

Week Commencing October 8, 2007



AUSTRALIA & NEW ZEALAND WEEKLY

John Edwards
Chief Economist

Phone: +612 9255 2744
john.k.edwards@hsbc.com.au

Australia & New Zealand research is
available online at:-

www.hsbc.com.au

www.hsbcnet.com

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure Appendix, and with the Disclaimer, that form part of it.

**Q4 looking good for
Australia, New Zealand** See page 2
Global turmoil brushed off

Weekly Calendar See page 5

Monthly Calendar See page 6

**Disclaimer &
Disclosures** See page 8

Q4 looking good for Australia, New Zealand

Global turmoil brushed off

Lending has tightened in Europe and the UK since the August credit turmoil, spreads remain wide and there is still considerable anxiety over the size and location of the inevitable losses from the debacle in securitised debt. In the US the market is still uncertain about the extent of any damage. In Australia and New Zealand, by contrast, it is difficult to detect any continuing impact at all. It's true that interbank spreads are still elevated, inevitable given the global pattern. But Australian banks have by and large been reluctant to pass on the wholesale increases, at least until the durability of the increased spread is proved or perhaps until the forthcoming federal election is over. There has been no slowdown in credit growth. In the month of August Australia saw the biggest increase in lending to business for two decades. Household mortgage lending grew much more modestly, but it was faster in August than July. In New Zealand credit growth bounced up in August, and was quite firm for both households and businesses.

Activity indicators have on the whole been firm. At 0.7% Australian August retail sales was much stronger than we expected. Employment was also strong over the month. Residential building consents fell, a result widely and wrongly attributed to the credit turmoil and the August 8 rate rise. Within the overall number private house approvals rose, as they had in the two previous months. The overall decline was due to multi unit approvals. These are extremely volatile because large numbers of units are submitted by a small number of developers, and the timing as between one month and another has nothing to do with interest rate changes or credit turmoil. We'll see New Zealand third quarter business confidence Tuesday and August retail sales Friday. We are looking for a 0.7% increase in retail sales. Otherwise there haven't been useful New Zealand numbers for August, though dwelling consents did bounce back strongly for the month compared to July.

The Australian market will liven up in the next week or two, as we approach both the election announcement and the October 24 third quarter CPI. The voting intention polls are so persistently and massively against the incumbent Liberal National party coalition of Prime Minister John Howard that he has every incentive to delay the poll. This allows the government to continue to use the public service to work on announcements which can then be made during

the campaign (when the public service is no longer available). It also allows it to use government money for advertising programs. Above all, it allows a little more time in the hope something may turn up. Even so the election has to be called in the next 2-3 weeks do get the poll in before mid December.

We may be wrong, but we doubt the CPI will be high enough to oblige the Reserve Bank to tighten at its November board meeting. Petrol prices fell in Australia in the first two months of the third quarter, and the Australian dollar rose so strongly in the third month it would have offset some of the oil price increase. Food prices will rise, but don't seem to have increased unusually over the third quarter. We expect the CPI to come in around 0.7% or perhaps 0.8%, with a trimmed mean of 0.7%. This may be a bit higher than the RBA would wish to see, but not high enough to oblige a tightening during the election campaign. The RBA is more likely to hold off. Sometime after the campaign is over RBA Governor Glenn Stevens will make a speech pointing out that output growth and demand are very strong, implying another rate increase is necessary even if contemporary inflation looks OK. The increase will then be in December this year or March next.

The torpor of the political contest in Australia is weird. Speaking to a lunch of Australian business economists last week Australian Labor leader Kevin Rudd ranged widely over Australia's recent economic record and what he planned to do if elected to government. He then took questions. There were just three, none of them memorable. Given that the polls show Mr. Rudd will highly likely be Prime Minister within eight weeks or so and that Labor has been out of office for over a decade, this was a remarkably small number of questions from what might be expected to be a well informed, concerned and not particularly sympathetic audience. It is also a telling commentary on political contest, in which the incumbent Liberal National party coalition government of Prime Minister John Howard is well behind.

Despite being in the seventeenth year of an uninterrupted economic expansion, with the unemployment rate back down to where it was 30 years ago, Mr. Howard and Treasurer Peter Costello have found themselves unable to make economic policy a serious issue between the parties. Mr. Rudd wasn't asked many questions, because there isn't much worth asking. He and shadow treasurer Wayne Swan have the same monetary policy as the government, and similar fiscal policy rules. They differ with the government on industrial relations policies, but at this point not all that much. Labor claims it will do more on the supply side, especially on infrastructure, education, and skills training. In recent months Mr. Howard and Mr. Costello

weeks have expressed an interest in also doing more, at least in education. But what they have not been able to do, at least so far, is to use their incumbency, their control of the public service, their control of revenues and spending, their record of economic success, to in any way dent Labor's considerable lead in the voting intention polls over the last twelve months. Up until very recently they were still fighting on industrial relations, a battleground in which Labor holds all the advantages.

