

# Ai GROUP ECONOMICS WEEKLY

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## Week in Review: 2 August – 6 August 2010

- Ai Group's Australian Performance of Manufacturing Index (**Australian PMI®**) rose by 1.5 points to 54.4 in July heralding a seventh straight month of growth in manufacturing (readings above 50 indicate an expansion in activity). The Australian Performance of Services Index (**Australian PSI®**) declined by 2.2 points to 46.6, while the Australian Performance of Construction Index (**Australian PCI®**) fell by 3.1 points to 43.3, driven by reductions across all the major building sectors.  
[\(<http://www.aigroup.com.au/economicindicators>\)](http://www.aigroup.com.au/economicindicators)
- ABS data on **Retail Trade** released on Tuesday showed that retail sales remained subdued in June 2010 with the seasonally adjusted value of retail turnover rising by a modest 0.2% following a similar rise in May. Annual growth in retail turnover rose from 1.1% in May to 1.9% in June. The soft retail sales data reflects the impact of ongoing consumer caution, recent interest rate increases and the waning influence of fiscal stimulus.
- The ABS **Building Approvals** data (also released on Tuesday) showed a 3.3% seasonally adjusted fall in the number of dwelling units approved in June following a 6.4% decline in the previous month. The annual rate of growth in dwelling approvals moderated from 29.7% in May to 13.2% in June, the lowest annual rate of growth registered over the past ten months.
- ABS **International Trade** data for the month of June showed that Australia's trade balance improved by \$1,714 million in June to reach a surplus of \$3,539 million, the highest surplus ever recorded. The improvement was underpinned by a 7.0% rise in exports, reflecting strong demand for commodities, particularly iron ore and coal. Imports were steady during June.
- On Tuesday, the **Reserve Bank Board** decided to leave the official cash rate unchanged at 4.5%, stating that *"with growth likely to be close to trend, inflation close to target and the global outlook remaining somewhat uncertain, the Board judged this setting of monetary policy as appropriate."*
- In the Reserve Bank of Australia's **Statement on Monetary Policy** (August 2010) released on Friday, the Bank depicts the economy as currently growing at around its "average pace" and expects growth at a 3.25% pace in 2010 before strengthening to 3.75% in 2011.

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## How this affects you

Recent economic developments indicate that the Australian economy continues to face a range of headwinds including cautionary consumer spending and service sector activity, a higher dollar, constrained credit growth and weaker conditions in the construction industry. Encouragingly, the Ai Group's **Australian PMI®** showed that the manufacturing sector entered its third quarter of growth in July due to stronger levels of production, new orders and deliveries. The transport equipment, fabricated metals, basic metals and machinery & equipment sub-sectors all benefited from stronger demand in the mining and infrastructure sectors. However, the high exchange rate continues to affect manufacturers with exports falling in July, while the combined impacts of high input cost growth and a lack of pricing freedom is exerting considerable pressure on profit margins.

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## Latest data\*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$0.9185 ▲
Oil price	<b>USD 80.67 per bbl ▲</b>
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 8078.39 ▲
Australian PMI (July)	54.4 ▲ 1.5 points
Australian PSI (June)	46.6 ▼ 2.2 points
Australian PCI (June)	43.3 ▼ 3.1 points

## Week in Preview: 9-14 August 2010

- On Monday, 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.
- Lending Finance** data for the month of June 2010 will be released by the ABS on Wednesday. This will provide statistics on finance commitments for secured housing finance for owner occupation, other personal finance, commercial finance and lease finance.
- The **Westpac – Melbourne Institute Leading Index** for August 2010 (which indicates the likely pace of economic activity three to nine months into the future) will also be released on Wednesday.
- 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 July 2010.
- Also on Thursday, the ABS will publish its June 2010 quarterly estimates of selected commodities of **Manufacturing Production** in Australia.

\* 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](mailto:economics@aigroup.asn.au).