

Ai GROUP ECONOMICS WEEKLY

Week in Review: 19 – 23 December 2011

- Preliminary ABS **Merchandise Imports** data revealed that imports increased by \$720m (seasonally adjusted) from \$20,759m in October 2011 to \$21,479m in November 2011 on a balance of payments basis. Imports of capital goods rose by \$305m (6%) while imports of intermediate goods fell by \$19m. and consumption goods fell by \$16m.
- The minutes of the December **Reserve Bank of Australia Board** meeting highlighted the downside risks to the global economy and, consequently, to Australia from the unfolding financial crisis in Europe. The Board noted that these risks had increased and that the timing and magnitude of any effects that might flow from them remained very difficult to predict. In view of these circumstances, and given that the outlook for inflation was consistent with the 2-3% per annum target range for 2012 and 2013, the Board judged that “there was scope for a modest reduction in the cash rate at this meeting” and decided to lower the cash rate by 0.25 percentage points to 4.25 per cent, effective 7 December.
- The **Westpac-Melbourne Institute Leading Index** (which indicates the likely pace of economic activity three to nine months into the future) registered an annualised growth rate of 2.6% in October 2011, below its long term trend of 3.0% and down from 4.4% in August. This suggests that the pace of economic growth may ease in the next quarter.

How this affects you

Last week’s data pointed to continued improvement by businesses in their capital investment expenditure. Imports of machinery and equipment (which are closely linked to capital investment) increased by a solid 11.9% (original terms) in November to be 47.2% higher over the year. Moreover, despite the overall decrease in imports of intermediate goods, growth was recorded in various key capital input categories including primary industrial supplies (+12.5%) and parts for transport equipment (+12.3%). However, on the consumer spending side, the relatively flat level of imports of consumption goods was reflective of the on-going cautiousness on the part of households and subdued consumer sentiment. These were among the main domestic economic factors considered by the RBA Board at its December meeting. The Board noted that despite the stronger growth in capital imports during the past year and the corresponding rise in investment, there continued to be significant variations in conditions across the Australian economy. In particular, the housing market remained subdued while weakness persisted in the value of non-residential building approvals. In addition, overall business credit growth was soft while employment growth was well below the pace of 2010 with the Board noting significant caution by businesses in their hiring intentions. Nevertheless, the RBA assessed that the economy was “expanding at a pace broadly in line with trend” and that the overall domestic growth outlook remained favourable given strong mining related investment tied to continued solid growth rates in Asia. Against this, uncertainty is gripping financial markets and posing a significant downside risk to growth, meaning that monetary policy is likely to remain driven more by overseas factors than domestic data trends.

Latest data*

Official cash rate	4.25 per cent -
AUD/USD exchange rate	\$1.0157 ▲
Oil price	USD 99.53 per bbl ▲
Annual growth in GDP	2.5 per cent-
Unemployment rate (%)	5.3 per cent-
Annual growth in headline CPI	3.5 per cent -
Copper price	AUD 7,376.69 ▲
Australian PMI (November)	47.8 -
Australian PSI (November)	47.7 -
Australian PCI (November)	39.6 -

Week in Preview: 28th – 30th December 2011

- Reserve Bank of Australia **Financial Aggregates** for November and the **RP Data-Rismark** home value index for November will be released on Friday.

* 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.