC ZEW Survey (Econ. Sentiment) (MAY)</p>	<p>AU Westpac Leading Index (MAR) AU DEWR Skilled Vacancies (MAY) US Richmond Fed Manufact. Index (MAY) UK Bank of England Minutes US MBA Mortgage Applications (MAY 19)</p>	<p>NZ Trade Balance (APR) NZ Imports (APR) NZ Exports (APR) UK U.K. CBI May Industrial Trends Survey US Initial Jobless Claims (MAY 20) US Durable Goods Orders (APR) US Durables Ex Transportation (APR)</p>	<p>UK GDP (1Q A) US New Home Sales (APR) US New Home Sales (APR) JN Natl CPI (APR)</p>

Monthly Economic Calendar (continued)

Week commencing Monday May 14, 2007

Monday May 28, 07	Tuesday May 29, 07	Wednesday May 30, 07	Thursday May 31, 07	Friday June 01, 07
	<p>JN Retail Trade (APR)</p> <p>9-31 MAY UK Nat'wide House prices (MAY)</p>	<p>NZ Building Permits (APR)</p> <p>US Consumer Confidence (MAY)</p> <p>JN Industrial Production (APR P)</p>	<p>AU Private Sector Credit (APR)</p> <p>AU Trade Balance (APR)</p> <p>AU Private Capital Expenditure (1Q)</p> <p>NZ NBNZ Business Confidence (MAY)</p> <p>UK Mortgage Approvals (APR)</p> <p>UK GfK Consumer Confidence Survey (MAY)</p> <p>US GDP Annualized (1Q P)</p> <p>US Continuing Claims (MAY 20)</p> <p>US Chicago Purchasing Manager (MAY)</p> <p>US Minutes of May 9 FOMC Meeting (Text)</p> <p>US GDP Annualized (1Q P)</p> <p>US Continuing Claims (MAY 20)</p> <p>US Chicago Purchasing Manager (MAY)</p> <p>JN Housing Starts (APR)</p> <p>JN Construction Orders (APR)</p> <p>EC Euro-Zone Indust. Confidence (MAY)</p>	<p>AU AiG Performance of Mfg Index (MAY)</p> <p>UK HBOS Plc house prices (MAY)</p> <p>UK CBI May Distributive Trades Report</p> <p>US Construction Spending (APR)</p> <p>US House Price Index (1Q)</p> <p>US Personal Income (APR)</p> <p>US Change in Nonfarm Payrolls (MAY)</p> <p>US Personal Spending (MAY)</p> <p>US PCE Deflator (APR)</p> <p>US Average Hourly Earnings (MAY)</p> <p>US PCE Core (APR)</p>
Monday June 04, 07	Tuesday June 05, 07	Wednesday June 06, 07	Thursday June 07, 07	Friday June 08, 07
<p>AU TD Securities Inflation (MAY)</p> <p>AU ANZ Job Advertisements (MAY)</p> <p>AU Company Operating Profit QoQ% (1Q)</p> <p>AU Inventories (1Q)</p> <p>EC Euro-Zone PPI (APR)</p>	<p>AU AiG Performance of Service Ind (MAY)</p> <p>AU Current Account Balance (1Q)</p> <p>AU Building Approvals (Apr)</p> <p>AU NAB Business Confidence (MAY)</p> <p>AU Building Approvals (Apr)</p> <p>UK PMI Services (survey) (MAY)</p> <p>US Factory Orders (APR)</p>	<p>AU RBA CASH TARGET (JUN)</p> <p>AU Gross Domestic Product (1Q)</p> <p>NZ ANZ Commodity Price (MAY)</p> <p>UK Nationwide Consumer Confidence (MAY)</p> <p>UK Bank of England's Monetary Policy Committee Meets</p> <p>US ISM Non-Manufacturing (MAY)</p> <p>US Nonfarm Productivity (1Q F)</p> <p>US Unit Labor Costs (1Q F)</p> <p>EC ECB Announces Interest Rates (JUN 7)</p>	<p>AU AiG Perf of Construction Index (MAY)</p> <p>AU Employment Change (MAY)</p> <p>NZ RBNZ Official Cash Rate (JUN 7)</p> <p>UK BOE Announces Rates (JUN 8)</p> <p>US Initial Jobless Claims (JUN 3)</p> <p>US Continuing Claims (MAY 27)</p>	<p>AU Home Loans (APR)</p> <p>UK Industrial Production (APR)</p> <p>UK NIESR GDP Estimate (MAY)</p> <p>US Consumer Credit (APR)</p> <p>US Trade Balance (APR)</p> <p>JN Machine Orders (APR)</p>

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