

Ai GROUP ECONOMICS WEEKLY

Week in Review: 7 March – 11 March 2011

- Ai Group's Australian Performance of Construction Index (**Australian PCI®**) registered 44.6 in February 2011 (readings below 50 indicate a contraction in activity). However, the latest reading was 4.4 points above January's 40.2 to indicate a less marked rate of decline. This, in part, reflected an easing in weather related disruptions to activity during the month.
[\(<http://www.aigroup.com.au/economicindicators>\)](http://www.aigroup.com.au/economicindicators)
- The **ANZ Job Advertisements Index** rose by a seasonally adjusted 1.2% in February to an average of 193,555 advertisements per week. This represented the tenth consecutive month of gains and translated into a 19.3% annual increase. Newspaper advertisements rose by 4.4% (following declines in the previous two months) while online job advertisements increased by 1.0% after rising by 3.1% in January.
- The **National Australia Bank Monthly Business Survey** showed that business conditions recovered only partly from the January floods. The overall business conditions index (a composite index of trading performance, profitability and employment) improved, but remained negative, rising by 4.0 points to a -2.0 point index level. The survey also revealed that orders remained weak and stocks declined despite the rebuilding of mining stocks. Nevertheless, the business confidence index increased by 10.0 points to a +14.0 points level, the strongest since March 2010, indicating that businesses are reasonably optimistic about the near term outlook.
- **ABS Housing Finance** data showed that finance for occupied housing declined by 4.5% in January 2011, as the recent floods in Eastern Australia impacted negatively on borrowings. The decrease in housing finance was driven by a fall in finance for the purchase of new dwellings (-13.5%) and the construction of dwellings (-9.4%), both of which are critical to the supply of housing. Moreover, in annual terms, finance for the construction of new dwellings was down strongly by 28.1%, underlining the extent to which this component continues to weigh on housing supply.
- The **Westpac-Melbourne Institute Consumer Sentiment Index** fell by 2.4% in February to 106.6, following a 1.9% fall in January. This was the lowest reading since June 2010 when sentiment was adversely impacted by the three consecutive interest rate increases by the RBA and controversy surrounding the mining tax. Underlining the cautious and uncertain mood of households, the component of the index assessing "family finances over the next twelve months" fell by 6.8% while assessments on finances relative to a year ago remained pessimistic with this index falling by 1.6% to be 12.1% below last year's level. While households' assessments on the outlook for the economy over the next 12 months improved (up 5.7%), the disconnect between how respondents see their own financial circumstances and overall prospects for the economy was further highlighted by falls in "time to buy a dwelling" (down 2.3%) and "time to buy a car (down 2.9%).
- **ABS Labour Force** data released on Thursday revealed that national employment declined by 10,100 to 11,412,900 (seasonally adjusted) in February. The decline was driven by a decrease in part-time employment of 57,700 which outweighed a strong increase in full-time employment of 47,600. The unemployment rate remained steady at 5.0% in February, helped by a reduction in the number of people looking for work. The participation rate fell by 0.1 percentage points to 65.7.

- **ABS Industrial Disputes** data showed that there were 27,200 working days lost due to industrial disputation in the December quarter 2010, a decrease from 46,600 in the September quarter 2010. The metal products manufacturing industry accounted for 8,800 (32%) of the total number of working days lost in the December quarter 2010. The metal products industry also had the highest number of working days lost per thousand employees (26.1) for the quarter.

How this affects you

The strong growth in full-time employment in February and the continued increase in job advertisements underlines the on-going strength of the labour market and indicates that the Australian economy remains on a firm footing. Key positives for the outlook of the domestic economy continue to centre on the solid terms of trade due to elevated commodity prices, the improvement in Australia's major trading partner growth, low unemployment and the expected support to business investment from a strong resources and infrastructure project pipeline. Nevertheless, conditions at the industry level remain mixed. This was underlined in the results of the NAB Business survey which revealed that whilst the mining and recreation sectors are performing well, a number of sectors, including manufacturing, wholesale, retail and construction are continuing to suffer amid a strong Australian dollar, higher interest rates, and an intensification of skill shortages. The Australian PCI[®] also highlighted the continued weakness in the construction industry, with contracting new orders signaling that tough conditions and subdued work levels (outside of engineering construction) are likely to persist in coming months. This is consistent with the deterioration in housing finance data for January and the subdued state of approvals and commencements across the major private sectors of the commercial construction industry. Last week's consumer sentiment data also underlined the on-going cautious approach by Australian households to their spending which is being reflected in an increased preparedness by households to save and pay down debt. This is providing the economy with a degree of spare capacity and helping to compensate for the pressures on inflation that are expected to build in response to the tight labour market and the higher incomes flowing from the strong terms of trade. As a consequence, it provides the RBA with more time to assess developments before making any further move on interest rates. The Reserve Bank Board next meets on April 5.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0141 ▲
Oil price	USD 101.12 per bbl ▼
Annual growth in GDP	2.7 per cent -
Unemployment rate (%)	5.0 per cent -
Annual growth in headline CPI	2.8 per cent -
Copper price	AUD 8922.20 ▼
Australian PMI (February)	51.1 -
Australian PSI (February)	48.7 -
Australian PCI (February)	44.6 ▲ 4.4 points

Week in Preview: 21 March – 25 March 2011

- The ABS will release **Sales of New Motor Vehicles** data for February in each state/territory sourced from the Federal Chamber of Automotive Industries on Tuesday.
- **Lending Finance** data for the month of January 2011 will be published by the ABS on Tuesday. This will provide statistics on finance commitments for secured housing finance for owner occupation, other personal finance, commercial finance and lease finance.
- The minutes of the 1st March **Reserve Bank of Australia Monetary Policy Briefing** of the RBA Board will also be made available on Tuesday, providing further insight into the decision to keep official interest rates on hold in the short-term.
- On Wednesday, preliminary estimates of **Dwelling Unit Commencements** for December 2010 (new houses, new other residential and conversions) will be published by the ABS.
- The **Westpac – Melbourne Institute Leading Index** for January (which indicates the likely pace of economic activity three to nine months into the future) will also be released on Wednesday.
- The **RBA Monthly Bulletin** for the March quarter 2011 will be published 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.