

Ai GROUP ECONOMICS WEEKLY

Week in Review: 15 August – 19 August 2011

- ABS data compiled in conjunction with the Federal Chamber of Automotive Industries showed that **New Motor Vehicle Sales** increased by a seasonally adjusted 8.6% in July, the largest monthly increase in more than a decade. The increase, which in part reflected an easing in supply issues in Japan, was driven by a 21.1% rise in the sales of sports utility vehicles. Sales of passenger vehicles and other vehicles (business vehicles including trucks and vans) increased by 3.7%, and 9.2% respectively. In annual terms, total vehicle sales moved into positive territory, rising by 0.9% in the year to July following an 11.2% contraction in the year to June.
- The minutes of the 2nd August **Reserve Bank of Australia Board meeting** highlighted the competing influences at work in the Australian economy. The Board noted the positive demand influences from the increase in the terms of trade and the strengthening in investment in the resources sector. It also noted that measures of underlying inflation had started to pick up and that there were grounds for concern about the medium term outlook for inflation. This concern was based on “the relatively limited spare capacity in the economy, the widespread increase in cost pressures, including imported goods, and the relatively low rate of productivity improvement”. However, the Board also noted that the downside risks to demand had become more pronounced recently as a result of acute uncertainty in global financial markets. It was also observed by members of the Board that household and business confidence had weakened and that various parts of the economy remained subdued due to the strong Australian dollar and the withdrawal of fiscal stimulus. On the basis of these factors, the Board judged “that it was prudent to leave the setting of monetary policy steady”, although it would “continue to assess the outlook for growth and inflation at future meetings”. As a result, the cash rate was left steady at 4.75%.
- The **Westpac-Melbourne Institute Leading Index** (which indicates the likely pace of economic activity three to nine months into the future) registered an annualised growth rate of 1.6% in June 2011, down from 1.8% in May. This was well below its long term trend of 3.0% and represented the lowest growth rate since August 2009, signaling weaker economic growth in coming months driven by consumer and business caution, higher savings rates, rising unemployment and a weak building sector.
- The **Department of Education, Employment and Workplace Relations Vacancy Report** revealed a decline in job vacancies advertised on-line during July with the Internet Vacancy Index decreasing by 1.7% in seasonally adjusted terms. Over the year to July the internet vacancy index was up by 5.2%, although this was well below the annual growth rate of close to 20% recorded earlier this year. By occupational category, the largest decreases in vacancies were recorded for Labourers (down by 8.1%), followed by Managers (3.7%) and Professionals (1.7%). The DEEWR report also revealed that the newspaper-based Skilled Vacancy Index decreased by 4.1% in August 2011.
- The ABS **Labour Cost Index (LCI)** which measures total hourly rates of pay excluding bonuses, rose by 0.9% (seasonally adjusted) in the June quarter 2011 (following a 0.8% increase in the March quarter 2011) while the annual growth in the aggregate LCI edged down to 3.8% from 3.9% in previous quarter. By sector, mining and rental, hiring & real estate recorded the largest quarterly increases in wages (both up by 0.9%). The ABS **Average Weekly Earnings** data showed that average weekly ordinary time earnings (AWOTE) grew by a seasonally adjusted 1.2% in the three months to May 2011 after a rise of 1.1% in the three months to February. In the year to May, AWOTE increased by 4.4%, up from 3.8% in the year to February.

- **ABS International Merchandise Imports** data revealed that imports increased by 7% in July to \$19.7 billion (original terms). Preliminary analysis on a balance of payments basis showed that in seasonally adjusted terms capital goods imports increased by 4% and consumption goods imports rose by 3%. In contrast, intermediate and other merchandise goods imports fell by 6.0% driven by a decline in the fuels and lubricants component of 13%.

How this affects you

Last week's data reveals that wage cost pressures remain contained. Annual wages growth edged down to 3.8% to be further below the 4.5% limit that the RBA sees as consistent with its inflation target. A moderation in private sector wages growth to 0.7% in the June quarter, from 0.9% previously, held back the aggregate growth outcome amid evidence of an easing in labour market tightness during recent months. In contrast, public sector wages growth picked up to a 0.9% rate in the June quarter, from 0.8% in the March quarter. However, with Governments at all levels reining in their overall expenditure, this should have a constraining influence on wages growth in the public sector in the months ahead. Moreover, in annual terms, mining sector wage inflation has moderated (4.1% in the June quarter, from 4.6% previously) and is now lagging growth in wholesale trade (4.7%) and financial and insurance services (4.5%). Despite wages growth being softer than expected, the RBA will be closely monitoring developments in wages inflation given the strengthening in mining investment and the intensification of skill shortages which have the potential to exert upward pressure on wages and other costs. Moreover, there are concerns that Australia's low level of productivity could push unit costs of labour higher (the cost of labour per unit of output), and as a consequence lead to broader cost and inflationary pressures. Highlighting the challenge facing the Australian economy, the RBA Board noted in the minutes of the August monetary policy meeting that "the task facing monetary policy in future would become more difficult if a continuation of poor productivity growth were combined with an expectation of growth in nominal wages and profits at the same sorts of rates seen over the past two decades".

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0398 ▲
Oil price	USD 82.31 per bbl ▼
Annual growth in GDP	1.0 per cent -
Unemployment rate (%)	5.1 per cent -
Annual growth in headline CPI	3.3 per cent -
Copper price	AUD 8,445.37 ▼
Australian PMI (July)	43.4 -
Australian PSI (July)	48.8 -
Australian PCI (July)	36.1 -

Week in Preview: 22-26 August 2011

- On Monday, the ABS will release **Government Financial Estimates, 2011-12**, presenting consolidated budget forecasts for the general government sector for Commonwealth and state governments compiled from initial budget forecasts.
- On Wednesday, the ABS will release preliminary statistics for the value of **Construction Work Done, Australia** for the June quarter 2010. Data will be presented for new residential, alterations and additions to residential and non-residential building work.
- The HIA **House Affordability Index** for the June quarter 2011 will be released on Thursday.

* 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.