Macquarie Research Economics

Monday 10 August 2009

The Macquarie Weekly

The price of more employment

Event

- Housing finance, business and consumer confidence and wage data will be released this week, while RBA Governor Glenn Stevens will testify before a parliamentary committee.

Impact

- The flipside of remarkably resilient employment may well be much lower wages. While the labour cost index will show whether wage rates have moderated, average earnings will also highlight the impact of shorter working hours. In some sense then, this is the price to be paid for a resilient labour market. Politicians, however, are likely to have a different concept in mind when they question the RBA Governor about the outlook for monetary policy. They are likely to wonder whether a lower peak for the unemployment rate will also mean a more rapid increase in interest rates.

Analysis

- Recent employment data have categorically shown that firms have been more likely to cut the hours worked by each employee, rather than the total number of workers. However, anecdotally, it also seems to be the case that more workers have accepted wage cuts which has also helped support employment levels.

- The two wage measures released this week should highlight different aspects of that development. The wage cost index is likely to grow at a more subdued rate, rather than exhibit an actual fall in the level of wages. This is because most of the downward adjustment in pay has occurred in the informal sector of the workforce, which is not fully captured in this measure. However, the pay cuts should show up in the measure of average earnings, which suggests that average earnings could even record a rare decline in 2Q.

- The apparent flexibility of the labour market has meant that firms have been able to reduce costs without reducing headcount. Hence, profits might also prove to be surprisingly resilient during this downturn. And to the extent that profits hold up, this also ameliorates the rationale for further job cuts.

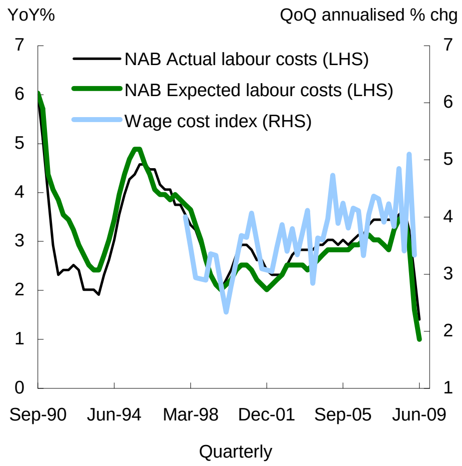
- We estimate that the reduction in hours worked over the last year has meant that 300,000 people have been able to keep their jobs rather than join the queues of the unemployed. And so, although lower wages do mean that some consumers will have less money to spend, this may well be outweighed by the sentiment-boosting effects of so many more people still with a job.

Key releases

Day	Release		Previous	Macquarie	Market	Mkt Range
Mon	Housing finance, Jun	%	2.2	2.5	1.8	1.0/3.5
Tue	NZ REINZ house sales, Jul	%YoY	40.3	~	~	~
	NAB Monthly business survey, Jul					
Wed	Consumer sentiment, Aug	%	9.3	~	~	~
	Wage cost index, 2Q	%	0.8	0.6	0.8	0.5/1.0
Thu	Average weekly earnings, 2Q	%	1.2	-0.4	0.7	-0.4/1.1
Fri	**RBA Governor semi-annual testimony**					
	NZ Retail sales, Jun	%	0.8	0.5	~	~
	NZ Real retail sales, Jun Q	%	-2.9	0.1	~	~

Source: Reuters, Bloomberg, Dow Jones, Macquarie Research, August 2009

Wages growth likely slowed in 2Q



Source: NAB, ABS, Macquarie Research, August 2009

Key upcoming events

US: FOMC policy meeting, Aug
US: Retail sales, Jul
US: Industrial production, Jul

Key developments last week

RBA upgrades growth forecasts; employment rises sharply in June

Key forecasts

	7 Aug 09	Sep-09	Dec-09
Australia			
Cash (%)	3.00	3.00	3.00
90-day (%)	3.28	3.25	3.25
10 year (%)	5.74	5.50	5.50
10 yr sprd to US (bps)	198	200	200
A$/US$	0.84	0.82	0.80
ASX 200	4299		4412*
New Zealand			
Cash (%)	2.50	2.25	2.00
90-day (%)	2.79	2.75	2.50
10 year (%)	5.88	5.25	5.25
NZ$/US$	0.67	0.64	0.62
NZSE 50	3069	3050	3300

