

Ai GROUP ECONOMICS WEEKLY

Week in Review: 17 January – 21 January 2011

- **ABS Lending Finance** data showed that total finance commitments (which include housing, personal, commercial and lease finance) increased by 3.7% (seasonally adjusted) in November. The strongest growth was registered in the value of housing finance commitments which rose by a strong 2.9%. This was despite interest rate rises by the RBA and financial institutions in November, and is a possible reflection of improved buyer confidence due to the recent stabilisation of house prices. The rise in house lending finance was followed by growth in personal finance (+2.2%), commercial finance (+1.0%) and lease finance (+0.5%) commitments.
- 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 0.8% in December. For the year, however, new motor vehicle sales are down by 3.1% as compared with a 29.3% annual growth rate in April 2010. During December, increases in sales were recorded for passenger vehicles (+4.8%) and other vehicles (+3.1%), while sports utility vehicles decreased by 10.7%.
- **ABS Engineering Construction Activity** data showed that the value of total engineering construction work done fell by a seasonally adjusted 0.8% to \$19,760.2m in the September quarter 2010 to be 0.4% above the level in the September quarter 2009. Private sector engineering construction remained strong rising by 0.7% in the quarter (+4.7% annually), whereas work for the public sector fell by 3.4% in the quarter (-8.5% annually). As at the September quarter 2010, there was a total of \$79.4 billion in engineering construction work yet to be done. While this is down from a peak of \$83.5 billion in the December quarter 2009, it remains substantially (85.0%) above the level of a year ago.
- **ABS Building Activity data** revealed a fall of 2.4% in the value of building work done (residential and non-residential) in the September quarter 2010. This fall was driven by a decline of 6.3% in new residential building work done. In contrast, the value of non-residential building rose by 1.4% in the September quarter reflecting growth in both public and private building work.
- **The Westpac-Melbourne Institute Consumer Sentiment Index** declined by 5.7% to 104.6 in January with the floods in Queensland resulting in a significant fall in confidence across the country. Movements in key components of the Index underlined the anxiety of respondents with respect to the short term outlook for the national economy and their own financial positions. For instance, the Index measuring consumers' expectations for the economy over the next 12 months fell by 15.7% while the one year outlook for family finances was down by 5.6%. There was also a fall of 3.9% in the Index measuring consumers' views on "whether now is a good or bad time to purchase a major household item".
- **ABS International Merchandise Imports** data revealed that imports decreased by 5% in December to \$18.1 billion (original terms). Capital goods imports decreased by 8.9% while consumption goods imports decreased by 12.1%.
- ABS data on **International Trade Prices** for the December quarter 2010 showed that import prices decreased by 3.8% (primarily due to the appreciation of the Australian dollar against all major trading currencies), while export prices declined by 8.1%.

How this affects you

Last week's data shows that public sector non-residential or commercial building investment (which has been supporting the construction industry in the wake of the Global Financial Crisis), is winding down registering growth of 2.6% in the September quarter 2010 as compared with the 30% plus surges of Q4 2009 and Q1 2010. However, a positive development for the construction industry is the signs of steady improvement in private sector investment in commercial building. The September quarter 2010 saw private investment in the commercial sector expand (albeit moderately) for a fourth consecutive quarter after a decline of almost 30% through the DQ 2008 to SQ 2009 period. The high level of engineering construction in the pipeline also augers well for businesses geared to the resources, energy and infrastructure end-markets. Nevertheless, Australia's strong infrastructure investment program is expected to be pushing up against capacity constraints during the year and this is likely to have an inflationary impact. It will also be occurring in conjunction with the rebuilding of flood ravaged areas, and as a result there will be increased competition for labour and capital resources. The RBA will remain focused on the impact that this will have on inflation, particularly wages, but also the prices of other business inputs which can flow through into general consumer prices.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$98.73 ▲
Oil price	USD 88.17 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 9588.56 ▼
Australian PMI (December)	46.3 -
Australian PSI (December)	46.4 -
Australian PCI (December)	43.8 -

Week in Preview: 24 January - 28 January 2011

- On Monday, the ABS will release data on **Producer Price Indexes** for the December quarter 2010.
- The latest reading on the rate of inflation in Australia will be available on Tuesday, with the ABS releasing the **Consumer Price Index** for the December quarter 2010.
- The **Westpac – Melbourne Institute Leading Index** for November (which indicates the likely pace of economic activity three to nine months into the future) 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.