Week Commencing July 16, 2007

HSBC

AUSTRALIA & NEW ZEALAND WEEKLY

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Currency appreciation and the RBA

Strong dollar matters less than slower activity

Australia's import price number Friday will pick up the both the sharp Australian dollar appreciation and a big increase in oil and distillate prices over the previous quarter. On balance the outcome is likely to be a fall in import prices, but probably not as big as the 1.7% drop in the previous quarter. It is marginally relevant to next week's second quarter CPI, but the RBA doesn't pay nearly as much attention to the presumed inflation impact of exchange rate changes as is widely believed. The central bank has long recognised that an Australian dollar at USD0.50 has no more impact on inflation than an Australian dollar at USD0.95. The only inflation impact is in the move between the two levels. This matters in the June quarter, when the currency moved from USD0.78 to USD0.85. It probably won't matter much in the current quarter, because the currency has been fairly stable. The RBA also recognises that what is won in the swings of the exchange rate is lost on the roundabouts. Nor will the RBA be much fussed by higher oil and petrol prices over the quarter. They will be knocked out of the trimmed mean core measure of retail price inflation, which is the measure that matters.

Given the flow of economic activity numbers over the past few weeks, the RBA needs to see a solid core increase in inflation before it could contemplate tightening in August. Retail sales turnover was down in both April and May, home building approvals and mortgage lending were down for May, and last week we saw that June employment was up only 2,500 – well below the run of increases in recent months. We think it is just a pause. High migration, accumulated unmet demand and rising incomes will stimulate home construction, mining exports are now picking up, and the drought is ending. Even so the RBA likes to feel its way and the current numbers do not support urgency in another tightening.

We look for a 0.9% increase in the headline CPI on Wednesday of next week – a forecast that is towards the bottom of the range. Higher petrol prices account for most of the difference between the underlying rate of around 0.6% and the headline. We expect 0.6% for the trimmed mean – not high enough to motivate an increase now, or to require an increase in the inflation forecast for 2008. For the first time the Australian Bureau of Statistics will publish the trimmed mean, instead of the Reserve Bank. This mean it will be available at the same time as the headline rate. The ABS will use the RBA's methodology, which for the trimmed mean is to remove 15% of the tails at either end of the distribution. These are the prices which have changed most. The trimmed mean is then the average change of the remaining 70% of items in the CPI basket. Unlike the CPI itself, the items in the trimmed mean are seasonally adjusted, where there is an identifiable seasonal pattern. Hitherto the RBA has not been able to concurrently seasonally adjust the most recent number, because it did not have access to the ABS numbers before release. The ABS will have the seasonally adjusted current number on release, and also where necessary revise previous numbers for changes in the seasonal pattern. Because there are a number of items which regularly increase in the first quarter, especially school fees, seasonal adjustment would likely take the first quarter trimmed mean down compared to the raw trimmed mean data, and the other three quarters correspondingly up. But if the seasonal adjustment is correct, the statistical process itself does not change the likelihood of the seasonally adjusted second quarter number being higher or lower than the seasonally adjusted first quarter number.

Big numbers in NZ

Q2 inflation OK, but activity strong

RBNZ Governor Alan Bollard would be delighted to see in that economy the recent run of numbers for the Australian economy. New Zealand retail sales did indeed fall in April, as they did in Australia. For May however, they rose 1.2% in New Zealand while falling again in Australia. Australian dwelling approvals fell 5.6% in May, but the seasonally adjusted series rose 5.6% in New Zealand. Through the year New Zealand retail sales were up 6.6% to May, outpacing the increase of 5.7% in Australia. Permits for new home construction (or approvals, in the Australian terminology) have fallen 7.2% in Australia in the year to May. In New Zealand they were the same in May this year as May last year. Dr Bollard is explicitly seeking (according to the most recent Monetary Policy Statement) several years of below trend growth. Business confidence is down and house price growth has moderated (though still double digit) but the only sector showing real signs of a slowdown is exports. For the year to May Australian exports were up 10%. In New Zealand they were down 8%.

