



ECONOMICS & MARKETS RESEARCH

ANZ AUSTRALIAN ECONOMICS WEEKLY

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ECONOMIC UPDATE: ECONOMY STAYS WELL ON TRACK

- Beneath the flat headline, February's labourforce data indicate real labour demand is still recovering well, backed up by a very solid surge in job ads.
- Business confidence and expectations are seemingly stuck at relatively high levels, despite the rate tightening seen to date. Consumer confidence is also holding its own, although housing finance is slowing as rate rises start to bite.
- Growth appears to be accelerating through H1 2010, and picking up pace more rapidly than was expected just a few months ago.

LABOUR MARKET SHOWS STRONG DEMAND BENEATH A WEAK HEADLINE

Despite the apparent setback in February's headline job numbers (only 400 net new jobs added in the month), there is still a lot of positive news in the latest labourforce and related data, for the economy, for households and for the RBA. These include:

- Despite the weak headline jobs growth in February, the ABS added another 3,800 to **January's jobs growth**, which was already extremely strong (revised up to 56.5k from 52.7k net jobs added, 12k of them full-time).
- February saw good continuing growth in both **full-time jobs** (+11k) and in **aggregate hours worked** (+2.4%), indicating solid labour demand in terms of an increase in the total hours needed and not just an increase in headcounts. The uplift in hours worked is particularly welcome as it had been missing from the labour market recovery story to date. This will be a welcome indicator of real growth in labour demand for the RBA and a welcome boost for all the households that had previously suffered cuts to work hours and incomes.
- **Labourforce growth** may be slowing a touch, from a trend level of 25k per month last year, down to a more manageable 20k per month in Jan and Feb 2010. If this trend is sustained, it will take some of the pressure off jobs growth in keeping a lid on the unemployment rate. This was caused by a drop in the participation rate in February however, and may be reversed in coming months as more potential jobseekers are attracted back into a growing jobs market.
- The **unemployment rate held steady at 5.3%** in February and January's unemployment rate was revised down to 5.2%, indicating that this important indicator is now trending down. We can probably expect the unemployment rate to fluctuate between 5.0 and 5.4% in coming months, depending on the monthly interplay between labourforce growth (driven by adult population growth and the participation rate) and jobs growth (driven by labour demand). In February for example, the weak net jobs addition meant that the unemployment rate only held steady due to the unexpected (and probably coincidental) dip in the participation rate – the number of unemployed jobseekers actually went up for the first month since last August (+10.7k).
- The **ANZ Job Advertisements** series showed a huge surge in February, up 19.1% after a disappointing fall of 8.2% in January. Total job ads are now 27% higher than at their seasonal trough in July last year. With a typical 'lead' time of 3 to 6 months, this welcome recovery in job ads augurs well for labour demand over the coming months.
- The employment component of nab's **monthly business survey** eased a touch in February (from 5.9 to 4.5 points) but remained firmly net positive. At the same time, the employment components of the AiG's PMI and PSI surveys increased a touch in February from a month earlier, but remained just below 'net contraction' levels (<50). They are, nevertheless, apparently trending up.

The latest national trends in the labourforce are illustrated in figures 1 to 3 below.

