

Week Commencing October 15, 2007



AUSTRALIA & NEW ZEALAND WEEKLY

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Australia's employment challenge

The next government's task

As last week's fall in Australia's unemployment rate to a 33 year low of 4.2% vividly demonstrated, the most important business of the government elected at the forthcoming national poll will be to manage an economy straining at the limits of its capacity. Nor will this be a transient phase of Australian economic policy. It may well be true for a decade. As we have often pointed out, Australia's export performance since the beginning of this decade has been lamentable. In the year to June export volumes increased less than half the rate of GDP as a whole. On the most recent numbers, for the year to August, export values for up just 4% - well below the rate of growth of nominal GDP. Nor, as we have also pointed out, is the poor export performance explained by weak manufactures or by rural drought. Manufactured exports have not done particularly well, but in volume terms they have grown twice as fast as the export of metals, minerals and energy. Rural exports have been weak, with back to back droughts since the beginning of the decade. But rural exports are only one third as important in Australia's export composition as non rural commodities. There has, however, been an investment boom in Australia over the last five years, a significant proportion of which is in mining. We should therefore expect that mining exports will flourish over the next five years, as new capacity is finally brought on stream and Australia's many infrastructure shortcomings are remedied. At the same time Australia will be seeing a revival in home construction, which has been faltering since peaking in 2003. Immigration will this year probably reach a record level, incomes are rising, and so is employment. Even taking into account a couple more interest rate increases, it is highly likely home building will be strengthening over 2008 and into 2009. We expect to see output growth of over 5% through 2008, a rate well in advance of that thought possible or sustainable a few years ago.

Already the unemployment rate of people seeking full time work is down to 3.9%, nearly half the rate just six years ago. By this time next year it is quite possible that Australia's overall unemployment rate will be down below 4%, as New Zealand's is today. Dealing with the implications of continuous expansion at the limits of capacity over coming years will require not only the careful management of private domestic spending, but also a recognition that much needs to be done in education, skills training, infrastructure building and business investment to meet the challenge of continued strong output growth. Doing it all without accelerating wage or price inflation, fatal to both the seventeen year upswing and to the political fortunes of the government elected in a month two, will demand the most careful thought. The key will be to do all that can be done to sustain the high rate of immigration, the rising rate of workforce participation, and the gradual conversion of part time full time jobs, which have been evident over the last few years. In these respects Australia has something to learn from New

Zealand, where the workforce participation is already 5% higher than in Australia and still rising, and the unemployment rate already 0.6% lower.

New Zealand's moderate inflation

But economy will remain hard pressed

We expect to see today's third quarter New Zealand CPI come in at 0.8%, for an annual increase of 2%. That won't be a low enough number to please the RBNZ, but it is less than the last reading of 1.0% and consistent with the central bank's own forecast. Unlike the Reserve Bank of Australia the RBNZ pays less attention to contemporary inflation numbers than to contemporary activity numbers. It takes the view that today's levels of demand and output compared to the assumed capacity of the economy are a more reliable guide to retail price inflation in a year's time than today's inflation numbers. Accordingly the RBNZ will have been paying attention to the signs that house price inflation is slowing, trend retail sales growth has flattened, and exports remain challenged by a strong New Zealand dollar. But New Zealand like Australia is experiencing a long, and robust expansion, which may well have many more years to run. Like Australia is will be increasingly challenged to sustain workforce growth. New Zealand has seen a sharper downturn in productivity growth in recent years than Australia, it has less capacity to attract immigrants (and immigration anyway has a quite dramatic impact on house prices), and business investment has been faltering. New Zealand has all of the problems of continuous economic success and fewer of the means to remedy them. We don't expect that the RBNZ will have to tighten again when the cash rate is reviewed October 25, but we do think the cash rate will stay high for a considerable time to come.

