

Ai GROUP ECONOMICS WEEKLY

Week in Review: 27 September to 1 October 2010

- Ai Group's Australian Performance of Manufacturing Index (**Australian PMI®**) fell by 4.4 points to 47.3 in September to signal the first monthly decline in manufacturing activity during 2010 (readings above 50 indicate a contraction in activity). The weak result was mainly driven by steeper declines in activity in the food and beverages and fabricated metal products sectors. Respondents cited the strong Australian dollar, higher raw material costs, and political uncertainty as the major negative influences on activity during the month. (<http://www.aigroup.com.au/economicindicators>)
- The ABS **Building Approvals** data showed a 4.7% seasonally adjusted decline in the number of dwelling units approved in August following a revised 0.1% rise in the previous month. The annual rate of growth in dwelling approvals moderated from 11.1% in July to 4.4% in August, which was the lowest annual rate of growth registered over the past twelve months. A 4.3% decrease in the number of private sector housing dwellings approvals drove the decline in total dwelling approvals. The number of private sector other dwelling approvals (mainly apartments) rose by 1.4% in the month.
- The HIA - Jeld-Wen **New Home Sales Report**, a survey of Australia's major residential builders, revealed that the number of new homes sold fell by 2.6% in August 2010. Sales were down by 13% over the three months to August to be 11% lower when compared to the same period in 2009.
- Reserve Bank of Australia **Financial Aggregates** data showed that total credit provided to the private sector by financial intermediaries rose by just 0.1% in August 2010, maintaining the more subdued pace of growth evident since June. The August growth rate was below the market forecast of a 0.3% increase with higher interest rates and business/consumer caution weighing on credit growth. Housing credit increased by 0.6% in August while business credit fell by 0.6%. Other personal credit which includes credit cards fell by 0.2% in August after being flat in July.
- ABS **Job Vacancies** data revealed that total job vacancies increased by a seasonally adjusted 9.8% between May and August 2010 to 181,300. The number of job vacancies in the private sector rose by 9.5% while a 13.4% increase was recorded in the public sector.

How this affects you

Recent economic developments provide further confirmation of the toughness and fragility of industry conditions in Australia. This was evident in the findings of Ai Group's Australian Performance of Manufacturing Index (Australian PMI®) which reported falls during September in eight of the twelve major industry sub-sectors surveyed. This included deepening declines in the food and beverages and fabricated metal products sectors. The decline in building approvals and new home sales in August also highlighted the continued weak state of the housing construction industry with subdued demand from first home buyers, higher interest rates and the failure of private investment to offset contracting government stimulus all impacting negatively on the demand for building projects. Moreover, businesses remain cautious in their intentions as indicated by the fall in business credit in August. Nevertheless, with the income boost to the economy from the strong rise in Australia's terms of trade and with corporate profits rising, a strengthening of business credit is expected to emerge in coming months. This should help to support stronger economic growth over the next year.

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$0.9681 ▲
Oil price	USD 77.83 per bbl ▲
Annual growth in GDP	3.3 per cent -
Unemployment rate (%)	5.1 per cent -
Annual growth in headline CPI	3.1 per cent -
Copper price	AUD 8,318.9 ▲
Australian PMI (September)	47.3 ▼
Australian PSI (August)	47.5 -
Australian PCI (August)	43.2 -

Week in Preview: 4 October – 8 October 2010

- On Tuesday, Ai Group will release its Australian Performance of Services Index (**Australian PSI®**) for the month of September, while the Australian Performance of Construction Index (**Australian PCI®**) for September will be released on Thursday.
- On Tuesday, the ABS will release preliminary estimates on **Australia's International Trade in Goods and Services** for August 2010.
- Also on Tuesday, the ABS will release data on **Retail Trade** for August 2010.
- On Wednesday the ABS will release **Engineering Construction Activity** data for the June quarter 2010, including estimates of the value of work done, commenced and yet to be done on a state and sectoral basis.
- An up to date assessment of labour market conditions in Australia, including the national unemployment rate, will be available on Thursday with the release of ABS **Labour Force** data for September 2010.

* Arrows represent directional movement relative to previous week's issue.