

# Ai GROUP ECONOMICS WEEKLY

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## Week in Review: 6 June – 10 June 2011

- Ai Group's Australian Performance of Construction Index (**Australian PCI®**) increased by 1.7 points to 39.6 in May. However, the reading remained below the 50 point level separating expansion from contraction to signal on-going weakness in industry conditions amid subdued demand and reductions in activity across all of the major sectors. (<http://www.aigroup.com.au/economicindicators>)
- The **ANZ Job Advertisements Index** declined by a seasonally adjusted 6.5% in May 2011, following a downwardly revised fall of 0.4% in April. Over the year to May, growth in job advertisements remained solid, although the pace of growth at 8.5% was well below the annual rate of 20.4% in April. Online job advertisements declined by 6.6% in May while newspaper advertisements fell by 2.7%. Newspaper job advertisements are currently falling in Victoria, New South Wales, Western Australia, and Tasmania while rising in South Australia and the Territories.
- The **TD Securities – Melbourne Institute Monthly Inflation Gauge** rose by 0.2% in May following a 0.3% rise in April. In the twelve months to May, the Inflation Gauge moderated from 3.6% in April to 3.3%. This was still above the Reserve Bank of Australia's 2-3% target band for inflation, but well below the high of 3.9% reached in November 2010.
- On Tuesday, the **Reserve Bank Board** decided to leave the official cash rate unchanged at 4.75%. The RBA noted the rise in inflation due to extreme weather events although it expects that these will dissipate in coming quarters and that CPI inflation will be close to target (2-3%) over the year ahead. On this basis, the Bank concluded that *"the current mildly restrictive stance of monetary policy remained appropriate"*, although it stated that it *"will continue to assess carefully the evolving outlook for growth and inflation"*.
- **ABS Housing Finance** data showed that finance for occupied housing rose by 4.8% in April 2011, partially offsetting the fall of 11.9% between December 2010 and March 2011. The increase in the demand for housing finance was driven by increases in the finance for the purchase of new dwellings (+9.4%) and established dwellings (+5.1%). Finance for the construction of dwellings rose by just 0.4%. The data for April also revealed solid rises in housing finance across the eastern states with strongest growth recorded in Queensland (+6.2%) followed by Victoria (+4.1%) and New South Wales (+4.1%). This was an encouraging development, and suggested that conditions in the housing sector are starting to improve from the weather induced weakness of the first quarter of the year.
- **ABS Labour Force** data revealed that national employment increased by 7,800 (0.1%) to 11,440.5 (seasonally adjusted) in May. The increase was due to a rise in part-time employment of 29,800 and offset by a 22,000 decrease in full-time employment. Australia's unemployment rate remained steady at 4.9%. The annual rate of employment growth moderated slightly to 2.3% in May from 2.4% in the previous month. The state breakdown showed that the unemployment rate in May declined in New South Wales and South Australia and remained unchanged in Queensland. In contrast, rises in the unemployment rate were recorded in Tasmania, Victoria and Western Australia. However, at 4.3%, Western Australia's jobless rate remained well below the other states.

## How this affects you

The unchanged national unemployment rate in May indicates that the labour market remains tight reflecting the underlying strength of the Australian economy. However, large parts of the economy, predominantly those outside of mining, are continuing to struggle in the face of a range of headwinds, including the strong Australian dollar and on-going consumer and investor caution. The continued toughness of industry conditions was evident in the findings of Ai Group's Australian Performance of Construction Index (Australian PCI®) which reported falls across all the major sectors of the building industry in May. This included steeper declines in the apartment and commercial construction sectors reflecting the winding back of fiscal stimulus and lacklustre private investment in projects including offices, hotels and retail premises. The Australian PCI® also reported a further fall in new orders in the construction industry, signaling that tough conditions and subdued work levels are likely to persist in coming months. This is consistent with the weakening trend in house prices and building approvals and the subdued state of work done and commencements across the major private sectors of the commercial construction industry. On a brighter note, housing finance growth in April was stronger than expected, although earlier weakness still puts finance for the construction of dwellings down by approximately 12% on a year ago. Despite the fragility of conditions in the non-resource sectors of economy, the strong investment outlook, particularly in mining, will continue to cause spare capacity to fall and drive upward pressure on inflation. Accordingly, the risk bias of higher interest rates remains on the upside. The next RBA Board meeting and official cash rate announcement will be on the 5th of July 2011.

## Latest data\*

<b>Official cash rate</b>	<b>4.75 per cent -</b>
<b>AUD/USD exchange rate</b>	<b>\$1.0535 ▼</b>
<b>Oil price</b>	<b>USD 99.28 per bbl ▼</b>
<b>Annual growth in GDP</b>	<b>1.0 per cent -</b>
<b>Unemployment rate (%)</b>	<b>4.9 per cent -</b>
<b>Annual growth in headline CPI</b>	<b>2.8 per cent -</b>
<b>Copper price</b>	<b>AUD 8443.28 ▲</b>
<b>Australian PMI (May)</b>	<b>47.7 -</b>
<b>Australian PSI (May)</b>	<b>49.9 -</b>
<b>Australian PCI (May)</b>	<b>39.6 ▲ 1.7 points</b>

## Week in Preview: 14 June - 17 June 2011

- **Lending Finance** data for the month of April 2011 will be released by the ABS on Tuesday. This will provide statistics on finance commitments for secured housing finance for owner occupation, other personal finance, commercial finance and lease finance.
- Tuesday will also see the release of the **National Australia Bank Monthly Business Survey** for May 2011.
- On Wednesday, preliminary estimates of **Dwelling Unit Commencements** for March 2011 (new houses, new other residential and conversions) will be published by the ABS.
- Speech by **Glenn Stevens, Governor, Reserve Bank of Australia** – Economic Conditions and Prospects - to the Economic Society of Australia (Queensland) Luncheon, Hilton Hotel, Brisbane, Wednesday.
- The **Westpac – Melbourne Institute Leading Index** for April 2011 (which indicates the likely pace of economic activity three to nine months into the future) and the **Westpac – Melbourne Institute Index of Consumer Sentiment** for June 2011 will also be released on Wednesday.
- 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.

\* 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](mailto:economics@aigroup.asn.au).