

Economics Weekly

This week's economic highlights

- The **Australian PMI**[®] fell to be broadly stable in August for the first time in six months, indicating signs of manufacturing slowing.
- **Construction work done** fell 3.8% in Q2 2022 to 52.1 billion, with higher falls (6.8%) in the residential construction sector and (4.6%) in building construction.
- **Total new capital expenditure** fell by 0.3% in Q2 2022. Buildings and structures fell by 2.5% (reflecting softer construction), while equipment, plant and machinery rose by 2.1% (reflecting strong manufacturing). However, businesses have revised up their capex estimates for 2022-23 by 11.7% to \$146.4 billion.
- **Retail sales** recorded a 1.3% month-on-month increase in sales, and a 16.5% increase compared to July 2021.
- **SEEK Advertised Salary Index** reported an increase of 4.1% over the year to July 2022 for jobs advertised on seek that disclose salary information, higher than the ABS wage price index of 2.6% p.a. in Q2 of 2022.

Latest Australian economic data

The **Ai Group Performance of Manufacturing Index (Australian PMI**[®]**)** dropped 3.2 points to 49.3 points in August 2022 (seasonally adjusted). This is the first time the index has contracted since January 2022 following the Omicron outbreak during the summer break (see chart 1).

- Labour shortages and supply chain disruptions continue to drag manufacturing, as they have for the previous six months.
- Demand indicators has begun to soften, with large falls for sales, deliveries, new orders and exports.

Retail sales grew by 1.3% in July 2022 (up 16.5% y/y), remaining higher than levels recorded in November 2021. The increase recorded was the seventh consecutive monthly increase (see chart 2).

Five of the six retail sub-sectors reported increases in sales in July, but Household goods retailing fell for the third time in five months (-1.1% m/m).

Retail sales rose in Victoria (+1.8% m/m), the Australian Capital Territory (+1.8% m/m), Western Australia (+1.6% m/m), New South Wales (+1.3% m/m), South Australia (+1.2% m/m), the Northern Territory (+0.7% m/m) and Queensland (+0.4% m/m). The only decline in retail sales was reported in Tasmania (-0.3% m/m).

The **SEEK Advertised Salary Index (ASI)** reported an increase of 4.1% (y/y) (see chart 3) for jobs advertised on Seek that disclose salary details in July 2022. The ASI has been increasing since July 2021.

Advertised salary index grew in all states and territories in the year to July 2022, +4.7% in Queensland, +4.8% in Tasmania, +4.9% in Western Australia, +5.0% in the Northern Territory, +1.9% in South Australia, +1.8% in the ACT, +3.9% in Victoria and +3.8% in NSW.

According to seasonally adjusted salary advertisement data, salaries for the lowest paid have had the largest increase (see chart 4). Sectors with higher degrees of casualisation reported moderate increases with hospitality & tourism up by 3.4% and retail & consumer products up by 3.3%.

The **ABS Lending Indicators** showed that the value of new loan commitments decreased by 8.5% for housing but rose by 7.7% for personal fixed term loans in the month to July 2022. The typically volatile new loan commitments for business construction declined by 35.4% while the value of new loans for business purchase of property which is also usually volatile, increased by 40.2% (see charts 5 and 6).

The **ABS Building Approvals, Australia** gives an indication of the additions to the forward pipeline of work for the housing industry. The total number of dwelling approvals decreased by 17.2% in July 2022 compared to the previous month, with private sector multi-unit approvals falling by 43.5% m/m and private sector house building approvals rising by 0.7% m/m (see charts 7 and 8).