ECONOMIC UPDATE

FIGURE 1. SIX MONTHS STRAIGHT OF FULL-TIME JOBS GROWTH

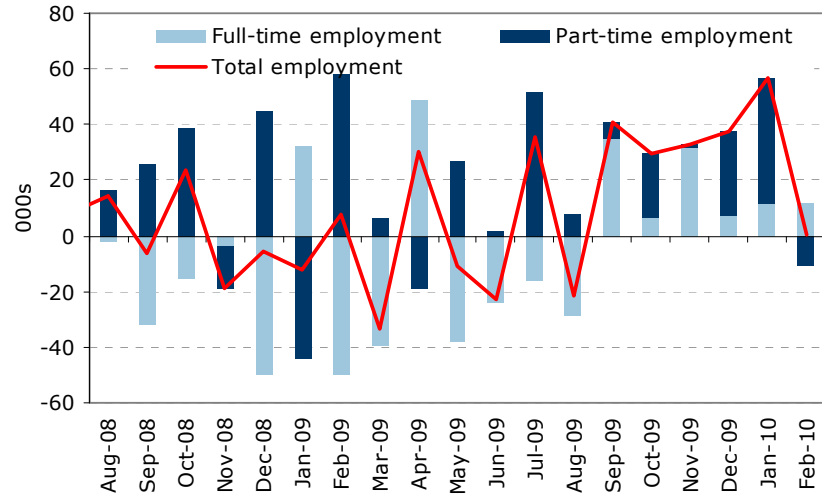


FIGURE 2. AGGREGATE HOURS WORKED MAKES A WELCOME CATCH-UP

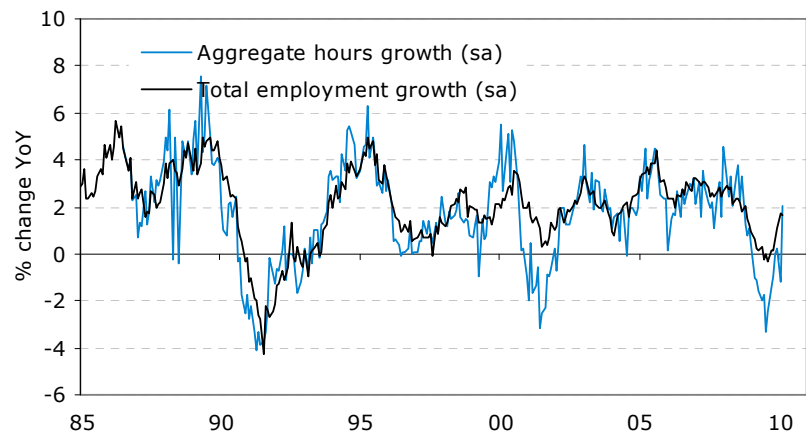
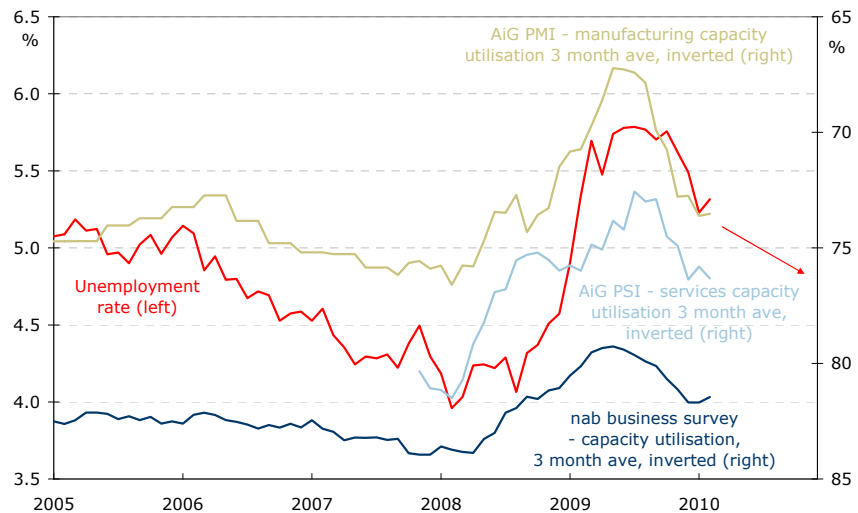


FIGURE 3. UNEMPLOYMENT AND CAPACITY RATES ARE TRENDING DOWN. FEBRUARY IS A REMINDER THAT THE RIDE IS NOT SMOOTH



Sources: ABS, nab, AiG.

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HOUSING FINANCE APPROVALS FALL AGAIN

The number of approvals continues to come off with January data showing another slowdown as the RBA tightens monetary policy further. The fall in the number of housing finance approvals of 7.9% in January was again led by **first homebuyers**, with numbers down 11.3% in the month and almost 45% down since October 2009 (seasonally adjusted). This retreat is expected to continue for some months yet with continued interest rate hikes putting the purchase of a first home further out of reach for those who are on the fringes of the market.

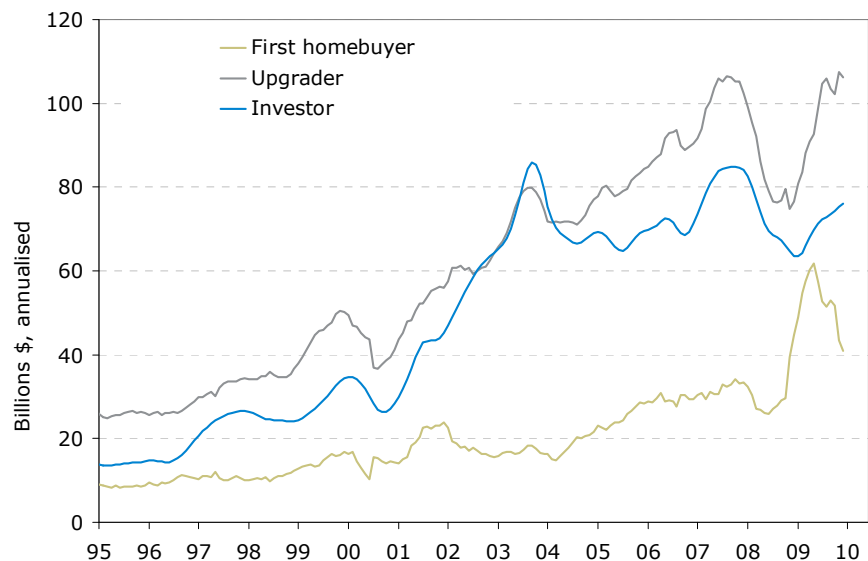
Last year's interest rate hikes also seemed to have unsettled the **upgrader market**, with approvals off 6.9% in the month. However, we anticipate this segment of the market will consolidate at current relatively high levels as the labour market and broader economic conditions continue to improve.

