

Ai GROUP ECONOMICS WEEKLY

Week in Review: 13 – 17 February 2012

- **Housing finance** for owner occupied housing (Australian Bureau of Statistics data) increased by 2.3% in December 2011, the ninth consecutive month of growth. The details showed that the number of finance commitments for the purchase of new dwellings rose by 2.1%, while finance for the construction of new dwellings (a leading indicator of dwelling approvals) increased by 2.0%, the first increase in four months. It is likely that the Reserve Bank of Australia's interest rate cuts in November and December last year have assisted the improvement in home lending. Also adding to overall demand is a rise in first home buyer activity. The proportion of all dwellings financed by first home buyers rose from 20.0% in November to 20.9% in December, the highest level since January 2010.
- The **National Australia Bank Monthly Business Survey** showed that business conditions improved slightly in January. The overall business conditions index (a composite index of trading performance, profitability and employment) increased by 2.0 points to a +2.0 index point level, after edging lower in the previous month. The survey also revealed that business confidence was a touch better in January with businesses appearing to have taken some relief from the recent RBA rate cuts as well as some easing of concerns about Europe. Forward orders (which give an indication of future demand for goods and services) also improved slightly, partly unwinding a soft fall in December. The forward orders index rose by 1.0 point to a -1.0 index point level, although this negative reading was still indicative of a soft trading start to 2012.
- ABS data on **Lending Finance** showed that total finance commitments (which include housing, personal, commercial and lease finance) remained broadly unchanged (seasonally adjusted) in December 2011. This weakness reflects a continuation of soft business credit demand and subdued personal lending. The value of commercial finance commitments declined by 0.9% in December following a 10.4% fall in the previous month while personal finance commitments rose by just 0.9%. Growth in the value of owner occupied housing finance commitments represented the main positive influence on finance demand in the month.
- The **Westpac-Melbourne Institute Consumer Sentiment Index** increased by 4.2% to 101.1 in February. The interest rate cuts by the RBA in November and December 2011 and a recent improvement in global economic conditions appears to have raised sentiment. Despite this improvement, it remains 5.2% below level of a year ago and 13.6% below its level of two years ago. All components of the Index increased in February. The results around issues that measure how respondents feel about their own finances improved during the month with the sub-index tracking responses on "family finances compared to a year ago" rising by 7.0% and the sub-index tracking responses on "family finances over the next 12 months" rising by 2.6%. This suggests that, the recent interest rate cuts by the Reserve Bank of Australia in November and December have started to have an impact on raising consumer confidence. Additionally, respondents expressed more confidence in the outlook for the economy. The sub-index tracking respondents' views on economic conditions over the next 12 months" was up by 0.9% and "economic conditions over the next five years" rose by 9.9%.
- ABS automotive sales data showed that **New Motor Vehicle Sales** increased by 1.3% in January, following a fall of 2.7% in the previous month. For the year, new motor vehicle sales are up by 2.7%, although this was still well below the 29.2% annual growth rate in April 2010. During January, the largest percentage rise (+3.0%) was recorded in sales of sports utility vehicles. This was followed by a

rise in “other” vehicles of 2.3% (a category comprising business vehicles including trucks and vans) while sales of passenger vehicles were broadly unchanged in the month.

- **ABS Labour Force** data revealed that national employment (seasonally adjusted) expanded by 46,300 in January, primarily led by a 34,000 increase in part time jobs. The labour force data has exhibited a high level of volatility in recent months. The overall rise in employment in January follows a large fall of 41,100 in November and December last year. Full-time employment increased by 12,300 in the month. Australia’s unemployment rate fell slightly from 5.2% in December 2011 to 5.1%, the lowest rate in six months.

How this affects you

Business conditions and confidence, while showing signs of improvement, remain subdued at the start of 2012. The strong divide in conditions across industries and states persists while the overall outlook is for near-term activity to remain moderate. These were key points from the NAB Monthly Business Survey for January. The survey found that business conditions strengthened solidly in the mining sector in January and improved slightly in manufacturing and recreation & personal services. In contrast, conditions deteriorated heavily in construction. Sharp falls were also registered in the wholesale and transport & utilities sectors, a possible consequence of continued weakness in retail sales. The NAB survey also found that the mining state of Western Australia was the only state experiencing strong business conditions in January whereas trend conditions were broadly flat in the remaining mainland states (and well below levels prevailing during the first half of 2010 when fiscal policy stimulus was supporting activity). This indicates that the strong Australian dollar together with patchy consumer spending and weakness in the housing and commercial building sectors remain significant headwinds for growth in the non-mining states and large parts of industry outside of resources. Private sector credit conditions are exerting a further constraint on growth. Last week’s fall in commercial finance is further evidence that businesses remain cautious about the outlook while consumer caution is continuing to weigh on credit card spending and other personal loans. Uncertainty about the global economic outlook and a weaker employment outlook could result in a continuation of the subdued trend in private sector credit demand in coming months.

Latest data*

Official cash rate	4.25 per cent -
AUD/USD exchange rate	\$1.0708 ▲
Oil price	USD 103.25 per bbl ▲
Annual growth in GDP	2.5 per cent -
Unemployment rate (%)	5.1 per cent -
Annual growth in headline CPI	3.1 per cent -
Copper price	AUD 7,816.56 ▼
Australian PMI (January)	51.6 -
Australian PSI (January)	51.9 -
Australian PCI (January)	41.0 -

Week in Preview: 20 - 24 February 2012

- On Monday, the ABS will also publish its latest **International Merchandise Imports** data for Australia. This will provide data on total imports and commodity aggregates for January 2012.
- The minutes of the February 2012 **Reserve Bank of Australia (RBA) Monetary Policy Briefing** of the RBA Board will be released on Tuesday.
- Speech by **Glenn Stevens, Reserve Bank of Australia, Governor**, at the ASIC Summer School 2012, Hilton Hotel, Sydney, Tuesday 1.30 pm AEDT.
- Indications of any further wage pressures will be known when the ABS publishes the **Labour Cost Index** (December quarter 2011) on Wednesday and **Average Weekly Earnings** on Thursday (November 2011).
- The **Department of Education, Employment and Workplace Relations Vacancy Report** assessing skilled job vacancies in January 2012 will be released on Wednesday.
- Speech by **Luci Ellis, Reserve Bank of Australia, Head of Financial Stability Department** – The Role of Prudent Mortgage Lending Standards in Ensuring Financial Stability – to the Australian Mortgage Conference 2012, Sofitel Sydney Wentworth, Sydney, Thursday 9.00 am AEDT.
- **Glenn Stevens, Reserve Bank of Australia, Governor**, Semi-Annual Sydney, Testimony before Parliament, Friday, 9.30 am AEDT.