

Week Commencing May 14, 2007



# AUSTRALIA & NEW ZEALAND WEEKLY

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# Wages and jobs

## Wednesday's key wage number unreliable

Following last Thursday's report of the big increase in April employment in Australia the market's attention this week will be firmly on Wednesday's March quarter wage price index. Australia added 310,000 jobs in the year to April, two thirds of them full time. Jobs growth over the year was 3.1% - probably somewhat faster than the growth of GDP. The unemployment rate is down to 4.4%, a rate not seen for over thirty years. Because productivity growth is flat the growth of labour costs per unit of output has accelerated, even without an increase in wages growth. In the year to December nominal labour cost per unit of output rose 4.3%, which is close to the top of its range over the whole 15 year economic expansion. It would not take much acceleration in reported wages growth to make the Reserve Bank of Australia fidgety.

Wednesday's wage number is likely to be quite high, but it will not be conclusive. The key measure (private sector, total hourly rate, excluding bonuses) in the wage price index is seasonally adjusted, which means the annual statutory increase in the minimum wage must be statistically redistributed over the whole year. This is no problem when it always occurs at the same time, but last year it was very late. It had effect from December 1 2006, just missing the November 17 reporting date for the December quarter labour price index. Previous minimum wage decisions have impacted in the September and December quarter readings. This one will impact in the March and June quarters. It will be at least partly included in Wednesday's number, but it is difficult to properly adjust given what is a one time change in the seasonal pattern. The change has already disturbed the September and December quarter readings. Responding to this statistical mess the ABS has now imposed a seasonal break from the September quarter 2006, which means it will not be possible to add up the quarterly movements to an annual movement to March, and not possible to compare March to the previous March. For the same reasons, the ABS has suspended the trend measure. It may well impose another seasonal break on the March quarter, which would mean that the number for this March quarter is seasonally adjusted by the same factor as the usual March quarter. Since previous March quarters did not include a minimum wage increase, the effect of applying the usual March seasonal adjustment to this quarter is to leave most of the original increase in. The impact will be diminished to the extent employers paid a minimum wage increase in the December quarter in expectation of a ruling. The minimum wage increase was roughly 3.5% and applies to around 15% of the workforce, so adds 0.5% to wages growth. This is a little more 0.1% a quarter if distributed over the whole year and around one eighth of total annual wages growth at recent rates. How much of that 0.5% appears in the March quarter is hard to predict. We expect an increase of 1.2% in the private sector wage price index, though it could be a bit higher. That outcome

might well be consistent with a 1% underlying increase – broadly the same quarterly increase that has been evident for some years.

In its May 4 *Statement on Monetary Policy* the RBA warned that the number is likely to be misleading. Treasury has been quietly making the same point. A better guide might be the pattern of collective bargaining increases, which are untroubled by the timing of minimum wage increases. At 3.7% the annualised average increase in collective agreements for the last quarter of last year was 0.5% up on the previous quarter but 0.1% down on the average increase in the stock of all current agreements. New Zealand's recent experience may be instructive. We saw last week that jobs growth in the first quarter was markedly stronger than we expected, but the increase in the wage price index for the quarter slowed compared to the previous quarter. Given the persistent moderation of Australian wages growth over the last 16 years, which included four periods when jobs growth was very much stronger than it has been over the last year, we won't believe wage acceleration until we actually see it.

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Treasury economic forecasts for 2007/08 revealed in last week's federal budget are unusually bold and interesting. It looks to (year average) business investment growth of 7.5%, for example, which is stronger than the expected outcome for this fiscal year and rather stronger than appears to be implied by the survey of spending plans. No doubt Treasury believes the investment boom in metals, minerals and energy still has a way to go. The forecast strength of investment is no doubt one of the reasons import growth is forecast to moderate only a little to 6.5%. Given the Treasury expectation of export growth of 5%, net exports would again detract from GDP growth. We think there is a considerable risk that business investment will be weaker than Treasury expects, but it may well be offset by somewhat stronger export growth than Treasury expects. At all events the non farm GDP growth of 3.5% is about right, and if farm product does indeed increase by 18% as the drought ends, Treasury's forecast of 3.75% output growth overall is a reasonable punt.

