September 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 population growth was the strongest in the nation over the year to March.
* The labour market remains strong driven by both full-time and part-time employment growth.
* Surveyed manufacturing output expanded in August despite the drag from the withdrawal of automotive production.
* Business conditions improved in August to the highest level on record.
* The US labour market remained strong with unemployment at 4.4 per cent in August.
* The euro area’s recovery continued with GDP growth accelerating in the June quarter.
* Japan’s second quarter GDP grew by an annualised rate of 2.5 per cent.
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|  | Domestic developments |

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

Victoria's **population** increased 2.4 per cent over the year to the March quarter, the highest growth of all jurisdictions and above the national average of 1.6 per cent. **Net overseas migration** was the largest contributor to growth, adding 83 400 persons over the year and accounting for 56 per cent of the growth.

Victoria’s **labour market** continued to improve in August. Employment rose by 18 600 persons in the month, driven by increases in both full‑time and part-time employment. Annual growth to August was 3.1 per cent or 95 500 persons, the highest absolute increase among the states. ABS job vacancies in Victoria increased by 25.3 per cent in the three months to August, suggesting a strong outlook for near term employment growth.

The unemployment rate remained elevated at 6.1 per cent in August despite the strong employment growth. The unemployment rate is being held up partly by the participation rate which increased to 66.3 per cent in August, its highest level on record.

Victoria’s **Performance of Manufacturing Index** improved to 59.3 in August, the second highest value since the global financial crisis. The index has been in expansion for the past seven months despite the ongoing withdrawal of automotive production from the State. The survey indicated that demand for locally manufactured chemicals, metals, and machinery and equipment had increased, while challenges remained from high input costs and the strong Australian dollar.

The monthly NAB **business conditions** index in Victoria improved 10.5 points to +24.3 points in August, the highest reading on record. However, **business confidence**, weakened 9.5 points to +3.0 index points, the lowest since June last year. According to NAB, firms are mostly concerned with the outlook for customer demand and pressure on margins.

Victoria’s **household consumption** remains strong. The value of retail sales in Victoria grew 3.4 per cent over the year to August 2017, above the national average of 2.1 per cent. Victorian **consumer sentiment** increased 4.2 per cent to 105.7 in September, the second highest growth behind South Australia (4.7 per cent to 89.7). **New motor vehicle sales** in Victoria recorded modest positive growth (0.5 per cent) in August, while all other states and territories except Western Australia recorded negative growth rates.

**Residential property** prices in Melbourne continued to rise with prices increasing 3.0 per cent in the June quarter, the highest of all the capital cities. Over the year, Melbourne residential property prices increased 13.8 per cent, the equal highest of all capital cities alongside Sydney.

As a result of rising property prices and low income growth, **housing affordability** in Victoria deteriorated in the June quarter 2017. The proportion of family income required to meet housing repayments increased to 33.4 per cent in the June quarter from 32.5 per cent in the previous quarter.

The value of total Victorian **building approvals** fell 8.5 per cent in August, driven by falls in residential and non‑residential building approvals. Despite the fall in August, Victoria had the second highest value of total building approvals over the year, behind New South Wales.

The RBA left the **cash rate** unchanged at 1.50 per cent in August. The RBA noted that there had been some tightening of credit conditions following supervisory measures to address rising household debt.

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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.

The US labour market continued to remain solid. **Non-farm payroll employment** increased by 156 000 in August with most job gains coming from manufacturing, construction, and professional and technical services sectors. The unemployment rate in August was little changed at 4.4 percent and the labour force participation rate, at 62.9 percent, has shown little movement over the past year.

The **US consumer price index** for all urban consumers rose 0.4 per cent in August to record a 1.9 per cent rise over the year. Increases in the indexes for gasoline (6.3 per cent) and shelter (0.5 per cent) accounted for nearly all of the increase in the index in August.

**China**’s economic indicators remained solid in August. The Caixin Manufacturing PMI rose to 51.6 in August from 51.1 in July, beating market expectations of 50.9. It was the third straight month of expansion in manufacturing activity and the fastest since February.

Euro area’s recovery continues as GDP accelerates and manufacturing output remains strong. **Eurozone GDP** expanded at an annual rate of 2.3 per cent in the second quarter of 2017, the highest growth rate since 2011.

The **Eurozone manufacturing PMI** in August (57.4) equalled June’s 74-month high. Accelerated manufacturing activity was supported by robust domestic demand and rising new export orders. The services PMI for the Eurozone fell to 54.7 in August but the index is still among the best seen over the past six years.

**Japan**’s second quarter **GDP** grew by an annualised rate of 2.5 per cent, much weaker than the last month’s preliminary estimates of 4.0 per cent. Despite the downward revision, Japan has maintained six straight quarters of growth, the longest run of economic expansion since 2006. Japanese Prime Minister called a snap election in August seeking support for a tough stance against North Korea’s nuclear threats and a fresh mandate to implement a new economic stimulus program.

*Note: All data reported in the newsletter is as at 04 October 2017.*

Movements\* in financial data over the past month

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|  | 04-Oct-17 | 31-Aug-17 | Change |
| AUD/USD | 0.7859 | 0.7898 | -0.5 per cent |
| ASX 200 | 5652 | 5715 | -1.1 per cent |
| S&P 500 | 2538 | 2472 | 2.7 per cent |
| 90 day bank bill rate | 1.70 | 1.71 | -0.01 percentage points |
| 10 year Commonwealth bond rate | 2.82 | 2.60 | +0.22 percentage points |

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

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