Ai GROUP ECONOMICS WEEKLY

Week in Review: 4 April – 8 April 2011

- Ai Group's Australian Performance of Construction Index **(Australian PCI®)** fell by 5.2 points to 39.4 in March to remain below the 50 points level separating expansion from contraction. This represented the construction industry's tenth consecutive month of decline amid subdued demand and declines in activity across all of the major sectors. The Australian Performance of Services Index **(Australian PSI®)** fell by 2.2 points to 46.5 in March with higher interest rates, the strong Australian dollar and fragile consumer and business confidence continuing to impact on demand. (http://www.aigroup.com.au/economicindicators)

- The **ANZ Job Advertisements Index** rose by a seasonally adjusted 1.3% in March 2011, marking the eleventh consecutive month of gains and translating into at 19.2% annual increase. Online job advertisements increased by 1.4% while newspaper advertisements fell by 0.4%. On an annual basis, newspaper job advertisements are currently rising in New South Wales, Queensland and Victoria, while falling in South Australia, Western Australia, Tasmania and the Territories.

- On Tuesday, the **Reserve Bank Board** decided to leave the official cash rate unchanged at 4.75% for the fifth consecutive month. The RBA noted the adverse impact that the floods are having on economic activity and prices, although it expects this to be temporary, with prices likely to fall back later in the year. On this basis, the Bank concluded that *"the current mildly restrictive stance of monetary policy remained appropriate in view of the general macroeconomic outlook."*

- ABS **International Trade** data showed that Australia recorded a trade deficit of $205 million in February 2011, which saw an end to the ten-month sequence of trade surpluses. The value of goods and services exports fell by 2.4%, while imports increased by 4.9%. In terms of imports, intermediate and other merchandise goods rose by 11.6% while consumption goods were little changed consistent with subdued retail demand and consumer spending. In a positive sign for the business investment outlook, capital goods imports improved by $92m (2.2%). On the export side, rural exports rose by 11.8% whereas non-rural exports (largely iron ore and coal) were constrained by weather disruptions and fell by 1.7% in the month.

- ABS **Engineering Construction Activity** data showed that the value of total engineering construction work done increased by a seasonally adjusted 8.6% to $21,013.2m in the December quarter 2010 to be 14.5% above the level in the December quarter 2009. Private sector engineering construction remained strong rising by 10.7% in the quarter (+21.1% annually), whereas work for the public sector was less robust, rising by 8.6% in the quarter (+14.5% annually). Forward indicators of activity point to further solid growth with engineering construction work yet to be done rising by 18.7% in the quarter with work in the pipeline valued at 14.1 months, up from13.2 months a year ago.

- ABS **Housing Finance** data showed that finance for occupied housing declined by 5.6% in February 2011, partly reflecting the extension into February of the negative impact of January's weather related disruptions to activity and finance approvals. The decline in the demand for housing finance reflected falls in the finance for the purchase of new dwellings (-12.0%) and established dwellings (-6.0%). In contrast, finance for the construction of dwellings rose by 1.0%, although it remained strongly down (-25.7%) on an annual basis, underlining the extent to which this component continues to weigh on housing supply.

- ABS **Labour Force** data revealed that national employment increased by a higher-than- expected 37,800 (0.3%) to 11,457,100 (seasonally adjusted) in March. This largely reflected an increase in full-time employment of 32,100, with part-time employment rising by 5,700. The further growth in jobs was sufficient to reduce Australia's unemployment rate from 5.0% in February to 4.9%, despite a slight rise in the participation rate. Aggregate monthly hours worked grew by 0.8% and over the year accelerated to 3.9%, the fastest pace in the past seven months and a further indicator of the strength of the labour market.

How this affects you

The growth in total employment and job advertisements underlines the continued strength of the labour market and points to further recovery in domestic activity in 2011. However, large parts of the economy, predominantly those outside of mining, are still experiencing excess capacity and are being squeezed by the strong Australian dollar, higher interest rates and on-going consumer and investor caution. Ai Group's Australian Performance of Construction Index (Australian PCI®) confirmed the persistent weakness of the construction industry with falls reported across all the major building sectors in March. This reflected a range of factors including the dampening impact of last year's increases in interest rates, weak buyer confidence, the unwinding of fiscal stimulus and a lack of impetus from private sector investment. This is consistent with the further contraction in housing finance data in February and the subdued state of approvals across the major private sectors of the commercial construction industry. Nevertheless, an anticipated stronger inflow of infrastructure and resource based construction work is likely to provide critical support to overall levels of construction activity as we progress through the year. Last week's official data revealed that work yet to be done in the engineering construction reached a record level of $93.7 billion in the December quarter 2010 with $62.2 billion of projects in the oil, gas and mining pipeline and approximately $10 billion earmarked for transport infrastructure and $9.6 billion for water supply/power generation projects. The solid project investment outlook in the resources sector combined with the high terms of trade and the tightening of the labour market means that the RBA will continue to closely watch developments in wages and prices. However, financial markets generally expect official interest rates to remain on hold until at least the second half of 2011, particularly given the unevenness in demand across economic sectors, subdued household spending and the uncertain economic impact of the recent natural disasters in and outside of Australia.

Latest data*

Official cash rate	**4.75 per cent -**
AUD/USD exchange rate	**$1.0561 ▲**
Oil price	**USD 112.22 per bbl ▲**
Annual growth in GDP	**2.7 per cent -**
Unemployment rate (%)	**4.9 per cent ▼**
Annual growth in headline CPI	**2.8 per cent -**
Copper price	**AUD 9301.20 ▲**
Australian PMI (March)	**47.9 -**
Australian PSI (March)	**46.5 ▼ 2.2 points**
Australian PCI (March)	**39.4 ▼ 5.2 points**

Week in Preview: 11 April – 15 April 2011

- **Lending Finance** data for the month of February 2011 will be published 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.
- Tuesday will see the release of the **National Australia Bank Monthly Business Survey** for March 2011.
- The **Westpac – Melbourne Institute Index of Consumer Sentiment** for April 2011 will be released on Wednesday.
- The **Department of Education, Employment and Workplace Relations Vacancy Report** assessing skilled job vacancies in April 2011 will be released on Wednesday.
- On Thursday, **Sales of New Motor Vehicles** data for March 2011 will be published by the ABS.
- Speech by **Glenn Stevens, RBA Governor** – *America, Australia, Asia and the World Economy* – to the American Australian Association 2011 Annual Spring Lecture Lunch, New York, USA.

* 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.