



Macquarie Research Economics

The Week Ahead

Domestic markets will look to the June quarter CPI figure as a **potential** trigger for reassessing the widespread consensus that interest rates are on hold for now.

Headline inflation increased by 0.9% in the March quarter. If that was to be repeated or exceeded in the June quarter it would suggest accelerating inflation.

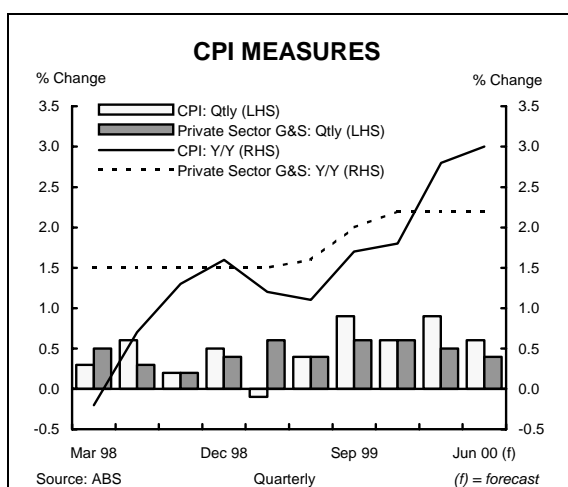
Our judgement, however, is that headline inflation moderated in the June quarter to increase by 0.6%.

While this would boost year-ended inflation to the top of the 2-3% target band, the RBA is unlikely to be surprised or concerned by such an outcome, particularly with the cash rate now at 6.0%. Less volatile measures should show that inflation is well within the band (see chart below).

Average Weekly Ordinary Time Earnings (AWOTE) data for the June quarter will be released this week. **AWOTE data however, will not add to our understanding of wages trends - the AWOTE data is a misleading measure.**

US markets, following last week's sharp bond rally on the words of Greenspan, will be tested by the upcoming gauge of labour cost pressures. The Employment Cost Index has been a major factor driving markets over the last two quarters.

US economic growth moderated in the June quarter, and this will be confirmed by advance GDP data.



Key releases/events this week...

- **Australia: CPI & AWOTE June quarter**
- **US: ECI June quarter**
- **US: (advance) GDP June quarter**
- **Japan: Industrial Production June**
- **Germany: CPI July**
- **EMU 11: M3 June**

Key developments last week....

Partial price indicators revealed the effect of the weaker A\$ and petrol prices (see data watch).

Greenspan's testimony inspired a sharp equities and bond rally.

The A\$ dipped below 57.5 US cents.

BOJ left the 'zero' interest rate policy intact.

Key Forecasts

	21 July	3 mths	6 mths
Australia			
Cash (%)	6.00	6.00	6.00
90-day (%)	6.18	6.25	6.25
10-year (%)	6.13	6.30	6.50
10-year spread to US (%)	0.10	0.10	0.10
A\$/US\$	58.4	63.0	65.0
ASX 200	3332	3400	3450
New Zealand			
Cash (%)	6.50	6.50	6.75
90-day (%)	6.83	6.75	6.75
10-year (%)	6.71	6.90	6.75
NZ\$/US\$	46.3	49.0	51.0
NZSE 40	2124	2175	2250

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Data Watch

- **In Australia** this week, wage and price data will take centre stage. The ABS will also release the 'stage of production producer price indexes' for the first time.
- The Consumer Price Index is expected to increase by 0.6% in the June quarter, moderating from the sizeable 0.9% increase in March.
- The 'three specific factors' (housing, fuel and tobacco) which accounted for 80% of inflation over the last three quarters waned in the June quarter.

— For a detailed preview of the June quarter CPI see our **Update** of 18 July.

- **While manufacturing prices increased sharply in the quarter, this has not altered our CPI forecast.**

— Manufacturing output prices increased by almost 2% in the June quarter and by 7% over 1999/00, after being flat during 1998/99.

— Of the overall price increase in the last year, almost 40% was explained by petroleum prices and over 20% by base metal prices.

— Petroleum prices at the refinery level do track movements in the CPI's automotive fuel component. However, the magnitude of changes is misleading (see chart opposite).

