

Ai GROUP ECONOMICS WEEKLY

Week in Review: 30 January – 3 February 2012

- Ai Group's Australian Performance of Manufacturing Index (**Australian PMI®**) rose by 1.4 points to 51.6 in January to signal that manufacturing remained in positive territory, albeit by a slim margin. (Readings above 50 indicate an expansion in activity.) The Australian Performance of Services Index (**Australian PSI®**) was 2.9 points stronger at 51.9 to signal a return to growth following three consecutive months of contraction in service sector activity.
[\(<http://www.aigroup.com.au/economicindicators>\)](http://www.aigroup.com.au/economicindicators)
- Reserve Bank of Australia **Financial Aggregates** data showed that total credit provided to the private sector by financial intermediaries remained subdued in December 2011, rising by 0.3%. Housing credit growth increased by 0.4% with weakness in house prices and uncertainty about the global economic outlook weighing on demand. Business credit rose by 0.3% in December to be up by 1.4% over the year. Whilst this was the strongest annual rate since May 2009, the recovery in business lending is still subdued and tentative. Other personal credit which includes credit cards consistent declined by 0.1% over the month consistent with flat retail spending and caution among consumers more generally.
- The **RP Data-Rismark** home value index revealed that national capital-city home prices declined by a seasonally adjusted 0.2% in December 2011 and by 3.6% over the year to December. The capital city breakdown showed that Sydney continued to outperform the other capital cities, recording a rise of 0.4% in the month. All other capital cities experienced declines in December with Hobart values recording the biggest fall (-2.7%) followed by Perth (-1.6%), Canberra (-1.3%), Brisbane (-0.6%), Melbourne (-0.5%) and Adelaide (-0.1%).
- The **National Australia Bank Quarterly Business Survey** showed that business conditions were unchanged in December 2011 after edging higher in November. The overall business conditions index (a composite index of trading performance, profitability and employment) was steady in the month at a +1 index points level. The survey also found that business confidence rose by 1 point to +3 index points in December but remained below the long term average (of +6) reflecting the continued cautiousness of households and concerns about the global outlook. Consistent with this, forward orders, which give an indication of future demand for goods and services edged down by 2 points to a weak minus 2 index points level. By state, conditions recovered very strongly in South Australia which was the equal strongest mainland state with Western Australia, while conditions were poor in Queensland and Victoria.
- The Australian Bureau of Statistics (ABS) **House Price Index** provided further evidence of softening house prices with the average price for established houses in Australia's eight capital cities falling by 1.0% in the December quarter 2011, the fourth consecutive quarterly decline. In annual terms house prices declined by 4.8%, the largest annual rate of decline since the March quarter 2009. The ABS house price series revealed annual declines in established house prices for all eight capital cities.
- The latest **HIA - Jeld-Wen New Home Sales Report**, a survey of Australia's major residential builders, confirmed that the volume of new home sales remained subdued and well below their historical average. New homes sold were essentially flat in December 2011, inching up by 0.2%. Detached house sales fell by 7.7% in December 2011, but rose by 2.1% over the quarter. Sales of multi-units rose by

29.4% in the final month of last year, but were down by 15.7% over the December quarter. By state, detached new house sales declined in three out of five mainland states in December, falling by 4.0% in New South Wales, 10.5% in Victoria, and 20.5% in Queensland. Sales increased by 12.0% in South Australia and by 6.8% in Western Australia.

- The ABS **Building Approvals** data showed a 1.0% seasonally adjusted decline in the number of dwelling units approved in December. The decline reflected a 2.0% fall in the “other dwellings” segment (which includes apartments, townhouse and units). Private sector house approvals also exhibited weakness, rising by just 0.2% in December to be down by 9.2% on an annual basis. The value of non-residential building approvals continued to show subdued growth, rising by a seasonally adjusted 3.3% in December with commercial construction yet to recover from the winding down of fiscal stimulus. The state breakdown showed that approvals increased in trend terms in Queensland by 1.4%. All other states recorded declines in the month. NSW recorded the most notable fall (-4.0%) followed by Western Australia (-2.1%), Victoria (-1.4%) and South Australia (-0.8%).
- ABS **International Trade** data showed that Australia’s trade surplus in December 2011 was \$1.7 billion, representing a rise of \$366 million on the surplus in November. The value of exports rose by 2.3% in December. This was despite a fall in commodity prices, implying that export volumes have continued to recover from the weather disruptions in the early months of 2011. The increase in exports reflected a 0.9 % rise in non-rural exports and a 0.4% rise in rural exports. The value of imports rose by 1.0% in December. Imports of intermediate goods increased by 4.0% (driven by a 21.9% rise in imports of fuels and lubricants) while consumption goods imports rose by 4.0%. In contrast, capital goods imports fell by 2.0%, although this was mainly due to a 13.5% decline in the volatile civil aircraft and confidential items category. Imports of machinery and industrial equipment which are closely linked to business investment increased by 3.4%.in December to be 31.9% higher over the year.

How this affects you

Recent economic developments provide further confirmation of the range of headwinds that continue to confront large parts of the economy, including a high dollar, strong overseas competition, constrained credit growth and on-going consumer and investor caution. Encouragingly, Ai Group’s **Australian PMI**® showed that the manufacturing sector held onto positive territory in January, expanding slightly for a second consecutive month. Overall conditions in January were supported by rises in the delivery of inputs and inventories of finished goods. There were also production gains in important sub-sectors such as food and beverages and transport equipment, the latter sector appearing to benefit from rising transport requirements in the mining sector. However, a number of sectors continued to contract in January with weakness evident in the textiles sub-sector and those sectors with links to the construction industry, including fabricated metal products, construction materials and basic metal products. In addition, wages and input costs continued to rise during the month, while the decline in selling prices persisted, maintaining the strong pressure on profit margins. The RBA data revealing soft business credit growth in December also underlined that businesses remain cautious in their intentions amid heightened uncertainty about the outlook for global growth. However, highlighting the opposing forces in the economy, the private business investment outlook remains robust, driven by the mining, infrastructure and utilities sectors, and this should continue to help underpin economic activity.

Latest data*

Official cash rate	4.25 per cent -
AUD/USD exchange rate	\$1.0767 ▲
Oil price	USD 97.98 per bbl ▼
Annual growth in GDP	2.5 per cent -
Unemployment rate (%)	5.2 per cent -
Annual growth in headline CPI	3.1 per cent -
Copper price	AUD 7,727.3 ▼
Australian PMI (January)	51.6 ▲ 1.4 points
Australian PSI (January)	51.9 ▲ 2.9 points
Australian PCI (December)	41.0 -

Week in Preview: 6 February – 10 February 2012

- On Monday, the ABS will release data on Australian **Retail Trade** for December 2011.
- On Tuesday, Ai Group will release its Australian Performance of Construction Index (**Australian PCI®**) for January 2012.
- The Reserve Bank of Australia (RBA) Board meeting and **monetary policy decision**, 2.30pm on Tuesday.
- The RBA **Statement on Monetary Policy** will be published 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.