

# Australia & New Zealand Weekly

Australia/New Zealand

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# From regime change to disarmament

## A tiny chance of a peaceful settlement

We expect war within a month, although there is now a tiny chance of a peaceful solution to the Iraq crisis. Small as it is, it's not a chance markets can entirely ignore. The reason it can't be ignored is that markets would respond to it ecstatically, while even a short war in which Iraq President Saddam Hussein's armies quickly collapse will only be the first act in a prolonged struggle for control of the resources and territory of what is now the state of Iraq.

The tiny chance of peaceful outcome was opened by a subtle and largely unnoticed change in the tone of US rhetoric last week. After the November Security Council resolution last year, the US drifted back to its goal of removing Mr. Hussein, as well as removing any weapons of mass destruction Iraq may now possess. This no doubt remains US policy, but it was interesting that in all the invective of US President George Bush's State of the Union speech last week regime change was not mentioned. Instead Mr. Bush said that "If Saddam Hussein does not fully disarm, for the safety of our people and for the peace of the world, we will lead a coalition to disarm him". Nor was it mentioned by Secretary of State Colin Powell in his speech to the Davos economic forum just before UN weapons inspector Hans Blix reported to the Security Council. Mr. Powell said then that "We are in no great rush to judgment tomorrow or the day after, but clearly time is running out...We must have Iraq participate in the disarmament or be disarmed". As late as last Thursday after meeting with Mr. Powell the Canadian Foreign Minister reported of the planned February 5 UN address that "what the Secretary told me was that he intends to make a persuasive case that Iraq must be compelled to disarm, and Iraq has to understand that if it does not disarm, there will be consequences for its failure to disarm". The message is clearly that an invasion can still be averted, if Iraq now disarms. It is not the preferred US position and it may not be the private US position, but it is the public US position – and US public positions cannot readily be renounced. Mr. Powell's Wednesday UN speech will present evidence that Mr. Hussein is concealing weapons, keeping the focus squarely on disarmament rather than regime change.

The subtle change in US rhetoric now matches the public stance of British Prime Minister Tony Blair, who told British television over a week ago that before joining an invasion of Iraq he needs a declaration from the inspectors that Iraq is not cooperating, and he needs if not unanimity then at least a fair show of support from members of the Security Council. He asserted these conditions, as the *Financial Times* Philip Stephens pointed out, because without them "he could not carry his country" let alone the Labour Party. For his part Australian Prime Minister John Howard last week insisted that Australian policy was for disarmament, not regime change. The change in the US tone also matches the terms of Resolution 1441 itself, and of the support the US drew from seven European leaders last week. It can certainly be argued that Dr Blix has already declared that Iraq is not cooperating, but it was a highly conditional judgement which also offered Iraq an opportunity to demonstrate a change of heart before Dr Blix's next report on February 14.

The effect of the US and UK focus on disarmament rather than regime change is to invest a great deal of authority in Dr Blix. If he declares February 14 that Iraq is still not wholeheartedly cooperating with the substance of disarmament (and not merely permitting access when and where the inspectors require), the US, Britain and Australia can attack and

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would do so with the support of most of the Security Council. There would quite likely be an actual resolution authorising war. But if circumstances have changed sufficiently for Dr Blix to say Iraq has begun to cooperate on the substance, it will be very difficult for the UK or Australia to join an attack, and very difficult for the US to go without them. Dr Blix has acquired the authority to decide on war or peace.

Unlike regime change, actively cooperating with the inspectors to address all the remaining questions about weapons of mass destruction is something Mr. Hussein may be prepared to do something about. It is already clear from the UN inspectors report last week that he does not have nuclear weapons or a nuclear weapons program. They are useful weapons of deterrence, but he does not possess them. If he possesses any residual stocks of chemical or biological weapons he knows they are quite useless to him as battlefield weapons against the US. He may and may not have tonnes of mustard gas, but it would be merely a nuisance to well prepared US troops. Large stocks of VX nerve agent remain unaccounted for, but any left passed its use-by date years ago. If he has stocks of botulism and ricin he does not have the means to turn them into battlefield weapons. He may and may not have thousands of litres of anthrax, but US troops are now vaccinated against it. There is not a single chemical or biological weapon he is suspected of possessing which is any use in a war against the US, a judgement widely shared in the US and the UK.

There is thus a chance that sometime this week Iraq will dramatically alter course. It may review its accounting and discover that it did indeed overlook documents that might be helpful to Dr Blix and his team. Subordinates may draw Mr. Hussein's attention to hitherto unnoticed stocks of chemical or biological weapons inadvertently stored among stocks of conventional weapons. This is after all the pattern Mr. Hussein followed when forced by the 1995 defection of his sons in law to acknowledge the existence of the VX program. This time he may completely capitulate on any disguise or concealment of chemical and biological weapons.

Mr. Hussein will begin to demonstrate active cooperation with the inspectors, because he knows that only Dr Blix now stands between him and eternity. It's certainly possible that Iraq may not now possess chemical or biological weapons to surrender, or the documents to account for the gap between what was acquired and what was destroyed. But it cannot be beyond the wit of Mr. Hussein's officials to think up ways to help Dr Blix. It's difficult to believe that Iraq has nothing at all it could usefully surrender. It could anyway agree to the U2 flights requested by the inspectors and offer open access to any relevant archives the inspectors may not have seen. The important point is to demonstrate zealous cooperation.

