

Ai GROUP ECONOMICS WEEKLY

Week in Review: 13 September to 17 September 2010

- ABS data on **Lending Finance** showed that, in line with the recent uplift in business investment projections, the value of total commercial finance commitments increased by 8.2% (seasonally adjusted) in July to be 9.4% higher than a year ago. However, total personal finance commitments decreased by 0.7% in July to be 1.6% lower than a year ago.
 - The **National Australia Bank Monthly Business Survey** showed that business conditions remained subdued in August, although business confidence improved. The overall business conditions index (a composite index of trading performance, profitability and employment) was stable at a +5 point index level. Despite an increase in the business confidence index of 9 points (to a +11 index points level), forward orders, which give an indication of future demand for goods and services, remained weak at a minus 6 points level. Orders were particularly subdued in retail and wholesale, and in residential construction. The survey also found that labour costs (a wage bill measure) continued to gain momentum, rising by 4% in the year to August 2010, the strongest annual increase since January 2009.
 - The **Westpac-Melbourne Institute Consumer Sentiment Index** fell by 5.0% to 113.2 in September, after rising by 5.4% in August. A key factor underlying the decline was a more pessimistic view of the economy with the component of the Index assessing the economic outlook for the next 12 months falling by 7.2% in September. Consumers also remain cautious in their intentions despite stronger economic growth. The Index measuring whether now is a good time to purchase a major household item fell by 3.8% in September, while the proportion of consumers indicating “pay down debt” was the wisest place for savings increased to 21% from 16.7% in the previous month.
 - ABS data released on Wednesday showed that **New Motor Vehicle Sales** increased by a seasonally adjusted 0.3% in August, after rising by 2.6% between June and July 2010. Falls in sales were recorded for sports utility vehicles (-2.1%) and passenger vehicles (-0.2%), while other vehicles increased by 4.5%. Total vehicle sales in August were still 10.5% higher than a year ago, although this was well below the 29.5% annual growth rate in April 2010.
 - ABS preliminary estimates of **Dwelling Unit Commencements** (released on Wednesday) showed that the total number of dwelling units commenced rose by 0.8% in the June quarter following a 9.1% increase in the March quarter. The increase reflected a 11.5% rise in commencements of new private sector other residential buildings (largely comprising apartments) while new private sector house commencements (comprising 60.0% of total commencements) fell by 3.9%.
 - The **Department of Education, Employment and Workplace Relations Vacancy Report** which was also released on Wednesday revealed an increase in the demand for labour with the skilled vacancy index rising by a seasonally adjusted 1.9% to 46.2 in September 2010. At this level, the index was 16.4% higher than a year ago.
 - **ABS International Merchandise Imports** data published on Thursday revealed that imports decreased by a seasonally adjusted 5% in August to \$17.6 billion. Capital goods imports fell by 3% while consumption goods imports increased by 1%.
-

How this affects you

The strengthening in the demand for commercial finance is consistent with the picture of improving growth in the economy and is in line with the recent uplift in business investment projections. Nevertheless, consumers remain cautious in their intentions, despite the recent run of strong economic data. The degree of conservatism among consumers was emphasised by the decline in personal finance commitments in July and the fall in consumer sentiment in September. Moreover, growth in the economy remains unevenly based. This was evident in the findings of the NAB Monthly Business Survey which revealed that the transport, recreation and mining sectors registered solid operating conditions in August 2010 whereas retail slipped further into negative territory, and construction remained weak. The survey reported particularly weak sales in retail, wholesale and housing construction, consistent with other key indicators for these sectors, including Ai Group's Performance of Services Index (**Australian PSI®**) and Performance of Construction Index (**Australian PCI®**) which reveal sluggish service sector activity and on-going weakness in house building. Recent economic developments also highlight the need for businesses to be mindful of the risks of upward pressure on wages as competition for scarce skilled labour increases.

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: 20 September – 24 September 2010

- The minutes of the September **Reserve Bank of Australia Monetary Policy Briefing** of the RBA Board will be released on Tuesday, providing a further insight into the decision to keep official interest rates on hold in the short-term.
- The **Westpac – Melbourne Institute Leading Index** for July (which indicates the likely pace of economic activity three to nine months into the future) will be released on Wednesday.

* 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.