SEPTEMBER 2016

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

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|  **Highlights*** Victoria had the highest **state final demand** growth for the 2015-16 financial year. The State’s economy has been growing for seven consecutive quarters.
* Australia’s **GDP** figures show strong annual growth despite a decline in mining investment.
* Victoria has the lowest regional unemployment of the states.
* Despite **employment** increasing in July, the **unemployment rate** rose to 5.9 per cent, as participation grew to its highest level in over three years.
* Stimulus measures appear to be improving confidence in Britain following the shock of June’s **Brexit** vote.
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|  | Domestic developments |

The June quarter national accounts released at the start of September shows that Victorian state final demand growth was the fastest of the states for the 2015-16 financial year.

This reflected robust growth in private consumption and dwelling investment. After adjusting for the transfer of private sector assets to the public sector (on completion of the Victorian Comprehensive Cancer Centre), underlying business investment was also strong. Over the quarter, Victoria recorded the equal highest state final demand growth (alongside Tasmania) at 1.1 per cent.

Nationally, **gross domestic product** grew by 2.9 per cent over the past financial year, roughly in line with market expectations, and exceeding the *2016-17 Commonwealth Budget* forecast of 2.5 per cent.

This is the strongest financial year growth in four years. Strong contributions by household consumption and net exports more than offset declining business investment. This indicates the transition to more diverse growth as the mining investment boom continues to unwind.

The terms of trade rose on a quarterly basis for the first time since 2013, reflecting a slight recovery in commodities such as iron ore.

This indicates an improvement in purchasing power for Australians.

Although **building approvals** in Victoria recorded a sharp fall in July, monthly results can be volatile, and annual growth remains the second highest of the states, driven by residential approvals. Strong population growth and low interest rates are likely to support the property market in the near‑term.

**Employment growth** in Victoria was positive for the sixth consecutive month. 93 000 jobs have been added since July 2015, with 89 500 of these jobs full time. This represents the fastest jobs growth of any state.

However, the Victorian **unemployment rate** increased to 5.9 per cent in July, to be above the national average. This is partially explained by an increase in participation, which is now at its highest in three years.

Victoria had the nation’s lowest **regional unemployment** rate in the three months to July at 5.5 per cent and second highest regional employment growth. However, this has not benefited regions evenly, and the unemployment rate is still above the regional national average in the Latrobe-Gippsland area, at 8.6 per cent. Participation in this region is also very low.

Victoria had the highest consumer sentiment of the states in the August survey, increasing by 4.9 per cent over the month. According to Westpac, increases following an RBA interest rate cut are common. However this month’s rise was more muted than in May, possibly due to the unexpected nature of the May cut.

The latest release of the NAB business survey (for August) shows that both confidence and conditions rose in Victoria. Both measures are above the national average, with Victoria the only state to record an increase in business conditions.

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The Bank of England undertook a quantitative easing program in August to ease the effects of **Brexit**. This appears to have been successful in the short term, as British consumer confidence has recovered from the initial shock.

PMI data from the Eurozone also showed signs of resilience despite **Brexit** concerns. However, August figures show that the Euro area is continuing to struggle with very low inflation, prompting market analysts to suggest that the European Central Bank may consider further stimulus at its September meeting.

The US Federal Reserve indicated a strong willingness to raise the federal funds rate in statements made at the beginning of the month. However, subsequent data released showed jobs growth below market expectations, and a sharp decline in activity in the services sector. This dampened expectations of a rate rise in September, with market expectations of a likely rate rise by the end of 2016 falling to around 50 per cent.

The **AUD** remains persistently strong despite the recent RBA cash rate cut. This is likely to continue following dampened expectations of a US rate rise.

The RBA held the cash rate steady at 1.5 per cent in September, after lowering the cash rate to a historic low in August.Apart from the housing sector, which showed fresh signs of strength, the RBA’s assessment of the economy was largely unchanged. This was the last RBA board meeting with Glenn Stevens as Governor. He is retiring on 17 September, to be replaced by his current Deputy Governor, Dr Phillip Lowe.

Movements in financial data over August 2016

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|  | **06 Sep 2016** | **05 August 2016** | **Change** |
| **AUD/USD** | 0.76 | 0.77 | -0.00 per cent |
| **ASX 200** | 5 413 | 5 497 | -0.02 per cent |
| **S&P 500** | 2 186 | 2 183 | +0.00 per cent  |
| **90 day bank bill rate** | 1.72 | 1.79 | -0.04 per cent |
| **10 year Commonwealth bond rate** | 1.90 | 1.87 | +0.03 percentage points |