

# Ai GROUP ECONOMICS WEEKLY

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**Week in Review:** 28 November – 2 December 2011

- Ai Group's Australian Performance of Manufacturing Index (**Australian PMI®**) registered 47.8 in November. This was a rise of just 0.4 points from October to signal that the decline in manufacturing remained broadly unchanged during the month. Readings below 50 indicate a contraction in activity with the distance from 50 indicative of the strength of the decline. (<http://www.aigroup.com.au/economicindicators>)
- The Australian **Federal Budget Mid-Year and Economic Fiscal Outlook (MYEFO)** revealed downgrades to the budget estimates for 2011-12 and 2012-13. A budget deficit of \$37.1 billion is now forecast for 2011-12, a downward revision from the May Budget forecast deficit of \$22.6 billion. A surplus is still expected for 2012-13, although it has been revised downwards to \$1.5bn from \$3.5bn in May. Economic growth forecasts have been trimmed for 2011-12 and 2012-13. Real GDP is expected to be around trend, at 3.25%, for both financial years. This compares to growth rates of 4.0% and 3.75% respectively, in the May Budget.
- The **HIA - Jeld-Wen New Home Sales Report**, a survey of Australia's major residential builders, showed that sales of new homes recovered moderately in October 2011, increasing by 5.5% after recording the lowest result in more than a decade in September. Detached house sales increased by 5.1% in October while sales of multi-units rose by 9.0%.
- ABS investment data showed that the volume of **Private New Capital Expenditure** rose by 12.3% (seasonally adjusted) in the June quarter 2011 (the strongest rate since 1996), taking annual growth to a record 31.3%. Investment in buildings and structures increased by 17.1% while investment in plant and equipment rose by 6.3%. The estimate for total private capital expenditure in 2011-12 was \$162.8 billion which implies solid growth through the year of 36% (calculated by applying the average 10 year realisation ratio for "total industries"). This is unchanged from the implied growth of three months ago. By industry sector, mining investment is expected to lead the way with implied growth of 73.2% in 2011-12. Manufacturing industry investment plans imply growth of 6.3% while service sector implied investment growth is 4.8%.
- The **Bureau of Energy and Resources (formerly ABARES) Mining Industry Major Project Listing** reported that at the end of October 2011, there were 102 projects at an advanced stage of development (pre-feasibility study, "underway" and through to "under construction"), representing a record capital expenditure of \$231.8 billion. This is an increase of 34% from April 2011 and 74% from October 2010. The record value of advanced minerals and energy projects reflects, in part, the decision to proceed with the development of the Wheatstone, APLNG and Prelude LNG projects, and BHP Billiton's commitment to develop the Caval Ridge coal mine in Queensland. Energy projects account for 74% (or \$170 billion) of the total advanced capital expenditure.
- Reserve Bank of Australia **Financial Aggregates** data showed that total credit provided to the private sector by financial intermediaries remained subdued in October, rising by 0.2%. Business credit, the major driver of overall credit, was flat while other personal credit declined by 0.3%, consistent with soft retail spending and caution among consumers. Housing credit increased by 0.4 per cent in October. This represented a slight easing on the 0.5% rise in September, and saw the annual rate edge down to a record low of 5.7%
- The **RP Data – Rismark Home Value Index** also underlined the subdued state of housing conditions. The national capital-city home prices fell by a seasonally adjusted 0.5% in October 2011, the 10<sup>th</sup> consecutive monthly decline. For the year to October, capital city home prices were down by 4.0%. In combination with

lower fixed and variable home loan rates this is helping to support an improvement in housing affordability. Regional house prices fell by a 0.8% in the month with capital city gains confined to Hobart (+3.1%) and Canberra (+1.6%). Home prices in Sydney were unchanged in October while falls were recorded in Brisbane (-1.6%), Adelaide (-1.3%), Perth (-0.8%), Melbourne (-0.6%) and Darwin (-0.5%).

