

Ai GROUP ECONOMICS WEEKLY

Week in Review: 28 June-2 July 2010

- Ai Group's Australian Performance of Manufacturing Index (**Australian PMI®**) fell by 3.4 points to 52.9 in June, largely due to slower growth in manufacturing production, new orders, employment and supplier deliveries (<http://www.aigroup.com.au/economicindicators>).
- ABS **retail trade** data for the month of May indicated that annual growth in retail turnover moderated to a 9-year low of 1.2%, with only New South Wales and Victoria recording growth in the month.
- ABS **building approvals** data for May showed a 6.6% fall in the number of dwelling units approved fell in May, following an 11.4% decline in the previous month.
- According to the Department of Education, Employment and Workplace Relations' Vacancy Report, the **Skilled Vacancy Index** decreased by 0.3% in June to 45.6, although in annual terms the Index was 22% higher.
- The new Gillard Labor Government announced that an agreement with the resources sector had been reached for **new resource rent tax arrangements**, to be applied from 1 July 2012.

The new arrangements include a Minerals Resource Rent Tax (MRRT) to be applied only to iron ore and coal in Australia and applied at a rate of 30 per cent with a substantial increase in the uplift factor, and the extension of the current Petroleum Resource Rent Tax (PRRT) to apply to all Australian onshore and offshore oil, gas and coal seam methane projects, including the North West Shelf.

How this affects you?

The economic data released over the past week confirms that the domestic environment faced by businesses remains challenging. Heightened concerns that the US economy may fall back into recession are also impacting on global conditions.

The soft retail trade numbers for May suggest that increases in the cash rate between March and May have chipped away at consumer sentiment, causing households to tighten their budgets. This is consistent with recent readings of Ai Group's **Australian PSI®**, which have illustrated weak demand for consumer-based services. Ai Group's **Australian PMI®** fell for a second consecutive month in June, and while still indicating modest growth in the manufacturing sector, the outcome confirms the protracted nature of the current recovery.

While the announced Minerals Resource Rent Tax deal appears to be a reasonable compromise, the decision not to proceed with the company tax cut to 28% is disappointing for businesses, and the retention of the proposed superannuation guarantee increase leaves firms with a large bill [link to Ai Group media release](#).

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$0.8463 ▼
Oil price	USD 75.28 per bbl ▼
Annual growth in GDP	2.7 per cent -
Unemployment rate (%)	5.2 per cent -
Annual growth in headline CPI	2.9 per cent -
Copper price	AUD 7,507.98 ▼
Australian PMI (June)	52.9 ▼ 3.4 points
Australian PSI (May)	47.5 ▼ 4.8 points
Australian PCI (May)	53.2 ▼ 2.6 points

Week in Preview: 5-9 July 2010

- On Monday Ai Group will release its Australian Performance of Services Index (**Australian PSI®**) for the month of June 2010, while the Australian Performance of Construction Index (**Australian PCI®**) will be released on Wednesday.
- On Tuesday the **Reserve Bank Board** will meet for its July meeting where a decision will be made on whether to move the official cash rate from its current level of 4.5% or to leave it unchanged.
- On Thursday the ABS will release data on **labour force** outcomes for the month of June 2010.

* 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.