It is true that Labor has not made economic management an issue against the government, but it never hoped to do so. But Mr. Swan has persistently undermined the government's claims by drawing attention to slowing trend productivity growth, infrastructure bottlenecks, skills shortages and so forth, to the point where these issues have become part of the national debate and the government had had to respond. If Labor does indeed win, and it looks increasingly likely, the post mortem on the Howard government was that for all its vaunted political brilliance it had an amazing inability to shape the economic debate.

John Edwards

Weekly Calendar

Week commencing Monday October 8, 2007

Country /Region	Event or Economic Release		Period	HSBC	Mkt F'casts Cons	Actual Previous
Monday October 8, 2007						
AU	AiG Perf of Construction Index		SEP	-	-	48.4
AU	ANZ Job Advertisements		SEP	-	-	0.1%
UK	Industrial Production (09:30 BST)	Ind production				
		Month	AUG	0.2%	0.3%	-0.1%
		Year	AUG	0.8%	0.9%	0.9%
		Mfg production				
		Month	AUG	0.4%	-	-0.3%
		Year	AUG	0.8%	-	0.8%
GER	Factory Orders (11:00 BST)	Month	AUG	4.0%	1.9%	-7.1%
		Year	AUG	6.3%	4.1%	6.1%
JN	Public Holiday – Sports Day					
CAN	Public Holiday – Thanksgiving Day					
Tuesday October 9, 2007						
AU	NAB Business Condition Outlook		3Q	-	-	10
NZ	NZIER Business Opinion Survey		3Q			-37
US	FOMC Minutes (19:00 BST)		SEP			
GER	Industrial Production (11:00 BST)	Month	AUG	0.0%	0.4%	0.1%
		Year	AUG	3.2%	3.6%	4.4%
Wednesday October 10, 2007						
AU	Westpac Consumer Confidence		OCT	-	-	4.2%
AU	Home Loans		AUG	4%	1.5%	-4.1%
Thursday October 11, 2007						
AU	Employment Change	(000s)	SEP	10.0	20.0	31.9
UK	RICS House Price Balance (00:01 BST)	Net balance				
		Prices rising/falling	SEP	-4.0%	-	-1.8%
US	Trade Balance (13:30 BST)	Month (USD bn)	AUG	-59.0	-58.8	-59.2
US	Initial Jobless Claims (13:30 BST)	Week ('000s)	Oct 6 wk	315	-	317
JN	BoJ Rate Announcement	BoJ target rate	OCT	0.50%	-	0.50%
JN	Machine Orders (00:50 BST)	Month	AUG	-9.9%	-4.0%	17.0%
JN	BoJ Monthly Report (07:00 BST)		OCT			
		Year	AUG	-5.0%	-0.4%	8.0%
JN	Current Account (00:50 BST)	Balance, JPY bn	AUG	2193.2	2050.4	1855.9
		Year	AUG	49.8%	-	4.5%
Friday October 12, 2007						
NZ	Retail Sales		AUG	0.7%	-	0.0%
US	PPI (13:30 BST)	Headline				
		Month	SEP	0.4%	0.4%	-1.4%
		Year	SEP	3.6%	3.9%	2.2%
		Core				
		Month	SEP	0.2%	0.2%	0.2%
		Year	SEP	2.0%	2.2%	2.2%
US	Retail Sales (13:30 BST)	Month	SEP	0.4%	0.1%	0.3%
		Ex-autos	SEP	0.3%	0.3%	-0.4%
		Ex-autos & gasoline	SEP	0.3%	-	-0.1%
US	University of Michigan Confidence (15:00 BST)	Index	OCT P	84.0	83.5	83.4
US	Business Inventories (15:00 BST)	Month	AUG	0.2%	0.3%	0.5%
EC	Industrial production (10:00 BST)	Month	AUG	0.2%	0.1%	0.6%
		Year	AUG	2.2%	1.7%	3.7%

