

# Economic Update



Treasury and Finance

## December 2018

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

### Highlights

- ▶ Economic indicators released over the past month were mixed though the broader economic picture in Victoria remains strong.
- ▶ Wages rose by 0.8 per cent in the September quarter to be 2.5 per cent higher over the year.
- ▶ The unemployment rate in regional Victoria decreased 0.3 percentage points to 4.4 per cent in the three months to October and is below the Australian regional average of 5.2 per cent. The result was the lowest unemployment rate for regional Victoria on record.
- ▶ Victoria's state final demand grew by 0.2 per cent in the September quarter 2018.
- ▶ Victoria's unemployment rate fell to 4.5 per cent in October and remains below the national rate of 5.0 per cent.



## Domestic developments

Overall conditions in the Victorian economy remain positive despite moderation in some activity indicators in the past month.

Victoria's state final demand grew by 0.2 per cent in the September quarter 2018.

The result was led by growth in business investment (+2.7 per cent) and household consumption (+0.5 per cent), partly offset by declines in public demand (-1.2 per cent) and dwelling investment (-0.8 per cent).

Victoria's real gross state product (GSP) increased by 3.5 per cent in 2017-18. It marked the 26th consecutive year of positive economic growth and the fourth consecutive year of above trend growth.

The largest contributions to Victoria's GSP growth were household consumption (2.4 percentage points), business investment (1.0 percentage points) and public consumption (1.0 percentage points). Dwelling investment declined 0.1 per cent in 2017-18.

Victoria's labour market remains robust despite a slight easing in activity in the month of October. Employment in Victoria declined by 3 500 persons (-0.1 per cent). This was driven by part-time employment, which decreased by 7 400 persons (-0.7 per cent) and offset the rise in full-time employment of 3 900 persons (+0.2 per cent). Aggregate hours worked fell by 0.1 per cent.

Over the year to October 2018, Victorian employment rose by 93 100 persons (+2.9 per cent). This reflected an increase in full time employment of 95 500 persons (+4.4 per cent) and a fall in part-time employment of 2 400 persons (-0.2 per cent).

Victoria's unemployment rate fell to 4.5 per cent in October and remains below the national rate of 5.0 per cent. Victoria's unemployment rate is down from 5.8 per cent one year ago.

The youth (15-24 years) unemployment rate was 11.9 per cent in October, 12 percentage points lower than one year ago.

Victoria's participation rate fell 0.2 percentage points to 65.4 per cent in the month. It was 65.8 per cent at the same time last year.

The regional labour market is continuing to gain strength in Victoria. In the three months to October, 2 700 jobs were created and the unemployment rate declined by 0.3 percentage points to 4.4 per cent. This is below the Australian regional average of 5.2 per cent.

A strong jobs market has been supporting retail trade activity in Victoria. The value of Victoria's retail trade grew by 0.6 per cent in October, and by 6.4 per cent over the year.

Survey measures of consumer and business confidence were subdued in the past month.

The Westpac-Melbourne Institute consumer sentiment index fell 3.6 per cent to 103.9 in November, and is 1.1 per cent lower over the year. Four of the five component indices for Victoria fell in November. The largest fall was recorded in 'Economic Conditions next 12 months' (-8.6 per cent), followed by 'Time to Buy Major Household Items' (-5.7 per cent), 'Family Finance vs a year ago' (-5.3 per cent) and 'Economic Conditions next five years' (-5.0 per cent). 'Family Finance next 12 months' rose by 6.7 per cent in November.

The NAB Victorian business confidence index fell by 2 points to +5 index points in October and was 2 points lower than a year ago. The Victorian business conditions index fell by 1 point to +17 index points but was 1 point higher than a year ago. NAB noted that ongoing weakness in the retail sector as well as a recent softening in forward orders in most sectors were weighing on business conditions.

Indicators of Victoria's housing market were subdued over the past month. While lower dwelling prices in Melbourne resulted in improved housing affordability, building approvals, work done and lending for residential property were lower over the year.

