

# Ai GROUP ECONOMICS WEEKLY

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## Week in Review: 6– 10 November 2011

- Ai Group's Australian Performance of Construction Index (**Australian PCI®**) increased by 4.7 points to 34.7 in October, indicating an easing in the pace of decline in overall construction activity. However, the reading remained firmly below the 50 point level separating expansion from contraction for the 17<sup>th</sup> consecutive month. (<http://www.aigroup.com.au/economicindicators>)
- The **ANZ Job Advertisements Index** fell by a seasonally adjusted 0.7% in October 2011, the sixth fall in seven months. Annual growth in total job advertisements slowed from 3.1% in September 2011 to 1.8%. Newspaper advertisements fell by 2.7% in October to be 16.7% lower than a year ago, in part reflecting the move towards advertising on-line. Internet advertising decreased by 0.6% in the month, but rose by 2.8% on an annual basis.
- **ABS International Trade** data showed that Australia recorded a trade surplus of \$2.6bn in September 2011, a decrease of \$0.4 billion on the surplus in August. Although imports fell by 1.3%, this was more than offset by a 2.5% decline in exports. In terms of imports, intermediate and other merchandise goods declined by 4.9% (driven by an 11.6% decline in fuels and lubricants) while consumption goods imports fell by 2.8%. Capital goods imports expanded by 6.4% led by a 96.2% rise in the volatile civil aircraft category. Machinery and industrial equipment imports which are linked to capital investment declined by 1.1%, but are still a solid 12.1% higher over the year. On the export side, rural exports rose by 1.5% in September while non-rural exports (largely iron ore and coal) fell by 1.5%, driven by falls in non-monetary gold (-24.0%), transport equipment (-9.8%), other mineral fuels (-7.4%) and metal ores and minerals (-1.3%).
- The **National Australia Bank Monthly Business Survey** showed that business conditions softened in October, reflecting broad-based falls in employment, trading and profitability. The overall business conditions index (a composite index of trading performance, profitability and employment) decreased by 3.0 points to a negative 1.0 point index level. However, the survey revealed that overall business confidence improved in October, bolstering the sharp pick-up in sentiment in September. This is likely to partly reflect increased speculation in the lead-up to the survey that the RBA would cut interest rates; improving economic data out of the United States and; the more decisive steps underway at the time to resolve the European sovereign debt problems. Consistent with this, forward orders (which give an indication of future demand for goods and services) continued to improve in September, although overall orders remained subdued at a negative 2 points level.
- **Housing finance** for owner occupied housing (ABS data) increased for a sixth consecutive month in September, with a rise of 2.2%. This took the annual growth rate to 7.6%, the strongest annual rate since November 2009. Nevertheless, the details remained on the subdued side with the number of loans to owner-occupiers still at a low level historically. Notably, housing finance is currently 20.5% down on the level prevailing in mid 2009. The growth in housing finance in recent months has been partly boosted by re-financing reflecting lower fixed mortgage rates. In September, fixed rates were down to 6.6% from 7.35% in June and below the variable rate at 7.8%. Refinancing, which rose by 4.6% in September, has increased by 29.8% over the past six months. Excluding re-financing, the growth in housing finance was slower, rising by 1.0% in September to be 0.2% down over the year. The details also show that the number of finance commitments for the purchase of new dwellings

fell by 0.7% in September, while finance for the construction of new dwellings (a lead indicator of dwelling approvals) was also subdued, declining by 0.2%.

