

Ai GROUP ECONOMICS WEEKLY

Week in Review: 12 – 16 December 2011

- **Housing finance** for owner occupied housing (ABS data) increased by 0.7% in October 2011, the seventh consecutive month of growth. However, the overall trend in housing finance for owner occupied housing remains soft and at a low level historically. Notably, housing finance is currently 20.2% down on the level prevailing in mid 2009. The details for October showed that the number of finance commitments for the purchase of new dwellings rose by a subdued 0.1%, while finance for the construction of new dwellings (a leading indicator of dwelling approvals) declined by 1.7%, indicating a further crimping of housing supply. Compared to a year ago, loans for the construction of dwellings are down by 3.8% and have not grown on an annual basis since February 2010.
- **ABS International Trade** data showed that Australia's trade surplus narrowed by \$0.7bn to \$1.6bn in October 2011 as falling commodity prices weighted on export growth and import growth remained strong. In October, the value of goods and services exports fell by 0.2% while the value of goods and services imports increased by 2.4%. In terms of imports, intermediate and other merchandise goods rose by 1.9% (driven by a 10.7% fall in fuels and lubricants) while consumption goods imports increased by 0.9%, boosted by non-industrial transport equipment (+9.4%) and food and beverages imports (+2.0%). In a positive sign for business investment, capital goods imports registered further growth, rising by 1.1% in October after increasing by a solid 5.8% in September. On the export side, rural exports increased by 2.0% in October led by exports of wool and sheepskins (+3.8%) and meat and meat preparations (+3.2%). Non-rural exports (largely iron ore and coal) increased by just 0.1% in the month. Rises in exports of "other" non-rural goods (+10.9%) and other mineral fuels (+7.0%) were largely counterbalanced by decreases in transport and equipment (-10.9%) and "other" manufacturing exports (-5.8%). Coal exports fell by 1.7% in October following two consecutive months of growth.
- The **National Australia Bank Monthly Business Survey** showed that business conditions improved slightly in November. The overall business conditions index (a composite index of trading performance, profitability and employment) increased by 1.0 point to a +1.0 index point level, after softening in the previous month. The survey also revealed that business confidence was unchanged in October and well below its long-run average (of +6) at +2 index points. Consistent with this, forward orders remained subdued with a zero index reading to indicate that overall orders neither expanded nor contracted in the month.
- ABS preliminary estimates of **Dwelling Unit Commencements** showed that the total number of dwelling units commenced declined by 6.8% in the September quarter following a fall of 4.1% in the June quarter. Compared with a year ago, dwelling commencements are down by 11.5%. Commencements of new private sector other residential buildings (largely comprising apartments) declined by 12.2% in the September quarter while new private sector house commencements fell by 2.5%.
- ABS data on **Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) increased by 10.0% (seasonally adjusted) in October 2011. The strongest growth was registered in the value of commercial finance commitments (+16.5%) followed by personal finance commitments (+ 5.2%). In contrast, the value of lease financing fell by 2.4% and owner occupied housing commitments was down by 1.2% consistent with recent subdued updates on housing approvals and commencements.

- The **Department of Education, Employment and Workplace Relations Vacancy Report** revealed a decrease in job vacancies advertised on-line during November with the Internet Vacancy Index falling by 1.0% (trend terms), the eighth consecutive monthly decline. This suggests that employment growth will continue to be subdued in coming months. Over the year, the IVI has fallen by 7.1%, and is now 42.1% below its March 2008 peak. By occupational category, the strongest falls in vacancies were recorded for labourers (down by 1.5%), followed by community and personal service workers and sales workers (both down by 1.2%). The DEEWR report also revealed that the newspaper-based Skilled Vacancy Index decreased by 0.7% in November. Over the year newspaper skilled vacancies were down by 6.8% with this trend likely to continue as employers move away from newspaper advertising to online advertising.
- ABS automotive sales data showed that **New Motor Vehicle Sales** fell by 0.7% in November following growth of 1.0% in the previous month. Sales of passenger vehicles and “other” vehicles (business vehicles including trucks and vans) declined by 3.5% and 0.7% respectively in November to outweigh a 5.5% increase in sports utility vehicles.
- The **Westpac-Melbourne Institute Consumer Sentiment Index** fell by 8.3% to 94.7 in December, the lowest level in three months. Despite interest rate reductions by the Reserve Bank in both November and December, consumer sentiment appears to have been negatively impacted by the rise in the unemployment rate in November (with a loss of 39,900 full-time jobs), the volatility of equity markets and concerns about the unfolding fiscal crisis in Europe. Four of the five components of the Index fell in December. The sub-index tracking respondents’ views on “economic conditions over the next 12 months” was down by 19.4% while “economic conditions over the next five years” fell by 14.4%; assessments of family finances compared to a year ago fell by 8.6%; and; the sub-index on “whether now is a good time to buy a major household item” fell by 3%. Risk aversion increased markedly with 26.6% of respondents nominating “pay down debt” as the “wisest place for savings. Only 6.6% of respondents nominated equities – the lowest percentage since 1993 while the 14% nominating real estate was, apart from 2008, the lowest since the survey began in 1974. Attitudes towards purchasing housing and motor vehicles also fell modestly.

How this affects you

One area of strength in the domestic economy is business investment and it is helping to underpin economic activity. The strong growth in demand for commercial finance and the further increase in imports of capital goods suggest that business investment, particularly in the resources sector, remained solid in October. However, the capital expenditure picture outside of mining is less robust and the fall in building starts in the September quarter points to significant weakness in private sector construction investment. Moreover, there remains a strong divide in business conditions across industries and states. This was evident in the findings of the NAB Monthly Business Survey which revealed that conditions in November improved notably in the transport & utilities sector and remained the strongest in mining. In contrast, conditions deteriorated heavily in construction while manufacturing conditions were worryingly weaker. The NAB survey also found that the mining state of Western Australia was the only state experiencing strong business conditions in November whereas conditions remained soft (and well below levels prevailing during the first half of 2010 when fiscal policy stimulus was supporting activity) in the two major non-mining states of NSW and Victoria. This indicates that the strong Australian dollar together with weak business and consumer confidence remain significant headwinds for growth in the non-mining states and large parts of industry outside of resources.

Latest data*

Official cash rate	4.25 per cent -
AUD/USD exchange rate	\$0.9968 ▼
Oil price	USD 95.33 per bbl ▼
Annual growth in GDP	2.5 per cent-
Unemployment rate (%)	5.3 per cent-
Annual growth in headline CPI	3.5 per cent -
Copper price	AUD 7,363.56 ▼
Australian PMI (November)	47.8 -
Australian PSI (November)	47.7 -
Australian PCI (November)	39.6 -

Week in Preview: 19 - 23 December 2011

- The minutes of the December 2011 **Reserve Bank of Australia (RBA) Monetary Policy Briefing** of the RBA Board will be released on Tuesday.
- The **Westpac – Melbourne Institute Leading Index** for October 2011 (which indicates the likely pace of economic activity three to nine months into the future) will be released on Wednesday.

* 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.