For today’s second quarter CPI we expect to see an increase of 0.6% - below consensus of 0.8% and only a little above the 0.5% increase last time. Food prices did not increase in the second quarter as fast as in the second quarter, and while petrol prices increased they rose by less than in Australia. Statistics New Zealand publishes a trimmed mean measure, which we expect to see come in at 0.5%, compared to 0.6% last time. As we have explained before, the RBNZ is so focused on activity indicators and its goal of slowing demand and output growth that it pays correspondingly less attention to the contemporary price indicators. Even if we do see quite reasonable headline and core increases today, it will still take more moderation in the activity indicators to remove the threat of another tightening.

John Edwards

Weekly Calendar

Week commencing Monday July 16, 2007

Country/ Region	Event or Economic Release			Period	HSBC	Market F'casts Cons	Actual Previous
Monday July 16, 2007							
NZ	Consumer Prices			Q2	0.6%	0.8%	0.5%
NZ	Food Prices			Jun			
JP	Public holiday Marine Day						
US	Empire manufacturing (13:30 BST)		Month	Jul	15.0	16.9	25.8
Tuesday July 17, 2007							
AU	Preliminary BoP Imports			Jun			
UK	CPI (09:30 BST)		Year	June	2.2%	2.4%	2.5%
GER	ZEW survey		Expectations	Jul	25.0	21.0	20.3
			Current conditions		88.0	86.7	88.7
US	PPI (13:30 BST)	***Headline***	Month	Jun	0.0%	0.1%	0.9%
			Year		3.4%	3.5%	4.1%
		Core	Month		0.2%	0.2%	0.2%
			Year		1.6%	1.6%	1.6%
US	Net long-term TIC flows (14:00 BST)		Net long-term flows (USDbn)	May	60.0	70.0	84.1
			Total net flows		50.0		111.8
US	Industrial production (14:15 BST)		Industrial production	Jun	0.3%	0.4%	0.0%
			Capacity utilisation		81.4%	81.5%	81.3%
US	NAHB housing market index (18:00 BST)		Month	Jul	28	28	28
Wednesday July 18, 2007							
AU	Westpac Leading Index			May			
AU	RBA Governor Stevens speaks on 1997 Asia Crisis						
UK	Bank of England minutes (09:30 BST)			Jul			
US	Housing starts (13:30 BST)		Housing starts (000's)	Jun	1450	1450	1474
			Building permits		1460	1480	1520
US	Bernanke testimony (15:00 BST)		**Q4 2007 / Q4 2006 – Fed F'cast in Feb**				
			Real GDP	2.5 to 3%			
			Core PCE price index	2 to 2.25%			
			Q4 2008 / Q4 2007 – Fed F'cast in Feb				
			Real GDP	2.75 to 3%			
			Core PCE price index	1.75 to 2.25%			
Thursday July 19, 2007							
CHI	GDP (03:00 BST)		GDP	Q2	10.7%	10.9%	11.1%
UK	Retail sales (09:30 BST)		Month	Jun	0.5%	0.3%	0.4%
			Year		3.7%	3.5%	3.9%
US	Philadelphia Fed (17:00 BST)		Month	Jul	10	13	18
US	FOMC minutes (19:00 BST)			June 28 meeting			
Friday July 20, 2007							
AU	Import price index			Q2			1.7%
AU	Export price index			Q2			0.0%
NZ	Visitor arrivals			Jun			1.8%
UK	GDP (09:30 BST)		Quarter	Q2, prelim	0.7%	0.7%	0.7%
					2.9%	2.9%	3.0%