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 October 15, 2007

Monday October 15, 07	Tuesday October 16, 07	Wednesday October 17, 07	Thursday October 18, 07	Friday October 19, 07
<p>NZ Food Prices (SEP) NZ Consumer Prices (3Q) UK Rightmove House Prices (OCT) UK DCLG UK House Prices (AUG) US Empire Manufacturing (OCT) US Bernanke Speaks at Economic Club of New York JN Industrial Production (AUG F)</p>	<p>UK CPI (SEP) US Former Fed's Greenspan Speaks at Orlando Software Conference US Industrial Production (SEP) EC ZEW Survey (Econ. Sentiment) (OCT) EC Euro-Zone CPI (SEP) EC Euro-Zone CPI - Core (SEP)</p>	<p>AU Westpac Leading Index (AUG) UK Bank of England Minutes US NAHB Housing Market Index (OCT) US ABC Consumer Confidence (OCT 15) US MBA Mortgage Applications (OCT 13) US Consumer Price Index (SEP) US Housing Starts (SEP) US Building Permits (SEP) JN Machine Tool Orders (SEP F)</p>	<p>AU Reserve Bank Monthly Bulletin UK Retail Sales (SEP) UK BSA Mortgage Approvals SA (SEP) US Initial Jobless Claims (OCT 14) US Continuing Claims (OCT 7) US Fed's Beige Book AU Preliminary BoP Imports (SEP)</p>	<p>AU Import price index (3Q) AU Export price index (3Q) NZ Visitor Arrivals (SEP) UK GDP (3Q A) US Philadelphia Fed (OCT)</p>
Monday October 22, 07	Tuesday October 23, 07	Wednesday October 24, 07	Thursday October 25, 07	Friday October 26, 07
<p>AU Producer Price Index (3Q) US Fed's Kroszner Speaks to Bankers in Washington</p>		<p>AU DEWR Skilled Vacancies (OCT) AU Consumer Prices (3Q) UK Nat'wide House prices sa (OCT) US Richmond Fed Manufact. Index (OCT) US ABC Consumer Confidence (OCT 22) US MBA Mortgage Applications (OCT 20) EC PMI Manufacturing (OCT A) EC PMI Services (OCT A)</p>	<p>NZ RBNZ Official Cash Rate (OCT 25) UK Nat'wide House prices nsa (OCT) US Initial Jobless Claims (OCT 21) US Durable Goods Orders (SEP) US Existing Home Sales (SEP)</p>	<p>AU Conference Board Leading Index (AUG) US New Home Sales (SEP) US New Home Sales (SEP) JN Natl CPI (SEP) JN Industrial Production (SEP P)</p>
Monday October 29, 07	Tuesday October 30, 07	Wednesday October 31, 07	Thursday November 1, 07	Friday November 2, 07
<p>NZ Trade Balance (SEP) UK Mortgage Approvals (SEP) JN Retail Trade (SEP)</p>	<p>NZ Building Permits (SEP) UK U.K. CBI October Distributive Trades Report JN Overall Hhold Spending (SEP)</p>	<p>NZ NBNZ Business Confidence (OCT) UK GfK Consumer Confidence Survey (OCT) US MBA Mortgage Applications (OCT 27) US GDP Annualized (3Q A) US Employment Cost Index (3Q) US S&P/CaseShiller Home Price Ind (AUG) US ABC Consumer Confidence (OCT 29) JN BoJ Monetary Policy Meeting JN BOJ Target Rate (OCT 31) EC Euro-Zone Consumer Confidence (OCT) EC Euro-Zone CPI Estimate (OCT)</p>	<p>AU Trade Balance (SEP) AU Retail Sales (SEP) AU AIG Performance of Mfg Index (OCT) UK HBOS House Price 3Mths/Year (OCT) UK PMI Manufacturing (OCT) US Fed's Open Market Committee Meets on Interest Rates, Economy US Chicago Purchasing Manager (OCT) US Construction Spending (SEP) US NAPM-Milwaukee (OCT) US FOMC Rate Decision Expected (NOV 1) US Personal Income (SEP) US Initial Jobless Claims (OCT 28) US Personal Spending (SEP) US PCE Deflator (SEP)</p>	<p>US Pending Home Sales (AUG) US ISM Manufacturing (OCT) US Change in Nonfarm Payrolls (OCT) EC PMI Manufacturing (OCT)</p>

Monthly Economic Calendar (continued)