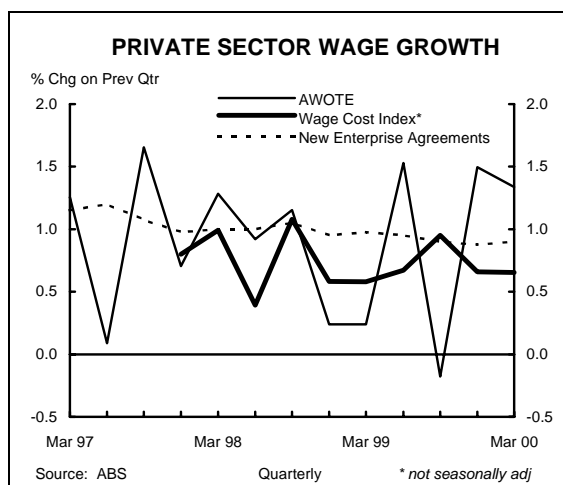
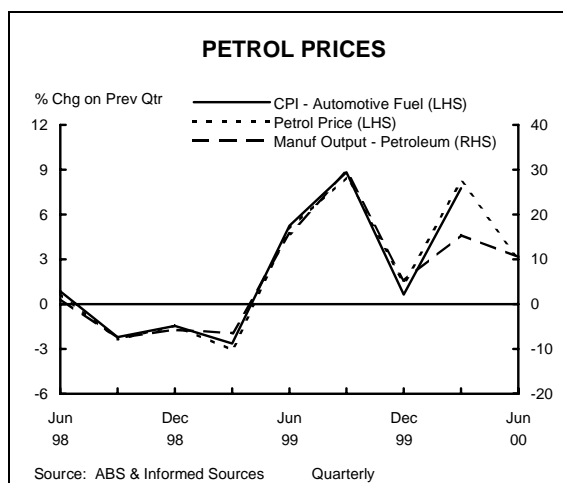
— Rather, the CPI measures petrol pump prices and they increased by 3% in the quarter, compared with a rise of 8% in the March quarter.

- Average weekly ordinary time earnings (AWOTE) for full-time employees are expected to increase at a more moderate rate than over the last half year.

— **However, AWOTE data is NOT a reliable guide to trend wages growth (see chart opposite).**

— AWOTE is affected by compositional shifts in the labour market and is a survey of one pay period during any given quarter. There is a relatively low degree of confidence in AWOTE forecasts.

— Female employment growth exceeded that for males between February and May, suggesting a more moderate increase in AWOTE.



- Motor vehicle registrations are likely to fall sharply in the month of June, with sales delayed until after the introduction of the GST. Typically, June has been a high sales month in original terms.

- **In New Zealand, preliminary merchandise trade** data for June will be released on Wednesday and is expected to confirm a gradual improvement in the trade balance. The value of both imports and exports has displayed very strong growth in recent months, as the weak NZ\$ has boosted prices. The stabilisation of the NZ\$ since mid-May, however, implies that this effect should begin to diminish and year-ended growth rates should also begin to moderate.

Key Releases

Day	Release	Prev	MBL Exp	Mkt Exp	Mkt Range	
Mon	Producer Price Index, Jun qtr	~	~	~	~	
Wed	CPI, Jun qtr	q/q	0.9%	0.6%	0.7%	0.5% / 0.9%
		y/y	2.8%	3.0%	3.1%	2.9% / 3.3%
	Private sector goods & services	q/q	0.5%	0.4%	0.5%	0.4% / 0.9%
		y/y	2.2%	2.2%	2.3%	2.2% / 2.7%
	NZ Trade balance (prelim) , Jun (NZ\$m)	+191	-178	+9	-178 / +300	
Thu	AWOTE (prelim), May qtr	q/q	1.4%	0.7%	0.8%	0.4% / 1.0%
		y/y	4.1%	3.7%	3.8%	3.3% / 4.0%
Fri	Motor vehicle regos, Jun	-1.2%	-12.0%	-7.0%	-20% / +4%	