John Edwards

Weekly Calendar

Week commencing Monday October 15, 2007

Country /Region	Event or Economic Release		Period	HSBC	Mkt F'casts Cons	Actual Previous
Monday October 15, 2007						
NZ	Food Prices		Sep			-0.1%
NZ	Consumer Prices		Q3	0.8%	0.8%	1.0%
JP	Industrial production (05:30 BST)	Month	Aug, final	3.4%		3.4%
		Year		4.3%		4.3%
UK	DCLG house prices (09:30 BST)	Year	Aug	12.0%		12.4%
US	Empire manufacturing (13:30 BST)	Index	Oct	11.0	13.1	14.7
Tuesday October 16, 2007						
UK	CPI (09:30 BST)	Year	Sep	1.8%	1.9%	1.8%
GER	ZEW survey (10:00 BST)	Business expectations	Oct	-15.0	-22.0	-18.1
		Current condition		70.0	69.5	74.4
CAN	Bank of Canada rate announcement (14:00 BST)	Rate	Oct	4.50%	4.50%	4.50%
US	Net long-term TIC flows (14:00 BST)	Net long-term flows	Aug	40.0	63.0	19.2
US	Industrial production (14:15 BST)	Month	Sep	0.2%	0.1%	0.2%
		Capacity utilisation	Sep	82.2%	82.1%	82.2%
US	NAHB housing market index (18:00 BST)	Index	Oct	21	19	20
Wednesday October 17, 2007						
AU	Westpac Leading Index		Aug			0.2%
UK	Bank of England minutes (09:30 BST)		Oct			
US	CPI (13:30 BST)	Headline Month	Sep	0.2%	0.2%	-0.1%
		Year		2.6%	2.8%	2.0%
		Core Month	Sep	0.17%	0.2%	0.2%
		Year		2.1%	2.1%	2.1%
US	Housing starts (13:30 BST)	Housing starts (000's)	Sep	1300	1288	1331
		Building permits		1300	1278	1322
US	Federal Reserve's Beige book (19:00 BST)					
Thursday October 18, 2007						
AU	Reserve Bank Monthly Bulletin					
UK	Retail sales (09:30 BST)	Month	Sep	-0.4%	0.2%	0.6%
		Year		4.8%	5.6%	4.9%
US	Initial jobless claims (13:30 BST)	Week	Wk 13	315		308
			Oct			
US	Philadelphia Fed (17:00 BST)	Index	Oct	8.0	7.5	10.9
Friday October 19, 2007						
AU	Import price index		Q3			0.1%
AU	Export price index		Q3			0.3%
NZ	Visitor arrivals		Sep			3.8%
JP	All-industry activity index (00:50 BST)	Month	Aug	1.2%	1.2%	-0.4%
UK	GDP (09:30 BST)	Quarter	Q3, advance	0.6%	0.6%	0.8%
		Year		3.1%	3.0%	3.1%

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 October 22, 2007

Mon - October 22, 07	Tue - October 23, 07	Wed - October 24, 07	Thur - October 25, 07	Fri - October 26, 07
AU Producer Price Index (3Q) US Fed's Kroszner Speaks to Bankers in Washington		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)	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)	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)
Mon - October 29, 07	Tue - October 30, 07	Wed - October 31, 07	Thur - November 1, 07	Fri - November 2, 07
NZ Trade Balance (SEP) UK Mortgage Approvals (SEP) JN Retail Trade (SEP)	NZ Building Permits (SEP) UK U.K. CBI October Distributive Trades Report JN Overall Hhold Spending (SEP)	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)	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)	US Pending Home Sales (AUG) US ISM Manufacturing (OCT) US Change in Nonfarm Payrolls (OCT) EC PMI Manufacturing (OCT)
Mon - November 5, 07	Tue - November 6, 07	Wed - November 7, 07	Thur - November 8, 07	Fri - 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)

Monthly Economic Calendar (continued)

Week commencing Monday October 22, 2007

Mon - November 12, 07	Tue - November 13, 07	Wed - November 14, 07	Thur - November 15, 07	Fri - November 16, 07
AU Reserve Bank Quarterly Monetary Policy Statement UK PPI (OCT) JN Current Account Total (SEP) JN BoJ Monetary Policy Meeting	AU NAB Business Confidence (OCT) NZ Food Prices (OCT) UK RICS House Price Balance (OCT) JN BOJ Target Rate (NOV 13) JN BOJ Monthly Report EC ZEW Survey (Econ. Sentiment) (NOV) EC Euro-Zone Ind. Prod. (SEP)	AU Westpac Consumer Confidence (NOV) AU Wage Cost Index (3Q) NZ Producer Prices (3Q) UK Jobless Claims Change (OCT) UK Bank of England Quarterly Inflation Report US Pending Home Sales (SEP) US ABC Consumer Confidence (NOV 12) US MBA Mortgage Applications (NOV 10) EC Euro-Zone GDP (3Q A)	AU Consumer Inflation Expectation (NOV) AU Reserve Bank Monthly Bulletin NZ Retail Sales (SEP) NZ Business NZ PMI (OCT) UK Retail Sales (OCT) US Producer Price Index (OCT) US Advance Retail Sales (OCT) US Bernanke Speaks to monetary conference EC Euro-Zone CPI (OCT)	US Consumer Price Index (OCT) US Initial Jobless Claims (NOV 11) US Continuing Claims (NOV 4) US Empire Manufacturing (NOV) US Philadelphia Fed. (NOV) JN BoJ Monetary Policy Meeting Minutes for October JN Coincident Index (SEP F)

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