

Ai GROUP ECONOMICS WEEKLY

Week in Review: 11 October to 15 October 2010

- **ABS Housing Finance** data released on Monday showed that finance for occupied housing rose by 1.0% in August 2010 due to an increase in finance for the purchase of established dwellings. However, the headline housing finance increase was partially offset by declines in finance for the construction of dwellings (-1.0%) and the purchase of new dwellings (-2.0%), both of which contribute to the supply of dwellings. These declines are consistent with other recently released indicators of new house building activity, including the 4.3% decline in the number of private sector housing approvals in August and Ai Group's Australian Performance of Construction Index (Australian PCI®) which showed that the house building sub-index declined for a fourth consecutive month in September 2010.
- The **National Australia Bank Monthly Business Survey** showed that business conditions improved in September, although the survey reported "conditions much stronger in mining and transport than in retail and manufacturing, while construction may be transitioning from dependence on public to private sector demand". The overall business conditions index (a composite index of trading performance, profitability and employment) increased by 2.2 points to a +6.7 point index level. The survey also revealed a slight fall in the business confidence index of 1.1 points in September, and a softer result for the capital expenditure index which fell by 6.0 points in the month.
- ABS data on **Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) declined by 6.5% (seasonally adjusted) in August to be 8.9% lower than a year ago. The decline was driven by an 11.1% reduction in the value of commercial finance commitments. Personal finance commitments declined by 0.3% in August (following a 6.2% decline in the previous month), whereas lease finance rose by 2.3% and housing finance remained stable.
- The **Westpac-Melbourne Institute Consumer Sentiment Index** rose by 3.3% to 117.0 in October, after rising by 5.0% in September. A key factor underlying the increase was a more optimistic view of the economy with the component of the Index assessing the economic outlook for the next 12 months rising by 7.6% after a fall of 7.2% in September. However, beyond the headline result, the Index continued to suggest consumer caution, and uncertainty with respect to the extent of the prospective improvement in conditions and its flow through to household finances. The Index measuring responses to "family finances compared to a year ago" fell by 0.8% while the index assessing expectations for finances over the next 12 months fell by 3.8%. Moreover, sentiment towards buying a home declined by 2.7%.

How this affects you

The reduction in demand for commercial finance is consistent with the continued difficulties faced by small and medium sized companies in obtaining finance. It also reflects the ongoing weakness in commercial construction activity where private sector demand is struggling to fill the gap left by the drying up of projects funded by fiscal stimulus measures. (ABS commercial finance data is dominated by commercial construction loans.) The lending data and the softer capital expenditure outcome for September (NAB Business Survey) also highlight the degree of caution that characterises the current environment. Moreover, growth in the economy remains unevenly based. This was evident in the findings of the NAB Monthly Business Survey with trading and profitability exceptionally strong in the mining sector. However conditions remained weak in retail, wholesale and manufacturing, consistent with other key indicators for these sectors, including Ai Group's Performance of Manufacturing Index (**Australian PMI®**) and Ai Group's Performance of Services Index (**Australian PSI®**) which reveal sluggish service sector conditions and contracting manufacturing activity.

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$0.9905 ▲
Oil price	USD 81.21 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 8,442.71 ▲
Australian PMI® (September)	47.3 -
Australian PSI® (September)	45.6 -
Australian PCI® (September)	40.8 -

Week in Preview: 18 October – 22 October 2010

- The ABS will release **Sales of New Motor Vehicles** data for September in each state/territory sourced from the Federal Chamber of Automotive Industries on Wednesday.
- The minutes of the October **Reserve Bank of Australia Monetary Policy Briefing** of the RBA Board will be released on Tuesday, providing further insight into the decision to keep official interest rates on hold in the short-term.
- The **Department of Education, Employment and Workplace Relations Vacancy Report** assessing skilled job vacancies in October 2010 will be released on Wednesday.
- The **Westpac – Melbourne Institute Leading Index** for August (which indicates the likely pace of economic activity three to nine months into the future) will also be released on Wednesday.
- On Friday the ABS will publish **International Merchandise Imports** data for September 2010.
- Also on Friday, an update on Australia's terms of trade will be available when the ABS releases its September 2010 **International Trade Price Indexes** publication.

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