There is a way through, but we think war is the most likely outcome. This is not only because Mr. Hussein may be reluctant to rapidly change course, but also because even the most energetic display of Iraqi enthusiasm for disarmament may not prevent invasion. Some of the most influential elements in the Bush administration do not want Iraq to disarm, because it would make invasion much more difficult. As Kenneth Pollack's interesting and authoritative book *The Threatening Storm: the case for invading Iraq* argues, no outcome short of the removal of Mr. Hussein can be satisfactory for the US. This is why Mr. Bush has been talking in these terms since he became President. Iraq may reveal and destroy any remaining weapons and any remaining production facilities next month. The Security

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Council may impose a tough inspections regime to remain in place indefinitely. The US and its allies may back up that inspection regime with the threat of force if it is not permitted to operate freely. But Mr. Pollack argues that sooner or later Mr. Hussein will challenge the inspection regime, as he has challenged it before. Already the Gulf states are uncomfortable with sustaining a permanent US military presence to discipline Iraq. Already the French have withdrawn from participation in enforcing the no-fly zones and the British are wearied of it. Over time, Mr. Pollack argues, the US or allied capacity to back up the inspectors will decay, and when it does Mr. Hussein will again force the inspectors out and resume development of nuclear and other weapons of mass destruction. Given Mr. Pollack's logic, the US should invade now.

Plausible or not Mr. Pollack's position is probably quite close to the real Administration position. Over the next few weeks the drama over Iraq may play out with an accelerating Iraq disarmament schedule racing against an accelerating US invasion schedule. Whatever small chance there is of a peaceful solution depends on Mr. Hussein convincing Dr Blix he is cooperating, before the US is ready to move. He may have only until February 14 to do it.

# The RBA meets

## Sombre global outlook

The only bright piece of economic news to come out of the US in recent months was the sharp increase in the December ISM index for manufacturing, the first increase in four months. Otherwise the indicators for the US and for that matter Japan and Germany have been uniformly dreary. The German Ifo survey last week barely moved, global equity prices have again retreated, US consumer confidence is back at the lows of a decade ago, and at 0.7% (annualised) last week's US fourth quarter growth was below even our modest expectations. The only good thing about the GDP number was the increase in business investment, the third in a row, but it is difficult to see that business investment upswing being sustained through the prolonged crisis over Iraq. The December durable goods orders release, for example, was consistent with no growth in business investment in that month.

After that sharp increase in December, we expect to see tonight's January ISM retreat, completing the suite of bad global economic news the Reserve Bank of Australia Board will review Tuesday. Despite the drought and despite flat exports the Australian economy remains robust, with household consumption strong and business investment continuing to increase. Boosted by the drought and by higher oil prices, headline inflation will remain near the top of the RBA's target band and core inflation is unlikely to fall very much below the mid point of the band. This should be an easy meeting for the RBA. With the global economy subdued and war in Iraq imminent, there is no case to tighten. With the Australian economy performing well, no case to cut. Along with the rest of us the RBA will await a resolution of the Iraq crisis before deciding on its strategy for the year ahead.

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# The week ahead: Australia & New Zealand

## Australia: Retail sales & building approvals; RBA Board meeting

This week sees the first **RBA Board meeting** for 2003, but with the non-farm domestic economy still robust, core inflation at 2½% and headline inflation persisting at the top of the RBA's 2 to 3% target range, **we expect no change in monetary policy. We continue to see the next RBA rate move as being a hike, but not until Q4 2003** when geopolitical concerns have faded and the global outlook improves, and the drought has hopefully broken. Market economists are virtually unanimous in expecting no policy change from this week's Board meeting.

Data commences Monday with the January Australian Industry Group **Performance of Manufacturing Index** (AiG PMI) at 9:30 AEDT, followed at 11:30 AEDT by December building approvals and January ANZ job ads. The January **RBA index of commodity prices** is also due Monday at 16:30 AEDT (prev +0.2% m/m in SDR's).

The AiG PMI fell 1.9 points in December to a still robust 56.7, the 17<sup>th</sup> consecutive reading above the 50 boom/bust level, and consistent with firm manufacturing growth of around 4% annual. With a more recent annual survey of manufacturing for 2003 by the AiG pointing to continued strength through the year ahead, we expect the monthly **PMI to remain well above 50 in the January survey.**

**ANZ job ads** shocked to the downside in December at -13.7% m/m s.a., taking the series back into a downtrend. However, the December data is subject to unusually large seasonal influences due to holidays, and the report cautioned that it would be sensible to suspend judgement in the implied employment outlook until the release of the January data. With December employment growth surprising to the upside again after a surge in November, and trend growth accelerating, plus relatively upbeat hiring intentions in various private business surveys, **we expect a strong rebound** in January job ads as the seasonal bias works in the opposite direction to December. An uptrend in the data should be restored, probably consistent with near-term employment growth in the order of +15k m/m.