ABS preliminary estimates of **construction work done** in Q2 of 2022 (see chart 9) released on 31 August indicate that:

- **Total construction** work was down 3.8% on the previous quarter and 4.3% y/y
- **Engineering construction** work in Q2 of 2022 was valued at \$22.5bn. It was down by 2.7% q/q and 4.1% lower y/y. It remained below the mining-boom peak of \$38.6bn in 2013.
- **Building construction** work was \$29.6bn in Q2 2022, down by 4.6% from Q1 2022 and 4.4% lower y/y
- **Residential construction** work was worth \$17.4bn in Q2 2022, down by 6.8% from Q1 2022 and 7.6% lower y/y
- **Non-residential construction** work was \$12.2bn in Q2 2022, down by 1.1% from Q1 2022 and 0.6% higher y/y

Capital expenditure by private businesses (CAPEX) points to a modest fall in total new capital expenditure, down by 0.3% in the June quarter of 2022. Investment in buildings and structures was down by 2.5% while investment in equipment, plant and machinery rose by 2.1%.

Total new capital expenditure in the June quarter was \$33.9 billion. Total new business investment in the year to June 2022 was up by 2.0% (a 1.0% increase in buildings and structures and a rise of 3.2% in machinery, plant and equipment).

The June quarter data released this week also contained businesses' estimates of their expected capex in 2022-23. This was the July-August estimate for 2022-23, and at \$146.4 billion was a healthy 11.7% higher than the previous estimate from April-May.

The more detailed CAPEX data indicate (see charts 10 to 12) that in Q2 of 2022:

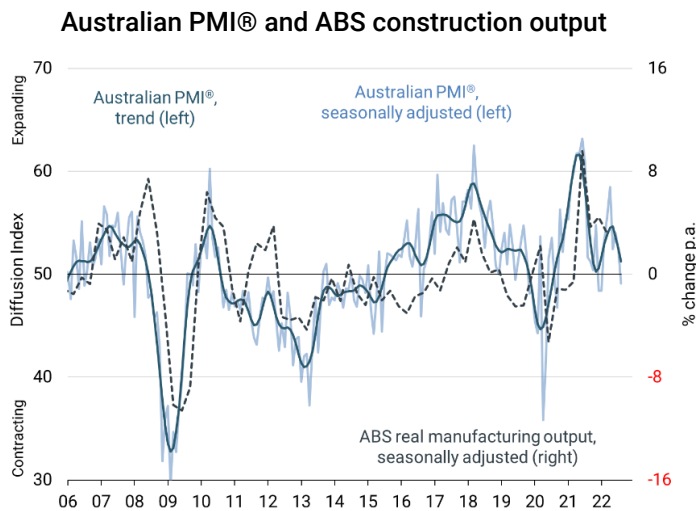
- **Across industries.** For the high-CAPEX industrial sectors – manufacturing and construction rose, while mining and utilities fell in the June quarter (see Table 1).
- **Across the states.** The ACT and Queensland saw the largest falls in the June quarter followed by South Australia. Investment rose in all other states and territories, but prominently in Victoria, the Northern Territory and Western Australia in Q2 2022.

