

Ai GROUP ECONOMICS WEEKLY

Week in Review: 6 September to 10 September 2010

- Ai Group's Australian Performance of Construction Index (**Australian PCI**[®]) remained broadly unchanged in August, down 0.1 points to 43.2. At this level, however, it remained below the 50 points level separating expansion from contraction to signal a continuation of subdued industry conditions with many companies struggling amid falls in new orders. (<http://www.aigroup.com.au/economicindicators>)
- The **ANZ Job Advertisements Index** rose by 2.6% in August 2010, taking the annual increase to 36.1% just four percentage points lower than the historic 40.2% year-on-year growth rate in May 2007. Online job advertisements also increased by 2.6% while newspaper advertisements rose by 1.5%.
- On Tuesday, the **Reserve Bank Board** decided to leave the official cash rate unchanged at 4.5%, stating that "with growth in the near term likely to be close to trend, inflation close to target and with the global outlook remaining somewhat uncertain, the Board judged this setting of monetary policy to be appropriate for the time being".
- **ABS Housing Finance** data released on Wednesday showed that finance for occupied housing rose by 1.7% in July 2010 reflecting increases in finance for the purchase of new dwellings (+1.5%) and established dwellings (+2.0%). However, finance for the construction of dwellings fell by 0.7%, consistent with other recently released indicators of housing activity, including the 0.1% decline in private sector housing approvals in July and Ai Group's Australian Performance of Construction Index (Australian PCI[®]) which showed that the house building sub-index declined for a third consecutive month in August 2010. The ABS also reported a decline in investor finance of 2.3% following a 4.0% decline in June.
- **ABS Labour Force** data released on Thursday revealed that national employment increased by 30,900 (0.3%) to 11,272,000 (seasonally adjusted) in August. This was above market expectations of a rise of 25,000. The increase was driven by an increase in full-time employment (53,700) which offset a 22,100 fall in part-time employment. Australia's unemployment rate declined to 5.1% (where it was in June). In addition to the strong level of jobs creation in August, the fall in the unemployment rate was helped by a decline in the numbers entering the workforce with the participation rate declining by 0.1 percentage point to 65.4.

How this affects you

The continued growth in total employment and the rise in job advertisements underline the on-going strength of the labour market and provide further evidence that the Australian economy is on a firmer footing. However, industry still remains hampered by the failure of private demand to offset contracting government stimulus. This is evident in the ongoing falls in the demand for loans for the construction of new dwellings (as a consequence of the unwinding of Government incentives for First Home Buyers). In the commercial construction sector, in particular, an inability to secure funding for projects is a key element in the shortfall in private demand as businesses struggle to overcome the gap left by the dwindling number of new public sector projects.

The sustained tightening of the labour market has the potential to lead to stronger wages growth and increased household spending, and as a consequence exert upward pressure on inflation. Accordingly, the risk bias of higher interest rates remains on the upside.

Latest data*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$0.9264 ▲
Oil price	USD 76.38 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 8,122.84 ▼
Australian PMI (August)	51.7 -
Australian PSI (August)	47.5 -
Australian PCI (July)	43.2 ▼

Week in Preview: 13 September – 17 September 2010

- **Lending Finance** data for the month of July 2010 will be released by the ABS on Monday. This will provide statistics on finance commitments for secured housing finance for owner occupation, other personal finance, commercial finance and lease finance.
- On Wednesday, preliminary estimates of **Dwelling Unit Commencements** for June 2010 (new houses, new other residential and conversions) will be published by the ABS.
- The ABS will release **Sales of New Motor Vehicles** data for August in each state/territory sourced from the Federal Chamber of Automotive Industries on Wednesday.
- The **Westpac – Melbourne Institute Index of Consumer Sentiment** for September 2010 will also be released on Wednesday.
- On Thursday, the ABS will publish its latest **International Merchandise Trade** data for Australia. This will provide data on total imports and commodity aggregates 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.