**Building approvals** have been wild in recent monthly, thrown from pillar to post by volatile moves in non-house approvals. A 45.7% s.a. fall in 'other' dwelling approvals in November reinforced an 11.6% s.a. fall in private house approvals for a total approvals result of -25.6% m/m s.a. Private sector house approvals remained in downtrend for the 4<sup>th</sup> consecutive month, and with housing finance for new construction still trending lower, these approvals will remain weak in December. But with the wild swings of late in 'other' dwelling approvals, we look a partial rebound there to drive an overall increase in total building approvals of **+5% m/m s.a.** Despite the fall in November non-house approvals, trend growth there remained positive at +2.0% m/m. Our forecast assumes a rebound, but not enough to prevent the trend flattening out. But with continued poor fundamentals facing the medium density dwelling sector, we would not be surprised to see the trend turn negative with a smaller rebound or possibly a further fall. Hence we see **downside risks** to our overall forecast of +5% m/m s.a. Even if total approvals rise in line with our forecast, trend growth would accelerate to the downside to -2.4% m/m and +3.7% y/y (from -0.9% m/m and +5.7% y/y previously).

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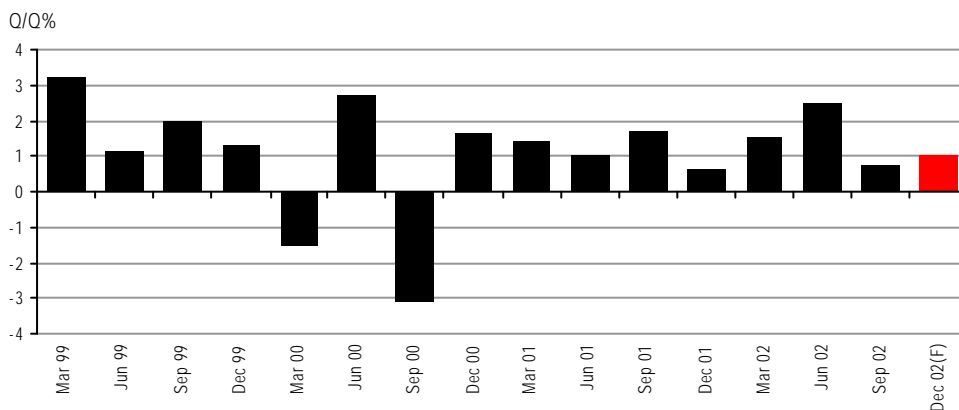
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## The week ahead: Australia & New Zealand

Tuesday sees the big release for the week with **December retail sales and Q4 retail volumes**. Tuesday also sees the latest **NAB monthly business survey** for December, which should confirm what we saw last week in the Q4 quarterly survey: that business confidence is weakening due to drought and geopolitical concerns, but actual activity levels/business conditions remain consistent with strong non-farm GDP growth of around 5% annual.

**Retail sales** surged +1.7% m/m s.a. in November, restoring the trend to a pace more consistent with other evidence on consumption at +0.4% m/m and +7.1% y/y. Anecdotal evidence remained firm for December sales and other influences suggest trend growth could pick up a little to +0.5% m/m. Employment surged in the month, with further strong full-time gains, and consumer sentiment improved. We look for a headline result of **+0.1% m/m s.a.**, consolidating the November surge, which would take trend growth to +0.5% m/m and +7.2% y/y from +0.4% m/m and +7.1% y/y previously.

### Australian Retail Trade Volumes: Another firm increase expected for Q4 2002



Source: ABS, HSBC Data uses seasonally adjusted, chain volume measures

The December retail trade report also gives the result for **Q4 retail volumes** growth, a key input for forecasts of household consumption in Q4 GDP. On the basis of the already known October and November results, our +0.1% forecast for December, and after deflating by retail components of the CPI, we look for a solid increase of **+1.0% q/q real s.a.** – an improvement on the Q3 result of +0.7% q/q real s.a.

## New Zealand: Wages the focus

Zealand publish two earnings series on the same day: the quarterly **labour cost index (LCI)** and the quarterly employment survey (QES). The LCI is usually a snore, with the quarterly increase in both private sector and all sector salary and ordinary time wage rates stuck at 0.5% for many consecutive quarters. But the September quarter saw a 0.6% rise in the private sector index, a 0.8% for the public sector and 0.7% overall. That has lifted through-year growth a notch. We expect a 0.6% increase in the private sector LCI, which would see

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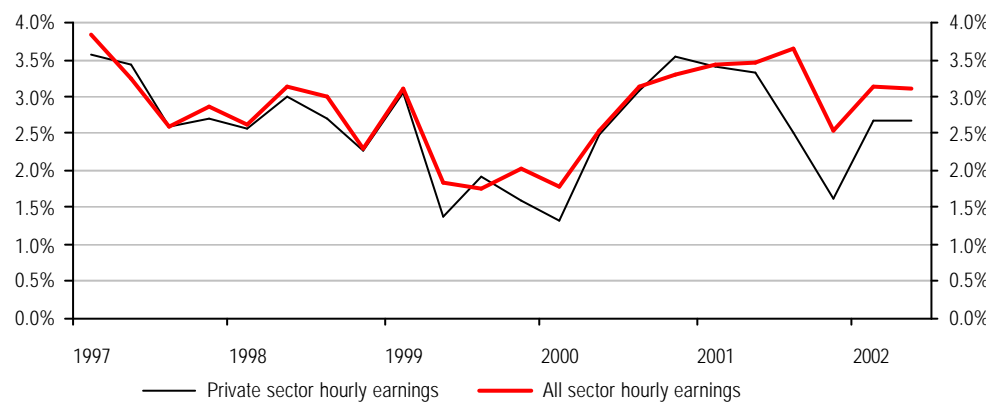
The week ahead: Australia & New Zealand

annual growth increase slightly from 2.1% to 2.2% y/y. The all sector index should rise by 0.5%, which would see annual growth ease from 2.3% to 2.2% y/y.