Table 1: Real (volumes) CAPEX by industry, state and asset type, Q2 2022

<i>Seasonally adjusted and inflation adjusted</i>	\$mn per quarter (volumes)			Year-on-year change (% y/y)		
	Buildings & structures	Machinery & equipment	Total	Buildings & structures	Machinery & equipment	Total
TOTAL	17,220	16,687	33,907	1.0	3.2	2.0
NON-MINING	10,344	13,647	23,991	-3.3	1.0	-0.9
Industries						
Mining	6,876	3,040	9,916	8.2	14.4	10.1
Manufacturing	716	1,992	2,708	1.8	4.7	3.9
Utilities	2,053	321	2,374	-4.6	-1.8	-4.2
Construction	98	1,861	1,959	12.6	8.0	8.2
Wholesale Trade	291	924	1,215	12.8	2.1	4.5
Retail Trade	367	1,225	1,592	-9.6	-12.8	-12.1
Accom & Food Services	377	523	901	54.5	6.1	22.3
Transport & warehousing	1,255	2,049	3,305	-12.5	16.5	3.5
IT Media & Telecoms	1,257	361	1,618	-9.9	-7.2	-9.3
Finance & Insurance	162	745	907	-32.2	17.1	3.5
Rental, Real Estate	1,969	1,322	3,291	2.9	13.7	7.0
Professional Services	139	855	994	32.4	-2.2	1.5
Admin services	65	293	358	-18.8	-4.9	-7.7
Education	577	206	782	-7.1	-17.3	-10.1
Health Care	787	623	1,409	-4.5	-12.6	-8.3
Arts & Rec	114	149	262	22.6	26.3	24.2
Other Services	119	197	315	-16.8	-64.4	-54.8
States and Territories						
NSW	17,220	16,687	33,907	1.0	3.2	2.0
Vic	4,499	4,943	9,442	-9.3	-1.2	-5.2
Qld	3,170	3,629	6,800	9.3	4.2	6.4
SA	2,932	3,376	6,315	1.2	9.1	5.4
WA	1,146	898	2,044	-6.1	1.5	-2.9
Tas	4,855	3,393	8,258	5.7	7.2	6.3
NT	148	296	443	35.8	-3.3	6.5
ACT	475	148	623	24.7	-24.1	8.2

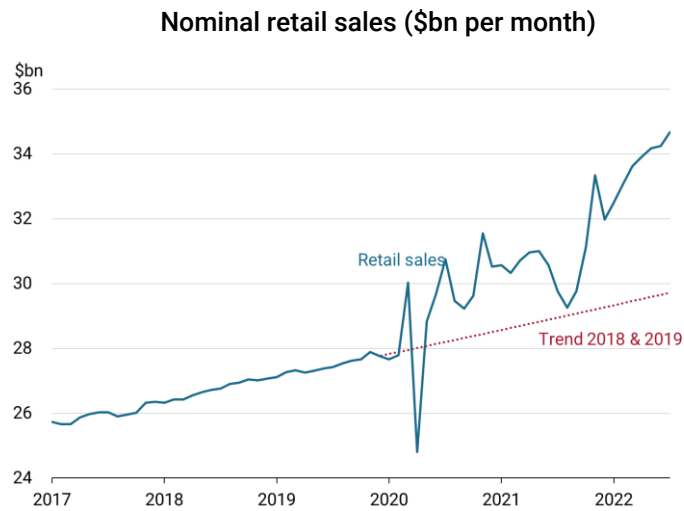
Source: ABS, *Private New Capital Expenditure and Expected Expenditure, Australia*, June 2022.

Chart 1: Ai Group-HIA Australian PMI® dropped 3.2 points to 49.3 points in August 2022, indicating a slight contraction (seasonally adjusted). This is the first time the index has contracted since January 2022 following the Omicron outbreak during the summer break.



Results below 50 points indicate contraction, with lower results indicating a stronger pace of contraction. Sources: ABS, *National Accounts*, March 2022 and Ai Group-HIA *Australian PCI*, August 2022.

Chart 2: Australian nominal retail sales rose 1.3% m/m to a record level of \$34.6 billion in July 2022 and remains higher than levels recorded in November 2021.



Source: ABS, *Retail trade*, July 2022

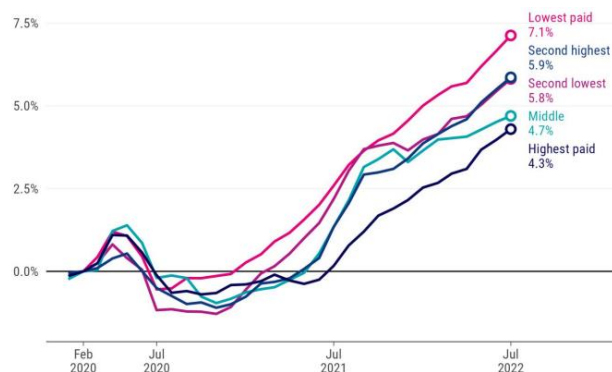
Chart 3: The SEEK Advertised Salary Index (ASI) was tracking below the ABS WPI from the start of the pandemic to July 2021 and has tracked above since then. The index reported an increase of 1.2% (q/q) and 4.1% (y/y).



