

Ai GROUP ECONOMICS WEEKLY

Week in Review: 11 April – 15 April 2011

- ABS data on **Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) declined by 5.7% (seasonally adjusted) in February to their lowest level in just over five years. The commercial sector, which is the major driver of overall credit, contracted by 6.6% following a decline of similar magnitude in January. The value of lease finance commitments and owner occupied housing commitments fell by 10.4% and 4.8% respectively, while personal finance commitments were 4.8% lower in the month consistent with on-going consumer caution and the reluctance by consumers to take on debt.
- The **National Australia Bank Monthly Business Survey** showed that business conditions improved in March. The overall business conditions index (a composite index of trading performance, profitability and employment) increased by 11.0 points to a +9.0 point index level, the highest level since March 2010. The improvement was driven by solid increases in trading conditions and profitability, although there was wide disparity across industry sectors. The survey also revealed that business confidence declined in March (despite remaining in positive territory) with the most significant seasonally adjusted falls recorded in the retail and construction sectors.
- The **Westpac-Melbourne Institute Consumer Sentiment Index** rose by 1.2% to 105.3 in April. While this indicates a strengthening in sentiment, the result was lackluster with the Index remaining below the most recent high recorded in October 2010 (117.0). Moreover, there was a wide divergence between regional and city respondents. The Confidence Index for non-metropolitan respondents rose by 12.2% (a possible reflection of rising rural commodity prices and extensive rainfall in Eastern Australia) whereas the Confidence Index for the metropolitan area fell by 4.6%. Factors that were supportive of consumer sentiment, included a 1.4% increase in the index tracking views on “finances over the next 12 months”; a 3.4% increase on consumers’ assessment of “economic conditions over the next 12 months” and a 3.5% rise in assessments on “whether now is a good time to buy a major household item”. However, reflecting higher interest rates and fragile house prices, the Index measuring views on whether now is a good time to buy a dwelling fell by 5.1% while views on “finances relative to a year ago” rose by just 0.1%.
- The **Department of Education, Employment and Workplace Relations Vacancy Report** revealed a strong increase in job vacancies advertised on-line during March with the Internet Vacancy Index increasing by 10.3% (seasonally adjusted terms) in the month and by 25.8% over the year to March 2011. The demand for labour was shown to be strongest for high skill jobs with Advanced Diploma or Diploma skill levels recording the largest increase over the past year (19.5%). The DEEWR report also revealed that the newspaper-based Skilled Vacancy Index increased by 1.7% in April 2011 (one month ahead in data collection). However, over the year newspaper skilled vacancies were down by 7.5% with this trend likely to continue as employers move away from newspaper advertising to online advertising.
- ABS data compiled in conjunction with the Federal Chamber of Automotive Industries showed that **New Motor Vehicle Sales** expanded for the fourth time in five months with a seasonally adjusted increase of 3.4% in March. However, for the year, new motor vehicle sales were up by just 1.9% as compared with a 29.0% annual growth rate in April 2010. During March, increases in sales were recorded for sports utility vehicles (7.8%) and other vehicles (4.3%), while passenger vehicles increased by 1.3%.

How this affects you

The contraction in commercial finance is a likely reflection of weak demand from small and medium businesses and is a further indication of the unevenness of conditions across sectors of the economy. With official data pointing to a solid upturn in capital expenditure over the next year, a rise in business credit would be expected in order to fund this expansion. However, with growth in capital expenditure being underpinned by a strong lift in mining sector investment plans, it is likely that many larger businesses operating in the resources sector will be obtaining their funding from retained earnings or overseas. In contrast, small and medium sized businesses are typically more reliant on bank lending to fund expenditure (as distinct from internal cash flows/equity). Many of these operate outside of mining and a number are likely to be encountering conditions that are not yet supportive of a rise in capital investment to boost capacity. The fall in demand for commercial finance would also appear to reflect the ongoing weakness in commercial construction activity where private sector demand is struggling to fill the gap left by the drying up of projects funded by fiscal stimulus measures. The unevenness of industry conditions was also a key finding of the NAB Business Conditions survey. Despite the survey reporting an improvement in business conditions, trade exposed sectors outside of mining remained subdued, particularly the retail, wholesale and construction sectors. Trend conditions also remained weak in manufacturing, while business confidence fell sharply in retail, construction and manufacturing. This is consistent with other key indicators for these sectors (including the falls in housing and personal finance commitments in February) and Ai Group's performance indices which reveal continued declines in manufacturing, services and construction sector activity.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0565 ▲
Oil price	USD 109.12 per bbl ▼
Annual growth in GDP	2.7 per cent -
Unemployment rate (%)	4.9 per cent -
Annual growth in headline CPI	2.8 per cent -
Copper price	AUD 8916.23 ▼
Australian PMI (March)	47.9 -
Australian PSI (March)	46.5 -
Australian PCI (March)	39.4 -

* Arrows represent directional movement relative to previous week's issue

Week in Preview: 18 April – 21 April 2011

- The minutes of the April 2011 **Reserve Bank of Australia Monetary Policy Briefing** of the RBA Board will be released on Tuesday.
- On Tuesday, the ABS will also publish its latest **International Merchandise Imports** data for Australia. This will provide data on total imports and commodity aggregates for March 2011.
- Also on Tuesday, the ABS will release data on the value of non-residential **Building Activity** for the December quarter 2010, including detailed estimates of work done, commencements and work yet to be done.
- The **Westpac – Melbourne Institute Leading Index** for February 2011 (which indicates the likely pace of economic activity three to nine months into the future) will be released on Wednesday.
- On Thursday, the ABS will release data on **Producer Price Indexes** for the March quarter 2011 which will provide an indication of growth in wholesale prices and the implications for general inflationary pressures.