

Ai GROUP ECONOMICS WEEKLY

Week in Review: 9 May – 13 May 2011

- The **ANZ Job Advertisements Index** rose by a seasonally adjusted 1.0% in April 2011, marking the twelfth consecutive month of gains and translating into a 20.5% annual increase. Online job advertisements increased by 1.2% while newspaper advertisements fell by 3.4%. However, the total number of job advertisements remains 29.9% below the peak achieved in April 2008, suggesting that the labour market is not yet as tight as it was during the height of the first phase of the commodity boom.
- **ABS International Trade** data showed that Australia recorded a trade surplus of \$1,740m in March, a turnaround of \$1,827m on February's deficit of \$87m. Exports increased by 9.2% while imports rose by 1.2%. The rise in exports was underpinned by strong growth of 11.0% in non-rural exports on the back of high prices and increased coal and iron ore shipments. Imports were boosted by a strong increase in intermediate imports. This was offset by declines in capital goods imports of 8.3% (driven by a 51.4% fall of in civil aircraft imports) while consumption goods imports fell by 1.2%.
- The **National Australia Bank Monthly Business Survey** showed that business conditions declined in April, unwinding some of the strong upturn recorded in March. The decline reflected large falls in both trading and profitability. The overall business conditions index (a composite index of trading performance, profitability and employment) decreased by 4.0 points to a +5.0 point index level. The survey also revealed a fall in the business confidence index of 2.0 points in April. Consistent with this, forward orders (which give an indication of future demand for goods and services) were weaker in April, falling by 3.0 points to a zero index level. Labour costs (a wage bill measure) grew by a solid 4.5% in the year to April, consistent with on-going employment growth and a tight labour market.
- Australia's **2011 Federal Budget** was delivered on Tuesday 10th May. The expected underlying cash deficit in 2011-12 is \$22.6 billion (1.5% of GDP), with a return to surplus of \$3.5 billion (0.2% of GDP) in 2012-13. The Budget's economic parameters are largely factoring in a pick-up in Australia's economic growth. After a predicted subdued outcome of 2.25% in 2010/11, Australia's real Gross Domestic Product is forecast to grow by 4.0% in 2011-12 and 3.75% in 2012-13. Economic growth is expected to be underpinned by strong demand for commodity exports, lifting the terms of trade to record highs and driving investment in the mining sector. Underlying inflation is projected to increase steadily from 2.5% in the June quarter of 2011, to 3% in the June quarter of 2013. Wages growth is expected to increase in line with strong labour market conditions, with the wage price index rising by 4% through 2012 and 4.25% through 2013.
- **ABS Labour Force** data revealed that national employment decreased by 22,100 (0.2%) to 11 436,500 (seasonally adjusted) in April. The decrease was due to a fall in full-time employment of 49,100. This was the largest fall in the past 26 months, although it followed the addition of 71,000 full time jobs during the first quarter of the year. The decline in full-time employment in April was partially offset by a 26,900 increase in part-time employment. Despite the overall decline in jobs, Australia's unemployment rate remained steady at 4.9% reflecting an edging down in the participation rate to 65.6% from 65.8% in March. The state breakdown showed that job losses were confined to NSW and Victoria with falls of 44,000 and 12,200 respectively. The labour market continued to strengthen in Queensland following the floods and cyclones with employment rising by 18,100 after a 13,100 increase in March. Employment in WA and SA rose by 4,900 and 600 respectively.

How this affects you

The unchanged national unemployment rate in April indicates that the labour market remains tight reflecting the underlying strength of the Australian economy. Other key positives for the domestic economy include the return to surplus of the trade balance; the solid terms of trade boost due to the strength in commodity prices and; the recovery in coal and iron ore shipments following the weather related disruptions to production earlier in the year. Further growth in merchandise export volumes is likely over the months ahead particularly as productive capacity in the mining sector expands. Nevertheless, recent developments demonstrate that the negatives of the buoyant resources sector (the strong dollar and higher interest rates) are weighing heavily on large parts of the economy and constraining Australia's economic recovery. The latest National Australia Bank Monthly Business Survey pointed to a softening in business conditions in April and an eroding of sentiment in the face of the high Australian dollar. It also provided further evidence of a multi-speed economy, with business conditions remaining weak in manufacturing, construction and retail compared with stronger conditions in transport & utilities, finance, property & business services and mining. Despite these developments, on the basis of upside risks to inflation due to the pick-up in mining investment and strong competition for labour, the Reserve Bank of Australia has indicated that another rate rise is in the pipeline. However, ongoing consumer caution and the uncertain economic impact of recent natural disasters in and outside of Australia may give the RBA cause to consider holding off on further rate hikes until later this year.

Latest data

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0567 ▼
Oil price	USD 99.09 per bbl ▲
Annual growth in GDP	2.7 per cent -
Unemployment rate (%)	4.9 per cent -
Annual growth in headline CPI	2.8 per cent -
Copper price	AUD 8381.75 ▲
Australian PMI (April)	48.4 -
Australian PSI (April)	51.5 -
Australian PCI (April)	37.9 -

Week in Preview: 16th May – 20th May 2011

- ABS **Lending Finance** data for March 2011 and ABS **Sales of New Motor Vehicles** data for April 2011 will be released on Monday.
- The minutes of the **Reserve Bank of Australia Monetary Policy Briefing**, May 2011, Tuesday 11.30 am.
- **The Westpac – Melbourne Institute Index of Consumer Sentiment** and the **DEEWR Vacancy Report** for April 2011 will be released on Wednesday.
- Also on Wednesday, the ABS will publish the **Labour Cost Index** for the March quarter 2011 followed by **Average Weekly Earnings** data (February 2011) on Thursday.