Week commencing Monday October 15, 2007

Monday November 5, 07	Tuesday November 6, 07	Wednesday November 7, 07	Thursday November 8, 07	Friday November 9, 07
AU AiG Performance of Service Ind (OCT) AU TD Securities Inflation (OCT) AU ANZ Job Advertisements (OCT) NZ Labor Cost All Wages Priv (3Q) UK PMI Services (OCT) UK Industrial Production (SEP) JN BoJ Monetary Policy Meeting Minutes for September	AU Reserve Bank Rate-Setting Board Meeting US ISM Non-Manufacturing (OCT) EC PMI Services (OCT F) EC Euro-Zone PPI (SEP) EC Euro-Zone Retail Sales (SEP)	AU RBA CASH TARGET(NOV) AU Home Loans (SEP) AU House Price Index (3Q) UK Bank of England's Monetary Policy Committee Meets US Bernanke Speaks at Microfinance Conference in San Antonio US ABC Consumer Confidence (NOV 5) US MBA Mortgage Applications (NOV 3)	AU AiG Perf of Construction Index (OCT) NZ Employment Change (3Q) UK BOE ANNOUNCES RATES (NOV 9) US Nonfarm Productivity (3Q P) US Unit Labor Costs (3Q P) US Wholesale Inventories (SEP) JN Machine Orders (SEP) EC ECB Announces Interest Rates (NOV 9)	US Initial Jobless Claims (NOV 4) JN Industrial Production (SEP F)

The research analyst(s) who prepared this report certifies (y) that the views expressed herein accurately reflect the research analyst's(s') personal views about the subject security(ies) and issuer(s) and that no part of his/her/their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

Disclaimer

The research analyst(s) who prepared this report certifies(y) that the views expressed herein accurately reflect the research analyst's(s') personal views about the subject security(ies) and issuer(s) and that no part of his/her/their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

In this publication, HSBC Group means HSBC Bank plc, its subsidiaries and associate undertakings, and any of their branches.

This document is issued in Australia by HSBC Bank Australia Limited (ABN 48 006 434 162) AFSL No. 232595 and HSBC Bank plc – Sydney Branch (ABN 98 067 329 015) AFSL 232596 (together "HBAU") for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). It makes no representations that the products or services mentioned in this document are available to persons in Australia or anywhere else or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

It is issued in New Zealand on behalf of The Hongkong and Shanghai Banking Corporation Limited and is being provided to recipients otherwise than as a member of the "public" under the Securities Act 1978 (the Act). By accepting this document in New Zealand each recipient is deemed to have acknowledged that the recipient is a person whose principal business is the investment of money or the recipient in the course of and for the purposes of the recipient's business habitually invest money in terms of section 3(2)(iii) of the Act. All recipients are prohibited from copying or distributing any material in this document to any person and in particular should not distribute any material in this document to any member of the public in New Zealand in terms of the Act.

Any distribution of this document in the United Kingdom is intended for persons of a kind described in Articles 11(3) of the Financial Services Act 1986 (Investment Advertisements)(Exemptions) Order 1966 (as amended). The protection afforded by the regulatory regime in the United Kingdom are available only to those dealing with a representative of HSBC Bank plc in the United Kingdom.

Any distribution of this document in the United States is intended solely for "major US institutional investors" (as defined in Rule 15a-6 of the US Securities Exchange Act of 1934). Such recipients should note that any transactions effected on their behalf will be undertaken through HSBC Securities (USA) Inc. in the United States. Each major US institutional investor that receives this document by such act agrees that it shall not distribute or provide a copy of this document to any other person.

This document is not and should not be construed as an offer to sell, purchase or subscribe for any investment or a solicitation of such an offer.

The information in this document is derived from sources HBAU believes to be reliable but which have not been independently verified. All charts and graphs are from publicly available sources or proprietary data. HBAU makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of any information. HBAU is not responsible for errors of transmission of factual or analytical data, nor shall it be liable for damages arising out of any person's reliance upon any information in this document. The opinions in this document constitute the present judgement of HBAU and are subject to change without notice.

A member of the HSBC Group and its affiliates and/or their officers, directors and employees may have positions in any securities or instruments or related investments mentioned in this document and may from time to time add to or dispose of any such securities instruments or investments. A member of the HSBC Group and its affiliates may act as market maker or have assumed an underwriting commitment in the securities or instruments of any companies, or in any securities or instruments or related investments, mentioned in this document; or may sell or buy them on a principal basis. Brokerage or fees may be earned by a member of the HSBC Group or its affiliates in respect of any business transacted by them in all or any of the securities or instruments referred to in this document. A member of the HSBC Group may also perform or seek to perform banking or underwriting services for or relating to any companies mentioned in this document.

This document is intended to be distributed in its entirety. It may not be further distributed in whole or in part for any purpose.

Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

© Copyright. HSBC Bank Australia Ltd 2004, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Bank Australia Ltd. (May 2004)

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