

# Ai GROUP ECONOMICS WEEKLY

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**Week in Review: 29 November – 3 December 2010**

- Ai Group's Australian Performance of Manufacturing Index (**Australian PMI®**) fell by 1.8 points to 47.6 in November to signal a more marked rate of contraction in manufacturing (readings above 50 indicate an expansion in activity). The Australian Performance of Services Index (**Australian PSI®**) registered 46.2 in November. This highlighted the on-going weakness in service sector activity with higher interest rates and consumer caution continuing to impact on demand. (<http://www.aigroup.com.au/economicindicators>)
- The ABS **Business Indicators, Australia** survey data showed that company profits declined by 1.5% in the September quarter 2010. Profits in the mining sector rose by 1.5% whereas profits in the non-mining sectors on aggregate fell by 3.3%. The data also revealed that, after a short re-building phase during the first half of 2010, business inventories are now being run down. Inventories fell by 0.8% in the September quarter following a 0.1% fall in the previous quarter. The decline in inventories in the September quarter was driven by an 8.1% fall in mining stocks. Manufacturing and retail inventories were down by 0.5% and 1.3% respectively, indicating that businesses in these sectors are drawing down stocks in response to weaker demand.
- The latest **HIA - Jeld-Wen New Home Sales Report**, a survey of Australia's major residential builders, showed that the number of new homes sold increased by 2.4% in October 2010 following a downwardly revised 1.7% decline in September. Detached house sales increased by 3% in October while multi-unit sales fell by 2.6%. Nevertheless, over the three months to October new home sales fell by 9 per cent to be 17 per cent lower when compared to the same three month period in 2009. Over the three months to October 2010 detached house sales were down by 10 per cent while the sale of multi-units was up by 1%.
- The ABS **Building Approvals** data showed a 9.3% seasonally adjusted rise in the number of dwelling units approved in October following a 5.3% decline in the previous month. The annual rate of growth in dwelling approvals strengthened to 1.2% pace in October, up from -9.7% in September. A 23.6% increase in the volatile "other dwellings" segment (which includes apartments) underpinned the increase in total dwelling approvals. An encouraging development was the rise of 1.5% number of private sector housing approvals which account for almost two thirds of total dwelling unit approvals. However, housing approvals remain soft, and are still 15.7% below the level of a year ago.
- ABS **Balance of Payments** data for the September quarter 2010 showed that Australia's current account deficit widened by a seasonally adjusted \$5.4bn to \$7.8bn. This reflected a strong rise in net equity income flows due to the high proportion of offshore ownership of the resource sector. This increased the net primary income deficit by \$1.7bn. It also reflected a reduction in the trade surplus which fell from \$6.6b in the June quarter 2010 to \$5.8bn. The narrowing in the trade surplus resulted from a fall in export volumes of 2.4% outweighing a 1.4% decline in import volumes.
- Reserve Bank of Australia **Financial Aggregates** data showed that credit provided to the private sector by financial intermediaries remained subdued in October 2010. Total credit rose by just 0.1%, weighed down by a decline in business lending of 0.8%. Offsetting the fall in business lending, housing credit increased by 0.5% in October while other personal credit which includes credit cards rose by 0.2%.
- ABS **National Accounts** data showed that the Australian economy expanded by 0.2% (seasonally adjusted) in the September quarter 2010 with non-farm GDP falling by 0.2%. Growth through the year moderated from 3.1% in the June quarter 2010 to 2.7%. The agricultural sector was the largest contributor to growth in the quarter, growing by 21.5% and adding 0.4 percentage points to GDP growth. The non-dwelling construction

industry also grew solidly by 6.1% to contribute 0.4 percentage points. A proportion of this is likely to reflect the Government's school building program. Household consumption which accounts for the largest proportion of GDP in the expenditure accounts rose by 0.6% and contributed 0.3 percentage points to the total. Manufacturing grew by just 0.1% in the quarter, although growth of 5.5% was registered during the year. International trade prevented a stronger reading on economic activity with net exports detracting 0.4 percentage points from GDP growth. Also detracting from demand in the September quarter was a fall in inventories (-0.2 percentage points).