Source: SEEK, ASI, July 2022

Chart 4: Over the course of the pandemic, advertised salaries rose the most for the lowest paid group. Advertised salaries for the lowest paid group rose by 7.1% from February 2020 to July 2022.

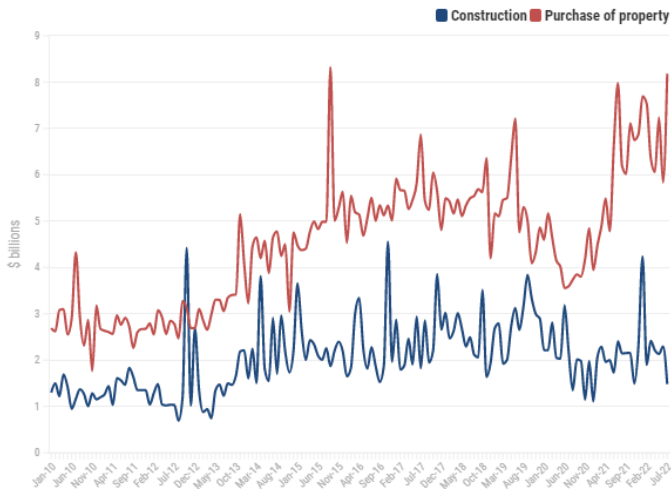
Cumulative growth in advertised salaries since Feb 2020 by salary band (seasonally adjusted)



Source: SEEK, ASI, July 2022

Chart 5: The value of new loan commitments for business construction declined by 35.4% while loan commitments for purchase of property increased by 40.2% month-on-month. Both are typically volatile.

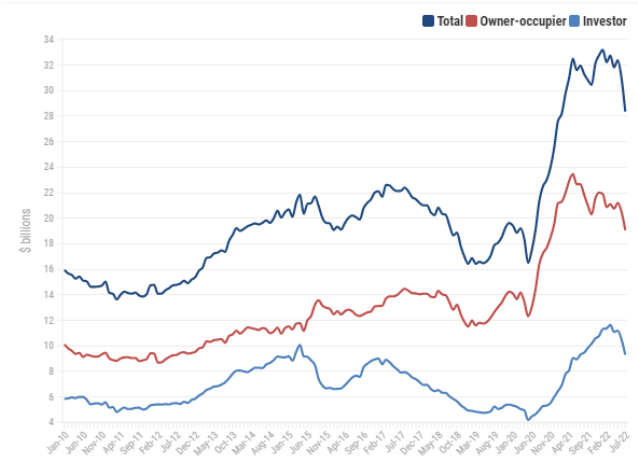
New loan commitments, business finance by purpose, Jan 2010 to July 2022



Source: ABS, Lending Indicators, July 2022

Chart 6: The total value of new loan commitments for housing excluding refinancing fell by 8.5%, owner-occupier housing fell by 7% and investor housing declined by 11.2%. However, they were all above pre-pandemic levels.

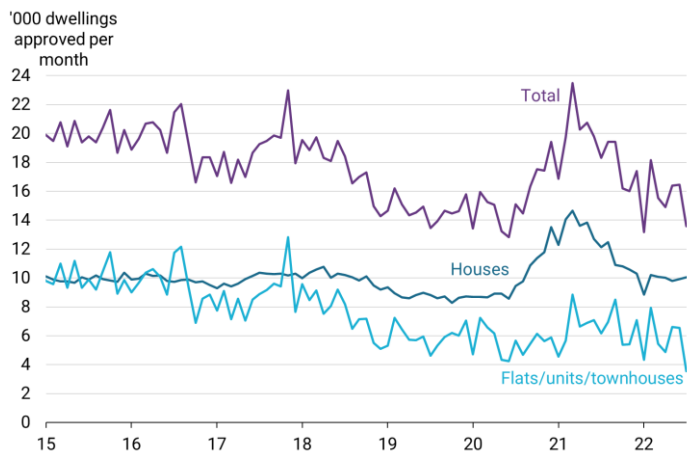
New loan commitments, housing by type of owner, Jan 2010 to July 2022