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 July 23, 2007

Monday July 23, 07	Tuesday July 24, 07	Wednesday July 25, 07	Thursday July 26, 07	Friday July 27, 07
AU Producer Price Index (2Q)	UK U.K. CBI July Industrial Trends Survey US Fed's Mishkin Speaks at ECB Conference on Globalization	AU DEWR Skilled Vacancies (JUL) AU Consumer Prices (2Q) UK Nat'wide House prices (JUL) US Richmond Fed Manufact. Index (JUL) US ABC Consumer Confidence (JUL 23) US MBA Mortgage Applications (JUL 21)	NZ RBNZ Official Cash Rate (JUL 26) US Existing Home Sales (JUN) US Fed's Beige Book US Initial Jobless Claims (JUL 22) US Durable Goods Orders (JUN)	NZ Trade Balance (JUN) US GDP Annualized (2Q A) US New Home Sales (JUN) JN Tokyo CPI (JUL) JN Retail Trade (JUN)
Monday July 30, 07	**Tuesday July 31, 07**	**Wednesday August 01, 07**	**Thursday August 02, 07**	**Friday August 03, 07**
NZ Building Permits (JUN) UK Mortgage Approvals (JUN) JN Industrial Production (JUN P)	AU HIA New Home Sales (JUN) AU Building Approvals (JUN) AU Private Sector Credit (JUN) NZ NBNZ Business Confidence (JUL) UK U.K. CBI July Distributive Trades Report US Personal Income (JUN) US PCE Deflator (JUN) US Employment Cost Index (2Q) US PCE Core (JUN) US Chicago Purchasing Manager (JUL) JN Housing Starts (JUN)	AU AiG Performance of Mfg Index (JUL) AU Retail Sales (JUN) AU Trade Balance (JUN) UK PMI Manufacturing (JUL) UK Bank of England's Monetary Policy Committee Meets US MBA Mortgage Applications (JUL 28) EC PMI Manufacturing (JUL F)	UK BOE Announces rates (AUG 3) US Pending Home Sales (JUN) US ISM Manufacturing (JUL) US Initial Jobless Claims (JUL 29) US Continuing Claims (JUL 22) EC Euro-Zone PPI (JUN)	AU AiG Performance of Service Ind (JUL) AU TD Securities Inflation (JUL) AU TD Securities Inflation (JUL) UK PMI Services (JUL) US Factory Orders (JUN) US Change in Nonfarm Payrolls (JUL) US Average Hourly Earnings (JUL) EC PMI Services (JUL F)
Monday August 06, 07	**Tuesday August 07, 07**	**Wednesday August 08, 07**	**Thursday August 09, 07**	**Friday August 10, 07**
AU ANZ Job Advertisements (JUL) NZ Labor Cost All Wages Priv (2Q) UK Industrial Production (JUN)	US Nonfarm Productivity US Unit Labor Costs US Fed's Open Market Committee Meets on Interest Rates, Economy	AU AiG Perf of Construction Index (JUL) AU RBA CASH TARGET (AUG) AU House Price Index (2Q) AU Home Loans (JUN) UK Bank of England Quarterly Inflation Report US MBA Mortgage Applications (AUG 4) US FOMC Rate Decision Expected (AUG 8) US Consumer Credit (JUN) JN Machine Orders (JUN)	AU Employment Change (JUL) NZ Unemployment Rate (2Q) NZ ANZ-Business NZ PMI (JUL) US Initial Jobless Claims (AUG 5) EC ECB Publishes Aug. Monthly Report (Text)	JN Industrial Production (JUN F)

Monthly Economic Calendar (continued)

Week commencing Monday July 23, 2007

Monday August 13, 07	Tuesday August 14, 07	Wednesday August 15, 07	Thursday August 16, 07	Friday August 17, 07
AU Reserve Bank Quarterly Monetary Policy Statement UK PPI (JUL) UK DCLG UK House Prices (JUN) US Advance Retail Sales JUL) JN Current Account Total	AU NAB Business Confidence (JUL) NZ Retail Sales (JUN) UK RICS House Price Balance (JUL) UK CPI (JUL) US Business Inventories (JUN) US Trade Balance (JUN) US Producer Price Index (JUL) EC Euro-Zone GDP (2Q A) EC European Commission GDP Forecasts (Table)	AU Westpac Consumer Confidence (AUG) AU Wage Cost Index (2Q) UK Bank of England Minutes UK Avg Earnings (JUN) UK ILO Unemployment Rate (3mths) (JUN) US MBA Mortgage Applications (AUG 11) US Consumer Price Index (JUL) US Empire Manufacturing (AUG) US Net Long-term TIC Flows (JUN) US Total Net TIC Flows (JUN) US Industrial Production (JUL)	AU Consumer Inflation Expectation (AUG) AU Average Weekly Wages (MAY) NZ ANZ-Business NZ PMI (JUL) UK Retail Sales (JUL) US NAHB Housing Market Index (AUG) US Initial Jobless Claims (AUG 12) US Housing Starts (JUL) US Building Permits (JUL)	AU RBA Governor Stevens testifies to House Economics committee AU Preliminary BoP Imports (JUL) US Philadelphia Fed. (AUG)

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