

Week Commencing May 21, 2007



AUSTRALIA & NEW ZEALAND WEEKLY

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wages curse**

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Australia and NZ defy wages curse

Anyone find a NAIRU?

Thirty years ago Australia and New Zealand were each notorious for the suddenness and ferocity of age inflation, a condition that accounted for a good deal of their economic deterioration for the mid nineteen sixties to the early nineteen eighties. No longer. Australian treasury secretary Ken Henry last week declined to specify the unemployment rate at which wages growth would begin to accelerate, a sensible refusal given the next day's news. The private sector wage price index rose just 1.1% in the March quarter, we then learned, even though that number likely included a good deal of the minimum wage increase awarded in the December quarter last year. Over the year private sector wages growth was just 3.9%. It's not a flawless statistic because of the unusual timing of the minimum wage increase, but the distortion was more likely to produce a higher result than a lower one. In the event private sector wages growth in the March quarter in both original and seasonally adjusted terms was roughly where it has been in each March quarter since the beginning of this decade.

Two months ago, in a speech intended to be private, Dr Henry said that Australia was now at the level of unemployment at which wages growth could accelerate (the "NAIRU"). So far, however, there is no sign whatever that Australia has reached the point where faster wages growth could imperil the fifteen year economic expansion. Unemployment fell to a new 36 year low of 4.4% in April, and jobs growth over the year to that month rose 3%. Not only has wages growth remained modest, but over the last three quarters core inflation has declined. In June last year the trimmed mean measure of core consumer price inflation reached 0.9%, the fastest rate in eleven years (excluding the tax impact on retail price inflation at the beginning of this decade). The following quarter it fell to 0.7% and in the two most recent quarters it clocked in at 0.5%.

Australia's exemplary wage and price performance has eliminated the risk of any further RBA tightening over the next few months, and in all probability before an election at the end of this year. The RBA is rightly concerned that inflation may pick up in 2008 as output growth and demand firm, but the central bank will now need to some evidence of a substantially increased risk of higher inflation before it actually moves. Whether the RBA moves 25 or 50 basis points in a year or eighteen months is, however, hardly the point. The point is that the Australian economy is handling the return to full employment surprisingly well. Quite why this is so is less important than the fact that it is so.

If Australia's economic circumstances are quite interesting, New Zealand's are astounding. This is an economy in the tenth year of a sustained expansion with a 7.75% cash rate, an elevated currency and

what most other countries would consider a reasonably tight fiscal policy. Despite these constraints New Zealand house price growth accelerated in the year to April, jobs growth picked up in the March quarter, unemployment has been under 4% for over two years, and retail sales volumes over the March quarter rose nearly 3.8%. Yet both wages growth and inflation moderated in that quarter. The March quarter trimmed mean measure of core consumer price inflation came in at 0.4%, the lowest reading in four years. The private sector ordinary time wage cost index for the first quarter fell back to 0.7%, the same increase as the March quarter a year earlier and less than the readings of 0.9% and 0.8% in the previous two quarters.

The Reserve Bank of New Zealand pays no great attention to the trimmed mean measure (unlike the Reserve Bank of Australia) and instead draws attention to the more alarming non tradable measure. It deprecates the usefulness of the wage cost index (again, unlike the RBA) and appears to put more faith in anecdotal reports about wages pressures from its business contacts. If statistics mean what they are supposed to mean, however, the New Zealand economy is an exemplar to the rest of the world. It follows that the RBNZ must be doing something right, though we think it will be a while before the RBNZ claims credit for what it now disbelieves.

