

Ai GROUP ECONOMICS WEEKLY

Week in Review: 5 September – 9 September 2011

- Ai Group's Australian Performance of Construction Index (**Australian PCI®**) fell by 4.0 points to 32.1 in August to remain below the 50-point level separating expansion from contraction for a 15th consecutive month. After a protracted period of lacklustre activity, the Australian Performance of Services Index (**Australian PSI®**) increased by 3.3 points to 52.1 in August on the back of a lift in new orders and sales. (<http://www.aiqgroup.com.au/economicindicators>)
- Federal Chamber of Automotive Industries (FCAI) official **VFACTS data** showed that 88,082 new vehicles were sold during August. This represented an increase of 7.3% (or 5,960 vehicles) over August 2010, although on a full year sales basis to August 2011, new vehicle sales were down by 4.4%, or 30,357 vehicles.
- The ABS **Business Indicators, Australia** survey data showed that company profits increased by a stronger than expected 6.7% in the June quarter 2011, following three consecutive quarters of decline. The improvement was driven by strong profit gains in mining (15.2%), electricity, gas, water and waste services (14.9%), transport, postal and warehousing (10.4%), financial and insurances services (37.8%) and professional, scientific and technical services (42.3%). In contrast, company profits in the manufacturing industry fell by 7.4%. The data also revealed that business inventories rose by 2.5%, the largest percentage increase in eight years. The increase was underpinned by a 12.1% rise in mining inventories, reflecting a likely rebound in production to pre-flood levels. However, all other sectors also increased their stock levels. Accommodation & food sector inventories rose by 8.4%, more than reversing a 6.1% fall in the March quarter while inventories for manufacturing (0.5%), electricity, gas, water & waste (1.2%), wholesale trade (3.6%) and retail trade (0.7%) were also higher.
- The **ANZ Job Advertisements Index** fell by a seasonally adjusted 0.6% in August 2011, with the trend for job advertising declining for a fifth consecutive month. Historically, declining trends in job advertising have been consistent with rising unemployment. The decline in newspaper job advertising was more severe, falling 3.0% in August to be 15.6% lower than a year ago. The number of internet job advertisements fell by 0.5% in August to be 7.3% higher than a year ago, although this was the slowest pace of annual growth in 18 months
- ABS **Housing Finance** data showed that finance for occupied housing rose by a seasonally adjusted 1.0% in July 2011, the fourth consecutive monthly increase. Growth in July was driven by a 1.3% rise in finance commitments for the purchase of established dwellings. It also partly reflected home loan re-financing which rose by 2.5% in July. Excluding re-financing, finance for owner occupied housing rose by just 0.3% in the month to be down by 0.6% over the year to July. The breakdown of the data for July also showed a decline of 0.8% in finance for the construction of new dwellings, underlining the extent to which this component continues to weigh on housing supply, while finance for the purchase of new dwellings fell by 0.9%.
- The **TD Securities – Melbourne Institute Monthly Inflation Gauge** fell by 0.1% in August, following a rise of 0.3% in July and no change in June. In the twelve months to August, the Inflation Gauge rose by 2.9 %, to be resting at the upper limit of the RBA's two to three per cent target band.

