

Week Commencing November 26, 2007



AUSTRALIA & NEW ZEALAND WEEKLY

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After the Australian election

Pressing issues of economic management

It's been a long, wearying election campaign but there'll be no holiday before the Australian government gets to work today on pressing issues of economic management. The first of these is the inflation risk in an economy already operating at the limits of its capacity. The second is of course the opposite (and we think considerably smaller) risk that the blistering pace of growth will be jerked to a stop by a global slowdown originating in the US.

Entering the seventeenth year of continuous economic expansion Australia's unemployment rate is already at a 33 year low, employment growth over the last year has been faster than seemed possible a few years ago, and both domestic demand and non farm GDP are both growing at over 5%. GDP growth reached 4.3% to in the year to June. The contribution of exports to that 4.3% was just 0.4%. Dwelling construction contributed just 0.2%. Most of the output growth was accounted for by household consumption (2.2%) and business investment (2.1%). With strong jobs growth and rising incomes there is every reason to think consumption growth will remain firm. Despite four central bank cash rate increases since August of last year, retail sales were up over 8% in the year to September. And while business investment growth will moderate, business plans suggest continued expansion over the coming year. (We will know more Thursday, when the next business investment survey is published. We expect to see planned spending increase). Export volumes rose only 2.4% through the year to June, and exports values only 3.3%. We think it highly likely that over the next three years Australia will experience the export boom it is widely and mistakenly believed to have experienced over the last three years. It is also highly likely that housing construction will pick up. Rents are rising, net immigration is rising towards a new all time record, and there is a widening gap between housing completions and underlying demand. The housing industry will sooner or later respond. It may have begun to do so already. In the five months between May and September, the latest data point, approvals for new residential construction increased 13%. Put all the elements together and the Treasury and Reserve Bank forecasts of 3.5% year average GDP growth in 2008/09 look very modest indeed. Core inflation in the year to the current quarter is quite likely already over 3%. According to the Reserve Bank, both core and headline inflation will still be at 3% at the end of next year. These are circumstances in which the government will have to scrutinize its spending and tax cut commitments with the greatest care.

Though there is little doubt the US will slow through this quarter and into next, we think it will avoid recession. It's true that major financial businesses have been hit hard by losses in sub prime mortgage lending and the subsequent mark downs of asset backed commercial paper. No doubt there will be

some impact on the readiness and ability of those institutions to continue to grow their lending. US house prices are on average declining, with some markets hit much harder than others. Even after seven successive quarters of decline, housing construction is continuing to contract and will likely do so until at least the middle of next year. But it's also true that the year long decline in house prices, the two years of decline in housing construction, the accumulating losses in subprime and wider asset backed paper assets, have had remarkably little impact on the US economy. In the September quarter the US economy expanded at just under 1%, which is around the likely rate of growth of the Australian economy over the same period. In the year to September real GDP increased 2.6%, which is pretty close to the rate the US Federal Reserve now regards as sustainable. Household consumption was up 3%, business investment 4.8%. Exports were up 9.6% - over four times the rate of growth of Australian exports in the year to June. Retail sales have weakened but employment growth has held up. Interbank term lending rates are up, but the US cash rate is down again, and will likely be cut again in December. The US dollar continues to fall, a trend publicly deprecated and privately welcomed by US policy makers. The US slowdown is occurring in the context of a global economy which is still pretty strong. Third quarter growth picked up in Japan, it will likely prove reasonably resilient in Europe (0.7%). China is still expanding altogether too fast. For all these reasons we doubt the US will tumble into recession and doubt that if it did the rest of the world would go with it. The risk is there, however, and the Australian government will be watching it with considerable alertness. Twice in the last forty years, in 1973/4 and again in 1979/80, Australia prepared itself for commodity booms which in both cases were rapidly succeeded by global busts. Shortly thereafter, the government was swept from office. That is one experience the Australian government is determined not to repeat.

