

Ai GROUP ECONOMICS WEEKLY

Week in Review: 6 December – 10 December 2010

- Ai Group's Australian Performance of Construction Index (**Australian PCI®**) fell by 1.8 points to 42.2 in November to remain below the 50 points level separating expansion from contraction. This represented the construction industry's sixth consecutive month of decline amid fragile demand and declines in activity across all of the major sectors. (<http://www.aigroup.com.au/economicindicators>)
- The **ANZ Job Advertisements Index** rose by a seasonally adjusted 2.9% in November 2010, marking the seventh consecutive month of gains and translating into at 33.2% annual increase. Online job advertisements increased by 3.0% while newspaper advertisements rose by 0.9%. In annual growth terms, newspaper job advertisements are currently falling in New South Wales, Queensland, Victoria, South Australia and Tasmania, while rising in Western Australia and the Territories.
- On Tuesday, the **Reserve Bank Board** decided to leave the official cash rate unchanged at 4.75%, indicating that it viewed last month's lift in the cash rate and the subsequent increases by financial institutions as an appropriate monetary policy setting for the economic outlook.
- **ABS Housing Finance** data showed that finance for occupied housing rose by 1.9% in October 2010, although this increase pre-dated the November rise in the official cash rate and the subsequent rise in the average standard variable mortgage rate. The increases in the demand for housing finance reflected increases in the finance for the purchase of new dwellings (+9.4%) and established dwellings (+1.8%). In contrast, finance for the construction of dwellings rose by just 0.1%.
- **ABS Labour Force** data released on Thursday revealed that national employment increased by a higher-than-expected 54,600 (0.5%) to 11,416,900 (seasonally adjusted) in November, the eighth consecutive month in which new jobs have been created. The increase in November was due entirely to growth in full-time employment of 55,100, with part-time employment decreasing by 400. Australia's unemployment rate decreased from 5.4% in October to 5.2% despite a rise in the participation rate from 65.9% to a record high of 66.1%.

How this affects you

The continued growth in total employment and job advertisements underlines the on-going strength of the labour market and indicates that the Australian economy remains on a firm footing. However, recent economic developments also highlight the on-going toughness and fragility of industry conditions. This was evident in the findings of Ai Group's Australian Performance of Construction Index (Australian PCI®) which reported falls across all the major sectors of the building industry in November. This included steeper declines in the residential, apartment and commercial construction sectors with higher interest rates and the failure of private investment to offset reducing government stimulus continuing to impact negatively on the demand for building projects. The Australian PCI® also reported a further fall in new orders across the construction industry, signaling that tough conditions and subdued work levels are likely to persist in coming months. This is consistent with the softness in the housing finance data for October and the subdued state of work done, approvals and commencements across the major private sectors of the commercial construction industry. Nevertheless, the sustained tightening of the labour market has the potential to lead to stronger wages growth and increased household spending, and as a consequence exert upward pressure on inflation. Accordingly, the risk bias of higher interest rates remains on the upside. Market economists generally expect that the next interest rate rise will occur towards the middle of 2011, and for rates to reach about 6% over the next 12-18 months.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$98.50 ▼
Oil price	USD 87.79 per bbl ▼
Annual growth in GDP	2.7 per cent -
Unemployment rate (%)	5.2 per cent ▼
Annual growth in headline CPI	2.8 per cent -
Copper price	AUD 8979.26 ▲
Australian PMI (November)	47.6 -
Australian PSI (November)	46.2 -
Australian PCI (November)	42.2 ▼

Week in Preview: 13 December - 17 December 2010

- **Lending Finance** data for the month of October 2010 will be released by the ABS on Monday. This will provide statistics on finance commitments for secured housing finance for owner occupation, other personal finance, commercial finance and lease finance.
- On Tuesday, preliminary estimates of **Dwelling Unit Commencements** for September 2010 (new houses, new other residential and conversions) will be published by the ABS.
- Tuesday will also see the release of the **National Australia Bank Monthly Business Survey** for November 2010.
- The ABS will release **Sales of New Motor Vehicles** data for November in each state/territory sourced from the Federal Chamber of Automotive Industries on Wednesday.
- The **Westpac – Melbourne Institute Index of Consumer Sentiment** for December 2010 will also be released on Wednesday.
- On Thursday, the ABS will publish its latest **International Merchandise Imports** data for Australia. This will provide data on total imports and commodity aggregates for November 2010.

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

For further assistance from Ai Group's Economics & Research Unit or for any suggestions for economic information you would like to be included in the report, please email economics@aigroup.asn.au.