The Melbourne CoreLogic Home Value Index decreased 1.0 per cent in November and was down 5.8 per cent over the year.

The value of residential building approvals fell by 2.9 per cent in October and was 7.8 per cent lower over the year. Victoria's annual growth was the second highest among the mainland states.

The number of dwelling unit approvals fell by 2.6 per cent in October, and by 13.7 per cent over the year. Nationally, the number of dwelling unit approvals decreased by 1.5 per cent in October.

The total value of building approvals increased by 6.7 per cent to \$3.2 billion in October but was 10.7 per cent lower over the year. This was driven by non residential building approvals which increased by 31.9 per cent in the month but was 15.8 per cent lower over the year.

Growth in housing credit has eased over recent months. Victorian monthly loan approvals to owner occupiers decreased by 4.3 per cent to 14 509 in September 2018. Nationally, loan approvals to owner-occupiers fell 1.0 per cent to 50 673.

Total construction work done in Victoria declined by 2.3 per cent in the September quarter led by falls in both residential and non residential construction activity.

Despite moderating construction activity, there was an increase in business investment and manufacturing activity last month.

Total private capex increased by 5.4 per cent in the September quarter and by 6.9 per cent in the year led mainly by growth in building investment.

Victoria's Performance of Manufacturing Index (PMI) rose by 2.8 points to 56.3 points in November. The result signals continued expansion in sector activity. The national index fell (by 7.0 points to 51.3 points) but has nonetheless recorded twenty-six months of uninterrupted sector growth.

The RBA left its policy rate unchanged at 1.50 per cent in December. It noted that non-mining business investment, public infrastructure investment and resource exports made key contributions to Australia's economic growth. It continues to cite high household debt combined with weakness in household income growth as risks to the outlook for household consumption.

The RBA noted that a gradual pick-up in wages growth is expected in line with strengthening economic activity and as a precursor to inflation being sustainably within its target range. However, there remains uncertainty concerning when this might occur.



## Global developments

Key global economic indicators were positive during the month, confirming a further strengthening in global economic conditions.

Employment in the United States increased by 250 000 in October and the unemployment rate was unchanged at 3.7 per cent.

Job gains predominantly occurred in health care, manufacturing, construction and transportation and warehousing sectors.

China's annual consumer price inflation was 2.5 per cent in October. This was in line with market expectations but below the Chinese government's target of 3.0 per cent.

The Chinese Caixin monthly manufacturing PMI increased marginally to 50.1 points from 50.0 points in October. This was higher than market expectations of 49.9 points.

Euro Area GDP expanded by 0.2 per cent in the September quarter following a 0.4 per cent expansion in the previous quarter. It was the weakest growth rate since the second quarter of 2014. Quarterly growth was weak in Germany (-0.2 per cent) and Italy (0.0 per cent).

The annual inflation rate in the Euro Area was 2.2 per cent in October, above market expectations of 2.1 per cent.

*Note: Data reported in the newsletter are current as at 5 December 2018.*

#### *Movements in financial data over the past month*

	31 Oct 2018	30 Nov 2018	Change
AUD/USD	0.709	0.732	+3.3
ASX 200	5,830	5,677	-2.8
S&P 500	2,712	2,760	+1.8
90-day bank bill rate*	1.91	1.94	+0.03
10-year Commonwealth bond rate*	2.63	2.60	-0.02

Note: Changes are based on the movement in unrounded figures.

\* Changes are calculated as percentage points.

Disclaimer: No responsibility is taken for any action(s) taken on the basis of information contained in this Newsletter nor for any errors or omissions in that information.

Copyright queries may be directed to [IPpolicy@dtf.vic.gov.au](mailto:IPpolicy@dtf.vic.gov.au).



You are free to re-use this work under a Creative Commons Attribution 4.0 licence, provided you credit the State of Victoria (Department of Treasury and Finance) as author, indicate if

changes were made and comply with the other licence terms.

The licence does not apply to any branding, including Government logos.