Source: ABS, Lending Indicators, July 2022

Chart 7: The number of residential building approvals decreased by 17.2% in July following flat results in June, largely driven by a fall in approvals for multi-unit dwellings. Approvals for detached houses edged higher in July.

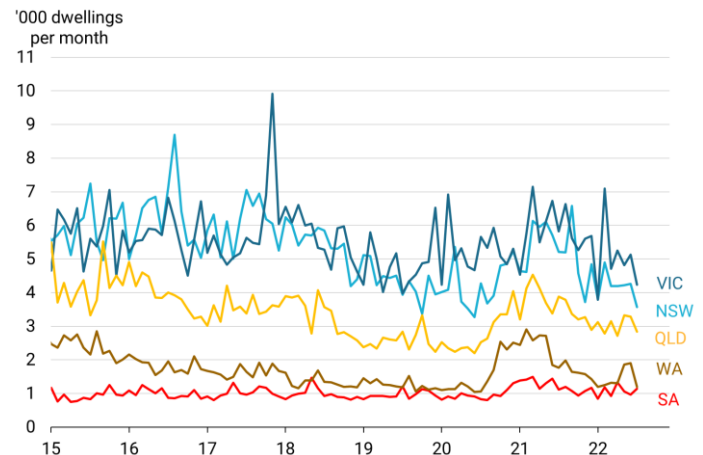
Residential building approvals by type, 2015 to July 2022



Source: ABS, Building approvals, July 2022.

Chart 8: Residential building approvals decreased in all mainland states except in South Australia in July 2022.

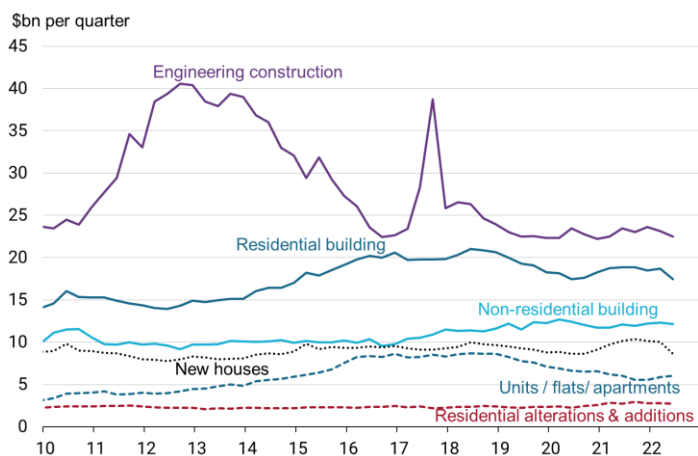
Residential building approvals by state, 2015 to July 2022



Source: ABS, Building approvals, July 2022.

Chart 9: Construction work done fell 3.8% in Q2 2022 in total. It fell 6.8% in the residential building sector, 4.6% in the building sector, 2.7% in the engineering building sector, and 1.1% in non-residential building compared to Q1 2022.

