Ai GROUP ECONOMICS WEEKLY

Week in Review: 22 August – 26 August 2011

- ABS construction industry data showed that the total value of **Construction Work Done** rose by a subdued 0.8% (seasonally adjusted) in the June quarter 2011 to be just 2.0% higher over the year. Underlying this weakness in construction activity were declines in both non-residential construction (-6.1%) and residential construction (-4.1%). Engineering construction work was a positive, rising by 5.9% or $1.3 billion with the value of private sector and public sector infrastructure work increasing by 5.7% and 7.3% respectively. On a state basis, the total value of work done in South Australia increased by a seasonally adjusted 8.9%. In contrast, New South Wales fell by 12.0% followed by Victoria (down by 2.7%) and Western Australia (down by 5.0%). Total work done in Queensland was largely unchanged (-0.2%), although infrastructure work increased strongly by 25.8% reflecting post floods rebuilding activity and the start of work on major coal seam gas projects.

How this affects you

Last week's data provided further evidence of the subdued overall state of Australia's construction industry. This reflects a range of factors including the dampening impact of last year's increases in interest rates, stretched affordability, weak home buyer confidence, a diminishing level of government backed projects and; subdued private sector investment in offices, hotels, retail premises and other commercial building projects. It is also in line with the broad picture coming from softening house prices, lackluster demand for house construction finance and the decline in building approvals (residential and commercial) in July to their lowest level in two years. However, engineering (infrastructure) construction activity is benefiting from on-going strength in demand for commodities and the increasing shift to project re-starts, particularly in the resources sector. Further growth in infrastructure works is expected over the remainder of 2011 and during 2012 given the significant infrastructure plans of Federal and State governments and the large stock of mining and energy construction in the pipeline. However, there is the risk that the strong Australian dollar, slower global growth and worsening skill shortage bottlenecks could undermine the extent of the upside.

Latest data*

Official cash rate	**4.75 per cent -**
AUD/USD exchange rate	**$1.0568 ▲**
Oil price	**USD 85.35 per bbl ▲**
Annual growth in GDP	**1.0 per cent -**
Unemployment rate (%)	**5.1 per cent -**
Annual growth in headline CPI	**3.3 per cent -**
Copper price	**AUD 6,601.90 ▲**
Australian PMI (July)	**43.4 -**
Australian PSI (July)	**48.8 -**
Australian PCI (July)	**36.1 -**

Week in Preview: 29th August – 2nd September 2011

- HIA **New Home Sales** data for July 2011 will be released on Monday.

- On Tuesday, the ABS will release data on **Building Approvals** for July (a key indicator of the pipeline of residential, apartments and commercial building activity).

- 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 September quarter 2011.

- Reserve Bank of Australia **Financial Aggregates** for July and the **RP Data-Rismark** home value index for July will also be released on Wednesday.

- On Thursday, Ai Group will release its Australian Performance of Manufacturing Index **(Australian PMI®)** for the month of August.

- Preliminary estimates for actual and expected new capital expenditure will be made available by the ABS on Thursday with the release of its June quarter 2011 **Private New Capital Expenditure, Australia** publication.

- Also on Thursday, ABS **Retail Trade** data for July and **Industrial Disputes** data for June 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.