John Edwards

Weekly Calendar

Week commencing Monday May 21, 2007

Country/ Region	Event or Economic Release		Period	HSBC	Market F'casts Cons	Actual Previous	
Monday May 21, 2007							
CAN	Public Holiday Victoria Day						
Tuesday May 22, 2007							
JP	Bank of Japan MPM minutes (06:00 BST)						
GER	ZEW survey (10:00 BST)	Expectations	May	20.0	22.0	16.5	
		Current conditions		75.0	79.0	76.9	
Wednesday May 23, 2007							
AU	Westpac Leading Index		Mar			0.9%	
AU	DEWR skilled vacancies		May			-2.2%	
UK	Bank of England minutes (09:30 BST)		May				
Thursday May 24, 2007							
NZ	Trade Balance		Apr			\$0.061bn	
GER	IFO business climate (09:00 BST)	Index	May	108.6	108.9	108.6	
		Current conditions		113.5	113.5	113.2	
		Business expectations		104.0	104.5	104.3	
UK	CBI industrial trends (11:00 BST)	Volume of output (% net balance)	May	+15	-	+18	
US	Durable goods orders (13:30 BST)	Month	Apr	0.5%	0.8%	3.7%	
		Ex-transportation		0.2%	0.6%	1.3%	
US	Initial jobless claims (13:30 BST)	Week (000's)	Wk 19 May	310	-	297	
US	New home sales (15:00 BST)	Month	Apr	860	860	858	
Friday May 25, 2007							
JP	CPI (00:30 BST)	All Japan	Total - month	Apr	0.2%	-	0.0%
			Total - year		-0.1%	0.0%	-0.1%
		<i>Note – core means excluding fresh food only</i>	Core - month		0.2%	-	-0.1%
			Core - year		-0.2%	-0.2%	-0.3%
UK	Index of services (09:30 BST)		3 month-on-3 month	Mar	0.8%	-	0.8%
US	Existing home sales (15:00 BST)		Month (m)		6.05	6.10	6.12

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 28, 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>

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
<p>NZ Terms of Trade Index (1Q)</p> <p>JN Gross Domestic Product (1Q F)</p> <p>1-15 JUNE NZ ANZ-Business NZ PMI (MAY)</p> <p>2-16 JUNE US Mortgage Delinquencies (1Q)</p>	<p>AU NAB Business Confidence (MAY)</p> <p>UK CPI (MAY)</p> <p>JN Domestic CGPI (MAY)</p> <p>EC Euro-Zone Ind. Prod. (APR)</p>	<p>AU Westpac Consumer Confidence (JUN)</p> <p>NZ Food Prices (MAY)</p> <p>US ABC Consumer Confidence (JUN 11)</p> <p>US MBA Mortgage Applications (JUN 9)</p> <p>US Import Price Index (MAY)</p> <p>US Advance Retail Sales (MAY)</p> <p>JN Current Account Total (APR)</p> <p>JN Industrial Production (APR F)</p> <p>EC Eurozone Employment</p>	<p>AU Consumer Inflation Expectation (JUN)</p> <p>NZ Retail Sales (APR)</p> <p>UK RICS House Price Balance (MAY)</p> <p>UK Retail Sales (MAY)</p> <p>US Fed's Beige Book (JUN 10)</p> <p>US Producer Price Index (MAY)</p> <p>US Initial Jobless Claims (JUN 10)</p> <p>JN BoJ Monetary Policy Meeting</p> <p>EC ECB Publishes Jun. Monthly Report (Text)</p> <p>EC Euro-Zone CPI (MAY)</p>	<p>NZ Manufacturing Activity (1Q)</p> <p>US Consumer Price Index (MAY)</p> <p>US Empire Manufacturing (JUN)</p> <p>US Current Account Balance (1Q)</p> <p>US Net Long-term TIC Flows (APR)</p> <p>US Industrial Production (MAY)</p> <p>JN BOJ Target Rate (JUN 15)</p> <p>JN BOJ Monthly Report</p>
Monday June 18, 07	Tuesday June 19, 07	Wednesday June 20, 07	Thursday June 21, 07	Friday June 22, 07
<p>4-29 JUNE UK Nat'wide House prices sa (JUN)</p>	<p>AU Preliminary BoP Imports (MAY)</p> <p>US NAHB Housing Market Index (JUN)</p> <p>US Housing Starts (MAY)</p> <p>US Building Permits (MAY)</p> <p>EC ZEW Survey (Econ. Sentiment) (JUN)</p>	<p>AU Westpac Leading Index (APR)</p> <p>AU DEWR Skilled Vacancies (JUN)</p> <p>AU Dwelling Starts (1Q)</p> <p>NZ Visitor Arrivals (MAY)</p> <p>UK Bank of England Minutes</p> <p>UK CML, BBA & BSA Mortgage Lending Figures</p> <p>US MBA Mortgage Applications (JUN 16)</p> <p>US ABC Consumer Confidence (JUN 18)</p> <p>JN All Industry Activity Index (APR)</p> <p>JN BoJ Monetary Policy Meeting Minutes for May</p>	<p>US Continuing Claims (JUN 10)</p>	<p>NZ Credit Card Spending (MAY)</p> <p>US Philadelphia Fed. (JUN)</p>

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