

Ai GROUP ECONOMICS WEEKLY

Week in Review: 23 August to 26 August 2010

- ABS data released on Wednesday showed that the total value of **Construction Work Done, Australia** rose in seasonally adjusted terms by 3.5% to \$41,655.4m in the June quarter 2010 following a 4.2% increase in the previous quarter.
 - **Residential construction** work done registered the strongest growth, rising by 7.7% in the June quarter as construction starts, which rose strongly in the second half of 2009, progressed through to the completion stage.
 - **Non-residential building** work done increased by 2.6% in the quarter. Strongest growth was registered in public building activity (+3.2%), although this was well below the 28%-plus increases of the previous two quarters. Private sector non-residential sector (including offices, industrial premises, hotels, retail building) work done increased by 2.0%, the third consecutive quarter of private sector growth.
 - **Engineering construction** work done increased by 1.5% in the June quarter. However, private sector infrastructure work rose by 5.1% (following three consecutive quarters of decline) due to increased project work in the resources sector.
 - **Private construction** grew by 4.9% in the June quarter following subdued growth of 0.5% in the March quarter 2010 and a contraction of 1.4% in the December quarter 2009, providing early signs of a step-up in support for the construction industry from the private sector. This is consistent with the solid pipeline of work in new residential and infrastructure projects.
 - **Public construction** work done registered only marginal growth of 0.4% following a solid increase of 13.1% in the previous quarter. This is consistent with the winding back in the boost from the Federal Government's school building program.
- ABS data released on Thursday showed that the volume of **Private New Capital Expenditure** fell by 4.0% (seasonally adjusted) in the June quarter 2010, a result which was significantly below the median market forecast of a rise of 2.3%. Investment in buildings and structures fell by 3.9% while investment in plant and equipment fell by 4.1% (reflecting a correction following the removal of tax incentives at the end of last year). Nevertheless, the data did provide an upbeat assessment for the investment outlook. Investment intentions were scaled up to \$123.4bn in the third estimate for total investment in 2010/11. This implies strong growth in the value of investment of 28% in 2010/11. By industry sector, mining investment is expected to lead the way with implied growth of 58%. Manufacturing investment plans imply growth of 19% while service sector implied investment growth is 9%.

How this affects you

Last week's data reaffirmed a positive outlook for infrastructure construction and business investment in Australia. The upward revisions to business investment plans are consistent with the start of the \$43bn Gorgon LNG project in WA and the high level of mining related projects in the pipeline. Private infrastructure activity is also benefiting from the strength in demand for commodities and an increasing shift to project re-starts. Continued growth in infrastructure works is expected over the remainder of 2010 and during 2011 given the significant infrastructure plans of Federal and State governments and the continued expansion of the oil and gas sector. However, there is a risk that heightened global uncertainty, higher domestic interest rates, uncertainty surrounding the Government's mining tax, and the high level of the Australian dollar could undermine the extent of the potential upside.

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$0.8988 ▲
Oil price	USD 75.15 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 8,107.48 ▲
Australian PMI (July)	54.4
Australian PSI (June)	48.8
Australian PCI (June)	46.4

Week in Preview: 30 August- 3 September 2010

- On Wednesday, Ai Group will release its Australian Performance of Manufacturing Index (**Australian PMI®**) for the month of August, 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 June quarter 2010.
- Also on Tuesday, the ABS will release data on **Retail Trade** and **Building Approvals** for July 2010.
- The latest reading on Australia's economic growth will be available on Wednesday with the release of **Australian National Accounts** data for the June quarter 2010.
- On Thursday, the ABS will release preliminary estimates on **Australia's International Trade in Goods and Services** for July 2010.
- On Friday, the ABS will 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 June.

* 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.