Ai GROUP ECONOMICS WEEKLY

Week in Review: 15 November – 19 November 2010

- ABS data on **Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) increased by 2.2% (seasonally adjusted) in September. The increase was mainly driven by rises in the value of personal finance commitments (+3.5%) and commercial finance commitments (+ 2.7%). Growth in lease finance and housing finance was more subdued at 0.2% and 0.6% respectively. Despite September's increase, total finance commitments remained 12.4% lower than a year ago.

- ABS data released on Monday showed that **New Motor Vehicle Sales** decreased by a seasonally adjusted 0.6% in October, following growth in the previous two months. Falls in sales were recorded for passenger vehicles (-1.6%) and other vehicles (-0.4%) while sales of sports utility vehicles increased by 1.5%. Total vehicle sales in October were still 3.3% higher than a year ago, although this was well below the 29.6% annual growth rate in April 2010.

- The minutes of the November **Reserve Bank of Australia Board meeting** indicated that the RBA retains its positive view on the outlook for the domestic economy, with growth to be underpinned by the income surge flowing the high terms of trade and the expected investment upturn in the resources sector. The Board indicated that with only a relatively modest amount of spare capacity in the economy, the expected pick-up in domestic growth was likely to be accompanied by a gradual upward trend in inflation over the medium term. The Board also noted that the downside risks to the global economy had eased in recent months with less uncertainty surrounding the outlook for the Chinese economy, a strengthening in commodity markets and a firmer outlook for investment. On the basis of these considerations, the Board judged "that the balance of risks had shifted to the point where a modest tightening of monetary policy was prudent" and decided to raise the official cash rate by 25 basis points to 4.75 per cent effective 3 November.

- The **Westpac-Melbourne Institute Leading Index** (which indicates the likely pace of economic activity three to nine months into the future) registered an annualised growth rate of 4.6% in September 2010. Whilst this was well above its long term trend of 3.1% it was the sixth consecutive month that the growth of the Index has slowed. However, the growth rate of the Index is still high and its rise points to a solid economic expansion through late 2010/early 2011, although the rate of growth is likely to moderate.

- The ABS **Labour Cost Index (LCI)** which measures total hourly rates of pay excluding bonuses, rose by 1.1% (seasonally adjusted) in the September quarter 2010, following a 0.8% increase in the June quarter 2010. A pick-up in private sector wages growth underpinned the acceleration in aggregate LCI growth. Annual private sector wages growth increased to a 3.5% pace. This was up from a 3.0% in the previous quarter and marked the highest rate of growth since the June quarter 2009. The accommodation and food services sector recorded the largest quarterly increase in wages (up by 2.0%), closely followed by professional, scientific and technical services sector (+1.9%). The ABS **Average Weekly Earnings** data showed that average weekly ordinary time earnings grew by a seasonally adjusted 0.4% in August 2010 after a rise of 0.8% in May. Annual growth moderated from 5.2% in May to 4.5%.

- **ABS Merchandise Imports** data revealed that imports decreased by a seasonally adjusted 4% in August to $17.7 billion. Consumption goods imports declined by 2% while capital goods rose by just $5 million.

- ABS **Gross State Product (GSP)** data released on Friday showed increases in all states in 2009-10. Western Australia) experienced the strongest growth (up 4.3%), and was the only state to exceed the national gross domestic product (GDP) growth rate of 2.3%.

How this affects you

Last week's data reveals that wage cost pressures remain relatively modest. Annual wages growth at 3.5% is still well below the 4.5% limit that the RBA sees as consistent with its inflation target. Nevertheless, private sector wages growth is starting to strengthen consistent with the lagged impact of falling trend unemployment from September 2009 to May 2010. Further upward pressure on wages is likely in 2011, particularly as the tightening in the jobs market leads to skill shortages becoming more widespread across the economy. Broader economic data points to a continued recovery in domestic activity. However, a range of factors including the fall in motor vehicle sales, and recent weakness in retail sales, building approvals and housing finance are weighing on growth and reinforcing the expectation of some tapering in the economy's rate of expansion in the new year. This suggests that the RBA will keep interest rates on hold in the short term but will be closely monitoring developments in wages inflation given the on-going solid labour market performance.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	$98.65 ▼
Oil price	**USD 81.63 per bbl** ▼
Annual growth in GDP	3.3 per cent -
Unemployment rate (%)	5.1 per cent -
Annual growth in headline CPI	2.8 per cent -
Copper price	AUD 8524.10 ▼
Australian PMI (October)	**49.4 -**
Australian PSI (October)	**50.7 -**
Australian PCI (October)	**44.0 -**

Week in Preview: 22-26 November 2010

- On Wednesday, the ABS will release preliminary statistics for the value of **Construction Work Done, Australia** for the September quarter 2010**.** Data will be presented for new residential, alterations and additions to residential and non-residential building work.

- Preliminary estimates for actual and expected new capital expenditure will be made available by the ABS on Thursday with the release of its September quarter 2010 **Private New Capital Expenditure, Australia** publication. This release is an early indicator of the contribution of business investment to the September quarter 2010 Gross Domestic Product outcome to be released on the 1st December.

* 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.