Source: Reuters, Macquarie Research, August 2009

*12 month forecast for ASX 200

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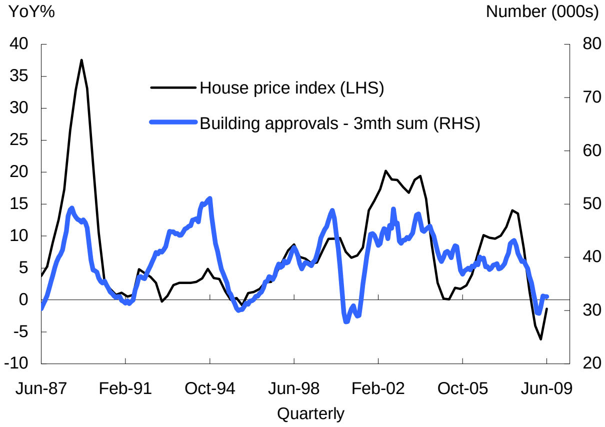
Catalyst corner
Supply and demand of housing



Source: ABS, Macquarie Research, August 2009

- "*A very real challenge in the near term is the following: how to ensure that the ready availability and low cost of housing finance is translated into more dwellings, not just higher prices*". (RBA Governor Glenn Stevens, "Challenges for economic policy", 28 July, 2009).
- This week we will receive further evidence that extremely low interest rates and generous government grants are boosting demand for housing, with lending rising further in June. But, as the above quote highlights, there is genuine concern from policymakers that the surge in demand is not translating through to stronger building activity.
- It is important that increased construction activity comes on board so as to prevent house prices from rising too far, which would force the RBA into hiking rates before they are satisfied that a durable housing market recovery is under way. Certainly – as the chart opposite shows – this scenario is still some way off, with house prices contained for the time being. But, it is clearly a concern for the Reserve Bank and worth keeping an eye on over the next 12 months.
- Thus, this week we will be looking to the housing finance commitments for the construction of new dwellings for an indication of the likely improvement in building activity over the second half of the year. To be sure, there is a time lag before actual building will begin to rise and this lag may be lengthened given the financial constraints on builders for high-rise developments.

