

Ai GROUP ECONOMICS WEEKLY

Week in Review: 4 July – 8 July 2011

- Ai Group's Australian Performance of Construction Index (**Australian PCI**[®]) fell by 3.8 points to 35.8 in June to remain below the 50 points level separating expansion from contraction. This represented the construction industry's 13th 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 1.4 points to 48.5 in June 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 3.7% in June 2011 (following a 6.5% decrease in May) to be 9.8% higher than a year ago. Online job advertisements increased by 4.2% while newspaper advertisements fell by 4.9%. On an annual basis, newspaper job advertisements fell in all states with Victoria registering the largest decline (-17.9%) followed by South Australia (-6.5%), Queensland -6.2%) and New South Wales (-4.7%).
- On Tuesday, the **Reserve Bank Board** decided to leave the official cash rate unchanged at 4.75% for the eighth consecutive month. The RBA noted that whilst Australia's terms of trade remained at very high levels and national income was growing strongly, conditions varied significantly across industries with consumer caution and the strong Australian dollar exerting a noticeable effect on activity. On this basis, the Bank concluded that *"the current mildly restrictive stance of monetary policy remained appropriate."*
- The ABS **Building Approvals** data showed a 7.9% seasonally adjusted fall in the number of dwelling units approved in May to 12,290, the lowest level in almost two years. The annual rate of decline in dwelling approvals stood at 14.4% in May, up from 12.3% in the previous month. A 20.1% decline in the number of private sector "other dwelling" approvals (a segment which largely comprises apartments) underpinned the fall in total dwelling approvals. Private sector house approvals rose by 0.7%, although a weak trend remains intact with approvals for houses down by 11.6% on an annual basis.
- ABS data on **Retail Trade** showed that the retail sector continued to struggle in May, with turnover falling by a seasonally adjusted 0.6% during the month. All sectors of retailing recorded declines with the exception of cafes, restaurants & takeaway food which rose by 0.4%. The largest sector declines occurred in the discretionary areas of clothing, footwear & personal accessories (-1.8%), other retailing, including gardening and chemists (-1.6%) and department stores (-1.4%). Across the states, the largest declines occurred in NSW and Victoria where retail turnover fell by 1.2% and 1.1%, respectively.
- ABS **International Trade** data showed that Australia recorded a trade surplus of \$2.3bn in May 2011, the largest surplus in seven months. The value of goods and services exports increased by 3.2%, while imports increased by just 0.4%. In terms of imports, intermediate and other merchandise goods rose by 1.8% while consumption goods imports rose by 4.0% driven by a 22.9% rise in non-industrial transport equipment. This was underpinned by an upturn in car imports following the Japanese tsunami and earthquake in March which disrupted imports from Japan. Capital goods imports declined by 7.7%, although in a positive sign for business investment, imports of machinery and industrial equipment rose by 2.1% after a 5.0% increase in April. On the export side, rural exports rose by 6.4% whereas non-rural exports (largely iron ore and coal) rose by 0.6% in the month with coal production continuing to be constrained by the floods of earlier this year.
- ABS **Engineering Construction Activity** data showed that the value of total engineering construction work done increased by a seasonally adjusted 4.2% to \$22,210.6m in the March quarter 2011 to be 14.8% above the level in the March quarter 2010. Private sector engineering construction rose by 1.1% in the quarter (+16.7% annually), while work for the public sector was more robust, increasing by 9.3% in the quarter (+11.9% annually). Forward indicators of activity point to solid growth with engineering construction work yet

to be done rising by 11.9% in the year to the March quarter 2011 and work in the pipeline valued at 16.5 months, up from 16.0 months a year ago.

- **ABS Labour Force** data revealed that national employment increased by 23,400 (0.2%) to 11,431,700 (seasonally adjusted) in June. This reflected an increase in full-time employment of 59,000, with part-time employment falling by 35,600 after a robust gain of 61,600 in the three months to May. Australia's unemployment rate remained steady at 4.9%, despite a slight rise in the participation rate. Aggregate monthly hours worked grew by 0.5% in June, taking the annual rate to 1.7%, a rise from 1.1% in the previous month.

How this affects you

The growth in total employment and job advertisements underlines the continued strength of the labour market and indicates that the Australian economy remains on a firm footing. However, large parts of the economy, predominantly those outside of mining, continue to be 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 June. This reflected a range of factors including weak buyer confidence, uncertainty over future interest rate moves, the unwinding of fiscal stimulus and a lack of impetus from private sector investment. This is consistent with the continued weakness in housing approvals 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 through the remainder of the year. Last week's official data revealed that work yet to be done in the engineering construction was valued at a near record level of \$92.5 billion in the March quarter 2011 with \$62.2 billion of projects in the oil, gas and mining pipeline and approximately \$14.1 billion earmarked for transport infrastructure and \$7.7 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 tightness of the labour market means that the RBA will continue to closely watch developments in wages and prices. However, financial markets generally expect that interest rates will remain on hold at least until November, given the unevenness in demand across economic sectors, subdued household spending and ongoing global growth concerns.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0753 ▲
Oil price	USD 96.18 per bbl ▲
Annual growth in GDP	1.0 per cent -
Unemployment rate (%)	4.9 per cent -
Annual growth in headline CPI	3.3 per cent -
Copper price	AUD 9032.82 ▲
Australian PMI (June)	52.9 -
Australian PSI (June)	48.5 ▼ 1.4 points
Australian PCI (June)	35.8 ▼ 3.8 points

Week in Preview: 11 July – 15 July 2011

- **Housing Finance** data for the month of May 2011 will be published by the ABS on Monday.
- Tuesday will see the release of the **National Australia Bank Monthly Business Survey** for June 2011.
- The **Westpac – Melbourne Institute Index of Consumer Sentiment** for July 2011 will be released on Wednesday.
- **Lending Finance** data for the month of May 2011 will be published by the ABS on Wednesday. This will provide statistics on finance commitments for secured housing finance for owner occupation, other personal finance, commercial finance and lease finance.
- The **Department of Education, Employment and Workplace Relations Vacancy Report** assessing skilled job vacancies in July 2011 will also 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.