

Ai GROUP ECONOMICS WEEKLY

Week in Review: 8 August – 12 August 2011

- The **ANZ Job Advertisements Index** fell by a seasonally adjusted 0.7% in July 2011, with the trend for job advertising declining for a fourth consecutive month. Historically, declining trends in job advertising have been consistent with rising unemployment. In July, the total number of job advertisements was 8.3% higher than a year ago, but 49% below the record peak reached in April 2008. Online job advertisements decreased by 0.7% in July while newspaper advertisements fell by 0.5%.
- The **National Australia Bank Monthly Business Survey** showed that business conditions contracted in July reflecting broad based falls in trading, employment and profitability. The overall business conditions index (a composite index of trading performance, profitability and employment) decreased by 3.0 points to a negative 1.0 point index level. The survey also revealed that overall business confidence remained at subdued levels with the US debt situation together with the negative impact of the high Australian dollar and continued cautiousness of households eroding confidence in a number of service sectors and in manufacturing. Consistent with this, forward orders (which give an indication of future demand for goods and services) remained particularly subdued, recording a weak negative 5 points level, unchanged from the previous month.
- **ABS Housing Finance** data showed that finance for occupied housing was flat in June. This follows a pick-up over the previous two months as a consequence of a recovery from the flood related disruptions to activity and finance in the first quarter of the year. Weakness was evident across all categories of housing finance during June. The number of finance commitments for the purchase of new dwellings rose by a subdued 0.7% while finance for the construction of new dwellings (a lead indicator of dwelling approvals) fell by 0.8%, indicating a further crimping of housing supply. In addition, investor finance continued to weaken falling by 12.3% despite rising rents. The weakness in housing finance is consistent with a number of indicators pointing to subdued conditions in the housing sector, including Ai Group's Australian Performance of Construction Index (Australian PCI®) which showed that the house building sub-index declined for a 14th consecutive month in July 2011.
- **ABS data on Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) decreased by 4.1% (seasonally adjusted) in June. This was driven by declines in the value of lease finance (-7.2%) commercial finance (- 6.5%) and personal finance commitments (-0.8%). The value of housing finance commitments was flat during the month.
- The **Westpac-Melbourne Institute Consumer Sentiment Index** fell by 3.5% in August to 89.6, the lowest level since May 2009. Underscoring the cautious and uncertain mood of households, the sub-index measuring "finances relative to a year ago" fell by 3.5%. With the exception of June/July 2008, this was the lowest reading since the early 1990's. In addition, the sub-index tracking respondents' expectations for their finances over the next 12 months fell by 5.1%, the lowest since the early 1990's. The sub-index tracking views on the 'outlook for economic conditions over the next 12 months' fell by 13.5% and has now slumped by over 30% since April. Responses to the Index measuring views on "time to buy a car" fell by 6.2% while the "time to buy a dwelling" index dropped by 3.9% although this was above the levels seen earlier this year.
- **ABS Labour Force** data revealed that national employment (seasonally adjusted) was flat in July with full time jobs falling by 22,000 and part time jobs expanding by 22,100. Australia's unemployment rate rose to 5.1% in July from 4.9% in June with the total number of unemployed persons rising by 3.0%.

How this affects you

Although the Australian labour market has exhibited volatility during the past six months in terms of changes in full-time and part-time jobs, the underlying trend still appears to be pointing to a slowing in overall jobs growth. The unemployment rate in July of 5.1% was the highest in eight months while total employment growth of 1.7% was the slowest since February 2010. In addition, job advertisements (a lead indicator of employment growth) declined in trend terms in July for a fourth consecutive month. This reflects heightened uncertainty in the global economic outlook, together with weakness in the non-mining sectors which has dented business confidence and employment intentions. Nevertheless, the current unemployment rate is still below the long run average of 5.3% and aggregate hours worked rose at the fastest pace (2.6%) in July. This indicates that labour market conditions are still relatively tight and as a consequence the threat of wage pressures building remains. This primarily reflects the strength of activity in the resources sector. The NAB Monthly Business Survey found that trend employment conditions in July remained strong in mining, although there was a very marked decline in employment in manufacturing together with sizeable falls in wholesale/finance/business/property and transport & utilities. The NAB survey also indicated a widening divide in business conditions across industries and states. According to the NAB survey, mining conditions edged higher in July whilst a number of non mining sectors, including manufacturing, construction and wholesale deteriorated further in the month. Moreover, Western Australia exhibited the strongest conditions with a further loss of momentum evident in the two major non-mining states of NSW and Victoria. Overall, last week's more moderate jobs growth combined with a further weakening in consumer confidence and greater downside risks to the global outlook, has reduced pressure on the RBA to lift interest rates in the near term. The RBA Board next meets on September 6.

Latest data*

Official cash rate	4.75 per cent -
AUD/USD exchange rate	\$1.0354 ▼
Oil price	USD 85.17 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 8548.39 ▼
Australian PMI (July)	43.4 -
Australian PSI (July)	48.8 -
Australian PCI (July)	36.1 -

Week in Preview: 15th August – 19th August 2011

- ABS **Sales of New Motor Vehicles** data for July 2011 will be released on Monday.
- The minutes of the August **Reserve Bank of Australia Monetary Policy Briefing** of the RBA Board will be released on Tuesday.
- The **Westpac – Melbourne Institute Leading Index** for June 2011 (which indicates the likely pace of economic activity three to nine months into the future) will be released on Wednesday.
- The **Department of Education, Employment and Workplace Relations Vacancy Report** assessing skilled job vacancies in August 2011 will be released on Wednesday
- Indications of any further wage pressures will be known on Wednesday when the ABS publishes the **Labour Cost Index** for the June quarter 2011 and **Average Weekly Earnings** data (May 2011) on Thursday.

* 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.