More attention however is expected for the QES **average hourly earnings** series. Private sector earnings surged 1.7% n.s.a. in Q3, however this mostly reflects their usual seasonal pattern. We look for a modest 0.3% rise in the December quarter, which would leave through-year private sector hourly earnings growth increase only marginally, from 2.6% to 2.7% y/y. However we see upside risks to that forecasts, and note that the market median is for a higher 0.7% rise. Across all sectors we also look for a 0.3% increase, leaving annual growth unchanged at 3.1% y/y. These are pretty benign outcomes, and only a much stronger pace of earnings growth would be cause for alarm.

New Zealand markets are closed on Thursday for the **Waitangi Day** national holiday.

Average hourly earnings: No uptick expected in Q4



Source: Statistics New Zealand

# The week ahead: Global

## Politics again dominates

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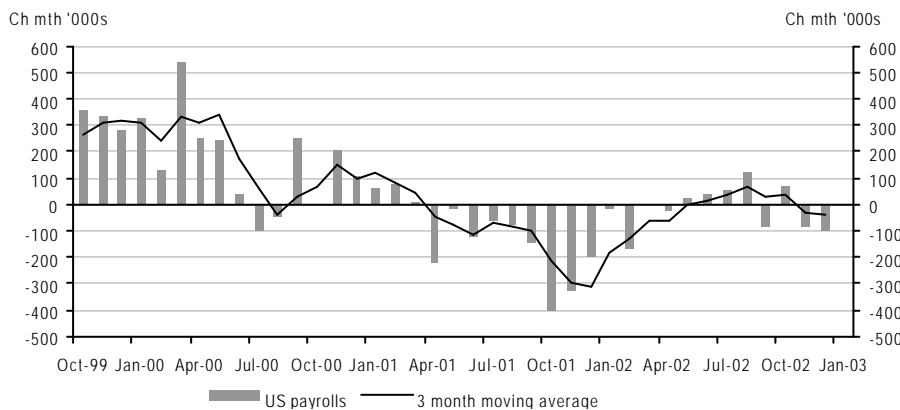
Economics will be subordinate to the politics again this week, with US Secretary of State Colin Powell scheduled to brief the Security Council Wednesday on Iraqi concealment of weapons of mass destruction. Discussions on last week's weapons inspectors reports will also continue in the Security Council. Depending on the response to Mr. Powell and the flow of the debate, the US may choose this week to organise another Security Council resolution which would be interpreted as backing an invasion of Iraq. We may see in response a dramatic change in tone from Iraq, with Iraq President Saddam Hussein attempting to convince UN weapons inspector Hans Blix that he will now fully cooperate.

After the cheering increase to 55.2 in the December US manufacturing ISM, the first increase in four months, we expect to see tonight's January result slip back to 54.5. That is still on the right side of 50 and thus still indicates expansion. Not so the January EMU manufacturing PMI also out tonight, which we expect to see at 48, down from 48.4 last time. The UK January PMI may creep up to 50, from 49.5 last time.

The service sector January PMI's for the US, EMU and the UK out Wednesday will likely be more pleasing. We expect to see the US number at 56 from 54.2 last time, the UK at 53.5 from 53.2, and the EMU at 50.4 compared to 50.6.

The UK and EMU data precede meeting of the Bank of England Monetary Policy Committee and the European Central Bank, both Thursday. We expect no change from either meeting.

### US non-farm payrolls: Another weak report expected for January



Source: HSBC

Friday's US non farm payrolls will we think show a tiny increase of 30,000 in US employment, after the fall of 101,000 in December. The unemployment rate is likely to remain at 6%.

Please refer to the attached *Weekly Calendar* for all our forecasts.

# Market roundup

## Australian and New Zealand financial markets

Indicator	Local weekly close*			HSBC end-quarter forecasts		
	24 Jan 03	31 Jan 03	Change	Q1 2003	Q2 2003	Q3 2003
AUD-USD spot	0.5931	0.5884	-0.8%	0.58	0.60	0.61
AUD-JPY spot	69.95	70.04	+0.1%	68.4	69.6	70.8
NZD-USD spot	0.5515	0.5458	-1.0%	0.54	0.55	0.55
NZD-AUD spot	0.9299	0.9276	-0.3%	0.93	0.92	0.90
Australian 90 day bank bills	4.78%	4.81%	+3 bp	4.75	4.75	4.95
Australian 10 yr govt bonds	5.17%	5.17%	flat	5.30	5.40	5.40
New Zealand 90 day bank bills	5.82%	5.84%	+2 bp	5.70	5.50	5.60
New Zealand 10 yr govt bonds	6.02%	5.99%	-3 bp	5.90	5.80	6.00

