Ai GROUP ECONOMICS WEEKLY

Week in Review: 13 December – 17 December 2010

- ABS data on **Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) increased by 3.7% (seasonally adjusted) in October. The strongest growth was registered in the value of commercial finance commitments (+3.5%) followed by housing finance for owner occupation (+2.8%) and lease finance commitments (+ 2.7%). In contrast, the value of personal finance commitments fell by 0.4% consistent with on-going consumer caution and reluctance by consumers to take on debt.

- The **National Australia Bank Monthly Business Survey** showed that business conditions remained subdued in November. The overall business conditions index (a composite index of trading performance, profitability and employment) increased by 2.0 points to a +4.0 point index level, although this still represented a below average reading and was well down on the level prevailing a year ago. The survey also revealed a further fall in the business confidence index of 2.0 points in November. Consistent with this, forward orders (which give an indication of future demand for goods and services) remained in negative territory at a minus 2 point level.

- ABS preliminary estimates of **Dwelling Unit Commencements** showed that the total number of dwelling units commenced declined by 13.2% in the September quarter following a rise of 2.1% in the June quarter. Commencements of new private sector other residential buildings (largely comprising apartments) declined by 13.5% while new private sector house commencements (comprising 65.0% of total commencements) fell by 4.3%.

- ABS data compiled in conjunction with the Federal Chamber of Automotive Industries showed that **New Motor Vehicle Sales** expanded slightly for the third time in four months with a seasonally adjusted increase of 0.2% in November. For the year, however, new motor vehicle sales are down by 0.9% as compared with a 29.5% annual growth rate in April 2010. During November, falls in sales were recorded for sports utility vehicles (-0.8%) and other vehicles (-0.9%), while passenger vehicles increased by 1.1%.

- The Westpac-Melbourne Institute Consumer Sentiment Index edged up by 0.2% to 111.0 in December. While this indicates that sentiment displayed resilience in December, the Index remained off the highs recorded in October and the first few months of the year. Responses to consumers' views on "the wisest place for savings" revealed little change in the consumer caution that has restrained spending in 2010 with over 20% of households continuing to nominate a preference to "pay down debt" as the wisest form of savings. The Index measuring consumers' expectations for the economy over the next five years fell by 7.2% to its lowest level since February 2009. There were, however, factors that were supportive of consumer sentiment, including a more positive response to the question on "whether now is a good or bad time to purchase a major household item" and a rise in the Index measuring the timeliness to buy a car.

- The **Department of Education, Employment and Workplace Relations Vacancy Report** revealed a slight easing in the demand for labour with the skilled vacancy index declining by 1.0% in December 2010 to 43.7. Over the year to December, vacancies were up by 1.4%.

- **ABS International Merchandise Imports** data revealed that imports increased by a seasonally adjusted 8% in November to $19.2 billion. Capital goods imports increased by 8.6% while consumption goods imports increased by 2.9%.

How this affects you

The strengthening in the demand for commercial finance is an early signal that businesses may be starting to expand their capital base, consistent with the strong upturn in investment that is projected over the next 12-18 months. However, capital expenditure outside of the mining sector still remains subdued and the fall in building starts in the September quarter points to on-going weakness in private sector construction investment. It is also clear that consumers remain cautious in their intentions, despite incomes growth and a robust jobs market. The degree of conservatism among consumers was underlined by the decline in personal finance commitments in October, whilst the Westpac Melbourne Institute Index of Consumer Sentiment revealed continued caution on financial decisions and a less optimistic view on longer term prospects for the economy. Moreover, growth in the economy remains unevenly based. This was evident in the findings of the NAB Monthly Business Survey which revealed that sales results in November were strongest in the recreational services and mining sectors. In contrast, sales were weakest in the retail sector and at poor levels in the wholesale, manufacturing and construction sectors. These latter findings are consistent with Ai Group's Performance of Manufacturing Index **(Australian PMI®)**, Performance of Services Index **(Australian PSI®)** and Performance of Construction Index **(Australian PCI®)**, which reveal on-going declines in manufacturing and construction activity and a struggling services sector. This indicates that factors including the sustained high dollar, higher interest rates, tight credit conditions and skill shortages, together with caution around spending, are dampening conditions in these sectors with implications for the growth of the broader economy.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	$98.73 ▲
Oil price	**USD 88.00 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 8985.91 ▲
Australian PMI (November)	**47.6 -**
Australian PSI (November)	**46.2 -**
Australian PCI (November)	**42.2 -**

Week in Preview: 20 December - 24 December 2010

- The minutes of the November **Reserve Bank of Australia Monetary Policy Briefing** of the RBA Board will be released on Tuesday.

- The **Westpac – Melbourne Institute Leading Index** for October (which indicates the likely pace of economic activity three to nine months into the future) will be released on Wednesday.

* 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.