

Ai GROUP ECONOMICS WEEKLY

Week in Review: 29 August – 2 September 2011

- Ai Group's Australian Performance of Manufacturing Index (**Australian PMI®**) registered 43.3 in August, to remain well below the 50 points level (separating expansion from contraction) and signal a further deterioration in manufacturing activity. (<http://www.aigroup.com.au/economicindicators>)
- The ABS **Building Approvals** data showed a 1.0% seasonally adjusted rise in the number of dwelling units approved in July following a fall of 9.7% between April and June 2011. Despite the overall rise in building approvals, the declining trend for "other dwellings" (mainly comprising apartments) and private sector houses remained intact. The number of private sector "other dwellings" approvals fell by 1.4% in July while private sector house approvals fell by 0.2%.
- The **HIA - Jeld-Wen New Home Sales Report**, a survey of Australia's major residential builders, reinforced the marked deterioration in new home building conditions, with the number of new homes sold falling by 8.0% in July 2011 following a decline of 8.7% in June. Detached house sales fell by 9.0% in July 2011 while sales of multi-units increased by 1.0%.
- ABS data on **Retail Trade** showed that the seasonally adjusted value of retail turnover rose by a stronger than expected 0.5% in July. However, the overall spending picture from the retail trade data is still very subdued with annual growth in July remaining unchanged from the previous month at 1.4%. By expenditure category, clothing and footwear sales fell by 4.2% in the month while household goods retailing was flat. In contrast, department stores (+1.2%) and cafes & restaurants (+1.1%) posted improved sales after weakness in June. The "other retailing" category (comprising mainly small –ticket discretionary items from newsagents, chemists and the like) rose by 1.9% following a 1.5% gain in June.
- Reserve Bank of Australia **Financial Aggregates** data showed that total credit provided to the private sector by financial intermediaries remained subdued in July, 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 July, slightly up on the 0.3% rise in June and in line with the recent modest improvement in housing finance.
- The **RP Data – Rismark Home Value Index** revealed that national capital-city home prices exhibited renewed weakness in July, declining by a seasonally adjusted 0.6% following signs in the previous month that the rate of decline was slowing. Regional house prices fell by a similar 0.7% during the month with small capital gains confined to Sydney (+0.1%), Darwin (+0.6%) and Canberra (+1.9%). For the year to July, capital city home prices were down by 2.9% reflecting higher interest rates and weak consumer confidence.
- ABS investment data showed that the volume of **Private New Capital Expenditure** rose by 4.9% (seasonally adjusted) in the June quarter 2011, taking annual growth to 23.3% - the strongest pace in more than five years. Investment in buildings and structures increased by 7.3% while investment in plant and equipment rose by 2.2%. Investment spending for 2010-11 was \$119.7billion, an increase of 11.8% on the previous financial year. Despite some toning down of expectations, the investment outlook remained solid, particularly in the mining sector. The estimate for total private capital expenditure in 2011-12 was \$148.8 billion which implies solid growth through the year of 36% (calculated by applying the average 10 year realisation ratio). By industry sector, mining investment is expected to lead the way with implied growth of

73%. Manufacturing industry investment plans imply growth of 6% while service sector implied investment growth is 5%.

- **ABS Industrial Disputes** data showed that there were 66,200 working days lost due to industrial disputation in the June quarter 2011, an increase from 19,700 in the March quarter 2011. The construction industry accounted for 34,200 (52%) of the total number of working days lost in the June quarter. During the year ended June 2011, there were 209 disputes (22 fewer than in the year ended June 2010) and 159,800 working days lost compared with 126,500 in the year ended June 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 August in ten of the twelve major industry sub-sectors surveyed as manufacturers continue to struggle under the weight of the strong Australian dollar, sluggish domestic demand and increased competition from overseas. This was underlined by deepening declines during August in the clothing and footwear, fabricated metal products and paper, printing & publishing sectors. On the positive side, production in the clothing & footwear sector expanded, albeit from a weak base, while businesses operating in the food and beverages sector recovered ground following the negative impact on supply chains from the natural disasters of earlier this year. Elsewhere, the continued weak trend in building approvals and the fall in new home sales volumes in July to a 10-year low highlighted the continued subdued state of the housing construction industry with high interest rates, restrictive credit conditions and low affordability all impacting negatively on the demand for building projects. Moreover, while retail sales improved in July, the underlying trend still points to subdued spending consistent with on-going weak demand for personal credit and consumer caution. However, highlighting the opposing forces in the economy, private business investment remains an area of strength and should continue to help underpin economic activity and employment.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0640 ▲
Oil price	USD 86.43 per bbl ▲
Annual growth in GDP	1.0 per cent -
Unemployment rate (%)	5.1 per cent -
Annual growth in headline CPI	3.3 per cent -
Copper price	AUD 8,506.11 ▲
Australian PMI (August)	43.3 ▼ 0.1 points
Australian PSI (July)	48.8 -
Australian PCI (July)	36.1 -

Week in Preview: 5 September – 9 September 2011

- On Monday, Ai Group will release its Australian Performance of Services Index (**Australian PSI®**) for the month of August, while the Australian Performance of Construction Index (**Australian PCI®**) for August 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 June quarter 2011
- The **ANZ job advertisements index** for August will be released on Monday.
- The **TD Securities Melbourne Institute (TDMI) Inflation Gauge** for August will also be released on Monday to provide an estimate of consumer inflation pressures ahead of this week's RBA Board meeting.
- On Tuesday, the ABS will release data on Australia's **Balance of Payments and International Investment Position** for the June quarter 2011.
- **Government Finance Statistics** for the June quarter 2011 will be released on Tuesday.
- The Reserve Bank of Australia (RBA) Board meeting and **monetary policy decision**, 2.30pm on Tuesday.
- Also on Tuesday, ABS **Housing Finance** data for July 2011 will be published.
- The latest reading on Australia's economic growth will be available on Wednesday with the release of **Australian National Accounts** data for the June quarter 2011.
- RBA Governor Stevens, speech, Wednesday, 9.30am.
- 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 August 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.