Ai GROUP ECONOMICS WEEKLY

Week in Review: 16 August to 20 August 2010

- ABS data released on Monday showed that **New Motor Vehicle Sales** declined by a seasonally adjusted 2.6% in July, after falling by 5.6% between April and June 2010. Falls in sales were recorded for passenger vehicles (-4.3%) and other vehicles (-4.2%), while sports utility vehicles increased by 3.2%. Total vehicle sales in July were still 11.6% higher than a year ago, although this was the second slowest rate of growth since October 2009.

- The minutes of the August **Reserve Bank of Australia Board meeting** indicated that the RBA retains its positive view on the medium term outlook for the domestic economy, with growth in the resources sector and the high level of the terms of trade expected to provide continued support for domestic incomes and business investment. The Board's minutes also confirmed that unfolding outcomes in terms of the world economy and Australia's inflation and growth will determine the Board's stance on the appropriate level of the official cash rate.

- The ABS **Labour Cost Index** which measures total hourly rates of pay excluding bonuses**,** rose by 0.8% (seasonally adjusted) in the June quarter 2010, following a 0.9% increase in the March quarter 2010. Annual growth was unchanged at 3.0%, a level which remained the second lowest rate of growth over the past ten years. Annual growth in private sector wages lifted marginally from 2.6% in the March quarter to 2.8% in the June quarter. The mining sector recorded the largest increase in wages (up by 1.4%), closely followed by the construction sector (+1.1%). The ABS **Average Weekly Earnings** data showed that average weekly ordinary time earnings grew by a seasonally adjusted 0.8% in May 2010 after a rise of 1.2% in February. Annual growth moderated from 6.1% in February to 5.2%.

- The **Department of Education, Employment and Workplace Relations Vacancy Report** released on Wednesday revealed only a slight easing in the demand for labour with the skilled vacancy index declining by 0.3% in August 2010. This was the first fall in the past fourteen months.

- The **Westpac-Melbourne Institute Leading Index** (which indicates the likely pace of economic activity three to nine months into the future) registered an annualised growth rate of 6.0% in June 2010. Although this was well above its long term trend of 3.0% it was the third consecutive month that the growth of the Index has slowed. This signals slowing momentum for the Australian economy in the months ahead.

- **ABS International Merchandise Imports** data revealed that imports increased by a seasonally adjusted 5% in July to a 19-month high of $18. 4 billion. Capital goods imports rose by 0.5% while consumption goods imports declined by 1%.

How this affects you

Last week's data reveals that wage cost pressures remain contained. Nevertheless, there are signs that private sector wages growth is starting to pick-up consistent with the lagged impact of falling trend employment from July 2009 to the end of the March quarter 2010. While this indicates that the disinflationary influence of private sector wages growth is starting to wane, wages growth is unlikely to be a driver of inflationary pressures over coming quarters. Broader economic data indicates that growth across the economy remains relatively subdued. The fall in motor vehicles sales together with recent weakness in lending finance, retail sales and building approvals, add to a picture of a modest level of growth in the economy in the next few quarters. This suggests that the RBA will keep official interest rates on hold in the short-term but will be closely monitoring the ongoing solid labour market performance and its impact on inflation.

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	$0.8940 ▲
Oil price	**USD 73.43 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 8,059.84 ▼
Australian PMI (July)	**54.4**
Australian PSI (June)	**48.8**
Australian PCI (June)	**46.4**

Week in Preview: 23-27 August 2010

- On Wednesday, the ABS will release preliminary statistics for the value of **Construction Work Done, Australia** for June 2010**.** Data will be presented for new residential, alterations and additions to residential and non-residential building work.

- Preliminary estimates for actual and expected new capital expenditure will be made available by the ABS on Thursday with the release of its June 2010 **Private New Capital Expenditure, Australia** publication. This release is an early indicator of the contribution of business investment to the June quarter 2010 Gross Domestic Product outcome to be released on the 1st September.

- Also on Thursday the ABS will publish key indicators on **Innovation in Australian Business** as collected by the 2008/09 Business Characteristics Survey.

* 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.