

Ai GROUP ECONOMICS WEEKLY

Week in Review: 19 July-23 July 2010

- The minutes of the July **Reserve Bank of Australia Board meeting** indicated that the RBA retains its positive view on the medium term outlook for the domestic economy, with private demand expected to strengthen due to a pick-up in business investment flowing from the high level of the terms of trade. This is expected to offset a fall in public demand as Federal Government fiscal stimulus is wound back.
- The Board's minutes also confirm that unfolding outcomes in terms of the world economy and Australia's inflation pressures will determine the Board's stance on the appropriate level of the official cash rate.
- The **Westpac – Melbourne Institute Leading Index** which indicates the likely pace of economic activity three to nine months into the future was 6.7% in May. Although this was the second consecutive month of slower growth in the Index, it remained well above its long term trend growth of 3.0%, implying an above trend rate of growth (assessed by Westpac as 3.25%) through the second half of 2010.
- The **National Australia Bank's Business Confidence Index** for the June quarter 2010 registered a decline of 14 index points from the previous quarter, to a reading of just 3 index points, indicating a weakening in business confidence. A key factor underpinning the decline was cautionary consumer spending weighing on the confidence of retailers.
- ABS data on **International Trade Prices** for the June quarter 2010 showed that export prices rose strongly by 16.1% while import prices edged up by 1.9%, giving a solid terms of trade (export prices over import prices) gain of 13.9%. The rise in export prices was driven by a 43% lift in iron ore prices, and solid increases in the prices of coal (up 24.4%); gold (up 23.8%); gas (up 32.7%); and petroleum (up 18.7%).

How this affects you

The economic developments over the past week indicate that the recovery of the Australian economy is continuing with rising export prices pointing to a solid lift in income growth in the next few years.

However, conditions are likely to remain unevenly spread across regions and industry sectors, giving rise to divergences in employment, wages and investment. The mining, mineral processing and construction sectors are expected to lead growth, along with related parts of manufacturing such as building materials and metal products.

Key risks to the growth outlook continue to centre on the uncertainty surrounding the global economic outlook, emerging domestic inflationary pressures, lower business confidence and consumer caution.

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$0.8955 ▲
Oil price	USD 78.63 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 7,811.28 ▲
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: 26-30 July 2010

- On Monday, the ABS will release data on **Producer Price Indexes** for the June quarter 2010. These indexes are presented within a Stage of Production (SOP) framework for specific industry sectors, including the manufacturing, construction, mining and service industries.
- The latest data on the rate of inflation in Australia will be available on Wednesday, with the ABS releasing the **Consumer Price Index** for the June quarter 2010. This will have a significant bearing on whether there is an official interest rate increase by the Reserve Bank in August.
- On Friday the ABS will release supplementary statistics on Australia's **international investment** position for the calendar year 2009.

* 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.