

Ai GROUP ECONOMICS WEEKLY

Week in Review: 26 July - 30 July 2010

- ABS data on **Producer Prices** showed that the increase in final stage producer prices was less than expected in the June quarter 2010, with the Final Stage Producer Price Index (FSP) rising by 0.3% as against a median market forecast increase of 0.8%. However, the result marked the second consecutive quarterly increase in producer prices, and this saw a pick-up in the annual rate of growth to 1.0% from -1.0% in the March quarter. This signals that upstream factory gate price pressures are likely to have an inflationary influence on CPI inflation over the year ahead.
- The data on producer prices also pointed to a build-up of cost pressures at the preliminary (1.5%) and intermediate (0.9%) stages of production in the June quarter. The stronger rates of increase at these levels (compared to the final stage) were mainly due to gas and water supply (intermediate stage); metal ore mining (preliminary stage); basic chemical manufacturing; and oil and gas extraction.
- The **Consumer Price Index (CPI)** released by the ABS on Wednesday showed that annual headline inflation was 3.1% in the June quarter 2010, up from 2.9% in the year to the March quarter 2010. This was below the market expectation of a 3.4% rise. The quarterly rate of growth was 0.6% compared with a 0.9% increase in the March quarter. The Reserve Bank of Australia's preferred, 'trimmed mean' measure (an indicator of underlying inflation) increased by 0.5% in the June quarter, while the annual rate for this trimmed mean measure was 2.7%, the lowest rate in three years.
- Reserve Bank of Australia **Financial Aggregates** data released on Friday showed that total credit provided to the private sector by financial intermediaries rose by 0.2% in June 2010. This was below the market forecast of a 0.4% increase with recent interest rate rises weighing on credit growth. Housing credit increased by 0.4% in June and other personal credit which includes credit cards was up by 0.4%. However, business credit was flat in June and down by 5.0% an annual basis.

How this affects you

The economic data over the past week indicates that pressures on the prices manufacturers pay for their inputs are rising. In particular, preliminary import prices rose at a high rate of 3.3% in the June quarter reflecting growth in commodity prices as well as a weaker Australian dollar during this period. Preliminary domestic prices increased by 1.1% in the June quarter.

This is consistent with the findings of Ai Group's Australian PMI® which shows that input cost growth for manufacturers trended higher in the three months to June 2010. These higher costs in the early stage of the pipeline, pose the risk of making their way through the production chain and into general domestic inflation in future quarters.

Nevertheless, the easing in the underlying rate of inflation in the June quarter supports the case for keeping interest rates on hold, and will allow the Reserve Bank Board more time to assess the outcome for wages and inflation pressures in the economy over the balance of 2010.

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$0.9040 ▲
Oil price	USD 78.85 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 7,959.10 ▲
Australian PMI (July)	54.4 ▲ 1.5 points
Australian PSI (June)	48.8 ▲ 1.3 points
Australian PCI (June)	46.4 ▼ 6.8 points

Week in Preview: 2-6 August 2010

- On Monday, Ai Group will release its Australian Performance of Manufacturing Index (**Australian PMI®**) for the month of July, while the Australian Performance of Services Index (**Australian PSI®**) will be released on Wednesday and the Australian Performance of Construction Index (**Australian PCI®**) will be released on Friday.
- On Tuesday the ABS will release data on Australian **Retail Trade** and **Building Approvals** for June 2010.
- On Wednesday preliminary international trade estimates on a balance of payments basis will be available with the release of ABS data on Australia's **International Trade in Goods and Services** for June 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.