John Edwards

Weekly Calendar

Week commencing Monday November 26, 2007

| Country /Region | Event or Economic Release | | Period | HSBC | Mkt F'casts Cons | Actual Previous |
|------------------------------------|---|-----------------------|--------------|--------|------------------|-----------------|
| Monday November 26, 2007 | | | | | | |
| NZ | Trade Balance | NZDm | Oct | -550 | -550 | -544 |
| Tuesday November 27, 2007 | | | | | | |
| GER | IFO business climate (09:00 GMT) | Index | Nov | 103.1 | 103.5 | 103.9 |
| | | Current conditions | | 108.6 | 109.4 | 109.6 |
| | | Business expectations | | 98.0 | 98.1 | 98.6 |
| US | S&P / Case-Shiller home price index (14:00 GMT) | Composite-20 (Yr) | Sep/Q3 | -4.8% | -4.8% | -4.4% |
| | | US National (Yr) | | -4.2% | -4.1% | -3.2% |
| US | Consumer confidence (15:00 GMT) | Index | Nov | 87.0 | 91.0 | 95.6 |
| Wednesday November 28, 2007 | | | | | | |
| GER | GfK consumer confidence survey (07:10 GMT) | Index | Dec | 4.5 | 4.3 | 4.9 |
| EMU | M3 (09:00 GMT) | M3 (Yr) | Oct | 11.2% | 11.6% | 11.3% |
| | | Private sector loans | | 10.7% | | 11.0% |
| US | Durable goods orders (13:30 GMT) | Month | Oct | -0.3% | 0.0% | -1.7% |
| | | Ex-transportation | | 0.4% | 0.4% | 0.3% |
| US | Existing home sales (15:00 GMT) | Month | Oct | 5.00m | 5.00m | 5.04m |
| US | Federal Reserve's Beige Book (19:00 GMT) | | Oct | | | |
| JP | Industrial production (23:50 GMT) | Month | Oct, prelim | 1.7% | 1.5% | -1.4% |
| | | Year | | 4.8% | 4.4% | 0.8% |
| Thursday November 29, 2007 | | | | | | |
| AU | Private Capital Expenditure | | Q3 | 2.0% | 3.2% | 6.3% |
| NZ | NBNZ Business Confidence | | Nov | | | -12.9 |
| NZ | Building permits | | Oct | 3.0% | | -8.3% |
| US | GDP (13:30 GMT) | Quarter annualised | Q3, prelim | 5.0% | 4.8% | 3.9% |
| US | Initial jobless claims (13:30 GMT) | Month (000's) | Wk 24 Nov | 330 | 330 | 330 |
| US | New home sales (15:00 GMT) | Month (000's) | Oct | 770 | 750 | 770 |
| US | OFHEO house price index (15:00 GMT) | Quarter | Q3 | -0.8% | | 0.1% |
| | | Year | | 1.2% | | 3.2% |
| Friday November 30, 2007 | | | | | | |
| AU | Current account | AUDbn | Q3 | -16.8 | -16.6 | -16.0 |
| JP | Housing starts (05:00 GMT) | Year | Oct | -35.2% | -36.7% | -44.0% |
| JP | Construction orders (05:00 GMT) | Year | Oct | -20.3% | | -16.3% |
| EMU | HICP (10:00 GMT) | Year | Nov, flash | 2.8% | | 2.6% |
| EMU | GDP (10:00 GMT) | Quarter | Q3, prelim | 0.7% | 0.7% | 0.7% |
| | | Year | | 2.6% | 2.6% | 2.6% |
| US | Personal income and spending (13:30 GMT) | Income | Oct | 0.3% | 0.4% | 0.4% |
| | | Spending | | 0.3% | 0.3% | 0.3% |
| US | Chicago PMI (14:45 GMT) | Index | Nov | 52.0 | 50.2 | 49.7 |
| US | Construction spending (15:00 GMT) | Months (m) | Oct | -0.4% | -0.3% | 0.3% |
| During the week | | | | | | |
| GER | CPI | CPI - month | Nov, prelim | -0.1% | 0.1% | 0.2% |
| | | CPI - year | | 2.5% | 2.7% | 2.4% |
| | | HICP - month | | -0.1% | 0.1% | 0.2% |
| | | HICP - year | | 2.8% | 2.9% | 2.7% |

