

# Ai GROUP ECONOMICS WEEKLY

---

## Week in Review: 26 – 30 September 2011

- Reserve Bank of Australia **Financial Aggregates** data showed that total credit provided to the private sector by financial intermediaries rose by a soft 0.2% in August 2011. Housing credit increased by 0.4% to be 5.8% higher over the year to August. However, personal credit, which includes purchases on credit cards and personal loans, declined by 0.9% while business credit was flat for a second consecutive month.
- The latest **HIA - Jeld-Wen New Home Sales Report**, a survey of Australia's major residential builders showed that housing conditions remain soft. The number of new private dwellings sold increased only slightly by 1.1% in August following marked declines of 8.0% in July and 8.7% in June 2011. Detached house sales increased by 1.5% but were down by 15% over the three months to August. Sales of multi-units fell by 2.2% in August. The improvement in the volume of detached houses sold in August was driven by a 9.8% increase in Queensland reflecting the positive influence of the first month of the Queensland Government's Building Boost Grant. Victoria also registered growth (+3.0%), although sales declined in New South Wales (-5.8%), South Australia (4.7%) and Western Australia (-0.7%).
- The **RP Data-Rismark** home value index revealed that national capital-city home prices exhibited continued weakness in August, declining by a seasonally adjusted 0.4% to be 3.2% down over the year to August. The fall recorded in August marked the eighth consecutive month of declining capital city home values. Perth values recorded the biggest fall in August, declining by 2.0% followed by Adelaide (-0.4%), Melbourne (-0.2%) and Brisbane (-0.2%). Sydney prices were unchanged during the month.
- ABS **Job Vacancies** data revealed that total job vacancies decreased by 1.3% (trend terms) between May and August 2011 to 183,700. Despite this fall, vacancies were 1.1% higher than in the same period of the previous year. During the three months to August, the number of job vacancies in the private sector fell by 1.3% while a 1.5% decrease was recorded in the public sector.

### How this affects you

Last week's data highlighted the persistent weakness in private sector credit growth and indicates that domestic financial conditions are continuing to exert a restraint on the economy. Weakness in credit conditions was concentrated in commercial and personal finance, although housing credit remains subdued. The flat state of commercial finance is a likely reflection of the soft demand for lending from small and medium businesses which are typically more reliant on bank lending to fund expenditure (as distinct from internal cash flows/equity). It is also consistent with deteriorating business confidence, and adds to evidence that the trading environment encountered by large parts of the economy is not yet supportive of a rise in capital investment to boost capacity. In addition, consumers remain cautious in their intentions, with the degree of conservatism underlined by the decline in personal finance commitments in August. Credit for housing also remains soft despite rising in August, reflecting on-going weakness in the housing market. This was underscored by the continued subdued trend in new home sales and the decline in house prices during August with stretched affordability, soft consumer confidence and households' desire to pay down debt clearly contributing to the sector's weakness. Volatility in financial markets and heightened uncertainty about the global economic outlook are likely to further weigh on confidence and demand. This suggests that credit growth will remain subdued in coming months.

## Latest data\*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$0.9672 ▼
Oil price	USD 78.75 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 7,373.35 ▼
Australian PMI (August)	43.3 -
Australian PSI (August)	48.8 -
Australian PCI (August)	32.1 -

## Week in Preview: 3 – 7 October 2011

- On Monday, Ai Group will release its Australian Performance of Manufacturing Index (**Australian PMI®**) for the month of September, followed by the Australian Performance of Services Index (**Australian PSI®**) will be released on Wednesday.
- On Tuesday, the ABS will release data on **Building Approvals** for August 2011.
- Also on Tuesday, preliminary international trade estimates on a balance of payments basis will be available with the release of ABS data on Australia's **International Trade in Goods and Services** for August 2011.
- The Reserve Bank of Australia (RBA) Board meeting and **monetary policy decision**, 2.30pm on Tuesday.
- ABS **Retail Trade** data for August 2011 will be released on Wednesday.
- Also on Wednesday, the ABS will release **Engineering Construction Activity** data for the June quarter 2011, including estimates of the value of work done, commenced and yet to be done on a state and sector basis.

\* 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).