Source: Bloomberg, RBA, HSBC \* Friday 4pm AEDT, 6pm NZT r = revised

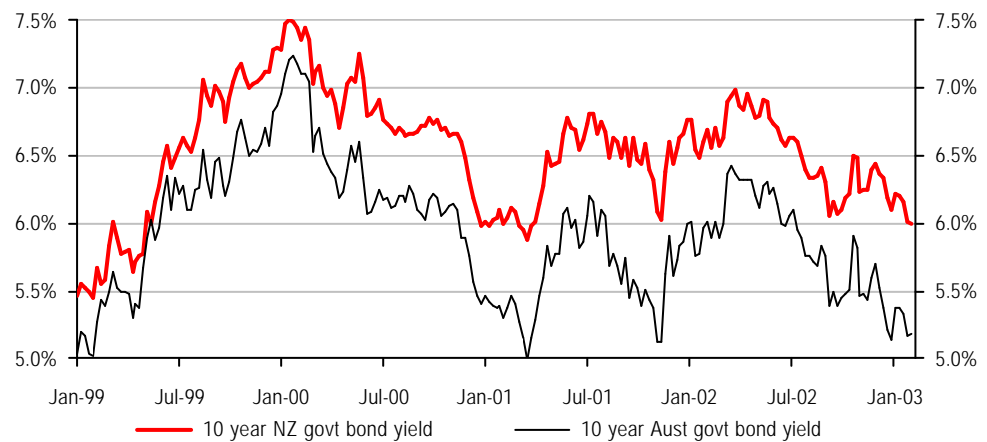
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## Stabilising?

While the Federal Reserve left rates and its neutral bias unchanged, and the UN Security Council has postponed a decision on Iraq, markets continue to be weighed by uncertainty and 'geopolitical risks'. Yet while gold, oil and some currencies have been volatile, other markets have been mostly range-bound. Australian 90 bank bill yields, for example, have been stuck around 4.80-4.85% now for three months. In New Zealand local bank bills yields fell 10-15 basis points last month in the expectation (later confirmed) of the RBNZ moving to an easing bias. But with Governor Bollard clearly signalling that any reduction in interest rates is at least several months away, they appear to be steady around the 5.75% cash rate.

Even bond markets, which have been very volatile in recent months, may be stabilising. Local bond markets continue to be heavily influenced by the US Treasury market, where safe haven flows, disappointing growth and tepid equity markets have kept US yields near 40 year lows around 4%. Both Australian and New Zealand bond yields are close to their previous lows of March 2001 and November 2001. With the RBNZ expected to cut its cash rate by 25bp around mid-year, we see scope for a modest further fall in New Zealand bond rates. Australian bond yields, however, are likely to be little changed through the first half.

## Australasian bond markets



Source: HSBC, Bloomberg

# Australian economic & market forecasts

## Australian economic forecasts: Year average growth

National accounts	Calendar year				Financial year			
	2001	2002f	2003f	2004f	2000-01	2001-02	2002-03f	2003-04f
Consumer spending	3.0	4.1	3.1	2.6	3.0	3.5	3.6	2.8
Govt consumption	1.5	4.4	2.8	3.3	2.2	3.7	3.0	3.3
Investment	-1.0	11.9	4.0	4.0	-7.7	9.9	8.1	2.7
Private housing	-10.9	23.2	-2.2	-1.7	-20.9	19.5	11.1	-6.8
Business investment	1.2	10.0	7.3	6.3	-4.3	6.9	9.3	6.3
Public investment	5.5	3.8	1.7	4.1	-0.2	7.9	-0.5	4.1
Stockbuilding (% of GDP)	-0.1	0.0	0.3	0.2	0.0	0.0	0.3	0.2
Domestic demand (GNE)	1.6	6.0	3.5	2.9	0.0	4.9	4.7	2.9
Exports	1.2	-0.1	4.1	10.9	7.2	-1.5	0.9	9.5
Imports	-4.1	10.0	6.1	4.7	-1.3	2.3	9.4	5.0
<b>GDP</b>	<b>2.7</b>	<b>3.8</b>	<b>3.2</b>	<b>4.1</b>	<b>1.8</b>	<b>3.9</b>	<b>3.2</b>	<b>3.8</b>
Consumer prices	4.4	3.1	2.8	2.4	6.0	2.9	2.9	2.6
Employment growth	1.0	1.8	2.0	1.5	2.1	1.1	1.9	2.1
Unemployment rate (%)	6.7	6.3	6.0	5.9	6.4	6.7	6.1	5.9
Wages (Wage Cost Index)	3.6	3.2	3.3	3.3	3.5	3.3	3.4	3.2
Current account (A\$b)	-17.2	-28.9	-32.5	-23.3	-18.1	-22.4	-33.6	-27.4
As % of GDP	-2.5	-3.9	-4.2	-2.8	-2.7	-3.1	-4.5	-3.4
Budget balance (% GDP)	-	-	-	-	0.8	-0.2	0.3	0.6

Source: HSBC, ABS. 31 January 2003. All economic data is seasonally adjusted except CPI and Budget balance. n.f. = not forecast

