August 2017

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

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| **Highlights*** Victoria’s economy remains strong with broad-based growth in the June quarter.
* Labour market conditions remain strong despite flat employment growth in July.
* Wages grew by 2.0 per cent over the year to June, close to the record lows since the 1970s.
* The annual rise in retail sales volumes to June was the highest among the states.
* Consumer and business confidence rose in the month.
* Melbourne's house price growth was the second highest amongst the state capitals in August.
* Total building approvals increased in July.
* The US economy expanded at an annualised rate of 3.0 per cent in the June quarter of 2017.
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|  | Domestic developments |

Economic indicators released in the past month are consistent with strong economic conditions in Victoria.

Victorian **state final demand** grew 1.3 per cent in the June quarter 2017 and 4.7 per cent over the year. This was the second highest quarterly growth and the highest annual growth in state final demand of all the states.

Growth was broad-based with positive contributions from all components except for public demand.

**Household** **consumption** grew 0.8 per cent in the quarter and 3.4 per cent over the year, driven by clothing and footwear, and furnishings and household equipment growth. These gains were partially offset by losses in electricity, gas and other fuel spending.

**Business investment** bounced back from a weak March quarter and grew 7.0 per cent in the June quarter and 20.5 per cent over the year. The quarterly bounce was mostly driven by non-dwelling construction.

**Dwelling investment** growth was positive but subdued with growth of 0.6 per cent in the quarter and 0.1 per cent over the year. Growth in alterations and additions was weighed down by subdued growth in new dwellings.

**Public demand** fell 0.1 per cent in the quarter but was 2.3 per cent higher over the year.

Victoria’s **labour market** remains strong but employment was flat in July. Annual growth to July was 2.8 per cent or 85 800 persons, the highest absolute increase among the states. The unemployment rate rose to 6.1 per cent from 5.9 per cent and the participation rate was 66.0 per cent.

Victorian **wages** grew 2.0 per cent over the year to June 2017, close to the lowest recorded growth of 1.9 per cent in December 2016. Health care and social assistance, and the utility sector recorded the strongest growth.

Victoria’s **population** growth remained strong across metropolitan and regional areas. Melbourne’s population rose by 2.7 per cent in 2015-16, higher than the growth rates in all other capital cities. Regional Victoria’s population grew 1.4 per cent over the year, the highest in regional Australia.

Indicators for household consumption were generally positive. Victoria’s **retail sales** volumes grew 3.5 per cent over the year to the June quarter 2017, the highest growth of all states. According to NAB’s Online Retail Sales Index, Victoria also recorded the strongest growth in online spending over the year to June. Victorian **consumer sentiment** increased 4.2 per cent to 101.4 in August. Views on both economic conditions and family finances over the next 12 months improved.

Victoria’s **Performance of Manufacturing Index** has been in expansion for the past seven months and improved further to 59.3 in August. The survey indicates that demand for locally manufactured materials, machinery and equipment had increased, while challenges remain from high input costs and the strong Australian dollar. The monthly NAB **business confidence** seriesrose 7 points to 13 index points and **business conditions** remain at a solid level of 13 index points.

Residential property prices continue to rise. The **CoreLogic RP Data Home Value Index** for Melbourne increased
12.7 per cent over the year to August, the second highest of all the state capitals. **Housing finance** data shows that the average size of loan approvals to owner occupiers for the construction and purchase of new dwellings increased in June, but decreased slightly for the purchase of established dwellings.

The building construction pipeline remains strong in Victoria. The total **value of**
**building approvals** rose 3.3 per cent in July, the second highest growth amongst the states. The **number of dwelling units** approved fell slightly in July and remains at elevated levels.

The RBA left the **cash rate** unchanged at 1.50 per cent. The RBA noted that the unchanged policy stance is consistent with sustainable economic growth and in achieving the inflation target over the cycle. It is also noted its heightened monitoring of risks associated with high household debt in the current low inflation environment.

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

Key indicators of the global economic outlook improved in the past month.

**US GDP** grew at an annual rate of
3.0 per cent in the second quarter of 2017. Activity was mostly driven by household spending and business investment. The strong household spending data continued in July with retail and food service sales growing 4.2 per cent annually.

US **non-farm payrolls** rose by 209 000 in July, with widespread gains across sectors. The unemployment rate was little changed at 4.3 per cent despite an increase in the participation rate. Wage pressures remain modest with average hourly earnings growing by 2.5 per cent over the year to July. The **Federal Reserve** left its policy rate unchanged in July but signalled it would begin normalising rates relatively soon.

**Eurozone GDP** expanded at an annual rate of 2.2 per cent in the second quarter of the 2017, bolstered by high business confidence, improved export demand and lower unemployment, which at 9.1 per cent was at its lowest since 2009. Annual inflation was stable at 1.3 per cent in July. The **European Central Bank** left its easy monetary policy settings unchanged in July but signalled that future discussion on winding back quantitative easing would take place later this year.

**China’s** economic indicators remained solid in the month. The **Manufacturing PMI** was flat at 51.6 in July, while the services PMI declined 0.4 points to 54.5 suggesting a slightly slower pace of growth in the service sector. Chinese economic growth is expected to moderate in the coming quarter as authorities continue to manage financial risks.

**Japan**’s second quarter **GDP** grew by an annualised rate of 4.0 per cent, mainly driven by domestic demand. The July trade data also underscored its export-led recovery with strong growth in exports and imports. Activity is expected to continue to improve, partly reflecting an improving outlook for wage and consumer price inflation.

*Note: All data reported in the newsletter is as at 6 September 2017.*

Movements\* in financial data over the past month

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|  | 6-Sep-17 | 31-Jul-17 | Change |
| AUD/USD | 0.7993 | 0.7987 | +0.1 per cent |
| ASX 200 | 5,690 | 5,721 | -0.5 per cent  |
| S&P 500 | 2,466 | 2,470 | -0.2 per cent  |
| 90 day bank bill rate | 1.74 | 1.69 | +0.05 percentage points |
| 10 year Commonwealth bond rate | 2.60 | 2.69 | -0.09 percentage points |

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

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