

Ai GROUP ECONOMICS WEEKLY

Week in Review: 12 July-16 July 2010

- In the context of renewed uncertainty surrounding the global economic outlook, the Federal Government released an **Economic Statement** on 14 July to provide an update on their economic and budget forecasts. The outlook for the Australian economy remains positive with early signs that economic activity will gain momentum over 2010-11 and 2011-12 driven by a boost in the terms of trade and expected strong investment. The higher terms of trade is expected to support substantial investment in mining projects, with engineering construction expected to expand strongly by 17 per cent in 2010-11 and 20 per cent in 2011-12.
- On the basis of this outlook and current policy settings, the budget is projected to return to a surplus of \$3.1 billion in 2012-13, \$2.1 billion higher than projected in the 2010-11 Budget.
- ABS **housing finance** data for the month of May showed a stronger than expected rise in the number of housing finance commitments of 1.9%, the first rise in eight months. Nevertheless, commitments remain 24.4% lower than the same time last year. The investor market expanded again in May with the value of finance commitments for investment housing rising by 2.6% to be 17.3% above the value of a year ago reflecting strong rental growth.
- The **Westpac-Melbourne Institute Consumer Sentiment Index** rose by 11.1% in July to 101.9, after a falling 12.3% between April and June. This was the strongest monthly increase in the Index (from a base above the 100 level) since records began in the mid 1970's. The improvement mainly reflects a more positive view of the economy with the component of the Index assessing the economic outlook for the next 12 months rising by 10% in July.

How this affects you

The economic data released over the past week indicates that while Australian economic conditions remain positive, this is balanced by emerging domestic inflationary pressures and on-going uncertainty surrounding the global economic outlook.

The rise in housing finance commitments and the recent upturn in residential commencements (up 19% in the three quarters to March) are positive demand indicators for house builders and suppliers of construction materials. In addition, the Federal Government's prediction of a strong upturn in new engineering construction augers well for businesses geared to the resources, energy and infrastructure end-markets.

Looking abroad, however, sovereign debt issues in Europe, the recent slowdown in China's economy, and uncertainty over United States growth prospects, point to some downside risk to Australia's economic outlook.

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$0.8688 ▼
Oil price	USD 75.94 per bbl ▼
Annual growth in GDP	2.7 per cent -
Unemployment rate (%)	5.1 per cent -
Annual growth in headline CPI	2.9 per cent -
Copper price	AUD 7,764.16 ▲
Australian PMI (June)	52.9 ▼ 3.4 points
Australian PSI (June)	48.8 ▲ 1.3 points
Australian PCI (June)	46.4 ▼ 6.8 points

Week in Preview: 19-23 July 2010

- New data on imports will be available during the week, with the ABS releasing data on **international merchandise imports** for June 2010 on Monday.
- The minutes of the July **Reserve Bank of Australia Monetary Policy Briefing** of the RBA Board will be released on Tuesday.
- The **Westpac – Melbourne Institute Leading Index** for May (which indicates the likely pace of economic activity three to nine months into the future) will be released on Wednesday.
- On Friday the ABS will release data on **international trade price indexes** for June 2010. These provide information on the import and export price indices for Australia.

* 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.