

Ai GROUP ECONOMICS WEEKLY

Week in Review: 4 October to 8 October 2010

- **Ai Group's Australian Performance of Services Index (Australian PSI[®])** fell by 1.9 points to 45.6 in September. This marked the eighth month of decline in services sector activity in 2010 (readings below 50 indicate a contraction in activity) with ongoing consumer and business caution and the withdrawal of fiscal stimulus continuing to impact on demand. **Ai Group's Australian Performance of Construction Index (Australian PCI[®])** also declined in September, falling by 2.4 points to 40.8. This represented the construction industry's fourth consecutive month of decline amid continued falls in new orders and declines in activity across all of the major sectors. (<http://www.aigroup.com.au/economicindicators>)
- On Tuesday, the **Reserve Bank Board** decided to leave the official cash rate unchanged at 4.5%, although it stated that *"if economic conditions evolve as the Board currently expects, it is likely that higher interest rates will be required, at some point, to ensure that inflation remains consistent with the medium-term target."*
- ABS data on **Retail Trade** showed that retail turnover rose by a seasonally adjusted 0.3% in August 2010, half the growth rate recorded in July. Annual growth in retail turnover eased from 4.0% in July to 3.8% in August. The softer retail trading conditions reflected falls in turnover in clothing and footwear (down 1.5%); personal accessory retailing (down 1.5%) and; food retailing (down 0.3%). However, August saw a further increase in demand for café, restaurants and takeaway food services (up 1.5%). In addition, there was an upturn in household goods retailing (up 0.5%) and department stores (up 0.6%), although this could reflect pricing more than volume following the end-of-financial year sales.
- Official VFACTS data on **Motor Vehicle Sales** released by the Federal Chamber of Automotive Industries (FCAI) showed that 85,054 passenger cars, sports utility vehicles and commercial vehicles were sold in September 2010 up 8.9% (or 6,923 vehicles) on a year ago. The sports utility vehicle segment recorded the strongest sales growth in September (+36.3%) followed by passenger cars (+3.1%) and light commercial vehicles (+1.7%). However, declines in previous months mean that consumer expenditure on vehicles will still detract from GDP growth in the September quarter 2010.
- ABS **International Trade** data showed that Australia's trade surplus expanded by \$603 million to \$2.3bn in August, extending the sequence of surpluses to five months after almost a year of deficits. Exports fell by 2.4% while imports declined by 5.1% with the stronger Australian dollar lowering the value of exports and reducing the cost of imports. The decline in exports was underpinned by weaker rural (-3.3%) and non-rural (-0.8%) exports. On the imports side, capital goods imports fell by 3.0%, due mainly to falls in civil aircraft (-42.3%), machinery and industrial equipment (-5.6%) and intermediate goods (-3.0%), whereas consumption goods imports rose by 0.8%.
- ABS **Engineering Construction Activity** data showed that the value of total engineering construction work done rose by a seasonally adjusted 1.8% to \$20,340.2m in the June quarter 2010 to be 0.7% above the level in the June quarter 2009. As at the June quarter 2010, there was a total of \$79.1 billion in engineering construction work yet to be done. While this is down from a peak of \$83.5 billion in the December quarter 2009, it remains substantially (78.8%) above the level of a year ago.
- ABS **Labour Force** data revealed that national employment increased by 49,500 people to 11,325 million, seasonally adjusted, in September. This was above market expectations of a rise of 20,000. All of the increase was in full-time jobs which rose by 55,800 compared with a fall of 6,300 in part-time employment. Australia's unemployment rate held steady at the 17-month low of 5.1% with a 0.2 percentage point increase in the participation preventing the unemployment rate from moving lower.

How this affects you

The further growth in total employment continues to highlight the underlying strength of the Australian economy. Other key positives for the domestic economy include the widening of the trade balance; the solid terms of trade boost due to the higher global prices being paid for our resource exports and; the continued robust demand for iron ore and coal (particularly from China and India). This should support further growth in merchandise export volumes over the year ahead, particularly as productive capacity in the mining sector expands. Nevertheless, recent economic developments indicate that the Australian economy continues to face a range of headwinds including cautionary consumer spending and service sector activity, a stronger dollar and on-going business caution amid concerns about the global economic environment. The persistent weakness of the construction sector is also constraining Australia's economic recovery, although the strong pipeline of infrastructure and resource based projects is expected to boost activity in the engineering construction sector.

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$0.9848 ▲
Oil price	USD 82.64 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 8,229.58 ▼
Australian PMI (September)	47.3 -
Australian PSI (September)	45.6 ▼
Australian PCI (September)	40.8 ▼

Week in Preview: 11 October – 15 October 2010

- On Monday, the ABS will release August 2010 **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 August 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.
- Also on Wednesday, the ABS will release preliminary statistics for the value of **Construction Work Done, Australia** for June 2010 and (Non-Residential) **Building Activity** for the June quarter 2010.

* Arrows represent directional movement relative to previous week's issue.