An emerging trend in the data shows **construction loan approval numbers** fell 3.8% in the month following a 7.3% fall in the previous month. This suggests the strong recent upswing in building approvals may start to run out of legs going forward. This will continue to leave the Australian housing market well short of the supply necessary to keep up with what is still very strong demand - entrenching the supply shortage of domestic housing.

This is a point echoed by the RBA this week with Assistant Governor (Economic) Lowe stating *"One challenge we face is to satisfy the increase in the demand for housing from a growing population, particularly given that we start the current upswing in the economy with a tight housing market"*. The fact is that the solution to the undersupply in housing is not going to be a problem solved quickly - both in terms of the bureaucratic impediments to additional supply and the capacity of the industry to service the demand (as noted by Lowe in the face of competition for labour from the mining sector).

The little positive news in January's figure was that **investors** continue to find value in the market, posting another 0.9% gain (in value terms) in the month to be up 21.8% YoY. That said, the level of investor participation is not yet back at the highs seen in 2007-08 and 2002-03. As a result we see some upside for this segment, especially as tight fundamentals (as mentioned above) will play into the hands of investors. Yields for residential property should begin to improve in 2010, as capital growth slows from 2009's frenetic pace and rents push higher. The recent rise in vacancy rates, from very low levels, was prompted by the influx of first-home buyers from the rental market to the purchaser market - as a result rental growth slowed through 2009. However, this impact is now fading fast and with demand for rental properties only building in the coming year, vacancy rates will again fall and rents will inevitably rise.

FIGURE 1. HOUSING FINANCE BY PURCHASER



Source: ABS

The continuing strength of labour demand and business confidence this week will be very encouraging for the RBA. But it will probably not be enough to bring the next rate rise

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forward to April, without further concrete evidence of accelerating activity. We are still expecting the next 25bps rate rise to occur in May, but based on the strength of February's data to date, the odds of an April rate rise are now probably closer to 50% than they are to 25%, as currently priced in by the markets.

DATA WRAP: WEEK COMMENCING 8 MARCH 2010

- **NAB business conditions** were stronger in February at 8pts (up 5pts from January).
- **NAB business confidence** for the month of February was stronger at 19pts, up from 15pts in January.
- **ANZ Job Ads** surged in February at 19.1%, recovering from an 8.1% drop in January.
- **Westpac consumer confidence** was stronger, up 0.2% for the month of March, making a strong recovery from -2.6% in February.
- **Housing Finance** unexpectedly fell by 7.9% in January, on top of a fall of -5.1% in December
- **Investment lending** for January increased by 0.9%, slightly softer than December's increase of 1.9%.
- **Consumer inflation expectations** for March came in at 3.2%, unchanged from February.
- **Employment** grew by just 400 in February, but January jobs growth was revised up from 52.7k to 56.5k.
- The **Unemployment rate** stayed stable at 5.3% in February, but January's rate was revised down to 5.2% from 5.3% previously.
- The **Participation rate** softened to 65.2% in February, down from 65.3% in January.

FORECASTS

AUSTRALIAN ECONOMIC INDICATORS	2008	2009	2010 F	2011 F
Economic activity (annual % change)				
Private final demand	4.2	1.1	4.2	4.7
Household consumption	2.7	2.2	2.4	3.0
Dwelling investment	2.6	-4.4	16.5	7.9
Business investment	12.3	-0.7	5.9	8.8
Public demand	6.7	3.1	8.2	3.9
Domestic final demand	4.8	1.6	5.1	4.5
Inventories (contribution to GDP)	-0.4	-0.5	0.5	0.0
Gross National Expenditure (GNE)	4.5	1.0	5.6	4.5
Exports	2.6	0.5	2.4	5.4
Imports	11.4	-7.7	14.7	9.9
Net Exports (contribution to GDP)	-1.8	1.8	-2.5	-1.2
Gross Domestic Product (GDP)	2.4	1.3	3.2	3.4
Prices and wages (annual % change)				
Inflation: Headline CPI	4.4	1.8	2.4	2.8
Underlying *	4.4	3.8	2.9	2.7
Wages	4.2	3.6	2.8	3.3
Labour market #				
Employment (annual % change)	2.2	0.3	2.5	2.0
Unemployment rate (annual average %)	4.2	5.6	5.2	4.9
External sector				
Current account balance: A\$bn	-54.6	-51.7	-60.4	-57.8
% of GDP	-4.4	-4.1	-4.5	-4.0

* Average of RBA weighted median and trimmed mean statistical measure.

