

Economic Update

January 2018

By David Martine, Secretary, Department of Treasury and Finance.
This monthly newsletter outlines economic and financial developments.

Highlights

- ▶ State final demand growth moderated in the September quarter, but remains strong.
- ▶ Victoria had the highest population growth in Australia in 2016-17.
- ▶ Employment fell by 0.1 per cent in December after rising strongly in the previous month.
- ▶ Business confidence and conditions were positive in December.
- ▶ The IMF revised its global growth forecast for both 2018 and 2019 up by 0.2 percentage points to 3.9 per cent. The revision reflects a stronger and increasingly synchronised global upturn and an expected positive impact from US tax cuts.
- ▶ Property price growth remains high, despite some weakness in December.
- ▶ China's economy grew by 6.8 per cent in 2017, above the official target of 6.5 per cent.



Domestic developments

Economic indicators remained strong in January and point to continued robust conditions in Victoria.

While Victoria's state final demand growth moderated in the September quarter, annual growth of 4.7 per cent was the strongest of the Australian states. Demand was mostly driven by household consumption and public demand.

Dwelling investment declined by 5.7 per cent in the quarter and 0.7 per cent over the year. Falls were recorded in both new dwellings and in alterations and additions. Despite this, dwelling activity remains at high levels, and leading indicators suggest the market is likely to remain strong over the coming quarters.

Victoria's population continued to grow strongly in June 2017 finishing off a record rise over the 2016-17 year. It rose 2.3 per cent in 2016-17, the highest growth of all jurisdictions and well above the national average of 1.6 per cent.

Net overseas migration added 86 900 persons in the year. Victoria took 35.4 per cent of immigrants to Australia, significantly higher than its share of Australia's population.

Around 17 200 persons migrated to Victoria from interstate in 2016-17. Victoria and Queensland were the only mainland states to record a rise in net interstate migration.

Labour market conditions remain robust in Victoria, despite weakness last month. Victoria's employment decreased by 0.1 per cent (3 900 persons) in December, led mainly by part-time employment. Despite the monthly decline, employment is 2.8 per cent (87 700 persons) higher over the year.

Victoria's unemployment rate increased 0.6 percentage points to 6.1 per cent in December, but was broadly flat over the year. The participation rate increased 0.3 percentage points to 66.4 per cent in December, and was 0.4 percentage points higher over the year.

The Melbourne consumer price index rose by 0.7 per cent in the December quarter, the equal second highest of the mainland state capital cities, behind Brisbane (0.8 per cent).

The value of retail sales in Victoria increased 1.8 per cent in November, the equal highest increase of the states. The increase will provide support to consumption growth in the December quarter. Retail sales rose 4.9 per cent over the year to November.

The key drivers of annual retail sales growth were 'other retailing' (mainly pharmaceutical and recreational goods), household goods, and food retailing.

The consumer sentiment index rose 5.4 per cent to 109.0 index points in January, and was 5.1 per cent higher over the year. Low interest rates and an improved outlook for jobs growth were key factors underpinning the higher confidence.

The NAB business survey results were positive in December. The business confidence index rose 16 points to +14 points and the business conditions index fell 1 point to +11 points.

While the weaker results were reflected across most industries and states, stronger conditions in the construction sector reflected the large residential property pipeline and infrastructure spending, and rising non-residential construction activity.

Victoria's Performance of Manufacturing Index fell 3.8 points to 54.0 points in December, but signalled ongoing expansion for the 11th consecutive month. The index was the third highest of the mainland states (behind Queensland and South Australia). The national index fell 1.1 points to 56.2 points as survey respondents blamed higher input costs as a key constraint on growth.

Dwelling unit approvals rose 37.9 per cent in November and 72.0 per cent over the year. This was the highest monthly and annual growth rates of all Australian states.

Residential building approvals remain high across Australia, but have moderated from their recent peaks. In Victoria, strong population growth and low mortgage rates have supported residential construction activity.

The Melbourne CoreLogic Home Value Index decreased 0.2 per cent in December but was up 8.9 per cent over the year. This was the highest annual growth among the mainland state capitals.

According to CoreLogic, Melbourne's housing market has been far more resilient to negative growth compared with Sydney due to stronger population growth, better housing affordability and a higher rate of jobs growth.



Global developments

Key global economic indicators improved in the month, confirming a further strengthening in the global economic conditions.

The **International Monetary Fund (IMF)** upgraded global growth forecast for both 2018 and 2019 by 0.2 percentage points to 3.9 per cent, reflecting increased global growth momentum and the expected impact of United States (US) tax cuts.

US non-farm payrolls rose by 148 000 in December, though this was below market expectations. The unemployment rate stayed at 4.1 per cent.

China's economy grew by 6.8 per cent in 2017, above the official target of 6.5 per cent growth. Strong industrial and export growth, and a resilient property market were the main drivers.

Growth rates for many of the euro area economies have been upgraded on higher domestic and trading partner demand growth. The IMF forecasts the **eurozone** to grow 2.4 per cent in 2017 and 2.2 per cent in 2018.

Note: All data reported in the newsletter is as at 31 January 2018.

Chart 1: Movements* in financial data over the past month

	29-Dec-17*	31-Jan-18	Change
AUD/USD	0.780	0.807	3.5 per cent
ASX 200	6,065	6,036	-0.5 per cent
S&P 500	2,674	2,824	5.6 per cent
90-day bank bill rate	1.77	1.79	0.02 percentage points
10-year Commonwealth bond rate	2.67	2.81	0.14 percentage points

Notes: Changes are based on the movement in unrounded figures. * From last business day of previous month.

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