**April 2017**

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| **Scope:** This monthly newsletter outlines economic and financial developments in Victoria, nationally and globally. |  **By David Martine, Secretary, Department of Treasury and Finance**  |

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|  **Highlights*** Victorian **employment** rose by 95 300 persons over the year to March, the highest growth amongst the states.
* Victoria’s **population** growth is the highest among the states.
* There could be economic disruptions from **Cyclone Debbie** in the June quarter.
* Victoria’s **manufacturing** continues to expand.
* The **CoreLogic RPData Home Value Index** increased 15.9 per cent over the year to March, the second highest rate amongst the states.
* The Australian Prudential Regulation Authority (**APRA**) has instructed banks that interest-only loans must now account for less than 30 per cent of all new loans.
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|  | Domestic developments |

Macroeconomic indicators released over the past four weeks point to ongoing strength in the Victorian economy. The impact of Cyclone Debbie is likely to cause some economic disruptions to the national economy in the June quarter.

Victorian **employment** grew by 9 800 persons in March, mainly driven by gains in full-time employment. Over the year, employment rose by 95 300 persons, the highest growth among the states in both absolute and percentage terms. Despite strong jobs growth, Victoria's unemployment rate rose to 6.1 per cent in March, mostly reflecting a rise in the participation rate.

In the three months to February, employment in **regional Victoria** grew by 3 400 persons and the Victorian regional unemployment rate is below the national average.

Victoria’s **population** grew by 127 498 persons over the year to September 2016, the highest of all states. The main driver of the growth was net overseas migration and net interstate migration also contributed to growth.

The Victorian **Consumer Sentiment Index** declined 1.8 per cent to 99.1 in April, indicating that pessimists slightly outnumber optimists. The main decline was in the 'Economic Conditions next 12 months' sub-index.

The value of Victoria’s **retail sales** increased by 2.6 per cent over the year to February 2017, roughly in line with the national growth rate.

Victoria's **Performance of Manufacturing Index** decreased in March but remains above 50 points indicating expansion in manufacturing activity. Survey measures of Victorian **business conditions and confidence** remain above long-run averages, consistent with ongoing growth in business investment.

House prices in Melbourne continue to grow strongly. The ABS **Residential Property Price Index** increased by 10.8 per cent over the year to the December quarter 2016, the highest growth rate amongst the states. The more timely **CoreLogic RP Data Home Value Index** increased 15.9 per cent over the year to March, the second highest rate amongst the states.

The value of Victorian **building approvals** increased 8.2 per cent in February with strong growth in non-residential approvals, partly offset by a fall in residential approvals. The value of **building work done** in Victoria increased in the December quarter 2016, led by growth in factories and other secondary production buildings.

The value of Australian **housing finance commitments** fell in February, with a decrease in investor commitments offsetting a slight rise in owner-occupier commitments.

The **RBA** highlighted the build-up of risks in the property market during the month as growth in household borrowing continues to outpace growth in household income. In response, the Australian Prudential Regulation Authority (**APRA**) has instructed banks that interest-only loans must now account for less than 30 per cent of all new loans.

Tropical **Cyclone Debbie** hit Queensland in late March. The cyclone is expected to detract from national GDP growth in the June quarter as coal production is interrupted from flooding in mines and exports are disrupted from the closure of rail systems. The cyclone is expected to add to headline inflation in the short term, mostly due to higher food prices. These impacts are likely to be temporary, and partly offset by reconstruction activity.

The RBA **commodity price index** increased 0.5 per cent in March. Over the year, the index has increased 43.2
per cent, led by a doubling in the coking coal price to AU$211 per tonne and a 51 per cent increase in the iron ore price.

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| H:\temp\Economic Policy Newsletter\Stockmarket.png | Global developments |

Economic conditions in the global economy remained solid in the month with positive developments in the US.

The **US Fed** raised interest rates by 25 basis points in March to 1.0 per cent. The Fed is also considering its options for reducing the size of its balance sheet following years of quantitative easing.

**US GDP growth** was revised up to 2.1 percent in the December quarter. The unemployment rate fell to a 10 year low of 4.5 per cent in March, although employment growth slowed from the pace recorded in February.

Economic growth in the **Eurozone** remains moderate, with GDP growing 0.4 per cent in the December quarter. Private consumption was the main driver of growth, followed by investment. The unemployment rate has steadily decreased over the past few years and reached 9.5 per cent in February, although it remains above the pre-crisis average rate. Inflation has recently picked up from low levels and is expected to gradually increase.

The **UK** prime minister triggered article 50 of the Treaty of Lisbon, formally signalling Britain’s departure from EU. A surprise early election was called for June 8 to strengthen the government’s political position during Brexit. Although the UK has not experienced an abrupt economic slowdown because of Brexit, expectations are for a decrease in investment and higher inflation that will impact consumer spending.

The **Chinese economic data** was generally positive over the past four weeks. China’s official manufacturing PMI rose to 51.8 in March, remaining above 50 for eight consecutive months. Producer prices increased 7.6 per cent over the year and higher Chinese inflation is expected to add to global inflation as import prices rise.

*Note: all data reported in the newsletter is as at 19 April 2017.*

Movements in financial data

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|  | 31 Mar 2017 | 19 Apr 2017 | Change |
| AUD/USD | 0.764 | 0.752 | -1.6 per cent |
| ASX 200 | 5 864 | 5 804 | -1.0 per cent |
| S&P 500 | 2 363 |  2 338 | -1.1 per cent |
| 90 day bank bill rate | 1.79 | 1.75 | -0.04 percentage points |
| 10 year Commonwealth bond rate | 2.81 | 2.46 | -0.35 percentage points |

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

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