Ai GROUP ECONOMICS WEEKLY

Week in Review: 27 June – 1 July 2011

- Ai Group's Australian Performance of Manufacturing Index **(Australian PMI®)** rose by 5.2 points to 52.9 in June to signal growth in manufacturing (readings above 50 indicate an expansion in activity) for the first time in four months. However, activity remained subdued for large parts of the industry with many survey respondents citing the negative influences of soft domestic demand, the strong Australian dollar and increased import competition on trading conditions. *(http://www.aigroup.com.au/economicindicators)*

- **The Department of Education, Employment and Workplace Relations Vacancy Report** revealed a seasonally adjusted rise in the internet vacancy index of 0.3% to 94.7 in May 2011. Over the year internet vacancies were up by 13.1%, driven by strong increases in Queensland and Western Australia of 23.8% and 20.2% respectively. By region, the highest rates of increase were recorded in Goldfields and Southern Western Australia (up by 157.1%) and Outback Queensland (118.7%).

- Reserve Bank of Australia **Financial Aggregates** data showed that total credit provided to the private sector by financial intermediaries remained subdued in May, rising by just 0.3%. Housing credit growth increased by 0.5% with higher interest rates and weak lending to investors weighing on demand. Business credit rose by 0.1% in May to be down 1.5% over the year, while other personal credit, which includes credit cards, was flat over the month consistent with soft retail spending and caution among consumers more generally.

- ABS **Job Vacancies** data revealed that total job vacancies decreases by 1.7% (trend terms) between February and May 2011 to 186,000. Despite this fall, vacancies were 8.1% higher than in the same period of the previous year. During the three months to May, the number of job vacancies in the private sector fell by 1.9% while a 0.6% increase was recorded in the public sector.

How this affects you

Recent economic developments indicate that the Australian economy continues to face a range of headwinds including a strong dollar, rising import penetration, constrained credit growth and on-going consumer and investor caution. Encouragingly, Ai Group's **Australian PMI®** showed that the manufacturing sector in June recorded its first month of growth since February due to increases in production, new orders and deliveries. The basic metals, construction materials, machinery & equipment and transport equipment sub-sectors all appeared to benefit from the upstream driver of Australia's improving resource based construction and infrastructure outlook. However, a number of sectors continued to contract in June with particular weakness evident in the clothing & footwear, fabricated metals and printing & publishing sectors. In addition, wages and input costs registered further growth during the month, while selling prices were reduced more markedly, indicating that profit margins are continuing to narrow for many manufacturers. The RBA data revealing subdued business credit growth in May, also underlined that businesses remain cautious in their intentions. However, against the backdrop of rising national incomes amid a strong rise in Australia's terms of trade, a strengthening in business credit and expenditure is expected to emerge in coming months. This should help to support stronger economic growth during the second half of the year.

Latest data*

Official cash rate	**4.75 per cent -**
AUD/USD exchange rate	**$1.0715 ▲**
Oil price	**USD 94.94 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 8,699 ▲**
Australian PMI (June)	**52.9 ▲ 5.2 points**
Australian PSI (May)	**49.9 -**
Australian PCI (May)	**39.6 -**

Week in Preview: 4 July – 8 July 2011

- On Monday, the ABS will release data on Australian **Retail Trade** and **Building Approvals** for May 2011.
- On Tuesday, Ai Group will release its Australian Performance of Services Index **(Australian PSI®)** for the month of June while the Australian Performance of Construction Index **(Australian PCI®)** will be released on Thursday.
- 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 May 2011.
- On Tuesday, the board of the Reserve Bank meets in Sydney.
- On Wednesday, the ABS will release **Engineering Construction Activity** data for the March quarter 2011, including estimates of the value of work done, commenced and yet to be done on a state and sectoral basis.
- On Thursday, the **ABS Labour Force** publication for June 2011 will be available with an assessment of the latest national and state trends in employment and unemployment.

* 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.