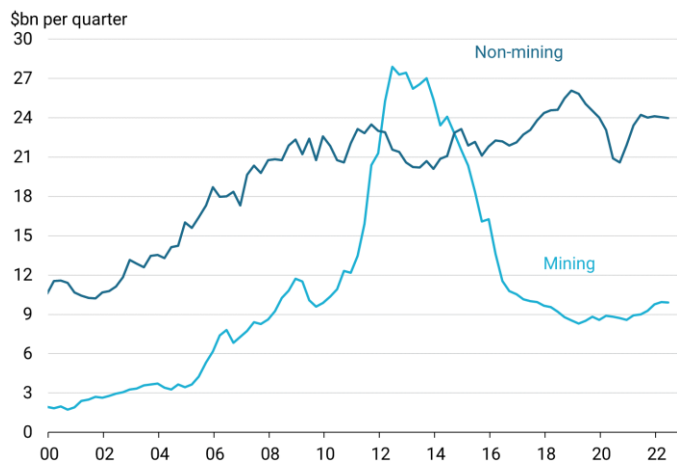
Construction work done by sector, to Q2 2022



Source: ABS, *Construction Work Done, Preliminary*, June 2022.

Chart 10: Business CAPEX fell slightly (both down 0.3%) in the mining and non-mining industries in Q2 2022 compared to Q1 2022.

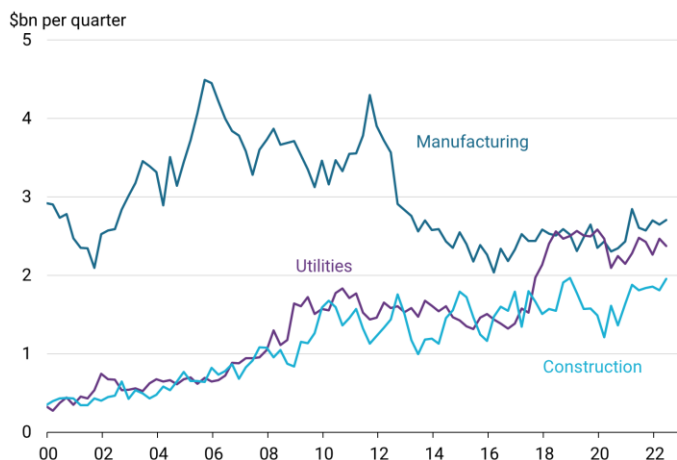
Annual nominal CAPEX, mining and non-mining industries, actual in 2000 to Q2 2022



Source: ABS, *Private New Capital Expenditure and Expected Expenditure, Australia*, June 2022

Chart 11: Business CAPEX rose slightly in Q2 2022 compared to Q1 2022 in the large industrial sectors of manufacturing and construction but fell in mining and utilities (electricity, gas and water).

CAPEX volumes* per quarter, industrial sectors, 2000 to Q2 2022

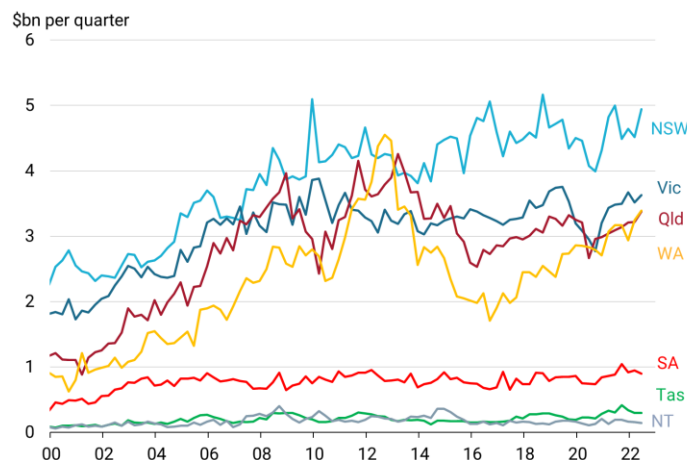


* Seasonally adjusted and inflation adjusted.

Source: ABS, *Private New Capital Expenditure and Expected Expenditure, Australia*, June 2022

Chart 12: Business CAPEX for machinery & equipment fell only the in ACT, Qld and SA, but rose prominently in Vic, the NT and WA in Q2 of 2022. In total for Australia, it decreased during Q1 2022 but increased in the year to June 2022.

