

Ai GROUP ECONOMICS WEEKLY

Week in Review: 10 January to 14 January 2011

- While the full **economic impact of the Queensland floods** will not be known for some time, initial estimates suggest that nationally GDP growth could slow by around 0.3 percentage points in 2011, with inflation spiking by 0.2 percentage points in the first quarter of 2011. Queensland's gross state product growth is expected to be 1 to 1.5 percentage points slower in 2011.
- **Retail trade** in Australia picked up in November, but remains soft, weighed by higher mortgage repayments following the interest rate rises and heightened economic uncertainty in the global economy. Seasonally adjusted retail turnover increased by a mere 0.3% in November 2010, following the 0.8% decline in October. Retail turnover rose in all sub-sectors except in food retailing, where a 0.1% decline was recorded. The improvement in retail turnover across most sub-sectors could be attributed to Christmas-related spending.
- Australia's **trade surplus** narrowed by \$636 million to \$1.9 billion in November, representing a 24.8% drop from the surplus recorded in October. The decline in the trade surplus largely reflected the increase in merchandise imports in the month. Imports of consumption goods rebounded 1.0% in November, up from the 2.0% contraction in October; while the imports of capital goods increased 8.3%, a significant jump from the 0.1% growth in October. These figures for November suggest that businesses and households could be increasingly reliant on imported products following the rise in purchasing power from a stronger Australian dollar. This would exert downward pressures on economic growth in the period ahead.
- The number of owner occupied **housing commitments** increased by a seasonally adjusted 2.5% in November 2010, while the value of owner occupied housing commitments increased by 2.9%. The seasonally adjusted estimates of the number of owner occupied housing commitments increased in all states and territories except Tasmania. Better-than-expected housing finance figures suggest that the softening in the housing market may be beginning to level out. However, downside risks from rising interest rates remain.
- The seasonally adjusted Australian **unemployment rate** fell 0.2 percentage points to 5.0% in December. That said it is noteworthy that the recovery in the labour market may be losing some momentum. In December, **employment** increased by 2,272, sharply down from the 54,578 jobs created in November. The relatively weaker job creation recorded in December reflected the significant slowdown in full-time jobs created, down to 1,660 from 55,427 in November. The slowing of jobs creation in December 2010 is unlike that experienced in the Decembers of the previous five years, when approximately 24,000 jobs were created during the month. If the slowdown in full-time jobs creation was to persist, it could pose downside risks to household incomes growth and put further pressure on the sustainability of the economic recovery in Australia.

How this affects you

Last week's data reveals that economic growth in the Australian economy is likely to slow in the months ahead, as the economy faces the headwinds from the stronger Australian dollar, higher interest rates, withdrawal of fiscal stimulus and heightened global economic uncertainty. The downward pressures on the economy are likely to be compounded by the adverse impact of the Queensland floods on businesses and households. Consequently, the Reserve Bank of Australia may hold off raising interest rates to the later half of 2011, when the economic recovery is likely to be on a firmer footing.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$0.9964 ▲
Oil price	USD 98.11 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 10,000 ▲
Australian PMI (December)	46.3
Australian PSI (December)	46.4
Australian PCI (December)	43.8

Week in Preview: 17-21 January 2011

- On Monday, the ABS will release data on the value of **monthly commitments for secured housing finance, other personal finance, commercial and lease finance**. Data on the sale of new motor vehicles will also be released on Monday.
- Quarterly **building activity statistics**, for each state and territory, and for private and public sectors for Australia, including number of dwelling units commenced and completed and value of building work commenced, completed, done and yet to be done, all by state and territory, will be available from the ABS on Thursday.
- Preliminary estimates for actual and expected new capital expenditure will be made available by the ABS on Thursday with the release of its June 2010 **Private New Capital Expenditure, Australia** publication. This release is an early indicator of the contribution of business investment to the June quarter 2010 Gross Domestic Product outcome to be released on the 1st September.
- The ABS will release **international trade price indexes** on Friday. The data includes indexes measuring changes in the prices of imports of merchandise that are landed in Australia each quarter (the Import Price Index), and exports of merchandise that are shipped from Australia each quarter (the Export Price Index).

* 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.