

Ai GROUP ECONOMICS WEEKLY

Week in Review: 8 November – 12 November 2010

- The **ANZ Job Advertisements Index** rose by 0.6% in October 2010, taking the annual increase to 34.6% just six percentage points lower than the historic 40.2% year-on-year growth rate in May 2007. Online job advertisements increased by 0.6% while newspaper advertisements fell by 0.3%.
- The **National Australia Bank Monthly Business Survey** showed that business conditions declined significantly in October reflecting large falls in both trading and profitability. The overall business conditions index (a composite index of trading performance, profitability and employment) decreased by 5.0 points to a +2.0 point index level. The survey also revealed a further fall in the business confidence index of 2.0 points in October. Consistent with this, forward orders (which give an indication of future demand for goods and services) fell by 5 points to a weak minus 3 points level.
- The Federal Government released its **2010-11 Mid-year Economic and Fiscal Outlook (MYEFO)** on the 9th November. The updated assessment forecasts that the Australian economy will grow by 3.25% in 2010-11 (unchanged from the 2010-11 Budget) and by 3.75% in 2011-12, as strong business investment, rising commodity exports and increased household spending emerge as the key drivers of growth. There have been small changes to the government's revenue estimates (with the strong Australian dollar expected to lower tax receipts over the forward estimates period) while expenditures are expected to remain broadly unchanged from the 2010-11 Budget and the July Pre-election update. On the basis of the current economic outlook and fiscal settings, the Budget remains on track to return to a small surplus in 2012-13. The forecast underlying cash balance for 2012-13 is \$3.1 billion (0.3% of GDP), although this is \$1.2 billion smaller than forecast in the 2010-11 Pre-election Economic and Fiscal Outlook (PEFO).
- **ABS Housing Finance** data showed that finance for occupied housing rose by 1.3% in September 2010 due mainly to an increase (+1.6%) in finance for the purchase of established dwellings. However, finance for the construction of dwellings rose by just 0.6% while finance for the purchase of new dwellings fell by 3.2%. These declines are consistent with other recently released indicators of new house building activity, including the 2.3% decline in the number of private sector housing approvals in September and Ai Group's Australian Performance of Construction Index (Australian PCI®) which showed that the house building sub-index declined for a fifth consecutive month in October 2010.
- The **Westpac-Melbourne Institute Consumer Sentiment Index** fell by 5.3% in November to 110.7, more than reversing the 3.3% increase of the previous month as recent interest rate developments weighed on consumer confidence. Underscoring the cautious and uncertain mood of households, responses to the Index measuring "family finances compared to a year ago" fell by 10.2% and assessments of "the 12 month outlook" fell by 9.8%. Responses to an extra question on expectations for spending on Christmas gifts revealed that 34% of respondents planned to spend less than last year. There were, however, factors that were supportive of consumer sentiment. These included the Australian dollar remaining above parity with the US currency, broadly stable petrol prices and the sharemarket's 2.5 per cent gain since the last survey.
- **ABS Labour Force** data released on Thursday revealed that national employment increased by a higher-than-expected 29,700 (0.3%) to 11,355,900 (seasonally adjusted) in October, the eighth consecutive month in which new jobs have been created. The increase in October was driven by an increase in part-time employment (43,800) which offset a 14,100 fall in full-time employment. Australia's unemployment rate increased to 5.4% reflecting an increase in the numbers entering the workforce with the participation rate rising by 0.3 percentage point to 65.9.

How this affects you

The further rise in total employment continues to highlight the underlying strength of the Australian economy. Other key positives for the domestic economy include the strengthening in job advertisements (which indicates further employment growth in coming months); the solid terms of trade boost due to the higher global prices being paid for our resource exports and; the continued robust demand for iron ore and coal (particularly from China and India). Nevertheless, growth in the economy remains unevenly based. This was evident in the findings of the NAB Monthly Business Survey with mining, transport and utilities, and personal services continuing to exhibit strength. In contrast, conditions remained weak in retail and fell sharply into negative territory in the construction sector. Moreover, trade exposed manufacturers are continuing to struggle due to a strong AUD while higher interest rates represent another squeeze on local industry. The sustained tightening of the labour market and the pick-up in aggregate demand associated with the higher terms of trade has the potential to exert upward pressure on inflation and wages as the economy approaches full capacity next year. Accordingly, the risk bias of higher interest rates remains on the upside, although the likely dampening influence on the economy from last week's rise in the official cash rate and the larger increase in Bank lending rates may delay another rate hike by the RBA until mid 2011. The RBA Board next meets on December 7.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$98.61 ▼
Oil price	USD 84.87 per bbl ▼
Annual growth in GDP	3.3 per cent -
Unemployment rate (%)	5.4 per cent ▲
Annual growth in headline CPI	2.8 per cent -
Copper price	AUD 8837.85 ▲
Australian PMI (October)	49.4 -
Australian PSI (October)	50.7 -
Australian PCI (October)	44.0 -

Week in Preview: 15-19 November 2010

- ABS **Lending Finance** data and ABS **Sales of New Motor Vehicles** data for September 2010 will be released on Monday.
- The minutes of the November **Reserve Bank of Australia Monetary Policy Briefing** of the RBA Board will be released on Tuesday.
- Indications of any further wage pressures will be known when the ABS publishes the **Labour Cost Index** for the September quarter 2010 on Wednesday and **Average Weekly Earnings** data (August 2010) on Thursday.
- On Thursday, the ABS will also publish its latest **International Merchandise Imports** data for October 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.