- The ABS **Building Approvals** data showed a 10.7% seasonally adjusted decline in the number of dwelling units approved in October following a fall of 14.2% in the previous month. On an annual basis, the pace of decline accelerated to -29.8% compared to -12.6% in the previous month. October's decline was underpinned by a 16.8% fall in the volatile private sector 'other dwellings' segment (which largely comprising apartments). Private house approvals also exhibited weakness, declining by 7.5% to be 15.4% down over the year.
- ABS data on **Retail Trade** showed that the seasonally adjusted value of retail turnover rose by a modest 0.3% in October, the weakest rise in four months. By expenditure category, clothing and footwear recorded a solid rise of 1.2% in the month. However, other key discretionary sectors of department stores and "other" retailing (comprising mainly small –ticket discretionary items from newsagents, chemists and the like) fell by 0.7% and 0.4% respectively. The annual rate of retail sales growth improved from 2.3% in September to 3.4%. This was the strongest annual growth rate in eight months, although it was still below the long-run average of 5.4%.
- ABS **Industrial Disputes** data showed that there were 101,300 working days lost due to industrial disputation in the September quarter 2011, an increase from 66,200 in the June quarter 2011. The combined education and training and health care and social assistance industries accounted for 49,200 (49%) of the total number of working days lost in the September quarter 2011. During the year ended September 2011, there were 197 disputes (36 fewer than in the year ended September 2010) and 214,400 working days lost compared with 44,100 in the year ended September 2010.

## How this affects you

Recent economic developments provide further confirmation of the tough and highly challenging environment facing industry in Australia. This was evident in the findings of Ai Group's Australian Performance of Manufacturing Index (Australian PMI®) which reported falls during November in eight of the twelve major industry sub-sectors surveyed as manufacturers continue to struggle under the weight of the strong Australian dollar, sluggish domestic demand, subdued building activity and intense competition from overseas. This was underlined by the steeper declines during November in the construction materials, wood products and machinery & equipment sectors. On the positive side, production expanded in the chemicals, petroleum & coal sector (reflecting its supply links to the resources sector) while businesses operating in the transport equipment sector recorded a further lift in their production with transport/logistics demand benefiting from transport system requirements for mines and the demand "pull" that comes from the growing need to transport equipment and workers to Australia's vast mining and engineering projects. Elsewhere, the marked weakness in building approvals and the fall in national home city house prices highlighted the continued subdued state of the housing construction industry with householder caution, restrictive credit conditions and subdued growth in loans for new construction all impacting negatively on the demand for building projects. Moreover, while retail sales increased in October, the underlying trend still points to subdued spending consistent with on-going weak demand for personal credit and consumers' preference to save and pay down debt. However, highlighting the opposing forces in the economy, business investment remains an area of strength and should continue to help underpin economic activity and employment. This is highlighted by the large amount of resource related investment in the pipeline and the continued strength of capital expenditure plans in the mining sector.

## Latest data\*

Official cash rate	4.50 per cent -
AUD/USD exchange rate	\$1.0211 ▲
Oil price	USD 100.95 per bbl ▲
Annual growth in GDP	1.4 per cent -
Unemployment rate (%)	5.2 per cent -
Annual growth in headline CPI	3.5 per cent -
Copper price	AUD 7,169.2 ▼
Australian PMI (November)	47.8 ▲ 0.4 points
Australian PSI (October)	48.8 -
Australian PCI (October)	34.7 -

## Week in Preview: 5 – 9 December 2011

- On Monday, Ai Group will release its Australian Performance of Services Index (**Australian PSI®**) for the month of November 2011, while the Australian Performance of Construction Index (**Australian PCI®**) for November will be released on Wednesday.
- On Monday, the ABS will publish the latest edition of **Business Indicators, Australia**. This will provide estimates of production, income from the sale of goods and services, wages and salaries and the book value of inventories for the September quarter 2011
- The **ANZ job advertisements index** for November will be released on Monday.
- On Tuesday, the ABS will release data on Australia's **Balance of Payments and International Investment Position** for the September quarter 2011.
- The Reserve Bank of Australia (RBA) Board meeting and **monetary policy decision**, 2.30pm on Tuesday.
- The latest reading on Australia's economic growth will be available on Wednesday with the release of **Australian National Accounts** data for the September quarter 2011.
- 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 November 2011.
- Speech by **Reserve Bank Of Australia Governor, Glenn Stevens**, to the Inaugural Warren Hogan Memorial Lecture, The University of Sydney, Thursday, 6.20 pm.

\* 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](mailto:economics@aigroup.asn.au).