- The **Westpac-Melbourne Institute Consumer Sentiment Index** increased by 6.3% in November to 103.4. This is the highest reading since May 2011, although the index is still 6.7% below its level of last year. Underlining the significance of the recent interest rate reduction on sentiment, confidence among respondents with a mortgage rose by 13.9%. By comparison, confidence increased by 7% for those people who own their house mortgage free, while tenants' confidence fell by 6.8%. The overall improvement in sentiment was also evident in key economic components of the index. For instance, the sub-indexes tracking views on the "outlook for economic conditions over the next 12 months" increased by 18.8%; "family finances compared to a year ago" rose by 7.1%; and "whether now is a good time to buy a major household item" rose by 1.8%. Not surprisingly, sentiment towards housing improved by a solid 6.5%.
- **ABS Labour Force** data revealed that national employment (seasonally adjusted) rose by 0.1% in October with full time jobs increasing by 20,000 and part time jobs decreasing by 9,900. Net full-time jobs created are now taking over part-time jobs, reversing the tendency to hire part-time workers earlier in the year. Australia's unemployment rate rose to 5.2% in October from 5.1% in September with the total number of unemployed persons rising by 0.9% or 5,700 persons. The state breakdown showed that the unemployment rate in October increased in Queensland following a sharp fall in the previous month. In contrast, the unemployment rate declined in Western Australia and South Australia and remained unchanged in New South Wales and Victoria. However, at 4.2%, Western Australia's jobless rate remained well below the other states.

## How this affects you

Despite the employment gains in October, the overall pace of jobs growth remains subdued. The rise in total employment in October was the softest since November 2009. In addition, job advertisements (a lead indicator of employment growth) declined in trend terms in October for a seventh consecutive month. This reflects continued concerns about the Euro-zone debt crisis and volatility in financial markets, together with weakness in the non-mining sectors which is weighing on the hiring intentions of businesses. This is despite some improvement recently in business confidence. Nevertheless, the current unemployment rate is still below the long run average of 5.3% and aggregate hours worked rose by 0.6% in October, indicating that labour market conditions are still relatively tight. This primarily reflects the strength of activity in the resources sector. The NAB Monthly Business Survey found that trend employment in October remained by far the strongest in mining, while it was weakest in wholesale and manufacturing despite a pick-up in manufacturing employment during the month. The NAB survey also showed that the divide in business conditions between the strongest performing sectors (mining, transport & utilities, recreation & personal services and finance/ business/property services) and the weakest performing sectors (retail, manufacturing, construction and wholesale) had become increasingly pronounced since late 2009. Overall, the soft jobs growth data for October; continued weakness outside of the resources sector and; intensifying concerns over the global economic outlook has lifted the probability that the Reserve Bank of Australia (RBA) will lower interest rates further in the near term. The Reserve Bank Board next meets on December 6.

## Latest data\*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0273 ▼
Oil price	USD 98.96 per bbl ▲
Annual growth in GDP	1.4 per cent -
Unemployment rate (%)	5.2 per cent -
Annual growth in headline CPI	3.5 per cent -
Copper price	AUD 7,030.57 ▼
Australian PMI (October)	47.4 -
Australian PSI (October)	48.8 -
Australian PCI (October)	34.7 ▲ 4.7 points

## Week in Preview: 14<sup>th</sup> – 18<sup>th</sup> November 2011

- **Lending Finance** data for September 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.
- ABS **Sales of New Motor Vehicles** data for October 2011 will be released on Tuesday.
- The minutes of the November **Reserve Bank of Australia Monetary Policy Briefing** of the RBA Board will be released on Tuesday.
- The **Westpac – Melbourne Institute Leading Index** for September 2011 (which indicates the likely pace of economic activity three to nine months into the future) will be released on Wednesday.
- The **Department of Education, Employment and Workplace Relations Vacancy Report** assessing skilled job vacancies in October 2011 will also be released on Wednesday
- Indications of any further wage pressures will be known on Wednesday when the ABS publishes the **Labour Cost Index** for the September quarter 2011 followed by **Average Weekly Earnings** data (August 2011) on Thursday.
- Opening Remarks by **Glenn Stevens, Governor, Reserve Bank of Australia** to the Institute of Internal Auditors (Australia) Financial Services Forum, Doltone House, Sydney, Thursday, 2.00pm.

\* 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).