

# Ai GROUP ECONOMICS WEEKLY

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## Week in Review: 20 – 24 June 2011

- Preliminary ABS **Merchandise Imports** data revealed that imports declined by \$7m (seasonally adjusted) from \$18,771m in April 2011 to \$18,764m in May 2011 on a balance of payments basis. Imports of intermediate and consumption goods rose by 2% and 4% respectively, while imports of capital goods fell by 8%. Much of the decline in capital goods imports was due to a 42% fall in the category, civil aircraft and other confidentialised items.
- The minutes of the June **Reserve Bank of Australia Board** meeting indicated that the RBA retains its positive view on the medium term outlook for the domestic economy, with mining production expected to rebound in coming months and contribute significantly to GDP growth in the June and September quarters. However, the Board noted that recent economic data had not added any urgency to the need to adjust monetary policy with sectors outside of resources remaining subdued. It was also observed by members of the Board that global activity data had been softer over the past month, and that downside risks to the international economy had risen due mainly to sovereign debt problems in Europe. On the basis of these considerations, the Board “judged that it would be prudent to leave the stance of (monetary) policy unchanged, pending further data on international developments and on the strength of domestic demand and inflationary pressures”. However, it noted that should economic conditions evolve as expected, this could lead to a gradual pick-up in inflation, and as a consequence further tightening in monetary policy was likely to be needed at some point.
- 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 2.7% in April 2011, below its long term trend of 3.1% and down from 4.4% at the end of 2010. The slower rate of growth of the Index indicates that the impact of weather disasters at the start of the year is likely to continue to impact on the economy’s growth momentum in coming months.

## 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 solid expansion projected in mining investment and resource-related construction during the year point to a strong boost to national income and continued strength in the labour market. However, working against these positive demand influences, and representing key risks to slower growth are weaker investment intentions outside of the mining sector, cautious consumer spending, diminishing business confidence, sluggish retail sales and subdued housing construction. Further, the RBA noted in its June minutes that Federal Government fiscal policy was expected to exert a significant contractionary impact on aggregate demand over the next two years reflecting growth in tax revenue, lower spending growth and a wind down of fiscal stimulus programs. Against this backdrop, there are renewed concerns about economic growth in the United States, expectations of a slowdown in China’s growth and on-going worries about Greece’s debt situation. As a consequence, factors working against an interest rate rise in July appear to be rising.

## Latest data\*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0493 ▼
Oil price	USD 90.87 per bbl ▼
Annual growth in GDP	1.0 per cent -
Unemployment rate (%)	4.9 per cent -
Annual growth in headline CPI	3.3 per cent -
Copper price	AUD 8620.03 ▲
Australian PMI (May)	47.7 -
Australian PSI (May)	49.9 -
Australian PCI (May)	39.6 -

## Week in Preview: 27 June– 1 July 2011

- Speech by **Guy Debelle, Assistant Governor, Reserve Bank of Australia**, (Financial Markets) – Collateral, Funding and Liquidity – to the Systemic Risk, Basel III, Financial Stability and Regulation Conference, Shangri La Hotel, Sydney
- The **Department of Education, Employment and Workplace Relations Vacancy Report** assessing skilled job vacancies in June 2011 will be released on Wednesday.
- ABS estimates of **Job Vacancies** in May 2011 for the private and public sectors will also be published on Thursday.
- Data for May 2011 on total credit provided to the private sector by financial intermediaries will also be made available on Thursday with the release of the latest Reserve Bank of Australia **Financial Aggregates** publication.
- Ai Group will release its Australian Performance of Manufacturing Index (**Australian PMI®**) for June 2011 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](mailto:economics@aigroup.asn.au).