

Ai GROUP ECONOMICS WEEKLY

Week in Review: 17 – 21 October 2011

- ABS data on **Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) increased by a solid 5.2% (seasonally adjusted) in August 2011. The increase was largely driven by a 7.9% increase in the value of lending to the commercial sector. This was followed by growth in lease finance commitments (+6.6%) and personal finance commitments (+2.1%). The value of owner occupied housing finance commitments rose by a subdued 0.6% and remained well down (16.2%) on the most recent high point of September 2009. This is consistent with a number of indicators which continue to point to soft conditions in the housing sector.
- 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 1.5% in September 2011, partially offsetting growth over the previous two months as motor vehicle sales recovered after the tsunami and earthquake disrupted supply from Japan. Falls in sales were recorded for sports utility (-5.6%) and passenger vehicles (-0.9%) and other vehicles (-1.3%) while sales of other vehicles (business vehicles including trucks and vans) increased by 2.3%.
- In the minutes of its 4th October meeting, the **Reserve Bank of Australia (RBA) Board** highlighted the continued uncertainty about both the prospects for both the resolution of the sovereign debt and banking problems in Europe, and the outlook for global economic growth. The Board noted that on the domestic front, economic conditions continued to vary significantly across sectors with caution among consumers and the high exchange rate having a noticeable dampening effect on a number of sectors outside of resources. It was also observed by members of the Board that the pace of near term economic growth in Australia was unlikely to be as strong as earlier expected, while recent data pointed to a softening in the labour market. As a consequence, the Board noted that the inflation outlook appeared less concerning than was the case a few months ago, and was now more consistent with the 2-3% per annum target range for 2012 and 2013. With respect to financial conditions, the Board further noted that interest rates for some housing and business loans had declined slightly due to increased competition and the fall in funding costs in financial markets. On the basis of these considerations, the Board judged that “the existing stance of monetary policy remained appropriate” and as a result decided to leave the official cash rate steady at 4.75%.
- ABS **Building Activity** data revealed a fall of 4.0% in the value of building work done in the June quarter 2011. The annual rate of contraction increased from 4.4% in the March quarter 2011 to 13.6% (June quarter 2011 compared to June quarter 2010), the most marked annual rate of contraction over the past 11 years. The value of new residential building work done fell by 5.3% in the June quarter. Non-residential building (commercial construction) also continued to weaken, with private non-residential work falling by 2.7%, widening the gap arising from the winding back of fiscal stimulus (public non-residential building work fell by 5.9% in the June quarter to be down by a marked 31% over the year).
- The **Department of Education, Employment and Workplace Relations Vacancy Report** revealed a decline in job vacancies advertised on-line during September with the Internet Vacancy Index (IVI) decreasing by 1.3% (trend terms), the sixth consecutive month of decline. Over the year, the IVI has fallen by 0.6%, and is now 39.9% below the March 2008 peak. By occupational category the largest

decreases in vacancies were recorded for Labourers (-2.9%), followed by Professionals (-2.5%), Managers (-1.9%) and Clerical & Administrative Workers (-2.2%). The DEEWR report also revealed that the newspaper-based Skilled Vacancy Index decreased by 1.6% in October 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 287.0 in August 2011. The annualised growth rate of the Index was 4.5% in August, up from 3.5% in July, and above its long term trend of 3.3%. The improvement in the growth rate of the Index points to a pick-up in the pace of Australia's economic growth through 2012.
- The **National Australia Bank Monthly Business Survey** showed that business conditions declined and confidence faltered in the September quarter 2011. Reflecting a weakening in trading conditions, profitability and employment, the overall business conditions index fell by 5.0 points to a -3.0 index points level. Forward orders remained weak and stocks were run down, implying an expectation of softer near term domestic demand. The survey also revealed that business confidence fell sharply in the quarter, down by 9.0 points to a -4.0 index points, driven by uncertainty about the resolution of European sovereign debt problems and heightened uncertainty about the global outlook.
- **ABS International Merchandise Imports** data revealed that imports increased by 2% in September to \$20.0billion (original terms). Preliminary analysis on a balance of payments basis showed that in seasonally adjusted terms capital goods imports increased by 5%. In contrast consumption goods imports fell by 3% and intermediate and other merchandise goods imports fell by 5% driven by a decline in the fuels and lubricants component of 12%.
- ABS data on **International Trade Prices** for the September quarter 2011 showed that export prices increased by 4.0% (reflecting sustained global demand for commodities) while import prices were flat with lower prices for petroleum and petroleum products (down by 3.8% in the quarter) offsetting the boost from the moderately weaker currency.

How this affects you

The increase in capital goods imports in recent months reflects the strong expansion in minerals and energy projects in Australia, and the flow through to a higher level of investment in resources-related construction. However, investment in the non-mining sector remains soft as evident in last week's building activity data which highlighted the on-going weakness in private sector construction investment. It also provided further evidence that the housing sector is faltering under the weight of consumer caution, high interest rates and moderating house prices. Furthermore, non-residential building work continues to exhibit weakness in line with the diminishing level of Federal Government's stimulus projects and reduced private sector commercial construction work. This was highlighted by the acceleration in the annual rate of contraction in public non-residential building activity in the June quarter 2011 (down by 30.8% compared with 22.4% in the previous quarter) and the continued subdued state of the key private commercial construction sectors. A recent positive development, however, is the pick-up in approvals across a range of commercial construction categories, including retail, offices and industrial premises. With an increased volume of projects set to move through into the construction phase and support higher activity, the private commercial property market could be approaching a turning point. Increased investment in new hospitals and other health care facilities is also likely to underpin future levels of public building activity through 2012 and into 2013.

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0368 ▲
Oil price	USD 87.20 per bbl ▲
Annual growth in GDP	1.4 per cent -
Unemployment rate (%)	5.2 per cent -
Annual growth in headline CPI	3.3 per cent -
Copper price	AUD 6,811.34 ▼
Australian PMI (September)	42.3 -
Australian PSI (September)	50.3 -
Australian PCI (September)	30.0 -

Week in Preview: 24-28 October 2011

- On Monday, the Australian Industry Group/Australian Constructors Association (ACA) **Construction Outlook Survey**, October 2011 will be released.
- Also on Monday, the ABS will release data on **Producer Price Indexes** for the June quarter 2011.
- Speech by **Ric Battellino, Reserve Bank of Australia, Deputy Governor**, to Citi's 3rd Annual Australian & New Zealand Investment Conference, Sheraton on the Park Hotel, Sydney, 10.00am Tuesday.
- The latest reading on the rate of inflation in Australia will be available on Wednesday, with the ABS releasing the **Consumer Price Index** for the September quarter 2011.

* 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.