

Ai GROUP ECONOMICS WEEKLY

Week in Review: 19 September – 23 September 2011

- The minutes of the September **Reserve Bank of Australia Board Meeting** indicated that the RBA retains its positive view on the medium term outlook for the domestic economy, with coal production in Queensland expected to maintain a gradual recovery and continue to boost GDP growth through to early 2012. The Board noted that recent economic data continued to point to significant variations in business conditions across industries with the strong Australian dollar having a material effect on the competitiveness of the non-resource sectors, particularly manufacturing, tourism and education. In contrast, the mining and related sectors continued to benefit from the resources boom. It was also observed by members of the Board that the international outlook had become significantly more clouded since the previous Board meeting, and that a number of private-sector forecasters had lowered their forecasts for global growth in 2011 and 2012. On the inflation front, the Board remained concerned that over the medium term, on-going strength in demand would lead to a pick-up in cost pressures. However, the Board noted that financial indicators (credit growth and asset prices) were generally consistent with monetary policy exerting a degree of restraint. On this basis, it concluded that “the current setting of monetary policy left the Board well placed to respond to evolving global and domestic conditions”. As a consequence, the cash rate was left unchanged 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 3.1% in July 2011, up from 2.7 per cent in June. This increase is indicative of an improvement in economic growth in coming months, although key factors such as sluggish consumer spending and on-going weakness in residential and non-residential building are likely to continue to weigh on the economy’s growth momentum.
- The **International Monetary Fund (IMF)** downgraded its forecasts for world growth to 4 per cent for 2011 and 2012 (three months ago these forecasts were at 4.3 per cent and 4.5 per cent respectively). Australia’s growth forecasts were also revised down to 1.8 per cent for 2011 (previously forecast at 3.0 per cent), rising to 3.3 per cent in 2012 (reported as 3.5 per cent in June).

How this affects you

The RBA minutes highlighted the competing influences at work in the Australian economy. The high terms of trade (prices of exports relative to imports) and the large pick-up underway in resources sector investment and resource-related construction are supporting strong growth in national income. These developments are also adding to concerns about the medium term inflation outlook. However, working against these strong demand influences, and representing key risks to slower growth is the impact of subdued activity and investment intentions outside of the mining sector, diminishing consumer confidence, declining business credit, soft retail sales and weak housing construction. Further, the RBA noted in its September minutes that a number of businesses were re-evaluating their strategies given the likelihood of the Australian dollar remaining at a relatively high level. In some cases, businesses were responding by restructuring their operations and even closing facilities. Against this backdrop, recent volatility in financial markets and sovereign debt problems has led to heightened uncertainty about the prospects for economic growth in Europe and the United States. On balance, these factors reinforce the view that the RBA will leave the cash rate unchanged for the remainder of the year, while continuing to closely assess the outlook for domestic growth and inflation, as well as the effects of developments in Europe and the US on other regions.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$0.9778 ▼
Oil price	USD 79.63 per bbl ▼
Annual growth in GDP	1.4 per cent -
Unemployment rate (%)	5.3 per cent -
Annual growth in headline CPI	3.3 per cent -
Copper price	AUD 7,455.51 ▼
Australian PMI (August)	43.3 -
Australian PSI (August)	48.8 -
Australian PCI (August)	32.1 -

Week in Preview: 26 September – 30 September 2011

- HIA **New Home Sales** data for August 2011 will be released on Wednesday.
- ABS estimates of **Job Vacancies** in August 2011 for the private and public sectors will be published on Thursday.
- Data for August 2011 on total credit provided to the private sector by financial intermediaries will be made available on Friday with the release of the latest Reserve Bank of Australia **Financial Aggregates** publication.
- The **RP Data-Rismark** home value index for August will also be released on Friday.

* 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.