

# Ai GROUP ECONOMICS WEEKLY

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## Week in Review: 14 February – 18 February 2011

- ABS data on **Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) increased by 2.4% (seasonally adjusted) in December 2010. The increase was mainly driven by rises in the value of commercial finance commitments (+3.3%) and owner occupied housing finance commitments (+ 2.3%), whereas both lease and personal finance commitments exhibited weakness, with falls of 8.7% and 0.2% respectively.
- ABS **Housing Finance** data also signaled an improvement in finance for occupied housing in December 2010 with a rise of 2.1% registered in the month. The increase was underpinned by a rise of 3.0% in finance for the purchase of established dwellings. In contrast, finance for the purchase of new dwellings which contributes to the supply of dwellings fell by 10.1% while growth in the finance for the construction of dwellings moderated from 3.0% in November 2010 to 1.0%.
- The minutes of the February 2011 **Reserve Bank of Australia Board meeting** indicated that, notwithstanding the significant short term effects of the recent floods on output and prices, the RBA's medium outlook for the domestic economy remained largely unchanged. The Board noted that recent developments in commodity markets pointed to strong growth in investment and incomes in Australia over the next few years. However, it also noted that should caution in household spending persist it "would reduce the pressure on prices that might normally be expected in an economy with very strong terms of trade and limited spare capacity". On the basis of these considerations, the Board judged that the current "slightly restrictive policy stance remained appropriate" and as a result decided to leave the official cash rate steady at 4.75 per cent effective 1 February.
- ABS data based on the VFACTS series produced by the Federal Chamber of Automotive Industries showed that **New Motor Vehicle Sales** decreased by a seasonally adjusted 1.9% (or 84,420) in January 2011, following growth over the previous two months. Falls in sales were recorded for passenger vehicles (-3.9%) and other vehicles (-1.3%) while sales of sports utility vehicles increased by 2.9%. Total vehicle sales in January were also 2.8% lower than a year ago, well below the 28.9% annual growth rate in April 2010.
- The **Department of Education, Employment and Workplace Relations Vacancy Report** revealed a decline in job vacancies advertised on-line during January with the Internet Vacancy Index decreasing by 2.6% (seasonally adjusted terms), due primarily to a decline in Queensland of 11.5%. Despite this fall, the demand for labour (particularly high skill jobs) remains strong with the internet vacancy index up by 11.4% over the year to January. The DEEWR report also revealed that the newspaper-based Skilled Vacancy Index decreased by 1.2% in February 2011 (one month ahead in data collection) with this trend likely to continue as employers move away from newspaper advertising to online advertising.
- The **Westpac-Melbourne Institute Leading Index** (which indicates the likely pace of economic activity three to nine months into the future) rose by 2.2 points to 280.7 in December 2010. This was the largest rise in the Index since March 2010 and pointed to an improvement in Australia's economic growth though 2011. However, the Index pre-dated the severe weather disruptions of January and February which are expected to distort the pattern of growth in 2011, with a weak first half expected to be followed by a recovery to stronger conditions as normal operations resume and reconstruction works lift activity.
- **ABS Merchandise Imports** data revealed that imports decreased by a seasonally adjusted 5% in January 2011 to \$17.0 billion. Intermediate and other merchandise goods and consumption goods fell by 11% and 1% respectively, while capital goods imports rose by 5%.

## How this affects you

The growth in demand for commercial finance (+3.3% m/m or 7.7% y/y) signals that businesses may be starting to expand their capital base, consistent with the strong upturn in investment that is projected over the next 12-18 months. The rise in housing finance commitments, which was stronger than expected, also represents an encouraging development, particular given last November's RBA interest rate rise and the larger increases in bank lending rates. However, growth in finance for the construction of new dwellings moderated in December and is still down over the past year by just over 20%, indicating the extent to which this component is continuing to weigh on housing supply and levels of building activity. Recent economic developments, including sluggish retail sales and service sector activity, also show that Australian consumers remain cautious and are continuing to spend less and save more amid higher interest rates and an uncertain economic outlook. This was further underlined by the decline in credit for personal purposes (credit cards, margin loans and personal loans) in December 2010, with annual growth in personal credit also remaining weak compared with the standards of previous years. This suggests that consumer spending is likely to remain subdued in coming months, and with uncertainty surrounding the full impact of recent severe weather events, it reinforces the expectation that the RBA will keep rates on hold until later this year.

## Latest data\*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$98.65 ▼
Oil price	USD 85.00 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 9804.99 ▼
Australian PMI (January)	46.7 -
Australian PSI (January)	49.5 -
Australian PCI (January)	40.2 -

## Week in Preview: 21-25 February 2011

- On Wednesday, the ABS will release preliminary statistics for the value of **Construction Work Done, Australia** for the December quarter 2010.
- Indications of any further wage pressures will be known when the ABS publishes the **Labour Cost Index** (December quarter 2010) on Wednesday and **Average Weekly Earnings** on Thursday (November 2010).
- Preliminary estimates for actual and expected new capital expenditure will be made available by the ABS on Thursday with the release of its December quarter 2010 **Private New Capital Expenditure, Australia** publication.

\* 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).