

Ai GROUP ECONOMICS WEEKLY

Week in Review: 30 August to 3 September 2010

- Ai Group's Australian Performance of Manufacturing Index (**Australian PMI®**) fell by 2.7 points to 51.7 in August to signal a slower rate of expansion in manufacturing (readings above 50 indicate an expansion in activity). The Australian Performance of Services Index (**Australian PSI®**) registered 47.5 in August. This marked a fourth straight month of decline in the services sector with the gradual withdrawal of fiscal stimulus and the uncertainty surrounding the national political landscape continuing to impact on demand. (<http://www.aigroup.com.au/economicindicators>)
- The ABS **Business Indicators, Australia** survey data released on Monday showed that company profits rose by 18.9% in the June quarter 2010 underpinned by a 62.7% increase in mining sector profits. The data also revealed that, after a short re-building phase, business inventories fell by 0.5% reflecting a 4.4% decline in mining stocks and a 2.6% decline in wholesale inventories. However, manufacturing and retail inventories were up by 1.6% and 1.1% respectively, indicating that businesses in these sectors are starting to replenishing stocks in response to a gradual improvement in demand.
- ABS **Balance of Payments** data for the June quarter 2010 showed that Australia's current account deficit narrowed by \$10.8bn to \$5.6bn, underpinned by a 12.5% increase in the Terms of Trade on the back of strong rises in coal and iron ore prices. However, it was not all due to prices, with the volume of goods exports rising by 7.3% in seasonally adjusted terms (the largest quarterly rise since the June quarter 1997). This outweighed a 3.5% increase in the volume of goods imports.
- Reserve Bank of Australia **Financial Aggregates** data released on Tuesday showed that total credit provided to the private sector by financial intermediaries rose by 0.1% in July 2010. This was below the market forecast of a 0.3% increase with recent interest rate rises continuing to weigh on credit growth. Housing credit increased by 0.5% in July while business credit fell by 0.4%. Other personal credit which includes credit cards was flat over July.
- ABS data on **Retail Trade** released on Tuesday showed that the retail sales picked up in July 2010 with the seasonally adjusted value of retail turnover rising by 0.7% following a 0.4% increase in June. Annual growth in retail turnover rose from 2.0 % in June to 4.0% in July. The improvement in July was led by a strong 5.3% increase in cafes, restaurants and takeaway food, with continued weakness in discretionary categories such as household goods (-1.7%) and department store sales (-0.7%).
- The ABS **Building Approvals** data (also released on Tuesday) showed a 2.3% seasonally adjusted rise in the number of dwelling units approved in July following a 3.3% decline in the previous month. The annual rate of growth in dwelling approvals moderated from 14.2% in June to 11.0% in July, the lowest annual rate of growth registered over the past eleven months. A 7.7% increase in the number of private sector dwellings approvals underpinned the increase in total dwelling approvals. The number of private sector housing approvals (which account for almost two thirds of total dwelling unit approvals) continued to exhibit weakness registering a decline of 0.1% in the month.
- ABS **National Accounts** data showed that the Australian economy expanded by a robust 1.2% (seasonally adjusted) in the June quarter (up from a revised 0.7% in the March quarter) while growth through the year to the June quarter reached 3.3%. Reflecting strong increases in commodity prices,

exports of goods and services increased by 5.6% in the quarter and contributed 1.1 percentage points to economic growth, making it the most significant driver of the economy. The second key driver was household spending which rose by 1.6% and contributed 0.9 percentage points to growth – its largest share since June 1997. The construction industry grew strongly by 4.9% in the June quarter, contributing 0.3 percentage points to growth. Mining, telecommunications, financial and professional services, health, rental and real estate services also added to production. Manufacturing grew by a 0.5% in the quarter, although growth of 5.6% was registered during the year.

- In terms of State final demand (the closest GDP measure for the States), Victoria made the largest percentage points contribution to growth in the June quarter (0.5ppts) and expanded by 1.9%. This was followed by New South Wales (0.4ppts) and growth of 1.3% during the quarter. Western Australia added 0.4ppts, increasing by 3.0% and Queensland added 0.3ppts, expanding by 1.4%.
- **ABS International Trade** data showed that Australia's trade balance narrowed by \$1.550bn in July to \$3.438bn, following a record \$3.438bn in June. The decline reflected a 4.5% fall in exports, underpinned by a 5.9% decline in non-rural exports including iron ore and coal. While Imports rose by 1.6%, the increase was narrowly based, with an 8.7% increase in intermediate and other merchandise goods, and lumpy items underpinning the increase. The ABS reported that the purchase of six new Super Hornet fighter aircraft for the Royal Australian Airforce added \$477 million to imports. Capital goods imports were flat while consumption goods imports fell by 1.1%.
- **ABS Industrial Disputes** data showed that there were 24,000 working days lost due to industrial disputation in the June quarter 2010, a decrease from 28,800 in the March quarter 2010. The metal product manufacturing and the construction industries each accounted for 6,500 (27%) of the total number of working days lost in the June quarter 2010. The coal mining industry had the highest number of working days lost per thousand employees (43.3) for the quarter.

How this affects you

Last week's data reveals that Australia's economic growth has picked up over the course of the year, supported by robust demand for natural resources exports, the surge in the terms of trade and stronger household consumption. The recovery in domestic demand has gained momentum and may strengthen over the next six months given the lift in company profits, the improvement in consumer confidence and the healthy rise in July's retail sales.

Beyond the headline figures, however, there remains on-going patchiness across different industries. The National Accounts showed that construction grew strongly in the June quarter reflecting Government stimulus support, while mining, telecommunications, financial and professional services and rental and real estate services all added to production. In contrast, wholesale trade and other services contracted, while total manufacturing output rose by just 0.5% in the June quarter. This unevenness was also evident in investment expenditure with spending on machinery and investment falling by 3.1% in the June quarter, whereas non-dwelling construction increased by 1.5%.

One key indicator to watch in coming months will be business credit. A turnaround, following the fall in June, could signal the start of a more broad based recovery due to the small call on bank credit by miners as compared to small and medium sized companies.

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$0.9165 ▲
Oil price	USD 74.50 per bbl ▼
Annual growth in GDP	3.3 per cent ▲
Unemployment rate (%)	5.1 per cent -
Annual growth in headline CPI	3.1 per cent -
Copper price	AUD 8,326.79 ▲
Australian PMI (August)	51.7 ▼
Australian PSI (August)	47.5 ▼
Australian PCI (July)	43.3 -

Week in Preview: 6 September – 10 September 2010

- The **ANZ Job Advertisements Index** for August 2010 will be released on Monday.
- The Reserve Bank of Australia (RBA) Board meeting, and **monetary policy decision**, 2.30pm on Tuesday.
- Ai Group will release its Australian Performance of Construction Index (**Australian PCI**®) for August 2010 on Tuesday.
- On Wednesday, the ABS will release **Housing Finance** data for secured and unsecured housing finance commitments for owner occupation, commitments for construction or purchase of dwellings for rent or resale, and loans outstanding to individuals/households for housing.
- An up to date assessment of labour market conditions in Australia, including the national unemployment rate, will be available on Thursday with the release of ABS **Labour Force** data for August 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.