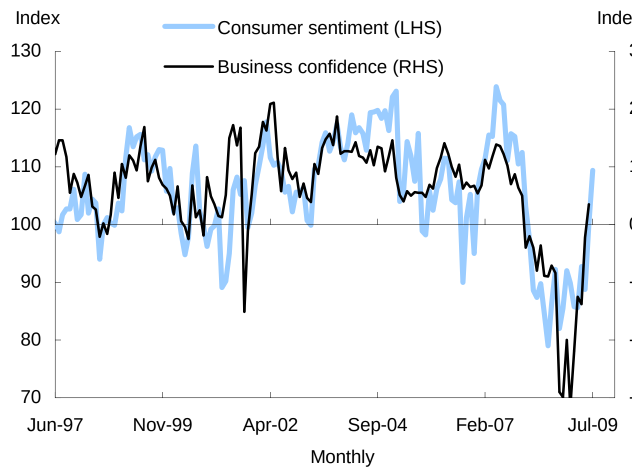
Market movers

		Importance/ Market Sensitivity	Last/ Mkt Forecast	Risks	Comment
Mon	**Aus** Housing finance, Jun	Medium	2.2%/1.8%	↗	Home lending is expected to have continued to record solid gains in June on the back of growing housing market demand.
Tue	NAB Monthly business survey, Jul	Medium		↗	Business conditions should follow the upward trend in confidence, with significant focus to be placed on the improvement in hiring intentions.
	US Non-farm productivity (prelim), Jun qtr	Medium	1.6%/5.3%	↗	Non-farm productivity likely rose during the June quarter reflecting ongoing declines in non-farm payrolls and a moderation in the decline in output over the quarter.
	Unit labour costs (prelim), Jun qtr	Medium	3.0%/-2.3%	↘	Unit labour costs are expected to have fallen in the June quarter, reflected the ongoing weakness in employment conditions.
Wed	**Aus** Consumer sentiment, Aug	Medium	9.3%/nf	↗	After surging over the past two months, sentiment should remain positive given stronger than expected labour market conditions.
	Wage cost index, Jun qtr	Medium	0.8%/0.8%	↘	Softening demand for labour should have seen the pace of wages growth moderate over the June quarter.
	US **FOMC Announcement on interest rates, Aug**	**High**	0.00%/0.00%	→	No change in the Fed Funds rate is expected. But with the economy showing tentative signs of life, markets will be watching the accompanying statement for an indication on the likely timing of the scaling back of monetary stimulus.
	Trade balance, Jun	Medium	-US$26.0b/ -US$28.5bn	↘	The trade balance likely deteriorated in June, reflecting higher oil prices in the month.
Thu	**Aus** Average weekly earnings, May qtr	Medium	1.2%/0.7%	↘	Average weekly earnings likely eased in the three months to May as firms looked to reduce hours worked and wages paid in order to maintain levels of employment.
	US Import prices, Jul Export prices, Jul	Medium	3.2%/-0.3% 1.1%/0.4%	↘	Weaker oil prices through most of July likely translated to a decline in import prices over the month. Signs of stabilisation in global demand, and return of some pricing power in the manufacturing sector, suggest that export prices rose modestly, although the sharp rise in agricultural export prices during June is unlikely to be repeated.

		Importance/ Market Sensitivity	Last/ Mkt Forecast	Risks	Comment
	Retail sales, Jul	Medium	0.6%/0.4%	➔	Modest retail sales growth is expected to have continued during July, as weakness in chain-store sales was offset by strong gains in car sales.
	Business inventories, Jun	Medium	-1.0%/-0.9%	➘	Results from industry surveys suggest that the pace of destocking eased during June.
	NZ Food prices, Jul	Medium	2.8%/nf	➔	The chilly weather could boost fresh vegetable prices, but grocery prices should show signs of easing.
Fri	**Aus** **RBA Governor Stevens semi-annual testimony on monetary policy before the House of Representatives Standing Committee on Economics, Sydney**	**High**			The RBA Governor's semi-annual parliamentary testimony appears to be very well timed, with the Reserve Bank seemingly abandoning their easing bias for a more neutral stance in recent weeks. Governor Stevens appears to have adopted a cautiously optimistic outlook on the recent improvement in economic conditions both at home and abroad. As a result, markets will be looking for clues as to the timing of potential rate hikes – rather than further easing – over the year ahead.
	US **CPI, Jul**	**High**	0.7%/0.0%	➔	With the sharp rise in gasoline prices unlikely to be repeated, consumer prices are expected to have remained flat over July.
	Industrial production, Jul	Medium	-0.4%/0.1%	➔	Improvements in industry surveys and strong preliminary readings on auto sales suggest that industrial production rose slightly during July.
	NZ REINZ House price index, Jul	Medium		➚	This is a new index produced by the REINZ and the RBNZ which adjusts the original REINZ data for the composition of sales. This should show that house prices are stabilising after a fall of around 10%.
	Retail sales, Jun Real retail sales, Jun qtr	Medium	0.8%/ -2.9%/	➔	Retail volumes should lift over the quarter, as colder weather helped produce a bounce after terrible sales in 1Q.

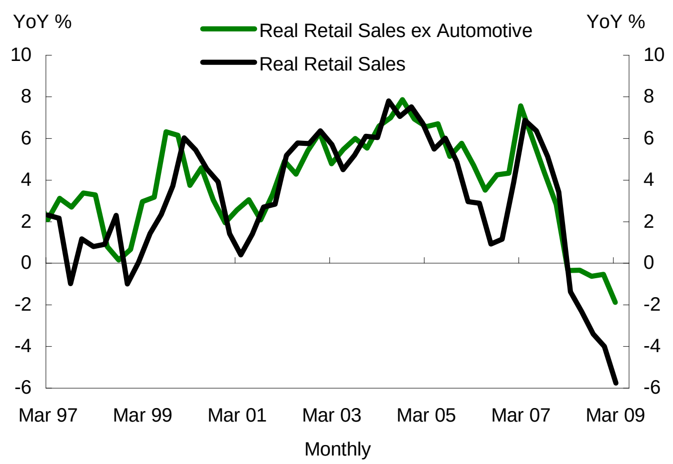
Sources: Macquarie Research, Reuters, Bloomberg nf = no market forecast, na = not yet available