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 December 03, 2007

| Mon – December 03, 07 | Tue – December 04, 07 | Wed - December 05, 07 | Thu – December 06, 07 | Fri – December 07, 07 |
|--|--|---|--|--|
| AU AiG Performance of Mfg Index (NOV) AU TD Securities Inflation (NOV) AU Trade Balance (OCT) AU Company Operating Profit (3Q) AU Inventories (3Q) UK HBOS House Price 3Mths/Year (NOV) UK PMI Manufacturing (NOV) EC Euro-Zone Unemployment Rate (OCT) | AU Reserve Bank Rate-Setting Board Meeting AU Building Approvals (OCT) AU Retail Sales (OCT) US ISM Manufacturing (NOV) | AU AiG Performance of Service Ind (NOV) AU Gross Domestic Product (3Q) AU Gross Domestic Product (3Q) NZ ANZ Commodity Price (NOV) UK Bank of England's Monetary Policy Committee US ABC Consumer Confidence (DEC 3) US MBA Mortgage Applications (DEC 1) | NZ RBNZ Official Cash Rate (DEC 6) UK Industrial Production (OCT) UK BOE announces rates (DEC 7) US Nonfarm Productivity (3Q F) US Unit Labor Costs (3Q F) US Factory Orders (OCT) EC ECB Announces Interest Rates (DEC 7) | AU AiG Perf of Construction Index (NOV) US Initial Jobless Claims (DEC 2) US Continuing Claims (NOV 25) US ICSC Chain Store Sales (NOV) JN Gross Domestic Product (3Q F) |
| Mon – December 10, 07 | Tue – December 11, 07 | Wed - December 12, 07 | Thu – December 13, 07 | Fri – December 14, 07 |
| AU ANZ Job Advertisements (NOV) AU Home Loans (OCT) UK PPI Input s.a. (NOV) UK DCLG UK House Prices (OCT) | AU NAB Business Confidence (NOV) NZ REINZ House Prices (NOV) UK Total Trade Balance (GBP/Mln) (OCT) US Pending Home Sales (OCT) US Mortgage Delinquencies (3Q) | AU Westpac Consumer Confidence (DEC) AU RBA Governor Glenn Stevens to speak at Sydney institute NZ Food Prices (NOV) US Fed's Open Market Committee Meets on Interest Rates, Economy US FOMC Rate Decision Expected (DEC 12) US ABC Consumer Confidence (DEC 10) US MBA Mortgage Applications (DEC 8) JN Current Account Total (OCT) EC Eurozone Employment | AU Consumer Inflation Expectation (DEC) AU Employment Change (NOV) NZ Retail Sales (OCT) NZ Business NZ PMI (NOV) UK RICS House Price Balance (NOV) UK Retail Sales (NOV) US Trade Balance (OCT) JN Industrial Production (OCT F) EC ECB Publishes Dec Monthly Report (Text) | US Producer Price Index (NOV) US Initial Jobless Claims (DEC 9) JN Tankan Lge Manufacturers Index (4Q) JN Tankan Non-Manufacturing (4Q) |
| Mon – December 17, 07 | Tue – December 18, 07 | Wed - December 19, 07 | Thu – December 20, 07 | Fri – December 21, 07 |
| AU Dwelling Starts (3Q) NZ New Zealand's November Performance of Services Index | AU HIA New Home Sales (NOV) AU Preliminary BoP Imports (NOV) NZ NBNZ Business Confidence (DEC) UK CPI (NOV) US Current Account Balance (3Q) US Empire Manufacturing (DEC) US Net Long-term TIC Flows (OCT) US NAHB Housing Market Index (DEC) | AU Westpac Leading Index (OCT) NZ Visitor Arrivals (NOV) UK Bank of England Minutes UK Total Business Investment (3Q F) US Housing Starts (NOV) US Building Permits (NOV) US ECB's Trichet Addresses European Parliament in Brussels US MBA Mortgage Applications (DEC 15) JN BoJ Monetary Policy Meeting | NZ Current Account Balance (3Q) UK GDP (3Q F) UK BSA Mortgage Approvals (NOV) JN Merchnds Trade Balance Total (NOV) JN BOJ Target Rate (DEC 20) JN BOJ Monthly Report 20-24 DEC EC PMI Manufacturing (DEC A) 20-24 DEC EC PMI Services (DEC A) | AU Conference Board Leading Index (OCT) AU New Motor Vehicle Sales (NOV) NZ GDP (3Q) US Initial Jobless Claims (DEC 16) US GDP Annualized (3Q F) US Continuing Claims (DEC 9) US Philadelphia Fed. (DEC) |
| Mon – December 24, 07 | Tue – December 25, 07 | Wed - December 26, 07 | Thu – December 27, 07 | Fri – December 28, 07 |
| | | JN BoJ Monetary Policy Meeting Minutes | US S&P/CaseShiller Home Price Ind (OCT) US Richmond Fed Manufact. Index (DEC) US ABC Consumer Confidence (DEC 24) 7-31 DEC UK Nat'wide House prices nsa (DEC) | US Initial Jobless Claims (DEC 23) US Durable Goods Orders (NOV) JN Natl CPI (NOV) JN Industrial Production (NOV P) JN Retail Trade (NOV) |

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