Ai GROUP ECONOMICS WEEKLY

Week in Review: 21 – 25 November 2011

- ABS construction industry data showed that the total value of **Construction Work Done** rose by 12.5% (seasonally adjusted) in the September quarter 2011, the largest quarterly rise since data was first collected in 1986. The result was underpinned by robust growth of 22.6% in engineering (infrastructure) construction with the value of private infrastructure work rising by 36.1% or $5.4 billion in the quarter. However, a breakdown of the data shows a less encouraging picture across the other major building and construction sectors. Residential building fell by 1.1% in the September quarter following a 3.1% decline in the previous quarter. Non-residential building (commercial projects) remained subdued, rising by just 3.1% to be 16.2% down over the year, and infrastructure work undertaken for the public sector fell by 2.5%. On a state basis, Western Australia drove much of the overall growth in the September quarter. Demonstrating the pace and scale of the State's mineral and energy developments, the total value of work done in WA increased by 44.0% or $4.2 billion in the quarter. There were also increases in New South Wales (+5.4%) and Victoria (+3.1%) following a sustained period of weakness. In contrast, South Australia recorded a fall of 8.7% while total work done in Queensland was largely unchanged (-0.2%), following the post floods rebuilding activity which drove strong growth in infrastructure work during the first two quarters of the year.

- ABS estimates of Gross State Product in 2010-11 derived from the **Australian National Accounts: State Accounts, 2010-11** showed that (GSP) increased in all states in 2010-11. Western Australia experienced the strongest growth (3.5%), and was one of five states to exceed the national Gross domestic product (GDP) growth rate of 2.1%. The others were New South Wales (2.2%), Victoria (2.5%) , South Australia (2.4%) and Queensland which experienced the lowest growth rate of 0.2% for 2010-11 due to lost mine production from the floods and cyclone.

How this affects you

Last week's data highlighted the strong upturn in engineering construction consistent with the strength of mining investment and the considerable pipeline of heavy industrial projects, led by oil and gas processing in Western Australia. There is currently a record $72.2 billion of resources/energy related construction work to be done. This includes several coal and iron ore developments planned by BHP Billiton, Fortescue Metals and Rio Tinto over the next three years. Further work is also expected to be awarded during the next 12 months on the $43 billion Gorgon LNG project in WA as well as other LNG/coal seam gas projects. Nevertheless, outside of engineering construction, activity continues to exhibit weakness. This reflects a range of factors including stretched affordability, household's desire to pay down debt and a diminishing level of government backed projects. It is also in line with the broad picture coming from softer national house prices, lackluster demand for house construction finance and the decline in building approvals (residential and commercial) in September to their lowest level in more than two years. Looking ahead, engineering construction is set to continue to expand at a solid rate and provide critical support for total construction activity. However, there is the risk that the extent of the upside could be undermined by the strong Australian dollar, slower global growth and the strong potential for an intensification of skill shortage bottlenecks in the resources sector.

Latest data*

Official cash rate	**4.50 per cent -**
AUD/USD exchange rate	**$1.0003 ▼**
Oil price	**USD 96.57 per bbl ▼**
Annual growth in GDP	**1.4 per cent -**
Unemployment rate (%)	**5.2 per cent -**
Annual growth in headline CPI	**3.5 per cent -**
Copper price	**AUD 7,169.2 ▼**
Australian PMI (October)	**47.4 -**
Australian PSI (October)	**48.8 -**
Australian PCI (October)	**34.7 -**

Week in Preview: 28 November-2 December 2011

- On Wednesday, the ABS will publish the latest edition of **Business Indicators, Australia.** This will provide estimates of production, income from the sale of goods and services, wages and salaries and the book value of inventories for the December quarter 2011.
- Reserve Bank of Australia **Financial Aggregates** for October and the **RP Data-Rismark** home value index for October will be released on Wednesday.
- Preliminary estimates for actual and expected new capital expenditure will be made available by the ABS on Wednesday with the release of its September quarter 2011 **Private New Capital Expenditure, Australia** publication.
- On Thursday, Ai Group will release its Australian Performance of Manufacturing Index **(Australian PMI®)** for November.
- Also on Thursday, ABS **Retail Trade** data for October; **Building Approvals** for October and; **Industrial Disputes** data for September 2011 will be released.

* 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.