

Ai GROUP ECONOMICS WEEKLY

Week in Review: 23 May – 27 May 2011

- ABS data released on Wednesday showed that the total value of **Construction Work Done, Australia** increased in seasonally adjusted terms by 0.7% to \$42,326.6m in the March quarter 2011 following a 1.4% decline in the previous quarter.
 - **Private construction** exhibited further strength, rising by 2.5% in the March quarter, building on the 2.4% increase of the previous quarter.
 - **Public construction** which had been holding up total construction during 2009 through to early 2010 registered a 3.6% decline in the March quarter following a decline of similar magnitude over the previous two quarters. This reflects the completion of a number of school building projects.
 - **Engineering construction** work done increased by 4.6% to be 15.5% up over the year to the March quarter consistent with the increasing shift to project re-starts in the resources sector. Infrastructure work undertaken for the public sector rose by 6.4% whilst the value of private sector infrastructure work increased by 3.6%.
 - **Non-residential building** work done fell by 10.2% reflecting the winding back of the stimulus from the Government's school building program and the lack of impetus from private sector investment in offices, hotels, retail premises and other commercial building projects.
 - **Residential construction** work done rose by a subdued 1.9% with stretched affordability and household's desire to pay down debt constraining growth.
- 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 5.3% in March 2011, well above its long term trend of 3.4%. The growth pace of the Index points to economic activity strengthening in 2011 following a weak March quarter. The result was reported by Westpac as being consistent with its forecast that the Australian economy would expand at an annualised rate of 4.5% in the second half of 2011.
- ABS data released on Thursday showed that the volume of **Private New Capital Expenditure** rose by 3.4% (seasonally adjusted) in the March quarter 2011, a result which exceeded the median market forecast of a rise of 2.7%. Investment in buildings and structures increased by 4.5% while investment in plant and equipment rose by 2.4%. Despite some toning down of expectations, the data continued to provide an upbeat assessment for the investment outlook. The estimate for total private capital expenditure in 2010-11 was \$124.1 billion which implies solid growth through the year of 16%. By industry sector, mining investment is expected to lead the way with implied growth of 40% (calculated by applying the average 10 year realisation ratio). Manufacturing investment plans imply growth of 2% while service sector implied investment growth is 2.5%. The second estimate of capital expenditure plans for 2011/12 is extremely positive, implying growth of 40%, upgraded from 32% implied by the survey in the first estimate (for 2011/12) three months ago. This upgrade was driven by the mining sector, with implied growth of 87%. Intentions for 2011/12 for manufacturing and services are broadly flat, with projected growth of +1% manufacturing and -2.5% for services.

How this affects you

Last week's data reaffirmed the positive outlook for infrastructure construction and investment expenditure in the mining industry. The upward revision to capital expenditure investment plans in 2011/12 are consistent with the ramping up of work on the \$43bn Gorgon LNG project in Western Australia and the high level of mining related projects in the pipeline. Infrastructure activity is also benefiting from on-going strength in demand for commodities and the increasing shift to project re-starts. The construction data for the March quarter reflected these developments with engineering (infrastructure) construction underpinning growth in the quarter. A further positive development was the evidence of a pick-up in private sector investment demand which should help to support total construction activity as fiscal stimulus is unwound. 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 continued expansion of the oil and gas sector, including the recent go ahead of three large scale coal seam gas projects in Queensland. However, there is a risk that higher domestic interest rates, the strong Australian dollar and worsening skill shortage bottlenecks could undermine the extent of the potential upside.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0362 ▲
Oil price	USD 99.85 per bbl ▲
Annual growth in GDP	2.9 per cent -
Unemployment rate (%)	4.9 per cent -
Annual growth in headline CPI	2.8 per cent -
Copper price	AUD 8428.52 ▲
Australian PMI (April)	48.4 -
Australian PSI (April)	51.5 -
Australian PCI (April)	37.9 -

Week in Preview: 30th May-3rd June 2011

- On Monday, 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 March quarter 2011.
- On Wednesday, Ai Group will release its Australian Performance of Manufacturing Index (**Australian PMI®**) for the month of May, while the Australian Performance of Services Index (**Australian PSI®**) will be released on Friday.

- On Tuesday, the ABS will release data on Australia's **Balance of Payments and International Investment Position** for the March quarter 2011.
- Also on Tuesday, the ABS will release data on **Building Approvals** for April (a key indicator of the pipeline of residential, apartments and commercial building activity) and **Government Finance Statistics** for the March quarter 2011.
- The latest reading on Australia's economic growth will be available on Wednesday with the release of **Australian National Accounts** data for the March quarter 2011.
- ABS **Retail Trade** data for April will be published on Thursday. Also on Thursday, the ABS will release preliminary estimates on **Australia's International Trade in Goods and Services** for April 2011.
- This week will also see the ABS provide an up to date assessment of the number of industrial disputes and working days lost in Australia when it releases **Industrial Disputes** data for March 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.