**John Edwards**

# Weekly Calendar

Week commencing Monday May 14, 2007

Country/ Region	Event or Economic Release		Period	HSBC	Market F'casts Cons	Actual Previous
<b>Monday May 14, 2007</b>						
NZ	Retail Sales		Mar	0.0%	-0.2%	1.9%
JP	Current account balance (00:50 BST)	NSA (JPYbn)	Mar	2960.0	2868.6	2417.5
UK	PPI (09:30 BST)	Input (sa) month	Apr	0.7%	0.7%	1.2%
		Year		-0.1%	-0.1%	0.7%
		Output (nsa) month		0.5%	0.5%	0.3%
		Year		2.5%	2.5%	2.7%
<b>Tuesday May 15, 2007</b>						
UK	RICS housing market survey (00:01 BST)	Prices rising / falling (net bal)	Apr	+24.0	+30.0	+25.5
JP	Machine orders (00:50 BST)	Month	Mar	-2.0%	1.3%	-5.2%
		Year		-1.0%	1.7%	-4.2%
GER	GDP (07:00 BST)	Quarter	Q1, 1 <sup>st</sup> estimate	0.3%	0.2%	0.9%
		Year		3.2%	3.1%	3.7%
UK	CPI (09:30 BST)	CPI - year	Apr	2.8%	2.8%	3.1%
		RPI - month		0.5%	0.6%	0.6%
		RPI - year		4.6%	4.5%	4.8%
EMU	GDP (10:00 BST)	RPIX		3.9%	3.6%	3.7%
		Quarter	Q1, 1 <sup>st</sup> estimate	0.5%	0.5%	0.9%
		Year		3.0%	2.9%	3.3%
US	CPI (13:30 BST)	<b>Headline</b> Month	Apr	0.5%	0.5%	0.6%
		Year		2.6%	2.6%	2.8%
		<b>Core</b> Month		0.14%	0.2%	0.1%
		Year		2.3%	2.4%	2.5%
US	Empire manufacturing (13:30 BST)	Month	May	8.0	8.0	3.8
US	Net long-term TIC flows (14:00 BST)	Net long-term flows	Mar	60.0	73.2	58.1
		Total net flows		45.0	-	94.5
US	NAHB housing market index (18:00 BST)	Month	May	33	33	33
<b>Wednesday May 16, 2007</b>						
AU	Westpac Consumer Confidence		May			
AU	Imports		Apr			
AU	Wage Price Index		Q1	1.2%		1.0%
UK	Bank of England Inflation Report (10:30 BST)		May			
US	Housing starts (13:30 BST)	Housing starts (000's)	Apr	1470	1480	1518
		Building permits		1520	1525	1564
US	Industrial production (14:15 BST)	Industrial production	Apr	0.2%	0.3%	-0.2%
		Capacity utilisation		81.5%	81.5%	81.4%

# Weekly Calendar (continued)

Week commencing Monday May 14, 2007

Country/ Region	Event or Economic Release		Period	HSBC	Market F'casts Cons	Actual Previous
<b>Thursday May 17, 2007</b>						
FR, GER, SWT	Public Holiday Ascension Day					
JP	BoJ rate announcement	Overnight Call Rate	May	0.50%	0.50%	0.50%
JP	GDP (00:50 BST)	Quarter	Q1, 1 <sup>st</sup> estimate	0.6%	0.7%	1.3%
		Annualised		2.6%	2.7%	5.5%
		Year		2.5%	-	2.3%
US	Initial jobless claims (13:30 BST)	Week (000's)	Wk 12 May	315	312	297
US	Philadelphia Fed (17:00 BST)	Month	May	3.0	3.0	0.2
<b>Friday May 18, 2007</b>						
UK	Retail sales (09:30 BST)	Month	Apr	1.0%	0.7%	0.3%
		Year		5.1%	4.7%	4.8%
US	University of Michigan confidence (15:00 BST)	Month	May, prelim	87.0	87.0	87.1

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 21, 2007

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</p> <p>EC ZEW Survey (Econ. Sentiment) (MAY)</p>	<p>AU Westpac Leading Index (MAR)</p> <p>AU DEWR Skilled Vacancies (MAY)</p> <p>US Richmond Fed Manufact. Index (MAY)</p> <p>UK Bank of England Minutes</p> <p>US MBA Mortgage Applications (MAY 19)</p>	<p>NZ Trade Balance (APR)</p> <p>NZ Imports (APR)</p> <p>NZ Exports (APR)</p> <p>UK U.K. CBI May Industrial Trends Survey</p> <p>US Initial Jobless Claims (MAY 20)</p> <p>US Durable Goods Orders (APR)</p> <p>US Durables Ex Transportation (APR)</p>	<p>UK GDP (1Q A)</p> <p>US New Home Sales (APR)</p> <p>US New Home Sales (APR)</p> <p>JN Natl CPI (APR)</p>
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>

# Monthly Economic Calendar (continued)

Week commencing Monday May 14, 2007

Monday June 11, 07	Tuesday June 12, 07	Wednesday June 13, 07	Thursday June 14, 07	Friday June 15, 07
NZ Terms of Trade Index (1Q) JN Gross Domestic Product (1Q F)  1-15 JUNE NZ ANZ-Business NZ PMI (MAY)  2-16 JUNE US Mortgage Delinquencies (1Q)	AU NAB Business Confidence (MAY) UK CPI (MAY) JN Domestic CGPI (MAY) EC Euro-Zone Ind. Prod. (APR)	AU Westpac Consumer Confidence (JUN) NZ Food Prices (MAY) US ABC Consumer Confidence (JUN 11) US MBA Mortgage Applications (JUN 9) US Import Price Index (MAY) US Advance Retail Sales (MAY) JN Current Account Total (APR) JN Industrial Production (APR F) EC Eurozone Employment	AU Consumer Inflation Expectation (JUN) NZ Retail Sales (APR) UK RICS House Price Balance (MAY) UK Retail Sales (MAY) US Fed's Beige Book US Producer Price Index (MAY) US Initial Jobless Claims (JUN 10) JN BoJ Monetary Policy Meeting EC ECB Publishes Jun. Monthly Report (Text) EC Euro-Zone CPI (MAY)	NZ Manufacturing Activity (1Q) US Consumer Price Index (MAY) US Empire Manufacturing (JUN) US Current Account Balance (1Q) US Net Long-term TIC Flows (APR) US Industrial Production (MAY) JN BOJ Target Rate (JUN 15) JN BOJ Monthly Report

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