## Australian economic forecasts: Quarterly profile, % change on a year ago

National accounts	Q1 02	Q2 02	Q3 02	Q4 02f	Q1 03f	Q2 03f	Q3 03f	Q4 03f
Consumer spending	3.7	4.4	4.2	4.1	3.5	2.7	3.0	2.9
Govt consumption	5.2	5.0	4.2	3.1	1.9	2.6	3.2	3.3
Investment	10.9	16.1	13.0	8.1	8.2	3.5	2.5	2.0
Private housing	26.3	30.2	22.5	15.4	9.8	-1.3	-6.4	-9.6
Business investment	5.4	14.2	15.2	12.3	13.1	8.6	6.1	7.1
Public investment	8.2	8.4	5.7	-5.7	-0.8	-0.5	4.0	4.1
Domestic demand (GNE)	6.1	7.0	6.3	4.8	4.5	3.5	3.3	2.9
Exports	-0.9	-1.2	-1.0	2.7	0.8	1.3	5.6	8.7
Imports	5.0	11.1	13.4	10.8	8.4	5.4	5.6	5.1
<b>GDP</b>	<b>4.4</b>	<b>4.1</b>	<b>3.7</b>	<b>3.1</b>	<b>3.1</b>	<b>2.9</b>	<b>3.2</b>	<b>3.6</b>
GDP (% q-o-q)	0.7	0.8	0.9	0.7	0.7	0.6	1.2	1.1
Consumer prices	2.9	2.8	3.2	3.0	2.8	2.8	2.7	2.6
Employment growth	1.9	1.9	2.1	2.1	1.5	2.0	2.3	2.3
Unemployment rate (%)	6.3	6.5	6.2	6.2	6.1	6.0	5.9	5.8
Wages (Wage Cost Index)	3.1	3.1	3.3	3.3	3.4	3.4	3.3	3.4
Current account (A\$b)	-18.5	-22.4	-27.2	-28.9	-32.1	-33.6	-33.7	-32.5
As % of GDP	-2.6	-3.1	-3.8	-3.9	-4.3	-4.5	-4.4	-4.2

Source: HSBC, ABS. 31 January 2003. All economic data is seasonally adjusted except CPI and Budget balance. n.f. = not forecast

## Australian financial market forecasts: Year average

	Calendar year				Financial year			
	2001	2002	2003f	2004f	2000-01	2001-02	2002-03f	2003-04f
AUD-USD	0.518	0.54	0.60	0.63	0.538	0.52	0.57	0.62
AUD-JPY	62.9	67.6	69.3	71.6	61.6	66.0	67.7	70.9
AUD-NZD	1.23	1.17	1.10	1.14	1.27	1.22	1.11	1.12
AUD Trade Weighted Index	52.3	49.6	51.5	54.0	50.3	50.6	52.4	55.7
All Ordinaries Index	3,243	3,158	3,242	3,605	3,254	3,280	3,053	3,492
RBA official cash rate	5.02	4.55	4.80	5.15	5.81	4.52	4.75	4.95
90 day bank bills (% yield)	4.90	4.74	4.87	5.23	5.81	4.6	4.9	5.1
10 year bonds (% yield)	5.63	5.78	5.35	5.52	5.80	6.0	5.5	5.5

## Australian financial market forecasts: Level at end-quarter

	Q1 02	Q2 02	Q3 02	Q4 02	Q1 03f	Q2 03f	Q3 03f	Q4 03f
AUD-USD	0.532	0.56	0.54	0.57	0.58	0.60	0.61	0.62
AUD-JPY	70.5	67.5	66.1	67.1	68.4	69.6	70.8	70.7
AUD-NZD	1.21	1.157	1.16	1.08	1.07	1.09	1.11	1.13
AUD Trade Weighted Index	52.2	52.3	50.9	51.7	52.9	54.3	55.2	55.7
All Ordinaries Index	3,363	3,163	2,928	2,976	2,950	3,250	3,500	3,535
RBA official cash rate	4.25	4.75	4.75	4.75	4.75	4.75	4.75	5.00
90 day bank bills (%)	4.64	5.13	4.90	4.81	4.75	4.75	4.95	5.10
10 year bonds (%)	6.32	6.06	5.34	5.16	5.30	5.40	5.40	5.50

Source: HSBC, Bloomberg. 31 January 2003.

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# New Zealand economic & market forecasts

