

Ai GROUP ECONOMICS WEEKLY

Week in Review: 18 July – 22 July 2011

- ABS data compiled in conjunction with the Federal Chamber of Automotive Industries showed that **New Motor Vehicle Sales** increased by a seasonally adjusted 1.3% in June. This followed a substantial 7.5% decline in the previous month which in part reflected supply issues due to production disruptions in Japan. For the year, new motor vehicle sales were down by 11.5%. During June sales of passenger vehicles and sports utility vehicles increased by 3.2% and 0.9% respectively whereas sales of other vehicles (business vehicles including trucks and vans) decreased by 3.1%.
- The minutes of the 5th July **Reserve Bank of Australia Board** meeting indicated that the RBA retains its positive view on the medium term outlook for the domestic economy with strong growth in investment, led by the resources sector, still expected over the next two years. However, the Board noted that caution among consumers and the high exchange rate were having a dampening effect on a number of sectors outside of resources. It was also observed by members of the Board that global growth had slowed in the June quarter and that “the downside risks associated with a possible adverse European financial shock looked more significant than had been the case a few months ago.” The Board noted that these factors had allowed it more time to assess the likely strength of inflationary pressures in the economy, and accordingly, the Board considered “that the current mildly restrictive setting of monetary policy remained appropriate”. As a result, the Board decided to leave the cash rate steady at 4.75%.
- **ABS International Merchandise Imports** data revealed that imports increased by 2% in June to \$18.4 billion (original terms). Preliminary analysis on a balance of payments basis showed that in seasonally adjusted terms capital goods imports increased by 7% while intermediate and other merchandise goods imports increased by 4.0% with the fuels and lubricants component up by 11%. In contrast, consumption goods fell by 1% (or \$34 million) consistent with ongoing consumer caution.
- ABS **Building Activity** data revealed a fall of 4.1% in the value of building work done (residential and non-residential) in the March quarter 2011. The reduction was driven by a 10.1% decline in non-residential building (commercial) work done. New residential building work remained subdued, rising by just 0.7% during the month. The winding back of the Federal Government’s fiscal stimulus package saw the value of public building work done decline by 17.9% (following a 9.7% fall in the December quarter) while private building work remained largely unchanged, rising by 0.2%.
- The **Westpac-Melbourne Institute Leading Index** (which indicates the likely pace of economic activity three to nine months into the future) registered an annualised growth rate of 1.6% in May 2011. This was well below its long term trend of 3.0% and represented the lowest growth rate since September 2009, signaling a moderation in the economy’s growth momentum in coming months.
- ABS data on **International Trade Prices** for the December quarter 2010 showed that export prices increased by 6.0% (reflecting sustained global demand for commodities) while import prices increased by 0.8% with the dampening influence on import prices of the strong Australian dollar offset primarily by higher prices for petroleum and petroleum products.

How this affects you

The increase in capital goods imports in recent months is consistent with the strong expansion in minerals and energy projects in Australia, and the flow through to a higher level of investment in resources-related construction. Resource projects either underway or in advanced stages are worth approximately \$173.5 billion, with resources/energy related construction work to be done currently standing at a record level of \$62.6 billion. However, investment in the non-mining sector remains soft as evident in last week's building activity data which highlighted the on-going weakness in private sector construction investment. It also provided further evidence that the housing sector is faltering under the weight of consumer caution, higher interest rates and moderating house prices. In addition, public non-residential building work remains subdued in line with the winding back of the Federal Government's fiscal stimulus package and the lack of impetus from private sector investment in non-residential (commercial construction) building projects. This was highlighted by the acceleration in the rate of contraction in public building activity and the marked falls registered in activity across key private building sectors in the March quarter 2011, including hotels, offices and retail premises. The outlook is for a continuation of subdued commercial construction activity throughout 2011, although conditions are likely to improve in 2012. The latest Ai Group Construction Outlook survey (compiled in conjunction with the Australian Constructors Association) points to growth in the value of work done in the commercial construction sector of 6.0% (current dollars) in 2012 after a projected rise of just 1.2% in 2011. This reflects a step-up in support from private building activity of +8.4% which is expected to help offset a further scaling back in work generated from public sector building projects.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0840 ▲
Oil price	USD 99.48 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 8946.49 ▼
Australian PMI (June)	52.9 -
Australian PSI (June)	48.5 -
Australian PCI (June)	35.8 -

Week in Preview: 25th April – 29th July 2011

- On Monday, the ABS will release data on **Producer Price Indexes** for the June quarter 2011.
- Speech by **Malcolm Edey, Assistant Governor (Financial System) Reserve Bank of Australia (RBA)**, 2.30 pm Monday.
- Speech by **Glenn Stevens, Reserve Bank of Australia Governor** to The Anika Foundation, 11.05 am Tuesday.
- The latest reading on the rate of inflation in Australia will be available on Wednesday, with the ABS releasing the **Consumer Price Index** for the June quarter 2011.
- On Friday, private credit data for June 2011 will be made available with the release of the latest RBA **Financial Aggregates** publication.
- The **RP Data – Rismark House Prices Index** for June 2011 will also be released on Friday.

* 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.