Aus: Confidence should continue to build



Source: NAB, Westpac M.I, Macquarie Research, August 2009

NZ: Spending should stabilise at very weak levels



Source: Stats NZ, Macquarie Research, August 2009

Macquarie Research economics forecasts

	Australia				New Zealand				US		
	GDP	*CPI*	*Cash Rate*	*AUD/USD*	*GDP*	*CPI*	*OCR*	*NZD/USD*	*GDP*	*CPI*	*Fed Funds Rate*
Latest	1.6	3.1	3.00	0.84	-1.0	3.3	2.50	0.67	-0.1	2.7	0-0.25
2Q09	0.9	3.1	3.00	0.80	-1.8	3.3	2.50	0.64	-1.5	1.4	0-0.25
3Q09	0.4	2.0	3.00	0.82	-2.2	2.1	2.25	0.64	-2.4	-0.6	0-0.25
4Q09	0.5	1.4	3.00	0.80	-1.8	1.6	2.00	0.62	-2.3	-1.0	0-0.25
1Q10	0.8	1.3	3.00	0.78	-0.9	1.2	2.00	0.61	-1.3	-0.7	0-0.25
2Q10	1.2	1.5	3.00	0.77	0.4	1.2	2.50	0.61	0.2	-0.1	0.50
Key issue	Will RBA hike while unemployment is rising?				Can the RBNZ kill the Kiwi Dollar?				Will the green shoots take hold?		

Sources: Macquarie Research, Reuters, Bloomberg, August 2009 **GDP and CPI annual average, policy rate and currency period end*