## New Zealand economic forecasts: Year average growth

National accounts	Calendar year				Financial year (March year)			
	2001	2002f	2003f	2004f	00/01	01/02	02/03f	03/04f
Consumer spending	2.2	3.4	2.7	2.7	1.7	2.8	3.0	2.7
Govt consumption	3.5	4.8	3.8	3.3	-2.0	3.9	5.3	3.4
Investment	-1.7	7.1	6.9	2.4	-0.7	5.0	7.7	3.6
Residential building	-9.8	21.5	12.6	-7.7	-16.0	3.4	26.5	1.6
Other fixed assets	1.1	2.7	4.5	6.1	5.7	5.6	1.7	4.2
Stockbuilding (% of GDP)	1.1	1.2	0.6	0.8	1.0	1.1	1.1	0.7
Domestic demand (GNE)	1.9	4.7	3.0	2.9	0.2	3.4	4.4	2.5
Exports	2.1	7.3	4.3	6.1	6.3	1.9	8.1	3.9
Imports	1.4	8.0	5.5	5.0	-0.6	2.4	8.6	4.6
<b>GDP Expenditure</b>	<b>2.1</b>	<b>4.5</b>	<b>2.8</b>	<b>3.3</b>	<b>2.3</b>	<b>3.4</b>	<b>4.3</b>	<b>2.4</b>
<b>GDP Production</b>	<b>2.4</b>	<b>4.2</b>	<b>3.1</b>	<b>3.5</b>	<b>2.5</b>	<b>3.2</b>	<b>4.2</b>	<b>2.8</b>
Industrial production	0.8	3.9	3.8	3.3	1.9	1.2	5.5	2.7
Consumer prices	2.6	2.7	2.4	2.4	3.0	2.5	2.7	2.3
Unemployment rate (%)*	5.4	5.3	5.5	5.3	5.2	5.3	5.2	5.3
Wages (QES)	3.3	3.2	3.4	3.2	2.4	3.5	3.1	3.4
Current account (NZ\$b)	-3.4	-3.9	-6.7	-6.7	-5.3	-2.6	-5.8	-6.7
As % of GDP	-2.8	-3.1	-5.1	-4.4	-4.6	-2.1	-4.6	-5.1
Budget balance (% GDP)	-	-	-	-	1.2	2.2	1.8	2.8

## New Zealand economic forecasts: Quarterly and through year % change

	Q102	Q202	Q302	Q402f	Q103f	Q203f	Q303f	Q403f
GDP Production (% q-o-q)	0.9	1.7	1.0	0.5	0.9	0.6	0.5	0.7
GDP Production (% y-o-y)	3.9	3.9	4.6	4.2	4.1	3.1	2.6	2.8
Consumer prices (% q-o-q)	0.6	1.0	0.5	0.6	0.5	0.6	0.5	0.7
Consumer prices (% y-o-y)	2.6	2.8	2.6	2.7	2.7	2.2	2.3	2.3

Source: HSBC, SNZ. 2 February 2003. All economic data is s.a. except CPI and Budget balance. n.f. = not forecast \*End-year rate.

## New Zealand market forecasts: Year average

	Calendar year				Financial year (March year)			
	2001	2002	2003f	2004f	00/01	01/02	02/03f	03/04f
NZD-USD	0.421	0.46	0.54	0.55	0.441	0.419	0.49	0.55
NZD-AUD	0.81	0.85	0.91	0.89	0.79	0.814	0.88	0.89
RBNZ official cash rate	5.70	5.35	5.75	5.75	6.30	5.40	5.55	5.75
90 day bank bills (% yield)	5.75	5.65	5.69	5.90	6.51	5.62	5.81	5.90
10 year bonds (% yield)	6.40	6.49	6.01	6.58	6.54	6.57	6.31	6.58

## New Zealand financial market forecasts: Level at end-quarter

	Q102	Q202	Q302	Q402	Q103f	Q203f	Q303f	Q403f
NZD-USD	0.440	0.488	0.47	0.53	0.54	0.55	0.55	0.55
NZD-AUD	0.83	0.86	0.86	0.93	0.93	0.92	0.90	0.89
RBNZ official cash rate	5.00	5.50	5.75	5.75	5.75	5.75	5.75	5.75
90 day bank bills (% yield)	5.56	5.99	5.88	5.95	5.70	5.50	5.60	5.70
10 year bonds (% yield)	6.87	6.65	6.07	6.07	5.90	5.80	6.00	6.30

Source: HSBC, Bloomberg. 2 February 2003.

