

Ai GROUP ECONOMICS WEEKLY

Week in Review: 7 February – 11 February 2011

- Ai Group's Australian Performance of Construction Index (**Australian PCI®**) fell by 3.6 points to 40.2 in January to remain below the 50 points level separating expansion from contraction. This represented the construction industry's eighth consecutive month of decline as the severe impact of the floods on building activity added to already weak project demand.
[\(<http://www.aigroup.com.au/economicindicators>\)](http://www.aigroup.com.au/economicindicators)
- The **ANZ Job Advertisements Index** rose by a seasonally adjusted 2.4% in January. This marked the twelfth consecutive month of gains and translated into a 40.5% annual increase, the highest annual growth rate since the inclusion of internet job advertisements in the series in July 2000. Online job advertisements increased by 2.5% in January while newspaper advertisements fell by 0.1%.
- ABS data on **Retail Trade** showed that the retail sector continued to struggle in December, with turnover rising by a seasonally adjusted 0.2% in December 2010, half the growth rate recorded in November. The softer retail trading conditions reflected falls in turnover in department stores (down 1.2%) and food retailing (down 0.5%). The strongest performers, by industry in January, were household goods retailing (up 1.5%), clothing, footwear and personal accessories (up 2.7%) and cafes and restaurants (up 0.6%), although conditions in the latter two categories remain subdued with data for the December quarter 2010 indicating that only household goods retailing recorded an increase in sales volumes.
- The **Westpac-Melbourne Institute Consumer Sentiment Index** rose modestly by 1.9% in February to 106.6, following a 5.7% fall in January which was assessed as being largely in response to the floods. Despite the improvement, the Index is still 8.9% below its level of a year ago and 6.3% below last year's average level. Factors that were supportive of consumer sentiment included the Reserve Bank's decision not to raise interest rates at its Board meeting on the 1st February and the fall in the unemployment rate in December. However, underlining the cautious and uncertain mood of households, the Index assessing "family finances compared to a year ago" fell by 4.4% while assessments of the outlook for the economy over the next 12 months improved by only 1.1%.
- ABS **Labour Force** data released on Thursday revealed that national employment increased by a higher-than-expected 24,000 (0.5%) to 11,441,500 (seasonally adjusted) in January, the eleventh consecutive month in which new jobs have been created. The increase in January was due entirely to growth in part-time employment of 32,000, with full-time employment decreasing by 8,000. The unemployment rate remained steady at 5.0% in January despite a slight increase in the number of people entering the workforce (participation rate up 0.1 points to 65.9).
- **Labour Force data by state** showed that it was Victoria that created the most jobs (+17,800) in January, followed by Western Australia (+3,200) and New South Wales (+200). Queensland experienced the largest decline in employment (-5,100) reflecting businesses' output loss due to the floods while South Australia recorded a marginal fall of 400. Over the year, NSW was the state with the largest rise in employment (+129,000), followed by Victoria (+88,100), Queensland (+66,500), Western Australia (+37,000). South Australia recorded the only decline (-3,300) in employment.

How this affects you

Last week's data confirmed the on-going robustness of the Australian labour market. Although the rise in employment in January was due to the creation of part time jobs, much of the growth in the past year has been driven by increases in full time positions. Despite the positive news on employment, it is clear that 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 an intensification of skill shortages. 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 sectors of the building industry in January. The Australian PCI® also revealed a further contraction in new orders, signaling that tough conditions and subdued work levels are likely to persist in coming months. Last week's retail sales and consumer sentiment data also underlined the on-going cautious approach by Australian households to their spending which is being reflected in an increased preparedness by households to save and pay down debt. Moreover, higher interest rates and the move to on-line spending on imports suggest that the retail sector will continue to underperform the wider economy. In light of these developments and given the current uncertainty surrounding the economic outlook, the Reserve Bank Board is likely to hold off on raising interest rates until later this year. The RBA next meets on 1st March.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0018 ▼
Oil price	USD 84.36 per bbl ▼
Annual growth in GDP	2.7 per cent -
Unemployment rate (%)	5.0 per cent -
Annual growth in headline CPI	2.8 per cent -
Copper price	AUD 9902.67 ▲
Australian PMI (January)	46.7 -
Australian PSI (January)	49.5 -
Australian PCI (January)	40.2 ▼ 3.6 points

Week in Preview: 14 February - 18 February 2011

- **ABS Housing Finance** data for December 2010 will be released on Monday, followed by ABS Lending Finance data on Tuesday.
- On Wednesday, **Sales of New Motor Vehicles** data for January 2011 will be published by the ABS.
- On Thursday, the ABS will release its latest **International Merchandise Imports** data for January 2010.

* 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.