Ai GROUP ECONOMICS WEEKLY

Week in Review: 14 November – 18 November 2011

- ABS data on **Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) declined by 6.9% (seasonally adjusted) in September 2011. The commercial sector, which is the major driver of overall credit, contracted by 10.0% while personal finance commitments fell by 2.5% consistent with on-going consumer caution and the reluctance by consumers to take on debt. Despite a rise in the value of owner-occupied housing finance in September, the rate of growth was subdued at 0.7% in line with recent weak updates on housing approvals and activity.

- The minutes of the 1st November 2011 **Reserve Bank of Australia Board meeting** highlighted the downside risks to the global economy due to the continued uncertainty about the prospects for the resolution of the sovereign debt and banking problems in Europe. The Board also appeared more confident that growth in inflation would be contained by soft growth in the non-resource sectors of the economy and global factors including the financial turmoil and its adverse impact on confidence. On the basis of these considerations, the Board indicated that a more neutral monetary policy setting would be compatible with achieving sustainable growth and inflation consistent with the 2-3% per annum target range for 2012 and 2013. Consequently, members of the Board concluded that "it was appropriate for there to be a modest easing in the stance of monetary policy" and decided to lower the cash rate by 0.25 percentage points to 4.50 per cent.

- ABS data based on the VFACTS series produced by the Federal Chamber of Automotive Industries showed that **New Motor Vehicle Sales** increased by a seasonally adjusted 1.1% in October2011, following a decline of 1.4% in the previous month. Sales of passenger vehicles increased by 3.0%, while sales of sports utility and other vehicles (business vehicles including trucks and vans) decreased by 0.5% and 1.9% respectively. On a state basis, sales of new motor vehicles rose in the eastern states, but fell in Western Australia and South Australia.

- The **Department of Education, Employment and Workplace Relations Vacancy Report** revealed a decline in job vacancies advertised on-line during October with the Internet Vacancy Index (IVI) decreasing by 1.9% (trend terms), the seventh consecutive month of decline. Over the year, the IVI has fallen by 6.3%, and is now 42.3% below the March 2008 peak. By occupational category the largest decreases in vacancies were recorded for Clerical & Administrative Workers (-2.9%), Sales Workers (-2.4%), Technicians &Trades Workers (-1.8%) and Managers (-1.8%). Over the month, vacancies declined in all States and Territories, with the strongest decrease recorded for the Australian Capital Territory (-3.0%), followed by Victoria (-2.8%) and New South Wales (-2.3%).

- The **Westpac-Melbourne Institute Leading Index** (which indicates the likely pace of economic activity three to nine months into the future) fell by 1.0 point to 286.0 in September 2011. The annualised growth rate of the Index was 3.3% in September. This is down from 4.5% in August, pointing to some softening in the pace of economic growth in coming quarters.

- The ABS **Labour Cost Index (LCI)** which measures total hourly rates of pay excluding bonuses, rose by 0.7% (seasonally adjusted) in the September quarter 2011 (less than market expectations for a 0.9% rise), with the annual growth in the aggregate LCI easing from 3.8% from 3.6%. The ABS **Average Weekly Earnings** (AWOTE) data showed that average weekly ordinary time earnings (AWOTE) grew by a seasonally adjusted 1.2% in the three months to August 2011 after a rise of 1.4% in the three months to May. In the year to May, AWOTE increased by 5.3%, up from 4.4% in the year to February.

- **ABS International Merchandise Imports** data revealed that imports increased by 4% in October to $20.8 billion (original terms). Preliminary analysis on a balance of payments basis showed that in seasonally adjusted terms intermediate and other merchandise goods rose by 2%, driven by the fuels and lubricants component which was up by 11% following a fall of 12% in September 2011. Both capital goods and consumption goods imports rose by 1% during the month.

How this affects you

Last week's data reveals that wage cost pressures remain contained. Amid evidence of an easing in labour market tightness in recent months, annual wages growth edged down to 3.7% in the September quarter to be further below the 4.5% limit that the RBA sees as consistent with its inflation target. A moderation in public sector wages held back the aggregate growth outcome. Public sector wages rose by 0.5% in the September quarter from 0.9% previously. This was the lowest quarterly rate of growth in 11½ years consistent with the focus by Governments at all levels in reining in their overall expenditure. By comparison, private sector wages grew by a stronger 0.9% in the September quarter, although in line with a softer jobs market, the annual rate eased to 3.7% from 3.9% in the June quarter. In addition, some sectors which had been showing concerning wages inflation, exhibited slower growth in the September quarter. This included financial & insurance services (3.9% in the September quarter, from 4.5% previously) and manufacturing (3.6%, from 4.1% previously). Despite wages growth being softer than expected, the RBA will continue to closely monitor developments in wages inflation given the strength in mining investment and its potential to exert upward pressure on wages and other costs. A further concern for the RBA centers on Australia's low productivity growth which could push unit costs of labour higher and as a consequence lead to broader cost and inflationary pressures. Nevertheless, against the current global economic back drop and with activity remaining subdued across large parts of the non-mining economy, the immediate risk of a stronger pick-up in wages appears to have eased. This has lifted the probability that the Reserve Bank of Australia (RBA) will lower interest rates further in the near term.

Latest data*

Official cash rate	**4.50 per cent ▼**
AUD/USD exchange rate	**$1.0003 ▼**
Oil price	**USD 97.66 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 7,580.2 ▲**
Australian PMI (October)	**47.4 -**
Australian PSI (October)	**48.8 -**
Australian PCI (October)	**34.7 -**

Week in Preview: 21-25 November 2011

- Speech by **Guy Debelle, Assistant Governor (Financial Markets), Reserve Bank of Australia** -The Present and Possible Future of Secured Issuance – to the Australian Securitisation Forum Conference, Hilton Hotel, Sydney Monday, 2.10 pm AEDT.

- On Wednesday, the ABS will release preliminary statistics for the value of **Construction Work Done, Australia** for the September quarter 2011. This is the major source of data used to compile the national accounts estimates for private gross fixed capital formation on dwellings, and other buildings and structures.

- Also on Wednesday, the ABS **Australian National Accounts - State Accounts** for 2010/11 will be published.

- Speech by **Guy Debelle, Reserve Bank of Australia** to the APRA Basel III Implementation Workshop 2011, Sydney, Wednesday, 10.20 am AEDT.

- Address by **Glenn Stevens, Governor, Reserve Bank of Australia** to the ABE Annual Forecasting Conference Dinner, Sofitel Wentworth, Sydney, Thursday, 8.25 pm AEDT.

* 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.