Ai GROUP ECONOMICS WEEKLY

Week in Review: 12 September – 16 September 2011

- ABS data on **Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) increased by 4.0% (seasonally adjusted) in July 2011. The strongest growth was registered in the value of commercial finance commitments (+6.1%) followed by lease finance commitments (+ 3.4%) and housing finance for owner occupation (+1.4%). The value of personal finance commitments rose by a subdued 0.5% to be 5.4% lower than a year ago, consistent with the reluctance by consumers to take on debt.

- ABS **International Trade** data showed that Australia recorded a trade surplus of $1.8bn in July 2011 (a slight increase of $9m on the surplus in June) as a 0.9% rise in imports was met with a 0.9% decline in exports. In terms of imports, intermediate and other merchandise goods fell by 5.5% (driven by a 13.4% fall in fuels and lubricants) while consumption goods imports increased by 3.2%, although this was mainly in response to a recovery in car imports after the supply disruptions in Japan earlier in the year. In a positive sign for business investment, capital goods imports increased by a solid 3.0% following a 4.9% increase in the previous month. On the export side, rural exports fell by 1.4% in July while non-rural exports (largely iron ore and coal) declined by 3.9%, driven by large falls in exports of coal, coke and briquettes (-12.1%) and other mineral fuels (-18.5%). Increases in non-rural exports were seen in metals excluding non-monetary gold (18.05), metal ores and minerals (0.2%), machinery (0.1%) and the volatile non-monetary gold category (82.1%).

- The **National Australia Bank Monthly Business Survey** showed that business conditions continued to trend lower in August. The overall business conditions index (a composite index of trading performance, profitability and employment) declined by 2.0 points to a -3.0 index points level, the softest reading since mid-2009 (excluding the flood induced dip of January 2011). The survey also revealed that business confidence fell sharply in August, down by 10.0 to -8.0 points. Consistent with this, forward orders remained in negative territory with an index reading of negative 5 points.

- ABS preliminary estimates of **Dwelling Unit Commencements** showed that the total number of dwelling units commenced declined by 4.7% in the June quarter following a fall of 3.3% in the March quarter. Commencements of new private sector other residential buildings (largely comprising apartments) declined by 7.1% while new private sector house commencements fell by 2.1%.

- ABS automotive sales data showed that **New Motor Vehicle Sales** expanded slightly for the fourth time in six months with a seasonally adjusted increase of 3.3% in August. For the year, new motor vehicle sales are up by 4.4%, although this was still well below the 28.9% annual growth rate in April 2010. The August increase was driven by a 10.1% rise in sales of sports utility vehicles whereas growth in sales of passenger vehicles and other vehicles was more subdued at 1.2% and 0.8% respectively.

- The **Westpac-Melbourne Institute Consumer Sentiment Index** rose by 8.1% to 96.9 in September, reflecting a likely boost to confidence from an improved outlook on interest rates and solid economic growth in the June quarter. Nevertheless, the index remains relatively weak, with the current reading 14.4% below its level of a year ago. Underlining the importance of interest rates on consumer sentiment, the index tracking responses to “whether now is a god time to buy a dwelling” rose by 15.1%. There were a number of other factors that were also supportive of improved consumer sentiment. In particular, the sub-index tracking respondents’ assessments of family finances compared to a year ago was up by 11.2%; the sub-index measuring the outlook for economic conditions over the next 12 months rose by 16.6% and; the sub-index on expected finances over the next 12 months was up by 9.5%.

How this affects you

One area of strength in the domestic economy is business investment and it is helping to underpin economic activity. The strengthening in demand for commercial finance and the solid increase during July in imports of machinery and industrial equipment (which are tied closely with capital expenditure) suggests that business investment, particularly in the resources sector, remained solid in July. However, the capital expenditure picture outside of mining is more subdued and the fall in building starts in the June quarter points to on-going weakness in private sector construction investment. Moreover, there remains a strong divide in business conditions across industries and states. This was evident in the findings of the NAB Monthly Business Survey which revealed that manufacturing, retail and construction conditions remained particularly subdued in August. Indeed, manufacturing conditions declined sharply and labour shedding in the industry was significant. Against that, the mining and service sectors experienced stronger trading conditions. In addition, the NAB survey found that the mining state of Western Australia was the only state experiencing strong business conditions with a loss of momentum in the two major non-mining states of NSW and Victoria confirmed in August. This indicates that the strong Australian dollar, high interest rates and deteriorating business confidence remain significant headwinds for growth in the non-mining states and large parts of industry outside of resources.

Latest data*

Official cash rate	**4.75 per cent -**
AUD/USD exchange rate	**$1.0359▼**
Oil price	**USD 87.95 per bbl▲**
Annual growth in GDP	**1.4 per cent -**
Unemployment rate (%)	**5.3 per cent -**
Annual growth in headline CPI	**3.3 per cent -**
Copper price	**AUD 8,750.46▲**
Australian PMI (August)	**43.3 -**
Australian PSI (August)	**48.8 -**
Australian PCI (August)	**32.1 -**

Week in Preview: 19 September - 23 September 2011

- The minutes of the September 2011 **Reserve Bank of Australia (RBA) Monetary Policy Briefing** of the RBA Board will be released on Tuesday.
- The **Westpac – Melbourne Institute Leading Index** for July 2011 (which indicates the likely pace of economic activity three to nine months into the future) will be released on Wednesday.
- **RBA Assistant Governor Lowe**, speech, Australian Economic Forum, Thursday, 9.00am.

* 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.