- In terms of State final demand (the closest GDP measure for the States), NSW made the largest percentage points contribution to growth in the September quarter (0.4ppts) and expanded by 1.4%. This was followed by Western Australia (0.1ppts) and growth of 0.4% during the quarter. Queensland detracted 0.1ppts, declining by 0.5% while Victoria and South Australia contributions to growth rounded to zero, despite respective decreases in State Final Demand of 0.1% and 0.5%.
- ABS data on **Retail Trade** provided more evidence of consumer caution and the risk that that recent interest rate rises will result in a further winding down in consumer spending. The seasonally adjusted value of retail turnover fell by 1.1% in October following a 0.1% increase in September. Annual growth in retail turnover fell from 3.7% in September to 2.2% in October. The decline in October was led by a 4.8% decrease in cafes, restaurants and takeaway food, with continued weakness in discretionary categories such as clothing, footwear and personal accessories (-4.6%) and department store sales (-0.7%).
- ABS **International Trade** data showed that Australia's trade surplus widened by \$811 million to \$2.6bn in October. The increase reflected a 1.1% rise in exports and 2.5% decline in imports. In terms of imports, intermediate and other merchandise goods fell by 5.0% while consumption goods were 2% lower consistent with weaker retail demand and more subdued consumer spending. However, in a positive sign for the business investment outlook, capital goods imports improved by \$5m. On the export side, rural exports rose by 8.0% whereas non-rural exports fell by 2.0%.
- ABS **Industrial Disputes** data showed that there were 46,000 working days lost due to industrial disputation in the September quarter 2010, an increase of 24,000 on the June quarter 2010. The coal mining industry accounted for 20,800 (45%) of the total number of working days lost in the September quarter 2010. The Coal mining industry also had the highest number of working days lost per thousand employees (466.3) for the quarter.

## How this affects you

Last week's data reveals a weakening in Australia's economic growth as the strong Australian dollar and higher interest rates weigh on demand. The overall picture of the Australian economy is one of on-going patchiness across industries and sectors. Agriculture was a strong GDP contributor in the September quarter reflecting improved rainfall and higher commodity prices, although the mining and construction sectors detracted from production while all other sectors had a neutral impact on growth. This unevenness was also evident in investment expenditure with spending on plant and machinery falling by 0.9% in the September quarter, whereas investment in non-dwelling construction increased by 1.5%. Private sector demand growth also slowed in the September quarter in line with weaker trends in both consumer spending and housing construction. This indicates that private demand is still too weak to bridge the gap left by the unwinding of Federal Government stimulus spending. The fall in profits in the non-mining sectors of the economy in the September quarter further underlines the unevenness of conditions across different industries with companies in these sectors likely to hold back on expanding their capital base until signs emerge of a broader lift in economic growth. The hope is that conditions will improve in the year ahead with the high terms of trade supporting a strengthening in private investment and incomes and a corresponding improvement in business and consumer confidence.

## Latest data\*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$99.26 ▲
Oil price	<b>USD 89.16 per bbl ▲</b>
Annual growth in GDP	2.7 per cent ▼
Unemployment rate (%)	5.1 per cent -
Annual growth in headline CPI	2.8 per cent -
Copper price	AUD 8689.22 ▲
Australian PMI (November)	47.6 ▼
Australian PSI (November)	46.2 ▼
Australian PCI (October)	44.0 -

## Week in Preview: 6 December - 10 December 2010

- The **ANZ Job Advertisements Index** for November 2010 will be released on Monday.
- The **TD Securities Melbourne Institute (TDMI) Inflation Gauge** for November will also be released on Monday to provide an estimate of consumer inflation pressures ahead of this week's RBA Board meeting.
- Ai Group will release its Australian Performance of Construction Index (**Australian PCI®**) for November 2010 on Tuesday, the leading indicator of activity in the house building, apartment, engineering and commercial construction sectors.
- The Reserve Bank of Australia (RBA) Board meeting, and **monetary policy decision**, 2.30pm 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 November 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](mailto:economics@aigroup.asn.au).