Ai GROUP ECONOMICS WEEKLY

Week in Review: 9 August to 13 August 2010

- ABS **Housing Finance** data released on Monday showed a weakening in housing finance demand in June 2010 reflecting higher mortgage rates, the winding back of government incentives for first home buyers, stretched affordability and a pull-back in investor activity. The number of owner occupied housing finance commitments fell by 3.9% in June to be 28.6% lower than at the same time last year. Finance for the construction of new dwellings declined by 5.0% in June (to signal continued weakness in housing approvals in coming months) while the number of first homebuyer commitments fell by 2.8%. The ABS also reported a decline in investor finance of 3.6% after three monthly consecutive increases.

- ABS data on broader **Lending Finance** showed that, seasonally adjusted, the value of total personal finance commitments increased by 1.2% in June 2010 to be 1.0% lower than a year ago.

- The **ANZ Job Advertisements Index** rose by 1.3% in July 2010 to reach an 18-month high. Newspaper job advertisements rose by 1.2% following three months of declines and internet job advertisements increased by 1.3%. For the year to July, total job advertisements were up by 36.1%, just short of the May 2007 record.

- The **National Australia Bank Monthly Business Survey** showed that confidence and business conditions edged down in July 2010, driven by weaker trading conditions and profitability. The business confidence index fell by 2 points to a +2 index point level, reflecting declining confidence in the manufacturing, retail and construction sectors. The overall business conditions index (a composite index of trading performance, profitability and employment) fell by 3 points to a +5 point index level with falls in the construction, manufacturing and retail sectors offsetting improved conditions in mining, utilities, wholesaling, personal and recreational services and transport services.

- The **Westpac-Melbourne Institute Consumer Sentiment Index** rose by 5.4% in August to 119.2, after falling by 15% (in the wake of three consecutive interest rate increases) between March and May 2010. A key factor underlying the improvement was a more positive view of the economy with the component of the Index assessing the economic outlook for the next 12 months rising by 8.6% in August.

- ABS **Labour Force** data released on Thursday revealed that the national employment increased by 23,500 (2.7%) to 11,235.700 (seasonally adjusted) in July. This was slightly above market expectations of a rise of 20,000. The increase was due to a 27,700 increase in part-time employment which more than offset a 4,200 fall in full-time employment. Australia's unemployment rate increased from 5.1% in June to 5.3% in July, reflecting a 0.2 percentage point rise in the participation rate.

How this affects you

The further growth in total employment and the rise in job advertisements underlines the continued strength of the labour market and points to on-going support to household incomes and spending. Other key positives for the domestic economy centre on the solid terms of trade boost due to higher mineral contract prices, the improvement in Australia's major trading partner growth, and the expected support to business investment from an expanding resources and infrastructure project pipeline. Nevertheless, conditions at the industry level remain fragile and unevenly based. The resources sector is experiencing solid conditions due to strong prices and expanding Asian demand, while other sectors (including services, house building and related supply manufacturers) continue to struggle amid consumer caution, higher interest rates and the waning influence of fiscal stimulus. This is preventing a more convincing and widespread recovery from taking hold.

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	$0.8928 ▼
Oil price	**USD 75.39 per bbl** ▼
Annual growth in GDP	2.7 per cent -
Unemployment rate (%)	5.1 per cent -
Annual growth in headline CPI	3.1 per cent ▲
Copper price	AUD 8,064.52 ▲
Australian PMI (July)	**54.4**
Australian PSI (June)	**48.8**
Australian PCI (June)	**46.4**

Week in Preview: 16-20 August 2010

- On Monday, ABS will release **Sales of New Motor Vehicles** data for July in each state/territory sourced from the Federal Chamber of Automotive Industries.
- The minutes of the August **Reserve Bank of Australia Monetary Policy Briefing** of the RBA Board will be released on Tuesday, providing a further insight into the decision to keep official interest rates on hold in the short-term.
- Indications of any further wage pressures will be known when the ABS publishes the **Labour Cost Index** for the June quarter 2010 on Wednesday and **Average Weekly Earnings** data for May 2010 on Thursday.
- The **Westpac – Melbourne Institute Leading Index** for June (which indicates the likely pace of economic activity three to nine months into the future) will be released on Wednesday.
- The **Department of Education, Employment and Workplace Relations Vacancy Report** assessing skilled job vacancies in August 2010 will be released on Wednesday.
- Also on Thursday, the ABS will publish its latest **International Merchandise Trade** data for Australia. This will provide data on total imports and commodity aggregates for July 2010
- **Ai Group's 10th Annual Economic Forum - Managing the Recovery** will be held in Adelaide on 18th August. The Treasurer of South Australia is a keynote speaker.

* 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.