# Weekly economic calendar

Week commencing Monday 3 February 2003

Country/		Period	Market forecasts			Actual
Region	Event or economic release		HSBC	Consensus	Range	Previous
<b>Monday, 3 February 2003</b>						
AU	AiG Performance of Manufacturing Index	Jan	-	-	-	56.7
AU	Building approvals	Dec M/M	+5%	flat	-7%/+12%	-25.6%
AU	ANZ job ads	Jan M/M	-	-	-	-13.7%
AU	RBA index of commodity prices: SDRs	Jan M/M	-	-	-	+0.2%
EMU	Manufacturing PMI	Jan	48.0	48.7	-	48.4
UK	Manufacturing PMI	Jan	50.0	-	-	49.5
UK	CBI retail survey: reported sales	Jan	+15	-	-	-3
US	Manufacturing ISM	Jan	54.5	53.0	-	55.2
<b>Tuesday, 4 February 2003</b>						
AU	RBA Board meeting					
AU	Retail sales	Dec M/M	+0.1%	-0.2%	-1.5%/+0.5%	+1.7%
AU	Retail volumes	Q4 Q/Q	+1.0%	+1.0%	+0.6%/+1.3%	+0.7%
AU	NAB monthly business survey	Dec	-	-	-	-
EMU	CPI, flash estimate	Jan Y/Y	+2.2%	-	-	+2.3%
EMU	Retail sales	Nov M/M	-0.2%	-	-	+0.7%
EMU	Unemployment rate	Dec	8.4%	8.5%	-	8.4%
<b>Wednesday, 5 February 2003</b>						
AU	RBA announcement window: Official Cash Rate	Feb	4.75%	4.75%	4.50%/4.75%	4.75%
NZ	Labour cost index: private sector	Q4 Q/Q	+0.6%	+0.6%	+0.5%/+0.6%	+0.6%
NZ	Labour cost index: total	Q4 Q/Q	+0.5%	+0.6%	+0.5%/+0.6%	+0.7%
NZ	OES average hourly earnings: private sector	Q4 Q/Q	+0.3%	+0.7%	+0.3%/+0.9%	+1.8%
NZ	OES average hourly earnings: total	Q4 Q/Q	+0.3%	+0.7%	+0.3%/+0.9%	+1.8%
NZ	ANZ world commodity price index	Jan M/M	-	-	-	+0.4%
JPN	Leading diffusion index	Dec	70.0	-	-	70.0
GER	Unemployment, s.a.	Jan	+38k	+27k	-	+28k
EMU	Services PMI	Jan	50.4	50.6	-	50.6
UK	Services PMI	Jan	53.5	-	-	53.2
US	Non-manufacturing ISM	Jan	56.0	54.0	-	54.2
<b>Thursday, 6 February 2003</b>						
GER	Manufacturing orders	Dec M/M	-1.5%	-0.5%	-	+1.4%
UK	MPC meeting (12:00 GMT)					
EMU	ECB meeting & press conference (12:45 GMT)					
US	Jobless claims	W/e 1 Feb	390k	-	-	397k
US	Productivity	Q4 ann.	+0.7%	+0.5%	-	+5.1%
	Unit labour costs	Q4 ann.	+2.3%	+3.0%	-	-0.2%
<b>Friday, 7 February 2003</b>						
JPN	Real household spending	Dec Y/Y	-2.9%	-	-	-2.0%
UK	Manufacturing production	Dec M/M	+0.1%	-0.2%	-	+0.4%
UK	Industrial production	Dec M/M	+0.2%	-0.1%	-	-0.5%
US	Non-farm payrolls	Jan M/M	+30k	+70k	-	-101k
	Unemployment rate	Jan	6.0%	6.0%	-	6.0%
	Average hourly earnings	Jan M/M	+0.3%	+0.3%	-	+0.3%
US	Consumer credit	Jan	+US\$4.0bn	+US\$3.3bn	-	-US\$2.2bn

Source: HSBC, 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

February 2003				
Monday 3 February	Tuesday 4 February	Wednesday 5 February	Thursday 6 February	Friday 7 February
AU Building approvals (Dec) AU RBA commodity prices (Jan) AU ANZ job ads (Jan)	AU Retail trade (Dec & Q4 vols) AU NAB Business survey (Dec) AU <b>RBA Board meeting</b>	NZ Labour cost index (Q4) NZ Average hourly earnings (Q4) NZ ANZ commodity prices (Jan)	<b>NZ Waitangi Day holiday</b> <b>BoE MPC meeting</b> <b>ECB Gov. Council meeting</b>	US Employment report (Jan) US Wholesale inventories (Dec) US Consumer credit (Dec)
US Construction spending (Dec) US Manufacturing ISM (Jan)	US Factory orders (Dec)	US Non-manufacturing ISM (Jan)	US Productivity (Q4) US Jobless claims	
Monday 10 February	Tuesday 11 February	Wednesday 12 February	Thursday 13 February	Friday 14 February
AU <b>RBA Statement on Monetary Policy</b>	AU NAB Business survey (Jan)  NZ Household labour force survey (Q4) NZ ANZ job ads (Jan)	AU Consumer sentiment (Feb)  NZ ANZ job ads (Jan)	AU Labour force (Jan)  NZ Retail sales (Q4)  US Retail sales (Jan) US Jobless claims	AU Housing finance (Dec)  NZ Food price index (Jan) NZ America's Cup start (sat)  US Business inventories (Dec) US Industrial production US Capacity utilisation (Jan) US Univ. of Michigan consumer sentiment (Feb, prelim)
Monday 17 February	Tuesday 18 February	Wednesday 19 February	Thursday 20 February	Friday 21 February
	AU Merchandise imports (Jan)	AU Wage cost index (Q4) AU MI leading index (Dec)	AU Average weekly earnings (Q4) AU <i>RBA Bulletin</i>  US Producer prices (Jan) US Trade balance (Dec) US Leading indicator (Jan) US Philly Fed index (Feb) US Jobless claims	US CPI (Jan)
	US NY Empire mfg index (Feb)	US Housing starts (Jan)		
Monday 24 February	Tuesday 25 February	Wednesday 26 February	Thursday 27 February	Friday 28 February
	US Existing home sales (Jan) US Consumer confidence (Feb)		NZ Building consents (Jan)  US New home sales (Jan) US Durable goods (Jan) US Jobless claims	AU Financial aggregates (Jan)  NZ Merch. trade balance (Jan) NZ Producer prices (Q4)  US Prelim. GDP (Q4) US U.Mich. confidence (Feb, f) US Chicago PMI (Feb)

Source: HSBC Note: \* = approximate date only