- **ABS Government Finance Statistics** showed that Government spending fell in real terms by 0.4% in the June quarter 2011. Public consumption rose by 0.9% while public investment was down by 3.8%.
- **ABS Balance of Payments** data for the June quarter 2011 showed that Australia's current account deficit improved by a seasonally adjusted \$3.7bn to \$7.4bn. This reflected an increase in the trade surplus by \$2.9 billion to \$5.6 billion, driven by an 8.1% increase in the value of exports and a smaller rise of 4.3% in the value of the imports. The rise in import volumes mainly reflected growth in capital goods (+1.6%), intermediate & other merchandise goods (+9.3), non-monetary gold (+9.6%) and services (+5.5%). In contrast, the volume of consumption goods imports fell by 2.8% in line with on-going consumer caution and sluggish retail sales. The primary income deficit (the other large component of the current account balance) increased modestly by \$0.9bn to \$12.5bn. Net equity income outflows as a consequence of the high proportion of offshore ownership of the resource sector is contributing to the high primary income deficit.
- On Tuesday, the **Reserve Bank Board** decided to leave the official cash rate unchanged at 4.75 per cent. The RBA noted that whilst investment was picking up strongly in the resources sector, cautious household spending and the high level of the exchange rate were having a noticeable dampening effect on other sectors. Whilst the Board remained concerned about the outlook for inflation it noted that it remained consistent with the 2–3 per cent target on a year-ended basis. As a consequence, and in view of uncertainty surrounding the outlook for the global economy, it judged that “it was prudent to maintain the current setting of monetary policy”. However, it stated that at future meetings it would “continue to assess carefully the evolving outlook for growth and inflation”
- **ABS National Accounts** data showed that the Australian economy expanded by a seasonally adjusted 1.2% in the June quarter of 2011, a significant improvement from the 0.9% contraction recorded in the March quarter. Growth through the year to the June quarter reached 1.4%, up from the 1.0% in the March quarter. The main contributors to GDP growth were inventories (+0.8 percentage points) and final consumption expenditure (+0.7 percentage points). Offsetting these rises were net exports which subtracted 0.5 percentage points from GDP growth and public investment (-0.2 percentage points). Domestic demand slowed substantially in the June quarter, halving to a 0.7% rate in response to the unwinding of fiscal stimulus and housing and construction weakness. Household consumption expenditure increased by 1.0%, up from 0.6% in the March quarter, with many discretionary areas of household consumption recording robust growth (although price discounting is likely to have accounted for some of the increase in volumes). Manufacturing rose by 2.8% in the quarter, to be 1.5% higher over the year. GDP per hour worked (a labour productivity measure), rose by 1.0%, the strongest quarterly outcome in more than two years. However, on a year ago, GDP per hour worked was flat.
- In terms of **State final demand** (the closest GDP measure for the States), Queensland was the strongest performer in the quarter. State final demand in Queensland rose by 3.5%, the strongest quarterly growth in four years. This was followed by South Australia with growth of 2.0%. On the weaker side, Victoria grew by 0.8% while New South Wales managed to eke out growth of 0.2%.
- **ABS Labour Force** data revealed that national employment (seasonally adjusted) fell by 9,700 in August with full time jobs falling by 12,600 and part time jobs expanding by 2,900. The job loss saw Australia's unemployment rate rise to 5.3% in August from 5.1% in July (the highest in over a year) with the total number of unemployed persons rising by 3.0%. Over the past two months there have been net job losses of 13,800.

How this affects you

Last week's data reveals that the Australian economy expanded in the June quarter 2011 after the natural disasters that caused the economy to contract in the March quarter. Leading indicators continue to point to further improvement in economic activity through 2011/12 on the back of the high terms of trade (prices of exports relative to imports) which should support stronger investment and growth in national income. Indeed, the National Accounts showed that the Terms of Trade increased to another record high in the June quarter. Moreover, total compensation of employees grew by 1.7% to be 7.5% up on a year ago, the strongest annual rate of growth in almost four years as the tight labour market helped to lift household incomes. Across industries, the National Accounts showed that the strongest contributions to growth came from the transport, postal & warehousing and manufacturing sectors, with both adding 0.2 percentage points to growth. Nevertheless, the performance of the manufacturing industry remains mixed with growth in the June quarter coming from a weak base. This is illustrated by the full year National Accounts data which shows that seven of the eight major manufacturing sub-sectors recorded negative growth twice in the past financial year, with two (textiles & clothing and non-metallic mineral products) contracting in three of the four quarters. This is in accord with Ai Group's Australian Performance of Manufacturing Index (Australian PMI®) which shows that manufactures remain under pressure on a range of fronts, with stress spread across businesses squeezed by the strong Australian dollar and increased overseas competition, as well as those linked to the weak house building and commercial construction sectors. Overall, last week's data continued to provide evidence of a multi-speed economy with mixed growth and profitability outcomes, although a resources-led private investment upturn remains on track.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0469 ▼
Oil price	USD 87.23 per bbl ▲
Annual growth in GDP	1.4 per cent ▲
Unemployment rate (%)	5.3 per cent ▲
Annual growth in headline CPI	3.3 per cent -
Copper price	AUD 8,505.59 ▲
Australian PMI (August)	43.3 -
Australian PSI (August)	48.8 ▲ 3.3 points
Australian PCI (August)	32.1 ▼ 4.0 points

Week in Preview: 12 September to 16 September 2011

- On Monday preliminary international trade estimates on a balance of payments basis will be available with the release of ABS data on Australia's **International Trade in Goods and Services** for July 2011.
- **Lending Finance** data for the month of July 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 August 2011.
- The **Westpac – Melbourne Institute Index of Consumer Sentiment** for August 2011 will be released on Wednesday.
- The **Department of Education, Employment and Workplace Relations Vacancy Report** assessing skilled job vacancies in August 2011 will be released on Wednesday.
- Also on Wednesday, preliminary estimates of **Dwelling Unit Commencements** for the June quarter 2011 (new houses, new other residential and conversions) will be published by the ABS.
- On Thursday, the ABS will release **Sales of New Motor Vehicles** data for May 2011 in each state/territory sourced from the Federal Chamber of Automotive Industries on Thursday.
- The **Reserve Bank of Australia** monthly bulletin will also be published on Thursday.

* 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.