ECONOMIC CALENDAR July/August 2000

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
STAGE OF PRODUCTION PPI, JUN QTR (First edition) <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 5px auto;"> See Data Watch for this week's forecasts </div>	US CONSUMER CONF, JUL Jun: 138.8 EXISTING HOME SALES, JUN May: 5.09m FED CHAIR GREENSPAN GIVES SECOND TESTIMONY ON MONETARY POLICY (1400 GMT) BUILDING APPROVALS, JUN May: -9.8% RBA COMMODITY PRICE INDEX, JUL Jun: -0.1% RBA BOARD MEETING US PERSONAL INCOME, JUN NAPM, JUL Jun: 51.8 CONSTRUC SPENDING, JUN	CONSUMER PRICE INDEX, JUN QTR Mar Qtr: +0.9% (+2.8% y/y) US AUCTION OF 2-YR NOTES Estimate: US\$10.0b NZ TRADE BAL (Prelim), JUN May: -NZ\$53.0m RETAIL TRADE, JUN May: unch US LEADING INDICATORS, JUN NEW HOME SALES, JUN May: 875 ^b HOUSING FINANCE, JUN May: +8.2% US WHOLESALE INVENTORIES, JUN May: +0.8% FED BEIGE BOOK AUCTION OF 10-YR NOTES Estimate: US\$8.0b NZ TRADE BAL (Final), JUN CONSUMER SENTIMENT INDEX, AUG	AWOTE (Prelim), MAY QTR Feb Qtr: +1.4% (+4.1% y/y) US EMPLOYMENT COST INDEX, JUN QTR Mar Qtr: +1.4% DURABLE GOODS, JUN May: +6.0% TREASURY BOND BUY-BACK Estimate: US\$2.0b US FACTORY ORDERS, JUN May: +4.1% NAPM (Non-mfg), JUL Jun: 64.0 NZ HOUSEHOLD LABOUR FORCE SURVEY, JUN QTR Mar Qtr Employment: -0.3% Unemployment rate: 6.4% EMPLOYMENT, JUL Jun: +21.7th UNEMPLOYMENT, JUL Jun: 6.6% RBA GOV MACFARLANE TO SPEAK AT QUT LEADERS FORUM US AUCTION OF 29%+YR BONDS Estimate: US\$7.0b AWOTE (Final), MAY QTR RBA BULLETIN, AUG	NEW MOTOR VEHICLE REGOS, JUN May: -1.2% US REAL GDP (Adv), JUN QTR Mar Qtr: +5.5% US NON-FARM PAYROLLS, JUL Jun: +11th UNEMPLOYMENT RATE, JUL Jun: 4.0% NZ RETAIL TRADE, JUN May: +0.8% US RETAIL SALES, JUL Jun: +0.5% PPI, JUL Jun: +0.6% NZ FOOD PRICE INDEX, JUL Jun: +0.1% US TRADE BALANCE, JUN May: -US\$31.0b NEW MOTOR VEHICLE REGOS, JUL
INTL TRADE INGOODS & SVS, JUN May: -\$1.6b RBA CREDIT AGGREGATES, JUN NZ BUILDING CONSENTS, JUN May: -0.6% NATIONAL BANK OF NZ BUSINESS CONFIDENCE SURVEY BANK HOLIDAY (NSW & ACT) (All markets open)	US INDUSTRIAL PRODUCTION, JUL Jun: +0.2% CAPACITY UTILISATION, JUL Jun: 82.1	RETAIL TRADE, JUN May: unch US LEADING INDICATORS, JUN NEW HOME SALES, JUN May: 875 ^b HOUSING FINANCE, JUN May: +8.2% US WHOLESALE INVENTORIES, JUN May: +0.8% FED BEIGE BOOK AUCTION OF 10-YR NOTES Estimate: US\$8.0b NZ TRADE BAL (Final), JUN CONSUMER SENTIMENT INDEX, AUG	US PHIL FED INDEX, AUG Jul: 0.7 US DURABLE GOODS, JUL FOMC MINUTES, JUN NZ TRADE BAL (Prelim), JUL	US REAL GDP (Prelim), JUN QTR EXISTING HOME SALES, JUL NZ PPI, JUN QTR
US CONSUMER CREDIT, JUN May: US\$11.8b	US FOMC MEETING	US CPI, JUL Jun: +0.6% HOUSING STARTS, JUL Jun: 1.55m NZ MONETARY POLICY STATEMENT QTLY EMP SURVEY, MAY QTR Feb Qtr: -0.1% LAB COST INDEX, JUN QTR	US AUCTION OF 29%+YR BONDS Estimate: US\$7.0b AWOTE (Final), MAY QTR RBA BULLETIN, AUG	US TRADE BALANCE, JUN May: -US\$31.0b NEW MOTOR VEHICLE REGOS, JUL
US BUSINESS INVENTORIES, JUN May: +0.8%	US INDUSTRIAL PRODUCTION, JUL Jun: +0.2% CAPACITY UTILISATION, JUL Jun: 82.1	US MONETARY POLICY STATEMENT QTLY EMP SURVEY, MAY QTR Feb Qtr: -0.1% LAB COST INDEX, JUN QTR	US AUCTION OF 29%+YR BONDS Estimate: US\$7.0b AWOTE (Final), MAY QTR RBA BULLETIN, AUG	US TRADE BALANCE, JUN May: -US\$31.0b NEW MOTOR VEHICLE REGOS, JUL
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31	1	2	3	4
7	8	9	10	11
14	15	16	17	18
21	22	23	24	25