

Ai GROUP ECONOMICS WEEKLY

Week in Review: 28 March – 1 April 2011

- Ai Group's Australian Performance of Manufacturing Index (**Australian PMI®**) fell by 3.2 points to 47.9 in March, after having risen above the 50-point level separating expansion from contraction in February. Survey respondents cited soft domestic demand, the strong Australian dollar, and rising raw material prices as the major negative influences on activity during the month.
[\(<http://www.aigroup.com.au/economicindicators>\)](http://www.aigroup.com.au/economicindicators)
- The ABS **Building Approvals** data showed a 7.4% seasonally adjusted fall in the number of dwelling units approved in February following an 11.6% decline in the previous month. A 20.0% decline in the volatile "other dwellings" segment (which includes apartments, townhouse and units) drove the fall in total building approvals during the month. Private sector house approvals were also subdued, rising by just 0.2% in February to be down by 17.4% over the year.
- ABS **Job Vacancies** data revealed that total job vacancies decreased by a seasonally adjusted 1.7% between November and February 2011 to 189,900. Despite this fall, vacancies were 12.3% higher than in the same period of the previous year. During the three months to February, the number of job vacancies in the private sector fell by 1.9% while a 0.3% increase was recorded in the public sector.
- The HIA - Jeld-Wen **New Home Sales Report**, a survey of Australia's major residential builders, revealed that the number of new homes sold edged up by 0.6% in February 2011, but remained considerably below sales volume levels experienced during the stimulus driven period of 2009 and early 2010. Detached house sales increased by 1.5% in February whereas the sale of multi-units dropped by 7.6%.
- ABS data on **Retail Trade** showed that retail sales remained soft in February 2011 despite a rise in the seasonally adjusted value of retail turnover of 0.5% in the month. A strong jump in retail sales in Queensland (+2.3%) boosted the overall result, consistent with the anticipated lift in spending on the replacement of flood-damaged goods. Excluding Queensland, retail sales increased by just 0.1% in February indicating the prevalence of on-going caution among consumers.
- The **Department of Education, Employment and Workplace Relations Vacancy Report** revealed an increase the demand for labour in February with the internet vacancy index increasing by a seasonally adjusted 2.3% to 92.8. Over the year internet vacancies were up by 10.9%, driven by an 18.9% increase in vacancies in Queensland to signal a recovery in labour demand following the disruption to activity caused by the recent floods.
- Reserve Bank of Australia **Financial Aggregates** data showed that total credit provided to the private sector by financial intermediaries rose by rose by 0.5% in February 2011, up from the 0.3% in January. The March growth rate was the strongest recorded since May 2010 and exceeded market expectations of a 0.3% increase. Business credit increased by a solid 0.6% in February after being flat in February while housing credit rose by 0.5%. Other personal credit which includes credit cards, remained sluggish, increasing by 0.2%.
- ABS **Regional Population Growth** data revealed that, after climbing steadily since 2003-04, the rate of population growth in Australian capital cities slowed in 2009-10 to 1.8% from 2.2% in 2008-09. This slowdown occurred in all capital cities except Adelaide, Canberra and Hobart, where growth rates

remained stable. Much of the country's strongest population growth continued to be concentrated in the capital cities. The combined population of Australian capital cities increased by 257,800 people and accounted for over two-thirds of Australia's population growth.

- The **RP Data – Rismark Home Value Index** revealed that national capital-city home prices were unchanged in February after falling by a seasonally adjusted 1.5% in January, the largest decline since the index began tracking prices in 2005. For the year to February, capital city home prices edged up by 0.8% with this slow rate of growth reflecting higher interest rates and the impact of adverse weather events.

How this affects you

Recent economic developments provide further confirmation of the toughness and fragility of industry conditions in Australia. This was evident in the findings of Ai Group’s Australian Performance of Manufacturing Index (Australian PMI®) which reported falls during March in seven of the twelve major industry sub-sectors surveyed. This included deepening declines in the clothing and footwear and fabricated metal products sectors. On the positive side, the chemicals, petro-chemicals and coal sector experienced further growth in activity on the back of higher energy prices while companies operating in the construction materials and machinery and equipment sectors lifted their production in anticipation of stronger demand in the mining, infrastructure and transport /logistics end-markets. Elsewhere, the decline in building approvals and the weakness in new home sales volumes in February highlighted the continued subdued state of the housing construction industry with higher interest rates, tight credit conditions and low affordability all impacting negatively on the demand for building projects. Moreover, consumers remain cautious in their intentions as indicated by the soft (ex-Queensland) retail sales data and the on-going sluggish demand for personal credit. Nevertheless, the stronger growth in business credit in February may be an early indicator that businesses (particularly small and medium size enterprises outside of the mining sector) are beginning to increase their borrowings to fund higher levels of investment. This is an encouraging development, and is consistent with the positive outlook for business investment which should be supportive of a broader based economic recovery through the second half of the year.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0259 ▲
Oil price	USD 104.84 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 8,987.29 ▼
Australian PMI (March)	47.9 ▼ 3.2 points
Australian PSI (February)	48.7 -
Australian PCI (February)	44.6 -

Week in Preview: 4 April – 8 April 2011

- On Tuesday, Ai Group will release its Australian Performance of Services Index (**Australian PSI®**) for the month of March, while the Australian Performance of Construction Index (**Australian PCI®**) for March will be released on Thursday.
- On Tuesday, the ABS will release preliminary estimates on **Australia's International Trade in Goods and Services** for February 2011.
- The Reserve Bank of Australia (RBA) Board meeting and **monetary policy decision**, 2.30pm on Tuesday.
- Also on Tuesday, the ABS will release **Engineering Construction Activity** data for the December quarter 2010, including estimates of the value of work done, commenced and yet to be done on a state and sectoral basis.
- On Wednesday, ABS **Housing Finance** data for February 2011 will be published.
- An up to date assessment of labour market conditions in Australia, including the national unemployment rate, will be available on Thursday with the release of ABS **Labour Force** data for March 2011.

* 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.