CAPEX volumes* per quarter, machinery and equipment, states, 2000 to Q2 2022



* Seasonally adjusted and inflation adjusted.

Source: ABS, *Private New Capital Expenditure and Expected Expenditure, Australia*, June 2022

This week's data and events 29 August – 02 September 2022

Day	Date	Data/event	Data period
Mon	29 Aug	ABS, Retail Trade	July 2022
Mon	29 Aug	SEEK, Advertised Salary Index	July 2022
Tue	30 Aug	ABS, Building Approvals	July 2022
Wed	31 Aug	ABS, Construction Work Done, Australia, Preliminary	June 2022
Thu	01 Sep	ABS, Private New Capital Expenditure and Expected Expenditure	June 2022
Thu	01 Sep	ABS, Lending Indicators	July 2022
Thu	01 Sep	Ai Group, Performance of Manufacturing	August 2022

Next week's data and events 05 September – 09 September 2022

Day	Date	Data/event	Data period
Mon	05 Sep	ABS, Business Indicators	June 2022
Mon	05 Sep	Ai Group, Performance of Construction	August 2022
Wed	07 Sep	Ai Group, Performance of Services	August 2022
Wed	07 Sep	ABS, Australian National Accounts: National Income, Expenditure and Product	June 2022
Thu	08 Sep	ABS, Weekly Payroll Jobs and Wages	Week ending 13 August 2022
Fri	09 Sep	ABS, Monthly Business Turnover Indicator	July 2022

Ai Group Industry Performance Indicators

Australian Performance of Manufacturing Index®	August 2022	49.3 ▼
Australian Performance of Construction Index®	July 2022	45.3 ▼
Australian Performance of Services Index®	July 2022	51.7 ▲

Seasonally adjusted. Arrows represent direction of movement relative to last observation. Source: Ai Group.

Australian economy: latest annual growth rates and RBA forecasts (as of Aug 2022)

% change over the year	Dec 2021	Jun 2022	Dec 2022	Jun 2023	Dec 2023	Jun 2024	Dec 2024
Gross domestic product (GDP)	4.2	3.5	3.2	2.3	1.8	1.8	1.7
Household consumption	3.5	4.6	4.9	2.8	2.4	2.3	2.2
Dwelling investment	5.3	-1.7	1.7	2.5	-0.1	-2.6	-4.8
Business investment	6.4	1.6	4.9	5.9	6.6	5.7	4.6
Public demand	5.1	6.3	3.6	-0.5	-0.7	0.8	1.8
Gross national expenditure	5.0	4.1	3.7	1.5	1.5	1.8	1.9
Imports	1.0	5.0	11.4	6.2	4.0	3.0	2.9
Exports	-2.6	2.3	8.6	9.8	5.1	2.8	2.2
Terms of trade	10.3	6.8	2.6	-14.6	-8.9	-4.4	-1.6
Real household disposable income	3.7	3.9	-0.9	-3.1	-0.9	0.9	1.5
Unemployment rate (qtr average, %)	4.2	3.8	3.4	3.4	3.5	3.7	4.0
Employment	2.1	3.2	4.4	2.2	1.4	1.1	0.9
Average wage rates (WPI)	2.3	2.6	3.0	3.4	3.6	3.8	3.9
Trimmed mean inflation (CPI)	2.6	4.9	6.0	5.0	3.8	3.3	3.0
Headline inflation (CPI)	3.5	6.1	7.8	6.2	4.3	3.5	3.0

■ = actual. □ = forecast. Sources: ABS, various data; RBA 'baseline scenario' in *Statement on Monetary Policy*, August 2022.

Forecasts 3 August. Forecasts are conditioned on a path for the cash rate broadly in line with expectations derived from surveys of professional economists and financial market pricing. Other forecast assumptions: TWI at 63, A\$ at US\$0.69 and Brent crude oil price at US\$94bbl. Assumed rate of population growth is broadly in line with the profile set out in the Aus Gov 2022/23 Budget.

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