Month Ahead – August/September 2009

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
10 **AUS** HOUSING FINANCE, JUN (0130) May: 2.2% **NZ** REINZ HOUSE SALES, JUL (10TH – 15TH) Jun: 40.3% y/y	**11** **AUS** NAB MONTHLY BUSINESS SURVEY, JUL (0130) **US** NON-FARM PRODUCTIVITY (prelim), JUN QTR (1230) Mar qtr: 1.6% UNIT LABOUR COSTS (prelim), JUN QTR (1230) Mar qtr: 3.0%	**12** **AUS** CONSUMER SENTIMENT, AUG (0100) Jul: 9.3% WAGE COST INDEX, JUN QTR (0130) Mar qtr: 0.8% **US** **FOMC ANNOUNCEMENT ON INTEREST RATES, AUG (1815)** **Jul: 0.00%** TRADE BALANCE, JUN (1230) May: -US$26.0b	**13** **AUS** AVERAGE WEEKLY EARNINGS, MAY QTR (0130) Feb qtr: 1.2% **US** IMPORT PRICES, JUL (1230) Jun: 3.2% EXPORT PRICES, JUL (1230) Jun: 1.1% RETAIL SALES, JUL (1230) Jun: 0.6% BUSINESS INVENTORIES, JUN (1400) May: -1.0% **NZ** FOOD PRICES, JUL (2245, WED) Jun: 2.8%	**14** **AUS** **RBA GOVERNOR GLENN STEVENS SEMI-ANNUAL TESTIMONY ON MONETARY POLICY BEFORE THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS, SYDNEY (2330, THU)** **US** **CPI, JUL (1230)** **Jun: 0.7%** INDUSTRIAL PRODUCTION, JUL (1315) Jun: -0.4% CAPACITY UTILISATION, JUL (1315) Jun: 68.0% **NZ** RETAIL SALES, JUN (2245, THU) May: 0.8% REAL RETAIL SALES, JUN QTR (2245, THU) Mar qtr: -2.9% REINZ HOUSE PRICE INDEX, JUL
17 **US** NET LONG-TERM TIC FLOWS, JUN (1300) May: -US$19.8b NAHB HOUSING MARKET INDEX, AUG (1700) Jul: 17	**18** **AUS** **RBA MONETARY POLICY MEETING MINUTES, AUG (0130)** **US** PPI, JUL (1230) Jun: 1.8% HOUSING STARTS, JUL (1230) Jun: 582k BUILDING PERMITS, JUL (1230) Jun: 563k	**19** **AUS** **RBA ASSISTANT GOVERNOR EDEY SPEAKS ON "EXAMINING THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON RETAIL FINANCIAL SERVICES IN AUSTRALIA", SYDNEY (2320, TUE)** **NZ** PPI, JUN QTR (2245, TUE) Mar qtr: Inputs: -2.5% Outputs: -1.4%	**20** **AUS** **RBA BULLETIN, AUG (0130)** **US** LEADING INDICATORS, JUL (1400) Jun: 0.7%	**21** **US** EXISTING HOME SALES, JUL (1400) Jun: 4.9m **NZ** EXTERNAL MIGRATION, JUL (2245, THU) Jun: -3.8% CREDIT CARD SPENDING, JUL (0300) Jun: -2.1% y/y
24 **AUS** NEW MOTOR VEHICLE SALES, JUL (0130) Jun: 5.7%	**25** **US** CONSUMER CONFIDENCE, AUG (1400) Jul: 46.6 OFHEO HOUSE PRICE INDEX, JUN (1400) May: 0.9% **NZ** **RBNZ 2 YEAR INFLATION EXPECTATION, SEP QTR (0300)** **Jun qtr: 2.2%**	**26** **AUS** CONSTRUCTION WORK DONE, JUN QTR (0130) Mar qtr: -3.7% **US** DURABLE GOODS ORDERS, JUL (1230) Jun: -2.5% NEW HOME SALES, JUL (1400) Jun: 384k	**27** **AUS** **PRIVATE CAPITAL EXPENDITURE, JUN QTR (0130)** **Mar qtr: -8.9%** **US** **GDP (prelim), JUN QTR (1230)** **Jun qtr (adv): -1.0%** **PERSONAL CONSUMPTION (prelim), JUN QTR (1230)** **Jun qtr (adv): -1.2%** **CORE PCE (prelim), JUN QTR (1230)** **Jun qtr (adv): 2.0%** **NZ** TRADE BALANCE, JUL (2245, WED) Jun: -NZ$417m	**28** **US** **CORE PCE, JUL (1230)** **Jun: 0.2%** PERSONAL INCOME, JUL (1230) Jun: -1.3% PERSONAL SPENDING, JUL (1230) Jun: 0.4% **NZ** BUILDING PERMITS, JUL (2245, THU) Jun: -9.5%
31 **AUS** **COMPANY GROSS OPERATING PROFITS, JUN QTR (0130)** **Mar qtr: -7.2%** **INVENTORIES, JUN QTR (0130)** **Mar qtr: -1.2%** PRIVATE SECTOR CREDIT, JUL (0130) Jun: 0.1% **NZ** NBNZ BUSINESS CONFIDENCE, AUG (0300) Jul: 18.7	**1** **AUS** **RBA ANNOUNCEMENT ON INTEREST RATES, SEP (0430)** **Aug: 3.00%** BUILDING APPROVALS, JUL (0130) Jun: 9.3% CURRENT ACCOUNT BALANCE, JUN QTR (0130) Mar qtr: -A$4614m **US** ISM MANUFACTURING, AUG (1400) Jul: 48.9 PENDING HOME SALES, JUL (1400) Jun: 3.6% CONSTRUCTION SPENDING, JUL (1400) Jun: 0.3%	**2** **AUS** **GDP, JUN QTR (0130)** **Mar qtr: 0.4%** **US** **FOMC MONETARY POLICY MEETING MINUTES, AUG (1800)** NON-FARM PRODUCTIVITY (final), JUN QTR (1230) Jun qtr (prelim): 1.6% UNIT LABOUR COSTS (final), JUN QTR (1230) Jun qtr (prelim): 3.0% FACTORY ORDERS, JUL (1400) Jun: 0.4%	**3** **AUS** TRADE BALANCE, JUL (0130) Jun: -A$441m **US** ISM NON-MANUFACTURING, AUG (1400) Jul: 46.4	**4** **US** **NON-FARM PAYROLLS, AUG (1230)** **Jul: ~** **UNEMPLOYMENT RATE, AUG (1230)** **Jul: ~** AVERAGE HOURLY EARNINGS, AUG (1230) Jul: ~

*All times are GMT, unless otherwise stated
Sources: Macquarie Research, Reuters, Bloomberg, August 2009