

Ai GROUP ECONOMICS WEEKLY

Week in Review: 14 March – 18 March 2011

- ABS data on **Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) declined by 5.9% (seasonally adjusted) in January, in part reflecting the impact of the recent floods in Eastern Australia. The most marked rate of decline was registered in the value of personal finance commitments (-9.5%) in line with on-going consumer caution and the reluctance by consumers to take on debt. This was followed by falls in commitments for commercial finance (-5.8%), owner occupied housing (-4.6%) and lease finance (-1.3%).
- The minutes of the 1st March **Reserve Bank of Australia Board** meeting made reference to the negative impact of recent extreme weather events on economic activity, including the reduction in coal shipments from Queensland and the significant fall recorded in housing loan approvals in January. The Board also noted that in the household sector there continued to be caution in spending and borrowing, and that consumer confidence had softened in early 2011. Nevertheless, the Board assessed that developments over the past month had not materially altered the outlook for the economy. With respect to inflation, the Board indicated that despite short term weather related price rises occurring for some agricultural produce, it expected the short term addition to CPI inflation to be reversed later in the year. As a result, the Board considered that inflation over the full year ahead remained consistent with the 2-3 per cent target range. On this basis, the Bank judged that the current *“mildly restrictive stance of (monetary) policy continued to be appropriate”*.
- ABS data compiled in conjunction with the Federal Chamber of Automotive Industries showed that **New Motor Vehicle Sales** expanded slightly for the third time in four months with a seasonally adjusted increase of 0.2% in February. For the year, however, new motor vehicle sales were down by 1.5% as compared with a 29.0% annual growth rate in April 2010. During February, sales of passenger vehicles decreased by 2.7%, while sales of sports utility and other vehicles increased by 4.1% and 4.2% respectively.
- The **Westpac – Melbourne Institute Leading Index** which indicates the likely pace of economic activity three to nine months into the future was 3.5% in January. Although this was slightly above its long term trend of 3.3%, it was down on the 4.6% pace recorded in December 2010 reflecting the negative impact of severe weather events in January. It was also well below the solid 9% plus growth rates recorded in the early part of 2010. The deceleration in the growth rate of the Leading Index in January was indicative of a slowing in the near term growth of the economy.
- ABS preliminary estimates of **Dwelling Unit Commencements** showed that the total number of dwelling units commenced declined by 5.3% in the December quarter 2010 following a fall of 13.0% in the September quarter. New private sector house commencements (comprising 62.0% of total commencements) fell by 8.0% while commencements of new private sector other residential buildings (largely comprising apartments) rose by 4.2% from a weak base. Victoria registered the largest fall in commencements in the December quarter (-15.9%) followed by Tasmania (-14.3%), South Australia (-14.1%), Queensland (-5.9%) and New South Wales (2.1%). Commencements in Western Australia were largely unchanged in the quarter.

How this affects you

Recent economic developments, including sluggish retail sales and service sector activity show that Australian consumers remain cautious and are continuing to spend less and save more despite a robust jobs market. Interest rate rises over last year, increases in utility charges and the lingering effects of the global financial crisis appear to have reduced consumers' appetite for spending. This degree of conservatism among consumers was further underlined by the decline in motor vehicle sales during February and the marked reduction in January in the value of finance commitments for personal purposes. The decline in commercial lending also indicated that, beyond the headline figures, large parts of the economy (predominantly those outside of mining) are still experiencing excess capacity and are being squeezed by the strong Australian dollar and higher interest rates. Compounding the fall in commercial and personal finance commitments, lending for owner occupied housing has continued to decline with the winding back of fiscal stimulus and weaker buyer confidence dampening the demand for housing. This was further highlighted by the marked fall in private sector dwelling commencements in the December quarter 2010, signaling a further widening in Australia's shortfall of housing stock. These developments and the anticipated negative economic impacts from the earthquake in Japan, reinforce the view that the Reserve Bank Board is likely to hold off on raising interest rates until later this year.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$99.64 ▼
Oil price	USD 101.04 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 9559.41 ▲
Australian PMI (February)	51.1 -
Australian PSI (February)	48.7 -
Australian PCI (February)	44.6 -

Week in Preview: 21 March – 25 March 2011

- On Tuesday, the ABS will release **International Merchandise Imports** data for February 2011.
- RBA Assistant Governor of financial stability section, **Malcolm Edey Speech**, 1.15pm on Thursday.
- On Thursday, the RBA will release its biannual **Financial Stability Review** report on the financial system.

* 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.