AUSTRALIAN INTEREST RATES	CURRENT	MAR 10 F	JUN 10 F	SEP 10 F	DEC 10 F	MAR 11 F
RBA cash rate	4.00	4.00	4.25	4.50	4.75	4.75
90 day bill	4.37	4.37	4.40	4.70	5.00	5.00
3 year bond	5.07	5.06	5.20	5.25	5.15	5.20
10 year bond	5.65	5.63	5.70	5.65	5.45	5.40
3s10s yield curve	0.58	0.58	0.50	0.40	0.30	0.20
3 year swap	5.42	5.41	5.60	5.70	5.60	5.65
10 year swap	6.12	6.10	6.25	6.20	6.00	5.95
INTERNATIONAL INTEREST RATES	CURRENT	MAR 10 F	JUN 10 F	SEP 10 F	DEC 10 F	MAR 11 F
RBNZ cash rate	2.50	2.50	2.75	3.25	3.75	3.75
NZ 90 day bill	2.69	2.85	3.22	3.72	4.05	4.05
US Fed funds note	0.25	0.25	0.25	0.25	0.75	1.25
US 2 year note	0.90	0.91	1.10	1.40	1.80	2.20
US 10 year note	3.71	4.69	4.60	4.70	4.80	4.80
Japan call rate	0.10	0.10	0.10	0.10	0.10	0.10
ECB refinance rate	1.00	1.00	1.00	1.00	1.00	1.50
UK repo rate	0.50	0.50	0.50	0.50	0.50	1.00

For additional information on interest rates please refer to ANZ's *Interest Rate Strategy Weekly*.

FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	MAR 10 F	JUN 10 F	SEP 10 F	DEC 10 F	MAR 11 F
Australian exchange rates						
A\$/US\$	0.9125	0.90	0.88	0.86	0.85	0.82
NZ\$/US\$	0.6988	0.70	0.68	0.67	0.65	0.64
A\$/¥	82.39	81.0	80.1	79.1	79.9	78.7
A\$/€	0.6692	0.66	0.66	0.65	0.65	0.64
A\$/£	0.6101	0.59	0.57	0.56	0.56	0.54
A\$/NZ\$	1.3059	1.29	1.29	1.28	1.31	1.28
A\$/C\$	0.9363	0.95	0.93	0.92	0.92	0.89
A\$/CHF	0.9775	0.96	0.96	0.95	0.97	0.95
A\$/CNY	6.2284	6.15	5.93	5.72	5.58	5.31
A\$ Trade weighted index	71.20	69.9	68.7	67.0	66.3	63.8
International cross rates						
US\$/¥	90.29	90.0	91.0	92.0	94.0	96.0
€/US\$	1.3636	1.36	1.34	1.32	1.30	1.28
€/¥	123.13	122	122	121	122	123
£/US\$	1.4956	1.52	1.54	1.54	1.53	1.53
€/£	0.9118	0.89	0.87	0.86	0.85	0.84
US\$/C\$	1.0260	1.05	1.06	1.07	1.08	1.08
US\$/CHF	1.0713	1.07	1.09	1.11	1.14	1.16
US\$ index	80.48	80.6	81.4	82.4	83.7	84.7
Asia exchange rates						
US\$/CNY	6.8262	6.83	6.74	6.65	6.56	6.47
US\$/HKD	7.7593	7.77	7.79	7.77	7.78	7.78
US\$/IDR	9195	9300	9500	9300	9000	8800
US\$/INR	45.47	45.5	46.0	45.0	44.0	43.5
US\$/KRW	1134	1150	1175	1125	1100	1050
US\$/MYR	3.3200	3.34	3.37	3.40	3.40	3.35
US\$/PHP	45.705	46.0	46.5	46.0	45.0	45.0
US\$/SGD	1.3989	1.39	1.40	1.40	1.41	1.40
US\$/THB	32.650	33.00	32.50	32.50	32.50	32.00
US\$/TWD	31.782	32.00	32.20	31.50	30.50	30.00
US\$/VND	19070	19000	19300	19300	19300	19300
Pacific exchange rates						
PGK/US\$	0.3625	0.392	0.381	0.395	0.386	0.372
FJD/US\$	0.5188	0.516	0.507	0.501	0.495	0.484

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