

Ai GROUP ECONOMICS WEEKLY

Week in Review: 22 November – 26 November 2010

- ABS data released on Wednesday showed that the total value of **Construction Work Done, Australia** fell in seasonally adjusted terms by 2.1% to \$41,372.4m in the September quarter 2010 following a 4.5% increase in the previous quarter.
 - **Private construction** exhibited renewed weakness, declining by 1.9% in the September quarter following a 1.1% increase in the first quarter of 2010 and a 5.2% increase in the second quarter.
 - **Public construction** which had been holding up total construction for the last 12-18 months registered a 2.5% decline in the September 2010 following a 3.2% increase in the previous quarter. This reflects the completion of a number of school building projects.
 - **Residential construction** work done declined by 6.1% reflecting recent weakness in housing approvals and the negative impact of higher interest rates on house building demand.
 - **Engineering construction** work done declined by 1.4%. Infrastructure work undertaken for the public sector infrastructure work fell by 3.7% while the value of private sector infrastructure work remained unchanged.
 - **Non-residential** building work done increased by just 1.5% due to the winding back of the stimulus from the Government's school building program. It follows average growth of 8.6% over the previous three quarters.
- ABS data released on Thursday showed that the volume of **Private New Capital Expenditure** rose by 6.2% (seasonally adjusted) in the September quarter 2010, a result which exceeded the median market forecast of a rise of 3.1%. Investment in buildings and structures increased by 13.4% while investment in plant and equipment fell by 1.1%. Despite some toning down of expectations, the data continued to provide an upbeat assessment for the investment outlook. The estimate for total private capital expenditure in 2010-11 was \$123.9 billion which implies solid growth through the year of 21%. By industry sector, mining investment is expected to lead the way with implied growth of 49%. Manufacturing investment plans imply growth of 13% while service sector implied investment growth is 1%.

How this affects you

Last week's data reaffirmed the subdued state of the Australian construction industry. It also showed that the recovery in private sector construction needed to bridge the gap left by the dwindling number of new public sector projects has yet to take hold. This was in accord with the recent weakness in building approvals and Ai Group's Performance of Construction Index (**Australian PCI®**) which indicates that the construction sector is yet to bounce back from a distinct decline in performance since May. Project delays and intense competition to secure existing contracts are continuing to have an adverse impact on construction activity, with higher borrowing costs particularly damaging to home building confidence. Nevertheless, the outlook for business investment remains positive, particularly in the mining sector as demand from emerging economies and commodities continues to strengthen. This projected lift in investment combined with the significant infrastructure plans of Federal and State governments is expected to support an upturn in infrastructure construction activity. It is also consistent with the start of the \$43bn Gorgon LNG project in WA and the high level of mining related projects in the pipeline. However, there is a risk that financial market volatility, higher domestic interest rates, and the strong Australian dollar could undermine the extent of the potential upside.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$96.43 ▼
Oil price	USD 83.85 per bbl ▲
Annual growth in GDP	3.3 per cent -
Unemployment rate (%)	5.1 per cent -
Annual growth in headline CPI	2.8 per cent -
Copper price	AUD 8288.0 ▼
Australian PMI (October)	49.4 -
Australian PSI (October)	50.7 -
Australian PCI (October)	44.0 -

Week in Preview: 29 November - 3 December 2010

- On Monday, the ABS will publish the latest edition of **Business Indicators, Australia**. This will provide estimates of production, income from the sale of goods and services, wages and salaries and the book value of inventories for the September quarter 2010.
- On Wednesday, Ai Group will release its Australian Performance of Manufacturing Index (**Australian PMI**[®]) for the month of November, while the Australian Performance of Services Index (**Australian PSI**[®]) will be released on Friday.
- On Tuesday, the ABS will release data on Australia's **Balance of Payments and International Investment Position** for the September quarter 2010.
- Also on Tuesday, the ABS will release data on **Building Approvals** for October (a key indicator of the pipeline of residential, apartments and commercial building activity) and **Government Finance Statistics** for the September quarter 2010.
- The latest reading on Australia's economic growth will be available on Wednesday with the release of **Australian National Accounts** data for the September quarter 2010.
- ABS **Retail Trade** data for October will be published on Thursday. Also on Thursday, the ABS will release preliminary estimates on **Australia's International Trade in Goods and Services** for October 2010.
- This week will also see the ABS provide an up to date assessment of the number of industrial disputes and working days lost in Australia when it releases **Industrial Disputes** data for September 2010 on Thursday.

* 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.